

OUR VISION

for what community  
banking should be

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### Five-Year Financial Performance

Year Ended December 31	2019	2018	2017	2016	2015
Net Income	\$ 7,318,433	\$ 6,922,934	\$ 4,901,825	\$ 5,247,063	\$ 4,884,288
<b>PERFORMANCE RATIOS:</b>					
Return on Average Equity	14.86%	15.85%	11.37%	12.65%	12.64%
Return on Average Assets	1.66%	1.61%	1.14%	1.28%	1.29%
Average Equity to Average Assets	11.18%	10.15%	10.07%	10.10%	10.18%
Net Interest Margin	4.28%	4.15%	3.76%	3.71%	3.72%
Net (Recoveries) Charge-offs to Average Loans	0.14%	(0.01)%	0.01%	0.05%	0.04%
Allowance for Loan Losses as a Percentage of Total Loans <sup>(1)</sup>	1.46%	1.53%	1.43%	1.48%	1.41%
<b>PER SHARE DATA:</b>					
Basic Income <sup>(2)</sup>	\$ 1.33	\$ 1.26	\$ 0.90	\$ 0.96	\$ 0.90
Diluted Income <sup>(2)</sup>	\$ 1.31	\$ 1.24	\$ 0.88	\$ 0.94	\$ 0.88
Year End Book Value <sup>(2)</sup>	\$ 9.25	\$ 8.25	\$ 7.79	\$ 7.45	\$ 7.24
Cash Dividends Declared	\$ 0.74	\$ 0.70	\$ 0.58	\$ 0.54	\$ 0.52
Dividend Payout Ratio	55.88%	54.68%	58.87%	50.86%	49.94%
<b>SELECTED AVERAGE BALANCES:</b>					
Total Assets	\$ 440,615,140	\$ 430,495,412	\$ 428,174,359	\$ 410,581,560	\$ 379,527,104
Total Loans <sup>(3)</sup>	\$ 281,508,711	\$ 277,223,600	\$ 264,881,222	\$ 265,151,258	\$ 243,729,630
Total Deposits	\$ 381,687,960	\$ 386,025,147	\$ 384,524,305	\$ 367,822,900	\$ 337,969,217
Total Shareholders' Equity	\$ 49,242,545	\$ 43,691,359	\$ 43,121,778	\$ 41,479,755	\$ 38,631,718

<sup>(1)</sup> Excluding mortgage loans to be sold

<sup>(2)</sup> Adjusted to retroactively reflect 10% stock dividend issued during the year ended December 31, 2018

<sup>(3)</sup> Including mortgage loans to be sold

The Bank of South Carolina is a state-chartered financial institution with depository accounts insured by the FDIC. The Bank was organized on October 23, 1986, and our first office opened for business on February 26, 1987. It is a wholly-owned subsidiary of Bank of South Carolina Corporation which became effective on April 17, 1995.



CONSISTENTLY RANKED  
The Top Performing  
South Carolina Bank



5-STAR BAUER  
FINANCIAL RATING

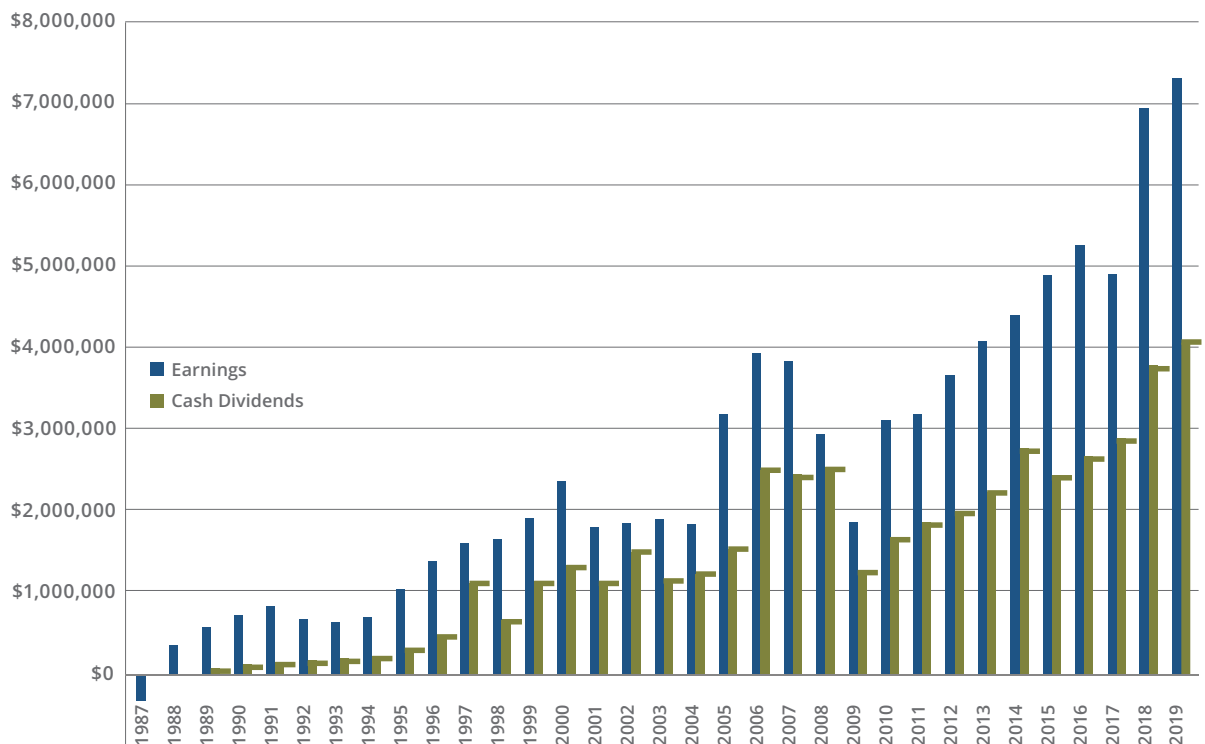


RANKED #24  
COMMUNITY BANK BY  
THE AMERICAN BANKER.

### Annual Earnings & Cash Dividend History

CUMULATIVE EARNINGS:  
**\$85,107,140**

CUMULATIVE CASH DIVIDENDS:  
**\$47,772,988**



## DEAR STOCKHOLDERS, CUSTOMERS, EMPLOYEES, AND FRIENDS:



Our continued investment in people and strategic initiatives has resulted in another record year of earnings for your Bank. We continue to build our balance sheet one account at a time culminating in core deposits, quality earning assets, and loyal customers. In this day of fewer banks and massive financial institutions, I am reminded of the words of John Medlin, President/CEO of Wachovia (1977-1993):

**“Customers don’t care about how big you are; they care about the service you give them. Size has never been our goal; excellence and quality is our goal.”**

We live this out every day as we provide our customers with the service, responsiveness, and attention to detail to build lasting and long-term relationships. As uncertainty exists in our political world and elsewhere, the opposite is true in who we are and what we do. A customer recently stopped me on a weekend and said, “I bank with you because I can call you and come see you and know that I

can get an answer to what I need almost immediately. That is essentially impossible in mega-banks.” What seems minor to some can mean multitudes to others. This is what community banking should be.

This year held several noteworthy events - namely, an increase in our regular quarterly cash dividend to \$0.16 per share and a special \$0.10 per share cash dividend to celebrate the Grand Opening of our North Charleston Office. We believe this office, located at Highway 78 and Ingleside Drive, to be the hub of significant growth for the North Area, and we look forward to being the Bank to facilitate it. In addition, this office is the new home of our Mortgage Department, and we are happy to have seen a solid contribution from them in the fourth quarter of 2019 and into 2020. We continue to invest in technology; namely a remake of our website, and the addition of our remote deposit capability, known as Mobility. Our use of technology as an enhancement of what we do and not as a replacement, has kept us both relevant and efficient.

Our shareholders continue to be the beneficiary of our success with a dividend payout of 56% of our profits in 2019. We

**We live this out every day as we provide our customers with the service, responsiveness, and attention to detail to build lasting and long-term relationships.**

remain extremely well capitalized. As noted in recent investor analyses, total shareholder return over the past five years equates to 82% and the ten-year return 225% - both of which compare favorably to the S&P 500 during each period.

Emerson said, “What lies behind us and what lies before us pales in significance when compared to what lies within us.” For us, this is an enduring desire to remain independent and continue to be the bank of choice in the South Carolina Lowcountry. ■

### OUR VISION

for what community banking should be





Susanne K. Boyd  
Executive Vice President &  
Chief Operating Officer

*Susanne Boyd*

Douglas H. Sass  
Executive Vice President  
& Senior Lender

*D. H. Sass*

Eugene H. Walpole, IV  
Executive Vice President &  
Chief Financial Officer

*E. H. Walpole, IV*

Fleetwood S. Hassell  
President &  
Chief Executive Officer

*F. S. Hassell*

Hugh C. Lane, Jr.  
Chairman

*Hugh C. Lane, Jr.*

**\$7.3M** 2019 EARNINGS

**55.88%** 2019 DIVIDEND PAYOUT RATIO

**14.86%** 2019 RETURN ON AVERAGE EQUITY

**1.66%** 2019 RETURN ON AVERAGE ASSETS

**NORTH CHARLESTON OFFICE**  
9403 HIGHWAY 78, NORTH CHARLESTON, SC 29456

## Our newest location



We are excited about the opening of our North Charleston office following the culmination of several years of planning and eager anticipation. We believe this site to be an incredible hub of economic activity. Our Bank is proud to anchor this new Financial Center and to participate in and promote its growth.



**PROXY MATERIAL OF  
BANK OF SOUTH CAROLINA CORPORATION**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD APRIL 14, 2020**

Dear Shareholder:

I cordially invite you to attend the Annual Meeting of Shareholders of Bank of South Carolina Corporation, to be held on April 14, 2020 at 2:00 p.m. EST at 256 Meeting Street, Charleston, South Carolina 29401, for the following purposes:

1. to elect nineteen Directors to our Board of Directors to serve a one-year term;
2. to approve the 2020 Stock Incentive Plan;
3. to ratify the appointment of Elliott Davis, LLC as the Company's independent registered public accounting firm for the year ended December 31, 2020;
4. to transact such other business as may properly come before the Annual Meeting or any adjournment of the meeting.

The Board of Directors set the close of business on February 27, 2020 as the record date to determine the Shareholders who are entitled to vote at the Annual Meeting. Under rules of the Securities and Exchange Commission, we are providing access to our proxy materials by sending you this full set of proxy materials, including a proxy card, and notifying you of the availability of our proxy materials on the Internet.

Although we would like each Shareholder to attend the Annual Meeting, we realize that for some of you this is not possible. Whether or not you plan to attend the Annual Meeting, we encourage you to vote as soon as possible through the Internet, by telephone or by signing, dating and mailing your proxy card in the enclosed postage-paid envelope. Internet voting permits you to vote at your convenience, 24 hours a day, seven days a week. For specific instructions on voting, please refer to the instructions on the enclosed proxy card.

Our 2020 Proxy Statement and Annual Report for the year ended December 31, 2019 are available free of charge at <http://www.banksc.com> and <http://www.proxyvote.com>.

Your vote is very important, and I appreciate the time and consideration that I am sure you will give it.

On behalf of the Board of Directors,

/s/ Richard W. Hutson, Jr.

Richard W. Hutson, Jr., Secretary

March 6, 2020

**PROXY STATEMENT  
FOR  
THE ANNUAL MEETING OF SHAREHOLDERS  
OF BANK OF SOUTH CAROLINA CORPORATION  
TO BE HELD ON APRIL 14, 2020  
PROXY STATEMENT**

The Board of Directors of the Bank of South Carolina Corporation (the “Company”) are using this Proxy Statement to solicit Proxies from its Shareholders for the 2020 Annual Meeting of Shareholders. The Company is making this Proxy Statement and the enclosed form of Proxy available to its Shareholders on or about March 6, 2020.

The information provided in this Proxy Statement contains important information for you to consider when deciding how to vote on the matters brought before the meeting. The Board encourages you to read it carefully.

**INFORMATION ABOUT THE ANNUAL MEETING**

**Time and Place of the Annual Meeting**

The Annual Meeting will be held as follows:

**Date:** April 14, 2020

**Time:** 2:00 p.m. Eastern Standard Time

**Place:** The Bank of South Carolina, 256 Meeting Street, Charleston, South Carolina

**Matters to be Considered at the Annual Meeting**

At the meeting, you will be asked to consider and vote upon the following proposals:

- Proposal 1:** To elect nineteen Directors of Bank of South Carolina Corporation to serve until the Company’s 2021 Annual Meeting of Shareholders;
- Proposal 2:** To approve the 2020 Stock Incentive Plan;
- Proposal 3:** To ratify the appointment of Elliott Davis, LLC as the Company’s independent registered public accounting firm for the year ended December 31, 2020;
- Proposal 4:** To transact such other business as may properly come before the meeting and any adjournment or postponement of the meeting.

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS  
FOR THE SHAREHOLDERS’ MEETING TO BE HELD APRIL 14, 2020**

This Proxy Statement (providing important information for the Annual Meeting) and the Company’s Annual Report (which includes its Annual Report on Form 10-K as filed with the Securities and Exchange Commission) accompany this Notice. The Proxy Statement and 2019 Annual Report to Shareholders are available at <http://www.banksc.com> and at <http://www.proxyvote.com>.



## Who is Entitled to Vote?

The Board of Directors of the Company has fixed the close of business on February 27, 2020, as the record date for Shareholders entitled to notice of and to vote at the Annual Meeting of Shareholders. Only holders of record of Bank of South Carolina Corporation's Common Stock on that date are entitled to notice of and to vote at the Annual Meeting. Each Shareholder is entitled to one vote for each share of Bank of South Carolina Corporation Common Stock that the Shareholder owns; provided, however, that the Shareholders have cumulative voting rights for the election of Directors. The right to cumulate votes means that the Shareholders are entitled to multiply the number of votes they are entitled to cast by the number of Directors for whom they are entitled to vote and cast the product for a single candidate or distribute the product among two or more candidates. On February 14, 2020, there were approximately 5,530,363 shares of Bank of South Carolina Corporation's Common Stock outstanding and entitled to vote at the Annual Meeting.

## How Do I Vote?

If you are the "record holder" of your shares, meaning that you own your shares in your own name and not through a bank, broker or other nominee, you may vote in one of four ways.

1. **You may vote over the Internet.** If you have Internet access, you may vote your shares from any location in the world by following the "Vote by Internet" instructions on the enclosed proxy card.
2. **You may vote by telephone.** You may vote your shares by following the "Vote by Telephone" instructions on the enclosed proxy card.
3. **You may vote by mail.** You may vote by completing and signing the proxy card enclosed with this proxy statement and promptly mailing it in the enclosed postage-prepaid envelope. You do not need to put a stamp on the enclosed envelope if you mail it in the United States.
4. **You may vote in person.** If you attend the Annual Meeting, you may vote by delivering your completed proxy card in person.

## How Do I Vote at the Annual Meeting?

Proxies are solicited to provide all Shareholders of record on the voting record date an opportunity to vote on matters scheduled for the Annual Meeting and described in these materials. You are a Shareholder of record if your shares of Bank of South Carolina Corporation Common Stock are held in your name. If you are a beneficial owner of Bank of South Carolina Corporation Common Stock held by a broker, bank or other nominee (i.e., in "street name"), please see the instructions in the following question.

Shares of Bank of South Carolina Corporation Common Stock can only be voted if the Shareholder is present in person or by Proxy at the Annual Meeting. To ensure your representation at the Annual Meeting, the Board recommends that you vote by Proxy even if you plan to attend the Annual Meeting. You can always change your vote at the meeting if you are a Shareholder of record.

Voting instructions are included in this material. Shares of Bank of South Carolina Corporation Common Stock represented by properly executed Proxies will be voted by the individuals named on the Proxy (selected by The Board of Directors) in accordance with the Shareholder's instructions. Where properly executed Proxies are returned with no specific instructions as how to vote at the Annual Meeting, the persons named in the Proxy will vote the shares "For" the proposals as recommended by the Board of Directors. If any other matters are properly presented at the Annual Meeting for action, the persons named in the enclosed Proxy and acting thereunder will have the discretion to vote on these matters in accordance with their best judgment.

As a Shareholder of Bank of South Carolina Corporation Common Stock, you may receive more than one Proxy card depending on how your shares are held. For example, you may hold some of your shares individually, some jointly with your spouse and some in trust for your children. In this case, you will receive three separate Proxy cards to vote.

## What if My Shares Are Held in Street Name?

*If you hold your shares in street name, it is critical that you cast your vote if you want it to count in the election of Director Nominees. In the past, if you held your shares in street name and you did not indicate how you wanted your shares voted in the election of Directors, your bank or broker was allowed to vote those shares on your behalf as they deemed appropriate. Due to changes in regulations, your bank or broker no longer has the ability to vote your uninstructed shares on a discretionary basis. Thus, if you hold your shares in street name and you do not instruct your bank or broker how to vote in the election of Directors, no votes will be cast on your behalf.*

If your shares are held in street name, you will need proof of ownership to be admitted to the Annual Meeting. A recent brokerage statement or a letter from the record holder of your shares, are examples of proof of ownership. If you want to vote your shares of Common Stock held in street name in person at the Annual Meeting, you will have to get a written Proxy in your name from the broker, bank or other nominee who holds your shares.

The solicitation of Proxies on behalf of the Board of Directors is conducted by Directors, officers and regular employees of the Company and its wholly owned subsidiary, The Bank of South Carolina (the "Bank"), at no additional compensation over regular salaries. The cost of printing and mailing of all Proxy materials has been paid by the Company. Brokers and others involved in handling and forwarding the Proxy materials to their customers having beneficial interests in the stock of the Company registered in the names of Nominees will be reimbursed for their reasonable expenses in doing so.

#### **How Many Shares Must Be Present to Hold the Meeting?**

A quorum must be present at the meeting for any business to be conducted. The presence at the meeting, in person or by Proxy, of at least a majority of the shares of Bank of South Carolina Corporation Common Stock entitled to vote at the Annual Meeting as of the record date shall constitute a quorum. Proxies received but marked as abstentions or broker non-votes will be included in the calculation of the number of shares considered to be present at the meeting.

#### **What if a Quorum is Not Present at the Meeting?**

If a quorum is not present at the scheduled time of the meeting, a majority of the Shareholders present or represented by Proxy may adjourn the meeting until a quorum is present. The time and place of the adjourned meeting will be announced at the time the adjournment is taken, and no other notice will be given unless the meeting is adjourned for 30 days or more. An adjournment will have no effect on the business that may be conducted at the meeting.

#### **Will Cumulative Voting Apply for the Election of Directors?**

The solicitation of Proxies on behalf of the Board of Directors includes a solicitation for discretionary authority to cumulate votes.

#### **How will votes be counted?**

With respect to all proposals, shares will not be voted in favor of the matter, and will not be counted as voting on the matter, if they either (1) abstain from voting on a particular matter, or (2) are "broker non-votes." Banks, brokers and other nominees who do not receive instructions with respect to Proposals 1, 2, or 3 will not be allowed to vote these shares, and all such shares will be "broker non-votes" rather than votes "for" or "against." Accordingly, abstentions and "broker non-votes" for a particular proposal will not be counted as votes cast to determine the outcome of a particular proposal. With respect to Proposal 1, the election of Directors of the Company, cumulative voting will be allowed and election will be by plurality of votes cast. With respect to Proposal 2 and 3, each proposal will be approved if more votes are cast for the proposal than votes cast against.

#### **May I Revoke My Proxy?**

Any Shareholder executing a Proxy for the meeting on the Proxy Form provided may revoke the Proxy in writing delivered to the President of the Company prior to the meeting or by attending the meeting and voting in person.

## **PROPOSAL 1: ELECTION OF DIRECTORS:**

Our by-laws provide for a Board of Directors consisting of not fewer than 15 individuals and not more than 25 individuals. The number of Directors may be increased or decreased from time to time by majority vote of the Board of Directors or the Shareholders.

The Board of Directors proposes that the nineteen nominees described below be elected for a new term expiring at the 2021 Annual Meeting of Shareholders or until their respective successors are duly elected and qualified. Each nominee has agreed to serve if elected. If any named nominee is unable to serve, the Board of Directors, upon the recommendation of the Nominating Committee, may select different nominees for election as Directors.

The name of each Nominee designated by the Board of Directors of the Company for election as a Director of the Company and certain information provided by such Nominee to the Company are set forth in the table below. Hugh C. Lane, Jr, an Executive Officer, Charles G. Lane, and William L. Hiott, Jr served as initial Directors of the Bank from October 22, 1986, when the Bank's charter was issued until the first Annual Meeting of Shareholders on April 14, 1987, and were elected to serve a one-year term at such Annual Meeting and subsequent Annual Meetings. The Shareholders elected Hugh C. Lane, Jr, an Executive Officer, Charles G. Lane, and William L. Hiott, Jr to the Board of Directors of the Company upon its organization in 1995. The Shareholders elected Alan I. Nussbaum, MD as a Director of the Company during 1999 and elected to serve one-year terms at subsequent Annual Meetings. The Shareholders elected Dr. Linda J. Bradley McKee, CPA to the Board of Directors of the Company during 2002 and elected to serve one-year terms at subsequent Annual Meetings. Graham M. Eubank, Jr., Richard W. Hutson, Jr. and Malcolm M. Rhodes, MD were elected pursuant to the By-Laws of the Company on December 16, 2004, and were elected to serve one-year terms at subsequent Annual Meetings. Fleetwood S. Hassell, an executive officer, was elected by the Shareholders on April 11, 2006 at the Annual Meeting, and was elected to serve one-year terms at subsequent Annual Meetings. Glen B. Haynes, DVM was elected by the Shareholders on April 10, 2007, at the Annual Meeting and was elected to serve one-year terms at subsequent Annual Meetings. David W. Bunch was elected by the Shareholders on April 14, 2009, at the Annual Meeting and was elected to serve one-year terms at subsequent Annual Meetings. Edmund Rhett, Jr. MD served as a Director from 1999-2018 and is a nominee this year. Sheryl G. Sharry was elected by the Shareholders on April 13, 2010, and was elected to serve one-year terms at subsequent Annual Meetings. Steve D. Swanson served on the Board from 2002 to 2007. Mr. Swanson rejoined the Board of Directors after being elected by the shareholders on April 12, 2011, and was elected to serve one-year terms at subsequent Annual Meetings. The Shareholders elected Douglas H. Sass, an Executive Officer, and Elizabeth M. Hagood to the Board of Directors on April 9, 2013, and elected to serve one-year terms at subsequent Annual Meetings. Karen J. Phillips was elected to serve on the Board of Directors by the Shareholders on April 11, 2017 and elected to serve one-year terms at subsequent Annual Meetings. The Shareholders elected Susanne K. Boyd and Eugene H. Walpole, IV, Executive Officers, to the Board of Directors on April 10, 2018 and elected to serve one-year terms at subsequent Annual Meetings.

The Board of Directors believes that it is necessary for each one of our Directors to possess many qualities and skills to fulfill his or her role successfully. When searching for new candidates, the Nominating Committee considers the evolving needs of the Board of Directors and searches for candidates that fill any current or anticipated future gap. The Board of Directors also believes that all Directors must possess a considerable amount of business management (such as experience as a Chief Executive Officer or Chief Financial Officer) and educational experience. The Nominating Committee first considers management experience and then considers issues of judgment, background, stature, conflicts of interest, integrity, ethics, and commitment to the goal of maximizing Shareholder value when considering Director candidates. The Nominating Committee focuses on issues of diversity, such as diversity in gender, race and national origin, education, professional experience and differences in viewpoints and skills. The Nominating Committee does not have a formal policy with respect to diversity; however, the Board of Directors and the Nominating Committee believe that it is essential that the Board Members represent diverse viewpoints. In considering candidates for the Board of Directors, the Nominating Committee considers the entirety of each candidate's credentials in the context of these standards. With respect to the nomination of continuing Directors for re-election, the individual's contributions to the Board are also considered.

Certain information with respect to each of the nominees is set forth below, including his or her principal occupation, qualifications, and directorships during the past five years. The Nominating Committee, whose goal is to assemble a Board that operates cohesively, encourages candid communication and discussion, and focuses on activities that help us maximize Shareholder value, recommends each of the nominees to the Board of Directors. The Nominating Committee also looks at the individual strengths of Directors, their ability to contribute to the Board, and whether their skills and experience complement those of the other Directors.

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR ALL" OF THE NOMINEES.**

## **Executive Officer Directors**

**Susanne K. Boyd**

**Age 43**

**First elected to the Board 2018**

Ms. Boyd has been with the Bank since 1997 and has served as the Courier Teller, Check Card Specialist, Electronic Banking Officer, Information Security Officer, Assistant Vice President, Vice President, and Senior Vice President of Operations and Technology. She has served as the Chief Operating Officer for the Bank and the Corporation since November 2015 and was named Executive Vice President for the Bank and Corporation in December 2017. Ms. Boyd is a graduate of College of Charleston, South Carolina Bankers School and Georgia Bankers Association Southern Operations and Technology School. She has received training in Information Security, Administration of the Bank's core system, Internet Banking Compliance and Cyber Crime and is a Certified Regulatory Vendor Program Manager. Ms. Boyd has served on the South Carolina Bankers Association Operations Committee and has been a member of the InfraGard South Carolina Chapter. Ms. Boyd serves on the Executive/Long-Range Planning Committee and Asset Liability/Investment Committee.

The Nominating Committee recommends the re-election of Ms. Boyd to the Board of Directors given her broad and unique experience in banking, in-depth knowledge of the technology and its risks related to banks, and continued commitment to the success of the Company.

**Fleetwood S. Hassell**

**Age 60**

**First elected to the Board 2006**

Mr. Hassell has been with the Bank since its organization in 1986. During his career of over thirty five years in banking, Mr. Hassell has held the position of Assistant Vice President, Vice President, Senior Vice President, Executive Vice President, Senior Lender, and now, President/Chief Executive Officer. Born and raised in Charleston, SC, Mr. Hassell earned a BS and MBA from the University of South Carolina School of Business. He was elected to the Board of Directors of the Bank and the Company in 2006. Currently, Mr. Hassell is the Chairman of the Trident United Way and serves on the College of Charleston Foundation Board, and the South Carolina Bankers Association Board. Mr. Hassell previously served on the South Carolina State Board of Financial Institutions and the Association of the Blind and Visually Impaired Board. Mr. Hassell serves on the Executive/Long-Range Planning Committee, Asset Liability/Investment Committee, Community Reinvestment Act Committee, and Loan Committee.

Given Mr. Hassell's experience in banking, his strong background in commercial lending and business development and his current participation and contributions made to the Board of Directors and its committees, the Nominating Committee recommends his re-election to the Board.

**Hugh C. Lane, Jr.**

**Age 71**

**First elected to the Board 1995**

Mr. Lane, brother of Charles G. Lane, organized the Bank in 1986, where he served as President/Chief Executive Officer of the Bank from 1986 until 2012. He served as Chairman of the Board of Directors of the Bank since its organization in 1986, and Chairman of the Board of Directors of the Company since its organization in 1995. Mr. Lane was born in Charleston, SC. He earned a BA in economics from the University of Pennsylvania. Mr. Lane began his banking career at Citizens and Southern National Bank of Georgia in Atlanta. His banking career also included working in the Bond, Leasing, and International Departments at the Chemical Bank in New York, City Executive of Citizens and Southern National Bank, Sumter South Carolina, and Executive Vice President, heading the Citizens and Southern National Bank's Southern Region. Mr. Lane also served on the Board of Directors of Citizens and Southern National Bank of South Carolina for 14 years. Mr. Lane formerly served as an Administrator and Trustee of the Bank of South Carolina Employee Stock Ownership Plan and Trust. In addition to his responsibilities at The Bank of South Carolina, Mr. Lane is the former Chairman of the Charleston County Conservation Board, former Vice Chairman of the Baruch Foundation, and is currently Treasurer of Board of Trustees of Ashley Hall School. He has been the recipient of Honorary Doctorates from Charleston Southern University, The Citadel, and Wofford College. He has also received the "Distinguished Citizen Award" from Wofford College National Alumni Council, the Avery Citizenship Award for outstanding community service, the Joseph P. Riley Leadership Award, and the Order of the Palmetto presented by the Governor of South Carolina. In 2015, Mr. Lane was inducted into the South Carolina Business Hall of Fame. Mr. Lane serves on the Executive/Long-Range Planning Committee, Asset Liability/Investment Committee, Community Reinvestment Act Committee, and Loan Committee.

The Nominating Committee recommends the re-election of Mr. Lane to the Board of Directors based on his unique and valuable perspective relevant to our Bank's business and financial performance and strong commitment to the local community. In addition, the Committee considered his current contribution to the Board and his continued devotion to serving the Shareholders of the Company.



**Douglas H. Sass****Age 62****First Elected to the Board 2013**

Mr. Sass joined the Bank in January 1994. He has over thirty five years of experience in banking and oversaw the implementation of the Bank's Real Estate Appraisal Review Program. He has served in various officer level positions at the Bank, including Security Officer, Appraisal Officer, and CRA Officer before becoming Executive Vice President and Senior Lender in April of 2012. Additionally, he oversees the Bank's Loan Department, Credit Department, and Mortgage Origination Department. Mr. Sass serves as an Administrator and Trustee of the Bank of South Carolina Employee Stock Ownership Plan and Trust. Mr. Sass is a native of Charleston and a graduate of The Citadel with a degree in Business Administration. He is a graduate of the South Carolina Bankers School at the University of South Carolina and The Graduate School of Bank Management at the University of Virginia. Mr. Sass currently serves as President of The Charleston Museum and is on the Board of the Regents Tri-County Family Ministries and is active in other various civic organizations. Mr. Sass serves on the Executive/Long-Range Planning Committee, Asset Liability/Investment Committee, Community Reinvestment Act Committee, and Loan Committee.

Based on Mr. Sass's experience in banking, appraising, his robust background in commercial lending and business development, and his continued devotion to the success of the Company, the Nominating Committee recommends his re-election to the Board.

**Eugene H. Walpole, IV****Age 34****First elected to the Board 2018**

Mr. Walpole joined the Bank in September 2012. Since that time, he has served as an Assistant Vice President, Vice President, and Senior Vice President in the role of Risk Management Officer. In March 2016, Mr. Walpole was named Chief Financial Officer of the Bank and Corporation and, in December 2017, was named Executive Vice President of the Bank and Corporation. Mr. Walpole also serves as Administrator and Trustee of the Bank of South Carolina Employee Stock Ownership Plan and Trust. Prior to joining the Bank, Mr. Walpole spent four years performing financial statement audits, regulatory filing reviews, and Sarbanes-Oxley 404 compliance testing for publicly traded and privately held financial institutions. Mr. Walpole is a Charleston native and graduate of Presbyterian College, University of South Carolina, and South Carolina Bankers School. He holds the designations of Certified Public Accountant, Certified Financial Services Auditor, and Certification in Risk Management Assurance. Mr. Walpole has served on the Board of the Lowcountry Land Trust and currently serves on the Coastal Conservation Association of South Carolina Board. Mr. Walpole serves on the Executive/Long-Range Planning Committee, Asset Liability/Investment Committee, Community Reinvestment Act Committee, and Loan Committee.

The Nominating Committee recommends the re-election of Mr. Walpole to the Board of Directors given his experience in banking, in-depth knowledge of the financials of the Company, commitment to the local community, and continued devotion to the success of the Company.

**Non-Employee Directors and Nominee****David W. Bunch****Age 69****First elected to the Board 2009**

Mr. Bunch has been a member of the Board of Directors of the Bank and the Company since 2009. He was born in Charleston, South Carolina and graduated from Clemson University. He has been employed by XO Bunch Organizations since 1973, serving as President, Hughes Motors, Inc.; Vice-President, Bunch Leasing Co.; Vice-President, Florence Truck Center, Inc.; Partner, Bunch Truck & Equipment, LLC; Partner, Bunch & Sons-Real Estate; Managing member, Wando Properties, LLC; and President, Double D Leasing Co., Inc. In addition to serving on the Board of Directors of the Bank and Company, Mr. Bunch serves as Chairman of the Loan Committee and Community Reinvestment Act Committee and serves on the Audit & Compliance Committee.

The Nominating Committee recommends the re-election of David Bunch to the Board of Directors based on his valuable knowledge of business and his participation on the Loan, Community Reinvestment Act, and Audit & Compliance Committees.

**Graham M. Eubank, Jr.****Age 52****First elected to the Board 2005**

Mr. Eubank has been a member of the Board of Directors of the Bank and the Company since 2005. He was born in Fayetteville, North Carolina and raised in Charleston, South Carolina. He received a BS in Management from Clemson University. He is also a graduate of the National Automobile Dealers Association Dealer Candidate Academy. In 1992, Mr. Eubank began working with his family's business, Palmetto Ford, Inc., where he has held various positions including New Car Sales Manager, Used Car Sales Manager and Parts and Service Director. Currently Mr. Eubank is President and CEO of the Palmetto Car and Truck Group which is comprised of Ford, Lincoln, Mama's Used Cars and Quick Lane Auto and Tire Center. In addition to serving on the Board of Directors of the Bank and the Company, Mr. Eubank currently serves on the Nominating Committee and is the Chairman of the Compensation Committee.

As a local business owner, Mr. Eubank provides an important perspective on economic issues relevant to our community and company, which is why the Nominating Committee recommends Mr. Eubank for re-election to the Board of Directors.

**Elizabeth M. Hagood****Age 58****First elected to the Board 2013**

Mrs. Hagood is the former Executive Director of the Lowcountry Land Trust. Mrs. Hagood grew up in Charlotte, NC and graduated from Davidson College with a BA in 1983 and the Darden School of Business at the University of Virginia with a MBA in 1989. Mrs. Hagood currently serves on the Boards of the Preservation Society of Charleston, Open Space Institute Advisory Board, and the Charleston County Greenbelt Advisory Board. In addition to serving on the Board of Directors of the Bank and Company, Ms. Hagood serves on the Loan Committee, Community Reinvestment Act Committee, and the Nominating Committee.

Her education, distinct perspective on social responsibility and diversity, experience on various committees within the organization, and continued service to the Charleston community through her leadership roles in various organizations, led the Nominating Committee to recommend Mrs. Hagood for re-election to the Board of Directors.

**Glen B. Haynes, DVM****Age 65****First elected to the Board 2007**

Dr. Haynes has been a member of the Board of Directors of the Bank and the Company since 2007. He was born in Charlottesville, Virginia and has lived in Summerville, South Carolina for 33 years. He graduated from Virginia Tech with a BS in Biology. He received a DVM from the University of Georgia. In addition to serving on the Board of Directors of the Bank and the Company, Dr. Haynes has served as President of the Summerville Rotary Club, President of Frances Willis SPCA, Chairman of the South Carolina Board of Veterinary Medical Examiners, and President of Trident Veterinary Medical Association. Dr. Haynes is a member of the American Veterinary Medical Association and a member of St. Paul's Anglican Church where he has served on the vestry. Currently, Dr. Haynes is Chairman of the Frances Willis SPCA Endowment Board and is a construction volunteer for Habitat for Humanity. In addition to serving on the Board of Directors of the Bank and Company, Dr. Haynes serves on the Loan Committee, Community Reinvestment Act Committee, and the Nominating Committee.

In recommending Dr. Haynes for re-election to the Board of Directors, the Nominating Committee considered this experience as well as his strong ties to the Summerville community and his work ethic demonstrated in having run his own practice.

**William L. Hiott, Jr.****Age 75****First elected to the Board 1995**

Mr. Hiott was with the Bank from its organization in 1986 until his retirement in 2011. He held various positions including the Executive Vice President and Cashier of the Bank and the Executive Vice President and Treasurer of the Company. He has served on the Board of Directors of the Bank since its organization in 1986 and the Company since its organization in 1995. He received a BS in Accounting from Charleston Southern University and is a graduate of South Carolina Bankers School and the University of Wisconsin's Bank Administration Graduate School. Mr. Hiott previously served as a member and the Chairman of the Board of Directors of the Hampton Wildlife Fund for 25 years. In addition to serving on the Board of Directors of the Bank and Company, Mr. Hiott serves on the Asset Liability/Investment Committee, Community Reinvestment Act Committee, Loan Committee, Audit & Compliance Committee, Executive/Long-Range Planning Committee, and Compensation Committee.

The Nominating Committee recommends Mr. Hiott for re-election to the Board of Directors based on his experience in banking, in-depth knowledge of the financials of the Company, his strong commitment to the local community, and his current contributions to the Board of Directors.

**Richard W. Hutson, Jr.****Age 62****First elected to the Board 2005**

Mr. Hutson has been a member of the Board of Directors of the Bank and Company since 2005. He received a BA from The University of the South. Mr. Hutson is the Manager of William M. Means Insurance Company. Mr. Hutson has served on the Boards of the South Carolina Historical Society and the Historic Charleston Foundation. He has served as President of the South Carolina Historical Society. Mr. Hutson serves on the Asset Liability/Investment Committee in addition to the Board of Directors of the Bank and Company.

The Nominating Committee recommends Mr. Hutson for re-election to the Board due to his business experience, commitment to the Bank and Company and strong ties to the Charleston community.

**Charles G. Lane****Age 65****First elected to the Board 1995**

Mr. Lane is the brother of Hugh C. Lane, Jr. and has been a member of the Board of Directors of the Bank since its organization in 1986, and a member of the Board of Directors of the Company since its organization in 1995 and has devoted nearly thirty years to ensuring the success of the Company. He is a graduate of Clemson University. Mr. Lane is a Managing Member of Holcombe, Fair and Lane, LLC - a commercial real estate company. He currently serves on the Executive/Long-Range Planning Committee, Asset Liability/Investment Committee, Loan Committee, and Community Reinvestment Act Committee.

Mr. Lane's expertise in the real estate market and the local community has been valuable to the Board in its decision-making and is why the Nominating Committee recommends his re-election.

**Linda J. Bradley McKee, PhD, CPA****Age 69****First elected to the Board 2002**

Dr. McKee has been a member of the Board of Directors of the Bank and Company since 2002. Dr. McKee earned a BS in Mathematics from the University of Texas at Arlington, a MS in Accounting from Texas Tech, and a PhD in Accounting from the University of North Texas. She is an Emeritus Associate Professor of Accounting at the College of Charleston as well as President of the Charleston Estate Planning Council and Program Director of the Charleston Tax Roundtable. In addition to serving on the Board of Directors of the Bank and the Company, Dr. McKee serves on the Audit & Compliance Committee.

The Board of Directors considers Dr. McKee the financial expert under applicable guidelines of the Securities and Exchange Commission. She has an extensive background in accounting and taxation and has been an asset to the Board of Directors and the Audit & Compliance Committee. For the above reasons, the Nominating Committee recommends Dr. McKee for re-election to the Board of Directors.

**Alan I. Nussbaum, MD****Age 68****First elected to the Board 1999**

Dr. Nussbaum has been a member of the Board of Directors of the Bank since 1999. He received a BA from Johns Hopkins University and a MD from Harvard Medical School. Dr. Nussbaum completed his internship and residency in Internal Medicine at Duke University Medical Center. In addition, Dr. Nussbaum completed a Fellowship in Rheumatology and Immunology at the Medical University of South Carolina and has practiced rheumatology in Charleston since 1982. Dr. Nussbaum serves as the Lead Director of the Bank and Company. He is the Chairman of the Executive/Long-Range Planning Committee and serves on the Asset Liability/Investment Committee and Compensation Committee.

The Nominating Committee recommends the re-election of Dr. Alan Nussbaum to the Board of Directors based on the commitment that he has made to the Board of Directors, community involvement, and knowledge of the Company.

**Karen J. Phillips****Age 59****First elected to the Board 2017**

Mrs. Phillips received a BA in Political Science from The University of the South and an MBA in Finance from The University of South Carolina. She is a Certified Financial Planner ® and is President of Atlantic Coast Asset Management, Inc., a financial management firm. She is a member of the Board of Directors of Kanuga Conferences, Inc., the past Chairman of the Board of Trustees of Ashley Hall School, where she currently serves as a Trustee, and previous board member of Life Resources, Inc., In addition to serving on the Board of Directors of the Bank and Company, Mrs. Phillips serves on the Audit & Compliance Committee, Loan Committee, and Community Reinvestment Act Committee.

The Nominating Committee recommends Mrs. Phillips for re-election due to her leadership within the community, financial expertise, and unique perspective relevant to financial performance.

**Edmund Rhett, Jr., MD****Age 71****Nominee; First elected to the Board  
1999-2018**

Dr. Rhett was a member of the Board of Directors of the Bank from 1999-2018. Dr. Rhett received a BA from The University of the South and a MD from the Medical College of Georgia. He has a private gynecological practice, Rhett Women's Center. Dr. Rhett has been on the Board of Directors of the Canterbury House for over thirty years and has served as President of its Board for nearly twenty years. Additionally, Dr. Rhett previously served as Chairman of the Nominating Committee, and Asset Liability/Investment Committee. He also previously served on the Executive/Long-Range Planning Committee.

The Nominating Committee recommends the election of Dr. Rhett to the Board of Directors, based on his commitment to the Bank, board leadership, and community involvement.

**Malcolm M. Rhodes, MD****Age 60****First elected to the Board 2005**

Dr. Rhodes has been a member of the Board of Directors of the Bank and Company since 2005. He received a BA from Duke University and a MD from the Medical University of South Carolina. He is a Fellow of the American Board of Pediatrics and has been a partner at Parkwood Pediatric Group since 1988. He is on the clinical faculty at MUSC and Bon-Secours St. Francis Hospitals. In addition to serving on the Board of Directors of the Bank and the Company, Dr. Rhodes represents South Carolina on the Atlantic States Marine Fisheries Commission.

The Nominating Committee recommends the re-election of Dr. Rhodes to the Board of Directors based on his knowledge of business including running a medical practice and involvement with several local hospitals.

**Sheryl G. Sharry**

**Age 65**

**First elected to the Board 2010**

Mrs. Sharry was with the Bank since its organization in 1986 until her retirement in 2016. She held various positions in the Bank, including but not limited to Assistant Vice President – Operations Department, Vice President – Operations & Technology, Senior Vice President – Operations & Technology, and Chief Financial Officer/Executive Vice President. Mrs. Sharry serves as a Trustee of the Bank of South Carolina Employee Stock Ownership Plan and Trust. Mrs. Sharry became a member of the Board of Directors of the Bank and Company in 2010. She is a graduate of the College of Charleston, South Carolina Bankers School, and the School of Bank Investments and Financial Management. In addition to serving on the Board of Directors of the Bank and the Company, Mrs. Sharry serves on the Executive/Long-Range Planning Committee and Asset Liability/Investment Committee.

The Nominating Committee recommends Mrs. Sharry to re-election of the Board of Directors based on her strong background in operations and technology of the Company, experience in banking, valuable knowledge of financial reporting and performance of the Company, and continued devotion to the success of the Company.

**Steve D. Swanson**

**Age 52**

**First elected to the Board 2002-2007;  
Re-elected 2011**

Mr. Swanson founded Automated Trading Desk, a pioneering electronic trading firm based in South Carolina. As President and CEO, Mr. Swanson grew the business from pure proprietary trading to creating a fully automated market maker servicing the broker-dealer community. After its acquisition by Citigroup in 2007, Mr. Swanson became responsible for global equity and option electronic trading operations. Mr. Swanson serves on the Board of Trustees of the College of Charleston, the College of Charleston School of Business Board, the Honors College Advisory Board, and formerly, he served on the Board of Trustees of South Carolina State University. Mr. Swanson previously served on the Board of SnapCap, MedTrust Medical Transport, Trident United Way, and Charleston Angel Partners. In addition to serving on the Board of Directors of the Bank and the Company, Mr. Swanson serves as the Chairman of the Audit & Compliance Committee and serves on the Executive/Long-Range Planning Committee.

Based on Mr. Swanson's extensive experience in both starting and running a business, valuable perspective on economic issues relevant to our Company, professional perception on financial reporting, and his extensive community involvement, the Nominating Committee recommends Mr. Swanson for re-election to the Board of Directors.



**SECURITY OWNERSHIP OF CERTAIN  
BENEFICIAL OWNERS AND MANAGEMENT**

The following tables set forth, as of December 31, 2019, information regarding share ownership of:

- those persons or entities (or groups of affiliated persons or entities) known by management to beneficially own more than five percent of our common stock;
- each non-employee Director; and
- each employee Director

Persons and groups who beneficially own more than five percent of our common stock are required to file with the Securities and Exchange Commission (“SEC”), and provide us, reports disclosing their ownership pursuant to the Securities Exchange Act of 1934 (“Exchange Act”). To the extent known to the Board of Directors, no other person or entity, other than those set forth below, beneficially owned more than five percent of the outstanding shares our common stock as of the close of business on December 31, 2019.

Beneficial ownership is determined in accordance with the rules and regulations of the SEC. In accordance with Rule 13d(3) of the Exchange Act, a person is deemed the beneficial owner of any shares of Common Stock if he or she has voting and/or investment power with respect to those shares. Therefore, the tables below include shares owned by spouses, other immediate family members in trust, shares held in retirement accounts or funds for the benefit of the named individuals, and other forms of ownership over which shares the persons named in the table may possess voting and/or investment power.

The table below shows the security ownership of certain beneficial owners of more than 5 percent of any class of Common Stock.

<u>Title of class</u>	<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percent of Class</u>
Common Stock .....	Hugh C. Lane, Jr. <sup>(1)</sup> 256 Meeting Street Charleston, South Carolina 29401	815,357 <sup>(2)</sup>	14.74%
Common Stock .....	The Bank of South Carolina Employee Stock Ownership Plan and Trust (“the ESOP”) 256 Meeting Street Charleston, South Carolina 29401	313,703 <sup>(3)</sup>	5.67%

The table below shows the security ownership of management, directors, and nominees.

<u>Title of class</u>	<u>Name of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percent of Class</u>
<b>Executive Officers/Directors</b>			
Common Stock .....	Hugh C. Lane, Jr. <sup>(1)</sup>	815,357 <sup>(2)</sup>	14.74%
Common Stock .....	Fleetwood S. Hassell <sup>(3)</sup>	121,561 <sup>(4)</sup>	2.20%
Common Stock .....	Susanne K. Boyd	9,632 <sup>(4)</sup>	*
Common Stock .....	Douglas H. Sass <sup>(3)</sup>	39,467 <sup>(4)</sup>	*
Common Stock .....	Eugene H. Walpole, IV <sup>(3)</sup>	8,167 <sup>(4)</sup>	*
<b>Current Directors</b>			
Common Stock .....	David W. Bunch	2,120	*
Common Stock .....	Graham M. Eubank, Jr.	1,041	*
Common Stock .....	Elizabeth M. Hagood	121	*
Common Stock .....	Glen B. Haynes, DVM	8,173	*
Common Stock .....	William L. Hiott, Jr.	208,571 <sup>(4)</sup>	3.77%
Common Stock .....	Richard W. Hutson, Jr.	7,231	*
Common Stock .....	Charles G. Lane <sup>(1)</sup>	254,511 <sup>(4)</sup>	4.60%
Common Stock .....	Dr. Linda J. Bradley McKee, CPA	2,855	*
Common Stock .....	Alan I. Nussbaum, MD	4,302	*
Common Stock .....	Karen J. Phillips	6,624 <sup>(4)</sup>	*
Common Stock .....	Malcolm M. Rhodes, MD	4,918	*
Common Stock .....	Sheryl G. Sharry	99,918	1.81%
Common Stock .....	Steve D. Swanson	16,538	*
<b>Nominee</b>			
Common Stock .....	Edmund Rhett, Jr., MD	7,554	*
	Total	1,618,441	29.13%

\* Represents less than 1%

- (1) To the extent known to the Board, the emancipated children and grandchildren of Hugh C. Lane, Jr. and Charles G. Lane, collectively, have beneficial ownership of 455,507 shares or 8.24% of the outstanding shares. As more fully described in the following footnotes, Hugh C. Lane, Jr., is the only one of the above who has a beneficial ownership interest in more than 5% percent of our common stock. Hugh C. Lane, Jr., disclaims any beneficial interest in those shares in which other members of his family have a beneficial interest other than those shares his wife owns directly and those for which he serves as Trustee or she serves as custodian (as more fully described in the following footnote).
- (2) To the extent known to the Board, Hugh C. Lane, Jr., Chairman of the Board of both the Bank and the Company, directly owns and has sole voting and investment power with respect to 287,440 shares; as a Trustee for the Mills Bee Lane Memorial Foundation, he has shared voting and investment power with respect to 13,084 shares; he is indirectly beneficial owner of 16,986 shares owned by his wife and 46,487 shares owned by the ESOP in which he has a vested interest. Hugh C. Lane, Jr., disclaims any beneficial interest in the 451,360 shares owned by extended family members. Hugh C. Lane, Jr., has had beneficial ownership of more than 5% of our common stock since October 23, 1986.
- (3) The Trustees of the Employee Stock Ownership Plan (“ESOP”), Fleetwood S. Hassell, President/Chief Executive Officer and Director of the Bank and Company; Eugene H. Walpole, IV, Chief Financial Officer/Executive Vice President and Director of the Bank and Company; Douglas H. Sass, Senior Lender/Executive Vice President and Director of the Bank and Company; and Sheryl G. Sharry, Director of the Bank and Company disclaim beneficial ownership of the 313,703 shares owned by the ESOP with all shares allocated to members of the Plan each of whom under the terms of the Plan has the right to direct the Trustees as to the manner in which voting rights are to be exercised.
- (4) To the extent known to the Board of Directors, each of the following Directors and nominees for election as Director (each of whom directly owns and has sole voting and investment power of all shares beneficially owned by him or her except as set forth in this footnote) indirectly owns the following number of shares: **Fleetwood S. Hassell** – an aggregate of 57,790 shares owned by his wife; held by him as a co-Trustee with Charles G. Lane for the children of Hugh C. Lane, Jr.; and shares owned by the ESOP in which he has a vested interest; **Douglas H. Sass** – an aggregate of 21,212 shares owned by the ESOP in which he has a vested interest and held by his wife; **William L. Hiott, Jr.** – an aggregate of 10,713 shares directly owned by his wife; **Charles G. Lane** – an aggregate of 61,384 shares owned by his wife; held by him as a co-Trustee with Fleetwood S. Hassell for the children of Hugh C. Lane, Jr.; held by him as a Trustee of Mills Bee Lane Memorial Foundation; and held by him as a Trustee of Holcombe Trust; **Karen J. Phillips** – 3,649 shares owned by her husband; **Edmund Rhett, Jr. MD** – 1,005 shares owned by his wife; **Susanne K. Boyd** – an aggregate of 7,124 shares owned by children and shares owned by the ESOP in which she has a vested interest; **Eugene H. Walpole, IV** – 3,128 shares owned by the ESOP in which he has a vested interest. All such indirectly owned shares are included in the totals of the number of shares set forth in the above table and beneficially owned by the Directors.

No Director or Executive Officer was involved in or has any pending legal proceedings related to bankruptcy, securities, or commodities laws nor have any members been convicted in criminal proceedings in the past 10 years.

## MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS AND CORPORATE GOVERNANCE MATTERS

### **Introduction**

The Company's Board of Directors conducts its business through Board meetings and through its committees. Hugh C. Lane, Jr. presently serves as Chairman of the Board of Directors. The Board of Directors of the Company held six meetings (including all regularly scheduled and special meetings) during the year ended December 31, 2019. No Directors attended fewer than 75% of the aggregate of (i) the total number of meetings of the Board of Directors and (ii) the total number of meetings held by all committees of the Board of Directors on which they served.

### **Director Independence**

The Board of Directors is comprised of a majority of independent Directors in compliance with SEC and National Association of Securities Dealers Automated Quotations ("NASDAQ") rules. All members of the Audit & Compliance Committee, the Compensation Committee, and the Nominating Committee are independent pursuant to SEC and NASDAQ rules. The members of these committees do not have any relationship to the Bank or Company that may interfere with the exercise of their independence from management. None of the members of the Nominating Committee are current or former officers or employees of the Bank or Company. One member of the Compensation Committee and Audit & Compliance Committee, William L. Hiott, Jr., retired from the Bank in April 2010. Two members of the Executive/Long-Range Planning Committee, William L. Hiott, Jr. and Sheryl G. Sharry, retired from the Bank in April 2010 and 2016, respectively. All members of the Board of Directors are independent except Hugh C. Lane, Jr., Chairman of the Board, Fleetwood S. Hassell, President/Chief Executive Officer, Douglas H. Sass, Senior Lender/Executive Vice President, Susanne K. Boyd, Chief Operations Officer/Executive Vice President, Eugene H. Walpole, IV, Chief Financial Officer/Executive Vice President and Charles G. Lane, brother of Hugh C. Lane, Jr.

### ***Board of Directors***

Our Board of Directors conducts its business through meetings and through its committees. Hugh C. Lane, Jr., presently serves as Chairman of the Board. The Board of Directors of the Company held six meetings (including all regularly scheduled and special meetings) during the year ended December 31, 2019.

### ***Board Leadership Structure***

The Board of Directors believes that Hugh C. Lane, Jr., is the best person to serve as Chairman because he is the Director most familiar with our business and industry, and most capable of effectively identifying strategic priorities and leading the discussion and execution of strategy.

Independent Directors and management have different perspectives and roles in strategy development. Our independent Directors bring experience, oversight and expertise from outside the company and industry, while Hugh C. Lane, Jr., brings company-specific experience and expertise. The Board of Directors believe that the combined experience as Chairman and past President/Chief Executive Officer promotes strategic development and executions, and facilitates information flow between management and the Board of Directors, which are essential to effective governance.

One of the key responsibilities of the Board of Directors is to develop strategic direction and hold management accountable for the execution of strategy once it is developed. The Board believes the combined role of the Chairman and an independent Lead Director, having the duties described below, is in the best interest of Shareholders as it provides the appropriate balance between strategy development and independent oversight of management.

### ***Lead Director***

The Board of Directors selected Alan I. Nussbaum, MD, an independent director, to serve as the Lead Director of all meetings of the non-management Directors held in executive session. Dr. Nussbaum has held this position since April 12, 2011. Non-management Directors of the Board of Directors are required to meet on a regular scheduled basis without the presence of Directors that are considered not independent (IM-5605-2 NASDAQ Corporate Governance Rules). The Lead Director chairs these sessions.

### ***Risk Management***

The Board of Directors has an active role, as a whole and at the committee level, in overseeing the management of our risks. The Board of Directors regularly reviews information regarding our credit, liquidity, and operations, as well as the risks associated with each. The Audit & Compliance Committee oversees the management of financial risks. The Nominating Committee manages risks associated with the independence of the Board of Directors and potential conflicts of interest. The Board of Directors monitors risks and oversees the management of such risks through committee reports on such risks. In addition, Lauren Nilan, CPA, serves as Risk Management Officer/Senior Vice President overseeing our internal controls.

### **Committees and Committee Charters**

The Board of Directors of the Company has four standing committees: the Executive/Long-Range Planning Committee, the Compensation Committee, the Nominating Committee, and the Audit & Compliance Committee. Each committee serves in a dual capacity as a committee of the Company and the Bank.

The following table lists the membership of the standing committees of the Board of Directors of the Company.

<u>Director</u>	<u>Audit &amp; Compliance</u>	<u>Executive/ Long-Range Planning</u>	<u>Compensation Committee</u>	<u>Nominating Committee</u>
Susanne K. Boyd		•		
David W. Bunch	•			
Graham M. Eubank, Jr			•	•
Elizabeth M. Hagood				•
Fleetwood S. Hassell		•		
Glen B. Haynes, DVM				•
William L. Hiott, Jr.	•	•	•	
Richard W. Hutson, Jr.				
Charles G. Lane		•		
Hugh C. Lane, Jr.		•		
Dr. Linda J. Bradley McKee, PhD, CPA	•			
Alan I. Nussbaum, MD		•	•	
Karen J. Phillips	•	•		•
Malcolm M. Rhodes, MD				
Douglas H. Sass		•		
Sheryl G. Sharry		•		
Steve D. Swanson	•	•		
Eugene H. Walpole, IV		•		

### ***Audit & Compliance Committee***

The Board of Directors appoints and approves the members of the Audit & Compliance Committee annually. The Audit & Compliance Committee is to be comprised of not less than four members of the Board or such larger number as approved by the Board of Directors. During 2019, the Audit & Compliance Committee held four meetings. Members are considered independent of the Company under applicable rules and regulations, including Rule 4200(a)(15) of NASDAQ. The Board of Directors has determined that Linda J. Bradley McKee, PhD, CPA, qualifies as a financial expert under the applicable guidelines of the Exchange Act.

The Audit & Compliance Committee operates under a written Charter adopted by the Board of Directors which is renewed and reassessed for adequacy on an annual basis. The Charter outlines the Committee's responsibilities for overseeing the entire audit function and appraising the effectiveness of internal and external audit efforts including reviewing our financial statements, evaluating internal accounting controls, reviewing reports of regulatory authorities, and determining that all examinations required by law are performed. The Board of Directors may amend the Charter at any time. The most recent Audit & Compliance Committee Charter may be obtained at our Internet website <http://www.banksc.com>.

The Audit & Compliance Committee recommends to the Board of Directors the appointment of the independent auditors for the next fiscal year, reviews and approves the auditors' audit plan, and reviews with the independent auditors the results of the audit and management's response.



## Review of the Company's Audited Financial Statements for the Fiscal Year Ended December 31, 2019

Management is responsible for our internal controls and the financial reporting process. The independent auditors are responsible for performing an independent audit of our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and issuing a report thereon. The Audit & Compliance Committee's responsibility is to monitor and oversee the process.

In this context, the Audit & Compliance Committee has met and held discussions with management and Elliott Davis, LLC, our independent auditors, in 2019. In discharging its oversight responsibility as to the audit process, the Audit & Compliance Committee has received the written disclosures and the letter from the independent auditors required by applicable requirements of the Public Company Accounting Oversight Board ("PCAOB") regarding the independent auditor's communications with the Audit & Compliance Committee concerning independence and has discussed with the independent auditors their independence from the Company and management. The Audit & Compliance Committee also discussed with management, the internal auditors and the independent auditors the quality and adequacy of our internal controls. The Audit & Compliance Committee reviewed with the independent auditor their audit plans, audit scope and identification of audit risks.

The Audit & Compliance Committee reviewed and discussed with the independent auditors all communications required by generally accepted auditing standards, including those described in the PCAOB Auditing Standard 16, as modified or supplemented, "Communications with Audit Committees," and Rule 2-07 of Regulation S-K, promulgated by the SEC, and, with and without management present, discussed and reviewed the results of the independent auditors' examination of the financial statements. The Audit & Compliance Committee also discussed the results of the internal audit examinations.

The Audit & Compliance Committee reviewed and discussed the audited consolidated financial statements of the Company as of and for the year ended December 31, 2019, with management and the independent auditors.

Based on the above-mentioned review and discussion with management and the independent auditors, the Audit & Compliance Committee recommended to the Board of Directors that the Company's audited consolidated financial statements be included in its annual Report on Form 10-K for the year ended December 31, 2019, for the filing with the SEC. During 2019, the Committee appointed Elliott Davis, LLC as our independent auditors for the year ending December 31, 2019.

Submitted by:

Steve D. Swanson, Chairman

David W. Bunch

William L. Hiott, Jr.

Dr. Linda J. Bradley McKee, CPA

Karen J. Phillips

### ***Executive/Long-Range Planning Committee***

The Executive/Long-Range Planning Committee consists of our President/Chief Executive Officer, Chairman, Senior Lender/Executive Vice President, Chief Operating Officer/Executive Vice President, Chief Financial Officer/Executive Vice President and six designated Directors. Alan I. Nussbaum, MD, an independent Director, serves as Chairman of the Committee. During 2019, the Executive/Long-Range Planning Committee held one meeting. In addition to long-range and strategic planning, the principal function of the Committee is to exercise all authority of the Board of Directors in the management and affairs of the Company and the Bank. In addition, the Committee acts on behalf of the entire Board of Directors between the regular Board meetings.

### ***Compensation Committee***

The Compensation Committee consists of three independent Directors appointed by the Board of Directors to assist the Board in fulfilling its oversight responsibilities. The Committee also functions as the Compensation Committee of the Bank. The duties and responsibilities of the Compensation Committee are as follows:

- to review and approve compensation of the Executive Officers in light of our goals and objectives (Executive Officers may not be present during voting or deliberations on their compensation), including under the Stock Incentive Plan;
- to oversee regulatory compliance and risk management with respect to compensation matters;
- to make regular reports to the Board of Directors;
- to review and approve the Report of Compensation for inclusion in our annual Proxy Statement, in accordance with applicable rules and regulations;

- to review and approve the Compensation Discussion and Analysis of the Company's annual Proxy Statement, and recommend to management that it be included in the annual Proxy Statement; and
- to perform any other duties or responsibilities expressly delegated to the Committee by the Board of Directors from time to time.

The Compensation Committee's policies and procedures for decisions did not change since the positive advisory vote by the shareholders on the compensation of the most highly compensated Executive Officers at the Annual Meeting held April 9, 2019.

The Board of Directors has determined that each of the Directors serving on our Compensation Committee is independent and satisfies other requirements imposed by:

- NASDAQ;
- The Exchange Act and the rules and regulations of the SEC under the Exchange Act; and
- Any other laws, rules or regulations applicable to us.

The Compensation Committee has sole discretion to hire, retain, terminate and approve fees and other retention terms of independent legal, accounting or other advisors (including compensation consultants) as it deems appropriate without management or Board approval. In doing so, the Compensation Committee shall comply with all applicable rules of the SEC or NASDAQ. The Committee met one time in 2019 and did not consult independent legal counsel or compensation consultants. The most recent Compensation Committee charter may be obtained at our website <http://www.banksc.com>.

### ***Nominating Committee***

The Nominating Committee consists of four independent Directors. The function of the Nominating Committee is to recommend a slate of proposed Directors to the Board of Directors. The Nominating Committee has adopted a written Charter. A copy of this Charter may be obtained at our website <http://www.banksc.com>. The Nominating Committee met once time during 2019.

Nominations, other than those made by the Nominating Committee, may be made in writing and delivered or mailed to the President/Chief Executive Officer of the Company not less than 14 days or no more than 50 days prior to any meeting of Shareholders calling for election of Directors; provided however, that if less than 21 days' notice of the meeting is given to Shareholders, such nomination shall be mailed or delivered to the President/Chief Executive Officer of the Company not later than the close of business on the 7<sup>th</sup> day following the day on which the Notice of Meeting was mailed. Nominations not made according to these procedures will be disregarded.

The Nominating Committee has a policy with regard to consideration of any Director candidates recommended by Shareholders and that policy is to consider any and all such recommendations. The Nominating Committee has adopted specific minimum qualifications which the Nominating Committee believes must be met by a nominee for a position on our Board of Directors. The qualifications include:

- nominee must be recognized as successful in such nominee's business or community efforts;
- have a recognized reputation for honesty and integrity;
- have demonstrated a commitment to the community in which we operate;
- have demonstrated in meetings with the Nominating Committee a commitment to the best interest of the Company, its subsidiary Bank, and their officers, Directors, employees and Shareholders

The Nominating Committee's process for identifying and evaluating nominees for Director, including nominees recommended by Shareholders, is to investigate whether or not such nominee meets the specific minimum qualifications adopted as a policy by the Committee through contacts the members have in their community. There are no differences in the manner in which the Committee evaluates nominees for Director whether the nominee is recommended by a committee member or a Shareholder.

We do not utilize or pay a fee to any third party (compensation consultant) to evaluate nominees for Director.

### **Code of Business Conduct and Ethics**

We expect all of our employees to conduct themselves honestly and ethically. Our Board of Directors has adopted a Code of Ethics that applies to all employees. The Code of Ethics requires the officers, employees, and Directors to maintain the highest standards of professional ethical conduct. The Code includes guidelines relating to the ethical handling of actual or potential conflicts of interest, compliance with laws, accurate financial reporting and procedures for promoting compliance with, and reporting violations of the Code. The Code of Ethics may be obtained at our website <http://www.banksc.com>.

## **Shareholder Communication with the Board of Directors**

The Board of Directors has adopted a process by which Shareholders may communicate with them. Shareholders may send a written communication to Fleetwood S. Hassell, President/Chief Executive Officer, Bank of South Carolina Corporation, 256 Meeting Street, Charleston, South Carolina 29401, or email such communication to Fleetwood S. Hassell, President/Chief Executive Officer, at [fhassell@banksc.com](mailto:fhassell@banksc.com). A Shareholder is free to address any communication to any Director at the address of the Bank of South Carolina. Any communication from a Shareholder received by the President/Chief Executive Officer shall be sent to all members of the Executive Committee and, if any member of the Executive Committee so directs, will be sent to all members of the Board of Directors.

In addition, any Shareholder or interested party who has any concerns or complaints relating to accounting, internal accounting controls or auditing matters, may contact the Audit & Compliance Committee by writing to one or both of the following addresses:

Bank of South Carolina Corporation Audit & Compliance Committee  
c/o Steve D. Swanson, Chairman  
Bank of South Carolina Corporation  
615 Pitt Street  
Mt. Pleasant, SC 29464  
[bankofscreports@gmail.com](mailto:bankofscreports@gmail.com)

## **Related Party Transactions**

We entered into a rental contract on May 27, 2010, with Holcombe, Fair and Lane, LLC. Charles G. Lane, Director and brother of Hugh C. Lane, Jr., Chairman of the Board of Directors, is a Managing Member of Holcombe, Fair and Lane, LLC. The original contract was a two year lease on office space at a rate of \$2,095 a month. A copy of the lease was filed with the 2010 10-K. The contract was renegotiated on April 5, 2013, for larger office space at a rate of \$4,000 a month. A copy of this lease was filed with the March 31, 2013 10-Q. An addendum was made to the lease on May 25, 2017, extending the lease for a period of twenty four months at a base rate of \$5,000 a month. A copy of this lease was filed with the June 30, 2017 10-Q. This lease ended in September 2019. In addition, Sass, Herrin and Associates, Inc. an appraisal firm, is on our list of approved appraisal companies. Herbert R. Sass, III, MAI, SRA, fifty percent owner of Sass, Herrin and Associates, Inc., is the brother of Douglas H. Sass, Executive Vice President. We do not have any other existing continuing contractual relationships with any Director, nominee for election as Director or Executive Officer, or any Shareholder owning, directly or indirectly, more than 5% of the shares of our common stock, or any associate of the foregoing persons. Related party transactions have been and will continue to be made as any other ordinary business transaction using substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons. These transactions did not and will not involve more than the normal risk of collectability or present any other unfavorable features.

## DIRECTOR COMPENSATION

The following table sets forth the information regarding the compensation earned by each Director who served on the Board of Directors during the year ended December 31, 2019. Our officers other than the Secretary do not receive payment for their participation on the Board of Directors or its Committees.

### Transactions and Relations with Directors, Executive Officers, and their Associates and Affiliates of Directors

Name	Fees Earned or Paid In Cash
Susanne K. Boyd	—
David W. Bunch	\$ 8,675
Graham M. Eubank, Jr.	\$ 5,325
Elizabeth M. Hagood	\$ 7,750
Fleetwood S. Hassell	—
Glen B. Haynes, DVM	\$ 7,875
William L. Hiott, Jr.	\$ 8,900
Richard W. Hutson, Jr.	\$ 5,550
Charles G. Lane	\$ 8,100
Hugh C. Lane, Jr.	—
Dr. Linda J. Bradley McKee, CPA	\$ 6,100
Alan I. Nussbaum, MD	\$ 7,625
Karen J. Phillips	\$ 7,225
Malcolm M. Rhodes, MD	\$ 6,150
Douglas H. Sass	—
Sheryl G. Sharry	\$ 6,925
Steve D. Swanson	\$ 6,300
Eugene H. Walpole, IV	—

Non-Executive-Officer Directors of the Company received \$200.00 for each meeting of the Board of Directors of the Company attended. Non-Executive-Officer Directors of the Bank received \$400.00 for each meeting of the Board of Directors of the Bank attended. Directors of the Company and the Bank also receive \$175.00 for each Company or Bank board committee meeting attended. In addition, non-Executive-Officer Directors of the Bank received \$250.00 for each Advisory Board meeting attended.

### Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our Directors, Executive Officers and persons who own beneficially more than 10% of our outstanding common stock to file with the SEC initial reports of ownership and reports of changes in their ownership of our common stock. Directors, Executive Officers and greater than 10% Shareholders are required by SEC regulations to furnish us with copies of the forms they file. To our knowledge, no person beneficially owned more than 10% of our common stock during 2019. There were no known untimely Form 4 filings during the year ended December 31, 2019. To our knowledge, all Directors and Executive Officers complied with all applicable Section 16(a) filing requirements.



## EXECUTIVE COMPENSATION-COMPENSATION DISCUSSION AND ANALYSIS

This section discusses our compensation program, including how it relates to the Executive Officers named in the compensation tables which follow in this section. The Executive Officers of the Company and the Bank consist of:

- Susanne K. Boyd, Chief Operating Officer/Executive Vice President, Director
- Fleetwood S. Hassell, President/Chief Executive Officer, Director
- Hugh C. Lane, Jr., Chairman, Director
- Douglas H. Sass, Senior Lender/Executive Vice President, Director
- Eugene. H. Walpole, IV, Chief Financial Officer/Executive Vice President, Director

Set forth below is an analysis of the objectives of our compensation program, the material compensation policy made under this program and the material factors that the Compensation Committee considers in making those decisions.

### Overview of Compensation Program

The Compensation Committee of the Board of Directors, which consists solely of independent Directors, has the responsibility for developing, implementing, and monitoring adherence to our compensation philosophies and program. Our compensation program is based upon the following philosophies:

- preserve the financial strength, safety and soundness of the Company and the Bank;
- reward and retain key personnel by compensating them in the midpoint salary ranges at comparable financial institutions and making them eligible for the Employee Stock Ownership Plan and Trust (“ESOP”) and the Stock Incentive Plans; and
- focus management on maximizing earnings while managing risk by maintaining high asset quality, managing interest rate risk within Board guidelines, emphasizing cost control, and maintaining appropriate levels of capital.

Our primary forms of compensation for Executive Officers include base salary, the ESOP, and the 1998 and 2010 Omnibus Stock Incentive Plans.

### Base Salary

The Compensation Committee sets the base salary for the five Executive Officers. The Committee’s objectives are:

- to encourage the achievement of our long-range objectives by providing compensation that reflects the performance of the individual and the achievement of our objectives. The level of compensation shall be reasonable based upon our goals and objectives, normal and customary levels of compensation within the banking industry (taking into consideration geographic and competitive factors), our asset quality, capital level, operations and profitability, and the duties performed and responsibilities held by the individual.
- to establish compensation guidelines that will attract and retain qualified personnel through an overall level of compensation opportunity that is competitive within the banking industry.

As a smaller reporting company, defined by Item 10(f), the following table sets forth all remuneration paid during the years ended December 31, 2019, 2018, and 2017, by the Bank to the Chairman of the Board of Directors and the two most highly compensated Executive officers of the Company and the Bank for their services in all capacities. Such Executive Officers receive no compensation from the Company as Executive Officers or as Directors or in any other capacity. We did not issue any stock awards to our Executive Officers during the years ended December 31, 2019, 2018, or 2017. No options were granted to any Executive Officer during the years ended December 31, 2019, 2018 or 2017. Additionally, there was no non-equity incentive plan compensation or nonqualified deferred compensation earnings given during the years ended December 31, 2019, 2018, and 2017.

**Summary Compensation Table**

<b>Name and Principal Position</b>	<b>Year</b>	<b>Salary<sup>(1)</sup></b>	<b>Bonus</b>	<b>All Other Compensation<sup>(2)</sup></b>	<b>Total</b>
Hugh C. Lane, Jr. Chairman	2019	\$ 290,000	\$ 20,400	\$ 27,338	\$ 337,738
	2018	\$ 270,000	\$ 25,300	\$ 22,450	\$ 317,750
	2017	\$ 250,000	\$ 20,150	\$ 20,998	\$ 291,148
Fleetwood S. Hassell President/Chief Executive Officer	2019	\$ 286,313	\$ 20,400	\$ 27,338	\$ 334,051
	2018	\$ 266,338	\$ 25,300	\$ 22,450	\$ 314,088
	2017	\$ 248,459	\$ 20,150	\$ 21,107	\$ 289,716
Douglas H. Sass Senior Lender/Executive Vice President	2019	\$ 210,708	\$ 20,400	\$ 21,995	\$ 253,103
	2018	\$ 186,706	\$ 20,300	\$ 16,899	\$ 223,905
	2017	\$ 173,580	\$ 15,150	\$ 14,754	\$ 203,484

- (1) The Compensation Committee, consisting of Graham M. Eubank, Jr., Alan I. Nussbaum, and William L. Hiott, Jr., compares salaries for similar positions at similar sized banks within South Carolina as well as the overall bank and individual performance. Once the Compensation Committee establishes the salary levels, the salaries are recommended to the Board of Directors for approval. (See “Compensation Committee” for further discussion.) The Compensation Committee recommended and the Board of Directors approved a \$20,000 increase in salary for the Chairman of the Board, an \$19,975 increase in the salary of the President/Chief Executive Officer and a \$14,002 increase in salary for the Senior Lender/Executive Vice President for the year ended December 31, 2019. The Board of Directors approved this recommendation on December 5, 2018. The Board of Directors approved an additional merit increase of \$10,000 for the Senior Lender/Executive Vice President on July 25, 2019. The Compensation Committee recommended and the Board of Directors approved a \$20,000 increase in salary for the Chairman of the Board, an \$18,581 increase in the salary of the President/Chief Executive Officer and a \$13,126 increase in salary for the Senior Lender/Executive Vice President for the year ended December 31, 2018. The Board of Directors approved this recommendation on December 21, 2017. The Compensation Committee recommended and the Board of Directors approved a \$10,000 increase in salary for the Chairman of the Board, a \$17,334 increase in the salary of the President/Chief Executive Officer and a \$12,110 increase in salary for the Senior Lender/Executive Vice President for the year ended December 31, 2017.
- (2) On November 2, 1989, the Bank adopted an ESOP to provide retirement benefits to eligible employees for long and faithful service. The other compensation represents the amount contributed to the Bank’s ESOP. (See table and discussion below for other compensation.)

The median salary for all employees other than the Executive Officers was \$63,487.

***Employee Stock Ownership Plan and Trust Agreement***

Fleetwood S. Hassell, Douglas H. Sass, Sheryl G. Sharry, and Eugene H. Walpole, IV currently serve as Plan Administrators and as Trustees for the ESOP. Any employee of the Bank is eligible to become a participant in the ESOP upon reaching 21 years of age and credited with one-year of service (1,000 hours of service). The employee may enter the Plan on the January 1<sup>st</sup> 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 to the Plan are at the sole discretion of the Board of Directors. 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.

The Board of Directors approved the contribution of \$510,000 to the ESOP for the fiscal year ended December 31, 2019. The contribution was made during 2019.

A participant becomes vested in the ESOP based upon the employee’s 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 Plan became effective as of January 1, 1989, was amended effective January 1, 2007, and approved by the Board of Directors on January 18, 2007. This amendment was made to comply with the Pension Protection Act of 2006. 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 a restated plan, on January 26, 2012 (incorporated as Exhibit 10.5 in the 2011 10-K). The Plan was submitted to the IRS for approval and a determination letter was issued September 26, 2013, stating that the plan satisfies the requirements of Code Section 4975(e)(7). On January 26, 2017, the Board of Directors approved a restated plan (incorporated as Exhibit 10.6 in the 2016 10-K). The Plan was submitted to the IRS for approval and a determination letter was issued November 17, 2017, stating that the plan satisfies the requirements of Code Section 4975(e)(7).

The Plan currently owns 313,703 shares or 5.67% of our common stock outstanding.

The following table sets forth details of “All Other Compensation” as presented above in the Summary Compensation Table.

Name	Employee Stock Ownership Plan	Total
Hugh C. Lane, Jr. ....	\$ 27,338	\$ 27,338
Fleetwood S. Hassell .....	\$ 27,338	\$ 27,338
Douglas H. Sass .....	\$ 21,995	\$ 21,995

***Omnibus Stock Incentive Plan***

On April 14, 1998, the Shareholders approved the 1998 Omnibus Stock Incentive Plan. The plan was established to assist us in recruiting and retaining employees with ability and initiative by enabling employees to participate in its future success and to associate their interests with those of the Company and the Shareholders. This plan expired on April 14, 2008.

The Shareholders approved the 2010 Omnibus Stock Incentive Plan on April 13, 2010. Like the 1998 Plan, under the 2010 Plan any employee of the Company or the Bank is eligible to participate in the Plan if the Executive Committee, in its sole discretion, determines that such a person has contributed or can be expected to contribute to the profits or growth of the Company or the Bank. No member of the Committee may participate in this Plan during the time that their participation would prevent the Committee from being “disinterested” for purposes of the Securities and Exchange Commission Rule 16b-3. This plan expires on April 14, 2020. The remaining outstanding options granted under this plan can still be exercised in accordance with the plan.

The following information with respect to the outstanding equity awards as of December 31, 2019, is presented for the named Executive Officers with additional discussion below.

**OUTSTANDING EQUITY AWARDS AT DECEMBER 31, 2019**

Name	OPTION AWARDS					STOCK AWARDS				
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares of Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value or Unearned Shares, Units or Other Rights That Have Not Vested (#)	
Hugh C. Lane, Jr. ....	—	—	—	—	—	—	—	—	—	
Fleetwood S. Hassell ...	—	2,420	—	\$ 8.61	June 23, 2021	—	—	—	—	
	—	1,210	—	\$ 8.61	June 23, 2021	—	—	—	—	
Douglas H. Sass .....	—	2,420	—	\$ 9.18	June 28, 2022	—	—	—	—	

In the event of a prospective reorganization, consolidation or sale of substantially all of the assets or any other form of corporate reorganization in which the Company would not be the surviving entity or in the event of the acquisition, directly or indirectly, of the beneficial ownership of 24% of our common stock or the making, orally or in writing, of a tender offer for, or any request or invitation for tender of, or any advertisement making or inviting tenders of our stock by any person, all options in effect at that time would accelerate so that all options would become immediately exercisable and could be exercised within one-year immediately following the date of acceleration but not thereafter.

In the case of termination of employment of an option holder other than involuntary termination without just cause, retirement, death or legal disability, the option holder may exercise the option only with respect to those shares of common stock as to which he or she has become vested. The option holder may exercise the option with respect to such shares no more than 30 days after the date of termination of employment (but in any event prior to the expiration date).

In the event that the option holder’s employment is terminated without just cause, the option shall become fully vested and fully exercisable as of the date of his or her termination without regard to the five year vesting schedule. The option holder may exercise the option following an involuntary termination without just cause until the expiration date of the option.

In the event the option holder remains in the continuous employment of the Company or any subsidiary from the date of the grant until the option holder’s retirement, the option shall become fully vested and fully exercisable as of the date of his or her retirement without regard to the five year schedule. The option holder may exercise the option following his or her retirement until the expiration date.

In the event the option holder remains in the continuous employment of the Company or a subsidiary from the date of the grant until his or her death, the option shall become fully vested and fully exercisable as of the date of death without regard to the five year vesting schedule. The person or persons entitled to exercise the option following the option holder's death may exercise the option until the expiration date.

In the event the option holder remains in the continuous employment of the Company or any subsidiary from the date of the grant until the date of his or her legal disability, the option shall become fully vested and fully exercisable as of the date of his or her termination of employment on account of his or her legal disability without regard to the five year vesting schedule. The option holder may exercise the option following such termination of employment until the expiration date.

The 1998 and 2010 Omnibus Stock Incentive Plan provides for adjustment in the number of shares of common stock authorized under the Plan or granted to an employee to protect against dilution in the event of changes in the Company's capitalization, including stock splits and dividends.

As shown below Fleetwood S. Hassell, President/Chief Executive Officer exercised options to purchase 2,420 shares at \$8.61 on June 24, 2019. The price per share on the date of exercise was \$18.30. Douglas H. Sass exercised options to purchase 1,210 shares at \$8.61 and 1,210 shares at \$9.18 on June 24, 2019 and August 20, 2019, respectively. The price per share on the date of exercise was \$18.30 and \$18.86, respectively.

**2019 OPTION EXERCISES AND STOCK VESTED**

Name	OPTION AWARDS		STOCK AWARDS	
	Number of Shares Acquired on Exercise(#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Hugh C. Lane, Jr. ....	—	—	—	—
Fleetwood S. Hassell .....	2,420	\$ 20,836	—	—
Douglas H. Sass .....	2,420	\$ 21,526	—	—

**Equity Compensation Plan Information**

The following table summarizes the total outstanding options and the weighted-average exercise price of the Company's equity compensation Plan as of December 31, 2019:

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 <sup>(1)</sup>
1998 Omnibus Stock Incentive Plan approved by Shareholders <sup>(2)</sup> .....	—	\$ —	—
2010 Omnibus Stock Incentive Plan approved by Shareholders <sup>(3)</sup> .....	86,097	\$ 12.92	160,658
Total .....	86,097	\$ 12.92	160,658

(1) In accordance with the 1998 Omnibus Stock Incentive Plan, options are no longer granted under this Plan. This Plan expired April 14, 2008. 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 above 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 363,000 shares reserved under this Plan. All shares have been adjusted to reflect two 10% stock dividends declared August 27, 2015 and April 10, 2018.

During the fiscal year ended December 31, 2019, we had no plans or arrangements pursuant to which any Executive Officer, Director or principal Shareholder received contingent remuneration or personal benefits other than the contingent remuneration and life, disability, dental and health insurance benefits. Life, disability, dental and health insurance benefits are available for all employees of the Bank who work at least 30 hours a week. Benefit programs provided to Executive Officers, officers and employees are listed in the table below.

Benefit Plan	Executive Officers	Officers	Full Time Employees
Employee Stock Ownership Plan .....	x	x	x
Medical and Dental Plans .....	x	x	x
Life and Disability Plans .....	x	x	x
Stock Option Plans .....	x	x	x

We do not have an employment agreement with any officer or employee. We currently believe that the named Executive Officers receive sufficient compensation that employment agreements are not necessary to induce them to remain with the Company. In addition, we do not have any agreement with the Company's Executive Officers that provide for cash severance payments upon termination of employment or in connection with a change in control.

Although there is inherent risk in the business of banking, we do not believe that any of our compensation policies and practices provide incentives to our employees to take risks that are reasonably likely to have a material adverse effect on us. We believe that our compensation policies and practices are consistent with those of similar bank holding companies and their banking subsidiaries and are intended to encourage and reward performance that is consistent with safe and sound practices in the industry.



## PROPOSAL 2: TO APPROVE OF THE 2020 STOCK INCENTIVE PLAN

On February 27, 2020, the Board of Directors approved the 2020 Stock Incentive Plan (“Stock Incentive Plan”), subject to shareholder approval at the 2020 Annual Meeting authorizing the issuance of no more than 300,000 total shares of Company Common Stock. Shareholder approval of the Stock Incentive Plan is being sought in order to satisfy shareholder approval requirements of the NASDAQ. The Board of Directors recommends that shareholders vote in favor of the Stock Incentive Plan.

### **Approval of the Stock Incentive Plan Will Facilitate the Attraction, Retention and Motivation of Talented Employees Critical to the Company’s Success**

The Stock Incentive Plan is the sole plan for providing equity incentive compensation to eligible employees and employee Directors. The Board of Directors believe that the Stock Incentive Plan is in the best interest of shareholders and the Company, as equity awards granted under the plan help to attract, motivate, and retain talented employees and employee Directors, align employee and shareholder interests, link employee compensation with Company performance, and maintain a culture based on employee stock ownership. The following summary of major features of the Stock Incentive Plan is qualified in its entirety by reference to the actual text of the Plan, set forth in Exhibit A.

The Stock Incentive Plan contains a number of provisions that the Board believes are consistent with the interest of shareholders and sound corporate governance practices:

- **Limitation on Shares Issued** Assuming the passage of the Stock Incentive Plan, no more than 300,000 total shares of Company Common Stock will be authorized for issuance.
- **No Discounted Stock Options** All stock options must have an exercise price equal to or greater than 100% of the fair market value on Company Common Stock on the date of grant.
- **Shareholder Approval** The Board of Directors may amend or terminate this Plan from time to time; provided, however, that no amendment may become effective until shareholder approval is obtained. In no event will there be any amendment changing the option price, decreasing the option price after the grant of an option, increasing the period of the option or increasing the aggregate shares available for option except upon compliance with the above requirements.
- **Vesting** Options will vest with respect to twenty percent (20%) of the shares subject to the option on the fifth anniversary of the date of the grant and with respect to an additional twenty percent (20%) of the shares subject to the option on each subsequent anniversary of the date of grant so that the option shall be fully vested and fully exercisable on the tenth anniversary of the date of grant. The right to exercise each such twenty percent (20%) increment of any option will be cumulative and will not expire until the tenth anniversary of the date of grant. Options to an employee, who at the time of the grant, directly or indirectly owns more than 10% of the total combined voting power of the Common Stock of the Company or of a subsidiary, shall be fully vested and fully exercisable on the fifth anniversary of the date of grant.
- **Forfeitures** If an option is terminated, in whole or in part, for any reason other than its exercise, the number of shares of Company Common Stock allocated to the option or portion thereof may be reallocated to other options to be granted under the Plan.
- **Transferability** Any option granted under this Plan shall be nontransferable except by will or by the laws of descent and distribution. In the event of any such transfer, the option must be transferred to the same person or persons, entity or entities. During the lifetime of a participant to whom an option is granted, the option may be exercised only by the participant. No right or interest of a participant in any option shall be liable for, or subject to, any lien, obligation or liability of such participant.

### **Summary of the Stock Incentive Plan**

**Eligible Participants** Employees of the Company or of the subsidiary, including employees who are members of the Board of Directors are eligible for receiving options. At February 27, 2020, eligible employees included 79 full time employees. The full time employees include five Executive Officers all of whom are nominees for the Board of Directors. Non-employee Directors of the Company would not be granted options under the Stock Incentive Plan.

**Administration** The Stock Incentive Plan would be administered by the Executive/Long-Range Planning Committee of the Board of Directors. No non-employee Director member of the Executive/Long-Range Planning Committee would be a beneficiary of the Stock Incentive Plan. The Stock Incentive Plan for Executive Officers will be administered by the Compensation Committee of the Board of Directors.

**Available Shares and Limitations** If approved, the proposed stock incentive plan will set aside 300,000 shares of the currently authorized but unissued and unreserved 6,200,363 shares of no par value Common Stock for options to be granted to eligible employees of the Company or of a subsidiary, including employees who are members of the Board of Directors.

**Stock Options** Options under the Stock Incentive Plan will be granted by the Board of Directors to eligible employees upon recommendation of the Executive/Long-Range Planning Committee, or, if applicable, the Compensation Committee and will be vested with respect to twenty percent (20%) of the shares subject to the option on the fifth anniversary of the date of the grant and with respect to an additional twenty percent (20%) of the shares subject to the option on each subsequent anniversary of the date of the grant so that the option shall be fully vested and fully exercisable on the tenth anniversary of the date of grant. The right to exercise each such twenty percent (20%) increment of any option will be cumulative and will not expire until the tenth anniversary of the date of the grant.

The option price would be the fair market value on the date of the grant (determined as of the day preceding the date of exercise which is not less than the option price). In the case of an employee, who at the time of the grant, directly or indirectly owns more than ten percent (10%) of the total combined voting power of the Common Stock of the Company or of a subsidiary, the option price would be one hundred ten percent (110%) of the market price on the date of grant.

The Stock Incentive Plan would provide for adjustment in the number of shares of Common Stock authorized under the Plan or granted to an optionee to protect against dilution in the event of changes in the Bank's capitalization, including stock splits and dividends.

**Reorganization** In the event of a prospective reorganization, consolidation or sale of substantially all of the assets or any other form of corporate reorganization in which the Bank would not be the surviving entity; or in the event of the acquisition, directly or indirectly, of the beneficial ownership of twenty four (24%) of the Common Stock of the Company; or the making, orally or in writing, of a tender offer for or any request or invitation for tender of, or any advertisement making or inviting tenders of the Bank stock by any person, all options in effect at the time would accelerate so that all options would become immediately exercisable and could be exercised within one year immediately following the date of acceleration but not thereafter.

**Tax Consequences** Although all options granted under the Stock Incentive Plan would be intended to be incentive stock options ("ISO") within the meaning of Section 422A of the Internal Revenue Code ("Tax Code"), to the extent that any options granted under the Stock Incentive Plan failed to qualify as incentive stock options the Compensation Committee would have the authority, in its sole discretion, to grant non-qualified options to eligible employees. The tax treatment varies for the different type of options.

The Company generally is not entitled to a deduction when it issues ISOs; however, if the required holding periods described in the Tax Code are not met, the Company is entitled to a deduction as compensation in the year of disposition of the stock acquired by the employee. This deduction is measured by the amount that the fair market value of the option at the exercise date exceeded the exercise price, or the excess of sales proceeds over the exercise price, if less. The employee is required to include an equal amount in income as compensation.

The receipt of a non-qualified option by an employee is taxable under the Tax Code as property received for services rendered. If the option has a readily ascertainable value, it is taxed at the time of the grant. If no value can be determined at the grant date, taxation to the employee occurs on exercise, at which time the employee is considered to receive compensation in an amount equal to the fair market value of the stock acquired over the price paid. At the time the employee is required to include an amount in compensation, whether on the grant date or the exercise date, the employer is entitled to a compensation deduction measured by the amount the employee is required to include in income.

**Awards under the 2020 Plan** It is contemplated that certain current employee of the Company would be granted options to purchase shares of Common Stock under the Stock Incentive Plan. The number of shares to be subject to each such individual option and the number of options to be received by employees either individually, or as a group, has not yet been determined by the Company.

**Amendment of the Plan and Awards** Amendment of the Stock Incentive Plan will be only by written instrument approved by the Board of Directors and Shareholders of the Company. In no event, will there be any amendment changing the option price, decreasing the option after the grant of an option, increasing the period of the option or increasing the aggregate shares available for option except upon compliance with the above requirements.

**THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE "FOR"  
THE APPROVAL OF 2020 STOCK INCENTIVE PLAN.**

**PROPOSAL 3: TO RATIFY THE APPOINTMENT OF ELLIOTT DAVIS, LLC AS THE COMPANY’S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE YEAR ENDED DECEMBER 31, 2020.**

The Audit & Compliance Committee of the Board of Directors has appointed Elliott Davis, LLC as our independent accounting firm for the year ended December 31, 2020, and that appointment is being submitted to Shareholders for ratification. The appointment of Elliott Davis, LLC as independent public accountants was approved by the Audit & Compliance Committee of the Board of Directors and ratified by the Shareholders at the 2019 Annual Shareholders’ Meeting. At the 2020 Annual Shareholders’ Meeting the following resolution will be subject to ratification by a simple majority vote of shares represented at the meeting:

RESOLVED, that the selection of Elliott Davis, LLC as the independent certified public accountants of Bank of South Carolina Corporation (the “Company”) and its sole subsidiary, The Bank of South Carolina (the “Bank”), for the fiscal year ending December 31, 2020, is hereby ratified.

If ratification is not achieved, the selection of an independent certified public accountant will be reconsidered and made by the Board of Directors. Even if selection is ratified, the Board of Directors reserves the right to, and in its discretion may, direct the appointment of any other independent certified public accounting firm at any time if the Board of Directors decides that such a change would be in the best interests of the Company and our Shareholders.

**Auditing and Related Fees**

The services provided by Elliott Davis, LLC include the audit of the financial statements of the Company. These services have been furnished at customary rates and terms. There are no existing direct or indirect agreements or understandings that fix a limit on current or future fees for these audit services.

Elliott Davis, LLC assisted in the preparation of the Company’s and Bank’s tax returns for the fiscal years ending December 31, 2019 and 2018. These non-audit services were routine in nature and did not compose more than 25% of the total fees paid to Elliott Davis, LLC in 2019 or 2018.

A representative of Elliott Davis, LLC is expected to attend the Annual Meeting of Shareholders with the opportunity to make a statement, if desired, and is expected to be available to respond to appropriate questions.

Before the independent certified public accountants of the Company and the Bank are engaged to render non-audit services for the Company or the Bank, each engagement is approved by the Audit & Compliance Committee. All of the audit and tax services provided by Elliott Davis, LLC for the fiscal year ending December 31, 2019 and 2018 were preapproved by the Audit & Compliance Committee.

	<u>2019</u>	<u>2018</u>
Audit fees .....	\$ 81,200	\$ 69,625
Audit related fees .....	19,200	19,200
Total audit and related fees .....	<u>100,400</u>	<u>88,825</u>
Tax fees .....	11,550	13,525
Total fees .....	<u>\$ 111,950</u>	<u>\$ 102,350</u>

**THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE “FOR” THE RATIFICATION OF THE APPOINTMENT OF ELLIOTT DAVIS, LLC AS THE COMPANY’S INDEPENDENT AUDITORS FOR THE FISCAL YEAR ENDING DECEMBER 31, 2020.**

**PROPOSAL 4: TO TRANSACT SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING AND ANY ADJOURNMENT OR POSTPONEMENT OF THE MEETING.**

We are not aware of any matters to come before the meeting that will require the vote of Shareholders other than those matters indicated in the Notice of Meeting and this Proxy Statement.

However, if any other matter calling for Shareholder action should properly come before the meeting or any adjournments thereof, those persons named as Proxies in the enclosed Proxy Form will vote thereon according to their best judgment.

**PENDING LITIGATION**

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

**ANNUAL REPORT**

The Annual Report for the fiscal year ended December 31, 2019, filed with the Securities and Exchange Commission on Form 10-K, is mailed herewith to all Shareholders.

**SHAREHOLDER PROPOSALS FOR THE 2021 ANNUAL SHAREHOLDERS' MEETING**

Shareholder proposals, if any, for inclusion in the Proxy Statement relating to the 2021 Annual Shareholders' meeting, must be addressed to and received in the office of the President/Chief Executive Officer no later than December 1, 2020. To ensure prompt receipt by the Company, the proposal should be sent certified mail, return receipt requested.

By Order of the Board of Directors

/s/Richard W. Hutson, Jr.

Richard W. Hutson, Jr., Secretary

March 6, 2020

EXHIBIT A  
BANK OF SOUTH CAROLINA CORPORATION  
2020 STOCK INCENTIVE PLAN



**BANK OF SOUTH CAROLINA CORPORATION**

**2020 STOCK INCENTIVE PLAN**

ARTICLE I

DEFINITIONS

- 1.01 Agreement means a written agreement (including any amendment or supplement thereto) between BKSC and a Participant specifying the terms and conditions of an award of an Option granted to such Participant.
- 1.02 Code means the Internal Revenue Code of 1986, as amended.
- 1.03 Board means the Board of Directors of BKSC.
- 1.04 Committee means the Executive/Long-Range Planning Committee of the Board.
- 1.05 Date of Exercise means the date that the Option price is received by BKSC.
- 1.06 Fair Market Value means, on any given date, the closing price of BKSC Common Stock as reported on the Nasdaq Capital Market. If BKSC Common Stock was not traded on the Nasdaq Capital Market on such date, then Fair Market Value is determined with reference to the next preceding day that BKSC Common Stock was so traded.
- 1.07 Legal Disability means that a Participant is permanently and totally disabled within the meaning of Code section 22(e)(3).
- 1.08 Plan means the Bank of South Carolina Corporation 2020 Stock Incentive Plan.
- 1.09 Retirement means that a Participant has separated from service on or after his earliest early retirement date under The Bank of South Carolina Employee Stock Ownership Plan and Trust or such tax-qualified pension or profit sharing plan maintained by BKSC or a Subsidiary in which he participates.
- 1.10 BKSC means Bank of South Carolina Corporation.
- 1.11 BKSC Common Stock means the Common Stock, no par value, of BKSC.
- 1.12 Option means a stock option that entitles the holder to purchase from BKSC a stated number of shares of BKSC Common Stock at the price set forth in an Agreement.
- 1.13 Participant means an employee of BKSC or of a Subsidiary, including an employee who is a member of the Board, who satisfies the requirements of Article IV and is selected by the Committee to receive an Option.
- 1.14 Incentive Stock Option means an Option that is intended to qualify as an “incentive stock option” within the meaning of Code Section 422.
- 1.15 Subsidiary means a “subsidiary corporation” within the meaning of Code Section 424.
- 1.16 10-Percent Shareholder means an individual who, at the time the relevant Option is granted, owns stock possessing more than 10 percent of the total combined voting power of all classes of stock of BKSC or of a Subsidiary.

## ARTICLE II

### PURPOSES

The Plan is intended to assist BKSC in recruiting and retaining employees with ability and initiative by enabling employees to participate in its future success and to associate their interests with those of BKSC and its shareholders. The Plan is intended to permit the grant of both Options qualifying as Incentive Stock Options and Options not so qualifying. No Option that is intended to be an Incentive Stock Option shall be invalid for failure to qualify as an incentive stock option within the meaning of Code Section 422. The proceeds received by BKSC from the sale of BKSC Common Stock pursuant to this Plan shall be used for general corporate purposes.

## ARTICLE III

### ADMINISTRATION

Except as provided in this Article III, the Plan shall be administered by the Committee. The Committee shall have authority to grant Options upon such terms (not inconsistent with the provisions of this Plan) as the Committee may consider appropriate. Such terms may include conditions (in addition to those contained in this Plan) on the exercisability of all of any part of an Option. Notwithstanding any such condition, the Committee may, in its discretion, accelerate the time at which any Option may be exercised. In addition, the Committee shall have complete authority to interpret all provisions of this Plan; to prescribe the form of Agreements; to adopt, amend and rescind rules and regulations pertaining to the administration of the Plan; and to make all other determinations necessary or advisable for the administration of this Plan. The express grant in the Plan of any specific power to the Committee shall not be construed as limiting any power or authority of the Committee. Any decision made, or action taken, by the Committee or in connection with the administration of this Plan shall be final and conclusive. No member of the Committee shall be liable for any act done in good faith with respect to this Plan or any Agreement or Option. All expenses of administering this Plan shall be borne by BKSC.

In accordance with the applicable requirements of South Carolina law, the Committee, in its discretion, may delegate to one or more officers of BKSC all or part of the Committee's authority and duties with respect to Participants who are not subject to the reporting and other provisions of Section 16 of the Securities and Exchange Act of 1934, as in effect from time to time. In the event of such delegation, and as to matters encompassed by the delegation, references in the Plan to the Committee shall be interpreted as a reference to the Committee's delegate or delegates. The Committee may revoke or amend the terms of a delegation at any time but such action shall not invalidate any prior actions of the Committee's delegate or delegates that were consistent with the terms of the Plan.

## ARTICLE IV

### ELIGIBILITY

- 4.01 General. Any employee of BKSC or of any Subsidiary (including any corporation that becomes a Subsidiary after the adoption of this Plan) is eligible to participate in this Plan if the Committee, in its sole discretion, determines that such person has contributed or can be expected to contribute to the profits or growth of BKSC or a Subsidiary. Any such employee may be granted Options. A Director of BKSC who is an employee of BKSC or a Subsidiary may be granted Options under this Plan. With respect to Participants who are subject to the reporting requirements of Section 16 of the Securities and Exchange Act of 1934, the Committee will obtain the approval from the Compensation Committee of the Board for Options to those Participants.
- 4.02 Grants. The Committee will designate individuals to whom Options are to be granted and will specify the number of shares of BKSC Common Stock subject to each award or grant. All Options granted under this Plan shall be evidenced by Agreements which shall be subject to the applicable provisions of this Plan and to such other provisions as the Committee may adopt. No Participant may be granted Incentive Stock Options (under all equity compensation plans of BKSC and its Subsidiaries) which are first exercisable in any calendar year for stock having an aggregate Fair Market Value (determined as of the date an option is granted) exceeding \$250,000.

## ARTICLE V

### STOCK SUBJECT TO PLAN

- 5.01 Source of Shares. Upon the exercise of an Option, BKSC may deliver to the Participant authorized but unissued BKSC Common Stock .
- 5.02 Maximum Number of Shares. The maximum aggregate number of shares of BKSC Common Stock that may be issued pursuant to the exercise of Options is Three Hundred Thousand subject to increases and adjustments as provided in this Article V and Article XI.

- 5.03 Incentive Stock Options. Section 5.02 to the contrary notwithstanding, the maximum aggregate number of shares of BKSC Common Stock that may be issued pursuant to the exercise of Options that are Incentive Stock Options granted under this Plan is Three Hundred Thousand.
- 5.04 Forfeitures, etc. If an Option is terminated, in whole or in part, for any reason other than its exercise, the number of shares of BKSC Common Stock allocated to the Option or portion thereof may be reallocated to other Options to be granted under this Plan.

## ARTICLE VI

### OPTION PRICE

The price per share for BKSC Common Stock purchased on the exercise of an Option shall be determined by the Committee on the date of grant. The price per share for BKSC Common Stock purchased on the exercise of any Incentive Stock Option shall not be less than one hundred percent (100%) (or 110% if the Option recipient is a 10-Percent Shareholder) of the Fair Market Value on the date the Option is granted.

## ARTICLE VII

### EXERCISE OF OPTIONS

- 7.01 Maximum Option Period. The maximum period in which an Option may be exercised shall be determined by the Committee on the date of grant except that no Option that is an Incentive Stock Option shall be exercisable after the expiration of ten years (or five years if the Option recipient is a 10-Percent Shareholder) from the date the Option was granted. The terms of any Option may provide that it is exercisable for a period less than such maximum period.
- 7.02 Nontransferability. Any Option granted under this Plan shall be nontransferable except by will or by the laws of descent and distribution. In the event of any such transfer, the Option must be transferred to the same person or persons or entity or entities. During the lifetime of a Participant to whom an Option is granted, the Option may be exercised only by the Participant. No right or interest of a Participant in any Option shall be liable for, or subject to, any lien, obligation or liability of such Participant.

## ARTICLE VIII

### METHOD OF EXERCISE

- 8.01 Exercise. An Option granted under this Plan shall be deemed to have been exercised on the Date of Exercise. Subject to the provisions of Articles VII and X, an Option may be exercised in whole at any time or in part from time to time at such times and in compliance with such requirements as the Committee shall determine. An Option granted under this Plan may be exercised with respect to any number of whole shares less than the full number of whole shares for which the Option could be exercised. A partial exercise of an Option shall not affect the right to exercise the Option from time to time in accordance with this Plan and the applicable Agreement with respect to remaining shares subject to the Option.
- 8.02 Payment. Unless otherwise provided by the Agreement, payment of the Option price shall be made by Cashier's Check. If the Agreement provides, payment of all or part of the Option price may be made by surrendering shares of BKSC Common Stock to BKSC that have been held for at least six months prior to the date of exercise. If BKSC Common Stock is used to pay all or part of the Option price, the shares surrendered must have a Fair Market Value (determined as of the day preceding the Date of Exercise) that is not less than such price or part thereof.
- 8.03 Shareholder Rights. No Participant shall have any rights as a stockholder with respect to shares subject to an Option until the shares have been issued (in certificate or book entry form, as applicable) in compliance with the terms of this Plan and applicable law.

## ARTICLE IX

### ADJUSTMENT UPON CHANGE IN BKSC COMMON STOCK

If all or any portion of the Option is exercised subsequent to any stock dividend, split up, recapitalization, combination or exchange of shares, merger, consolidation, acquisition of property or stock, separation, reorganization, or a transaction to which Section 424 of the Internal Revenue Code applies, or other similar change or transaction of or by BKSC, as a result of which shares of any class shall be issued in respect of outstanding shares of the class covered by the Option or shares of the class covered by the Option shall be changed into the same or a different number of shares of the same or another class or classes, the person or persons so exercising such an Option shall receive, for the aggregate option price payable upon such exercise of the Option, the aggregate number and class of shares equal to the number and class of shares the Optionee would have had on the date of exercise had the shares been purchased for the same aggregate price at the date the Option was granted and had not been disposed of, taking into consideration any such stock dividend, split up, recapitalization, combination or exchange of shares, merger, consolidation, acquisition of property or stock, separation, reorganization or other similar change or transaction; provided, however, that no fractional share shall be issued upon any such exercise and the aggregate price paid shall be appropriately reduced on account of any fractional share not issued. Unless the Committee determines otherwise, any adjustments made pursuant to this Article with respect to an Incentive Stock Option shall be made in a manner intended to comply with Code Section 424 and to persevere the status of the Option as an Incentive Stock Option.

## ARTICLE X

### COMPLIANCE WITH LAW AND APPROVAL OF REGULATORY BODIES

No option shall be exercisable and no BKSC Common Stock shall be issued under this Plan except in compliance with all applicable federal and state laws and regulations (including, without limitation, withholding tax requirements) and the rules of any domestic stock exchanges on which BKSC's shares may be listed. BKSC shall have the right to rely on an opinion of its counsel as to such compliance. Any share certificate issued to evidence BKSC Common Stock for which an Option is exercised may bear such legends and statements as the Committee may deem advisable to assure compliance with federal and state laws and regulations. No Option shall be exercisable and no BKSC Common Stock shall be issued under this Plan until BKSC has obtained such consent or approval as the Committee may deem advisable from regulatory bodies having jurisdiction over such matters.

## ARTICLE XI

### GENERAL PROVISIONS

- 11.01 Effect on Employment. Neither the adoption of this Plan, its operation nor any documents describing or referring to this Plan (or any part thereof) shall confer upon any employee any right to continue in the employ of BKSC or a Subsidiary, nor shall it interfere in any way with the right of Bank of South Carolina Corporation or any Subsidiary to terminate his/her employment at any time. So long as the Participant shall continue to be an employee of Bank of South Carolina Corporation or any Subsidiary, the Option shall not be affected by any changes in the duties or positions of the Participant.
- 11.02 Rules of Construction. Headings are given to the articles and sections of this Plan solely as a convenience to facilitate reference. The reference to any statute, regulation or other provision of law shall be construed to refer to any amendment to or successor of such provision of law.
- 11.03 Employee Status. For purposes of determining the applicability of Code section 422 (relating to Incentive Stock Options) or in the event that the terms of any Option provide that it may be exercised only during employment or within a specified period of time after termination of employment, the Committee may decide to what extent leaves of absence for governmental or military service, illness, temporary disability or other reasons shall not be deemed interruptions of continuous employment.

## ARTICLE XII

### AMENDMENT

The Board may amend or terminate this Plan from time to time; provided, however, that no amendment may become effective until shareholder approval is obtained if (i) the amendment increases the aggregate number of shares of BKSC Common Stock that may be issued under the Plan or (ii) the amendment changes the class of individuals eligible to become Participants. No amendment shall, without a Participant's consent, adversely affect any rights of such Participant under any Option outstanding at the time such amendment is made.

ARTICLE XIII

DURATION OF PLAN

No Option may be granted under this Plan after February 27, 2030. Options granted before that date shall remain valid in accordance with their terms.

ARTICLE XIV

EFFECTIVE DATE OF PLAN

Options may be granted under this Plan upon its adoption by the Board, provided that no Option will be effective unless this Plan is approved by shareholders holding a majority of BKSC's outstanding voting stock, voting either in person or by proxy at a duly held shareholder's meeting within twelve months of such adoption. The amount of shares to be reserved under this plan will not exceed 300,000.



**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-K**

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2019
- 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)

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	BKSC	NASDAQ

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

Common Stock  
(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  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  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  No

Indicate by check mark whether the registrant has submitted electronically, if any, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for a shorter period that the registrant was required to submit). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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 10-K 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period by complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Aggregate market value of the voting stock held by non-affiliates, computed by reference to the closing price of such stock on June 30, 2019 was \$68,725,103.

As of February 14, 2020, the Registrant has outstanding 5,530,363 shares of common stock.

BANK OF SOUTH CAROLINA CORPORATION  
AND SUBSIDIARY

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## PART I

### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report, including information included or incorporated by reference in this document, contains statements that constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1934. We desire to take advantage of the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1996 and are including this statement for the express purpose of availing the Bank of South Carolina Corporation (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. Our actual results may differ materially from those anticipated in any forward-looking statements, as they will depend on many factors about which we are unsure, including many factors that are beyond our control. The words “may,” “would,” “could,” “should,” “will,” “expect,” “anticipate,” “predict,” “project,” “potential,” “continue,” “assume,” “believe,” “intend,” “plan,” “forecast,” “goal,” and “estimate,” as well as similar expressions, are meant to identify such 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, 2019 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 and changes in the mix or type of deposit products and services
- Continued availability of senior management and ability to attract and retain key personnel
- Technological changes
- Increased cybersecurity risk, including potential business disruptions or financial losses
- 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 and changes in political conditions
- Pandemic risk

We 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 with the SEC, in our press releases, and in oral and written statements, which are not statements of historical fact, constitute forward-looking statements.

## **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 the Company, effective April 17, 1995. At the time of the reorganization, each outstanding share of the Bank was exchanged for two shares of Company stock.

### **Market Area**

The Bank operates as an independent, community oriented, commercial bank providing a broad range of financial services and products to the Charleston – North Charleston metro area, which includes Charleston, Berkeley, and Dorchester county. We have five banking house locations: 256 Meeting Street, Charleston, SC; 100 North Main Street, Summerville, SC; 1337 Chuck Dawley Boulevard, Mt. Pleasant, SC; 2027 Sam Rittenberg Boulevard, Charleston, SC; and 9403 Highway 78, North Charleston, SC.

The Charleston – North Charleston metro area grew 33.11% between 2012 and 2017 according to the U.S. Bureau of Economic Analysis. From 2017 to 2018 alone, Charleston, Berkeley, and Dorchester county grew 3.2%, 5.1%, and 4.0%, respectively. Charleston and Berkeley county are ranked in the top ten economies in the state based on real gross domestic product according to the U.S. Bureau of Economic Analysis. The primary economic drivers of our market area are manufacturing, hospitality, technology, and the healthcare industry. This includes manufacturing campuses for Boeing, Volvo Cars, and Mercedes-Benz Vans in the area. Hospitality has also contributed to the economic growth as both Conde Nast Traveler and Travel and Leisure Magazine have recognized the area as a top tourism destination. Additionally, Charleston is considered the number one mid-sized U.S. metro area for IT growth according to the U.S. Bureau of Labor Statistics.

References to “we,” “us,” “our,” “the Bank,” or “the Company” refer to the parent and its subsidiary, that are consolidated for financial purposes.

The Company (ticker symbol: BKSC) is publicly traded on the National Association of Securities Dealers Automated Quotations (“NASDAQ”), and is under the reporting authority of the SEC. All of our electronic filings with the SEC, including our 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 our website, <http://www.banksc.com>, through the “Investor Relations” link. Our filings are also available through the SEC’s web site at <http://www.sec.gov> or by calling 1-800-SEC-0330.

### **Competition**

The financial services industry is highly competitive. We face 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
- relative lending limits in the case of loans
- increase in non-banking financial institutions providing similar services
- continued consolidation, and
- legislative, regulatory, economic, and technological changes

We compete with commercial banks, savings institutions, finance companies, credit unions and other financial services companies. Many of our larger commercial bank competitors have greater name recognition and offer certain services that we do not. However, we believe that we have developed an effective competitive advantage in our market area by emphasizing exceptional service and knowledge of local trends and conditions.

## **Lending Activities**

We focus our lending activities on small and middle market businesses, professionals and individuals in our geographic markets and typically require personal guarantees. Our primary lending activities are for commercial, commercial real estate, and consumer purposes, with the largest category being commercial real estate. Most of our lending activity is to borrowers within our market area.

### **Commercial Loans**

As of December 31, 2019, \$52.8 million, or 19.28%, of our loan portfolio consisted of commercial loans. We originate various types of secured and unsecured commercial loans to customers in our market area in order to provide customers with working capital and funds for other general business purposes. The terms of these loans generally range from less than one year to 10 years. These loans bear either a fixed interest rate or an interest rate linked to a variable market index, depending on the individual loan, its purpose, and underwriting of that loan.

Commercial credit decisions are based upon our credit assessment of each applicant. We evaluate the applicant's ability to repay in accordance with the proposed terms of the loan and assess the risks involved. In addition to evaluating the applicant's financial statements, we consider the adequacy of the primary and secondary sources of repayment for the loan. Credit agency reports of the applicant's personal credit history supplement our analysis of the applicant's creditworthiness. In addition, collateral supporting a secured transaction is analyzed to determine its marketability. Commercial business loans generally have higher interest rates than residential loans of similar duration because they have a higher risk of default with repayment generally depending on the successful operation of the borrower's business and the adequacy of any collateral.

### **Commercial Real Estate Loans**

As of December 31, 2019, commercial real estate construction loans comprised \$12.5 million, or 4.56%, of our loan portfolio. We make construction loans for commercial properties to businesses. Advances on construction loans are made in accordance with a schedule reflecting the cost of construction. Loans are typically underwritten with a maximum loan to value ratio of 80% based on current appraisals with value defined as the purchase price, appraised value, or cost of construction, whichever is lower. Repayment of construction loans on non-residential and income-producing properties is normally attributable to rental income, income from the borrower's operating entity, or the sale of the property. Construction loans are interest-only during the construction period, which typically does not exceed twelve months, and are often paid-off with permanent financing.

Before making a commitment to fund a construction loan, we require an appraisal of the property by a state-certified or state-licensed appraiser. We review and inspect properties before disbursement of funds during the term of the construction loan.

Construction financing generally involves greater credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion of construction compared to the estimated cost (including interest) of construction and other assumptions. Construction loans also expose us to risk that improvements will not be completed on time in accordance with specifications and projected costs.

As of December 31, 2019, \$143.8 million, or 52.48%, of our loan portfolio consisted of other commercial real estate loans, excluding commercial construction loans. Properties securing our commercial real estate loans are primarily comprised of business owner-occupied properties, small office buildings and office suites, and income-producing real estate.

We base our decision to lend primarily on the economic viability of the property and the creditworthiness of the borrower. In evaluating a proposed commercial real estate loan, we emphasize the ratio of the property's projected net cash flow to the loan's debt service requirement computed after a deduction for an appropriate vacancy factor and reasonable expenses. We typically require property casualty insurance, title insurance, earthquake insurance, wind and hail coverage, and, if appropriate, flood insurance, in order to protect our security interest in the underlying property.

Commercial real estate loans generally carry higher credit risks, as they typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment of loans secured by income-producing properties typically depends on the successful operation of the property, as repayment of the loan generally is dependent, in large part, on sufficient income from the property to cover operating expenses and debt service. Changes in economic conditions not within the control of the borrower or lender could affect the value of the underlying collateral or the future cash flow of the property.



## **Consumer Loans**

Consumer real estate loans were \$59.5 million, or 21.72%, of the loan portfolio as of December 31, 2019. Consumer real estate loans consist of consumer construction loans, HELOCs, and mortgage originations. We make construction loans for owner-occupied residential properties. Advances on construction loans are in accordance with a schedule reflecting the cost of construction, but are limited to a maximum loan-to-value ratio of 80%. Before making a commitment to fund a construction loan, we require an appraisal of the property by a state-certified or state-licensed appraiser. We review and inspect properties before disbursement of funds during the term of the construction loan. Similar to commercial real estate construction financing, consumer construction financing generally involves greater credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion of construction compared to the estimated cost (including interest) of construction and other assumptions. Construction loans also expose us to risk that improvements will not be completed on time in accordance with plans, specifications, and projected costs.

This category of loans consists of loans secured by first or second mortgages on primary residences, and originate as adjustable-rate or fixed-rate loans. Owner-occupied properties located in the Company's market area serve as the collateral for these loans. The Company currently originates residential mortgage loans for our portfolio with a maximum loan-to-value ratio of 80% for traditional owner-occupied homes.

We offer home equity loans and lines of credit secured by the borrower's primary or secondary residence. Our home equity loans and lines of credit currently originate with an adjustable- rate with a floor. We generally underwrite home equity loans and lines of credit with the same criteria that we use to underwrite mortgage loans to be sold. For a borrower's primary and secondary residences, home equity loans and lines of credit are typically underwritten with a maximum loan-to-value ratio of 80% when combined with the principal balance of the existing mortgage loan. We require a current appraisal or internally prepared real estate evaluations on home equity loans and lines of credit. At the time we close a home equity loan or line of credit, we record a mortgage to perfect our security interest in the underlying collateral.

Other consumer loans totaled \$5.4 million and were 1.96% of the loan portfolio as of December 31, 2019. These loans are originated for various purposes, including the purchase of automobiles, boats, and other personal purposes.

Consumer loans may entail greater credit risk than mortgage loans to be sold, particularly in the case of consumer loans that are unsecured or are secured by rapidly depreciable assets, such as automobiles. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. The application of various federal and state laws, including bankruptcy and insolvency laws, may also limit the amount which can be recovered on such loans.

## **Loan Approval Procedures and Authority**

Our lending activities follow written, non-discriminatory underwriting standards and loan origination procedures established by the Board of Directors of the Bank. The loan approval process is intended to assess the borrower's ability to repay the loan and the value of the collateral that will secure the loan. To assess the borrower's ability to repay, we review the borrower's employment, credit history, and information on the historical and projected income and expenses of the borrower.

The objectives of our lending program are to:

1. Establish a sound asset structure
2. Provide a sound and profitable loan portfolio to:
  - a) Protect the depositor's funds
  - b) Maximize the shareholders' return on their investment
3. Promote the stable economic growth and development of the market area served by the Bank
4. Comply with all regulatory agency requirements and applicable law

The underwriting standards and loan origination procedures include officer lending limits, which are approved by the Board of Directors. The individual secured/unsecured lending authority of the President/Chief Executive Officer of the Bank is set at \$1,500,000 and the individual secured/unsecured lending authority of the Senior Lender/Executive Vice President is set at \$750,000. The President/Chief Executive Officer of the Bank and the Senior Lender/Executive Vice President may jointly lend up to 10% of the Bank's unimpaired capital for the previous quarter end. In the absence of either of the above, the other may, jointly with the approval of either the Chairman of the Board of Directors or a majority of the Loan Committee of the Board of Directors, lend up to 10% of

the Bank's unimpaired capital for the previous quarter end. The Board of Directors, with two-thirds vote, may approve the aggregate credit in excess of this limit but may not exceed 15% of the Bank's unimpaired capital. Loan limits apply to the total direct and indirect liability of the borrower. All loans above the loan officer's authority must have the approval of a loan officer with the authority to approve a loan of that amount. Pooling of loan authority is not allowed except as outlined above for the President/Chief Executive Officer, Senior Lender/Executive Vice President, Chairman of the Board of Directors, and a majority of the Loan Committee or two-thirds of the Board of Directors.

All new credit which results in aggregate direct, indirect, and related credit, not under an approved line of credit of a threshold set forth in our loan policy, with the exceptions of mortgage loans in the process of being sold to investors and loans secured by properly margined negotiable securities traded on an established market or other cash collateral, are reviewed in detail on a monthly basis by the Loan Committee. Certain new credits that meet a higher threshold than required for the Loan Committee are reviewed by the Board of Directors of the Bank at its regular monthly meeting.

## **Employees**

At December 31, 2019, we employed 79 people, with four individuals considered part time and one individual considered hourly, none of whom are subject to a collective bargaining agreement. We provide a variety of benefit programs including an Employee Stock Ownership Plan and Trust, Stock Incentive Plan, health, life, disability and other insurance. We believe our relationship with our employees is excellent.

## **Supervision and Regulation**

We are subject to extensive state and federal banking laws and regulations that impose specific requirements or restrictions and provide for general regulatory oversight of virtually all aspects of operations. The regulations are primarily intended to protect depositors, customers, and the integrity of the U.S. banking system and capital markets. The following information describes some of the more significant laws and regulations applicable to us. The description is qualified in its entirety by reference to the applicable laws and regulations. Proposals to change the laws and regulations governing the banking industry are frequently raised in Congress, state legislatures, and with the various bank regulatory agencies. Changes in applicable laws or regulations, or a change in the way such laws or regulations are interpreted by regulatory agencies or courts, may have a material impact on our business operations and earnings.

## **Dodd-Frank Act**

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") became effective. This law has broadly affected the financial services industry by implementing changes to the financial regulatory landscape aimed at strengthening the sound operation of the financial services industry. This legislation will continue to significantly change the current bank regulatory structure and affect the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies, including the Company and the Bank.

The Dodd-Frank Act created the Consumer Financial Protection Bureau (the "CFPB") to centralize responsibility for consumer financial protection, including implementing, examining and enforcing compliance with federal consumer financial laws. The CFPB exercises supervisory review of banks under its jurisdiction. The CFPB focuses its rulemaking in several areas, particularly in the areas of mortgage reform involving the Real Estate Settlement Procedures Act, the Truth in Lending Act, the Equal Credit Opportunity Act, and the Fair Debt Collection Practices Act. There are many provisions in the Dodd-Frank Act mandating regulators to adopt new regulations and conduct studies upon which future regulation may be based. Governmental intervention and new regulations could materially and adversely affect our business, financial condition and results of operations.

## **Volcker Rule**

Section 619 of the Dodd-Frank Act, known as the "Volcker Rule," prohibits any bank, bank holding company, or affiliate (referred to collectively as "banking entities") from engaging in two types of activities: proprietary trading and the ownership or sponsorship of private equity or hedge funds that are referred to as covered funds. Proprietary trading, in general, is trading in securities on a short-term basis for a banking entity's own account. In December 2013, federal banking agencies, the SEC and the Commodity Futures Trading Commission, finalized a regulation to implement the Volcker Rule. At December 31, 2019, the Company has evaluated our securities portfolio and has determined that we do not hold any covered funds.

## **Bank Holding Company Act**

The Company is a one-bank holding company under the Federal Bank Holding Company Act of 1956, as amended. As a result, the Company is primarily subject to the supervision, examination and reporting requirements of the Board of Governors (the “Federal Reserve Board”) of the Federal Reserve Bank (the “Federal Reserve”) under the act and its regulations promulgated thereunder.

## **Capital Requirements**

The Federal Reserve Board imposes certain capital requirements on the 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 (see Note 19). The ability of the Company to pay dividends to shareholders 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 Establishing 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 Federal Deposit Insurance Corporation (“FDIC”), their federal regulatory agency, and state supervisor when applicable. As a state chartered bank located in South Carolina, the Bank is also subject to the regulations of the South Carolina State Board of Financial Institutions.

The federal banking regulatory agencies prescribe, by regulation, standards for all insured depository institutions and depository institution holding companies relating to, among other things, 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

## **Transactions with Affiliates and Insiders**

We are subject to certain restrictions on extensions of credit to executive officers, directors, certain principal shareholders, and their related interests. Such extensions of credit 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 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, without regulatory approval, 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 by the Bank are subject to state usury laws and federal laws concerning interest rates. Our loan operations are also subject to federal laws applicable to credit transactions, such as:

- The federal Truth-In-Lending Act, which governs disclosures of credit terms to consumer borrowers
- The Home Mortgage Disclosure Act of 1975, which requires 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 Fair Lending Act, which requires fair, equitable, and nondiscriminatory access to credit for consumers
- 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, which governs the use and provision of information to credit reporting agencies
- The Fair Debt Collection Act, which governs 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 Gramm - Leach - Bliley Act, which governs the protection of consumer information.

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 the Federal Reserve Board issued Regulation E to implement the act, which governs automatic deposits to and withdrawals from deposit accounts 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.

## **Enforcement Powers**

The Company is subject to supervision and examination by the FDIC, the Federal Reserve and the South Carolina State Board of Financial Institutions. The Bank is subject to extensive federal and state regulations that significantly affect business and activities. These regulatory bodies have broad authority to implement standards and to initiate proceedings designed to prohibit depository institutions from engaging in activities that represent unsafe or unsound banking practices or constitute violations of applicable laws, rules, regulations, administrative orders, or written agreements with regulators. These regulatory bodies are authorized to take action against institutions that fail to meet such standards, including the assessment of civil monetary penalties, the issuance of cease-and-desist orders, and other actions.

## **Bank Secrecy Act/Anti-Money Laundering**

We are subject to the Bank Secrecy Act and other anti-money laundering laws and regulations, including the USA Patriot Act of 2001 ("USA Patriot Act"). We must maintain a Bank Secrecy Act Program that includes established internal policies, procedures, and controls; a designated compliance officer; an ongoing employee-training program; and testing of the program by an independent audit function. The enactment of the USA Patriot Act amended and expanded the focus of the Bank Secrecy Act to facilitate information

sharing among governmental entities and the Company for the purpose of combating terrorism and money laundering. It improves anti-money laundering and financial transparency laws, information collection tools and the enforcement mechanics for the U.S. government. These provisions include (a) standards for verifying customer identification at account opening; (b) rules to promote cooperation among financial institutions, regulators, and law enforcement entities in identifying parties that may be involved in terrorism or money laundering; (c) reports by nonfinancial trades and businesses filed with the U.S. Treasury's Financial Crimes Enforcement Network for transactions exceeding \$10,000; (d) suspicious activities reports by brokers and dealers if they believe a customer may be violating U.S. laws; and (e) regulations and enhanced due diligence requirements for financial institutions that administer, maintain, or manage private bank accounts or correspondent accounts for non-U.S. persons.

Similar in purpose to the Bank Secrecy Act, the Office of Foreign Assets Control ("OFAC"), a division of the U.S. Department of Treasury, controls and imposes economic and trade sanctions based on U.S. foreign policy and national security goals against targeted countries and individuals based on threats to foreign policy, national security, or the U.S. economy. OFAC has and will send banking regulatory agencies lists of names of individuals and organizations suspected of aiding, concealing, or engaging in terrorist acts. Among other things, the Bank must block transactions with or accounts of sanctioned persons and report those transactions after their occurrence.

Bank regulators routinely examine institutions for compliance with these obligations and are required to consider compliance in connection with the regulatory review of applications.

### **Privacy and Credit Reporting**

In connection with our lending activities, we are subject to a number of federal laws designed to protect borrowers and promote lending to various sectors of the economy and population. These include the Equal Credit Opportunity Act, the Truth-in-Lending Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, and the Community Reinvestment Act (the "CRA"). The CRA requires the appropriate federal banking agency, in connection with its examination of a bank, to assess the bank's record in meeting the credit needs of the communities served by the bank, including low and moderate income neighborhoods. Under the CRA, institutions are assigned a rating of "outstanding," "satisfactory," "needs to improve," or "substantial non-compliance." In addition, federal banking regulators, pursuant to the Gramm-Leach-Bliley Act, have enacted regulations limiting the ability of banks and other financial institutions to disclose nonpublic consumer information to non-affiliated third parties. The regulations require disclosure of privacy policies and allow consumers to prevent certain personal information from being shared with nonaffiliated third parties.

#### **Item 1A. Risk Factors**

Under the filer category of "smaller reporting company", as defined in Rule 12b-2 of the Exchange Act, the Company is not required to provide information requested by Part I, Item 1A of its Form 10-K.

#### **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 the Bank. The Bank also operates from four additional locations: 100 North Main Street, Summerville, SC; 1337 Chuck Dawley Boulevard, Mount Pleasant, SC; 2027 Sam Rittenberg Boulevard, Charleston, SC; and 9403 Highway 78, North Charleston, SC. The Bank's mortgage department was located at 1071 Morrison Drive, Charleston, SC for part of the year but relocated to 9403 Highway 78, North Charleston, SC during the second half of 2019. The Company owns the 2027 Sam Rittenberg Boulevard location, which houses the Operations Department of the Bank as well as a banking office. The Company leases all other locations. The owned location is not encumbered and all of the leases have renewal options. Each banking location is suitable and adequate for banking operations.

#### **Item 3. Legal Proceedings**

In our opinion, there are no legal proceedings pending other than routine litigation incidental to the Company's business involving amounts that are not material to our financial condition.

#### **Item 4. Mine Safety Disclosures**

Not applicable.



## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

At December 31, 2019, there were 5,799,637 shares issued and 5,530,001 shares outstanding of the 12,000,000 authorized shares of common stock of the Company. Our common stock is traded on the NASDAQ under the trading symbol "BKSC".

Information regarding the historical market prices of our common stock and dividends declared on that stock is shown below.

	<u>High</u>	<u>Low</u>	<u>Dividends</u>
<b>2019</b>			
Quarter ended March 31, 2019 .....	\$ 19.30	\$ 18.12	\$ 0.16
Quarter ended June 30, 2019 .....	\$ 20.01	\$ 17.52	\$ 0.16
Quarter ended September 30, 2019 .....	\$ 19.32	\$ 18.34	\$ 0.26
Quarter ended December 31, 2019 .....	\$ 18.99	\$ 18.27	\$ 0.16
<b>2018</b>			
Quarter ended March 31, 2018 .....	\$ 21.45	\$ 18.90	\$ 0.15
Quarter ended June 30, 2018 .....	\$ 21.90	\$ 17.55	\$ 0.15
Quarter ended September 30, 2018 .....	\$ 21.15	\$ 19.50	\$ 0.25
Quarter ended December 31, 2018 .....	\$ 20.90	\$ 17.89	\$ 0.15
<b>2017</b>			
Quarter ended March 31, 2017 .....	\$ 21.85	\$ 19.28	\$ 0.14
Quarter ended June 30, 2017 .....	\$ 21.15	\$ 18.80	\$ 0.14
Quarter ended September 30, 2017 .....	\$ 19.95	\$ 17.47	\$ 0.15
Quarter ended December 31, 2017 .....	\$ 19.35	\$ 18.00	\$ 0.15

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 that the Bank can pay to the Company.

At our December 1995 Board Meeting, the Board of Directors authorized the repurchase of up to 140,918 shares of its common stock on the open market. At our October 1999 Board Meeting, the Board of Directors authorized the repurchase of up to 45,752 shares of its common stock on the open market and again at our September 2001 Board meeting, the Board of Directors authorized the repurchase of up to 54,903 shares of its common stock on the open market. As of the date of this report, the Company owns 269,636 shares, adjusted for five 10% stock dividends and a 25% stock dividend. At the Annual Meeting in April 2007, the shareholders voted to increase the number of authorized shares from 6,000,000 to 12,000,000.

As of February 14, 2020, there were approximately 2,405 shareholders of record with shares held by individuals and in nominee names. The market price for our common stock as of February 14, 2020 was \$18.84. As of February 14, 2020, there were 5,799,999 shares of common stock issued and 5,530,363 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 ("ESOP") to provide retirement benefits to eligible employees of the Bank for long and faithful service. An amendment and restatement was made to the ESOP effective January 1, 2007 and approved by the Board of Directors on 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; however, to comply with the IRS rules, the Board of Directors approved a restated plan on January 26, 2012 (incorporated as Exhibit 10.5 in the 2011 10-K) and submitted the plan to the IRS for approval. The IRS issued a determination letter on September 26, 2013, stating that the plan satisfied the requirements of Code Section 4975 (e) (7). On January 26, 2017, the Board of Directors approved a restated plan (incorporated as Exhibit 10.6 in the 2016 10-K). The restated Plan was submitted to the IRS for approval and a determination letter was issued November 17, 2017, stating that the plan satisfies the requirements of Code Section 4975 (e) (7).



The Board of Directors of the Bank approved a cash contribution of \$510,000 to the ESOP for the fiscal year ended December 31, 2019. The Board of Directors of the Bank approved cash contributions of \$420,000 and \$375,000 for the fiscal years ended December 31, 2018 and 2017, respectively. The contributions were made during the respective fiscal years.

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 1<sup>st</sup> 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 employee's 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. Eugene H. Walpole, IV, Fleetwood S. Hassell, Sheryl G. Sharry and Douglas H. Sass, currently serve as the Plan Administrative Committee and Trustees for the Plan. At December 31, 2019, the Plan owned 313,703 shares of common stock of the Company.

#### **THE BANK OF SOUTH CAROLINA STOCK INCENTIVE PLAN**

We have a Stock Incentive Plan, which was approved in 1998, with 180,000 (329,422 adjusted for four 10% stock dividends, and a 25% stock dividend) shares reserved, and a Stock Incentive Plan, which was approved in 2010, with 300,000 (363,000 adjusted for two 10% stock dividends) 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. Participating 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. Employees are eligible to participate in this plan if the Executive/Long-Range Planning Committee, in its sole discretion, and the Compensation Committee as to Executive Officers who are members of the Executive/Long-Range Planning Committee, determines that an employee has contributed or can be expected to contribute to our profits or growth.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model. Expected volatilities are based on historical volatilities of our common stock. The expected term of the options granted will not exceed ten years from the date of grant (the amount of time options granted are expected to be outstanding). The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

## Item 6. Selected Financial Data

The following table sets 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.

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>For December 31:</b>					
Net income .....	\$ 7,318,433	\$ 6,922,934	\$ 4,901,825	\$ 5,247,063	\$ 4,884,288
<b>Selected Year End Balances:</b>					
Total assets .....	445,012,520	429,135,198	446,566,498	413,949,636	399,172,512
Total loans <sup>(1)</sup> .....	279,134,958	275,863,705	272,274,363	264,962,325	248,442,944
Investment securities available for sale ..	100,449,956	119,668,874	139,250,250	119,978,944	119,997,585
Interest-bearing deposits at the					
Federal Reserve .....	39,320,526	25,506,784	24,034,194	18,101,300	23,898,862
Earning assets .....	418,905,440	421,039,363	435,558,807	403,042,569	392,339,391
Total deposits .....	379,191,655	382,378,388	402,888,300	372,522,851	358,718,612
Total shareholders’ equity .....	51,168,032	45,462,561	42,764,635	40,612,974	39,151,712
<b>Weighted Average Shares</b>					
Outstanding - basic .....	5,522,025	5,500,027	5,471,001	5,428,884	5,403,749
<b>Weighted Average Shares</b>					
Outstanding - diluted .....	5,588,090	5,589,012	5,568,493	5,561,739	5,573,794
<b>For the Year:</b>					
<b>Selected Average Balances:</b>					
Total assets .....	440,615,140	430,495,412	428,174,359	410,581,560	379,527,104
Total loans <sup>(1)</sup> .....	281,508,711	277,223,600	264,881,222	265,151,258	243,729,630
Investment securities available for sale ..	106,421,507	123,347,669	130,161,937	110,762,289	110,633,399
Interest-bearing deposits at the					
Federal Reserve .....	34,713,982	20,151,823	23,558,893	26,474,258	17,549,903
Earning assets .....	422,644,200	420,723,092	418,602,052	402,387,805	371,912,932
Total deposits .....	381,687,960	386,025,147	384,524,305	367,822,900	337,969,217
Total shareholders’ equity .....	49,242,545	43,691,359	43,121,778	41,479,755	38,631,718
<b>Performance Ratios:</b>					
Return on average equity .....	14.86%	15.85%	11.37%	12.65%	12.64%
Return on average assets .....	1.66%	1.61%	1.14%	1.28%	1.29%
Average equity to average assets .....	11.18%	10.15%	10.07%	10.10%	10.18%
Net interest margin .....	4.28%	4.15%	3.76%	3.71%	3.72%
Net (recoveries) charge-offs to average loans	0.14%	(0.01)%	0.01%	0.05%	0.04%
Allowance for loan losses as a percentage of					
total loans <sup>(2)</sup> .....	1.46%	1.53%	1.43%	1.48%	1.41%
<b>Per Share:</b>					
Basic income per common share <sup>(3)</sup> .....	\$ 1.33	\$ 1.26	\$ 0.90	\$ 0.96	\$ 0.90
Diluted income per common share <sup>(3)</sup> .....	\$ 1.31	\$ 1.24	\$ 0.88	\$ 0.94	\$ 0.88
Year end book value <sup>(3)</sup> .....	\$ 9.25	\$ 8.25	\$ 7.79	\$ 7.45	\$ 7.24
Dividends per common share .....	\$ 0.74	\$ 0.70	\$ 0.58	\$ 0.54	\$ 0.52
Dividend payout ratio .....	55.88%	54.68%	58.87%	50.86%	49.94%
Full time employee equivalents .....	79	79	77	74	81

(1) Including mortgage loans to be sold.

(2) Excluding mortgage loans to be sold.

(3) Adjusted to retroactively reflect 10% stock dividend issued during the year ended December 31, 2018.

## **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 our 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.

### **OVERVIEW**

The Company is a bank holding company headquartered in Charleston, South Carolina, with \$445.0 million in assets as of December 31, 2019 and net income of \$7.3 million for the year ended December 31, 2019. The Company offers a broad range of financial services through its wholly owned subsidiary, 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, and attention to detail to foster long-standing relationships.

We derive most of our income from interest on loans and investment securities. The primary source of funding for making these loans and investment securities is our interest-bearing and non-interest-bearing deposits. Consequently, one of the key measures of our success is the amount of net interest income, or the difference between the income on our interest-earning assets, such as loans and investments, and the expense on our interest-bearing liabilities, such as deposits. Another key measure is the spread between the yield we earn on these interest-earning assets and the rate we pay on our interest-bearing liabilities.

A consequence of lending activities is that we may incur credit losses. The amount of such losses will vary depending upon the risk characteristics of the loan portfolio as affected by economic conditions such as rising interest rates and the financial performance of borrowers. The reserve for credit losses consists of the allowance for loan losses (the “allowance”) and a reserve for unfunded commitments (the “unfunded reserve”). The allowance provides for probable and estimable losses inherent in our loan portfolio while the unfunded reserve provides for potential losses related to unfunded lending commitments. For a detailed discussion on the allowance for loan losses, see “Allowance for Loan Losses”.

In addition to earning interest on loans and investment securities, we earn income through fees and other expenses we charge to the customer. The various components of other income and other expenses are described in the following discussion. The discussion and analysis also identifies significant factors that have affected our financial position and operating results for the year ended as of December 31, 2019 as compared to December 31, 2018 and our operating results for 2018 compared to 2017 and 2017 compared to 2016, and should be read in conjunction with the consolidated 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**

We have adopted various accounting policies that govern the application of accounting principles generally accepted in the United States (“GAAP”) and with general practices within the banking industry in the preparation of our consolidated financial statements. Our significant accounting policies are set forth in the notes to the consolidated financial statements of this report.

Certain accounting policies involve significant judgments and assumptions made by the Company that have a material impact on the carrying value of certain assets and liabilities. We consider these accounting policies to be critical accounting policies. The judgment and assumptions we use are based on factors that we believe to be reasonable under the circumstances. Because of the number of judgments and assumptions that we make, actual results could differ and have a material impact on the carrying values of our assets and liabilities and our results of operations.

We consider our policy regarding the allowance for loan losses to be our most subjective accounting policy due to the significant degree of judgment. We have developed what we believe 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 our loan portfolio. Our 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 at the time of the issuance of the consolidated financial statements. For additional discussion concerning our allowance for loan losses and related matters, see “Allowance for Loan Losses”.

## **COMPARISON OF THE YEAR ENDED DECEMBER 31, 2019 TO DECEMBER 31, 2018**

Net income increased \$0.4 million or 5.71% to \$7.3 million, or basic and diluted income per share of \$1.33 and \$1.31, respectively, for the year ended December 31, 2019 from \$6.9 million or basic and diluted income per share of \$1.26 and \$1.24, respectively, for the year ended December 31, 2018. The increase in net income was primarily due to rising interest rates in the first half of the year on interest-earning assets and a decrease in other operating expenses. Our returns on average assets and average equity for the year ended December 31, 2019 were 1.66% and 14.86%, respectively, compared with 1.61% and 15.85%, respectively, for the year ended December 31, 2018.

Net interest income increased \$0.7 million or 3.75% to \$18.1 million for the year ended December 31, 2019 from \$17.4 million for the year ended December 31, 2018. This increase was primarily due to increases in interest and fees on loans. Interest and fees on loans increased \$0.9 million or 5.74% to \$16.0 million for the year ended December 31, 2019 from \$15.1 million for the year ended December 31, 2018, as the result of the higher Federal Funds target rate set by the Federal Reserve during the first half of the year during an expansion of our loan portfolio.

Average earning assets increased \$1.9 million or 0.46% to \$422.6 million for the year ended December 31, 2019 from \$420.7 million for the year ended December 31, 2018. This is primarily related to the increase in the average balance of loans and interest-bearing deposits at the Federal Reserve offset by decreases in average investment securities.

The provision to the allowance for loan losses for the year ended December 31, 2019 was \$180,000 compared to \$325,000 for the year ended December 31, 2018. The decrease was primarily driven by the composition of our loan portfolio in accordance with our allowance for loan loss methodology. The Board of Directors determined that this provision was appropriate based upon the adequacy of our reserve. Charge-offs of \$407,027 and recoveries of \$16,454, together with the provision to the allowance, resulted in an allowance for loan losses of \$4.0 million or 1.46% of total loans at December 31, 2019.

Other income increased \$0.2 million or 10.23% to \$2.2 million for the year ended December 31, 2019, from \$2.0 million for the year ended December 31, 2018. Our mortgage banking income increased \$0.1 million or 19.54% to \$0.9 million for the year ended December 31, 2019 from \$0.8 million for the year ended December 31, 2018 due to increased volume. Mortgage banking income is highly influenced by mortgage interest rates and the housing market.

Other expense decreased \$0.5 million or 4.14% to \$10.6 million for the year ended December 31, 2019, from \$11.1 million for the year ended December 31, 2018. Other operating expenses decreased \$0.8 million to \$2.2 million during the year ended December 31, 2019 from \$3.0 million during the year ended December 31, 2018. This decrease is directly related to the amortization expense of \$354,888 for our investment in a Federal Rehabilitation Tax Credit that was recorded during the year ended December 31, 2018.

For the year ended December 31, 2019, the Company's effective tax rate was 22.91% compared to 13.81% during the year ended December 31, 2018. The increase in the effective tax rate is directly related to the expiration of our 2018 investment in a Federal Rehabilitation Tax Credit.

## **COMPARISON OF THE YEAR ENDED DECEMBER 31, 2018 TO DECEMBER 31, 2017**

Net income increased \$2.0 million or 41.23% to \$6.9 million, or basic and diluted income per share of \$1.26 and \$1.24, respectively, for the year ended December 31, 2018 from \$4.9 million or basic and diluted income per share of \$0.90 and \$0.88, respectively, for the year ended December 31, 2017. The increase in net income was primarily due to improved margins resulting from a lower corporate tax rate due to the enactment of the Tax Cuts and Jobs Act and rising interest rates on interest-earning assets. Our returns on average assets and average equity for the year ended December 31, 2018 were 1.61% and 15.85%, respectively, compared with 1.14% and 11.37%, respectively, for the year ended December 31, 2017.

Net interest income increased \$1.7 million or 10.78% to \$17.4 million for the year ended December 31, 2018 from \$15.7 million for the year ended December 31, 2017. This increase was primarily due to increases in interest and fees on loans and investment securities. Interest and fees on loans increased \$1.8 million or 13.84% to \$15.1 million for the year ended December 31, 2018 from \$13.3 million for the year ended December 31, 2017, as the result of the increases in the Federal Funds target rate set by the Federal Reserve. Interest income on investment securities increased \$4,980 or 0.31% to \$2.6 million for the year ended December 31, 2018.

Average earning assets increased \$2.1 million or 0.51% to \$420.7 million for the year ended December 31, 2018 from \$418.6 million for the year ended December 31, 2017. This is primarily related to the increase in the average balance of loans offset by decreases in average investment securities and interest-bearing deposits at the Federal Reserve.

The provision to the allowance for loan losses for the year ended December 31, 2018 was \$325,000 compared to \$55,000 for the year ended December 31, 2017. The increase was primarily driven by the growth of our loan portfolio in accordance with our allowance for loan loss methodology. The Board of Directors determined that this provision was appropriate based upon the adequacy of our reserve. Charge-offs of \$115,887 and recoveries of \$129,820, together with the provision to the allowance, resulted in an allowance for loan losses of \$4,214,331 or 1.53% of total loans at December 31, 2018.

Other income decreased \$273,846 or 12.07% to \$2.0 million for the year ended December 31, 2018, from \$2.3 million for the year ended December 31, 2017. Our mortgage banking income decreased \$270,564 or 25.59% to \$786,893 for the year ended December 31, 2018 from \$1.1 million for the year ended December 31, 2017 due to decreased volume. We were also impacted by an increase in competition as new banks entered the market area. Mortgage banking income is highly influenced by mortgage interest rates and the housing market.

Other expense increased \$837,938 or 8.18% to \$11.1 million for the year ended December 31, 2018, from \$10.2 million for the year ended December 31, 2017. Salaries and employee benefits increased \$427,398 or 7.05% from \$6.1 million for the year ended December 31, 2017 to \$6.5 million for the year ended December 31, 2018. Other operating expenses increased \$435,726 to \$3.0 million during the year ended December 31, 2018 from \$2.5 million during the year ended December 31, 2017. This increase is directly related to the amortization expense of \$354,888 for our investment in a Federal Rehabilitation Tax Credit.

For the year ended December 31, 2018, the Company's effective tax rate was 13.81% compared to 36.48% during the year ended December 31, 2017. The decrease in the effective tax rate is directly related to the income tax expense recorded due to the revaluation of the deferred tax asset in 2017, as well as our investment in a Federal Rehabilitation Tax Credit in 2018. As a result of the enactment of the Tax Cuts and Jobs Act, which changed the corporate tax rate to 21% from 34%, the deferred tax asset was revalued on December 22, 2017. This revaluation resulted in additional income tax expense of \$666,674 in 2017.

### **COMPARISON OF THE YEAR ENDED DECEMBER 31, 2017 TO DECEMBER 31, 2016**

Net income decreased \$345,238 or 6.58% to \$4.9 million, or basic and diluted income per share of \$0.90 and \$0.88, respectively for the year ended December 31, 2017 from \$5.2 million or basic and diluted income per share of \$0.97 and \$0.94, respectively for the year ended December 31, 2016. The decrease in net income was primarily due to the enactment of the Tax Cuts and Jobs Act on December 22, 2017 and the related revaluation of the deferred tax asset. Deferred tax assets and liabilities must be adjusted to legislation based on the enactment date not the effective date; therefore, the deferred tax asset was revalued at a corporate tax rate of 21% instead of 34% in accordance with GAAP at December 22, 2017. This revaluation resulted in additional income tax expense of \$666,674. Our returns on average assets and average equity for the year ended December 31, 2017 were 1.14% and 11.37%, respectively, compared with 1.28% and 12.65%, respectively, for the year ended December 31, 2016.

Net interest income increased \$828,427 or 5.55% to \$15.7 million for the year ended December 31, 2017 from \$14.9 million for the year ended December 31, 2016. This increase was primarily due to increases in interest and fees on loans and investment securities. Interest and fees on loans increased \$435,418 or 3.89% to \$13.3 million for the year ended December 31, 2017 from \$12.9 million for the year ended December 31, 2016, as the result of the increases in the Federal Funds rate set by the Federal Reserve. Interest income on investment securities increased \$306,944 or 13.32% to \$2.6 million for the year ended December 31, 2017 from \$2.3 million for the year ended December 31, 2016 a result of the increase in the average balance of investment securities from \$110.8 million for the year ended December 31, 2016 to \$130.2 million for the year ended December 31, 2017.

Average earning assets increased \$16.2 million or 4.03% to \$418.6 million for the year ended December 31, 2017 from \$402.4 million for the year ended December 31, 2016. This is primarily related to the increase in the average balance of investment securities as stated in the previous paragraph.

The provision to the allowance for loan losses for the year ended December 31, 2017 was \$55,000 compared to \$570,000 for the year ended December 31, 2016. The decrease was primarily a result of slower loan growth in the first three quarters of the year and lower net charge-offs. The Board of Directors determined that this provision was appropriate based upon the adequacy of our reserve and the anticipation of continued loan growth and an improving economy. Charge-offs of \$185,449 and recoveries of \$154,230, together with the provision to the allowance, resulted in an allowance for loan losses of \$3.9 million or 1.43% of total loans at December 31, 2017.

Other income decreased \$592,612 or 20.71% to \$2.3 million for the year ended December 31, 2017. Our mortgage banking income decreased \$330,283 or 23.80% to \$1.1 million for the year ended December 31, 2017 from \$1.4 million for the year ended December 31, 2016 due to decreased volume. We were also impacted by an increase in competition as new banks enter the market area. Mortgage banking income is highly influenced by mortgage interest rates and the housing market. Mortgage loan originations decreased \$20.2 million or 26.62% to \$55.8 million for the year ended December 31, 2017 from \$76.0 million for the year ended December 31, 2016. We also had gains of \$380,904 on the sales of investment securities during the year ended December 31, 2016 compared to gains of \$45,820 during the year ended December 31, 2017, a decrease of \$335,084 or 87.97%. The decrease in gains was due to the little difference between short-term and long-term rates for bonds of the same credit quality in the current market.

Other expense decreased \$30,148 or 0.29% to \$10.2 million for the year ended December 31, 2017, from \$10.3 million for the year ended December 31, 2016. Salaries and employee benefits decreased \$27,098 or 0.45% from \$6.1 million for the year ended December 31, 2016 to \$6.1 million for the year ended December 31, 2017. Other operating expenses decreased \$122,039 to \$2.5 million during the year ended December 31, 2017 from \$2.6 million during the year ended December 31, 2016. This decrease was



primarily attributable to a decrease in state and FDIC insurance and fees. Our net occupancy expense increased \$43,028 or 2.82% to \$1.6 million for the year ended December 31, 2017, from \$1.5 million for the year ended December 31, 2016. Our net occupancy expense includes rent and insurance on our banking locations as well as the cost of repairs and maintenance on these facilities. Occupancy expense increased primarily due to annual rent increases at our Meeting Street and Summerville banking locations as well as an increase in insurance on banking locations, offset by a decrease in the cost of maintenance and repairs and depreciation on furniture, fixtures and equipment.

For the year ended December 31, 2017, the Company's effective tax rate was 36.48% compared to 24.34% during the year ended December 31, 2016. The increase in the effective tax rate is directly related to the income tax expense recorded due to the revaluation of the deferred tax asset. As a result of the enactment of the Tax Cuts and Jobs Act changing the corporate tax rate to 21% from 34%, the deferred tax asset was revalued on December 22, 2017. This revaluation resulted in additional income tax expense of \$666,674.

## **ASSET AND LIABILITY MANAGEMENT**

We manage our assets and liabilities to ensure there is sufficient liquidity to enable management to fund deposit withdrawals, loan demand, capital expenditures, reserve requirements, operating expenses, and dividends; and to manage daily operations on an ongoing basis. Funds are primarily provided by the Bank through customer deposits, principal and interest payments on loans, mortgage loan sales, the sale or maturity of securities, temporary investments and earnings. The Asset Liability/Investment Committee ("ALCO") manages asset and liability procedures though the ultimate responsibility rests with the President/Chief Executive Officer. At December 31, 2019, total assets increased 3.70% to \$445.0 million from \$429.1 million as of December 31, 2018 and total deposits decreased 0.83% to \$379.2 million from \$382.4 million as of December 31, 2018.

As of December 31, 2019, earning assets, which are composed of U.S. Treasury, Government Sponsored Enterprises and Municipal Securities in the amount of \$100.4 million, interest-bearing deposits at the Federal Reserve in the amount of \$39.3 million and total loans, including mortgage loans held for sale, in the amount of \$279.1 million, constituted approximately 34.74% of our total assets.

The yield on a majority of our earning assets adjusts in tandem 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 interest rates. Our risk consists primarily of interest rate risk in our lending and investing activities as they relate to the funding by deposit and borrowing activities.

Our policy is to minimize interest rate risk between interest-earning assets and interest-bearing liabilities at various maturities and to attempt to maintain an asset sensitive position over a one-year period. By adhering to this policy, we anticipate that our net interest margins will not be materially affected, unless there is an extraordinary and or precipitous change in interest rates. The average net interest rate margin for 2019 increased to 4.28% from 4.15% for 2018. At December 31, 2019 and 2018, our net cumulative gap was liability sensitive for periods less than one year and asset sensitive for periods of one year or more. The reason for the shift in sensitivity is the direct result of management's strategic decision to invest excess funds held at the Federal Reserve into fixed rate investment securities that match our investment policy objectives. Management is aware of this departure from policy and will continue to closely monitor our sensitivity position going forward.

Since the rates on most of our interest-bearing liabilities can vary on a daily basis, we continue 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, we offer certain fixed rates, interest rate floors, and terms primarily associated with real estate transactions. We seek stable, long-term deposit relationships to fund our loan portfolio. Furthermore, we do not have any brokered deposits or internet deposits.

At December 31, 2019, the average maturity of the investment portfolio was 2.96 years with an average yield of 2.00% compared to 3.69 years with an average yield of 2.08% at December 31, 2018.

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



The following table summarizes our interest sensitivity position as of December 31, 2019.

	<u>One Day</u>	<u>Less than three months</u>	<u>Three months to less than six months</u>	<u>Six months to less than one year</u>	<u>One year to less than five years</u>	<u>Five years or more</u>	<u>Total</u>	<u>Estimated Fair Value</u>
(in thousands)								
<b>Interest-earning assets</b>								
Loans <sup>(1)</sup> .....	\$ 126,870	\$ 19,393	\$ 16,001	\$ 23,697	\$ 92,847	\$ 327	\$ 279,135	\$ 275,740
Investment securities available for sale <sup>(2)</sup> .....	—	5,885	1,334	3,403	80,247	8,969	99,838	100,450
Interest-bearing deposits at the Federal Reserve .....	39,321	—	—	—	—	—	39,321	39,321
<b>Total</b> .....	<b>\$ 166,191</b>	<b>\$ 25,278</b>	<b>\$ 17,335</b>	<b>\$ 27,100</b>	<b>\$ 173,094</b>	<b>\$ 9,296</b>	<b>\$ 418,294</b>	<b>\$ 415,511</b>
<b>Interest-bearing liabilities</b>								
CD's and other time deposits less than \$250,000 .....	\$ —	\$ 6,406	\$ 3,459	\$ 4,295	\$ 2,055	\$ —	\$ 16,215	\$ 17,598
CD's and other time deposits \$250,000 and over .....	—	1,387	2,064	2,517	—	—	5,968	4,364
Money market and interest-bearing demand accounts .....	194,141	—	—	—	—	—	194,141	194,141
Savings .....	37,247	—	—	—	—	—	37,247	37,247
<b>Total</b> .....	<b>\$ 231,388</b>	<b>\$ 7,793</b>	<b>\$ 5,523</b>	<b>\$ 6,812</b>	<b>\$ 2,055</b>	<b>\$ —</b>	<b>\$ 253,571</b>	<b>\$ 253,350</b>
<b>Net</b> .....	<b>\$ (65,197)</b>	<b>\$ 17,485</b>	<b>\$ 11,812</b>	<b>\$ 20,288</b>	<b>\$ 171,039</b>	<b>\$ 9,296</b>	<b>\$ 164,723</b>	
<b>Cumulative</b> .....		<b>(47,712)</b>	<b>(35,900)</b>	<b>(15,612)</b>	<b>155,427</b>	<b>164,723</b>		

(1) Including mortgage loans to be sold and deferred fees.

(2) At amortized cost.

## LIQUIDITY

Historically, we have maintained our 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, 2019.

	<u>Payment Due by Period</u>			
	<u>Total</u>	<u>Less than one year</u>	<u>One to five years</u>	<u>After five years</u>
<b>Contractual Obligations</b>				
<i>(in thousands)</i>				
Time deposits .....	\$ 22,183	\$ 20,128	\$ 2,055	\$ —
Operating leases .....	15,405	902	3,763	10,740
<b>Total contractual cash obligations</b> .....	<b>\$ 37,588</b>	<b>\$ 21,030</b>	<b>\$ 5,818</b>	<b>\$ 10,740</b>

Proper liquidity management is crucial to ensure that we are able to take advantage of new business opportunities as well as meet the credit needs of our existing customers. Investment securities are an important tool in our liquidity management. Our primary liquid assets are cash and due from banks, investments available for sale, interest-bearing deposits at the Federal Reserve, and mortgage loans held for sale. Our primary liquid assets accounted for 34.74% and 35.58% of total assets at December 31, 2019 and 2018, respectively. Investment 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 investment securities presently owned are classified as available for sale. Net cash provided by operations and deposits from customers have been the primary sources of liquidity. At December 31, 2018, we had unused short-term lines of credit totaling approximately \$23.0 million (which can be withdrawn at the lender's option). Additional sources of funds available to us for liquidity include increasing deposits by raising interest rates paid and selling mortgage loans held for sale. We also established a Borrower-In-Custody arrangement with the Federal Reserve. This arrangement permits us to retain possession of assets pledged as collateral to secure advances from the Federal Reserve Discount Window. At December 31, 2019, we could borrow up to \$56.8 million. There have been no borrowings under this arrangement.

Our core deposits consist of non-interest bearing demand accounts, NOW accounts, money market accounts, time deposits and savings accounts. We closely monitor our reliance on certificates of deposit greater than \$250,000 and other large deposits. We maintain a Contingency Funding Plan (“CFP”) that identifies liquidity needs and weighs alternate courses of action designed to address these needs in emergency situations. We perform a quarterly cash flow analysis and stress test the CFP to evaluate the expected funding needs and funding capacity during a liquidity stress event. We believe our liquidity sources are adequate to meet our operating needs and do not know of any trends, events or uncertainties that may result in a significant adverse effect on our liquidity position. At December 31, 2019 and 2018, our liquidity ratio was 36.18% and 34.27%, respectively.

Average earning assets increased by \$1.9 million from 2018 to 2019. This increase was primarily due proceeds from the sale or maturity of investment securities reinvested at the Federal Reserve as well as an increase of \$4.3 million in average loans.

The following table shows the composition of average assets over the past five fiscal years.

	2019	2018	2017	2016	2015
Loans <sup>(1)</sup> , net . . . . .	\$ 277,395,432	\$ 273,329,677	\$ 260,987,352	\$ 261,587,734	\$ 240,380,985
Investment securities available for sale . . . . .	106,421,507	123,347,669	130,161,937	110,762,289	110,633,399
Interest-bearing deposits at the Federal Reserve . . . . .	34,713,982	20,151,823	23,558,893	26,474,258	17,549,903
Non-earning assets . . . . .	22,084,219	13,666,243	13,466,177	11,757,279	10,962,817
Total average assets . . . . .	<u>\$ 440,615,140</u>	<u>\$ 430,495,412</u>	<u>\$ 428,174,359</u>	<u>\$ 410,581,560</u>	<u>\$ 379,527,104</u>

(1) Including mortgage loans to be sold and deferred fees.

### 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.

	2019 vs. 2018			2018 vs. 2017			2017 vs. 2016		
	Volume	Rate	Net Dollar Change <sup>(1)</sup>	Volume	Rate	Net Dollar Change <sup>(1)</sup>	Volume	Rate	Net Dollar Change <sup>(1)</sup>
Loans <sup>(2)</sup> . . . . .	\$ 237,995	\$ 629,980	\$ 867,975	\$ 619,462	\$ 1,219,536	\$ 1,838,998	\$ (12,868)	\$ 448,286	\$ 435,418
Investment securities available for sale . . . . .	(364,113)	(64,792)	(428,905)	(133,820)	138,800	4,980	390,667	(83,722)	306,945
Interest-bearing deposits at the Federal Reserve . . . . .	284,163	52,108	336,271	(38,839)	162,625	123,786	(16,770)	147,957	131,187
Interest income . . . . .	<u>\$ 158,045</u>	<u>\$ 617,296</u>	<u>\$ 775,341</u>	<u>\$ 466,803</u>	<u>\$ 1,520,961</u>	<u>\$ 1,967,764</u>	<u>\$ 361,029</u>	<u>\$ 512,521</u>	<u>\$ 873,550</u>
Interest-bearing transaction accounts . . . . .	\$ 28,048	\$ 137,012	\$ 165,060	\$ (1,334)	\$ 214,584	\$ 213,250	\$ 12,863	\$ (2,853)	\$ 10,010
Savings . . . . .	(4,507)	20,217	15,710	1,355	40,614	41,969	6,097	(340)	5,757
Time deposits . . . . .	(80,972)	20,987	(59,985)	(11,973)	27,277	15,304	(14,974)	44,330	29,356
Interest expense . . . . .	<u>\$ (57,431)</u>	<u>\$ 178,216</u>	<u>\$ 120,785</u>	<u>\$ (11,952)</u>	<u>\$ 282,475</u>	<u>\$ 270,523</u>	<u>\$ 3,986</u>	<u>\$ 41,137</u>	<u>\$ 45,123</u>
Increase in net interest income . . . . .			<u>\$ 654,556</u>			<u>\$ 1,697,241</u>			<u>\$ 828,427</u>

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

(2) Including mortgage loans to be sold.

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

The following table shows the yields on average earning assets and average interest-bearing liabilities.

	2019			2018			2017		
	Average Balance	Interest Paid/ Earned	Average Yield/ Rate <sup>(1)</sup>	Average Balance	Interest Paid/ Earned	Average Yield/ Rate <sup>(1)</sup>	Average Balance	Interest Paid/ Earned	Average Yield/ Rate <sup>(1)</sup>
<b>Interest-earning assets</b>									
Loans <sup>(2)</sup> . . . . .	\$ 281,508,711	\$ 15,994,290	5.68%	\$ 277,223,600	\$ 15,126,316	5.46%	\$ 264,881,222	\$ 13,287,318	5.02%
Investment Securities Available for Sale . . . . .	106,421,507	2,188,094	2.06%	123,347,669	2,616,998	2.12%	130,161,937	2,612,018	2.01%
Federal Funds Sold & Interest-bearing deposits . . . . .	34,713,982	729,868	2.10%	20,151,823	393,597	1.95%	23,558,893	269,811	1.15%
Total earning assets . . . . .	\$ 422,644,200	\$ 18,912,252	4.47%	\$ 420,723,092	\$ 18,136,911	4.31%	\$ 418,602,052	\$ 16,169,147	3.86%
<b>Interest-bearing liabilities</b>									
Interest-bearing transaction accounts . . . . .	\$ 189,114,988	\$ 552,612	0.29%	\$ 176,796,964	\$ 387,552	0.22%	\$ 178,146,123	\$ 174,302	0.10%
Savings . . . . .	32,934,733	97,707	0.30%	34,857,035	81,997	0.24%	33,694,318	40,028	0.12%
Time Deposits . . . . .	26,456,064	164,852	0.62%	41,325,783	224,837	0.54%	44,097,537	209,533	0.48%
Total interest-bearing liabilities . . . . .	\$ 248,505,785	\$ 815,171	0.33%	\$ 252,979,782	\$ 694,386	0.27%	\$ 255,937,978	\$ 423,863	0.17%
Net interest spread . . . . .			4.14%			4.04%			3.69%
Net interest margin . . . . .			4.28%			4.15%			3.76%
Net interest income . . . . .		\$ 18,097,081			\$ 17,442,525			\$ 15,745,284	

(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 to be sold.

## INVESTMENT PORTFOLIO

The following tables summarize the carrying value of investment securities as of the indicated dates and the weighted-average yields of those securities at December 31, 2019.

	Amortized Cost				Total	Estimated Fair Value
	Within One Year	After One Year through Five Years	After Five Years through Ten Years	After Ten Years		
<i>(in thousands)</i>						
U.S. Treasury Notes .....	\$ 3,000	\$ 20,081	\$ —	\$ —	\$ 23,081	\$ 23,180
Government-Sponsored Enterprises .....	—	45,057	5,083	—	50,140	50,498
Municipal Securities .....	6,186	12,123	8,309	—	26,618	26,772
Total .....	<u>\$ 9,186</u>	<u>\$ 77,261</u>	<u>\$ 13,392</u>	<u>\$ —</u>	<u>\$ 99,839</u>	<u>\$ 100,450</u>

### Weighted average yields

U.S. Treasury Notes .....	1.75%	1.79%	—%	—%
Government-Sponsored Enterprises .....	—%	2.09%	1.87%	—%
Municipal Securities .....	2.00%	2.27%	2.06%	—%
Total .....	<u>1.98%</u>	<u>2.18%</u>	<u>2.05%</u>	<u>2.00%</u>

The following tables present the amortized cost and estimated fair value of investment securities for the past three years.

December 31, 2019	Amortized Cost	Estimated Fair Value
<i>(in thousands)</i>		
U.S. Treasury Notes .....	\$ 23,080	\$ 23,180
Government-Sponsored Enterprises .....	50,140	50,498
Municipal Securities .....	26,618	26,772
Total .....	<u>\$ 99,838</u>	<u>\$ 100,450</u>

December 31, 2018	Amortized Cost	Estimated Fair Value
<i>(in thousands)</i>		
U.S. Treasury Notes .....	\$ 32,966	\$ 32,357
Government-Sponsored Enterprises .....	60,685	59,369
Municipal Securities .....	28,268	27,943
Total .....	<u>\$ 121,919</u>	<u>\$ 119,669</u>

December 31, 2017	Amortized Cost	Estimated Fair Value
<i>(in thousands)</i>		
U.S. Treasury Notes .....	\$ 35,971	\$ 35,560
Government-Sponsored Enterprises .....	64,444	63,556
Municipal Securities .....	40,192	40,134
Total .....	<u>\$ 140,607</u>	<u>\$ 139,250</u>

As of December 31, 2019, we had no U.S. Treasury Notes with an unrealized loss compared to seven U.S. Treasury Notes with an unrealized loss of \$609,059 at December 31, 2018. At December 31, 2019, we had one Government-Sponsored Enterprises with an unrealized loss of \$43,100 compared to 13 Government-Sponsored Enterprises with an unrealized loss of \$1.3 million at December 31, 2018. At December 31, 2019, we had 10 Municipal Securities with an unrealized loss of \$16,454 compared to 33 Municipal Securities with an unrealized loss of \$437,941 at December 31, 2018. The unrealized losses on these securities are related to the changes in the interest rate environment. 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. We have the ability to hold these investments until market price recovery or maturity.

The primary purpose of the investment portfolio is to fund loan demand, manage fluctuations in deposits and liquidity, satisfy pledging requirements and generate a favorable return on investment. In doing these things, our main objective is to adhere to sound investment practices. To that end, all purchases and sales of investment securities are made through reputable securities dealers that have been approved by the Board of Directors. The Board of Directors of the Bank reviews the entire investment portfolio at each regular monthly meeting, including any purchases, sales, calls, and maturities during the previous month. Furthermore, the Credit Department conducts a financial underwriting assessment of all municipal securities and their corresponding municipalities annually and management reviews the assessments.

### LOAN PORTFOLIO COMPOSITION

We focus our lending activities on small and middle market businesses, professionals and individuals in our geographic market. At December 31, 2019, outstanding loans (including deferred loan fees of \$155,697) totaled \$274.1 million, which equaled 72.28% of total deposits and 61.59% of total assets.

The following table is a schedule of our loan portfolio, excluding both mortgage loans to be sold and deferred loan fees, as of December 31, 2019, compared to the prior four years.

<i>(in thousands)</i>	Book Value of Loans as of December 31,				
	2019	2018	2017	2016	2015
Commercial	\$ 52,848	\$ 54,829	\$ 51,723	\$ 52,262	\$ 50,938
Commercial real estate					
construction	12,491	7,304	2,318	1,209	1,005
Commercial real estate other	143,824	143,703	140,187	122,968	115,736
Consumer real estate	59,532	63,787	70,798	77,132	69,777
Consumer other	5,378	5,040	5,155	7,005	5,166
Total	<u>\$ 274,073</u>	<u>\$ 274,664</u>	<u>\$ 270,181</u>	<u>\$ 260,576</u>	<u>\$ 242,622</u>

We had no foreign loans or loans to fund leveraged buyouts at any time during the years ended December 31, 2015 through December 31, 2019.

The following table presents the contractual terms to maturity for loans outstanding at December 31, 2019. Demand loans, loans having no stated schedule of repayment or 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 our actual principal experience to differ from that shown.

<i>(in thousands)</i>	Selected Loan Maturity as of December 31, 2019			
	One Year or Less	Over One Year but Less Than 5 years	Over 5 Years	Total
Commercial	\$ 31,448	\$ 20,766	\$ 634	\$ 52,848
Commercial real estate construction	6,697	5,794	—	12,491
Commercial real estate other	39,974	91,656	12,194	143,824
Consumer real estate	15,169	7,298	37,065	59,532
Consumer other	1,938	3,368	72	5,378
Total	<u>\$ 95,226</u>	<u>\$ 128,882</u>	<u>\$ 49,965</u>	<u>\$ 274,073</u>

Loans maturing after one year with:

Fixed interest rates	\$ 93,087
Floating interest rates	—
Total	<u>\$ 93,087</u>

## IMPAIRED LOANS

A loan is impaired when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement based on current information and events. All loans with a principal balance over \$50,000 placed on non-accrual status are classified as impaired. However, not all impaired loans are on non-accrual status nor do they all represent a loss.

Impairment loss is measured by:

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

The following is a schedule of our impaired loans and non-accrual loans.

Loan	Impaired and Non-Accrual Loans as of December 31,				
	2019	2018	2017	2016	2015
Non-accrual loans . . . . .	\$ 1,666,301	\$ 823,534	\$ 831,859	\$ 1,741,621	\$ 2,061,088
Impaired loans . . . . .	\$ 4,776,928	\$ 4,278,347	\$ 3,724,262	\$ 5,901,784	\$ 6,542,707

## TROUBLED DEBT RESTRUCTURINGS

According to GAAP, we are required to account for certain loan modifications or restructurings as a troubled debt restructuring ("TDR"), when appropriate. In general, the modification or restructuring of a debt is considered a TDR if we, for economic or legal reasons related to a borrower's financial difficulties, grant a concession to the borrower that we 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, and
3. We grant a concession that we would not otherwise consider.

The following is a schedule of our TDR's including the number of loans represented.

	Troubled Debt Restructurings as of December 31,				
	2019	2018	2017	2016	2015
Number of TDRs . . . . .	3	—	1	2	3
Amount of TDRs . . . . .	\$ 573,473	\$ —	\$ 33,300	\$ 378,382	\$ 458,268

The Financial Accounting Standards Board Accounting ("FASB") Standards Codification ("ASC") 310-20-35-9 allows a loan to be removed from TDR status if the terms of the loan reflect current market rates and the loan has been performing under modified terms for an extended period of time or under certain other circumstances.

One TDR with a balance of \$33,300 at December 31, 2017 was removed from TDR status during the year ended December 31, 2018 since, at the most recent renewal, the loan was amortized at market rate and no concessions were granted. One TDR with a balance of \$345,082 at December 31, 2016 paid off during the year ended December 31, 2017. During the year ended December 31, 2016, one TDR was paid off with a balance of \$72,919 at December 31, 2015. We do not know of any potential problem loans which will not meet their contractual obligations that are not otherwise discussed herein.

## ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses represents our estimate of probable losses inherent in our loan portfolio. The adequacy of the allowance for loan losses (the "allowance") is reviewed by the Loan Committee and by the Board of Directors on a quarterly basis. 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. To remain consistent with GAAP, the methodology employed for this analysis has been modified over the years to reflect the economic environment and new accounting pronouncements. The Credit Department reviews this calculation on a quarterly basis. In addition, the Company's Risk Management Officer validates the allowance calculation on a periodic basis. The 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 FASB ASC 310-10-35, Receivables - Overall
- 2) General reserve analysis applying historical loss rates based on FASB ASC 450-20, Contingencies: Loss Contingencies
- 3) Qualitative or environmental factors.



Loans greater than \$50,000 are reviewed for impairment on a quarterly basis if any of the following criteria are met:

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

Impairment is measured by the present value of the future cash flow discounted at the loan's effective interest rate or 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. This analysis includes a pool of loans that are reviewed for impairment but are not found to be impaired. Loans are segregated into similar risk groups and a historical loss ratio is determined for each group over a five-year period. The five-year average loss ratio by loan type is then used to calculate the estimated loss based on the current balance of each group.

Qualitative and environmental loss factors are also applied against the portfolio, excluding impaired loans. These factors include external risk factors that we believe are representative of our overall lending environment. We believe that the following factors create a more comprehensive loss projection, which we can use to monitor the quality of the loan portfolio.

- 1) Portfolio risk
  - a) Levels and trends in delinquencies and impaired loans and changes in loan rating matrix
  - 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 contributes to the total "estimated loss" within our portfolio.

## ***Portfolio Risk***

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. We are satisfied with the stability of the past due and non-performing loans and believe there has been no decline in the quality of our loan portfolio due to any trend in delinquent or adversely classified loans. Sizable unsecured principal balances on a non-amortizing basis are monitored. Although the vast majority of our real estate loans are underwritten on a cash flow basis, the secondary source of repayment is typically tied to our ability to realize on the collateral. Accordingly, we closely monitor loan to value ratios. The maximum collateral advance rate is 80% on all real estate transactions, with the exception of raw land at 65% and land development at 70%.

Occasionally, we extend credit beyond our normal collateral advance margins in real estate lending. We refer to these loans as overmargined real estate loans. Although infrequent, the aggregate of these loans represents a notable part of our portfolio. Accordingly, these loans are monitored and the balances reported to the Board of Directors 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. We often request additional collateral to bring the loan to value ratio within the policy objectives and require a strong secondary source of repayment.

Although significantly under our policy threshold of 100% of capital (currently approximately \$51.2 million), the number of overmargined real estate loans currently totals approximately \$4.8 million or approximately 1.74% of our loan portfolio at December 31, 2019 compared to \$8.6 million or approximately 3.12% of the loan portfolio at December 31, 2018.

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 the following characteristics: cash flow, collateral quality, guarantor strength, financial condition, management quality, operating performance, the relevancy of the financial statements, historical loan performance, debt coverage ratio, and the borrower's leverage position. The matrix is designed to meet our standards and expectations of loan quality. One hundred percent of our loans are graded.

## ***National and local economic trends and conditions***

National and local economic trends and conditions are constantly changing and both positively and negatively impact borrowers. Most macroeconomic conditions are not controllable by us and are incorporated into the qualitative risk factors. Natural and environmental disasters, including the rise of sea levels, political uncertainty, international instability, as well as problems in the traditional mortgage market are a few of the trends and conditions that are currently affecting the national and local economies. These changes 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.

## ***Effects of changes in risk selection and underwriting practices***

The quality of our loan portfolio is contingent upon our risk selection and underwriting practices. All new loans (except for mortgage loans in the process of being sold to investors and loans secured by properly margined negotiable securities traded on an established market or other cash collateral) with exposure over \$300,000 are reviewed by the Loan Committee on a monthly basis. The Board of Directors review credits over \$750,000 monthly. Annual credit analyses are conducted on credits over \$500,000 upon the receipt of updated financial information. Prior to any extension of credit, every significant commercial loan goes through sound credit underwriting. Our Credit Department conducts a detailed cash flow analysis on each proposal using the most current financial information.

## ***Experience, ability and depth of lending management staff***

We have over 300 combined years of lending experience among our lending staff. We are aware of the many challenges currently facing the banking industry. As other banks look to increase earnings in the short term, we will continue to emphasize the need to maintain safe and sound lending practices and core deposit growth managed with a long-term perspective.

## ***Industry conditions***

There continues to be an influx of new banks and consolidation of existing banks in our geographic area, which creates pricing competition. We believe that our borrowing base is well established and therefore unsound price competition is not necessary.

### *Effects of changes in credit concentrations*

The risks associated with the effects of changes in credit concentration include loan, geographic and regulatory concentrations. As of December 31, 2019, three Standard Industrial Code groups comprised more than 2% of our total outstanding loans. The groups are activities related to real estate, offices and clinics of doctors, and offices of lawyers.

We are located along the coast and on an earthquake fault line, increasing the chances that a natural disaster may impact our borrowers and us. We have a Disaster Recovery Plan in place; however, the amount of time it would take for our customers to return to normal operations is unknown. Our plan is reviewed and tested annually.

### *Loan and credit administration risk*

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

The majority of our loan portfolio is collateralized with a variety of our borrowers' assets. The execution and monitoring of the documentation to properly secure the loan is the responsibility of our lenders and loan department. We require insurance coverage naming us 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.

Financial Information 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 us. Our policy requires all new loans (with a credit exposure of \$10,000 or more), regardless of the customer's history with us, to have updated financial information. In addition, we monitor appraisals closely as real estate values are appreciating.

Based on our analysis of the adequacy of the allowance for loan loss model, we recorded a provision for loan loss of \$180,000 for the year ended December 31, 2019 compared to \$325,000 for the year ended December 31, 2018. At December 31, 2019, the five-year average loss ratios were: 0.20% Commercial, 0.00% Commercial Real Estate Construction, 0.01% Commercial Real Estate Other, -0.01% Consumer Real Estate, and 0.41% Consumer Other.

During the year ended December 31, 2019, charge-offs of \$407,027 and recoveries of \$16,454 were recorded to the allowance for loan losses, resulting in an allowance for loan losses of \$4.0 million or 1.46% of total loans, compared to charge-offs of \$115,887 and recoveries of \$129,820 resulting in an allowance for loan losses of \$4.2 million or 1.53% of total loans at December 31, 2018. We believe loss exposure in the portfolio is identified, reserved against, and closely monitored to ensure that economic changes are promptly addressed in the analysis of reserve adequacy.

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 may continue even though they are 90 days past due if the loans are well secured or in the process of collection and we deem it appropriate. If non-accrual loans decrease their past due status to less than 30 days for a period of six to nine months, they are reviewed individually to determine if they should be returned to accrual status. At December 31, 2019 and 2018, there were no loans over 90 days past due still accruing interest.

The following table represents a summary of loan loss experience for the past five years.

<i>(in thousands)</i>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Balance of the allowance of loan losses at the beginning of the period</b> . . . . .	\$ 4,214	\$ 3,875	\$ 3,852	\$ 3,418	\$ 3,335
<b>Charge-offs</b>					
Commercial	(399)	(31)	—	(33)	(100)
Commercial Real Estate Construction	—	—	—	—	—
Commercial Real Estate Other	—	—	(181)	(78)	(55)
Consumer Real Estate	—	—	—	(82)	(6)
Consumer Other	(8)	(85)	(5)	(15)	(40)
<b>Total charge-offs</b> . . . . .	<u>(407)</u>	<u>(116)</u>	<u>(186)</u>	<u>(208)</u>	<u>(201)</u>

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Recoveries</b>					
Commercial . . . . .	12	14	6	—	9
Commercial Real Estate					
Construction . . . . .	—	—	—	—	—
Other . . . . .	—	57	87	65	54
Consumer Real Estate . . . . .	—	45	60	—	6
Consumer Other . . . . .	5	14	1	7	22
<b>Total recoveries</b> . . . . .	<u>17</u>	<u>130</u>	<u>154</u>	<u>72</u>	<u>91</u>
<b>Net (charge-offs) recoveries</b> . . . . .	(390)	14	(32)	(136)	(110)
Provision charged to operations . . . . .	<u>180</u>	<u>325</u>	<u>55</u>	<u>570</u>	<u>193</u>
<b>Balance of the allowance for loan losses at the end of the period</b> . . . . .	<u>\$ 4,004</u>	<u>\$ 4,214</u>	<u>\$ 3,875</u>	<u>\$ 3,852</u>	<u>\$ 3,418</u>

We believe the allowance for loan losses at December 31, 2019, is adequate to cover estimated losses in the loan portfolio; however, assessing the adequacy of the allowance is a process that requires considerable judgment. Our judgments are based on numerous assumptions about current events that we believe to be reasonable, but 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 our 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 our operating results.

The following table presents a breakdown of the allowance for loan losses for the past five years.

	<b>December 31,</b>									
	<b>2019</b>		<b>2018</b>		<b>2017</b>		<b>2016</b>		<b>2015</b>	
	\$	%(1)	\$	%(1)	\$	%(1)	\$	%(1)	\$	%(1)
<i>(in thousands)</i>										
Commercial	\$ 1,430	19%	\$ 1,665	20%	\$ 1,404	20%	\$ 1,545	20%	\$ 897	21%
Commercial Real Estate										
Construction . . . . .	109	5%	64	3%	23	3%	52	1%	60	1%
Other . . . . .	1,271	52%	1,292	52%	1,550	52%	1,375	47%	1,345	47%
Consumer Real Estate . . . . .	496	22%	387	23%	797	23%	726	29%	941	29%
Consumer Other . . . . .	698	2%	806	2%	101	2%	154	3%	175	2%
<b>Total</b> . . . . .	<u>\$ 4,004</u>	<u>100%</u>	<u>\$ 4,214</u>	<u>100%</u>	<u>\$ 3,875</u>	<u>100%</u>	<u>\$ 3,852</u>	<u>100%</u>	<u>\$ 3,418</u>	<u>100%</u>

(1) Loan category as a percentage of total loans.

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 us to adjust our 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 the methodology 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. During the year ended December 31, 2019, a provision of \$3,701 was recorded compared to a provision of \$4,482 during the year ended December 31, 2018. The balance for the reserve for unfunded lending commitments was \$33,018 and \$29,308 as of December 31, 2019 and 2018, respectively.

## OTHER REAL ESTATE OWNED

Real estate acquired because 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 the fair value of the property less estimated selling costs or the total loan balance. It is in our best interest to determine the fair market value by engaging an independent appraisal within 30 days of property being acquired into OREO. We cannot hold the property for a period of more than five years unless we have prior approval from the Commissioner of Banking of the State Board of Financial Institutions. The Bank will pay property taxes along with insurance and various other expenses until the property is sold. There were no properties classified as OREO during the year or at year ended December 31, 2019. During the year ended December 31, 2018, one property in the amount of \$411,842 was sold at a loss of \$33,476. There were no properties classified as OREO as of December 31, 2018. OREO as of December 31, 2017 consisted of one property in the amount of \$435,479 compared to one property in the amount of \$521,943 at December 31, 2016. One loan receivable valued at \$98,832 transferred to OREO and subsequently sold during the year ended December 31, 2017 for a loss of \$1,477. One property sold during the year ended December 31, 2016 for a loss of \$13,450.

## NONPERFORMING ASSETS

Nonperforming assets include OREO, nonaccrual loans and loans past due 90 days or more and still accruing interest. The following table summarizes nonperforming assets for the five years ended December 31:

<b>Nonperforming Assets</b> <i>(in thousands)</i>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Nonaccrual loans . . . . .	\$ 1,666	\$ 824	\$ 832	\$ 1,742	\$ 2,061
Loans past due 90 days or more and still accruing interest . . . . .	—	—	33	123	2
Total nonperforming loans . . . . .	1,666	824	865	1,865	2,063
Other real estate owned . . . . .	—	—	435	522	620
Total nonperforming assets . . . . .	<u>\$ 1,666</u>	<u>\$ 824</u>	<u>\$ 1,300</u>	<u>\$ 2,387</u>	<u>\$ 2,683</u>
 Nonperforming loans to total loans . . . . .	<u>0.61%</u>	<u>0.30%</u>	<u>0.29%</u>	<u>0.72%</u>	<u>0.85%</u>
Nonperforming assets to total assets . . . . .	<u>0.37%</u>	<u>0.19%</u>	<u>0.32%</u>	<u>0.58%</u>	<u>0.67%</u>

## DEPOSITS

The following table shows the contractual maturities of time deposits in denominations of \$100,000 or more at December 31, 2019.

<i>(in thousands)</i>	<u>One Day</u>	<u>Less than three months</u>	<u>Three months to less than six months</u>	<u>Six months to less than one year</u>	<u>One year to less than five years</u>	<u>Five years or more</u>	<u>Total</u>
CD’s and other time deposits less than \$100,000 . . . . .	\$ —	\$ 3,108	\$ 1,707	\$ 2,158	\$ 1,041	\$ —	\$ 8,014
CD’s and other time deposits \$100,000 and over . . . . .	—	4,684	3,816	4,655	1,014	—	14,169
Total . . . . .	<u>\$ —</u>	<u>\$ 7,792</u>	<u>\$ 5,523</u>	<u>\$ 6,813</u>	<u>\$ 2,055</u>	<u>\$ —</u>	<u>\$ 22,183</u>

Certificates of Deposit \$100,000 and over decreased \$10.8 million or 43.31% to \$14.2 million as of December 31, 2019 from \$25.0 million as of December 31, 2018. This decrease was primarily due to the maturity of Public Funds used for construction projects.

The following table presents average deposits by category.

<i>(in thousands)</i>	2019		2018		2017	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
Non-interest-bearing demand . . . . .	\$ 133,182	N/A	\$ 133,045	N/A	\$ 128,586	N/A
Interest-bearing transaction accounts . . . .	189,115	0.29%	176,797	0.22%	178,146	0.10%
Savings . . . . .	32,935	0.30%	34,857	0.24%	33,694	0.12%
Time deposits . . . . .	26,456	0.62%	41,326	0.54%	44,098	0.48%
	<u>\$ 381,688</u>		<u>\$ 386,025</u>		<u>\$ 384,524</u>	

Deposits decreased \$3.2 million or 0.83% to \$379.2 million as of December 31, 2019, from \$382.4 million as of December 31, 2018. Non-interest bearing deposits decreased \$5.3 million to \$125.6 million as of December 31, 2019, primarily due to settlements of municipal accounts to fund projects.

We fund growth through core deposits. We do not have, nor do we rely on, Brokered Deposits or Internet Deposits.

### SHORT-TERM BORROWINGS

At December 31, 2019 and 2018, we had no outstanding federal funds purchased. We have 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, we may borrow up to \$56.8 million. We established this arrangement as an additional source of liquidity. There have been no borrowings under this arrangement.

At December 31, 2019 and 2018, the Bank had unused short-term lines of credit totaling approximately \$23.0 million (which are withdrawable at the lender's option).

### OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of operations, we engage in a variety of financial transactions that, in accordance with GAAP, 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. We use such transactions for general corporate purposes or customer needs. General 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 requests for funding.

Our off-balance sheet arrangements consist principally of commitments to extend credit described below. We estimate probable losses related to binding unfunded lending commitments and record a reserve for unfunded lending commitments in other liabilities on the consolidated balance sheet. At December 31, 2019 and 2018, the balance of this reserve was \$33,018 and \$29,308, respectively. At December 31, 2019 and 2018, we 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 our 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 \$105.5 million and \$96.1 million as of December 31, 2019 and 2018, respectively.

Standby letters of credit represent our obligation to a third party contingent upon the failure of our customer to perform under the terms of an underlying contract with the third party or obligates us 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. We can seek recovery of the amounts paid from the borrower. 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, 2019 and 2018 was \$1.1 million and \$1.2 million, respectively.

We originate certain fixed rate residential loans and commit these loans for sale. The commitments to originate fixed rate residential loans and the sales commitments are freestanding derivative instruments. We had forward sales commitments, totaling \$5.1 million at December 31, 2019, to sell loans held for sale of \$5.1 million, compared to forward sales commitments of \$1.2 million at December 31, 2018, to sell loans held for sale of \$1.2 million. The fair value of these commitments was not significant at December 31, 2019 or 2018. We had no embedded derivative instruments requiring separate accounting treatment.



Once we sell certain fixed rate residential loans, the loans are no longer reportable on our balance sheet. With most of these sales, we have 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 nine months. Misrepresentation or fraud carries unlimited time for recourse. The unpaid principal balance of loans sold with recourse was \$19.1 million at December 31, 2019 and \$14.9 million at December 31, 2018. For the twelve months ended December 31, 2019 and December 31, 2018, there were no loans repurchased.

### **EFFECT OF INFLATION AND CHANGING PRICES**

The consolidated financial statements have been prepared in accordance with GAAP, 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 like the Company are primarily monetary in nature. As a result, interest rates generally have a more significant impact on our performance than 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. We strive to manage the relationship between interest rate sensitive assets and liabilities in order to protect against wide interest rate fluctuations, including those resulting from inflation.

### **CAPITAL RESOURCES**

Our capital needs have been met to date through the \$10.6 million in capital raised in our initial offering, the retention of earnings less dividends paid and the exercise of options to purchase stock. Total shareholders' equity at December 31, 2019 was \$51.2 million. The rate of asset growth since our inception has not negatively impacted our capital base.

On July 2, 2013, the Federal Reserve Board approved the final rules implementing the Basel Committee on Banking Supervision's ("BCBS") capital guidelines for U.S. banks ("Basel III"). Following the actions by the Federal Reserve, the FDIC also approved regulatory capital requirements on July 9, 2013. The FDIC's rule is identical in substance to the final rules issued by the Federal Reserve Bank.

Basel III became effective on January 1, 2015. The purpose is to improve the quality and increase the quantity of capital for all banking organizations. The minimum requirements for the quantity and quality of capital were increased. The rule includes a new common equity Tier 1 capital to risk-weighted assets ratio of 4.5% and a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets. The rule also raises the minimum ratio of Tier 1 capital to risk-weighted assets from 4% to 6% and requires a minimum leverage ratio of 4%. In addition, the rule also implements strict eligibility criteria for regulatory capital instruments and improves the methodology for calculating risk-weighted assets to enhance risk sensitivity. Full compliance with all of the final rule requirements will be phased in over a multi-year schedule.

At December 31, 2019, the Bank was categorized as "well capitalized". To be categorized as "well capitalized" the Bank must maintain minimum total risk based, Tier 1 risk based, common equity Tier 1 risk based capital and Tier 1 leverage ratios of 10.00%, 8.00%, 6.50% and 5.00%, respectively, and to be categorized as "adequately capitalized," the Bank must maintain minimum total risk based, Tier 1 risk based, common equity Tier 1 risk based capital, and Tier 1 leverage ratios of 8.00%, 6.00%, 4.50%, and 4.00%, respectively.

We 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. We must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Our capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Current and previous quantitative measures established by regulation to ensure capital adequacy require that we maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and to average assets. We believe, as of December 31, 2019, that the Company and the Bank meet all capital adequacy requirements to which we are subject.

There are no current conditions or events that we are aware of that would change the Company's or the Bank's category.

Please see "Notes to Consolidated Financial Statements" for the Company's and the Bank's various capital ratios at December 31, 2019.

#### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

See the Market Risk section in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7 of this report.



**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and the Board of Directors of Bank of South Carolina Corporation

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Bank of South Carolina Corporation and its subsidiary (the “Company”) as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, shareholders’ equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes to the consolidated financial statements and schedules (collectively, the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting 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.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Elliott Davis, LLC

We have served as the Company’s auditor since 2006.

Columbia, South Carolina

March 6, 2020

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

	<u>DECEMBER 31, 2019</u>	<u>DECEMBER 31, 2018</u>
<b>ASSETS</b>		
Cash and due from banks .....	\$ 9,773,893	\$ 6,325,457
Interest-bearing deposits at the Federal Reserve .....	39,320,526	25,506,784
Investment securities available for sale (amortized cost of \$99,838,799 and \$121,918,501 in 2019 and 2018, respectively) .....	100,449,956	119,668,874
Mortgage loans to be sold .....	5,062,398	1,199,438
Loans .....	274,072,560	274,664,267
Less: Allowance for loan losses .....	(4,003,758)	(4,214,331)
Net loans .....	<u>270,068,802</u>	<u>270,449,936</u>
Premises, equipment and leasehold improvements, net .....	4,290,435	2,335,207
Right of use asset .....	13,209,217	—
Other real estate owned .....	—	—
Accrued interest receivable .....	1,309,772	1,561,915
Other assets .....	<u>1,527,521</u>	<u>2,087,587</u>
 Total assets .....	 <u>\$ 445,012,520</u>	 <u>\$ 429,135,198</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Liabilities		
Deposits:		
Non-interest bearing demand .....	\$ 125,621,031	\$ 130,940,138
Interest bearing demand .....	125,175,935	94,207,731
Money market accounts .....	68,964,879	87,300,433
Time deposits over \$250,000 .....	5,967,559	15,909,991
Other time deposits .....	16,215,228	18,558,734
Other savings deposits .....	<u>37,247,023</u>	<u>35,461,361</u>
Total deposits .....	379,191,655	382,378,388
 Accrued interest payable and other liabilities .....	 1,443,616	 1,294,249
Lease liability .....	13,209,217	—
Total liabilities .....	<u>393,844,488</u>	<u>383,672,637</u>
Commitments and contingencies in Notes 7 and 12		
Shareholders' equity		
Common stock - no par 12,000,000 shares authorized; Issued 5,799,637 shares at December 31, 2019 and 5,777,474 shares at December 31, 2018. Shares outstanding 5,530,001 and 5,510,917 at December 31, 2019 and December 31, 2018, respectively. ....	—	—
Additional paid in capital .....	47,131,034	46,857,734
Retained earnings .....	5,879,409	2,650,296
Treasury stock: 269,636 shares as of December 31, 2019 and 266,557 shares as of December 31, 2018 .....	(2,325,225)	(2,268,264)
Accumulated other comprehensive income (loss), net of income taxes .....	482,814	(1,777,205)
Total shareholders' equity .....	<u>51,168,032</u>	<u>45,462,561</u>
 Total liabilities and shareholders' equity .....	 <u>\$ 445,012,520</u>	 <u>\$ 429,135,198</u>

See accompanying notes to consolidated financial statements.

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

	Years Ended December 31,		
	2019	2018	2017
<b>Interest and fee income</b>			
Loans, including fees	\$ 15,994,290	\$ 15,126,316	\$ 13,287,318
Taxable securities	1,617,471	1,872,285	1,585,505
Tax-exempt securities	570,623	744,713	1,026,513
Other	729,868	393,597	269,811
Total interest and fee income	<u>18,912,252</u>	<u>18,136,911</u>	<u>16,169,147</u>
<b>Interest expense</b>			
Deposits	815,171	694,386	423,863
Total interest expense	<u>815,171</u>	<u>694,386</u>	<u>423,863</u>
<b>Net interest income</b>	18,097,081	17,442,525	15,745,284
Provision for loan losses	180,000	325,000	55,000
<b>Net interest income after provision for loan losses</b>	<u>17,917,081</u>	<u>17,117,525</u>	<u>15,690,284</u>
<b>Other income</b>			
Service charges and fees	1,175,657	1,168,808	1,135,037
Mortgage banking income	940,671	786,893	1,057,457
Gain on sales of securities, net	50,707	4,735	45,820
Other non-interest income	31,574	34,189	30,157
Total other income	<u>2,198,609</u>	<u>1,994,625</u>	<u>2,268,471</u>
<b>Other expense</b>			
Salaries and employee benefits	6,809,258	6,488,229	6,060,831
Net occupancy expense	1,623,590	1,580,929	1,571,076
Other operating expenses	2,189,135	2,953,463	2,517,737
Net other real estate owned expenses	—	57,613	92,652
Total other expense	<u>10,621,983</u>	<u>11,080,234</u>	<u>10,242,296</u>
<b>Income before income tax expense</b>	9,493,707	8,031,916	7,716,459
Income tax expense	2,175,274	1,108,982	2,814,634
<b>Net income</b>	<u>\$ 7,318,433</u>	<u>\$ 6,922,934</u>	<u>\$ 4,901,825</u>
<b>Weighted average shares outstanding</b>			
<b>Basic</b>	5,522,025	5,500,027	5,471,001
<b>Diluted</b>	5,588,090	5,589,012	5,568,493
Basic income per common share	<u>\$ 1.33</u>	<u>\$ 1.26</u>	<u>\$ 0.90</u>
Diluted income per common share	<u>\$ 1.31</u>	<u>\$ 1.24</u>	<u>\$ 0.88</u>

See accompanying notes to consolidated financial statements.

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

	Years Ended December 31,		
	2019	2018	2017
Net income .....	\$ 7,318,433	\$ 6,922,934	\$ 4,901,825
Other comprehensive income			
Unrealized gain (loss) on securities arising during the period .....	2,911,491	(893,070)	(347,066)
Reclassification adjustment for securities gains realized in net income .....	(50,707)	(4,735)	(45,820)
Other comprehensive income (loss) before tax .....	2,860,784	(897,805)	(392,886)
Income tax effect related to items of other comprehensive income before tax .....	(600,765)	192,280	116,007
Other comprehensive income (loss) after tax .....	2,260,019	(705,525)	(276,879)
Total comprehensive income .....	\$ 9,578,452	\$ 6,217,409	\$ 4,624,946

See accompanying notes to consolidated financial statements.

**BANK OF SOUTH CAROLINA CORPORATION AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
YEARS ENDED DECEMBER 31, 2019, 2018, 2017**

	Shares Outstanding	Additional Paid in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
<b>December 31, 2016</b> .....	4,956,139	\$ 36,824,022	\$ 6,643,476	\$ (2,247,415)	\$ (607,109)	\$ 40,612,974
Net income .....	—	—	4,901,825	—	—	4,901,825
Other comprehensive loss .....	—	—	—	—	(276,879)	(276,879)
Stock option exercises, net of surrenders .....	33,140	340,843	—	—	—	340,843
Stock-based compensation expense .....	—	71,701	—	—	—	71,701
Reclassification of tax effects stranded in accumulated other comprehensive income by tax reform .....	—	—	187,692	—	(187,692)	—
Cash dividends (\$0.58 per common share) .....	—	—	(2,885,829)	—	—	(2,885,829)
<b>December 31, 2017</b> .....	<u>4,989,279</u>	<u>\$ 37,236,566</u>	<u>\$ 8,847,164</u>	<u>\$ (2,247,415)</u>	<u>\$ (1,071,680)</u>	<u>\$ 42,764,635</u>
Net income .....	—	—	6,922,934	—	—	6,922,934
Other comprehensive loss .....	—	—	—	—	(705,525)	(705,525)
Stock option exercises, net of surrenders .....	22,550	214,418	—	(20,849)	—	193,569
Stock-based compensation expense .....	—	72,408	—	—	—	72,408
Cash dividends (\$0.70 per common share) .....	—	—	(3,785,460)	—	—	(3,785,460)
Common stock dividend, 10%	499,088	9,334,342	(9,334,342)	—	—	—
<b>December 31, 2018</b> .....	<u>5,510,917</u>	<u>\$ 46,857,734</u>	<u>\$ 2,650,296</u>	<u>\$ (2,268,264)</u>	<u>\$ (1,777,205)</u>	<u>\$ 45,462,561</u>
Net income .....	—	—	7,318,433	—	—	7,318,433
Other comprehensive gain .....	—	—	—	—	2,260,019	2,260,019
Stock option exercises, net of surrenders .....	19,084	195,247	—	(56,961)	—	138,286
Stock-based compensation expense .....	—	78,053	—	—	—	78,053
Cash dividends (\$0.74 per common share) .....	—	—	(4,089,320)	—	—	(4,089,320)
<b>December 31, 2019</b> .....	<u>5,530,001</u>	<u>\$ 47,131,034</u>	<u>\$ 5,879,409</u>	<u>\$ (2,325,225)</u>	<u>\$ 482,814</u>	<u>\$ 51,168,032</u>

See accompanying notes to consolidated financial statements.



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

	Years Ended December 31,		
	2019	2018	2017
Cash flows from operating activities:			
Net income	\$ 7,318,433	\$ 6,922,934	\$ 4,901,825
Adjustments to reconcile net income net cash provided by operating activities:			
Depreciation	230,377	195,921	193,298
Gain on sale of investment securities	(50,707)	(4,735)	(45,820)
Loss on sale of other real estate owned	—	33,476	1,477
Loss on disposal of premises, equipment, and leasehold improvements, net	—	428	—
Valuation and other adjustments to other real estate owned	—	23,637	86,464
Provision for loan losses	180,000	325,000	55,000
Stock-based compensation expense	78,053	72,408	71,701
Deferred income taxes	432,844	(217,637)	276,362
Net amortization of unearned discounts on investment securities available for sale	247,624	303,530	381,079
Origination of mortgage loans held for sale	(67,783,219)	(55,504,124)	(55,791,625)
Proceeds from sale of mortgage loans held for sale	63,920,259	56,398,409	58,084,112
Decrease (increase) in accrued interest receivable and other assets	(221,400)	472,740	(78,328)
Increase in accrued interest payable and other liabilities	91,204	295,071	46,412
Net cash provided by operating activities	<u>4,443,468</u>	<u>9,317,058</u>	<u>8,181,957</u>
Cash flows from investing activities:			
Proceeds from calls and maturities of investment securities available for sale	9,356,835	6,932,927	4,713,870
Proceeds from sale of investment securities available for sale	30,412,250	21,434,634	20,231,265
Purchase of investment securities available for sale	(17,886,300)	(9,978,050)	(44,944,586)
Proceeds from sale of other real estate owned	—	378,366	89,355
Net decrease (increase) in loans	201,134	(4,469,694)	(9,726,576)
Purchase of premises, equipment, and leasehold improvements, net	(2,185,605)	(287,031)	(141,199)
Net cash provided by (used in) investing activities	<u>19,898,314</u>	<u>14,011,152</u>	<u>(29,777,871)</u>
Cash flows from financing activities:			
Net (decrease) increase in deposit accounts	(3,186,733)	(20,509,912)	30,365,449
Dividends paid	(4,031,157)	(3,699,845)	(2,832,489)
Stock options exercised, net of surrenders	138,286	193,569	340,843
Net cash (used in) provided by financing activities	<u>(7,079,604)</u>	<u>(24,016,188)</u>	<u>27,873,803</u>
Net increase (decrease) in cash and cash equivalents	17,262,178	(687,978)	6,277,889
Cash and cash equivalents at the beginning of the period	31,832,241	32,520,219	26,242,330
Cash and cash equivalents at the end of the period	<u>\$ 49,094,419</u>	<u>\$ 31,832,241</u>	<u>\$ 32,520,219</u>
Cash paid during the period for:			
Interest	\$ 940,299	\$ 626,700	\$ 379,302
Income taxes	\$ 1,761,574	\$ 1,169,085	\$ 2,496,047
Supplemental disclosures for non-cash investing and financing activity:			
Change in unrealized gain on securities available for sale, net of income taxes	\$ 2,260,019	\$ (705,525)	\$ (276,879)
Change in dividends payable	\$ 58,163	\$ 85,615	\$ 53,340
Transfer of loans to other real estate owned	\$ —	\$ —	\$ 90,832
Right of use assets obtained in exchange for lease obligation	\$ 13,519,027	\$ —	\$ —
Change in right of use assets and lease liabilities	\$ 309,810	\$ —	\$ —

See accompanying notes to consolidated financial statements.

**BANK OF SOUTH CAROLINA CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. ORGANIZATION**

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.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Our accounting and reporting policies conform, in all material respects, to U.S. generally accepted accounting principles (“GAAP”), and to general practices within the banking industry. The following summarizes the more significant of these policies and practices.

**Principles of Consolidation:**

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, the Bank. In consolidation, all significant intercompany balances and transactions have been eliminated.

References to “we,” “us,” “our,” “the Bank,” or “the Company” refer to the parent and its subsidiary that are consolidated for financial purposes.

**Accounting Estimates and Assumptions:**

The financial statements are prepared in conformity with GAAP, which require management to make estimates and assumptions. These estimates 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 generally susceptible to significant change are related to the determination of the allowance for loan losses, impaired loans, other real estate owned, deferred tax assets, the fair value of financial instruments and other-than-temporary impairment of investment securities.

**Reclassification:**

Certain amounts in the prior years’ financial statements have been reclassified to conform to the current year’s presentation. Such reclassifications have no effect on shareholders’ equity or the net income as previously reported.

**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 as of the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Non-recognized subsequent events are events that provide evidence about conditions that did not exist as of the date of the balance sheet but arose after that date. We have reviewed events occurring through the date the financial statements were available to be issued and no subsequent events occurred requiring accrual or disclosure.

**Cash and Cash Equivalents:**

Cash and cash equivalents include working cash funds, due from banks, interest-bearing deposits at the Federal Reserve, items in process of collection and federal funds sold. All cash equivalents are readily convertible to cash and have maturities of less than 90 days.

Depository institutions are required to maintain reserve and clearing balances at the Federal Reserve Bank. Vault cash satisfied our daily reserve requirement for the years ended December 31, 2019 and 2018, respectively.

**Interest-bearing Deposits at the Federal Reserve:**

Interest-bearing deposits at the Federal Reserve mature daily and are carried at cost.

**BANK OF SOUTH CAROLINA CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Investment Securities:**

We classify investments into three categories: (1) Held to Maturity - debt securities that we have 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 2019 and 2018.

**Mortgage Loans to be Sold:**

We originate fixed and variable rate residential mortgage loans on a service release basis in the secondary market. Loans closed but not yet settled with an investor are carried in our loans held for sale portfolio. 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 our customers. Therefore, these loans present very little market risk. We usually deliver to, and receive 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. We are not obligated to deliver a loan or pay a penalty if a loan is not delivered to the investor. Because of the short-term nature of these derivative contracts, the fair value of the mortgage loans held for sale in most cases is materially the same as the value of the loan amount at its origination.

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. Gains or losses on sales of loans are recognized when control over these assets are surrendered and are included in mortgage banking income in the consolidated statements of income.

**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 over the weighted average life of the loan 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 that 1) are maintained on a cash basis because of deterioration in the financial condition of the borrower; 2) the payment of full principal is not expected; or 3) the principal or interest has been in default for a period of 90 days or more. We define past due loans based on contractual payment and maturity dates.

The accrual of interest is generally discontinued on loans that become 90 days past due as to principal or interest. The accrual of interest on some loans 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 six to nine months, they are reviewed individually by management to determine if they should be returned to accrual status.

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.

We account for impaired loans by requiring that all loans (greater than \$50,000) where it is estimated that we 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 less cost to sell, if the loan is collateral dependent.

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Additional accounting guidance allows us to use existing methods for recognizing interest income on an impaired loan. The guidance also requires additional disclosures about how we estimate interest income related to our impaired loans.

A loan is also considered impaired if its terms are modified in a troubled debt restructuring (“TDR”). For this type of impaired loan, 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.

The allowance for loan losses (the “allowance”) is our estimate of credit losses inherent in the loan portfolio. The allowance is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when we believe the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance is evaluated on a regular basis and is based upon our periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower’s ability to repay, the estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

We believe that the allowance is adequate to absorb inherent losses in the loan portfolio; however, 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 our 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 our operating results.

The allowance is also subject to examination by regulatory agencies, which may consider factors such 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 us to adjust our allowance based on information available at the time of the examination.

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

**Concentration of Credit Risk:**

Our primary market consists of the counties of Berkeley, Charleston and Dorchester, South Carolina. As of December 31, 2019, 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:**

Land is carried at cost. Buildings and equipment are stated at cost less accumulated depreciation. Depreciation is recorded using the straight-line method for financial reporting purposes and accelerated methods for income tax purposes over the estimated useful lives of the assets ranging from 40 years for buildings and 3 to 15 years for equipment. Leasehold improvements are amortized over the shorter of the asset’s useful life or the remaining lease term, including renewal periods when reasonably assured. The cost of maintenance and repairs is charged to operating expense as incurred.

**Leases:**

In accordance with ASU 2016-02, the Company determines if a contractual arrangement is a lease at inception. Operating leases are included in the operating right of use (“ROU”) assets and current operating lease liabilities on the Company’s Consolidated Balance Sheet. ROU assets represent the Company’s right to use an underlying asset for the lease term and lease liabilities represent the Company’s obligation to make lease payments arising from the lease. Currently, the Company does not have any finance leases.

Beginning January 1, 2019, operating lease ROU assets and lease liabilities are recognized at the commencement of the lease based on the present value of lease payments over the lease term. The lease payments included in the present value are fixed payments and index-based variable lease payments. The Company estimates the incremental borrowing rate, based on information available at the commencement of the lease, as most of the Company’s leases do not include an implicit rate.

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**Income Taxes:**

We account 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. We believe that we had no uncertain tax positions for the years ended December 31, 2019 and 2018.

**Stock-Based Compensation:**

Compensation cost is recognized for stock options issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options. Compensation cost is recognized over the required expected term, generally defined as the average vesting period (7.5 years).

**Income Per Common Share:**

Basic income per share is computed by dividing net income by the weighted-average number of common shares outstanding. Diluted earnings per share is 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. Earnings per share are restated for all stock splits and stock dividends through the date of issuance of the financial statements.

**Segment Information:**

The Company operates and manages itself within one retail banking segment and therefore has not provided segment disclosures.

**Interest Rate Lock Commitments and Forward Sale Contracts:**

Commitments to fund mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of these mortgage loans are accounted for as free-standing derivatives. The fair value of the interest rate lock is recorded at the time the commitment to fund the mortgage loan is executed and is adjusted for the expected exercise of the commitments before the loan is funded. In order to hedge the change in interest rates resulting from commitments to fund the loans, we enter into forward commitments for the future delivery of mortgage loans when the interest rate is locked. Fair values of these mortgage derivatives are estimated based on changes in mortgage interest rates from the date the interest on the loan is locked. Changes in the fair values of these derivatives are included in income when they occur. As a result of the short-term nature of mortgage loans held for sale (derivative contract), our derivative instruments were considered to be immaterial as of December 31, 2019 and 2018.

We had no embedded derivative instruments requiring hedge accounting treatment at December 31, 2019. We do not currently engage in hedging activities.

**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 February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which revises certain aspects of recognition, measurement, presentation, and disclosure of leasing transactions. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842 – Leases*. This update clarifies how to apply certain aspects of the new leases standard. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which gives entities another option for transition and to provide lessors with a practical expedient. In December 2018, the FASB issued ASU 2018-20, *Leases (Topic 842): Narrow-Scope Improvements*



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for Lessors, providing narrow-scope improvements for lessors, that provides relief in the accounting for sales, use and similar taxes, the accounting for other costs paid by a lessee that may benefit a lessor, and variable payments when contracts have lease and non-lease components. The amendments became effective for January 1, 2019. A modified retrospective transition approach was required, applying the new standard to all leases existing at the date of initial application. The Bank has chosen to use the effective date, January 1, 2019, as its date of initial application; therefore, the financial information was not provided for dates or periods prior to January 1, 2019. The Bank considered all relevant contractual provisions, including renewal and termination options, and determined the remaining lease terms of each respective lease. The Bank considered past practices, market area, and contract terms of all leases and assumed all renewal options would be exercised. To determine the incremental borrowing rate, the Bank used the rate of interest it would pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. The Bank does not have any finance leases or material subleases or leasing arrangements in which it is the lessor of the property or equipment. The adoption of this standard did not materially affect the change in the Bank's recognition of lease expense in future periods, but added the ROU asset and corresponding lease liability on the Company's Consolidated Balance Sheet.

In June 2016, the FASB issued ASU 2016-13, *Financial instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, to change the accounting for credit losses and modify the impairment model for certain debt securities. In May 2019, the FASB issued guidance to provide entities with an option to irrevocably elect the fair value option, applied on an instrument-by-instrument basis for eligible instruments, upon adoption of ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*. In October 2019, the FASB voted to extend the implementation date for smaller reporting companies, non-SEC public companies, and private companies. The amendment will be effective for the Company for periods beginning after December 15, 2022. The Company is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows. It will be influenced by the quality, composition, and characteristics of our loan and investment portfolios, as well as the expected economic conditions and forecasts at the time of enactment and future reporting periods.

In March 2017, the FASB issued ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization of Purchased Callable Debt Securities*, which shortens the amortization period for the premium to the earliest call date. The amendment became effective for the Company on January 1, 2019 and did not have a material effect on the financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The amendments remove, modify, and add certain fair value disclosure requirements based on the concepts in the FASB Concepts Statement, Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this ASU and delay adoption of the additional disclosures until their effective date. The Company does not expect these amendments to have a material effect on its financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles and Goodwill and Other-Internal Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The amendments will be effective for the Company for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In October 2018, the FASB issued ASU 2018-16, *Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes*, which expands the list of U.S. benchmark interest rates permitted in the application of hedge accounting. The amendments became effective for the Company on January 1, 2019 and did not have a material effect on its financial statements.

In October 2018, the FASB issued ASU 2018-07, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities*, determining whether a decision-making fee is a variable interest. The amendments require organizations to consider indirect interests held through related parties under common control on a proportional basis rather than as the equivalent of a direct interest in its entirety. The amendments will be effective for the Company for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The Company will apply a



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full retrospective approach in which financial statements for each individual prior period presented and the opening balances of the earliest period presented are adjusted to reflect the period-specific effects of applying the amendments. The Company does not expect these amendments to have a material effect on its financial statements.

In April 2019, the FASB issued guidance that clarifies and improves areas of guidance related to the recently issued standards on credit losses, hedging, and recognition and measurement of financial instruments. The amendments related to credit losses will be effective for the Company for the reporting period beginning after December 15, 2019. The amendments related to hedging became effective January 1, 2019. The amendments related to recognition and measurement of financial instruments will be effective for the Company for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company does not expect these amendments to have a material effect on its financial statements.

In July 2019, the FASB updated various Topics of the ASC to align the guidance in various SEC sections of the Codification with the requirements of certain SEC final rules. The amendments were effective upon issuance and did not have a material effect on the financial statements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which provides guidance to simplify accounting for income taxes by removing specific technical exceptions that can produce information investors do not understand. The amendments improve and simplify the application of GAAP for other areas of Topic 740 by clarifying and amending the existing guidance. The amendments are effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Early adoption is permitted. The Company does not expect these amendments to have a material effect on the 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 our financial position, results of operations or cash flows.

**3. INVESTMENT SECURITIES AVAILABLE FOR SALE**

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

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury Notes .....	\$ 23,080,465	\$ 99,735	\$ —	\$ 23,180,200
Government-Sponsored Enterprises .....	50,139,959	401,336	(43,100)	50,498,195
Municipal Securities .....	26,618,375	169,640	(16,454)	26,771,561
Total .....	<u>\$ 99,838,799</u>	<u>\$ 670,711</u>	<u>\$ (59,554)</u>	<u>\$ 100,449,956</u>

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury Notes .....	\$ 32,965,693	\$ —	\$ (609,059)	\$ 32,356,634
Government-Sponsored Enterprises .....	60,684,878	—	(1,315,598)	59,369,280
Municipal Securities .....	28,267,930	112,971	(437,941)	27,942,960
Total .....	<u>\$ 121,918,501</u>	<u>\$ 112,971</u>	<u>\$ (2,362,598)</u>	<u>\$ 119,668,874</u>

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The amortized cost and estimated fair value of investment securities available for sale at December 31, 2019 and 2018, by contractual maturity are in the following table.

	December 31, 2019		December 31, 2018	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less . . . . .	\$ 9,185,615	\$ 9,191,226	\$ 4,246,325	\$ 4,249,570
Due in one year to five years . . . . .	77,261,123	77,815,119	99,753,174	97,915,185
Due in five years to ten years . . . . .	13,392,061	13,443,611	17,504,456	17,128,425
Due in ten years and over . . . . .	—	—	414,546	375,694
<b>Total . . . . .</b>	<b>\$ 99,838,799</b>	<b>\$ 100,449,956</b>	<b>\$ 121,918,501</b>	<b>\$ 119,668,874</b>

Securities pledged to secure deposits at December 31, 2019 and 2018, had a carrying amount of \$37,648,687 and \$41,547,205, respectively.

The tables below summarize gross unrealized losses on investment securities and the fair market 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, 2019 and 2018. We believe that all unrealized losses have resulted from temporary changes in the interest rate market and not as a result of credit deterioration. We do not intend to sell and it is not likely that we will be required to sell any of the securities referenced in the table below before recovery of their amortized cost.

	December 31, 2019								
	Less Than 12 Months			12 Months or Longer			Total		
	#	Fair Value	Gross Unrealized Loss	#	Fair Value	Gross Unrealized Loss	#	Fair Value	Gross Unrealized Loss
U.S. Treasury Notes . . . . .	—	\$ —	\$ —	—	\$ —	\$ —	—	\$ —	\$ —
Government-Sponsored Enterprises . . . . .	1	5,039,550	(43,100)	—	—	—	1	5,039,550	(43,100)
Municipal Securities . . . . .	9	3,199,517	(13,335)	1	330,880	(3,119)	10	3,530,397	(16,454)
<b>Total . . . . .</b>	<b>10</b>	<b>\$ 8,239,067</b>	<b>\$ (56,435)</b>	<b>1</b>	<b>\$ 330,880</b>	<b>\$ (3,119)</b>	<b>11</b>	<b>\$ 8,569,947</b>	<b>\$ (59,554)</b>

	December 31, 2018								
	Less Than 12 Months			12 Months or Longer			Total		
	#	Fair Value	Gross Unrealized Loss	#	Fair Value	Gross Unrealized Loss	#	Fair Value	Gross Unrealized Loss
U.S. Treasury Notes . . . . .	—	\$ —	\$ —	7	\$ 32,356,634	\$ (609,059)	7	\$ 32,356,634	\$ (609,059)
Government-Sponsored Enterprises . . . . .	2	9,967,000	(14,302)	11	49,402,280	(1,301,296)	13	59,369,280	(1,315,598)
Municipal Securities . . . . .	2	1,362,286	(7,547)	31	11,840,912	(430,394)	33	13,203,198	(437,941)
<b>Total . . . . .</b>	<b>4</b>	<b>\$ 11,329,286</b>	<b>\$ (21,849)</b>	<b>49</b>	<b>\$ 93,599,826</b>	<b>\$ (2,340,749)</b>	<b>53</b>	<b>\$ 104,929,112</b>	<b>\$ (2,362,598)</b>

The table below shows the proceeds received from sales of securities available for sale and gross realized gains and losses.

	For the Year Ended December 31,		
	2019	2018	2017
Gross proceeds . . . . .	\$ 30,412,250	\$ 21,434,634	\$ 20,231,265
Gross realized gains . . . . .	114,888	104,634	154,692
Gross realized losses . . . . .	(64,181)	(99,899)	(108,872)

The tax provision related to these gains was \$10,648 and \$994 for the year ended December 31, 2019 and 2018, respectively.

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**4. LOANS AND ALLOWANCE FOR LOAN LOSSES**

Major classifications of loans (net of deferred loan fees of \$155,697 at December 31, 2019, and \$156,309 at December 31, 2018) are shown in the table below.

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Commercial .....	\$ 52,848,455	\$ 54,829,078
Commercial real estate:		
Construction .....	12,491,078	7,304,300
Other .....	143,821,990	143,703,401
Consumer:		
Real estate .....	59,533,045	63,787,411
Other .....	<u>5,377,992</u>	<u>5,040,077</u>
Total loans .....	<u>274,072,560</u>	<u>274,664,267</u>
Allowance for loan losses .....	<u>(4,003,758)</u>	<u>(4,214,331)</u>
Loans, net .....	<u>\$ 270,068,802</u>	<u>\$270,449,936</u>

We had \$85.2 million and \$101.9 million of loans pledged as collateral to secure funding with the Federal Reserve Bank (“FRB”) Discount Window at December 31, 2019 and 2018, respectively.

Our portfolio grading analysis estimates the capability of the borrower to repay the contractual obligations of the loan agreements as scheduled. Our internal credit risk grading system is based on experience with similarly graded loans, industry best practices, and regulatory guidance. Our portfolio is graded in its entirety.

Our internally assigned grades pursuant to the Board-approved lending policy are as follows:

- **Excellent** (1) The borrowing entity has more than adequate cash flow, unquestionable strength, strong earnings and capital, and where applicable, no overdrafts.
- **Good** (2) The borrowing entity has dependable cash flow, better than average financial condition, good capital and usually no overdrafts.
- **Satisfactory** (3) The borrowing entity has adequate cash flow, satisfactory financial condition, and explainable overdrafts (if any).
- **Watch** (4) The borrowing entity has generally adequate, yet inconsistent cash flow, cyclical earnings, weak capital, loan to/from stockholders, and infrequent overdrafts. The borrower has consistent yet sometimes unpredictable sales and growth.
- **OAEM** (5) The borrowing entity has marginal cash flow, occasional past dues, and frequent and unexpected working capital needs.
- **Substandard** (6) The borrowing entity has cash flow barely sufficient to service debt, deteriorated financial condition, and bankruptcy is a possibility. The borrowing entity has declining sales, rising costs, and may need to look for secondary source of repayment.
- **Doubtful** (7) The borrowing entity has negative cash flow. Survival of the business is at risk, full repayment is unlikely, and there are frequent and unexplained overdrafts. The borrowing entity shows declining trends and no operating profits.
- **Loss** (8) The borrowing entity has negative cash flow with no alternatives. Survival of the business is unlikely.

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The following tables illustrate credit risks by category and internally assigned grades at December 31, 2019 and December 31, 2018. "Pass" includes loans internally graded as excellent, good and satisfactory.

December 31, 2019						
	Commercial	Commercial Real Estate Construction	Commercial Real Estate Other	Consumer Real Estate	Consumer Other	Total
Pass .....	\$ 48,098,936	\$ 12,005,834	\$ 137,641,011	\$ 56,034,247	\$ 4,966,615	\$ 258,746,643
Watch .....	2,303,568	485,244	3,758,220	2,096,445	315,375	8,958,852
OAEM .....	460,551	—	649,039	522,600	44,232	1,676,422
Substandard .....	1,985,400	—	1,773,720	879,753	51,770	4,690,643
Doubtful .....	—	—	—	—	—	—
Loss .....	—	—	—	—	—	—
Total .....	<u>\$ 52,848,455</u>	<u>\$ 12,491,078</u>	<u>\$ 143,821,990</u>	<u>\$ 59,533,045</u>	<u>\$ 5,377,992</u>	<u>\$ 274,072,560</u>

December 31, 2018						
	Commercial	Commercial Real Estate Construction	Commercial Real Estate Other	Consumer Real Estate	Consumer Other	Total
Pass .....	\$ 50,663,356	\$ 7,304,300	\$ 136,804,420	\$ 60,480,317	\$ 4,726,494	\$ 259,978,887
Watch .....	1,973,675	—	4,938,711	2,077,341	226,117	9,215,844
OAEM .....	157,300	—	590,294	350,000	—	1,097,594
Substandard .....	2,034,747	—	1,369,976	879,753	87,466	4,371,942
Doubtful .....	—	—	—	—	—	—
Loss .....	—	—	—	—	—	—
Total .....	<u>\$ 54,829,078</u>	<u>\$ 7,304,300</u>	<u>\$ 143,703,401</u>	<u>\$ 63,787,411</u>	<u>\$ 5,040,077</u>	<u>\$ 274,664,267</u>

The following tables include an aging analysis of the recorded investment in loans segregated by class.

December 31, 2019							
	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 .....	\$ 39,329	\$ —	\$ 178,975	\$ 218,304	\$ 52,630,151	\$ 52,848,455	\$ —
Commercial Real Estate							
Construction .....	—	—	—	—	12,491,078	12,491,078	—
Commercial Real Estate Other ..	620,837	300,240	582,419	1,503,496	142,318,494	143,821,990	—
Consumer Real Estate .....	—	2,965	629,999	632,964	58,900,081	59,533,045	—
Consumer Other .....	32,842	—	—	32,842	5,345,150	5,377,992	—
Total .....	<u>\$ 693,008</u>	<u>\$ 303,205</u>	<u>\$ 1,391,393</u>	<u>\$ 2,387,606</u>	<u>\$ 271,684,954</u>	<u>\$ 274,072,560</u>	<u>\$ —</u>

December 31, 2018							
	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 .....	\$ 266,567	\$ 17,492	\$ 229,395	\$ 513,454	\$ 54,315,624	\$ 54,829,078	\$ —
Commercial Real Estate							
Construction .....	—	—	—	—	7,304,300	7,304,300	—
Commercial Real Estate Other ..	35,000	215,049	571,292	821,341	142,882,060	143,703,401	—
Consumer Real Estate .....	—	—	—	—	63,787,411	63,787,411	—
Consumer Other .....	24,621	—	—	24,621	5,015,456	5,040,077	—
Total .....	<u>\$ 326,188</u>	<u>\$ 232,541</u>	<u>\$ 800,687</u>	<u>\$ 1,359,416</u>	<u>\$ 273,304,851</u>	<u>\$ 274,664,267</u>	<u>\$ —</u>

There were no loans past due 90 days or more and still accruing interest at December 31, 2019 and 2018.

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The following table summarizes the balances of non-accrual loans.

	Loans Receivable on Non-Accrual	
	December 31, 2019	December 31, 2018
Commercial	\$ 178,975	\$ 251,219
Commercial Real Estate Construction	—	—
Commercial Real Estate Other	857,327	571,292
Consumer Real Estate	629,999	—
Consumer Other	—	1,023
<b>Total</b>	<b>\$ 1,666,301</b>	<b>\$ 823,534</b>

The following tables set forth the changes in the allowance and an allocation of the allowance by class at December 31, 2019, 2018, and 2017. 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.

	December 31, 2019					Total
	Commercial	Commercial Real Estate Construction	Commercial Real Estate Other	Consumer Real Estate	Consumer Other	
<b>Allowance for Loan Losses</b>						
Beginning Balance	\$ 1,665,413	\$ 63,876	\$ 1,292,346	\$ 386,585	\$ 806,111	\$ 4,214,331
Charge-offs	(398,685)	—	—	—	(8,342)	(407,027)
Recoveries	12,200	—	—	—	4,254	16,454
Provisions	150,989	45,359	(21,901)	109,636	(104,083)	180,000
Ending Balance	<u>\$ 1,429,917</u>	<u>\$ 109,235</u>	<u>\$ 1,270,445</u>	<u>\$ 496,221</u>	<u>\$ 697,940</u>	<u>\$ 4,003,758</u>
	December 31, 2018					
	Commercial	Commercial Real Estate Construction	Commercial Real Estate Other	Consumer Real Estate	Consumer Other	Total
<b>Allowance for Loan Losses</b>						
Beginning Balance	\$ 1,403,588	\$ 23,638	\$ 1,549,755	\$ 796,918	\$ 101,499	\$ 3,875,398
Charge-offs	(31,250)	—	—	—	(84,637)	(115,887)
Recoveries	14,000	—	56,827	45,412	13,581	129,820
Provisions	279,075	40,238	(314,236)	(455,745)	775,668	325,000
Ending Balance	<u>\$ 1,665,413</u>	<u>\$ 63,876</u>	<u>\$ 1,292,346</u>	<u>\$ 386,585</u>	<u>\$ 806,111</u>	<u>\$ 4,214,331</u>
	December 31, 2017					
	Commercial	Commercial Real Estate Construction	Commercial Real Estate Other	Consumer Real Estate	Consumer Other	Total
<b>Allowance for Loan Losses</b>						
Beginning Balance	\$ 1,545,188	\$ 51,469	\$ 1,374,706	\$ 726,391	\$ 153,863	\$ 3,851,617
Charge-offs	—	—	(180,587)	—	(4,862)	(185,449)
Recoveries	6,000	—	87,030	60,000	1,200	154,230
Provisions	(147,600)	(27,831)	268,606	10,527	(48,702)	55,000
Ending Balance	<u>\$ 1,403,588</u>	<u>\$ 23,638</u>	<u>\$ 1,549,755</u>	<u>\$ 796,918</u>	<u>\$ 101,499</u>	<u>\$ 3,875,398</u>

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The following tables present, by class and reserving methodology, the allocation of the allowance for loan losses and the gross investment in loans.

December 31, 2019						
	Commercial	Commercial Real Estate Construction	Commercial Real Estate Other	Consumer Real Estate	Consumer Other	Total
<b>Allowance for Loan Losses</b>						
Individually evaluated for impairment . . . .	\$ 683,278	\$ —	\$ 1,782	\$ —	\$ 90	\$ 685,150
Collectively evaluated for impairment . . . .	<u>746,639</u>	<u>109,235</u>	<u>1,268,663</u>	<u>496,221</u>	<u>697,850</u>	<u>3,318,608</u>
<b>Total Allowance for Loan Losses . . . . .</b>	1,429,917	109,235	1,270,445	496,221	697,940	4,003,758
<b>Loans Receivable</b>						
Individually evaluated for impairment . . . .	2,065,732	—	1,679,872	879,753	51,770	4,677,127
Collectively evaluated for impairment . . . .	<u>50,782,723</u>	<u>12,491,078</u>	<u>142,142,118</u>	<u>58,653,292</u>	<u>5,326,222</u>	<u>269,395,433</u>
<b>Total Loans Receivable . . . . .</b>	<u>\$ 52,848,455</u>	<u>\$ 12,491,078</u>	<u>\$ 143,821,990</u>	<u>\$ 59,533,045</u>	<u>\$ 5,377,992</u>	<u>\$ 274,072,560</u>
December 31, 2018						
	Commercial	Commercial Real Estate Construction	Commercial Real Estate Other	Consumer Real Estate	Consumer Other	Total
<b>Allowance for Loan Losses</b>						
Individually evaluated for impairment . . . .	\$ 1,132,805	\$ —	\$ 37,416	\$ —	\$ 21,324	\$ 1,191,545
Collectively evaluated for impairment . . . .	<u>532,608</u>	<u>63,876</u>	<u>1,254,930</u>	<u>386,585</u>	<u>784,787</u>	<u>3,022,786</u>
<b>Total Allowance for Losses . . . . .</b>	<u>\$ 1,665,413</u>	<u>\$ 63,876</u>	<u>\$ 1,292,346</u>	<u>\$ 386,585</u>	<u>\$ 806,111</u>	<u>\$ 4,214,331</u>
<b>Loans Receivable</b>						
Individually evaluated for impairment . . . .	\$ 1,996,579	\$ —	\$ 1,280,890	\$ 879,753	\$ 21,324	\$ 4,178,546
Collectively evaluated for impairment . . . .	<u>52,832,499</u>	<u>7,304,300</u>	<u>142,422,511</u>	<u>62,907,658</u>	<u>5,018,753</u>	<u>270,485,721</u>
<b>Total Loans Receivable . . . . .</b>	<u>\$ 54,829,078</u>	<u>\$ 7,304,300</u>	<u>\$ 143,703,401</u>	<u>\$ 63,787,411</u>	<u>\$ 5,040,077</u>	<u>\$ 274,664,267</u>



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As of December 31, 2019 and 2018, loans individually evaluated for impairment and the corresponding allowance for loan losses are presented in the following table.

	Impaired and Restructured Loans As of					
	December 31, 2019			December 31, 2018		
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Unpaid Principal Balance	Recorded Investment	Related Allowance
<b>With no related allowance recorded:</b>						
Commercial .....	\$ 1,355,875	\$ 1,355,875	\$ —	\$ 115,983	\$ 115,983	\$ —
Commercial Real Estate						
Construction .....	—	—	—	—	—	—
Commercial Real Estate						
Other .....	1,432,988	1,432,988	—	974,249	974,249	—
Consumer Real Estate .....	879,753	879,753	—	879,753	879,753	—
Consumer Other .....	—	—	—	—	—	—
Total .....	<u>3,668,616</u>	<u>3,668,616</u>	<u>—</u>	<u>1,969,985</u>	<u>1,969,985</u>	<u>—</u>
<b>With an allowance recorded:</b>						
Commercial .....	709,857	709,857	683,278	1,880,596	1,880,596	1,132,805
Commercial Real Estate						
Construction .....	—	—	—	—	—	—
Commercial Real Estate						
Other .....	346,685	246,884	1,782	406,442	306,641	37,416
Consumer Real Estate .....	—	—	—	—	—	—
Consumer Other .....	51,770	51,770	90	21,324	21,324	21,324
Total .....	<u>1,108,312</u>	<u>1,008,511</u>	<u>685,150</u>	<u>2,308,362</u>	<u>2,208,561</u>	<u>1,191,545</u>
<b>Total</b>						
Commercial .....	2,065,732	2,065,732	683,278	1,996,579	1,996,579	1,132,805
Commercial Real Estate						
Construction .....	—	—	—	—	—	—
Commercial Real Estate						
Other .....	1,779,673	1,679,872	1,782	1,380,691	1,280,890	37,416
Consumer Real Estate .....	879,753	879,753	—	879,753	879,753	—
Consumer Other .....	51,770	51,770	90	21,324	21,324	21,324
Total .....	<u>\$ 4,776,928</u>	<u>\$ 4,677,127</u>	<u>\$ 685,150</u>	<u>\$ 4,278,347</u>	<u>\$ 4,178,546</u>	<u>\$ 1,191,545</u>

**BANK OF SOUTH CAROLINA CORPORATION**  
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The following table presents average impaired loans and interest income recognized on those impaired loans, by class segment, for the periods indicated.

	For the year ended December 31,					
	2019		2018		2017	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
<b>With no related allowance recorded:</b>						
Commercial . . . . .	\$ 1,483,982	\$ 94,779	\$ 133,413	\$ 8,637	\$ 173,964	\$ 7,416
Commercial Real Estate						
Construction . . . . .	—	—	—	—	—	—
Commercial Real Estate						
Other . . . . .	1,533,720	76,183	982,078	40,174	1,275,402	23,084
Consumer Real Estate . . . . .	879,753	30,400	879,753	51,520	451,025	16,938
Consumer Other . . . . .	—	—	—	—	—	—
Total . . . . .	<u>3,897,455</u>	<u>201,362</u>	<u>1,995,244</u>	<u>100,331</u>	<u>1,900,391</u>	<u>47,438</u>
<b>With an allowance recorded:</b>						
Commercial . . . . .	725,353	44,299	1,915,139	100,395	1,711,259	76,544
Commercial Real Estate						
Construction . . . . .	—	—	—	—	—	—
Commercial Real Estate						
Other . . . . .	246,884	—	416,569	10,999	930,420	5,367
Consumer Real Estate . . . . .	—	—	—	—	43,119	1,296
Consumer Other . . . . .	59,240	3,487	26,314	1,382	36,056	1,419
Total . . . . .	<u>1,031,477</u>	<u>47,786</u>	<u>2,358,022</u>	<u>112,776</u>	<u>2,720,854</u>	<u>84,626</u>
<b>Total</b>						
Commercial . . . . .	2,209,335	139,078	2,048,552	109,032	1,885,223	83,960
Commercial Real Estate						
Construction . . . . .	—	—	—	—	—	—
Commercial Real Estate						
Other . . . . .	1,780,604	76,183	1,398,647	51,173	2,205,822	28,451
Consumer Real Estate . . . . .	879,753	30,400	879,753	51,520	494,144	18,234
Consumer Other . . . . .	59,240	3,487	26,314	1,382	36,056	1,419
	<u>\$ 4,928,932</u>	<u>\$ 249,148</u>	<u>\$ 4,353,266</u>	<u>\$ 213,107</u>	<u>\$ 4,621,245</u>	<u>\$ 132,064</u>

In general, the modification or restructuring of a debt is considered a troubled debt restructuring (“TDR”) if we, for economic or legal reasons related to a borrower’s financial difficulties, grant a concession to the borrower that we would not otherwise consider. As of December 31, 2019, there were 3 TDRs with a balance of \$573,473 compared to no TDRs as of December 31, 2018 and one TDR with a balance of \$33,300 as of December 31, 2019. These TDRs were granted extended payment terms with no principal reduction. All TDRs were performing as agreed as of December 31, 2019. During the year ended December 31, 2019, one TDR in the amount of \$2,008 was charged off and the Company recovered \$439. No other TDRs that were modified within the previous twelve months defaulted during the following year for the years ended December 31, 2019, 2018, and 2017.

**BANK OF SOUTH CAROLINA CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**5. CONCENTRATIONS OF CREDIT RISK**

We grant short to intermediate term commercial and consumer loans to customers throughout our primary market area of Charleston, Berkeley and Dorchester counties of South Carolina. Our primary market area is heavily dependent on tourism, medical, and legal services. Although we have a diversified loan portfolio, a substantial portion of our debtors' ability to honor their contracts is dependent upon the stability of the economic environment in their primary market. The majority of the loan portfolio is located in our immediate market area with a concentration in real estate related activities and offices, medical offices, and attorneys' offices.

Our loans were concentrated in the following categories.

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Commercial .....	19.28%	19.96%
Commercial Real Estate Construction .....	4.56%	2.67%
Commercial Real Estate Other .....	52.48%	52.32%
Consumer Real Estate .....	21.72%	23.22%
Consumer Other .....	1.96%	1.83%
Total .....	<u>100.00%</u>	<u>100.00%</u>

**6. PREMISES, EQUIPMENT AND LEASEHOLD IMPROVEMENTS**

Premises, equipment and leasehold improvements are summarized in the table below.

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Bank buildings .....	\$ 1,861,237	\$ 1,861,237
Land .....	838,075	838,075
Leasehold purchases .....	30,000	30,000
Leasehold improvements .....	2,555,376	709,520
Construction in progress .....	—	120,849
Equipment .....	3,987,002	3,526,404
	<u>9,271,690</u>	<u>7,086,085</u>
Accumulated depreciation .....	(4,981,255)	(4,750,878)
Total .....	<u>\$ 4,290,435</u>	<u>\$ 2,335,207</u>

Depreciation on our bank premises and equipment charged to operating expense totaled \$230,377 in 2019, \$195,921 in 2018, and \$193,298 in 2017.

**7. LEASES**

As of December 31, 2019, the Company had operating right of use ("ROU") assets of \$13.2 million and operating lease liabilities of \$13.2 million. The Company maintains operating leases on land, branch facilities, and parking. Most of the leases include one or more options to renew, with renewal terms extending up to 20 years. Leases with an initial term of 12 months or less are not recorded on the balance sheet and are recognized in lease expense.

The weighted average remaining lease term is 18.50 years. The weighted average incremental borrowing rate is 4.34%.

The exercise of renewal options is based on the sole judgement of management and what they consider to be reasonably certain. Based on the market areas, past practices, and contract terms of all leases, the Bank assumed all renewal options will be exercised.

**BANK OF SOUTH CAROLINA CORPORATION**  
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Minimum rental commitments for these leases as of December 31, 2019 are presented in the table below.

2020 .....	\$ 901,896
2021 .....	917,169
2022 .....	930,750
2023 .....	957,477
2024 and thereafter .....	11,697,343
Total undiscovered lease payments .....	<u>\$ 15,404,635</u>
Less: effect of discounting .....	(2,195,418)
Present value of estimated lease payments .....	<u>\$ 13,209,217</u>

The table below shows lease expense components for the year ended December 31, 2019.

Lease Expense Components	
Operating lease expense .....	\$ 577,460
Short-term lease expense .....	46,538
Total lease expense .....	<u>\$ 623,998</u>

Total rental expense was \$623,998, \$622,396, and \$612,717 in 2019, 2018 and 2017, respectively.

As of December 31, 2019, we did not maintain any finance leases and we determined that the number and dollar amount of equipment leases was immaterial. As of December 31, 2019, we have no additional operating leases that have not yet commenced.

We rented office space at 1071 Morrison Drive, Charleston, South Carolina, from a related party, to house our Mortgage Department during the year ended December 31, 2019. Rent expense for this lease was \$46,538, \$60,840, and \$54,720 for the years ended December 31, 2019, 2018, and 2017, respectively. This lease ended in September 2019.

**8. OTHER REAL ESTATE OWNED**

The following table summarizes the activity in other real estate owned at December 31, 2019 and 2018.

	December 31, 2019	December 31, 2018
Balance, beginning of the year .....	\$ —	\$ 435,479
Additions - foreclosure .....	—	—
Sales .....	—	(411,842)
Write-downs .....	—	(23,637)
Balance, end of the year .....	<u>\$ —</u>	<u>\$ —</u>

As of December 31, 2019 and 2018, there were no properties classified as OREO. One property valued at \$411,842 was sold at a loss of \$33,476 during 2018.

**9. DEPOSITS**

As of December 31, 2019 and 2018, certificates of deposit of \$250,000 or more totaled approximately \$5,967,559 and \$15,909,991, respectively.

The scheduled maturities of certificates of deposit as of December 31, 2019 are presented in the table below:

2020 .....	\$ 20,127,684
2021 .....	1,072,986
2022 .....	340,257
2023 .....	368,391
2024 and thereafter .....	273,469
	<u>\$ 22,182,787</u>

As of December 31, 2019, deposits with a deficit balance of \$25,319 were re-classified as other loans.

**BANK OF SOUTH CAROLINA CORPORATION**  
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**10. SHORT-TERM BORROWINGS**

At December 31, 2019 and 2018, we had no outstanding federal funds purchased. We have 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, we may borrow up to \$56.8 million. We established this arrangement as an additional source of liquidity. There have been no borrowings under this arrangement.

At December 31, 2019 and 2018, the Bank had unused short-term lines of credit totaling approximately \$23.0 million (which are withdrawable at the lender's option).

**11. INCOME TAXES**

On December 22, 2017, the President of the United States signed into law the 2017 Tax Act. The 2017 Tax Act included a number of changes to the existing U.S. tax laws that impact the Company, most notably a reduction in the U.S. corporate income tax rate from 34 percent to 21 percent for tax years beginning after December 31, 2017.

The Company recognized the income tax effects of the 2017 Tax Act in its 2017 consolidated financial statements in accordance with Staff Accounting Bulletin No. 118, which provides SEC staff guidance for the application of ASC Topic 740, *Income Taxes*, in the reporting period in which the 2017 Tax Act was signed into law. As such, the Company's financial results reflect the income tax effects of the 2017 Tax Act for which the accounting under ASC Topic 740 is incomplete but a reasonable estimate could be determined.

Total income taxes for the years ended December 31, 2019, 2018 and 2017 are presented in the table below.

	For the year ended December 31,		
	2019	2018	2017
Income tax expense . . . . .	\$ 2,175,274	\$ 1,108,982	\$ 2,814,634
Unrealized gains (losses) on securities available for sale presented in accumulated other comprehensive income (loss) . . . . .	(600,765)	(192,280)	(116,007)
Total . . . . .	\$ 1,574,509	\$ 916,702	\$ 2,698,627

Income tax expense was as follows:

	For the year ended December 31,		
	2019	2018	2017
Current income taxes . . . . .			
Federal . . . . .	\$ 1,742,430	\$ 1,326,619	\$ 2,538,272
State . . . . .	—	—	—
Total current tax expense . . . . .	1,742,430	1,326,619	2,538,272
Deferred income tax (benefit) expense . . . . .	432,844	(217,637)	276,362
Total income tax expense . . . . .	\$ 2,175,274	\$ 1,108,982	\$ 2,814,634

The differences between actual income tax expense and the amounts computed by applying the U.S. federal income tax rate of 21% to pretax income from continuing operations for the periods indicated are reconciled in the table below.

	For the year ended December 31,		
	2019	2018	2017
Computed "expected" tax expense . . . . .	\$ 1,993,679	\$ 1,686,702	\$ 2,623,595
Increase (reduction) in income taxes resulting from:			
Tax rate change impact . . . . .	—	—	666,674
Amortization of credit and gain . . . . .	1,685	196,477	163,411
Stock based compensation . . . . .	16,391	15,205	24,378
Valuation allowance . . . . .	7,123	7,538	16,952
Other . . . . .	6,233	38,938	(4,768)
State income tax, net of federal benefit . . . . .	268,000	(226,578)	(329,412)
Federal credits . . . . .	—	(454,985)	—
Tax exempt interest income . . . . .	(117,837)	(154,315)	(346,196)
	\$ 2,175,274	\$ 1,108,982	\$ 2,814,634

**BANK OF SOUTH CAROLINA CORPORATION**  
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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, 2019 and 2018 are presented below.

	December 31, 2019	December 31, 2018
Deferred tax assets:		
Allowance for loan losses .....	\$ 806,982	\$ 850,964
State credit carryforward .....	307,950	647,190
Unrealized gain (loss) on securities available for sale .....	—	472,421
Pass-through income .....	68,438	68,438
State net operating loss carryforward .....	81,914	74,791
Nonaccrual interest .....	41,453	27,956
Other .....	6,934	6,155
Total gross deferred tax assets .....	\$ 1,313,671	2,147,915
Valuation allowance .....	(81,914)	(74,791)
Total gross deferred tax assets, net of valuation allowance .....	\$ 1,231,757	2,073,124
Deferred tax liabilities:		
Fixed assets, principally due to differences in depreciation .....	(109,169)	(39,294)
Unrealized gain (loss) on securities available for sale .....	(128,344)	—
Deferred loan fees .....	(32,696)	(32,825)
Other .....	(57,741)	(56,481)
Prepaid expenses .....	(225)	(210)
Total deferred tax liabilities .....	(328,175)	(128,810)
Net deferred tax assets .....	\$ 903,582	\$ 1,944,314

In 2018, the Company invested in a Federal Rehabilitation Credit. The tax credit was used during the year ended December 31, 2018. Amortization expense recognized for the years ended December 31, 2019 and 2018 was \$8,022 and \$354,888, respectively. In 2016, the Company invested in a South Carolina Rehabilitation Credit. The tax credit was included in deferred tax assets and is being amortized. Amortization expense recognized for the years ended December 31, 2018 and 2017 was \$306,105, and was included in other operating expense on the statement of operations.

There was a \$81,914 valuation allowance for deferred tax assets at December 31, 2019 associated with the 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, 2019. 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.

The Company measures deferred tax assets and liabilities using enacted tax rates that will apply in the years in which the temporary differences are expected to be recovered or paid. Accordingly, the Company's deferred tax assets and liabilities were remeasured to reflect the reduction in the U.S. corporate income tax rate from 34 percent to 21 percent, resulting in a \$666,674 increase in income tax expense for the year ended December 31, 2017 and a corresponding \$666,674 decrease in net deferred tax assets as of December 31, 2017.

The Company has analyzed the tax positions taken or expected to be taken in its tax returns and concluded it has no liability related to uncertain tax positions in accordance with applicable regulations.

Tax returns for 2016 and subsequent years are subject to examination by taxing authorities.



**BANK OF SOUTH CAROLINA CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**12. COMMITMENTS AND CONTINGENCIES**

We are a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our 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. Our 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. We use the same credit policies in making commitments and conditional obligations as we do 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. If deemed necessary, the amount of collateral obtained upon extension of credit is based on our 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 \$105,481,545 and \$96,115,504 at December 31, 2019 and 2018, respectively.

Standby letters of credit represent our obligation to a third party contingent upon the failure by our customer to perform under the terms of an underlying contract with the third party or obligates us 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. We can seek recovery of the amounts paid from the borrower. Commitments under standby letters of credit are usually for one year or less. At December 31, 2019 and 2018, we have 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, 2019 and 2018 was \$1,042,966 and \$1,169,644, respectively.

**13. RELATED PARTY TRANSACTIONS**

In the opinion of management, loans to our Executive Officers and Directors are made on substantially the same terms, including interest rates and collateral, as those terms prevailing at the time for comparable loans with persons not related to the lender that do not involve more than the normal risk of collectability. There were no past due loans to our Executive Officers as of December 31, 2019 and 2018.

The table below summarizes related party loans.

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Balance at beginning of the year . . . . .	\$ 4,401,710	\$ 4,569,780
New loans or advances . . . . .	370,275	1,428,098
Repayments . . . . .	(2,120,078)	(1,596,169)
Balance at the end of the year . . . . .	<u>\$ 2,651,907</u>	<u>\$ 4,401,710</u>

At December 31, 2019 and 2018, total deposits held by related parties were \$4,343,903 and \$8,914,967, respectively.

The Company also leased office space from a related party during the year ended December 31, 2019 as discussed in the Leases footnote.

**BANK OF SOUTH CAROLINA CORPORATION**  
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**14. OTHER EXPENSE**

The table below summarizes the components of other operating expense.

	For the year ended December 31,		
	2019	2018	2017
Data processing services .....	\$ 607,467	\$ 579,666	\$ 585,497
Professional fees .....	324,628	459,348	451,882
Telephone and postage .....	182,801	175,520	207,526
State and FDIC insurance and fees .....	113,117	183,867	165,280
Supplies .....	103,796	85,984	75,965
Courier service .....	49,200	54,044	82,907
Insurance .....	43,097	43,866	44,613
Advertising and business development .....	16,059	12,217	10,844
Amortization of federal tax credit .....	8,022	354,888	—
Amortization of state tax credit .....	—	306,106	306,105
Other .....	740,948	697,957	587,118
Total other operating expenses .....	<u>\$ 2,189,135</u>	<u>\$ 2,953,463</u>	<u>\$ 2,517,737</u>

**15. STOCK INCENTIVE PLAN**

We have a Stock Incentive Plan which was approved in 1998 with 180,000 (329,422 adjusted for five 10% stock dividends and a 25% stock dividend) shares reserved and a Stock Incentive Plan which was approved in 2010 with 300,000 (363,000 adjusted for two 10% stock dividends) 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. All employees are eligible to participate in this plan if the Executive/Long-Range Committee, in its sole discretion, determines that such person has contributed or can be expected to contribute to our profits or growth. The Stock Incentive Plan for Executive Officers is administered by the Compensation Committee of the Board of Directors.

Option awards are generally granted with an exercise price equal to the market price of the Company's common stock at the date of grant. The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. Expected volatilities are based on historical volatilities of our common stock. The expected term of the options granted shall not exceed ten years from the date of grant (the amount of time options granted are expected to be outstanding). The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

The fair value of options granted was determined using the following weighted-average assumptions as of grant date:

	2019	2018	2017
Risk free interest rate .....	2.01%	2.88%	2.43%
Expected life (in years) .....	7.5	7.5	7.5
Expected stock price volatility .....	33.13%	33.69%	34.20%
Dividend yield .....	4.28%	3.61%	4.00%

There are currently no options to purchase or shares exercisable under the 1998 Omnibus Stock Incentive Plan as of December 31, 2019.

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The following table presents a summary of the activity under the 1998 and 2010 Omnibus Stock Incentive Plans for the years ended December 31.

	2019		2018		2017	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, January 1 . .	102,760	\$ 11.89	117,191	\$ 10.79	154,085	\$ 10.19
Granted . . . . .	6,250	18.92	11,275	18.23	10,175	20.72
Expired . . . . .	—	—	—	—	—	—
Exercised . . . . .	(22,163)	8.81	(24,056)	8.96	(36,454)	9.57
Forfeited . . . . .	(750)	18.92	(1,650)	20.02	(10,615)	15.83
Outstanding, December 31	86,097	\$ 12.92	102,760	\$ 11.89	117,191	\$ 10.79
Exercisable at year end . .	27,459	\$ 9.03	32,219	\$ 8.81	31,694	\$ 8.77

Information has been retroactively adjusted for the 2018 10% stock dividend as applicable.

The following table presents information pertaining to options outstanding at December 31, 2019.

December 31, 2019							
Exercise Price	Number of Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price of Options Outstanding	Intrinsic Value of Options Outstanding	Number of Options Exercisable	Weighted Average Exercise Price of Options Exercisable	Intrinsic Value of Options Exercisable
\$ 8.61	24,236	5.33	\$ 8.61	\$ 208,672	19,389	\$ 8.61	\$ 194,683
\$ 8.90	1,210	0.75	\$ 8.90	\$ 10,769	1,210	\$ 8.90	\$ 11,799
\$ 9.18	5,263	2.50	\$ 9.18	\$ 48,314	3,158	\$ 9.18	\$ 29,907
\$ 9.65	1,210	1.25	\$ 9.65	\$ 11,677	968	\$ 9.65	\$ 8,713
\$ 9.92	1,210	2.75	\$ 9.92	\$ 12,003	726	\$ 9.92	\$ 6,339
\$ 12.26	5,202	4.59	\$ 12.26	\$ 63,777	1,040	\$ 12.26	\$ 6,649
\$ 12.40	2,419	4.00	\$ 12.40	\$ 29,996	968	\$ 12.40	\$ 6,048
\$ 13.05	14,217	5.33	\$ 13.05	\$ 185,532	—	\$ 13.05	\$ —
\$ 13.62	3,630	5.50	\$ 13.62	\$ 49,441	—	\$ 13.62	\$ —
\$ 14.54	5,500	6.25	\$ 14.54	\$ 79,970	—	\$ 14.54	\$ —
\$ 18.23	10,450	8.25	\$ 18.23	\$ 190,504	—	\$ 18.23	\$ —
\$ 18.92	5,500	9.50	\$ 18.92	\$ 104,060	—	\$ 18.92	\$ —
\$ 19.00	2,750	7.17	\$ 19.00	\$ 52,250	—	\$ 19.00	\$ —
\$ 19.82	3,300	7.09	\$ 19.82	\$ 65,406	—	\$ 19.82	\$ —
	<u>86,097</u>	<u>5.73</u>	<u>\$ 12.92</u>	<u>\$ 1,112,371</u>	<u>27,459</u>	<u>\$ 9.03</u>	<u>\$ 264,138</u>

The total intrinsic value of options exercised during the years ended December 31, 2019, 2018, and 2017, was \$218,116, \$262,415, and \$311,836, respectively.

We recognized compensation cost for the years ended December 31, 2019, 2018 and 2017 in the amount of \$78,053, \$72,408, and \$71,701, respectively, related to the granted options.

As of December 31, 2019, there was a total of \$189,103 in 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 3.86 years.

**BANK OF SOUTH CAROLINA CORPORATION**  
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**16. EMPLOYEE STOCK OWNERSHIP PLAN AND TRUST**

We established an Employee Stock Ownership Plan (“ESOP”) effective January 1, 1989. Any employee of the Bank is eligible to become a participant in the ESOP upon reaching 21 years of age and credited with one-year of service (1,000 hours of service). The employee may enter the Plan on the January 1<sup>st</sup> 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.

The Company recognizes expense when the contribution is approved by the Board of Directors. The total expenses amounted to \$510,000, \$420,000, and \$375,000, during the years ended December 31, 2019, 2018, and 2017, respectively. As of December 31, 2019, the plan owned 313,703 shares of common stock of Bank of South Carolina Corporation.

A participant vests in the ESOP based upon the participant’s 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

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 a restated plan, on January 26, 2012 (incorporated as Exhibit 10.5 in the 2011 10-K). The Plan was submitted to the IRS for approval and a determination letter was issued September 26, 2013, stating that the plan satisfies the requirements of Code Section 4975(e)(7). On January 26, 2017, the Board of Directors approved a restated plan (incorporated as Exhibit 10.6 in the 2016 10-K). The Plan was submitted to the IRS for approval and a determination letter was issued November 17, 2017, stating that the plan satisfies the requirements of Code Section 4975(e)(7).

**17. 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. Cash dividends when declared, are paid by the Bank to the Company for distribution to shareholders of the Company. The Bank paid dividends of \$4.1 million, \$3.8 million, and \$2.9 million, to the Company during the years ended December 31, 2019, 2018 and 2017, respectively.

On April 10, 2018, the Company’s Board of Directors declared a ten percent stock dividend to our shareholders. The record date was April 30, 2018 and the distribution date was May 31, 2018. Earnings per share and average shares outstanding have been adjusted for all periods presented to retroactively reflect the stock dividend in our consolidated financial statements. Total shares outstanding increased by 499,088 shares.

**18. INCOME PER COMMON SHARE**

Basic income per share is computed by dividing net income by the weighted-average number of common shares outstanding. Diluted income per share is 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. Earnings per share and average shares outstanding have been adjusted for all periods presented to retroactively reflect the ten percent stock dividend declared on April 10, 2018.

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net income .....	\$ 7,318,433	\$ 6,922,934	\$ 4,901,825
Weighted average shares outstanding .....	5,522,025	5,500,027	5,471,001
Effect of dilutive shares .....	66,065	88,985	97,492
Weighted average shares outstanding - diluted .....	<u>5,588,090</u>	<u>5,589,012</u>	<u>5,568,493</u>
Earnings per share - basic .....	\$ 1.33	\$ 1.26	\$ 0.90
Earnings per share - diluted .....	\$ 1.31	\$ 1.24	\$ 0.88

**19. REGULATORY CAPITAL REQUIREMENTS**

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

Current quantitative measures established by regulation to ensure capital adequacy require that we 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. We believe that the Company and the Bank meet all capital adequacy requirements to which they were subject at December 31, 2019 and 2018.

On July 2, 2013, the Federal Reserve Board approved the final rules implementing the Basel Committee on Banking Supervision’s (“BCBS”) capital guidelines for U.S. banks (“Basel III”). Following the actions by the Federal Reserve, the FDIC also approved regulatory capital requirements on July 9, 2013. The FDIC’s rule is identical in substance to the final rules issued by the Federal Reserve Bank.

Basel III became effective on January 1, 2015. The purpose is to improve the quality and increase the quantity of capital for all banking organizations. The minimum requirements for the quantity and quality of capital were increased. The rule includes a new common equity Tier 1 capital to risk-weighted assets ratio of 4.50% and a common equity Tier 1 capital conservation buffer of 2.50% of risk-weighted assets. The rule also raises the minimum ratio of Tier 1 capital to risk-weighted assets from 4.00% to 6.00% and requires a minimum leverage ratio of 4.00%. In addition, the rule also implements strict eligibility criteria for regulatory capital instruments and improves the methodology for calculating risk-weighted assets to enhance risk sensitivity. All final rule requirements will be phased in over a multi-year schedule. The capital conservation buffer in effect for the year ended December 31, 2019 was 8.46%.

At December 31, 2019, the Bank was categorized as “well capitalized” under Basel III. To be categorized as “well capitalized” the Bank must maintain minimum total risk based, Tier 1 risk based, common equity Tier 1 risk based capital and Tier 1 leverage ratios of 10.00%, 8.00%, 6.50%, and 5.00%, respectively, and to be categorized as “adequately capitalized,” the Bank must maintain minimum total risk based, Tier 1 risk based, common equity Tier 1 risk based capital, and Tier 1 leverage ratios of 8.00%, 6.00%, 4.50%, and 4.00%, respectively.

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The following tables present the actual and required capital amounts and ratios for the Company and Bank at December 31, 2019 and 2018:

		<b>December 31, 2019</b>					
<i>(in thousands)</i>		Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
		Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital to risk-weighted assets:							
Company .....	\$	54,690	16.69%	\$ 26,221	8.00%	N/A	N/A
Bank .....	\$	53,897	16.46%	\$ 26,199	8.00%	\$ 32,748	10.00%
Tier 1 capital to risk-weighted assets:							
Company .....	\$	50,686	15.46%	\$ 19,666	6.00%	N/A	N/A
Bank .....	\$	49,860	15.23%	\$ 19,649	6.00%	\$ 26,199	8.00%
Tier 1 capital to average assets:							
Company .....	\$	50,686	11.32%	\$ 17,907	4.00%	N/A	N/A
Bank .....	\$	49,860	11.14%	\$ 17,895	4.00%	\$ 22,369	5.00%
Common equity Tier 1 capital:							
Company .....	\$	50,686	15.46%	\$ 14,749	4.50%	N/A	N/A
Bank .....	\$	49,860	15.23%	\$ 14,737	4.50%	\$ 14,737	4.50%

		<b>December 31, 2018</b>					
<i>(in thousands)</i>		Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
		Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital to risk-weighted assets:							
Company .....	\$	50,657	16.69%	\$ 24,280	8.00%	N/A	N/A
Bank .....	\$	49,695	16.39%	\$ 24,262	8.00%	\$ 30,328	10.00%
Tier 1 capital to risk-weighted assets:							
Company .....	\$	46,864	15.44%	\$ 18,210	6.00%	N/A	N/A
Bank .....	\$	45,898	15.13%	\$ 18,197	6.00%	\$ 24,262	8.00%
Tier 1 capital to average assets:							
Company .....	\$	46,864	10.76%	\$ 17,428	4.00%	N/A	N/A
Bank .....	\$	45,898	10.54%	\$ 17,419	4.00%	\$ 21,773	5.00%
Common equity Tier 1 capital:							
Company .....	\$	46,864	15.44%	\$ 13,658	4.50%	N/A	N/A
Bank .....	\$	45,898	15.13%	\$ 13,647	4.50%	\$ 13,647	4.50%



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**20. DISCLOSURES REGARDING FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair value measurements apply whenever GAAP requires or permits assets or liabilities to be measured at fair value either on a recurring or nonrecurring basis. Fair value is the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants at the measurement date. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction. GAAP establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs, which are developed based on market data we have obtained from independent sources, are ones that market participants would use in pricing an asset or liability. Unobservable inputs, which are developed based on the best information available in the circumstances, reflect our estimate of assumptions that market participants would use in pricing an asset or liability.

The fair value hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The fair value hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1: valuation is based upon unadjusted quoted market prices for identical instruments traded in active markets.
- Level 2: valuation is based upon quoted market prices for similar instruments traded in active markets, quoted market prices for identical or similar instruments traded in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by market data.
- Level 3: valuation is derived from other valuation methodologies, including discounted cash flow models and similar techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in determining fair value.

Fair value estimates are made at a specific point of time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale our entire holdings of a particular financial instrument. Because no active market exists for a significant portion of our financial instruments, fair value estimates are based on judgements regarding future expected loss experience, current economic conditions, current interest rates and prepayment trends, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in any of these assumptions used in calculating fair value also would affect significantly the estimates. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

The following paragraphs describe the valuation methodologies used for assets and liabilities recorded at fair value on a recurring basis:

Investment Securities Available for Sale

Investment securities are recorded at fair value on a recurring basis and are based upon quoted prices if available. If quoted prices are not available, fair value is 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 and municipal securities in less liquid markets.

Derivative Instruments

Derivative instruments include interest rate lock commitments and forward sale commitments. These instruments are valued based on the change in the value of the underlying loan between the commitment date and the end of the period. We classify these instruments as Level 3.

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We had no embedded derivative instruments requiring separate accounting treatment. We had freestanding derivative instruments consisting of fixed rate conforming loan commitments with interest rate locks and commitments to sell fixed rate conforming loans on a best efforts basis. We do not currently engage in hedging activities. Based on the short-term fair value of mortgage loans held for sale (derivative contract), our derivative instruments were immaterial to our consolidated financial statements as of December 31, 2019 and 2018.

Assets and liabilities measured at fair value on a recurring basis at December 31, 2019 and 2018 are in the following table.

	Balance as of December 31, 2019			Total
	Level 1	Level 2	Level 3	
U.S. Treasury Notes .....	\$ 23,180,200	\$ —	\$ —	\$ 23,180,200
Government-Sponsored Enterprises .....	—	50,498,195	—	50,498,195
Municipal Securities .....	—	14,817,110	11,954,451	26,771,561
Total .....	<u>\$ 23,180,200</u>	<u>\$ 65,315,305</u>	<u>\$ 11,954,451</u>	<u>\$ 100,449,956</u>

	Balance as of December 31, 2018			Total
	Level 1	Level 2	Level 3	
U.S. Treasury Notes .....	\$ 32,356,634	\$ —	\$ —	\$ 32,356,634
Government-Sponsored Enterprises .....	—	59,369,280	—	59,369,280
Municipal Securities .....	—	21,701,005	6,241,955	27,942,960
Total .....	<u>\$ 32,356,634</u>	<u>\$ 81,070,285</u>	<u>\$ 6,241,955</u>	<u>\$ 119,668,874</u>

There were no liabilities recorded at fair value on a recurring basis as of December 31, 2019 or 2018.

The following table reconciles the changes in assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2019 and 2018.

	December 31, 2019	December 31, 2018
Beginning balance .....	\$ 6,241,955	\$ 11,458,889
Total realized/unrealized gains (losses)		
Included in earnings .....	—	—
Included in other comprehensive income .....	7,924,331	150,993
Purchases, issuances, and settlements, net of maturities .....	(2,211,835)	(5,367,927)
Transfers in and/or out of Level 3 .....	—	—
Ending balance .....	<u>\$ 11,954,451</u>	<u>\$ 6,241,955</u>

There were no transfers between fair value levels in 2019 or 2018.

The following paragraphs describe the valuation methodologies used for assets and liabilities recorded at fair value on a nonrecurring basis:

**Impaired Loans**

Impaired loans are carried at the lower of recorded investment or fair value. The fair value of the collateral less estimated costs to sell is the most frequently used method. Typically, we review the most recent appraisal and if it is over 12 to 18 months old we may 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, we 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 our primary market area, we 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.

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However, as a second example, on a nonperforming commercial real estate loan where we are familiar with the property and surrounding areas and where the original appraisal value far exceeds the recorded investment in the loan, we 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 and updated on a quarterly basis.

In accordance with ASC 820, *Fair Value Measurement*, impaired loans, where an allowance is established based on the fair value of collateral, require classification in the fair value hierarchy. These impaired loans are classified as Level 3. Impaired loans measured using discounted future cash flows are not deemed to be measured at fair value.

Mortgage Loans to be Sold

Mortgage loans to be sold carried at the lower of cost or market value. The fair values of mortgage loans to be sold are based on current market rates from investors within the secondary market for loans with similar characteristics. Carrying value approximates fair value. These loans are classified as Level 2.

Certain assets and liabilities are measured at fair value on an ongoing basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following tables present information about certain assets and liabilities measured at fair value on a nonrecurring basis at December 31, 2019 and 2018.

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Impaired loans . . . . .	\$ —	\$ —	\$ 2,657,644	\$ 2,657,644
Mortgage loans to be sold . . . . .	—	5,062,398	—	5,062,398
Total . . . . .	\$ —	\$ 5,062,398	\$ 2,657,644	\$ 7,720,042

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Impaired loans . . . . .	\$ —	\$ —	\$ 2,223,028	\$ 2,223,028
Mortgage loans to be sold . . . . .	—	1,199,438	—	1,199,438
Total . . . . .	\$ —	\$ 1,199,438	\$ 2,223,028	\$ 3,422,466

There were no liabilities measured at fair value on a nonrecurring basis as of December 31, 2019 or 2018.

The following table provides information describing the unobservable inputs used in Level 3 fair value measurements at December 31, 2019:

	Inputs		
	Valuation Technique	Unobservable Input	General Range of Inputs
Impaired Loans . . . . .	Appraisal Value/Comparison Sales/Other Estimates	Appraisals and/or Sales of Comparable Properties	Appraisals Discounted 10% to 20% for Sales Commissions and Other Holding Costs
Other Real Estate Owned . . . . .	Appraisal Value/Comparison Sales/Other Estimates	Appraisals and/or Sales of Comparable Properties	Appraisals Discounted 10% to 20% for Sales Commissions and Other Holding Costs

Accounting standards require disclosure of fair value information for all of our assets and liabilities that are considered financial instruments, whether or not recognized on the balance sheet, for which it is practicable to estimate fair value.

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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 financial instruments do not represent the underlying value of those instruments on our books.

The following paragraphs describe the methods and assumptions we use in estimating the fair values of financial instruments:

a. Cash and due from banks, interest-bearing deposits at the Federal Reserve Bank

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

b. Investment securities available for sale

Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is 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.

c. Loans

The fair value of the Company's loan portfolio includes a credit risk assumption in the determination of the fair value of its loans. This credit risk assumption is intended to approximate the fair value that a market participant would realize in a hypothetical orderly transaction. The Company's loan portfolio is initially fair valued using a segmented approach. The Company divides its loan portfolio into the following categories: variable rate loans, impaired loans and all other loans. The results are then adjusted to account for credit risk as described above. However, under the new guidance, the Company believes a further credit risk discount must be applied through the use of a discounted cash flow model to compensate for illiquidity risk, based on certain assumptions included within the discounted cash flow model, primarily the use of discount rates that better capture inherent credit risk over the lifetime of a loan. Additionally, in accordance with ASU 2016-01, *Recognition and Measurement of Financial Assets and Liabilities*, this consideration of enhanced credit risk provides an estimated exit price for the Company's loan portfolio.

For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values approximate carrying values. Fair values for impaired loans are estimated using discounted cash flow models or based on the fair value of the underlying collateral.

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, using 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. Accrued interest receivable and payable

Since these financial instruments will typically be received or paid within three months, the carrying amounts of such instruments are deemed a reasonable estimate of fair value.

f. Loan commitments

Estimates of the fair value of these off-balance sheet items are not made because of the short-term nature of these arrangements and the credit standing on the counterparties.

**BANK OF SOUTH CAROLINA CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The following tables present the carrying amount, fair value, and placement in the fair value hierarchy of our financial instruments as of December 31, 2019 and 2018, respectively.

Fair Value Measurements at December 31, 2019					
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
<b>Financial Assets:</b>					
Cash and due from banks . . . . .	\$ 9,773,893	\$ 9,773,893	\$ 9,773,893	\$ —	\$ —
Interest-bearing deposits at the Federal Reserve . . . . .	39,320,526	39,320,526	39,320,526	—	—
Investment securities available for sale . . . . .	100,449,956	100,449,956	23,180,200	65,315,305	11,954,451
Mortgage loans to be sold . . . . .	5,062,398	5,062,398	—	5,062,398	—
Loans, net . . . . .	270,068,802	271,736,572	—	—	271,736,572
Accrued interest receivable . . . . .	1,309,772	1,309,772	—	1,309,772	—
<b>Financial Liabilities:</b>					
Demand deposits . . . . .	357,008,868	357,008,868	—	357,008,868	—
Time deposits . . . . .	22,182,787	21,962,039	—	21,962,039	—
Accrued interest payable . . . . .	38,748	38,748	—	38,748	—

Fair Value Measurements at December 31, 2018					
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
<b>Financial Assets:</b>					
Cash and due from banks . . . . .	\$ 6,325,457	\$ 6,325,457	\$ 6,325,457	\$ —	\$ —
Interest-bearing deposits at the Federal Reserve . . . . .	25,506,784	25,506,784	25,506,784	—	—
Investment securities available for sale . . . . .	119,668,874	119,668,874	32,356,634	81,070,285	6,241,955
Mortgage loans to be sold . . . . .	1,199,438	1,199,438	—	1,199,438	—
Net loans . . . . .	270,449,936	263,780,751	—	—	263,780,751
Accrued interest receivable . . . . .	1,561,915	1,561,915	—	1,561,915	—
<b>Financial Liabilities:</b>					
Demand deposits . . . . .	347,909,663	347,909,663	—	347,909,663	—
Time deposits . . . . .	34,468,725	38,747,898	—	38,747,898	—
Accrued interest payable . . . . .	163,876	163,876	—	163,876	—

**21. 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, 2019 and 2018, and the related condensed statements of income and cash flows for the years ended December 31, 2019, 2018 and 2017, are as follows:

**BANK OF SOUTH CAROLINA CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Condensed Statements of Financial Condition**

	December 31, 2019	December 31, 2018
Assets		
Cash .....	\$ 1,096,474	\$ 1,007,501
Investment in wholly-owned bank subsidiary .....	50,731,750	45,103,068
Other assets .....	224,608	178,629
Total assets .....	\$ 52,032,832	\$ 46,289,198
Liabilities and shareholders' equity		
Other liabilities .....	\$ 884,800	\$ 826,637
Shareholders' equity .....	51,168,032	45,462,561
Total liabilities and shareholders' equity .....	\$ 52,052,832	\$ 46,289,198

**Condensed Statements of Income**

	For the year ended December 31,		
	2019	2018	2017
Interest income .....	\$ 1,280	\$ 1,157	\$ 484
Net operating expenses .....	(221,510)	(224,316)	(189,872)
Dividends received from bank .....	4,170,000	3,775,000	2,685,000
Equity in undistributed earnings of subsidiary .....	3,368,663	3,371,093	2,406,213
Net income .....	\$ 7,318,433	\$ 6,922,934	\$ 4,901,825

**Condensed Statements of Cash Flows**

	For the year ended December 31,		
	2019	2018	2017
Cash flows from operating activities:			
Net income .....	\$ 7,318,433	\$ 6,922,934	\$ 4,901,825
Stock-based compensation expense .....	78,053	72,408	71,701
Equity in undistributed earnings of subsidiary .....	(3,368,663)	(3,371,093)	(2,406,213)
(Increase) decrease in other assets .....	(45,979)	(51,355)	(51,197)
(Decrease) increase in other liabilities .....	—	(6,333)	151
Net cash provided by operating activities .....	3,981,844	3,566,561	2,516,267
Cash flows from financing activities:			
Dividends paid .....	(4,031,157)	(3,699,845)	(2,832,489)
Stock options exercised, net of surrenders .....	138,286	193,569	340,843
Net cash used by financing activities .....	(3,892,871)	(3,506,276)	(2,491,646)
Net increase in cash .....	88,973	60,285	24,621
Cash at the beginning of the year .....	1,007,501	947,216	922,595
Cash at the end of the year .....	\$ 1,096,474	\$ 1,007,501	\$ 947,216
Supplemental disclosure for non-cash investing and financing activity			
Change in dividends payable .....	\$ 58,163	\$ 85,615	\$ 53,340



**BANK OF SOUTH CAROLINA CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**22. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)**

The tables below represent the quarterly results of operations for the years ended December 31, 2019 and 2018, respectively:

	2019			
	Fourth	Third	Second	First
Total interest and fee income .....	\$ 4,578,390	\$ 4,827,684	\$ 4,813,345	\$ 4,692,833
Total interest expense .....	112,311	213,876	245,226	243,758
Net interest income .....	4,466,079	4,613,808	4,568,119	4,449,075
Provision for loan losses .....	25,000	10,000	135,000	10,000
Net interest income after provision for loan losses .....	4,441,079	4,603,808	4,433,119	4,439,075
Total other income .....	601,017	596,070	592,739	408,783
Total other expense .....	2,746,019	2,581,823	2,634,782	2,659,361
Income before income tax expense .....	2,296,077	2,618,055	2,391,076	2,188,497
Income tax expense .....	522,548	603,264	550,229	499,233
Net income .....	<u>\$ 1,773,529</u>	<u>\$ 2,014,791</u>	<u>\$ 1,840,847</u>	<u>\$ 1,689,264</u>
Basic income per common share .....	\$ 0.33	\$ 0.36	\$ 0.33	\$ 0.31
Diluted income per common share .....	\$ 0.32	\$ 0.36	\$ 0.33	\$ 0.30
	2018			
	Fourth	Third	Second	First
Total interest and fee income .....	\$ 4,727,449	\$ 4,665,586	\$ 4,423,867	\$ 4,320,009
Total interest expense .....	249,425	195,434	139,697	109,830
Net interest income .....	4,478,024	4,470,152	4,284,170	4,210,179
Provision for loan losses .....	95,000	100,000	75,000	55,000
Net interest income after provision for loan losses .....	4,383,024	4,370,152	4,209,170	4,155,179
Other income .....	532,891	458,693	555,096	447,945
Other expense .....	2,970,411	2,816,474	2,651,515	2,641,834
Income before income tax expense .....	1,945,504	2,012,371	2,112,751	1,961,290
Income tax expense .....	139,310	234,218	386,394	349,060
Net income .....	<u>\$ 1,806,194</u>	<u>\$ 1,778,153</u>	<u>\$ 1,726,357</u>	<u>\$ 1,612,230</u>
Basic income per common share .....	\$ 0.33	\$ 0.32	\$ 0.31	\$ 0.29
Diluted income per common share .....	\$ 0.32	\$ 0.32	\$ 0.31	\$ 0.29

**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) and Rule 15d-15(e) promulgated under the Securities and Exchange Act of 1934 as amended (the "Act") was carried out as of December 31, 2019 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, 2019, 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, 2019, based on the 2013 framework established in a report entitled "*Internal Control-Integrated Framework*" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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, 2019. Based on this assessment, management believes that as of December 31, 2019, 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, 2019, 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 and Compliance Committee, composed entirely of independent Directors, meets periodically with management, the Company's Compliance Officer, Risk Management Officer and Elliott Davis, LLC (separately and jointly) to discuss audit, financial and related matters. Elliott Davis, LLC, the Compliance Officer, and the Risk Management Officer have direct access to the Audit and Compliance Committee.

**Item 9B. Other Information**

There was no information required to be disclosed in a report on Form 8-K during the fourth quarter of 2019 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 2020 Annual Meeting of Shareholders” and “Meetings and Committees of the Board of Directors and Corporate Governance Matters” included in the Company’s definitive Proxy Statement for its Annual Meeting of Shareholders to be held on April 14, 2020, 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 2021 Annual Meeting of Shareholders,” included in the Company’s Proxy Statement, and is incorporated in this document by reference.

**Audit and Compliance Committee Financial Expert** The Audit and Compliance Committee of the Company is composed of Directors Linda J. Bradley McKee, PhD, CPA, David W. Bunch, William L. Hiott, Jr., Karen J. Phillips, and Steve D. Swanson (Chairman). The Board has selected the Audit and Compliance 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 and Compliance 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 and Compliance Committee financial expert. Director Bradley 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 Chairman of the Board of Directors, the President/Chief Executive Officer, the Chief Financial Officer/Executive Vice President, the Chief Operating Officer/Executive Vice President and the Senior Lender/Executive Vice President and a “Code of Conduct” for Directors, officers and employees. A copy of these policies may be obtained at the Company’s website: <http://www.banksc.com>.

**Compliance with Insider Reporting** The information contained under the section captioned “Section 16(a) Beneficial Ownership Reporting Compliance” is included in 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 in the Proxy Statement.

### **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 is incorporated in this document by reference to the Section captioned “Security Ownership of Certain Beneficial Owners and Management” included in the Proxy Statement.

#### **Security Ownership of Management**

Information required by this item is incorporated in this document by reference to the Section captioned “Security Ownership of Certain Beneficial Owners and Management” included in 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 2021 Annual Meeting of Shareholders” and “Meetings and Committees of the Board of Directors and Corporate Governance Matters”, included in the Proxy Statement.

### **Item 14. Principal Accounting Fees and Services**

The information required by this item is incorporated in this document by reference to “Proposal 3: to ratify the appointment of Elliott Davis, LLC as the Company’s independent registered public accounting firm for the year ended December 31, 2020” and “Auditing and Related Fees”, included in 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.

	<u>Page</u>
(1) Report of Independent Registered Public Accounting Firm .....	29
(2) Consolidated Balance Sheets .....	30
(3) Consolidated Statements of Income .....	31
(4) Consolidated Statements of Comprehensive Income .....	32
(5) Consolidated Statements of Shareholders' Equity .....	33
(6) Consolidated Statements of Cash Flows .....	34
(7) Notes to Consolidated Financial Statements .....	35 - 64

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-3 on June 23, 2011)
4.0	2019 Proxy Statement (Filed with 2018 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)
	Lease Agreement for 1071 Morrison Drive, Charleston, SC (Filed with March 31, 2013 10-Q)
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)
	Employee Stock Ownership Plan, Restated (Incorporated herein)
10.7	2010 Omnibus Incentive Stock Option Plan (Filed with 2010 Proxy Statement)
10.8	Lease Agreement for Highway 78 Ingleside Boulevard North Charleston, SC (Filed with 2013 10-K)
	Assignment and Assumption of Lease Agreement for Highway 78 Ingleside Boulevard North Charleston, SC
10.9	(Filed with 2015 10-K)
	First Amendment to Lease Agreement for Highway 78 Ingleside Boulevard North Charleston, SC
10.10	(Filed with 2015 10-K)
	Second Amendment to Lease Agreement for Highway 78 Ingleside Boulevard North Charleston, SC (Filed
10.11	with 2015 10-K)
10.12	Extension to Lease Agreement for 256 Meeting Street (Filed with September 30, 2017 10-Q)
10.13	North Charleston Lease Agreement (Filed with June 30, 2017 10-Q)
10.14	Sublease Amendment for Parking Facilities at 256 Meeting Street (Filed with September 30, 2017 10-Q)
13.0	2018 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)
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**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 6, 2020

BANK OF SOUTH CAROLINA CORPORATION

By: /s/ Fleetwood S. Hassell  
Fleetwood S. Hassell  
President/Chief Executive Officer

By: /s/ Eugene H. Walpole, IV  
Eugene H. Walpole, IV  
Chief Financial Officer/Executive Vice President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

March 6, 2020	<u>/s/ David W. Bunch</u> David W. Bunch, Director
March 6, 2020	<u>/s/ Graham M. Eubank, Jr.</u> Graham M. Eubank, Jr., Director
March 6, 2020	<u>/s/ Elizabeth M. Hagood</u> Elizabeth M. Hagood, Director
March 6, 2020	<u>/s/ Fleetwood S. Hassell</u> Fleetwood S. Hassell, President/ Chief Executive Officer, Director
March 6, 2020	<u>/s/ Glen B. Haynes, DVM</u> Glen B. Haynes, DVM, Director
March 6, 2020	<u>/s/ William L. Hiott, Jr.</u> William L. Hiott, Jr., Director
March 6, 2020	<u>/s/ Richard W. Hutson, Jr.</u> Richard W. Hutson, Jr., Director
March 6, 2020	<u>/s/ Charles G. Lane</u> Charles G. Lane, Director
March 6, 2020	<u>/s/ Hugh C. Lane, Jr.</u> Hugh C. Lane, Jr., Chairman of the Board, Director
March 6, 2020	<u>/s/ Linda J. Bradley McKee, PHD, CPA</u> Linda J. Bradley McKee, PHD, CPA, Director
March 6, 2020	<u>/s/ Alan I. Nussbaum</u> Alan I. Nussbaum, MD, Director
March 6, 2020	<u>/s/ Karen J. Phillips</u> Karen J. Phillips, Director
March 6, 2020	<u>/s/ Malcolm M. Rhodes</u> Malcolm M. Rhodes, MD, Director
March 6, 2020	<u>/s/ Douglas H. Sass</u> Douglas H. Sass, Executive Vice President, Director
March 6, 2020	<u>/s/ Sheryl G. Sharry</u> Sheryl G. Sharry, Director
March 6, 2020	<u>/s/ Steve D. Swanson</u> Steve D. Swanson, Director
March 6, 2020	<u>/s/ Susanne K. Boyd</u> Chief Operating Officer/ Executive Vice President, Director
March 6, 2020	<u>/s/ Eugene H. Walpole, IV</u> Chief Financial Officer/ Executive Vice President, Director



## EXHIBIT 31.1

### CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO RULE 13A-14(A)/15D-14(A) UNDER THE SECURITIES EXCHANGE ACT OF 1934

#### CERTIFICATION

I, Fleetwood S. Hassell, certify that:

1. I have reviewed this Annual Report on Form 10-K of the Bank of South Carolina Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for the periods presented in this report.
4. The registrant's other certifying officer (s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within the entity, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of registrant's disclosure controls and procedures within 90 days prior to the filing date of the report and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any changes in registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer (s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the Audit and Compliance Committee of the registrant's Board of Directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 6, 2020

/s/ Fleetwood S. Hassell

Fleetwood S. Hassell

President/Chief Executive Officer

## EXHIBIT 31.2

### CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO RULE 13A-14(A)/15D-14(A) UNDER THE SECURITIES EXCHANGE ACT OF 1934

#### CERTIFICATION

I, Eugene H. Walpole, IV, certify that:

1. I have reviewed this Annual Report on Form 10-K of the Bank of South Carolina Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for the periods presented in this report.
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within the entity, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures within 90 days prior to the filing date of the report and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, registrant's internal control over financial reporting.
5. The registrant's other certifying officer (s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the Audit and Compliance Committee of the registrant's Board of Directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in registrant's internal control over financial reporting.

Date: March 6, 2020

/s/ Eugene H. Walpole, IV

\_\_\_\_\_  
Eugene H. Walpole, IV

Chief Financial Officer/Executive Vice President

**EXHIBIT 32.1**

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. 1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Fleetwood S. Hassell, President/Chief Executive Officer of Bank of South Carolina Corporation (the “Company”), certify, that to the best of my knowledge, based upon a review of the annual report on Form 10-K for the period ended December 31, 2019 of the Company (the “Report”):

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, (U.S.C. 78m or 78o(d)); and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 6, 2020

By: /s/ Fleetwood S. Hassell  
Fleetwood S. Hassell  
President/Chief Executive Officer

**EXHIBIT 32.2**

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. 1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Eugene H. Walpole, IV, Chief Financial Officer/Executive Vice President of Bank of South Carolina Corporation (the “Company”), certify that to the best of my knowledge, based upon a review of the annual report on Form 10-K for the period ended December 31, 2019 of the Company (the “Report”):

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, (U.S.C. 78m or 78o(d)); and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 6, 2020

By: /s/ Eugene H. Walpole, IV  
Eugene H. Walpole, IV  
Chief Financial Officer/Executive Vice President



**OFFICERS**

\* Hugh C. Lane, Jr.  
*Chairman*

\* Fleetwood S. Hassell  
*President & Chief Executive Officer*

\* Eugene H. Walpole, IV  
*Executive Vice President & Chief Financial Officer*

\* Douglas H. Sass  
*Executive Vice President & Senior Lender*

\* Susanne K. Boyd  
*Executive Vice President & Chief Operating Officer*

\* Richard W. Hutson, Jr.  
*Secretary*

\* Costa V. Thomas  
*Assistant Secretary*

Rovina C. Andrade  
*Senior Vice President*

Jennifer A. Arato  
*Senior Vice President*

Lucy E. Ashley  
*Senior Vice President*

Emily P. Bailey  
*Compliance Officer*

Rhett D. Bearden  
*Senior Vice President*

Patricia S. Black  
*Assistant Vice President*

W. Heyward Bonner  
*Branch Manager*

Amy G. Buckner  
*Vice President*

Mignonne H. Buhrmaster  
*Senior Vice President*

Tracy Searson Causby  
*Vice President*

C. Lynn Christian  
*Senior Vice President*

Michelle L. Crisp  
*Assistant Vice President*

Robert M. Hollings, III  
*Vice President*

Lawson L. Johnson, III  
*Branch Manager*

Thomas H. Johnson  
*Senior Vice President*

Brittany Liles  
*Branch Manager*

Ford P. Menefee  
*Senior Vice President*

Linda J. Menor  
*Assistant Vice President*

Helene H. Mixon  
*Senior Vice President*

Lauren O. Nilan  
*Senior Vice President*

Suzanne B. Olvera  
*Operations Officer*

Timeela C. Rivers  
*Remote Deposit Officer*

Bret J. Roesner  
*Senior Vice President*

Zachary S. Shaw  
*Senior Credit Analyst & Appraisal Officer*

Gregory R. Shuler  
*Senior Vice President*

Valerie C. Stone  
*Senior Vice President*

Ronald L. Strawn  
*Senior Vice President*

Terry S. Strawn  
*Senior Vice President*

Charles K. Talbert  
*Vice President*

Perry E. Trouche  
*Assistant Vice President*

Tammy S. Tucker  
*Vice President*

Carson D. Williams  
*Senior Vice President*

*\*Officers of the Corporation and of the Bank; other Officers are Officers of the Bank only.*

**EMPLOYEES**

Marshay Anderson  
Susan Alford  
Nicole Allston  
Tammy Barker  
Patricia Brown  
Allison Bussells  
Markita Chisolm  
Michael Ciappa  
Savannah Cochran  
Jessica Cottingham

Molly Dargan  
John Daughtridge  
Karla Dowdey  
Susan Getz  
Bree Greer  
Madison Hancock  
Maggie Harken  
Kathy Held  
Bryn Hite  
Eugenia Hollington

Ally Jenkins  
Gail Johanson  
Paul Kelton  
Leslie Koonce  
Hugh Lane III  
Robyn Lightsey  
Parker Lee  
Jo-Chi Mao  
Nicole McC Carson  
JR McCroskey

Tammy Molino  
Lisa Morgan  
Keaonna Myers  
Sandy Osborne  
Brittany Ossa  
Sarah Pearson  
Cheryl Roberson  
Travonte Robertson  
Mark Shannon  
Hannah Smith

Traci Stone  
Kathy Sutler  
Lindsay Weber  
Kelly Welch  
Scott Weller  
Laura Wells  
Susan Sievers

*The Bank of South Carolina*

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F: 843-971-3315

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F: 843-958-1050

9403 Highway 78  
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P: 843-974-8701

F: 843-724-1530

Bank of South Carolina Corporation's common stock trades on the NASDAQ Stock Market under the symbol "BKSC."

Visit [www.banksc.com](http://www.banksc.com)