BANK OF SOUTH CAROLINA CORP
Form 10-Q
August 10, 2018

United States
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, 2018**

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

Yes No

Indicate by check mark whether the registrant has submitted electronically 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 (§232.405 of this chapter) 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. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2of the Exchange Act.

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
		Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of July 31, 2018, there were 5,510,538 Common Shares outstanding.

Bank of South Carolina Corporation and Subsidiary

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Part I. Financial Information

Item 1. Financial Statements

BANK OF SOUTH CAROLINA CORPORATION AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

	(Unaudited) June 30, 2018	(Audited) December 31, 2017
ASSETS		
Cash and due from banks	$7,945,003	$8,486,025
Interest-bearing deposits at the Federal Reserve	14,319,336	24,034,194
Investment securities available for sale	119,831,325	139,250,250
Mortgage loans to be sold	3,651,150	2,093,723
Loans	278,104,537	270,180,640
Less: Allowance for loan losses	(4,007,464)	(3,875,398)
Net loans	274,097,073	266,305,242
Premises, and equipment and leasehold improvements, net	2,279,016	2,244,525
Other real estate owned	411,842	435,479
Accrued interest receivable	1,568,814	1,720,920
Other assets	2,667,346	1,996,140
Total assets	$426,770,905	$446,566,498
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing demand	$130,654,687	$139,256,748
Interest bearing demand	97,358,521	108,967,196
Money market accounts	74,370,149	77,833,728
Time deposits over $250,000	21,917,734	18,624,924
Other time deposits	23,573,597	23,295,492
Other savings deposits	34,464,921	34,910,212
Total deposits	382,339,609	402,888,300

Accrued interest payable and other liabilities	1,206,562	913,563
Total liabilities	383,546,171	403,801,863
Shareholders' equity		
Common stock - no par 12,000,000 shares authorized; Issued 5,767,173 shares at June 30, 2018 and 5,753,743 shares at December 31, 2017. Shares outstanding 5,500,616 and 5,488,207 at June 30, 2018 and December 31, 2017, respectively.	—	—
Additional paid in capital	46,731,967	37,236,566
Retained earnings	894,779	8,471,780
Treasury stock: 266,557 shares as of June 30, 2018 and 265,536 shares as of December 31, 2017	(2,268,264)	(2,247,415)
Accumulated other comprehensive loss, net of income taxes	(2,133,748)	(696,296)
Total shareholders' equity	43,224,734	42,764,635
Total liabilities and shareholders' equity	$426,770,905	$446,566,498

See accompanying notes to consolidated financial statements.

BANK OF SOUTH CAROLINA CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended June 30,	
	2018	2017
Interest and fee income		
Loans, including fees	$3,704,752	$3,221,855
Taxable securities	470,411	399,909
Tax-exempt securities	175,674	256,202
Other	73,030	55,319
Total interest and fee income	4,423,867	3,933,285
Interest expense		
Deposits	139,697	106,522
Total interest expense	139,697	106,522
Net interest income	4,284,170	3,826,763
Provision for loan losses	75,000	30,000
Net interest income after provision for loan losses	4,209,170	3,796,763
Other income		
Service charges, fees and commissions	296,372	287,873
Mortgage banking income	250,554	400,519
Gain on sales of securities	387	—
Other non-interest income	7,783	8,087
Total other income	555,096	696,479
Other expense		
Salaries and employee benefits	1,576,452	1,500,362
Net occupancy expense	422,059	393,763
Other operating expenses	628,867	649,855
Net other real estate owned expenses	24,137	46,143
Total other expense	2,651,515	2,590,123
Income before income tax expense	2,112,751	1,903,119
Income tax expense	386,394	516,734
Net Income	$1,726,357	$1,386,385
Weighted average shares outstanding		
Basic	5,492,896	5,464,697
Diluted	5,586,585	5,588,687

Basic income per common share	$0.31	$0.25
Diluted income per common share	$0.31	$0.25

See accompanying notes to consolidated financial statements.

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BANK OF SOUTH CAROLINA CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Six Months Ended June 30, 2018	2017
Interest and fee income		
Loans, including fees	$7,263,738	$6,363,593
Taxable securities	940,914	738,756
Tax-exempt securities	403,741	527,087
Other	135,483	95,270
Total interest and fee income	8,743,876	7,724,706
Interest expense		
Deposits	249,527	203,304
Total interest expense	249,527	203,304
Net interest income	8,494,349	7,521,402
Provision for loan losses	130,000	32,500
Net interest income after provision for loan losses	8,364,349	7,488,902
Other income		
Service charges, fees and commissions	591,663	557,439
Mortgage banking income	390,469	675,624
Gain on sales of securities	4,735	—
Other non-interest income	16,174	15,290
Total other income	1,003,041	1,248,353
Other expense		
Salaries and employee benefits	3,149,172	2,970,571
Net occupancy expense	805,391	757,908
Other operating expenses	1,314,649	1,287,131
Net other real estate owned expenses	24,137	46,143
Total other expense	5,293,349	5,061,753
Income before income tax expense	4,074,041	3,675,502
Income tax expense	735,454	1,063,029
Net Income	$3,338,587	$2,612,473
Weighted average shares outstanding		
Basic	5,339,187	5,461,603
Diluted	5,433,360	5,584,373

Basic income per common share	$0.63	$0.48
Diluted income per common share	$0.61	$0.47

See accompanying notes to consolidated financial statements.

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BANK OF SOUTH CAROLINA CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended June 30,	
	2018	2017
Net Income	$1,726,357	$1,386,385
Other comprehensive (loss) income		
Unrealized (loss) gain on securities arising during the period	(477,253)	996,733
Reclassification adjustment for securities gains realized in net income	(387)	—
Other comprehensive (loss) income before tax	(477,640)	996,733
Income tax effect related to items of other comprehensive (loss) income before tax	88,816	(338,889)
Other comprehensive (loss) income after tax	(388,824)	657,844
Total comprehensive income	$1,337,533	$2,044,229

	Six Months Ended June 30,	
	2018	2017
Net Income	$ 3,338,587	$ 2,612,473
Other comprehensive (loss) income		
Unrealized (loss) gain on securities arising during the period	(1,814,824)	1,582,555
Reclassification adjustment for securities gains realized in net income	(4,735)	—
Other comprehensive (loss) income before tax	(1,819,559)	1,582,555
Income tax effect related to items of other comprehensive (loss) income before tax	382,107	(555,643)
Other comprehensive (loss) income after tax	(1,437,452)	1,026,912
Total comprehensive income	$ 1,901,135	$ 3,639,385

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, 2018 AND 2017 (UNAUDITED)

	Additional Paid in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
December 31, 2016	$36,824,022	$6,643,476	$(2,247,415)	$ (607,109)	$40,612,974
Net income	—	2,612,473	—	—	2,612,473
Other comprehensive loss	—	—	—	1,026,912	1,026,912
Stock option exercises	154,858	—	—	—	154,858
Stock-based comp expense	36,542	—	—	—	36,542
Cash dividends ($0.28 per common share)	—	(1,390,800)	—	—	(1,390,800)
June 30, 2017	$37,015,422	$7,865,149	$(2,247,415)	$ 419,803	$43,052,959
December 31, 2017	$37,236,566	$8,471,780	$(2,247,415)	$ (696,296)	$42,764,635
Net income	—	3,338,587	—	—	3,338,587
Other comprehensive loss	—	—	—	(1,437,452)	(1,437,452)
Stock option exercises	123,296	—	(20,849)	—	102,447
Stock-based comp expense	37,763	—	—	—	37,763
Cash dividends ($0.29 per common share)	—	(1,581,246)	—	—	(1,581,246)
Common stock dividend, 10%	9,334,342	(9,334,342)	—	—	—
June 30, 2018	$46,731,967	$894,779	$(2,268,264)	$ (2,133,748)	$43,224,734

See accompanying notes to consolidated financial statements.

BANK OF SOUTH CAROLINA CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net income	$3,338,587	$2,612,473
Adjustments to reconcile net income net cash provided by operating activities:		
Depreciation	94,347	94,994
(Gain) sale of investment securities	(4,735)	—
Valuation and other adjustments to other real estate owned	23,637	46,143
Provision for loan losses	130,000	32,500
Stock-based compensation expense	37,763	36,542
Deferred income taxes	(289,099)	(553,671)
Net amortization of unearned discounts on investment securities available for sale	152,517	198,768
Origination of mortgage loans held for sale	(29,065,349)	(32,568,879)
Proceeds from sale of mortgage loans held for sale	27,507,922	34,722,888
Decrease in accrued interest receivable and other assets	152,106	62,645
Increase in accrued interest payable and other liabilities	208,777	143,193
Net cash provided by operating activities	2,286,473	4,827,596
Cash flows from investing activities:		
Proceeds from calls and maturities of investment securities available for sale	5,995,000	3,787,150
Proceeds from sale of investment securities available for sale	21,434,634	—
Purchase of investment securities available for sale	(9,978,050)	(15,084,800)
Net (decrease) increase in loans	(7,921,831)	389,768
Purchase of premises, equipment, and leasehold improvements, net	(128,838)	(69,347)
Net cash provided by (used in) investing activities	9,400,915	(10,977,229)
Cash flows from financing activities:		
Net (decrease) increase in deposit accounts	(20,548,691)	13,769,418
Dividends paid	(1,497,024)	(1,389,033)
Stock options exercised	102,447	154,858
Net cash (used in) provided by financing activities	(21,943,268)	12,535,243
Net (decrease) increase in cash and cash equivalents	(10,255,880)	6,385,610
Cash and cash equivalents at the beginning of the period	32,520,219	26,242,330
Cash and cash equivalents at the end of the period	$22,264,339	$32,627,940
Cash paid during the period for:		
Interest	$210,971	$254,933
Income Taxes	$636,760	$1,511,965

Supplemental disclosures for non-cash investing and financing activity:

Change in unrealized gain on securities available for sale, net of tax effect	$1,437,452	$1,026,912
Change in dividends payable	$84,222	$1,767
Stock dividend	$9,334,342	$—

See accompanying notes to consolidated financial statements.

BANK OF SOUTH CAROLINA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Nature of Business and Basis of Presentation

Organization

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

Principles of Consolidation

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

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

Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”), for the interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, our interim consolidated financial statements do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with our Annual Report on Form 10-K, filed with the Securities and Exchange Commission (“SEC”) on March 3, 2018. In the opinion of management, these interim financial statements present fairly, in all material respects, the Company’s consolidated financial position and results of operations for each of the interim periods presented. Results of operations for interim periods are not necessarily indicative of the results of operations that may be expected for a full year or any future period.

Accounting Estimates and Assumptions

The preparation of the consolidated financial statements 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 reported periods. Actual results could differ significantly from these estimates and assumptions. Material estimates generally susceptible to significant change are related to the determination of the allowance for loan losses, impaired loans, other real estate owned, deferred tax assets, the fair value of financial instruments and other-than-temporary impairment of investment securities.

Reclassification

Certain amounts in the prior years' financial statements have been reclassified to conform to the current period's presentation. Such reclassifications had no effect on shareholders' equity or the net income as previously reported.

Income per share

Basic income per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Dilutive income per share is computed by dividing net income by the weighted-average number of common shares and potential common shares outstanding. Potential common shares consist of dilutive stock options determined using the treasury stock method and the average market price of common stock. Retroactive recognition has been given for the effects of all stock dividends.

On March 22, 2018, the Company approved a 10% stock dividend payable May 31, 2018 to shareholders of record as of April 30, 2018. Shares and share data have been adjusted retroactively to reflect the stock dividend.

BANK OF SOUTH CAROLINA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Subsequent Events

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

Recent Accounting Pronouncements

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

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers, Topic 606.* The core principle of the new standard is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. This guidance also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The guidance became effective January 1, 2018. The amendment does not apply to revenue associated with financial instruments, such as loans and investment securities available for sale, and therefore had no material effect on our consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10); Recognition and Measurement of Financial Instruments and Financial Liabilities.* This update addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments became effective on January 1, 2018 and did not have a material effect on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842),* which revises certain aspects of recognition, measurement, presentation, and disclosure of leasing transactions. The amendments will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are currently evaluating the effect that implementation of the new standard will have on our results of operations and cash flows, and financial position.

In March 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net),* to clarify the implementation guidance on principal versus agent considerations and address how an entity should assess whether it is the principal or the agent in contracts that include three or more parties. The guidance became effective January 1, 2018. The Company completed an assessment of revenue streams and a review of related contracts potentially affected by the ASU and, based on this assessment, the Company concluded that the ASU did not materially change the method in which the Company currently recognizes revenue for these revenue streams. As such, a cumulative effect adjustment to opening retained earnings was not deemed necessary.

In April 2016, the FASB issued ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, to clarify guidance related to identifying performance obligations and accounting for licenses of intellectual property. The amendment became effective for the Company January 1, 2018 and did not have a material effect on the financial statements.

In May 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow- Scope Improvements and Practical Expedients*, to clarify guidance related to collectability, noncash consideration, presentation of sales tax, and transition. The amendment became effective on January 1, 2018 and did not have a material effect on the financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* to change the accounting for credit losses and modify the impairment model for certain debt securities. The amendments will be effective for the Company for reporting periods beginning after December 15, 2019. Early adoption is permitted for all organizations for periods beginning after December 15, 2018. The Company is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments,* to clarify how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendment became effective on January 1, 2018 and did not have a material effect on the financial statements.

BANK OF SOUTH CAROLINA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In December 2016, the FASB issued ASU 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*. These corrections make a limited number of revisions to several pieces of the revenue recognition standard issued in 2014. The amendment became effective on January 1, 2018 and did not have a material effect on the financial statements.

In January 2017, the FASB issued ASU 2017-01, *Clarifying the Definition of a Business*, which provided guidance to assist with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The update is intended to address concerns that the existing definition of a business has been applied too broadly and has resulted in many transactions being recorded as business acquisitions that in substance are more akin to asset acquisitions. The amendments became effective on January 1, 2018 and did not have a material effect on the financial statements.

In February 2017, the FASB issued ASU 2017-05, *Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*, to clarify the scope of established guidance on nonfinancial asset derecognition, issued as part of ASU 2014-09, *Revenue from Contracts with Customers*, as well as accounting for partial sales of nonfinancial assets. The amendments conform the derecognition guidance on nonfinancial assets with the model for transactions in the new revenue standard. The amendments became effective on January 1, 2018 and did not have a material effect on the financial statements.

In March 2017, the FASB issued ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs* (Subtopic 310-20): *Premium Amortization of Purchased Callable Debt Securities*, which shortens the amortization period for the premium to the earliest call date. The amendment will be effective for the Company for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. The Company does not expect this amendment to have a material effect on its financial statements.

In February 2018, the FASB issued ASU 2018-02, *Income Statement – Reporting Comprehensive Income* (Topic 220): *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which requires companies to reclassify the stranded effects in other comprehensive income to retained earnings as a result of the change in the tax rates under the Tax Cuts and Jobs Act (the 2017 Tax Act"). The Company adopted this pronouncement early by retrospective application to each period in which the effect of the change in the tax rate under the 2017 Tax Act is recognized. The impact of the reclassification from other comprehensive income to retained earnings was included in the Statement of Changes in Shareholders' Equity for the year ended December 31, 2017.

In February 2018, the FASB issued ASU 2018-03, *Technical Corrections and Improvements to Financial Instruments—Overall* (Subtopic 825-10): *Recognition and Measurement of Financial Assets and Financial Liabilities* to clarify certain aspects of the guidance issued in ASU 2016-01. The amendments will be effective for the third quarter of 2018 subsequent to adopting the amendments in ASU 2016-01. All entities may early adopt these amendments for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, as long as they have adopted ASU 2016-01. The Company does not expect these amendments to have a material effect on its financial statements.

In March 2018, the FASB issued ASU 2018-4, *Investments—Debt Securities* (Topic 320) *and Regulated Operations* (Topic 980): *Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 117 and SEC Release No. 33-9273* which incorporate into the Accounting Standards Codification recent SEC guidance which was issued in order to make the relevant interpretive guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulations. The amendments were effective upon issuance. The Company does not expect these amendments to have a material effect on its financial statements.

In March 2018, the FASB issued ASU 2018-05, *Income Taxes* (Topic 740): *Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118*. The amendments incorporate into the Accounting Standards Codification recent SEC guidance related to the income tax accounting implications of the Tax Cuts and Jobs Act. The amendments were effective upon issuance. The Company does not expect these amendments to have a material effect on its financial statements.

In May 2018, the FASB amended the Financial Services – Depository and Lending Topic of the ASC to remove outdated guidance related to Circular 202. The amendments were effective upon issuance and did not have a material effect on the financial statements.

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

BANK OF SOUTH CAROLINA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2: Investment Securities

The amortized cost, gross unrealized gains and losses, and estimated fair value of investment securities available for sale are summarized as follows:

	June 30, 2018			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
U.S. Treasury Notes	$32,969,932	$ —	$(939,735)	$32,030,197
Government-Sponsored Enterprises	60,768,977	—	(1,847,892)	58,921,085
Municipal Securities	29,268,532	179,950	(568,439)	28,880,043
Total	$123,007,441	$ 179,950	$(3,356,066)	$119,831,325

	December 31, 2017			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
U.S. Treasury Notes	$35,970,990	$ —	$(411,145)	$35,559,845
Government-Sponsored Enterprises	64,444,315	—	(887,811)	63,556,504
Municipal Securities	40,191,502	487,545	(545,146)	40,133,901
Total	$140,606,807	$ 487,545	$(1,844,102)	$139,250,250

The amortized cost and estimated fair value of investment securities available for sale as of June 30, 2018 and December 31, 2017, by contractual maturity are as follows:

	June 30, 2018		December 31, 2017	
	Amortized Cost	**Estimated Fair Value**	**Amortized Cost**	**Estimated Fair Value**
Due in one year or less	$4,371,538	$4,391,446	$11,554,040	$11,546,968
Due in one year to five years	94,804,499	92,553,106	72,622,056	72,124,395
Due in five years to ten years	22,991,242	22,088,221	53,290,088	52,576,036
Due in ten years and over	840,162	798,552	3,140,623	3,002,851
Total	$123,007,441	$119,831,325	$140,606,807	$139,250,250

Investment securities pledged to secure deposits had a fair value of $43.4 million and $49.4 million as of June 30, 2018 and December 31, 2017, respectively.

BANK OF SOUTH CAROLINA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The tables below summarize gross unrealized losses on investment securities and the fair market value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of June 30, 2018 and December 31, 2017. We believe that all unrealized losses have resulted from temporary changes in the interest rates and current market conditions and not as a result of credit deterioration. We do not intend to sell and it is not likely that we will be required to sell any of the securities referenced in the table below before recovery of their amortized cost.

	Less Than 12 Months			12 Months or Longer			Total		
	#	Fair Value	Gross Unrealized Loss	#	Fair Value	Gross Unrealized Loss	#	Fair Value	Gross Unrealized Loss
June 30, 2018									
Available for sale									
U.S. Treasury Notes	7	$32,030,197	$(939,735)	—	$—	$—	7	$32,030,197	$(939,735)
Government-Sponsored Enterprises	10	48,880,925	(1,245,021)	3	10,040,160	(602,871)	13	58,921,085	(1,847,892)
Municipal Securities	19	8,158,197	(187,439)	19	7,368,072	(381,000)	38	15,526,269	(568,439)
Total	36	$89,069,319	$(2,372,195)	22	$17,408,232	$(983,871)	58	$106,477,551	$(3,356,066)

December 31, 2017									
Available for sale									
U.S. Treasury Notes	8	$35,559,845	$(411,145)	—	$—	$—	8	$35,559,845	$(411,145)
Government-Sponsored Enterprises	12	53,275,064	(462,174)	3	10,281,440	(425,637)	15	63,556,504	(887,811)
Municipal Securities	20	7,815,221	(134,998)	29	11,056,185	(410,148)	49	18,871,406	(545,146)
Total	40	$96,650,130	$(1,008,317)	32	$21,337,625	$(835,785)	72	$117,987,755	$(1,844,102)

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We received proceeds from sales of securities available for sale and gross realized gains and losses as follows:

	Three Months Ended June 30, 2018	2017
Gross proceeds	$11,970,378	$ —
Gross realized gains	25,490	—
Gross realized losses	(25,103)	—
	$11,970,765	$ —

	Six Months Ended June 30, 2018	2017
Gross proceeds	$21,434,634	$ —
Gross realized gains	104,634	—
Gross realized losses	(99,899)	—
	$21,439,369	$ —

For the six months ended June 30, 2018, the tax provision related to these gains was $994.

Note 3: Loans and Allowance for Loan Losses

Major classifications of loans (net of deferred loan fees of $158,808 as of June 30, 2018 and $152,047 as of December 31, 2017) are as follows:

	June 30,	December 31, 2017

	2018	
Commercial loans	$55,495,828	$51,723,237
Commercial real estate:		
Construction	4,340,323	2,317,857
Other	139,665,319	140,186,324
Consumer:		
Real estate	73,570,322	70,797,973
Other	5,032,745	5,155,249
	278,104,537	270,180,640
Allowance for loan losses	(4,007,464)	(3,875,398)
Loans, net	$274,097,073	$266,305,242

We had $104.7 million and $113.4 million of loans pledged as collateral to secure funding with the Federal Reserve Bank ("FRB") Discount Window as of June 30, 2018 and as of December 31, 2017, respectively.

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

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

Excellent (1) The borrowing entity has more than adequate cash flow, unquestionable strength, strong earnings and capital, and where applicable, no overdrafts.

Good (2) The borrowing entity has dependable cash flow, better than average financial condition, good capital and usually no overdrafts.

Satisfactory (3) The borrowing entity has adequate cash flow, satisfactory financial condition, and explainable overdrafts (if any).

Watch (4) The borrowing entity has generally adequate, yet inconsistent cash flow, cyclical earnings, weak capital, loan to/from stockholders, and infrequent overdrafts. The borrower has consistent yet sometimes unpredictable sales and growth.

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