

The Bank of South Carolina

Dear Stockholders, Customers, Employees, and Friends,

We are very proud of the Bank's performance in 2017. What would have resulted in our most profitable year in our 30-plus year history, ended up being our second best yet. As a result of accounting requirements under the new tax reform legislation, we were required to write down our deferred tax asset by approximately \$600,000 in 2017.

In 2017, we were again rated a 5-Star Bank by Bauer Financial and were rated at or near the top for being the #1 community bank in South Carolina by the FMC Consulting Group. Deposits exceeded \$400 million for the first time in a reporting period, and for the fourth time in six years, we were able to increase our quarterly cash dividend.

For us to continue our success and perpetuate what we are doing, we are compelled to invest and reinvest in our young bankers. This is certainly not an inexpensive endeavor; but then again, what great education isn't? We have consistently budgeted for banking schools, seminars, webinars, on-line course work, and other training to prepare the next generation of BKSC bankers - bankers that work with-in, and, as a team. Of note, approximately 22% of our employees are either currently enrolled or have graduated from the South Carolina Bankers Association's Bankers School - a three-year commitment by both the Bank and the participant. I am very proud to announce that our own Ford Menefee, Senior Vice President, will be the Chairman of the Banker's School in 2019.

In 2012, I stated, "Our Bank was born with the highest regard for corporate governance." One of the many aspects of governance is independence - both externally and internally. Externally, we sail our own ship and make our own decisions locally. Internally, our credit, audit, compliance, and risk areas are independent of management and report to our Board of Directors and Audit & Compliance Committee, respectively. These walls are not veiled and remain strong - to the extent that it has been noted on numerous occasions by our many examiners. We recently formalized our Risk Department and moved to it the duties and responsibilities of audit and compliance. Lauren Nilan, Vice President, heads up this important area within the Bank.

Life and banking are complicated enough without the need to know about bit-coin, block-chain platforms, and cryptocurrencies. The Bank of South Carolina continues to concentrate on fundamentals and understanding the very essence of what banking is, and what it means to our customers. Banking is not complex, remains basic, and is where fundamentals never change.

Every bank has a reason to exist and a purpose within its community. As we begin our journey through the next 30 years, we are constantly reminded of why we do exist - to serve the citizens and businesses of the South Carolina Lowcountry who understand and appreciate the long-term and often generational nature of relationship banking. Our purpose is to remain relevant and exceed expectations in a shrinking, homogenous financial arena and to fill a void in service to both our customers and our community.

The fundamentals of our Bank remain strong and we are very encouraged that the collective impact of tax reform will complement our business model and result in even better performance in the future - performance we believe will result in greater value to our employees, customers, and shareholders.

STRONG. SECURE. STABLE.

Fleetwood S. Hassell
President & CEO

Douglas H. Sass
Executive Vice President &
Senior Lender

Eugene H. Walpole, IV
Executive Vice President & CFO

Susanne K. Boyd
Executive Vice President & COO

Hugh C. Lane, Jr.
Chairman

**BANK OF SOUTH CAROLINA CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS**

| | December 31, | |
|--|-----------------------|-----------------------|
| | 2017 | 2016 |
| ASSETS | | |
| Cash and due from banks | \$ 8,486,025 | \$ 8,141,030 |
| Interest-bearing deposits at the Federal Reserve Bank | 24,034,194 | 18,101,300 |
| Investment securities available for sale (amortized cost of \$140,606,807 and \$120,942,615 in 2017 and 2016, respectively) | 139,250,250 | 119,978,944 |
| Mortgage loans to be sold | 2,093,723 | 4,386,210 |
| Loans | 270,180,640 | 260,576,115 |
| Less: Allowance for loan losses | (3,875,398) | (3,851,617) |
| Net loans | 266,305,242 | 256,724,498 |
| Premises, equipment and leasehold improvements, net | 2,244,525 | 2,296,624 |
| Other real estate owned | 435,479 | 521,943 |
| Accrued interest receivable | 1,720,920 | 1,614,002 |
| Other assets | 1,996,140 | 2,185,085 |
| Total assets | \$ 446,566,498 | \$ 413,949,636 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Liabilities | | |
| Deposits: | | |
| Non-interest-bearing demand | \$ 139,256,748 | \$ 126,034,478 |
| Interest-bearing demand | 108,967,196 | 96,260,589 |
| Money market accounts | 77,833,728 | 77,307,662 |
| Time deposits over \$250,000 | 18,624,924 | 17,822,136 |
| Other time deposits | 23,295,492 | 26,019,121 |
| Other savings deposits | 34,910,212 | 29,078,865 |
| Total deposits | 402,888,300 | 372,522,851 |
| Accrued interest payable and other liabilities | 913,563 | 813,811 |
| Total liabilities | 403,801,863 | 373,336,662 |
| Commitments and contingencies Notes 6 and 11 | | |
| Shareholders' equity | | |
| Common stock-no par, 12,000,000 shares authorized; 5,230,675 and 5,197,535 shares issued at December 31, 2017 and 2016, respectively; 4,989,279 and 4,956,139 shares outstanding at December 31, 2017 and 2016, respectively | | |
| | 0 | 0 |
| Additional paid in capital | 37,236,566 | 36,824,022 |
| Retained earnings | 8,471,780 | 6,643,476 |
| Treasury stock: 241,396 shares at December 31, 2017 and 2016 | (2,247,415) | (2,247,415) |
| Accumulated other comprehensive loss, net of income taxes | (696,296) | (607,109) |
| Total shareholders' equity | 42,764,635 | 40,612,974 |
| Total liabilities and shareholders' equity | \$ 446,566,498 | \$ 413,949,636 |

See accompanying notes to consolidated financial statements.

**BANK OF SOUTH CAROLINA CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME**

| | Years Ended December 31, | | |
|---|--------------------------|---------------------|---------------------|
| | 2017 | 2016 | 2015 |
| Interest and fee income | | | |
| Loans, including fees | \$ 13,287,318 | \$ 12,851,900 | \$ 11,795,303 |
| Taxable securities | 1,585,505 | 1,297,636 | 1,376,441 |
| Tax-exempt securities | 1,026,513 | 1,007,438 | 1,012,638 |
| Other | 269,811 | 138,623 | 45,566 |
| Total interest and fee income | <u>16,169,147</u> | <u>15,295,597</u> | <u>14,229,948</u> |
| Interest expense | | | |
| Deposits | 423,857 | 378,733 | 401,463 |
| Short-term borrowings | 6 | 7 | 932 |
| Total interest expense | <u>423,863</u> | <u>378,740</u> | <u>402,395</u> |
| Net interest income | 15,745,284 | 14,916,857 | 13,827,553 |
| Provision for loan losses | 55,000 | 570,000 | 192,500 |
| Net interest income after provision for loan losses | <u>15,690,284</u> | <u>14,346,857</u> | <u>13,635,053</u> |
| Other income | | | |
| Service charges and fees | 1,135,037 | 1,061,349 | 991,007 |
| Mortgage banking income | 1,057,457 | 1,387,740 | 1,605,676 |
| Gains on sales of securities | 45,820 | 380,904 | 423,832 |
| Other non-interest income | 30,157 | 31,090 | 29,443 |
| Total other income | <u>2,268,471</u> | <u>2,861,083</u> | <u>3,049,958</u> |
| Other expense | | | |
| Salaries and employee benefits | 6,060,831 | 6,087,929 | 5,859,203 |
| Net occupancy expense | 1,571,076 | 1,528,048 | 1,480,606 |
| Other operating expenses | 2,517,737 | 2,639,776 | 2,168,382 |
| Net other real estate owned expenses | 92,652 | 16,691 | 5,284 |
| Total other expenses | <u>10,242,296</u> | <u>10,272,444</u> | <u>9,513,475</u> |
| Income before income tax expense | 7,716,459 | 6,935,496 | 7,171,536 |
| Income tax expense | <u>2,814,634</u> | <u>1,688,433</u> | <u>2,287,248</u> |
| Net income | <u>\$ 4,901,825</u> | <u>\$ 5,247,063</u> | <u>\$ 4,884,288</u> |
| Weighted average shares outstanding | | | |
| Basic | <u>4,973,637</u> | <u>4,935,349</u> | <u>4,912,499</u> |
| Diluted | <u>5,058,352</u> | <u>5,054,114</u> | <u>5,067,085</u> |
| Basic income per common share | <u>\$ 0.99</u> | <u>\$ 1.06</u> | <u>\$ 0.99</u> |
| Diluted income per common share | <u>\$ 0.97</u> | <u>\$ 1.04</u> | <u>\$ 0.96</u> |

See accompanying notes to consolidated financial statements.