

A Focus on Relationship Banking with its Local Business Customers, Increased Loan Demand and Phenomenal Deposit Growth in 2011, Allowed The Bank of South Carolina to Have the Third Best Year-End Earnings in its History

**Financial
Regional – Mid-Atlantic Banks
(BKSC-NASDAQ)**

**Bank of South Carolina
Corporation
and its subsidiary
The Bank of South Carolina**

**256 Meeting Street
Charleston, SC 29401
Phone: 843-724-1500**



**Hugh C. Lane Jr.
President and CEO**

BIO:

Hugh C. Lane, Jr., a 64 year old, fourth generation banker, is a native of Charleston, South Carolina, where he is President/CEO of The Bank of South Carolina. Mr. Lane was graduated from the Choate School in Wallingford, Connecticut and, in 1970, earned a B.A. in economics from the University of Pennsylvania. Upon graduation, he entered the U. S. Navy

with the rank of Ensign. After receiving an honorable discharge, he began his banking career in 1972 at C & S National Bank of Georgia in Atlanta. In 1973, he accepted a position with Chemical Bank, New York, and worked in the Bond, Leasing, and International Departments. In 1974, he returned to South Carolina to accept a position with C & S Bank of South Carolina as City Executive of the Sumter, South Carolina office. He served on the C & S Bank of South Carolina Board of Directors for 14 years. In 1976, Mr. Lane returned to his hometown of Charleston to serve as Executive Vice President, heading the C & S Bank's Southern Region Credit, with responsibility for approximately 300 employees. In 1986, when the C & S Bank of South Carolina was acquired by C & S Bank of Georgia, Mr. Lane resigned to head a group of local business and community leaders who shared his antipathy for interstate banking, and organized The Bank of South Carolina.

In addition to his responsibilities at The Bank of South Carolina, Mr. Lane has served as a member of the Advisory Committee for the ACE Basin National Estuarine Research Reserve System and is currently a member of the Charleston County Conservation Bank Board. He is Trustee and past Chairman of the Board of Trustees for the Belle W. Baruch Foundation; Trustee and past Chairman of the Board at Wofford College; Trustee and past Chairman of the South Carolina Independent Colleges & Universities; Trustee and past President of the Charleston Museum; past Co-Chairman of the Community Relations Committee; past member of the

Advisory Committee for the Storm Eye Institute of the Medical University of South Carolina; member of the Trident Chamber of Commerce; and past member of the Board of Trident Urban League. Mr. Lane is the recipient of Honorary Doctorates from Charleston Southern University and The Citadel. He was the 1997 recipient of the "Distinguished Citizen Award" from Wofford College National Alumni Council, as well as the 1997 recipient of the Avery Citizenship Award for outstanding community service, presented by the Avery Research Center. The Chamber of Commerce presented Mr. Lane with the 2004 Joseph P. Riley Leadership Award. In 2008, Mr. Lane was awarded the Order of the Palmetto by Governor Mark Sanford. Mr. Lane, the father of three, is an avid sportsman and conservationist.

**Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFO Magazine**

CEOCFO: Mr. Lane, when did you start The Bank of South Carolina?

Mr. Lane: We started The Bank of South Carolina almost 25 years ago. I was a principal organizer when we formed the bank in April of 1986. It opened February 26th of the next year.

CEOCFO: The Bank of South Carolina released its earnings on January 12th and you had the third best year-end earnings in the company's history; how did you manage that in the current banking environment and economy?

Mr. Lane: That is an answer that will take a little time. When we started the bank we were really one of the first niche banks in South Carolina. We felt at the time that where we could compete effectively was to focus all of our development efforts on trying to do business with local businesses; the people who owned and operated those businesses, professionals and individuals who wanted a much higher level of service. Because of that, we were really focused on relationships and not transactions. That kept us out of a lot of the speculative real estate lending that went on in the beginning of this last decade. Good companies do the basics well -- everyday, with every transaction. Also, we were lucky we were doing some things with our investment portfolio early on before rates went to such extremely low levels in the last half of the year. We had a little bit of loan demand during the year (2011) and phenomenal deposit growth; we just ended up having a much better year than our profit plan indicated, a slightly better year than the prior year and the third best year in our history.

CEO CFO: Given all that has taken place with the last year with the government regulations, the housing crisis and the economy, have there been any changes in the vision for the bank because of this or are you pretty much focused on the way you started?

Mr. Lane: We maintained our focus; but typically, we do better in the tougher times because we have been immune to the problems of our competitors. If you really analyze our numbers, the thing that really drives our profitability is our cost of funds and our core deposit base.

CEO CFO: What is the growth strategy for The Bank of South Carolina?

Mr. Lane: We are going to maintain our market focus; there is no question. You know that wonderful old adage of Yogi Berra "When you see a fork in the road, take it". We look at every opportunity. We may well have some opportunities with what is going

to happen in South Carolina over the next three years with the banking industry's consolidation.

CEO CFO: Is growth acquisitions your preferred method of growth?

Mr. Lane: I would rather have good organic growth than do an acquisition, but we did a Shelf Registration in the middle part of last year to put ourselves in a position to take advantage of any market opportunity that might present itself.

CEO CFO: What does the Shelf Registration mean for you?

Mr. Lane: The Shelf Registration was for \$10 million in additional capital. By doing this, we felt that if we decided to do an acquisition of some size, we would have the capital to do so. We

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had to put ourselves in a position to be in the game. We went to Robert Baird Co. and they agreed to underwrite it for us.

CEO CFO: How stable are the areas that you are in with regard to jobs, businesses staying or going, foreclosures?

Mr. Lane: South Carolina has really suffered in this downturn in the economy. Just like every other state, on statewide basis our unemployment rate is just under 10%. In this particular market, the Charleston metropolitan area, the unemployment rate is just under 9%. However, we have a couple of really favorable things that are going on in Charleston, which will benefit this community for the foreseeable future. First of all, there is the Boeing plant that they are building,

and then we have the Clemson Restoration Lab. If you look at Charleston and what happened from 2007 to date, some areas of our economy held up very well. Medicine, a major portion of the Charleston economy, held up. Tourism held up well. And the port, which lost an enormous amount of volume, is coming back very strongly. Therefore, we have turned. We have seen the bottom, and things are going up. We still have some excess housing that needs to be reduced, but that is going in the right direction.

CEO CFO: How do you break down between consumer and commercial customers today?

Mr. Lane: On the deposit side, we are about half commercial and about half consumer. On the lending side, we are almost exclusively a commercial lender.

CEO CFO: So has that worked out pretty good for you?

Mr. Lane: We have a very high concentration of C&I (Commercial and Industrial) loans in this bank and a very high concentration of personal bank lines or equity lines. We have not been a big real estate lender, except primarily for our own customers.

CEO CFO: What about customer care and customer service at The Bank of South Carolina?

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CEO CFO: Is that for even someone coming in to make a deposit?

Mr. Lane: Even if you come in to make a deposit or cash a check.

CEO CFO: That is pretty interesting and different from most banks. I guess that is one of those points that separate you from the other banks in the area!

Mr. Lane: We think so!

CEO CFO: What else would you say separates Bank of South Carolina from the competition in the area both from the local and regional as well as the larger banks?

Mr. Lane: The thing that sets us apart more than anything else is our knowledge of the market place and the extremely professional bankers that we have from top to bottom in this institution. I am a fourth generation banker. I heard my father say a million times that one of the biggest and greatest assets the bank had was not on its books; it was its employees. If we were not the first bank in the country, we were certainly one of the first that all of our employees who have been with us for two years have stock options. We have an employee stock ownership plan (ESOP) that all of our employees participate in and it is our second biggest shareholder.

CEO CFO: How does Bank of South Carolina attract competent bankers?

Mr. Lane: In this market, the employment situation is a dream come true for potential employers. Then, because of the track record of the bank and because of our visibility, we seem to attract a wonderful cadre of employees. In addition, we have been very fortunate not to have had much turnover. What that does for your efficiency and your error rates and all the other intangible things that go with it is quite beneficial. Our culture is so different. In the history of the bank, with a few exceptions, we have not had a particularly distinguished track record in attracting people, say a vice president or senior vice president from other institutions. Therefore, we started a training program a number of years ago, which is very much like the training program I had when I started my banking career in the early

1970's. It takes more time, but at the end you get the product that you want.

CEO CFO: How do you attract potential customers?

Mr. Lane: Our customers come from making personal calls and the best source is referrals from our existing customers. An interesting trend has developed in the last several years because of the banking crisis. People have gotten infinitely more concerned about the quality of the institution where they are banking and a lot of research is done on the Internet. Therefore, we have gotten a lot of new customers who have done their due diligence and selected our bank.

CEO CFO: Where does The Bank of South Carolina stand in the new banking environment? Banks are always trying to find new ways to generate revenues and they always of course have to stand strong in customer confidence.

Mr. Lane: On the revenue side the two things we think we can capitalize on are trying to do more merchant services with existing customers and new customers, and in our mortgage origination business. When we look at where we can get fee income, those are the only things that we think are really compatible with the footprint of our bank. We try to run the bank with an efficiency ratio in the low 60s, but I would like to break into the 50s. We have gotten pretty close to it, but we have not quite achieved that. We have added about 20% in deposit growth in the last year and we have done it without having to add any additional employees. That is just pure efficiency. Our growth is the outcome of deposits, but one of the things that we have tried to do ever since we started the bank was to try to stay away from labor intensive accounts, either lending activities or deposit relationships.

CEO CFO: Are you involved in the community?

Mr. Lane: We are heavily involved.

CEO CFO: What are some of the things you encourage your employees to get involved with?

Mr. Lane: It is a very broad range of things from the United Way to the Chamber of Commerce to local schools. We have been heavily involved in conservation and land protection as an institution. One of the few things that South Carolina actually excels in has been land protection and we have been at the forefront of that personally and as an institution. For example, 20% of the land in Charleston County is protected and we understand conservation easements. We are one of the few banks that will make loans where the conservation easements are in place, because we understand it and that has given us a little bit of a competitive advantage.

CEO CFO: Would you tell us about your mortgage business?

Mr. Lane: Our mortgage business has been a good source of income for us and it is an enormously good source of customer service for us. However, that business has gotten very tedious. I would have thought that the pendulum would have started to swing back the other way in terms of common sense coming in the mortgage market. It is still getting more difficult to get a loan approved and if you have one blemish now it is not like it was before 2008; what I consider Armageddon. Before that, if you had a blemish and it was very small, you got a loan; you just got a higher rate. Today, if you have a blemish, you are not getting a loan. Therefore, in our mortgage origination business we are a pretty big factor in that market. The other thing that is very difficult too is appraisals which are a real issue.

CEO CFO: Do you work with customers who have a blemish?

Mr. Lane: Yes, we do try to work with them. We have an enormous amount of flexibility between our mortgage department and the bank. We work closely together. If we have a transaction where we can get somebody in a house, we might make that loan in the bank for several years until that blemish can be cured.

CEO CFO: What is the financial picture for The Bank of South Carolina today?

Mr. Lane: We are probably the strongest bank in the state. The things that are important to us first are profitability, ROA and ROE. We still have a double-digit return on equity and over 1% ROA, both of which we are extremely proud of. They are not where we want them to be, but with interest rates being where they are and the excess liquidity we have, it is very difficult to ratchet those numbers up. We just happened to have had an officers meeting this morning and the reality is that more than likely we are going to be in this interest rate environment until we get well into 2014; so, we'd better learn how to live with it. We have cut our costs of funds down to 25 basis points. I do not know if we can get it much lower. That does give us a little flexibility in terms of what we can deal with in our portfolio, but we loaded up our portfolio earlier and, frankly, I just do not want to be buying any bonds now. That is because ultimately, at some point, interest rates are going to go up, and the losses on those instruments are going to be terrible. We do not like to take a lot of interest rate risk. At the end of November our pretax profit in our investment portfolio was \$2.7 million. I did not think it could get any higher and at year-end it was just under \$2.3 million.

CEOCFO: What was the biggest challenge for you last year?

Mr. Lane: The biggest challenge we had was that all of our treasuries and agencies were coming due in the 4th Quarter of the prior year and first two quarters of last year. The cumulative yield on those securities was about 5%, so we knew we were going to be taking an enormous haircut on reinvestment. We as an institution have to own X number of dollars in securities, so we were able to overcome that fairly well. We were fortuitous to do a few bond swaps late in the 2nd Quarter early in the 3rd Quarter; that really put us in pretty good stead for what transpired in the rest of the year.

There are not many times you can swap securities, take a profit and re-invest for a higher yield. We were able to do that, but we went from agencies and treasuries to municipals.

CEOCFO: Are you focused on attracting investors to your stock?

Mr. Lane: We would always like to have a cadre of investors. We have about 1,300 shareholders. I would say probably 65% of our current shareholders were original shareholders, so our shareholder base has expanded. What is particularly interesting to me is that it's all across the country and internationally.

CEOCFO: Are you are paying a dividend?

Mr. Lane: Yes. The yield on our stock is a little better than about 4%. From that standpoint, we are an attractive investment today.

CEOCFO: Why should potential investors be interested in The Bank of South Carolina today?

Mr. Lane: First, what differentiates our bank is our market focus and the market we are in. But the things that are really important are that we have strong capital, strong liquidity, and strong asset quality.

CEOCFO: It is good to see a bank that is one of the survivors of the recent banking crisis and economic downturn.

Mr. Lane: Those are the defining moments in life. The one that sort of strikes me about where we are today is something I said to our senior lending officer and Executive Vice President, Fleetwood S. Hassell. We were coming back from vacation with our sons in Argentina, and we got back to Atlanta in late August of 2007. I picked up the *Wall Street Journal* and read the front page (about the impending financial crisis). I handed it to Fleetwood and said "You need to take a look at this, because life is going to be different when we get to the bank

tomorrow." For our industry it started in 2007, but the general public they did not realize that Armageddon was here until 2008. I get back to the point I made about us doing better in tough times. In 2009, we actually had an 18% increase in outstanding loans and there was not a productive loan in that mix. It was virtually all customers being run out of the big banks, because they were scared and wanted to downsize. We thought that would continue into 2010, and when we got into the early part of 2010 our loan demand just stopped. It was up and down some this year, and we did not meet our budget for loans, but we had a little increase in activity at year-end, which gives us encouragement going into 2012. We do think the economy has bottomed out. I was asked to be one of twelve people to meet with the economists from the Fifth Federal Reserve District about a month ago. Listening very carefully to a cross section of South Carolinians, my conclusion was the economy had bottomed out and we were coming out of it. The problem is the slope is not real high. In my specific remarks I ended with the comment, "The light at the end of the tunnel is not an oncoming train, but the tunnel has some length." However, I believe the Boeing investment will change Charleston more than anything since the civil war.

CEOCFO: Charleston seems to be a place that is always attracting people and most importantly businesses.

Mr. Lane: I do not think you can bet against Charleston! The only negative for the long-term future of Charleston is the rising sea level, quite frankly!

CEOCFO: Final thoughts, what should people remember most about The Bank of South Carolina?

Mr. Lane: The people that work here and I are very passionate about what we do.

Bank of South Carolina Corporation
