

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

FORM 10-K

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

For the fiscal year ended December 31, 2022

☐ 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: 000-27702

BANK OF SOUTH CAROLINA CORPORATION

(Exact name of registrant as specified in its charter)

South Carolina

(State or other jurisdiction of
incorporation or organization)

57-1021355

(IRS Employer
Identification Number)

256 Meeting Street, Charleston, SC

(Address of principal executive offices)

29401

(Zip Code)

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

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

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

Securities registered pursuant to Section 12(g) of the Exchange Act: None

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

☐ Yes ☒ No

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

☐ Yes ☒ No

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

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically, if any, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for a shorter period that the registrant was required to submit).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

☐

Accelerated filer

☐

Non-accelerated filer

☒

Smaller reporting company

☒

Emerging growth company

☐

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

Aggregate market value of the voting stock held by non-affiliates, computed by reference to the closing price of such stock on June 30, 2022 was \$70,780,472.

As of February 24, 2023, the Registrant has outstanding 5,552,351 shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its 2023 Annual Meeting of Shareholders are incorporated by reference into Part III of this report.

BANK OF SOUTH CAROLINA CORPORATION
AND SUBSIDIARY

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PART I

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report, including information included or incorporated by reference in this document, contains statements that constitute “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934. We desire to take advantage of the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995 and are including this statement for the express purpose of availing the Bank of South Carolina Corporation (the “Company”) of protections of such safe harbor with respect to all “forward-looking statements” contained in this Form 10-K. Forward-looking statements may relate to, among other matters, the financial condition, results of operations, plans, objectives, future performance, and business of the Company. Forward-looking statements are based on many assumptions and estimates and are not guarantees of future performance. Our actual results may differ materially from those anticipated in any forward-looking statements, as they will depend on many factors about which we are unsure, including many factors that are beyond our control. The words “may,” “would,” “could,” “should,” “will,” “expect,” “anticipate,” “predict,” “project,” “potential,” “continue,” “assume,” “believe,” “intend,” “plan,” “forecast,” “goal,” and “estimate,” as well as similar expressions, are meant to identify such forward-looking statements. Potential risks and uncertainties that could cause our actual results to differ materially from those anticipated in our forward-looking statements include, without limitations, those described below:

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

We will undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made to reflect the occurrence of unanticipated events. In addition, certain statements in future filings with the SEC, in our press releases, and in oral and written statements, which are not statements of historical fact, constitute forward-looking statements.

Item 1. Business

References in this report to “we,” “us,” “our,” “the Bank,” or “the Company” refer to the registrant and its subsidiary that are consolidated for financial reporting purposes.

General

The Bank of South Carolina (the “Bank”) was organized on October 22, 1986 and opened for business as a state-chartered financial institution on February 26, 1987, in Charleston, South Carolina. The Bank was reorganized into a wholly owned subsidiary of the Company, effective April 17, 1995. At the time of the reorganization, each outstanding share of the Bank was exchanged for two shares of Company stock.

Market Area

The Bank operates as an independent, community oriented, commercial bank providing a broad range of financial services and products to the Charleston – North Charleston metro area, which includes Charleston, Berkeley, and Dorchester counties. We have five banking house locations: 256 Meeting Street, Charleston, SC; 100 North Main Street, Summerville, SC; 1337 Chuck Dawley Boulevard, Mt. Pleasant, SC; 2027 Sam Rittenberg Boulevard, Charleston, SC; and 9403 Highway 78, North Charleston, SC. We also have a future banking house location at 1730 Maybank Highway, Charleston, SC we expect to open in June 2023.

The Charleston – North Charleston metro area grew 8.24% from 2018 to 2021 according to the U.S. Bureau of Economic Analysis based on real gross domestic product despite the economic contraction experienced in 2020 resulting from government-imposed shutdowns imposed at the onset of the COVID-19 pandemic in March 2020. Charleston and Berkeley counties are ranked in the top ten economies in South Carolina based on real gross domestic product according to the U.S. Bureau of Economic Analysis. The largest nonfarm employers in our market area are from trade, transportation, utilities, government and professional and business services. Trade, transportation and utilities have been the main economic drivers of the growth in the area over the last five years. This includes manufacturing campuses for Boeing, Volvo Cars, and Mercedes-Benz Vans in the area. Based on Bureau of Labor Statistics, in October 2022 the Charleston area unemployment rate was 3.1% compared to 3.7% nationally. The Charleston area continues to rank higher than the other major metropolitan areas of the state of South Carolina in talent, innovative capacity, entrepreneurial and business environment, and livability.

The Company (ticker symbol: BKSC) is publicly traded on The Nasdaq Stock Market LLC (“NASDAQ”), and is under the reporting authority of the SEC. All of our electronic filings with the SEC, including our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other documents filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are accessible at no cost on our website, <http://www.banksc.com>, (through the “Investor Relations” link). Our filings are also available through the SEC’s web site at <http://www.sec.gov> or by calling 1-800-SEC-0330.

Competition

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

- interest rates offered on deposit accounts
- interest rates charged on loans
- credit and service charges
- the quality of services rendered
- the convenience of banking facilities and other delivery channels
- relative lending limits in the case of loans
- increase in non-banking financial institutions providing similar services
- continued consolidation, and
- legislative, regulatory, economic, and technological changes.

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

Lending Activities

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

Commercial Loans

As of December 31, 2022, \$45.1 million, or 13.6%, of our loan portfolio consisted of commercial loans. We originate various types of secured and unsecured commercial loans to customers in our market area in order to provide customers with working capital and funds for other general business purposes. The terms of these loans generally range from less than one year to 10 years. These loans bear either a fixed interest rate or an interest rate linked to a variable market index, depending on the individual loan, its purpose, and underwriting of that loan.

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

Commercial Real Estate Loans

As of December 31, 2022, commercial real estate construction loans comprised \$17.5 million, or 5.3%, of our loan portfolio. Advances on construction loans are made in accordance with a schedule reflecting the cost of construction. Loans are typically underwritten with a maximum loan to value ratio of 80% based on current appraisals with value defined as the purchase price, appraised value, or cost of construction, whichever is lower. Repayment of construction loans on non-residential and income-producing properties is normally attributable to rental income, income from the borrower’s operating entity, or the sale of the property. Construction loans are interest-only during the construction period, which typically does not exceed twelve months, and are often amortized or paid-off with permanent financing.

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

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

As of December 31, 2022, \$172.9 million, or 52.2%, of our loan portfolio consisted of other commercial real estate loans, excluding commercial construction loans. Properties securing our commercial real estate loans are primarily comprised of business owner-occupied properties, small office buildings and office suites, and income-producing real estate.

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

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

Consumer Loans

Consumer real estate loans were \$91.6 million, or 27.7%, of the loan portfolio as of December 31, 2022. Consumer real estate loans consist of consumer construction loans, home equity lines of credit ("HELOCs"), and mortgage originations. We make mortgage and construction loans for owner-occupied residential properties. Advances on construction loans are in accordance with a schedule reflecting the cost of construction, but are limited to a maximum loan-to-value ratio of 80%. Before making a commitment to fund a construction loan, we require an appraisal of the property by a state-certified or state-licensed appraiser. We review and inspect properties before disbursement of funds during the term of the construction loan. Similar to commercial real estate construction financing, consumer construction financing generally involves greater credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimated value of the property at completion of construction compared to the estimated cost (including interest) of construction and other assumptions. Construction loans also expose us to risk that improvements will not be completed on time in accordance with plans, specifications, and projected costs.

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

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

Other consumer loans totaled \$3.9 million, or 1.2% of the loan portfolio, as of December 31, 2022. These loans are originated for various purposes, including the purchase of automobiles, boats, and other personal items or needs.

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

Paycheck Protection Program

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed into law, which established the Paycheck Protection Program ("PPP") and allocated \$349.0 billion of loans to be issued by financial institutions. On December 27, 2020, the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act ("Economic Aid Act") was enacted, which reauthorized lending under the PPP through March 31, 2021, with an additional \$325.0 billion. Under the program, the U.S. Small Business Administration ("SBA") will forgive loans, in whole or in part, made by approved lenders to eligible borrowers for payroll and other permitted purposes in accordance with the requirements of the program. These loans were originated to assist small businesses affected by the coronavirus, or COVID-19. The Bank originated \$55.3 million in PPP loans to 480 customers. PPP loans were \$8.0 million, or 2.6% of the loan portfolio as of December 31, 2021. As of December 31, 2022, there were no PPP loans outstanding.

These loans were 100% guaranteed by the SBA, subject to compliance with PPP requirements.

Loan Approval Procedures and Authority

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

The objectives of our lending program are to:

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

The underwriting standards and loan origination procedures include officer lending limits, which are approved by the Board of Directors. The individual secured/unsecured lending authority of the President/Chief Executive Officer of the Bank is set at \$1,500,000, and the individual secured/unsecured lending authority of the Senior Lender/Executive Vice President is set at \$1,000,000. The President/Chief Executive Officer of the Bank and the Senior Lender/Executive Vice President may jointly lend up to 10% of the Bank's unimpaired capital for the previous quarter end. In the absence of either of the above, the other may, jointly with the approval of either the Chairman of the Board of Directors or a majority of the Loan Committee of the Board of Directors, lend up to 10% of the Bank's unimpaired capital for the previous quarter end. The Board of Directors, with two-thirds vote, may approve the aggregate credit in excess of this limit but may not exceed 15% of the Bank's unimpaired capital. Loan limits apply to the total direct and indirect liability of the borrower. All loans above the loan officer's authority must have the approval of a loan officer with the authority to approve a loan of that amount. Pooling of loan authority is not allowed except as outlined above for the President/Chief Executive Officer, Senior Lender/Executive Vice President, Chairman of the Board of Directors, and a majority of the Loan Committee or two-thirds of the Board of Directors.

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

Employees

At December 31, 2022, we employed 80 people, with one individual considered hourly, none of whom are subject to a collective bargaining agreement. We provide a variety of benefit programs including an Employee Stock Ownership Plan and Trust; Stock Incentive Plan; and health, life, disability and other insurance. We believe our relationship with our employees is excellent.

Supervision and Regulation

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

Dodd-Frank Act

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

The Dodd-Frank Act created the Consumer Financial Protection Bureau (the "CFPB") to centralize responsibility for consumer financial protection, including implementing, examining and enforcing compliance with federal consumer financial laws. The CFPB exercises supervisory review of banks under its jurisdiction, which includes banks with assets over \$10 billion. The CFPB focuses its rulemaking in several areas, particularly in the areas of mortgage reform involving the Real Estate Settlement Procedures Act, the Truth in Lending Act, the Equal Credit Opportunity Act, and the Fair Debt Collection Practices Act. There are many provisions in the Dodd-Frank Act mandating regulators to adopt new regulations and conduct studies upon which future regulation may be based. Governmental intervention and new regulations could materially and adversely affect our business, financial condition and results of operations.

Volcker Rule

Section 619 of the Dodd-Frank Act, known as the "Volcker Rule," prohibits any bank, bank holding company, or affiliate (referred to collectively as "banking entities") from engaging in two types of activities: proprietary trading and the ownership or sponsorship of private equity or hedge funds that are referred to as covered funds. Proprietary trading, in general, is trading in securities on a short-term basis for a banking entity's own account. In December 2013, federal banking agencies, the SEC and the Commodity Futures Trading Commission, finalized a regulation to implement the Volcker Rule. As of December 31, 2022, the Company has evaluated our securities portfolio and has determined that we do not hold any covered funds.

Further, pursuant to the Economic Growth, Regulatory Relief, and Consumer Protection Act enacted in 2018, the Volcker Rule was amended by modifying the definition of “banking entity” to exclude certain community banks and their affiliates. Under the Volcker Rule, as amended, community banks are excluded from the restrictions of the Volcker Rule if (i) the community bank, and every entity that controls it, has total consolidated assets equal to or less than \$10 billion and (ii) trading assets and liabilities of the community bank, and every entity that controls it, are equal to or less than five percent of its total consolidated assets.

Bank Holding Company Act

The Company is a one-bank holding company registered under the Bank Holding Company Act of 1956, as amended. As a result, the Company is primarily subject to the supervision, examination and reporting requirements of the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”) under the act and its regulations promulgated thereunder. The Federal Reserve Board, together with the applicable Federal Reserve Bank that is delegated with primary supervision responsibilities over the Company (collectively, the “Federal Reserve”), is the Company’s primary federal banking regulator.

Capital Requirements

The Federal Reserve Board imposes certain capital requirements on the Company under the Bank Holding Company Act, including a minimum leverage ratio and minimum ratio of “qualifying” capital to risk-weighted assets or a community bank leverage ratio for qualifying community banking organizations. 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 consolidated financial statements (see Note 18). The ability of the Company to pay dividends to shareholders depends on the Bank’s ability to pay dividends to the Company, which is subject to regulatory restrictions as described below in the section titled “Dividends.”

Standards for Safety and Soundness

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

Regulatory Examination

All insured institutions must undergo regular on-site examinations by their appropriate banking agency. The cost of examinations of insured depository institutions and any affiliates may be assessed by the appropriate banking agency against each institution or affiliate, as it deems necessary or appropriate. Insured institutions are required to submit annual reports to the Federal Deposit Insurance Corporation (“FDIC”), their federal regulatory agency, and state supervisor, when applicable. As a state-chartered bank located in South Carolina, the Bank is also subject to the regulations of the South Carolina State Board of Financial Institutions.

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

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

Transactions with Affiliates and Insiders

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

Dividends

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

Consumer Protection Regulations

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

- The federal Truth-In-Lending Act, which governs disclosures of credit terms to consumer borrowers
- The Home Mortgage Disclosure Act of 1975, which requires financial institutions to provide information to enable the public and public officials to

determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves

- The Fair Lending Act, which requires fair, equitable, and nondiscriminatory access to credit for consumers

- The Equal Credit Opportunity Act, which prohibits discrimination on the basis of race, creed or other prohibited factors in extending credit
- The Fair Credit Reporting Act of 1978, which governs the use and provision of information to credit reporting agencies
- The Fair Debt Collection Act, which governs the manner in which consumer debt may be collected by collection agencies
- The Gramm - Leach - Bliley Act, which governs the protection of consumer information
- 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, which govern automatic deposits to and withdrawals from deposit accounts and customer's rights and liabilities arising from the use of automated teller machines and other electronic banking services
- Regulation DD, which implements the Truth in Savings Act to enable consumers to make informed decisions about deposit accounts at depository institutions.

Enforcement Powers

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

Bank Secrecy Act/Anti-Money Laundering

We are subject to the Bank Secrecy Act and other anti-money laundering laws and regulations, including the USA Patriot Act of 2001 ("USA Patriot Act"). We must maintain a Bank Secrecy Act Program that includes established internal policies, procedures, and controls; a designated compliance officer; an ongoing employee-training program; and testing of the program by an independent audit function. The enactment of the USA Patriot Act amended and expanded the focus of the Bank Secrecy Act to facilitate information sharing among governmental entities and the Company for the purpose of combating terrorism and money laundering. It improves anti-money laundering and financial transparency laws, information collection tools and the enforcement mechanics for the U.S. government. These provisions include (a) standards for verifying customer identification at account opening; (b) rules to promote cooperation among financial institutions, regulators, and law enforcement entities in identifying parties that may be involved in terrorism or money laundering; (c) reports by nonfinancial trades and businesses filed with the U.S. Treasury's Financial Crimes Enforcement Network for transactions exceeding \$10,000; (d) suspicious activities reports by brokers and dealers if they believe a customer may be violating U.S. laws; and (e) regulations and enhanced due diligence requirements for financial institutions that administer, maintain, or manage private bank accounts or correspondent accounts for non-U.S. persons.

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

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

Privacy and Credit Reporting

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

Item 1A. Risk Factors

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

Item 1B. Unresolved Staff Comments

None.

Item 2. **Properties**

The Company's headquarters is located at 256 Meeting Street in downtown Charleston, South Carolina. This site is also the location of the main office of the Bank. The Bank also operates from four additional locations: 100 North Main Street, Summerville, SC; 1337 Chuck Dawley Boulevard, Mount Pleasant, SC; 2027 Sam Rittenberg Boulevard, Charleston, SC; and 9403 Highway 78, North Charleston, SC. The Bank also plans to open an additional banking location in June 2023 at 1730 Maybank Highway, Charleston, SC. The Company owns the 2027 Sam Rittenberg Boulevard location, which houses the Operations Department of the Bank as well as a banking office. The Company leases all other locations, including the future banking location. The owned location is not encumbered and all of the leases have renewal options. Each banking location is suitable and adequate for banking operations.

Item 3. **Legal Proceedings**

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

Item 4. **Mine Safety Disclosures**

Not applicable.

PART II

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

Market Information

The Company’s common stock is traded on the NASDAQ Capital Market under the trading symbol “BKSC”.

Holders

As of January 31, 2023, there were approximately 456 holders of the Company’s common stock.

Dividends

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

Securities Authorized for Issuance under Equity Compensation Plans

See Item 12 of this report for disclosure regarding securities authorized for issuance under equity compensation plans required by Item 201(d) of Regulation S-K.

Recent Sales of Unregistered Securities

There were no equity securities of the Company sold by the Company during the period covered by the report that were not registered under the Securities Act.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

There were no repurchases of the Company’s common stock during the fourth quarter of the fiscal year covered by this report.

At the Annual Meeting in 2020, the Company’s Board of Directors authorized a stock repurchase plan of up to \$1.0 million. The Company repurchased 25,067 shares of its common stock for \$398,868 during the year ended December 31, 2020. The Company did not repurchase any shares of its common stock during the years ended December 31, 2022 and 2021.

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

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

OVERVIEW

The Company is a bank holding company headquartered in Charleston, South Carolina, with \$653.3 million in assets as of December 31, 2022 and net income of \$6.7 million for the year ended December 31, 2022. The Company offers a broad range of financial services through its wholly owned subsidiary, the Bank. The Bank is a state-chartered commercial bank, which operates principally in the Charleston, Dorchester, and Berkeley counties of South Carolina. The Bank's original and current concept is to be a full service financial institution specializing in personal service, responsiveness, and attention to detail to foster long-standing relationships.

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

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

In addition to earning interest on loans and investment securities, we earn income through fees and other expenses we charge to the customer. The various components of other income and other expenses are described in the following discussion. The discussion and analysis also identifies significant factors that have affected our financial position and operating results as of and for the year ended December 31, 2022 as compared to December 31, 2021 and our operating results for 2021 compared to 2020, and should be read in conjunction with the consolidated financial statements and the related notes included in this report. In addition, a number of tables have been included to assist in the discussion.

The following table sets forth certain summary financial information concerning the Company and its wholly-owned subsidiary for the last five years. The information was derived from the audited consolidated financial statements. The information should be read in conjunction with this section of the report, and the audited consolidated financial statements and notes, which are presented in Item 8 of this report.

	2022	2021	2020	2019	2018
For December 31:					
Net income	\$ 6,655,140	\$ 6,744,865	\$ 6,460,631	\$ 7,318,433	\$ 6,922,934
Selected year end balances:					
Total assets	653,345,609	679,220,646	532,494,599	445,012,520	429,135,198
Total loans ¹	331,848,376	309,406,617	333,768,406	279,134,958	275,863,705
Investment securities available for sale	271,172,226	212,347,489	134,819,818	100,449,956	119,668,874
Interest-bearing deposits at the Federal Reserve	12,999,135	128,971,429	42,348,085	39,320,526	25,506,784
Earning assets	616,019,737	650,725,535	510,936,309	418,905,440	421,039,363
Total deposits	598,670,258	609,191,576	462,197,631	379,191,655	382,378,388
Total shareholders' equity	38,811,387	53,917,633	54,980,356	51,168,032	45,462,561
Weighted Average Shares Outstanding - basic	5,550,078	5,531,518	5,526,948	5,522,025	5,500,027
Weighted Average Shares Outstanding - diluted	5,644,698	5,680,482	5,678,543	5,588,090	5,589,012

For the Year:

Selected average balances:

Total assets	\$ 656,833,125	\$ 589,379,985	\$ 502,628,318	\$ 440,615,140	\$ 430,495,412
Total loans ¹	320,826,946	324,078,445	313,303,363	281,508,711	277,223,600
Investment securities available for sale	266,432,504	167,250,568	112,970,054	106,421,507	123,347,669
Interest-bearing deposits at the Federal Reserve	41,131,016	75,734,060	54,231,372	34,713,982	20,151,823
Earning assets	628,390,466	567,063,073	480,504,789	422,644,200	420,723,092
Total deposits	596,881,098	519,900,412	434,071,108	381,687,960	386,025,147
Total shareholders' equity	43,602,112	54,838,166	54,021,647	49,242,545	43,691,359

Performance Ratios:

Return on average equity	15.26%	12.30%	11.96%	14.86%	15.85%
Return on average assets	1.01%	1.14%	1.29%	1.66%	1.61%
Average equity to average assets	6.64%	9.30%	10.75%	11.18%	10.15%
Net interest margin	3.01%	3.06%	3.52%	4.28%	4.15%
Net (recoveries) charge-offs to average loans	0.00%	-0.02%	0.02%	0.14%	-0.01%
Allowance for loan losses as a percentage of total loans ²	1.30%	1.43%	1.30%	1.46%	1.53%

Per Share:

Basic income per common share ³	\$ 1.20	\$ 1.22	\$ 1.17	\$ 1.33	\$ 1.26
Diluted income per common share ³	\$ 1.18	\$ 1.19	\$ 1.14	\$ 1.31	\$ 1.24
Year end book value ³	\$ 6.99	\$ 9.73	\$ 9.96	\$ 9.25	\$ 8.25
Dividends per common share	\$ 0.68	\$ 0.78	\$ 0.66	\$ 0.74	\$ 0.58
Dividend payout ratio	56.73%	63.98%	56.44%	55.88%	54.68%
Full time employee equivalents	80	79	76	79	79

(1) Including mortgage loans to be sold.

(2) Excluding mortgage loans to be sold.

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

We have adopted various accounting policies that govern the application of accounting principles generally accepted in the United States ("GAAP") and with general practices within the banking industry in the preparation of our consolidated financial statements. Our significant accounting policies are set forth in the notes to the consolidated financial statements in Item 8 of this report.

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

We consider our policy regarding the allowance for loan losses to be our most subjective accounting policy due to the significant degree of judgment. We have developed what we believe to be appropriate policies and procedures for assessing the adequacy of the allowance for loan losses, recognizing that this process requires a number of assumptions and estimates with respect to our loan portfolio. Our assessments may be impacted in future periods by changes in economic conditions, the impact of regulatory examinations and the discovery of information with respect to borrowers, which were not known at the time of the issuance of the consolidated financial statements. For additional discussion concerning our allowance for loan losses and related matters, see "Allowance for Loan Losses".

COVID-19

On March 11, 2020, the World Health Organization ("WHO") declared COVID-19 a pandemic. Due to orders issued by the governor of South Carolina and in an abundance of caution for the health of our customers and employees, in March 2020 the Bank closed lobbies to all 5 offices but remained fully operational. The Bank subsequently reopened all of the lobbies in June 2021.

As discussed elsewhere in the report (See “Part I – Paycheck Protection Program” and Note 4 to the Company’s Notes to Consolidated Financial Statements included in Part II – Item 8 of this report), on March 27, 2020, the PPP was established under the CARES Act in response to the COVID-19 pandemic.

While the impacts of COVID-19 and its variants appeared to create less economic disruption during 2022 as compared to 2021 and 2020, COVID-19 continues to evolve, along with governmental support and/or restrictions in response to it. As of December 31, 2021, the Bank had received 391 PPP forgiveness applications, in the amount of \$49.1 million in principal, and submitted 361 applications and decisions to the SBA, in the amount of \$47.7 million in principal. Of the 391 PPP submissions, 351 loans, in the amount of \$46.9 million, were forgiven as of December 31, 2021. The remaining 129 loans, in the amount of \$8.4 million, were forgiven during the year ended December 31, 2022. There were no PPP loans outstanding as of December 31, 2022. Upon forgiveness the Bank recognized the deferred fee income in accordance with ASC 310-20. The Bank received processing fees of \$2.4 million and recognized \$0.4 million and \$1.3 million during the years ended December 31, 2022 and 2021, respectively.

Regulatory agencies, as set forth in the Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (initially issued on March 22, 2020 and revised on April 7, 2020), encouraged financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations because of the effects of COVID-19. In this statement, the regulatory agencies expressed their view of loan modification programs as positive actions that may mitigate adverse effects on borrowers due to COVID-19 and that the agencies will not criticize institutions for working with borrowers in a safe and sound manner. Moreover, the revised statement provides that eligible loan modifications related to COVID-19 may be accounted for under section 4013 of the CARES Act or in accordance with ASC 310-40. Under Section 4013 of the CARES Act, banks may elect not to categorize loan modifications as TDRs if the modifications are related to COVID-19, executed on a loan that was not more than 30 days past due as of December 31, 2019, and executed between March 1, 2020 and the earlier of December 31, 2020 or 60 days after the date of termination of the National Emergency. All short-term loan modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief are not considered TDRs. Beginning in March 2020, the Bank provided payment accommodations to customers, consisting of 60-day principal deferral to borrowers negatively impacted by COVID-19. During 2020, the Bank processed approximately \$0.7 million in principal deferrals to 84 customers, with an aggregate loan balance of \$29.7 million. The principal deferrals represented 0.24% of our total loan portfolio as of December 31, 2020. The Bank did not process any principal deferrals during the years ended December 31, 2022 and 2021. The Bank has examined the payment accommodations granted to borrowers in response to COVID-19 and classified 9 loans, with an aggregate loan balance of \$4.0 million, that were granted payment accommodations as TDRs given the continued financial difficulty of the customer, associated industry risk, and multiple deferral requests. All other borrowers were current prior to relief, were not experiencing financial difficulty prior to COVID-19, and the Bank determined they were not considered TDRs. As of December 31, 2021, 4 of the TDRs were removed from TDR status due to improvement in financial condition and sustained performance under the restructured terms, 2 TDRs were paid off through refinancing into new loans at market terms, and 1 TDR was paid off. Two loans with a balance of \$0.5 million remained in TDR status as of December 31, 2021. Additionally, of the 75 customers that received payment accommodations that were not classified as TDRs, 41 customers, with an aggregate loan balance of \$9.9 million, had paid their loan in full as of December 31, 2021. An additional loan was removed from TDR status during 2022. The remaining loan with a balance of \$0.1 million is paying as agreed as of December 31, 2022. There are no loans that received payment accommodation past due greater than 30 days. The Bank will continue to examine payment accommodations as requested by borrowers.

While the effects of COVID-19 have impacted all industries to varying degrees, during 2020 the Bank assessed the retail and/or service, food and beverage, and short-term rental industries in our geographic area as having a higher risk due to the possibility of the primary source of repayment not materializing. These industries are dependent upon the hospitality industry and were affected by the mandates issued by the Governor of South Carolina to limit occupancy or close for a period of time. Our loans in these industries represented 3.96% of our loan portfolio at December 31, 2020 and were temporarily downgraded to our “Watch” category during 2020. In May 2021, due to improving economic conditions, increased vaccination rates and a continued reopening of the South Carolina economy, these loans were upgraded to our “Satisfactory” category.

Effects of COVID-19 or its variants may still negatively impact management assumptions and estimates, such as the allowance for loan losses. However, it is difficult to assess or predict how, and to what extent, COVID-19 will affect the Bank in the future.

COMPARISON OF THE YEAR ENDED DECEMBER 31, 2022 TO DECEMBER 31, 2021

Net income decreased \$0.1 million or 1.3% to \$6.66 million, or basic and diluted income per share of \$1.20 and \$1.18, respectively, for the year ended December 31, 2022 from \$6.74 million or basic and diluted income per share of \$1.22 and \$1.19, respectively, for the year ended December 31, 2021. This decrease was primarily due to lower mortgage banking income and gains on sales of securities largely offset by higher average earning asset balances coupled with increased asset yields in our investment securities and a reduction in the provision for loan losses. Our returns on average assets and average equity for the year ended December 31, 2022 were 1.01% and 15.26%, respectively, compared to 1.14% and 12.30%, respectively, for the year ended December 31, 2021.

Net interest income increased \$1.5 million or 8.74% to \$18.9 million for the year ended December 31, 2022 from \$17.4 million for the year ended December 31, 2021. This increase was primarily due to higher balances of average earning assets coupled with an increase in asset yields on our investment securities and increased interest rates on variable rate loans and new originations and renewals of fixed rate loans.

Average earning assets increased \$61.3 million or 10.81% to \$628.4 million for the year ended December 31, 2022 from \$567.1 million for the year ended December 31, 2021. This is primarily related to an increase in the average balance of investment securities and interest-bearing deposits at the Federal Reserve and, to a lesser extent, loans. The increase in investment securities and interest-bearing balances at the Federal Reserve reflect the deployment of excess funds resulting from a \$77.0 million increase in average deposits during the year.

We recorded a \$75,000 reduction to the allowance for loan losses for the year ended December 31, 2022 compared to a provision for loan losses of \$120,000 for the year ended December 31, 2021. The decrease was primarily driven by the composition of our loan portfolio in accordance with our allowance for loan loss methodology and our analysis of the adequacy of the allowance for loan losses. The Board of Directors determined that this provision was appropriate based upon the adequacy of our reserve. Charge-offs of \$42,644 and recoveries of \$31,878, together with the reduction in the allowance, resulted in an allowance for loan losses of \$4.3 million or 1.30% of total loans as of December 31, 2022.

Other income decreased \$1.8 million or 46.62% to \$2.1 million for the year ended December 31, 2022, from \$3.9 million for the year ended December 31, 2021. Other income reflects lower mortgage banking income and decreases in gain on sales of securities of \$0.2 million. Our mortgage banking income decreased \$1.6 million or 71.17% to \$0.7 million for the year ended December 31, 2022 from \$2.3 million for the year ended December 31, 2021 due to decreased volume associated with the higher interest rate environment experienced in 2022. Mortgage banking income is highly influenced by mortgage interest rates and the housing market.

Other expense increased \$0.1 million or 0.77% to \$12.4 million for the year ended December 31, 2022, from \$12.3 million for the year ended December 31, 2021. Salaries and employee benefits increased approximately \$0.1 million, or 1.47%, due to increased benefits, payroll taxes and other employee-related costs. Net occupancy expense increased approximately \$0.1 million due to rent escalation provisions in certain of our leases. Other operating expenses decreased \$0.1 million, or 0.77%.

For the year ended December 31, 2022, the Company's effective tax rate was 22.91% compared to 23.50% during the year ended December 31, 2021.

COMPARISON OF THE YEAR ENDED DECEMBER 31, 2021 TO DECEMBER 31, 2020

Net income increased \$0.2 million or 4.40% to \$6.7 million, or basic and diluted income per share of \$1.22 and \$1.19, respectively, for the year ended December 31, 2021 from \$6.5 million or basic and diluted income per share of \$1.17 and \$1.14, respectively, for the year ended December 31, 2020. This increase was primarily due to higher average earning asset balances coupled with a decline in our cost of funds. Our returns on average assets and average equity for the year ended December 31, 2021 were 1.14% and 12.30%, respectively, compared to 1.29% and 11.96%, respectively, for the year ended December 31, 2020.

Net interest income increased \$0.5 million or 2.61% to \$17.4 million for the year ended December 31, 2021 from \$16.9 million for the year ended December 31, 2020. This increase was primarily due to an increase in interest and fees on PPP loans and investment securities. Interest and fees on loans and investment securities increased \$0.4 million or 2.35% to \$17.1 million for the year ended December 31, 2021 from \$16.7 million for the year ended December 31, 2020, as the result of higher balances of average earning assets.

Average earning assets increased \$86.6 million or 18.01% to \$567.1 million for the year ended December 31, 2021 from \$480.5 million for the year ended December 31, 2020. This is primarily related to an increase in the average balance of investment securities and interest-bearing deposits at the Federal Reserve and, to a lesser extent, loans. The increase in investment securities and interest-bearing balances at the Federal Reserve reflect the deployment of excess funds resulting from an \$85.8 million increase in average deposits during the year.

The provision to the allowance for loan losses for the year ended December 31, 2021 was \$120,000 compared to \$240,000 for the year ended December 31, 2020. The decrease was primarily driven by the composition of our loan portfolio in accordance with our allowance for loan loss methodology. The Board of Directors determined that this provision was appropriate based upon the adequacy of our reserve. Charge-offs of \$20,990 and recoveries of \$92,283, together with the provision to the allowance, resulted in an allowance for loan losses of \$4.4 million or 1.43% of total loans as of December 31, 2021. The allowance for loan losses is 1.47% of total loans net of PPP loans.

Other income increased \$0.5 million or 13.61% to \$3.9 million for the year ended December 31, 2021, from \$3.4 million for the year ended December 31, 2020. Other income reflects increases in gain on sales of securities of \$0.3 million and service charges and fees of \$0.2 million. Our mortgage banking income increased \$46,700 or 2.06% to \$2.3 million for the year ended December 31, 2021 from \$2.3 million for the year ended December 31, 2020 due to elevated volume associated with a continuation of the low interest rate environment. Mortgage banking income is highly influenced by mortgage interest rates and the housing market.

Other expense increased \$0.6 million or 5.45% to \$12.3 million for the year ended December 31, 2021, from \$11.7 million for the year ended December 31, 2020. Salaries and employee benefits increased approximately \$0.2 million, or 3.03%, due to increased benefits, payroll taxes and other employee-related costs. Net occupancy expense increased approximately \$0.2 million due to rent escalation provisions in certain of our leases. Other operating expense increased \$0.2 million, or 14.45%, due to certain loan-related costs and higher FDIC insurance assessments resulting from an increase in deposit balances.

For the year ended December 31, 2021, the Company's effective tax rate was 23.50% compared to 23.33% during the year ended December 31, 2020.

ASSET AND LIABILITY MANAGEMENT

We manage our assets and liabilities to ensure there is sufficient liquidity to enable management to fund deposit withdrawals, loan demand, capital expenditures, reserve requirements, operating expenses, and dividends; and to manage daily operations on an ongoing basis. Funds are primarily provided by the Bank through customer deposits, principal and interest payments on loans, mortgage loan sales, the sale or maturity of securities, temporary investments and earnings. The Asset Liability/Investment Committee ("ALCO") manages asset and liability procedures though the ultimate responsibility rests with the President/Chief Executive Officer. At December 31, 2022, total assets decreased 3.81% to \$653.3 million from \$679.2 million as of December 31, 2021 and

total deposits decreased 1.73% to \$598.7 million from \$609.2 million as of December 31, 2021.

As of December 31, 2022, earning assets, which are composed of U.S. Treasury, Government Sponsored Enterprises and Municipal Securities in the amount of \$271.2 million, interest-bearing deposits at the Federal Reserve in the amount of \$13.0 million and total loans, including mortgage loans held for sale, in the amount of \$331.8 million, constituted approximately 94.29% of our total assets.

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

MARKET RISK

Market risk is the risk of loss from adverse changes in market prices and interest rates. Our risk consists primarily of interest rate risk in our lending and investing activities as they relate to the funding by deposit and borrowing activities.

Our policy is to minimize interest rate risk between interest-earning assets and interest-bearing liabilities at various maturities and to attempt to maintain an asset sensitive position over a one-year period. By adhering to this policy, we anticipate that our net interest margins will not be materially affected, unless there is an extraordinary and or precipitous change in interest rates. The average net interest rate margin for 2022 decreased to 3.01% from 3.06% for 2021. At December 31, 2022 and 2021, our net cumulative gap was liability sensitive for periods less than one year and asset sensitive for periods of one year or more. The reason for the shift in sensitivity is the direct result of management's strategic decision to invest excess funds held at the Federal Reserve into fixed rate investment securities that match our investment policy objectives. Management is aware of this departure from policy and will continue to closely monitor our sensitivity position going forward.

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

At December 31, 2022, the average maturity of the investment portfolio was 3.45 years with an average yield of 1.18% compared to 4.76 years with an average yield of 1.02% at December 31, 2021.

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

The following table summarizes our interest sensitivity position as of December 31, 2022.

	One Day	Less than three months	Three months to less than six months	Six months to less than one year	One year to less than five years	Five years or more	Total	Estimated Fair Value
<i>(in thousands)</i>								
Interest-earning assets								
Loans ¹	\$ 73,798	\$ 19,037	\$ 13,451	\$ 22,603	\$ 167,122	\$ 35,996	\$ 332,007	\$ 304,250
Investment securities available for sale ²	—	7,462	9,919	25,341	212,327	41,948	296,997	271,172
Interest-bearing deposits at the Federal Reserve	12,999	—	—	—	—	—	12,999	12,999
Total	\$ 86,797	\$ 26,499	\$ 23,370	\$ 47,944	\$ 379,449	\$ 77,944	\$ 642,003	\$ 588,421
Interest-bearing liabilities								
CD's and other time deposits less than \$250,000	\$ —	\$ 3,852	\$ 2,269	\$ 3,643	\$ 1,502	\$ —	\$ 11,266	\$ 14,156
CD's and other time deposits \$250,000 and over	—	2,088	549	2,667	—	—	5,304	7,272
Money Market and Interest Bearing Demand Accounts	296,235	—	—	—	—	—	296,235	518,276
Savings	63,825	—	—	—	—	—	63,825	63,825
Total	\$ 360,060	\$ 5,940	\$ 2,818	\$ 6,310	\$ 1,502	\$ —	\$ 376,630	\$ 603,529
Net	\$ (276,263)	\$ 20,559	\$ 20,552	\$ 41,634	\$ 377,947	\$ 77,944	\$ 265,373	
Cumulative		\$ (252,704)	\$ (232,152)	\$ (190,518)	\$ 187,429	\$ 265,374		

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

(2) At amortized cost based on the earlier of the call date or scheduled maturity.

LIQUIDITY

Historically, we have maintained our liquidity at levels believed by management to be adequate to meet requirements of normal operations, potential deposit outflows and strong loan demand and still allow for optimal investment of funds and return on assets.

The following table summarizes future contractual obligations as of December 31, 2022.

	<u>Total</u>	<u>Less than one year</u>	<u>One to five years</u>	<u>After five years</u>
Contractual Obligations <i>(in thousands)</i>				
Time deposits	\$ 16,569	\$ 14,829	\$ 1,740	\$ —
Operating leases	18,223	1,183	5,914	11,126
Total contractual cash obligations	<u>\$ 34,792</u>	<u>\$ 16,012</u>	<u>\$ 7,416</u>	<u>\$ 11,126</u>

Proper liquidity management is crucial to ensure that we are able to take advantage of new business opportunities as well as meet the credit needs of our existing customers. Investment securities are an important tool in our liquidity management. Our primary liquid assets are cash and due from banks, investment securities available for sale, interest-bearing deposits at the Federal Reserve, and mortgage loans held for sale. Our primary liquid assets accounted for 45.89% and 52.30% of total assets at December 31, 2022 and 2021, respectively. Investment securities classified as available for sale, which are not pledged, may be sold in response to changes in interest rates and liquidity needs. All of the investment securities presently owned are classified as available for sale. Net cash provided by operations and deposits from customers have been the primary sources of liquidity. At December 31, 2022, we had unused short-term lines of credit totaling approximately \$41 million (which can be withdrawn at the lender's option). Additional sources of funds available to us for liquidity include increasing deposits by raising interest rates paid and selling mortgage loans held for sale. We also established a Borrower-In-Custody arrangement with the Federal Reserve. This arrangement permits us to retain possession of assets pledged as collateral to secure advances from the Federal Reserve Discount Window. At December 31, 2022, we could borrow up to \$78.3 million.

Our core deposits consist of non-interest bearing demand accounts, NOW accounts, money market accounts, time deposits and savings accounts. We closely monitor our reliance on certificates of deposit greater than \$250,000 and other large deposits. We maintain a Contingency Funding Plan ("CFP") that identifies liquidity needs and weighs alternate courses of action designed to address these needs in emergency situations. We perform a quarterly cash flow analysis and stress test the CFP to evaluate the expected funding needs and funding capacity during a liquidity stress event. We believe our liquidity sources are adequate to meet our operating needs and do not know of any trends, events or uncertainties that may result in a significant adverse effect on our liquidity position. At December 31, 2022 and 2021, our liquidity ratio was 48.09% and 56.43%, respectively.

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Loans ¹	\$ 320,826,946	\$ 324,078,445	\$ 313,303,363	\$ 277,395,432	\$ 277,223,600
Investment securities available for sale	266,432,504	167,250,568	112,970,054	106,421,507	123,347,669
Interest-bearing deposits at the Federal Reserve	41,131,016	75,734,060	54,231,372	34,713,982	20,151,823
Non-earning assets	28,442,659	22,316,912	22,123,529	22,084,219	9,772,320
Total average assets	<u>\$ 656,833,125</u>	<u>\$ 589,379,985</u>	<u>\$ 502,628,318</u>	<u>\$ 440,615,140</u>	<u>\$ 430,495,412</u>

¹ Including mortgage loans to be sold and deferred fees.

ANALYSIS OF CHANGES IN NET INTEREST INCOME

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

	2022 vs. 2021			2021 vs. 2020			2020 vs. 2019		
	Volume	Rate	Net Dollar Change ¹	Volume	Rate	Net Dollar Change ¹	Volume	Rate	Net Dollar Change ¹
Loans ²	\$ (153,327)	\$ 545,916	\$ 392,589	\$ 519,830	\$ (290,799)	\$ 229,031	\$ 1,798,561	\$ (2,736,870)	\$ (938,309)
Investment securities available for sale	1,274,919	(320,851)	954,068	963,531	(800,492)	163,039	136,175	(324,518)	(188,343)
Interest-bearing deposits at the Federal Reserve	(47,994)	348,709	300,715	72,342	(153,057)	(80,715)	409,494	(955,338)	(545,844)
Interest income	<u>\$ 1,073,598</u>	<u>\$ 573,774</u>	<u>\$ 1,647,372</u>	<u>\$ 1,555,703</u>	<u>\$ (1,244,348)</u>	<u>\$ 311,355</u>	<u>\$ 2,344,230</u>	<u>\$ (4,016,726)</u>	<u>\$ (1,672,496)</u>
Interest-bearing transaction accounts	\$ 12,170	\$ 121,959	\$ 134,129	\$ 25,230	\$ (103,212)	\$ (77,982)	\$ 56,917	\$ (443,183)	\$ (386,266)
Savings	12,094	—	12,094	10,278	(21,710)	(11,432)	23,542	(81,423)	(57,881)
Time deposits	(5,559)	(12,871)	(18,430)	(2,531)	(39,469)	(42,000)	(34,106)	(31,504)	(65,610)
Interest expense	<u>\$ 18,705</u>	<u>\$ 109,088</u>	<u>\$ 127,793</u>	<u>\$ 32,977</u>	<u>\$ (164,391)</u>	<u>\$ (131,414)</u>	<u>\$ 46,353</u>	<u>\$ (556,110)</u>	<u>\$ (509,757)</u>
Increase (decrease) in net interest income			<u>\$ 1,519,579</u>			<u>\$ 442,769</u>			<u>\$ (1,162,739)</u>

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

(2) Including mortgage loans to be sold.

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

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

	2022			2021			2020		
	Average Balance	Interest Paid/Earned	Average Yield/Rate ¹	Average Balance	Interest Paid/Earned	Average Yield/Rate ¹	Average Balance	Interest Paid/Earned	Average Yield/Rate ¹
Interest-earning assets									
Loans ²	\$320,826,946	\$ 15,677,601	4.89%	\$324,078,445	\$ 15,285,012	4.72%	\$313,303,363	\$ 15,055,981	4.81%
Investment Securities Available for Sale	266,432,504	3,116,858	1.17%	167,250,568	2,162,790	1.29%	112,970,054	1,999,751	1.77%
Federal Funds Sold & Interest bearing deposits	41,131,016	404,024	0.98%	75,734,060	103,309	0.14%	54,231,372	184,024	0.34%
Total earning assets	<u>\$628,390,466</u>	<u>\$ 19,198,483</u>	<u>3.06%</u>	<u>\$567,063,073</u>	<u>\$ 17,551,111</u>	<u>3.10%</u>	<u>\$480,504,789</u>	<u>\$ 17,239,756</u>	<u>3.59%</u>
Interest-bearing liabilities									
Interest-bearing transaction accounts	\$269,510,451	\$ 222,493	0.08%	\$242,617,530	\$ 88,364	0.04%	\$208,940,724	\$ 166,346	0.08%
Savings	65,816,763	40,488	0.06%	51,608,804	28,394	0.06%	40,770,588	39,826	0.10%
Time Deposits	18,443,811	38,812	0.21%	20,435,199	57,242	0.28%	20,964,940	99,242	0.47%
	<u>\$353,771,025</u>	<u>\$ 301,793</u>	<u>0.09%</u>	<u>\$314,661,533</u>	<u>\$ 174,000</u>	<u>0.06%</u>	<u>\$270,676,252</u>	<u>\$ 305,414</u>	<u>0.11%</u>
Net interest spread			2.97%			3.04%			3.48%
Net interest margin			3.01%			3.06%			3.52%
Net interest income	<u>\$ 18,896,690</u>			<u>\$ 17,377,111</u>			<u>\$ 16,934,342</u>		

(1) The effect of forgone interest income as a result of non-accrual loans was not considered in the above analysis.

(2) Average balance includes non-accrual loans and mortgage loans to be sold.

INVESTMENT PORTFOLIO

The following tables summarize the carrying value of investment securities as of the indicated dates and the weighted-average yields of those securities at December 31, 2022. Weighted-average yields are determined based on the amortized cost and book yield of the individual investment securities comprising each investment security type and maturity classification.

	Amortized Cost					
	Within One Year	After One Year through Five Years	After Five Years through Ten Years	After Ten Years	Total	Estimated Fair Value
(in thousands)						
U.S. Treasury Notes	\$ 25,341	\$ 154,957	\$ —	\$ —	\$ 180,298	\$ 168,187
Government-Sponsored Enterprises	4,998	20,000	42,387	—	67,385	57,075
Municipal Securities	12,383	15,613	11,609	9,710	49,315	45,910
Total	<u>\$ 42,722</u>	<u>\$ 190,570</u>	<u>\$ 53,996</u>	<u>\$ 9,710</u>	<u>\$ 296,998</u>	<u>\$ 271,172</u>
Weighted average yields						
U.S. Treasury Notes	0.32%	1.11%	0.00%	0.00%		
Government-Sponsored Enterprises	0.52%	0.90%	1.23%	0.00%		
Municipal Securities	1.85%	1.62%	1.76%	2.05%		
Total	0.79%	1.13%	1.34%	2.05%	1.17%	

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

<u>December 31, 2022</u>	Amortized Cost	Estimated Fair Value
<i>(in thousands)</i>		
U.S. Treasury Notes	\$ 180,298	\$ 168,187
Government-Sponsored Enterprises	67,385	57,075
Municipal Securities	49,315	45,910
Total	<u>\$ 296,998</u>	<u>\$ 271,172</u>

<u>December 31, 2021</u>	Amortized Cost	Estimated Fair Value
<i>(in thousands)</i>		
U.S. Treasury Notes	\$ 101,270	\$ 100,062
Government-Sponsored Enterprises	76,356	74,721
Municipal Securities	37,422	37,564
Total	<u>\$ 215,048</u>	<u>\$ 212,347</u>

<u>December 31, 2020</u>	Amortized Cost	Estimated Fair Value
<i>(in thousands)</i>		
U.S. Treasury Notes	\$ 20,037	\$ 20,411
Government-Sponsored Enterprises	96,614	97,853
Municipal Securities	16,055	16,556
Total	<u>\$ 132,706</u>	<u>\$ 134,820</u>

As of December 31, 2022, we had 25 U.S. Treasury Notes and 77 Municipal Securities with an unrealized loss of \$12.1 million and \$3.4 million, respectively. As of December 31, 2021, we had fifteen U.S. Treasury Notes and nineteen Municipal Securities with an unrealized loss of \$1.3 million and \$0.2 million, respectively. As of December 31, 2020, we had no U.S. Treasury Notes or Municipal Securities with an unrealized loss. As of December 31, 2022, we had 11 securities issued by Government-Sponsored Enterprises with an unrealized loss of \$10.3 million compared to nine Government-Sponsored Enterprises with an unrealized loss of \$1.9 million as of December 31, 2021. The unrealized losses on these securities are related to changes in the interest rate environment from the date of purchase. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Therefore, these investments are not considered other-than-temporarily impaired. We have the ability to hold these investments until market price recovery or maturity.

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

Furthermore, the Credit Department conducts a financial underwriting assessment of all municipal securities and their corresponding municipalities annually and management reviews the assessments.

LOAN PORTFOLIO COMPOSITION

We focus our lending activities on small and middle market businesses, professionals and individuals in our geographic market. At December 31, 2022, outstanding loans (including deferred loan fees of \$159,434) totaled \$331.0 million, which equaled 55.29% of total deposits and 50.66% of total assets.

The following table presents our loan portfolio, excluding both mortgage loans to be sold and deferred loan fees, as of December 31, 2022, compared to the prior four years.

<i>(in thousands)</i>	2022	2021	2020	2019	2018
Commercial	\$ 45,072	\$ 45,804	\$ 51,041	\$ 52,848	\$ 54,829
Commercial real estate construction	17,524	12,054	14,814	12,491	7,304
Commercial real estate other	172,897	165,719	146,188	143,824	143,703
Consumer real estate	91,637	71,307	71,836	59,532	63,787
Consumer other	3,852	3,769	4,481	5,378	5,040
Paycheck protection program	—	7,979	32,443	—	—
Total	<u>\$ 330,982</u>	<u>\$ 306,632</u>	<u>\$ 320,803</u>	<u>\$ 274,073</u>	<u>\$ 274,663</u>

During the year ended December 31, 2022, total loans increased \$24.3 million. This is primarily due to growth in our consumer real estate and commercial real estate portfolios.

We had no foreign loans or loans to fund leveraged buyouts at any time during the years ended December 31, 2018 through December 31, 2022.

The following table presents the contractual terms to maturity for loans outstanding at December 31, 2022. Overdrafts are reported as due in one year or less. The table does not include an estimate of prepayments, which can significantly affect the average life of loans and may cause our actual principal experience to differ from that shown.

<i>(in thousands)</i>	Selected Loan Maturity as of December 31, 2022				
	One Year or Less	Over One Year but Less Than 5 Years	After 5 Years Through 15 Years	Over 15 Years	Total
Commercial	\$ 17,634	\$ 25,142	\$ 2,296	\$ —	\$ 45,072
Commercial real estate construction	3,734	13,790	—	—	17,524
Commercial real estate other	28,684	138,107	4,007	2,099	172,897
Consumer real estate	10,747	9,967	31,704	39,219	91,637
Consumer other	1,498	2,354	—	—	3,852
Paycheck protection program	—	—	—	—	—
Total	<u>\$ 62,297</u>	<u>\$ 189,360</u>	<u>\$ 38,007</u>	<u>\$ 41,318</u>	<u>\$ 330,982</u>

Loans maturing after one year with:

Fixed interest rates	\$ 203,054
Floating interest rates	—
Total	<u>\$ 203,054</u>

IMPAIRED LOANS

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

Impairment loss is measured by:

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

The following is a schedule of our impaired loans and non-accrual loans as of December 31, 2018 through 2022.

	2022	2021	2020	2019	2018
Nonaccrual loans	\$ 631,453	\$ 814,614	\$ 1,155,930	\$ 1,666,301	\$ 823,534
Impaired loans	\$ 2,766,060	\$ 3,406,508	\$ 7,805,600	\$ 4,776,928	\$ 4,278,347

Beginning in March 2020, the Bank provided payment accommodations to customers, consisting of 60-day principal deferral to borrowers negatively impacted by COVID-19. During 2020, the Bank processed approximately \$0.7 million in principal deferments to 84 customers, with an aggregate loan balance of \$29.7 million. The Bank did not process any principal deferments during the years ended December 31, 2022 and 2021. The principal deferments represented 0.24% of our total loan portfolio as of December 31, 2020.

TROUBLED DEBT RESTRUCTURINGS

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

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

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

	2022	2021	2020	2019	2018
Number of TDRs	5	5	14	3	—
Amount of TDRs	\$ 971,150	\$ 1,039,909	\$ 5,803,163	\$ 573,473	\$ —

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

Nine TDRs with a balance of \$4.7 million at December 31, 2020 were removed from TDR status during the year ended December 31, 2021. Five TDRs with a balance of \$3.8 million were removed from TDR status due to improvement in financial condition and sustained performance under the restructured terms, two TDRs with a balance of \$0.5 million were paid off, and two TDRs with a balance of \$0.4 million were paid off through refinancing into new loans at market terms. One TDR with a balance of \$33,300 at December 31, 2017 was removed from TDR status during the year ended December 31, 2018 since, at the most recent renewal, the loan was amortized at market rate and no concessions were granted. We do not know of any potential problem loans which will not meet their contractual obligations that are not otherwise discussed herein.

Regulatory agencies, as set forth in the Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (initially issued on March 22, 2020 and revised on April 7, 2020), have encouraged financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations because of the effects of COVID-19. In this statement, the regulatory agencies expressed their view of loan modification programs as positive actions that may mitigate adverse effects on borrowers due to COVID-19 and that the agencies will not criticize institutions for working with borrowers in a safe and sound manner. Moreover, the revised statement provides that eligible loan modifications related to COVID-19 may be accounted for under section 4013 of the CARES Act or in accordance with ASC 310-40. Under Section 4013 of the CARES Act, banks may elect not to categorize loan modifications as TDRs if the modifications are related to COVID-19, executed on a loan that was not more than 30 days past due as of December 31, 2019, and executed between March 1, 2020 and the earlier of December 31, 2020 or 60 days after the date of termination of the National Emergency. All short-term loan modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief are not considered TDRs. Beginning in March 2020, the Bank provided payment accommodations to customers, consisting of 60-day principal deferral to borrowers negatively impacted by COVID-19. The Bank has examined the payment accommodations granted to borrowers in response to COVID-19 and classified 9 loans, with an aggregate loan balance of \$4.0 million, that were granted payment accommodations as TDRs given the continued financial difficulty of the customer, associated industry risk, and multiple deferral requests. As of December 31, 2021, 4 of the TDRs were removed from TDR status due to improvement in financial condition and sustained performance under the restructured terms, 2 TDRs were paid off through refinancing into new loans at market terms, and 1 TDR was paid off. Two loans with a balance of \$0.5 million remained in TDR status as of December 31, 2021. An additional loan was removed from TDR status during 2022. The remaining loan with a balance of \$0.1 million is paying as agreed as of December 31, 2022. The Bank will continue to examine payment accommodations as requested by the borrowers.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses represents our estimate of probable losses inherent in our loan portfolio. The adequacy of the allowance for loan losses (the “allowance”) is reviewed by the Loan Committee and by the Board of Directors on a quarterly basis. For purposes of this analysis, adequacy is defined as a level sufficient to absorb estimated losses in the loan portfolio as of the balance sheet date presented. To remain consistent with GAAP, the methodology employed for this analysis has been modified over the years to reflect the economic environment and new accounting pronouncements. The Credit Department reviews this calculation on a quarterly basis. In addition, an independent third party validates the allowance calculation on a periodic basis. The methodology is based on a reserve model that is comprised of the three components listed below:

- 1) Specific reserve analysis for impaired loans based on FASB ASC 310-10-35, *Receivables - Overall*
- 2) General reserve analysis applying historical loss rates based on FASB ASC 450-20, *Contingencies: Loss Contingencies*
- 3) Qualitative or environmental factors.

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

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

Impairment is measured by the present value of the future cash flow discounted at the loan’s effective interest rate or the fair value of the collateral if the loan is collateral dependent. An impaired loan may not represent an expected loss.

A general reserve analysis is performed on all loans, excluding impaired loans. This analysis includes a pool of loans that are reviewed for impairment but are not found to be impaired. Loans are segregated into similar risk groups and a historical loss ratio is determined for each group over a five-year period. The five-year average loss ratio by loan type is then used to calculate the estimated loss based on the current balance of each group.

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

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

Portfolio Risk

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

Occasionally, we extend credit beyond our normal collateral advance margins in real estate lending. We refer to these loans as over-margined real estate loans. These loans are monitored and the balances reported to the Board of Directors every quarter. An excessive level of this practice (as a percentage of capital) could result in additional regulatory scrutiny, competitive disadvantages and potential losses if forced to convert the collateral. The consideration of over-margined real estate loans directly relates to the capacity of the borrower to repay. We often request additional collateral to bring the loan to value ratio within the policy objectives and require a strong secondary source of repayment.

Although significantly under our policy threshold of 100% of capital (currently approximately \$38.8 million), the amount of over-margined real estate loans currently totals approximately \$2.9 million or approximately 0.88% of our loan portfolio at December 31, 2022 compared to \$1.5 million or approximately 0.48% of the loan portfolio at December 31, 2021.

A credit rating matrix is used to rate all extensions of credit and to provide a more specific picture of the risk each loan poses to the quality of the loan portfolio. There are eight possible ratings used to determine the quality of each loan based on the following characteristics: cash flow, collateral quality, guarantor strength, financial condition, management quality, operating performance, the relevancy of the financial statements, historical loan performance, debt coverage ratio, and the borrower's leverage position. The matrix is designed to meet our standards and expectations of loan quality. It is based on experience with similarly graded loans, industry best practices, and regulatory guidance. Our loan portfolio is graded in its entirety, with the exception of PPP loans. Because PPP loans were 100% guaranteed by the SBA and did not undergo the Bank's typical underwriting process, they were not graded. There were no PPP loans outstanding at December 31, 2022.

National and local economic trends and conditions

National and local economic trends and conditions are constantly changing and both positively and negatively impact borrowers. Most macroeconomic conditions are not controllable by us and are incorporated into the qualitative risk factors. Natural and environmental disasters, including the rise of sea levels, political uncertainty, increasing levels of consumer price inflation, supply-chain disruptions and international instability are a few of the trends and conditions that are currently affecting the national and local economies. Additionally, the national and local economy has been affected by COVID-19 during the years ended December 31, 2022 and 2021. These changes have impacted borrowers' ability, in many cases, to repay loans in a timely manner. On occasion, a loan's primary source of repayment (i.e. personal income, cash flow, or lease income) may be eroded as a result of unemployment, lack of revenues, or the inability of a tenant to make rent payments.

Effects of changes in risk selection and underwriting practices

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

Experience, ability and depth of lending management staff

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

Industry conditions

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

Effects of changes in credit concentrations

The risks associated with the effects of changes in credit concentration include loan, geographic and regulatory concentrations. As of December 31, 2022, two Standard Industrial Code groups, activities related to real estate and redi-mix concrete, comprised more than 2% of our total loans outstanding.

Effects of changes in geographic concentrations

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

Loan and credit administration risk

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

The majority of our loan portfolio is collateralized with a variety of our borrowers' assets. The execution and monitoring of the documentation to properly secure the loan is the responsibility of our lenders and loan department. We require insurance coverage naming us as the mortgagee or loss payee. Although insurance risk is also considered collateral documentation risk, the actual coverage, amounts of coverage and increased deductibles are important to management.

Financial Information Risk includes a function of time during which the borrower's financial condition may change; therefore, keeping financial information up to date is important to us. Our policy requires all new loans (with a credit exposure of \$10,000 or more), regardless of the customer's history with us, to have updated financial information. In addition, we monitor appraisals closely as real estate values are appreciating.

Based on our analysis of the adequacy of the allowance for loan loss model, we recorded a reduction in the allowance for loan loss of \$0.1 million for the year ended December 31, 2022 compared to a provision for loan loss of \$0.1 million for the year ended December 31, 2021. At December 31, 2022, the five-year average loss ratios were: 0.19% Commercial, 0.00% Commercial Real Estate Construction, -0.02% Commercial Real Estate Other, -0.03% Consumer Real Estate, and 0.46% Consumer Other.

With regard to jumbo loans, we obtain peer data for use to calculate historical loss ratios. At December 31, 2022, the 5-year average loss for the jumbo loan portfolio was 0.01%.

During the year ended December 31, 2022, charge-offs of \$42,644 and recoveries of \$31,878 were recorded to the allowance for loan losses, resulting in an allowance for loan losses of \$4.3 million or 1.30% of total loans at December 31, 2022. During the year ended December 31, 2021, charge-offs of \$20,990 and recoveries of \$0.1 million were recorded to the allowance for loan losses, resulting in an allowance for loan losses of \$4.4 million or 1.43% of total loans at December 31, 2021. During the year ended December 31, 2020, charge-offs of \$0.3 million and recoveries of \$0.2 million were recorded to the allowance for loan losses, resulting in an allowance for loan losses of \$4.2 million or 1.30% of total loans at December 31, 2020. We believe loss exposure in the portfolio is identified, reserved against, and closely monitored to ensure that economic changes are promptly addressed in the analysis of reserve adequacy.

The accrual of interest is generally discontinued on loans which become 90 days past due as to principal or interest. The accrual of interest on some loans may continue even though they are 90 days past due if the loans are well secured or in the process of collection and we deem it appropriate. If non-accrual loans decrease their past due status to less than 30 days for a period of six to nine months, they are reviewed individually to determine if they should be returned to accrual status. At December 31, 2022 and 2021, there were no loans over 90 days past due still accruing interest.

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

	2022	2021	2020	2019	2018
<i>(in thousands)</i>					
Balance of the allowance of loan losses at the beginning of the period	\$ 4,377	\$ 4,186	\$ 4,004	\$ 4,214	\$ 3,875
Charge-offs					
Commercial	(41)	—	(172)	(399)	(31)
Commercial Real Estate Construction	—	—	—	—	—
Commercial Real Estate Other	—	—	—	—	—
Consumer Real Estate	(2)	—	—	—	—
Consumer Other	—	(11)	(116)	(8)	(85)
Paycheck Protection Program	(0)	(10)	(2)	—	—
Total charge-offs	(43)	(21)	(290)	(407)	(116)
Recoveries					
Commercial	1	21	89	12	14
Commercial Real Estate Construction	—	—	—	—	—
Commercial Real Estate Other	18	—	100	—	57
Consumer Real Estate	—	48	—	—	45
Consumer Other	12	22	43	5	14
Paycheck Protection Program	1	1	—	—	—
Total recoveries	32	92	232	17	130
Net (charge-offs) recoveries	(11)	71	(58)	(390)	14
Provision charged to operations	(75)	120	240	180	325
Balance of the allowance for loan losses at the end of the period	<u>\$ 4,291</u>	<u>\$ 4,377</u>	<u>\$ 4,186</u>	<u>\$ 4,004</u>	<u>\$ 4,214</u>

We believe the allowance for loan losses at December 31, 2022 is adequate to cover estimated losses in the loan portfolio; however, assessing the adequacy of the allowance is a process that requires considerable judgment. Our judgments are based on numerous assumptions about current events that we believe to be reasonable, but may or may not be valid. Thus, there can be no assurance that loan losses in future periods will not exceed the current allowance amount or that future increases in the allowance will not be required. No assurance can be given that our ongoing evaluation of the loan portfolio in light of changing economic conditions and other relevant circumstances will not require significant future additions to the allowance, thus adversely affecting our operating results.

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

	2022		2021		2020		2019		2018	
	<u>\$</u>	<u>%⁽¹⁾</u>	<u>\$</u>	<u>%⁽¹⁾</u>	<u>\$</u>	<u>%⁽¹⁾</u>	<u>\$</u>	<u>%⁽¹⁾</u>	<u>\$</u>	<u>%⁽¹⁾</u>
<i>(in thousands)</i>										
Commercial	\$ 736	14%	\$ 796	15%	\$ 1,030	16%	\$ 1,430	19%	\$ 1,665	20%
Commercial Real Estate										
Construction	231	5%	175	4%	199	5%	109	5%	64	3%
Commercial Real Estate Other	2,216	52%	2,376	54%	1,909	46%	1,271	52%	1,292	52%
Consumer Real Estate	1,015	28%	925	23%	925	22%	496	22%	387	23%
Consumer Other	94	1%	105	1%	123	1%	698	2%	806	2%
Paycheck Protection Program	—	—%	—	3%	—	10%	—	—%	—	—%
Total	\$ 4,291	100%	\$ 4,377	100%	\$ 4,186	100%	\$ 4,004	100%	\$ 4,214	100%

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

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

The methodology used to determine the reserve for unfunded lending commitments, which is included in other liabilities, is inherently similar to the methodology used to determine the allowance for loan losses described above, adjusted for factors specific to binding commitments, including the probability of funding and historical loss ratio. During the years ended December 31, 2022 and 2021, no provisions were recorded. The balance for the reserve for unfunded lending commitments was \$44,912 as of December 31, 2022 and 2021.

NONPERFORMING ASSETS

Nonperforming assets include other real estate owned (“OREO”), nonaccrual loans and loans past due 90 days or more and still accruing interest. The following table summarizes nonperforming assets for the five years ended December 31:

Nonperforming Assets

<i>(in thousands)</i>	2022	2021	2020	2019	2018
Nonaccrual loans	\$ 631	\$ 815	\$ 1,156	\$ 1,666	\$ 824
Loans past due 90 days or more and still accruing interest	—	—	—	—	—
Total nonperforming loans	631	815	1,156	1,666	824
Other real estate owned	—	—	—	—	—
Total nonperforming assets	\$ 631	\$ 815	\$ 1,156	\$ 1,666	\$ 824
Allowance for loan losses to nonaccrual loans	679.60%	537.36%	362.11%	240.34%	511.41%
Nonaccrual loans to total loans	0.19%	0.27%	0.36%	0.61%	0.30%
Nonperforming loans to total loans	0.19%	0.27%	0.36%	0.61%	0.30%
Nonperforming assets to total assets	0.10%	0.12%	0.22%	0.37%	0.19%

DEPOSITS

The following table shows the contractual maturities of time deposits in denominations of \$100,000 or more at December 31, 2022 and the amount of time deposits in excess of FDIC insurance limits.

	<u>One Day</u>	<u>Less than three months</u>	<u>Three months to less than six months</u>	<u>Six months to less than one year</u>	<u>One year to less than five years</u>	<u>Five years or more</u>	<u>Total</u>
<i>(in thousands)</i>							
CD's and other time deposits less than \$100,000	\$ —	\$ 1,875	\$ 1,158	\$ 1,486	\$ 1,130	\$ —	\$ 5,649
CD's and other time deposits \$100,000 and over	—	4,065	1,660	4,574	622	—	10,921
Total	<u>\$ —</u>	<u>\$ 5,940</u>	<u>\$ 2,818</u>	<u>\$ 6,060</u>	<u>\$ 1,752</u>	<u>\$ —</u>	<u>\$ 16,570</u>
CD's and other time deposits in excess of FDIC insurance limit	<u>\$ —</u>	<u>\$ 838</u>	<u>\$ 299</u>	<u>\$ 917</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,054</u>

Certificates of Deposit \$100,000 and over decreased \$4.3 million or 28.3% to \$10.9 million as of December 31, 2022 from \$15.2 million as of December 31, 2021. The higher balance in 2021 for these demand deposits was temporary in nature.

The following table presents average deposits by category.

	<u>2022</u>		<u>2021</u>		<u>2020</u>	
<i>(in thousands)</i>	<u>Average Balance</u>	<u>Average Rate Paid</u>	<u>Average Balance</u>	<u>Average Rate Paid</u>	<u>Average Balance</u>	<u>Average Rate Paid</u>
Non-interest-bearing demand	\$ 243,110	N/A	\$ 205,238	N/A	\$ 163,394	N/A
Interest-bearing transaction accounts	269,510	0.08%	242,618	0.04%	208,941	0.08%
Savings	65,817	0.06%	51,609	0.06%	40,771	0.10%
Time deposits	18,444	0.21%	20,435	0.28%	20,965	0.47%
	<u>\$ 596,881</u>		<u>\$ 519,900</u>		<u>\$ 434,071</u>	

Deposits decreased \$10.5 million or 1.73% to \$598.7 million as of December 31, 2022, from \$609.2 million as of December 31, 2021. Non-interest bearing deposits decreased \$32.7 million to \$223.1 million as of December 31, 2022. The higher balance in 2021 for these demand deposits was temporary in nature.

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

SHORT-TERM BORROWINGS

At December 31, 2022 and 2021, we had no outstanding federal funds purchased. We have a Borrower-In-Custody arrangement with the Federal Reserve. This arrangement permits the Company to retain possession of loans pledged as collateral to secure advances from the Federal Reserve Discount Window. Under this agreement, we may borrow up to \$78.3 million. We established this arrangement as an additional source of liquidity.

At December 31, 2022 and 2021, the Bank had unused short-term lines of credit totaling approximately \$41 million (which are withdrawable at the lender's option).

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of operations, we engage in a variety of financial transactions that, in accordance with GAAP, are not recorded in the financial statements, or are recorded in amounts that differ from the notional amounts. These transactions involve, to varying degrees, elements of credit, interest rate, and liquidity risk. We use such transactions for general corporate purposes or customer needs. General corporate purpose transactions are used to help manage credit, interest rate and liquidity risk or to optimize capital. Customer transactions are used to manage customer requests for funding.

Our off-balance sheet arrangements consist principally of commitments to extend credit described below. We estimate probable losses related to binding unfunded lending commitments and record a reserve for unfunded lending commitments in other liabilities on the consolidated balance sheet. At December 31, 2022 and 2021, the balance of this reserve was \$44,912. At December 31, 2022 and 2021, we had no interests in non-consolidated special purpose entities.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on our credit evaluation of the borrower. Collateral held varies but may include accounts receivable, negotiable instruments, inventory, property, plant and equipment, and real estate. Commitments to extend credit, including unused lines of credit, amounted to \$145.4 million and \$117.5 million as of December 31, 2022 and 2021, respectively.

Standby letters of credit represent our obligation to a third-party contingent upon the failure of our customer to perform under the terms of an underlying contract with the third party or obligates us to guarantee or stand as surety for the benefit of the third party. The underlying contract may entail either financial or nonfinancial obligations and may involve such things as the shipment of goods, performance of a contract, or repayment of an obligation. Under the terms of a standby letter, generally drafts will be drawn only when the underlying event fails to occur as intended. We can seek recovery of the amounts paid from the borrower. Commitments under standby letters of credit are usually for one year or less. The maximum potential amount of undiscounted future payments related to standby letters of credit at December 31, 2022 and 2021 was \$2.5 million and \$0.6 million, respectively.

We originate certain fixed rate residential loans and commit these loans for sale. The commitments to originate fixed rate residential loans and the sales commitments are freestanding derivative instruments. We had forward sales commitments, totaling \$0.9 million at December 31, 2022, to sell loans held for sale of \$0.9 million, compared to forward sales commitments of \$2.8 million at December 31, 2021, to sell loans held for sale of \$2.8 million. The fair value of these commitments was not significant at December 31, 2022 or 2021. We had no embedded derivative instruments requiring separate accounting treatment.

Once we sell certain fixed rate residential loans, the loans are no longer reportable on our balance sheet. With most of these sales, we have an obligation to repurchase the loan in the event of a default of principal or interest on the loan. This recourse period ranges from three to nine months. Misrepresentation or fraud carries unlimited time for recourse. The unpaid principal balance of loans sold with recourse was \$8.9 million at December 31, 2022 and \$30.8 million at December 31, 2021. For the years ended December 31, 2022 and December 31, 2021, there were two loans and one loan repurchased, respectively.

EFFECT OF INFLATION AND CHANGING PRICES

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

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

CAPITAL RESOURCES

Our capital needs have been met to date through the \$10.6 million in capital raised in our initial offering, the retention of earnings less dividends paid and the exercise of options to purchase stock. Total shareholders' equity at December 31, 2022 was \$38.8 million. The rate of asset growth since our inception has not negatively impacted our capital base.

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

The purpose of Basel III is to improve the quality and increase the quantity of capital for all banking organizations. The minimum requirements for the quantity and quality of capital were increased. The rule includes a new common equity Tier 1 capital to risk-weighted assets ratio of 4.5% and a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets. The rule also raised the minimum ratio of Tier 1 capital to risk-weighted assets from 4% to 6% and requires a minimum leverage ratio of 4%. In addition, the rule implemented a strict eligibility criteria for regulatory capital instruments and improved the methodology for calculating risk-weighted assets to enhance risk sensitivity.

On November 4, 2019, the federal banking agencies jointly issued a final rule on an optional, simplified measure of capital adequacy for qualifying community banking organizations called the community bank leverage ratio ("CBLR") framework effective on January 1, 2020. A qualifying community banking organization is defined as having less than \$10 billion in total consolidated assets, a leverage ratio greater than 9%, off-balance sheet exposures of 25% or less of total consolidated assets, and trading assets and liabilities of 5% or less of total consolidated assets. Additionally, the qualifying community banking institution must be a non-advanced approaches FDIC supervised institution. The final rule adopts Tier 1 capital and existing leverage ratio into the CBLR framework. The Bank adopted this rule as of September 30, 2020 and is no longer subject to other capital and leverage requirements. A CBLR bank meeting qualifying criterion is deemed to have met the "well capitalized" ratio requirements and be in compliance with the generally applicable capital rule. The Bank's CBLR as of December 31, 2022 was 9.03%. As of December 31, 2022, the Company and the Bank were categorized as "well capitalized." We believe, as of December 31, 2022, that the Company and the Bank meet all capital adequacy requirements to which we are subject.

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

Please see "Notes to Consolidated Financial Statements" for additional information regarding the Company's and the Bank's capital ratios at December 31, 2022.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

As a smaller reporting company, the Company is not required to provide the information required by this item.

See the Market Risk section in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7 of this report for a discussion of certain market risks we face, including interest rate risk.



Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Bank of South Carolina Corporation (the “Company”) as of December 31, 2022 and 2021 and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements and schedules (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

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

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Allowance for Loan Losses

As described in Note 4 to the Company’s financial statements, the Company has a gross loan portfolio of approximately \$331.0 million and related allowance for loan losses of approximately \$4.3 million as of December 31, 2022. As described by the Company in Note 1, the evaluation of the allowance for loan losses is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance for loan losses is evaluated on a regular basis and is based upon the Company’s review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower’s ability to repay, estimated value of any underlying collateral, and prevailing economic conditions.

We identified the Company’s estimate of the allowance for loan losses as a critical audit matter. The principal considerations for our determination of the allowance for loan losses as a critical audit matter related to the high degree of subjectivity in the Company’s judgments in determining the qualitative factors. Auditing these complex judgments and assumptions by the Company involves especially challenging auditor judgment due to the nature and extent of audit evidence and effort required to address these matters, including the extent of specialized skill or knowledge needed.

The primary procedures we performed to address this critical audit matter included the following:

- We evaluated the relevance and the reasonableness of assumptions related to evaluation of the loan portfolio, current economic conditions, and other risk factors used in development of the qualitative factors for collectively evaluated loans.
- We validated the completeness and accuracy of the underlying data used to develop the factors.
- We validated the mathematical accuracy of the calculation.
- We evaluated the reasonableness of assumptions and data used by the Company in developing the qualitative factors by comparing these data points to internally developed and third-party sources, as well as other audit evidence gathered.
- Analytical procedures were performed to evaluate the directional consistency of changes that occurred in the allowance for loan losses for loans collectively evaluated for impairment.

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

Elliott Davis, LLC

Charleston, South Carolina
March 2, 2023

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

	December 31, 2022	December 31, 2021
ASSETS		
Cash and due from banks	\$ 14,772,564	\$ 11,140,559
Interest-bearing deposits at the Federal Reserve	12,999,135	128,971,429
Investment securities available for sale (amortized cost of \$296,998,150 and \$215,047,451 in 2021 and 2020, respectively)	271,172,226	212,347,489
Mortgage loans to be sold	866,594	2,774,388
Loans	330,981,782	306,632,229
Less: Allowance for loan losses	(4,291,221)	(4,376,987)
Net loans	326,690,561	302,255,242
Premises, equipment and leasehold improvements, net	3,988,607	3,782,936
Right of use asset	13,433,692	14,041,843
Accrued interest receivable	2,145,522	1,404,227
Other assets	7,276,708	2,502,533
Total assets	<u>\$ 653,345,609</u>	<u>\$ 679,220,646</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Non-interest bearing demand	\$ 223,117,903	\$ 255,783,644
Interest bearing demand	195,143,514	165,335,038
Money market accounts	100,014,125	98,113,942
Time deposits \$250,000 and over	5,303,509	7,417,864
Other time deposits	11,266,099	13,870,356
Other savings deposits	63,825,108	68,670,732
Total deposits	598,670,258	609,191,576
Accrued interest payable and other liabilities	2,430,272	2,069,594
Lease liability	13,433,692	14,041,843
Total liabilities	<u>614,534,222</u>	<u>625,303,013</u>
Commitments and contingencies in Note 11		
Shareholders' equity		
Common stock - no par 12,000,000 shares authorized; Issued 5,852,325 and 5,841,240 shares at December 31, 2022 and December 31, 2021, respectively. Shares outstanding 5,552,351 and 5,541,266 at December 31, 2022 and December 31, 2021, respectively.		
Additional paid in capital	48,028,689	47,745,285
Retained earnings	14,002,571	11,122,710
Treasury stock: 299,974 shares as of December 31, 2022 and 2021	(2,817,392)	(2,817,392)
Accumulated other comprehensive loss, net of income taxes	(20,402,481)	(2,132,970)
Total shareholders' equity	<u>38,811,387</u>	<u>53,917,633</u>
Total liabilities and shareholders' equity	<u>\$ 653,345,609</u>	<u>\$ 679,220,646</u>

See accompanying notes to consolidated financial statements.

BANK OF SOUTH CAROLINA CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	2022	2021	2020
Interest and fee income			
Loans, including fees	\$ 15,677,601	\$ 15,285,012	\$ 15,055,981
Taxable securities	2,531,951	1,849,347	1,628,753
Tax-exempt securities	584,907	313,443	370,998
Other	404,024	103,309	184,024
Total interest and fee income	<u>19,198,483</u>	<u>17,551,111</u>	<u>17,239,756</u>
Interest expense			
Deposits	301,793	174,000	305,414
Total interest expense	<u>301,793</u>	<u>174,000</u>	<u>305,414</u>
Net interest income	18,896,690	17,377,111	16,934,342
Provision for loan losses	(75,000)	120,000	240,000
Net interest income after provision for loan losses	<u>18,971,690</u>	<u>17,257,111</u>	<u>16,694,342</u>
Other income			
Service charges and fees	1,290,665	1,254,699	1,094,985
Mortgage banking income	667,257	2,314,106	2,267,406
Gain on sales of securities, net	64,782	266,944	10,002
Other non-interest income	42,158	32,482	32,508
Total other income	<u>2,064,862</u>	<u>3,868,231</u>	<u>3,404,901</u>
Other expense			
Salaries and employee benefits	7,547,306	7,437,787	7,219,005
Net occupancy expense	2,514,904	2,428,082	2,216,727
Data processing fees	562,228	622,536	646,590
Professional expenses	448,248	395,115	345,126
Other operating expenses	1,331,354	1,425,454	1,245,485
Total other expense	<u>12,404,040</u>	<u>12,308,974</u>	<u>11,672,933</u>
Income before income tax expense	8,632,512	8,816,368	8,426,310
Income tax expense	<u>1,977,372</u>	<u>2,071,503</u>	<u>1,965,679</u>
Net income	<u>\$ 6,655,140</u>	<u>\$ 6,744,865</u>	<u>\$ 6,460,631</u>
Weighted average shares outstanding			
Basic	5,550,078	5,531,518	5,526,948
Diluted	5,644,698	5,680,482	5,678,543
Basic income per common share	<u>\$ 1.20</u>	<u>\$ 1.22</u>	<u>\$ 1.17</u>
Diluted income per common share	<u>\$ 1.18</u>	<u>\$ 1.19</u>	<u>\$ 1.14</u>

See accompanying notes to consolidated financial statements.

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

	Years Ended December 31,		
	2022	2021	2020
Net income	\$ 6,655,140	\$ 6,744,865	\$ 6,460,631
Other comprehensive (loss) income			
Unrealized (loss) gain on securities arising during the period	(23,061,180)	(4,546,773)	1,512,600
Reclassification adjustment for securities gains realized in net income	(64,782)	(266,944)	(10,002)
Other comprehensive (loss) income before tax	(23,125,962)	(4,813,717)	1,502,598
Income tax effect related to items of other comprehensive (loss) income before tax	4,856,451	1,010,881	(315,546)
Other comprehensive (loss) income after tax	(18,269,511)	(3,802,836)	1,187,052
Total comprehensive (loss) income	<u>\$ (11,614,371)</u>	<u>\$ 2,942,029</u>	<u>\$ 7,647,683</u>

See accompanying notes to consolidated financial statements.

BANK OF SOUTH CAROLINA CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020

	Shares Outstanding	Additional Paid in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
December 31, 2019	<u>5,530,001</u>	<u>\$ 47,131,034</u>	<u>\$ 5,879,409</u>	<u>\$ (2,325,225)</u>	<u>\$ 482,814</u>	<u>\$ 51,168,032</u>
Net income	—	—	6,460,631	—	—	6,460,631
Other comprehensive gain	—	—	—	—	1,187,052	1,187,052
Stock option exercises, net of surrenders	15,535	180,849	—	(63,805)	—	117,044
Stock-based compensation expense	—	92,986	—	—	—	92,986
Repurchase of common shares	(25,067)	—	—	(398,868)	—	(398,868)
Cash dividends (\$0.66 per common share)	—	—	(3,646,521)	—	—	(3,646,521)
December 31, 2020	<u>5,520,469</u>	<u>\$ 47,404,869</u>	<u>\$ 8,693,519</u>	<u>\$ (2,787,898)</u>	<u>\$ 1,669,866</u>	<u>\$ 54,980,356</u>
Net income	—	—	6,744,865	—	—	6,744,865
Other comprehensive loss	—	—	—	—	(3,802,836)	(3,802,836)
Stock option exercises, net of surrenders	20,797	237,383	—	(29,494)	—	207,889
Stock-based compensation expense	—	103,033	—	—	—	103,033
Cash dividends (\$0.78 per common share)	—	—	(4,315,674)	—	—	(4,315,674)
December 31, 2021	<u>5,541,266</u>	<u>\$ 47,745,285</u>	<u>\$ 11,122,710</u>	<u>\$ (2,817,392)</u>	<u>\$ (2,132,970)</u>	<u>\$ 53,917,633</u>
Net income	—	—	6,655,140	—	—	6,655,140
Other comprehensive loss	—	—	—	—	(18,269,511)	(18,269,511)
Stock option exercises, net of surrenders	11,085	161,731	—	—	—	161,731
Stock-based compensation expense	—	121,673	—	—	—	121,673
Cash dividends (\$0.68 per common share)	—	—	(3,775,279)	—	—	(3,775,279)
December 31, 2022	<u>5,552,351</u>	<u>\$ 48,028,689</u>	<u>\$ 14,002,571</u>	<u>\$ (2,817,392)</u>	<u>\$ (20,402,481)</u>	<u>\$ 38,811,387</u>

See accompanying notes to consolidated financial statements.

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

	Years Ended December 31,		
	2022	2021	2020
Cash flows from operating activities:			
Net income	\$ 6,655,140	\$ 6,744,865	\$ 6,460,631
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	359,251	412,866	421,040
Gain on sale of investment securities	(64,782)	(266,944)	(10,002)
Provision for loan losses	(75,000)	120,000	240,000
Stock-based compensation expense	121,673	103,033	92,986
Deferred income taxes	(171,800)	(46,751)	(422,345)
Net amortization of unearned discounts on investment securities available for sale	869,690	592,357	362,159
Origination of mortgage loans held for sale	(60,017,637)	(163,176,146)	(181,781,058)
Proceeds from sale of mortgage loans held for sale	61,925,431	173,367,491	173,877,723
(Increase) decrease in accrued interest receivable and other assets	(487,217)	133,276	(38,312)
Increase (decrease) in accrued interest payable and other liabilities	358,795	(520,403)	1,089,165
Net cash provided by operating activities	<u>9,473,544</u>	<u>17,463,644</u>	<u>291,987</u>
Cash flows from investing activities:			
Proceeds from calls and maturities of investment securities available for sale	3,539,000	36,967,000	23,491,000
Proceeds from sale of investment securities available for sale	18,525,780	15,572,500	11,550,000
Purchase of investment securities available for sale	(104,820,389)	(135,206,301)	(68,260,421)
Net (increase) decrease in loans	(24,360,319)	14,241,737	(46,788,177)
Purchase of premises, equipment, and leasehold improvements, net	(564,922)	(142,269)	(184,138)
Net cash used in investing activities	<u>(107,680,850)</u>	<u>(68,567,333)</u>	<u>(80,191,736)</u>
Cash flows from financing activities:			
Net (decrease) increase in deposit accounts	(10,521,318)	146,993,945	83,005,976
Dividends paid	(3,773,396)	(4,312,138)	(3,592,841)
Repurchase of common shares	—	—	(398,868)
Stock options exercised	161,731	207,889	117,044
Net cash (used in) provided by financing activities	<u>(14,132,983)</u>	<u>142,889,696</u>	<u>79,131,311</u>
Net (decrease) increase in cash and cash equivalents	<u>(112,340,289)</u>	<u>91,786,007</u>	<u>(768,438)</u>
Cash and cash equivalents at the beginning of the period	140,111,988	48,325,981	49,094,419
Cash and cash equivalents at the end of the period	<u>\$ 27,771,699</u>	<u>\$ 140,111,988</u>	<u>\$ 48,325,981</u>
Cash paid during the period for:			
Interest	\$ 275,700	\$ 179,793	\$ 323,455
Income taxes	\$ 1,582,810	\$ 2,845,420	\$ 814,052
Supplemental disclosures for non-cash investing and financing activity:			
Change in unrealized (loss) gain on securities available for sale, net of income taxes	\$ (18,269,511)	\$ (3,082,836)	\$ 1,187,052
Change in dividends payable	\$ 1,883	\$ 3,536	\$ 53,680
Right of use assets obtained in exchange for lease obligation	\$ —	\$ 1,825,793	\$ —
Change in right of use assets and lease liabilities	\$ 608,151	\$ 514,101	\$ 479,066

See accompanying notes to consolidated financial statements.

BANK OF SOUTH CAROLINA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

The Bank of South Carolina (the “Bank”) was organized on October 22, 1986 and opened for business as a state-chartered financial institution on February 26, 1987, in Charleston, South Carolina. The Bank was reorganized into a wholly-owned subsidiary of Bank of South Carolina Corporation (the “Company”), effective April 17, 1995. At the time of the reorganization, each outstanding share of the Bank was exchanged for two shares of Bank of South Carolina Corporation Stock.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Principles of Consolidation:

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

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

Accounting Estimates and Assumptions:

The financial statements are prepared in conformity with GAAP, which require management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ significantly from these estimates and assumptions. Material estimates generally susceptible to significant change are related to the determination of the allowance for loan losses, impaired loans, other real estate owned, deferred tax assets, the fair value of financial instruments and other-than-temporary impairment of investment securities.

Subsequent Events:

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

Cash and Cash Equivalents:

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

Depository institutions are required to maintain reserve and clearing balances at the Federal Reserve Bank. Vault cash satisfied our daily reserve requirement for the years ended December 31, 2022 and 2021.

Interest-bearing Deposits at the Federal Reserve:

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

Investment Securities:

We classify investments into three categories: (1) Held to Maturity - debt securities that we have the positive intent and ability to hold to maturity, which are reported at amortized cost, adjusted for the amortization of any related premiums or the accretion of any related discounts into interest income using a methodology which approximates a level yield of interest over the estimated remaining period until maturity; (2) Trading - debt securities that are bought and held principally for the purpose of selling them in the near term, which are reported at fair value, with unrealized gains and losses included in earnings; and (3) Available for Sale - debt securities that may be sold under certain conditions, which are reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of shareholders’ equity, net of income taxes. Unrealized losses on securities due to fluctuations in fair value are recognized when it is determined that an other than temporary decline in value has occurred.

Realized gains or losses on the sale of investments are recognized on a specific identification, trade date basis. All securities were classified as available for sale for 2022 and 2021.

Mortgage Loans to be Sold:

We originate fixed and variable rate residential mortgage loans on a service release basis in the secondary market. Loans closed but not yet settled with an investor are carried in our loans to be sold portfolio. Virtually all of these loans have commitments to be purchased by investors and the majority of these loans were locked in by price with the investors on the same day or shortly thereafter that the loan was locked in with our customers. Therefore, these loans present very little market risk. We usually deliver to, and receive funding from, the investor within 30 to 60 days. Commitments to sell these loans to the investor are considered derivative contracts and are sold to investors on a “best efforts” basis. We are not obligated to deliver a loan or pay a penalty if a loan is not delivered to the investor. Because of the short-term nature of these derivative contracts, the fair value of the mortgage loans to be sold in most cases is materially the same as the value of the loan amount at its origination.

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses are provided for in a valuation allowance by charges to operations as a component of mortgage banking income. Gains or losses on sales of loans are recognized when control over these assets are surrendered and are included in mortgage banking income in the consolidated statements of income.

BANK OF SOUTH CAROLINA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Loans and Allowance for Loan Losses:

Loans are carried at principal amounts outstanding. Loan origination fees, net of certain direct origination costs, are deferred and recognized over the weighted average life of the loan as an adjustment to yield. Interest income on all loans is recorded on an accrual basis. The accrual of interest and the amortization of net loan fees are generally discontinued on loans that 1) are maintained on a cash basis because of deterioration in the financial condition of the borrower; 2) the payment of full principal is not expected; or 3) the principal or interest has been in default for a period of 90 days or more. We define past due loans based on contractual payment and maturity dates.

The accrual of interest is generally discontinued on loans that become 90 days past due as to principal or interest. The accrual of interest on some loans may continue even though they are 90 days past due if the loans are well secured or in the process of collection and management deems it appropriate. If non-accrual loans decrease their past due status to less than 30 days for a period of six to nine months, they are reviewed individually by management to determine if they should be returned to accrual status.

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

We account for impaired loans by requiring that all loans (greater than \$50,000) where it is estimated that we will be unable to collect all amounts due according to the terms of the loan agreement be recorded at the loan's fair value. Fair value may be determined based upon the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral less cost to sell, if the loan is collateral dependent.

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

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

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

We believe that the allowance is adequate to absorb inherent losses in the loan portfolio; however, there can be no assurance that loan losses in future periods will not exceed the current allowance amount or that future increases in the allowance will not be required. No assurance can be given that our ongoing evaluation of the loan portfolio, in light of changing economic conditions and other relevant circumstances, will not require significant future additions to the allowance, thus adversely affecting our operating results.

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

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

Concentration of Credit Risk:

Our primary market consists of the counties of Berkeley, Charleston and Dorchester, South Carolina. As of December 31, 2022, the majority of the total loan portfolio, as well as a substantial portion of the commercial and real estate loan portfolios, were to borrowers within this region. No other areas of significant concentration of credit risk have been identified.

Premises, Equipment and Leasehold Improvements and Depreciation:

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

Leases:

In accordance with ASU 2016-02, the Company determines if a contractual arrangement is a lease at inception. Operating leases are included in the operating right of use ("ROU") assets and current operating lease liabilities on the Company's consolidated balance sheet. ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising

from the lease. Currently, the Company does not have any finance leases.

BANK OF SOUTH CAROLINA CORPORATION
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Operating lease ROU assets and lease liabilities are recognized at the commencement of the lease based on the present value of lease payments over the lease term. The lease payments included in the present value are fixed payments and index-based variable lease payments. The Company estimates the incremental borrowing rate, based on information available at the commencement of the lease, as most of the Company's leases do not include an implicit rate.

Revenue Recognition:

In accordance with Topic 606, revenues are recognized when control of promised goods or services is transferred to customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation.

The Company only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of Topic 606, the Company assesses the goods or services that are promised within each contract and identifies those that contain performance obligations, and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

Service Fees on Deposit Accounts

The Bank earns fees from its deposit customers for account maintenance, transaction-based and overdraft services. Account maintenance fees consist primarily of account fees and analyzed account fees charged on deposit accounts on a monthly basis. The performance obligation is satisfied and the fees are recognized on a monthly basis as the service period is completed. Transaction-based fees on deposits accounts are charged to deposit customers for specific services provided to the customer, such as non-sufficient funds fees, overdraft fees, and wire fees. The performance obligation is completed as the transaction occurs and the fees are recognized at the time each specific service is provided to the customer.

ATM and Check Card Fee Income

Check card fee income represents fees earned when a debit card issued by the Bank is used. The Bank earns interchange fees from debit cardholder transactions through the Mastercard payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. The performance obligation is satisfied and the fees are earned when the cost of the transaction is charged to the card. Certain expenses directly associated with the debit card are recorded on a net basis with the fee income.

Income Taxes:

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

Accounting standards require the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. These standards also prescribe a recognition threshold and measurement of a tax position taken or expected to be taken in an enterprise's tax return. We believe that we had no uncertain tax positions for the years ended December 31, 2022 and 2021.

The income tax effects of unrealized gains and losses on investment securities available for sale are released from accumulated other comprehensive income at the time such securities are sold or impaired.

Stock-Based Compensation:

Compensation cost is recognized for stock options issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options. Compensation cost is recognized over the expected term of the stock options and is adjusted for forfeitures as they occur.

Income Per Common Share:

Basic income per share is computed by dividing net income by the weighted-average number of common shares outstanding. Diluted earnings per share is computed by dividing net income by the weighted-average number of common shares and potential common shares outstanding. Potential common shares consist of dilutive stock options determined using the treasury stock method and the average market price of common stock. Earnings per share are restated for all stock splits and stock dividends, if any, through the date of issuance of the consolidated financial statements.

Segment Information:

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

Interest Rate Lock Commitments and Forward Sale Contracts:

Commitments to fund mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of

these mortgage loans are accounted for as free-standing derivatives. The fair value of the interest rate lock is recorded at the time the commitment to fund the mortgage loan is executed and is adjusted for the expected exercise of the commitments before the loan is funded. In order to hedge the change in interest rates resulting from commitments to fund the loans, we enter into forward commitments for the future delivery of mortgage loans when the interest rate is locked. Fair values of these mortgage derivatives are estimated based on changes in mortgage interest rates from the date the interest on the loan is locked. Changes in the fair values of these derivatives are included in income when they occur. As a result of the short-term nature of mortgage loans held for sale (derivative contract), our derivative instruments were considered to be immaterial as of December 31, 2022 and 2021.

We had no embedded derivative instruments requiring hedge accounting treatment at December 31, 2022 and 2021. We do not currently engage in hedging activities.

Recent Accounting Pronouncements:

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

In June 2016, the FASB issued ASU 2016-13, *Financial instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, to change the accounting for credit losses and modify the impairment model for certain debt securities. ASU 2016-13 changes the impairment model for most financial assets to a current expected credit loss (“CECL”) model, replacing the incurred loss model that is currently in use. The new guidance requires an entity to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable supportable forecasts. The CECL model will apply to financial assets measured at amortized cost, such as loans and investments, as well as certain off-balance sheet credit exposures. In May 2019, the FASB issued guidance to provide entities with an option to irrevocably elect the fair value option, applied on an instrument-by-instrument basis for eligible instruments, upon adoption of ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*. In October 2019, the FASB voted to extend the implementation date for smaller reporting companies, non-SEC public companies, and private companies. This amendment became effective for the Company on January 1, 2023.

BANK OF SOUTH CAROLINA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In March 2020, the FASB issued guidance that makes narrow-scope improvements to various aspects of the financial instrument guidance, including the current expected credit losses (CECL) guidance issued in 2016. The amendments related to conforming amendments. For public business entities, the amendments are effective upon issuance of this final ASU. For the amendments related to ASU 2016-13, public business entities that meet the definition of an SEC filer, excluding eligible smaller reporting companies (SRCs) as defined by the SEC, should adopt the amendments in ASU 2016-13 during 2020. Early adoption will continue to be permitted. For entities that have not yet adopted the guidance in ASU 2016-13, the effective dates and the transition requirements for these amendments are the same as the effective date and transition requirements in ASU 2016-13.

The Company is finalizing its evaluation of the adoption of ASU 2016-13 and plans to adopt as of January 1, 2023. The Company to-date has sourced and tested required data from the Company's loan systems, tested data feeds to the model, contracted an independent third party for model validation of the CECL model and process, determined appropriate segmentations of its portfolio, selected a preliminary forecast period for reasonable and supportable forecasts, and has performed parallel runs of the model. The Company is currently finalizing its assessment of current and forecasted macroeconomic factors, assumptions, testing, and finalization of internal controls. The Company currently estimates a decrease in the allowance for loan losses between \$25,000 and \$125,000 upon adoption. The Company is currently evaluating the impact of the reserve for unfunded commitments. The Company will finalize the adoption during the first quarter of 2023.

In March 2022, the FASB issued ASU 2022-02, *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*, which eliminates the accounting guidance on troubled debt restructurings (TDRs) for creditors in ASC 310-402 and amends the guidance on "vintage disclosures" to require disclosure of current-period gross write-offs by year of origination. The ASU also updates the requirements related to accounting for credit losses under ASC 326 and adds enhanced disclosures for creditors with respect to loan refinancings and restructurings for borrowers experiencing financial difficulty. The amendments in ASU 2022-02 are effective upon the Company's adoption of ASU 2016-13.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides temporary optional guidance to ease the potential burden in accounting for reference rate reform. In December 2022, the FASB extended the sunset date of ASC 848 from December 31, 2022 to December 31, 2024. The Company does not expect these amendments to have a material effect on its consolidated financial statements.

In November 2021, the FASB added a topic to the Accounting Standards Codification, Government Assistance, to require certain annual disclosures about transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy to other accounting guidance. The guidance is effective for financial statements issued for annual periods beginning after December 15, 2021. The amendment became effective January 1, 2022 and did not have a material effect on the consolidated financial statements.

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

3. INVESTMENT SECURITIES AVAILABLE FOR SALE

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

December 31, 2022				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury Notes	\$ 180,298,301	\$ —	\$ (12,110,986)	\$ 168,187,315
Government-Sponsored Enterprises	67,384,808	—	(10,310,084)	57,074,724
Municipal Securities	49,315,041	2,510	(3,407,364)	45,910,187
Total	<u>\$ 296,998,150</u>	<u>\$ 2,510</u>	<u>\$ (25,828,434)</u>	<u>\$ 271,172,226</u>

December 31, 2021				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury Notes	\$ 101,269,851	\$ 68,848	\$ (1,276,399)	\$ 100,062,300
Government-Sponsored Enterprises	76,355,720	275,123	(1,909,834)	74,721,009
Municipal Securities	37,421,880	335,912	(193,612)	37,564,180
Total	<u>\$ 215,047,451</u>	<u>\$ 679,883</u>	<u>\$ (3,379,845)</u>	<u>\$ 212,347,489</u>

BANK OF SOUTH CAROLINA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The amortized cost and estimated fair value of investment securities available for sale at December 31, 2022 and 2021, by contractual maturity are in the following table.

	December 31, 2022		December 31, 2021	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 42,722,655	\$ 41,698,011	\$ 12,756,176	\$ 12,859,086
Due in one year to five years	190,569,869	176,217,530	116,602,790	115,896,465
Due in five years to ten years	53,995,700	45,386,818	76,531,464	74,575,862
Due in ten years and over	9,709,926	7,869,867	9,157,021	9,016,076
Total	<u>\$ 296,998,150</u>	<u>\$ 271,172,226</u>	<u>\$ 215,047,451</u>	<u>\$ 212,347,489</u>

Securities pledged to secure deposits at December 31, 2022 and 2021, had a carrying amount of \$30,103,249 and \$33,292,124, respectively.

The tables below summarize gross unrealized losses on investment securities and the fair market value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2022 and 2021. We believe that all unrealized losses have resulted from temporary changes in the interest rate market and not as a result of credit deterioration. We do not intend to sell and it is not likely that we will be required to sell any of the securities referenced in the table below before recovery of their amortized cost.

	December 31, 2022								
	Less Than 12 Months			12 Months or Longer			Total		
	#	Fair Value	Gross Unrealized Loss	#	Fair Value	Gross Unrealized Loss	#	Fair Value	Gross Unrealized Loss
U.S. Treasury Notes	7	\$ 38,181,255	\$ (1,790,134)	18	\$ 130,006,060	\$ (10,320,852)	25	\$ 168,187,315	\$ (12,110,986)
Government-Sponsored Enterprises	2	6,212,285	(84,170)	9	50,862,439	(10,225,914)	11	57,074,724	(10,310,084)
Municipal Securities	46	26,068,218	(932,565)	31	14,859,459	(2,474,799)	77	40,927,677	(3,407,364)
Total	<u>55</u>	<u>\$ 70,461,758</u>	<u>\$ (2,806,869)</u>	<u>58</u>	<u>\$ 195,727,958</u>	<u>\$ (23,021,565)</u>	<u>113</u>	<u>\$ 266,189,716</u>	<u>\$ (25,828,434)</u>

	December 31, 2021								
	Less Than 12 Months			12 Months or Longer			Total		
	#	Fair Value	Gross Unrealized Loss	#	Fair Value	Gross Unrealized Loss	#	Fair Value	Gross Unrealized Loss
U.S. Treasury Notes	15	\$ 94,994,915	\$ (1,276,399)	—	\$ —	\$ —	15	\$ 94,994,915	\$ (1,276,399)
Government-Sponsored Enterprises	3	19,480,595	(519,405)	6	39,909,134	(1,390,429)	9	59,389,729	(1,909,834)
Municipal Securities	19	11,384,462	(193,612)	—	—	—	19	11,384,462	(193,612)
Total	<u>37</u>	<u>\$ 125,859,972</u>	<u>\$ (1,989,416)</u>	<u>6</u>	<u>\$ 39,909,134</u>	<u>\$ (1,390,429)</u>	<u>43</u>	<u>\$ 165,769,106</u>	<u>\$ (3,379,845)</u>

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

	For the Year Ended December 31,		
	2022	2021	2020
Gross proceeds	\$ 18,525,780	\$ 15,572,500	\$ 11,550,000
Gross realized gains	64,782	266,944	10,002

The tax provision related to these gains was \$13,604, \$56,058 and \$2,100 for the years ended December 31, 2022, 2021 and 2020, respectively.

BANK OF SOUTH CAROLINA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. LOANS AND ALLOWANCE FOR LOAN LOSSES

Major classifications of loans (net of deferred loan fees of \$159,434 at December 31, 2022, and \$488,481 at December 31, 2021) are shown in the table below.

	December 31, 2022	December 31, 2021
Commercial	\$ 45,072,059	\$ 45,804,434
Commercial real estate:		
Construction	17,524,260	12,054,095
Other	172,897,387	165,719,078
Consumer:		
Real estate	91,636,538	71,307,488
Other	3,851,538	3,768,531
Paycheck protection program	—	7,978,603
	330,981,782	306,632,229
Allowance for loan losses	(4,291,221)	(4,376,987)
Loans, net	\$ 326,690,561	\$ 302,255,242

We had \$93.1 million and \$94.7 million of loans pledged as collateral to secure funding with the Federal Reserve Bank (“FRB”) Discount Window at December 31, 2022 and 2021, respectively.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was signed into law, which established the Paycheck Protection Program (“PPP”) and allocated \$349.0 billion of loans to be issued by financial institutions. Under the program, the Small Business Administration (“SBA”) forgave loans, in whole or in part, made by approved lenders to eligible borrowers for payroll and other permitted purposes in accordance with the requirements of the program. These loans carried a fixed rate of 1.00% and a term of two years, if not forgiven, in whole or in part. The loans were 100% guaranteed by the SBA and as long as the borrower submitted its loan forgiveness application within ten months of completion of the covered period. The borrower was not required to make any payments until the forgiveness amount was remitted to the lender by the SBA. The Bank received a processing fee from the SBA ranging from 1% to 5% based on the size of the loan. The fees are deferred and amortized over the life of the loans in accordance with ASC 310-20. The Paycheck Protection Program and Health Care Enhancement Act (“PPP/ HCEA Act”) was signed into law on April 24, 2020. The PPP/HCEA Act authorized additional funding under the CARES Act of \$310.0 billion for PPP loans to be issued by financial institutions through the SBA. On December 27, 2020, the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (“Economic Aid Act”) was enacted, which reauthorized lending under the PPP program through March 31, 2021, with an additional \$325 billion. Over the course of the PPP program, the Bank extended 480 loans with a total loan amount of \$55.3 million. Because these loans were 100% guaranteed by the SBA and did not undergo the Bank’s typical underwriting process, they were not graded and did not have an associated allowance.

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

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

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

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The following tables illustrate credit risks by category and internally assigned grades at December 31, 2022 and 2021. "Pass" includes loans internally graded as excellent, good and satisfactory.

December 31, 2022							
	Commercial	Commercial Real Estate Construction	Commercial Real Estate Other	Consumer Real Estate	Consumer Other	Paycheck Protection Program	Total
Pass	\$ 42,724,289	\$ 17,524,260	\$ 167,518,577	\$ 86,183,899	\$ 3,597,886	\$ —	\$ 317,548,911
Watch	976,966	—	3,223,532	4,928,437	208,417	—	9,337,352
OAEM	94,803	—	968,611	274,445	7,345	—	1,345,204
Substandard	1,276,001	—	1,186,667	249,757	37,890	—	2,750,315
Doubtful	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—
Total	<u>\$ 45,072,059</u>	<u>\$ 17,524,260</u>	<u>\$ 172,897,387</u>	<u>\$ 91,636,538</u>	<u>\$ 3,851,538</u>	<u>\$ —</u>	<u>\$ 330,981,782</u>

December 31, 2021							
	Commercial	Commercial Real Estate Construction	Commercial Real Estate Other	Consumer Real Estate	Consumer Other	Paycheck Protection Program	Total
Pass	\$ 43,853,889	\$ 11,616,118	\$ 159,825,281	\$ 69,920,347	\$ 3,565,716	\$ 7,978,603	\$ 296,759,954
Watch	450,319	437,977	3,082,408	862,938	133,418	—	4,967,060
OAEM	36,749	—	1,158,268	274,445	29,244	—	1,498,706
Substandard	1,463,477	—	1,653,121	249,758	40,153	—	3,406,509
Doubtful	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—
Total	<u>\$ 45,804,434</u>	<u>\$ 12,054,095</u>	<u>\$ 165,719,078</u>	<u>\$ 71,307,488</u>	<u>\$ 3,768,531</u>	<u>\$ 7,978,603</u>	<u>\$ 306,632,229</u>

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

December 31, 2022							
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment ≥ 90 Days and Accruing
Commercial	\$ 16,451	\$ 178,975	\$ —	\$ 195,426	\$ 44,876,633	\$ 45,072,059	\$ —
Commercial Real Estate Construction	—	—	—	—	17,524,260	17,524,260	—
Commercial Real Estate Other	45,425	—	631,453	676,878	172,220,509	172,897,387	—
Consumer Real Estate	274,445	—	—	274,445	91,362,093	91,636,538	—
Consumer Other	—	—	—	—	3,851,538	3,851,538	—
Paycheck Protection Program	—	—	—	—	—	—	—
Total	<u>\$ 336,321</u>	<u>\$ 178,975</u>	<u>\$ 631,453</u>	<u>\$ 1,146,749</u>	<u>\$ 329,835,033</u>	<u>\$ 330,981,782</u>	<u>\$ —</u>

December 31, 2021							
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment ≥ 90 Days and Accruing
Commercial	\$ 88,659	\$ —	\$ —	\$ 88,659	\$ 45,715,775	\$ 45,804,434	\$ —
Commercial Real Estate Construction	—	—	—	—	12,054,095	12,054,095	—
Commercial Real Estate Other	59,269	288,464	337,490	685,223	165,033,855	165,719,078	—
Consumer Real Estate	—	—	—	—	71,307,488	71,307,488	—
Consumer Other	23,971	—	—	23,971	3,744,560	3,768,531	—
Paycheck Protection Program	—	—	—	—	7,978,603	7,978,603	—
Total	<u>\$ 171,899</u>	<u>\$ 288,464</u>	<u>\$ 337,490</u>	<u>\$ 797,853</u>	<u>\$ 305,834,376</u>	<u>\$ 306,632,229</u>	<u>\$ —</u>

There were no loans past due 90 days or more and still accruing interest at December 31, 2022 and 2021.

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

	Loans Receivable on Non-Accrual	
	December 31, 2022	December 31, 2021
Commercial	\$ —	\$ 178,975
Commercial Real Estate Construction	—	—
Commercial Real Estate Other	631,453	625,953
Consumer Real Estate	—	—
Consumer Other	—	9,686
Paycheck Protection Program	—	—
Total	<u>\$ 631,453</u>	<u>\$ 814,614</u>

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The following tables set forth the changes in the allowance and an allocation of the allowance by class at December 31, 2022, 2021, and 2020. The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component covers non-impaired loans and is based on historical loss experience adjusted for current economic factors.

December 31, 2022							
	Commercial	Commercial Real Estate Construction	Commercial Real Estate Other	Consumer Real Estate	Consumer Other	Paycheck Protection Program	Total
Allowance for Loan Losses							
Beginning Balance	\$ 795,689	\$ 175,493	\$ 2,376,306	\$ 924,784	\$ 104,715	\$ —	\$ 4,376,987
Charge-offs	(40,600)	—	—	(2,034)	—	(10)	(42,644)
Recoveries	800	—	18,000	—	12,224	854	31,878
Provisions	(20,130)	55,132	(177,822)	92,027	(23,363)	(844)	(75,000)
Ending Balance	\$ 735,759	\$ 230,625	\$ 2,216,484	\$ 1,014,777	\$ 93,576	\$ —	\$ 4,291,221

December 31, 2021							
	Commercial	Commercial Real Estate Construction	Commercial Real Estate Other	Consumer Real Estate	Consumer Other	Paycheck Protection Program	Total
Allowance for Loan Losses							
Beginning Balance	\$ 1,029,310	\$ 199,266	\$ 1,909,121	\$ 925,077	\$ 122,920	\$ —	\$ 4,185,694
Charge-offs	—	—	—	—	(11,440)	(9,550)	(20,990)
Recoveries	21,329	—	—	47,711	22,367	876	92,283
Provisions	(254,950)	(23,773)	467,185	(48,004)	(29,132)	8,674	120,000
Ending Balance	\$ 795,689	\$ 175,493	\$ 2,376,306	\$ 924,784	\$ 104,715	\$ —	\$ 4,376,987

December 31, 2020							
	Commercial	Commercial Real Estate Construction	Commercial Real Estate Other	Consumer Real Estate	Consumer Other	Paycheck Protection Program	Total
Allowance for Loan Losses							
Beginning Balance	\$ 1,429,917	\$ 109,235	\$ 1,270,445	\$ 496,221	\$ 697,940	\$ —	\$ 4,003,758
Charge-offs	(171,646)	—	—	—	(116,001)	(2,650)	(290,297)
Recoveries	88,811	—	99,801	—	43,599	22	232,233
Provisions	(317,772)	90,031	538,875	428,856	(502,618)	2,628	240,000
Ending Balance	\$ 1,029,310	\$ 199,266	\$ 1,909,121	\$ 925,077	\$ 122,920	\$ —	\$ 4,185,694

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

	December 31, 2022						
	Commercial	Commercial Real Estate Construction	Commercial Real Estate Other	Consumer Real Estate	Consumer Other	Paycheck Protection Program	Total
Allowance for Loan Losses							
Individually evaluated for impairment	\$ 179,230	\$ —	\$ —	\$ —	\$ 37,889	\$ —	\$ 217,119
Collectively evaluated for impairment	556,529	230,625	2,216,484	1,014,777	55,687	—	4,074,102
Total Allowance for Loan Losses	735,759	230,625	2,216,484	1,014,777	93,576	—	4,291,221
Loans Receivable							
Individually evaluated for impairment	1,276,001	—	1,202,412	249,758	37,889	—	2,766,060
Collectively evaluated for impairment	43,796,058	17,524,260	171,694,975	91,386,780	3,813,649	—	328,215,722
Total Loans Receivable	\$ 45,072,059	\$ 17,524,260	\$ 172,897,387	\$ 91,636,538	\$ 3,851,538	\$ —	\$ 330,981,782

	December 31, 2021						
	<u>Commercial</u>	<u>Commercial Real Estate Construction</u>	<u>Commercial Real Estate Other</u>	<u>Consumer Real Estate</u>	<u>Consumer Other</u>	<u>Paycheck Protection Program</u>	<u>Total</u>
Allowance for Loan Losses							
Individually evaluated for impairment	\$ 179,988	\$ —	\$ —	\$ —	\$ 40,153	\$ —	\$ 220,141
Collectively evaluated for impairment	615,701	175,493	2,376,306	924,784	64,562	—	4,156,846
Total Allowance for Loan Losses	795,689	175,493	2,376,306	924,784	104,715	—	4,376,987
Loans Receivable							
Individually evaluated for impairment	1,463,477	—	1,653,121	249,758	40,153	—	3,406,509
Collectively evaluated for impairment	44,340,957	12,054,095	164,065,957	71,057,730	3,728,378	7,978,603	303,225,720
Total Loans Receivable	<u>\$ 45,804,434</u>	<u>\$ 12,054,095</u>	<u>\$ 165,719,078</u>	<u>\$ 71,307,488</u>	<u>\$ 3,768,531</u>	<u>\$ 7,978,603</u>	<u>\$ 306,632,229</u>

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As of December 31, 2022 and 2021, loans individually evaluated for impairment and the corresponding allowance for loan losses are presented in the following table.

	Impaired and Restructured Loans As of					
	December 31, 2022			December 31, 2021		
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Unpaid Principal Balance	Recorded Investment	Related Allowance
With no related allowance recorded:						
Commercial	\$ 317,553	\$ 317,553	\$ —	\$ 1,096,407	\$ 1,096,407	\$ —
Commercial Real Estate						
Construction	—	—	—	—	—	—
Commercial Real Estate Other	1,202,412	1,202,412	—	1,653,121	1,653,121	—
Consumer Real Estate	249,758	249,758	—	249,758	249,758	—
Consumer Other	—	—	—	—	—	—
Paycheck Protection Program	—	—	—	—	—	—
Total	1,769,723	1,769,723	—	2,999,286	2,999,286	—
With an allowance recorded:						
Commercial	958,448	958,448	179,230	367,070	367,070	179,988
Commercial Real Estate						
Construction	—	—	—	—	—	—
Commercial Real Estate Other	—	—	—	—	—	—
Consumer Real Estate	—	—	—	—	—	—
Consumer Other	37,889	37,889	37,889	40,153	40,153	40,153
Paycheck Protection Program	—	—	—	—	—	—
Total	996,337	996,337	217,119	407,223	407,223	220,141
Total						
Commercial	1,276,001	1,276,001	179,230	1,463,477	1,463,477	179,988
Commercial Real Estate						
Construction	—	—	—	—	—	—
Commercial Real Estate Other	1,202,412	1,202,412	—	1,653,121	1,653,121	—
Consumer Real Estate	249,758	249,758	—	249,758	249,758	—
Consumer Other	37,889	37,889	37,889	40,153	40,153	40,153
Paycheck Protection Program	—	—	—	—	—	—
Total	\$ 2,766,060	\$ 2,766,060	\$ 217,119	\$ 3,406,509	\$ 3,406,509	\$ 220,141

The following table presents average impaired loans and interest income recognized on those impaired loans, by class segment, for the periods indicated.

	For the year ended December 31,					
	2022		2021		2020	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:						
Commercial	\$ 344,592	\$ 21,445	\$ 1,142,667	\$ 68,602	\$ 1,866,590	\$ 102,636
Commercial Real Estate						
Construction	—	—	—	—	—	—
Commercial Real Estate Other	1,231,015	30,689	1,645,375	68,031	4,849,474	218,372
Consumer Real Estate	249,758	14,019	249,777	10,615	249,813	11,580
Consumer Other	—	—	—	—	—	—
Paycheck Protection Program	—	—	—	—	—	—
Total	1,825,365	66,153	3,037,819	147,248	6,965,877	332,588
With an allowance recorded:						
Commercial	981,575	63,267	378,499	22,130	578,399	37,663
Commercial Real Estate						
Construction	—	—	—	—	—	—
Commercial Real Estate Other	—	—	—	—	337,304	—

Consumer Real Estate	—	—	—	—	36,483	(116)
Consumer Other	38,962	2,532	41,133	2,674	42,089	2,743
Paycheck Protection Program	—	—	—	—	—	—
Total	1,020,537	65,799	419,632	24,804	994,275	40,290
Total						
Commercial	1,326,167	84,712	1,521,166	90,732	2,444,989	140,299
Commercial Real Estate						
Construction	—	—	—	—	—	—
Commercial Real Estate Other	1,231,015	30,689	1,645,375	68,031	5,186,778	218,372
Consumer Real Estate	249,758	14,019	249,777	10,615	286,296	11,464
Consumer Other	38,962	2,532	41,133	2,674	42,089	2,743
Paycheck Protection Program	—	—	—	—	—	—
	<u>\$ 2,845,902</u>	<u>\$ 131,952</u>	<u>\$ 3,457,451</u>	<u>\$ 172,052</u>	<u>\$ 7,960,152</u>	<u>\$ 372,878</u>

In general, the modification or restructuring of a debt is considered a troubled debt restructuring (“TDR”) if we, for economic or legal reasons related to a borrower’s financial difficulties, grant a concession to the borrower that we would not otherwise consider. As of December 31, 2022 and December 31, 2021, there were five TDRs with a balance of \$1.0 million. These TDRs were granted extended payment terms with no principal reduction. The structure of two of the loans changed to interest only. One TDR was performing as agreed as of December 31, 2022, while the other TDR is not performing as agreed and we are considering further collection actions, including potential foreclosure proceedings. No other TDRs that were modified within the previous twelve months defaulted during the following year for the years ended December 31, 2022, 2021, and 2020.

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Regulatory agencies, as set forth in the Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (initially issued on March 22, 2020 and revised on April 7, 2020), have encouraged financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations because of the effects of COVID-19. In this statement, the regulatory agencies expressed their view of loan modification programs as positive actions that may mitigate adverse effects on borrowers due to COVID-19 and that the agencies will not criticize institutions for working with borrowers in a safe and sound manner. Moreover, the revised statement provides that eligible loan modifications related to COVID-19 may be accounted for under section 4013 of the CARES Act or in accordance with ASC 310-40. Under Section 4013 of the CARES Act, banks may elect not to categorize loan modifications as TDRs if the modifications are related to COVID-19, executed on a loan that was not more than 30 days past due as of December 31, 2019, and executed between March 1, 2020 and the earlier of December 31, 2020 or 60 days after the date of termination of the National Emergency. All short-term loan modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief are not considered TDRs. Beginning in March 2020, the Bank provided payment accommodations to customers, consisting of 60-day principal deferral to borrowers negatively impacted by COVID-19. During 2020, the Bank processed approximately \$0.7 million in principal deferrals to 84 customers, with an aggregate loan balance of \$25.9 million. The Bank did not process any principal deferrals during the years ended December 31, 2022 and 2021. The principal deferrals represented 0.24% of our total loan portfolio as of December 31, 2020. The Bank has examined the payment accommodations granted to borrowers in response to COVID-19 and classified 9 loans, with an aggregate loan balance of \$4.0 million, that were granted payment accommodations as TDRs given the continued financial difficulty of the customer, associated industry risk, and multiple deferral requests. All other borrowers were current prior to relief, were not experiencing financial difficulty prior to COVID-19, and the Bank determined they were not considered TDRs. As of December 31, 2021, 4 of the TDRs were removed from TDR status due to improvement in financial condition and sustained performance under the restructured terms, 2 TDRs were paid off through refinancing into new loans at market terms, and 1 TDR was paid off. Two loans with a balance of \$0.5 million remain in TDR status as of December 31, 2021. Additionally, of the 75 customers that received payment accommodations that were not classified as TDRs, 41 customers, with an aggregate loan balance of \$9.9 million, have paid their loan in full as of December 31, 2021. An additional loan was removed from TDR status during 2022. The remaining loan with a balance of \$0.1 million is paying as agreed as of December 31, 2022. There are no loans that received payment accommodation past due greater than 30 days. The Bank will continue to examine payment accommodations as requested by borrowers.

5. CONCENTRATIONS OF CREDIT RISK

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

Our loans were concentrated in the following categories.

	December 31, 2022	December 31, 2021
Commercial	13.62%	14.94%
Commercial Real Estate Construction	5.29%	3.93%
Commercial Real Estate Other	52.24%	54.04%
Consumer Real Estate	27.69%	23.26%
Consumer Other	1.16%	1.23%
Paycheck Protection Program	—%	2.60%
Total	100.00%	100.00%

6. PREMISES, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

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

	December 31, 2022	December 31, 2021
Bank buildings	\$ 1,861,237	\$ 1,861,237
Land	838,075	838,075
Leasehold purchases	30,000	30,000
Leasehold improvements	2,629,441	2,595,825
Construction in progress	535,434	31,654
Equipment	4,273,339	4,241,305
	10,167,526	9,598,096
Accumulated depreciation	(6,178,919)	(5,815,160)

Total	<u>\$ 3,988,607</u>	<u>\$ 3,782,936</u>
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Depreciation on our bank premises and equipment charged to operating expense totaled \$359,251, \$412,866, and \$421,040, during the year ended December 31, 2022, 2021, and 2020, respectively.

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7. LEASES

As of December 31, 2022 and 2021, the Company had operating right of use (“ROU”) assets of \$13.4 million and \$14.0 million, respectively, and operating lease liabilities of \$13.4 million and \$14.0 million, respectively. The Company maintains operating leases on land, branch facilities, and parking. Operating leases generally contain initial fixed payment terms that adjust in future years based on the consumer price index or similar measure. Most of the leases include one or more options to renew, with renewal terms extending up to 20 years. Leases with an initial term of 12 months or less are not recorded on the balance sheet and are recognized in lease expense.

As of December 31, 2022, the weighted average remaining lease term is 15.69 years and the weighted average incremental borrowing rate is 4.08%.

The exercise of renewal options is based on the sole judgement of management and what they consider to be reasonably certain. Based on the market areas, past practices, and contract terms of all leases, the Bank assumed all renewal options will be exercised. Minimum rental commitments for these leases as of December 31, 2022 are presented in the table below.

2023	\$ 1,182,746
2024	1,182,746
2025	1,182,746
2026	1,182,746
2027	1,182,746
2028 and thereafter	12,309,253
Total undiscounted lease payments	<u>\$ 18,222,983</u>
Less: effect of discounting	(4,789,291)
Present value of estimated lease payments	<u><u>\$ 13,433,692</u></u>

The table below shows lease expense components for the years ended December 31, 2022 and 2021.

	December 31,	
Lease Expense Components:	2022	2021
Operating lease expense	<u>\$ 1,192,292</u>	<u>\$ 1,139,393</u>
Short-term lease expense	<u>—</u>	<u>—</u>
Total lease expense	<u><u>\$ 1,192,292</u></u>	<u><u>\$ 1,139,393</u></u>

Total rental expense was \$1,192,292, \$1,139,393 and \$972,815, during the years ended December 31, 2022, 2021 and 2020, respectively.

As of December 31, 2022, we did not maintain any finance leases and we determined that the number and dollar amount of equipment leases was immaterial. As of December 31, 2022, we have no additional operating leases that have not yet commenced.

8. DEPOSITS

As of December 31, 2022 and 2021, time deposits of \$250,000 or more totaled approximately \$5,303,509 and \$7,417,864, respectively. The scheduled maturities of certificates of deposit as of December 31, 2022 are presented in the table below:

2023	\$ 14,820,344
2024	581,665
2025	34,427
2026	780,208
2027 and thereafter	352,964
	<u><u>\$ 16,569,608</u></u>

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As of December 31, 2022 and 2021, deposits with a deficit balance of \$80,524 and \$28,549, respectively, were re-classified as other loans.

9. SHORT-TERM BORROWINGS

At December 31, 2022 and 2021, we had no outstanding federal funds purchased. We have a Borrower-In-Custody arrangement with the Federal Reserve. This arrangement permits the Company to retain possession of loans pledged as collateral to secure advances from the Federal Reserve Discount Window. Under this agreement, we may borrow up to \$78.3 million as of December 31, 2022. We established this arrangement as an additional source of liquidity.

At December 31, 2022 and 2021, the Bank had unused short-term lines of credit totaling approximately \$41.0 million and \$41.0 million, respectively (which are withdrawable at the lender's option).

10. INCOME TAXES

Total income taxes for the years ended December 31, 2022, 2021 and 2020 are presented in the table below.

	For the year ended December 31,		
	2022	2021	2020
Income tax expense	\$ 1,977,372	\$ 2,071,503	\$ 1,965,679
Unrealized gains (losses) on securities available for sale presented in accumulated other comprehensive income (loss)	(4,856,451)	(1,010,881)	315,546
Total	<u>\$ (2,879,079)</u>	<u>\$ 1,060,622</u>	<u>\$ 2,281,225</u>

Income tax expense was as follows:

	For the year ended December 31,		
	2022	2021	2020
Current income taxes			
Federal	\$ 1,837,678	\$ 1,796,283	\$ 1,543,334
State	311,494	321,971	—
Total current tax expense	2,149,172	2,118,254	1,543,334
Deferred income tax (benefit) expense	(171,800)	(46,751)	422,345
Total income tax expense	<u>\$ 1,977,372</u>	<u>\$ 2,071,503</u>	<u>\$ 1,965,679</u>

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

	For the year ended December 31,		
	2022	2021	2020
Computed "expected" tax expense	\$ 1,812,828	\$ 1,851,433	\$ 1,769,525
Increase (reduction) in income taxes resulting from:			
Stock based compensation	24,901	21,637	19,527
Valuation allowance	(9,111)	7,658	8,083
Other	22,389	7,477	7,259
State income tax, net of federal benefit	246,080	248,887	238,729
Tax exempt interest income	(119,715)	(65,589)	(77,444)
	<u>\$ 1,977,372</u>	<u>\$ 2,071,503</u>	<u>\$ 1,965,679</u>

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The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2022 and 2021 are presented below.

	As of December 31,	
	2022	2021
Deferred tax assets:		
Allowance for loan losses	\$ 901,156	\$ 905,365
Unrealized loss on securities available for sale	5,423,444	—
Deferred loan fees	33,481	102,581
Pass through income	188,401	26,525
State net operating loss carryforward	88,229	97,655
Nonaccrual interest	36,879	29,246
Other	11,421	9,432
Total gross deferred tax assets	6,683,011	1,170,804
Valuation allowance	(88,544)	(97,655)
Total gross deferred tax assets, net of valuation allowance	6,594,467	1,073,149
Deferred tax liabilities:		
Fixed assets, principally due to differences in depreciation	(289,935)	(338,716)
Unrealized gain on securities available for sale	—	(1,360,199)
State credit carryforward	—	(5,672)
Prepaid expenses	(567)	(29,869)
Other	(59,337)	(58,619)
Total gross deferred tax liabilities	(349,839)	(1,793,075)
Net deferred tax asset (liability)	\$ 6,244,628	\$ (719,926)

There was a \$88,544 and \$97,655 valuation allowance for deferred tax assets at December 31, 2022 and 2021, respectively, associated with the Company's state tax credits. In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and prior to their expiration governed by the income tax code. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods during which the deferred income tax assets are expected to be deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences, net of the existing valuation allowance at December 31, 2022 and 2021. The amount of the deferred income tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carry forward period are reduced.

The Company measures deferred tax assets and liabilities using enacted tax rates that will apply in the years in which the temporary differences are expected to be recovered or paid.

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

Tax returns for 2019 and subsequent years are subject to examination by taxing authorities.

11. COMMITMENTS AND CONTINGENCIES

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. If deemed necessary, the amount of collateral obtained upon extension of credit is based on our credit evaluation of the borrower. Collateral held varies, but may include accounts receivable, negotiable instruments, inventory, property, plant and equipment, and real estate. Commitments to extend credit, including unused lines of credit, amounted to \$145,392,792 and \$117,450,893 at December 31, 2022 and 2021, respectively.

Standby letters of credit represent our obligation to a third-party contingent upon the failure by our customer to perform under the terms of an

underlying contract with the third party or obligates us to guarantee or stand as surety for the benefit of the third party. The underlying contract may entail either financial or nonfinancial obligations and may involve such things as the shipment of goods, performance of a contract, or repayment of an obligation. Under the terms of a standby letter, generally drafts will be drawn only when the underlying event fails to occur as intended. We can seek recovery of the amounts paid from the borrower. Commitments under standby letters of credit are usually for one year or less. At December 31, 2022 and 2021, we have recorded no liability for the current carrying amount of the obligation to perform as a guarantor; as such amounts are not considered material. The maximum potential amount of undiscounted future payments related to standby letters of credit at December 31, 2022 and 2021 was \$2,518,771 and \$648,717, respectively.

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12. RELATED PARTY TRANSACTIONS

In the opinion of management, loans to our Executive Officers and Directors are made on substantially the same terms, including interest rates and collateral, as those terms prevailing at the time for comparable loans with persons not related to the lender that do not involve more than the normal risk of collectability. There were no past due loans to our Executive Officers and Directors as of December 31, 2022 and 2021.

The table below summarizes related party loans.

	December 31, 2022	December 31, 2021
Balance at beginning of the year	\$ 5,513,146	\$ 5,970,014
New loans or advances	806,053	3,693,836
Repayments	(2,134,441)	(4,150,704)
Balance at the end of the year	<u>\$ 4,184,758</u>	<u>\$ 5,513,146</u>

At December 31, 2022 and 2021, total deposits held by related parties were \$7,426,656 and \$11,405,076, respectively.

13. OTHER EXPENSE

The table below summarizes the components of other operating expense.

	For the year ended December 31,		
	2022	2021	2020
Telephone and postage	\$ 205,296	\$ 233,667	\$ 219,065
State and FDIC insurance and fees	258,541	212,284	95,353
Supplies	61,551	63,850	74,472
Courier service	48,475	44,825	48,048
Insurance	55,178	56,748	53,000
Advertising and business development	11,480	8,114	9,045
Other	690,833	805,966	746,502
Total other operating expenses	<u>\$ 1,331,354</u>	<u>\$ 1,425,454</u>	<u>\$ 1,245,485</u>

14. STOCK INCENTIVE PLANS

We have two employee Stock Incentive Plans: the first plan, which was approved in 2010, has 300,000 (363,000 adjusted for two 10% stock dividends) shares reserved and the second plan, which was approved in 2020, has 300,000 shares reserved. No new options may be granted under the 2010 plan, as it expired on April 14, 2020. Under the 2020 plan, options are periodically granted to employees at a price not less than the fair market value of the shares at the date of grant. Employees become 20% vested after five years and then vest 20% each year until fully vested. The right to exercise each such 20% of the options is cumulative and will not expire until the tenth anniversary of the date of the grant. All employees are eligible to participate in the 2020 plan if the Executive/Long-Range Planning Committee, in its sole discretion, determines that such person has contributed or can be expected to contribute to our profits or growth. With respect to Executive Officers, the Executive/ Long-Range Planning Committee will obtain approval from the Compensation Committee for any options granted to them.

We also have a stock incentive plan to provide equity incentive compensation to the Company's eligible independent directors. The plan was approved by the shareholders in 2021 and has 150,000 shares reserved. Under the 2021 plan, options may be granted to eligible independent directors at a price not less than the fair market value of the shares at the date of grant. Options granted to independent directors become vested as to 20% of the options per year and will be fully vested after five years. The right to exercise each such 20% of the options is cumulative and will not expire until the tenth anniversary of the date of the grant. Each independent director is eligible to participate in the 2021 plan if the Compensation Committee, in its sole discretion, determines that such person has contributed or can be expected to contribute to our profits or growth.

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

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

	2022	2021	2020
Risk free interest rate	2.75%	1.46%	0.63%
Expected life (in years)	5.00	5.99	7.50
Expected stock price volatility	35.30%	34.18%	32.90%
Dividend yield	4.15%	4.00%	4.26%

The following table presents a summary of the activity under the 2010, 2020 and 2021 Stock Incentive Plans for the years ended December 31:

	2022		2021		2020	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, January 1	273,747	\$ 17.50	202,344	\$ 14.89	86,097	\$ 12.92
Granted	5,000	17.10	115,750	20.15	145,750	15.31
Exercised	(11,085)	14.58	(22,305)	10.64	(19,298)	9.39
Forfeited	(13,250)	18.68	(22,042)	15.07	(10,205)	15.19
Outstanding, December 31	254,412	\$ 17.56	273,747	\$ 17.50	202,344	\$ 14.89
Exercisable at year end	20,626	\$ 17.76	7,804	\$ 12.17	21,113	\$ 9.77

The following table presents information pertaining to options outstanding at December 31, 2022.

Exercise Price	Number of Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price of Options Outstanding	Intrinsic Value of Options Outstanding	Number of Options Exercisable	Weighted Average Exercise Price of Options Exercisable	Intrinsic Value of Options Exercisable
\$ 12.26	3,508	1.58	\$ 12.26	\$ 43,008	2,806	\$ 12.26	\$ 13,038
\$ 12.40	969	1.00	\$ 12.40	\$ 12,016	969	\$ 12.40	\$ 4,366
\$ 13.05	7,260	2.33	\$ 13.05	\$ 94,743	4,356	\$ 13.05	\$ 16,796
\$ 15.21	106,250	7.33	\$ 15.21	\$ 1,616,063	—	\$ 15.21	\$ —
\$ 16.73	10,000	7.33	\$ 16.73	\$ 167,300	—	\$ 16.73	\$ —
\$ 17.10	5,000	9.42	\$ 17.10	\$ 85,500	—	\$ 16.73	\$ —
\$ 18.23	28,950	7.33	\$ 18.23	\$ 527,759	—	\$ 18.23	\$ —
\$ 19.82	7,225	7.33	\$ 19.82	\$ 143,200	495	\$ 19.82	\$ —
\$ 20.04	20,250	8.59	\$ 20.04	\$ 405,810	—	\$ 20.04	\$ —
\$ 21.10	65,000	8.33	\$ 21.10	\$ 1,371,500	12,000	\$ 21.10	\$ —
	254,412	7.48	\$ 17.56	\$ 4,466,899	20,626	\$ 17.76	\$ 34,200

The total intrinsic value of options exercised during the years ended December 31, 2022, 2021 and 2020 was \$161,740, \$208,259 and \$139,837, respectively. Shares issued upon exercise of stock options are obtained from the authorized and unissued pool of common stock. Shares surrendered as payment of the stock option exercise price are included in treasury stock.

We recognized compensation cost for the years ended December 31, 2022, 2021 and 2020 in the amount of \$121,673, \$103,033 and \$92,986, respectively, related to the granted options.

As of December 31, 2022, there was a total of \$593,680 in unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. The cost is expected to be recognized over a weighted average period of 4.41 years.

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15. EMPLOYEE STOCK OWNERSHIP PLAN AND TRUST

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

The Company recognizes expense when the contribution is approved by the Board of Directors. The total expenses amounted to \$540,000, \$540,000 and \$540,000, during the years ended December 31, 2022, 2021 and 2020, respectively. As of December 31, 2022, the plan owned 336,088 shares of common stock of the Company.

A participant vests in the ESOP based upon the participant’s credited years of service. The vesting schedule is as follows:

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

Periodically, the Internal Revenue Service “IRS” requires a restatement of a qualified retirement plan to ensure that the plan document includes provisions required by legislative and regulatory changes made since the last restatement. There have been no substantive changes to the plan. The Board of Directors approved a restated plan, on January 26, 2012 (incorporated as Exhibit 10.5 in the 2011 10-K). The Plan was submitted to the IRS for approval and a determination letter was issued September 26, 2013, stating that the plan satisfies the requirements of Code Section 4975(e)(7). On January 26, 2017, the Board of Directors approved a restated plan (incorporated as Exhibit 10.6 in the 2016 10-K). The Plan was submitted to the IRS for approval and a determination letter was issued November 17, 2017, stating that the plan satisfies the requirements of Code Section 4975(e)(7).

16. DIVIDENDS

The Bank’s ability to pay dividends to the Company is restricted by the laws and regulations of the State of South Carolina. Generally, these restrictions allow the Bank to pay dividends from current earnings without the prior written consent of the South Carolina Commissioner of Banking, if it received a satisfactory rating at its most recent examination. Cash dividends when declared, are paid by the Bank to the Company for distribution to shareholders of the Company. The Bank paid dividends of \$3.8 million, \$4.3 million and \$3.6 million, to the Company during the years ended December 31, 2022, 2021 and 2020, respectively.

17. INCOME PER COMMON SHARE

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

	2022	2021	2020
Net income	\$ 6,655,140	\$ 6,744,865	\$ 6,460,631
Weighted average shares outstanding	5,550,078	5,531,518	5,526,948
Effect of dilutive shares	94,620	148,964	151,595
Weighted average shares outstanding - diluted	5,644,698	5,680,482	5,678,543
Earnings per share - basic	\$ 1.20	\$ 1.22	\$ 1.17
Earnings per share - diluted	\$ 1.18	\$ 1.19	\$ 1.14

18. REGULATORY CAPITAL REQUIREMENTS

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

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

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Basel III became effective on January 1, 2015 and its purpose is to improve the quality and increase the quantity of capital for all banking organizations. The rule was phased in over a four-year period, with full implementation occurring on January 1, 2019. The minimum requirements for the quantity and quality of capital were increased. The rule includes a new common equity Tier 1 capital (as defined in the regulation) to risk-weighted assets ratio of 4.50% and a common equity Tier 1 capital conservation buffer of 2.50% of risk-weighted assets. The rule also raises the minimum ratio of Tier 1 capital to risk-weighted assets from 4.00% to 6.00% and requires a minimum leverage ratio of 4.00%. In addition, the rule also implements strict eligibility criteria for regulatory capital instruments and improves the methodology for calculating risk-weighted assets to enhance risk sensitivity.

On November 4, 2019, the federal banking agencies jointly issued a final rule on an optional, simplified measure of capital adequacy for qualifying community banking organizations called the community bank leverage ratio ("CBLR") framework effective on January 1, 2020. A qualifying community banking organization is defined as having less than \$10 billion in total consolidated assets, a leverage ratio greater than 9%, off-balance sheet exposures of 25% or less of total consolidated assets, and trading assets and liabilities of 5% or less of total consolidated assets. Additionally, the qualifying community banking institution must be a non-advanced approaches FDIC supervised institution. The final rule adopts Tier 1 capital and existing leverage ratio into the CBLR framework. The Bank adopted this rule as of September 30, 2020 and is no longer subject to other capital and leverage requirements. Under the CBLR framework, a qualifying community banking organization is deemed to have met the "well capitalized" ratio requirements and be in compliance with the generally applicable capital rule. As noted in the table below, the leverage ratio was below 9.0% at December 31, 2021 and therefore we did not meet the "well capitalized" ratio requirements and was not in compliance.

The following table presents the actual CBLR for the Bank and Company at:

	December 31, 2022	December 31, 2021
Bank	9.03%	8.66%
Company	9.30%	8.59%

We believe that the Company and the Bank meet all capital adequacy requirements to which they were subject at December 31, 2022 and 2021.

19. DISCLOSURES REGARDING FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

Investment Securities Available for Sale

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

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Derivative Instruments

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

We had no embedded derivative instruments requiring separate accounting treatment. We had freestanding derivative instruments consisting of fixed rate conforming loan commitments with interest rate locks and commitments to sell fixed rate conforming loans on a best-efforts basis. We do not currently engage in hedging activities. Based on the short-term nature of mortgage loans to be sold (derivative contract), our derivative instruments were immaterial to our consolidated financial statements as of December 31, 2022 and 2021.

The following table presents information about assets measured at fair value on a recurring basis as of December 31, 2022 and 2021.

Balance as of December 31, 2022				
	Level 1	Level 2	Level 3	Total
U.S. Treasury Notes	\$ 168,187,315	\$ —	\$ —	\$ 168,187,315
Government-Sponsored Enterprises	—	57,074,724	—	57,074,724
Municipal Securities	—	16,448,375	29,461,812	45,910,187
Total	<u>\$ 168,187,315</u>	<u>\$ 73,523,099</u>	<u>\$ 29,461,812</u>	<u>\$ 271,172,226</u>

Balance as of December 31, 2021				
	Level 1	Level 2	Level 3	Total
U.S. Treasury Notes	\$ 100,062,300	\$ —	\$ —	\$ 100,062,300
Government-Sponsored Enterprises	—	74,721,009	—	74,721,009
Municipal Securities	—	13,080,133	24,484,047	37,564,180
Total	<u>\$ 100,062,300</u>	<u>\$ 87,801,142</u>	<u>\$ 24,484,047</u>	<u>\$ 212,347,489</u>

There were no liabilities recorded at fair value on a recurring basis as of December 31, 2022 or 2021.

The following table reconciles the changes in assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2022 and 2021.

	December 31, 2022	December 31, 2021
Beginning balance	\$ 24,484,047	\$ 5,683,930
Total realized/unrealized gains (losses)		
Included in earnings	—	—
Included in other comprehensive income	(3,714,235)	(79,883)
Purchases, issuances, and settlements net of maturities	8,692,000	18,880,000
Transfers in and/or out of Level 3	—	—
Ending balance	<u>\$ 29,461,812</u>	<u>\$ 24,484,047</u>

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

Impaired Loans

Impaired loans are carried at the lower of recorded investment or fair value. The fair value of the collateral less estimated costs to sell is the most frequently used method. Typically, we review the most recent appraisal and, if it is over 12 to 18 months old, we may request a new third party appraisal. Depending on the particular circumstances surrounding the loan, including the location of the collateral, the date of the most recent appraisal and the value of the collateral relative to the recorded investment in the loan, we may order an independent appraisal immediately or, in some instances, may elect to perform an internal analysis. Specifically, as an example, in situations where the collateral on a nonperforming commercial real estate loan is out of our primary market area, we would typically order an independent appraisal immediately, at the earlier of the date the loan becomes nonperforming or immediately following the determination that the loan is impaired.

However, as a second example, on a nonperforming commercial real estate loan where we are familiar with the property and surrounding areas and where the original appraisal value far exceeds the recorded investment in the loan, we may perform an internal analysis whereby the previous appraisal value would be reviewed considering recent current conditions, and known recent sales or listings of similar properties in the area, and any other relevant economic trends. This analysis may result in the call for a new appraisal. These valuations are reviewed and updated on a quarterly basis.

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

Mortgage Loans to be Sold

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

Certain assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following tables present information about certain assets measured at fair value on a nonrecurring basis as of December 31, 2022 and 2021.

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Impaired loans	\$ —	\$ —	\$ 1,452,170	\$ 1,452,170
Mortgage loans to be sold	—	866,594	—	866,594
Total	\$ —	\$ 866,594	\$ 1,452,170	\$ 2,318,764

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Impaired loans	\$ —	\$ —	\$ 1,902,879	\$ 1,902,879
Mortgage loans to be sold	—	2,774,388	—	2,774,388
Total	\$ —	\$ 2,774,388	\$ 1,902,879	\$ 4,677,267

There were no liabilities measured at fair value on a nonrecurring basis as of December 31, 2022 or 2021.

The following table provides information describing the unobservable inputs used in Level 3 fair value measurements at December 31, 2022:

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

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

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

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

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

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

b. Investment securities available for sale

Investment securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions.

c. Loans

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

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

d. Deposits

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

e. Accrued interest receivable and payable

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

f. Loan commitments

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

The following tables present the carrying amount, fair value, and placement in the fair value hierarchy of our financial instruments as of December 31, 2022 and 2021, respectively.

Fair Value Measurements at December 31, 2022					
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
Financial Assets:					
Cash and due from banks	\$ 14,772,564	\$ 14,772,564	\$ 14,772,564	\$ —	\$ —
Interest-bearing deposits at the Federal Reserve	12,999,135	12,999,135	12,999,135	—	—
Investment securities available for sale	271,172,226	271,172,226	168,187,315	73,523,099	29,461,812
Mortgage loans to be sold	866,594	866,594	—	866,594	—
Loans, net	326,690,561	304,249,626	—	—	304,249,626
Accrued interest receivable	2,145,522	2,145,522	—	2,145,522	—
Financial Liabilities:					
Demand deposits	582,100,650	582,100,650	—	582,100,650	—
Time deposits	16,569,608	16,933,818	—	16,933,818	—
Accrued interest payable	41,007	41,007	—	41,007	—

BANK OF SOUTH CAROLINA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Fair Value Measurements at December 31, 2021				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
Financial Assets:					
Cash and due from banks	\$ 11,140,559	\$ 11,140,559	\$ 11,140,559	\$ —	\$ —
Interest-bearing deposits at the Federal Reserve	128,971,429	128,971,429	128,971,429	—	—
Investment securities available for sale	212,347,489	212,347,489	100,062,300	87,801,142	24,484,047
Mortgage loans to be sold	2,774,388	2,774,388	—	2,774,388	—
Loans, net	302,255,242	293,731,997	—	—	293,731,997
Accrued interest receivable	1,404,227	1,404,227	—	1,404,227	—
Financial Liabilities:					
Demand deposits	587,903,356	587,903,356	—	587,903,356	—
Time deposits	21,288,220	21,248,310	—	21,428,310	—
Accrued interest payable	14,914	14,914	—	14,914	—

20. BANK OF SOUTH CAROLINA CORPORATION - PARENT COMPANY

The Company's principal source of income is dividends from the Bank. Certain regulatory requirements restrict the amount of dividends which the Bank can pay to the Company. The Company's principal asset is its investment in its Bank subsidiary. The Company's condensed statements of financial condition as of December 31, 2022 and 2021, and the related condensed statements of income and cash flows for the years ended December 31, 2022, 2021 and 2020, are as follows:

Condensed Statements of Financial Condition

	December 31,	
	2022	2021
Assets		
Cash	\$ 1,077,082	\$ 1,233,354
Investment in wholly-owned bank subsidiary	38,339,882	53,327,296
Other assets	338,322	298,998
Total assets	<u>\$ 39,755,286</u>	<u>\$ 54,859,648</u>
Liabilities and shareholders' equity		
Other liabilities	\$ 943,899	\$ 942,015
Shareholders' equity	38,811,387	53,917,633
Total liabilities and shareholders' equity	<u>\$ 39,755,286</u>	<u>\$ 54,859,648</u>

Condensed Statements of Income

	For the year ended December 31,		
	2022	2021	2020
Interest income	\$ 287	\$ 288	\$ 759
Net operating expenses	(267,243)	(256,471)	(255,409)
Dividends received from bank	3,640,000	3,805,000	4,700,000
Equity in undistributed earnings of subsidiary	3,282,096	3,196,048	2,015,281
Net income	<u>\$ 6,655,140</u>	<u>\$ 6,744,865</u>	<u>\$ 6,460,631</u>

BANK OF SOUTH CAROLINA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Condensed Statements of Cash Flows

	For the year ended December 31,		
	2022	2021	2020
Cash flows from operating activities:			
Net income	\$ 6,655,140	\$ 6,744,865	\$ 6,460,631
Stock-based compensation expense	121,673	103,033	92,986
Equity in undistributed earnings of subsidiary	(3,282,096)	(3,196,048)	(2,015,280)
Decrease in other assets	(39,324)	(37,802)	(36,590)
Increase in other liabilities	—	(1)	—
Net cash provided by operating activities	3,455,393	3,614,047	4,501,747
Cash flows from financing activities:			
Dividends paid	(3,773,396)	(4,312,138)	(3,592,841)
Repurchase of common shares	—	—	(398,868)
Stock options exercised	161,731	207,889	117,044
Net cash used in financing activities	(3,611,665)	(4,104,249)	(3,874,665)
Net (decrease) increase in cash	(156,272)	(490,202)	627,082
Cash at the beginning of the year	1,233,354	1,723,556	1,096,474
Cash at the end of the year	\$ 1,077,082	\$ 1,233,354	\$ 1,723,556
Supplemental disclosure for non-cash investing and financing activity			
Change in dividends payable	\$ 1,883	\$ 3,536	\$ 53,680

21. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The tables below represent the quarterly results of operations for the years ended December 31, 2022 and 2021, respectively:

	2022			
	Fourth	Third	Second	First
Total interest and fee income	\$ 5,312,520	\$ 5,047,752	\$ 4,583,251	\$ 4,254,960
Total interest expense	189,653	37,519	37,824	36,797
Net interest income	5,122,867	5,010,233	4,545,427	4,218,163
Provision for loan losses	—	—	—	(75,000)
Net interest income after provision for loan losses	5,122,867	5,010,233	4,545,427	4,293,163
Total other income	393,270	443,340	593,698	634,554
Total other expense	3,181,330	3,067,733	3,138,415	3,016,562
Income before income tax expense	2,334,807	2,385,840	2,000,710	1,911,155
Income tax expense	527,022	545,573	457,728	447,049
Net income	\$ 1,807,785	\$ 1,840,267	\$ 1,542,982	\$ 1,464,106
Basic income per common share	\$ 0.33	\$ 0.33	\$ 0.28	\$ 0.26
Diluted income per common share	\$ 0.32	\$ 0.33	\$ 0.27	\$ 0.26

BANK OF SOUTH CAROLINA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2021			
	Fourth	Third	Second	First
Total interest and fee income	\$ 4,345,017	\$ 4,201,069	\$ 4,363,910	\$ 4,641,115
Total interest expense	37,840	39,319	42,317	54,524
Net interest income	4,307,177	4,161,750	4,321,593	4,586,591
Provision for loan losses	—	—	—	120,000
Net interest income after provision for loan losses	4,307,177	4,161,750	4,321,593	4,466,591
Total other income	842,935	1,138,431	946,951	939,914
Total other expense	3,146,129	3,047,534	3,084,596	3,030,715
Income before income tax expense	2,003,983	2,252,647	2,183,948	2,375,790
Income tax expense	464,814	525,710	515,264	565,715
Net income	<u>\$ 1,539,169</u>	<u>\$ 1,726,937</u>	<u>\$ 1,668,684</u>	<u>\$ 1,810,075</u>
Basic income per common share	\$ 0.28	\$ 0.31	\$ 0.30	\$ 0.33
Diluted income per common share	\$ 0.27	\$ 0.30	\$ 0.29	\$ 0.32

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

None

Item 9A. Controls and Procedures

An evaluation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) was carried out as of December 31, 2022 under the supervision and with the participation of the Bank of South Carolina Corporation's management, including its President/Chief Executive Officer and the Chief Financial Officer/Executive Vice President and several other members of the Company's senior management. Based upon that evaluation, Bank of South Carolina Corporation's management, including the President/Chief Executive Officer and the Chief Financial Officer/Executive Vice President concluded that, as of December 31, 2022, the Company's disclosure controls and procedures were effective in ensuring that the information the Company is required to disclose in the reports filed or submitted under the Exchange Act has been (i) accumulated and communicated to management (including the President/Chief Executive Officer and Chief Financial Officer/Executive Vice President) to allow timely decisions regarding required disclosure, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Management's Report on Internal Control Over Financial Reporting

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

Under the supervision and with the participation of management, including the President/Chief Executive Officer and the Chief Financial Officer/Executive Vice President, the Company's management has evaluated the effectiveness of its internal control over financial reporting as of December 31, 2022, based on the 2013 framework established in a report entitled "*Internal Control-Integrated Framework*" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2022. Based on this assessment, management believes that as of December 31, 2022, the Company's internal control over financial reporting was effective. There were no changes in the Company's internal control over financial reporting that occurred during the year ended December 31, 2022, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

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

Item 9B. Other Information

There was no information required to be disclosed in a report on Form 8-K during the fourth quarter of 2022 that was not reported.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

PART III

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

The information required by this item contained under the sections captioned “Proposal 1: Election of Directors” and “Meetings and Committees of the Board of Directors and Corporate Governance Matters” included in the Company’s definitive Proxy Statement for its Annual Meeting of Shareholders to be held on April 11, 2023, a copy of which has been filed with the SEC, the “Proxy Statement”, is incorporated in this document by reference.

Executive Officers. The information concerning the Company’s executive officers is contained under the section captioned “Proposal 1: Election of Directors” included in the Company’s Proxy Statement, and is incorporated in this document by reference.

Audit and Compliance Committee Financial Expert. The Audit and Compliance Committee of the Company is composed of Directors Dr. Josette R. E. Pelzer, PhD, CPA; William L. Hiott, Jr.; Richard W. Hutson, Jr.; Karen J. Phillips, and Sheryl G. Sharry (Chairman). The Board has selected the Audit and Compliance Committee members based on its determination that they are qualified to oversee the accounting and financial reporting processes of the Company and audits of the Company’s financial statements. Each member of the Audit and Compliance Committee is “independent” as defined in the NASDAQ Stock Market listing standards for audit committee members.

The Board of Directors has determined that Dr. Josette R. E. Pelzer, CPA, qualifies as a financial expert within the meaning of SEC rules and regulations and has designated Director Pelzer as the Audit and Compliance Committee financial expert. As noted above, Director Pelzer is independent and satisfies the heightened independence standards required by NASDAQ for members of the audit committee.

Code of Ethics. The Company has adopted a “Code of Ethics”, applicable to the Chairman of the Board of Directors, the President/Chief Executive Officer, the Chief Financial Officer/Executive Vice President, the Chief Operating Officer/Executive Vice President and the Senior Lender/Executive Vice President and a “Code of Conduct” for Directors, officers and employees. A copy of these policies may be obtained at the Company’s website: <http://www.banksc.com>.

Item 11. **Executive Compensation**

The information required by this item is incorporated by reference to the Section captioned “Directors Compensation” and “Executive Compensation-Compensation Discussion and Analysis” included in the Proxy Statement.

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

Security Ownership and Certain Beneficial Owners

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

Security Ownership of Management

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

Securities Authorized for Issuance under Equity Compensation Plan

Information required by this Item is incorporated in this document by reference to the section captioned “Equity Compensation Plan Information” included in the Proxy Statement.

Changes in Control

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

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

The information required by this item is incorporated in this document by reference to the Section captioned “Meetings and Committees of the Board of Directors and Corporate Governance Matters”, included in the Proxy Statement.

Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated in this document by reference to “Proposal 2: To ratify the appointment of Elliott Davis, LLC as the Company’s independent registered public accounting firm for the year ended December 31, 2023” and “Auditing and Related Fees”, included in the Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

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

	Page
(1) Report of Independent Registered Public Accounting Firm	29
(2) Consolidated Balance Sheets	30
(3) Consolidated Statements of Income	31
(4) Consolidated Statements of Comprehensive Income	32
(5) Consolidated Statements of Shareholders' Equity	33
(6) Consolidated Statements of Cash Flows	34
(7) Notes to Consolidated Financial Statements	35 - 57

2. Exhibits

Exhibit No.	Description of Exhibit
3.0	Articles of Incorporation of Registrant (filed herewith)
3.1	Articles of Amendment of Registrant filed April 17, 1998, and February 20, 2009, respectively (incorporated by reference to Exhibit 4.1 to Registrant's Form S-3 filed on June 23, 2011)
3.2	Amended and Restated By-laws of Registrant (filed herewith)
4.0	Form of Common Stock Certificate (incorporated by reference to Exhibit 4 to Registrant's Form S-8 filed on April 21, 2021)
4.1	Description of Securities registered under Section 12 of the Exchange Act (filed herewith)
10.0	2010 Omnibus Stock Incentive Plan (incorporated by reference to Exhibit A to the Registrants definitive proxy statement filed on March 8, 2010)
10.1	2020 Stock Incentive Plan (incorporated by reference to Exhibit A to the Registrant's definitive proxy statement filed on March 6, 2020)
10.2	2021 Stock Incentive Plan for Independent Directors (incorporated by reference to Exhibit A to the Registrant's definitive proxy statement filed on March 5, 2021)
10.3	Employee Stock Ownership Plan, as restated (incorporated by reference to Exhibit 10.6 to the Registrant's Form 10-K filed on March 3, 2017)
10.4	Amendment to Lease dated January 31, 2022, for 256 Meeting Street (incorporated by reference to Exhibit 10.17 to the Registrant's Form 10-K filed on March 4, 2022)
10.5	Amendment to Sublease Agreement dated September 7, 2017, for Parking Facilities at 256 Meeting Street (incorporated by reference to Exhibit 10.14 to the Registrant's Form 10-Q filed on November 9, 2017)
10.6	Lease Extension Agreement dated March 6, 2017, for 256 Meeting Street (incorporated by reference to Exhibit 10.12 to the Registrant's Form 10-Q filed on November 8, 2017)
10.7	Lease Agreement dated July 31, 2017, pertaining to the Bank's North Charleston location (incorporated by reference to Exhibit 10.13 to the Registrant's Form 10-Q filed August 10, 2017)
10.8	Commercial Lease dated September 16, 2021, for 1730 Maybank Highway, Charleston, SC (incorporated by reference to Exhibit 10.17 to the Registrant's Form 10-Q filed on November 5, 2021)
21.1	List of subsidiaries of the Registrant (filed herewith)
23.1	Consent of the Independent Registered Public Accounting Firm (filed herewith)
31.1	Certification pursuant to Rule 13a-14(a)/15d-14(a) by the Principal Executive Officer (filed herewith)
31.2	Certification pursuant to Rule 13a-14(a)/15d-14(a) by the Principal Financial Officer (filed herewith)
32.1	Certification pursuant to Section 1350 – Principal Executive Officer (furnished herewith)
32.2	Certification pursuant to Section 1350 – Principal Financial Officer (furnished herewith)
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

Item 16. Form 10-K Summary

Registrants may voluntarily include a summary of information required by Form 10-K under this Item 16. We have elected not to include such summary information.

SIGNATURES

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

Date: March 2, 2023

BANK OF SOUTH CAROLINA CORPORATION

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

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

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

March 2, 2023	<u>/s/ David W. Bunch</u> David W. Bunch, Director
March 2, 2023	<u>/s/ Graham M. Eubank, Jr.</u> Graham M. Eubank, Jr., Director
March 2, 2023	<u>/s/ Elizabeth M. Hagood</u> Elizabeth M. Hagood, Director
March 2, 2023	<u>/s/ Fleetwood S. Hassell</u> Fleetwood S. Hassell, President/ Chief Executive Officer, Director
March 2, 2023	<u>/s/ Glen B. Haynes, DVM</u> Glen B. Haynes, DVM, Director
March 2, 2023	<u>/s/ William L. Hiott, Jr.</u> William L. Hiott, Jr., Director
March 2, 2023	<u>/s/ Richard W. Hutson, Jr.</u> Richard W. Hutson, Jr., Director
March 2, 2023	<u>/s/ Charles G. Lane</u> Charles G. Lane, Director
March 2, 2023	<u>/s/ Hugh C. Lane, Jr.</u> Hugh C. Lane, Jr., Chairman of the Board, Director
March 2, 2023	<u>/s/ Alan I. Nussbaum</u> Alan I. Nussbaum, MD, Director
March 2, 2023	<u>/s/ Josette R. E. Pelzer, PhD, CPA</u> Josette R. E. Pelzer, PhD, CPA, Director
March 2, 2023	<u>/s/ Karen J. Phillips</u> Karen J. Phillips, Director
March 2, 2023	<u>/s/ Edmund Rhett, Jr. MD</u> Edmund Rhett, Jr. MD, Director
March 2, 2023	<u>/s/ Malcolm M. Rhodes</u> Malcolm M. Rhodes, MD, Director
March 2, 2023	<u>/s/ Douglas H. Sass</u> Douglas H. Sass, Executive Vice President, Director
March 2, 2023	<u>/s/ Sheryl G. Sharry</u> Sheryl G. Sharry, Director
March 2, 2023	<u>/s/ Steve D. Swanson</u>

Steve D. Swanson, Director

March 2, 2023

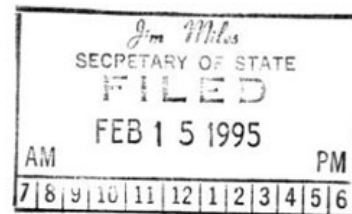
/s/ Susanne K. Boyd

Chief Operating Officer/Executive Vice President, Director

March 2, 2023

/s/ Eugene H. Walpole, IV

Chief Financial Officer/Executive Vice President, Director

APPENDIX I TO
EXHIBIT ASTATE OF SOUTH CAROLINA
SECRETARY OF STATE
ARTICLES OF INCORPORATION

1. The name of the proposed corporation is Bank of South Carolina Corporation.

2. The initial registered office of the corporation is

256 Meeting Street

Street & Number

Charleston

Charleston

SC

29401

City

County

State

Zip Code

and the initial registered agent at such address is

Nathaniel I. Ball, III

3. The corporation is authorized to issue shares of stock as follows: Complete a or b, whichever is applicable:

a. ☒ If the corporation is authorized to issue a single class of shares, the total number of shares authorized is 3,000,000.

b. ☐ The corporation is authorized to issue more than one class of shares:

Class of Shares

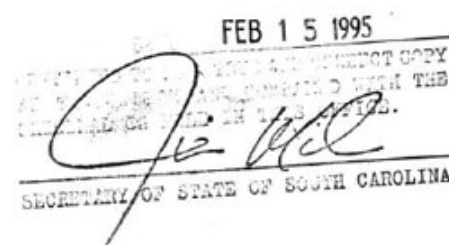
Authorized No. of Each Class

The relative rights, preferences, and limitations of the shares of each class, and of each series within a class, are as follows:

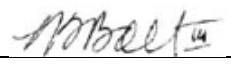
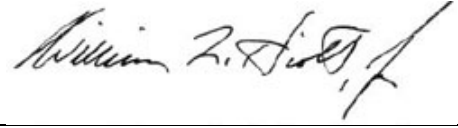
4. The existence of the corporation shall begin when these articles are filed with the Secretary of State unless a delayed date is indicated (See §33-1-230(b)): _____

5. The optional provisions which the corporation elects to include in the Articles of Incorporation are as follows (See §33-2-102 and the applicable comments thereto; and 35-2-105 and 35-2-221 of the 1976 South Carolina Code):

See attached sheet for additional provisions.



6. The name and address and signature of each incorporator is as follows (only one is required):

Name	Address	Signature
Hugh C. Lane, Jr.	30 Church Street Charleston, SC 29401	
Nathaniel I. Ball, III	2630 Bayonne Street Sullivans Island, SC 29482	
William L. Hiott, Jr.	1831 Capri Drive Charleston, SC 29407	

7. I, John H. Warren, III, an attorney licensed to practice in the State of South Carolina, certify that the corporation, to whose articles of incorporation this certificate is attached, has complied with the requirements Chapter 2, Title 33 of the 1976 South Carolina Code relating to the articles of incorporation.

DATED: February 13, 1995



Signature
John H. Warren, III

Type or Print Name
Post Office Box 1254

Address
Charleston, SC 29402

City, State, Zip

FILING INSTRUCTIONS

1. Two copies of this form, the original and either a duplicate original or a conformed copy, must be filed.
2. If the space in this form is insufficient, please attach additional sheets containing a reference to the appropriate paragraph in this form.
3. The fee to be paid at the time of filing this form is \$135 which includes the following: \$10.00 filing fee for the Articles of Incorporation; \$100 for the filing tax; \$25 for the minimum license fee. Attach one check in the amount of \$135.00 made payable to the Office of the Secretary of State to the Articles when filed.
4. THIS FORM MUST BE ACCOMPANIED BY THE FIRST REPORT OF CORPORATIONS (see §12-19-02).

RETURN FORMS TO: OFFICE OF SECRETARY OF STATE
Corporation Division
P.O. Box 11350
Columbia, S.C. 29211

FORM REVISED 8/94



ARTICLES OF INCORPORATION
OF
BANK OF SOUTH CAROLINA CORPORATION

Additional Provisions:

5. (a) Shareholders will not have pre-emptive rights.
- (b) Pursuant to Section 33-2-105(a) the following shall be directors of the Corporation:

Nathaniel I. Ball, III
2630 Bayonne Street
Sullivans Island, SC 29482

Leon Banov, Jr., MD
89 Chadwick Drive
Charleston, SC 29407

James E. Brown, DDS
6908 Rivers Avenue
Charleston Heights, SC 29418

William T. Cooper
21 Jamestown Road
Charleston, SC 29407

C. Ronald Coward
1996 Ronlin Farm Road
Awendaw, SC 29429

Louis Y. Dawson, III
33 Church Street
Charleston, SC 29401

Leonard C. Fulghum
311 Middle Street
Mt. Pleasant, SC 29464

T. Dean Harton
4620 Lazy Creek Lane
Wadmalaw, SC 29487

John F. Hassell, Jr.
1536 Rifle Range Road
Mt. Pleasant, SC 29464

William L. Hiott, Jr.
1831 Capri Drive
Charleston, SC 29407

James H. Holcombe
16 Church Street
Charleston, SC 29401

Katherine M. Huger
72 Murray Boulevard
Charleston, SC 29401

John E. Huguley
22 Murray Boulevard
Charleston, SC 29401

Charles G. Lane
10 Gillon Street
Charleston, SC 29401

Hugh C. Lane, Jr.
30 Church Street
Charleston, SC 29401

Louise J. Maybank
8 Meeting Street
Charleston, SC 29401

Thomas W. Myers
90 Gaillard Lane
Summerville, SC 29483

Thomas C. Stevenson, III
173 Tradd Street
Charleston, SC 29401

John M. Tupper
113 Linwood Drive
Summerville, SC 29483

**AMENDED AND RESTATED BY-LAWS
OF
BANK OF SOUTH CAROLINA CORPORATION**

ARTICLE I - OFFICES

The principal office of the Corporation in the State of South Carolina shall be located at 256 Meeting Street in the City of Charleston, in the County of Charleston, South Carolina. The Board of Directors shall have the power to change the location of the principal office to any other place within the limits of the County of Charleston, South Carolina, without the approval of the shareholders. The Corporation may have such other offices, as the Board of Directors may designate or as the business of the Corporation may from time to time require, without the approval of the shareholders.

ARTICLE II - SHAREHOLDERS

1. Annual Meeting.

The regular annual meeting of the Shareholders shall be held on the second Tuesday of April in each year for the purpose of electing Directors and for the transaction of such other business as may come before the meeting. If the day fixed for the annual meeting shall be a legal or banking holiday in the State of South Carolina, such meeting shall be held on the next succeeding business day. If the election of Directors shall not be held on the day designated herein for any annual meeting of the Shareholders, or at any adjournment thereof, the Board of Directors shall cause the election to be held at a special meeting of the Shareholders as soon thereafter as possible.

2. Special Meetings.

Special meetings of the Shareholders, for any purpose or purposes, unless otherwise prescribed by statute, may be called by the President or by a majority of the Board of Directors, and shall be called by the President at the request of the holders of not less than ten (10%) percent of all the outstanding shares of the Corporation entitled to vote at the meeting.

3. Place of Meeting.

The Directors may designate any place, either within or without the State, unless otherwise prescribed by statute, as the place of meeting for any annual or for any special meeting called by the Directors. A waiver of notice signed by all Shareholders entitled to vote at a meeting may designate any place, either within or without the State, unless otherwise prescribed by statute, as the place for holding such meeting. If no designation is made or if a special meeting be otherwise called, the place of meeting shall be the principal office of the Corporation.

4. Notice of Meeting.

Written or printed notice, stating the place, day, and hour of the meeting, and, in case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than ten (10) days nor more than fifty (50) days before the date of the meeting, either personally or by mail, by or at the direction of the President or the Secretary or the officer or persons calling the meeting, to each Shareholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail, addressed to the Shareholder at his address as it appears on the stock transfer books of the Corporation, with postage thereon prepaid.

When a meeting is adjourned, for whatever reason, for thirty (30) days or more, notice of the adjourned meeting shall be given as provided by this section. Notice of a meeting adjourned for less than thirty (30) days need not be given if the time and place of the adjourned meeting are announced at the meeting at which the adjournment is taken, and at the adjourned meeting the Corporation may transact any business which might have been transacted at the meeting at which the adjournment was taken.

5. Closing of Transfer Books or Fixing of Record Date.

For the purpose of determining Shareholders entitled to notice of or to vote at any meeting of Shareholders or any adjournment thereof, or Shareholders entitled to receive payment of any dividend, or in order to make a determination of Shareholders for any other proper purpose, the Board of Directors of the Corporation may fix in advance a date as the record date for any such determination of Shareholders, such date, in any case, to be not more than fifty (50) days and, in case of a meeting of Shareholders, not less than ten (10) days prior to the date on which the particular action, requiring such determination of Shareholders, is to be taken. If no record date is fixed for the determination of Shareholders entitled to notice of or to vote at a meeting of Shareholders, or Shareholders entitled to receive payment of a dividend, the date on which notice of the meeting is mailed or the date on which the Resolution of the Board of Directors declaring such dividend is adopted, as the case may be, shall be the record date for such determination of Shareholders. When a determination of Shareholders entitled to vote at any meeting of Shareholders has been made, as provided in this Section, such determination shall apply to any adjournment thereof, unless a new record date is fixed in accordance with the provisions of this Section 5.

6. Voting Lists.

The officer or agent having charge of the stock transfer books for shares of the Corporation shall, in advance of each meeting of Shareholders, prepare a complete list of the Shareholder entitled to vote at any meeting of Shareholders or adjournment thereof. Such lists shall be arranged in alphabetical order, with the address of and the number of shares held by each Shareholder. The requirement of a list shall be satisfied, and no list need be prepared, if the record of Shareholders readily shows, in alphabetical order or by alphabetical index, and by classes or series, if any, the information required to appear in a list of Shareholders. For a period commencing upon the date when notice of the meeting is given, and, in no event, less than ten (10) days prior to the date of the meeting, such list of Shareholders shall be kept on file at the registered office of the Corporation or at its principal place of business or at the office of its transfer agent or registrar, and shall be subject to inspection by any Shareholder at any time during usual business hours.

7. Nominations for Director.

Nominations for election to the Board of Directors may be made by the Board of Directors or by any stockholder of any outstanding class of capital stock of the Corporation entitled to vote for the election of directors. Nominations other than those made by or on behalf of the existing management of the Corporation, shall be made in writing and shall be delivered or mailed to the President of the Corporation, not less than fourteen (14) days nor more than fifty (50) days prior to any meeting of shareholders called for the election of directors, provided, however, that if less than twenty-one (21) days' notice of the meeting is given to shareholders, such nomination shall be mailed or delivered to the President of the Corporation not later than the close of business on the seventh (7th) day following the day on which the notice of meeting was mailed. Such notification shall contain the following information to the extent known to the notifying shareholder: (a) the name and address of each proposed nominee; (b) the principal occupation of each proposed nominee; (c) the total number of shares of capital stock of the Corporation that will be voted for each proposed nominee; (d) the name and residence address of the notifying shareholder; and (e) the number of shares of capital stock of the Corporation owned by the notifying shareholder. Nominations not made in accordance herewith may, in his discretion, be disregarded by the President of the meeting, and upon his instructions, the vote tellers may disregard all votes cast for each such nominee.

8. Quorum.

At any meeting of Shareholders, fifty (50%) percent of the outstanding shares of the Corporation entitled to vote, represented in person or by proxy, shall constitute a quorum at the meeting of Shareholders. If less than said number of the outstanding shares are presented at a meeting, a majority of the shares so represented may adjourn the meeting from time to time without further notice. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally notified. The Shareholders present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough Shareholders to leave less than a quorum.

9. Proxies.

At all meetings of Shareholders, a Shareholder may vote by proxy executed in writing by the shareholder or his duly authorized attorney in fact, but no officer or employee of this Corporation shall act as proxy. Proxies shall be valid only for one meeting, to be specified therein, and any adjournments of such meeting. Such proxy shall be dated and filed with the Secretary of the Corporation before or at the time of the meeting. The Secretary shall file all proxies in the records of the Corporation. No proxy shall be valid after eleven (11) months from the date of its execution.

10. Voting of Shares.

Subject to the provisions of Section 13 of this Article II, each outstanding share entitled to vote shall be entitled to one (1) vote upon each matter submitted to a vote at a meeting of Shareholders.

11. Voting of Shares by Certain Holders.

Shares standing in the name of a Shareholder-corporation may be voted by such officer, agent, or proxy, as the by-laws of such Shareholder-corporation may prescribe, or, in the absence of such provision, as the board of directors of such Shareholder-corporation may determine. In the absence of any such designation, the chairman of the board, president, any vice-president, secretary, and treasurer of the Shareholder-corporation shall be presumed to possess, in that order, authority to vote such shares, unless prior to such vote, it appears, by a certified copy of the by-laws or other instrument of the Shareholder-corporation, that such authority does not exist or is vested in some other officer or person. In case of conflicting representation of the Shareholder-corporation, the shares shall be voted by the senior officer, in the order stated.

Shares held by an administrator, executor, guardian, or committee may be voted by him, either in person or by proxy, without a transfer of such shares into his name. Any other fiduciary, upon proof satisfactory to the Corporation of his authority to vote, may vote shares which stand of record in the name of the person for whom he is such fiduciary.

A minor may vote, in person or by proxy, shares which stand of record in his name, and may not thereafter disaffirm or avoid such vote.

Shares held by a person as custodian for a minor under the South Carolina Uniform Gifts to Minors Act (Sections 20-7-140 to 20-7-270, South Carolina Code of Laws, 1976, as amended) may be voted by the custodian, subject to applicable provisions of that act.

Shares held by or under the control of a trustee in bankruptcy or receiver or liquidator, may be voted by him without the transfer thereof into his name if authority to do so is conferred by statute or is authorized by the court which appointed such trustee, receiver, or liquidator. An assignee for the benefit of creditors may vote shares standing in the name of the assignor, unless otherwise provided in the instrument of assignment.

A shareholder whose shares are pledged shall be entitled to vote such shares until the shares have been transferred on the records of the Corporation into the name of the pledgee or a nominee of the pledgee, and thereafter the pledgee shall be entitled to vote the shares so long as they stand of record in the pledgee's name.

Shares standing in the name of a partnership may be voted by any partner and shares standing in the name of a limited partnership may be voted by any general partner.

Shares standing in the name of a person as life tenant may be voted by him, either in person or by proxy.

12. Informal Action by Shareholders.

Any action required to be taken at a meeting of the Shareholders or any other action which may be taken at a meeting of the Shareholders may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the Shareholders entitled to vote with respect to the subject matter thereof, and is filed with the Secretary of the Corporation as part of the corporate records.

13. Cumulative Voting.

At each election for Directors, every Shareholder entitled to vote at such election shall have the right to vote, in person or by proxy, the number of shares owned by him for as many persons as there are Directors to be elected and for whose election he has a right to vote, or to cumulate his votes by giving one (1) candidate as many votes as the number of such Directors multiplied by the number of his shares shall equal, or by distributing such votes on the same principal among any number of candidates. A Shareholder who intends to vote his shares as provided in this Section shall either (1) give written notice of such intention to the President or other officer of the Corporation not less than forty-eight (48) hours before the time fixed for the meeting, or (2) announce his intention in such meeting before the voting for Directors shall commence; and all Shareholders entitled to vote at such meeting shall, without further notice, be entitled to cumulate their votes.

14. Order of Business.

The order of business at all meetings of the Shareholders shall be as follows:

1. Roll Call
2. Proof of Note of Meeting or Waiver or Notice
3. Reading of Minutes of Preceding Meeting
4. Action on Proxy Items
5. Reports of Officers
6. Unfinished Business
7. New Business

ARTICLE III - BOARD OF DIRECTORS

1. **General Powers.**

The business and affairs of the Corporation shall be managed by its Board of Directors. Except as expressly limited by law, all corporate powers of this Corporation shall be vested in and may be exercised by the Board of Directors. The Directors shall, in all cases, act as a board, and they may adopt such rules and regulations for the conduct of their meetings and the management of the Corporation as they may deem proper, not inconsistent with these By-Laws, and the Laws of this State.

2. **Number, Tenure, and Qualifications.**

The initial number of Directors of the Corporation shall be nineteen (19). Each Director shall hold office until the next annual meeting of Shareholders and until his successor shall have been elected and qualified. The number of directors may be increased or decreased from time to time by a majority vote of the Board of Directors or the shareholders up to a maximum of twenty- five (25) and a minimum of fifteen (15). Each Director, during the full term of his directorship, shall own a minimum of one hundred (100) shares of unencumbered and unpledged shares of stock of this Corporation.

3. **Regular Meetings.**

A regular meeting of the Directors shall be held, without other notice than this By-Law, immediately after and at the same place at the annual meeting of Shareholders. The Directors may provide, by Resolution, the time and place for the holding of additional regular meetings without other notice than such Resolution.

4. **Special Meetings.**

Special meetings of the Directors may be called by or at the request of the President of the Corporation or by a majority of the Directors. The person or persons authorized to call special meetings of the Directors may fix the place for holding any special meeting of the Directors called by them.

5. **Notice.**

Notice of any special meeting shall be given at least ten (10) days previously thereto by written notice delivered personally or by telegram or mailed to each Director at his business address. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail so addressed, with postage thereon prepaid. If notice be given by telegram, such notice shall be deemed to be delivered when the telegram is delivered to the telegraph company. Notice of a meeting of Directors need not be given to a Director who signs a waiver of notice, either before or after the meeting. Attendance of a Director at a meeting shall, of itself, constitute a waiver of notice of such meeting, except where a Director attends a meeting for the express purpose of objecting at the beginning of the meeting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

6. Quorum.

A majority of the number of Directors fixed by Section 2 of this Article III then in office shall constitute a quorum for the transaction of business at any meeting of the Board of Directors.

7. Manner of Acting.

The vote of the majority of the Directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

8. Action Without a Meeting.

Action taken without a meeting by a majority of Directors shall be deemed action of the Board of Directors if all Directors execute, either before or after the action is taken, a written consent thereto and the consent is filed with the records of the Corporation.

9. Newly Created Directorships and Vacancies.

Newly created Directorships resulting from an increase in the number of Directors and vacancies occurring in the Board of Directors for any reason, except the removal of Directors without cause, may be filled by a vote of a majority of the Directors then in office, although less than a quorum exists. Vacancies occurring by reason of the removal of Directors without cause shall be filled by vote of the Shareholders. A Director elected to fill a vacancy caused by resignation, death, or removal shall be elected to hold office for the unexpired term of his predecessor.

10. Removal of Directors.

Any or all of the Directors may be removed for cause by vote of the Shareholders or by action of the Board of Directors. Directors may be removed without cause only by vote of the Shareholders.

11. Resignation.

A Director may resign at any time by giving written notice to the Board of Directors, the President, or the Secretary of the Corporation. Unless otherwise specified in the notice, the resignation shall take effect upon receipt thereof by the Board of Directors or such officer and the acceptance of the resignation shall not be necessary to make it effective.

12. Compensation.

By Resolution of the Board of Directors a sum may be set as compensation for Directors and/or, a fixed sum and expenses for actual attendance at each regular or special meeting of the Board of Directors may be authorized. All compensation due to Directors as directors shall be in such form as determined by the Board of Directors. Nothing herein contained shall be construed to preclude any Director from serving the Corporation in any other capacity and receiving compensation therefor. The Board of Directors may also authorize compensation for service on committees.

13. Presumption of Assent.

A Director of the Corporation who is present at a meeting of the Directors at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent to such action with the person acting as the secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the Secretary of the Corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a Director who voted in favor of such action.

14. Executive Committee.

The President of the Corporation may designate from among members of the Board of Directors an Executive Committee to be composed of seven Directors, and other committees. Such committees and members thereof shall serve at the pleasure of the Board of Directors and exercise such functions as committed to them by a majority of the Board of Directors.

15. Investment Committee.

There shall be an Investment Committee composed of five Directors, or such larger number as approved by the Board of Directors, appointed by the Board of Directors annually or more often. The Investment Committee shall have the power to insure adherence to Investment Policy, to recommend amendments thereto, to purchase and sell securities, to exercise authority regarding investments and to exercise, when the Board of Directors is not in session, all other powers of the Board of Directors regarding investment securities that may be lawfully delegated. The Investment Committee shall keep minutes of its meetings, and such minutes shall be submitted at the next regular meeting of the Board of Directors at which a quorum is present, and any action taken by the Board of Directors with respect thereto shall be entered in the minutes of the Board of Directors.

16. Audit Committee.

There shall be an Audit Committee composed of not less than five (5) Directors, or such larger number as approved by the Board of Directors annually or more often, whose duty it shall be to make an examination at least once during each calendar year and within fifteen (15) months of the last such examination into the affairs of the Corporation or cause suitable examination to be made by auditors responsible only to the Board of Directors and to report the result of such examination in writing to the Board of Directors at the next regular meeting thereafter. Such report shall state whether the Corporation is in a sound condition, whether adequate internal controls and procedures are being maintained and shall recommend to the Board of Directors such changes in the manner of conducting the affairs of the Corporation as shall be deemed advisable.

17. Other Committees.

The Board of Directors may appoint, from time to time, from its own members, other committees of one or more persons, for such purposes and with such powers as the Board of Directors may determine.

ARTICLE IV - OFFICERS

1. General.

Except with respect to the offices of Chairman of the Board of Directors and President, any two (2) or more offices may be held by the same person, but no officer may act in more than one (1) capacity when action by two (2) or more officers is required.

2. Election and Term of Office.

The officers of the Corporation to be elected by the Directors shall be elected annually at the first meeting of the Directors held after each annual meeting of the Shareholders. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as convenient. Each officer shall hold office until his successor shall have been duly elected and shall have qualified or until his death or until he shall resign or shall have been removed in the manner hereinafter provided.

3. Removal.

Any officer or agent elected or appointed by the Directors may be removed by the Directors whenever, in their judgment, the best interests of the Corporation would be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment of an officer or agent shall not of itself create contract rights.

4. Vacancies.

A vacancy in any office because of death, resignation, removal, disqualification, or otherwise, may be filled by the Directors for the unexpired portion of the term; and any vacancy occurring in the Office of President shall be filled promptly by the Board of Directors.

5. President.

The Board of Directors shall appoint one of its members to be President of the Corporation. The President shall be the principal executive officer of the Corporation and shall report to the Chairman of the Board of Directors. Subject to the control of the Directors, the President shall, in general, supervise and control all of the business and affairs of the Corporation. He shall, when present, preside at all meetings of the Shareholders and of the Directors. He may sign, with the Secretary or any other proper officer of the Corporation thereunto authorized by the Directors, certificates for shares of the Corporation, any deeds, mortgages, bonds, contracts, or other instruments which the Directors have authorized to be executed, except in cases where the signing and execution thereof shall be expressly delegated by the Directors or by these By-Laws to some other officer or agent of the Corporation or shall be required by Law to be otherwise signed or executed; and, in general, shall perform all duties incident to the office of President and such other duties as may be prescribed by the Directors from time to time.

6. Vice-President.

The Board of Directors may appoint one or more Vice-Presidents. One Vice-President shall be designated by the Board of Directors, in the absence of the President or in the event of his death or inability or refusal to act, to perform the duties of the President and, when so acting, shall have all the powers of and be subject to all the restrictions upon the President. Each Vice-President shall have such powers and duties as from time to time may be assigned to him by the President or by the Directors.

7. Secretary.

The Board of Directors shall appoint a Secretary or other designated officer who shall be the Secretary of the Board of Directors and of the Corporation. The Secretary shall (a) keep the minutes of the Shareholders' and of the Directors' meetings in one (1) or more books provided for that purpose, (b) see that all notices are duly given in accordance with the provisions of these By-Laws or as required by Law, (c) be custodian of the corporate records and of the Seal of the Corporation and see that the Seal of the Corporation is affixed to all documents, the execution of which, on behalf of the Corporation under its Seal, is duly authorized, (d) keep a register of the post office address of each Shareholder which shall be furnished to the Secretary by Shareholder, (e) sign, with the President, certificates for shares of the Corporation, the issuance of which shall have been authorized by Resolution of the Board of Directors, and (f) in general, perform all duties incident to the office of Secretary and such other duties as from time to time may be assigned to him by the President or by the Board of Directors.

8. Other Officers.

The Board of Directors will appoint a Chairman and may appoint a Vice Chairman of the Board of Directors and one or more Assistant Vice Presidents, one or more Executive Vice Presidents, one or more Senior Vice Presidents, one or more Assistant Secretaries, one or more Assistant Cashiers, and such other officers and attorneys-in-fact as from time to time may appear to the Board of Directors to be required or desirable to transact the business of the Corporation. Such officers shall respectively exercise such powers and perform such duties as pertain to their several offices, or as may be conferred upon, or assigned to, them by the Board of Directors, or the President.

9. Salaries

The salaries of the President, all vice presidents and above shall be fixed from time to time by the Directors; the salaries of all other officers shall be fixed from time to time by the President (or his designee) within guidelines established by the Board of Directors; and no officer shall be prevented from receiving such salary by reason of the fact that he is also a Director of the Corporation.

ARTICLE V - EXECUTION OF INSTRUMENTS

1. Execution of Instruments.

All agreements, indentures, mortgages, deeds, conveyances, transfers, certificates, declarations, receipts, discharges, releases, satisfactions, settlements, petitions, schedules, accounts, affidavits, bonds, undertakings, proxies and other instruments or documents that have been duly authorized to be executed on behalf of the Corporation by action of the Board of Directors may be signed, executed, acknowledged, verified, delivered or accepted on behalf of the Corporation by the President, or any Vice President, or the Secretary, or, if in connection with exercise of fiduciary powers of the Corporation, by any of said officers, by their manual or facsimile signatures. Any such instruments may also be executed in such other manner and by such other officers as the Board of Directors may from time to time direct. The provisions of this Article V are supplementary to any other provision of these ByLaws.

ARTICLE VI - CERTIFICATES FOR SHARES AND THEIR TRANSFER

1. Certificates for Shares.

Certificates representing shares of the Corporation shall be in such form as shall be determined by the Board of Directors. Such certificates shall be signed by the President and by the Secretary, Assistant Secretary, or by such other officers authorized by Law and by the Board of Directors so to do and sealed with the corporate Seal. Each certificate representing shares shall state upon the face thereof:

- a. That the Corporation is organized under the Laws of the State of South Carolina;
- b. The name of the person to whom issued;
- c. The number and class of shares and the designation of the series, if any, which such certificate represents; and
- d. The par value of each share represented by such certificate or a statement that the shares are without par value.

All certificates for shares shall be consecutively numbered or otherwise identified. The name and address of the person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered on the stock transfer books of the Corporation. All certificates surrendered to the Corporation for transfer shall be cancelled and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and canceled, except that, in case of a lost, destroyed, or mutilated certificate, a new one may be issued therefor upon such terms and indemnity to the Corporation as the Board of Directors may prescribe.

2. Transfer of Shares.

Transfer of shares of the Corporation shall be made only on the stock transfer books of the Corporation. Title to a certificate and to the shares in a Corporation represented thereby can be transferred only (a) by delivery of the certificate endorsed either in blank or to a specified person by the person appearing by the certificate to be the owner of the shares represented thereby; or (b) by delivery of the certificate and a separate document containing a written assignment of the certificate or a power of attorney to sell, assign, or transfer the same or the shares represented thereby, signed by the person appearing by the certificate to be the owner of the shares represented thereby. Such assignment or power of attorney may be either in blank or to a specified person. The person in whose name shares stand on the books of the Corporation shall be deemed by the Corporation to be the owner thereof for all purposes.

ARTICLE VIII - FISCAL YEAR

The fiscal year of the Corporation shall begin on the first day of January in each year.

ARTICLE VIII - DIVIDENDS

The Board of Directors may from time to time declare, and the Corporation may pay, dividends on its outstanding shares in the manner and upon the terms and conditions provided by Law and, its Articles of Incorporation.

ARTICLE IX - SEAL

The Board of Directors shall provide a corporate Seal which shall be circular in form and shall have inscribed thereon the name of the Corporation, the State of incorporation, year of incorporation, and the words "Corporate Seal".

ARTICLE X - WAIVER OF NOTICE

Unless otherwise provided by Law, whenever any notice is required to be given to any Shareholder or Director of the Corporation under the provisions of these By-Laws or under the provisions of the Articles of Incorporation, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice.

ARTICLE XI - INDEMNIFICATION

The Corporation shall indemnify any person who is or was a Director, officer, employee, or agent of the Corporation who is made a party to any suit, action, or proceeding, whether civil, criminal, administrative, or investigative, including any action by or in the right of the Corporation by reason of the fact that he is or was a Director, officer, employee, or agent of the Corporation, including attorney fees actually or reasonably incurred by him in connection with such action, suit, or proceeding, if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Corporation, including any claim, judgments, amounts paid in settlement, and attorney fees except that no indemnification shall be made in respect for a criminal proceeding or as to such person guilty of a violation of a criminal law, or as to which such person shall have been adjudged to be liable for willful or gross negligence or willful misconduct in the performance of his duty to the Corporation.

ARTICLE XIII - BY-LAWS

1. **Amendments.**

The holders of a majority of shares entitled to vote to elect Directors may alter, amend, or repeal these By-Laws or adopt new By-Laws, provided that the Board of Directors may alter, amend, or repeal these By-Laws or adopt new By-Laws, subject always to the right of the Shareholders as above to alter, amend, or repeal these By-Laws or adopt new By-Laws.

2. **Inspection.**

A copy of the By-Laws, with all amendments thereto, shall at all times be kept in a convenient place at the Main Office of the Corporation, and shall be open for inspection to all Shareholders, during banking hours.

**DESCRIPTION OF THE REGISTRANT'S SECURITIES
REGISTERED PURSUANT TO SECTION 12 OF THE
SECURITIES EXCHANGE ACT OF 1934**

The following description sets forth certain material terms and provisions of the securities of Bank of South Carolina Corporation (the “Company,” “we,” “us,” or “our”) that are registered under Section 12 of the Securities Exchange Act of 1934. The following summary does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the applicable provisions of our articles of incorporation, as amended, and our amended and restated bylaws, copies of which are filed with or incorporated by reference as exhibits to the Annual Report on Form 10-K of which this Exhibit 4.1 is a part. We encourage you to read our articles of incorporation, as amended, and our amended and restated bylaws for additional information.

Description of Common Stock, No Par Value per Share

General. Holders of our common stock are entitled to one vote per share, to receive dividends when and if declared by our Board of Directors and to share ratably in the assets of the Company legally available for distribution to our shareholders in the event of liquidation. Holders of our common stock have no preemptive, subscription, redemption or conversion rights. All outstanding shares of our common stock are, upon issuance and payment therefor, duly authorized, fully paid and nonassessable. The holders of our common stock have cumulative voting rights with respect to the election of directors, subject to certain advance notice requirements set forth in the bylaws and applicable provisions of the South Carolina Business Corporation Act. Directors are elected by a plurality of the votes cast by the shares entitled to vote in the election at a meeting at which a quorum is present. On all other matters, assuming a quorum is present and unless otherwise provided by law, action on a matter is approved if the votes cast favoring the action exceed the votes cast opposing the action.

The issuance of additional shares of our common stock may have the effect of delaying, deferring or preventing a change of control of the Company.

Dividends. As a South Carolina corporation, we are not directly subject to the restrictions on the payment of cash dividends applicable to our subsidiary bank. The Board of Governors of the Federal Reserve System (the “Federal Reserve”) has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses the Federal Reserve’s view that a bank holding company should pay cash dividends only to the extent that the holding company’s net income for the past year is sufficient to cover both the cash dividends and a rate of earning retention that is consistent with the holding company’s capital needs, asset quality and overall financial condition.

Holders of shares of our common stock are entitled to receive such cash dividends as the board of directors may declare out of legally available funds. However, our payment of cash dividends will be subject to the restrictions of South Carolina law applicable to the declaration of distributions to shareholders by a business corporation. Under such provisions, distributions, including cash dividends, may not be paid if, after giving effect to such cash dividend or other distribution, a corporation would not be able to pay its debts as they become due in the usual course of business or the corporation’s total assets would be less than the sum of its total liabilities plus the amount that would be needed to satisfy certain preferential liquidation rights. Our ability to pay cash dividends to the holders of shares of our common stock is, at the present time and for the foreseeable future, largely dependent upon the amount of cash dividends that our subsidiary bank pays to us.

Regulatory Restrictions on Ownership. The Bank Holding Company Act of 1956, as amended (the “BHCA”), requires any “bank holding company,” as defined in the BHCA, to obtain the approval of the Federal Reserve before acquiring 5% or more of our common stock. Any person, other than a bank holding company, is required to obtain the approval of the Federal Reserve before acquiring 10% or more of our common stock under the Change in Bank Control Act. Generally, any company (as defined under the BHCA) that owns or controls 25% or more of our common stock, or a company that owns or controls 5% or more if such company otherwise exercises a “controlling influence” over us, is subject to regulation as a bank holding company under the BHCA.

Charter and Bylaw Provisions Having Potential Anti-Takeover Effects

The following paragraphs summarize certain provisions of our articles of incorporation, as amended, and amended and restated bylaws that may have the effect, or be used as a means, of delaying or preventing attempts to acquire or take control of the Company, or to remove or replace incumbent directors, that are not first approved by our board of directors, even if those proposed actions are favored by our shareholders. All references to our articles of incorporation reference such articles as amended to date.

Authorized Shares. Our Board of Directors is authorized to approve the issuance of shares of our common stock from time to time. Our Board of Directors has considerable flexibility to effect, among other transactions, financings, acquisitions, stock dividends, stock splits, and grants of stock options. However, the board’s authority also could be used, consistent with the board’s fiduciary duty, to deter future attempts to gain control of the Company by issuing additional common stock to persons friendly to management in order to attempt to block a tender offer, merger, or other transaction by which a third party seeks to gain control.

Advance Notice of Director Nominations. Our bylaws provide that in order to be eligible for consideration at a meeting of shareholders, all nominations for election to the Board of Directors, other than those made by our nominating committee, must be made in writing and delivered or mailed to the President/Chief Executive Officer of the Company not less than 14 days or no more than 50 days prior to any meeting of shareholders calling for election of directors; provided however, that if less than 21 days’ notice of the meeting is given to shareholders, such nomination shall be mailed or delivered to the President/Chief Executive Officer of the Company not later than the close of business on the 7th day following the day on which the notice of meeting was mailed. Only shareholders entitled to vote in the election for directors may make nominations to our Board of Directors.

Special Meetings of Shareholders. Our bylaws provide that, unless otherwise prescribed by law, special meetings of our shareholders (1) may be called only by (a) a majority of our Board of Directors, or (b) the president of the Company, and (2) shall be called by the president of the Company at the request of holders of not less than ten percent (10%) of all the outstanding shares of the Company entitled to vote at such a meeting.

Removal of Directors; Filling Vacancies. Our bylaws provide that any or all of our directors may be removed for cause by vote of the shareholders or by action of the Board of Directors. Directors may be removed without cause only by vote of the shareholders. Newly created directorships resulting from an increase in the number of directors and vacancies occurring in the Board of Directors for any reason, except the removal of directors without cause, may be filled by a vote of a majority of the directors then in office. Vacancies occurring by reason of the removal of directors without cause must be filled by vote of the shareholders. A director elected to fill a vacancy caused by resignation, death, or removal shall be elected to hold office for the unexpired term of his or her predecessor.

Amendment of Bylaws. Our bylaws provide that the holders of a majority of shares entitled to elect directors may alter, amend, or repeal the bylaws or adopt new bylaws, provided that the Board of Directors may alter, amend, or repeal the bylaws or adopt new bylaws, subject to the right of the shareholders as stated above to alter, amend, or repeal the bylaws or adopt new bylaws.

BANK OF SOUTH CAROLINA CORPORATION

List of Subsidiaries of the Registrant

Name	State of Incorporation or Organization
The Bank of South Carolina	South Carolina

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement No. 333-255203 and the Registration Statement No. 333-237676 on Form S-8 of Bank of South Carolina Corporation of our report dated March 2, 2023, relating to the consolidated financial statements of Bank of South Carolina Corporation and subsidiary, which appear in this Annual Report on Form 10-K of Bank of South Carolina Corporation for the year ended December 31, 2022.

/s/ Elliott Davis, LLC

Charleston, South Carolina
March 2, 2023

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

CERTIFICATION

I, Fleetwood S. Hassell, certify that:

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

Date: March 2, 2023

/s/ Fleetwood S. Hassell

Fleetwood S. Hassell

President/Chief Executive Officer

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

CERTIFICATION

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

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

Date: March 2, 2023

/s/ Eugene H. Walpole, IV

Eugene H. Walpole, IV

Chief Financial Officer/Executive Vice President

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

I, Fleetwood S. Hassell, President/Chief Executive Officer of Bank of South Carolina Corporation (the “Company”), certify, that to the best of my knowledge, based upon a review of the annual report on Form 10-K for the period ended December 31, 2022 of the Company (the “Report”):

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

Date: March 2, 2023

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

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

I, Eugene H. Walpole, IV, Chief Financial Officer/Executive Vice President of Bank of South Carolina Corporation (the “Company”), certify that to the best of my knowledge, based upon a review of the annual report on Form 10-K for the period ended December 31, 2022 of the Company (the “Report”):

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

Date: March 2, 2023

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