

# *The Bank of South Carolina*

Dear Stockholders, Customers, Employees, and Friends

The Bank of South Carolina Corporation, (Nasdaq: BKSC) announced unaudited earnings of \$1,726,357 or \$0.31 basic and diluted per share for the quarter ended June 30, 2018 – an increase of 24.52% from earnings for the quarter ended June 30, 2017 of \$1,386,385 or \$0.25 basic and diluted per share. Earnings for the six months ended June 30, 2018 increased \$726,114 or 27.79% to \$3,338,587 compared to \$2,612,473 for the six months ended June 30, 2017. Returns on average assets and average equity for the six months ended June 30, 2018 were 1.57% and 15.59%, respectively, compared to 2017 returns on average assets and average equity of 1.26% and 12.47%, respectively.

First quarter momentum carried into the second resulting in continued increases in loan volume, strong margins, and solid control of expenses. Deposits are rebounding from first quarter decreases, remain core in nature, and sufficient for liquidity purposes. We are pleased to be ahead of budget and last year's performance to date.

Throughout the prolonged low interest environment of the past ten years or so, we have maintained the asset sensitivity of our loan portfolio and by doing so, we are the beneficiary of Federal Reserve decisions to increase rates. We believe there will be additional hikes this year as the Fed assesses the future viability of this economy and whether a recession is looming on the horizon – or not. We believe this to be a time for fundamentals – both in the banking world, and yours. They will serve us all well.

On May 29<sup>th</sup>, 2018, we broke ground on our fifth office in North Charleston and hope to take possession in approximately one year. It is difficult to believe that in the five years since we committed to this location, over six million square feet of commercial improvements have been built along the Palmetto Commerce Parkway and surrounding areas and, we have been told, an additional six million is forthcoming. Our patience is paying off and with our presence, and our bankers, we should be the beneficiary of this defining success for North Charleston.

With recent merger announcements, the number of banks domiciled in our state continues to shrink – soon to be under fifty. We plan to and will continue to be a part of the banking future of South Carolina. I am reminded of the words of John Medlin, Jr., former Chair of Wachovia: "Our mantra is soundness, profitability, and growth – in that order of priority". For us, these are words to live by.

Fleetwood S. Hassell

President/CEO

STRONG

SECURE

STABLE

Part I. Financial Information

Item 1. Financial Statements

BANK OF SOUTH CAROLINA CORPORATION AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS

	(Unaudited) June 30, 2018	(Audited) December 31, 2017
<b>ASSETS</b>		
Cash and due from banks	\$ 7,945,003	\$ 8,486,025
Interest-bearing deposits at the Federal Reserve	14,319,336	24,034,194
Investment securities available for sale	119,831,325	139,250,250
Mortgage loans to be sold	3,651,150	2,093,723
Loans	278,104,537	270,180,640
Less: Allowance for loan losses	(4,007,464)	(3,875,398)
Net loans	274,097,073	266,305,242
Premises, and equipment and leasehold improvements, net	2,279,016	2,244,525
Other real estate owned	411,842	435,479
Accrued interest receivable	1,568,814	1,720,920
Other assets	2,667,346	1,996,140
<b>Total assets</b>	<b>\$ 426,770,905</b>	<b>\$ 446,566,498</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Liabilities:		
Deposits:		
Non-interest bearing demand	\$ 130,654,687	\$ 139,256,748
Interest bearing demand	97,358,521	108,967,196
Money market accounts	74,370,149	77,833,728
Time deposits over \$250,000	21,917,734	18,624,924
Other time deposits	23,573,597	23,295,492
Other savings deposits	34,464,921	34,910,212
Total deposits	382,339,609	402,888,300
Accrued interest payable and other liabilities	1,206,562	913,563
<b>Total liabilities</b>	<b>383,546,171</b>	<b>403,801,863</b>
Shareholders' equity		
Common stock - no par 12,000,000 shares authorized; Issued 5,767,173 shares at June 30, 2018 and 5,753,743 shares at December 31, 2017. Shares outstanding 5,500,616 and 5,488,207 at June 30, 2018 and December 31, 2017, respectively.	—	—
Additional paid in capital	46,731,967	37,236,566
Retained earnings	894,779	8,471,780
Treasury stock: 266,557 shares as of June 30, 2018 and 265,536 shares as of December 31, 2017	(2,268,264)	(2,247,415)
Accumulated other comprehensive loss, net of income taxes	(2,133,748)	(696,296)
Total shareholders' equity	43,224,734	42,764,635
<b>Total liabilities and shareholders' equity</b>	<b>\$ 426,770,905</b>	<b>\$ 446,566,498</b>

See accompanying notes to consolidated financial statements.

**BANK OF SOUTH CAROLINA CORPORATION AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

	<b>Three Months Ended June 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>Interest and fee income</b>		
Loans, including fees	\$ 3,704,752	\$ 3,221,855
Taxable securities	470,411	399,909
Tax-exempt securities	175,674	256,202
Other	73,030	55,319
Total interest and fee income	<u>4,423,867</u>	<u>3,933,285</u>
<b>Interest expense</b>		
Deposits	139,697	106,522
Total interest expense	<u>139,697</u>	<u>106,522</u>
<b>Net interest income</b>	4,284,170	3,826,763
Provision for loan losses	75,000	30,000
<b>Net interest income after provision for loan losses</b>	<u>4,209,170</u>	<u>3,796,763</u>
<b>Other income</b>		
Service charges, fees and commissions	296,372	287,873
Mortgage banking income	250,554	400,519
Gain on sales of securities	387	—
Other non-interest income	7,783	8,087
Total other income	<u>555,096</u>	<u>696,479</u>
<b>Other expense</b>		
Salaries and employee benefits	1,576,452	1,500,362
Net occupancy expense	422,059	393,763
Other operating expenses	628,867	649,855
Net other real estate owned expenses	24,137	46,143
Total other expense	<u>2,651,515</u>	<u>2,590,123</u>
<b>Income before income tax expense</b>	2,112,751	1,903,119
Income tax expense	386,394	516,734
<b>Net Income</b>	<u>\$ 1,726,357</u>	<u>\$ 1,386,385</u>
<b>Weighted average shares outstanding</b>		
Basic	5,492,896	5,464,697
Diluted	5,586,585	5,588,687
Basic income per common share	<u>\$ 0.31</u>	<u>\$ 0.25</u>
Diluted income per common share	<u>\$ 0.31</u>	<u>\$ 0.25</u>

See accompanying notes to consolidated financial statements.

**BANK OF SOUTH CAROLINA CORPORATION AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

	Six Months Ended June 30,	
	2018	2017
<b>Interest and fee income</b>		
Loans, including fees	\$ 7,263,738	\$ 6,363,593
Taxable securities	940,914	738,756
Tax-exempt securities	403,741	527,087
Other	135,483	95,270
Total interest and fee income	<u>8,743,876</u>	<u>7,724,706</u>
<b>Interest expense</b>		
Deposits	249,527	203,304
Total interest expense	<u>249,527</u>	<u>203,304</u>
<b>Net interest income</b>	8,494,349	7,521,402
Provision for loan losses	130,000	32,500
<b>Net interest income after provision for loan losses</b>	<u>8,364,349</u>	<u>7,488,902</u>
<b>Other income</b>		
Service charges, fees and commissions	591,663	557,439
Mortgage banking income	390,469	675,624
Gain on sales of securities	4,735	—
Other non-interest income	16,174	15,290
Total other income	<u>1,003,041</u>	<u>1,248,353</u>
<b>Other expense</b>		
Salaries and employee benefits	3,149,172	2,970,571
Net occupancy expense	805,391	757,908
Other operating expenses	1,314,649	1,287,131
Net other real estate owned expenses	24,137	46,143
Total other expense	<u>5,293,349</u>	<u>5,061,753</u>
<b>Income before income tax expense</b>	4,074,041	3,675,502
Income tax expense	735,454	1,063,029
<b>Net Income</b>	<u>\$ 3,338,587</u>	<u>\$ 2,612,473</u>
<b>Weighted average shares outstanding</b>		
Basic	5,339,187	5,461,603
Diluted	5,433,360	5,584,373
Basic income per common share	<u>\$ 0.63</u>	<u>\$ 0.48</u>
Diluted income per common share	<u>\$ 0.61</u>	<u>\$ 0.47</u>

See accompanying notes to consolidated financial statements.