BANK OF SOUTH CAROLINA CORP
Form 10-K
March 03, 2011

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2010

¨ 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: U0-27702U

BANK OF SOUTH CAROLINA CORPORATION
(Exact name of registrant as specified in its charter)

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

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

Securities registered under Section 12(b) of the Exchange Act:
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 x 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 x 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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for a shorter period that the registrant was required to submit and post such files).
Yes x No ¨

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

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

Large accelerated filer ¨ Accelerated Filer ¨ Non-accelerated filer ¨ Smaller reporting Company x

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

Aggregate market value of the voting stock held by non-affiliates, computed by reference to the closing price of such stock on June 30, 2010 was: $41,603,774

As of February 25, 2011, the Registrant has out standing 4,430,599 shares of common stock.

BANK OF SOUTH CAROLINA CORPORATION
AND SUBSIDIARY

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PART I

Item 1. Business

General

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

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

Location and Service Area

The Bank serves Berkeley, Charleston and Dorchester counties (the "Tri-County Area") as an independent, community oriented commercial bank concentrating on individuals and small and medium-sized businesses desiring a high level of personalized services. The principal components of the economy within the Company's service area are service industries, medical, government and wholesale and retail trade. Like other areas in the United States, the Company's market area has experienced extreme volatility and disruption for more than 3 years. According to the National Bureau of Economic Research, the United States entered an economic recession in December 2007. The operations of the Company have been impacted by prevailing economic conditions, competition and the monetary, fiscal, and regulatory policies of governmental agencies. Nonetheless, the Tri-County Area is expected to rebound and grow significantly in the next few years, as a result of new industry led by Boeing locating a production line of its 787 airplanes and Clemson establishing a Wind Turbine Drive Train Test Facility in Charleston, SC.

Banking Services

The Bank offers a full range of deposit services that are typically available in most banks and thrift institutions, including checking accounts, NOW Accounts, savings accounts and other time deposits of various types, ranging from daily Money Market Accounts to longer-term Certificates of Deposit. In addition the Bank offers certain retirement account services, such as Individual Retirement Accounts ("IRAs"). All deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to the maximum amount allowed by law, $250,000, subject to aggregate rules and limits. In addition all funds in a "noninterest-bearing transaction accounts" and Lawyer Trust Accounts (IOLTAs) are insured in full by the FDIC from December 31, 2010 to December 31, 2012 as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

The Bank also offers a full range of commercial and personal loans. Commercial loans include both secured and unsecured loans for working capital (including inventory and receivables), business expansion (including acquisition

of real estate and improvements) and purchase of machinery and equipment. The Bank originates, processes and closes mortgage loans and sells (each individually) to investors on a list preapproved by the Board. The Bank's lending activities are subject to a variety of lending limits imposed by Federal law. While differing limits apply in certain circumstances based on the type of loan or the nature of the borrower, in general the direct, indirect and related credit to a single borrowing entity is limited to 10% of the Bank's unimpaired capital and surplus and up to 15% if approved in advance by the Board of Directors. All loans made to any director or executive officer (limited to overdraft protection) of the Bank must be approved by the Board of Directors and made on terms not more favorable than would be available to a person not affiliated with the Bank.

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

Competition

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

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

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

Employees

At December 31, 2010, the Bank employed 74 people, with 3 individuals considered part time employees, none of whom are subject to a collective bargaining agreement. The Bank provides a variety of benefit programs including an Employee Stock Ownership Plan and Trust, health, life, disability and other insurance. Management believes its relationship with its employees is excellent.

SUPERVISION AND REGULATION

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

Dodd-Frank Act

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) was signed into law. The Dodd-Frank Act is expected to result in dramatic changes across the financial regulatory system, some of which become effective immediately and others that will not become effective until various future dates. Implementation of the Dodd-Frank Act will require many new rules to be made by various federal regulatory

agencies over the next several years. Uncertainty remains until final rulemaking is complete as to the ultimate impact of the Dodd-Frank Act, which could have an adverse impact either on the financial services industry as a whole or on the Company's business, results of operations, and financial condition. Provisions in the legislation that affect deposit insurance assessments, payment of interest on demand deposits, and interchange fees could increase the costs associated with deposits and place limitations on certain revenues those deposits generate. The Dodd-Frank Act includes provisions that, among other things, will:

- Centralize responsibility for consumer financial protection by creating a new agency, the Bureau of Consumer Financial Protection, responsible for implementing, examining, and enforcing compliance with federal consumer financial laws

- Create the Financial Stability Oversight Council that will recommend to the Federal Reserve increasingly strict rules for capital, leverage, liquidity, risk management and other requirements as companies grow in size and complexity

- Provide mortgage reform provisions regarding a customer's ability to repay, restricting variable-rate lending by requiring that the ability to repay variable-rate loans be determined by using the maximum rate that will apply during the first five years of a variable-rate loan term, and making more loans subject to provisions for higher cost loans, new disclosures, and certain other revisions

- Make permanent the $250,000 limit for federal deposit insurance and provide unlimited federal deposit insurance until December 31, 2012 for non-interest-bearing demand transaction accounts and Lawyer Trust Accounts (IOLTAs) at all depository institutions

- Implement corporate governance revisions, including executive compensation and proxy access by shareholders, which apply to all public companies, not just financial institutions

- Repeal the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transactions and other accounts.

Bank Holding Company Act

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

Capital Requirements

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

Standards for Safety and Soundness

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

identify and address problems at insured depository institutions before capital becomes impaired.

Regulatory Examination

All insured institutions must undergo regular on-site examinations by their appropriate banking agency. The cost of examinations of insured depository institutions and any affiliates may be assessed by the appropriate banking agency against each institution or affiliate as it deems necessary or appropriate. Insured institutions are required to submit annual reports to the FDIC, their federal regulatory agency, and state supervisor when applicable. The federal banking regulatory agencies prescribe, by regulation, standards for all insured depository institutions and depository institution holding companies relating, among other things, to the following:

- Internal controls
- Information systems and audit systems
- Loan documentations
- Credit underwriting
- Interest rate risk exposure
- Asset quality
- Liquidity.

Transactions with Affiliates and Insiders

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

Dividends

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

Consumer Protection Regulations

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

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

The rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

The deposit operations of the Bank also are subject to:

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

Enforcement Powers

The Company including its management and employees are subject to potential civil and criminal penalties for violations of law, regulations or written orders of a government agency. These practices can include the failure of an institution to timely file required reports or the filing of false or misleading information or the submission of inaccurate reports. Civil penalties may be as high as $1,000,000 a day for such violations. Criminal penalties for some financial institution crimes have been increased to twenty years. In addition, regulators are provided with greater flexibility to commence enforcement actions against the Company.

Anti-Money Laundering

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

USA Patriot Act/Bank Secrecy Act

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

Privacy and Credit Reporting

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

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Check 21

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

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

Item 1A. Risk Factors

Not applicable

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

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

Item 3. Legal Proceedings

In the opinion of Management, there are no legal proceedings pending other than routine litigation incidental to its business involving amounts which are not material to the financial condition of the Company and the Bank. To the knowledge of Management, no proceedings have been instituted or are contemplated by or against any governmental authority against or by the Company or the Bank.

PART II

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

There were issued and outstanding 4,429,866 shares of the 12,000,000 authorized shares of common stock of the Company at the close of the Company's fiscal year ended December 31, 2010. These outstanding shares were held by approximately 1,200 shareholders in nominee names and of record on December 31, 2010. The common stock of the Company is traded on The NASDAQ Capital Market under the trading symbol “BKSC”.

The following table sets forth the high and low sales price information as reported by NASDAQ in 2010, 2009 and 2008. All information has been adjusted for a 10% stock dividend declared on August 26, 2010.

	High	Low	Dividends
2010			
Quarter ended March 31, 2010	$ 10.35	$ 8.64	$ 0.10
Quarter ended June 30, 2010	$ 10.96	$ 8.91	$ 0.10
Quarter ended September 30, 2010	$ 11.93	$ 8.87	$ 0.10
Quarter ended December 31, 2010	$ 12.44	$ 10.18	$ 0.10
2009			
Quarter ended March 31, 2009	$ 11.71	$ 9.09	$ 0.16
Quarter ended June 30, 2009	$ 12.22	$ 9.32	$ 0.16
Quarter ended September 30, 2009	$ 13.36	$ 10.13	$ 0.00
Quarter ended December 31, 2009	$ 11.68	$ 8.64	$ 0.00
2008			
Quarter ended March 31, 2008	$ 13.64	$ 12.27	$ 0.16
Quarter ended June 30, 2008	$ 13.65	$ 11.78	$ 0.16
Quarter ended September 30, 2008	$ 13.31	$ 10.28	$ 0.16
Quarter ended December 31, 2008	$ 12.26	$ 8.27	$ 0.16

As of January 1, 2011, there were approximately 1,200 shareholders of record with shares held by individuals and in nominee names, and on February 25, 2011, the market price for the common stock of the Company was $11.82.

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

At its December 1995 Board Meeting, the Board of Directors authorized the repurchase of up to 128,108 shares of its common stock on the open market. At its October, 1999 Board meeting, the Board of Directors authorized the repurchase up to 41,593 shares of its common stock on the open market and again at its September, 2001 Board meeting, the Board of Directors authorized the repurchase of up to 49,912 shares of its common stock on the open market. As of the date of this report, 219,451 shares have been repurchased by the Company with 162 shares remaining that are authorized to be repurchased. At the Annual Meeting April 2007, the shareholders' voted to increase the number of authorized shares from 6,000,000 to 12,000,000. As of February 25, 2011, there are 4,650,050 shares of common stock issued and 4,430,599 shares of common stock outstanding (updated for a 10% stock dividend declared on August 26, 2010).

THE BANK OF SOUTH CAROLINA EMPLOYEE STOCK OWNERSHIP PLAN AND TRUST

During 1989, the Board of Directors of the Bank adopted an Employee Stock Ownership Plan and Trust Agreement to provide retirement benefits to eligible employees of the Bank for long and faithful service. The Board of Directors of the Bank approved the cash contribution of $240,000 to The Bank of South Carolina Employee Stock Ownership Plan for the fiscal year ended December 31, 2010. The contribution was made during 2010. An amendment and restatement was made to the Employee Stock Ownership Plan effective January 1, 2007 and approved by the Board of Directors January 18, 2007. An 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 1st that occurs nearest the date on which the employee first satisfies the age and service requirements described above. No contributions by employees are permitted. The amount and time of contributions are at the sole

discretion of the Board of Directors of the Bank. The contribution for all participants is based solely on each participant's respective regular or base salary and wages paid by the Bank including commissions, bonuses and overtime, if any.

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

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

The Bank is the Plan Administrator. Thomas C. Stevenson, III, David R. Schools, Fleetwood S. Hassell, Sheryl G. Sharry and Hugh C. Lane, Jr., currently serve as the Plan Administrative Committee and as Trustees for the Plan. The Plan currently owns 254,737 shares of common stock of Bank of South Carolina Corporation.

Item 6. Selected Financial Data

Consolidated Financial Highlights

	2010	2009	2008	2007	2006
For December 31:					
Net Income	$3,110,513	$1,869,854	$2,939,297	$3,831,244	$3,928,263
Selected Year End Balances:					
Total Assets	280,521,267	265,914,758	243,665,930	225,157,090	243,472,740
Total Loans (1)	213,933,980	217,315,936	183,538,172	158,329,035	162,557,288
Investment Securities Available for Sale	39,379,613	36,862,345	37,896,250	35,840,019	40,897,855
Federal Funds Sold	19,018,104	3,779,693	13,352,303	18,357,674	26,857,657
Interest Bearing Deposits in Other Banks	8,302	8,269	8,212	8,109	7,990
Earning Assets	272,339,999	257,966,243	234,794,937	212,534,837	230,320,790
Deposits	250,436,975	229,837,680	214,786,515	197,346,458	215,316,901
Shareholders' Equity	28,718,882	27,567,197	26,808,064	25,692,570	23,640,431
Weighted Average Shares Outstanding-Diluted	4,416,065	4,394,366	4,375,485	4,368,484	4,340,521
For the Year:					
Selected Average Balances:					
Total Assets	266,100,518	257,195,300	228,987,689	236,019,185	232,257,502
Total Loans (1)	212,960,118	202,885,118	165,905,847	162,006,962	159,659,211
Investment Securities Available for Sale	37,410,074	37,325,137	37,210,126	38,810,306	39,330,090
Federal Funds Sold and Resale Agreements	6,845,909	7,095,852	14,475,859	22,548,768	19,893,084
Interest Bearing Deposits in Other Banks	8,288	8,241	510,894	8,049	7,931
Earning Assets	257,224,389	247,314,348	218,102,726	223,374,085	218,890,316
Deposits	233,712,645	223,770,359	200,955,703	209,104,665	207,459,557
Shareholders' Equity	28,606,139	27,546,030	26,470,992	24,841,050	22,841,402
Performance Ratios:					
Return on Average Equity	10.87 %	6.79 %	11.10 %	15.42 %	17.20 %

Return on Average Assets	1.17	%	.73	%	1.28	%	1.62	%	1.69	%
Average Equity to Average Assets	10.75	%	10.71	%	11.56	%	10.53	%	9.83	%
Net Interest Margin	4.32	%	4.18	%	4.71	%	5.13	%	5.24	%
Net (Recoveries) Charge-offs to Average Loans	.36	%	.38	%	.06	%	(0.01	)%	(0.02	)%
Allowance for Loan Losses as a Percentage of Total Loans (excluding mortgage loans held for sale)	1.41	%	1.42	%	.79	%	.85	%	.82	%
Per Share:										
Basic Earnings	$0.70		$0.43		$0.67		$0.88		$0.92	
Diluted Earnings	0.71		0.43		0.67		0.88		0.91	
Year End Book Value	6.48		6.26		6.74		6.50		6.02	
Cash Dividends Declared	0.40		0.32		0.64		0.62		0.67	
Dividend Payout Ratio	54.27	%	68.28	%	86.44	%	63.88	%	63.76	%
Full Time Employee Equivalents	72		72		67		68		67	

(1) Including mortgage loans held for sale

All share and per share data have been restated to reflect a 10% stock dividend declared on August 26, 2010 and a 25% stock dividend declared on April 11, 2006.

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

			For Years Ended December 31,		
	2010	2009	2008	2007	2006
Operating Data:					
Interest and fee income	$12,166,183	$11,671,949	$12,146,820	$16,482,178	$16,169,958
Interest expense	1,066,391	1,336,329	1,878,778	5,023,086	4,696,492
Net interest income	11,099,792	10,335,620	10,268,042	11,459,092	11,473,466
Provision for loan losses	670,000	2,369,000	192,000	40,000	240,000
Net interest income after provision for loan losses	10,429,792	7,966,620	10,076,042	11,419,092	11,233,466
Other income	2,050,350	2,264,056	1,472,854	1,543,869	1,467,393
Other expense	7,973,671	7,589,461	7,181,641	7,085,401	6,703,716
Income before income taxes	4,506,471	2,641,215	4,367,255	5,877,560	5,997,143
Income tax expense	1,395,958	771,361	1,427,958	2,046,316	2,068,880
Net income	$3,110,513	$1,869,854	$2,939,297	$3,831,244	$3,928,263
Basic income per share	$0.70	$0.43	$0.67	$0.88	$0.92
Diluted income per share	$0.70	$0.43	$0.67	$0.88	$0.91
Weighted average common shares-basic	4,416,065	4,390,835	4,362,812	4,337,374	4,290,778
Weighted average common shares – diluted	4,416,065	4,394,366	4,375,485	4,368,484	4,340,521
Dividends per common share	$0.40	$0.32	$0.64	$0.62	$0.67

			As of December 31,		
	2010	2009	2008	2007	2006
Balance Sheet Data:					
Investment securities available for sale	$39,379,613	$36,862,345	$37,896,250	$35,840,019	$40,897,855
Total loans (1)	213,933,980	217,315,936	183,538,172	158,329,035	162,557,288
Allowance for loan losses	2,938,588	3,026,997	1,429,835	1,355,099	1,294,994
Total assets	280,521,267	265,914,758	243,665,930	225,170,090	243,472,740
Total deposits	250,436,975	229,837,680	214,786,515	197,346,458	215,316,901
Shareholders' equity	28,718,882	27,567,197	26,808,064	25,692,570	23,640,431

(1) Including Mortgage loans to be sold

All share and per share data have been restated to reflect a 10% stock dividend declared on August 26, 2010, and a 25% stock dividend declared on April 11, 2006.

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

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report including information included or incorporated by reference in this document, contains statements which constitute "forward looking statements" within the meaning of Section 27A of the Securities Act of 1934. Forward looking statements may relate to, among other matters, the financial condition, results of operations, plans, objectives, future performance, and business of the Company. Forward-looking statements are based on many assumptions and estimates and are not guarantees of future performance. Actual results may differ materially from those anticipated in any forward-looking statements. The words "may," "would," "could," "should," "will," "expect," "anticipate," "predict," "potential," "continue," "assume," "believe," "intend," "plan," "forecast," "goal," and "estimate," as well as similar expr 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, 2010 as filed with the Securities and Exchange Commission (the SEC") and the following:

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

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

OVERVIEW

Bank of South Carolina Corporation (the "Company") is a financial institution holding company headquartered in Charleston, South Carolina, with $280.5 million in assets as of December 31, 2010 and net income of $833,203 and $3,110,513, respectively, for the three and twelve months ended December 31, 2010. The Company offers a broad range of financial services through its wholly-owned subsidiary, The Bank of South Carolina (the "Bank"). The Bank is a state-chartered commercial bank which operates principally in the Charleston, Dorchester, and Berkeley counties of South Carolina. The Bank's original and current business plan is to be a full service financial institution specializing in personal service, responsiveness, attention to detail, and long standing relationships.

The following is a discussion of the Company's financial condition and the results of operations as of December 31, 2010 as compared to December 31, 2009 and December 31, 2009 as compared to December 31, 2008. The Company derives most of its income from interest on loans and investments (interest bearing assets). The primary source of funding for making these loans and investments is the Company's interest and non-interest bearing deposits. One of the key measures of the Company's success is the amount of net interest income, or the difference between the income on its interest earning assets, such as loans and investments, and the expense on its interest bearing liabilities such as deposits. Another key measure is the spread between the yield the Company earns on these interest bearing assets and the rate the Company pays on its interest bearing liabilities.

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

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

CRITICAL ACCOUNTING POLICIES

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

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

The Company considers its policy regarding the allowance for loan losses to be its most subjective accounting policy due to the significant degree of Management judgment. The Company has developed what it believes to be appropriate policies and procedures for assessing the adequacy of the allowance for loan losses, recognizing that this

process requires a number of assumptions and estimates with respect to its loan portfolio. The Company's assessments may be impacted in future periods by changes in economic conditions, the impact of regulatory examinations and the discovery of information with respect to borrowers which were not known by Management at the time of the issuance of the consolidated financial statements. For additional discussion concerning the Company's allowance for loan losses and related matters, see "Allowance for Loan Losses".

COMPARISON OF THE YEAR ENDED DECEMBER 31, 2010 TO DECEMBER 31, 2009

Net income increased $1,240,659 or 66.35% to $3,110,513 for the year ended December 31, 2010 from $1,869,854 for the year ended December 31, 2009. Basic and diluted earnings per share increased from $.43 for the year ended December 31, 2009 to $.70 for the year ended December 31, 2010. During the year ended December 31, 2009, Management made the decision to strengthen the reserve for loan losses, based on a specific impaired loan and increases in environmental factors, with a provision of more than $2,000,000. The provision for loan losses of $670,000 for the year ended December 31, 2010 was a decrease of $1,699,000 from the year ended December 31, 2009. This change in the provision for loan losses is the primary cause for the increase in net income in 2010.

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

Net interest income increased $764,172 or 7.39% to $11,099,792 for the year ended December 31, 2010 from $10,335,620 for the year ended December 31, 2009. Total interest and fee income increased $494,234 or 4.23% to $12,166,183 for the year ended December 31, 2010 from $11,671,949 for the year ended December 31, 2009. Interest and fees on loans increased $539,037 or 5.31% to $10,693,501 from $10,154,464 for the years ended December 31, 2010 and 2009, respectively. This increase was due to an increase of $10,075,000 in average loans from $202,885,118 for the year ended December 31, 2009 to $212,960,118 for the year ended December 31, 2010. Improved pricing on the Company’s loan portfolio also contributed to this increase. Interest and dividends on investment securities decreased $44,176 or 2.94% from $1,503,907 to $1,459,731 for the years ended December 31, 2009 and 2010, respectively. This decrease was primarily due to $6,000,000 in investment securities maturing during 2010 and being re-invested at lower rates. The Company has $9,000,000 in investment securities that will mature at various times in 2011 and with no improvement in interest rates expected in the near future, these investments will be re-invested also at significantly lower rates. Average interest earning assets increased $9,910,042 to $257,224,390 with a yield of 4.73% for the year ended December 31, 2010 from $247,314,348 at the year ended December 31, 2009. In addition to the increase in average loans mentioned above, average investments securities available for sale increased from $37,325,137 with a yield of 4.03% for the year ended December 31, 2009 to $37,410,074 with a yield of 3.90% at December 31, 2010.

Average interest bearing liabilities increased $5,176,898 to $184,291,466 for the year ended December 31, 2010 from $179,114,568 at December 31, 2009. The yield on average interest bearing liabilities decreased 17 basis points from .75% in 2009 to .58% in 2010. The increase in average interest bearing liabilities was less than the increase in average interest bearing assets which resulted in an increase in net average assets thereby contributing to the increase in the net interest margin from 4.18% in 2009 to 4.32% in 2010.

Interest expense decreased $269,938 or 20.20% to $1,066,391 for the year ended December 31, 2010, from $1,336,329 for the year ended December 31, 2009. On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) was signed into law. One of the provisions under this law is for the Federal Deposit Insurance Corporation (FDIC) to provide unlimited federal deposit insurance for non-interest-bearing demand transaction accounts. The Company’s non-interest bearing demand accounts increased $8,490,186 or 17.54% from $48,394,049 for at December 31, 2009 to $56,884,235 for the year ended December 31, 2010. In addition interest rates remain at historically low rates resulting in lower rates paid on deposits as well as lower rates paid on short term borrowings.

The provision for loan losses is a charge to earnings in a given period to maintain the allowance for loan losses at an adequate level. Provision for loan losses decreased $1,699,000 or 71.72% to $670,000 for the year ended December 31, 2010 from $2,369,000 for the year ended December 31, 2009. Outstanding loans decreased from $217,315,936 at December 31, 2009 to $213,933,980 at December 31, 2010, as a result of very soft loan demand. Accordingly, an evaluation of the adequacy of the allowance for loan losses resulted in a reduction in the provision for loan losses. The allowance for loan losses represents an amount which management believes will be adequate to absorb probable losses on existing loans that may become uncollectible. Management's judgment as to the adequacy of the allowance for loan losses is based on a number of assumptions about future events, which Management believes to be reasonable, but which may or may not prove to be accurate. Management's determination of the allowance of loan losses is based on evaluations of the collectability of loans, including consideration of factors such as the balance of impaired loans, the quality, mix and size of the Company's overall loan portfolio, economic conditions that may affect the borrower's ability to repay, the amount and quality of collateral securing the loans, the Company's historical loan loss experience, and a review of specific problem loans. Recognized losses are charged to the allowance with subsequent recoveries added back.

The allowance consists of an allocated and unallocated allowance. The allocated portion is determined by types and ratings of loans within the portfolio. The unallocated portion of the allowance is established for losses that exist in the remainder of the portfolio and compensates for uncertainty in estimating the loan losses. The Company had $592,647 in unallocated reserves at December 31, 2010 as compared to $842,158 at December 31, 2009. This decrease is the result of the ongoing economic downturn experienced throughout the market and the nation resulting in a decrease in loan demand and total outstanding loans. Management believes this amount is appropriate and properly supported through the environmental factors of its Allowance for Loan Losses. Although specific percentages have been assigned to these factors, the effects of the duration of a high or low factor are much more difficult to quantify. Accordingly, Management believes that in this credit cycle, it is prudent to keep this level of unallocated reserves and that doing so is both consistent and appropriate for its Allowance for Loan Loss methodology.

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

During 2010, the Company recorded net charge-offs of $758,409 as compared to net charge-offs of $771,838 in 2009. Impaired loans at December 31, 2010 totaled $3,559,528 an increase of 42.27% over total impaired loans of $2,502,002 at December 31, 2009. Impaired loans include non accrual loans of $945,328 at December 31, 2010 and $627,373 at December 31, 2009, and one restructured loan of $153,015 at December 31, 2010. There were no restructured loans at December 31, 2009. There were no loans at December 31, 2010 or 2009, over 90 days past due that were still accruing interest.

Non-interest income decreased $213,706 from $2,264,056 for the year ended December 31, 2009 to $2,050,350 for the year ended December 31, 2010. This decrease was primarily due to the decrease in mortgage banking income as well as the difference of recognizing a gain on the sale of securities of $180,071 in 2009 with no gain or loss recognized in 2010. Loan origination fees and the service release premiums decreased as the Company originated 83 fewer mortgage loans for the year ended December 31, 2010 as compared to the year ended December 31, 2009. The Company originated 342 mortgage loans in 2010 compared to 425 in 2009.

Non-interest expenses increased $384,210 or 5.06% to $7,973,671 for the year ended December 31, 2010 from $7,589,461 for the year ended December 31, 2009. This increase is primarily due to an increase in salaries and employee benefits. Salaries and wages increased due to annual merit increases. In addition the Board of Directors increased the monthly contribution to the ESOP from $10,000 in 2009 to $20,000 in 2010. Net occupancy expense also increased $36,242 or 2.83% to $1,316,986 for the year ended December 31, 2010 as compared to $1,280,744 for the year ended December 31, 2009. During 2010 the Company moved its Mortgage Department from its main banking house at 256 Meeting Street to a new office on Morrison Drive in Charleston, SC. This move resulted in an increase in rental expense of $2,000 a month as well as an increase in utilities. The Company also saw an increase in other operating expenses with data processing fees increasing $60,681 due to the addition of remote capture and eCorp (online banking for corporations). Fees paid to the FDIC decreased $113,011 from $446,829 for the year ended December 31, 2009 to $333,817 for the year ended December 31, 2010.

Income tax expense increased 80.97% to $1,395,958 at December 31, 2010 from $771,361 at December 31, 2009, due to an increase in income before taxes, primarily as the result of a decrease of $1,699,000 in the provision for the allowance for loan losses. The Company's effective tax rate was approximately 30.98% for the year ended December 31, 2010 compared to 29.20% for the year ended December 31, 2009.

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COMPARISON OF THE YEAR ENDED DECEMBER 31, 2009 TO DECEMBER 31, 2008

Net income of $1,869,854, for the year ended December 31, 2009 was a decrease of $1,069,443 or 36.38% from $2,939,297 for the year ended December 31, 2008. Basic and diluted earnings per share decreased from $.67 for the year ended December 31, 2008 to $.43 for the year ended December 31, 2009. The decrease in net income is primarily due to the decision by the Company to strengthen its reserves for loan losses by more than $2,000,000 in the second half of 2009.

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

Net interest income increased $67,578 to $10,335,620 for the year ended December 31, 2009 from $10,268,042 for the year ended December 31, 2008. Net interest income represented approximately 72.10% of net revenues in 2009 as compared to 75.39% in 2008. Total interest and fee income decreased $474,871 to $11,671,949 for the year ended December 31, 2009, from $12,146,820 for the year ended December 31, 2008. This decrease was mainly due to a decrease in interest on federal funds sold of $305,117. Total interest and fees on loans decreased $64,588 or .63% to $10,154,464 for the year ended December 31, 2009, from $10,219,052 for the year ended December 31, 2008. At the same time interest paid on interest bearing liabilities, interest expense, decreased $542,449 to $1,336,329 for the year ended December 31, 2009. Average interest earning assets increased $29,211,622 to $247,314,348 for the year ended December 31, 2009 from $218,102,726 for 2008. The yield on these average earning assets decreased 85 basis points to 4.72% at December 31, 2009 from 5.57% at December 31, 2008. This increase was primarily due to an increase in the average loan balance of $36,979,271. The average balance of federal funds decreased $7,380,007. As of December 31, 2009, the federal funds target rate was .25%.

Average interest bearing liabilities increased $31,327,516 to $179,114,568 for the year ended December 31, 2009, from $147,787,052 for the year ended December 31, 2008. This increase was primarily due to an increase in both transaction accounts and Certificate of Deposits of $9,845,398 and $16,578,091, respectively. The yield on average interest bearing liabilities decreased 52 basis points from 1.27% in 2008 to .75% in 2009. The increase in average interest bearing liabilities over the increase in average interest bearing assets resulted in a decrease in net average assets thereby contributing to the decline in the net interest margin from 4.71% in 2008 to 4.18% in 2009.

Total interest expense decreased $542,449 to $1,336,329 for the year ended December 31, 2009 from $1,878,778 for the year ended December 31, 2008. This decrease in interest expense is primarily due to the decrease in average cost of deposits. Average interest bearing liabilities increased $31,327,516 for the year ended December 31, 2009. Interest expense on deposit accounts decreased $547,636 or 29.29% to $1,322,019 for the year ended December 31, 2009, from $1,869,655 for the year ended December 31, 2008.

The provision for loan losses is a charge to earnings in a given period to maintain the allowance for loan losses at an adequate level. The provision for loan losses was $2,369,000 for the year ended December 31, 2009 as compared to $192,000 for the year ended December 31, 2008, increasing the allowance for loan losses to $3,026, 997 at December 31, 2009 from $1,429,835 at December 31, 2008. Approximately $1,000,000 of this contribution made in the third quarter was the result of significant growth of the loan portfolio. An additional $1,000,000 was added in the fourth quarter to fully account for and allocate to the total exposure of a specific credit. The allowance for loan losses represents an amount which Management believes will be adequate to absorb probable losses on existing loans that may become uncollectible. Management's judgment as to the adequacy of the allowance for loan losses is based on a number of assumptions about future events, which Management believes to be reasonable, but which may or may not

prove to be accurate. Management's determination of the allowance of loan losses is based on evaluations of the collectability of loans, including consideration of factors such as the balance of impaired loans, the quality, mix and size of the Company's overall loan portfolio, economic conditions that may affect the borrower's ability to repay, the amount and quality of collateral securing the loans, the Company's historical loan loss experience, and a review of specific problem loans. Recognized losses are charged to the allowance with subsequent recoveries added back.

The allowance consists of an allocated and unallocated allowance. The allocated portion is determined by types and ratings of loans within the portfolio. The unallocated portion of the allowance is established for losses that exist in the remainder of the portfolio and compensates for uncertainty in estimating the loan losses. The Company had $842,158 in unallocated reserves at December 31, 2009 as compared to $16,387 at December 31, 2008. This increase is the result of the ongoing economic downturn experienced throughout the market and the nation. Management anticipates funding the provision for loan losses at levels higher than the Company has historically experienced. There can be no assurance that charge-offs of loans in future periods will not exceed the allowance for loan losses as estimated at any point in time or that provisions for loan losses will not be significant to a particular accounting period. In addition the allowance is subject to examination and testing for adequacy by regulatory agencies. Such regulatory agencies could require Management to adjust the allowance based on information available to them at the time of their examination.

During 2009, the Company recorded net charge-offs of $771,838 as compared to net charge-offs of $97,264 in 2008. Impaired loans at December 31, 2009 totaled $2,502,002 an increase of 38.82% over total impaired loans of $1,802,291 at December 31, 2008. Impaired loans include non accrual loans of $627,373 at December 31, 2009 and $75,486 at December 31, 2008. There were no loans at December 31, 2009 or 2008, over 90 days past due that were still accruing interest.

Non-interest income increased $791,202 or 53.72%, to $2,264,056 for the year ended December 31, 2009, from $1,472,854 for the year ended December 31, 2008. Service charge, fees and commissions increased $64,756 as a result of an increase of $128,586 or 61.62% in service charges on business accounts offset by a decrease of $55,249 or 15.84% in overdraft fees. Mortgage banking income increased $548,047 to $1,020,373 for the year ended December 31, 2009, from $472,326 for the year ended December 31, 2008. This increase included an increase for the period of $966,763 in service release premiums, $291,864 in loan origination fees and $130,016 in discount fees earned. With these increases come increases in mortgage expenses. Discount fees paid on mortgage loans increased $431,061 and commissions increased $432,210 in 2009. Interest rates on mortgage loans decreased during 2009 allowing homeowners to refinance at lower rates. In addition this growth was also attributed to first-time homebuyers enticed by low interest rates, falling prices and an $8,000 federal tax credit. In addition the Company recognized a gain of $177,881 on the sale of $10,175,000 available for sale securities and a gain of $2,190 on a $660,000 Municipal Security called during the year ended December 31, 2009. The Company recognized a loss of $238 on a $520,000 Municipal Security called during the year ended December 31, 2008.

Bank overhead increased $407,820 to $7,589,461 for the year ended December 31, 2009 from $7,181,641 at December 31, 2008. Other operating expenses increased $401,913 for the period or 24.16%. This increase is primarily due to an increase of $358,400 for the period or 405.30% in fees paid to the FDIC. Back in 2007, as the banking crisis began, the FDIC reinstated a deposit insurance assessment for the purpose of increasing the reserve ratios of the Deposit Insurance Fund. In addition to the regular assessment, the Company also paid a 5% special assessment to the FDIC of $115,808. Salaries and Employee benefits increased $74,642 for the period or 1.79%. This increase was due to the hiring of two new loan officers and annual merit increases. This increase was offset by a decrease of $168,000 in contributions made to the ESOP.

Income tax expense decreased 45.98% to $771,361 at December 31, 2009 from $1,427,958 at December 31, 2008, due to a decrease in income before taxes. This included an increase in bank qualified securities in the investment portfolio. The Company’s effective tax rate was approximately 29.20% for the year ended December 31, 2009 compared to 32.70% for the year ended December 31, 2008.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

ASSET AND LIABILITY MANAGEMENT

The assets and liabilities of the Company are managed to provide a consistent level of liquidity to accommodate normal fluctuations in loans and deposits. At year end 2010, total assets were $280,521,267 an increase of 5.49% from year end 2009, total deposits were $250,436,975, an increase of 8.96% from the end of the previous year, while short-term borrowings, consisting of Demand Notes Issued to U.S. Treasury and funds borrowed from the Federal Reserve Bank's Term Auction Facility (TAF), decreased $7,239,256 or 90.41% to $767,497 at December 31, 2010 from $8,006,753 at December 31, 2009. (See "Short Term Borrowings" for further discussion)

At December 31, 2010, approximately 97.06% of the Company's assets were earning assets composed of U.S. Treasury, Government Sponsored Enterprises and Municipal Securities in the amount of $39,379,613, Federal Funds Sold and interest bearing deposits in other banks in the amount of $19,026,406 and total loans including mortgage loans held for sale in the amount of $213,933,980.

The yield on a majority of the Company's earning assets adjusts simultaneously with changes in the general level of interest rates. Some of the Company's liabilities are issued with fixed terms and can be repriced only at maturity. In 2006, net interest margin increased 66 basis points to 5.24% for the year ended December 31, 2006, from 4.58% at December 31, 2005, as a result of an increase in loan growth. The Bank's net interest margin decreased 11 basis points from 5.24% at December 31, 2006 to 5.13% at December 31, 2007 due to a decrease in interest rates and a decrease in loan growth. During the year ended December 31, 2008 the net interest margin decreased from 5.13% at December 31, 2007 to 4.71%. The net interest margin was 4.18% and 4.32% at December 31, 2009 and 2010, respectively.

MARKET RISK

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

The Bank's policy is to minimize interest rate risk between interest bearing assets and liabilities at various maturities and to attempt to maintain an asset sensitive position over a 6 month period. By adhering to this policy, Management anticipates that the Bank's net interest margins will not be materially affected unless there is a extraordinary precipitous drop in interest rates. The average net interest rate spread for 2010 increased to 4.15% from 3.97% for 2009 and the average net interest margin for 2010 increased to 4.32% from 4.18% for 2009. Management will continue to monitor its asset sensitive position.

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

At December 31, 2010, the average maturity of the investment portfolio was 5 years 6.91 months with an average yield of 3.46% compared to 4 years 9.28 months with an average yield of 4.14% at December 31, 2009. Although there is greater market risk with maturity extension, Management feels that the core deposit base minimizes the need to sell securities, and the maturity extension of the investment portfolio improves the yield on the portfolio.

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

The following table summarizes the Bank's interest sensitivity position as of December 31, 2010:

Earning Assets (in 000's)	1 Day	Less Than 3 Months	3 Months to Less Than 6 Months	6 Months to Less Than 1 Year	1 Year to Less Than 5 Years	5 years or More	Total	Estimated Fair Value
Loans (1)	$ 146,688	$ 11,370	$ 14,529	$ 10,244	$ 30,983	$ 119	$ 213,933	$ 218,670
Investment securities (2)	-	6,158	3,016	446	9,465	19,897	38,982	39,380
Short term investments	8	-	-	-	-	-	8	8
Federal funds sold	19,018	-	-	-	-	-	19,018	19,018
Total	$ 165,714	$ 17,528	$ 17,545	$ 10,690	$ 40,448	$ 20,016	$ 271,941	$ 277,076
Interest Bearing Liabilities (in 000's)								
CD's and other time deposits 100,000 and over	$ -	$ 18,412	$ 14,052	$ 12,450	$ 609	$ -	$ 45,523	$ 45,678
CD's and other time deposits under 100,000	118	6,087	4,341	5,412	1,802	-	17,760	17,919
Money market and interest bearing demand accounts	118,402	-	-	-	-	-	118,402	118,402
Savings	11,867	-	-	-	-	-	11,867	11,867
Short term borrowings	767	-	-	-	-	-	767	767
	$ 131,154	$ 24,499	$ 18,393	$ 17,862	$ 2,411	$ -	$ 194,319	$ 194,633
Net	$ 34,560	$ (6,971)	$ (848)	$ (7,172)	$ 38,037	$ 20,016	$ 77,622	$ 82,443
Cumulative		$ 27,589	$ 26,741	$ 19,569	$ 57,606	$ 77,622		

(1) Including mortgage loans held for sale.

(2) At amortized cost

LIQUIDITY

Historically, the Company has maintained its liquidity at levels believed by Management to be adequate to meet requirements of normal operations, potential deposit outflows and strong loan demand and still allow for optimal investment of funds and return on assets. The following table summarizes future contractual obligations as of December 31, 2010:

		Payment Due by Period		
	Total	Less than 1 Year	1-5 Years	After 5 Years
Contractual Obligations (in 000's)				
Time deposits	$ 63,283	$ 60,872	$ 2411	$ -
Short-term borrowings	767	767		
Operating leases	3,366	530	2,127	709
Total contractual cash obligations	$ 67,416	$ 62,169	$ 4,538	$ 709

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

Proper liquidity management is crucial to ensure that the Company is able to take advantage of new business opportunities as well as meet the credit needs of its existing customers. Investment securities are an important tool in the Company's liquidity management. Securities classified as available for sale, which are not pledged, may be sold in response to changes in interest rates and liquidity needs. All of the securities presently owned by the Bank are classified as Available for Sale. Net cash provided by operations and deposits from customers have been the primary sources of liquidity for the Company. At December 31, 2010, the Bank had unused short-term lines of credit totaling approximately $23,000,000 (which can be withdrawn at the lender's option). Additional sources of funds available to the Company for additional liquidity needs include borrowing on a short-term basis from the Federal Reserve System, increasing deposits by raising interest rates paid and selling mortgage loans held for sale. In order to establish a secondary source of liquidity, the Company established a Borrower-In-Custody arrangement with the Federal Reserve. This arrangement permits the Company to retain possession of assets pledged as collateral to secure advances from the Federal Reserve Discount Window up to $61,350,091 at December 31, 2010. The Company has also pledged Municipal Securities with a market value of $1,010,197 to the Federal Reserve Discount Window. In addition, in 2009 the Company borrowed $7,500,000 from the Federal Reserve Bank's Term Auction Facility (TAF) at a rate of .25% for a term of forty-two days. The Board of Governor's of the Federal Reserve System established this program to allow depository institutions to place a bid for an advance from its local Federal Reserve Bank at a fixed interest rate determined via centralized single-price auction. This loan was paid off by the Company on April 8, 2010.

Composition of Average Assets

	2010	2009	2008	2007	2006
Loans (1)	$212,960,118	$202,885,118	$165,905,847	$162,006,962	$159,659,211
Investment securities available for sale	37,410,074	37,325,137	37,210,126	38,810,306	39,330,090
Federal funds sold and other investments	6,854,198	7,104,093	14,986,753	22,556,817	19,901,015
Non-earning assets	8,876,128	9,880,952	10,884,963	12,645,100	13,367,186
Total average assets	$266,100,518	$257,195,300	$228,987,689	$236,019,185	$232,257,502

(1) Including mortgage loans held for sale

Average earning assets increased by $9,910,042 from 2009 to 2010. Average earning assets increased primarily as a result of an increase in average loans. Average loans increased $10,075,000 or 4.97% from $202,885,118 for the year ended December 31, 2009 to $212,960,118 for the year ended December 31, 2010.

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:

	2010 vs. 2009			2009 vs. 2008			2008 vs. 2007		
	Volume	Rate	Net Dollar Change (1)	Volume	Rate	Net Dollar Change (1)	Volume	Rate	N Ch
Loans (2)	$505,801	$33,236	$539,037	$2,045,844	$(2,110,432)	$(64,588)	$319,364	$(3,669,928)	$(
Investment securities available for sale	3,415	(47,591)	(44,176)	4,959	(110,125)	(105,166)	(72,076)	(111,928)	(
Federal funds sold and and other investments	(473)	(154)	(627)	(113,836)	(191,281)	(305,117)	(289,842)	(510,948)	(8
Interest Income	$508,744	$(14,510)	$(494,234)	$1,936,967	$(2,411,838)	$(474,871)	$(42,554)	$(4,292,804)	$(4
Interest-bearing transaction accounts	$9,831	$(30,786)	$(20,955)	$51,505	$(387,556)	$(336,051)	$(78,764)	$(2,224,793)	$(2
Savings	4,751	(3,251)	1,499	2,484	(34,835)	(32,351)	(46,710)	(184,617)	(2
Time deposits	2,486	(247,677)	(245,190)	416,787	(596,021)	(179,234)	(41,587)	(536,798)	(5
Federal funds purchased	116	(1,709)	(1,594)	4,200	(74)	4,126	64	0	6
Demand notes issued to U.S.Treasury	-	-	-	(1,801)	(7,258)	(9,059)	(9,429)	(21,674)	(
Term auction facility	(6,082)	2,383	(3,699)	10,120	-	10,120	-	-	-
Interest expense	$11,102	$(281,040)	$(269,938)	$483,295	$(1,025,744)	$(542,449)	$(176,426)	$(2,967,882)	$(
Increase (decrease) in net interest income			$764,172			$67,758			$(

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

(2) Including mortgage loans held for sale

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

	2010			2009			2008		
	Average Balance	Interest Paid/ Earned	Average Yield/ Rate (1)	Average Balance	Interest Paid/ Earned	Average Yield/ Rate (1)	Average Balance	Interest Paid/ Earned	Av Y Ra
Interest-Earning Assets									

Loans (2)	$212,960,118	$10,693,501	5.02%	$202,885,118	$10,154,464	5.01%	$165,905,847	$10,219,052
Investment securities available for sale	37,410,074	1,459,731	3.90%	37,325,137	1,503,907	4.03%	37,210,126	1,609,073
Federal funds sold	6,845,910	12,918	0.19%	7,095,852	13,520	0.19%	14,475,859	296,145
Other investments	8,288	33	0.40%	8,241	58	0.70%	510,894	22,550
Total earning assets	$257,224,390	$12,166,183	4.73%	$247,314,348	$11,671,949	4.72%	$218,102,726	$12,146,820
Interest-Bearing Liabilities:								
Interest bearing transaction accounts	$113,363,097	$207,983	0.18%	$108,542,471	$228,938	0.21%	$98,697,073	$564,989
Savings	11,557,910	22,849	0.20%	9,289,183	21,350	0.23%	8,860,083	53,701
Time deposits	56,346,883	826,541	1.47%	56,216,166	1,071,731	1.91%	39,638,075	1,250,965
Federal funds purchased	592,260	2,596	0.44%	575,890	4,190	0.73%	2,732	64
Demand notes issued to U.S. Treasury	438,165	-	0.00%	442,913	-	0.00%	589,089	9,059
Term auction facility	1,993,151	6,421	0.32%	4,047,945	10,120	0.25%	-	-
Total interest bearing liabilities	$184,291,466	$1,066,391	0.58%	$179,114,568	$1,336,329	0.75%	$147,787,052	$1,878,778
Net interest spread			4.15%			3.97%		
Net interest margin			4.32%			4.18%		
Net interest income		$11,099,792			$10,335,620			$10,268,042

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

INVESTMENT PORTFOLIO

The following is a schedule of the Bank's investment portfolio as of December 31, 2010, December 31, 2009, and December 31, 2008:

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

	DECEMBER 31, 2009			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
U.S. Treasury Bills	$ 2,981,338	$ 137,256	$ -	$ 3,118,594
Government-Sponsored Enterprises	12,026,844	514,975	-	12,541,819
Municipal Securities	20,615,647	675,572	89,287	21,201,932
Total	$ 35,623,829	$ 1,327,803	$ 89,287	$ 36,862,345

	DECEMBER 31, 2008			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
U.S. Treasury Bills	$ 2,964,269	$ 262,137	$ -	$ 3,226,406
Government-Sponsored Enterprises	21,018,810	998,158	-	22,016,968
Municipal Securities	12,489,652	183,123	19,899	12,652,876
Total	$ 36,472,731	$ 1,443,418	$ 19,899	$ 37,896,250

The Bank's investment portfolio had a weighted average yield of 3.46%, 4.14% and 4.38% for the years ended December 31, 2010, 2009 and 2008, respectively.

At December 31, 2010, there were two US Treasury Notes with an unrealized loss of $40,425 and fourteen Municipal Securities with an unrealized loss of $234,922 as compared to four Municipal Securities with an unrealized loss of $89,287, December 31, 2009. These investments are not considered other-than-temporarily impaired. The Company has the ability and the intent to hold these investments until a market price recovery or maturity. The unrealized losses on these investments were caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment.

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LOAN PORTFOLIO COMPOSITION

The Company focuses its lending activities on small and middle market businesses, professionals and individuals in its geographic markets. At December 31, 2010, outstanding loans (plus deferred loan fees of $17,306) totaled $208,025,664, which equaled 83.07% of total deposits and 74.16% of total assets. Substantially all loans were to borrowers located in the Company's market area in the counties of Charleston, Dorchester and Berkeley in South Carolina.

Because lending activities comprise such a significant source of revenue, the Company's main objective is to adhere to sound lending practices. The Loan Committee of the Board of Directors meets monthly to evaluate the adequacy of the Allowance for Loan Losses and to review all loans resulting in credit exposure of $10,000.

The following is a schedule of the Bank's loan portfolio, excluding mortgage loans and deferred loan fees, as of December 31, 2010, as compared to December 31, 2009, 2008, 2007 and 2006:

	Book Value (in 000's)				
Type	2010	2009	2008	2007	2006
Commercial and industrial loans	$ 52,216	$ 48,719	$ 46,840	$ 51,443	$ 53,609
Real estate loans	149,710	158,961	127,405	98,738	99,932
Loans to individuals for household, family and other personal expenditures	5,868	6,036	5,667	5,507	4,872
All other loans (including overdrafts)	214	179	226	709	259
Total Loans (excluding unearned income)	$ 208,008	$ 213,895	$ 180,138	$ 156,397	$ 158,672

The Bank had no foreign loans or loans to fund leveraged buyouts (LBO's) during 2010, 2009, 2008, 2007, or 2006.

The following table presents the contractual terms to maturity for loans outstanding at December 31, 2010. Demand loans, loans having no stated schedule of repayment and no stated maturity, and overdrafts are reported as due in one year or less. The table does not include an estimate of prepayments, which can significantly affect the average life of loans and may cause the Company's actual principal experience to differ from that shown.

	SELECTED LOAN MATURITY (IN 000'S)			
	One year or less	Over one but less than five years	Over five years	Total
Type				
Commercial and industrial loans	$ 30,518	$ 19,075	$ 2,623	$ 52,216
Real estate loans	46,115	55,344	48,251	149,710
Loans to individuals for household, family and other personal expenditures	2,693	2,873	302	5,868
All other loans (including overdrafts)	114	-	100	214
Total Loans (excluding unearned income)	$ 79,440	$ 77,292	$ 51,276	$ 208,008

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IMPAIRED AND RESTRUCTURED LOANS

Loans are determined as impaired under Accounting Standards Codification (ASC) 310-10-35 when, based on current information and events, the Company deems it probable that it will be unable to collect all amounts due in accordance with the contractual terms of the loan. All loans placed on non-accrual status are classified as impaired. However, not all impaired loans are on non-accrual status.

The Bank had impaired loans totaling $3,559,528 as of December 31, 2010 compared to $2,502,202, $1,802,291, $882,269, and $10,864, as of December 31, 2009, 2008, 2007, and 2006, respectively. The impaired loans include non-accrual loans with balances at December 31, 2010, 2009, 2008, 2007, and 2006 of $945,328, $627,373, $75,486, $761,748, and $10,864, respectively. The Bank had one restructured (“TDR”) loan at December 31, 2010, no restructured loans for the years ended December 31, 2009 or 2008, respectively, and one restructured loan at December 31, 2007, in the amount of $10,567, and no restructured loans at December 31, 2006. According to Generally Accepted Accounting Principals (GAAP), the Company is required to account for certain loan modifications or restructuring as a troubled debt restructuring (“TDR”). In general, the modification or restructuring of a debt is considered a TDR if the Company, for economic or legal reasons related to a borrower’s financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. At December 31, 2010 the one restructured loan had an aggregate balance of $153,015.

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

TROUBLED DEBT RESTRUCTURING

According to GAAP, the Company is required to account for certain loan modifications or restructuring as a troubled debt restructuring. In general, the modification or restructuring of a debt is considered a TDR if the Company, for economic or legal reasons related to a borrower’s financial difficulties, grant a concession to the borrower that the Company would not otherwise consider. The Company had one restructured loan with an aggregate balance of $153,015 classified as impaired and included in the appropriate nonperforming loan category in the table above.

OTHER REAL ESTATE OWNED

Real estate acquired as a result of foreclosure or by deed-in-lieu of foreclosure is classified as other real estate owned until it is sold. When the property is acquired, it is recorded at the fair value of the property less selling costs. Other real estate owned at December 31, 2010 was $659,492. The Company did not have any other real estate owned at December 31, 2009.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses represents Management’s estimate of probable losses inherent in the loan portfolio. The adequacy of the allowance for loan losses (the “Allowance”) is reviewed monthly by the Loan Committee and on a quarterly basis by the Board of Directors. For purposes of this analysis, adequacy is defined as a level sufficient to absorb estimated losses in the loan portfolio as of the balance sheet date presented. The methodology employed for this analysis was modified in 2007, 2008 and 2009 to better reflect the economic environment and regulatory guidance. The revised methodology is based on a Reserve Model that is comprised of the three components listed below.

1) Specific Reserve analysis for impaired loans based on Financial Accounting Standards Board (FASB) ASC 310-10-35.

2) General reserve analysis applying historical loss rates based on FASB ASC 450-20.
3) Qualitative or environmental factors.

Loans are reviewed for impairment which is measured in accordance with FASB ASC 310-10-35. Impaired loans can either be secured or unsecured, not including large groups of smaller balance loans that are collectively evaluated. Impairment is measured by the difference between the loan amount and the present value of the future cash flow discounted at the loan's effective interest rate, or, alternatively the fair value of the collateral if the loan is collateral dependent. An impaired loan may not represent an expected loss.

A general reserve analysis is performed on individually reviewed loans, but not impaired loans, and excluded individually reviewed impaired loans, based on FASB ASC 450-20. Historical losses are segregated into risk-similar groups and a loss ratio is determined for each group over a three year period. The three year average loss ratio by type is then used to calculate the estimated loss based on the current balance of each group. The three year historical loss percentage at December 31, 2010 increased to .317 from .166% at December 31, 2009. This increase was reasonable given the current economic environment.

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

1) Portfolio 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
7) Loan and credit administration 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. Management is satisfied with the stability of the past due and non-performing loans and believes there has been no decline in the quality of the loan portfolio due to any trend in delinquent or adversely classified loans. Although the aggregate total of classified loans has increased, Management is confident in the adequacy of the sources of repayment. Sizable unsecured principal balances on a non-amortizing basis are monitored. Within the portfolio risk factor the Company elected to increase the risk percentage for "trends in volume and terms of loan" as a result of the increased volume in its loan portfolio. Loans have decreased 2.74% or approximately $5,856,812 from December 31, 2009 to December 31, 2010. In addition the Company elected to increase the risk percentage for "over margined real estate lending risk". Although the vast majority of the Company's real estate loans are underwritten on a cash flow basis, the secondary source of repayment is typically tied to the Company's ability to realize on the collateral. Given the contraction in real estate values, the Company closely monitors its loan to value. The Company recently amended its Loan Policy to reduce the collateral advance rate from 85% to 80% on all real estate transactions, with the exception of raw land at 65% and land development at 70%.

Occasional extensions of credit occur beyond the policy thresholds of the Company's normal collateral advance margins for real estate lending. These loans are monitored and the balances reported to the Board every quarter. An excessive level of this practice could result in additional examiner scrutiny, competitive disadvantages and potential losses if forced to convert the collateral. The consideration of overmargined real estate loans directly relates to the capacity of the borrower to repay. Management often requests additional collateral to bring the loan to value ratio within the policy guidelines and also require a strong secondary source of repayment in addition to the primary source of repayment.

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Although significantly under the threshold of 100% of capital (currently approximately $29 million), the Company's list and number of over margined real estate loans currently totals approximately $14,613,399 or approximately 6.83% of its loan portfolio.

Management revised the credit rating matrix in order to rate all extensions of credit providing a more specified picture of the risk each loan poses to the quality of the loan portfolio. There are eight possible ratings based on ten different qualifying characteristics. The ten characteristics are cash flow, collateral quality, guarantor strength, financial condition, management quality, operating performance, the relevancy of the financial statements, historical loan performance, debt service coverage and the borrower's leverage. In an effort to place more emphasis on borrower's cash flow, a weighted average method is used to determine the loan grade with cash flow, financial conditions, and debt service coverage being weighted triple and financial statements being weighted double. The matrix is designed to meet Management's standards and expectations of loan quality. In addition to the rating matrix, the Company rates its credit exposure on the basis of each loan and the quality of each borrower.

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

The quality of the Bank's loan portfolio is contingent upon its risk selection and underwriting practices. Every credit with over $100,000 in exposure is summarized by the Bank's Credit Department and reviewed by the Loan Committee on a monthly basis. The Board of Directors review credits over $500,000 monthly with an annual credit analysis conducted on credits in excess of $350,000 upon the receipt of updated financial information. Prior to any extension of credit, every significant commercial loan goes through sound credit underwriting. The Credit Department conducts detailed cash flow analysis on each proposal using the most current financial information. Relevant trends and ratios are evaluated.

The Bank has over 300 years of lending Management experience among twelve members of its lending staff. In addition to the lending staff, the Bank has an Advisory Board for each branch comprised of business and community leaders from the specific branch's market area. Management meets with these boards quarterly to discuss the trends and conditions in each respective market. Management is aware of the many challenges currently facing the banking industry. Assessing banks to replenish the insurance fund and its corresponding impact on bank profits, increased regulatory scrutiny of lending practices, and pending changes in deposit and or funding source type and mix, continue to impact the Company's environment. As other banks look to increase earnings in the short term, the Company will continue to emphasize the need to maintain its sound lending practices and core deposit growth.

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

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

As of December 31, 2010, there were only four Standard Industrial Code groups that comprised more than three percent of the Bank's total outstanding loans. The four groups are activities related to real estate, offices and clinics of

doctors, real estate agents and managers, and legal services.

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

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

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

Risk includes a function of time during which the borrower’s financial condition may change; therefore, keeping financial information up to date is important to the Bank. The policy of the Bank is that all new loans, regardless of the customer’s history with the Bank, should have updated financial information, as long as exposure is greater than $10,000. In addition the Company is monitoring appraisals closely as real estate values continue to decline.

The aforementioned changes to the Company’s Allowance for Loan Loss methodology were not made as a result of dramatic or patterned history of loan losses, increase in past due loans, or non-performing assets, but rather because of specific changes in the Company’s lending environment. These changes have precipitated the need for additional reserves in a period of time when the Company’s loan portfolio grew significantly (six months ended December 31, 2009). Based on the evaluation described above, the Company recorded a provision for loan loss of $670,000 for the year ended December 31, 2010 compared to $2,369,000 for the year ended December 31, 2009. At December 31, 2010 the three year average loss ratios were: .568% Commercial, .483% Consumer, .491% 1-4 Residential, .000% Real Estate Construction and .042% Real Estate Mortgage. The three year historical loss ratio used at December 31, 2010 was .317% compared to .166% at December 31, 2009.

During the year ended December 31, 2010 charge-offs of $778,820 and recoveries of $20,411 were recorded to the allowance for loan losses, resulting in an allowance for loan losses of $2,938,588 or 1.38% of total loans at December 31, 2010, compared to charge-offs of $777,166 and recoveries of $5,328 resulting in an allowance for loan losses of $3,026,997 or 1.42% of total loans at December 31, 2009.

The Bank had impaired loans totaling $3,559,528 as of December 31, 2010 compared to $2,502,202 at December 31, 2009. The impaired loans include non-accrual loans with balances at December 31, 2010, and 2009, of $945,328 and $627,373, respectively. The Bank had one restructured (“TDR”) loan at December 31, 2010, and no restructured loans for the year ended December 31, 2009. According to GAAP, the Company is required to account for certain loan modifications or restructuring as a troubled debt restructuring. In general, the modification or restructuring of a debt is considered a TDR if the Company, for economic or legal reasons related to a borrower’s financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. At December 31, 2010 the one restructured loan had an aggregate balance of $153,015. Included in the impaired loans is one credit totaling $1,023,000 which is secured by a second mortgage. Management does not know of any loans which will not meet their contractual obligations that are not otherwise discussed herein.

The accrual of interest is generally discontinued on loans, which become 90 days past due as to principal or interest. The accrual of interest on some loans, however, may continue even though they are 90 days past due if the loans are well secured or in the process of collection and management deems it appropriate. If non-accrual loans decrease their past due status, they are reviewed individually by management to determine if they should be returned to accrual status. There were no loans over 90 days past due still accruing interest as of December 31, 2010 and no

loans over 90 days past due still accruing interest as of December 31, 2009.

Net charge-offs for the year ended December 31, 2010, were $758,409 as compared to net charge-offs of $771,838 for the year ended December 31, 2009. Uncertainty in the economic outlook still exists, making charge-off levels in future periods less predictable; however, loss exposure in the portfolio is identified, reserved and closely monitored to ensure that changes are promptly addressed in the analysis of reserve adequacy.

The Company had $592,647 in unallocated reserves at December 31, 2010 related to other inherent risk in the portfolio compared to unallocated reserves of $842,158 at December 31, 2009. Management believes this amount is appropriate and properly supported through the environmental factors of its Allowance for Loan Losses. Although specific percentages have been assigned to these factors, the effects of the duration of a high or low factor are much more difficult to quantify. Accordingly, management believes that in this credit cycle, it is prudent to keep this level of unallocated reserves and in doing so is both consistent and appropriate for its Allowance for Loan Loss methodology. Management believes the allowance for loan losses at December 31, 2010, is adequate to cover estimated losses in the loan portfolio; however, assessing the adequacy of the allowance is a process that requires considerable judgment. Management's judgments are based on numerous assumptions about current events which it believes to be reasonable, but which may or may not be valid. Thus there can be no assurance that loan losses in future periods will not exceed the current allowance amount or that future increases in the allowance will not be required. No assurance can be given that management's ongoing evaluation of the loan portfolio in light of changing economic conditions and other relevant circumstances will not require significant future additions to the allowance, thus adversely affecting the operating results of the Company.

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

The methodology used to determine the reserve for unfunded lending commitments, which is included in other liabilities, is inherently similar to that used to determine the allowance for loan losses described above adjusted for factors specific to binding commitments, including the probability of funding and historical loss ratio. During the third quarter of the year ended December 31, 2007, Management determined that $20,796 of the allowance for loan loss represented the reserves for unfunded lending commitments. This amount was moved from the allowance for loan loss to the allowance for unfunded loans and commitments. In addition $1,507 was added to the provision of unfunded loans and commitments, for the year ending December 31, 2007, based on the methodology referred to above with $1,478 recovered in 2008, leaving a balance of $20,825 at December 31, 2008. No provision was recorded during 2010 or 2009 resulting in no change to the balance of $20,825.

DEPOSITS

(in 000's)	1 Day	Less Than 3 Months	3 Months to Less Than 6 Months	6 Months to Less Than 1 Year	1 Year to Less Than 5 Years	5 years or More	Total
CD's and other time deposits 100,000 and over	$ -	$ 18,412	$ 14,052	$ 12,450	$ 609	$ -	$ 45,523
CD's and other time deposits under 100,000	$ 118	$ 6,087	$ 4,341	$ 5,421	$ 1,802	$ -	$ 17,760

Certificates of Deposit $100,000 and over increased $3,593,593 or 8.57% for the year ended December 31, 2010, from $41,929,687 at December 31, 2009. This increase is primarily due to one customer with various Certificates of Deposit totaling $3,000,000. The Bank funds its growth through core deposits and does not rely on brokered deposits as a source to do so.

SHORT-TERM BORROWINGS

The Bank has a demand note through the US Treasury, Tax and Loan system with the Federal Reserve Bank of Richmond. The Bank may borrow up to $1,000,000 at December 31, 2010 and 2009 under the arrangement at an interest rate set by the Federal Reserve. The note is secured by Government Sponsored Enterprise Securities with a market value of $1,073,450 at December 31, 2010. The amount outstanding under the note totaled $767,497 and $506,753 at December 31, 2010 and 2009, respectively. At December 31, 2010, the Company had no outstanding federal funds purchased with the option to borrow $23,000,000 on short term lines of credit. The Company has also established a Borrower-In-Custody arrangement with the Federal Reserve. This arrangement permits the Company to retain possession of assets pledged as collateral to secure advances from the Federal Reserve Discount Window. Under this agreement the Company may borrow up to $63,389,913. The Company established this arrangement as an additional source of liquidity. In addition, at December 31, 2009 the Company had a loan of $7,500,000 from the Federal Reserve Bank's Term Auction Facility (TAF) at a rate of .25% for a term of 42 days. This loan was paid off by the Company on April 8, 2010.

OFF-BALANCE SHEET ARRANGEMENTS

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

The Company's off-balance sheet arrangements consist principally of commitments to extend credit described below. The Company estimates probable losses related to binding unfunded lending commitments and records a reserve for unfunded lending commitments in other liabilities on the consolidated balance sheet. At December 31, 2010 and 2009 the balance of this reserve was $20,825. At December 31, 2010 and 2009, the Company had no interests in non-consolidated special purpose entities.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management's credit evaluation of the borrower. Collateral held varies, but may include accounts receivable, negotiable instruments, inventory, property, plant and equipment, and real estate. Commitments to extend credit, including unused lines of credit, amounted to $44,016,496 and $47,516,984 at December 31, 2010 and 2009 respectively.

Standby letters of credit represent an obligation of the Company to a third party contingent upon the failure of the Company's customer to perform under the terms of an underlying contract with the third party or obligates the Company to guarantee or stand as surety for the benefit of the third party. The underlying contract may entail either financial or nonfinancial obligations and may involve such things as the shipment of goods, performance of a contract, or repayment of an obligation. Under the terms of a standby letter, drafts will generally be drawn only when the underlying event fails to occur as intended. The Company can seek recovery of the amounts paid from the borrower. The majority of these standby letters of credit are unsecured. Commitments under standby letters of credit are usually for one year or less. The maximum potential amount of undiscounted future payments related to standby letters of credit at December 31, 2010 and 2009 was $532,613 and $558,039, respectively.

The Company originates certain fixed rate residential loans and commits these loans for sale. The commitments to originate fixed rate residential loans and the sales commitments are freestanding derivative instruments. The fair value of these commitments was not significant at December 31, 2010 and 2009. The Company had forward sales commitments, totaling $5,908,316 at December 31, 2010, to sell loans held for sale of $5,908,316. At December 31, 2009, the Company had forward sales commitments of $3,433,460. The fair value of these commitments was not significant at December 31, 2010 or 2009. The Company has no embedded derivative instruments requiring separate accounting treatment.

Once the Company sells certain fixed rate residential loans, the loans are no longer reportable on the Company's balance sheet. With most of these sales, the Company has an obligation to repurchase the loan in the event of a default of principal or interest on the loan. This recourse period ranges from three to six months with unlimited recourse as a result of fraud. The unpaid principal balance of loans sold with recourse was $17,403,000 at December 31, 2010 and $26,472,000 at December 31, 2009. As of the year ended December 31, 2010 two loans have been repurchased.

EFFECT OF INFLATION AND CHANGING PRICES

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

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

CAPITAL RESOURCES

The capital needs of the Company have been met to date through the $10,600,000 in capital raised in the Bank's initial offering, the retention of earnings less dividends paid and the exercise of stock options for a total shareholders' equity at December 31, 2010, of $28,718,882. The rate of asset growth since the Bank's inception has not negatively impacted this capital base. The risk based capital guidelines for financial institutions are designed to highlight differences in risk profiles among financial institutions and to account for off balance sheet risk. The guidelines established require a risk based capital ratio of 8% for bank holding companies and banks. The risk based capital ratio at December 31, 2010, for the Bank was 13.20% and 12.55% at December 31, 2009. The Company's management does not know of any trends, events or uncertainties that may result in the Company's capital resources materially increasing or decreasing.

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and to average assets. Management believes, as of December 31, 2010, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

At December 31, 2010 and 2009, the Company and the Bank are categorized as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized" the Company and the Bank must maintain minimum total risk based, Tier 1 risk based and Tier 1 leverage ratios of 10%, 6% and 5%, respectively, and to be categorized as "adequately capitalized," the Company and the Bank must maintain minimum total risk based, Tier 1 risk based and Tier 1 leverage ratios of 8%, 4% and 4%, respectively. There are no current conditions or events that

management believes would change the Company's or the Bank's category.

Please see "Notes to Consolidated Financial Statements" for the Company's and the Bank's various capital ratios at December 31, 2010.

Item 7. Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Bank of South Carolina Corporation and subsidiary
Charleston, South Carolina

We have audited the accompanying consolidated balance sheets of Bank of South Carolina Corporation and subsidiary (the Corporation) as of December 31, 2010 and 2009, and the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for each of the years in the three year period ended December 31, 2010. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bank of South Carolina Corporation and subsidiary at December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2010, in conformity with U.S generally accepted accounting principles.

Elliott Davis, LLC
Columbia, South Carolina
February 23, 2011

BANK OF SOUTH CAROLINA CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

	DECEMBER 31, 2010	2009
ASSETS		
Cash and due from banks	$5,404,379	$5,794,540
Interest bearing deposits in other banks	8,302	8,269
Federal funds sold	19,018,104	3,779,693
Investment securities available for sale (amortized cost of $35,623,829 and $36,472,731 in 2010 and 2009, respectively)	39,379,613	36,862,345
Mortgage loans to be sold	5,908,316	3,433,460
Loans	208,025,664	213,882,476
Less: Allowance for loan losses	(2,938,588)	(3,026,997)
Net loans	205,087,076	210,855,479
Premises, equipment and leasehold improvements, net	2,436,526	2,516,189
Other real estate owned	659,492	—
Accrued interest receivable	1,054,791	1,152,240
Other assets	1,564,668	1,512,543
Total assets	$280,521,267	$265,914,758
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing demand	$56,884,235	$48,394,049
Interest bearing demand	50,394,101	49,257,712
Money market accounts	68,007,823	63,965,862
Certificates of deposit $100,000 and over	45,523,280	41,929,687
Other time deposits	17,760,278	16,943,042
Other savings deposits	11,867,258	9,347,328
Total deposits	250,436,975	229,837,680
Short-term borrowings	767,497	8,006,753
Accrued interest payable and other liabilities	597,913	503,128
Total liabilities	251,802,385	238,347,561
Commitments and contingencies (note 8)		
Shareholders' equity:		
Common stock - No par, 12,000,000 shares authorized; Issued 4,649,317 shares at December 31, 2010 and 4,622,652 at December 31, 2009 Shares outstanding 4,429,866 at December 31, 2010 and 4,403,201 at December 31, 2009	—	—
Additional paid in capital	28,202,939	23,511,560
Retained earnings	2,167,927	4,968,336
Treasury stock; 219,451 shares at December 31, 2010 and 2009	(1,902,439)	(1,692,964)
Accumulated other comprehensive income, net of income taxes	250,455	780,265
Total shareholders' equity	28,718,882	27,567,197

Total liabilities and shareholders' equity	$280,521,267	$265,914,758

See accompanying notes to consolidated financial statements.

BANK OF SOUTH CAROLINA CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS

	YEARS ENDED DECEMBER 31,		
	2010	2009	2008
Interest and fee income			
Interest and fees on loans	$10,693,501	$10,154,464	$10,219,052
Interest and dividends on investment securities	1,459,731	1,503,907	1,609,073
Other interest income	12,951	13,578	318,695
Total interest and fee income	12,166,183	11,671,949	12,146,820
Interest expense			
Interest on deposits	1,057,373	1,322,019	1,869,655
Interest on short-term borrowings	9,018	14,310	9,123
Total interest expense	1,066,391	1,336,329	1,878,778
Net interest income	11,099,792	10,335,620	10,268,042
Provision for loan losses	670,000	2,369,000	192,000
Net interest income after provision for loan losses	10,429,792	7,966,620	10,076,042
Other income			