BANK OF SOUTH CAROLINA CORP
Form 10KSB
March 03, 2008

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-KSB

þ **ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2007

o **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number: 0-27702

BANK OF SOUTH CAROLINA CORPORATION

(Name of small business issuer in its charter)

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

Issuer s telephone number: (843) 724-1500

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

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

Common Stock

(Title of Class)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 þ No o

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained to the best of the registrant s knowledge, in definitive proxy information statements incorporated by reference in Part III of this Form 10-KSB or any amendments to this Form 10-KSB.

Not applicable

Issuer s revenues for its most recent fiscal year: $18,164,343

Aggregate market value of the voting stock held by non-affiliates, computed by reference to the closing price of such stock on February 22, 2008 was: $53,418,324

As of February 22, 2008, the Registrant has outstanding 3,953,984 shares of common stock.

Transitional Small Business Disclosure Format (check one): Yes o No þ

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AND SUBSIDIARY
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PART I

Item 1. Description of Business

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

The Company, a bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended and as such, is under the supervisory and regulatory authority of the Board of Governors of the Federal Reserve System (the Federal Reserve). As a bank holding company registered under the laws of the South Carolina Bank Holding Company Act, the Company is also subject to regulation by the South Carolina State Board of Financial Institutions. Thus, the Company is required to file annual reports and other information with the Federal Reserve and the South Carolina State Board of Financial Institutions regarding its financial condition, results of operations, management and intercompany relationships and transactions between the Company and its subsidiaries. The Company is publicly traded on the National Association of Securities Dealers Automated Quotations (NASDAQ), and is under the reporting authority of the Securities and Exchange Commission (SEC). Compliance with federal, state and local provisions regulating the discharge of materials into the environment had no material effect on the capital expenditures, earnings and competitive position of the Bank in fiscal year ended December 31, 2007.

The Company s subsidiary bank, The Bank of South Carolina, is a state chartered financial institution, and as such, is subject to various statutory requirements, supervision and regulation, of which regular bank examinations are a part, promulgated and enforced primarily by the Federal Deposit Insurance Corporation (FDIC), through which the Bank is insured, and the South Carolina State Board of Financial Institutions. Since the primary asset of the Company is its wholly-owned subsidiary, the majority of the following discussion relates to the Bank.

The Bank serves Berkeley, Charleston and Dorchester counties (the Tri-County Area) as an independent, community-oriented commercial bank concentrating on individuals and small and medium-sized businesses desiring a high level of personalized services. The four banking house locations of the Bank include: 256 Meeting Street, Charleston, SC, 100 North Main Street, Summerville, SC, 1337 Chuck Dawley Boulevard, Mt. Pleasant, SC and 2027 Sam Rittenberg Boulevard, Charleston, SC.

The Bank offers a full range of deposit services. Checking account services include regular non-interest bearing checking accounts as well as interest bearing negotiable order of withdrawal (NOW) accounts. Savings and certificate of deposit accounts include accounts ranging from a daily maturity (regular savings and also money market accounts) to longer term certificates as authorized by regulation. The Bank offers tiered interest to its customers on both money market and NOW accounts. In addition, Individual Retirement Accounts are available. During 2006, the bank added health savings accounts to its deposit services. All deposit accounts are insured by the FDIC to the full amount permitted by law. Deposit accounts are solicited from individuals, businesses, professional organizations and governmental authorities.

Lending services include a full range of commercial, personal and mortgage loans. The Bank s primary focus is on business lending. The types of commercial loans that are available include both secured and unsecured loans for working capital (including inventory and receivables), business expansion (including acquisition of real estate and improvements) and purchase of machinery and equipment. From time to time the Bank may make real estate loans for land acquisition, land development or construction loans. The types of personal loans that are available include secured and unsecured loans for such purposes as financing automobiles, home improvements, education, lot acquisition, construction, home equity loans and personal investments. The Bank offers a personal checking account related line of credit. This line of credit is available for both protection against unexpected overdrafts and also for the convenience of having a pre-arranged loan that can be activated simply by a check drawn on a personal checking account. In the fourth quarter of 1993, a residential mortgage lending department was opened with mortgage loans being provided through correspondent relationships. The Bank originates, processes and closes the loan and sells (each individually) to a correspondent.

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The Bank offers credit cards (through correspondent banking services) including MasterCard(TM) and Visa(TM). The Bank does not have a proprietary automated teller machine but participates in a national ATM network through the Visa Debit Card Program. This service is called   Check Card   by the Bank and also offers purchases by the cardholder where Visa debit cards are accepted worldwide using a direct charge to their checking account. Other services offered, but not limited to, include safe deposit boxes, letters of credit, travelers checks, direct deposit of payroll, social security and dividend payments and automatic payment of insurance premiums and mortgage loans. The Bank offers a courier service and ACH origination service as part of its deposit services for commercial customers. Internet Banking called   ESafe   by the Bank, offers twenty-four hour information, up-to-the minute account activity, automatic transfers or one-time transfers between accounts, actual images of customer checks, and statement viewing. The Bank will begin offering internet   Bill Pay   services in 2008. The Bank s website, www.banksc.com, provides direct access to public filings by the Company. In 2006, the Company implemented a direct stock purchase plan and a dividend reinvestment plan through Computershare.

The business of the Bank is not considered to be seasonal nor is the Bank s business dependent on any one industry. The Company s accounting policies are discussed in Item 7, Note 1 to the Consolidated Financial Statements. Of these significant accounting policies, the Company considers its policies regarding the allowance for loan losses to be its most critical accounting policy due to the significant degree of management judgment. For additional discussion concerning the Company s allowance for loan losses and related matters, see Item 6,   Allowance for Loan Losses .

The Company was authorized by its Board of Directors at its December 1995 board meeting to repurchase up to 116,462 shares of its common stock on the open market from time to time, and, at its October, 1999 Board meeting, to repurchase up to 37,812 shares of its common stock on the open market from time to time, and, at its September, 2001 Board meeting, to repurchase up to 45,375 shares of its common stock on the open market from time to time. As of this date, 199,501 shares have been repurchased by the Company with 148 shares remaining that are authorized to be repurchased.

Since January 1, 1986, South Carolina law has permitted regional interstate banking. Pursuant to such law, several of the banks in the Tri-County Area have been acquired by banks with headquarters outside the State of South Carolina. In addition, South Carolina laws permit statewide branching by banks and savings and loan associations. In the Bank s primary service area, there are 20 financial institutions, of which seven are considered to have their headquarters in the Bank s service area. In addition, there are two savings banks and various credit unions with offices in the Tri-County Area. The Bank encounters strong competition from these financial institutions as well as consumer and commercial finance companies, insurance companies, brokerage firms and other financial institutions, some of which are not subject to the same degree of regulation and restrictions as the Bank. Many of these competitors have substantially greater resources and lending limits than the Bank has and offer certain services, such as trust and international banking services, which the Bank is not providing. The Bank does, however, provide a means for clearing international checks and drafts through a third party or correspondent bank.

At year- end 2007, the Bank employed 70 people, 2 of whom are considered part time employees, none of whom are subject to a collective bargaining agreement. Management believes its relationship with its employees is excellent.

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Item 2. Description of Property

The Bank leases its headquarters and office facilities at 256 Meeting Street in downtown Charleston. On June 30, 1995, the Bank was successful in renegotiating its lease for one hundred forty (140) months with two additional ten-year terms. Base rent was $26,432 monthly payable in advance for the first twenty (20) months and the remaining one hundred twenty (120) months of the term (which began March 1, 1997) and for the two (2) extensions of the original term is $24,801 per month in advance and is adjustable by 4% of the base rent every two years. The rent, payable in equal monthly installments of $30,175, will increase to $31,382 in March 2009. In addition, the Bank leases adjacent parking facilities at $3,042 per month.

In October of 1993, the Bank opened an office at 100 N. Main Street, Summerville, SC and entered into a lease agreement on August 9, 1993, with an original termination date of June 30, 1999, and two 5-year options to renew. In June of 2004, the bank was successful in renegotiating its 100 N. Main Street facilities lease beginning July 1, 2004 to an annual rent of $30,725 with an increase of $3,582 each year thereafter until July 1, 2009. The lease was a fixed rate of $2,262 through July 1, 2009; however, the new lease was negotiated so that the bank could remain in its current location with the option to expand. At the end of the five year term (June 30, 2009) The Bank of South Carolina will have three (3) ten (10) year options for renewal. During the renewal periods, the annual rent will be adjusted by the current Consumer Price Index (CPI) capped at 3% annually.

On November 1, 1995, the Bank entered into an agreement with an individual to lease property for construction of a new banking facility at 1337 Chuck Dawley Boulevard, Mt. Pleasant, SC. The original term of the lease is for fifteen (15) years with six (6) additional terms of five (5) years each. The base rent for the first ten (10) years was $2,250 per month paid in advance. Rent for years 11 through 15 and each six (6) option periods shall be adjusted to reflect an annualized return determined by multiplying the average yield on five (5) year U.S. Treasury Notes plus 150 basis points times an assumed raw land value of $325,000. The monthly rent, however, shall never be less than the original rent of $2,250 per month. As of February 22, 2008, the rent has not increased based on the above formula.

In the first quarter of 1997, the Bank purchased one acre of land for approximately $838,000 in order to construct a full service banking office and operations center in the West Ashley community of Charleston. In March, 1998, the two-story, 12,000 square foot facility was completed at a cost of approximately $1,334,000 representing construction costs and furnishings.

All leased properties are in good order and condition.

Item 3. Legal Proceedings

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

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended December 31, 2007.

PART II

Item 5. Market for the Company s Common Equity and Related Stockholder Matters

There were issued and outstanding 3,953,984 shares of the 12,000,000 authorized shares of common stock of the Company at the close of the Company s fiscal year ended December 31, 2007. These outstanding shares were held by approximately 1,200 shareholders in nominee names and of record on December 31, 2007. The common stock of the Company is traded in the capital market by twenty market making investment banking firms. These firms are Alternate Display Facility, Archipelago Stock Exchange, Automated Trading Desk, Citadel Derivative Group, LLC, Citigroup Global Markets, Inc., Hill, Thompson, Magid and Company, Howe Barnes Investments, Hudson Securities, Inc., JJB Hilliard WL Lyons, Knight Equity Markets, LP, Merrill Lynch, Monroe Securities Inc., Morgan Keegan & Company, Inc., Nasdaq Execution Services, LLC, Sandler O Neill & Partners, Scott & Stringfellow, Inc., Stern, Agee & Leach, Inc., Susquehanna Financial Group, LLLP, Susquehanna Financial Group and USB Securities, LLC. Stock quotations are available through the National Association of Securities Dealers Automated Quotations (NASDAQ) where the Bank s shares are listed as BKSC.

According to information supplied by The Nasdaq Stock Market, the range of high and low bid quotations for each quarterly period in the fiscal years 2007, 2006 and 2005 has been as follows:

	2007		2006		2005	
	High	Low	High	Low	High	Low
First Quarter	17.00	15.54	16.79	14.00	10.84	9.56
Second Quarter	16.37	15.10	17.60	15.03	12.79	10.55
Third Quarter	16.48	15.10	17.21	14.80	14.70	11.58
Fourth Quarter	16.30	13.82	17.21	15.63	15.24	13.38

The Board of Directors of Bank of South Carolina Corporation declared a quarterly dividend of $.14 per share to shareholders of record March 30, 2007, payable April 30, 2007; $.16 per share to shareholders of record July 2, 2007, payable July 31, 2007; $.16 per share to shareholders of record October 1, 2007, payable October 31, 2007; $.16 per share to shareholders of record December 31, 2007, payable January 31, 2008.

The Board of Directors of Bank of South Carolina Corporation declared quarterly dividends in 2006 of $.15 per share to shareholders of record March 31, 2006, payable April 28, 2006; 25% stock dividend to shareholders of record April 28, 2006, payable May 15, 2006; $.14 per share to shareholders of record June 30, 2006, payable July 31, 2006; $.14 per share to shareholders of record October 2, 2006, payable October 31, 2006; $.14 per share and a special $.10 per share to shareholders of record December 29, 2006, payable January 31, 2007.

The Board of Directors of Bank of South Carolina Corporation declared quarterly dividends in 2005 of $.12 per share to shareholders of record March 31, 2005, payable April 29, 2005; 10% stock distribution to shareholders of record April 29, 2005, payable May 16, 2005; $.12 per share to shareholders of record June 30, 2005, payable July 29, 2005; $.12 per share to shareholders of record September 30, 2005, payable October 31, 2005; $.15 per share to shareholders of record December 30, 2005, payable January 31, 2005.

As of January 1, 2007, there were approximately 1,200 shareholders of record with shares held by individuals and in nominee names, and on February 22, 2008, the market price for the common stock of the Company was $13.51. It is the intent of the Company to continue paying dividends in the future.

Cash dividends, when declared, are paid by the Bank to the Company for distribution to shareholders of the Company. Certain regulatory requirements restrict the amount of dividends which the Bank can pay to the Company. Dividends paid by the Bank to the Company totaled $2,670,000 for the year ended December 31, 2007.

Consolidated Financial Highlights

	2007	2006	2005	2004	2003
For December 31:					
Net Income	$ 3,831,244	$ 3,928,263	$ 3,185,006	$ 1,845,623	$ 1,904,713
Selected Year End Balances:					
Total Assets	225,157,090	243,472,740	222,517,526	201,235,286	187,342,649
Total Loans (1)	158,329,035	162,557,288	159,338,650	129,107,437	125,235,883
Investment Securities Available for Sale	35,840,019	40,897,855	39,833,240	45,638,694	26,489,162
Federal Funds Sold and Resale Agreements	18,357,674	26,857,657	10,600,904	15,476,959	22,522,973
Interest Bearing Deposits in Other Banks	8,109	7,990	7,872	7,783	7,725
Earning Assets	212,534,837	230,320,790	209,780,666	190,230,873	174,255,743
Deposits	197,346,458	215,316,901	197,847,314	179,070,078	166,142,512
Shareholders Equity	25,692,570	23,640,431	21,505,794	19,990,716	19,647,839
Weighted Average Shares Outstanding-Diluted	3,971,349	3,945,928	3,913,119	3,868,448	3,876,687
For the Year:					
Selected Average Balances:					
Total Assets	236,019,185	232,257,502	225,939,657	192,034,402	174,154,907
Total Loans (1)	162,006,962	159,659,211	147,844,856	123,923,761	130,056,441
Investment Securities Available for Sale	38,810,306	39,330,090	38,596,553	34,808,745	21,202,689
Federal Funds Sold and Resale Agreements	22,548,768	19,893,084	26,109,498	20,431,597	11,275,653
Interest Bearing Deposits in Other Banks	8,049	7,931	7,824	7,754	7,693
Earning Assets	223,374,085	218,890,316	212,558,731	179,171,857	162,542,476
Deposits	209,104,665	207,459,557	203,645,606	171,036,567	152,955,447
Shareholders Equity	24,841,050	22,841,402	20,867,968	19,904,862	19,626,907
Performance Ratios:					
Return on Average Equity	15.42%	17.20%	15.26%	9.27%	9.70%
Return on Average Assets	1.62%	1.69%	1.41%	.96%	1.09%
	10.53%	9.83%	9.24%	10.37%	11.27%

Average Equity to Average Assets					
Net Interest Margin	5.13%	5.24%	4.58%	3.93%	4.36%
Net (Recoveries) Charge-offs to Average Loans	(0.01)%	(0.02)%	0.03%	0.02%	0.15%
Allowance for Loan Losses as a Percentage of Total Loans (excluding mortgage loans held for sale)	.85%	.82%	.65%	.82%	.94%
Per Share:					
Basic Earnings	$ 0.97	$ 1.01	$ 0.83	$ 0.48	$ 0.49
Diluted Earnings	0.96	1.00	0.81	0.48	0.49
Year End Book Value	6.50	6.02	5.56	5.18	5.09
Cash Dividends Declared	0.62	0.67	0.51	0.44	0.44
Dividend Payout Ratio	61.89%	63.76%	48.39%	66.89%	61.87%
Full Time Employee Equivalents	68	67	64	64	62

(1) Including mortgage loans held for sale

All share and per share data have been restated to reflect a 10% stock dividend declared on June 19, 2003, a 10% stock distribution declared on April 12, 2005 and a 25% stock dividend declared on April 11, 2006.

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

			For Years Ended December 31,		
	2007	**2006**	**2005**	**2004**	**2003**
Operating Data:					
Interest and fee income	$ 16,482,178	$ 16,169,958	$ 12,383,548	$ 7,904,128	$ 7,855,161
Interest expense	5,023,086	4,696,492	2,646,198	857,801	764,647
Net interest income	11,459,092	11,473,466	9,737,350	7,046,327	7,090,514
(Recovery) provision for loan losses	40,000	240,000	12,000	(103,000)	9,230
Net interest income after (recovery) provision for loan losses	11,419,092	11,233,466	9,725,350	7,149,327	7,081,284
Other income	1,543,869	1,467,393	1,788,472	1,748,715	2,096,959
Other expense	7,085,401	6,703,716	6,529,267	6,073,609	6,261,182
Income before income taxes	5,877,560	5,997,143	4,984,555	2,824,433	2,917,061
Income tax expense	2,046,316	2,068,880	1,799,549	978,810	1,012,348
Net income	$ 3,831,244	$ 3,928,263	$ 3,185,006	$ 1,845,623	$ 1,904,713
Basic income per share	$ .97	$ 1.01	$ 0.83	$ 0.48	$ 0.49
Diluted income per share	$ .96	$ 1.00	$ 0.81	$ 0.48	$ 0.49
Weighted average common shares-basic	3,943,067	3,900,707	3,859,351	3,857,411	3,857,411
Weighted average common shares diluted	3,971,349	3,945,928	3,913,119	3,868,448	3,876,687
Dividends per common share	$ 0.62	$ 0.67	$ 0.51	$ 0.44	$ 0.44

			As of December 31,		
	2007	**2006**	**2005**	**2004**	**2003**
Balance Sheet Data:					
Investment securities available for sale	$ 35,840,019	$ 40,897,855	$ 39,833,240	$ 45,638,694	$ 26,489,162
Total loans (1)	158,329,035	162,557,288	159,338,650	129,107,437	125,235,883
Allowance for loan losses	1,355,099	1,294,994	1,017,175	1,043,901	1,169,627

Total assets	225,157,090	243,472,740	222,517,526	201,235,286	187,342,649
Total deposits	197,346,458	215,316,901	197,847,314	179,070,078	166,142,512
Shareholders equity	25,692,570	23,640,431	21,505,794	19,990,716	19,647,839

(1) Including Mortgage loans held for sale

All share and per share data have been restated to reflect a 10% stock dividend declared on June 19, 2003, a 10% stock distribution declared on April 12, 2005, and a 25% stock dividend declared on April 11, 2006.

Item 6. Management s Discussion and Analysis or Plan of Operations

Management s discussion and analysis is included to provide the shareholders with an expanded narrative of the Company s results of operations, changes in financial condition, liquidity and capital adequacy. This narrative should be reviewed in conjunction with the audited consolidated financial statements and notes included in this report. Since the primary asset of the Company is its wholly-owned subsidiary, most of the discussion and analysis relates to the Bank.

DISCUSSION OF FORWARD-LOOKING STATEMENTS

Management s Discussion and Analysis of Financial Condition and Results of Operations and other portions of this annual report contain certain forward-looking statements concerning the future operations of the Bank of South Carolina Corporation. Management desires to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1996 and is including this statement for the express purpose of availing the Company of protections of such safe harbor with respect to all forward-looking statements contained in this Form 10-KSB. We have used forward-looking statements to describe future plans and strategies including our expectations of the Company s future financial results. The following are cautionary statements. Management s ability to predict results or the effect of future plans or strategies is inherently uncertain. Factors which could affect actual results include interest rate trends, the general economic climate in the Company s market area and the country as a whole, the ability of the Company to control costs and expenses, the ability of the Company to successfully address competitive products and pricing, loan delinquency rates, and changes in federal and state regulation. These factors should be considered in evaluating the forward-looking statements and undue reliance should not be placed on such statements.

CRITICAL ACCOUNTING POLICIES

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

OVERVIEW

Earnings for the year ended December 31, 2007 were $3,831,244 or basic and diluted earnings per share of $.97 and $.96, respectively, a decrease of 2.47% over 2006 s earnings of $3,928,263 or basic and diluted earnings per share of $1.01 and $1.00. Earnings for the fourth quarter of 2007 were $893,906 or basic and diluted earnings per share of $.23 and $.22, respectively, down 12.55% from fourth quarter 2006 earnings of $1,022,246 or basic and diluted earnings per share of $.26, respectively. The return on average equity and return on average assets for the year were 15.42% and 1.62%, respectively, compared to the 2006 return on average equity and return on average assets of 17.20% and 1.69%, respectively.

COMPARISON OF THE YEAR ENDED DECEMBER 31, 2007 TO DECEMBER 31, 2006

Net income decreased $97,019 from $3,928,263 for the year ended December 31, 2006, to $3,831,244 for the year ended December 31, 2007, a decrease of 2.47%. Basic and diluted earnings per share decreased from $1.01 and $1.00, respectively, for 2006 to $.97 and $.96, respectively for the year ended December 31, 2007. The decrease in net income is primarily due to an increase in other operating expenses. Sundry losses increased $15,586. During 2007, the Company suffered a loss due to a robbery at its Summerville Branch. Additional operating expenses that increased were check and ACH clearing fees by $10,838, data processing fees by $9,682, contributions by $16,234 and professional audit and legal fees increased $10,982 and $19,041, respectively.

Net interest and fee income decreased .13% to $11,459,092 in 2007 from $11,473,466 in 2006. Net interest income depends upon the volume of and rates associated with interest earning assets and interest bearing liabilities, which result in the net interest spread. The average net interest spread decreased from 4.26% for the year ended December 31, 2006, to 4.12% for the year ended December 31, 2007. Average interest bearing assets increased $4,483,769 to $223,374,085 for the year ended December 31, 2007, from $218,890,316 in 2006. This increase was primarily due to an increase in average loans, including mortgage loans held for sale, and an increase in average federal funds sold. Average loans including mortgage loans held for sale increased $2,347,751 to $162,006,962 for the year ended December 31, 2007, from $159,659,211 in 2006. Average federal funds sold increased $2,655,684 to $22,548,768 for the year ended December 31, 2007, compared to $19,893,084 for the year ended December 31, 2006. The yield on average loans of 8.38% for the year ended December 31, 2007, remained the same as the yield for the year ended December 31, 2006. Average interest bearing liabilities increased $3,934,744 to $153,972,303 for the year ended December 31, 2007 compared to $150,037,559 in 2006. This increase is primarily due to an increase in average transaction accounts and time deposit offset by a decrease in average savings accounts. Average transaction accounts and average time deposit increased $1,243,331 and $4,950,835, respectively. Average savings accounts decreased $2,384,977 for the year ended December 31, 2007. The yield on average interest bearing liabilities increased from 3.13% for the year ended December 31, 2006, to 3.26% for the year ended December 31, 2007. The net interest margin decreased from 5.24% for the year ended December 31, 2006, to 5.13% for the year ended December 31, 2007.

Total interest and fee income earned on interest bearing assets increased $312,220 to $16,482,178 for the year ended December 31, 2007, from $16,169,958 for the year ended December 31, 2006. As noted above average loans increased $2,347,751. As a result interest and fees earned on loans increased $199,672 or 1.49% to $13,569,616 for the year ended December 31, 2007 form $13,369,944 in 2006. The increase on average federal funds sold led to an increase of $132,313 in interest earned to $1,119,485 for the year ended December 31, 2007, from $987,172 for the year ended December 31, 2006. Interest and dividends on investment securities decreased $19,765 to $1,793,077 for the year ended December 31, 2007, from $1,812,842 in 2006. The decrease in interest and dividends on investment securities is primarily due to a decline in average investments which resulted from the sale of investment securities, decreasing the average investment securities by $23,958. A gain of $69,792 was recognized on the sale of the investment securities compared to a loss on sale of securities of $22,950 in 2006.

Total interest expense increased $326,594 or 6.95% to $5,023,086 from $4,696,492. As noted above average time deposits increased $4,950,835 to $40,580,931 for the year ended December 31, 2007, from $35,630,096 for the year ended December 31, 2006. This resulted in an increase of $378,480 in the cost paid time deposits. The cost on average interest bearing liabilities increased from 3.13% for the year ended December 31, 2006, to 3.26% for the year ended December 31, 2007.

During the third quarter of 2007, the methodology used by management in the analysis of the allowance for loan losses (the Allowance) was modified to conform to regulatory guidance. The new methodology is discussed more fully in Allowance for Loan Losses . Total provision for loan losses for the year ended December 31, 2007 was $40,000 compared to $240,000 for the year ended December 31, 2006. Management believes the allowance for loan losses at December 31, 2007, is adequate to cover probable losses in the loan portfolio; however, assessing the adequacy of the allowance is a process that requires considerable judgment. Management s judgments are based on numerous assumptions about current events which it believes to be reasonable, but which may or may not be valid. Thus there can be no assurance that loan losses in future periods will not exceed the current allowance amount or that future increases in the allowance will not be required. No assurance can be given that management s ongoing evaluation of the loan portfolio in light of changing economic conditions and other relevant circumstances will not require significant future additions to the allowance, thus adversely affecting the operating results of the Company.

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

The methodology used to determine the reserve for unfunded lending commitments, which is included in other liabilities, is inherently similar to that used to determine the allowance for loan losses described above adjusted for factors specific to binding commitments, including the probability of funding and historical loss ratio. During the third quarter of the year ended December 31, 2007, Management determined that $20,796 of the allowance for loan loss represented the reserve for unfunded lending commitments. This amount was moved from the allowance for loan loss to the allowance for unfunded loans and commitments. In addition $1,507 was added to the provision of unfunded loans and commitments, for the year ending December 31, 2007, based on the methodology referred to above.

Total non interest income increased $76,476 or 5.21% to $1,543,869 for the year ended December 31, 2007, from $1,467,393 at December 31, 2006. This increase was primarily due to a gain of $69,792 on the sale of securities. During 2006 there was a loss of $22,950 on the sale of securities which makes the total increase due to the gain in 2007, $91,742 or 399.75%. This increase was offset by a decrease in mortgage banking income of $35,378 or 5.99%. This decrease is primarily due to the slow down in the real estate market.

Banking overhead increased $381,685 or 5.69% to $7,085,401 for the year ended December 31, 2007 from $6,703,716 for the year ended December 31, 2006. This increase was primarily due to an increase in both salaries and employee benefits and net occupancy expense as well as other operating expenses. Salaries and employee benefits increased $173,829 or 4.34% to $4,181,712 for the year ended December 31, 2007 from $4,007,883 for the year ended December 31, 2006. Salaries increased $182,071 or 5.60% due to annual merit increases and the hiring of a loan officer. Insurance increased $25,572 and payroll taxes increased $17,384. These increases were offset by a $60,000 decrease in the ESOP contribution. Total occupancy expense increased $114,074 or 9.29% to $1,341,970 for the year ended December 31, 2007 from $1,227,896 for the year ended December 31, 2006. Insurance on the properties increased $52,198 or 109.79% to $99,740 for the year ended December 31, 2007 from $47,542 for the year ended December 31, 2006. In addition, rent on the buildings increased $15,188 or 3.95%, property taxes increased $13,049 or 15.18% and depreciation on furniture fixtures and equipment increased $19,281 or 11.82%. Other operating expenses increased $92,275 or 6.29% to $1,560,212 for the year ended December 31, 2007 from $1,467,937 in 2006. This increase included $19,041 in legal fees and $10,982 in audit fees, which included an increase due to compliance with Sarbanes Oxley. Data processing fees increased $9,682, check and ACH clearing fees increased $10,838, contributions increased $16,234 and sundry losses increased $15,586.

Income tax expense decreased $22,564 or 1.09% to $2,046,316 for the year ended December 31, 2007 from $2,068,880 for the year ended December 31, 2006. The Company s effective tax rate was approximately 34.82% for the year ended December 31, 2007 compared to 34.50% for the year ended December 31, 2006.

COMPARISON OF THE YEAR ENDED DECEMBER 31, 2006 TO DECEMBER 31, 2005

Net income increased $743,257 from $3,185,006 in 2005, to $3,928,263 for 2006, an increase of 23.34%. Basic and diluted earnings per share increase to $1.01 and $1.00, respectively for 2006, compared to basic and diluted earnings per share of $.83 and $.81 in 2005. The increase is primarily due to an increase on interest and fees earned on loans as well as an increase in interest and dividends on investment securities. Interest and fees on loans increased $3,068,432 or 29.79% from $10,301,512 for the year ended December 31, 2005, to $13,369,944 for the year ended December 31, 2006. Interest and dividends on investment securities increased from $1,245,105 for the year ended December 31, 2005, to $1,812,842 for the year ended December 31, 2006, an increase of $567,737 or 45.60%.

Net interest and fee income increased 17.83% or $1,736,116, to $11,473,466 in 2006 from $9,737,350 in 2005. Net interest income depends upon the volume of and rates associated with interest earning assets and interest bearing liabilities, which result in the net interest spread. The net interest spread increased from 3.99% for the year ended December 31, 2005 to 4.26% for the year ended December 31, 2006. Average interest earning assets increased $6,331,585 to $218,890,316 for the year ended December 31, 2006, from $212,558,731 in 2005. This increase is primarily due to an increase in average loans of $11,814,355 offset by a decrease in average federal funds sold of $6,216,414. The yield on average loans increased 141 basis points to 8.38% from 6.97% in 2005. Average investment securities available for sale increased $733,537 with an increase in the yield of 138 basis points to 4.61%. Average interest bearing liabilities increased $6,373,572 from $143,663,987 for the year ended December 31, 2005, to $150,037,559 for the year ended December 31, 2006. This increase is primarily due to an increase in average transaction accounts of $5,300,712 to $100,320,632 for the year ended December 31, 2006, from $95,019,920 in 2005. Average savings accounts also increased by $884,156 to $13,375,943 from $12,491,787. Net interest margin increased from 4.58% in 2005, to 5.24% in 2006.

Total interest and fee income earned on interest bearing assets, increased $3,786,410 or 30.58% to $16,169,958 for the year ended December 31, 2006, from $12,383,548. As noted above, average loans increased $11,814,355. As a result, interest and fees earned on loans increased $3,068,432 or 29.79% to $13,369,944 for the year ended December 31, 2006 from $10,301,512 in 2005. Average investment securities available for sale increased $733,537 to $39,330,090 from $38,596,553. Interest and dividends on investment securities increased $567,737 or 45.60% to $1,812,842 from $1,245,105.

Total interest expense increased $2,050,294 or 77.48% to $4,696,492 from $2,646,198. This increase is primarily due to an increase in rates paid on deposit accounts. Interest on deposits increased $2,035,180 or 77.47% to $4,662,283 for the year ended December 31, 2006 from $2,627,103 in 2005. The average cost of interest bearing liabilities increased 129 basis points from 1.84% in 2005 to 3.13% in 2006.

Total provision for loan losses for 2006 was $240,000 compared to $12,000 for 2005. The allowance for loan losses is based on management s and the Loan Committee s review and evaluation of the loan portfolio and general economic conditions on a monthly basis and by the Board of directors on a quarterly basis. Management s review and evaluation of the allowance for loan losses is based on a historical review of the loan portfolio performance, analysis of the individual loans, and additional risk factors that affect the quality and ultimately the collectibility of the loan portfolio. These risk factors include loan and credit administration risk, economic conditions, portfolio risk, loan concentration risk and off balance sheet risk which were added to the loan loss model during the first quarter of 2006. Management believes that the allowance for loan losses at December 31, 2006, is adequate to cover probable losses in the loan portfolio; however, assessing the adequacy of the allowance is a process that requires considerable judgment. Management s judgments are based on numerous assumptions about current events which it believes to be reasonable, but which may or may not be valid. Thus there can be no assurance that loan losses in future periods will not exceed the current allowance amount or that future increases in the allowance will not be required. For further discussion, see Non accrual and Past Due Loans and Allowance for Loan Losses .

Total non-interest income decreased $321,079 or 17.95% to $1,467,393 for the year ended December 31, 2006, from $1,788,472 in 2005. Mortgage banking income decreased 28.32% or $233,178, from $823,510 for the year ended December 31, 2005 to $590,332 in 2006. The decrease in mortgage income is primarily due to rising interest rates resulting in a slower real estate market. Mortgage loan origination fees, mortgage discount fees and tax and underwriting fees decreased $326,761 or 36.37%. During the second quarter of 2005 a correction was made for an error in a liability clearing account. This correction was reflected as an increase of $142,971 in mortgage loan discount fees earned in 2005.

Service charge fees earned on business accounts decreased $25,695 or 16.73% between the year ended December 31, 2005 and 2006. There was also a decrease in overdraft fees of $31,813 or 8.61% for the same period. The service charge fees on business accounts decreased due to an increase in the earnings credit and higher average balances, which offset the service charges.

Bank overhead increased $174,449 or 2.67% to $6,703,716 for the year ended December 31, 2006 from $6,529,267 for the year ended December 31, 2005. The increase is primarily due to an increase of 4.61% in salaries and employee benefits as a result of annual merit increases.

Income tax expense increased $269,331 or 14.97% to $2,068,880 for the year ended December 31, 2006 from $1,799,549 for the year ended December 31, 2005. The Company s effective tax rate was approximately 34.50% for the year ended December 31, 2006 compared to 36.10% for the year ended December 31, 2005.

ASSET AND LIABILITY MANAGEMENT

The assets and liabilities of the Company are managed to provide a consistent level of liquidity to accommodate normal fluctuations in loans and deposits. At year end 2007, total assets were $225,157,090 a decrease of 7.52% from the end of the previous year, and total deposits were $197,346,458, a decrease of 8.35% from the end of the previous year, while

short-term borrowings, consisting of Demand Notes Issued to U.S. Treasury, decreased $1,784,810 or 65.80% to $927,873 for the year ended December 31, 2007 from $2,712,683 for the year ended December 31, 2006.

At December 31, 2007, approximately 94.39% of the Company s assets were earning assets composed of U.S. Treasury, Federal Agency and municipal securities in the amount of $35,840,019, Federal Funds Sold and interest bearing deposits in other banks in the amount of $18,365,783, and total loans including mortgage loans held for sale in the amount of $158,329,035.

The yield on a majority of the Company s earning assets adjusts simultaneously with changes in the general level of interest rates. Some of the Company s liabilities are issued with fixed terms and can be repriced only at maturity. During 2003, loans grew at a faster rate than deposits, however, the net interest margin declined by 40 basis points from January to December 2003 with the decline in interest rates. During 2004 deposits grew at a faster rate than loans and the net interest margin decreased 43 basis points from January to December. In 2005 the Bank s loans grew 23.42% compared to an increase of 10.49% in deposits. As a result the net interest margin increased 65 basis points to 4.58% at December 31, 2005 compared to 3.93% for the year ended December 31, 2004. In 2006, net interest margin increased 66 basis points to 5.24% for the year ended December 31, 2006, from 4.58% at December 31, 2005, as a result of an increase in loan growth. The Bank s net interest margin decreased 11 basis points from 5.24% at December 31, 2006 to 5.13% at December 31, 2007 due to a decrease in interest rates and a decrease in loan growth.

MARKET RISK

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

The Bank s policy is to minimize interest rate risk between interest bearing assets and liabilities at various maturities and to attempt to maintain an asset positive position over a 6 month period. In adhering to this policy, unless there is a sudden extraordinary drop in the interest rate, it is anticipated that the Bank s net interest margins will not be materially affected by changes in interest rates. The average net interest rate spread for 2007 decreased to 4.12% from 4.26% for 2006 and the average net interest margin for 2007 decreased to 5.13% from 5.24% for 2006. Management will continue to monitor its asset sensitive position.

Since the rates on most of the Bank s interest bearing liabilities can vary on a daily basis, management continues to maintain a loan portfolio priced predominately on a variable rate basis; however, in an effort to protect future earnings in a declining rate environment, the Bank offers certain fixed rates and terms primarily associated with real estate transactions. The Bank seeks stable, long-term deposit relationships to fund its loan portfolio.

At December 31, 2007, the average maturity of the investment portfolio was 2 years 9.2 months with an average yield of 4.51% compared to 3 year 2.7 months with an average yield of 4% at December 31, 2006.

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

The following table summarizes the Bank s interest sensitivity position as of December 31, 2007:

	1 Day	Less Than 3 Months	3 Months to Less Than 6 Months	6 Months to Less Than 1 Year	1 Year to Less Than 5 Years	5 years or More	Total	Estimated Fair Value
Earning Assets (in 000 s)								
Loans (1)	$ 101,608	$ 11,578	$ 8,465	$ 7,547	$ 27,808	$ 1,323	$ 158,329	$ 163,895
Investment securities		140	315	2,990	27,332	4,380	35,157	35,840
Short term investments	8						8	8
Federal funds sold	18,358						18,358	18,358
Total	$ 119,974	$ 11,718	$ 8,780	$ 10,537	$ 55,140	$ 5,703	$ 211,852	$ 218,101
Interest Bearing Liabilities (in 000 s)								
CD s and other time deposits 100,000 and over	$	$ 10,701	$ 6,256	$ 4,866	$ 300	$	$ 22,123	$ 22,196
CD s and other time deposits under 100,000	113	5,844	4,394	3,365	1,732		15,448	15,533
Money market and interest	91,656						91,656	91,656

bearing demand accounts								
Savings	9,730						9,730	9,730
Short term borrowings	928						928	928
	$ 102,427	$ 16,545	$ 10,650	$ 8,231	$ 2,032	$	$ 139,885	$ 140,043
Net	$ 17,547	$ (4,827)	$ (1,870)	$ 2,306	$ 53,108	$ 5,703	$ 71,967	$ 78,058
Cumulative		$ 12,720	$ 10,850	$ 13,156	$ 66,264	$ 71,967		

(1) Including mortgage loans held for sale

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LIQUIDITY

Historically, the Company has maintained its liquidity at levels believed by management to be adequate to meet requirements of normal operations, potential deposit outflows and strong loan demand and still allow for optimal investment of funds and return on assets. The following table summarizes future contractual obligations as of December 31, 2007:

		Payment Due by Period		
	Total	Less than 1 Year	1-5 Years	After 5 Years
Contractual Obligations (in 000 s)				
Time deposits	$37,571	$35,539	$2,032	$
Short-term borrowings	928	928		
Operating leases	4,138	471	2,222	1,445
Total contractual cash obligations	$42,637	$36,938	$4,254	$1,445

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

Proper liquidity management is crucial to ensure that the Company is able to take advantage of new business opportunities as well as meet the demands of its customers. Investment securities are an important tool in the Company s liquidity management. Securities classified as available for sale, which are not pledged, may be sold in response to changes in interest rates, liquidity needs and/or significant prepayment risk. A significant portion of the Company s securities are pledged as collateral for TT&L borrowings and public funds deposits. All of the securities presently owned by the Bank are classified as Available for Sale. Net cash provided by operations and deposits from customers have been the primary sources of liquidity for the Company. At December 31, 2007, the Bank had unused short-term lines of credit totaling approximately $15,500,000 (which are withdrawable at the lender s option). Management believes that these sources are adequate to meet its liquidity needs. Liquidity at the Company level is provided through cash dividends from the Bank and the capacity of the Company to raise additional borrowed funds as needed.

Composition of Average Assets

	2007	2006	2005	2004	2003
Loans (1)	$ 162,006,962	$ 159,659,211	$ 147,844,856	$ 123,923,761	$ 130,056,441
Investment securities available for sale	38,810,306	39,330,090	38,596,553	34,808,745	21,202,689
Federal funds sold and other investments	22,556,817	19,901,015	26,117,322	20,439,351	11,283,346
Non-earning assets	12,645,100	13,367,186	13,380,926	12,862,545	11,612,431
Total average assets	$ 236,019,185	$ 232,257,502	$ 225,939,657	$ 192,034,402	$ 174,154,907

(1)

Including
mortgage loans
held for sale

Average earning assets increased by $4,483,769 from 2006 to 2007. Average earning assets increased primarily as a result of an increase in average loans and average federal funds sold. Average loans for 2007 were up $2,347,751 or 1.47% from 2006. Average federal funds sold increased $2,655,684 or 13.35% from $19,893,084 at December 31, 2006 to $22,548,768 at December 31, 2007.

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:

	2007 vs. 2006			2006 vs. 2005			2005 vs. 2004		
	Volume	Rate	Net Dollar Change (1)	Volume	Rate	Net Dollar Change (1)	Volume	Rate	Net Dollar Change (1)
Loans (2)	$ 196,646	$ 3,026	$ 199,672	$ 870,323	$ 2,198,109	$ 3,068,432	$ 1,456,982	$ 2,063,845	$ 3,520,827
Investment securities available for sale	(24,006)	4,241	(19,765)	24,094	543,643	567,737	102,841	265,954	368,795
Federal funds sold and and other investments	131,835	478	132,313	(232,314)	382,555	150,241	84,993	504,805	589,798
Interest Income	$ 304,475	$ 7,745	$ 312,220	$ 662,103	$ 3,124,307	$ 3,786,410	$ 1,644,816	$ 2,834,604	$ 4,479,420
Interest-bearing transaction accounts	$ 35,140	$ (9,146)	$ 25,994	$ 94,708	$ 1,133,240	$ 1,227,948	$ 150,115	$ 1,067,146	$ 1,217,261
Savings	(62,831)	(21,002)	(83,833)	14,469	162,438	176,907	(23,390)	139,351	115,961
Time deposits	213,789	164,691	378,480	2,463	627,862	630,325	103,721	339,107	442,828
Federal funds purchased	0	0	0	(825)	0	(825)	825	0	825
Demand notes issued to U.S. Treasury	6,029	(76)	5,953	4,052	11,887	15,939	126	11,396	11,522
Interest expense	$ 192,127	$ 134,467	$ 326,594	$ 114,867	$ 1,935,427	$ 2,050,294	$ 231,397	$ 1,557,000	$ 1,788,397
Increase (decrease) in net interest income			$ (14,374)			$ 1,736,116			$ 2,691,023

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

each to the total change.

(2) Including mortgage loans held for sale

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

	2007			2006			2005		
	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)	$ 162,006,962	$ 13,569,616	8.38%	$ 159,659,211	$ 13,369,944	8.38%	$ 147,844,856	$ 10,301,512	6.97%
Investment securities available for sale	38,810,306	1,793,077	4.62%	39,330,090	1,812,842	4.61%	38,596,553	1,245,105	3.23%
Investment securities held to maturity									
Federal funds sold	22,548,768	1,119,366	4.96%	19,893,084	987,054	4.96%	26,109,498	836,842	3.21%
Other investments	8,049	119	1.48%	7,931	118	1.49%	7,824	89	1.14%
Total earning assets	$ 223,374,085	$ 16,482,178	7.38%	$ 218,890,316	$ 16,169,958	7.39%	$ 212,558,731	$ 12,383,548	5.83%
Interest-Bearing Liabilities:									
Interest bearing transaction accounts	$ 101,563,963	$ 2,868,546	2.82%	$ 100,320,632	$ 2,842,552	2.83%	$ 95,019,920	$ 1,614,604	1.70%
Savings	10,990,966	285,028	2.59%	13,375,943	368,861	2.76%	12,491,787	191,954	1.54%
Time deposits	40,580,931	1,829,350	4.51%	35,630,096	1,450,870	4.07%	35,523,778	820,545	2.31%
Federal funds purchased							33,014	825	2.50%
Demand notes issued to U.S. Treasury	836,443	40,162	4.80%	710,888	34,209	4.81%	595,488	18,270	3.07%
Total interest bearing liabilities	$ 153,972,303	$ 5,023,086	3.26%	$ 150,037,559	$ 4,696,492	3.13%	$ 143,663,987	$ 2,646,198	1.84%

Net interest spread	4.12%	4.26%	3.99%
Net interest margin	5.13%	5.24%	4.58%
Net interest income	$ 11,459,092	$ 11,473,466	$ 9,737,350

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

INVESTMENT PORTFOLIO

The following is a schedule of the Bank s investment portfolio as of December 31, 2007, as compared to December 31, 2006, and December 31, 2006 to December 31, 2005:

	DECEMBER 31, 2007			
		GROSS	GROSS	ESTIMATED
	AMORTIZED	UNREALIZED	UNREALIZED	FAIR
	COST	GAINS	LOSSES	VALUE
U.S. Treasury Notes	$ 2,948,002	$ 148,091	$	$ 3,096,093
Federal Agency Securities	4,000,738	57,088		4,057,826
Government-Sponsored Enterprises	17,872,391	409,771		18,282,162
Municipal Securities	10,336,322	89,464	21,848	10,403,938
Total	$ 35,157,453	$ 704,414	$ 21,848	$ 35,840,019

	DECEMBER 31, 2006			
		GROSS	GROSS	ESTIMATED
	AMORTIZED	UNREALIZED	UNREALIZED	FAIR
	COST	GAINS	LOSSES	VALUE
U.S. Treasury Bills	$ 5,968,555	$ 8,045	$	$ 5,976,600
Other U.S. Treasury Obligations	5,869,713	61,287		5,931,000
Federal Agency Securities	3,000,000		10,200	2,989,800
Government-Sponsored Enterprises	20,798,027	64,356	58,883	20,803,500
Municipal Securities	5,228,611	29,344	61,000	5,196,955
Total	$ 40,864,906	$ 163,032	$ 130,083	$ 40,897,855

	DECEMBER 31, 2005			
		GROSS	GROSS	ESTIMATED
	AMORTIZED	UNREALIZED	UNREALIZED	FAIR
	COST	GAINS	LOSSES	VALUE
U.S. Treasury Bills	$ 23,858,701	$	$ 29,701	$ 23,829,000
Other U.S. Treasury Obligations	2,991,648		1,248	2,990,400
Federal Agency Securities	3,000,000			3,000,000
Government-Sponsored Enterprises	5,944,483		23,683	5,920,800
Municipal Securities	4,120,820	25,753	53,533	4,093,040
Total	$ 39,915,652	$ 25,753	$ 108,165	$ 39,833,240

The Bank s investment portfolio had a weighted average yield of 4.51%, 4.69% and 3.96% at December 31, 2007, 2006 and 2005, respectively.

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LOAN PORTFOLIO COMPOSITION

The following is a schedule of the Bank s loan portfolio as of December 31, 2007, as compared to December 31, 2006, 2005, 2004 and 2003:

	Book Value (in 000 s)				
Type	2007	2006	2005	2004	2003
Commercial and industrial loans	$ 51,443	$ 53,609	$ 52,373	$ 44,829	$ 46,687
Real estate loans	98,738	99,932	98,619	76,094	69,919
Loans to individuals for household, family and other personal expenditures	5,507	4,872	4,941	6,256	7,045
All other loans (including overdrafts)	709	259	170	225	215
Total Loans (excluding unearned income)	$ 156,397	$ 158,672	$ 156,103	$ 127,404	$ 123,866

As a Bank with a mission to serve its community, there is a geographic concentration of loans in Charleston, Dorchester and Berkeley Counties.

The Bank had no foreign loans or loans to fund leveraged buyouts (LBO s) during 2007, 2006, 2005, 2004 or 2003.

SELECTED LOAN MATURITY (IN 000 S)

Type	One year or less	Over one but less than five years	Over five years	Total
Commercial and industrial loans	$ 31,832	$ 16,374	$ 3,237	$ 51,443
Real estate loans	30,686	28,691	39,361	98,738
Loans to individuals for household, family and other personal expenditures	2,556	2,721	230	5,507
All other loans (including overdrafts)	558	151		709
Total Loans (excluding unearned income)	$ 65,632	$ 47,937	$ 42,828	$ 156,397

IMPAIRED AND RESTRUCTURED LOANS

The Bank had impaired loans totaling $882,269 as of December 31, 2007 compared to $10,864, $80,852, $65,751 and $128,504 as of December 31, 2006, 2005, 2004 and 2003, respectively. The impaired loans include non-accrual loans with balances at December 31, 2007, 2006, 2005, 2004, and 2003 of $761,748, $10,864, $80,852, $65,751 and $102,588, respectively. The Bank had one restructured loan at December 31, 2007, in the amount of $10,567, no restructured loans at December 31, 2006, one restructured loan included in non accrual loans at December 31, 2005 in the amount of $3,394, no restructured loans at December 31, 2004, and one restructured loan in the amount of $25,916 at December 31, 2003. Management does not know of any loans, which will not meet their contractual obligations that are not otherwise discussed herein.

NON-ACCRUAL AND PAST DUE LOANS

The Bank had $761,748 in non-accrual loans as of December 31, 2007, compared to $10,864, $80,852, $65,751 and $102,588 as of December 31, 2006, 2005, 2004 and 2003, respectively. There was one loan at December 31, 2007 and two loans at December 31, 2006, over 90 days past due still accruing interest in the amount of $1,288 and $44,534, respectively.

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

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses represents management s estimate of probable losses inherent in the loan portfolio. The adequacy of the allowance for loan losses (the Allowance) is reviewed monthly by the Loan Committee and on a quarterly basis by the Board of Directors. For purposes of this analysis, adequacy is defined as a level sufficient to absorb probable losses in the loan portfolio as of the balance sheet date presented. The methodology employed for this analysis was modified in the third quarter of 2007 to conform with regulatory guidance. The new 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 SFAS 114 Accounting by Creditors for Impairment of a Loan, an amendment of FASB Statements No. 5 and 15.

2) General reserve analysis applying historical loss rates based on SFAS No 5 Accounting for Contingencies.

3) Qualitative or environmental factors.

Loans are reviewed for impairment which is measured in accordance with SFAS No. 114 Accounting by Creditors for Impairment of a Loan, an amendment of FASB Statements No. 5 and 15. Impaired loans can either be secured or unsecured, not including large groups of smaller balance loans that are collectively evaluated. Impairment is measured by the difference between the loan amount and the present value of the future cash flow discounted at the loan s effective interest rate, or, alternatively the fair value of the collateral if the loan is collateral dependent. An impaired loan may not represent an expected loss.

A general reserve analysis is performed on individually reviewed loans, but not impaired loans, and excluded individually reviewed impaired loans, based on SFAS No. 5 Accounting for Contingencies. Historical losses are segregated into risk-similar groups and a loss ratio is determined for each group over a five year period. The five year average loss ratio by type is then used to calculate the estimated loss based on the current balance of each group.

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

1) Portfolio risk

2) National and local economic trends and conditions

3) Effects of changes in risk selection and underwriting practices

4) Experience, ability and depth of lending management staff

5) Industry conditions

6) Effects of changes in credit concentrations

7) Loan and credit administration risk

Portfolio risk includes the levels and trends in delinquencies, impaired loans and changes in the loan rating matrix with a risk factor of .1000%, trends in volume and terms of loans with a risk factor of .05000% and overmargined real estate lending with a risk factor of .2500%.

Management is satisfied with the stability of the past due and non-performing loans and believes there has been no decline in the quality of the loan portfolio due to any trend in delinquent or adversely classified loans. Although the aggregate total of classified loans has increased, Management is confident in the adequacy of the sources of repayment. Sizable unsecured principal balances on a non-amortizing basis are monitored.

Management revised the credit rating matrix in order to rate all extensions of credit providing a more specified picture of the risk each loan poses to the quality of the loan portfolio. There are eight possible ratings based on nine different qualifying characteristics. The nine characteristics are: cash flow, collateral quality, guarantor strength, financial condition, management quality, operating performance, the relevancy of the financial statements, historical loan performance and the borrower s leverage. The matrix is designed to meet management s standards and expectations of loan quality. In addition to the rating matrix, the Company rates its credit exposure on the basis of each loan and the quality of each borrower.

Occasional extensions of credit occur beyond the policy thresholds of the Company s normal collateral advance margins for real estate lending. The aggregate of these loans represents 9.90% of the Company s total loans. These loans are monitored and the balances reported to the Board every quarter. An excessive level of this practice could result in additional examiner scrutiny, competitive disadvantages and potential losses if forced to convert the collateral. The consideration of overmargined real estate loans directly relates to the capacity of the borrower. Management often requests additional collateral to bring the loan to value ratio within the policy guidelines and also require a strong secondary source of repayment in addition to the primary source of repayment.

National and local economic trends and conditions are constantly changing and results in both positive and negative impact on borrowers. Most macroeconomic conditions are not controllable by the Company and are incorporated into the qualitative risk factors. Natural disasters, wars and the recent fallout of the subprime lending market as well as problems in the traditional mortgage market are a few of the trends and conditions that are currently affecting our national and local economy. Management assigned a risk factor of .0625% to the national and local economic trends and conditions.

The quality of the Bank s loan portfolio is contingent upon our risk selection and underwriting practices. Every credit with over $100,000 in exposure is summarized by the Bank s Credit Department and reviewed by the Loan Committee on a monthly basis. The Board of Directors review credits over $500,000 monthly with an annual credit analysis conducted on credits in excess of $350,000 upon the receipt of updated financial information. Prior to any extension of credit, every significant commercial loan goes through sound credit underwriting. The Credit Department conducts detailed cash flow analysis on each proposal using the most current financial information. Relevant trends and ratios are evaluated. The effect of changes in risk selection and underwriting practices has been assigned a risk factor of .0750%.

The Bank has over 250 years of lending management experience among eight members of lending staff, all of whom have been with the Company for at least six years. In addition the Company has two new lenders, one with experience in commercial lending in another geographic market and one with lending experience in another industry. In addition to the lending staff the Bank has an Advisory Board for each branch comprised of business and community leaders from the specific branch s market area. Management meets with these boards quarterly to discuss the trends and conditions in each respective market. A risk factor of .0750% has been assigned to the experience, ability and depth of lending management and staff.

There has been an influx of new banks within the Company s geographic area. This increase has decreased the local industry s overall margins as a result of pricing competition. Management believes that the borrowing base of the Bank is well established and therefore unsound price competition is not necessary. A risk factor of .0750% was added to the model for industry conditions.

The risk associated with the effects of changes in credit concentration includes loan concentration with a risk factor of .0600%, geographic concentration with a risk factor of .0625% and regulatory concentration of .0625%.

As of December 31, 2007, there were only five Standard Industrial Code groups that comprised more than three percent of the Bank s total outstanding loans. Real Estate Agents and Managers is one Standard Industrial Code group which experienced a large growth in outstanding loans primarily as a result of the slowdown in the real estate market.

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

Loan and credit administration risk includes collateral documentation with a risk factor of .0550%, insurance risk with a risk factor of .0750% and maintaining financial information risk with a risk factor of .0575%

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

Risk includes a function of time and the borrower s financial condition may change; therefore, keeping financial information up to date is important to the Bank. The policy of the Bank is that all new loans, regardless of the customer s history with the Bank, should have updated financial information, as long as exposure is greater than $10,000.

Based on the evaluation described above, the Company did not record a provision for loan loss during the last six months of the year ended December 31, 2007. Total provision for the year ended December 31, 2007 was $40,000 compared to a provision of $240,000 for the year ended December 31, 2006. At December 31, 2007 the five year average loss ratios were: .024% Commercial, .015% Consumer, .022% 1-4 Residential, .000% Real Estate Construction and .004% Real Estate Mortgage. The historical loss ratio used at December 31, 2007 was .064% and .072% at December 31, 2006.

During the year ended December 31, 2007, charge-offs of $29,702 and recoveries of $50,603 were recorded to the allowance for loan losses, resulting in an allowance for loan losses of $1,335,099 or .85% of total loans at December 31, 2007, compared to $1,294,994 or .82% of total loans at December 31, 2006.

Net recoveries were $20,901 for the year ended December 31, 2007 as compared to net recoveries of $37,819 for the year ended December 31, 2006. Uncertainty in the economic outlook still exists, making charge-off levels in future periods less predictable; however, loss exposure in the portfolio is identified, reserved and closely monitored to ensure that changes are promptly addressed in the analysis of reserve adequacy.

The Company had $90,046 in unallocated reserves at December 31, 2007 related to other inherent risk in the portfolio compared to unallocated reserves of $256,035 at December 31, 2006. Management believes the allowance for loan losses at December 31, 2007, is adequate to cover probable losses in the loan portfolio; however, assessing the adequacy of the allowance is a process that requires considerable judgment. Management s judgments are based on numerous assumptions about current events which it believes to be reasonable, but which may or may not be valid. Thus there can be no assurance that loan losses in future periods will not exceed the current allowance amount or that future increases in the allowance will not be required. No assurance can be given that management s ongoing evaluation of the loan portfolio in light of changing economic conditions and other relevant circumstances will not require significant future additions to the allowance, thus adversely affecting the operating results of the Company.

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

The methodology used to determine the reserve for unfunded lending commitments, which is included in other liabilities, is inherently similar to that used to determine the allowance for loan losses described above adjusted for factors specific to binding commitments, including the probability of funding and historical loss ratio. During the third quarter of the year ended December 31, 2007, Management determined that $20,796 of the allowance for loan loss represented the reserves for unfunded lending commitments. This amount was moved from the allowance for loan loss to the allowance for unfunded loans and commitments. In addition $1,507 was added to the provision of unfunded loans and commitments, for the year ending December 31, 2007, based on the methodology referred to above.

SUMMARY OF LOAN LOSS EXPERIENCE

			December 31,		
	2007	2006	2005	2004	2003
Allowance for loan losses, beginning of year	$ 1,294,994	$ 1,017,175	$ 1,043,901	$ 1,169,627	$ 1,361,438
Charge-offs:					
Commercial	14,535	9,164		89,308	62,827
Consumer	4,336	15,692	45,982	6,457	153,480
Real estate					
Other	10,831		410	2,890	3,104
Total charge-offs	29,702	24,856	46,392	98,655	219,411
Recoveries:					
Commercial	164	50,227	5,461	63,443	10,520
Consumer	49,756	4,233	2,145	12,486	6,590
Real estate					
Other	683	8,215	60		1,260
Total recoveries	50,603	62,675	7,666	75,929	18,370
Net (recoveries) charge-offs	(20,901)	(37,819)	38,726	22,726	201,041
Additions (recovery) to reserve through provision expense	40,000	240,000	12,000	(103,000)	9,230
Adjustment for unfunded lending commitments	(20,796)				
Allowance for loan losses, end of year	$ 1,335,099	$ 1,294,994	$ 1,017,175	$ 1,043,901	$ 1,169,627
Reserve for unfunded lending commitments	$	$	$	$	$
Adjustment for unfunded lending commitments	20,796				
Provisions for unfunded lending commitments	1,507				
Reserve for unfunded lending commitments, end of year	$ 22,303	$	$	$	$

DEPOSITS

			3 Months	6 Months	1 Year		
		Less	to Less	to Less	to Less	5	
		Than 3	Than 6	Than 1	Than 5	years or	
(in 000 s)	1 Day	Months	Months	Year	Years	More	Total
CD s and other time deposits 100,000 and over	$	$10,701	$6,256	$4,866	$ 300	$	$22,123
CD s and other time deposits under 100,000	$113	$ 5,844	$4,394	$3,365	$1,732	$	$15,448

OFF-BALANCE SHEET ARRANGEMENTS

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

The Company s off-balance sheet arrangements consist principally of commitments to extend credit described below. The Company estimates probable losses related to binding unfunded lending commitments and records a reserve for unfunded lending commitments in other liabilities on the consolidated balance sheet. At December 31, 2007 the balance of this reserve was $22,303. At December 31, 2007 and 2006, the Company had no interests in non-consolidated special purpose entities.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management s credit evaluation of the borrower. Collateral held varies, but may include accounts receivable, negotiable instruments, inventory, property, plant and equipment, and real estate. Commitments to extend credit, including unused lines of credit, amounted to $43,605,731 and $49,060,480 at December 31, 2007 and 2006 respectively.

Standby letters of credit represent an obligation of the Company to a third party contingent upon the failure of the Company s customer to perform under the terms of an underlying contract with the third party or obligates the Company to guarantee or stand as surety for the benefit of the third party. The underlying contract may entail either financial or nonfinancial obligations and may involve such things as the shipment of goods, performance of a contract, or repayment of an obligation. Under the terms of a standby letter, generally drafts will be drawn only when the underlying event fails to occur as intended. The Company can seek recovery of the amounts paid from the borrower. The majority of these standby letters of credit are unsecured. Commitments under standby letters of credit are usually for one year or less. At December 31, 2007 and 2006, the Company has recorded no liability for the current carrying amount of the obligation to perform as a guarantor, as such amounts are not considered material. The maximum potential amount of undiscounted future payments related to standby letters of credit at December 31, 2007 and 2006 was $1,234,623 and $721,602, respectively.

The Company originates certain fixed rate residential loans and commits these loans for sale. The commitments to originate fixed rate residential loans and the sales commitments are freestanding derivative instruments. The fair value of these commitments was not significant at December 31, 2007 and 2006. The Company had forward sales commitments, totaling $2.0 million at December 31, 2007, to sell loans held for sale of $2.0 million. At December 31, 2006, the Company had forward sales commitments of $4.0 million. The fair value of these commitments was not significant at December 31, 2007 or 2006. The Company has no embedded derivative instruments requiring separate accounting treatment.

Once the Company sells certain fixed rate residential loans, the loans are no longer reportable on the Company s balance sheet. With most of these sales, the Company has an obligation to repurchase the loan in the event of a default of principal or interest on the loan. This warranty period ranges from three to six months. The unpaid principal balance of loans sold with recourse was $28,438,000 at December 31, 2007 and $25,441,000 at December 31, 2006. As of the year ended December 31, 2007 no loans have been repurchased.

EFFECT OF INFLATION AND CHANGING PRICES

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

Unlike most other industries, the assets and liabilities of financial institutions such as the Bank are primarily monetary in nature. As a result, interest rates generally have a more significant impact on the performance of a financial institution than the effects of general levels of inflation. The Bank strives to manage the effects of inflation through its asset/liability management.

CAPITAL RESOURCES

The capital needs of the Company have been met to date through the $10,600,000 in capital raised in the Bank s initial offering, the retention of earnings less dividends paid and the exercising of stock options of $124,000 in 1995, 1996, 1997, 1998; $603,368 in 2006; and $213,680 in 2007, for a total shareholders equity at December 31, 2007, of $25,692,570. The rate of asset growth from the Bank s inception has not negatively impacted this capital base. The risk based capital guidelines for financial institutions are designed to highlight differences in risk profiles among financial institutions and to account for off balance sheet risk. The guidelines established require a risk based capital ratio of 8% for bank holding companies and banks. The risk based capital ratio at December 31, 2007, for the Bank was 13.55% and 12.16% at December 31, 2006. The Company s management does not know of any trends, events or uncertainties that may result in the Company s capital resources materially increasing or decreasing.

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and to average assets. Management believes, as of December 31, 2007, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

At December 31, 2007 and 2006, the Company and the Bank are categorized as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Company and the Bank must maintain minimum total risk based, Tier 1 risk based and Tier 1 leverage ratios of 10%, 6% and 5% and to be categorized as adequately capitalized, the Company and the Bank must maintain minimum total risk based, Tier 1 risk based and Tier 1 leverage ratios of 8%, 4% and 4%, respectively. There are no current conditions or events that management believes would change the Company s or the Bank s category.

Please see Notes to Consolidated Financial Statements for the Company s and the Bank s various capital ratios at December 31, 2007.

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THE BANK OF SOUTH CAROLINA EMPLOYEE STOCK OWNERSHIP PLAN AND TRUST

During 1989, the Board of Directors of the Bank adopted an Employee Stock Ownership Plan and Trust Agreement to provide retirement benefits to eligible employees of the Bank for long and faithful service. The Board of Directors of the Bank approved the cash contribution of $288,000 to The Bank of South Carolina Employee Stock Ownership Plan for the fiscal year ended December 31, 2007. The contribution was made during 2007. An amendment and restatement was made to the Employee Stock ownership plan effective January 1, 2007, approved by the Board of Directors January 18, 2007. An employee of the Bank is eligible to become a participant in the ESOP upon reaching 21 years of age and credited with one year of service (1,000 hours of service). The employee may enter the plan on the January 1st that occurs nearest the date on which the employee first satisfies the age and service requirements described above. No contributions by employees are permitted. The amount and time of contributions are at the sole discretion of the Board of Directors of the Bank. The contribution for all participants is based solely on each participant s respective regular or base salary and wages paid by the Bank including commissions, bonuses and overtime, if any.

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

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

The Bank is the Plan Administrator. T. Dean Harton, Sheryl G. Sharry and Hugh C. Lane, Jr., currently serve as the Plan Administrative Committee and as Trustees for the Plan. The Plan currently owns 224,129 shares of common stock of Bank of South Carolina Corporation.

Item 7. Financial Statements

Management s Report on Internal Control Over Financial Reporting

Management of Bank of South Carolina Corporation and its subsidiary The Bank of South Carolina is responsible for establishing and maintaining adequate internal control over financial reporting. The Company s internal control system was designed to provide reasonable assurance to management and the Board of Directors regarding the preparation and fair presentation of published financial statements.

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, 2007. Based on this assessment management believes that as of December 31, 2007, the Company s internal control over financial reporting was effective.

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 was not subject to attestation by the Company s registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management s report in this annual report.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheet of Bank of South Carolina Corporation and subsidiary (the Corporation) as of December 31, 2007 and 2006 and the related consolidated statement of operations, shareholders equity and comprehensive income, and cash flows for each of the years then ended. These consolidated financial statements are the responsibility of the Corporation s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bank of South Carolina Corporation and subsidiary at December 31, 2007 and 2006, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

We were not engaged to examine management s assertion about the effectiveness of Bank of South Carolina Corporation s internal control over financial reporting as of December 31, 2007 included in the accompanying Management s Report on Internal Control Over Financial Reporting and, accordingly, we do not express an opinion thereon.

Elliott Davis, LLC
Columbia, South Carolina
February 26, 2008

KPMG LLP
Suite 1200
150 Fayetteville Street
P.O. Box 29543
Raleigh, NC 27626-0543

Report of Independent Registered Public Accounting Firm

The Board of Directors Bank of South Carolina Corporation and subsidiary:

We have audited the accompanying consolidated statements of operations, shareholders equity and comprehensive income, and cash flows of Bank of South Carolina Corporation and subsidiary for the year ended December 31, 2005. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and the cash flows of Bank of South Carolina Corporation and subsidiary for the year ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

Raleigh, North Carolina
February 24, 2006

KPMG LLP, a U.S. limited liability partnership, is the U.S.
member firm of KPMG International, a Swiss cooperative.

BANK OF SOUTH CAROLINA CORPORATION AND SUBSIDIARY CONSOLIDATED BALANCE SHEETS

	DECEMBER 31, 2007	DECEMBER 31, 2006
ASSETS		
Cash and due from banks	$ 9,716,533	$ 9,747,621
Interest bearing deposits in other banks	8,109	7,990
Federal funds sold	18,357,674	26,857,657
Investment securities available for sale (amortized cost of $35,157,453 and $40,864,906 in 2007 and 2006, respectively)	35,840,019	40,897,855
Mortgage loans to be sold	1,981,018	3,960,728
Loans	156,348,017	158,596,560
Less: Allowance for loan losses	(1,335,099)	(1,294,994)
Net loans	155,012,918	157,301,566
Premises, equipment and leasehold improvements, net	2,619,608	2,662,086
Accrued interest receivable	1,383,598	1,474,703
Other assets	237,613	562,534
Total assets	$ 225,157,090	$ 243,472,740
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing demand	$ 58,390,190	$ 58,835,554
Interest bearing demand	45,977,954	48,557,628
Money market accounts	45,677,850	56,179,204
Certificates of deposit $100,000 and over	22,122,593	22,281,984
Other time deposits	15,448,046	14,092,859
Other savings deposits	9,729,825	15,369,672
Total deposits	197,346,458	215,316,901
Short-term borrowings	927,873	2,712,683
Accrued interest payable and other liabilities	1,190,189	1,802,725
Total liabilities	199,464,520	219,832,309
Shareholders equity:		
Common stock No par, 12,000,000 shares authorized; Issued 4,153,485 shares at December 31, 2007 and 4,129,409 at December 31, 2006 Shares outstanding 3,953,984 at December 31, 2007 and 3,929,908 at December 31, 2006		
Additional paid in capital	22,978,812	22,719,918
Retained earnings	3,976,706	2,592,719

Treasury stock; 199,501 shares at December 31, 2007 and 2006	(1,692,964)	(1,692,964)
Accumulated other comprehensive income, net of income taxes	430,016	20,758
Total shareholders equity	25,692,570	23,640,431
Total liabilities and shareholders equity	$ 225,157,090	$ 243,472,740

Commitments and contingencies (note 8)

See accompanying notes to consolidated financial statements.

BANK OF SOUTH CAROLINA CORPORATION AND SUBSIDIARY CONSOLIDATED STATEMENTS OF OPERATIONS

	YEARS ENDED DECEMBER 31,		
	2007	2006	2005
Interest and fee income			
Interest and fees on loans	$ 13,569,616	$ 13,369,944	$ 10,301,512
Interest and dividends on investment securities	1,793,077	1,812,842	1,245,105
Other interest income	1,119,485	987,172	836,931
Total interest and fee income	16,482,178	16,169,958	12,383,548
Interest expense			
Interest on deposits	4,982,924	4,662,283	2,627,103
Interest on short-term borrowings	40,162	34,209	19,095
Total interest expense	5,023,086	4,696,492	2,646,198
Net interest income	11,459,092	11,473,466	9,737,350
Provision for (recovery of) loan losses	40,000	240,000	12,000
Net interest income after provision for (recovery of) loan losses	11,419,092	11,233,466	9,725,350
Other income			
Service charges, fees and commissions	877,155	873,901	932,832
Mortgage banking income	554,954	590,332	823,510
Other non-interest income	41,968	26,110	32,130
Gain (loss) on sale of securities	69,792	(22,950)	
Total other income	1,543,869	1,467,393	1,788,472
Other expense			
Salaries and employee benefits	4,181,712	4,007,883	3,831,391
Net occupancy expense	1,341,970	1,227,896	1,203,630
Other operating expenses	1,560,212	1,467,937	1,494,246
Provision for unfunded loans and commitments	1,507		
Total other expense	7,085,401	6,703,716	6,529,267
Income before income tax expense	5,877,560	5,997,143	4,984,555
Income tax expense	2,046,316	2,068,880	1,799,549

Net income	$ 3,831,244	$ 3,928,263	$ 3,185,006
Basic income per common share	$ 0.97	$ 1.01	$ 0.83
Diluted income per common share	$ 0.96	$ 1.00	$ 0.81
Weighted average shares outstanding			
Basic	3,943,067	3,900,707	3,859,351
Diluted	3,971,349	3,945,928	3,913,119

See accompanying notes to consolidated financial statements.

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

					ACCUMULATED	
		ADDITIONAL			OTHER	
	COMMON	PAID IN	RETAINED	TREASURY	COMPREHENSIVE	
					INCOME	
	STOCK	CAPITAL	EARNINGS	STOCK	(LOSS)	TOTAL
December 31, 2004	$	$ 20,315,087	$ 1,099,493	$ (1,497,093)	$ 73,229	$ 19,990,716
Comprehensive income:						
Net income			3,185,006			3,185,006
Net unrealized losses on securities (net of tax effect of $73,502)					(125,148)	(125,148)
Total comprehensive income						3,059,858
Exercise of Stock Options		225				225
Issuance of 10% Stock Distribution		1,762,315	(1,570,313)	(195,871)		(3,869)
Cash dividends ($0.51 per common share)			(1,541,136)			(1,541,136)
December 31, 2005	$	$ 22,077,627	$ 1,173,050	$ (1,692,964)	$ (51,919)	$ 21,505,794
Comprehensive income:						
Net income			3,928,263			3,928,263
Net unrealized gains on securities (net of tax effect of $34,192)					57,530	57,530
Reclassification adjustment for losses included in net income (net of tax effect of $8,492)					15,147	15,147
Total comprehensive income						4,000,940
Exercise of Stock Options		603,368				603,368
Stock-based compensation expense		38,923				38,923

Cash paid on fractional shares 25% stock dividend			(3,913)			(3,913)
Cash dividends ($0.67 per common share)			(2,504,681)			(2,504,681)
December 31, 2006	$	$ 22,719,918	$ 2,592,719	$ (1,692,964)	$ 20,758	$ 23,640,431
Comprehensive income:						
Net income			3,831,244			3,831,244
Net unrealized gains on securities (net of tax effect of $266,181)					453,227	453,227
Reclassification adjustment for gains included in net income (net of tax effect of $25,823)					(43,969)	(43,969)
Total comprehensive income						4,240,502
Exercise of Stock Options		213,680				213,680
Stock-based compensation expense		45,214				45,214
Cash dividends ($0.62 per common share)			(2,447,257)			(2,447,257)
December 31, 2007	$	$ 22,978,812	$ 3,976,706	$ (1,692,964)	$ 430,016	$ 25,692,570

See accompanying notes to consolidated financial statements.

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

	YEARS ENDED DECEMBER 31,		
	2007	2006	2005
Cash flows from operating activities:			
Net income	$ 3,831,244	$ 3,928,263	$ 3,185,006
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	267,437	242,239	275,445
(Gain) loss on sale of securities	(69,792)	22,950	
Provision for loan losses	40,000	240,000	12,000
Gain on disposal of fixed assets			2,000
Stock-based compensation expense	45,214	38,923	
Deferred income taxes	(28,504)	(78,356)	4,954
Accretion of unearned discounts on investment securities	(75,175)	(201,598)	(977,781)
Origination of mortgage loans held for sale	(52,951,007)	(60,843,768)	(68,662,280)
Proceeds from sale of mortgage loans held for sale	54,930,717	60,213,352	67,035,159
Decrease (increase) in accrued interest receivable and other assets	204,172	(652,405)	(461,871)
(Decrease) increase in accrued interest payable and other liabilities	(301,996)	203,220	252,382
Net cash provided by operating activities	5,892,310	3,112,820	665,014
Cash flows from investing activities:			
Proceeds from maturities of investment securities available for sale	315,000	24,263,906	76,285,000
Purchase of investment securities available for sale	(6,449,831)	(28,004,512)	(69,700,415)
Net decrease (increase) in loans	2,248,648	(2,550,403)	(28,642,818)
Purchase of premises, equipment and leasehold improvements, net	(224,959)	(163,240)	(161,594)
Proceeds from sale of available for sale securities	11,987,250	2,970,000	
Net cash provided (used) by investing activities	7,876,108	(3,484,249)	(22,219,827)
Cash flows from financing activities:			
Net (decrease) increase in deposit accounts	(17,970,443)	17,469,587	18,777,236
Net (decrease) increase in short term borrowings	(1,784,810)	668,433	582,321
Dividends paid	(2,757,797)	(2,025,344)	(1,385,913)
Fractional shares paid		(3,913)	(3,869)
Stock options exercised	213,680	603,368	225
Net cash (used) provided by financing activities	(22,299,370)	16,712,131	17,970,000

Net (decrease) increase in cash and cash equivalents	(8,530,952)	16,340,702	(3,584,813)
Cash and cash equivalents at beginning of year	36,613,268	20,272,566	23,857,379
Cash and cash equivalents at end of year	$ 28,082,316	$ 36,613,268	$ 20,272,566
Supplemental disclosure of cash flow data:			
Cash paid during the year for:			
Interest	$ 5,093,366	$ 4,442,208	$ 2,444,019
Income taxes	$ 2,108,204	$ 2,246,223	$ 1,799,589
Supplemental disclosure for non-cash investing and financing activity:			
Change in unrealized loss on securities available for sale, net of income taxes	$ 409,258	$ 72,667	$ (125,148)
Real estate acquired through foreclosure	$	$	$
Change in dividends payable	$ 310,540	$ 479,338	$ 155,223

See accompanying notes to consolidated financial statements.

BANK OF SOUTH CAROLINA CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the more significant accounting policies used in preparation of the accompanying consolidated financial statements. The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires 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 at the date of the financial statements. In addition, they affect the reported amounts of income and expense during the reporting period. Actual results could differ from these estimates and assumptions.

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of Bank of South Carolina Corporation (the Company) and its wholly-owned subsidiary, The Bank of South Carolina (the Bank). In consolidation, all significant intercompany balances and transactions have been eliminated. Bank of South Carolina Corporation is a one-bank holding company organized under the laws of the State of South Carolina. The Bank provides a broad range of consumer and commercial banking services, concentrating on individuals and small and medium-sized businesses desiring a high level of personalized service.

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

Investment Securities: The Company accounts for its investment securities in accordance with Financial Accounting Standards Board s (FASB) Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities . Investments are classified into three categories as follows: (1) Held to Maturity debt securities that the Company has the positive intent and ability to hold to maturity, which are reported at amortized cost, adjusted for the amortization of any related premiums or the accretion of any related discounts into interest income using a methodology which approximates a level yield of interest over the estimated remaining period until maturity; (2) Trading debt and equity securities that are bought and held principally for the purpose of selling them in the near term, which are reported at fair value, with unrealized gains and losses included in earnings; and (3) Available for Sale debt and equity securities that may be sold under certain conditions, which are reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of shareholders equity, net of income taxes. Unrealized losses on securities due to fluctuations in fair value are recognized when it is determined that an other than temporary decline in value has occurred. Gains or losses on the sale of securities are recognized on a specific identification, trade date basis. All securities were classified as available for sale for 2007 and 2006.

Loans Receivable Held for Sale: 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. At December 31, 2007 and 2006, the Company had approximately $2.0 million and $4.0 million in mortgage loans held for sale, respectively. Gains or losses on sales of loans are recognized when control over these assets has been surrendered in accordance with SFAS No. 140, Accounting for Transfer and Servicing of Financial Assets and Extinguishment of Liabilities (SFAS No. 140), and are included in mortgage banking income in the consolidated statements of operations.

Loans and Allowance for Loan Losses: Loans are carried at principal amounts outstanding. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment to yield. Interest income on all loans is recorded on an accrual basis. The accrual of interest is generally discontinued on loans which become 90 days past due as to principal or interest. The accrual of interest on some loans, however, may continue even though they are 90 days past due if the loans are well secured, in the process of collection, and management deems it appropriate. If non-accrual loans decrease their past due status to less than 30 days for a period of six months, they are reviewed individually by management to determine if they should be returned to accrual status. The Company defines past due loans based on contractual payment and maturity dates.

BANK OF SOUTH CAROLINA CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company accounts for nonrefundable fees and costs associated with originating or acquiring loans and direct costs of leases in accordance with FASB Statement No. 91 (FAS 91) Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases (an amendment of FASB Statement No. 13, 60 and 65 and a rescission of FASB Statement No. 17) . This statement requires that loan origination fees be recognized over the life on the related loan as an adjustment on the loan s yield. Certain direct loan origination costs shall be recognized over the life of the related loan as a reduction of the loan s yield. This statement changed the practice of recognizing loan origination and commitment fees prior to inception of the loan.

The Company accounts for impaired loans in accordance with SFAS No. 114, Accounting by Creditors for Impairment of a Loan . This statement requires that all creditors value loans for which it is probable that the creditor will be unable to collect all amounts due according to the terms of the loan agreement at the loan s fair value. Fair value may be determined based upon the present value of expected cash flows, market price of the loan, if available, or value of the underlying collateral. Expected cash flows are required to be discounted at the loan s effective interest rate.

SFAS No. 114 was amended by SFAS No. 118 to allow a creditor to use existing methods for recognizing interest income on an impaired loan and by requiring additional disclosures about how a creditor estimates interest income related to impaired loans.

When the ultimate collectibility of an impaired loan s principal is in doubt, wholly or partially, all cash receipts are applied to principal. When this doubt does not exist, cash receipts are applied under the contractual terms of the loan agreement first to principal and then to interest income. 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.

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

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

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

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

Concentration of Credit Risk: The Company s primary market consists of the counties of Berkeley, Charleston and Dorchester, South Carolina. At December 31, 2007, 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.

BANK OF SOUTH CAROLINA CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Other Real Estate Owned: Other real estate owned is recorded at the lower of fair value less estimated selling costs or cost and is included in other assets on the consolidated balance sheets. There was no other real estate owned at December 31, 2007 or 2006. Gains and losses on the sale of other real estate owned and subsequent write-downs from periodic reevaluation are charged to other operating income.

Income Taxes: The Company accounts for income taxes in accordance with SFAS No. 109, Accounting for Income taxes . Under the asset and liability method of SFAS No. 109, 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. Under SFAS No. 109, 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.

In 2006, the FASB issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes an Interpretation of SFAS No. 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. FIN 48 is effective for fiscal years beginning after December 15, 2006. Accordingly, the Company adopted FIN 48 effective January 1, 2007. The adoption of FIN 48 did not have any impact on the Company s consolidated financial position.

Stock-Based Compensation: On January 1, 2006, the Company adopted the fair value recognition provisions of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 123(R), *Accounting for Stock-Based Compensation*, to account for compensation costs under its stock option plans. The Company previously utilized the intrinsic value method under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees (as amended)* (APB 25). Under the intrinsic value method prescribed by APB 25, no compensation costs were recognized for the Company s stock options because the option exercise price in its plans equals the market price on the date of grant. Prior to January 1, 2006, the Company only disclosed the pro forma effects on net income and earnings per share as if the fair value recognition provisions of SFAS 123(R) had been utilized.

In adopting SFAS No. 123, the Company elected to use the modified prospective method to account for the transition from the intrinsic value method to the fair value recognition method. Under the modified prospective method, compensation cost is recognized from the adoption date forward for all new stock options granted and for any outstanding unvested awards as if the fair value method had been applied to those awards as of the date of grant.

There were options for 10,000 shares granted in 2007, options for 32,500 shares granted in 2006 and no options granted in 2005. The weighted average fair value per share of options granted, amounted to $4.50 for options granted in January 2007, $4.46 for options granted in June of 2007 and $4.54 for options granted in 2006. Fair values were estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for grants: dividend yield of 2.75% and 3.58% for 2007 and 2006, respectively; historical volatility of 25.68% and 29.98% for 2007 and 2006, respectively; risk-free interest rate of 4.70% for 5,000 options granted in January and 5.16% for 5,000 options granted in June of 2007 and 4.36% for the options granted in 2006; expected lives of the options of 10 years for 2007 and 2006, respectively.

BANK OF SOUTH CAROLINA CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Comprehensive Income: The Company applies the provisions of SFAS No. 130, Reporting Comprehensive Income , which establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income consists of net income and net unrealized gains or losses on securities and is presented in the consolidated statements of shareholders equity and comprehensive income.

Segment Information: The Company reports operating segments in accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information . Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assess performance. SFAS No. 131 requires that a public enterprise report a measure of segment profit or loss, certain specific revenue and expense items, segment assets, information about the way that the operating segments were determined and other items. The Company has one reporting segment, The Bank of South Carolina.

Derivative Instruments: SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. establishes comprehensive accounting and reporting standards for derivative instruments and hedging activities. SFAS No. 133 requires that all derivative instruments be recorded in the statement of financial position at fair value. The accounting for the gain or loss due to change in fair value of the derivative instrument depends on whether the derivative instrument qualifies as a hedge. If the derivative does not qualify as a hedge, the gains or losses are reported in earnings when they occur. However, if the derivative instrument qualifies as a hedge, the accounting varies based on the type of risk being hedged.

The Company has no embedded derivative instruments requiring separate accounting treatment. The Company has freestanding derivative instruments consisting of fixed rate conforming loan commitments and commitments to sell fixed rate conforming loans. The Company does not currently engage in hedging activities.

Cash Flows: Cash and cash equivalents include working cash funds, due from banks, interest bearing deposits in other banks, items in process of collection and federal funds sold. To comply with Federal Reserve regulations, the Bank is required to maintain certain average cash reserve balances. The daily average reserve requirement was approximately $759,937 and $960,000 for the reserve periods ended December 31, 2007 and 2006, respectively.

Recent Accounting Pronouncements:

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards SFAS No. 157, Fair Value Measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This standard eliminates inconsistencies found in various prior pronouncements but does not require any new fair value measurements. SFAS 157 is effective for the Company on January 1, 2008 and is not expected to have a significant impact on the Company s financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 (SFAS 159). This statement permits, but does not require, entities to measure many financial instruments at fair value. The objective is to provide entities with an opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Entities electing this option will apply it when the entity first recognizes an eligible instrument and will report unrealized gains and losses on such instruments in current earnings. This statement (1) applies to all entities, (2) specifies certain election dates, (3) can be applied on an instrument-by-instrument basis with some exceptions, (4) is irrevocable, and (5) applies only to entire instruments. One

BANK OF SOUTH CAROLINA CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

exception is demand deposit liabilities which are explicitly excluded as qualifying for fair value. With respect to SFAS 115, available-for-sale and held-to-maturity securities at the effective date are eligible for the fair value option at that date. If the fair value option is elected for those securities at the effective date, cumulative unrealized gains and losses at that date shall be included in the cumulative-effect adjustment and thereafter, such securities will be accounted for as trading securities. SFAS 159 is effective for the Company on January 1, 2008. The Company is currently analyzing the fair value option that is permitted, but not required, under SFAS 159.

In November 2007, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 109, Written Loan Commitments Recorded at Fair Value Through Earnings (SAB 109). SAB 109 expresses the current view of the SEC staff that the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. SEC registrants are expected to apply this guidance on a prospective basis to derivative loan commitments issued or modified in the first quarter of 2008 and thereafter. The Company is currently analyzing the impact of this guidance, which relates to the Company s mortgage loans held for sale.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations, (SFAS 141(R)) which replaces SFAS 141. SFAS 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. FAS 141(R) is effective for acquisitions by the Company taking place on or after January 1, 2009. Early adoption is prohibited. Accordingly, a calendar year-end company is required to record and disclose business combinations following existing accounting guidance until January 1, 2009. The Company will assess the impact of SFAS 141(R) if and when a future acquisition occurs.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS 160). SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Before this statement, limited guidance existed for reporting noncontrolling interests (minority interest). As a result, diversity in practice exists. In some cases minority interest is reported as a liability and in others it is reported in the mezzanine section between liabilities and equity. Specifically, SFAS 160 requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financials statements and separate from the parent s equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. SFAS 160 clarifies that changes in a parent s ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interests. SFAS 160 is effective for the Company on January 1, 2009. Earlier adoption is prohibited. The Company is currently evaluating the impact, if any, the adoption of SFAS 160 will have on its 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 the Company s financial position, results of operations or cash flows.

Reclassifications: Certain prior year amounts have been reclassified to conform to the 2007 presentation. Such reclassifications had no impact on net income or retained earnings as previously reported.

BANK OF SOUTH CAROLINA CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. INVESTMENT SECURITIES AVAILABLE FOR SALE

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

	DECEMBER 31, 2007			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
U.S. Treasury Notes	$ 2,948,002	$ 148,091	$	$ 3,096,093
Federal Agency Securities	4,000,738	57,088		4,057,826
Government-Sponsored Enterprises	17,872,391	409,771		18,282,162
Municipal Securities	10,336,322	89,464	21,848	10,403,938
Total	$ 35,157,453	$ 704,414	$ 21,848	$ 35,840,019

	DECEMBER 31, 2006			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
U.S. Treasury Bonds	$ 5,968,555	$ 8,045	$	$ 5,976,600
U.S. Treasury Notes	5,869,713	61,287		5,931,000
Federal Agency Securities	3,000,000		10,200	2,989,800
Government-Sponsored Enterprises	20,798,027	64,356	58,883	20,803,500
Municipal Securities	5,228,611	29,344	61,000	5,196,955
Total	$ 40,864,906	$ 163,032	$ 130,083	$ 40,897,855

The amortized cost and estimated fair value of investment securities available for sale at December 31, 2007, by contractual maturity are as follows:

	AMORTIZED COST	ESTIMATED FAIR VALUE
Due in one year or less	$ 3,445,242	$ 3,461,218
Due in one year to five years	27,332,197	27,948,379
Due in five years to ten years	3,323,526	3,367,697
Due in ten years to fifteen years	819,521	823,636
Due in fifteen to twenty years	236,967	239,089
Total	$ 35,157,453	$ 35,840,019

During 2007, $11,987,250 of Available for Sale Securities were sold for a gain of $69,792 in order to increase the Bank s liquidity position. During 2006 there was one sale of an investment security which resulted in a realized loss of $22,950. Gross proceeds from the sale were $2,970,000.

BANK OF SOUTH CAROLINA CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The carrying value of investment securities pledged to secure deposits and other balances was $23,575,639 and $30,752,279 at December 31, 2007 and 2006, respectively.

Gross unrealized losses and the estimated fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2007 and December 31, 2006 are as follows:

	December 31, 2007					
	Less than 12 months		12 months or longer		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury Notes	$	$	$	$	$	$
Federal Agency Securities						
Government-Sponsored Enterprises						
Municipal Securities	1,534,813	21,848			1,534,813	21,848
	$ 1,534,813	$ 21,848	$	$	$ 1,534,813	$ 21,848

	December 31, 2006					
	Less than 12 months		12 months or longer		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury Bills	$	$	$	$	$	$
U.S. Treasury Notes						
Federal Agency Securities	2,989,800	10,200			2,989,800	10,200
Government-Sponsored Enterprises	11,840,000	58,883			11,840,000	58,883
Municipal Securities	2,282,861	61,000			2,282,861	61,000
	$ 17,112,661	$ 130,083	$	$	$ 17,112,661	$ 130,083

The unrealized losses on investments were caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the securities at a price less the amortized cost of the investment. Because the Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired. Nearly all of these investments are rated AAA so the credit risk is minimal.

BANK OF SOUTH CAROLINA CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. LOANS

Major classifications of loans are as follows:

	DECEMBER 31,	
	2007	**2006**
Commercial loans	$ 49,168,128	$ 52,603,319
Commercial real estate	76,289,935	76,295,205
Residential mortgage	12,195,078	14,430,196
Consumer loans	5,218,165	4,377,353
Personal bank lines	12,805,795	10,719,387
Other	719,832	246,775
	156,396,933	158,672,235
Deferred loan fees (Net)	(48,916)	(75,675)
Allowance for loan losses	(1,335,099)	(1,294,994)
Loans, net	$ 155,012,918	$ 157,301,566

Changes in the allowance for loan losses and reserve for unfunded lending commitments are summarized as follows:

	YEARS ENDED DECEMBER 31,		
	2007	**2006**	**2005**
Balance at beginning of year	$ 1,294,994	$ 1,017,175	$ 1,043,901
(Recovery) provision for loan losses	40,000	240,000	12,000
Charge offs	(29,702)	(24,856)	(46,392)
Recoveries	50,603	62,675	7,666
Adjustment for unfunded loan commitments	(20,796)		
Balance at end of year	$ 1,335,099	$ 1,294,994	$ 1,017,175

	YEARS ENDED DECEMBER 31		
Reserve for unfunded lending commitments	**2007**	**2006**	**2005**
Balance at beginning of year	$	$	$
Adjustment for unfunded loan commitments from allowance for loan losses	20,796		
Provision for unfunded commitments	1,507		
Balance at end of year	$ 22,303	$	$

During the second quarter of 2005, the Company adopted FASB Statement No. 91 (FAS 91) Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases (an amendment of FASB Statement No. 13, 60 and 65 and a rescission of FASB Statement No. 17) . FAS 91 establishes the accounting for nonrefundable fees and costs associated with lending, committing to lend, or purchasing a loan or group of loans. This statement also specifies the accounting for fees and initial direct costs associated with leasing. As of July 1, 2005 any fee or cost associated with originating or acquiring loans are being deferred and amortized in accordance with FAS 91. The net balance of the deferred loan fees at December 31, 2007 and 2006 was $48,916 and $75,675, respectively.

BANK OF SOUTH CAROLINA CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company grants short to intermediate term commercial and consumer loans to customers throughout its primary market area of Charleston, Berkeley and Dorchester Counties, South Carolina. The Company s primary market area is heavily dependent on tourism and medical services. Although the Company has a diversified loan portfolio, a substantial portion of its debtors ability to honor their contracts is dependent upon the stability of the economic environment in their primary market including the government, tourism and medical industries. Except for the fact that the majority of the loan portfolio is located in the bank s immediate market area, there were no material concentrations of loans in any type of industry, in any type of property or to any one borrower.

As of December 31, 2007 and 2006, the Company had loans on non-accrual totaling $761,748 and $10,864, respectively. The additional amount of gross income that would have been recorded during 2007, 2006 and 2005 if these loans had performed as agreed would have been $55,209, $76 and $4,167, respectively. The Company did not recognize any interest income on these loans in 2007, 2006 or 2005 while these loans were on non-accrual.

There was one loan in the amount of $1,288 and two loans in the amount of $44,534 over 90 days past due still accruing interest at December 31, 2007 and December 31, 2006, respectively.

At December 31, 2007 and 2006 impaired loans amounted to $882,269 and $10,864, respectively, and their related reserve for loan losses totaled $441,135 and $10,697 at December 31, 2007 and 2006, respectively. The Bank had one restructured loan at December 31, 2007 in the amount of $10,567 and no restructured loans at December 31, 2006. For the years ended December 31, 2007, 2006 and 2005, the average recorded investment in impaired loans was $779,663, $24,037 and $93,536, respectively, and $31,068 in 2007, $2,220 in 2006 and $2,552 in 2005 of interest income was recognized on loans prior to being considered impaired. All of this income was recognized using the accrual method of accounting.

4. PREMISES, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Premises, equipment and leasehold improvements are summarized as follows:

	DECEMBER 31,	
	2007	2006
Bank buildings	$ 1,797,577	$ 1,797,577
Land	838,075	838,075
Leasehold purchase	30,000	30,000
Lease improvements	347,475	340,313
Equipment	3,195,164	2,981,048
	6,208,291	5,987,013
Accumulated depreciation	(3,588,683)	(3,324,927)
Total	$ 2,619,608	$ 2,662,086

BANK OF SOUTH CAROLINA CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. DEPOSITS

At December 31, 2007 and 2006, certificates of deposit of $100,000 or more totaled approximately $22,122,593 and $22,281,984, respectively. Interest expense on these deposits was $1,151,055 in 2007 and $918,322 in 2006.

At December 31, 2007, the schedule maturities of certificates of deposit are as follows:

2008	$ 35,538,607
2009	689,034
2010	
2011	
2012	1,342,998
2013 and thereafter	
	$ 37,570,639

6. SHORT-TERM BORROWINGS

The Bank has a demand note through the US Treasury, Tax and Loan system with the Federal Reserve Bank of Richmond. The bank may borrow up to $2,800,000 under the arrangement at an interest rate set by the Federal Reserve. The note is secured by Government Sponsored Agency Securities with a market value of $3,563,340 at December 31, 2007. The amount outstanding under the note totaled $927,873 and $2,712,683 at December 31, 2007 and 2006, respectively.

At December 31, 2007 and 2006, the Bank had unused short-term lines of credit totaling approximately $12,500,000 (which are withdrawable at the lender s option).

7. INCOME TAXES

Total income taxes for the years ended December 31, 2007, 2006 and 2005 are as follows

	YEARS ENDED DECEMBER 31,		
	2007	2006	2005
Income tax expense	$ 2,046,316	$ 2,068,880	$ 1,799,549
Stockholders equity, for unrealized losses on securities available for sale	240,358	42,684	(73,502)
Total	$ 2,286,674	$ 2,111,564	$ 1,726,047

BANK OF SOUTH CAROLINA CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Current	Deferred	Total
YEAR ENDED DECEMBER 31, 2007			
U.S. Federal	$ 1,898,301	$ (28,505)	$ 1,869,796
State and local	176,520		176,520
	$ 2,074,821	$ (28,505)	$ 2,046,316
YEAR ENDED DECEMBER 31, 2006			
U.S. Federal	$ 1,971,733	$ (83,310)	$ 1,888,423
State and local	180,457		180,457
	$ 2,152,190	$ (83,310)	$ 2,068,880
YEAR ENDED DECEMBER 31, 2005			
U.S. Federal	$ 1,649,749	$ 4,954	$ 1,654,703
State and local	144,846		144,846
	$ 1,794,595	$ 4,954	$ 1,799,549

Income tax expense attributable to income before income tax expense was $2,046,316, $2,068,880 and $1,799,549 for the years ended December 31, 2007, 2006 and 2005 respectively, and differed from amounts computed by applying the U.S. federal income tax rate of 34% to pretax income from continuing operations as a result of the following:

		Years Ended December 31,	
	2007	**2006**	**2005**
Computed expected tax expense	$ 1,998,370	$ 2,039,029	$ 1,694,749
Increase (reduction) in income taxes Resulting from:			
Tax exempt interest income	(80,347)	(55,101)	(29,175)
State income tax, net of federal benefit	116,503	138,143	95,598

Other, net	11,790	(53,191)	38,377
	$ 2,046,316	$ 2,068,880	$ 1,799,549

BANK OF SOUTH CAROLINA CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2007 and 2006 are presented below:

	DECEMBER 31,	
	2007	**2006**
Deferred tax assets:		
Deferred loan fees	$ 16,631	$ 25,730
Unrealized loss on securities available for sale		
State Net Operating Loss Carryforward	20,620	12,000
Bad Debt Reserves	385,182	371,547
Other	26,354	24
Total gross deferred tax assets	448,787	409,301
Less valuation allowance	(20,620)	(12,000)
Net deferred tax assets	428,167	397,301
Deferred tax liabilities:		
Prepaid expenses	(29,723)	(34,841)
Unrealized gain on securities available for sale	(252,549)	(12,191)
Fixed assets, principally due to differences in depreciation	(50,136)	(59,770)
Other-Bond Accretion	(49,980)	(32,867)
Total gross deferred tax liabilities	(382,388)	(139,669)
Net deferred tax asset	$ 45,779	$ 257,632

The Company analyzed the tax positions taken in its tax returns and concluded it has no liability related to uncertain tax positions in accordance with FIN 48.

There was a $20,620 valuation allowance for deferred tax assets at December 31, 2007 and $12,000 at December 31, 2006. 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, 2007. The amount of the deferred income tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carry forward period are reduced.

Tax returns for 2004 and subsequent years are subject to examination by taxing authorities.

BANK OF SOUTH CAROLINA CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. COMMITMENTS AND CONTINGENCIES

The Company has entered into agreements to lease equipment and its office facilities under noncancellable operating lease agreements expiring on various dates through 2011. The Company may, at its option, extend the lease of its office facility at 256 Meeting Street in Charleston, South Carolina, for two additional ten year periods and extend the land lease where the Mt. Pleasant office is constructed for six additional five year periods. Management intends to exercise its option on the Meeting Street lease. Lease payments below include the lease renewal. Minimum rental commitments for these leases as of December 31, 2007 are as follows:

2008	$ 470,699
2009	462,031
2010	459,920
2011	427,468
2012	429,980
2013 and thereafter	1,888,342
Total	$ 4,138,440

Total rental expense was $463,177, $441,568 and $447,602 in 2007, 2006 and 2005, respectively.

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management s credit evaluation of the borrower. Collateral held varies, but may include accounts receivable, negotiable instruments, inventory, property, plant and equipment, and real estate. Commitments to extend credit, including unused lines of credit, amounted to $43,605,731 and $49,060,480 at December 31, 2007 and 2006, respectively.

Standby letters of credit represent an obligation of the Company to a third party contingent upon the failure of the Company s customer to perform under the terms of an underlying contract with the third party or obligates the Company to guarantee or stand as surety for the benefit of the third party. The underlying contract may entail either financial or nonfinancial obligations and may involve such things as the shipment of goods, performance of a contract, or repayment of an obligation. Under the terms of a standby letter, generally drafts will be drawn only when the underlying event fails to occur as intended. The Company can seek recovery of the amounts paid from the borrower. The majority of these standby letters of credit are unsecured. Commitments under standby letters of credit are usually for one year or less. At December 31, 2007 and 2006, the Company has recorded no liability for the current carrying amount of the obligation to perform as a guarantor, as such amounts are not considered material.

The maximum potential amount of undiscounted future payments related to standby letters of credit at December 31, 2007 and 2006 was $1,234,623 and $721,602, respectively.

The Company originates certain fixed rate residential loans and commits these loans for sale. The commitments to originate fixed rate residential loans and the sales commitments are freestanding derivative instruments. The fair value of these commitments was not significant at December 31, 2007 and 2006. The Company has forward sales commitments, totaling $2.0 million at December 31, 2007 to sell loans held for sale of $2.0 million. Such forward sales commitments are to sell loans at par value and are generally funded within 60 days. The fair value of these commitments was not significant at December 31, 2007. The Company has no embedded derivative instruments requiring separate accounting treatment.

9. RELATED PARTY TRANSACTIONS

In the opinion of management, loans to officers and directors of the Company are made on substantially the same terms as those prevailing at the time for comparable transactions with unaffiliated persons and do not involve more than the normal risk of collectibility. There were no outstanding loans to executive officers of the Company as of December 31, 2007 and 2006. Related party loans are summarized as follows:

	DECEMBER 31,	
	2007	2006
Balance at beginning of year	$ 1,722,407	$ 2,087,847
New loans or advances	2,546,609	4,682,223
Repayments	(1,711,985)	(5,047,663)
Balance at end of year	$ 2,557,031	$ 1,722,407

10. OTHER EXPENSE

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

	YEARS ENDED DECEMBER 31,		
	2007	2006	2005
Advertising and business development	$ 37,614	$ 30,584	$ 19,976
Supplies	126,210	127,750	140,647
Telephone and postage	174,621	165,833	170,042
Insurance	46,077	53,574	59,440
Professional fees	338,549	309,309	323,102
Data processing services	326,530	316,848	308,297
State and FDIC insurance and fees	49,787	48,928	48,698
Courier service	174,426	170,095	171,362
Other	286,398	245,016	252,682
	$ 1,560,212	$ 1,467,937	$ 1,494,246

11. INCENTIVE STOCK OPTION PLAN AND EMPLOYEE STOCK OWNERSHIP PLAN AND TRUST

The Company has an Incentive Stock Option Plan which was approved in 1998. Under the 1998 Incentive Stock Option 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. At December 31, 2007, 29,791 shares of common stock are reserved to be granted under the 1998 Incentive Stock Option Plan from the original 272,250 shares.

All outstanding options, option price, and option activity for the stock-based option plan has been retroactively restated to reflect the effects of the 10% stock dividend declared June 19, 2003, a 10% stock distribution declared April 12, 2005, and a 25% stock dividend declared on April 11, 2006.

BANK OF SOUTH CAROLINA CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A summary of the activity under the stock-based option plan for the years ended December 31, 2007, 2006, and 2005 follows:

	2007		**2006**		**2005**	
	Shares	**Weighted Average Exercise Price**	**Shares**	**Weighted Average Exercise Price**	**Shares**	**Weighted Average Exercise Price**
Outstanding, January 1	160,094	$ 10.49	197,895	$ 9.09	235,155	$ 9.11
Granted	10,000	15.75	32,500	16.62		
Expired	(9,074)	12.10	(5,499)	9.97	(16,464)	9.62
Exercised	(24,257)	8.92	(64,802)	9.31	(20,796)	8.92
Outstanding December 31	136,763	$ 11.05	160,094	$ 10.49	197,895	$ 9.09

Exercise Price:	Number of Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Intrinsic Value of Outstanding Options	Number of Options Exercisable	Weighted Average Exercise Price	Intrinsic Value of Exercisable Options
$8.92	82,884	3.4	$ 8.92	$ 455,348	3,684	$ 8.92	$ 19,378
$9.39	15,879	5.4	$ 9.39	$ 76,060		$	$
$16.62	28,000	8.4	$ 16.62	$		$	$
$15.99	5,000	9	$ 15.99	$		$	$
$15.51	5,000	9.5	$ 15.51	$		$	$
	136,763	5.08	$ 11.05	$ 531,408	3,684	$ 8.92	$ 19,378

The weighted average grant-date fair value of options granted during the year 2007 and 2006 was $4.48 and $4.54, respectively. There were no options granted during the year ended 2005. The total intrinsic value of options exercised during the years ended December 31, 2007 and 2006, and 2005, was $161,962, $394,804 and $12,145.

As of December 31, 2007 there was $233,252 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. The cost is expected to be recognized over a weighted average period of 3.6 years.

The Company established an Employee Stock Ownership Plan (ESOP) effective January 1, 1989. Each employee who has attained age twenty-one and has completed at least 1,000 hours of service in a plan year is eligible to participate in the ESOP. Contributions are determined annually by the Board of Directors and amounts allocable to individual participants may be limited pursuant to the provisions of Internal Revenue Code section 415. The Company recognizes expense when the contribution is approved by the Board of Directors. The total expenses amounted to $288,000, $330,000 and $300,000 for the years ended December 31, 2007, 2006 and 2005 respectively.

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BANK OF SOUTH CAROLINA CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. COMMON STOCK DIVIDEND

On April 11, 2006 the company declared a 25% stock dividend for a total of 772,840 shares. All share and per share data has been retroactively restated to give effect to the common stock dividend.

13. INCOME PER COMMON SHARE

Basic earnings per share are computed by dividing net income by the weighted-average number of common shares outstanding. Diluted earnings per share are computed by dividing net income by the weighted-average number of common shares and potential common shares outstanding. Potential common shares consist of dilutive stock options determined using the treasury stock method and the average market price of common stock. All share and per share data have been retroactively restated for all common stock dividends and distributions. The Company has no antidilutive securities at December 31, 2007.

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

	2007		2006		2005	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Weighted average shares outstanding	3,943,067	3,943,067	3,900,707	3,900,707	3,859,351	3,859,351
Effect of dilutive securities:						
Stock options		28,282		45,221		53,768
Average shares outstanding	3,943,067	3,971,349	3,900,707	3,945,928	3,859,351	3,913,119

14. REGULATORY CAPITAL REQUIREMENTS

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulation) to risk-weighted assets (as defined) and to average assets. Management believes, as of December 31, 2007, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

At December 31, 2007 and 2006, the Company and the Bank are categorized as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Company and the Bank must maintain minimum total risk based, Tier 1 risk based and Tier 1 leverage ratios of 10%, 6% and 5%, respectively, and to be categorized as adequately capitalized, the Company and the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table below. There are no current conditions or events that management believes would change the Company s or the Bank s category.

BANK OF SOUTH CAROLINA CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

					To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Actual		For Capital Adequacy Purposes			
Dollars in Thousands	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2007: Total capital to risk-weighted assets:						
Company	$26,620	13.80%	$15,433	8.00%	$ N/A	N/A
Bank	$26,141	13.55%	$15,433	8.00%	$19,291	10.00%
Tier 1 capital to risk-weighted assets:						
Company	$25,263	13.10%	$ 7,717	4.00%	$ N/A	N/A
Bank	$24,784	12.85%	$ 7,716	4.00%	$11,574	6.00%
Tier 1 capital to average assets:						
Company	$25,263	10.62%	$ 9,511	4.00%	$ N/A	N/A
Bank	$24,784	10.42%	$ 9,510	4.00%	$11,888	5.00%

December 31, 2006

					To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Actual		For Capital Adequacy Purposes			
Dollars in Thousands	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2006: Total capital to risk-weighted assets:						
Company	$24,915	12.20%	$16,333	8.00%	$ N/A	N/A
Bank	$24,826	12.16%	$16,333	8.00%	$20,417	10.00%
Tier 1 capital to risk-weighted assets:						
Company	$23,620	11.57%	$ 8,167	4.00%	$ N/A	N/A
Bank	$23,531	11.53%	$ 8,167	4.00%	$12,250	6.00%

Tier 1 capital to average assets:						
Company	$23,620	9.97%	$ 9,472	4.00%	$ N/A	N/A
Bank	$23,531	9.94%	$ 9,472	4.00%	$11,840	5.00%

BANK OF SOUTH CAROLINA CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. DISCLOSURES REGARDING FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 107, Disclosure About Fair Value of Financial Instruments , requires disclosure of fair value information about financial instruments whether or not recognized on the balance sheet, for which it is practicable to estimate fair value. Fair value estimates are made as of a specific point in time based on the characteristics of the financial instruments and the relevant market information. Where available, quoted market prices are used. In other cases, fair values are based on estimates using present value or other valuation techniques. These techniques involve uncertainties and are significantly affected by the assumptions used and the judgements made regarding risk characteristics of various financial instruments, discount rates, prepayments, estimates of future cash flows, future expected loss experience and other factors. Changes in assumptions could significantly affect these estimates. Derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, may or may not be realized in an immediate sale of the instrument.

Under SFAS No. 107, 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 presented do not represent the underlying value of the Company.

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

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

The carrying value approximates fair value.

b. Investment securities available for sale

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

c. Loans

The carrying value of variable rate consumer and commercial loans and consumer and commercial loans with remaining maturities of three months or less approximates fair value. The fair value of fixed rate consumer and commercial loans with maturities greater than three months are determined using a discounted cash flow analysis and assumes the rate being offered on these types of loans by the Company at December 31, 2007 and 2006, approximates market.

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

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

d. Deposits

Under SFAS No. 107, the estimated fair value of deposits with no stated maturity is equal to the carrying amount. The fair value of time deposits is estimated by discounting contractual cash flows, by applying interest rates currently being offered on the deposit products. Under SFAS No. 107, the fair value estimates for deposits do not include the benefit that results from the low cost funding provided by the deposit liabilities as compared to the cost of alternative forms of funding (deposit base intangibles).

e. Short-term borrowings

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

BANK OF SOUTH CAROLINA CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The estimated fair values of the Company s financial instruments at December 31, 2007 and 2006, are as follows:

	2007	
	Carrying Amount	Estimated Fair Value
Cash and due from banks	$ 9,716,533	$ 9,716,533
Interest bearing deposits in other banks	8,109	8,109
Federal funds sold	18,357,674	18,357,674
Investments available for sale	35,840,019	35,840,019
Loans (1)	158,329,035	163,894,799
Deposits	197,346,458	197,504,557
Short-term borrowings	927,873	927,873

	2006	
	Carrying Amount	Estimated Fair Value
Cash and due from banks	$ 9,747,621	$ 9,747,621
Interest bearing deposits in other banks	7,990	7,990
Federal funds sold	26,857,657	26,857,657
Investment securities available for sale	40,897,855	40,897,855
Loans (1)	162,557,288	166,817,256
Deposits	215,316,901	215,313,776
Short-term borrowings	2,712,683	2,712,683

(1) Includes mortgage loans held for sale.

16. BANK OF SOUTH CAROLINA CORPORATION PARENT COMPANY

The Company s principal source of income is dividends from the Bank. Certain regulatory requirements restrict the amount of dividends which the Bank can pay to the Company. At December 31, 2007, the Bank had available retained earnings of approximately $1,000,000 for payment of dividends. The Company s principal asset is its investment in its Bank subsidiary. The Company s condensed statements of financial condition as of December 31, 2007 and 2006, and the related condensed statements of operations and cash flows for the years ended December 31, 2007, 2006 and 2005, are as follows:

STATEMENTS OF FINANCIAL CONDITION

	2007	2006
Assets		
Cash	$ 1,104,729	$ 1,031,922
Investment in wholly-owned bank subsidiary	25,213,603	23,551,686
Other assets	6,875	
Total assets	$ 26,325,207	$ 24,583,608

Liabilities and shareholders equity		
Dividends payable	$ 632,637	$ 943,177
Total liabilities	632,637	943,177
Shareholders equity	25,692,570	23,640,431
Total liabilities and shareholders equity	$ 26,325,207	$ 24,583,608

BANK OF SOUTH CAROLINA CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

STATEMENTS OF OPERATIONS

	2007	2006	2005
Interest income	$ 12,975	$ 21,801	$ 3,601
Net operating expenses	(104,390)	(103,695)	(47,228)
Dividends received from bank	2,670,000	1,980,000	1,615,000
Equity in undistributed earnings of subsidiary	1,252,659	2,030,157	1,613,633
Net income	$ 3,831,244	$ 3,928,263	$ 3,185,006

STATEMENTS OF CASH FLOWS

	2007	2006	2005
Cash flows from operating activities:			
Net income	$ 3,831,244	$ 3,928,263	$ 3,185,006
Stock-Based compensation expense	45,214	38,923	
Equity in undistributed earnings of subsidiary	(1,252,659)	(2,030,157)	(1,613,633)
Increase in other assets	(6,875)		
Net cash provided by operating activities	2,616,924	1,937,029	1,571,373
Cash flows from financing activities:			
Dividends paid	(2,757,797)	(2,025,344)	(1,385,913)
Fractional shares paid		(3,913)	(3,869)
Treasury stock purchased			
Stock options exercised	213,680	603,368	225
Net cash used by financing activities	(2,544,117)	(1,425,889)	(1,389,557)
Net increase in cash	72,807	511,140	181,816
Cash at beginning of year	1,031,922	520,782	338,966
Cash at end of year	$ 1,104,729	$ 1,031,922	$ 520,782
Change in dividend payable	$ (310,540)	$ 479,338	$ 155,223

BANK OF SOUTH CAROLINA CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The tables below represent the quarterly results of operations for the years ended December 31, 2007 and 2006, respectively:

	2007			
	FOURTH	THIRD	SECOND	FIRST
Total interest and fee income	$ 3,905,686	$ 4,058,866	$ 4,230,520	$ 4,287,106
Total interest expense	1,092,861	1,251,300	1,310,059	1,368,866
Net interest income	2,812,825	2,807,566	2,920,461	2,918,240
Provision for loan losses			20,000	20,000
Net interest income after provisions for loan losses	2,812,825	2,807,566	2,900,461	2,898,240
Other income	376,166	410,192	354,584	402,927
Other expense	1,814,276	1,778,594	1,781,070	1,711,461
Income before income tax expense	1,374,715	1,439,164	1,473,975	1,589,706
Income tax expense	480,809	498,603	513,664	553,240
Net income	$ 893,906	$ 940,561	$ 960,311	$ 1,036,466
Basic income per common share	$ .23	$ .24	$ .24	$ .26
Diluted income per common share	$ .22	$ .24	$ .24	$ .26

	2006			
	FOURTH	THIRD	SECOND	FIRST
Total interest and fee income	$ 4,248,542	$ 4,246,363	$ 4,035,378	$ 3,639,675
Total interest expense	1,304,658	1,270,072	1,162,287	959,475
Net interest income	2,943,884	2,976,291	2,873,091	2,680,200
Provision for loan losses	60,000	60,000	60,000	60,000
Net interest income after provisions for loan losses	2,883,884	2,916,291	2,813,091	2,620,200
Other income	385,995	359,458	386,233	335,707
Other expense	1,697,629	1,700,235	1,665,342	1,640,510
Income before income tax expense	1,572,250	1,575,514	1,533,982	1,315,397
Income tax expense	550,004	545,767	523,148	449,961
Net income	$ 1,022,246	$ 1,029,747	$ 1,010,834	$ 865,436
Basic income per common share	$ .26	$ .26	$ .26	$ .23
Diluted income per common share	$ .26	$ .26	$ .26	$ .22

Item 8. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

On November 17, 2005, the appointment of KPMG, LLP as independent auditor was terminated effective upon the completion of the audit of the Company s financial statements as of and for the year ending December 31, 2005 and the issuance of KPMG LLP s report thereon. The decision to change accountants to Elliott Davis, LLC was approved by the audit committee of the Board of Directors. At the 2006 Annual Shareholder s Meeting the selection of Elliott Davis, LLC was ratified by a simple majority vote of shares represented at the meeting.

Item 8A. Controls and Procedures

An evaluation was carried out under the supervision and with the participation of Bank of South Carolina Corporation s management, including its President and Chief Executive Officer and Executive Vice President and Treasurer, of the effectiveness of Bank of South Carolina Corporation s disclosure controls and procedures as of December 31, 2007. Based on that evaluation, Bank of South Carolina Corporation s management, including the Chief Executive Officer and Executive Vice President and Treasurer, has concluded that Bank of South Carolina Corporation s disclosure controls and procedures are effective. During the fourth quarter of 2007, there was no change in Bank of South Carolina Corporation s internal control over financial reporting that has materially affected or is reasonably likely to materially affect, Bank of South Carolina Corporation s internal control over financial reporting.

Item 8B. Other Information

There is no information required to be disclosed in a report on Form 8-K during the fourth quarter of 2007 that was not reported.

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PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act

Election of Directors

Sixteen Directors, constituting the current Board of Directors, will be elected at the Annual Meeting, each to hold office for one year and until a successor shall have been duly elected or appointed and shall have qualified. In the absence of instructions to the contrary, shares of Common Stock represented by properly executed proxies will be voted for the sixteen Nominees listed on pages 54 and 55, all of whom are recommended by the Nominating Committee and the Board of Directors of the Company and have consented to be named and to serve if elected.

The Company does not presently know of anything that would preclude any Nominee from serving; however, should any Nominee for any reason become unable or unwilling to serve as a Director, the number of Directors to be elected will be reduced accordingly.

The name of each Nominee designated by the Board of Directors of the Company for election as a Director of the Company and certain information provided by such Nominee to the Company are set forth in the table below. Eight of the current Nominees served as initial Directors of the Bank from October 22, 1986, when the Bank s charter was issued until the first Annual Meeting of Shareholders on April 14, 1987, and were elected to serve a one year term at such Annual Meeting. All of the above eight Directors of the Bank were elected to serve one-year terms at subsequent Annual Meetings. All of the above eight Directors of the Bank were elected Directors of the Company upon its organization in 1995. Alan I. Nussbaum, MD and Edmund Rhett, Jr., MD, were first elected as Directors of the Company during 1999. Dr. Linda J. Bradley-McKee, CPA was first elected as Director of the Company during 2002. They were all re-elected as Directors of the Company to serve one year terms at subsequent Annual Meetings. Graham M. Eubank, Jr., Richard W. Hutson, Jr. and Malcolm M. Rhodes, MD were elected pursuant to the By-Laws of the Company on December 16, 2004, and were elected to serve one year terms at subsequent annual meetings. Fleetwood S. Hassell was elected pursuant to the By-Laws of the Company on December 15, 2005, and was elected to serve one year terms at subsequent annual meetings. Glen B. Haynes, DVM was elected pursuant to the By-Laws of the Company on December 14, 2006 and was elected to serve a one year term at the annual meeting on April 10, 2007.

Name	Age	Positions and Offices Held With Corporation	Family Relationship	Business Experience 1987-2008 and Other Directorships
Dr. Linda J. Bradley- McKee, CPA	57	Director	None	Director, MS in Accountancy Program College of Charleston (education) 1998 2007; Chairman, Dept. of Accountancy 1999-2004; Associate Professor 1999 2008; Assistant Professor 1993 1999
C. Ronald Coward	72	Director	None	Chairman, Coward Hund Construction Company, Inc. (construction) 2004-2008;President, 1976-2004
Graham M. Eubank, Jr.	40	Director	None	President, Palmetto Ford, Inc. (retail automobile) 2000-2008; Vice President 1996-2000

Name	Age	Positions and Offices Held With Corporation	Family Relationship	Business Experience 1987-2005 and Other Directorships
T. Dean Harton	62	Director	None	President-Hawthorne Corporation (management and investment) 2006-2008; Vice-Chairman, Piedmont Hawthorne Holdings, Inc. (aviation) 2004-2008; President-Piedmont Hawthorne Holdings, Inc. 1999-2004; President-Hawthorne Corporation (aviation) 1986-1999
Fleetwood S. Hassell	48	Executive Vice President	Brother-in-law Charles G. Lane, Director	The Bank of South Carolina (banking) 1986-2008
Glen B. Haynes, DVM	53	Director	None	Westbury Veterinary Clinic (veterinary) 1984-2008
William L. Hiott, Jr.	63	Executive Vice President, Treasurer, Director	None	The Bank of South Carolina (banking) 1986-2008
Katherine M. Huger	66	Director	None	Emerita Professor of Economics, Charleston Southern University; Assistant Professor of Economics Charleston Southern University (education) 1972-2004
Richard W. Hutson, Jr.	50	Secretary Director	None	Manager, William M. Means Company Insurance, LLC (insurance) 1998-2008 Sole Proprietor, William M. Means Insurance Co. (insurance) 1992-1998
Charles G. Lane	53	Director	Brother of Hugh C. Lane, Jr.; brother-in-law of Fleetwood S. Hassell, Executive Vice-President	Managing Member Holcombe, Fair & Lane, LLC (real estate) 1996-2008; Associate-Holcombe & Fair Realtors 1987-1996
Hugh C. Lane, Jr.	60	President, Chief Exec. Officer,	Brother of Charles G. Lane	The Bank of South Carolina (banking) 1986-2008

		Director		
Louise J. Maybank	68	Director	None	Active in community programs

Name	Age	Positions and Offices Held With Corporation	Family Relationship	Business Experience 1987-2005 and Other Directorships
Alan I. Nussbaum, MD	56	Director	None	Physician in private practice with Rheumatology Associates, PA
Edmund Rhett Jr., MD	60	Director	None	Physician in private practice as Edmund Rhett, Jr., PA 2007-2008 Physician in private obstetrical practice with Low Country Obstetrics and Gynecology, PA 1977-2008
Malcolm M. Rhodes, MD	49	Director	None	Physician in private practice with Parkwood Pediatric Group
Thomas C. Stevenson, III	57	Director	None	President Fabtech, Inc. (metal fabrication) 1991-2008; Private Investor 1990-91; Chairman of the Board Stevenson Hagerty, Inc. (diversified holding company) 1984-90

The Audit and Compliance Committee of Bank of South Carolina Corporation has determined that Dr. Linda J. Bradley-McKee, CPA a member who is an independent director qualifies as a financial expert under applicable guidelines of the Securities and Exchange Act. The Company has a separately designated standing Audit Committee whose members are Dr. Linda J. Bradley-McKee, CPA, C. Ronald Coward, Graham M. Eubank, Jr., Glen B. Haynes, Katherine Huger, Alan I. Nussbaum, MD. and Malcolm M. Rhodes, MD.

The Company has adopted a Code of Ethics that applies to the Company s principal executive officer, principal financial officer and persons performing similar functions. The Company will provide, to any stockholder without charge, a copy of such Code of Ethics, upon written request addressed to the Hugh C. Lane, Jr., Chief Executive Officer, at 256 Meeting Street, Charleston SC 29401.

Section 16A Beneficial Ownership Reporting Compliance

Louise J. Maybank, Director, failed to file two Form 4 s in a timely manner.