BANK OF SOUTH CAROLINA CORP
Form 10-K
March 05, 2013

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

S ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012

£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to __________

Commission file number: 0-27702

BANK OF SOUTH CAROLINA CORPORATION

(Exact name of registrant as specified in its charter)

South Carolina (State or other jurisdiction of incorporation or organization)	57-1021355 (IRS Employer Identification Number)
256 Meeting Street, Charleston, SC (Address of principal executive offices)	29401 (Zip Code)

Issuer's telephone number: (843) 724-1500

Securities registered under Section 12(b) of the Exchange Act:

<u>Common Stock</u>

(Title of Class)

Securities registered under Section 12(g) of the Exchange Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

£ Yes S No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

£ Yes S No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes S   No £

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for a shorter period that the registrant was required to submit and post such files).

Yes S   No £

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10K or any amendment to this Form 10-K. £

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer £ Accelerated Filer £ Non-accelerated filer £ Smaller reporting Company S

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes £ No S

Aggregate market value of the voting stock held by non-affiliates, computed by reference to the closing price of such stock on June 30, 2012 was: $50,153,576

As of March 1, 2013, the Registrant has outstanding 4,446,239 shares of common stock.

BANK OF SOUTH CAROLINA CORPORATION

AND SUBSIDIARY

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PART I

Item 1. Business

General

The Bank of South Carolina (the "Bank") was organized on October 22, 1986 and opened for business as a state-chartered financial institution on February 26, 1987, in Charleston, South Carolina. The Bank was reorganized into a wholly-owned subsidiary of Bank of South Carolina Corporation (the "Company"), effective April 17, 1995. At the time of the reorganization, each outstanding share of the Bank was exchanged for two shares of Bank of South Carolina Corporation Stock. The Company operates as a commercial bank from its four banking house locations. The four banking house locations include: 256 Meeting Street, Charleston, SC, 100 North Main Street, Summerville, SC, 1337 Chuck Dawley Boulevard, Mt. Pleasant, SC and 2027 Sam Rittenberg Boulevard, Charleston, SC.

The Company ("BKSC") is publicly traded on the National Association of Securities Dealers Automated Quotations (NASDAQ), and is under the reporting authority of the Securities and Exchange Commission ("SEC"). All of the Company's electronic filings with the SEC, including its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other documents filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, are accessible at no cost on the Bank's website, www.banksc.com, through the "Investor Relations" link. The Company's filings are also available through the SEC's web site at www.sec.gov or by calling 1-800-SEC-0330.

Location and Service Area

The Bank serves Berkeley, Charleston and Dorchester counties (the "Tri-County Area") as an independent, community oriented commercial bank concentrating on individuals and small and medium-sized businesses desiring a high level of personalized services. The principal components of the economy within the Company's service area are service industries, manufacturing, medical, government and wholesale and retail trade. Like other areas in the United States, the Company's market area has experienced extreme volatility and disruption for more than 4 years. The operations of the Company have been impacted by prevailing economic conditions, competition and the monetary, fiscal, and regulatory policies of governmental agencies. Nonetheless, the Tri-County Area is expected to rebound and grow significantly in the next few years, as a result of new industry led by Boeing locating a production line of its 787 airplanes and Clemson establishing a Wind Turbine Drivetrain Test Facility in Charleston, SC. In addition, Charleston has become one of the top 10 fastest growing cities in the US for software and Internet technology. Charleston was also voted the top US city by "Conde Nast."

Banking Services

The Bank offers a full range of deposit services that are typically available in most banks and thrift institutions, including checking accounts, NOW Accounts, savings accounts and other time deposits of various types, ranging from daily Money Market Accounts to longer-term Certificates of Deposit. In addition, the Bank offers certain retirement account services, such as Individual Retirement Accounts ("IRAs"). All deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to the maximum amount allowed by law, $250,000, subject to aggregate rules and limits. In addition as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act, as of July 21, 2011, deposit institutions may now pay interest on business demand accounts.

The Bank also offers a full range of commercial and personal loans. Commercial loans include both secured and unsecured loans for working capital (including inventory and receivables), business expansion (including acquisition of real estate and improvements) and purchase of machinery and equipment. The Bank originates, processes and closes mortgage loans and sells (each individually) to investors on a list preapproved by the Board. The Bank's lending activities are subject to a variety of lending limits imposed by Federal law. While differing limits apply in certain circumstances based on the type of loan or the nature of the borrower, the direct, indirect and related credit to a single borrowing entity is limited to 10% of the Bank's unimpaired capital and surplus and up to 15% if approved in advance by the Board of Directors. All loans made to any Director of the Bank must be approved by the Board of Directors and made on terms not more favorable than would be available to a person not affiliated with the Bank. This also applies to executive officers who may only apply for overdraft protection.

Other services offered by the Bank include internet banking (for individuals and businesses) including online bill pay, and remote deposit capture, allowing businesses to make deposits from its place of business. Credit cards are offered through a correspondent banking service, including MasterCard ™ and Visa ™. The Bank does not have a proprietary automated teller machine but participates in a national ATM network through the Visa Debit Card Program. This service is called "Check Card" by the Bank and also offers purchases by the cardholder where Visa debit cards are accepted worldwide using a direct charge to their checking account. Other services offered, but not limited to, include safe deposit boxes, letters of credit, travelers checks, direct deposit of payroll, social security and dividend payments and automatic payment of insurance premiums and mortgage loans. The Bank offers a fee based courier service and ACH origination service as part of its deposit services for commercial customers.

Competition

The financial services industry is highly competitive. The Bank faces competition in attracting deposits and originating loans based upon a variety of factors including:

- interest rates offered on deposit accounts
- interest rates charged on loans
- credit and service charges
- the quality of services rendered
- the convenience of banking facilities and other delivery channels and
- in the case of loans, relative lending limits.

Direct competition for deposits and loans principally comes from local and national financial institutions as well as consumer and commercial finance companies, insurance companies, brokerage firms, some of which are not subject to the same degree of regulation and restrictions as the Bank. Many of these competitors have substantially greater resources and lending limits than the Bank has and offer certain services, such as trust and international banking services, which the Bank is not providing. The Bank does, however, provide a means for clearing international checks and drafts through a correspondent bank.

Employees

At December 31, 2012, the Bank employed 78 people, with 2 individuals considered part time employees, none of whom are subject to a collective bargaining agreement. The Bank provides a variety of benefit programs including an Employee Stock Ownership Plan and Trust, health, life, disability and other insurance. Management believes its relationship with its employees is excellent.

SUPERVISION AND REGULATION

Both the Company and the Bank are subject to extensive state and federal banking laws and regulations that impose specific requirements or restrictions on and provide for general regulatory oversight of virtually all aspects of operations. Changes in applicable laws or regulations may have a material effect on the Company's business.

Dodd-Frank Act

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was signed into law. The Dodd-Frank Act is expected to result in dramatic changes across the financial regulatory system, some of which become effective immediately and others that will not become effective until various future dates. Implementation of the Dodd-Frank Act will require many new rules to be made by various federal regulatory agencies over the next several years. Uncertainty remains until final rulemaking is complete as to the ultimate impact of the Dodd-Frank Act, which could have an adverse impact on both the financial services industry as a whole and on the Company's business, results of operations, and financial condition.

Bank Holding Company Act

The Company is a one bank holding company under the federal Bank Holding Company Act of 1956, as amended (the "Bank Holding Company Act"). As a result, the Company is primarily subject to the supervision, examination and reporting requirements of the Board of Governors of the Federal Reserve (the "Federal Reserve") under the Bank Holding Company Act and its regulations promulgated thereunder. Moreover, as a bank holding company located in South Carolina, the Company is also subject to the regulations of the South Carolina State Board of Financial Institutions.

Capital Requirements

The Federal Reserve Board imposes certain capital requirements on the Bank Holding Company under the Bank Holding Company Act, including a minimum leverage ratio and minimum ratio of "qualifying" capital to risk-weighted assets. These requirements are essentially the same as those that apply to the Bank and are described under "Regulatory Capital Requirements" in the notes to the financial statements. The ability of the Company to pay dividends depends on the Bank's ability to pay dividends to the Company, which is subject to regulatory restrictions as described below in "Dividends".

Standards for Safety and Soundness

The Federal Deposit Insurance Act requires the federal banking regulatory agencies to prescribe, by regulation or guideline, operational and managerial standards for all insured depository institutions relating to (1) internal controls, information systems and internal audit systems, (2) loan documentation, (3) credit underwriting, (4) interest rate risk exposure, and (5) asset growth. The agencies also must prescribe standards for asset quality, earnings, and stock valuation, as well as standards for compensation, fees, and benefits. The federal banking agencies have adopted regulations and Interagency Guidelines Prescribing Standards for Safety and Soundness to implement these required standards. These guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired.

Regulatory Examination

All insured institutions must undergo regular on-site examinations by their appropriate banking agency. The cost of examinations of insured depository institutions and any affiliates may be assessed by the appropriate banking agency against each institution or affiliate as it deems necessary or appropriate. Insured institutions are required to submit

annual reports to the FDIC, their federal regulatory agency, and state supervisor when applicable. The federal banking regulatory agencies prescribe, by regulation, standards for all insured depository institutions and depository institution holding companies relating, among other things, to the following:

- Internal controls
- Information systems and audit systems
- Loan documentation
- Credit underwriting
- Interest rate risk exposure
- Asset quality
- Liquidity
- Capital Adequacy
- Bank Secrecy Act
- Sensitivity to Market Risk

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Transactions with Affiliates and Insiders

The Company is subject to certain restrictions on extensions of credit to executive officers, directors, certain principal shareholders, and their related interests. Such extensions of credit (1) must be made on substantially the same terms, including interest rates, and collateral, as those prevailing at the time for comparable transactions with third parties and (2) must not involve more than the normal risk of repayment or present other unfavorable features.

Dividends

The Company's principal source of cash flow, including cash flow to pay dividends to its shareholders, is dividends it receives from the Bank. Statutory and regulatory limitations apply to the Bank's payment of dividends to the Company. As a general rule, the amount of a dividend may not exceed, without prior regulatory approval, the sum of net income in the calendar year to date and the retained net earnings of the immediately preceding two calendar years. A depository institution may not pay any dividend if payment would cause the institution to become undercapitalized or if it already is undercapitalized.

Consumer Protection Regulations

Activities of the Bank are subject to a variety of statutes and regulations designed to protect consumers. Interest and other charges collected for the Bank are subject to state usury laws and federal laws concerning interest rates. The Bank's loan operations are also subject to federal laws applicable to credit transactions such as:

- The federal Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers
- The Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves
- The Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit
- The Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies
- The Fair Debt Collection Act, governing the manner in which consumer debt may be collected by collection agencies
- The rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

The deposit operations of the Bank also are subject to:

- The Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records
- The Electronic Funds Transfer Act and Regulation E issued by the Federal Reserve Board to implement that Act, which governs automatic deposits to and withdrawals from deposit and customer's rights and liabilities arising from the use of automated teller machines and other electronic banking services
- Regulation DD which implements the Truth in Savings Act to enable consumers to make informed decisions about deposit accounts at depository institutions. Regulation DD requires depository institutions to provide disclosures so that consumers can make meaningful comparisons among depository institutions.

Enforcement Powers

The Company, including its management and employees, are subject to potential civil and criminal penalties for violations of law, regulations or written orders of a government agency. These practices can include the failure of an institution to timely file required reports or the filing of false or misleading information or the submission of inaccurate reports. Civil penalties may be as high as $1 million a day for such violations. Criminal penalties for some financial institution crimes have been increased to twenty years. In addition, regulators are provided with greater flexibility to commence enforcement actions against the Company.

Anti-Money Laundering

The Company must maintain anti-money laundering programs that include (1) established internal policies, procedures, and controls, (2) a designated compliance officer, (3) an ongoing employee training program and, (4) testing of the program by an independent audit function. The Company is prohibited from entering into specified financial transactions and account relationships and must meet enhanced standards for due diligence and "knowing your customer" in dealing with foreign financial institutions and foreign customers. In addition, the Company must take reasonable steps to conduct enhanced scrutiny of account relationships to guard against money laundering and to report any suspicious transactions.

USA Patriot Act/Bank Secrecy Act

The Company must maintain a Bank Secrecy Act Program that includes (1) established internal policies, procedures, and controls, (2) a designated compliance officer, (3) an ongoing employee training program and, (4) testing of the program by an independent audit function. The USA Patriot Act amended in part the Bank Secrecy Act and provides for the facilitation of information sharing among governmental entities and the Company for the purpose of combating terrorism and money laundering by enhancing anti-money laundering and financial transparency laws, as well as enhanced information collection tools and enforcement mechanics for the US government. These provisions include (1) requiring standards for verifying customer identification at account opening, (2) rules to promote cooperation among financial institutions, regulators, and law enforcement entities in identifying parties that may be involved in terrorism or money laundering, and (3) filing suspicious activity reports if the Company believes a customer may be violating US laws and regulations.

Privacy and Credit Reporting

The Company is required to disclose its policies for collecting and protecting confidential information. Customers generally may prevent the Company from sharing nonpublic personal information with nonaffiliated third parties except under narrow circumstances, such as the processing of transactions requested by the consumer.

Check 21

The Check Clearing For the 21st Century Act gives "substitute checks," such as a digital image of a check and copies made from that image, the same legal standing as the original paper check. The following are some of the major provisions:

- Allowing check truncation without making it mandatory
- Demanding that every financial institution communicate to account holders in writing a description of its substitute check processing program and their rights under the law
- Legalizing substitutions for and replacement of paper checks without agreement from consumers
- Retaining in place the previously mandated electronic collection and return of checks between financial institutions only when individuals agreements are in place
- Requiring that when account holders request verification, financial institutions produce the original check (or a copy that accurately represents the original) and demonstrate that the account debit was accurate and valid
- Requiring the re-crediting of funds to an individual's account on the next business day after a consumer proves that the financial institution has erred.

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Item 1A. Risk Factors

Not applicable

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

The Company's headquarters is located at 256 Meeting Street in downtown Charleston, South Carolina. This site is also the location of the main office of its subsidiary, The Bank of South Carolina. In addition to the Meeting Street location, the Bank operates from three additional locations: 100 North Main Street, Summerville, SC, 1337 Chuck Dawley Boulevard, Mount Pleasant, SC, and 2027 Sam Rittenberg Boulevard, Charleston, SC. The Bank's mortgage department is located at 1071 Morrison Drive, Charleston, SC. The Company owns the 2027 Sam Rittenberg Boulevard location which also houses the Operations Department of the Bank. All other locations are leased. The owned location is not encumbered and all of the leases have renewal options. Each of the banking locations are suitable and adequate for banking operations.

Item 3. Legal Proceedings

On February 3, 2012 the Company was served with pleadings with respect to a South Carolina State Supreme Court Case for the "unauthorized practice of the law" arising from the modifications of real estate loans. The South Carolina State Supreme Court heard this case on June 19, 2012 and expects to render a decision in the near future. At this time it is impossible to predict the outcome/results of a final order. Any financial claim is not estimable currently.

In the opinion of management, there are no other legal proceedings pending other than routine litigation incidental to its business involving amounts which are not material to the financial condition of the Company or the Bank.

Item 4. Mine Safety Disclosures

Not applicable

PART II

Item 5. Market for the Company's Common Equity, Related Stockholder Matters and Issuers Purchases of Equity Securities

There were issued and outstanding 4,446,239 shares of the 12,000,000 authorized shares of common stock of the Company at the close of the Company's fiscal year ended December 31, 2012. The common stock of the Company is traded on The NASDAQ Capital Market under the trading symbol "BKSC".

The following table sets forth the high and low sales price information as reported by NASDAQ in 2012, 2011 and 2010. All information has been adjusted for a 10% stock dividend declared on August 26, 2010.

	High	Low	Dividends
2012			
Quarter ended March 31, 2012	$11.80	$10.10	$ 0.11
Quarter ended June 30, 2012	$12.00	$11.05	$ 0.11
Quarter ended September 30, 2012	$12.50	$11.10	$ 0.11
Quarter ended December 31, 2012	$12.00	$10.73	$ 0.12
2011			
Quarter ended March 31, 2011	$12.50	$11.19	$ 0.10
Quarter ended June 30, 2011	$11.89	$9.90	$ 0.10
Quarter ended September 30, 2011	$10.60	$9.10	$ 0.11
Quarter ended December 31, 2011	$10.29	$9.66	$ 0.11
2010			
Quarter ended March 31, 2010	$10.35	$8.64	$ 0.10
Quarter ended June 30, 2010	$10.96	$8.91	$ 0.10
Quarter ended September 30, 2010	$11.93	$8.87	$ 0.10
Quarter ended December 31, 2010	$12.44	$10.18	$ 0.10

As of January 1, 2013, there were approximately 1,200 shareholders of record with shares held by individuals and in nominee names, and on March 1, 2013, the market price for the common stock of the Company was $11.83

The future payment of cash dividends is subject to the discretion of the Board of Directors and depends upon a number of factors, including future earnings, financial condition, cash requirements, and general business conditions. Cash dividends, when declared, are paid by the Bank to the Company for distribution to shareholders of the Company. Certain regulatory requirements restrict the amount of dividends which the Bank can pay to the Company.

At its December, 1995 Board Meeting, the Board of Directors authorized the repurchase of up to 128,108 shares of its common stock on the open market. At its October, 1999 Board meeting, the Board of Directors authorized the repurchase of up to 41,593 shares of its common stock on the open market and again at its September, 2001 Board meeting, the Board of Directors authorized the repurchase of up to 49,912 shares of its common stock on the open market. As of the date of this report, 219,451 shares have been repurchased by the Company with 162 shares remaining that are authorized to be repurchased. At the Annual Meeting April, 2007, the shareholders' voted to increase the number of authorized shares from 6,000,000 to 12,000,000. As of March 1, 2013, there were 4,665,690 shares of common stock issued and 4,446,239 shares of common stock outstanding.

THE BANK OF SOUTH CAROLINA EMPLOYEE STOCK OWNERSHIP PLAN AND TRUST

During 1989, the Board of Directors of the Bank adopted an Employee Stock Ownership Plan and Trust Agreement to provide retirement benefits to eligible employees of the Bank for long and faithful service. An amendment and restatement was made to the Employee Stock Ownership Plan effective January 1, 2007 and approved by the Board of Directors January 18, 2007. Periodically the Internal Revenue Service "IRS" requires a restatement of a qualified retirement plan to ensure that the plan document includes provisions required by legislative and regulatory changes made since the last restatement. There have been no substantive changes to the plan. The Board of Directors approved the restated plan, on January 26, 2012 (incorporated as Exhibit 10.5 in the 2011 10-K). The Plan has been submitted to the IRS for approval and at the time of this filing, the Company has received an acknowledgement letter from the IRS but has not received a determination letter. The Board of Directors of the Bank approved the cash contribution of $285,000 to The Bank of South Carolina Employee Stock Ownership Plan for the fiscal year ended December 31, 2012. The contribution was made during 2012.

An employee of the Bank who is not a member of an ineligible class of employees is eligible to participate in the plan upon reaching 21 years of age and being credited with one year of service (1,000 hours of service). All employees are eligible employees except for the following ineligible classes of employees:

- Employees whose employment is governed by a collective bargaining agreement between employee representatives and the Company in which retirement benefits were the subject of good faith bargaining unless the collective bargaining agreement expressly provides for the inclusion of such employees in the plan
- Employees who are non-resident aliens who do not receive earned income from the Company which constitutes income from sources within the United States
- Any person who becomes an employee as the result of certain asset or stock acquisitions, mergers, or similar transactions (but only during a transitional period)
- Certain leased employees
- Employees who are employed by an affiliated Company that does not adopt the plan
- Any person who is deemed by the Company to be an independent contractor on his or her employment commencement date and on the first day of each subsequent plan year, even if such person is later determined by a court or a governmental agency to be or to have been an employee.

The employee may enter the Plan on the January 1st that occurs nearest the date on which the employee first satisfies the age and service requirements described above. No contributions by employees are permitted. The amount and time of contributions are at the sole discretion of the Board of Directors of the Bank. The contribution for all participants is based solely on each participant's respective regular or base salary and wages paid by the Bank including commissions, bonuses and overtime, if any.

A participant becomes vested in the ESOP based upon the employees credited years of service. The vesting schedule is as follows:

- 1 Year of Service 0% Vested
- 2 Years of Service 25% Vested
- 3 Years of Service 50% Vested
- 4 Years of Service 75% Vested
- 5 Years of Service 100% Vested

The Bank is the Plan Administrator. David R. Schools, Fleetwood S. Hassell, Sheryl G. Sharry and Hugh C. Lane, Jr., currently serve as the Plan Administrative Committee and as Trustees for the Plan. The Plan currently owns 269,234 shares of common stock of Bank of South Carolina Corporation.

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Item 6. Selected Financial Data

Consolidated Financial Highlights

	2012	2011	2010	2009	2008
For December 31:					
Net Income	$3,666,828	$3,189,318	$3,110,513	$1,869,854	$2,939,297
Selected Year End Balances:					
Total Assets	325,410,646	334,028,769	280,521,267	265,914,758	243,665,930
Total Loans (1)	235,608,502	221,287,699	213,933,980	217,315,936	183,538,172
Investment Securities Available for Sale	58,514,216	59,552,160	39,379,613	36,862,345	37,896,250
Federal Funds Sold	—	—	19,018,104	3,779,693	13,352,303
Interest Bearing Deposits in Other Banks	25,903,960	47,504,282	715,231	1,139,875	814,104
Earning Assets	320,026,678	328,344,141	273,046,928	259,097,849	235,600,829
Deposits	291,073,843	301,127,515	250,436,975	229,837,680	214,786,515
Shareholders' Equity	33,930,442	31,993,869	28,718,882	27,567,197	26,808,064
Weighted Average Shares Outstanding-Diluted	4,445,738	4,439,887	4,416,065	4,394,366	4,375,485
For the Year:					
Selected Average Balances:					
Total Assets	317,438,538	308,509,718	266,061,304	257,195,300	228,987,689
Total Loans (1)	220,780,471	212,960,987	212,960,118	202,885,118	165,905,847
Investment Securities Available for Sale	57,982,652	52,289,136	37,410,074	37,325,137	37,210,126
Federal Funds Sold and Resale Agreements	—	7,578,169	6,845,910	7,095,852	14,475,859
Interest Bearing Deposits in Other Banks	32,386,509	27,800,598	825,108	791,097	1,315,222
Earning Assets	311,149,632	300,628,890	258,041,210	248,097,204	218,907,054
Deposits	283,365,379	276,859,602	233,712,645	223,770,359	200,955,703
Shareholders' Equity	33,415,008	30,429,970	28,606,139	27,546,030	26,470,992
Performance Ratios:					
Return on Average Equity	10.97 %	10.48 %	10.87 %	6.79 %	11.10 %
Return on Average Assets	1.16 %	1.03 %	1.27 %	.73 %	1.28 %
Average Equity to Average Assets	10.53 %	9.86 %	10.75 %	10.71 %	11.56 %
Net Interest Margin	3.86 %	3.83 %	4.30 %	4.17 %	4.69 %
Net Charge-offs to Average Loans	.01 %	.13 %	.36 %	.38 %	.06 %
Allowance for Loan Losses as a Percentage of Total Loans	1.58 %	1.45 %	1.41 %	1.42 %	.79 %

(excluding mortgage loans held for sale)					
Per Share:					
Basic Earnings	$0.82	$0.72	$0.70	$0.43	$0.67
Diluted Earnings	0.82	0.72	0.70	0.43	0.67
Year End Book Value	7.63	7.20	6.48	6.26	6.74
Cash Dividends Declared	0.45	0.42	0.40	0.32	0.64
Dividend Payout Ratio	54.56 %	58.49 %	54.27 %	68.28 %	86.44 %
Full Time Employee Equivalents	76	76	72	72	67

(1) Including mortgage loans held for sale

All share and per share data have been restated to reflect a 10% stock dividend declared on August 26, 2010.

The following tables, as well as the previously presented consolidated financial highlights, set forth certain selected financial information concerning the Company and its wholly owned subsidiary. The information was derived from audited consolidated financial statements. The information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations", which follows, and the audited consolidated financial statements and notes which are presented elsewhere in this report.

	For Years Ended December 31,				
	2012	2011	2010	2009	2008
Operating Data:					
Interest and fee income	$12,462,859	$12,277,604	$12,166,183	$11,671,949	$12,146,820
Interest expense	455,619	778,028	1,066,391	1,336,329	1,878,778
Net interest income	12,007,240	11,499,576	11,099,792	10,335,620	10,268,042
Provision for loan losses	350,000	480,000	670,000	2,369,000	192,000
Net interest income after provision for loan losses	11,657,240	11,019,576	10,429,792	7,966,620	10,076,042
Other income	2,345,463	1,777,957	2,063,697	2,264,056	1,472,854
Other expense	8,731,625	8,260,266	7,998,545	7,600,705	7,192,635
Income before income taxes	5,271,078	4,537,267	4,494,944	2,629,971	4,356,261
Income tax expense	1,604,250	1,347,949	1,384,431	760,117	1,416,964
Net income	$3,666,828	$3,189,318	$3,110,513	$1,869,854	$2,939,297
Basic income per share	$0.82	$0.72	$0.70	$0.43	$0.67
Diluted income per share	$0.82	$0.72	$0.70	$0.43	$0.67
Weighted average common shares-basic	4,445,738	4,439,887	4,416,065	4,390,835	4,362,812
Weighted average common shares – diluted	4,445,738	4,439,887	4,416,065	4,394,366	4,375,485
Dividends per common share	$0.45	$0.42	$0.40	$0.32	$0.64

	As of December 31,				
	2012	2011	2010	2009	2008
Balance Sheet Data:					
Investment securities available for sale	$58,514,216	$59,552,160	$39,379,613	$36,862,345	$37,896,250
Total loans (1)	235,608,502	221,287,699	213,933,980	217,315,936	183,538,172
Allowance for loan losses	3,432,844	3,106,884	2,938,588	3,026,997	1,429,835
Total assets	325,410,646	334,028,769	280,521,267	265,914,758	243,665,930
Total deposits	291,073,843	301,127,515	250,436,975	229,837,680	214,786,515
Shareholders' equity	33,930,442	31,993,869	28,718,882	27,567,197	26,808,064

(1) Including Mortgage loans to be sold

All share and per share data have been restated to reflect a 10% stock dividend declared on August 26, 2010.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion and analysis is included to assist the Shareholder in understanding the Company's financial condition, results of operations, and cash flow. This discussion should be reviewed in conjunction with the audited consolidated financial statements and accompanying notes presented in Item 8 of this report and the supplemental financial data appearing throughout this report. Since the primary asset of the Company is its wholly-owned subsidiary, most of the discussion and analysis relates to the Bank.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report, including information included or incorporated by reference in this document, contains statements which constitute "forward looking statements" within the meaning of Section 27A of the Securities Act of 1934. Management desires to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1996 and is including this statement for the express purpose of availing the Company of protections of such safe harbor with respect to all "forward-looking statements" contained in this Form 10-K. Forward looking statements may relate to, among other matters, the financial condition, results of operations, plans, objectives, future performance, and business of the Company. Forward-looking statements are based on many assumptions and estimates and are not guarantees of future performance. Actual results may differ materially from those anticipated in any forward-looking statements. The words "may," "would," "could," "should," "will," "expect," "anticipate," "predict," "project,", "potential," "c "assume," "believe," "intend," "plan," "forecast," "goal," and "estimate," as well as similar expressions, are meant to identify s forward-looking statements. Potential risks and uncertainties that could cause our actual results to differ materially from those anticipated in our forward-looking statements include, without limitations, those described under the heading "Risk Factors" in this Annual Report on Form 10-K for the year ended December 31, 2012 as filed with the Securities and Exchange Commission (the SEC") and the following:

- Risk from changes in economic, monetary policy, and industry conditions
- Changes in interest rates, shape of the yield curve, deposit rates, the net interest margin and funding sources
- Market risk (including net income at risk analysis and economic value of equity risk analysis) and inflation
- Risk inherent in making loans including repayment risks and changes in the value of collateral
- Loan growth, the adequacy of the allowance for loan losses, provisions for loan losses, and the assessment of problem loans
- Level, composition, and re-pricing characteristics of the securities portfolio
- Deposit growth, change in the mix or type of deposit products and services
- Continued availability of senior management
- Technological changes
- Ability to control expenses
- Changes in compensation
- Risks associated with income taxes including potential for adverse adjustments
- Changes in accounting policies and practices
- Changes in regulatory actions, including the potential for adverse adjustments
- Recently enacted or proposed legislation

- Current weakness in the financial service industry.

These risks are exacerbated by the developments over the last four years in national and international financial markets, and management is unable to predict what effect continued uncertainty in market conditions will have on the Company. There can be no assurance that the unprecedented developments experienced over the last four years will not materially and adversely affect the Company's business, financial condition and results of operations.

All forward-looking statements in this report are based on information available to the Company as of the date of this report. Although management believes that the expectations reflected in the forward-looking statements are reasonable, management cannot guarantee that these expectations will be achieved. The Company will undertake no obligation to update any forward -looking statement to reflect events or circumstances after the date on which such statement is made to reflect the occurrence of unanticipated events. In addition, certain statements in future filings by the Company with the SEC, in press releases, and in oral and written statements made by or with the approval of the Company, which are not statements of historical fact, constitute forward looking statements.

OVERVIEW

Bank of South Carolina Corporation (the "Company") is a financial institution holding company headquartered in Charleston, South Carolina, with $325.4 million in assets as of December 31, 2012 and net income of $992,173 and $3,666,828, respectively, for the three and twelve months ended December 31, 2012. The Company offers a broad range of financial services through its wholly-owned subsidiary, The Bank of South Carolina (the "Bank"). The Bank is a state-chartered commercial bank which operates principally in the Charleston, Dorchester, and Berkeley counties of South Carolina. The Bank's original and current concept is to be a full service financial institution specializing in personal service, responsiveness, attention to detail to foster long standing relationships.

The Company derives most of its income from interest on loans and investments (interest bearing assets). The primary source of funding for making these loans and investments is the Company's interest and non-interest bearing deposits. Consequently, one of the key measures of the Company's success is the amount of net interest income, or the difference between the income on its interest earning assets, such as loans and investments, and the expense on its interest bearing liabilities, such as deposits. Another key measure is the spread between the yield the Company earns on these interest bearing assets and the rate the Company pays on its interest bearing liabilities.

There are risks inherent in all loans; therefore, the Company maintains an allowance for loan losses to absorb estimated losses on existing loans that may become uncollectible. The Company established and maintains this allowance based on a methodology representing the lending environment it operates within. For a detailed discussion on the allowance for loan losses see "Provision for Loan Losses".

In addition to earning interest on loans and investments, the Company also earns income through fees and other expenses it charges to the customer. The following discussion includes various components of this non-interest income and non-interest expenses. The discussion and analysis also identifies significant factors that have affected the Company's financial position and operating results as of December 31, 2012 as compared to December 31, 2011 and December 31, 2011 as compared to December 31, 2010, and should be read in conjunction with the financial statements and the related notes included in this report. In addition, a number of tables have been included to assist in the discussion.

CRITICAL ACCOUNTING POLICIES

The Company has adopted various accounting policies that govern the application of principles generally accepted in the United States and with general practices within the banking industry in the preparation of its financial statements. The Company's significant accounting policies are set forth in the notes to the Company's consolidated financial statements in this report.

Certain accounting policies involve significant judgments and assumptions by the Company that have a material impact on the carrying value of certain assets and liabilities. The Company considers these accounting policies to be critical accounting policies. The judgment and assumptions the Company uses are based on historical experience and other factors, which the Company believes to be reasonable under the circumstances. Because of the number of judgments and assumptions the Company makes, actual results could differ from these judgments and estimates that could have a material impact on the carrying values of its assets and liabilities and its results of operations.

The Company considers its policy regarding the allowance for loan losses to be its most subjective accounting policy due to the significant degree of management judgment. The Company has developed what it believes to be appropriate policies and procedures for assessing the adequacy of the allowance for loan losses, recognizing that this process requires a number of assumptions and estimates with respect to its loan portfolio. The Company's assessments may be impacted in future periods by changes in economic conditions, the impact of regulatory examinations and the discovery of information with respect to borrowers which were not known by management at the time of the issuance of the consolidated financial statements. For additional discussion concerning the Company's allowance for loan losses and related matters, see "Allowance for loan losses".

COMPARISON OF THE YEAR ENDED DECEMBER 31, 2012 TO DECEMBER 31, 2011

Net income increased $477,510 or 14.97% to $3,666,828 or basic and diluted earnings per share of $.82 and $.82, respectively, for the year ended December 31, 2012 from $3,189,318 or basic and diluted earnings per share of $.72 and $.72, respectively for the year ended December 31, 2011. This increase was primarily due to an increase in mortgage banking income and a decrease in the cost of funds. Historically low interest rates helped to increase the volume of mortgage loan originations. In addition, the Company's market area of Berkeley, Charleston and Dorchester counties saw an increase in home sales during the year ended December 31, 2012. Mortgage loan originations increased $48,649,766 or 81.02% to $108,699,648 for the year ended December 31, 2012, from $60,049,882 for the year ended December 31, 2011.

The cost of funds decreased as a result of lower rates paid on interest bearing deposits coupled with a decrease in interest bearing deposits and an increase in non-interest bearing deposits. Interest bearing deposits decreased $23,283,733 or 10.08% to $207,626,168 for the year ended December 31, 2012. The cost associated with these deposits decreased $322,409 or 41.44% to $455,619 for the year ended December 31, 2012. On February 7, 2012, the Company was notified by a large depositor that it would begin to withdraw its deposits by the end of that month. This depositor was a company that was started in Charleston, SC and was purchased by an out-of-state company in 2007. The deposits remained with the Bank with the understanding that these deposits would eventually be moved. The balance of the deposits, all of which were interest bearing, at December 31, 2011 was $32,462,427 with $546,000 remaining at December 31, 2012. Non-interest bearing accounts increased $13,230,061 or 18.84% to $83,447,675 for the year ended December 31, 2012. The Company had a strong increase in the number of small business accounts, due to its business development efforts. The Dodd-Frank Act included a provision which required the Federal Deposit Insurance Corporation (FDIC) to provide unlimited federal deposit insurance for non-interest bearing demand accounts. This provision expired on December 31, 2012 but the Company has not experienced any impact from the expiration of this provision.

Net interest income increased $507,664 or 4.42% to $12,007,240 for the year ended December 31, 2012 from $11,499,576 for the year ended December 31, 2011. Net interest income is a primary source of revenue. Net interest income is the difference between income earned on assets and interest paid on deposits and borrowings used to support such assets. Net interest income is determined by the rates earned on interest earning assets and the rates paid on interest bearing liabilities, the relative amounts of interest earning assets and interest bearing liabilities, and the

degree of mismatch and maturity and repricing characteristics of its interest earning assets and interest bearing liabilities. The increase in net interest income was primarily due to an increase in interest and fees on loans and, as discussed above, a decrease in the cost of funds.

The company experienced a modest increase of $145,218 or 1.33% from interest and fees on loans, and $37,777 or 2.88% increase from interest and dividends on investment securities. Average loans increased $7,819,484 to $220,780,471 for the year ended December 31, 2012. A large portion of this increase was primarily due to an increase of $4,725,259 in average mortgage loans to be sold, from $3,164,168 for the year ended December 31, 2011 to $7,889,427 for the year ended December 31, 2012. The Company had 480 mortgage originations totaling $108,699,648 for the year ended December 31, 2012 as compared to 281 mortgage originations totaling $60,049,882 for the year ended December 31, 2011. As stated previously, the increase in mortgage originations resulted from the historically low interest rates and an increase in home sales in the Company’s market area.

Average investments increased $5,693,516 to $57,982,652 for the year ended December 31, 2012. The yield on these investments decreased from 2.50% for the year ended December 31, 2011 to 2.32% for the year ended December 31, 2012. During 2011, the Company had one US Treasury Note, two Federal Agency Securities and two Municipal Securities mature that were yielding between 5.069% and 3.396%. The funds from these maturities were re-invested; however, the funds were re-invested at significantly lower interest rates.

The Company maintains an allowance for loan losses (the "allowance") which is management's best estimate of probable losses inherent in the outstanding loan portfolio. The allowance is decreased by actual loan charge-offs, net of recoveries, and is increased as necessary by charges to current period operating results through the provision for loan losses. The allowance is based on management's continuing review and credit risk evaluation of the losses inherent in the loan portfolio. Management takes into consideration many factors such as the balance of impaired loans, the quality, mix and size of the Company's overall loan portfolio, economic conditions that may affect the borrower's ability to repay, the amount and quality of collateral securing the loans, the Company's historical loan loss experience, and a review of specific problem loans. Based on management's evaluation, the Company recorded a provision for loan losses of $350,000 for the year ended December 31, 2012, a decrease of 27.08% or $130,000 from $480,000 for the year ended December 31, 2011.

The allowance consists of an allocated and unallocated allowance. The allocated portion is determined by types and ratings of loans within the portfolio. The unallocated portion of the allowance is established for losses that exist in the remainder of the portfolio and compensates for uncertainty in estimating the loan losses. The Company had $1,005,141 in unallocated reserves at December 31, 2012 as compared to $558,267 at December 31, 2011. Management believes this amount is appropriate and properly supported through the environmental factors of its allowance for loan losses.

There can be no assurance that charge-offs of loans in future periods will not exceed the allowance for loan losses as estimated at any point in time or that provisions for loan losses will not be significant to a particular accounting period. In addition the allowance is subject to examination and testing for adequacy by regulatory agencies. Such regulatory agencies could require management to adjust the allowance based on information available to them at the time of their examination.

During 2012, the Company recorded net charge-offs of $24,040 as compared to net charge-offs of $311,703 in 2011. Although uncertainty in the economic outlook still exists, management believes the loss exposure in the portfolio is identified, reserved against and closely monitored to ensure that changes are promptly addressed in the analysis of reserve adequacy.

Impaired loans at December 31, 2012 totaled $11,498,279, an increase of 55.01% over total impaired loans of $7,417,892 at December 31, 2011. Impaired loans include non-accrual loans of $3,993,816 and five restructured loans (TDR) totaling $1,618,278 at December 31, 2012. In addition, there is one credit totaling $2,623,556 which is

entirely secured by a first mortgage, improving the Company's existing second real estate mortgage secured position and including the existing unsecured debt. Impaired loans at December 31, 2011 included non-accrual loans of $923,671 and two restructured loans totaling $491,153. There were no loans over 90 days past due still accruing interest at December 31, 2012 and one loan over 90 days past due that was still accruing interest at December 31, 2011. Comparing the year ended December 31, 2012 and the year ended December 31, 2011, the increase in non-accrual loans was primarily due to the addition of two very well secured first real estate mortgage loans to one borrower which totaled $1,822,592, one secured real estate mortgage totaling $508,651, and three past due loans (greater than 90 days) totaling $743,154.

Non-interest income increased $567,506 or 31.92% to $2,345,463 for the year ended December 31, 2012 from $1,777,957 for the year ended December 31, 2011. This increase was primarily due to an increase in mortgage banking income offset by a decrease in gains on securities. Mortgage banking income increased $703,183 or 104.22% to $1,377,888 for the year ended December 31, 2012 from $674,705 for the year ended December 31, 2011. Mortgage loan originations increased 81.02% or $48,649,766 for the year ended December 31, 2012. This increase was primarily due to customers taking advantage of the historically low interest rates to refinance and purchase homes. This increase was offset by a decrease of $124,672 in gains realized on the sale of investment securities in 2011. There were no sales of investment securities during the year ended December 31, 2012.

Non-interest expense increased $471,359 or 5.71% to $8,731,625 for the year ended December 31, 2012, from $8,260,266 for the year ended December 31, 2011. This increase was primarily due to increases in salaries and employee benefits, professional legal fees, data processing fees and the Employee Stock Ownership Plan (ESOP) contribution coupled with decreases in fees paid to the FDIC. Wages increased $302,641 or 6.38% from $4,742,772 for the year ended December 31, 2011 to $5,045,413 for the year ended December 31, 2012, as a result of annual merit increases and the hiring of two additional mortgage lenders and an additional loan processor. In addition, at the recommendation of the Compensation Committee, the Board of Directors approved a $10,000 bonus for Executive Officers for the year ending December 31, 2012. The Board of Directors approved this bonus in appreciation for the outstanding performance of the Bank. The bonus was paid in December 2012. The cost of providing insurance for employees also increased with the additional employees and a rate increase by the Company's insurance provider. The cost increased $73,721 from $365,646 for the year ended December 31, 2011 to $439,367 for the year ended December 31, 2012. Data processing fees increased $113,242 or 25.36% for the year ended December 31, 2012. This increase was primarily a result of additional customers signing up for eCorp (online banking for businesses) and remote deposit capture. The Company's data processing fees will continue to increase as additional customers sign up for these products. Professional legal fees increased $50,623 primarily as the result of legal counsel provided on one case, discussed more fully in "Legal Proceedings". The contribution to the ESOP increased $45,000 for the year ended December 31, 2012 when compared to the same period in 2011. The company also saw a decrease in fees paid to the FDIC of $54,350 or 24.90% for the year ended December 31, 2012 from $218,315 for the year ended December 31, 2011, as the result of a decrease in the rate used to calculate the assessment.

Income tax expense increased 19.01% to $1,604,250 at December 31, 2012 from $1,347,949 at December 31, 2011. The Company's effective tax rate was approximately 30.44% for the year ended December 31, 2012 compared to 29.71% for the year ended December 31, 2011.

COMPARISON OF THE YEAR ENDED DECEMBER 31, 2011 TO DECEMBER 31, 2010

Net income increased $78,805 or 2.53% to $3,189,318 for the year ended December 31, 2011 from $3,110,513 for the year ended December 31, 2010. Basic and diluted earnings per share increased from $.70 for the year ended December 31, 2010 to $.72 for the year ended December 31, 2011.

Net interest income is a primary source of revenue. Net interest income is the difference between income earned on assets and interest paid on deposits and borrowings used to support such assets. Net interest income is determined by the rates earned on interest earning assets and the rates paid on interest bearing liabilities, the relative amounts of interest earning assets and interest bearing liabilities, and the degree of mismatch and maturity and repricing characteristics of its interest earning assets and interest bearing liabilities.

Net interest income increased $399,784 or 3.60% to $11,499,576 for the year ended December 31, 2011 from $11,099,792 for the year ended December 31, 2010. Total interest and fee income increased $111,421 or .92% to

$12,277,604 for the year ended December 31, 2011 from $12,166,183 for the year ended December 31, 2010. A modest increase in loan demand which coupled with the Company's effort to improve its yield on loans resulted in the increase in interest and fees on loans of $194,208 or 1.82% to $10,887,709 for the year ended December 31, 2011, from $10,693,501 for the year ended December 31, 2010. Average loans increased $869 with the yield improving from 5.02% at December 31, 2010 to 5.11% at December 31, 2011. Other interest income increased $67,201 or 518.89% to $80,152 at December 31, 2011 from $12,951 at December 31, 2010. To improve its yield on daily liquidity, the Company terminated all of its Federal Funds positions, moving this money to deposits with the Federal Reserve as the Company was able to earn .25% (approximately 10 basis points more than the Company was earning on its Federal Funds deposits). Average other interest bearing accounts increased $26,975,490 with a yield of .24%. The yield on average Federal Funds sold decreased from .19% at December 31, 2010 to .17% at December 31, 2011. Although average investment securities increased $14,879,062 or 39.77%, interest and dividends on investments decreased $149,988 or 10.28% to $1,309,743 for the year ended December 31, 2011 from $1,459,731 at December 31, 2010.

The Company increased its investment portfolio to enhance income in this low rate environment. The average yield on the Company's investment portfolio decreased from 3.90% at December 31, 2010 to 2.50% at December 31, 2011. The Company had $6 million in Federal Agency Securities and $3 million in US Treasury Notes mature during the year ended December 31, 2011, which were yielding between 4.05% and 5.07%. The Company sold $18 million in US Treasury Notes during the year ended December 31, 2011 for a gain of $124,672. The Company reinvested $17 million in Government Sponsored Securities that were yielding between 1.30% and 1.71% and $1 million in Municipal Securities that were yielding between 2.50% and 3.00% at December 31, 2011. In addition to the above noted investments, the Company also purchased an additional $7.73 million in Municipal Securities which were yielding between .55% and 3.55% at December 31, 2011. Overall, average interest bearing assets increased $42.6 million to $300.6 million for the year ended December 31, 2011 with a yield of 4.08% from $258.0 million at December 31, 2010 with a yield of 4.71%.

Average interest bearing liabilities increased $32.0 million to $216.3 million for the year ended December 31, 2011 with a yield of .36% from $184.3 million with a yield of .58% for the year ended December 31, 2010 a decrease of 22 basis points. Because of the Company's increase in liquidity and the reinvestment of its bond portfolio the Company's net interest margin fell from 4.30% at December 31, 2010 to 3.83% at December 31, 2011.

Interest expense decreased $288,363 or 27.04% to $778,028 for the year ended December 31, 2011, from $1,006,391 for the year ended December 31, 2010. On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was signed into law. One of the provisions under this law is for the Federal Deposit Insurance Corporation (FDIC) to provide unlimited federal deposit insurance for non-interest-bearing demand transaction accounts. The Company's non-interest bearing demand accounts increased $13,333,379 or 23.44% from $56,884,235 at December 31, 2010 to $70,217,614 at December 31, 2011. In addition interest rates remain at historically low rates resulting in lower rates paid on deposits as well as lower rates paid on short term borrowings.

The provision for loan losses is a charge to earnings in a given period to maintain the allowance for loan losses at an adequate level. Provision for loan losses decreased $190,000 or 28.36% to $480,000 for the year ended December 31, 2011 from $670,000 for the year ended December 31, 2010. The allowance for loan losses represents an amount which management believes will be adequate to absorb probable losses on existing loans that may become uncollectible. Management's judgment as to the adequacy of the allowance for loan losses is based on numerous assumptions about current events, which management believes to be reasonable, but which may or may not be valid. Management's determination of the allowance of loan losses is based on evaluations of the collectability of loans, including consideration of factors such as the balance of impaired loans, the quality, mix and size of the Company's overall loan portfolio, economic conditions that may affect the borrower's ability to repay, the amount and quality of collateral securing the loans, the Company's historical loan loss experience, and a review of specific problem loans. Recognized losses are charged to the allowance with subsequent recoveries added back.

The allowance consists of an allocated and unallocated allowance. The allocated portion is determined by types and ratings of loans within the portfolio. The unallocated portion of the allowance is established for losses that exist in the remainder of the portfolio and compensates for uncertainty in estimating the loan losses. The Company had $558,267

in unallocated reserves at December 31, 2011 as compared to $1,061,859 at December 31, 2010. Management believes this amount is appropriate and properly supported through the environmental factors of its allowance for loan losses.

There can be no assurance that charge-offs of loans in future periods will not exceed the allowance for loan losses as estimated at any point in time or that provisions for loan losses will not be significant to a particular accounting period. In addition the allowance is subject to examination and testing for adequacy by regulatory agencies. Such regulatory agencies could require management to adjust the allowance based on information available to them at the time of their examination.

During 2011, the Company recorded net charge-offs of $311,703 as compared to net charge-offs of $758,408 in 2010. Impaired loans at December 31, 2011 totaled $7,417,892 an increase of 108.40% over total impaired loans of $3,559,528 at December 31, 2010. Impaired loans include non-accrual loans of $923,671 at December 31, 2011 and $945,328 at December 31, 2010, and two restructured loans totaling $491,153 at December 31, 2011. There was one restructured loan of $153,015 at December 31, 2010. There was one loan at December 31, 2011 over 90 days past due that was still accruing interest and no loans over 90 days past due that were still accruing interest at December 31, 2010.

Non-interest income decreased $285,740 from $2,063,697 for the year ended December 31, 2010 to $1,777,957 for the year ended December 31, 2011. This decrease was primarily due to the decrease in mortgage banking income of $329,619 or 32.82%. Loan origination fees and the service release premiums decreased as the Company originated 61 fewer mortgage loans for the year ended December 31, 2011 as compared to the year ended December 31, 2010. The Company originated 281 mortgage loans in 2011 compared to 342 in 2010. Service charges, fees and commissions decreased $83,700 to $946,518 at December 31, 2011 from $1,030,218 at December 31, 2010. This decrease is primarily due to a decrease in credit card fees. The Company changed to a merchant service provider that pays on a quarterly basis as compared to a monthly basis in 2010. In addition, the Company receives a lower rate from the merchant provider. The merchant service provider assumes all liabilities. Credit card fees decreased $77,127 or 58.47% for the year ended December 31, 2011. The Company realized a gain of $124,672 on the sale of $18,000,000 in US Treasury Notes in 2011.

Non-interest expenses increased $261,721 or 3.27% to $8,260,266 for the year ended December 31, 2011 from $7,998,545 for the year ended December 31, 2010. This increase is primarily due to an increase of $174,677 in salaries and employee benefits. Salaries and wages increased due to the hiring of a new commercial loan officer and annual merit increases. The Company also experienced an increase in other operating expenses with data processing fees increasing $95,524 due to the addition of remote capture and eCorp (online banking for corporations). As additional customers sign up for eCorp and remote deposit capture the Company's data processing fees increase. Fees paid to the FDIC decreased $115,502 from $333,817 for the year ended December 31, 2010 to $218,315 for the year ended December 31, 2011 due to a decrease in the rate used to calculate the assessment. The Company also realized a loss of $63,273 on the sale of Other Real Estate Owned for the year ended December 31, 2011, as compared to a loss of $13,347 for the year ended December 31, 2010.

Income tax expense decreased 2.64% to $1,347,949 at December 31, 2011 from $1,384,431 at December 31, 2010. The Company's effective tax rate was approximately 29.71% for the year ended December 31, 2011 compared to 30.80% for the year ended December 31, 2010.

Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>

ASSET AND LIABILITY MANAGEMENT

The assets and liabilities of the Company are managed to provide a consistent level of liquidity to accommodate normal fluctuations in loans and deposits. At year end 2012, total assets were $325,410,646 a decrease of 2.58% from year end 2011; total deposits were $291,073,843, a decrease of 3.34% from the end of the previous year.

At December 31, 2012, approximately 98.35% of the Company's assets were earning assets composed of U.S. Treasury, Government Sponsored Enterprises and Municipal Securities in the amount of $58,514,216, interest bearing deposits in other banks in the amount of $25,903,960 and total loans including mortgage loans held for sale in the amount of $235,608,502.

The yield on a majority of the Company's earning assets adjusts simultaneously with changes in the general level of interest rates. Some of the Company's liabilities are issued with fixed terms and can be repriced only at maturity.

MARKET RISK

Market risk is the risk of loss from adverse changes in market prices and rates. For the Company, this risk is constituted primarily of interest rate risk in its lending and investing activities as they relate to their funding by deposit and borrowing activities.

The Bank's policy is to minimize interest rate risk between interest bearing assets and liabilities at various maturities and to attempt to maintain an asset sensitive position over a 6 month period. By adhering to this policy, management anticipates that the Bank's net interest margins will not be materially affected unless there is an extraordinary precipitous drop in interest rates. The average net interest rate spread for 2012 increased to 3.78% from 3.72% for 2011 and the average net interest margin for 2012 increased to 3.86% from 3.83% for 2011. Management will continue to monitor its asset sensitive position.

Since the rates on most of the Bank's interest bearing liabilities can vary on a daily basis, management continues to maintain a loan portfolio priced predominately on a variable rate basis; however, in an effort to protect future earnings in a declining rate environment, the Bank offers certain fixed rates, interest rate floors, and terms primarily associated with real estate transactions. The Bank seeks stable, long-term deposit relationships to fund its loan portfolio. The Bank does not have any Brokered Deposits or Internet Deposits.

At December 31, 2012, the average maturity of the investment portfolio was 4 years 1.94 months with an average yield of 2.46% compared to 5 years 5.28 months with an average yield of 2.45% at December 31, 2011. Although there is greater market risk with maturity extension, management feels that the core deposit base minimizes the need to sell securities, and the maturity extension of the investment portfolio improves the yield on the portfolio.

The Company does not take foreign exchange or commodity risks. In addition the Company does not own mortgage-backed securities, nor does it have any exposure to the sub-prime market or any other distressed debt instruments.

The following table summarizes the Bank's interest sensitivity position as of December 31, 2012:

Earning Assets (in 000's)	1 Day	Less Than 3 Months	3 Months to Less Than 6 Months	6 Months to Less Than 1 Year	1 Year to Less Than 5 Years	5 years or More	Total	**Estimated Fair** Value
Loans (1)	$152,698	$24,191	$18,033	$14,544	$26,042	$ 101	$235,609	$217,433
Investment securities (2)	—	2,046	—	285	31,528	21,163	55,022	58,514
Short term investments	25,904	—	—	—	—	—	25,904	25,904
Federal funds sold	—	—	—	—	—	—	—	—
Total	$178,602	$26,237	$18,033	$14,829	$57,570	$ 21,264	$316,535	$301,851

Interest Bearing Liabilities (in 000's)								
CD's and other time deposits 100,000 and over	$—	$17,728	$8,281	$13,023	$1,658	$ 214	$40,904	$40,914
CD's and other time deposits under 100,000	148	5,202	4,555	5,187	568	249	15,909	15,920
Money market and interest bearing demand accounts	131,892	—	—	—	—	—	131,892	131,892
Savings	18,921	—	—	—	—	—	18,921	18,921
Short term borrowings	—	—	—	—	—	—	—	—
	$150,961	$22,930	$12,836	$18,210	$2,226	$ 463	$207,626	$207,647
Net	$27,641	$3,307	$5,197	$(3,381)	$55,344	$ 20,801	$108,909	$94,204
Cumulative		$30,948	$36,145	$32,764	$88,108	$ 108,909		

(1) Including mortgage loans held for sale.
(2) At amortized cost

LIQUIDITY

Historically, the Company has maintained its liquidity at levels believed by management to be adequate to meet requirements of normal operations, potential deposit outflows and strong loan demand and still allow for optimal investment of funds and return on assets. The following table summarizes future contractual obligations as of December 31, 2012:

	Payment Due by Period			
	Total	Less than 1 Year	1-5 Years	After 5 Years
Contractual Obligations (in 000's)				
Time deposits	$56,813	$54,124	$ 2,226	$463
Operating leases	9,790	562	2,184	7,044
Total contractual cash obligations	$66,603	$54,686	$ 4,410	$7,507

The Bank manages its assets and liabilities to ensure that there is sufficient liquidity to enable management to fund deposit withdrawals, loan demand, capital expenditures, reserve requirements, operating expenses, dividends and to manage daily operations on an ongoing basis. Funds are primarily provided by the Bank through customer's deposits, principal and interest payments on loans, mortgage loan sales, the sale or maturity of securities, temporary investments and earnings.

Proper liquidity management is crucial to ensure that the Company is able to take advantage of new business opportunities as well as meet the credit needs of its existing customers. Investment securities are an important tool in the Company's liquidity management. Securities classified as available for sale, which are not pledged, may be sold in response to changes in interest rates and liquidity needs. All of the securities presently owned by the Bank are classified as Available for Sale. Net cash provided by operations and deposits from customers have been the primary sources of liquidity for the Company. At December 31, 2012, the Bank had unused short-term lines of credit totaling approximately $19 million (which can be withdrawn at the lender's option). Additional sources of funds available to the Company for additional liquidity needs include borrowing on a short-term basis from the Federal Reserve System, increasing deposits by raising interest rates paid and selling mortgage loans held for sale. In March 2012, the Company established a $6 million REPO Line with Raymond James (formally Morgan Keegan). There have been no borrowings under this agreement. The Company has also established a Borrower-In-Custody arrangement with the Federal Reserve. This arrangement permits the Company to retain possession of assets pledged as collateral to secure advances from the Federal Reserve Discount Window. At December 31, 2012 the Company could borrow up to $63 million. There have been no borrowings under this arrangement.

Composition of Average Assets

	2012	2011	2010	2009	2008
Loans (1)	$220,780,471	$212,960,987	$212,960,118	$202,885,118	$165,905,847
Investment securities available for sale	57,982,652	52,289,136	37,410,074	37,325,137	37,210,126
Federal funds sold and other investments	32,386,509	35,378,767	7,671,018	7,886,949	15,791,080
Non-earning assets	6,288,906	7,880,828	8,020,094	9,098,096	10,080,636
Total average assets	$317,438,538	$308,509,718	$266,061,304	$257,195,300	$228,987,689

(1) Including mortgage loans held for sale

Average earning assets increased by $10,520,742 from 2011 to 2012. This increase was primarily due to a $7,819,484 increase in average loans, a $5,693,516 increase in average available for sale securities and a $4,585,911 increase in average other short term investments. The average balance of Federal Funds Sold decreased $7,578,169.

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ANALYSIS OF CHANGES IN NET INTEREST INCOME

The following table shows changes in interest income and expense based upon changes in volume and changes in rates:

	2012 vs. 2011			2011 vs. 2010			2010 vs. 2009		
	Volume	Rate	Net Dollar Change (1)	Volume	Rate	Net Dollar Change (1)	Volume	Rate	Net Dollar Change (1)
Loans (2)	$394,189	$(248,971)	$145,218	$44	$194,164	$194,208	$505,801	$33,236	$539,037
Investment securities available for sale	136,421	(98,644)	37,777	471,180	(621,168)	(149,988)	3,415	(47,591)	(44,176)
Federal funds sold and and other investments	5,275	(3,015)	2,260	25,185	42,016	67,201	(471)	(157)	(628)
Interest Income	$535,885	$(350,630)	$185,255	$496,409	$(384,988)	$111,421	$508,746	$(14,512)	$494,233
Interest-bearing transaction accounts	$(11,366)	$(35,318)	$(46,684)	$44,166	$(76,630)	$(32,464)	$9,831	$(30,786)	$(20,955)
Savings	4,631	(3,598)	1,033	3,334	(6,984)	(3,650)	4,751	(3,251)	1,500
Time deposits	(38,143)	(238,615)	(276,758)	64,524	(307,755)	(243,231)	2,486	(247,677)	(245,191)
Federal funds purchased	—	—	—	(1,298)	(1,298)	(2,596)	116	(1,709)	(1,593)
Demand notes issued to U.S. Treasury	—	—	—	(3,211)	(3,211)	(6,422)	(6,082)	2,383	(3,699)
Interest expense	$(44,878)	$(277,531)	$(322,409)	$107,515	$(395,878)	$(288,363)	$11,102	$(281,040)	$(269,938)
Increase (decrease) in net interest income			$507,664			$399,784			$764,171

(1) Volume/Rate changes have been allocated to each category based on the percentage of each to the total change.

(2) Including mortgage loans held for sale

YIELDS ON AVERAGE EARNING ASSETS AND RATES ON AVERAGE INTEREST-BEARING LIABILITIES

	2012			2011			2010	
	Average Balance	Interest Paid/ Earned	Average Yield/ Rate (1)	Average Balance	Interest Paid/ Earned	Average Yield/ Rate (1)	Average Balance	Interest Paid/ Earned
Interest-Earning Assets								
Loans (2)	$220,780,471	$11,032,927	5.00%	$212,960,987	$10,887,709	5.11%	$212,960,118	$10,693,501
Investment securities available for sale	57,982,652	1,347,520	2.32%	52,289,136	1,309,743	2.50%	37,410,074	1,459,731
Federal funds sold	—	3	0.00%	7,578,169	12,562	0.17%	6,845,910	12,918
Other Investments	32,386,509	82,409	0.25%	27,800,598	67,590	0.24%	825,108	33
Total earning assets	$311,149,632	$12,462,859	4.01%	$300,628,890	$12,277,604	4.08%	$258,041,210	$12,166,183
Interest-Bearing Liabilities:								
Interest bearing transaction accounts	$131,701,874	$128,835	0.10%	$141,354,076	$175,519	0.12%	$113,363,097	$207,983
Savings	17,054,154	20,232	0.12%	13,436,769	19,199	0.14%	11,557,910	22,849
Time deposits	56,816,302	306,552	0.54%	61,064,079	583,310	0.96%	56,346,883	826,541
Federal funds purchased	—	—	0.00%	—	—	0.00%	592,260	2,596
Demand notes issued to U.S. Treasury	—	—	0.00%	—	—	0.00%	438,165	—
Term auction facility	—	—	0.00%	480,644	—	0.00%	1,993,151	6,421
Total interest bearing liabilities	$205,572,330	$455,619	0.22%	$216,335,568	$778,028	0.36%	$184,291,466	$1,066,390
Net interest spread			3.78%			3.72%		
Net interest margin			3.86%			3.83%		
Net interest income		$12,007,240			$11,499,576			$11,099,793

(1) The effect of forgone interest income as a result of non-accrual loans was not considered in the above analysis.
(2) Average loan balances include non-accrual loans and mortgage loans held for sale.

INVESTMENT PORTFOLIO

The following is a schedule of the Bank's investment portfolio as of December 31, 2012, December 31, 2011, and December 31, 2010:

	DECEMBER 31, 2012			
	AMORTIZED COST	**GROSS UNREALIZED GAINS**	**GROSS UNREALIZED LOSSES**	**ESTIMATED FAIR VALUE**
U.S. Treasury Notes	$6,097,750	$ 116,000	$ —	$6,213,750
Government-Sponsored Enterprises	17,822,858	521,174	—	18,344,032
Municipal Securities	31,101,401	2,858,625	3,592	33,956,434
Total	$55,022,009	$ 3,495,799	$ 3,592	$58,514,216

	DECEMBER 31, 2011			
	AMORTIZED COST	**GROSS UNREALIZED GAINS**	**GROSS UNREALIZED LOSSES**	**ESTIMATED FAIR VALUE**
U.S. Treasury Notes	$6,153,299	$ 157,483	$ —	$6,310,782
Government-Sponsored Enterprises	18,100,730	333,387	—	18,434,117
Municipal Securities	32,101,781	2,706,597	1,117	34,807,261
Total	$56,355,810	$ 3,197,467	$ 1,117	$59,552,160

	DECEMBER 31, 2010			
	AMORTIZED COST	**GROSS UNREALIZED GAINS**	**GROSS UNREALIZED LOSSES**	**ESTIMATED FAIR VALUE**
U.S. Treasury Notes	$9,055,078	$ 8,784	$ 40,425	$9,023,437
Government-Sponsored Enterprises	6,013,897	86,648	—	6,100,545
Municipal Securities	23,913,091	577,462	234,922	24,255,631
Total	$38,982,066	$ 672,894	$ 275,347	$39,379,613

The Bank's investment portfolio had a weighted average yield of 2.46%, 2.45%, and 3.46% for the years ended December 31, 2012, 2011, and 2010, respectively.

At December 31, 2012 there was one Municipal Security with an unrealized loss of $3,592 compared to three Municipal Securities with an unrealized loss of $1,117 at December 31, 2011. These investments are not considered other-than-temporarily impaired. The Company has the ability and the intent to hold these investments until a market price recovery or maturity. The unrealized losses on these investments were caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment.

LOAN PORTFOLIO COMPOSITION

The Company focuses its lending activities on small and middle market businesses, professionals and individuals in its geographic markets. At December 31, 2012, outstanding loans (plus deferred loan fees of $60,207) totaled $217,128,624, which equaled 74.60% of total deposits and 66.72% of total assets. Substantially all loans were to borrowers located in the Company's market area in the counties of Charleston, Dorchester and Berkeley in South Carolina.

Because lending activities comprise such a significant source of revenue, the Company's main objective is to adhere to sound lending practices. Every credit with over $100,000 in exposure is summarized by the Company's Credit Department and reviewed by the Loan Committee on a monthly basis. The Board of Directors reviews credits over $500,000 monthly with an annual credit analysis conducted on these borrowers upon the receipt of updated financial information. Prior to any extension of credit, every significant commercial loan goes through sound credit underwriting. The Credit Department conducts detailed cash flow analysis on each proposal using the most current financial information.

The following is a schedule of the Bank's loan portfolio, excluding mortgage loans and deferred loan fees, as of December 31, 2012, as compared to December 31, 2011, 2010, 2009 and 2008:

	Book Value (in 000's)				
Type	2012	2011	2010	2009	2008
Commercial and industrial loans	$54,959	$55,836	$52,216	$ 48,719	$ 46,840
Real estate loans	157,525	152,665	149,710	158,961	127,405
Loans to individuals for household, family and other personal expenditures	4,365	4,928	5,868	6,036	5,667
All other loans (including overdrafts)	159	221	214	179	226
Total Loans (excluding unearned income)	$217,008	$213,650	$208,008	$213,895	$180,138

The Bank had no foreign loans or loans to fund leveraged buyouts (LBO's) during 2012, 2011, 2010, 2009, or 2008.

The following table presents the contractual terms to maturity for loans outstanding at December 31, 2012. Demand loans, loans having no stated schedule of repayment and no stated maturity, and overdrafts are reported as due in one year or less. The table does not include an estimate of prepayments, which can significantly affect the average life of loans and may cause the Company's actual principal experience to differ from that shown.

	SELECTED LOAN MATURITY (IN 000'S)			
	One year or less	Over one but less than five years	Over five years	Total
Type				
Commercial and industrial loans	$31,648	$18,666	$4,645	$54,959
Real estate loans	57,163	57,010	43,352	157,525
Loans to individuals for household, family and other personal expenditures	1,995	2,260	110	4,365
All other loans (including overdrafts)	1	58	100	159
Total Loans (excluding unearned income)	$90,807	$77,994	$48,207	$217,008

IMPAIRED LOANS

A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement and exhibits one or more of the following characteristics:

- Non-accrual status, which includes
  - P Payment in full is not expected, or
  - P Ninety (90) days late, unless loan is well secured or is in collection
- Principal payments have been deferred and where the primary and secondary sources of repayment may not materialize and the return to profitability in the foreseeable future is in doubt
- Collateral dependent loans where the underlying asset pledged will not be sufficient to cover the indebtedness and no other ability to recover the debt is available
- Bankruptcy where a payment modification will result in a loss
- Excessive past due payments
- Cash flow and coverage ratios are not satisfactory
- Troubled debt restructuring

Impairment loss is measured by:

a. The present value of expected future cash flows discounted at the loan's effective interest rate, or, alternatively,
b. The fair value of the collateral if the loan is collateral dependent.

All loans placed on non-accrual status are classified as impaired. However, not all impaired loans are on non-accrual status.

The Bank had impaired loans totaling $11,498,279 as of December 31, 2012 compared to $7,417,892, $3,559,528, $2,502,202, and $1,802,291, as of December 31, 2011, 2010, 2009, and 2008, respectively. The impaired loans include non-accrual loans with balances at December 31, 2012, 2011, 2010, 2009, 2008, of $3,993,816, $923,671, $945,328, $627,373, and $75,486, respectively. The Bank had five restructured loans ("TDR") in the amount of $1,618,278 at December 31, 2012, two restructured loans in the amount of $491,153 at December 31, 2011, one restructured loan at December 31, 2010 of $153,015, no restructured loans for the years ended December 31, 2009 or 2008, respectively. According to Generally Accepted Accounting Principals (GAAP), the Company is required to account for certain loan modifications or restructuring as a troubled debt restructuring ("TDR"). In general, the modification or restructuring of a debt is considered a TDR if the Company, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that the Company would not otherwise consider.

TROUBLED DEBT RESTRUCTURING

According to GAAP, the Company is required to account for certain loan modifications or restructuring as a troubled debt restructuring ("TDR"). In general, the modification or restructuring of a debt is considered a TDR if the Company, for economic or legal reasons related to a borrower's financial difficulties, grant a concession to the borrower that the Company would not otherwise consider. Three factors must always be present:

1. An existing credit must formally be renewed, extended, or modified.
2. The borrower is experiencing financial difficulties.
3. The Bank grants a concession that it would not otherwise consider.

All TDR loans must be considered for Impairment and included on the Bank's Allowance for Credit Losses.

The Bank had five TDR's in the amount of $1,618,278 at December 31, 2012, two TDR's in the amount of $491,153 at December 31, 2011, one TDR loan at December 31, 2010 of $153,015, no TDR's for the years ended December 31, 2009 or 2008, respectively.

Management does not know of any potential problem loans, which will not meet their contractual obligations that are not otherwise discussed herein.

OTHER REAL ESTATE OWNED

Real estate acquired as a result of foreclosure or by deed-in-lieu of foreclosure is classified as other real estate owned ("OREO") until it is sold. When the property is acquired, it is recorded at the lesser of fair value of the property less estimated selling costs or the total loan balance. It is in the Company's best interest to determine the fair market value by engaging an independent appraisal within 30 days of property being acquired into OREO. The Company can not hold the property for a period of more than five years. The Bank will pay property taxes along with insurance expenses until the property is sold. Other real estate owned at December 31, 2010 was $659,492. The Company sold its OREO during the year ended December 31, 2011 for a loss of $63,273. The Company had no OREO at December 31, 2012 or at December 31, 2011.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses represents management's estimate of probable losses inherent in the loan portfolio. The adequacy of the allowance for loan losses (the "allowance") is reviewed monthly by the Loan Committee and on a quarterly basis by the Board of Directors. For purposes of this analysis, adequacy is defined as a level sufficient to absorb estimated losses in the loan portfolio as of the balance sheet date presented. The methodology employed for this analysis has had various modifications since 2007 to better reflect the economic environment and to implement regulatory guidance. This allowance is validated on a monthly basis by Credit Personnel (who have no lending approval authority nor complete the allowance). The revised methodology is based on a Reserve Model that is comprised of the three components listed below.

1) Specific Reserve analysis for impaired loans based on Financial Accounting Standards Board (FASB) ASC 310-10-35.
2) General reserve analysis applying historical loss rates based on FASB ASC 450-20.
3) Qualitative or environmental factors.

Loans are reviewed for impairment on a quarterly basis if any of the following criteria are met:

1) Any loan on non-accrual
2) Any loan that is a troubled debt restructuring
3) Any loan over 60 days past due
4) Any loan rated sub-standard, doubtful, or loss
5) Excessive principal extensions are executed

6) If the Bank is provided information that indicates the Bank will not collect all principal and interest as scheduled

These loans are measured in accordance with FASB ASC 310-10-35. Impaired loans can either be secured or unsecured, yet does not apply to large groups of smaller balance loans that are collectively evaluated. Impairment is measured by the present value of the future cash flow discounted at the loan's effective interest rate, or, alternatively the fair value of the collateral if the loan is collateral dependent. An impaired loan may not represent an expected loss.

A general reserve analysis is performed on all loans, excluding impaired loans, based on FASB ASC 450-20. This includes a pool of loans that are reviewed for impairment but are not found to be impaired. Historical losses are segregated into risk-similar groups and a loss ratio is determined for each group over a three year period. The three year average loss ratio by type is then used to calculate the estimated loss based on the current balance of each group. The three year historical loss percentage was .211% and ..311% at December 31, 2012 and December 31, 2011, respectively.

Qualitative and environmental factors include external risk factors that management believes are representative of the overall lending environment of the Company. Management believes that the following factors create a more comprehensive system of controls in which the Company can monitor the quality of the loan portfolio.

1) Portfolio risk
a) Levels and trends in delinquencies and impaired loans
b) Trends in volume and terms of loans
c) Over-margined real estate lending risk
2) National and local economic trends and conditions
3) Effects of changes in risk selection and underwriting practices
4) Experience, ability and depth of lending management staff
5) Industry conditions
6) Effects of changes in credit concentrations
a) Loan concentration
b) Geographic concentration
c) Regulatory concentration
7) Loan and credit administration risk
a) Collateral documentation
b) Insurance Risk
c) Maintenance of financial information risk

The sum of each component's analysis results represents the "estimated loss" within the Company's total portfolio.

Portfolio risk includes the levels and trends in delinquencies, impaired loans and changes in the loan rating matrix, trends in volume and terms of loans and overmargined real estate lending. Management is satisfied with the stability of the past due and non-performing loans and believes there has been no decline in the quality of the loan portfolio due to any trend in delinquent or adversely classified loans. Although the aggregate total of classified and impaired loans have increased, management is confident in the sources of repayment and this increase reflects sound credit management. Sizable unsecured principal balances on a non-amortizing basis are monitored. Within the portfolio risk factor the Company elected to increase the risk percentage for "trend in volume and term of loan". In addition the Company elected to increase the risk percentage for "over margined real estate lending risk". Although the vast majority of the Company's real estate loans are underwritten on a cash flow basis, the secondary source of repayment is typically tied to the Company's ability to realize on the collateral. Given the contraction in real estate values, the Company closely monitors its loan to value. The collateral advance rate is 80% on all real estate transactions, with the exception of raw land at 65% and land development at 70%.

Occasionally, the Company extends credit beyond its normal collateral advance margins in real estate lending. Although infrequent, the aggregate of these loans represent a notable part of the Company's portfolio. Accordingly these loans are monitored and the balances reported to the Board every quarter. An excessive level of this practice (as a percentage of capital) could result in additional regulatory scrutiny, competitive disadvantages and potential losses if forced to convert the collateral. The consideration of overmargined real estate loans directly relates to the capacity of

the borrower to repay. Management often requests additional collateral to bring the loan to value ratio within the policy guidelines and also requires a strong secondary source of repayment in addition to the primary source of repayment.

Although significantly under the threshold of 100% of capital (currently approximately $34 million), the Company's list and number of over margined real estate loans currently totals approximately $15,287,601 or approximately 6.49% of its loan portfolio at the year ended December 31, 2012 compared to $16,723,105 or approximately 7.56% of the loan portfolio at December 31, 2011. This decrease is largely due to loans paying down resulting in an acceptable loan to value ratio. Additionally, the Company has focused on originating loans with acceptable loan to value ratios.

A credit rating matrix is used to rate all extensions of credit and to provide a more specified picture of the risk each loan poses to the quality of the loan portfolio. There are eight possible ratings used to determine the quality of each loan based on nine different qualifying characteristics: cash flow, collateral quality, guarantor strength, financial condition, management quality, operating performance, the relevancy of the financial statements, historical loan performance, and the borrower's leverage position. The matrix is designed to meet management's standards and expectations of loan quality

National and local economic trends and conditions are constantly changing and result in both positive and negative impact on borrowers. Most macroeconomic conditions are not controllable by the Company and are incorporated into the qualitative risk factors. Natural and environmental disasters, wars and the recent fallout of the subprime lending market as well as problems in the traditional mortgage market are a few of the trends and conditions that are currently affecting the Company's national and local economy. Changes in the national and local economy have impacted borrowers' ability, in many cases, to repay loans in a timely manner. On occasion a loan's primary source of repayment (i.e., personal income, cash flow, or lease income) may be eroded as a result of unemployment, lack of revenues, or the inability of a tenant to make rent payments.

The quality of the Company's loan portfolio is contingent upon its risk selection and underwriting practices. Every credit with over $100,000 in exposure is summarized by the Bank's Credit Department and reviewed by the Loan Committee on a monthly basis. The Board of Directors reviews credits over $500,000 monthly with an annual credit analysis conducted on these borrower's upon the receipt of updated financial information. Prior to any extension of credit, every significant commercial loan goes through sound credit underwriting. The Credit Department conducts detailed cash flow analysis on each proposal using the most current financial information. Relevant trends and ratios are evaluated.

The Company has over 350 years of lending management experience among eleven members of its lending staff. In addition to the lending staff the Company has an Advisory Board for each branch comprised of business and community leaders from the specific branch's market area. An additional Advisory Board was created during the year ended December 31, 2012, to support the Company's business efforts in the North Charleston area of South Carolina. Management meets with these boards quarterly to discuss the trends and conditions in each respective market. Management is aware of the many challenges currently facing the banking industry. The assessment of banks to replenish the insurance fund and its corresponding impact on bank profits, increased regulatory scrutiny on lending practices, and pending changes in deposit and or funding source type and mix, continue to impact the Company's environment. As other banks look to increase earnings in the short term, the Company will continue to emphasize the need to maintain its sound lending practices and core deposit growth.

There continues be an influx of new banks over the last several years within the Company's geographic area. This increase has decreased the local industry's overall margins as a result of pricing competition. Management believes that the borrowing base of the Company is well established and therefore unsound price competition is not necessary.

The risks associated with the effects of changes in credit concentration include loan concentration, geographic concentration and regulatory concentration.

As of December 31, 2012, there were only four Standard Industrial Code groups that comprised more than 2% of the Bank's total outstanding loans. The four groups are activities related to real estate, offices and clinics of doctors, real estate agents and managers, and legal services.

The Company is located along the coast and on an earthquake fault, increasing the chances that a natural disaster may impact the Company and its borrowers. The Company has a Disaster Recovery Plan in place; however, the amount of time it would take for its customers to return to normal operations is unknown.

Loan and credit administration risk includes collateral documentation, insurance risk and maintaining financial information risk.

The majority of the Company's loan portfolio is collateralized with a variety of its borrower's assets. The execution and monitoring of the documentation to properly secure the loan is the responsibility of the Company's lenders and Loan Department. The Company requires insurance coverage naming the Company as the mortgagee or loss payee. Although insurance risk is also considered collateral documentation risk, the actual coverage, amounts of coverage and increased deductibles are important to management.

Risk includes a function of time during which the borrower's financial condition may change; therefore, keeping financial information up to date is important to the Company. The policy of the Company is that all new loans, regardless of the customer's history with the Company, should have updated financial information. In addition, the Company is monitoring appraisals closely as real estate values continue to fluctuate. .

Based on the evaluation described above, the Company recorded a provision for loan loss of $350,000 for the year ended December 31, 2012 compared to $480,000 for the year ended December 31, 2011.   At December 31, 2012 the three year average loss ratios were: .118% Commercial, ..795% Consumer, .520% 1-4 Residential, .000% Real Estate Construction and .112% Real Estate Mortgage. The three year historical loss ratio used at December 31, 2012 was .211% compared to .311% at December 31, 2011.

During the year ended December 31, 2012 charge-offs of $172,288 and recoveries of $148,248 were recorded to the allowance for loan losses, resulting in an allowance for loan losses of $3,432,844 or 1.46% of total loans at December 31, 2012, compared to charge-offs of $383,714 and recoveries of $72,010 resulting in an allowance for loan losses of $3,106,884 or 1.40% of total loans at December 31, 2011.

The Company had impaired loans totaling $11,498,279 as of December 31, 2012 compared to $7,417,892 at December 31, 2011. The impaired loans include non-accrual loans with balances at December 31, 2012, and 2011, of $3,993,816 and $923,671, respectively. The Bank had five restructured loans ("TDR") at December 31, 2012 and two restructured loans at December 31, 2011. According to GAAP, the Company is required to account for certain loan modifications or restructuring as a troubled debt restructuring, when appropriate. In general, the modification or restructuring of a debt is considered a TDR if the Company, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. At December 31, 2012 the five restructured loans had an aggregate balance of $1,618,278 compared to the two restructured loans with an aggregate balance of $491,153 at December 31, 2011. Included in the impaired loans at December 31, 2012, is one credit totaling $2,623,556 which is entirely secured by a first mortgage, improving the Company's existing second real estate mortgage secured position and including the existing unsecured debt. Management does not know of any loans which will not meet their contractual obligations that are not otherwise discussed herein.

The accrual of interest is generally discontinued on loans, which become 90 days past due as to principal or interest. The accrual of interest on some loans, however, may continue even though they are 90 days past due if the loans are well secured or in the process of collection and management deems it appropriate. If non-accrual loans decrease their past due status to less than 30 days for a period of 6 to 9 months, they are reviewed individually by management to determine if they should be returned to accrual status. There were no loans over 90 days past due still accruing interest at December 31, 2012 and one loan over 90 days past due still accruing interest as of December 31, 2011.

Net charge-offs for the year ended December 31, 2012, were $24,040 as compared to net charge-offs of $311,704 for the year ended December 31, 2011. Although uncertainty in the economic outlook still exists, management believes loss exposure in the portfolio is identified, reserved against and closely monitored to ensure that changes are promptly addressed in the analysis of reserve adequacy.

The following table represents the net charge-offs by loan type.

Net charge-offs

	December 31, 2012	December 31, 2011
Commercial Loans	$49,527	$24,719
Commercial Real Estate	(30,506)	(274,565)
Consumer real estate	(46,487)	(61,858)
Consumer other	3,426	—
Total	$(24,040)	$(311,704)

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The Company had $1,005,141, in unallocated reserves at December 31, 2012 related to other inherent risk in the portfolio compared to unallocated reserves of $558,267 at December 31, 2011. Management believes this amount is appropriate and properly supported through the environmental factors of its allowance for loan losses. Management believes the allowance for loan losses at December 31, 2012, is adequate to cover estimated losses in the loan portfolio; however, assessing the adequacy of the allowance is a process that requires considerable judgment. Management's judgments are based on numerous assumptions about current events which it believes to be reasonable, but which may or may not be valid. Thus there can be no assurance that loan losses in future periods will not exceed the current allowance amount or that future increases in the allowance will not be required. No assurance can be given that management's ongoing evaluation of the loan portfolio in light of changing economic conditions and other relevant circumstances will not require significant future additions to the allowance, thus adversely affecting the operating results of the Company.

The following tables present a breakdown of the allowance for loan losses as of December 31, 2012 and 2011, respectively.

	December 31, 2012			December 31, 2011		
	Allowance by loan type	Percentage of loans to total loans		Allowance by loan type	Percentage of loans to total loans	
Commercial Loans	$1,314,535	25	%	$1,586,510	26	%
Commercial Real Estate	280,775	51	%	420,367	52	%
Consumer real estate	744,327	22	%	450,338	20	%
Consumer other	88,066	2	%	91,402	2	%
Unallocated	1,005,141	0	%	558,267	0	%
Total	$3,432,844	100	%	$3,106,884	100	%

The allowance is also subject to examination testing by regulatory agencies, which may consider such factors as the methodology used to determine adequacy and the size of the allowance relative to that of peer institutions, and other adequacy tests. In addition, such regulatory agencies could require the Company to adjust its allowance based on information available to them at the time of their examination.

The methodology used to determine the reserve for unfunded lending commitments, which is included in other liabilities, is inherently similar to that used to determine the allowance for loan losses described above adjusted for factors specific to binding commitments, including the probability of funding and historical loss ratio. No provision was recorded during the year ended December 31, 2012 or the year ended December 31, 2011, resulting in no change to the balance of $20,825.

DEPOSITS

(in 000's)	1 Day	Less Than 3 Months	3 Months to Less Than 6 Months	6 Months to Less Than 1 Year	1 Year to Less Than 5 Years	**5 years** or More	Total
CD's and other time deposits 100,000 and over	$—	$17,728	$ 8,281	$ 13,023	$1,872	$ —	$40,904
CD's and other time deposits under 100,000	$148	$5,202	$ 4,555	$ 5,187	$504	$ 313	$15,909

Certificates of Deposit $100,000 and over increased $2,265,358 or 5.86% for the year ended December 31, 2012, from $38,638,528 at December 31, 2011. This increase was not the result of special promotions or advertising.

The Bank funds its growth through core deposits and does not rely on Brokered Deposits or Internet Deposits as a source to do so.

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SHORT-TERM BORROWINGS

At December 31, 2012, the Company had no outstanding federal funds purchased with the option to borrow $19,000,000 on short term lines of credit. In March 2012, the Company established a $6 million REPO line with Raymond James (formally Morgan Keegan). There have been no borrowings under this arrangement. The Company has also established a Borrower-In-Custody arrangement with the Federal Reserve as a secondary source of liquidity. This arrangement permits the Company to retain possession of loans pledged as collateral to secure advances from the Federal Reserve Discount Window. Under this agreement the Company may borrow up to $62.6 million. There have been no borrowings under this arrangement.

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of operations, the Company engages in a variety of financial transactions that, in accordance with generally accepted accounting principles, are not recorded in the financial statements, or are recorded in amounts that differ from the notional amounts. These transactions involve, to varying degrees, elements of credit, interest rate, and liquidity risk. Such transactions are used by the Company for general corporate purposes or for customer needs. Corporate purpose transactions are used to help manage credit, interest rate and liquidity risk or to optimize capital. Customer transactions are used to manage customer's requests for funding.

The Company's off-balance sheet arrangements consist principally of commitments to extend credit described below. The Company estimates probable losses related to binding unfunded lending commitments and records a reserve for unfunded lending commitments in other liabilities on the consolidated balance sheet. At December 31, 2012 and 2011 the balance of this reserve was $20,825. At December 31, 2012 and 2011, the Company had no interests in non-consolidated special purpose entities.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management's credit evaluation of the borrower. Collateral held varies, but may include accounts receivable, negotiable instruments, inventory, property, plant and equipment, and real estate. Commitments to extend credit, including unused lines of credit, amounted to $51,144,731 and $47,629,822 at December 31, 2012 and 2011 respectively.

Standby letters of credit represent an obligation of the Company to a third party contingent upon the failure of the Company's customer to perform under the terms of an underlying contract with the third party or obligates the

Company to guarantee or stand as surety for the benefit of the third party. The underlying contract may entail either financial or nonfinancial obligations and may involve such things as the shipment of goods, performance of a contract, or repayment of an obligation. Under the terms of a standby letter, generally drafts will be drawn only when the underlying event fails to occur as intended. The Company can seek recovery of the amounts paid from the borrower. The majority of these standby letters of credit are unsecured. Commitments under standby letters of credit are usually for one year or less. The maximum potential amount of undiscounted future payments related to standby letters of credit at December 31, 2012 and 2011 was $749,712 and $875,679, respectively.

The Company originates certain fixed rate residential loans and commits these loans for sale. The commitments to originate fixed rate residential loans and the sales commitments are freestanding derivative instruments. The fair value of these commitments was not significant at December 31, 2012 or December 31, 2011. The Company had forward sales commitments, totaling $18,479,878 at December 31, 2012, to sell loans held for sale of $18,479,878. At December 31, 2011, the Company had forward sales commitments of $7,578,587. The fair value of these commitments was not significant at December 31, 2012 or 2011. The Company has no embedded derivative instruments requiring separate accounting treatment.

Once the Company sells certain fixed rate residential loans, the loans are no longer reportable on the Company's balance sheet. With most of these sales, the Company has an obligation to repurchase the loan in the event of a default of principal or interest on the loan. This recourse period ranges from three to six months with unlimited recourse as a result of fraud. The unpaid principal balance of loans sold with recourse was $36,105,000 at December 31, 2012 and $28,596,000 at December 31, 2011. For the year ended December 31, 2012 and December 31, 2011 there were no loans repurchased.

EFFECT OF INFLATION AND CHANGING PRICES

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles which require the measurement of financial position and results of operations in terms of historical dollars without consideration of changes in the relative purchasing power over time due to inflation.

Unlike most other industries, the assets and liabilities of financial institutions such as the Company are primarily monetary in nature. As a result, interest rates generally have a more significant impact on the Company's performance than do the effects of general levels of inflation and changes in prices. In addition, interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services. The Company strives to manage the relationship between interest sensitive assets and liabilities in order to protect against wide interest rate fluctuations, including those resulting from inflation.

CAPITAL RESOURCES

The capital needs of the Company have been met to date through the $10,600,000 in capital raised in the Company's initial offering, the retention of earnings less dividends paid and the exercise of stock options for a total shareholders' equity at December 31, 2012, of $33,930,442. The rate of asset growth since the Bank's inception has not negatively impacted this capital base. The current risk-based capital guidelines for financial institutions are designed to highlight differences in risk profiles among financial institutions and to account for off-balance sheet risk. The current guidelines established require a minimum risk-based capital ratio of 8% for bank holding companies and banks. The risk-based capital ratio at December 31, 2012, for the Bank was 13.64% and 13.41% at December 31, 2011. The Company's management does not know of any trends, events or uncertainties that may result in the Company's capital resources materially increasing or decreasing.

On June 23, 2011 the Board of Directors voted to file a shelf registration (Form S-3) with the SEC (Securities and Exchange Commission). This shelf registration statement on Form S-3 provides for the offer and sale from time to time over a three year period, in one or more public offerings, up to $10 million in common stock or debt securities. Specific terms and prices will be determined at the time of each offering under a separate prospectus supplement, which will be filed with the SEC at the time of the offering. The registration statement was filed with the SEC on June 23, 2011. The filing of the shelf registration does not require the Company to issue securities. Although the Company has no current commitments to sell additional stock or securities, the shelf registration will provide the Company with a source of additional capital for acquisitions, capital expenditures, repayment of indebtedness the Company may incur in the future, working capital and other general corporate purposes.

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a material effect on the financial statements. Under current capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company's and the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's and the Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Current quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and to average assets. Management believes, as of December 31, 2012, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

At December 31, 2012 and 2011, the Company and the Bank are categorized as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized" the Company and the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios of 10%, 6% and 5%, respectively, and to be categorized as "adequately capitalized," the Company and the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios of 8%, 4% and 4%, respectively. There are no current conditions or events that management believes would change the Company's or the Bank's category.

In June 2012, U.S. banking regulators issued the Basel III Notice of Proposed Rulemaking (NPR) to implement the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision and changes required by the Financial Reform Act. The Basel III NPR proposes material changes to the deduction of certain assets from capital, new minimum capital ratios and buffer requirements, a Standardized Approach that provides a floor to the calculation of risk-weighted assets, and significant changes to the calculation of credit and counterparty credit risk.

The Basel III NPR addressing standardized risk-weighting of assets would significantly change the risk-weighting of certain assets for almost all U.S. financial institutions beginning in 2015. To what extent the NPR will be adopted as proposed is not known; however, management estimates that the Company would remain a well-capitalized institution under its interpretation of the proposed increased capital requirements and risk-weighted asset revisions if the proposals had been fully in effect as of December 31, 2012.

Many of the changes to capital deductions are subject to a transition period where the impact is recognized in 20% increments beginning on January 1, 2014 through January 1, 2018. The majority of the other aspects of the Basel III NPR were proposed to become effective on January 1, 2013. However, this effective date was postponed in November 2012. The delay is expected to be a six month time period. The phase-in period for the new minimum capital requirements and related buffers is proposed to occur between 2013 and 2019.

Preparing for the implementation of the new capital rules is a top strategic priority, and management expects to comply with the final rules when issued and effective. In the meantime, management intends to continue to build capital through retained earnings, actively managing the Company’s portfolios and implementing other capital related initiatives, including focusing on reducing both higher risk-weighted assets and assets proposed to be deducted from capital under the Basel III NPR.

Please see “Notes to Consolidated Financial Statements” for the Company’s and the Bank’s various capital ratios at December 31, 2012.

Elliott Davis

Report of Independent Registered Public Accounting Firm

The Board of Directors
Bank of South Carolina Corporation and Subsidiary

Charleston, South Carolina

We have audited the accompanying consolidated balance sheets of Bank of South Carolina Corporation and Subsidiary (the "Company") as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bank of South Carolina Corporation and Subsidiary as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

Charleston, South Carolina
March 4, 2013

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BANK OF SOUTH CAROLINA CORPORATION AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31,	
	2012	2011
ASSETS		
Cash and due from banks	$5,137,888	$4,559,194
Interest bearing deposits in other banks	25,903,960	47,504,282
Investment securities available for sale (amortized cost of $55,022,009 and $56,355,810 in 2012 and 2011, respectively)	58,514,216	59,552,160
Mortgage loans to be sold	18,479,878	7,578,587
Loans	217,128,624	213,709,112
Less: Allowance for loans losses	(3,432,844)	(3,106,884)
Net loans	213,695,780	210,602,228
Premises, equipment and leasehold improvements, net	2,486,792	2,611,965
Accrued interest receivable	1,124,613	1,147,216
Other assets	67,519	473,137
Total assets	$325,410,646	$334,028,769
LIABILITIES AND SHAREHOLDER’S EQUITY		
Liabilities		
Deposits:		
Non-interest bearing demand	83,447,675	70,217,614
Interest bearing demand	77,441,588	64,350,891
Money market accounts	54,450,828	96,292,414
Certificates of deposit $100,000 and over	40,903,886	38,638,528
Other time deposits	15,909,164	17,416,840
Other savings deposits	18,920,702	14,211,228
Total deposits	291,073,843	301,127,515
Accrued interest payable and other liabilities	406,361	907,385
Total liabilities	291,480,204	302,034,900
Commitments and contingencies Notes 1 and 8		
Shareholders’ equity		
Common stock-no par 12,000,000 shares authorized; Issued 4,665,690 shares at December 31, 2012 and 4,664,391 at December 31, 2011; Shares outstanding 4,446,239 at December 31, 2012 and 4,444,940 at December 31, 2011	—	—
Additional paid in capital	28,474,951	28,390,929
Retained earnings	5,157,839	3,491,678
Treasury stock; 219,451 shares at December 31, 2012 and 2011	(1,902,439)	(1,902,439)
Accumulated other comprehensive income, net of income taxes	2,200,091	2,013,701
Total shareholders’ equity	33,930,442	31,993,869

Total liabilities and shareholders' equity	$325,410,646	$334,028,769

See accompanying notes to consolidated financial statements.

BANK OF SOUTH CAROLINA CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEARS ENDED DECEMBER 31,		
	2012	2011	2010
Interest and fee income			
Interest and fees on loans	$11,032,927	$10,887,709	$10,693,501
Interest and dividends on investment securities	1,347,520	1,309,743	1,459,731
Other interest income	82,412	80,152	12,951
Total interest and fee income	12,462,859	12,277,604	12,166,183
Interest expense			
Interest on deposits	455,619	778,028	1,057,373
Interest on short-term borrowings	—	—	9,018
Total interest expense	455,619	778,028	1,066,391
Net interest income	12,007,240	11,499,576	11,099,792
Provision for loan losses	350,000	480,000	670,000
Net interest income after provision for loan losses	11,657,240	11,019,576	10,429,792
Other income			
Service charges, fees and commissions	926,050	946,518	1,030,218
Mortgage banking income	1,377,888	674,705	1,004,324
Other non-interest income	41,525	32,062	29,155
Gain on sale of securities	—	124,672	—
Total other income	2,345,463	1,777,957	2,063,697
Other expense			
Salaries and employee benefits	5,045,413	4,742,772	4,568,095
Net occupancy expense	1,356,845	1,340,227	1,316,986
Loss on other real estate owned	—	63,273	13,347
Other operating expenses	2,329,367	2,113,994	2,100,117
Total other expenses	8,731,625	8,260,266	7,998,545
Income before income tax expense	5,271,078	4,537,267	4,494,944
Income tax expense	1,604,250	1,347,949	1,384,431
Net income	$3,666,828	$3,189,318	$3,110,513
Weighted average shares outstanding			
Basic	4,445,738	4,439,887	4,416,065
Diluted	4,445,738	4,439,887	4,416,065
Basic income per common share	$0.82	$0.72	$0.70
Diluted income per common share	$0.82	$0.72	$0.70

See accompanying notes to consolidated financial statements.

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

YEARS ENDED DECEMBER 31,			
	2012	2011	2010
Net income	$3,666,828	$3,189,318	$3,110,513
Other comprehensive income (loss), net of tax:			
Unrealized gain (losses) on securities	186,390	1,841,789	(529,810)
Reclassification adjustment for gains included in income	—	(78,543)	—
Other comprehensive income (loss), net of tax	186,390	1,763,246	(529,810)
Total comprehensive income	$3,853,218	$4,952,564	$2,580,703

BANK OF SOUTH CAROLINA CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2012, 2011, 2010

	COMMON STOCK	ADDITIONAL PAID IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL
December 31, 2009	$	$ 23,511,560	$ 4,968,336	$ (1,692,964)	$ 780,265	$ 27,567,197
Net income	—	—	3,110,513	—	—	3,110,513
Other Comprehensive income	—	—	—	—	(529,810)	(529,810)
Exercise of Stock Options	—	210,811	—	—	—	210,811
10% Stock dividend	—	4,429,847	(4,222,838)	(209,475)	—	(2,466)
Stock-based compensation expense	—	50,721	—	—	—	50,721
Cash dividends ($0.40 per common share)	—	—	(1,688,084)	—	—	(1,688,084)
December 31, 2010	—	28,202,939	2,167,927	(1,902,439)	250,455	28,718,882
Net income	—	—	3,189,318	—	—	3,189,318
Other Comprehensive income	—	—	—	—	1,763,246	1,763,246
Exercise of Stock Options	—	123,403	—	—	—	123,403
Stock-based compensation expense	—	64,587	—	—	—	64,587
Cash dividends ($0.42 per common share)	—	—	(1,865,567)	—	—	(1,865,567)
December 31, 2011	—	28,390,929	3,491,678	(1,902,439)	2,013,701	31,993,869
Net income	—	—	3,666,828	—	—	3,666,828
Other Comprehensive income	—	—	—	—	186,390	186,390
Exercise of Stock Options	—	11,094	—	—	—	11,094
Stock-based compensation expense	—	72,928	—	—	—	72,928
Cash dividends ($0.45 per common share)	—	—	(2,000,667)	—	—	(2,000,667)
December 31, 2012	$ —	$ 28,474,951	$ 5,157,839	$ (1,902,439)	$ 2,200,091	$ 33,930,442

See accompanying notes to consolidated financial statements.

BANK OF SOUTH CAROLINA CORPORATION AND SUBSIDIARY CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEARS ENDED DECEMBER 31,		
Cash flows from operating activities:	2012	2011	2010
Net income	$3,666,828	$3,189,318	$3,110,513
Adjustments to reconcile net income to net cash (used) provided by operating activities:			
Depreciation	206,603	209,316	231,922
Gain on sale of securities	—	(124,672)	—
Loss on sale of other real estate	—	63,273	13,347
Provision for loan losses	350,000	480,000	670,000
Stock-based compensation expense	72,928	64,587	50,721
Deferred income taxes	(169,207)	(76,848)	30,388
Net (accretion) and amortization of unearned discounts on investment securities	390,543	(243,994)	28,915
Origination of mortgage loans held for sale	(108,699,648)	(60,049,882)	(83,127,187)
Proceeds from sale of mortgage loans held for sale	97,798,357	58,379,611	80,652,331
Decrease (increase) in accrued interest receivable and other assets	487,961	528,446	(1,258,208)
(Decrease) increase in accrued interest payable and other liabilities	(12,081)	(179,471)	94,785
Net cash (used) provided by operating activities	(5,907,716)	2,239,684	497,527
Cash flows from investing activities:			
Proceeds from calls and maturities of investment securities available for sale	3,745,000	9,605,000	6,420,000
Purchase of investment securities available for sale	(2,801,741)	(45,238,691)	(9,807,151)
Net decrease (increase) in loans	(3,443,553)	(5,995,152)	5,839,873
Loss on disposal of fixed assets	1,628	—	—
Purchase of premises, equipment and leasehold improvements, net	(83,058)	(384,755)	(152,259)
Proceeds from sale of other real estate	—	596,157	169,993
Proceeds from sale of available for sale securities	—	18,140,625	—
Net cash (used) provided by investing activities	(2,581,724)	(23,276,816)	2,470,456
Cash flows from financing activities:			
Net (decrease) increase in deposit accounts	(10,053,672)	50,690,540	20,599,295
Net decrease in short-term borrowings	—	(767,497)	(7,239,256)
Dividends paid	(2,489,610)	(1,376,623)	(1,688,084)
Cash paid for fractional shares	—	—	(2,466)
Stock options exercised	11,094	123,403	210,811
Net cash (used) provided by financing activities	(12,532,188)	48,669,823	11,880,300
Net increase (decrease) in cash and cash equivalents	(21,021,628)	27,632,691	14,848,283
Cash and cash equivalents at beginning of year	52,063,476	24,430,785	9,582,502
Cash and cash equivalents at end of year	$31,041,848	$52,063,476	$24,430,785
Supplemental disclosure of cash flow data:			
Cash paid during the year for:			
Interest	$534,773	$899,219	$1,126,930

Income taxes	$1,717,751	$1,510,641	$1,238,877
Supplemental disclosure for non-cash investing and financing activity:			
Change in unrealized gain (loss) on securities available for sale, net of income taxes	$186,390	$1,763,246	$(529,810)
Real estate acquired through foreclosure	$—	$—	$741,470
Change in dividends payable	$(488,944)	$488,944	$—

See accompanying notes to consolidated financial statements.

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BANK OF SOUTH CAROLINA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the more significant accounting policies used in preparation of the accompanying consolidated financial statements.

Accounting Estimates and Assumptions:

The preparation of the financial statements are in conformity with accounting principles generally accepted in the United States of America (GAAP), which requires management to make estimates and assumptions. These estimate and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ significantly from these estimates and assumptions. Material estimates that are generally susceptible to significant change relate to the determination of the allowance for loan losses, impaired loans, other real estate owned, asset prepayment rates and other-than-temporary impairment of investment securities.

The Company is not dependent on any single customer or limited number of customers, the loss of which would have a material adverse effect. No material portion of the Company’s business is seasonal.

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of Bank of South Carolina Corporation (the "Company") and its wholly-owned subsidiary, The Bank of South Carolina (the "Bank"). In consolidation, all significant intercompany balances and transactions have been eliminated. Bank of South Carolina Corporation is a one-bank holding company organized under the laws of the State of South Carolina. The Company offers a broad range of financial services through its wholly-owned subsidiary The Bank of South Carolina. The Bank’s original and current concept is to be a full service financial institution specializing in personal service, responsiveness, and attention to detail to foster long standing relationships.

The reorganization of the Bank into a one-bank holding company became effective on April 17, 1995. Each issued and outstanding share of the Bank's stock was converted into two shares of the Company's stock at the time of the reorganization.

Investment Securities: The Company classifies investments into three categories as follows: (1) Held to Maturity - debt securities that the Company has the positive intent and ability to hold to maturity, which are reported at amortized cost, adjusted for the amortization of any related premiums or the accretion of any related discounts into interest income using a methodology which approximates a level yield of interest over the estimated remaining period until maturity, (2) Trading - debt and equity securities that are bought and held principally for the purpose of selling them in the near term, which are reported at fair value, with unrealized gains and losses included in earnings, and (3) Available for Sale - debt and equity securities that may be sold under certain conditions, which are reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of shareholders' equity, net of income taxes. Unrealized losses on securities due to fluctuations in fair value are recognized when it is determined that an other than temporary decline in value has occurred. Realized gains or losses on the sale of investments are recognized on a specific identification, trade date basis. All securities were classified as available for sale for 2012 and 2011. The Company does not have any mortgage-backed securities nor has it ever invested in mortgage-backed securities.

Mortgage Loans to be Sold: Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses are provided for in a valuation allowance by charges to operations as a component of mortgage banking income. At December 31, 2012 and 2011, the Company had approximately $18.5 million and $7.6 million in mortgage loans held for sale, respectively. Gains or losses on sales of loans are recognized when control over these assets has been surrendered and are included in mortgage banking income in the consolidated statements of operations.

BANK OF SOUTH CAROLINA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company originates fixed and variable rate residential mortgage loans on a servicing released basis in the secondary market. Loans closed but not yet settled with an investor are carried in the Company's loans held for sale portfolio.

These loans are fixed and variable rate residential mortgage loans that have been originated in the Company's name and have closed. Virtually all of these loans have commitments to be purchased by investors and the majority of these loans were locked in by price with the investors on the same day or shortly thereafter that the loan was locked in with the Company's customers. Therefore, these loans present very little market risk for the Company. The Company usually delivers to, and receives funding from, the investor within 30 to 60 days. Commitments to sell these loans to the investor are considered derivative contracts and are sold to investors on a "best efforts" basis. The Company is not obligated to deliver a loan or pay a penalty if a loan is not delivered to the investor. As a result of the short-term nature of these derivative contracts, the fair value of the mortgage loans held for sale in most cases is the same as the value of the loan amount at its origination.

Loans and Allowance for Loan Losses: Loans are carried at principal amounts outstanding. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment to yield. Interest income on all loans is recorded on an accrual basis. The accrual of interest and the amortization of net loan fees are generally discontinued on loans which 1) are maintained on a cash basis because of deterioration in the financial condition of the borrower; 2) for which payment in full of principal is not expected; or 3) upon which principal or interest has been in default for a period of 90 days or more. The accrual of interest however, may continue on these loans if they are well secured, in the process of collection, and management deems it appropriate. Non-accrual loans are reviewed individually by management to determine if they should be returned to accrual status. The Company defines past due loans based on contractual payment and maturity dates.

The Company accounts for nonrefundable fees and costs associated with originating or acquiring loans by requiring that loan origination fees be recognized over the life of the related loan as an adjustment on the loan's yield. Certain direct loan origination costs shall be recognized over the life of the related loan as a reduction of the loan's yield.

The Company accounts for impaired loans by requiring that all loans for which it is estimated that the Company will be unable to collect all amounts due according to the terms of the loan agreement be recorded at the loan's fair value. Fair value may be determined based upon the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral if the loan is collateral dependent.

Additional accounting guidance allows the Company to use existing methods for recognizing interest income on an impaired loan and by requiring additional disclosures about how a Company estimates interest income related to impaired loans.

When the ultimate collectability of an impaired loan's principal is in doubt, wholly or partially, all cash receipts are applied to principal. Once the recorded principal balance has been reduced to zero, future cash receipts are applied to interest income, to the extent that any interest has been foregone. Further cash receipts are recorded as recoveries of any amounts previously charged off. When this doubt does not exist, cash receipts are applied under the contractual terms of the loan agreement first to interest income and then to principal.

A loan is also considered impaired if its terms are modified in a troubled debt restructuring. For these accruing impaired loans, cash receipts are typically applied to principal and interest receivable in accordance with the terms of the restructured loan agreement. Interest income is recognized on these loans using the accrual method of accounting, provided they are performing in accordance with their restructured terms.

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Management believes that the allowance is adequate to absorb inherent losses in the loan portfolio; however, assessing the adequacy of the allowance is a process that requires considerable judgment. Management's judgments are based on numerous assumptions about current events which management believes to be reasonable, but which may or may not be valid. Thus there can be no assurance that loan losses in future periods will not exceed the current allowance amount or that future increases in the allowance will not be required. No assurance can be given that management's ongoing evaluation of the loan portfolio, in light of changing economic conditions and other relevant circumstances, will not require significant future additions to the allowance, thus adversely affecting the operating results of the Company.

The allowance is also subject to examination by regulatory agencies, which may consider such factors as the methodology used to determine adequacy and the size of the allowance relative to that of peer institutions, and other adequacy tests. In addition, such regulatory agencies could require the Company to adjust its allowance based on information available to them at the time of their examination.

The methodology used to determine the reserve for unfunded lending commitments, which is included in other liabilities, is inherently similar to that used to determine the allowance for loan losses adjusted for factors specific to binding commitments, including the probability of funding and historical loss ratio.

Concentration of Credit Risk: The Company's primary market consists of the counties of Berkeley, Charleston and Dorchester, South Carolina. At December 31, 2012, the majority of the total loan portfolio, as well as a substantial portion of the commercial and real estate loan portfolios, were to borrowers within this region. No other areas of significant concentration of credit risk have been identified.

Premises, Equipment and Leasehold Improvements and Depreciation: Buildings and equipment are carried at cost less accumulated depreciation, calculated on the straight-line method over the estimated useful life of the related assets - 40 years for buildings and 3 to 15 years for equipment. Amortization of leasehold improvements is recorded using the straight-line method over the lesser of the estimated useful life of the asset or the term of the lease. Maintenance and repairs are charged to operating expenses as incurred.

Other Real Estate Owned: Other real estate owned is carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. The Company had no other real estate owned at December 31, 2012 or December 31, 2011. Gains and

losses on the sale of other real estate owned and subsequent write-downs from periodic reevaluation are charged to other operating income. The Company realized a loss of $63,273 in this category for the year ended December 31, 2011.

<u>Income Taxes</u>: The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Net deferred tax assets are included in other assets in the consolidated balance sheet.

Accounting standards require the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements. These standards also prescribe a recognition threshold and measurement of a tax position taken or expected to be taken in an enterprise’s tax return. The Company believes that it had no uncertain tax positions for the year ended December 31, 2012 or for the year ended December 31, 2011.

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Stock-Based Compensation: The Company accounts for stock options under the fair value recognition provisions to account for compensation costs under its Stock Incentive Plans. The Company previously utilized the intrinsic value method. Under the intrinsic value method no compensation costs were recognized for the Company's stock options and the Company only disclosed the pro forma effects on net income and earnings per share as if the fair value recognition provisions had been utilized.

On June 28, 2012 the Executive Committee granted options to purchase an aggregate of 9,000 shares to five employees. Fair value was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: dividend yield 3.97%, historical volatility 33.94%, with an expected life of ten years, and a risk free interest rate of 1.60%. In addition, the Board of Director's granted options to purchase 2,500 shares to one employee on September 24, 2012. Fair value was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: dividend yield 3.97%, historical volatility 33.94%, with an expected life of ten years, and a risk free interest rate of 1.74%.

On March 24, 2011, the Executive Committee granted options to purchase 5,000 shares of stock to one employee. The Executive Committee also granted options to purchase 96,000 shares to twenty-two employees on June 23, 2011. Fair value was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions used for the March 24, and June 23, 2011 grant: dividend yield 4.02%, historical volatility 54.43% with an expected life of ten years. The risk free interest rate was 3.42%, and 2.93% for March 24, and June 23, 2011, respectively.

On September 24, 2010, options to purchase 33,000 shares of Common Stock were granted to twenty-one employees. The weighted average fair value per share of $6.13 was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for the grant: dividend yield of 2.72%, historical volatility of 72.30%, risk-free interest rate of 2.62%, and expected life of 10 years.

Earnings Per Common Share: Basic earnings per share are computed by dividing net income applicable to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share are computed by dividing net income by the weighted average number of shares of common stock and common stock equivalents. Common stock equivalents consist of stock options and are computed using the treasury stock method.

Comprehensive Income: The Company applies accounting standards which establish guidance for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income consists of net income and net unrealized gains or losses on securities and is presented in the consolidated statement of comprehensive income.

Fair Value Measurements: The Company applies the accounting standards which define fair value, establish a framework for measuring fair value, and expand disclosures about fair value. The standards define fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants on the measurement date. The standards also establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of input that may be used to measure fair value:

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Level 1	Valuation is based upon quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as US Treasuries and money market funds.
Level 2	Valuation is based upon quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments, mortgage-backed securities, municipal bonds, corporate debt securities and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes certain derivative contracts and impaired loans.
Level 3	Valuation is generated from model-based techniques that use at least one significant assumption based on unobservable inputs for the asset or liability, which are typically based on an entity’s own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

The guidance requires disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, whether the measurements are made on a recurring basis (for example, available-for-sale investment securities) or on a nonrecurring basis (for example, impaired loans). Fair value estimates, methods, and assumptions are set forth below.

Investment Securities Available for Sale

Securities available for sale are recorded at fair value on a recurring basis and are based upon quoted prices if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security’s credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange such as the New York Stock Exchange, or by dealers or brokers in active over-the counter markets. Level 2 securities include mortgage backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

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Assets and liabilities measured at fair value on a recurring basis at December 31, 2012 and December 31, 2011 are as follows:

Balance at December 31, 2012	Quoted Market Price in active markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
US Treasury Notes	$6,213,750	$—	$ —	$6,213,750
Government Sponsored Enterprises	$—	$18,344,032	$ —	$18,344,032
Municipal Securities	$—	$33,956,434	$ —	$33,956,434
Total	$6,213,750	$52,300,466	$ —	$58,514,216

Balance at December 31, 2011	Quoted Market Price in active markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
US Treasury Notes	$6,310,782	$—	$ —	$6,310,782
Government Sponsored Enterprises	$—	$18,434,117	$ —	$18,434,117
Municipal Securities	$—	$34,807,261	$ —	$34,807,261
Total	$6,310,782	$53,241,378	$ —	$59,552,160

Other Real Estate Owned (OREO)

Loans, secured by real estate, are adjusted to fair value upon transfer to other real estate owned (OREO). Subsequently, OREO is carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the

fair value of the collateral is based on an observable market price or a current appraisal, the Company records the OREO as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the asset as nonrecurring Level 3.

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Impaired Loans

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans are reviewed for impairment on a quarterly basis if any of the following criteria are met:

1) Any loan on non-accrual
2) Any loan that is a troubled debt restructuring
3) Any loan over 60 days past due
4) Any loan rated sub-standard, doubtful, or loss
5) Excessive principal extensions are executed
6) If the Bank is provided information that indicates the Bank will not collect all principal and interest as scheduled

Once a loan is identified as individually impaired, management measures the impairment in accordance with Accounting Standards Codification (ASC) 310-10, “Accounting by Creditors for Impairment of a Loan”.

In accordance with this standard, the fair value is estimated using one of the following methods: fair value of the collateral less estimated costs to sell, discounted cash flows, or market value of the loan based on similar debt. The fair value of the collateral less estimated costs to sell is the most frequently used method. Typically, the Company reviews the most recent appraisal and if it is over 12 to 18 months old will request a new third party appraisal. Depending on the particular circumstances surrounding the loan, including the location of the collateral, the date of the most recent appraisal and the value of the collateral relative to the recorded investment in the loan, management may order an independent appraisal immediately or, in some instances, may elect to perform an internal analysis. Specifically as an example, in situations where the collateral on a nonperforming commercial real estate loan is out of the Company’s primary market area, management would typically order an independent appraisal immediately, at the earlier of the date the loan becomes nonperforming or immediately following the determination that the loan is impaired. However, as a second example, on a nonperforming commercial real estate loan where management is familiar with the property and surrounding areas and where the original appraisal value far exceeds the recorded investment in the loan, management may perform an internal analysis whereby the previous appraisal value would be reviewed considering recent current conditions, and known recent sales or listings of similar properties in the area, and any other relevant economic trends. This analysis may result in the call for a new appraisal. These valuations are reviewed on a quarterly basis.

Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At December 31, 2012 and December 31, 2011, substantially all of the total impaired loans were evaluated based on the fair value of the collateral. In accordance with ASC 820, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. The Company records the impaired loan as nonrecurring Level 3.

Mortgage Loans Held for Sale

The Company originates fixed and variable rate residential mortgage loans on a servicing released basis in the secondary market. Loans closed but not yet settled with an investor are carried in the Company's loans held for sale portfolio. These loans are fixed and variable rate residential mortgage loans that have been originated in the Company's name and have closed. Virtually all of these loans have commitments to be purchased by investors and the majority of these loans were locked in by price with the investors on the same day or shortly thereafter that the loan was locked in with the Company's customers. Therefore, these loans present very little market risk for the Company. The Company usually delivers to, and receives funding from, the investor within 30 to 60 days. Commitments to sell these loans to the investor are considered derivative contracts and are sold to investors on a "best efforts" basis. The Company is not obligated to deliver a loan or pay a penalty if a loan is not delivered to the investor. As a result of the short-term nature of these derivative contracts, the fair value of the mortgage loans held for sale in most cases is the same as the value of the loan amount at its origination. These loans are classified as Level 2.

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Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an on going basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents the assets and liabilities carried on the balance sheet by caption and by level within the valuation hierarchy (as described above) as of December 31, 2012, and 2011, for which a nonrecurring change in fair value has been recorded during the twelve months ended December 31, 2012, and 2011.

December 31, 2012	Quoted Market Price in active markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Impaired loans	$ —	$—	$ 9,499,621	$9,499,621
Mortgage loans held for sale	—	18,479,878	—	18,479,878
Total	$ —	$7,578,587	$ 9,499,621	$27,979,499

December 31, 2011	Quoted Market Price in active markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Impaired loans	$ —	$—	$ 5,553,481	$5,553,481
Mortgage loans held for sale	—	7,578,587	—	7,578,587
Total	$ —	$7,578,587	$ 5,553,481	$13,132,068

		Inputs	
	Valuation Technique	Unobservable Input	General Range of Inputs
Nonrecurring measurements:			
Impaired Loans	Discounted Appraisals	Collateral Discounts	0 – 25%

Accounting standards require disclosure of fair value information about financial instruments whether or not recognized on the balance sheet, for which it is practicable to estimate fair value. Fair value estimates are made as of a specific point in time based on the characteristics of the financial instruments and the relevant market information. When available, quoted market prices are used. In other cases, fair values are based on estimates using present value or other valuation techniques. These techniques involve uncertainties and are significantly affected by the assumptions used and the judgments made regarding risk characteristics of various financial instruments, discount rates, prepayments, estimates of future cash flows, future expected loss experience and other factors. Changes in assumptions could significantly affect these estimates. Derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, may or may not be realized in an immediate sale of the instrument.

Under the accounting standard, fair value estimates are based on existing financial instruments without attempting to estimate the value of anticipated future business and the value of the assets and liabilities that are not financial instruments. Accordingly, the aggregate fair value amounts of existing financing instruments do not represent the underlying value of those instruments on the books of the Company.

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The following describes the methods and assumptions used by the Company in estimating the fair values of financial instruments:

a. Cash and due from banks, interest bearing deposits in other banks and federal funds sold

The carrying value approximates fair value. All mature within 90 days and do not present unanticipated credit concerns.

b. Investment securities available for sale

The fair value of investment securities is derived from quoted market prices.

c. Loans

The carrying values of variable rate consumer and commercial loans and consumer and commercial loans with remaining maturities of three months or less, approximate fair value. The fair values of fixed rate consumer and commercial loans with maturities greater than three months are determined using a discounted cash flow analysis and assume the rate being offered on these types of loans by the Company at December 31, 2012 and December 31, 2011, approximate market.

The carrying value of mortgage loans held for sale approximates fair value.

For lines of credit, the carrying value approximates fair value.

d. Deposits

The estimated fair value of deposits with no stated maturity is equal to the carrying amount. The fair value of time deposits is estimated by discounting contractual cash flows, by applying interest rates currently being offered on the deposit products. The fair value estimates for deposits do not include the benefit that results from the low cost funding provided by the deposit liabilities as compared to the cost of alternative forms of funding (deposit base intangibles).

e. Short-term borrowings

The carrying amount approximates fair value due to the short-term nature of these instruments.

The following presents the carrying amount, fair value, and placement in the fair value hierarchy of the Company's financial instruments as of December 31, 2012 and December 31, 2011. This table excludes financial instruments for which the carrying amount approximates fair value. For short-term financial assets such as cash and cash equivalents, the carrying amount is a reasonable estimate of fair value due to the relatively short time between the origination of the instrument and its expected realization.

December 31, 2012
Fair Value Measurement

	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Instruments-Assets					
Loans	$217,128,624	$217,432,537	$ —	$—	$217,432,537
Financial Instruments- Liabilities					
Deposits	$291,073,843	$291,094,742	$ —	$291,094,742	$—

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011
Fair Value Measurement

	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Instruments-Assets					
Loans	$213,709,112	$214,294,224	$ —	$—	$214,294,224
Financial Instruments- Liabilities					
Deposits	$301,127,515	$301,830,957	$ —	$301,830,957	$—

	December 31, 2012	
	Notional Amount	Fair Value
Off-Balance Sheet Financial Instruments:		
Commitments to extend credit	$51,444,731	$ —
Standby letters of credit	749,712	—

	December 31, 2011	
	Notional Amount	Fair Value
Off-Balance Sheet Financial Instruments:		
Commitments to extend credit	$47,629,822	$ —
Standby letters of credit	875,679	—

Segment Information: The Company reports operating segments in accordance with accounting standards. Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assess performance. Accounting standards require that a public enterprise report a measure of segment profit or loss, certain specific

revenue and expense items, segment assets, information about the way that the operating segments were determined and other items. The Company has one reporting segment, The Bank of South Carolina.

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Derivative Instruments: Accounting standards require that all derivative instruments be recorded in the statement of financial position at fair value. The accounting for the gain or loss due to change in fair value of the derivative instrument depends on whether the derivative instrument qualifies as a hedge. If the derivative does not qualify as a hedge, the gains or losses are reported in earnings when they occur. However, if the derivative instrument qualifies as a hedge, the accounting varies based on the type of risk being hedged.

The Company has no embedded derivative instruments requiring separate accounting treatment. The Company has freestanding derivative instruments consisting of fixed rate conforming loan commitments and commitments to sell fixed rate conforming loans. The Company does not currently engage in hedging activities. Based on short term fair value, derivative instruments were immaterial as of December 31, 2012 and 2011.

Cash Flows: Cash and cash equivalents include working cash funds, due from banks, interest bearing deposits in other banks, items in process of collection and federal funds sold. To comply with Federal Reserve regulations, the Bank is required to maintain certain average cash reserve balances. The daily average reserve requirement was approximately $700,000 for the reserve periods ended December 31, 2012 and 2011.

Recent Accounting Pronouncements: The following is a summary of recent authoritative pronouncements that could impact the accounting, reporting and/or disclosure of financial information by the Company.

In April 2011 the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2011-02 to assist creditors with their determination of when a restructuring is a Troubled Debt Restructuring (“TDR”). The determination is based on whether the restructuring constitutes a concession and whether the debtor is experiencing financial difficulties as both events must be present. The new guidance was effective for the Company beginning January 1, 2012 and did not have a material impact on the Company’s TDR determinations.

In April 2011, the criteria used to determine effective control of transferred assets in the Transfers and Servicing topic of the Accounting Standards Codification (“ASC”) was amended by ASU 2011-03. The requirement for the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms and the collateral maintenance implementation guidance related to that criterion were removed from the assessment of effective control. The other criteria to assess effective control were not changed. The amendments were effective for the Company beginning January 1, 2012 and had no effect on the financial statements.

ASU 2011-04 was issued in May 2011 to amend the Fair Value Measurement topic of the ASC by clarifying the application of existing fair value measurement and disclosure requirements and by changing particular principles or requirements for measuring fair value or for disclosing information about fair value measurements. The amendments were effective for the Company beginning January 1, 2012 and had no effect on the financial statements.

The Comprehensive Income topic of the ASC was amended in June 2011. The amendment eliminates the option to present other comprehensive income as a part of the statement of changes in stockholders' equity and requires consecutive presentation of the statement of net income and other comprehensive income. The amendments were applicable to the Company on January 1, 2012 and have been applied retrospectively. In December 2011, the topic was further amended to defer the effective date of presenting reclassification adjustments from other comprehensive income to net income on the face of the financial statements. Companies should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect prior to the amendments while FASB finalizes its conclusions regarding future requirements.

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The FASB amended the Comprehensive income topic of the ASC in February 2013. The amendments address reporting of amounts reclassified out of accumulated other comprehensive income. Specifically, the amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments do require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, in certain circumstances an entity is required to present, either on the face of the statement where net income is presented in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. The amendments will be effective for the Company on a prospective basis for reporting periods beginning after December 15, 2012. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

2. INVESTMENT SECURITIES AVAILABLE FOR SALE

The amortized cost and fair value of investment securities available for sale are summarized as follows:

	DECEMBER 31, 2012			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
U.S. Treasury Notes	$6,097,750	$ 116,000	$ —	$6,213,750
Government-Sponsored Enterprises	17,822,858	521,174	—	18,344,032
Municipal Securities	31,101,401	2,858,625	3,592	33,956,434
Total	$55,022,009	$ 3,495,799	$ 3,592	$58,514,216

	DECEMBER 31, 2011			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE

U.S. Treasury Notes	$6,153,299	$ 157,483	$ —	$6,310,782
Government-Sponsored Enterprises	18,100,730	333,387	—	18,434,117
Municipal Securities	32,101,781	2,706,597	1,117	34,807,261
Total	$56,355,810	$ 3,197,467	$ 1,117	$59,552,160

The amortized cost and estimated fair value of investment securities available for sale at December 31, 2012, by contractual maturity are as follows:

DECEMBER 31, 2012

	AMORTIZED COST	ESTIMATED FAIR VALUE
Due in one year or less	$ 2,331,067	$ 2,336,933
Due in one year to five years	32,183,058	33,321,740
Due in five years to ten years	11,407,945	12,718,115
Due in ten years and over	9,099,939	10,137,428
Total	$ 55,022,009	$ 58,514,216

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The Company recognized a gain of $124,672 on the sale of $18,000,000 in US Treasury Notes in 2011. There were no securities sold during the year ended December 31, 2010 or December 31, 2012.

Investment securities with an aggregate amortized cost of $45,581,560 and estimated fair value of $48,867,683 at December 31, 2012, were pledged to secure deposits and other balances, as required or permitted by law.

At December 31, 2012 there was one Municipal Security with an unrealized loss of $3,592 compared to three Municipal Securities with an unrealized loss of $1,117 at December 31, 2011. The unrealized losses on investments were caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Therefore, these investments are not considered other-than-temporarily impaired. The Company has the ability to hold these investments until market price recovery or maturity. Gross unrealized losses and the estimated fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2012 and December 31, 2011 are as follows:

DECMBER 31, 2012

	Less than 12 months		12 months or longer		Total	
Descriptions of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Municipal Securities	1,973,303	3,592	—	—	1,973,303	3,592

DECMBER 31, 2011

	Less than 12 months		12 months or longer		Total	
Descriptions of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Municipal Securities	243,884	1,117	—	—	243,884	1,117

3. LOANS

Major classifications of loans are as follows:

	DECEMBER 31, 2012	2011
Commercial loans	$54,664,286	$55,565,525
Commercial Real Estate:		
Commercial real estate construction	2,276,532	3,564,327
Commercial real estate other	108,575,415	106,408,621
Consumer:		
Consumer real estate	46,703,454	43,185,861
Consumer other	4,908,937	4,984,778
	217,128,624	213,709,112
Allowance for loan losses	(3,432,844)	(3,106,884)
Loans, net	$213,695,780	$210,602,228

BANK OF SOUTH CAROLINA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Changes in the Allowance for Loan Losses are summarized as follows:

	YEARS ENDED DECEMBER 31,		
	2012	2011	2010
Balance at beginning of year	$3,106,884	$2,938,588	$3,026,997
Provision for loan losses	350,000	480,000	670,000
Charge offs	(172,288)	(383,714)	(778,820)
Recoveries	148,248	72,010	20,411
Balance at end of year	$3,432,844	$3,106,884	$2,938,588

The Bank had impaired loans totaling $11,498,279 as of December 31, 2012 compared to $7,417,892 at December 31, 2011. The impaired loans include non-accrual loans with balances at December 31, 2012 and 2011 of $3,993,816 and $923,671, respectively. The Bank had five restructured loans ("TDR") at December 31, 2012, and two restructured loans at December 31, 2011. According to GAAP, the Company is required to account for certain loan modifications or restructuring as a troubled debt restructuring ("TDR"). In general, the modification or restructuring of a debt is considered a TDR if the Company, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. At December 31, 2012 and 2011 troubled debt restructurings had an aggregate balance of $1,618,278 and $491,153, respectively.

There were no loans over 90 days past due and still accruing interest at December 31, 2012. There was one loan at December 31, 2011, that was over 90 days past due and still accruing interest.

The accrual of interest is generally discontinued on loans, which become 90 days past due as to principal or interest. The accrual of interest on some loans, however, may continue even though they are 90 days past due if the loans are well secured, in the process of collection, and management deems it appropriate. Non-accrual loans are reviewed individually by management to determine if they should be returned to accrual status.

The following is a summary of the non-accrual loans as of December 31, 2012 and December 31, 2011.

Loans Receivable on Non-Accrual December 31, 2012	
Commercial	$4,085
Commercial Real Estate:	
Commercial Real Estate - Construction	—
Commercial Real Estate - Other	3,921,750
Consumer:	
Consumer - Real Estate	67,981
Consumer - Other	—
Total	$3,993,816

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BANK OF SOUTH CAROLINA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Loans Receivable on Non-Accrual December 31, 2011	
Commercial	$4,018
Commercial Real Estate:	
Commercial Real Estate - Construction	—
Commercial Real Estate - Other	851,672
Consumer:	—
Consumer - Real Estate	67,981
Consumer - Other	—
Total	$923,671

The following is a schedule of the Bank's delinquent loans, excluding mortgage loans held for sale, as of December 31, 2012 and December 31, 2011.

December 31, 2012

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days and Accruing
Commercial	$104,766	—	—	104,766	54,559,520	54,664,286	—
Commercial Real Estate:							
Commercial Real Estate - Construction	—	—	—	—	2,276,532	2,276,532	—
Commercial Real Estate - Other	93,487	336,315	3,074,397	3,504,199	105,071,216	108,575,415	—
Consumer:							
Consumer Real Estate	—	—	—	—	46,703,454	46,703,454	—
	6,549	—	985	7,534	4,901,403	4,908,937	—

Consumer - Other							
Total	$204,802	336,315	3,075,382	3,616,499	213,512,125	217,128,624	—

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days and Accruing
Commercial	$ 50,892	—	—	50,892	55,514,633	55,565,525	—
Commercial Real Estate:							
Commercial Real Estate - Construction	—	—	—	—	3,564,327	3,564,327	—
Commercial Real Estate - Other	1,268,321	—	788,167	2,056,488	104,352,133	106,408,621	282,173
Consumer:							
Consumer Real Estate	—	—	—	—	43,185,861	43,185,861	—
Consumer-Other	4,401	30,319	605	35,325	4,949,453	4,984,778	—
Total	$ 1,323,614	30,319	788,772	2,142,705	211,566,407	213,709,112	282,173

The Company grants short to intermediate term commercial and consumer loans to customers throughout its primary market area of Charleston, Berkeley and Dorchester counties, South Carolina. The Company's primary market area is heavily dependent on tourism and medical services. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent upon the stability of the economic environment in their primary market including the government, tourism and medical industries. The majority of the loan portfolio is located in the Bank's immediate market area with a concentration in Real Estate Related (38.4%), Offices and Clinics of Medical Doctors (5.53%), Real Estate Agents and Managers (3.78%), Legal services (3.20%), and Offices of Dentists (1.46%). Management is satisfied with these levels of concentrations.

As of December 31, 2012 and 2011, loans individually evaluated and considered impaired are presented in the following table:

Impaired and Restructured Loans
For the Year Ended December 31, 2012

With no related allowance recorded:	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized

Commercial	$296,350	$140,575	$—	$150,913	$51,151
Commercial Real Estate	8,733,779	5,578,231	—	6,499,933	2,019,907
Consumer Real Estate	319,536	311,543	—	315,763	61,381
Consumer Other	—	—	—	—	—
Total	$9,349,665	$6,030,349	$—	$6,966,609	$2,132,439
With an allowance recorded:					
Commercial	$1,360,535	$1,251,462	$1,251,462	$1,287,204	$168,739
Commercial Real Estate	3,355,954	3,287,773	169,243	3,295,385	363,187
Consumer Real Estate	882,750	879,252	528,510	879,391	344,262
Consumer Other	50,000	49,443	49,443	49,570	6,009
Total	$5,649,239	$5,467,930	$1,998,658	$5,511,550	$882,197
Grand Total	$14,998,904	$11,498,279	$1,998,658	$12,478,159	$3,014,636

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BANK OF SOUTH CAROLINA CORPORATION

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Impaired and Restructured Loans
For the Year Ended December 31, 2011

With no related allowance recorded:	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Commercial	$83,350	$4,018	$—	$8,625	$ 315
Commercial Real Estate	4,289,820	4,321,755	—	4,299,045	99,046
Consumer Real Estate	319,536	315,926	—	317,776	12,596
Consumer-Other	—	—	—	—	—
Total	$4,692,706	$4,641,699	$—	$4,625,446	$ 111,957
With an allowance recorded:					
Commercial	$1,360,535	$1,281,462	$1,281,462	$1,298,891	$ 57,458
Commercial Real Estate Construction	668,950	625,648	187,713	634,511	9,957
Consumer Real Estate	822,750	819,341	345,494	819,423	34,636
Consumer Other	50,000	49,742	49,742	49,742	—
Total	$2,902,235	$2,776,193	$1,864,411	$2,802,567	$ 102,051
Grand Total	$7,594,941	$7,417,892	$1,864,411	$7,428,013	$ 214,008

The following table illustrates credit risks by category and internally assigned grades at December 31, 2012 and December 31, 2011.

December 31, 2012

	Commercial	Commercial Real Estate Construction	Commercial Real Estate Other	Consumer – Real Estate	Consumer – Other	Total
Pass	$47,803,837	$1,806,765	$94,779,321	$41,738,572	$4,197,256	$190,325,751
Watch	4,551,804	—	2,554,099	2,971,631	344,583	10,422,117
OAEM	561,563	469,767	4,957,130	650,412	205,638	6,844,510
Sub-Standard	1,747,082	—	6,284,865	1,342,839	161,460	9,536,246
Doubtful	—	—	—	—	—	—
Loss	—	—	—	—	—	—
Total	$54,664,286	$2,276,532	$108,575,415	$46,703,454	$4,908,937	$217,128,624

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December 31, 2011

	Commercial	Commercial Real Estate Construction	Commercial Real Estate Other	Consumer – Real Estate	Consumer – Other	Total
Pass	$48,160,256	$3,088,190	$93,889,871	$38,551,256	$4,390,391	$188,079,964
Watch	4,000,123	476,137	4,581,885	3,312,679	214,617	12,585,441
OAEM	2,071,137	—	1,905,745	212,545	311,905	4,501,332
Sub-Standard	1,334,009	—	6,031,120	1,109,381	67,865	8,542,375
Doubtful	—	—	—	—	—	—
Loss	—	—	—	—	—	—
Total	$55,565,525	$3,564,327	$106,408,621	$43,185,861	$4,984,778	$213,709,112

The following table sets forth the changes in the allowance and an allocation of the allowance by loan category at December 31, 2012 and December 31, 2011. The allocation of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off. The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component covers non-impaired loans and is based on historical loss experience adjusted for current economic factors described above.

December 31, 2012

	Commercial	Commercial Real Estate	Consumer Real Estate	Consumer Other	Unallocated	Total
Allowance for Loan Losses						
Beginning Balance	$1,586,510	$420,367	$450,338	$91,402	$558,267	$3,106,884
Charge-offs	(60,042)	(43,734)	(56,487)	(12,025)	—	(172,288)
Recoveries	109,569	13,228	10,000	15,451	—	148,248
Provisions	(321,502)	(109,086)	340,476	(6,762)	446,874	350,000
Ending Balance	1,314,535	280,775	744,327	88,066	1,005,141	3,432,844
Ending Balances:						
Individually evaluated for impairment	1,392,037	8,866,004	1,190,795	49,443	—	11,498,279
Collectively evaluated for	$53,272,249	$101,985,943	$45,512,659	$4,859,494	$—	$205,630,345

impairment

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BANK OF SOUTH CAROLINA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011

	Commercial	Commercial Real Estate	Consumer Real Estate	Consumer Other	Unallocated	Total
Allowance for Loan Losses						
Beginning Balance	$1,502,298	$128,334	$218,897	$27,200	$1,061,859	$2,938,588
Charge-offs	(17,943)	(303,403)	—	(62,368)	—	(383,714)
Recoveries	42,662	28,838	—	510	—	72,010
Provisions	59,493	566,598	231,441	126,060	(503,592)	480,000
Ending Balance	1,586,510	420,367	450,338	91,402	558,267	3,106,884
Ending Balances:						
Individually evaluated for impairment	1,285,480	4,947,403	1,135,267	49,742	—	7,417,892
Collectively evaluated for impairment	$54,280,045	$105,025,545	$42,050,594	$4,935,036	$—	$206,291,220

Restructured loans (loans, still accruing interest, which have been renegotiated at below-market interest rates or for which other concessions have been granted) were $1,618,278 and $491,153 at December 31, 2012 and December 31, 2011, respectively, and are illustrated in the following table. This amount at December 31, 2012 includes the two restructured loans identified at December 31, 2011, with an outstanding balance of $486,804, and three additional loans that totaled $1,101,474. December 31, 2012 and December 31, 2011 all restructured loans were performing as agreed. There was one restructured loan at December 31, 2010 in the amount of $153,015 that failed to continue to perform as agreed upon and, as a result, the loan was charged off in March 2011.

Modification
As of December 31, 2012

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Commercial	1	$ 134,814	$ 134,814
Commercial Real Estate	3	$ 1,371,983	$ 1,371,983
Commercial Real Estate Construction		$	$
Consumer Real Estate-Prime	1	$ 111,481	$ 111,481
Consumer Real Estate-Subprime	—	$ —	$ —

Consumer Other	—	$ —	$ —
Troubled Debt Restructurings That Subsequently Defaulted			
Commercial	—	$ —	$ —
Commercial Real Estate	—	$ —	$ —
Commercial Real Estate Construction	—	$ —	$ —
Consumer Real Estate-Prime	—	$ —	$ —
Consumer Real Estate-Subprime	—	$ —	$ —
Consumer Other	—	$ —	$ —

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Modification
As of December 31, 2011

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Commercial	—	—	—
Commercial Real Estate	1	$ 375,323	$ 375,323
Commercial Real Estate Construction	—	$ —	$ —
Consumer Real Estate-Prime	1	$ 153,830	$ 153,830
Consumer Real Estate-Subprime	—	$ —	$ —
Consumer Other	—	$ —	$ —
Troubled Debt Restructurings That Subsequently Defaulted			
Commercial	—	$ —	$ —
Commercial Real Estate	1	$ 153,015	$ 153,015
Commercial Real Estate Construction	—	$ —	$ —
Consumer Real Estate-Prime	—	$ —	$ —
Consumer Real Estate-Subprime	—	$ —	$ —
Consumer Other	—	$ —	$ —

4. Premises, Equipment and Leasehold Improvements

Premises, equipment and leasehold improvements are summarized as follows:

	2012	2011
Bank buildings	$1,817,008	$1,813,277
Land	838,075	838,075
Leasehold purchase	30,000	30,000
Lease improvements	675,784	662,054
Equipment	2,709,406	3,096,152
	6,070,273	6,439,558
Accumulated depreciation	(3,583,481)	(3,827,593)
Total	$2,486,792	$2,611,965

Depreciation and amortization of bank premises and equipment charged to operating expense totaled $206,603 in 2012, $209,316 in 2011, and $231,922 in 2010.

BANK OF SOUTH CAROLINA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. DEPOSITS

At December 31, 2012, 2011, and 2010 certificates of deposit of $100,000 or more totaled approximately $40,903,886, $38,638,528, and $45,523,280 respectively. Interest expense on these deposits was $200,415 in 2012, $377,839 in 2011, and $540,048 in 2010.

At December 31, 2012, the schedule maturities of certificates of deposit are as follows:

2013	$54,124,046
2014	2,051,136
2015	110,396
2016	64,149
2017 and thereafter	463,323
	$56,813,050

At December 31, 2012, deposits with a deficit balance of $541,015 were re-classified as other loans, compared to $55,374 at December 31, 2011.

6. Short-Term Borrowings

At December 31, 2012 and 2011, the Company had no outstanding federal funds purchased. In March 2012, the Company established a $6 million REPO Line with Raymond James (formally Morgan Keegan). There have been no borrowings under this arrangement. In addition the Company established a Borrower-In-Custody arrangement with the Federal Reserve. This arrangement permits the Company to retain possession of loans pledged as collateral to secure advances from the Federal Reserve Discount Window. Under this agreement the Company may borrow up to $62,567,407. The Company established this arrangement as an additional source of liquidity. There have been no borrowings under this arrangement.

At December 31, 2012 and 2011, the Bank had unused short-term lines of credit totaling approximately $19,000,000 and $21,000,000, respectively (which are withdrawable at the lender’s option).

7. Income Taxes

Total income taxes for the years ended December 31, 2012, 2011 and 2010 are as follows

	YEARS ENDED DECEMBER 31,		
	2012	2011	2010
Income tax expense	$1,604,250	$1,347,949	$1,384,431
Unrealized gains (losses) on securities available for sale presented in accumulated other comprehensive income	109,467	1,035,557	(311,158)
Total	$1,713,717	$2,383,506	$1,073,273

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BANK OF SOUTH CAROLINA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Income tax expense attributable to income before income tax expense consists of:

YEAR ENDED DECEMBER 31, 2012	Current	Deferred	Total
U.S. Federal	$1,619,265	$(183,607)	$1,435,658
State and local	168,592	—	168,592
	$1,787,857	$(183,607)	$1,604,250

YEAR ENDED DECEMBER 31, 2011	Current	Deferred	Total
U.S. Federal	$1,292,984	$(85,291)	$1,207,693
State and local	140,256	—	140,256
	$1,433,240	$(85,291)	$1,347,949

YEAR ENDED DECEMBER 31, 2010	Current	Deferred	Total
U.S. Federal	$1,233,179	$12,409	$1,245,588
State and local	138,843	—	138,843
	$1,372,022	$12,409	$1,384,431

Income tax expense attributable to income before income tax expense was $1,604,250, $1,347,949, and $1,384,431 for the years ended December 31, 2012, 2011 and 2010, respectively, and differed from amounts computed by applying the U.S. federal income tax rate of 34% to pretax income from continuing operations as a result of the following:

YEARS ENDED DECEMBER 31,

	2012	2011	2010
Computed “expected” tax expense	$1,792,167	$1,542,671	$1,532,200
Increase (reduction) in income taxes Resulting from:			
Tax exempt interest income	(338,592)	(317,802)	(270,759)
State income tax, net of federal benefit	111,271	92,569	91,637
Other, net	39,404	30,511	31,353
	$1,604,250	$1,347,949	$1,384,431

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The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2012 and 2011 are presented below:

	DECEMBER 31,	
	2012	2011
Deferred tax assets:		
State Net Operating Loss Carryforward	$32,307	$26,101
Allowance for loan losses	1,098,416	987,589
Other	88,991	38,550
Total gross deferred tax assets	1,219,714	1,052,240
Less valuation allowance	(32,307)	(26,101)
Net deferred tax assets	1,187,407	1,026,139
Deferred tax liabilities:		
Prepaid expenses	(19,100)	(25,071)
Unrealized gain on securities available for sale	(1,292,117)	(1,182,650)
Deferred loan fees	(20,470)	(20,115)
Fixed assets, principally due to differences in depreciation	(48,414)	(65,137)
Other Bond Accretion	(27,750)	(27,750)
Total gross deferred tax liabilities	(1,407,851)	(1,320,723)
Net deferred tax liability	$(220,444)	$(294,584)

The Company analyzed the tax positions taken in its tax returns and concluded it has no liability related to uncertain tax positions.

There was a $32,307 valuation allowance for deferred tax assets at December 31, 2012 and $26,101 at December 31, 2011 associated with the Holding Company's state net operating loss. In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and prior to their expiration governed by the income tax code. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods during which the deferred income tax assets

are expected to be deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences, net of the existing valuation allowance at December 31, 2012. The amount of the deferred income tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carry forward period are reduced.

Tax returns for 2009 and subsequent years are subject to examination by taxing authorities.

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8. Commitments and Contingencies

The Company has entered into agreements to lease equipment and its office facilities under non-cancellable operating lease agreements expiring on various dates through 2039. The Company may, at its option, extend the lease of its office facility at 256 Meeting Street in Charleston, South Carolina, for two additional ten year periods, extend the lease of its Summerville office at 100 North Main Street for two additional ten year periods, and extend the land lease where the Mt. Pleasant office is located for six additional five year periods. In addition, on May 27, 2010 the Company entered into a lease agreement for office space located at 1071 Morrison Drive, Charleston, SC. Management intends to exercise its option on the lease agreements. Lease payments below include the lease renewals. Minimum rental commitments for these leases as of December 31, 2012 are as follows:

2013	$562,497
2014	541,346
2015	539,382
2016	543,654
2017	559,364
2018 and thereafter	7,044,010
Total	$9,790,253

Total rental expense was $531,094, $526,128 and $498,832 in 2012, 2011 and 2010, respectively.

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit, interest rate, and liquidity risk. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained if

deemed necessary by the Company upon extension of credit is based on management's credit evaluation of the borrower. Collateral held varies, but may include accounts receivable, negotiable instruments, inventory, property, plant and equipment, and real estate. Commitments to extend credit, including unused lines of credit, amounted to $51,144,731 and $47,629,822 at December 31, 2012 and 2011, respectively.

Standby letters of credit represent an obligation of the Company to a third party contingent upon the failure of the Company's customer to perform under the terms of an underlying contract with the third party or obligates the Company

to guarantee or stand as surety for the benefit of the third party. The underlying contract may entail either financial or nonfinancial obligations and may involve such things as the shipment of goods, performance of a contract, or repayment of an obligation. Under the terms of a standby letter, drafts will generally be drawn only when the underlying event fails to occur as intended. The Company can seek recovery of the amounts paid from the borrower. The majority of these standby letters of credit are unsecured. Commitments under standby letters of credit are usually for one year or less. At December 31, 2012 and 2011, the Company has recorded no liability for the current carrying amount of the obligation to perform as a guarantor; as such amounts are not considered material. The maximum potential amount of undiscounted future payments related to standby letters of credit at December 31, 2012 and 2011 was $749,712 and $875,679, respectively.

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The Company originates certain fixed rate residential loans and commits these loans for sale. The commitments to originate fixed rate residential loans and the sale commitments are freestanding derivative instruments. The fair value

of these commitments was not significant at December 31, 2012 and 2011. The Company has forward sales commitments, totaling $18.5 million at December 31, 2012 to sell loans held for sale of $18.5 million. Such forward sales commitments are to sell loans at par value and are generally funded within 60 days. The fair value of these commitments was not significant at December 31, 2012. The Company has no embedded derivative instruments requiring separate accounting treatment.

9. Related Party Transactions

In the opinion of management, loans to officers and directors of the Company are made on substantially the same terms including interest rates and collateral, as those prevailing at the time for comparable loans with persons not related to the lender and do not involve more than the normal risk of collectability. There were no outstanding loans to executive officers of the Company as of December 31, 2012, 2011 and 2010. Related party loans are summarized as follows:

	DECEMBER 31,	
	2012	2011
Balance at beginning of year	$9,764,763	$7,618,873
New loans or advances	4,241,967	5,364,207
Repayments	(3,622,225)	(3,218,317)
Balance at end of year	$10,384,505	$9,764,763

At December 31, 2012 and 2011 total deposits held by related parties were $4,567,509 and $6,611,683, respectively.

10. Other Expense

A summary of the components of other operating expense is as follows:

	YEARS ENDED DECEMBER 31,		
	2012	2011	2010
Advertising and business development	$21,422	$17,633	$10,658
Supplies	118,881	96,654	111,428
Telephone and postage	177,899	169,560	166,376
Insurance	34,575	44,207	43,594
Professional fees	504,888	465,533	431,990
Data processing services	559,867	446,625	351,101
State and FDIC insurance and fees	196,263	249,605	363,339
Courier service	159,943	189,247	179,407
Other	555,629	434,930	442,224
	$2,329,367	$2,113,994	$2,100,117

11. Stock Incentive Plan and Employee Stock Ownership Plan and Trust

The Company has a Stock Incentive Plan which was approved in 1998 with 180,000 (299,475 adjusted for two 10% stock dividends, a 10% stock distribution, and a 25% stock dividend) shares reserved and a Stock Incentive Plan which was approved in 2010 with 300,000 shares reserved. Under both Plans, options are periodically granted to employees at a price not less than the fair market value of the shares at the date of grant. Employees become 20% vested after five years and then vest 20% each year until fully vested. The right to exercise each such 20% of the options is cumulative and will not expire until the tenth anniversary of the date of the grant.

BANK OF SOUTH CAROLINA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On June 28, 2012 the Executive Committee granted options to purchase an aggregate of 9,000 shares to five employees. Fair value was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: dividend yield 3.97%, historical volatility 33.94%, with an expected life of ten years, and a risk free interest rate of 1.60%. In addition, the Board of Director's granted options to purchase 2,500 shares to one employee on September 24, 2012. Fair value was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: dividend yield 3.97%, historical volatility 33.94%, with an expected life of ten years, and a risk free interest rate of 1.74%.

On March 24, 2011, the Executive Committee granted options to purchase 5,000 shares of stock to one employee. Fair value was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions used for the grant: dividend yield 4.02%, historical volatility 54.43%, risk free interest rate of 3.42%, and an expected life of 10 years. In addition, the Executive Committee granted options to purchase 96,000 shares of stock to twenty-two employees (including 2 Executive Officers) on June 23, 2011. Fair value was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions used for the grant: dividend yield 4.02%, historical volatility 54.43%, risk free interest rate of 2.93%, and an expected life of 10 years.

On September 24, 2010 options to purchase 33,000 shares were granted to twenty-one employees with an exercise price of $10.77.

All outstanding options under the 1998 Omnibus Stock Incentive Plan have been retroactively restated to reflect the effects of a 10% stock dividend declared on August 26, 2010.

A summary of the activity under the 1998 and 2010 Omnibus Stock Incentive Plans for the years ended December 31, 2012, 2011, and 2010 follows:

	2012		2011		2010	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, January 1	168,266	$ 11.23	88,831	$ 11.51	86,995	$ 10.61
Granted	11,500	11.30	101,000	10.48	33,000	10.77

Expired	(4,000)	13.75	(6,491)	10.47	(1,581)	9.60
Exercised	(1,299)	8.54	(15,074)	8.19	(29,583)	8.13
Outstanding, December 31	174,467	$ 11.20	168,266	$ 11.23	88,831	$ 11.51

BANK OF SOUTH CAROLINA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Exercise Price:	Number of Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Intrinsic Value of Outstanding Options	Number of Options Exercisable	Weighted Average Exercise Price	Intrinsic Value of Exercisable Options
$ 8.54	7,292	0.4	$ 8.54	$ 15,969	7,292	$ 8.54	$ 15,969
$ 15.11	16,225	3.4	$ 15.11	$ —	6,490	$ 15.11	$ —
$ 14.54	5,500	4.0	$ 14.54	$ —	1,100	$ 14.54	$ —
$ 14.10	5,500	4.5	$ 14.10	$ —	1,100	$ 14.10	$ —
$ 12.90	2,200	5.2	$ 12.90	$ —	—	$ —	$ —
$ 10.77	25,250	7.7	$ 10.77	$ —	—	$ —	$ —
$ 11.67	5,000	8.2	$ 11.67	$ —	—	$ —	$ —
$ 10.42	96,000	8.5	$ 10.42	$ —	—	$ —	$ —
$ 11.11	9,000	9.6	$ 11.11	$ —	—	$ —	$ —
$ 12.00	2,500	9.9	$ 12.00	$ —	—	$ —	$ —
	174,467	7.27	$ 11.20	$ 15,969	15,982	$ 12.00	$ 15,969

The weighted average grant-date fair value of options granted in June and September of 2012 were $2.55 and $2.76, respectively. The weighted average grant-date fair value of options granted in March and June of 2011 were $4.62 and $4.03, respectively. The options granted in September 2010, had a weighted average grant date fair value of $6.13. The total intrinsic value of options exercised during the years ended December 31, 2012, and 2011, and 2010, were $2,845, $40,773 and $43,082, respectively.

A summary of the status of the Company's nonvested shares as of December 31, 2012 is presented below:

Nonvested Shares:	Shares	Weighted Average Grant-Date Fair Value
Nonvested at beginning of year	163,006	$4.50

Granted	11,500	2.60
Vested	(12,021)	4.06
Forfeited	(4,000)	5.04
Nonvested at end of year	158,485	$4.38

The Company recognized compensation cost for the years ended December 31, 2012, 2011 and 2010 in the amount of $72,928, $64,587, and $50,721, respectively.

As of December 31, 2012 there was $530,420 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. The cost is expected to be recognized over a weighted average period of 7.27 years.

The Company established an Employee Stock Ownership Plan (ESOP) effective January 1, 1989. Each employee who has attained age twenty-one and has completed at least 1,000 hours of service in a Plan year is eligible to participate in the ESOP. Contributions are determined annually by the Board of Directors and amounts allocable to individual participants may be limited pursuant to the provisions of Internal Revenue Code Section 415. The Company recognizes expense when the contribution is approved by the Board of Directors. The total expenses amounted to $285,000, $240,000, and $240,000 for the years ended December 31, 2012, 2011 and 2010, respectively.

BANK OF SOUTH CAROLINA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. DIVIDENDS

The Bank's ability to pay dividends to the Company is restricted by the laws and regulations of the State of South Carolina. Generally, these restrictions allow the Bank to pay dividends from current earnings without the prior written consent of the South Carolina Commissioner of Banking, if it received a satisfactory rating at its most recent examination. The Bank paid dividends of $2,160,000 and $1,790,000 to the Company during the years ended December 31, 2012 and 2011, respectively.

13. Income Per Common Share

Basic earnings per share are computed by dividing net income by the weighted-average number of common shares outstanding. Diluted earnings per share are computed by dividing net income by the weighted-average number of common shares and potential common shares outstanding. Potential common shares consist of dilutive stock options determined using the treasury stock method and the average market price of common stock. All share and per share data have been retroactively restated for all common stock dividends and distributions including the 10% stock dividend declared on August 26, 2010.

Options to purchase 34,675 shares of common stock and options to purchase 159,675 shares of common stock with prices ranging from $11.67 to $15.11 and $10.42 to $15.11 per share were not included in the computation of diluted earnings per share for 2012 or 2011, respectively, because the options' exercise price was greater than the average market price of common shares.

The following is a summary of the reconciliation of average shares outstanding for the years ended December 31:

	2012		2011		2010	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Weighted average shares outstanding	4,445,738	4,445,738	4,439,887	4,439,887	4,416,065	4,416,065
Effect of dilutive securities:						
Stock options	—	—	—	—	—	—
Average shares outstanding	4,445,738	4,445,738	4,439,887	4,439,887	4,416,065	4,416,065

14. Regulatory Capital Requirements

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulation) to risk-weighted assets (as defined) and to average assets. Management believes, as of December 31, 2012, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

At December 31, 2012 and 2011, the Company and the Bank are categorized as “well capitalized” under the regulatory framework for prompt corrective action. To be categorized as “well capitalized” the Company and the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios of 10%, 6% and 5%, respectively, and to be categorized as “adequately capitalized,” the Company and the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table below. There are no current conditions or events that management believes would change the Company’s or the Bank’s category.

BANK OF SOUTH CAROLINA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in Thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital to risk-weighted assets:						
Company	$34,912	13.73%	$20,343	8.00%	$ N/A	N/A
Bank	$34,686	13.64%	$20,343	8.00%	$ 25,429	10.00%
Tier 1 capital to risk-weighted assets:						
Company	$31,730	12.48%	$10,171	4.00%	$ N/A	N/A
Bank	$31,504	12.39%	$10,171	4.00%	$ 15,257	6.00 %
Tier 1 capital to average assets:						
Company	$31,730	10.14%	$12,521	4.00%	$ N/A	N/A
Bank	$31,504	10.07%	$12,515	4.00%	$ 15,644	5.00 %

December 31, 2011

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in Thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital to risk-weighted assets:						
Company	$33,045	13.48%	$19,606	8.00%	$ N/A	N/A
Bank	$32,848	13.41%	$19,602	8.00%	$ 24,503	10.00%
Tier 1 capital to risk-weighted assets:						
Company	$29,981	12.23%	$9,803	4.00%	$ N/A	N/A

Bank	$29,784	12.16 %	$9,801	4.00 %	$ 14,702	6.00 %
Tier 1 capital to average assets:						
Company	$29,981	8.96 %	$13,386	4.00 %	$ N/A	N/A
Bank	$29,784	8.90 %	$13,380	4.00 %	$ 16,725	5.00 %

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BANK OF SOUTH CAROLINA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Disclosures Regarding Fair Value of Financial Instruments

The following table is a summary of the carrying value and estimated fair value of the Company's financial instruments as of December 31, 2012 and 2011:

	2012 Carrying Amount	Estimated Fair Value
Financial Assets:		
Cash and due from banks	$5,137,888	$5,137,888
Interest bearing deposits in other banks	25,903,960	25,903,960
Investments available for sale	58,514,216	58,514,216
Mortgage loans to be sold	18,479,878	18,479,878
Loans	217,128,624	217,432,537
Financial Liabilities:		
Deposits	291,073,843	291,094,742
Short-term borrowings	—	—
	Notional Amount	Fair Value
Off-Balance Sheet Financial Instruments:		
Commitments to extend credit	$51,144,731	$—
Standby letters of credit	749,712	—

	2011 Carrying Amount	Estimated Fair Value
Financial Assets:		
Cash and due from banks	$4,559,194	$4,559,194
Interest bearing deposits in other banks	47,504,282	47,504,282
Investments available for sale	59,552,160	59,552,160
Mortgage loans to be sold	7,578,587	7,578,587
Loans	213,709,112	214,294,224
Financial Liabilities:		
Deposits	301,127,515	301,830,957
Short-term borrowings	—	—
	Notional Amount	Fair Value
Off-Balance Sheet Financial Instruments:		

Commitments to extend credit	$47,629,822	$—
Standby letters of credit	875,679	—

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BANK OF SOUTH CAROLINA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. Bank of South Carolina Corporation - Parent Company

The Company's principal source of income is dividends from the Bank. Certain regulatory requirements restrict the amount of dividends which the Bank can pay to the Company. The Company's principal asset is its investment in its Bank subsidiary. The Company's condensed statements of financial condition as of December 31, 2012 and 2011, and the related condensed statements of operations and cash flows for the years ended December 31, 2012, 2011 and 2010, are as follows:

CONDENSED STATEMENTS OF Financial Condition

	2012	2011
Assets		
Cash	$86,305	$541,500
Investment in wholly-owned bank subsidiary	33,704,253	31,309,093
Other assets	139,884	143,276
Total assets	$33,930,442	$31,993,869
Liabilities and shareholders' equity		
Shareholders' equity	33,930,442	31,993,869
Total liabilities and shareholders' equity	$33,930,442	$31,993,869

CONDENSED STATEMENTS OF Operations

	2012	2011	2010
Interest income	$257	$289	$374
Net operating expenses	(213,254)	(138,877)	(136,384)
Dividends received from bank	2,160,000	1,790,000	1,715,000
Equity in undistributed earnings of subsidiary	1,719,825	1,537,906	1,531,523
Net income	$3,666,828	$3,189,318	$3,110,513

BANK OF SOUTH CAROLINA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED STATEMENTS OF Cash FlowS

	2012	2011	2010
Cash flows from operating activities:			
Net income	$3,666,828	$3,189,318	$3,110,513
Stock-based compensation expense	72,928	64,587	50,721
Equity in undistributed earnings of subsidiary	(1,719,825)	(1,537,906)	(1,531,523)
Decrease (increase) in other assets	3,390	(81,776)	(29,101)
Net cash provided by operating activities	2,023,321	1,634,223	1,600,610
Cash flows from financing activities:			
Dividends paid	(2,489,610)	(1,376,623)	(1,688,084)
Fractional shares paid	—	—	(2,466)
Stock options exercised	11,094	123,403	210,811
Net cash used by financing activities	(2,478,516)	(1,253,220)	(1,479,739)
Net (decrease) increase in cash	(455,195)	381,003	120,871
Cash at beginning of year	541,500	160,497	39,626
Cash at end of year	$86,305	$541,500	$160,497
Change in dividend payable	$(488,944)	$488,944	$—

BANK OF SOUTH CAROLINA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. Quarterly Results of Operations (unaudited)

The tables below represent the quarterly results of operations for the years ended December 31, 2012 and 2011, respectively:

	2012			
	FOURTH	THIRD	SECOND	FIRST
Total interest and fee income	$3,155,002	$3,098,440	3,081,764	$3,127,653
Total interest expense	104,285	106,875	112,400	132,059
Net interest income	3,050,717	2,991,565	2,969,364	2,995,594
Provision for loan losses	70,000	80,000	80,000	120,000
Net interest income after provisions for loan losses	2,980,717	2,911,565	2,889,364	2,875,594
Other income	659,490	570,181	562,744	553,048
Other expense	2,217,030	2,156,249	2,204,558	2,153,788
Income before income tax expense	1,423,177	1,325,497	1,247,550	1,274,854
Income tax expense	431,004	431,835	357,283	384,128
Net income	$992,173	$893,662	$890,267	$890,726
Basic income per common share	$.22	$.20	$.20	$.20
Diluted income per common share	$.22	$.20	$.20	$.20

	2011			
	FOURTH	THIRD	SECOND	FIRST
Total interest and fee income	$3,158,632	$3,127,754	3,042,514	$2,948,704
Total interest expense	150,919	177,288	213,883	235,938
Net interest income	3,007,713	2,950,466	2,828,631	2,712,766
Provision for loan losses	120,000	120,000	120,000	120,000
Net interest income after provisions for loan losses	2,887,713	2,830,466	2,708,631	2,592,766
Other income	412,645	496,905	439,080	429,327
Other expense	2,118,365	1,983,371	2,045,876	2,112,654
Income before income tax expense	1,181,993	1,344,000	1,101,835	909,439
Income tax expense	347,041	407,027	333,810	260,071
Net income	$834,952	$936,973	$768,025	$649,368
Basic income per common share	$.20	$.21	$.17	$.14
Diluted income per common share	$.20	$.21	$.17	$.14

BANK OF SOUTH CAROLINA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Management has reviewed events occurring through the date the financial statements were available to be issued and no subsequent events occurred requiring accrual or disclosure.

Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

An evaluation of the Company’s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934 (the “Act”) was carried out as of December 31, 2012 under the supervision and with the participation of the Bank of South Carolina Corporation’s management, including its President/Chief Executive Officer and the Chief Financial Officer/Executive Vice President and several other members of the Company’s senior management. Based upon that evaluation Bank of South Carolina Corporation’s management, including the President/Chief Executive Officer and the Chief Financial Officer/Executive Vice President concluded that as of December 31, 2012, the Company’s disclosure controls and procedures were effective in ensuring that the information the Company is required to disclose in the reports filed or submitted under the act has been (i) accumulated and communicated to management (including the President/Chief Executive Officer and Chief Financial Officer/Executive Vice President) to allow timely decisions regarding required disclosure, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms.

Management’s Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal controls over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of published financial statements in accordance with generally accepted accounting principles.

Under the supervision and with the participation of management, including the President/Chief Executive Officer and the Chief Financial Officer/Executive Vice President, the Company's management has evaluated the effectiveness of its internal control over financial reporting as of December 31, 2012, based on the framework established in a report entitled "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission and the interpretive guidance issued by the Securities and Exchange Commission in Release No. 34-55929.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2012. Based on this assessment management believes that as of December 31, 2012, the Company's internal control over financial reporting was effective. There were no changes in the Company's internal control over financial reporting that occurred during the year ended December 31, 2012, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report is not subject to attestation by the Company's registered public accounting firm pursuant to the final ruling by the Securities and Exchange Commission that permit the Company to provide only management's report in its annual report.

The Audit Committee, composed entirely of independent directors, meets periodically with management, the Company's internal auditor and Elliott Davis, LLC (separately and jointly) to discuss audit, financial and related matters. Elliott Davis, LLC and the internal auditor have direct access to the Audit Committee.

Item 9B. Other Information

There is no information required to be disclosed in a report on Form 8-K during the fourth quarter of 2012 that was not reported.

PART III

Item 10. Directors, Executive Officers, Promoters and Corporate Governance

The information required by this item contained under the sections captioned "Proposal 1-To Elect Nineteen Directors of Bank of South Carolina Corporation to Serve Until the Company's 2014 Annual Meeting of Shareholders" and "Meetings and Committees of the Board of Directors and Corporate Governance Matters" included on pages 8-20 in the Company's definitive Proxy Statement for its annual meeting of shareholders to be held on April 9, 2013, a copy of which has been filed with the SEC, the "Proxy Statement", is incorporated in this document by reference.

Executive Officers The information concerning the Company's executive officers is contained under the section captioned -"Proposal 1-To Elect Nineteen Directors of Bank of South Carolina Corporation to Serve until the

Company's 2014 Annual Meeting of Shareholders," included on pages 8-16 of the Company's Proxy Statement, and is incorporated in this document by reference.

Audit and Committee Financial Expert The Audit Committee of the Company is composed of Directors Linda J. Bradley McKee, PhD., CPA., (Chairman), Glen B. Haynes, DVM., Richard W. Hutson, Jr., Katherine M. Huger, and David R. Schools. The Board has selected the Audit Committee members based on its determination that they are qualified to oversee the accounting and financial reporting processes of the Company and audits of the Company's financial statements. Each member of the Audit Committee is "independent" as defined in the NASDAQ Stock Market listing standards for audit committee members

The Board of Directors has determined that Linda J. Bradley McKee, PhD., CPA, qualifies as a financial expert within the meaning of SEC rules and regulations and has designated Dr. Bradley McKee as the Audit Committee financial expert. Director McKee is independent as that term is used in Schedule 14A promulgated under the Exchange Act.

Code of Ethics The Company has adopted a "Code of Ethics", applicable to the President/Chief Executive Officer, the Chief Financial Officer/Executive Vice-President and the Executive Vice-President and "Code of Conduct" for Directors, officers and employees. A copy of these policies may be obtained at the Company's internet website: www.banksc.com.

Compliance with Insider Reporting The information contained under the section captioned "Section 16(a) Beneficial Ownership Reporting Compliance" is included on page 21 of the Company's Proxy Statement and is incorporated in this document by reference.

Item 11. Executive Compensation

The information required by this item is incorporated by reference to the Section captioned "Directors Compensation" and "Executive Compensation-Compensation Discussion and Analysis" included on pages 20-27 of the Proxy Statement.

Equity Compensation Plan Information

The following table summarizes share and exercise price of information about the Stock Incentive Plan of the Company as of December 31, 2012:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans [1]
1998 Omnibus Stock Incentive Plan approved by Shareholders [2]	36,717	$ 13.44	—
2010 Omnibus Stock Incentive Plan approved by Shareholders [3]	137,750	10.60	162,250
Total	174,467	$ 11.20	162,250

[1] In accordance with the 1998 Omnibus Stock Incentive Plan, no options may be granted under this Plan after April 14, 2008, due to its expiration. Options granted before this date shall remain valid in accordance with their terms.

[2] The number of securities to be issued upon exercise of the outstanding options represents the total outstanding options under the 1998 Omnibus Stock Incentive Plan. As per the agreement, the referenced options shall remain valid in accordance with their terms.

[3] The 2010 Omnibus Stock Incentive Plan was approved by the Shareholders at the 2010 Annual Meeting. There were 300,000 shares reserved under this Plan. On September 24, 2010, options for 33,000 shares were granted to 21 employees (other than Executive Officers) with options for 750 shares forfeited with the resignation of one employee in 2010. On March 24, 2011, options for 5,000 shares were granted to 1 employee and on June 23, 2011, options for 96,000 shares were granted to 22 employees including Sheryl G. Sharry and Fleetwood S. Hassell, both Executive Officers who each received options for 10,000 shares. Douglas H. Sass, Executive Vice President, also received options on June 23, 2011 to purchase 5,000 shares. During the year ended December 31, 2011, options for 5,750

shares were forfeited with the resignation of two employees. On June 23, 2012 the Executive Committee granted options to purchase 9,000 shares to 5 employees including Douglas H. Sass, Executive Vice President, who received options to purchase 5,000 shares. In addition, the Board of Directors granted options to purchase 2,500 shares to 1 employee on September 24, 2012. There were options to purchase 4,000 shares forfeited during the year ended December 31, 2012.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Security Ownership and Certain Beneficial Owners

Information required by this item in incorporated in this document by reference to the Section captioned "Security Ownership of Certain Beneficial Owners and Management", included on page 4 of the Proxy Statement.

Security ownership of Management

Information required by this item is incorporated in this document by reference to the Sections captioned "Security Ownership of Certain Beneficial Owners and Management", included on page 4 of the Proxy Statement.

Changes in Control

Management is not aware of any arrangements, including any pledge by any shareholder of the Company, the operation of which may at a subsequent date result in a change of control of the Company.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated in this document by reference to the Sections captioned "Proposal 1-To Elect Nineteen Directors of Bank of South Carolina Corporation to Serve Until the Company's 2014 Annual Meeting of Shareholders" and "Meetings and Committees of the Board of Directors and Corporate Governance Matters", included on pages 8-20 of the Proxy Statement.

Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated in this document by reference to "Proposal 2 " to ratify the appointment of Elliott Davis, LLC as independent public accountant for the year ending December 31, 2013 and "Auditing and Related Fees", included on page 29 of the Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

1. The Consolidated Financial Statements and Report of Independent Auditors are included in this Form 10-K and listed on pages as indicated.

	Page
(1) Report of Independent Registered Public Accounting Firm	34
(2) Consolidated Balance Sheets	35
(3) Consolidated Statements of Operations	36
(4) Consolidated Statements of Comprehensive Income	37

(6)	Consolidated Statements of Shareholders' Equity	38
(7)	Consolidated Statements of Cash Flows	39
(8)	Notes to Consolidated Financial Statements	40 - 73

2. Exhibits

2.0 Plan of Reorganization (Filed with 1995 10-KSB)
3.0 Articles of Incorporation of the Registrant (Filed with 1995 10-KSB)
3.1 By-laws of the Registrant (Filed with 1995 10-KSB)
3.2 Amendments to the Articles of Incorporation of the Registrant (Filed with Form S on June 23, 2011)
4.0 2013 Proxy Statement (Filed with 2012 10-K)
10.0 Lease Agreement for 256 Meeting Street (Filed with 1995 10-KSB)
10.1 Sublease Agreement for Parking Facilities at 256 Meeting Street (Filed with 1995 10-KSB)
10.2 Lease Agreement for 100 N. Main Street, Summerville, SC (Filed with 1995 10-KSB)
10.3 Lease Agreement for 1337 Chuck Dawley Blvd., Mt. Pleasant, SC (Filed with 1995 10-KSB)
10.4 Lease Agreement for 1071 Morrison Drive, Charleston, SC (Filed With 2010 10-K)
10.5 1998 Omnibus Stock Incentive Plan (Filed with 2008 10-K/A)
10.6 Employee Stock Ownership Plan (Filed with 2008 10-K/A)
Employee Stock Ownership Plan, Restated (Filed with 2011 Proxy Statement)

10.7	2010 Omnibus Incentive Stock Option Plan (Filed with 2010 Proxy Statement)
13.0	2012 10-K (Incorporated herein)
14.0	Code of Ethics (Filed with 2004 10-KSB)
21.0	List of Subsidiaries of the Registrant (Filed with 1995 10-KSB)
	The Registrant's only subsidiary is The Bank of South Carolina (Filed with 1995 10-KSB)
23.1	Consent of Independent Registered Public Accounting Firm (Incorporated herein)
31.1	Certification pursuant to Rule 13a-14(a)/15d-14(a) by the Principal Executive Officer
31.2	Certification pursuant to Rule 13a-14(a)/15d-14(a) by the Principal Financial Officer
32.1	Certification pursuant to Section 1350
32.2	Certification pursuant to Section 1350
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 28, 2013 BANK OF SOUTH CAROLINA CORPORATION

By: /s/Sheryl G. Sharry
Sheryl G. Sharry
Chief Financial Officer/Executive Vice President

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In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

February 28, 2013	/s/David W. Bunch David W. Bunch, Director
February 28, 2013	/s/Graham M. Eubank, Jr. Graham M. Eubank, Jr., Director
February 28, 2013	/s/Fleetwood S. Hassell Fleetwood S. Hassell, President/Chief Executive Officer & Director
February 28, 2013	/s/Glen B. Haynes Glen B. Haynes, DVM, Director
February 28, 2013	/s/William L. Hiott, Jr. William L. Hiott, Jr., Director
February 28, 2013	/s/Katherine M. Huger Katherine M. Huger, Director
February 28, 2013	/s/Richard W. Hutson, Jr. Richard W. Hutson, Jr., Director
February 28, 2013	/s/Charles G. Lane Charles G. Lane, Director
February 28, 2013	/s/Hugh C. Lane, Jr. Hugh C. Lane, Jr., Chairman of the Board, Director
February 28, 2013	/s/Louise J. Maybank Louise J. Maybank, Director
February 28, 2013	/s/Linda J. Bradley McKee Linda J. Bradley McKee, PHD,CPA, Director
February 28, 2013	/s/Alan I. Nussbaum Alan I. Nussbaum, MD, Director
February 28, 2013	/s/Edmund Rhett, Jr. Edmund Rhett, Jr., MD, Director
February 28, 2013	/s/Malcolm M. Rhodes Malcolm M. Rhodes, MD, Director

February 28, 2013 /s/David R. Schools
David R. Schools, Director

February 28, 2013 /s/Sheryl G. Sharry
Sheryl G. Sharry
Chief Financial Officer/Executive Vice
President, Director

February 28, 2013 /s/Steve D. Swanson
Steve D. Swanson, Director