BANK OF SOUTH CAROLINA CORP
Form 10-Q
May 13, 2008

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

þ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended March 31, 2008

o **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 small business issuer as specified 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)
(843) 724-1500
(Issuer 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 þ No o

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

Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller reporting company þ

(Do not check if a 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 o No þ

As of March 31, 2008 there were 3,953,984 Common Shares outstanding.

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PART I ITEM 1 FINANCIAL STATEMENTS
BANK OF SOUTH CAROLINA CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

	(Unaudited) March 31, 2008	(Audited) December 31, 2007
Assets:		
Cash and due from banks	$ 9,034,225	$ 9,716,533
Interest bearing deposits in other banks	8,136	8,109
Federal funds sold	18,524,976	18,357,674
Investment securities available for sale	36,457,563	35,840,019
Mortgage loans to be sold	2,739,175	1,981,018
Loans	157,590,705	156,348,017
Allowance for loan losses	(1,354,489)	(1,335,099)
Net loans	156,236,216	155,012,918
Premises and equipment, net	2,547,795	2,619,608
Accrued interest receivable	1,025,224	1,383,598
Other assets	121,803	237,613
Total assets	$ 226,695,113	$ 225,157,090
Liabilities and Shareholders Equity:		
Deposits:		
Non-interest bearing demand	$ 52,953,019	$ 58,390,190
Interest bearing demand	50,122,265	45,977,954
Money market accounts	46,716,796	45,677,850
Certificates of deposit $100,000 and over	23,729,000	22,122,593
Other time deposits	15,571,776	15,448,046
Other savings deposits	9,217,007	9,729,825
Total deposits	198,309,863	197,346,458
Short-term borrowings	431,069	927,873
Accrued interest payable and other liabilities	1,640,380	1,190,189
Total liabilities	200,381,312	199,464,520
Common Stock No par value; 12,000,000 shares authorized; issued 4,153,485 shares at March 31, 2008 and December 31, 2007; outstanding 3,953,984 shares at March 31, 2008 and December 31, 2007		
Additional paid in capital	22,990,377	22,978,812
Retained earnings	4,115,108	3,976,706
	(1,692,964)	(1,692,964)

Treasury stock 199,501 shares at March 31, 2008 and December 31, 2007		
Accumulated other comprehensive income, net of income taxes	901,280	430,016
Total shareholders equity	26,313,801	25,692,570
Total liabilities and shareholders equity	$ 226,695,113	$ 225,157,090

See accompanying notes to consolidated financial statements

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BANK OF SOUTH CAROLINA CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended March 31,	
	2008	2007
Interest and fee income		
Interest and fees on loans	$ 2,817,030	$ 3,481,933
Interest and dividends on investment securities	395,415	477,671
Other interest income	132,912	327,502
Total interest and fee income	3,345,357	4,287,106
Interest expense		
Interest on deposits	730,857	1,360,519
Interest on short-term borrowings	3,294	8,347
Total interest expense	734,151	1,368,866
Net interest income	2,611,206	2,918,240
Provision for loan losses	15,000	20,000
Net interest income after provision for loan losses	2,596,206	2,898,240
Other income		
Service charges, fees and commissions	236,247	208,917
Mortgage banking income	137,602	187,429
Other non-interest income	6,055	6,581
Total other income	379,904	402,927
Other expense		
Salaries and employee benefits	1,037,238	1,045,101
Net occupancy expense	340,365	307,171
Other operating expenses	400,002	359,189
Total other expense	1,777,605	1,711,461
Income before income tax expense	1,198,505	1,589,706
Income tax expense	427,465	553,240
Net income	$ 771,040	$ 1,036,466
Basic earnings per share	$ 0.20	$ 0.26

Diluted earnings per share	$	0.19	$	0.26
Weighted average shares outstanding				
Basic		3,953,984		3,929,908
Diluted		3,967,001		3,971,410

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
(UNAUDITED)
FOR THREE MONTHS MARCH 31, 2007 AND 2008

	Common Stock	Additional Paid In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total
December 31, 2006	$	$ 22,719,918	$ 2,592,719	$ (1,692,964)	$ 20,758	$ 23,640,431
Comprehensive income:						
Net income			1,036,466			1,036,466
Net unrealized gain on securities (net of tax effect of $18,620)					31,704	31,704
Comprehensive income						1,068,170
Stock-based compensation expense		11,072				11,072
Cash dividends ($0.14 per common share)			(550,187)			(550,187)
March 31, 2007	$	$ 22,730,990	$ 3,078,998	$ (1,692,964)	$ (52,462)	$ 24,169,486
December 31, 2007	$	$ 22,978,812	$ 3,976,706	$ (1,692,964)	$ 430,016	$ 25,692,570
Comprehensive income:						
Net income			771,040			771,040
Net unrealized gain on securities (net of tax effect of $276,773)					471,264	471,264
Total comprehensive income						1,242,304

Stock-based compensation expense		11,565				11,565
Cash dividends ($0.16 per common share)			(632,638)			(632,638)
March 31, 2008	$	$ 22,990,377	$ 4,115,108	$ (1,692,964)	$ 901,280	$ 26,313,801

See accompanying notes to consolidated financial statements.

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BANK OF SOUTH CAROLINA CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended March 31,	
	2008	2007
Cash flows from operating activities:		
Net income	$ 771,040	$ 1,036,466
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	71,813	61,621
Provision for loan losses	15,000	20,000
Stock-based compensation expense	11,565	11,072
Net accretion of unearned discounts on investments	(9,507)	(24,200)
Origination of mortgage loans held for sale	(10,944,952)	(19,174,020)
Proceeds from sale of mortgage loans held for sale	10,186,795	20,501,535
Decrease in accrued interest receivable and other assets	197,411	49,632
Increase in accrued interest payable and other liabilities	450,191	400,883
Net cash provided by operating activities	749,356	2,882,989
Cash flows from investing activities:		
Purchase of investment securities available for sale		(1,853,627)
Maturities and sales of investment securities available for sale	140,000	
Net increase in loans	(1,238,298)	(7,548,691)
Purchase of premises and equipment		(2,274)
Net cash used by investing activities	(1,098,298)	(9,404,592)
Cash flows from financing activities:		
Net increase in deposit accounts	963,405	7,333,517
Net decrease in short-term borrowings	(496,804)	(2,060,551)
Dividends paid	(632,638)	(943,178)
Net cash (used) provided by financing activities	(166,037)	4,329,788
Net decrease in cash and cash equivalents	(514,979)	(2,191,815)
Cash and cash equivalents, beginning of period	28,082,316	36,613,268
Cash and cash equivalents, end of period	$ 27,567,337	$ 34,421,453
Supplemental disclosure of cash flow data:		
Cash paid during the period for:		
Interest	$ 605,298	$ 1,356,118

Income taxes	$	10,994	$	12,969
Supplemental disclosure for non-cash investing and financing activity:				
Change in dividends payable	$		$	(392,991)
Change in unrealized gain on available for sale securities	$	471,264	$	31,704

See accompanying notes to consolidated financial statements.

BANK OF SOUTH CAROLINA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
MARCH 31, 2008

NOTE 1: Basis of Presentation

The Bank of South Carolina (the Bank) began operations on February 26, 1987 as a state chartered bank and later became a subsidiary of Bank of South Carolina Corporation (the Company) a South Carolina corporation, in a reorganization effective on April 17, 1995. The Bank currently has four locations, two in Charleston, South Carolina, one in Summerville, South Carolina and one in Mt. Pleasant, South Carolina. The consolidated financial statements in this report are unaudited, except for the December 31, 2007 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 months ended March 31, 2008, 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 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.

NOTE 2: 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 . Investment securities are classified as Held to Maturity , Trading and Available for Sale Currently the Company has only investments classified as Available for Sale . These securities are carried at fair value with unrealized gains and losses excluded from earnings and reported as a separate component of shareholders equity (net of estimated tax effects). 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 based on the specific identification method, trade date basis.

NOTE 3: Stock Based Compensation

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 the grant. 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.

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

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

At March 31, 2008, 28,541 shares of common stock were reserved to be granted under the 1998 Incentive Stock Option Plan from the original 272,250 shares.

There were options for 4,500 shares granted under the 1998 Incentive Stock Option Plan during the three months ended March 31, 2008 and 5,000 shares granted during the three months ended March 31, 2007. Fair values were estimated on the date of grant using the Black-Scholes option-pricing model. The following assumptions were used for the 2008 grant: dividend yield of 3.94%; historical volatility of 32.01%; risk-free interest rate of 3.34%; and expected life of the options of 10 years. The following assumptions were used for the 5,000 shares granted in 2007: dividend yield of 2.75%; historical volatility of 25.68%; risk-free interest rate of 4.70%. For purposes of the calculation, compensation expense is recognized on a straight-line basis over the vesting period.

The following is a summary of the activity under the Incentive Stock Options Plan for the three months ending March 31, 2008 and March 31, 2007.

Three Months Ended March 31, 2008	Options		Weighted Average Exercise Price
Balance at January 1, 2008	136,763	$	11.05
Granted	4,500		14.19
Exercised			
Cancelled	(3,250)		16.62
Balance at March 31, 2008	138,013	$	11.02
Options exercisable at March 31, 2008	3,382	$	8.92

Three Months Ended March 31, 2007	Options		Weighted Average Exercise Price
Balance at January 1, 2007	160,094	$	10.49
Granted	5,000		15.99
Exercised			
Cancelled	(5,324)		8.92
Balance at March 31, 2007	159,770	$	10.72

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NOTE 4: Shareholders Equity

A regular quarterly cash dividend of $.16 per share was declared on March 20, 2008 for shareholders of record at March 31, 2008, payable April 30, 2008. Income per common share for the three months ended March 31, 2008 and for the three months ended March 31, 2007 was calculated as follows:

	FOR THE THREE MONTHS ENDED MARCH 31, 2008		
	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER SHARE AMOUNT
Net income	$ 771,040		
Basic income available to common shareholders	$ 771,040	3,953,984	$ .20
Effect of dilutive options		13,017	
Diluted income available to common shareholders	$ 771,040	3,967,001	$ .19

	FOR THE THREE MONTHS ENDED MARCH 31, 2007		
	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER SHARE AMOUNT
Net income	$ 1,036,466		
Basic income available to common shareholders	$ 1,036,466	3,929,908	$ .26
Effect of dilutive options		41,502	
Diluted income available to common shareholders	$ 1,036,466	3,971,410	$ .26

NOTE 5: 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.

Total comprehensive income is $1,242,304 and $1,068,170, respectively for the three months ended March 31, 2008 and 2007.

NOTE 6: Fair Value Measurements

Effective January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements (SFAS 157) which provides a framework for measuring and disclosing fair value under generally accepted accounting principles. SFAS 157 requires disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods

subsequent to initial recognition, whether the measurements are made on a recurring basis (for example, available-for-sale investment securities) or on a nonrecurring basis (for example, impaired loans).

SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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Level 1 Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as U.S. Treasury, other U.S. Government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes certain derivative contracts and impaired loans.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. For example, this category generally includes certain private equity investments, retained residual interests in securitizations, residential mortgage servicing rights, and highly-structured or long-term derivative contracts.

Assts and liabilities measured at fair value on a recurring basis at March 31, 2008 are as follows:

	Quoted Market Price in active markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for Sale Securities	$36,457,563	$	$
Mortgage loans held for sale		2,739,175	
Total	$36,457,563	$2,739,175	$

The Company has no liabilities carried at fair value or measured at fair value on a nonrecurring basis.

The Company is predominantly an asset based lender with real estate serving as collateral on a substantial majority of loans. Loans which are deemed to be impaired are primarily valued on a nonrecurring basis at the fair values of the underlying real estate collateral. Such fair values are obtained using independent appraisals, which the Company considers to be level 2 inputs. The aggregate carrying amount of impaired loans at March 31, 2008 was $111,334.

FASB Staff Position No. FAS 157-2 delays the implementation of SFAS 157 until the first quarter of 2009 with respect to goodwill, other intangible assets, real estate and other assets acquired through foreclosure and other non-financial assets measured at fair value

The Company has no assets or liabilities whose fair values are measured using level 3 inputs.

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NOTE 7: Recently Issued Accounting Pronouncements

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 financial 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 financial position, results of operations and cash flows.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161). SFAS 161 requires enhanced disclosures about an entity s derivative and hedging activities and thereby improving the transparency of financial reporting. It is intended to enhance the current disclosure framework in SFAS 133 by requiring that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation. This disclosure better conveys the purpose of derivative use in terms of the risks that the entity is intending to manage. SFAS 161 is effective for the Company on January 1, 2009. This pronouncement does not impact accounting measurements but will result in additional disclosures if the Company is involved in material derivative and hedging activities at that time.

In February 2008, the FASB issued FASB Staff Position No. 140-3, Accounting for Transfers of Financial Assets and Repurchase Financing Transactions (FSP 140-3). This FSP provides guidance on accounting for a transfer of a financial asset and the transferor s repurchase financing of the asset. This FSP presumes that an initial transfer of a financial asset and a repurchase financing are considered part of the same arrangement (linked transaction) under SFAS No. 140. However, if certain criteria are met, the initial transfer and repurchase financing are not evaluated as a linked transaction and are evaluated separately under Statement 140. FSP 140-3 will be effective for financial statements issued for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years and earlier application is not permitted. Accordingly, this FSP is effective for the Company on January 1, 2009. The Company is currently evaluating the impact, if any, the adoption of FSP 140-3 will have on its financial position, results of operations and cash flows.

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In April 2008, the FASB issued FASB Staff Position No. 142-3, Determination of the Useful Life of Intangible Assets (FSP 142-3). This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets . The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R), Business Combinations, and other U.S. generally accepted accounting principles. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years and early adoption is prohibited. Accordingly, this FSP is effective for the Company on January 1, 2009. The Company does not believe the adoption of FSP 142-3 will have a material impact on its financial position, results of operations or cash flows.

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.

ITEM 2
MANAGEMENT S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Management s discussion and analysis is included to provide the shareholders with an expanded narrative of the Company s financial condition, results of operations, liquidity and capital adequacy. This narrative should be reviewed in conjunction with the consolidated financial statements (unaudited) 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.

Management s Discussion and Analysis of Financial Condition and Results of Operations and other portions of this quarterly 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-Q. 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. A variety of factors may affect the operations, performance, business strategy and results of the Company including, but not limited to the following:

- Risk from changes in economic, monetary policy, and industry conditions;
- Changes in interest rates, shape of the yield curve, deposit rates, the net interest margin and funding sources;
- Market risk (including net income at risk analysis and economic value of equity risk analysis) and inflation;
- Risk inherent in making loans including repayment risks and changes in the value of collateral;
- Loan growth, the adequacy of the allowance for loan losses, provisions for loan losses, and the assessment of problem loans;
- Level, composition, and re-pricing characteristics of the securities portfolio;
- Deposit growth, change in the mix or type of deposit products and cost of deposits;
- Competition in the banking industry and demand for our products and services;
- Continued availability of senior management;
- Technological changes;

Ability to control expenses;

Changes in compensation;

Risks associated with income taxes including potential for adverse adjustments;

Changes in accounting policies and practices;

Changes in regulatory actions, including the potential for adverse adjustments;

Recently enacted or proposed legislation

Such forward looking statements speak only as of the date on which such statements are made and shall be deemed to be updated by any future filings made by the Company with the SEC. The Company will undertake no obligation to update any forward looking statement to reflect events or circumstances after the date on which such statement is made to reflect the occurrence of unanticipated events. In addition, certain statements in future filings by the Company with the SEC, in press releases, and in oral and written statements made by or with the approval of the Company, which are not statements of historical fact, constitute forward looking statements.

Overview

Bank of South Carolina Corporation (the Company) is a financial institution holding company headquartered in Charleston, South Carolina, with $226.7 million in assets as of March 31, 2008 and net income of $771,040 for the three months ended March 31, 2008. The Company offers a broad range of financial services through its wholly-owned subsidiary, The Bank of South Carolina (the Bank). The Bank is a state-chartered commercial bank which operates principally in the Charleston, Dorchester and Berkeley, counties of South Carolina. The Bank s original and current concept is to be a full service financial institution specializing in personal service, responsiveness, and attention to detail.

The following is a discussion of the Company s financial condition as of March 31, 2008 as compared to December 31, 2007 and the results of operations for the three months ended March 31, 2008 as compared to March 31, 2007. The discussion and analysis identifies significant factors that have affected the Company s financial position and operating results and should be read in conjunction with the financial statements and the related notes included in this report.

The Company derives most of its income from interest on loans and investments (interest bearing assets). The primary source of funding for making these loans and investments is the Company s deposits (interest bearing liabilities). One of the key measures of the Company s success is the net interest spread which depends upon the volume and rates associated with interest earning assets and interest bearing liabilities.

There are risks inherent in all loans; therefore, the Company maintains an allowance for loan loss to absorb probable losses on existing loans that may become uncollectible. For a detailed discussion on the allowance for loan losses see provision for loan losses .

The Company s results of operations depend not only on the level of its net interest income from loans and investments, but also on its non-interest income and its operating expenses. Net interest income depends upon the volumes, rates and mix associated with interest earning assets and interest bearing liabilities which result in the net interest spread. Beginning in the fourth quarter of 2005, management began reinvesting its investment portfolio to take advantage of higher yields and reduce asset sensitivity. As a result our net interest margin for the three months ended March 31, 2008 was 4.33% compared to 4.08% for the three months ended March 31, 2007. Non-interest income includes fees and other expenses charged to customers. A more detail discussion of interest income, non-interest income and operating expenses follows.

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CRITICAL ACCOUNTING POLICIES

The Company s significant accounting policies are discussed in Note 1 to the Consolidated Financial Statements for the year ended December 31, 2007. Of the significant accounting policies, the Company considers its policies regarding the allowance for loan losses to be its most subjective accounting policy due to the significant degree of management judgment. The Company has developed what it believes to be appropriate policies and procedures for assessing the adequacy of the allowance for loan losses, recognizing that this process requires a number of assumptions and estimates with respect to its loan portfolio. The Company s assessments may be impacted in future periods by changes in economic conditions, the impact of regulatory examinations and the discovery of information with respect to borrowers which were not known by management at the time of the issuance of the consolidated financial statements. For additional discussion concerning the Company s allowance for loan losses and related matters, see Provision for Loan Losses.

BALANCE SHEET

LOANS

The Company focuses its lending activities on small and middle market businesses, professionals and individuals in its geographic markets. At March 31, 2008 outstanding loans (less deferred loan fees of $51,429) totaled $157,590,705 which equaled 79.47% of total deposits and 69.52% of total assets. The major components of the loan portfolio were commercial loans and commercial real estate loans totaling 29.82% and 49.97%, respectively of total loans. Substantially all loans were to borrowers located in the Company s market areas in the counties of Charleston, Dorchester and Berkeley in South Carolina. The breakdown of total loans by type and the respective percentage of total loans are as follows:

	March 31,		December 31,
	2008	2007	2007
Commercial loans	$ 47,010,633	$ 54,343,750	$ 49,168,128
Commercial real estate	78,766,092	79,891,351	76,289,935
Residential mortgage	11,254,199	15,708,890	12,195,078
Consumer loans	5,145,505	4,267,284	5,218,165
Personal banklines	13,358,235	11,664,885	12,805,795
Other	2,107,470	344,885	719,832
Total	157,642,134	166,221,045	156,396,933
Deferred loan fees (net)	(51,429)	(76,300)	(48,916)
Allowance for loan losses	(1,354,489)	(1,314,488)	(1,335,099)
Loans, net	$156,236,216	$164,830,257	$155,012,918

Percentage of Loans	**March 31,**		**December 31,**
	2008	2007	2007
Commercial loans	29.82%	32.69%	31.44%
Commercial real estate	49.97%	48.06%	48.78%
Residential mortgage	7.14%	9.45%	7.80%
Consumer loans	3.26%	2.57%	3.33%
Personal banklines	8.47%	7.02%	8.19%
Other	1.34%	0.21%	0.46%
Total	100.00%	100.00%	100.00%

Total loans, not including deferred loan fees, decreased $8,578,911 or 5.16% to $157,642,134 at March 31, 2008 from $166,221,045 at March 31, 2007 and increased $1,245,201 or .80% from $156,396,933 at December 31, 2007. The decrease in loans between March 2007 and March 2008 is primarily due to a decrease in commercial loans of $7,333,117 or 13.49% and a decrease in residential mortgages of $4,454,691 or 28.36%. The increase in loans for the three months ended March 31, 2008 when compared to December 31, 2007 is primarily due to an increase in commercial real estate loans of $2,476,157 or 3.25%.

INVESTMENT SECURITIES AVAILABLE FOR SALE

The Company uses the investment securities portfolio for several purposes. It serves as a vehicle to manage interest rate and prepayment risk, to generate interest and dividend income from investment of funds, to provide liquidity to meet funding requirements, and to provide collateral for pledges on public funds. Investments are classified into three categories (1) Held to Maturity (2) Trading and (3) Available for Sale. All securities were classified as Available for Sale for the three months ended March 31, 2008 and March 31, 2007. Management believes that maintaining its securities in the Available for Sale category provides greater flexibility in the management of the overall investment portfolio. The average yield on investments at March 31, 2008 was 4.52% compared to 4.64% at March 31, 2007. The carrying values of the investments available for sale at March 31, 2008 and 2007 and percentage of each category to total investments are as follows:

INVESTMENT PORTFOLIO

	2008	2007
US Treasury Bonds	$	$ 5,972,015
US Treasury Notes	2,951,856	5,877,239
Federal Agency Securities	4,000,155	3,000,000
Government-Sponsored Enterprises	17,888,126	20,814,922
Municipal Securities	10,186,823	7,078,557
	$ 35,026,960	$ 42,742,733
US Treasury Bonds	0.00%	13.97%
US Treasury Notes	8.43%	13.75%
Federal Agency Securities	11.42%	7.02%
Government-Sponsored Enterprises	51.07%	48.70%
Municipal Securities	29.08%	16.56%
	100.00%	100.00%

DEPOSITS

Deposits remain the Company s primary source of funding for loans and investments. Average interest bearing deposits provided funding for 67.11% of average earning assets for the three months ended March 31, 2008, and 69.69% for the three months ended March 31, 2007. The Bank encounters strong competition from other financial institutions as well as consumer and commercial finance companies, insurance companies and brokerage firms located in the primary service area of the Bank. However, the percentage of funding provided by deposits has remained stable, and accordingly, the Company has not had to rely on other sources. The breakdown of total deposits by type and the respective percentage of total deposits are as follows:

	March 31,		December 31,
	2008	2007	2007
Non-interest bearing demand	$ 52,953,019	$ 54,958,528	$ 58,390,190
Interest bearing demand	$ 50,122,265	$ 49,403,120	$ 45,977,954
Money market accounts	$ 46,716,796	$ 59,550,422	$ 45,677,850
Certificates of deposit $100,000 and over	$ 23,729,000	$ 32,904,886	$ 22,122,593
Other time deposits	$ 15,571,776	$ 14,780,737	$ 15,448,046
Other savings deposits	$ 9,217,007	$ 11,052,725	$ 9,729,825
Total Deposits	$198,309,863	$222,650,418	$197,346,458

Percentage of Deposits	March 31,		December 31,
	2008	2007	2007
Non-interest bearing demand	26.70%	24.68%	29.59%
Interest bearing demand	25.27%	22.19%	23.30%
Money Market accounts	23.56%	26.75%	23.15%
Certificates of deposit $100,000 and over	11.97%	14.78%	11.21%
Other time deposits	7.85%	6.64%	7.83%
Other savings deposits	4.65%	4.96%	4.93%
Total Deposits	100.00%	100.00%	100.00%

Total deposits decreased $24,340,555 or 10.93% to $198,309,863 at March 31, 2008 from $222,650,418 at March 31, 2007 and increased $963,405 or .49% from $197,346,458 at December 31, 2007. Total certificates of deposit $100,000 and over and Money Market accounts decreased 27.89% and 21.55%, respectively, from March 31, 2007 to March 31, 2008. For the three months ended March 31, 2008 when compared to December 31, 2007, non-interest bearing demand deposits decreased 9.31%, offset by an increase of 9.01% in interest bearing demand deposits and 7.26% in certificates of deposit $100,000 and over.

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 Enterprise Securities with a market value of $3,646,180 at March 31, 2008. The amount outstanding under the note totaled $431,069 and $652,132 at March 31, 2008 and 2007, respectively.

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Comparison of Three Months Ended March 31, 2008 to Three Months Ended March 31, 2007

Net income decreased $265,426 or 25.61% to $771,040, or basic and diluted earnings per share of $.20 and $.19, respectively, for the three months ended March 31, 2008, from $1,036,466, or basic and diluted earnings per share of $.26 for the three months ended March 31, 2007.

Net Interest Income

Net interest income, the major component of our net income, decreased $307,034 or 10.52% to $2,611,206 for the three months ended March 31, 2008, from $2,918,240 for the three months ended March 31, 2007. Total interest and fee income decreased $941,749 or 21.97% for the three months ended March 31, 2008, to $3,345,357 from $4,287,106 for the three months ended March 31, 2007. This decrease is due to a decrease in interest and fees on loans and a decrease in interest on federal funds sold. The decrease is the result of recent decreases in the Federal Reserve short-term rates and the resulting decrease in the yields generated on earning assets (from variable rate loan repricing and new loans at lower rates). Total interest and fees on loans decreased $664,903 or 19.10% to $2,817,030 for the three months ended March 31, 2008, compared to $3,481,933 for the three months ended March 31, 2007. Interest and dividends on federal funds sold decreased $194,590 or 59.42% to $132,912 for the three months ended March 31, 2008 from $327,502 for the three months ended March 31, 2007. Interest and dividends on investment securities decreased $82,256 or 17.22% to $395,415 for the three months ended March 31, 2008 from $477,671 for the three months ended March 31, 2007.

Average interest earning assets decreased from $231.5 million for the three months ended March 31, 2007, to $209.4 million for the three months ended March 31, 2008. The yield on interest earning assets decreased 108 basis points between periods to 6.43% for the three months ended March 31, 2008, compared to 7.51% for the same period in 2007. This decrease is primarily due to a decrease in the yield on average loans of 127 basis points and a decrease of 215 basis points on federal funds sold.

Total interest expense decreased $634,715 or 46.37% to $734,151 for the three months ended March 31, 2008, from $1,368,866 for the three months ended March 31, 2007. The decrease in interest expense is primarily due to a decrease in average cost of deposits. Interest on deposits for the three months ended March 31, 2008, was $730,857 compared to $1,360,519 for the three months ended March 31, 2007, a decrease of $629,662 or 46.28%. Total interest bearing deposits averaged approximately $140.5 million for the three months ended March 31, 2008, as compared to $161.3 million for the three months ended March 31, 2007. The average cost of interest bearing deposits was 2.09% and 3.42% for the three months ended March 31, 2008 and 2007, respectively, a decrease of 133 basis points.

Provision 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 and 62.30% of capital. 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 and an annual credit analysis is conducted on these borrowers 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 risks 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 March 31, 2008, there were only four 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 borrowers 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 recorded a provision for loan loss during the three months ended March 31, 2008 of $15,000, compared to a provision of $20,000 for the three months ended March 31, 2007. At March 31, 2008 the five year average loss ratios were: .015% Commercial, .014% Consumer, .022% 1-4 Residential, .000% Real Estate Construction and .004% Real Estate Mortgage. The historical loss ratio used at March 31, 2008 was .055% compared to .071% at March 31, 2007.

During the quarter ended March 31, 2008, there were no charge-offs recorded. Recoveries of $4,390 were recorded to the allowance for loan losses during the quarter ended March 31, 2008, resulting in an allowance for loan losses of $1,354,489 or .86% of total loans at March 31, 2008, compared to $1,335,099 or .85% of total loans at December 31, 2007 and $1,314,488 or .80% or total loans at March 31, 2007.

The Bank had impaired loans totaling $111,334 as of March 31, 2008, compared to $8,719 as of March 31, 2007. The impaired loans at March 31, 2008 include two non-accrual loans with a combined balance of $15,301 and three loans classified by the examiners/auditors as impaired with a combined balance of $96,033. Impaired loans at March 31, 2007 included only the non-accrual loans with a combined balance of $8,719 respectively. The difference in the calculation of impaired loans is the result of the new methodology implemented in the third quarter of 2007. Management does not know of any loans which will not meet their contractual obligations that are not otherwise discussed herein.

The accrual of interest is generally discontinued on loans, which become 90 days past due as to principal or interest. The accrual of interest on some loans, however, may continue even though they are 90 days past due if the loans are well secured or in the process of collection and management deems it appropriate. If non-accrual loans decrease their past due status to less than 30 days for a period of nine months, they are reviewed individually by management to determine if they should be returned to accrual status. There were two loans over 90 days past due still accruing interest as of March 31, 2008 and one loan over 90 days past due still accruing interest as of March 31, 2007.

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Net recoveries were $4,390 for the three months ended March 31, 2008 as compared to net charge-offs of $506 for the three months ended March 31, 2007. 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 $98,918 unallocated reserves at March 31, 2008 related to other inherent risk in the portfolio compared to unallocated reserves of $190,480 at March 31, 2007. Management believes the allowance for loan losses at March 31, 2008, 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 three months ended March 31, 2008, the allowance for unfunded loans and commitments was reduced by $1,478, leaving a balance of $20,825.

Other Income

Other income for the three months ended March 31, 2008, decreased $23,023 or 5.71% to $379,904 from $402,927 for the three months ended March 31, 2007. This decrease is primarily due to a decrease in mortgage banking income of $49,827 or 26.59% to $137,602 for the three months ended March 31, 2008 as compared to $187,429 for the three months ended March 31, 2007. Mortgage origination fees and service release premiums decreased 55.43% and 47.39%, respectively. This decrease is primarily due to the slow down in the real estate market. This decrease was offset by an increase in service charges, fees and commissions of $27,330 or 13.08%. Activity service charges on business accounts as well as overdraft charges increased 42.25% and 15.94%, respectively.

Other Expense

Bank overhead increased $66,144 or 3.87% to $1,777,605 for the three months ended March 31, 2008, from $1,711,461 for the three months ended March 31, 2007. Net occupancy expense increased $33,194 or 10.81% to $340,365 from $307,171 for the three months ended March 31, 2008 and 2007, respectively. This increase was primarily due to an increase in rent on the Summerville building and depreciation on furniture fixtures and equipment of 3.29% and 25.94%, respectively. Other operating expenses increased $40,813 or 11.36% to $400,002 for the three months ended March 31, 2008, from $359,189 for the three months ended March 31, 2007. Total professional and directors fees increased $46,996 or 71.53% to $112,698 for the three months ended March 31, 2008, from $65,702 for the three months ended March 31, 2007.

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Income Tax Expense

For the three months ended March 31, 2008, the Company s effective tax rate was 35.67% compared to 34.80% during the three months ended March 31, 2007.

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 commitment in other liabilities on the consolidated balance sheet. At March 31, 2008 the balance of the reserve was $20,825. At March 31, 2008 and 2007, 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 $56,128,088 and $41,048,913 at March 31, 2008 and 2007 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. The maximum potential amount of undiscounted future payments related to standby letters of credit at March 2008 and 2007 was $1,347,338 and $421,602 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 sale commitments are freestanding derivative instruments. The fair value of the commitments to originate fixed rate conforming loans was not significant at March 31, 2008. The Company has forward sales commitments, totaling $2.7 million at March 31, 2008, to sell loans held for sale of $2.7 million. The fair value of these commitments was not significant at March 31, 2008. The Company has no embedded derivative instruments requiring separate accounting treatment.

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Liquidity

The Company must maintain an adequate liquidity position in order to respond to the short-term demand for funds caused by withdrawals from deposit accounts, extensions of credit and for the payment of operating expenses. Primary liquid assets of the Company are cash and due from banks, federal funds sold, investments available for sale, other short-term investments and mortgage loans held for sale. The Company s primary liquid assets accounted for 29.45% and 32.04% of total assets at March 31, 2008 and 2007, respectively. Proper liquidity management is crucial to ensure that the Company is able to take advantage of new business opportunities as well as meet the credit needs of its existing customers. Investment securities are an important tool in the Company s liquidity management. Securities classified as available for sale may be sold in response to changes in interest rates and liquidity needs. All of the securities presently owned by the Bank are classified as available for sale. At March 31, 2008, the Bank had unused short-term lines of credit totaling approximately $18,500,000 (which are withdrawable at the lender s option). Additional sources of funds available to the Bank for additional liquidity needs include borrowing on a short-term basis from the Federal Reserve System, increasing deposits by raising interest rates paid and selling mortgage loans for sale.

The Company s core deposits consist of non-interest bearing accounts, NOW accounts, money market accounts, time deposits and savings accounts. The Company closely monitors its reliance on certificates of deposit greater than $100,000. The Company s management believes its liquidity sources are adequate to meet its operating needs and does not know of any trends, events or uncertainties that may result in a significant adverse effect on the Company s liquidity position. At March 31, 2008 and 2007, the Bank s liquidity ratio was 25.08% and 26.86%, respectively.

Capital Resources

The capital needs of the Company have been met to date through the $10,600,000 in capital raised in the Bank s initial offering, the retention of earnings less dividends paid and the exercise of stock options for total shareholders equity at March 31, 2008, of $26,313,801. The rate of asset growth since the Bank s inception has not negatively impacted this capital base. The risk-based capital guidelines for financial institutions are designed to highlight differences in risk profiles among financial institutions and to account for off balance sheet risk. The guidelines established require a risk based capital ratio of 8% for bank holding companies and banks. The risk based capital ratio at March 31, 2008, for the Bank is 13.89% and at March 31, 2007 was 12.33%. 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 March 31, 2008, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

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At March 31, 2008 and 2007, the Company and the Bank are categorized as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Company and the Bank must maintain minimum total risk based, Tier 1 risk based and Tier 1 leverage ratios of 10%, 6% and 5%, respectively, and to be categorized as adequately capitalized, the Company and the Bank must maintain minimum total risk based, Tier 1 risk based and Tier 1 leverage ratios of 8%, 4% and 4%, respectively. There are no current conditions or events that management believes would change the Company s or the Bank s category.

ITEM 3
QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required.

ITEM 4
CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures and internal controls and procedures for financial reporting

An evaluation was carried out under the supervision and with the participation of Bank of South Carolina Corporation s management, including its Principal Executive Officer and the Executive Vice President and Treasurer, of the effectiveness of Bank of South Carolina Corporation s disclosure controls and procedures as of March 31, 2008. 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 period ending March 31, 2008, 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.

The Company established a Disclosure Committee on December 20, 2002. The committee is made up of the President and Chief Executive Officer, Executive Vice President and Treasurer, Executive Vice President, Senior Vice President (Operations), Vice President (Audit Compliance Officer), Vice President (Accounting) and Assistant Vice President (Credit Department). This Committee meets quarterly to review the 10Q and the 10K, to assure that the financial statements, Securities and Exchange Commission filings and all public releases are free of any material misstatements and correctly reflect the financial position, results of operations and cash flows of the Company. This Committee also assures that the Company is in compliance with the Sarbanes-Oxley Act.

The Disclosure Committee establishes a calendar each year to assure that all filings are reviewed and filed in a proper manner. The calendar includes the dates of the Disclosure Committee meetings, the dates that the 10Q and the 10K are sent to our independent accountants and to our independent counsel for review as well as the date for the Audit Committee of the Board of Directors to review the reports.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

The Company and its subsidiary from time to time are involved as plaintiff or defendant in various legal actions incident to its business. These actions are not believed to be material either individually or collectively to the consolidated financial condition of the Company or its subsidiary.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits

1. The Consolidated Financial Statements are included in this Form 10-Q and listed on pages as indicated.

		Page
(1)	Consolidated Balance Sheets	3
(2)	Consolidated Statements of Operations for the three months ended March 31, 2008 and 2007	4
(3)	Consolidated Statements of Shareholders Equity and Comprehensive Income	5
(4)	Consolidated Statements of Cash Flows	6
(5)	Notes to Consolidated Financial Statements	7-11

2. Exhibits

2.0	Plan of Reorganization (Filed with 1995 10-KSB)
3.0	Articles of Incorporation of the Registrant (Filed with 1995 10-KSB)
3.1	By-laws of the Registrant (Filed with 1995 10-KSB)
4.0	2008 Proxy Statement (Filed with 2008 10-KSB)
10.0	Lease Agreement for 256 Meeting Street (Filed with 1995 10-KSB)
10.1	Sublease Agreement for Parking Facilities at 256 Meeting Street (Filed with 1995 10-KSB)
10.2	Lease Agreement for 100 N. Main Street, Summerville, SC (Filed with 1995 10-KSB)
10.3	Lease Agreement for 1337 Chuck Dawley Blvd., Mt. Pleasant, SC (Filed with 1995 10-KSB)
31.1	Certification of Principal Executive Officer pursuant to 15 U.S.C. 78m(a) or 78 o(d) (Section 302 of the Sarbanes-Oxley Act of 2002)
31.2	Certification of Principal Financial Officer Pursuant to 15 U.S.C. 78m(a) or 78 o(d) (Section 302 of the Sarbanes-Oxley Act of 2002)
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. 1350 (Section 906 of the Sarbanes-Oxley Act of 2002)
32.2	Certification of the Principal Financial Officer pursuant to 18 U.S.C. 1350 (Section 906 of the Sarbanes-Oxley Act of 2002)

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BANK OF SOUTH CAROLINA CORPORATION

May 12, 2008

BY: /s/ Hugh C. Lane, Jr.

Hugh C. Lane, Jr.
President and Chief Executive Officer

BY: /s/ William L. Hiott, Jr.

William L. Hiott, Jr.
Executive Vice President & Treasurer

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