

BANK OF SOUTH CAROLINA CORP
Form 10-Q
August 08, 2014

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2014

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number: 0-27702

Bank of South Carolina Corporation

(Exact name of registrant issuer as specified in its charter)

South Carolina 57-1021355
(State or other jurisdiction of (IRS Employer
incorporation or organization) Identification Number)

-

256 Meeting Street, Charleston, SC 29401

(Address of principal executive offices)

(843) 724-1500

(Registrant's telephone number)

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

Yes No

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

Yes No

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

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

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

As of August 8, 2014 there were 4,461,388 Common Shares outstanding.

BANK OF SOUTH CAROLINA CORPORATION

AND SUBSIDIARY

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PART I - ITEM 1 - FINANCIAL STATEMENTS

BANK OF SOUTH CAROLINA CORPORATION AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

Assets:	(Unaudited) June 30, 2014	(Audited) December 31, 2013
Cash and due from banks	\$7,848,685	\$6,043,375
Interest bearing deposits in other banks	20,894,035	16,080,721
Investment securities available for sale	93,165,764	94,648,221
Mortgage loans to be sold	5,003,930	4,739,343
Loans	230,596,294	218,320,304
Less: Allowance for loan losses	(3,379,808)	(3,292,277)
Net loans	227,216,486	215,028,027
Premises and equipment, net	2,442,254	2,454,861
Other real estate owned	521,943	
Accrued interest receivable	1,114,437	1,182,272
Other assets	870,670	716,883
Total assets	\$ 359,078,204	\$ 340,893,703
Liabilities and Shareholders' Equity:		
Liabilities		
Deposits:		
Non-interest bearing demand	101,024,740	90,574,330
Interest bearing demand	79,982,199	78,576,851
Money market accounts	51,489,810	47,190,365
Certificates of deposit \$100,000 and over	49,830,228	52,516,487
Other time deposits	15,805,539	15,730,187
Other savings deposits	23,720,158	20,654,435
Total deposits	321,852,674	305,242,655
Accrued interest payable and other liabilities	1,345,712	911,905
Total liabilities	323,198,386	306,154,560
Common Stock - No par value;		
12,000,000 shares authorized; Shares issued 4,680,839 at June 30, 2014 and 4,678,339 at December 31, 2013;		
Shares outstanding 4,461,388 at June 30, 2014 and 4,458,888 shares at December 31, 2013	—	—
Additional paid in capital	28,740,980	28,678,150

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Retained earnings	7,913,296	7,007,532
Treasury stock: 219,451 shares at June 30, 2014 and December 31, 2013	(1,902,439)	(1,902,439)
Accumulated other comprehensive income, net of income taxes	1,127,981	955,900
Total shareholders' equity	35,879,818	34,739,143
Total liabilities and shareholders' equity	\$ 359,078,204	\$ 340,893,703

See accompanying notes to consolidated financial statements.

BANK OF SOUTH CAROLINA CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended June 30,	
	2014	2013
Interest and fee income		
Interest and fees on loans	\$2,814,009	\$2,885,100
Interest and dividends on investment securities	488,798	345,581
Other interest income	12,949	24,567
Total interest and fee income	3,315,756	3,255,248
Interest expense		
Interest on deposits	103,024	104,169
Total interest expense	103,024	104,169
Net interest income	3,212,732	3,151,079
Provision for loan losses	20,000	95,000
Net interest income after provision for loan losses	3,192,732	3,056,079
Other income		
Service charges, fees and commissions	233,921	234,536
Mortgage banking income	303,288	382,426
Other non-interest income	7,188	7,196
Gain on sale of securities	138,838	—
Total other income	683,235	624,158
Other expense		
Salaries and employee benefits	1,329,048	1,285,942
Net occupancy expense	368,057	340,873
Other operating expenses	555,835	534,863
Total other expense	2,252,940	2,161,678
Income before income tax expense	1,623,027	1,518,559
Income tax expense	513,100	474,485
Net income	\$1,109,927	\$1,044,074
Basic income per common share	\$0.25	\$0.23
Diluted income per common share	\$0.24	\$0.23
Weighted average shares outstanding		
Basic	4,461,388	4,451,333
Diluted	4,583,833	4,451,333

Cash Dividend Per Share	\$0.13	\$0.12
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See accompanying notes to consolidated financial statements.

BANK OF SOUTH CAROLINA CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Six Months Ended	
	June 30,	
	2014	2013
Interest and fee income		
Interest and fees on loans	\$5,523,980	\$5,593,847
Interest and dividends on investment securities	980,205	678,874
Other interest income	18,556	44,613
Total interest and fee income	6,522,741	6,317,334
Interest expense		
Interest on deposits	204,646	205,595
Total interest expense	204,646	205,595
Net interest income	6,318,095	6,111,739
Provision for loan losses	50,000	170,000
Net interest income after provision for loan losses	6,268,095	5,941,739
Other income		
Service charges, fees and commissions	456,437	466,838
Mortgage banking income	530,342	876,438
Other non-interest income	12,054	12,301
Gain on sale of securities	223,735	—
Total other income	1,222,568	1,355,577
Other expense		
Salaries and employee benefits	2,658,959	2,568,026
Net occupancy expense	732,728	668,411
Other operating expenses	1,101,751	1,091,998
Total other expense	4,493,438	4,328,435
Income before income tax expense	2,997,225	2,968,881
Income tax expense	931,500	926,002
Net income	\$2,065,725	\$2,042,879
Basic income per common share	\$0.46	\$0.46
Diluted income per common share	\$0.45	\$0.46
Weighted average shares outstanding		
Basic	4,461,388	4,449,131
Diluted	4,584,308	4,449,131

Cash Dividend Per Share	\$0.26	\$0.24
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See accompanying notes to consolidated financial statements.

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

	THREE MONTHS ENDED JUNE 30,	
	2014	2013
Net income	\$1,109,927	\$1,044,074
Other comprehensive income (loss)		
Unrealized gain (loss) on securities (net of tax \$31,100 and \$243,620, respectively)	140,424	(414,812)
Reclassification adjustment for gains included in income (net of tax \$51,370)	(87,468)	—
Other comprehensive income (loss), net of tax	52,956	(414,812)
Total comprehensive income	\$1,162,883	\$629,262

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

	SIX MONTHS ENDED JUNE 30,	
	2014	2013
Net income	\$2,065,725	\$2,042,879
Other comprehensive income (loss)		
Unrealized gain (loss) on securities (net of tax \$101,063 and \$339,286, respectively)	313,034	(577,705)
Reclassification adjustment for gains included in income (net of tax \$82,782)	(140,953)	—
Other comprehensive income (loss), net of tax	172,081	(577,705)
Total comprehensive income	\$2,237,806	\$1,465,174

See accompanying notes to consolidated financial statements.

BANK OF SOUTH
CAROLINA
CORPORATION
AND
SUBSIDIARY
CONSOLIDATED
STATEMENTS OF
SHAREHOLDERS'
EQUITY
FOR THE SIX
MONTHS ENDED
JUNE 30, 2014
AND 2013
(UNAUDITED)

	ADDITIONAL PAID IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL
December 31, 2012	\$ 28,474,951	\$ 5,157,839	\$(1,902,439)	\$ 2,200,091	\$ 33,930,442
Net income	—	2,042,879	—	—	2,042,879
Other comprehensive loss	—	—	—	(577,705)	(577,705)
Exercise of stock options	62,248	—	—	—	62,248
Stock-based compensation expense	36,952	—	—	—	36,952
Cash dividends (\$0.24 per common share)	—	(1,068,292)	—	—	(1,068,292)
June 30, 2013	28,574,151	6,132,426	(1,902,439)	1,622,386	34,426,524
December 31, 2013	28,678,150	7,007,532	(1,902,439)	955,900	34,739,143
Net income	—	2,065,725	—	—	2,065,725
Other comprehensive income	—	—	—	172,081	172,081
Exercise of Stock options	26,050	—	—	—	26,050
Stock-based compensation expense	36,780	—	—	—	36,780
Cash dividends (\$.26 per common share)	—	(1,159,961)	—	—	(1,159,961)
June 30, 2014	\$ 28,740,980	\$ 7,913,296	\$(1,902,439)	\$ 1,127,981	\$ 35,879,818

See accompanying notes to consolidated financial statements.

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BANK OF SOUTH CAROLINA CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six months Ended June 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$2,065,725	\$2,042,879
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	101,208	93,729
Gain on sale of securities	(223,735)	—
Provision for loan losses	50,000	170,000
Stock-based compensation expense	36,780	36,952
Net amortization of unearned discounts on investments	210,773	214,496
Origination of mortgage loans held for sale	(28,845,724)	(49,460,592)
Proceeds from sale of mortgage loans held for sale	28,581,137	57,691,303
Increase in accrued interest receivable and other assets	(187,015)	(181,841)
Increase in accrued interest payable and other liabilities	433,482	146,723
Net cash provided by operating activities	2,222,631	10,753,649
Cash flows from investing activities:		
Proceeds from maturities of investment securities available for sale	1,755,000	2,165,000
Proceeds from sale of available for sale securities	19,529,603	—
Purchase of investment securities available for sale	(19,516,040)	(16,715,236)
Net (increase) decrease in loans	(12,760,402)	2,547,593
Purchase of premises, equipment and leasehold Improvements, net	(88,601)	(87,867)
Net cash used by investing activities	(11,080,440)	(12,090,510)
Cash flows from financing activities:		
Net increase in deposit accounts	16,610,019	13,914,504
Dividends paid	(1,159,636)	(533,869)
Stock options exercised	26,050	62,248
Net cash provided by financing activities	15,476,433	13,442,883
Net increase in cash and cash equivalents	6,618,624	12,106,022
Cash and cash equivalents at beginning of period	22,124,096	31,041,848

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Cash and cash equivalents at end of period	\$28,742,720	\$43,147,870
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Supplemental disclosure of cash flow data:

Cash paid during the period for:

Interest	\$216,283	\$198,066
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Income taxes	\$661,000	\$494,725
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Supplemental disclosure for non-cash investing and financing activity:

Change in dividends payable	\$325	\$534,423
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Change in unrealized gain (loss) on available for sale securities	\$172,081	\$(577,705)
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Transfer of loans to other real estate owned	\$521,943	\$—
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See accompanying notes to consolidated financial statements.

BANK OF SOUTH CAROLINA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1: Basis of Presentation

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

The Bank operates as an independent, community oriented, commercial bank providing a broad range of financial services and products. We have four banking house locations: 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. We intend to open a banking office in North Charleston, SC on Highway 78 and Ingleside Boulevard in 2015.

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

The consolidated financial statements in this report are unaudited, except for the December 31, 2013 consolidated balance sheet. All adjustments consisting of normal recurring accruals which are, in the opinion of management, necessary for fair presentation of the interim consolidated financial statements have been included and fairly and accurately present the financial position, results of operations and cash flows of the Company. The results of operations for the three and six months ended June 30, 2014, are not necessarily indicative of the results which may be expected for the entire year.

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

In preparing these financial statements, we evaluated events and transactions for potential recognition or disclosure through the date the financial statements were available to be issued.

NOTE 2: Investment Securities

We classify investments into three categories as follows: (1) Held to Maturity - debt securities that we have the positive intent and ability to hold to maturity, which are reported at amortized cost, adjusted for the amortization of any related premiums or the accretion of any related discounts into interest income using a methodology which approximates a level yield of interest over the estimated remaining period until maturity; (2) Trading - debt and equity securities that are bought and held principally for the purpose of selling them in the near term, which are reported at fair value, with unrealized gains and losses included in earnings; and (3) Available for Sale - debt and equity securities that may be sold under certain conditions, which are reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of shareholders' equity, net of income taxes. Unrealized losses on securities due to fluctuations in fair value are recognized when it is determined that an other than temporary decline in value has occurred. Realized gains or losses on the sale of investments are recognized on a specific identification, trade date basis. All securities were classified as available for sale for the three and six months ended June 30, 2014 and 2013. We do not have any mortgage-backed securities nor have we ever invested in mortgage-backed securities. (See "non-interest income" for discussion on the sale of investment securities.)

BANK OF SOUTH CAROLINA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3: Mortgage Loans to be Sold

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses are provided for in a valuation allowance by charges to operations as a component of mortgage banking income. At June 30, 2014 and December 31, 2013, we had approximately \$5.0 million and \$4.7 million in mortgage loans held for sale, respectively. Gains or losses on sales of loans are recognized when control over these assets has been surrendered and are included in mortgage banking income in the consolidated statements of income.

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

NOTE 4: Loans and Allowance for Loan Losses

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

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

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

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

The accrual of interest is generally discontinued on loans that become 90 days past due as to principal or interest. The accrual of interest on some loans, however, may continue even though they are 90 days past due if the loans are well secured or in the process of collection and management deems it appropriate. If non-accrual loans decrease their past due status to less than 30 days for a period of 6 to 9 months, they are reviewed individually by management to determine if they should be returned to accrual status.

BANK OF SOUTH CAROLINA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

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

We believe 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. Our judgments are based on numerous assumptions about current events which we believe 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 our ongoing evaluation of the loan portfolio, in light of changing economic conditions and other relevant circumstances, will not require significant future additions to the allowance, thus adversely affecting our operating results.

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

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

The following table is a summary of the non-accrual loans as of June 30, 2014 and December 31, 2013.

June 30, 2014

Loans Receivable on Non-Accrual	
Commercial	\$—
Commercial Real Estate:	
Commercial Real Estate - Construction	—
Commercial Real Estate - Other	724,667
Consumer:	
Consumer Real Estate	—
Consumer - Other	—
Total	\$724,667

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BANK OF SOUTH CAROLINA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

December 31, 2013

Loans Receivable on Non-Accrual	
Commercial	\$—
Commercial Real Estate:	
Commercial Real Estate - Construction	—
Commercial Real Estate - Other	1,507,209
Consumer:	
Consumer Real Estate	68,231
Consumer - Other	—
Total	\$1,575,440

One loan receivable previously reported with a non-accrual status, in the amount of \$54,959, was returned to accrual status during the six months ended June 30, 2014. The borrower made payments consistently for the past six months and has had a documented change in income and employment. All principal and interest is current and repayment of the remaining contractual principal and interest is expected. In addition, a loan receivable in the amount of \$521,943 was moved to Other Real Estate Owned (OREO).

The following is a schedule of our delinquent loans, excluding mortgage loans held for sale, as of June 30, 2014 and December 31, 2013.

June 30, 2014

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days and Accruing
Commercial	\$—	—	—	—	52,687,696	52,687,696	—
Commercial Real Estate:							
Commercial Real Estate - Construction	—	—	—	—	1,551,147	1,551,147	—
Commercial Real Estate - Other	89,500	931,406	232,299	1,253,205	110,547,007	111,800,212	—

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Consumer:							
Consumer - Real Estate	—	—	—	—	60,260,769	60,260,769	—
Consumer - Other	3,000	—	—	3,000	4,293,470	4,296,470	—
Total	\$92,500	931,406	232,299	1,256,205	229,340,089	230,596,294	—

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BANK OF SOUTH CAROLINA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

December 31, 2013

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days and Accruing
Commercial	\$230,848	78,200	—	309,048	52,994,521	53,303,569	—
Commercial Real Estate:							
Commercial Real Estate - Construction	—	—	—	—	1,516,545	1,516,545	—
Commercial Real Estate - Other	689,859	226,314	754,168	1,670,341	103,070,237	104,740,578	—
Consumer:							
Consumer - Real Estate	—	—	—	—	54,669,359	54,669,359	—
Consumer - Other	24,399	—	—	24,399	4,065,854	4,090,253	—
Total	\$945,106	304,514	754,168	2,003,788	216,316,516	218,320,304	—

As of June 30, 2014 and December 31, 2013, loans individually evaluated and considered impaired are presented in the following table:

Impaired and Restructured Loans

As of June 30, 2014

	Unpaid Principal Balance	Recorded Investments	Related Allowance
With no related allowance recorded:			
Commercial	\$997,712	\$997,712	\$—
Commercial Real Estate	1,613,393	1,613,393	—
Consumer Real Estate	272,963	272,963	—
Consumer Other	—	—	—
Total	\$2,884,068	\$2,884,068	\$—

With an allowance recorded:

Commercial	\$1,123,036	\$1,123,036	\$859,620
Commercial Real Estate	1,597,734	1,597,734	578,746
Consumer Real Estate	689,518	689,518	174,522
Consumer Other	38,319	38,319	38,319
Total	\$3,448,607	\$3,448,607	\$1,651,207
Grand Total	6,332,675	6,332,675	1,651,207

BANK OF SOUTH CAROLINA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Impaired and Restructured Loans

As of the Year Ended December 31, 2013

	Unpaid	Recorded	Related
With no related allowance recorded:	Principal	Investments	Allowance
	Balance		
Commercial	\$471,080	\$471,080	\$—
Commercial Real Estate	2,213,271	2,213,271	—
Consumer Real Estate	200,399	200,399	—
Consumer Other	—	—	—
Total	\$2,884,750	\$2,884,750	\$—
With an allowance recorded:			
Commercial	\$1,175,329	\$1,175,329	\$1,175,329
Commercial Real Estate	2,191,875	2,191,875	535,766
Consumer Real Estate	842,127	842,127	423,705
Consumer Other	42,826	42,826	42,826
Total	\$4,252,157	\$4,252,157	\$2,177,626
Grand Total	7,136,907	7,136,907	2,177,626

The following table presents by class, information related to the average recorded investment and interest income recognized on impaired loans for the three and six months ended June 30, 2014 and 2013, respectively.

Average Recorded Investment and Interest Income

Impaired and Restructured Loans

For the Three Months Ended

	June 30, 2014		June 30, 2013	
	Average	Interest	Average	Interest
With no related allowance recorded:	Recorded	Income	Recorded	Income
	Investment	Recognized	Investment	Recognized
Commercial	\$350,828	\$ 13,259	\$458,260	\$ 3,307
Commercial Real Estate	2,210,822	38,263	3,820,467	35,421
	272,981	2,712	339,948	7,418

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Consumer Real Estate Consumer Other	—	—	2,001	1,713
Total	\$2,834,631	\$ 54,234	\$4,620,676	\$ 47,859
With an allowance recorded:				
Commercial	\$1,144,263	\$ 14,423	\$1,282,037	\$ 15,153
Commercial Real Estate	1,600,710	20,468	744,505	8,918
Consumer Real Estate	691,458	7,000	877,942	10,517
Consumer Other	39,574	636	49,425	604
Total	\$3,476,005	\$ 42,527	\$2,953,909	\$ 35,192
Grand Total	6,310,636	96,761	7,574,585	83,051

BANK OF SOUTH CAROLINA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Average Recorded Investment and Interest Income
Impaired and Restructured Loans
For the Six Months Ended

	June 30, 2014		June 30, 2013	
	Average	Interest	Average	Interest
With no related allowance recorded:	Recorded	Income	Recorded	Income
	Investment	Recognized	Investment	Recognized
Commercial	\$353,509	\$ 22,440	\$456,225	\$22,077
Commercial Real Estate	2,228,199	63,794	3,751,096	1,326,406
Consumer Real Estate	273,015	5,526	339,691	72,557
Consumer Other	—	—	2,001	1,713
Total	\$2,854,723	\$ 91,760	\$4,549,013	\$1,422,753
With an allowance recorded:				
Commercial	\$1,158,183	\$ 27,981	\$1,279,849	\$198,396
Commercial Real Estate	1,603,108	36,674	743,928	203,804
Consumer Real Estate	695,775	15,639	876,495	148,258
Consumer Other	40,428	1,109	49,303	7,073
Total	\$3,497,494	\$ 81,403	\$2,949,575	\$557,531
Grand Total	6,352,217	173,163	7,498,588	1,980,284

The following table illustrates credit risks by category and internally assigned grades at June 30, 2014 and December 31, 2013.

June 30, 2014

Commercial	Commercial	Commercial	Consumer	Consumer	Total
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		Real Estate	Real Estate	Real Estate	Other	
		Construction	Other			
Pass	\$48,135,050	\$1,096,630	\$104,674,715	\$57,234,387	\$4,015,267	\$215,156,049
Watch	1,794,084	—	1,664,461	1,431,329	182,535	5,072,409
OAEM	555,309	454,517	2,396,348	632,887	53,625	4,092,686
Sub-Standard	2,203,253	—	3,064,688	962,166	45,043	6,275,150
Doubtful	—	—	—	—	—	—
Loss	—	—	—	—	—	—
Total	\$52,687,696	\$1,551,147	\$111,800,212	\$60,260,769	\$4,296,470	\$230,596,294

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BANK OF SOUTH CAROLINA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

December 31, 2013

	Commercial	Commercial Real Estate Construction	Commercial Real Estate Other	Consumer Real Estate	Consumer Other	Total
Pass	\$48,383,912	\$1,516,545	\$95,942,918	\$50,846,709	\$3,703,400	\$200,393,484
Watch	1,962,292	—	1,902,129	1,933,566	191,081	5,989,068
OAEM	546,938	—	2,234,023	654,076	76,097	3,511,134
Sub-Standard	2,410,427	—	4,661,508	1,235,008	119,675	8,426,618
Doubtful	—	—	—	—	—	—
Loss	—	—	—	—	—	—
Total	\$53,303,569	\$1,516,545	\$104,740,578	\$54,669,359	\$4,090,253	\$218,320,304

The following table sets forth the changes in the allowance and an allocation of the allowance by loan category for the three and six months ended June 30, 2014 and 2013, respectively, and December 31, 2013. The allocation of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off. The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component covers non-impaired loans and is based on historical loss experience adjusted for current economic factors described above.

For the Three Months Ended
June 30, 2014

	Commercial	Commercial Real Estate	Consumer Real Estate	Consumer Other	Unallocated	Total
Allowance for Loan Losses						
Beginning Balance	\$1,395,087	\$958,270	\$405,361	\$83,318	\$481,529	\$3,323,565
Charge-offs	—	—	—	(2,064)	—	(2,064)
Recoveries	—	12,000	—	26,307	—	38,307
Provisions	(261,090)	11,482	149,501	(31,120)	151,227	20,000
Ending Balance	\$1,133,997	\$981,752	\$554,862	\$76,441	\$632,756	\$3,379,808

BANK OF SOUTH CAROLINA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

As of and for the Six Months Ended
June 30, 2014

	Commercial	Commercial Real Estate	Consumer Real Estate	Consumer Other	Unallocated	Total
Allowance for Loan Losses						
Beginning Balance	\$1,398,184	\$966,781	\$641,194	\$80,214	\$205,904	\$3,292,277
Charge-offs	—	(3,953)	—	(4,129)	—	(8,082)
Recoveries	—	19,100	—	26,513	—	45,613
Provisions	(264,187)	(176)	(86,332)	(26,157)	426,852	50,000
Ending Balance	1,133,997	981,752	554,862	76,441	632,756	3,379,808
Ending Balances:						
Individually evaluated for impairment	859,620	578,746	174,522	38,319	—	1,651,207
Collectively evaluated for impairment	274,377	403,006	380,340	38,122	632,756	1,728,601
Ending Balances:						
Individually evaluated for impairment	2,120,748	3,211,127	962,481	38,319	—	6,332,675
Collectively evaluated for impairment						