FIRST COMMUNITY CORP /SC/
Form 10-K
March 27, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

ý **Annual Report under Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended December 31, 2011

Or

o **Transition Report under Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from to
Commission file number: 000-28344

First Community Corporation

(Exact name of registrant as specified in its charter)

South Carolina (State or other jurisdiction of incorporation or organization)	**57-1010751** (I.R.S. Employer Identification No.)
5455 Sunset Blvd., **Lexington, South Carolina** (Address of principal executive offices)	**29072** (Zip Code)

803-951-2265
Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common stock, $1.00 par value per share	The NASDAQ Capital Market

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No ý

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 past 90 days. Yes ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes o No ý

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.

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

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

As of June 30, 2011, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $20,377,991 based on the closing sale price of $6.94 on June 30, 2011, as reported on The NASDAQ Capital Market. 3,310,572 shares of the issuer's common stock were issued and outstanding as of March 23, 2012.

Documents Incorporated by Reference

Proxy Statement for the Annual Meeting of Shareholders to be held on May 16, 2012.	Part III (Portions of Items 10-14)

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report, including information included or incorporated by reference in this document, contains statements which constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements may relate to, among other matters, the financial condition, results of operations, plans, objectives, future performance, and business of our Company. Forward-looking statements are based on many assumptions and estimates and are not guarantees of future performance. Our actual results may differ materially from those anticipated in any forward-looking statements, as they will depend on many factors about which we are unsure, including many factors which are beyond our control. The words "may," "would," "could," "should," "will," "expect," "anticipate," "predict," "project," "potential," "continue," "assume," "believe," "intend," "plan," "forecast," "goal," and "estimate," as well as similar expressions, are meant to identify such forward-looking statements. Potential risks and uncertainties that could cause our actual results to differ materially from those anticipated in our forward-looking statements include, without limitation, those described under the heading "Risk Factors" in this Annual Report on Form 10-K for the year ended December 31, 2011 as filed with the Securities and Exchange Commission (the "SEC") and the following:

- reduced earnings due to higher credit losses generally and specifically because losses in the sectors of our loan portfolio secured by real estate are greater than expected due to economic factors, including, but not limited to, declining real estate values, increasing interest rates, increasing unemployment, or changes in payment behavior or other factors;
- reduced earnings due to higher other-than-temporary impairment charges resulting from additional decline in the value of our private label mortgage backed securities ("MBS") portfolio, specifically as a result of increasing default rates, and loss severities on the underlying real estate collateral.
- the amount of our loan portfolio collateralized by real estate and weaknesses in the real estate market;
- our ability to comply with our formal written agreement with our primary bank regulator and potential regulatory actions if we fail to comply;
- restrictions or conditions imposed by our regulators on our operations may make it more difficult for us to achieve our goals;
- the adequacy of the level of our allowance for loan losses and the amount of loan loss provisions required in future periods;
- results of examinations by our regulatory authorities, including the possibility that the regulatory authorities may, among other things, require us to increase our allowance for loan losses or write-down assets;
- significant increases in competitive pressure in the banking and financial services industries;
- changes in the interest rate environment which could reduce anticipated or actual margins;
- changes in political conditions or the legislative or regulatory environment, including, but not limited to, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and regulations adopted thereunder, changes in federal and/or state tax laws or interpretations thereof by taxing authorities, changes in laws, rules or regulations applicable to companies that have participated in the U.S. Treasury Department's Capital Purchase Program, and other governmental initiatives affecting the financial services industry;

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- general economic conditions, either nationally or regionally and especially in our primary service area, being less favorable than expected resulting in, among other things, a deterioration in credit quality;

- changes occurring in business conditions and inflation;

- increased funding costs due to market illiquidity, increased competition for funding, and/or increased regulatory requirements with regard to funding;

- changes in deposit flows;

- changes in technology;

- changes in monetary and tax policies, including confirmation of the income tax refund claims received by the Internal Revenue Service ("IRS");

- changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board and the Financial Accounting Standards Board;

- the rate of delinquencies and amounts of loans charged-off;

- the rate of loan growth in recent years and the lack of seasoning of a portion of our loan portfolio;

- our ability to maintain appropriate levels of capital and to comply with our higher individual minimum capital ratios;

- our ability to attract and retain key personnel;

- our ability to retain our existing clients, including our deposit relationships;

- adverse changes in asset quality and resulting credit risk-related losses and expenses;

- loss of consumer confidence and economic disruptions resulting from terrorist activities; and

- other risks and uncertainties detailed in Part I, Item 1A of this Annual Report on Form 10-K and from time to time in our filings with the SEC.

These risks are exacerbated by the developments in recent years in national and international financial markets, and we are unable to predict what effect these uncertain market conditions will continue to have on our Company. Beginning in 2008 and continuing into 2012, the capital and credit markets experienced unprecedented levels of extended volatility and disruption. There can be no assurance that these unprecedented developments will not continue to materially and adversely affect our business, financial condition and results of operations.

All forward-looking statements in this report are based on information available to us as of the date of this report. Although we believe that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee you that these expectations will be achieved. We undertake no obligation to publicly update or otherwise revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

PART I

Item 1. Business.

General

First Community Corporation, a bank holding company registered under the Bank Holding Company Act of 1956, as amended, was incorporated under the laws of South Carolina in 1994 primarily to own and control all of the capital stock of First Community Bank, N.A., which commenced operations in August 1995. On October 1, 2004, we completed our acquisition of DutchFork Bancshares, Inc. and its wholly-owned subsidiary, Newberry Federal Savings Bank. During the second quarter of 2006, we completed our acquisition of DeKalb Bankshares, Inc., the holding company for The Bank of Camden. On September 15, 2008, we completed the acquisition of two financial planning and investment advisory firms, EAH Financial Group and Pooled Resources, LLC. The Bank expanded its residential mortgage business unit with the acquisition of the assets of Palmetto South Mortgage Corporation ("Palmetto South"), effective July 31, 2011. Palmetto South, which operates as a division of the Bank, offers mortgage loan products for home purchase or refinance in the South Carolina market area. We engage in a commercial banking business from our main office in Lexington, South Carolina and our 11 full-service offices located in Lexington (two), Forest Acres, Irmo, Cayce-West Columbia, Gilbert, Chapin, Northeast Columbia, Prosperity, Newberry and Camden. We offer a wide-range of traditional banking products and services for professionals and small-to medium-sized businesses, including consumer and commercial, mortgage, brokerage and investment, and insurance services. We also offer online banking to our customers. Our stock trades on The NASDAQ Capital Market under the symbol "FCCO".

Location and Service Area

The Bank is engaged in a general commercial and retail banking business, emphasizing the needs of small-to-medium sized businesses, professional concerns and individuals, primarily in Richland, Lexington, Kershaw and Newberry Counties of South Carolina and the surrounding areas. These counties, which we refer to as the "Midlands" region of South Carolina, had an aggregate population of 746,100 (according to 2010 U.S. Census data) and total deposits of approximately $13.6 billion as of June 30, 2011. Lexington County, which is home to six of our Bank's branch offices, had a population of 262,391 (according to 2010 U.S. Census data) and total deposits of $3.1 billion as of June 30, 2011. As of December 31, 2011, approximately $258 million, or 55.5%, of our total deposits are located in Lexington County. Richland County, in which we have two branches, is the largest county in South Carolina with a population of 384,504 and total deposits of $9.5 billion as of June 30, 2011. Columbia, which is located within Richland County, is South Carolina's capital city and is geographically positioned in the center of the state between the industrialized Upstate region of South Carolina and the coastal city of Charleston. Intersected by three major interstate highways (I-20, I-77 and I-26), Columbia's strategic location has contributed greatly to its commercial appeal and growth.

We serve attractive banking markets with long-term growth potential and a well educated employment base that helps to support our diverse and relatively stable local economy. According to 2010 U.S. Census Data, Lexington, Richland, Kershaw and Newberry counties had median household incomes of $52,205, $47,922, $44,064 and $41,815, respectively, compared to $43,939 for South Carolina as a whole. The principal components of the economy within our market areas are service industries, government and education, and wholesale and retail trade. The largest employers in our market area, each of which employs in excess of 3,000 people, are Fort Jackson Army Post, the University of South Carolina, Palmetto Health Alliance, Blue Cross Blue Shield and Lexington Medical center. In addition, Amazon.com is currently building a distribution center that is expected to add approximately 2,000 full-time jobs to our market area. The Company believes that this diversified economic base has reduced, and will likely continue to reduce, economic volatility in our market areas. Our markets have experienced steady economic and population growth over the past 10 years, and we expect that the area, as well as the service industry needed to support it, will continue to grow.

Banking Services

We offer a full range of deposit services that are typically available in most banks and thrift institutions, including checking accounts, NOW accounts, savings accounts and other time deposits of various types, ranging from daily money market accounts to longer-term certificates of deposit. The transaction accounts and time certificates are tailored to our principal market area at rates competitive to those offered in the area. In addition, we offer certain retirement account services, such as Individual Retirement Accounts ("IRAs"). All deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to the maximum amount allowed by law (currently, $250,000, subject to aggregation rules).

We also offer a full range of commercial and personal loans. Commercial loans include both secured and unsecured loans for working capital (including inventory and receivables), business expansion (including acquisition of real estate and improvements), and the purchase of equipment and machinery. Consumer loans include secured and unsecured loans for financing automobiles, home improvements, education, and personal investments. We also make real estate construction and acquisition loans. We originate fixed and variable rate mortgage loans substantially all of which, are sold into the secondary market. Our lending activities are subject to a variety of lending limits imposed by federal law. While differing limits apply in certain circumstances based on the type of loan or the nature of the borrower (including the borrower's relationship to the bank), in general, we are subject to a loans-to-one-borrower limit of an amount equal to 15% of the bank's unimpaired capital and surplus, or 25% of the unimpaired capital and surplus if the excess over 15% is approved by the board of directors of the bank and is fully secured by readily marketable collateral. As a result, our lending limit will increase or decrease in response to increases or decreases in the bank's level of capital. Based upon the capitalization of the bank at December 31, 2011, the maximum amount we could lend to one borrower is $8.5 million. In addition, we may not make any loans to any director, officer, employee, or 10% shareholder of the company or the bank unless the loan is approved by our board of directors and is made on terms not more favorable to such person than would be available to a person not affiliated with the bank.

Other bank services include internet banking, cash management services, safe deposit boxes, travelers checks, direct deposit of payroll and social security checks, and automatic drafts for various accounts. We offer non-deposit investment products and other investment brokerage services through a registered representative with an affiliation through LPL Financial. We are associated with Jeannie, Star, and Plus networks of automated teller machines and MasterCard debit cards that may be used by our customers throughout South Carolina and other regions. We also offer VISA and MasterCard credit card services through a correspondent bank as our agent.

We currently do not exercise trust powers, but we can begin to do so with the prior approval of our primary banking regulator, the Office of the Comptroller of the Currency ("OCC").

Competition

The banking business is highly competitive. We compete as a financial intermediary with other commercial banks, savings and loan associations, credit unions and money market mutual funds operating in Richland, Lexington, Kershaw and Newberry Counties and elsewhere. As of June 30, 2011, there were 26 financial institutions operating approximately 200 offices in Lexington, Richland, Kershaw and Newberry Counties. The competition among the various financial institutions is based upon a variety of factors, including interest rates offered on deposit accounts, interest rates charged on loans, credit and service charges, the quality of services rendered, the convenience of banking facilities

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and, in the case of loans to large commercial borrowers, relative lending limits. Size gives larger banks certain advantages in competing for business from large corporations. These advantages include higher lending limits and the ability to offer services in other areas of South Carolina. As a result, we do not generally attempt to compete for the banking relationships of large corporations, but concentrate our efforts on small-to-medium sized businesses and individuals. We believe we have competed effectively in this market by offering quality and personal service. In addition, many of our non-bank competitors are not subject to the same extensive federal regulations that govern bank holding companies and federally insured banks.

Market Share

As of June 30, 2011, the most recent date for which market data is available, total deposits in the bank's primary market area, Lexington, Richland, Kershaw and Newberry Counties, were over $13.6 billion. At June 30, 2011, our deposits represented 3.5% of the market.

Employees

As of December 31, 2011, we had 157 full-time employees. We believe that our relations with our employees are good.

SUPERVISION AND REGULATION

Both the Company and the Bank are subject to extensive state and federal banking laws and regulations that impose specific requirements or restrictions on and provide for general regulatory oversight of virtually all aspects of our operations. These laws and regulations are generally intended to protect depositors, not shareholders. The following summary is qualified by reference to the statutory and regulatory provisions discussed. Changes in applicable laws or regulations may have a material effect on our business and prospects. Our operations may be affected by legislative changes and the policies of various regulatory authorities. We cannot predict the effect that fiscal or monetary policies, economic control, or new federal or state legislation may have on our business and earnings in the future.

On April 6, 2010, the Bank entered into a formal written agreement (the "Formal Agreement") with its primary federal regulator, the OCC. The Formal Agreement is based on the findings of the OCC during a 2009 on-site examination of the Bank. As reflected in the Formal Agreement, the OCC's primary concern with the Bank is driven by the rating agencies' downgrades of non-agency MBSs in its investment portfolio. These securities, purchased in 2004 through 2008, were all rated AAA by the rating agencies at the time of purchase; however, they have been impacted by the economic recession and the stress on the residential housing sector. These ratings do not reflect the discounted purchase price paid by the Bank. They only reflect their analysis of the performance of the security overall, and therefore, a downgrade does not capture the risk of loss to the Bank. The Formal Agreement did not require any adjustment to the Bank's balance sheet or income statement; nor did it change the Bank's "well capitalized" status. The OCC has, however, separately established the following individual minimum capital ratios for the Bank: a Tier 1 leverage capital ratio of at least 8.00%, a Tier 1 risk-based capital ratio of at least 10.00%, and a Total risk-based capital ratio of at least 12.00%. As of December 31, 2011 the Bank exceeded each of these ratios and remained "well capitalized."

The Board of Directors has appointed an independent compliance committee made up of directors to monitor and report on compliance with the terms of the Formal Agreement. The Bank has taken all actions necessary to enable it to comply with the requirements of the Formal Agreement, and as of the date hereof management has submitted all documentation required to the OCC. There can be no assurance that the Bank will be able to comply fully with the provisions of the Formal Agreement, and the determination of our compliance will be made by the OCC. However, management believes the

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Bank is currently in compliance with the Formal Agreement. Failure to meet the requirements of the Formal Agreement could result in additional regulatory requirements, which could result in regulators taking additional enforcement actions against the Bank.

As previously disclosed, on June 15, 2010, the Company entered into a memorandum of understanding (the "2010 MOU") with the Federal Reserve Bank of Richmond (the "Federal Reserve"). The 2010 MOU included, among other things, a requirement that the Company obtain the prior written approval of the Federal Reserve before declaring or paying any dividends or directly or indirectly accepting dividends or any other form of payment representing a reduction in capital from the Bank. The 2010 MOU has been terminated and replaced in its entirety by a new memorandum of understanding (the "2011 MOU") with the Federal Reserve, which eliminates the requirement that the Company receive prior approval from the Federal Reserve before declaring or paying any dividends. The 2011 MOU also provides that the Company will ensure that any Company dividends on common or preferred stock, or payments on trust preferred securities, are paid in accordance with applicable regulations and guidance issued by the Board of Governors of the Federal Reserve (the "Federal Reserve Board").

In addition, the 2011 MOU provides that if the Bank or the Company (on a consolidated basis) were to become less that adequately capitalized then the Company would not make payments on subordinated debt not related to trust preferred securities without Federal Reserve approval. The Bank and the Company are currently considered "well capitalized." To be considered adequately capitalized, the OCC and Federal Reserve Board minimum regulatory capital guidelines for Tier 1 risk-based capital, total risk-based capital and Tier 1 leverage ratios are 4.0%, 8.0% and 4.0%, respectively. As of December 31, 2011, the Bank's risk-based capital ratios of Tier 1 capital, total capital and leverage were 15.12%, 16.38% and 9.27%, respectively, and the Company's risk-based capital ratios of Tier 1 capital, total capital, leverage ratio were 15.33%, 17.25% and 9.40%, respectively.

As in the 2010 MOU, the 2011 MOU includes, among other things, a requirement that the Company obtain the prior written approval of the Federal Reserve before appointing any new director or senior executive officer or changing the position of any senior executive officer; directly or indirectly, incurring, increasing or guaranteeing any debt; and directly or indirectly, purchasing or redeeming any shares of its stock. The 2011 MOU eliminates the requirement contained in the 2010 MOU that the Company obtain written approval from the Federal Reserve prior to taking dividends from the Bank. With respect to Bank dividends, the 2011 MOU only requires that any dividends from the Bank must be paid in compliance with requirements established by the Bank's regulators. The 2011 MOU will remain in effect until further modified or terminated by the Federal Reserve.

First Community Corporation

We own 100% of the outstanding capital stock of the Bank, and therefore we are considered to be a bank holding company under the federal Bank Holding Company Act of 1956, as amended (the "Bank Holding Company Act"). As a result, we are primarily subject to the supervision, examination and reporting requirements of the Federal Reserve Board under the Bank Holding Company Act and its regulations promulgated there under. Moreover, as a bank holding company of a bank located in South Carolina, we also are subject to the South Carolina Banking and Branching Efficiency Act.

Permitted Activities. Under the Bank Holding Company Act, a bank holding company is generally permitted to engage in, or acquire direct or indirect control of more than 5% of the voting shares of any company engaged in, the following activities:

- banking or managing or controlling banks;
- furnishing services to or performing services for our subsidiaries; and
- any activity that the Federal Reserve Board determines to be so closely related to banking as to be a proper incident to the business of banking.

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Activities that the Federal Reserve Board has found to be so closely related to banking as to be a proper incident to the business of banking include:

- factoring accounts receivable;
- making, acquiring, brokering or servicing loans and usual related activities;
- leasing personal or real property;
- operating a non-bank depository institution, such as a savings association;
- trust company functions;
- financial and investment advisory activities;
- conducting discount securities brokerage activities;
- underwriting and dealing in government obligations and money market instruments;
- providing specified management consulting and counseling activities;
- performing selected data processing services and support services;
- acting as agent or broker in selling credit life insurance and other types of insurance in connection with credit transactions; and
- performing selected insurance underwriting activities.

As a bank holding company, we also can elect to be treated as a "financial holding company," which would allow us to engage in a broader array of activities. In sum, a financial holding company can engage in activities that are financial in nature or incidental or complimentary to financial activities, including insurance underwriting, sales and brokerage activities, providing financial and investment advisory services, underwriting services and limited merchant banking activities. We have not sought financial holding company status, but may elect such status in the future as our business matures. If we were to elect in writing for financial holding company status, each insured depository institution we control would have to be well capitalized, well managed and have at least a satisfactory rating under the Community Reinvestment Act ("CRA") (discussed below).

The Federal Reserve Board has the authority to order a bank holding company or its subsidiaries to terminate any of these activities or to terminate its ownership or control of any subsidiary when it has reasonable cause to believe that the bank holding company's continued ownership, activity or control constitutes a serious risk to the financial safety, soundness or stability of it or any of its bank subsidiaries.

Change in Control. In addition, and subject to certain exceptions, the Bank Holding Company Act and the Change in Bank Control Act, together with regulations promulgated there under, require Federal Reserve approval prior to any person or company acquiring "control" of a bank holding company. Control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities of a bank holding company. Control will be rebuttably presumed to exist if a person acquires more than 33% of the total equity of a bank or bank holding company, of which it may own, control or have the power to vote not more than 15% of any class of voting securities.

Source of Strength. There are a number of obligations and restrictions imposed by law and regulatory policy on bank holding companies with regard to their depository institution subsidiaries that are designed to minimize potential loss to depositors and to the FDIC insurance funds in the event that the depository institution becomes in danger of defaulting under its obligations to repay deposits. Under a policy of the Federal Reserve Board, a bank holding company is required to serve as a source of financial strength to its subsidiary depository institutions and to commit resources to support such institutions in circumstances where it might not do so absent such policy. Under the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), to avoid receivership of its insured depository institution subsidiary, a bank holding company is required to guarantee the compliance of any insured depository institution subsidiary that may become "undercapitalized" within the terms of any capital restoration plan filed by such subsidiary with its appropriate federal banking agency up to the lesser of (i) an amount equal to 5% of the institution's total assets at the time the institution became undercapitalized, or (ii) the amount which is necessary (or would have been necessary) to bring the institution into compliance with all applicable capital standards as of the time the institution fails to comply with such capital restoration plan.

The Federal Reserve Board also has the authority under the Bank Holding Company Act to require a bank holding company to terminate any activity or relinquish control of a nonbank subsidiary (other than a nonbank subsidiary of a bank) upon the Federal Reserve Board's determination that such activity or control constitutes a serious risk to the financial soundness or stability of any subsidiary depository institution of the bank holding company. Further, federal law grants federal bank regulatory authorities additional discretion to require a bank holding company to divest itself of any bank or nonbank subsidiary if the agency determines that divestiture may aid the depository institution's financial condition.

In addition, the "cross guarantee" provisions of the Federal Deposit Insurance Act ("FDIA") require insured depository institutions under common control to reimburse the FDIC for any loss suffered or reasonably anticipated by the FDIC as a result of the default of a commonly controlled insured depository institution or for any assistance provided by the FDIC to a commonly controlled insured depository institution in danger of default. The FDIC's claim for damages is superior to claims of shareholders of the insured depository institution or its holding company, but is subordinate to claims of depositors, secured creditors and holders of subordinated debt (other than affiliates) of the commonly controlled insured depository institutions.

The FDIA also provides that amounts received from the liquidation or other resolution of any insured depository institution by any receiver must be distributed (after payment of secured claims) to pay the deposit liabilities of the institution prior to payment of any other general or unsecured senior liability, subordinated liability, general creditor or shareholder. This provision would give depositors a preference over general and subordinated creditors and shareholders in the event a receiver is appointed to distribute the assets of our Bank.

Any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

Capital Requirements. The Federal Reserve Board imposes certain capital requirements on the bank holding company under the Bank Holding Company Act, including a minimum leverage ratio and a minimum ratio of "qualifying" capital to risk-weighted assets. These requirements are essentially the same as those that apply to the Bank and are described below under "First Community Bank, N.A. Capital Regulations." Subject to our capital requirements and certain other restrictions, we are able to borrow money to make a capital contribution to the Bank, and these loans may be repaid from dividends paid from the Bank to the Company. Our ability to pay dividends depends on, among other things, the Bank's ability to pay dividends to us, which is subject to regulatory restrictions as described below in "First Community Bank, N.A. Dividends." We are also able to raise capital for contribution to the Bank by issuing securities without having to receive regulatory approval, subject to compliance with federal and state securities laws.

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South Carolina State Regulation. As a South Carolina bank holding company under the South Carolina Banking and Branching Efficiency Act, we are subject to limitations on sale or merger and to regulation by the South Carolina Board of Financial Institutions (the "S.C. Board"). We are not required to obtain the approval of the S.C. Board prior to acquiring the capital stock of a national bank, but we must notify them at least 15 days prior to doing so. We must receive the S.C. Board's approval prior to engaging in the acquisition of a South Carolina state chartered bank or another South Carolina bank holding company.

First Community Bank, N.A.

The Bank operates as a national banking association incorporated under the laws of the United States and subject to examination by the OCC. Deposits in the Bank are insured by the FDIC up to a maximum amount of $250,000, pursuant to the provisions of the Dodd-Frank Act signed into law by the U.S. President on July 21, 2010. The FDIC insurance coverage limit applies per depositor, per insured depository institution for each account ownership category. In addition, the FDIC provides unlimited deposit insurance coverage for noninterest-bearing transaction accounts (typically business checking accounts) and certain funds swept into noninterest-bearing savings accounts. In 2010, we participated in the FDIC's Temporary Liquidity Guarantee Program ("TLGP") through December 31, 2010. Participating institutions paid fees of 15 to 25 basis points (annualized), depending on the Risk Category assigned to the institution, on the balance of each covered account in excess of $250 thousand. Coverage under the program was in addition to and separate from the basic coverage available under the FDIC's general deposit insurance rules. As a result of the Dodd-Frank Act, the voluntary Transaction Account Guarantee Program ("TAGP") program ended on December 31, 2010, and all institutions provide full deposit insurance on noninterest-bearing transaction accounts until December 31, 2012.

The OCC and the FDIC regulate or monitor virtually all areas of the Bank's operations, including:

- security devices and procedures;
- adequacy of capitalization and loss reserves;
- loans;
- investments;
- borrowings;
- deposits;
- mergers;
- issuances of securities;
- payment of dividends;
- interest rates payable on deposits;
- interest rates or fees chargeable on loans;

- establishment of branches;
- corporate reorganizations;
- maintenance of books and records; and
- adequacy of staff training to carry on safe lending and deposit gathering practices.

The OCC requires that the Bank maintain specified capital ratios of capital to assets and imposes limitations on the Bank's aggregate investment in real estate, bank premises, and furniture and fixtures.

Two categories of regulatory capital are used in calculating these ratios Tier 1 capital and total capital. Tier 1 capital generally includes common equity, retained earnings, a limited amount of qualifying preferred stock, and qualifying minority interests in consolidated subsidiaries, reduced by goodwill and certain other intangible assets, such as core deposit intangibles, and certain other assets. Total capital generally consists of Tier 1 capital plus Tier 2 capital, which includes the allowance for loan losses, preferred stock that did not qualify as Tier 1 capital, certain types of subordinated debt and a limited amount of other items.

The Bank is required to calculate three ratios: the ratio of Tier 1 capital to risk-weighted assets, the ratio of total capital to risk-weighted assets, and the "leverage ratio," which is the ratio of Tier 1 capital to assets on a non-risk-adjusted basis. For the two ratios of capital to risk-weighted assets, certain assets, such as cash and U.S. Treasury securities, have a zero risk weighting. Others, such as commercial and consumer loans, have a 100% risk weighting. Some assets, notably purchase- money loans secured by first-liens on residential real property, are risk-weighted at 50%. Assets also include amounts that represent the potential funding of off-balance sheet obligations such as loan commitments and letters of credit. These potential assets are assigned to risk categories in the same manner as funded assets. The total assets in each category are multiplied by the appropriate risk weighting to determine risk-adjusted assets for the capital calculations.

The minimum capital ratios for both the Company and the Bank are generally 8% for total capital, 4% for Tier 1 capital and 4% for leverage. To be eligible to be classified as "well capitalized," the Bank must generally maintain a total capital ratio of 10% or more, a Tier 1 capital ratio of 6% or more, and a leverage ratio of 5% or more. Certain implications of the regulatory capital classification system are discussed in greater detail below. In addition to the Formal Agreement discussed above, the OCC has separately established the following individual minimum capital ratios for the Bank: a Tier 1 leverage capital ratio of at least 8.00%, a Tier 1 risk-based capital ratio of at least 10.00%, and a Total risk-based capital ratio of at least 12.00%. As of December 31, 2011, the Bank exceeded each of these ratios and remained "well capitalized."

Prompt Corrective Action. The FDICIA established a "prompt corrective action" program in which every bank is placed in one of five regulatory categories, depending primarily on its regulatory capital levels. The OCC and the other federal banking regulators are permitted to take increasingly severe action as a bank's capital position or financial condition declines below the "Adequately Capitalized" level described below. Regulators are also empowered to place in receivership or require the sale of a bank to another depository institution when a bank's leverage ratio reaches two percent. Better capitalized institutions are generally subject to less onerous regulation and supervision than banks with lesser amounts of capital. The OCC's regulations set forth five capital categories, each with specific regulatory consequences. The categories are:

Well Capitalized The institution exceeds the required minimum level for each relevant capital measure. A well capitalized institution is one (i) having a total capital ratio of 10% or greater, (ii) having a Tier 1 capital ratio of 6% or greater, (iii) having a leverage capital ratio of 5% or greater and (iv) that is not subject to any order or written directive to meet and maintain a specific capital level for any capital measure.

Adequately Capitalized The institution meets the required minimum level for each relevant capital measure. No capital distribution may be made that would result in the institution becoming undercapitalized. An adequately capitalized institution is one (i) having a total capital ratio of 8% or greater, (ii) having a Tier 1 capital ratio of 4% or greater and (iii) having a leverage capital ratio of 4% or greater or a leverage capital ratio of 3% or greater if the institution is rated composite 1 under the CAMELS (Capital, Assets, Management, Earnings, Liquidity and Sensitivity to market risk) rating system.

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Undercapitalized The institution fails to meet the required minimum level for any relevant capital measure. An undercapitalized institution is one (i) having a total capital ratio of less than 8% or (ii) having a Tier 1 capital ratio of less than 4% or (iii) having a leverage capital ratio of less than 4%, or if the institution is rated a composite 1 under the CAMEL rating system, a leverage capital ratio of less than 3%.

Significantly Undercapitalized The institution is significantly below the required minimum level for any relevant capital measure. A significantly undercapitalized institution is one (i) having a total capital ratio of less than 6% or (ii) having a Tier 1 capital ratio of less than 3% or (iii) having a leverage capital ratio of less than 3%.

Critically Undercapitalized The institution fails to meet a critical capital level set by the appropriate federal banking agency. A critically undercapitalized institution is one having a ratio of tangible equity to total assets that is equal to or less than 2%.

If the OCC determines, after notice and an opportunity for hearing, that the bank is in an unsafe or unsound condition, the regulator is authorized to reclassify the bank to the next lower capital category (other than critically undercapitalized) and require the submission of a plan to correct the unsafe or unsound condition.

If a bank is not well capitalized, it cannot accept brokered deposits without prior regulatory approval. In addition, a bank that is not well capitalized cannot offer an effective yield in excess of 75 basis points over interest paid on deposits of comparable size and maturity in such institution's normal market area for deposits accepted from within its normal market area, or national rate paid on deposits of comparable size and maturity for deposits accepted outside the bank's normal market area. Moreover, the OCC generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be categorized as undercapitalized. Undercapitalized institutions are subject to growth limitations (an undercapitalized institution may not acquire another institution, establish additional branch offices or engage in any new line of business unless determined by the appropriate federal banking agency to be consistent with an accepted capital restoration plan, or unless the FDIC determines that the proposed action will further the purpose of prompt corrective action) and are required to submit a capital restoration plan. The agencies may not accept a capital restoration plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution's capital. In addition, for a capital restoration plan to be acceptable, the depository institution's parent holding company must guarantee that the institution will comply with the capital restoration plan. The aggregate liability of the parent holding company is limited to the lesser of an amount equal to 5.0% of the depository institution's total assets at the time it became categorized as undercapitalized or the amount that is necessary (or would have been necessary) to bring the institution into compliance with all capital standards applicable with respect to such institution as of the time it fails to comply with the plan. If a depository institution fails to submit an acceptable plan, it is categorized as significantly undercapitalized.

Significantly undercapitalized categorized depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become categorized as adequately capitalized, requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. The appropriate federal banking agency may take any action authorized for a significantly undercapitalized institution if an undercapitalized institution fails to submit an acceptable capital restoration plan or fails in any material respect to implement a plan accepted by the agency. A critically undercapitalized institution is subject to having a receiver or conservator appointed to manage its affairs and for loss of its charter to conduct banking activities.

An insured depository institution may not pay a management fee to a bank holding company controlling that institution or any other person having control of the institution if, after making the payment, the institution, would be undercapitalized. In addition, an institution cannot make a capital distribution, such as a dividend or other distribution that is in substance a distribution of capital to the owners of the institution if following such a distribution the institution would be undercapitalized. Thus, if payment of such a management fee or the making of such would cause a bank to become undercapitalized, it could not pay a management fee or dividend to the bank holding company.

In addition to the Formal Agreement discussed above, the OCC has separately established the following individual minimum capital ratios for the Bank: a Tier 1 leverage capital ratio of at least 8.00%, a Tier 1 risk-based capital ratio of at least 10.00%, and a Total risk-based capital ratio of at least 12.00%. As of December 31, 2011, the Bank exceeded each of these ratios and remained "well capitalized."

The Basel Committee on Banking Supervision (the "Basel Committee") released in December 2010 revised final frameworks for the regulation of capital and liquidity of internationally active banking organizations. These new frameworks are generally referred to as "Basel III". Basel III, if implemented by the U.S. banking agencies and fully phased-in, would require certain bank holding companies and their bank subsidiaries to maintain a substantially higher minimum capital level, with a greater emphasis on common equity. Although the U.S. banking agencies have not yet published a notice of proposed rulemaking to implement Basel III in the United States, they are likely to do so (at least with respect to the Basel III capital framework) during 2012.

Standards for Safety and Soundness. The Federal Deposit Insurance Act also requires the federal banking regulatory agencies to prescribe, by regulation or guideline, operational and managerial standards for all insured depository institutions relating to: (i) internal controls, information systems and internal audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) interest rate risk exposure; and (v) asset growth. The agencies also must prescribe standards for asset quality, earnings, and stock valuation, as well as standards for compensation, fees and benefits. The federal banking agencies have adopted regulations and Interagency Guidelines Prescribing Standards for Safety and Soundness to implement these required standards. These guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. Under the regulations, if the OCC determines that the Bank fails to meet any standards prescribed by the guidelines, the agency may require the Bank to submit to the agency an acceptable plan to achieve compliance with the standard, as required by the OCC. The final regulations establish deadlines for the submission and review of such safety and soundness compliance plans.

Regulatory Examination. The OCC also requires the Bank to prepare annual reports on the Bank's financial condition and to conduct an annual audit of its financial affairs in compliance with its minimum standards and procedures.

All insured institutions must undergo regular on-site examinations by their appropriate banking agency. The cost of examinations of insured depository institutions and any affiliates may be assessed by the appropriate federal banking agency against each institution or affiliate as it deems necessary or appropriate. Insured institutions are required to submit annual reports to the FDIC, their federal regulatory agency, and state supervisor when applicable. The FDIC has developed a method for insured depository institutions to provide supplemental disclosure of the estimated fair market value of assets and liabilities, to the extent feasible and practicable, in any balance sheet, financial statement, report of condition or any other report of any insured depository institution. The federal banking regulatory agencies prescribe, by regulation, standards for all insured depository institutions and depository institution holding companies relating, among other things, to the following:

- internal controls;
- information systems and audit systems;

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- loan documentation;
- credit underwriting;
- interest rate risk exposure; and
- asset quality.

Transactions with Affiliates and Insiders. The Company is a legal entity separate and distinct from the Bank and its other subsidiaries. Various legal limitations restrict the Bank from lending or otherwise supplying funds to the Company or its non-bank subsidiaries. The Company and the Bank are subject to Sections 23A and 23B of the Federal Reserve Act and Federal Reserve Board Regulation W. Section 23A of the Federal Reserve Act places limits on the amount of loans or extensions of credit to, or investments in, or certain other transactions with, affiliates and on the amount of advances to third parties collateralized by the securities or obligations of affiliates. The aggregate of all covered transactions is limited in amount, as to any one affiliate, to 10% of the Bank's capital and surplus and, as to all affiliates combined, to 20% of the Bank's capital and surplus. Furthermore, within the foregoing limitations as to amount, each covered transaction must meet specified collateral requirements. The Bank is forbidden to purchase low quality assets from an affiliate.

Section 23B of the Federal Reserve Act, among other things, prohibits an institution from engaging in certain transactions with certain affiliates unless the transactions are on terms substantially the same, or at least as favorable to such institution or its subsidiaries, as those prevailing at the time for comparable transactions with nonaffiliated companies.

Regulation W generally excludes all non-bank and non-savings association subsidiaries of banks from treatment as affiliates, except to the extent that the Federal Reserve Board decides to treat these subsidiaries as affiliates. The regulation also limits the amount of loans that can be purchased by a bank from an affiliate to not more than 100% of the bank's capital and surplus.

The Bank is also subject to certain restrictions on extensions of credit to executive officers, directors, certain principal shareholders, and their related interests. Such extensions of credit (i) must be made on substantially the same terms, including interest rates and collateral requirements, as those prevailing at the time for comparable transactions with third parties and (ii) must not involve more than the normal risk of repayment or present other unfavorable features.

Effective as of July 21, 2011, the Dodd-Frank Act expands the definition of affiliate for purposes of quantitative and qualitative limitations of Section 23A of the Federal Reserve Act to include mutual funds advised by a depository institution or its affiliates. The Dodd-Frank Act will apply Section 23A and Section 22(h) of the Federal Reserve Act (governing transactions with insiders) to derivative transactions, repurchase agreements and securities lending and borrowing transaction that create credit exposure to an affiliate or an insider. Any such transactions with affiliates must be fully secured. The current exemption from Section 23A for transactions with financial subsidiaries will be eliminated. The Dodd-Frank Act will additionally prohibit an insured depository institution from purchasing an asset from or selling an asset to an insider unless the transaction is on market terms and, if representing more than 10% of capital, is approved in advance by the disinterested directors.

Dividends. The Company's principal source of cash flow, including cash flow to pay dividends to its shareholders, is dividends it receives from the Bank. Statutory and regulatory limitations apply to the Bank's payment of dividends to the Company. As a national bank, the Bank is prohibited from declaring a dividend on its shares of common stock in any year in excess of an amount equal to the sum of the net income of the Bank for that year and the retained net income of the Bank for the preceding two years, *minus* the sum of any transfers required by the OCC and any transfers required to be made to a fund for the retirement of any preferred stock, unless the OCC approves the declaration

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and payment of dividends in excess of such amount. As a national bank, the Bank also cannot pay dividends from permanent capital without prior OCC approval. In addition, pursuant to the terms of the Formal Agreement, the Bank is currently prohibited from paying dividends to the Company without the prior approval of the OCC. The OCC also has the authority under federal law to enjoin a national bank from engaging in what in its opinion constitutes an unsafe or unsound practice in conducting its business, including the payment of a dividend under certain circumstances.

Pursuant to the terms of the Formal Agreement between the Bank and the OCC, the Bank is currently restricted from paying cash dividends to the Company without the prior approval of the OCC.

Branching. National banks are required by the National Bank Act to adhere to branch office banking laws applicable to state banks in the states in which they are located. Under current South Carolina law, the Bank may open branch offices throughout South Carolina with the prior approval of the OCC. In addition, with prior regulatory approval, the Bank is able to acquire existing banking operations in South Carolina. Furthermore, federal legislation permits interstate branching, including out-of-state acquisitions by bank holding companies, interstate branching by banks, and interstate merging by banks. The Dodd-Frank Act removes previous state law restrictions on de novo interstate branching in states such as South Carolina. This change permits out-of-state banks to open de novo branches in states where the laws of the state where the de novo branch to be opened would permit a bank chartered by that state to open a de novo branch.

Anti-Tying Restrictions. Under amendments to the Bank Holding Company Act and Federal Reserve Board regulations, a bank is prohibited from engaging in certain tying or reciprocity arrangements with its customers. In general, a bank may not extend credit, lease, sell property, or furnish any services or fix or vary the consideration for these on the condition that (i) the customer obtain or provide some additional credit, property, or services from or to the bank, the bank holding company or subsidiaries thereof or (ii) the customer may not obtain some other credit, property, or services from a competitor, except to the extent reasonable conditions are imposed to assure the soundness of the credit extended. Certain arrangements are permissible: a bank may offer combined-balance products and may otherwise offer more favorable terms if a customer obtains two or more traditional bank products; and certain foreign transactions are exempt from the general rule. A bank holding company or any bank affiliate also is subject to anti-tying requirements in connection with electronic benefit transfer services.

Community Reinvestment Act. The CRA requires that the OCC evaluate the record of the Bank in meeting the credit needs of its local community, including low and moderate income neighborhoods. These factors are also considered in evaluating mergers, acquisitions, and applications to open a branch or facility. Failure to adequately meet these criteria could impose additional requirements and limitations on our Bank.

Financial Subsidiaries. Under the Gramm-Leach-Bliley Act (the "GLBA"), subject to certain conditions imposed by their respective banking regulators, national and state-chartered banks are permitted to form "financial subsidiaries" that may conduct financial or incidental activities, thereby permitting bank subsidiaries to engage in certain activities that previously were impermissible. The GLBA imposes several safeguards and restrictions on financial subsidiaries, including that the parent bank's equity investment in the financial subsidiary be deducted from the bank's assets and tangible equity for purposes of calculating the bank's capital adequacy. In addition, the GLBA imposes new restrictions on transactions between a bank and its financial subsidiaries similar to restrictions applicable to transactions between banks and non-bank affiliates.

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Consumer Protection Regulations. Activities of the Bank are subject to a variety of statutes and regulations designed to protect consumers. Interest and other charges collected or contracted for by the Bank are subject to state usury laws and federal laws concerning interest rates. The Bank's loan operations are also subject to federal laws applicable to credit transactions, such as:

- the federal Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- the Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- the Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- the Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies;
- the Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies; and
- the rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

The deposit operations of the Bank also are subject to:

- the Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records; and
- the Electronic Funds Transfer Act and Regulation E issued by the Federal Reserve Board to implement that Act, which governs automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services.

Enforcement Powers. The Bank and its "institution-affiliated parties," including its management, employee's agent's independent contractors and consultants, such as attorneys and accountants, and others who participate in the conduct of the financial institution's affairs, are subject to potential civil and criminal penalties for violations of law, regulations or written orders of a government agency. These practices can include the failure of an institution to timely file required reports or the filing of false or misleading information or the submission of inaccurate reports. Civil penalties may be as high as $1,000,000 a day for such violations. Criminal penalties for some financial institution crimes have been increased to twenty years. In addition, regulators are provided with greater flexibility to commence enforcement actions against institutions and institution-affiliated parties. Possible enforcement actions include the termination of deposit insurance. Furthermore, banking agencies' powers to issue cease-and-desist orders have been expanded. Such orders may, among other things, require affirmative action to correct any harm resulting from a violation or practice, including restitution, reimbursement, indemnifications or guarantees against loss. A financial institution may also be ordered to restrict its growth, dispose of certain assets, rescind agreements or contracts, or take other actions as determined by the ordering agency to be appropriate.

Anti-Money Laundering. Financial institutions must maintain anti-money laundering programs that include established internal policies, procedures, and controls; a designated compliance officer; an ongoing employee training program; and testing of the program by an independent audit function. The Company and the Bank are also prohibited from entering into specified financial transactions and account relationships and must meet enhanced standards for due diligence and "knowing your customer" in their dealings with foreign financial institutions and foreign customers. Financial

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institutions must take reasonable steps to conduct enhanced scrutiny of account relationships to guard against money laundering and to report any suspicious transactions, and recent laws provide law enforcement authorities with increased access to financial information maintained by banks. Anti-money laundering obligations have been substantially strengthened as a result of the USA PATRIOT Act, enacted in 2001 and renewed in 2006. Bank regulators routinely examine institutions for compliance with these obligations and are required to consider compliance in connection with the regulatory review of applications. The regulatory authorities have been active in imposing cease and desist orders and money penalty sanctions against institutions found to be violating these obligations.

USA PATRIOT Act/Bank Secrecy Act. Financial institutions must maintain anti-money laundering programs that include established internal policies, procedures, and controls; a designated compliance officer; an ongoing employee training program; and testing of the program by an independent audit function. The USA PATRIOT Act, amended, in part, the Bank Secrecy Act and provides for the facilitation of information sharing among governmental entities and financial institutions for the purpose of combating terrorism and money laundering by enhancing anti-money laundering and financial transparency laws, as well as enhanced information collection tools and enforcement mechanics for the U.S. government, including: (i) requiring standards for verifying customer identification at account opening; (ii) rules to promote cooperation among financial institutions, regulators, and law enforcement entities in identifying parties that may be involved in terrorism or money laundering; (iii) reports by nonfinancial trades and businesses filed with the U.S. Treasury Department's Financial Crimes Enforcement Network for transactions exceeding $10,000; and (iv) filing suspicious activities reports if a bank believes a customer may be violating U.S. laws and regulations and requires enhanced due diligence requirements for financial institutions that administer, maintain, or manage private bank accounts or correspondent accounts for non-U.S. persons. Bank regulators routinely examine institutions for compliance with these obligations and are required to consider compliance in connection with the regulatory review of applications.

Under the USA PATRIOT Act, the Federal Bureau of Investigation ("FBI") can send to the banking regulatory agencies lists of the names of persons suspected of involvement in terrorist activities. The Bank can be requested, to search its records for any relationships or transactions with persons on those lists. If the Bank finds any relationships or transactions, it must file a suspicious activity report and contact the FBI.

The Office of Foreign Assets Control ("OFAC"), which is a division of the U.S. Department of the Treasury (the "Treasury"), is responsible for helping to insure that United States entities do not engage in transactions with "enemies" of the United States, as defined by various Executive Orders and Acts of Congress. OFAC has sent, and will send, our banking regulatory agencies lists of names of persons and organizations suspected of aiding, harboring or engaging in terrorist acts. If the Bank finds a name on any transaction, account or wire transfer that is on an OFAC list, it must freeze such account, file a suspicious activity report and notify the FBI. The Bank has appointed an OFAC compliance officer to oversee the inspection of its accounts and the filing of any notifications. The Bank actively checks high-risk OFAC areas such as new accounts, wire transfers and customer files. The Bank performs these checks utilizing software, which is updated each time a modification is made to the lists provided by OFAC and other agencies of Specially Designated Nationals and Blocked Persons.

Privacy and Credit Reporting. Financial institutions are required to disclose their policies for collecting and protecting confidential information. Customers generally may prevent financial institutions from sharing nonpublic personal financial information with nonaffiliated third parties except under narrow circumstances, such as the processing of transactions requested by the consumer. Additionally, financial institutions generally may not disclose consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing to consumers. It is the Bank's policy not to disclose any personal information unless required by law. The OCC and the federal banking agencies have prescribed standards for maintaining the security and confidentiality of consumer information. The Bank is subject to such standards, as well as standards for notifying consumers in the event of a security breach.

Like other lending institutions, the Bank utilizes credit bureau data in its underwriting activities. Use of such data is regulated under the Federal Credit Reporting Act on a uniform, nationwide basis, including credit reporting, prescreening, sharing of information between affiliates, and the use of credit data. The Fair and Accurate Credit Transactions Act of 2003 (the "FACT Act") permits states to enact identity theft laws that are not inconsistent with the conduct required by the provisions of the FACT Act.

Check 21. The Check Clearing for the 21st Century Act gives "substitute checks," such as a digital image of a check and copies made from that image, the same legal standing as the original paper check. Some of the major provisions include:

- allowing check truncation without making it mandatory;
- demanding that every financial institution communicate to accountholders in writing a description of its substitute check processing program and their rights under the law;
- legalizing substitutions for and replacements of paper checks without agreement from consumers;
- retaining in place the previously mandated electronic collection and return of checks between financial institutions only when individual agreements are in place;
- requiring that when accountholders request verification, financial institutions produce the original check (or a copy that accurately represents the original) and demonstrate that the account debit was accurate and valid; and
- requiring the re-crediting of funds to an individual's account on the next business day after a consumer proves that the financial institution has erred.

Effect of Governmental Monetary Policies. Our earnings are affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The Federal Reserve Board's monetary policies have had, and are likely to continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The monetary policies of the Federal Reserve Board have major effects upon the levels of bank loans, investments and deposits through its open market operations in United States government securities and through its regulation of the discount rate on borrowings of member banks and the reserve requirements against member bank deposits. It is not possible to predict the nature or impact of future changes in monetary and fiscal policies.

Insurance of Accounts and Regulation by the FDIC. The deposits at our Bank are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. The Deposit Insurance Fund is the successor to the Bank Insurance Fund and the Savings Association Insurance Fund, which were merged effective March 31, 2006. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the insurance fund. The FDIC also has the authority to initiate enforcement actions against savings institutions, after giving the OCC an opportunity to take such action, and may terminate the deposit insurance if it determines that the institution has engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

Under regulations effective January 1, 2007, the FDIC adopted a new risk-based premium system that provides for quarterly assessments based on an insured institution's ranking in one of four risk categories based upon supervisory and capital evaluations. For deposits held as of March 31, 2009, institutions are assessed at annual rates ranging from 12 to 50 basis points, depending on each institution's risk of default as measured by regulatory capital ratios and other supervisory measures. Effective April 1, 2009, assessments also took into account each institution's reliance on secured liabilities and brokered deposits. This resulted in assessments ranging from 7 to 77.5 basis points. In May 2009, the FDIC issued a final rule which levied a special assessment applicable to all insured depository institutions totaling 5 basis points of each institution's total assets less Tier 1 capital as of June 30, 2009, not to exceed 10 basis points of domestic deposits. This special assessment was part of the FDIC's efforts to rebuild the Deposit Insurance Fund. We paid this one-time special assessment in the amount of $300 thousand to the FDIC at the end of the third quarter 2009.

In November 2009, the FDIC issued a rule that required all insured depository institutions, with limited exceptions, to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. The FDIC also adopted a uniform three-basis point increase in assessment rates effective on January 1, 2011. In December 2009, we paid $2.9 million in prepaid risk-based assessments, which included $184 thousand related to the fourth quarter of 2009 that would have been otherwise payable in the first quarter of 2010. This amount is included in deposit insurance expense for 2009. As a result, we incurred increased insurance costs during 2009 and 2010 than in previous periods. There is $920 thousand in prepaid deposit insurance included in other assets in the accompanying balance sheet as of December 31, 2011.

In February 2011, the FDIC approved two rules that amended the deposit insurance assessment regulations. The first rule changed the assessment base from one based on domestic deposits to one based on assets. The assessment base changed from adjusted domestic deposits to average consolidated total assets minus average tangible equity. The second rule changed the deposit insurance assessment system for large institutions in conjunction with the guidance given in the Dodd-Frank Act. Since the new base would be much larger than the current base, the FDIC lowered assessment rates which achieved the FDIC's goal of not significantly altering the total amount of revenue collected from the industry. Risk categories and debt ratings were eliminated from the assessment calculation for large banks which now use scorecards. The scorecards will include financial measures that are predictive of long-term performance. A large financial institution is defined as an insured depository institution with at least $10 billion in assets. Both changes in the assessment system became effective as of April 1, 2011.

FDIC insured institutions are required to pay a Financing Corporation assessment to fund the interest on bonds issued to resolve thrift failures in the 1980s. The Financing Corporation quarterly assessment for the fourth quarter of 2011 equaled 6.8 basis points for each $100 in domestic deposits at our institution. These assessments, which may be revised based upon the level of deposits, will continue until the bonds mature in the years 2017 through 2019.

The FDIC may terminate the deposit insurance of any insured depository institution, including the bank, if it determines after a hearing that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or the OCC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. Management of the bank is not aware of any practice, condition or violation that might lead to termination of the bank's deposit insurance.

Incentive Compensation. In June 2010, the Federal Reserve Board, the FDIC and the OCC issued a comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors.

The Federal Reserve will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Company, that are not "large, complex banking organizations." These reviews will be tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

Recent Legislative and Regulatory Initiatives to Address Financial and Economic Crises. The Congress, Treasury and the federal banking regulators, including the FDIC, have taken broad action since early September 2008 to address volatility in the U.S. banking system.

In October 2008, the Emergency Economic Stabilization Act of 2008 ("EESA") was enacted. The EESA authorized Treasury to purchase from financial institutions and their holding companies up to $700 billion in mortgage loans, mortgage-related securities and certain other financial instruments, including debt and equity securities issued by financial institutions and their holding companies in a troubled asset relief program ("TARP"). The Treasury also allocated $250 billion towards the TARP Capital Purchase Program ("CPP"), pursuant to which Treasury purchased debt or equity securities from participating institutions. Participants in the CPP are subject to executive compensation limits and are encouraged to expand their lending and mortgage loan modifications. The EESA also temporarily increased FDIC deposit insurance on most accounts from $100,000 to $250,000.

On November 21, 2008, as part of the CPP, the Company entered into a Letter Agreement and Securities Purchase Agreement (collectively, the "CPP Purchase Agreement") with the Treasury, pursuant to which the Company sold (i) 11,350 shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series T (the "Series T Preferred Stock") and (ii) a warrant (the "CPP Warrant") to purchase 195,915 shares of the Company's common stock for an aggregate purchase price of $11,350,000 in cash. The Series T Preferred Stock qualifies as Tier 1 capital and is entitled to cumulative dividends at a rate of 5% per annum for the first five years, and 9% per annum thereafter. The Company must consult with the OCC before it may redeem the Series T Preferred Stock but, contrary to the original restrictions in the EESA, will not necessarily be required to raise additional equity capital in order to redeem this stock. The CPP Warrant has a 10-year term and is immediately exercisable upon its issuance, with an exercise price, subject to anti-dilution adjustments, equal to $8.69 per share of the common stock. Please see the Form 8-K we filed with the SEC on November 25, 2008, for additional information about the Series T Preferred Stock and the CPP Warrant.

On February 17, 2009, the American Recovery and Reinvestment Act (the "Recovery Act") was signed into law in an effort to, among other things, create jobs and stimulate growth in the United States economy. The Recovery Act specifies appropriations of approximately $787 billion for a wide range of Federal programs and will increase or extend certain benefits payable under the Medicaid, unemployment compensation, and nutrition assistance programs. The Recovery Act also reduces

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individual and corporate income tax collections and makes a variety of other changes to tax laws. The Recovery Act also imposes certain limitations on compensation paid by participants in TARP.

The EESA and the Recovery Act have been followed by numerous actions by the Federal Reserve Board, Congress, U.S. Treasury, the SEC and others to address the liquidity and credit crisis that followed the recession that commenced in 2007. These measures include homeowner relief that encourages loan restructuring and modification; the establishment of significant liquidity and credit facilities for financial institutions and banks; the lowering of the federal funds rate; action against short-term selling practices, the temporary guaranty program for money market funds; the establishment of a commercial paper funding facility to provide back-stop liquidity to commercial paper issuers; and coordinated international efforts to address illiquidity and other weaknesses in the banking sector.

On July 21, 2010, the U.S. President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"). The Dodd-Frank Act is intended to effect a fundamental restructuring of federal banking regulation. Among other things, the Dodd-Frank Act creates a new Financial Stability Oversight Council to identify systemic risks in the financial system and gives federal regulators new authority to take control of and liquidate financial firms. The Dodd-Frank Act also creates a new independent federal regulator to administer federal consumer protection laws. Many of the provisions of the Dodd-Frank Act have delayed effective dates and the legislation requires various federal agencies to promulgate numerous and extensive implementing regulations over the next several years. Although the substance and scope of these regulations cannot be completely determined at this time, it is expected that the legislation and implementing regulations will increase our operating and compliance costs. The following discussion summarizes certain significant aspects of the Dodd-Frank Act:

The Dodd-Frank Act requires the Federal Reserve Board to apply consolidated capital requirements to depository institution holding companies that are no less stringent than those currently applied to depository institutions. Under these standards, trust preferred securities will be excluded from Tier 1 capital unless such securities were issued prior to May 19, 2010 by a bank holding company with less than $15 billion in assets. The Dodd-Frank Act additionally requires capital requirements to be countercyclical so that the required amount of capital increases in times of economic expansion and decreases in times of economic contraction, consistent with safety and soundness.

The Dodd-Frank Act permanently increases the maximum deposit insurance amount for financial institutions to $250,000 per depositor, and extends unlimited deposit insurance to noninterest bearing transaction accounts through December 31, 2012. The Dodd-Frank Act also broadens the base for FDIC insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act requires the FDIC to increase the reserve ratio of the Deposit Insurance Fund from 1.15% to 1.35% of insured deposits by 2020 and eliminates the requirement that the FDIC pay dividends to insured depository institutions when the reserve ratio exceeds certain thresholds. Effective as of July 21, 2011, the Dodd-Frank Act eliminated the federal statutory prohibition against the payment of interest on business checking accounts.

The Dodd-Frank Act requires publicly traded companies to give stockholders a non-binding vote on executive compensation at their first annual meeting taking place six months after the date of enactment and at least every three years thereafter and on so-called "golden parachute" payments in connection with approvals of mergers and acquisitions unless previously voted on by shareholders. The new legislation also authorizes the SEC to promulgate rules that would allow shareholders to nominate their own candidates using a company's proxy materials. Additionally, the Dodd-Frank Act directs the federal banking regulators to promulgate rules prohibiting excessive compensation paid to executives of depository institutions and their holding companies with assets in excess of $1.0 billion, regardless of

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whether the institution is publicly traded or not. The Dodd-Frank Act gives the SEC authority to prohibit broker discretionary voting on elections of directors and executive compensation matters.

Effective as of July 21, 2011, the Dodd-Frank Act prohibits a depository institution from converting from a state to federal charter or vice versa while it is the subject of a cease and desist order or other formal enforcement action or a memorandum of understanding with respect to a significant supervisory matter unless the appropriate federal banking agency gives notice of the conversion to the federal or state authority that issued the enforcement action and that agency does not object within 30 days. The notice must include a plan to address the significant supervisory matter. The converting institution must also file a copy of the conversion application with its current federal regulator which must notify the resulting federal regulator of any ongoing supervisory or investigative proceedings that are likely to result in an enforcement action and provide access to all supervisory and investigative information relating hereto.

The Dodd-Frank Act authorizes national and state banks to establish branches in other states to the same extent as a bank chartered by that state would be permitted to branch. Previously, banks could only establish branches in other states if the host state expressly permitted out-of-state banks to establish branches in that state. Accordingly, banks will be able to enter new markets more freely.

Effective as of July 21, 2011, the Dodd-Frank Act expands the definition of affiliate for purposes of quantitative and qualitative limitations of Section 23A of the Federal Reserve Act to include mutual funds advised by a depository institution or its affiliates. The Dodd-Frank Act will apply Section 23A and Section 22(h) of the Federal Reserve Act (governing transactions with insiders) to derivative transactions, repurchase agreements and securities lending and borrowing transaction that create credit exposure to an affiliate or an insider. Any such transactions with affiliates must be fully secured. The current exemption from Section 23A for transactions with financial subsidiaries will be eliminated. The Dodd-Frank Act will additionally prohibit an insured depository institution from purchasing an asset from or selling an asset to an insider unless the transaction is on market terms and, if representing more than 10% of capital, is approved in advance by the disinterested directors.

The Dodd-Frank Act requires that the amount of any interchange fee charged by a debit card issuer with respect to a debit card transaction must be reasonable and proportional to the cost incurred by the issuer. Effective on October 1, 2011, the Federal Reserve Board set new caps on interchange fees at $0.21 per transaction, plus an additional five basis-point charge per transaction to help cover fraud losses. An additional $0.01 per transaction is allowed if certain fraud-monitoring controls are in place. While the restrictions on interchange fees do not apply to banks that, together with their affiliates, have assets of less than $10 billion, such as the company, the new restrictions could negatively impact bank card services income for smaller banks if the reductions that are required of larger banks cause industry-wide reduction of swipe fees.

The Dodd-Frank Act creates a new, independent federal agency called the Consumer Financial Protection Bureau ("CFPB"), which is granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Fair Debt Collection Act, the Consumer Financial Privacy provisions of the Gramm-Leach-Bliley Act and certain other statutes. The CFPB will have examination and primary enforcement authority with respect to depository institutions with $10 billion or more in assets. Depository institutions with less than $10 billion in assets, such as our bank, will be subject to rules promulgated by the CFPB but will continue to be examined and supervised by federal banking regulators for consumer compliance purposes. The CFPB will have authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products. The Dodd-Frank Act authorizes the CFPB to establish certain minimum standards for the origination of residential mortgages including a determination of the borrower's ability to repay. In addition, the Dodd-Frank Act will allow borrowers to raise certain

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defenses to foreclosure if they receive any loan other than a "qualified mortgage" as defined by the CFPB. The Dodd-Frank Act permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal laws and regulations.

The Basel Committee released in December 2010 revised final frameworks for the regulation of capital and liquidity of internationally active banking organizations. These new frameworks are generally referred to as "Basel III". Although Basel III is intended to be implemented by participating countries for large, internationally active banks, its provisions are likely to be considered by U.S. banking regulators in developing new regulations applicable to other banks in the United States, including those developed pursuant to directives in the Dodd-Frank Act. Although the U.S. banking agencies have not yet published a notice of proposed rulemaking to implement Basel III in the United States, they are likely to do so (at least with respect to the Basel III capital framework) during 2012.

On September 21, 2011, the Federal Open Market Committee ("FOMC") announced that, in order to support a stronger economic recovery and to help ensure that inflation, over time, is at levels consistent with its statutory mandate, it had decided to extend the average maturity of its holdings of securities. In addition, the FOMC announced that it intended to purchase, by the end of June 2012, $400 billion of Treasury securities with remaining maturities of three years or less in order to put downward pressure on longer-term interest rates and help make broader financial conditions more accommodative. Further, to help support conditions in mortgage markets, the FOMC intends to now reinvest in agency mortgage-backed securities the principal payments from its holdings of agency debt and agency mortgage-backed securities.

Although it is likely that further regulatory actions will arise as the federal government attempts to address the economic situation, we cannot predict the effect that fiscal or monetary policies, economic control, or new federal or state legislation may have on our business and earnings in the future.

Proposed Legislation and Regulatory Action. From time to time, various legislative and regulatory initiatives are introduced in Congress and state legislatures, as well as by regulatory agencies. Such initiatives may include proposals to expand or contract the powers of bank holding companies and depository institutions or proposals to substantially change the financial institution regulatory system. Such legislation could change banking statutes and the operating environment of the Company in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. We cannot predict whether any such legislation will be enacted, and, if enacted, the effect that it, or any implementing regulations, would have on the financial condition or results of operations of the Company. A change in statutes, regulations or regulatory policies applicable to the Company or the Bank could have a material effect on the business of the Company.

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Item 1A. Risk Factors.

Our business, financial condition, and results of operations could be harmed by any of the following risks, or other risks that have not been identified or which we believe are immaterial or unlikely. Shareholders should carefully consider the risks described below in conjunction with the other information in this Form 10-K and the information incorporated by reference in this Form 10-K, including our consolidated financial statements and related notes.

The Bank is subject to a Formal Agreement that requires us to take certain actions and the Company is subject to an MOU.

On April 6, 2010, the Bank entered into the Formal Agreement with the OCC, its primary regulator. The Formal Agreement was based on the findings of the OCC during a 2009 on-site examination of the Bank. As reflected in the Formal Agreement, the OCC's primary concern with the Bank is driven by the rating agencies downgrades of non-agency MBSs in its investment portfolio. These securities, purchased in 2004 through 2008, were all rated AAA by the rating agencies at the time of purchase; however, they have been impacted by the economic recession and the stress on the residential housing sector and have since been downgraded, many to below investment grade. The Board of Directors appointed a compliance committee made up of directors to monitor and report on compliance with the terms of the Formal Agreement. We believe that we are in compliance with the Formal Agreement, and we have received no supervisory objections to any of the articles in the Formal Agreement. Nevertheless, the determination of the Bank's compliance will be made by the OCC, and if the OCC determines that we have failed to meet the requirements of the Formal Agreement, such failure could result in additional regulatory requirements, which could result in regulators taking additional enforcement actions against the Bank.

In addition, the 2011 MOU provides that if the Bank or the Company (on a consolidated basis) were to become less than adequately capitalized then the Company would not make payments on subordinated debt not related to trust preferred securities without Federal Reserve approval. The Bank and the Company are currently considered "well capitalized." To be considered adequately capitalized, the OCC and Federal Reserve Board minimum regulatory capital guidelines for Tier 1 risk-based capital, total risk-based capital and Tier 1 leverage ratios are 4.0%, 8.0% and 4.0%, respectively. As of December 31, 2011, the Bank's risk-based capital ratios of Tier 1 capital, total capital and leverage were 15.12%, 16.38% and 9.27%, respectively, and the Company's risk-based capital ratios of Tier 1 capital, total capital, leverage ratio were 15.33%, 17.25% and 9.40%, respectively.

As in the 2010 MOU, the 2011 MOU includes, among other things, a requirement that the Company obtain the prior written approval of the Federal Reserve before appointing any new director or senior executive officer or changing the position of any senior executive officer; directly or indirectly, incurring, increasing or guaranteeing any debt; and directly or indirectly, purchasing or redeeming any shares of its stock. The 2011 MOU eliminates the requirement contained in the 2010 MOU that the Company obtain written approval from the Federal Reserve prior to taking dividends from the Bank. With respect to Bank dividends, the 2011 MOU only requires that any dividends from the Bank must be paid in compliance with requirements established by the Bank's regulators. The 2011 MOU will remain in effect until further modified or terminated by the Federal Reserve.

Changes in the financial markets could impair the value of our investment portfolio.

The investment securities portfolio is a significant component of our total earning assets. Total investment securities averaged $205.7 million in 2011, as compared to $194.4 million in 2010. This represents 37.4% and 31.9% of the average earning assets for the year ended December 31, 2011 and 2010, respectively. At December 31, 2011, the portfolio was 33.4% of earning assets. Turmoil in the financial markets could impair the market value of our investment portfolio, which could adversely affect our net income and possibly our capital.

Since the last half of 2007, the bond markets and many institutional holders of bonds have been under a great deal of stress partially as a result of the ongoing recessionary economic conditions. At December 31, 2011, we had MBSs, including collateralized mortgage obligations ("CMOs"), with a fair value of $141.6 million. Of these, approximately $126.9 million were issued by government sponsored enterprises ("GSEs") and $14.7 million by private label issuers. The market for CMOs of private label MBSs has become less liquid and the spread as compared to alternative investments has widened dramatically. To a lesser extent, MBSs issued by GSEs such as Freddie Mac and the Federal National Mortgage Association ("FNMA" or "Fannie Mae") have been impacted and the spreads have increased on these investments. These entities have also experienced increasing delinquencies in the underlying loans that make up the MBSs and CMOs. In 2008 and 2009, the private label MBSs and CMOs we own incurred rating agency downgrades, many to below investment grade. At December 31, 2011, 12 of our private label MBSs and CMOs with a carrying value of $13.3 million have been downgraded below investment grade.

Delinquencies on the underlying mortgages on all mortgage securities increased dramatically throughout 2008, 2009, and 2010 and continued to remain at high levels at December 31, 2011. We monitor these investments on a monthly basis. Increasing delinquencies and defaults in the underlying mortgages have resulted in recognizing OTTI during 2009, 2010 and 2011(see Note 5 to the financial statements). In evaluating these securities for OTTI, we use assumptions relative to continued defaults rates, loss severities on the underlying collateral and prepayment speeds. Differences in actual experience and the assumptions used could result in a loss of earnings as a result of further OTTI charges, all of which could have a material adverse effect on our financial condition and results of operations.

Our other investments include municipal and corporate debt securities. As of December 31, 2011, we had municipal securities with an approximate fair value of $20.5 million and corporate debt and other securities with an approximate fair value of $1.4 million. At December 31, 2011 all of the municipal and corporate debt securities were rated investment grade. There is a risk that deterioration in the underlying issuer's financial condition or the underlying collateral could result in OTTI charges in future periods.

On September 7, 2008, the Treasury, the Federal Reserve Board and the Federal Housing Finance Agency ("FHFA") announced that FHFA was placing the FHLMC under conservatorship. Due to these actions, we took an OTTI charge of $8.1 million in the third quarter of 2008 relating to the Freddie Mac preferred stock that we held. This charge, along with our second quarter of 2008 charge of $6.1 million related to our investment in preferred stock issued by Freddie Mac, eliminated any further direct material exposure in our investment portfolio to Freddie Mac equity securities.

As of December 31, 2011 and 2010, our securities, all of which are classified as "Available for Sale", which have unrealized losses were not considered to be "other than temporary," and we believe it is more likely than not we will be able to hold these until they mature or recover our current book value. We currently maintain substantial liquidity which supports our intent and ability to hold these investments until they mature, or until there is a market price recovery. However, if we were to cease to have the ability and intent to hold these investments until maturity or the market prices do not recover, and we were to sell these securities at a loss, it could adversely affect our net income and possibly our capital.

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Negative developments in the financial industry and the domestic and international credit markets may adversely affect our operations and results.

Negative developments in the global credit and securitization markets have resulted in uncertainty in the financial markets in general with the expectation of continuing uncertainty into 2012. As a result, commercial as well as consumer loan portfolio performances deteriorated at institutions and the competition for deposits and quality loans has increased significantly. In addition, the values of real estate collateral supporting many commercial loans and home mortgages have declined and may continue to decline. Global securities markets and bank holding company stock prices in particular, have been negatively affected, as has in general the ability of banks and bank holding companies to raise capital or borrow in the debt markets. As a result, bank regulatory agencies have been active in responding to concerns and trends identified in examinations, including by issuing a historically high number of formal enforcement orders over the past three years. In addition, significant new federal laws and regulations relating to financial institutions have been adopted, including, without limitation, the EESA, the Recovery Act, and the Dodd-Frank Act. Furthermore, the potential exists for additional federal or state laws and regulations, and bank regulatory agencies are expected to be active in responding to concerns and trends identified in examinations by issuing formal enforcement orders. Negative developments in the financial industry and the domestic and international credit markets, and the impact of new legislation and bank examination practices in response to those developments, may negatively impact our operations by restricting our business operations, including our ability to originate or sell loans, and adversely impact our financial performance. We can provide no assurance regarding the manner in which any new laws and regulations will affect us.

There can be no assurance that recently enacted legislation will help stabilize the U.S. financial system.

In response to the challenges facing the financial services sector, a number of regulatory and legislative actions have been enacted or announced. There can be no assurance that these government actions will achieve their purpose. The failure of the financial markets to stabilize, or a continuation or worsening of the current financial market conditions, could have a material adverse affect on our business, our financial condition, the financial condition of our customers, our common stock trading price, as well as our ability to access credit. It could also result in declines in our investment portfolio which could be "other-than-temporary impairments."

Our focus on lending to small to mid-sized community-based businesses may increase our credit risk.

Most of our commercial business and commercial real estate loans are made to small business or middle market customers. These businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities and have a heightened vulnerability to economic conditions. If general economic conditions in the markets in which we operate negatively impact this important customer sector, our results of operations and financial condition and the value of our common stock may be adversely affected. Moreover, a portion of these loans have been made by us in recent years and the borrowers may not have experienced a complete business or economic cycle. Furthermore, the deterioration of our borrowers' businesses may hinder their ability to repay their loans with us, which could have a material adverse effect on our financial condition and results of operations.

Our decisions regarding credit risk and reserves for loan losses may materially and adversely affect our business.

Making loans and other extensions of credit is an essential element of our business. Although we seek to mitigate risks inherent in lending by adhering to specific underwriting practices, our loans and

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other extensions of credit may not be repaid. The risk of nonpayment is affected by a number of factors, including:

- the duration of the credit;
- credit risks of a particular customer;
- changes in economic and industry conditions; and
- in the case of a collateralized loan, risks resulting from uncertainties about the future value of the collateral.

We attempt to maintain an appropriate allowance for loan losses to provide for potential losses in our loan portfolio. We periodically determine the amount of the allowance based on consideration of several factors, including:

- an ongoing review of the quality, mix, and size of our overall loan portfolio;
- our historical loan loss experience;
- evaluation of economic conditions;
- regular reviews of loan delinquencies and loan portfolio quality; and
- the amount and quality of collateral, including guarantees, securing the loans.

There is no precise method of predicting credit losses; therefore, we face the risk that charge-offs in future periods will exceed our allowance for loan losses and that additional increases in the allowance for loan losses will be required. Additions to the allowance for loan losses would result in a decrease of our net income, and possibly our capital.

Federal and state regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs, based on judgments different than those of our management. Any increase in the amount of our provision or loans charged-off as required by these regulatory agencies could have a negative effect on our operating results.

We may have higher loan losses than we have allowed for in our allowance for loan losses.

Our actual loan losses could exceed our allowance for loan losses. Our average loan size continues to increase and reliance on our historic allowance for loan losses may not be adequate. As of December 31, 2011, approximately 77.9% of our loan portfolio is composed of construction (3.6%), commercial mortgage (67.9%) and commercial loans (6.4%). Repayment of such loans is generally considered more subject to market risk than residential mortgage loans. Industry experience shows that a portion of loans will become delinquent and a portion of loans will require partial or entire charge-off. Regardless of the underwriting criteria utilized, losses may be experienced as a result of various factors beyond our control, including among other things, changes in market conditions affecting the value of loan collateral and problems affecting the credit of our borrowers.

Economic challenges, especially those affecting Lexington, Richland, Newberry, and Kershaw Counties and the surrounding areas, may reduce our customer base, our level of deposits, and demand for financial products such as loans.

Our success significantly depends upon the growth in population, income levels, deposits, and housing starts in our markets of Lexington, Richland, Newberry, and Kershaw Counties and the surrounding area. The current economic downturn has negatively affected the markets in which we operate and, in turn, the size and quality of our loan portfolio. If the communities in which we operate do not grow or if prevailing economic conditions locally or nationally remain unfavorable, our business may not succeed. A continuation of the economic downturn or prolonged recession would likely result in reductions in the size of our loan portfolio and the continued deterioration of the quality of our loan portfolio and could reduce our level of deposits, which in turn would hurt our business. Interest received on loans represented approximately 74.9% of our interest income for the year ended December 31, 2011. If the economic downturn continues or a prolonged economic recession occurs in the economy as a whole, there may be less demand for new loans and borrowers will be less likely to repay their loans as scheduled. Moreover, in many cases the value of real estate or other collateral that secures our loans has been adversely affected by the economic conditions and could continue to be negatively affected. Unlike many larger institutions, we are not able to spread the risks of unfavorable local economic conditions across a large number of diversified economies. A continued economic downturn could, therefore, result in losses that materially and adversely affect our business.

We face strong competition for customers, which could prevent us from obtaining customers and may cause us to pay higher interest rates to attract customers.

The banking business is highly competitive, and we experience competition in our market from many other financial institutions. We compete with commercial banks, credit unions, savings and loan associations, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market funds, and other mutual funds, as well as other super-regional, national, and international financial institutions that operate offices in our primary market areas and elsewhere. We compete with these institutions both in attracting deposits and in making loans. In addition, we have to attract our customer base from other existing financial institutions and from new residents. Many of our competitors are well-established, larger financial institutions. These institutions offer some services, such as extensive and established branch networks, that we do not provide. There is a risk that we will not be able to compete successfully with other financial institutions in our market, and that we may have to pay higher interest rates to attract deposits, resulting in reduced profitability. In addition, competitors that are not depository institutions are generally not subject to the extensive regulations that apply to us.

Higher FDIC deposit insurance premiums and assessments could adversely impact our financial condition.

Our deposits are insured up to applicable limits by the Deposit Insurance Fund of the FDIC and are subject to deposit insurance assessments to maintain deposit insurance. As an FDIC-insured institution, we are required to pay quarterly deposit insurance premium assessments to the FDIC. Although we cannot predict what the insurance assessment rates will be in the future, either a deterioration in our risk-based capital ratios or adjustments to the base assessment rates could have a material adverse impact on our business, financial condition, results of operations, and cash flows.

We have a concentration of credit exposure in commercial real estate and challenges faced by the commercial real estate market could adversely affect our business, financial condition, and results of operations.

As of December 31, 2011, we had approximately $229.4 million in loans outstanding to borrowers whereby the collateral securing the loan was commercial real estate, representing approximately 70.7% of our total loans outstanding as of that date. Approximately 29.1%, or $67.0 million, of this real estate are owner-occupied properties. Commercial real estate loans are generally viewed as having more risk of default than residential real estate loans. They are also typically larger than residential real estate loans and consumer loans and depend on cash flows from the owner's business or the property to service the debt. Cash flows may be affected significantly by general economic conditions, and a downturn in the local economy or in occupancy rates in the local economy where the property is located could increase the likelihood of default. Because our loan portfolio contains a number of commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans could cause a significant increase in our level of non-performing loans. An increase in non-performing loans could result in a loss of earnings from these loans, an increase in the related

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provision for loan losses and an increase in charge-offs, all of which could have a material adverse effect on our financial condition and results of operations.

Our commercial real estate loans have grown 0.91%, or $2.0 million, since December 31, 2010. The banking regulators are giving commercial real estate lending greater scrutiny, and may require banks with higher levels of commercial real estate loans to implement more stringent underwriting, internal controls, risk management policies and portfolio stress testing, as well as possibly higher levels of allowances for losses and capital levels as a result of commercial real estate lending growth and exposures.

A significant portion of our loan portfolio is secured by real estate, and events that negatively impact the real estate market could hurt our business.

A significant portion of our loan portfolio is secured by real estate. As of December 31, 2011, approximately 92.0% of our loans (excluding loans held for sale) had real estate as a primary or secondary component of collateral. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. A continued weakening of the real estate market in our primary market area could result in an increase in the number of borrowers who default on their loans and a reduction in the value of the collateral securing their loans, which in turn could have an adverse effect on our profitability and asset quality. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, our earnings and capital could be adversely affected. Acts of nature, including hurricanes, tornados, earthquakes, fires and floods, which could be exacerbated by potential climate change and may cause uninsured damage and other loss of value to real estate that secures these loans, may also negatively impact our financial condition.

Changes in prevailing interest rates may reduce our profitability.

Our results of operations depend in large part upon the level of our net interest income, which is the difference between interest income from interest- earning assets, such as loans and MBSs, and interest expense on interest-bearing liabilities, such as deposits and other borrowings. Depending on the terms and maturities of our assets and liabilities, we believe it is more likely than not a significant change in interest rates could have a material adverse effect on our profitability. Many factors cause changes in interest rates, including governmental monetary policies and domestic and international economic and political conditions. While we intend to manage the effects of changes in interest rates by adjusting the terms, maturities, and pricing of our assets and liabilities, our efforts may not be effective and our financial condition and results of operations could suffer.

We are dependent on key individuals, and the loss of one or more of these key individuals could curtail our growth and adversely affect our prospects.

Michael C. Crapps, our president and chief executive officer, has extensive and long-standing ties within our primary market area and substantial experience with our operations, and he has contributed significantly to our business. If we lose the services of Mr. Crapps, he would be difficult to replace and our business and development could be materially and adversely affected.

Our success also depends, in part, on our continued ability to attract and retain experienced loan originators, as well as other management personnel. Competition for personnel is intense, and we may not be successful in attracting or retaining qualified personnel. Our failure to compete for these personnel, or the loss of the services of several of such key personnel, could adversely affect our business strategy and seriously harm our business, results of operations, and financial condition.

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Because of our participation in the Treasury's CPP, we are subject to several restrictions including restrictions on compensation paid to our executives.

Pursuant to the terms of the CPP Purchase Agreement between us and the Treasury, we adopted certain standards for executive compensation and corporate governance for the period during which the Treasury holds the equity issued pursuant to the CPP Purchase Agreement, including the common stock which may be issued pursuant to the CPP Warrant. These standards generally apply to our Chief Executive Officer, Chief Financial Officer and the three next most highly compensated senior executive officers. The standards include (1) ensuring that incentive compensation for senior executives does not encourage unnecessary and excessive risks that threaten the value of the financial institution; (2) required clawback of any bonus or incentive compensation paid to a senior executive based on statements of earnings, gains or other criteria that are later proven to be materially inaccurate; (3) prohibition on making golden parachute payments to senior executives; and (4) agreement not to deduct for tax purposes executive compensation in excess of $500,000 for each senior executive. In particular, the change to the deductibility limit on executive compensation will likely increase the overall cost of our compensation programs in future periods and may make it more difficult to attract suitable candidates to serve as executive officers.

The Recovery Act has imposed additional and broader compensation restrictions on CPP participants, which restrictions have been implemented by additional regulations, requiring significant time, effort, and resources on our part to ensure compliance. The evolving regulations regarding compensation may restrict our ability to compete successfully for executive and management talent.

We are subject to extensive regulation that could restrict our activities and impose financial requirements or limitations on the conduct of our business and limit our ability to receive dividends from our Bank.

We are subject to Federal Reserve Board regulation. Our bank is subject to extensive regulation, supervision, and examination by our primary federal regulators, the OCC, and the FDIC, the regulating authority that insures customer deposits. Also, as a member of the Federal Home Loan Bank of Atlanta (the "FHLB"), our Bank must comply with applicable regulations of the Federal Housing Finance Board and the FHLB. Regulation by these agencies is intended primarily for the protection of our depositors and the deposit insurance fund and not for the benefit of our shareholders. Our Bank's activities are also regulated under consumer protection laws applicable to our lending, deposit, and other activities. A sufficient claim against our Bank under these laws could have a material adverse effect on our results of operations.

We are exposed to further changes in the regulation of financial services companies.

Proposals for further regulation of the financial services industry are continually being introduced in the Congress of the United States of America and the General Assembly of the State of South Carolina. The agencies regulating the financial services industry also periodically adopt changes to their regulations. On September 7, 2008, the Treasury announced that Freddie Mac (along with Fannie Mae) had been placed into conservatorship under the control of the newly created Federal Housing Finance Agency. On October 3, 2008, EESA was signed into law, and on October 14, 2008 the Treasury announced the CPP under EESA. On February 17, 2009, the Recovery Act was signed into law. In November 2009, the FDIC announced a final rule to require FDIC insured banks to prepay the fourth quarter assessment and the next three years assessment by December 31, 2009. On July 21, 2010, the Dodd-Frank Act was signed into law. Pursuant to authority granted under the Dodd-Frank Act, effective on October 1, 2011, the Federal Reserve Board established new rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over $10 billion. While we are not subject to the interchange fee restrictions, the new restrictions could negatively impact bank card services income for smaller banks if the reductions that are required of larger banks cause industry-wide reduction of swipe fees. In December 2010, the Basel Committee revised final frameworks for the regulation of capital and liquidity of internationally active banking organizations. Although the U.S. banking services have not yet published a notice of proposed rulemaking to implement Basel III in the United States, they are likely to do so (at least with respect to the Basel III capital framework) during 2012. In addition to Basel III, the Dodd-Frank Act requires or permits the federal banking agencies to adopt regulations affecting banking institutions' capital requirements in a number of respects, including potentially more stringent capital requirements for systemically important financial institutions. It is possible that additional legislative proposals may be adopted or regulatory changes may be made that would have an adverse effect on our business. We can provide no assurance regarding the manner in which any new laws and regulations will affect us. See "Risk Factors *We are subject to extensive regulation that could restrict our activities and impose financial requirements or limitations on the conduct of our business and limit our ability to receive dividends from our Bank"* above.

We may need to raise additional capital in the future to redeem the Series T Preferred Stock or to support further growth, but that capital may not be available when it is needed, if at all.

We are required by regulatory authorities to maintain adequate levels of capital to support our operations. To support our future growth, we may need to raise additional capital. In addition, we may redeem the Series T Preferred Stock that we issued to the Treasury under the CPP before the dividends on the Series T Preferred Stock increase from 5% per annum to 9% per annum in 2014, and we may need to raise additional capital to do so. Our ability to raise additional capital, if needed, will depend in part on conditions in the capital markets at that time, which are outside our control. Accordingly, we cannot assure you of our ability to raise additional capital, if needed, on terms acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations through internal growth and acquisitions could be materially impaired. In addition, if we decide to raise additional equity capital, your interest could be diluted.

Our historical operating results may not be indicative of our future operating results.

We may not be able to sustain our historical rate of growth, and, consequently, our historical results of operations will not necessarily be indicative of our future operations. Various factors, such as economic conditions, regulatory and legislative considerations, and competition, may also impede our ability to expand our market presence. If we experience a significant decrease in our historical rate of growth, our results of operations and financial condition may be adversely affected because a high percentage of our operating costs are fixed expenses.

We may be adversely affected by the soundness of other financial institutions.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and routinely execute transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks, and other institutional clients. Many of these transactions expose us to credit risk in the event of a default by a counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by the bank cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due to the bank. Any such losses could have a material adverse affect on our financial condition and results of operations.

We will face risks with respect to expansion through acquisitions or mergers.

From time to time, we may seek to acquire other financial institutions or parts of those institutions. We may also expand into new markets or lines of business or offer new products or services. These activities would involve a number of risks, including:

- the potential inaccuracy of the estimates and judgments used to evaluate credit, operations, management, and market risks with respect to a target institution;
- the time and costs of evaluating new markets, hiring or retaining experienced local management, and opening new offices and the time lags between these activities and the generation of sufficient assets and deposits to support the costs of the expansion;
- the incurrence and possible impairment of goodwill associated with an acquisition and possible adverse effects on our results of operations; and
- the risk of loss of key employees and customers.

Our underwriting decisions may materially and adversely affect our business.

While we generally underwrite the loans in our portfolio in accordance with our own internal underwriting guidelines and regulatory supervisory guidelines, in certain circumstances we have made loans which exceed either our internal underwriting guidelines, supervisory guidelines, or both. As of December 31, 2011, approximately $10.8 million of our loans, or 18.1% of our bank's regulatory capital, had loan-to-value ratios that exceeded regulatory supervisory guidelines, of which four loans totaling approximately $262.3 thousand had loan-to-value ratios of 100% or more. In addition, supervisory limits on commercial loan to value exceptions are set at 30% of our bank's capital. At December 31, 2011, $8.5 million of our commercial loans, or 14.3% of our bank's regulatory capital, exceeded the supervisory loan to value ratio. The number of loans in our portfolio with loan-to-value ratios in excess of supervisory guidelines, our internal guidelines, or both could increase the risk of delinquencies and defaults in our portfolio.

We depend on the accuracy and completeness of information about clients and counterparties and our financial condition could be adversely affected if it relies on misleading information.

In deciding whether to extend credit or to enter into other transactions with clients and counterparties, we may rely on information furnished to us by or on behalf of clients and counterparties, including financial statements and other financial information, which we do not independently verify. We also may rely on representations of clients and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. For example, in deciding whether to extend credit to clients, we may assume that a customer's audited financial statements conform with GAAP and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. Our financial condition and results of operations could be negatively impacted to the extent we rely on financial statements that do not comply with GAAP or are materially misleading.

Our ability to pay cash dividends is limited, and we may be unable to pay future dividends even if we desire to do so.

Our ability to pay cash dividends may be limited by regulatory restrictions, by our Bank's ability to pay cash dividends to the Company and by our need to maintain sufficient capital to support our operations. The ability of our Bank to pay cash dividends to the Company is limited by its obligation to maintain sufficient capital and by other restrictions on its cash dividends that are applicable to national banks and banks that are regulated by the FDIC. If our Bank is not permitted to pay cash dividends to our holding company, then we may be unable to pay cash dividends on our common stock. Pursuant to

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the terms of the Formal Agreement, our Bank is currently not permitted to pay cash dividends to our Company without the prior consent of the OCC.

As long as shares of our Series T Preferred Stock are outstanding, no dividends may be paid on our common stock unless all dividends on the Series T Preferred Stock have been paid in full. Additionally, so long as the Treasury owns shares of the Series T Preferred Stock, we are not permitted to increase cash dividends on our common stock without the Treasury's consent. The dividends declared on shares of our Series T Preferred Stock will reduce the net income available to common shareholders and our earnings per common share. Additionally, the warrant to purchase our common stock issued to the Treasury, in conjunction with the issuance of the Series T Preferred Stock, may be dilutive to our earnings per share. These restrictions, together with the potentially dilutive impact of the warrant described in the next risk factor, could have a negative effect on the value of our common stock. Moreover, holders of our common stock are entitled to receive dividends only when, and if declared by our board of directors. Although we have historically paid cash dividends on our common stock, we are not required to do so and our board of directors could reduce or eliminate our common stock dividend in the future.

If we are unable to redeem the Series T Preferred Stock after five years, we will be required to make higher dividend payments on this stock, thereby substantially increasing our cost of capital.

If we are unable to redeem the Series T Preferred Stock issued to the Treasury pursuant to the CPP prior to February 15, 2014, the dividend rate will increase substantially on that date, from 5.0% per annum to 9.0% per annum. Depending on our financial condition at the time, this increase in the annual dividend rate on the Series T Preferred Stock could have a material negative effect on our liquidity, our net income available to common shareholders, and our earnings per share.

Legislation or regulatory changes could cause us to seek to repurchase the preferred stock and warrant that we sold to the Treasury pursuant to the CPP.

Legislation that has been adopted after we closed on our sale of the Series T Preferred Stock and CPP Warrant on November 21, 2008, altered the terms of our CPP transaction in ways that create additional restrictions, complexity and compliance time and expense. Any legislation or regulations that may be implemented in the future may have a further material impact on the terms of our CPP transaction with the Treasury. If we determine that any such legislation or any regulations, in whole or in part, alter the terms of our CPP transaction with the Treasury in ways that we believe are adverse to our ability to effectively manage our business, then we may seek to unwind, in whole or in part, the CPP transaction by repurchasing some or all of the preferred stock and warrants that we sold to the Treasury pursuant to the CPP. If we were to repurchase all or a portion of such preferred stock or warrants, then our capital levels could be materially reduced.

There can be no assurance whether or when the Series T Preferred Stock can be redeemed or whether or when the related Warrant can be repurchased.

Subject to approval of our regulators, we generally have the right to repurchase the shares of Series T Preferred Stock and the CPP Warrant issued to the Treasury in the TARP Transaction. However, there can be no assurance as to when the Series T Preferred Stock and the Warrant will be repurchased, if at all. As a result, we will remain subject to the uncertainty of additional future changes to the CPP, which could put us at a competitive disadvantage. Until such time as the Series T Preferred Stock and the CPP Warrant are repurchased, we will remain subject to the terms and conditions of those instruments, which, among other things, require us to obtain regulatory approval to repurchase or redeem our common stock or our other preferred stock or increase the annual aggregate dividends on our common stock over $0.32 per share, except in limited circumstances.

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The Series T Preferred Stock impacts net income available to our common shareholders and earnings per common share, and the warrant we issued to the Treasury may be dilutive to holders of our common stock.

The dividends declared on our Series T Preferred Stock issued to the Treasury pursuant to the CPP will reduce the net income available to common shareholders and our earnings per common share. The Series T Preferred Stock will also receive preferential treatment in the event of liquidation, dissolution or winding up of First Community Corporation. Additionally, the ownership interest of the existing holders of our common stock will be diluted to the extent the warrant we issued to the Treasury in conjunction with the sale to the Treasury of the Series T Preferred Stock is exercised. The shares of common stock underlying the warrant represent approximately 5.7% of the shares of our common stock outstanding as of December 31, 2011 (including the shares issuable upon exercise of the warrant in total shares outstanding). Although the Treasury has agreed not to vote any of the shares of common stock it receives upon exercise of the warrant, a transferee of any portion of the warrant or of any shares of common stock acquired upon exercise of the warrant is not bound by this restriction.

Holders of the Series T Preferred Stock have rights that are senior to those of our common shareholders.

The Series T Preferred Stock that we issued to the Treasury on November 21, 2008 is senior to our shares of common stock and holders of the Series T Preferred Stock have certain rights and preferences that are senior to holders of our common stock. The Series T Preferred Stock ranks senior to our common stock and all other equity securities of ours designated as ranking junior to the Series T Preferred Stock. So long as any shares of the Series T Preferred Stock remain outstanding, unless all accrued and unpaid dividends for all prior dividend periods have been paid or are contemporaneously declared and paid in full, no dividend whatsoever shall be paid or declared on our common stock or other junior stock, other than a dividend payable solely in common stock. The Company and the Bank also generally may not purchase, redeem or otherwise acquire for consideration any shares of our common stock or other junior stock unless we have paid in full all accrued dividends on the Series T Preferred Stock for all prior dividend periods, other than in certain circumstances described more fully below. Furthermore, the Series T Preferred Stock is entitled to a liquidation preference over shares of our common stock in the event of our liquidation, dissolution or winding up.

Holders of the Series T Preferred Stock may, under certain circumstances, have the right to elect two directors to our board of directors.

In the event that we fail to pay dividends on the Series T Preferred Stock for an aggregate of six quarterly dividend periods or more (whether or not consecutive), the authorized number of directors then constituting our board of directors will be increased by two. Holders of the Series T Preferred Stock, together with the holders of any outstanding parity stock with like voting rights, referred to as voting parity stock, voting as a single class, will be entitled to elect the two additional members of our board of directors, referred to as the preferred stock directors, at the next annual meeting (or at a special meeting called for the purpose of electing the preferred stock directors prior to the next annual meeting) and at each subsequent annual meeting until all accrued and unpaid dividends for all past dividend periods have been paid in full.

Holders of the Series T Preferred Stock have limited voting rights.

Except as otherwise required by law and in connection with the election of directors to our board of directors in the event that we fail to pay dividends on the Series T Preferred Stock for an aggregate of at least six quarterly dividend periods (whether or not consecutive), holders of the Series T Preferred Stock have limited voting rights. So long as shares of the Series T Preferred Stock are outstanding, in addition to any other vote or consent of shareholders required by law or our amended and restated articles of incorporation, the vote or consent of holders owning at least $66^2/_3$% of the shares of Series T Preferred Stock outstanding is required for (1) any authorization or issuance of shares ranking senior to the Series T Preferred Stock; (2) any amendment to the rights of the Series T Preferred Stock so as to adversely affect the rights, preferences, privileges or voting power of the Series T Preferred Stock; or (3) consummation of any merger, share exchange or similar transaction unless the shares of Series T Preferred Stock remain outstanding, or if we are not the surviving entity in such transaction, are converted into or exchanged for preference securities of the surviving entity and the shares of Series T Preferred Stock remaining outstanding or such preference securities have such rights, preferences, privileges and voting power as are not materially less favorable to the holders than the rights, preferences, privileges and voting power of the shares of Series T Preferred Stock.

We are exposed to the possibility of technology failure and a disruption in our operations may adversely affect our business.

We rely on our computer systems and the technology of outside service providers. Our daily operations depend on the operational effectiveness of their technology. We rely on our systems to accurately track and record our assets and liabilities. If our computer systems or outside technology sources become unreliable, fail, or experience a breach of security, our ability to maintain accurate financial records may be impaired, which could materially affect our business operations and financial condition. In addition, a disruption in our operations resulting from failure of transportation and telecommunication systems, loss of power, interruption of other utilities, natural disaster, fire, global climate changes, computer hacking or viruses, failure of technology, terrorist activity or the domestic and foreign response to such activity or other events outside of our control could have an adverse impact on the financial services industry as a whole and/or on our business. Our business recovery plan may not be adequate and may not prevent significant interruptions of our operations or substantial losses.

Negative public opinion surrounding our Company and the financial institutions industry generally could damage our reputation and adversely impact our earnings.

Reputation risk, or the risk to our business, earnings and capital from negative public opinion surrounding our company and the financial institutions industry generally, is inherent in our business. Negative public opinion can result from our actual or alleged conduct in any number of activities, including lending practices, corporate governance and acquisitions, and from actions taken by government regulators and community organizations in response to those activities. Negative public opinion can adversely affect our ability to keep and attract clients and employees and can expose us to litigation and regulatory action. Although we take steps to minimize reputation risk in dealing with our clients and communities, this risk will always be present given the nature of our business.

The change of control rules under Section 382 of the Internal Revenue Code could limit our ability to use net operating loss carryforwards to reduce future taxable income, if we were to undergo a change of control.

We have net operating loss ("NOL") carryforwards for federal and state income tax purposes which, generally, can be used to reduce future taxable income. Our use of our NOL carryforwards would be limited, however, under Section 382 of the Internal Revenue Code, if we were to undergo a change in ownership of more than 50% of our capital stock over a three-year period as measured under Section 382 of the Internal Revenue Code. These complex change of ownership rules generally focus on ownership changes involving shareholders owning directly or indirectly 5% or more of our stock, including certain public "groups" of shareholders as set forth under Section 382 of the Internal Revenue Code, including those arising from new stock issuances and other equity transactions.

Whether a change in ownership occurs in the future is largely outside of our control, and there can be no assurance that such a change will not occur. If we experience an ownership change, the resulting annual limit on the use of our NOL carryforwards (which generally would equal the product of the applicable federal long-term tax-exempt rate, multiplied by the value of our capital stock immediately before the ownership change, then increased by certain existing gains recognized within five years after the ownership change if we have a net built-in gain in our assets at the time of the ownership change) could result in a meaningful increase in our federal and state income tax liability in future years. Whether an ownership change occurs by reason of public trading in our stock is largely outside our control, and the determination of whether an ownership change has occurred is complex. No assurance can be given that we will not in the future undergo an ownership change that would have an adverse effect on the value of our stock.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

Lexington Property. The principal place of business of both the Company and our Bank is located at 5455 Sunset Boulevard, Lexington, South Carolina 29072. This site, which is also the Bank's main office branch, is a 2.29 acre plot of land. The site was purchased for $576 thousand and the building costs were approximately $1.0 million. The branch operates in an 8,500 square foot facility located on this site.

In October 2000, the Bank acquired an additional 2.0 acres adjacent to the existing facility for approximately $300 thousand. This site was designed to allow for a 24,000 to 48,000 square foot facility at some future date. The Bank completed construction and occupied the 28,000 square foot administrative center in July 2006. The total construction cost for the building was approximately $3.4 million. The Lexington property is owned by the Bank.

Forest Acres Property. We operate a branch office facility at 4404 Forest Drive, Columbia, South Carolina 29206. The Forest Acres site is .71 acres. The banking facility is approximately 4,000 square feet with a total cost of land and facility of approximately $920 thousand. This property is owned by the Bank.

Irmo Property. We operate a branch office facility at 1030 Lake Murray Boulevard, Irmo, South Carolina 29063. The Irmo site is approximately one acre. The banking facility is approximately 3,200 square feet with a total cost of land and facility of approximately $1.1 million. This property is owned by the Bank.

Cayce/West Columbia Property. We operate a branch office facility at 506 Meeting Street, West Columbia, South Carolina, 29169. The Cayce/West Columbia site is approximately 1.25 acres. The banking facility is approximately 3,800 square feet with a total cost of land and facility of approximately $935 thousand. This property is owned by the Bank.

Gilbert Property. We operate a branch office at 4325 Augusta Highway Gilbert, South Carolina 29054. The facility is an approximate 3,000 square foot facility located on an approximate one acre lot. The total cost of the land and facility was approximately $768 thousand. This property is owned by the Bank.

Chapin Office. We operate a branch office facility at 137 Amicks Ferry Rd., Chapin, South Carolina 29036. The facility is approximately 3,000 square feet and is located on a three acre lot. The total cost of the facility and land was approximately $1.3 million. This property is owned by the Bank.

Northeast Columbia. We operate a branch office facility at 9822 Two Notch Rd., Columbia, South Carolina 29223. The facility is approximately 3,000 square feet and is located on a one acre lot. The total cost of the facility and land was approximately $1.2 million. This property is owned by the Bank.

Prosperity Property. We operate a branch office at 101 N. Wheeler Avenue, Prosperity, South Carolina 29127. This office was acquired in connection with the DutchFork merger. The banking facility is approximately 1,300 square feet and is located on a .31 acre lot. The total cost of the facility and land was approximately $175 thousand. This property is owned by the Bank.

Wilson Road. We operate a branch office at 1735 Wilson Road, Newberry, South Carolina 29108. The banking office was acquired in connection with the DutchFork merger. This banking facility is approximately 12,000 square feet and is located on a 1.56 acre lot. Adjacent to the branch facility is a 13,000 square foot facility which was formerly utilized as the DutchFork operations center. The total cost of the facility and land was approximately $3.3 million. This property is owned by the Bank.

Redbank Property. We operate a branch office facility at 1449 Two Notch Road, Lexington, South Carolina 29073. This branch opened for operation on February 3, 2005. The facility is approximately 3,000 square feet and is located on a one acre lot. The total cost of the facility and land was approximately $1.3 million. This property is owned by the Bank.

Camden Property. We operate a branch office facility at 631 DeKalb Street, Camden, South Carolina 29020. This office was acquired in connection with the DeKalb merger. The facility is approximately 11,247 square feet and is located on a two acre lot. The total cost of the facility and land was approximately $2.2 million. This property is owned by the Bank.

Highway 219 Property. A .61 acre lot located on highway 219 in Newberry County was acquired in connection with the DutchFork merger. This lot may be used for a future branch location but no definitive plans have been made. The cost of the lot was $430 thousand. This property is owned by the Bank.

Item 3. Legal Proceedings.

As of December 31, 2011 and the date of this Form 10-K, we believe that neither the Company nor the Bank is a party to, nor is any of their property the subject of, any pending material legal proceedings related to the business of the Company or the Bank, which, if determined adversely, would have a material effect on their business, results of operations, or financial condition.

Item 4. Mine Safety Disclosures.

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities.

As of March 16, 2012, there were approximately 1,536 shareholders of record of our common stock. On January 15, 2003, our stock began trading on The NASDAQ Capital Market under the trading symbol of "FCCO." Prior to January 15, 2003, our stock was quoted on the OTC Bulletin Board under the trading symbol "FCCO.OB." The following table sets forth the high and low sales price information as reported by NASDAQ in 2011 and 2010, and the dividends per share declared on our common stock in each such quarter. All information has been adjusted for any stock splits and stock dividends effected during the periods presented.

	High	Low	Dividends
2011			
Quarter ended March 31, 2011	$ 6.75	$ 5.40	$ 0.04
Quarter ended June 30, 2011	$ 7.35	$ 6.44	$ 0.04
Quarter ended September 30, 2011	$ 7.00	$ 6.17	$ 0.04
Quarter ended December 31, 2011	$ 6.60	$ 5.42	$ 0.04
2010			
Quarter ended March 31, 2010	$ 6.50	$ 5.75	$ 0.04
Quarter ended June 30, 2010	$ 6.75	$ 5.55	$ 0.04
Quarter ended September 30, 2010	$ 6.05	$ 5.00	$ 0.04
Quarter ended December 31, 2010	$ 5.78	$ 5.00	$ 0.04

Notwithstanding the foregoing, the future dividend policy of the ompany is subject to the discretion of the board of directors and will depend upon a number of factors, including future earnings, financial condition, cash requirements, and general business conditions. Our ability to pay dividends is generally limited by the ability of the Bank to pay dividends to us. As a national bank, the Bank is prohibited from declaring a dividend on its shares of common stock in any year in excess of an amount equal to the sum of the net income of the Bank for that year and the retained net income of the Bank for the preceding two years, *minus* the sum of any transfers required by the OCC and any transfers required to be made to a fund for the retirement of any preferred stock, unless the OCC approves the declaration and payment of dividends in excess of such amount. As a national bank, the Bank also cannot pay dividends from permanent capital without prior OCC approval. In addition, pursuant to the terms of the Formal Agreement, the Bank is currently prohibited from paying dividends to the Company without the prior approval of the OCC. The OCC also has the authority under federal law to enjoin a national bank from engaging in what in its opinion constitutes an unsafe or unsound practice in conducting its business, including the payment of a dividend under certain circumstances.

As long as shares of our Series T Preferred Stock are outstanding, no dividends may be paid on our common stock unless all dividends on the Series T Preferred Stock have been paid in full. Additionally, prior to November 21, 2011, so long as the Treasury owns shares of the Series T Preferred Stock, we were not permitted to increase cash dividends on our common stock above $0.08 per quarter without the Treasury's consent.

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Item 6. Selected Financial Data

	As of or For the Years Ended December 31,				
(Dollars in thousands except per share amounts)	**2011**	**2010**	**2009**	**2008**	**2007**
Balance Sheet Data:					
Total assets	$ 593,887	$ 599,023	$ 605,827	$ 650,233	$ 565,613
Loans	324,311	329,954	344,187	332,964	310,028
Deposits	464,585	455,344	449,576	423,798	405,855
Total common shareholders' equity	36,759	30,762	30,501	57,306	63,996
Total shareholders' equity	47,896	41,797	41,440	68,156	63,996
Average shares outstanding, basic	3,287	3,262	3,252	3,203	3,234
Average shares outstanding, diluted	3,287	3,262	3,252	3,203	3,284
Results of Operations:					
Interest income	$ 25,526	$ 27,511	$ 30,981	$ 33,008	$ 30,955
Interest expense	7,209	9,374	13,104	15,810	15,665
Net interest income	18,317	18,137	17,877	17,198	15,290
Provision for loan losses	1,420	1,878	3,103	2,129	492
Net interest income after provision for loan losses	16,897	16,259	14,774	15,069	14,798
Non-interest income (loss)	5,710	3,017	3,543	(10,056)	4,968
Securities gains (losses)	575	827	1,489	(28)	49
Non-interest expenses	18,401	17,684	16,580	15,539	14,125
Impairment of goodwill			27,761		
Income (loss) before taxes	4,781	2,419	(24,535)	(10,554)	5,690
Income tax expense (benefit)	1,457	565	696	(3,761)	1,725
Net income (loss)	3,324	1,854	(25,231)	(6,793)	3,965
Amortization of warrants	102	96	89	9	
Preferred stock dividends, including discount accretion	568	568	567	62	
Net income (loss) available to common shareholders	2,654	1,190	(25,887)	(6,864)	3,965
Per Share Data:					
Basic earnings (loss) per common share	$ 0.81	$ 0.36	$ (7.95)	$ (2.14)	$ 1.23
Diluted earnings (loss) per common share	0.81	0.36	(7.95)	(2.14)	1.21
Book value at period end	11.11	9.41	9.38	17.76	19.93
Tangible book value at period end	10.83	9.14	8.92	8.50	10.67
Dividends per common share	0.16	0.16	0.24	0.32	0.27
Asset Quality Ratios:					
Non-performing assets to total assets(4)	2.16%	2.20%	1.38%	0.39%	0.22%
Non-performing loans to period end loans	1.67%	1.90%	1.50%	0.54%	0.36%
Net charge-offs to average loans	0.50%	0.54%	0.84%	0.34%	0.06%
Allowance for loan losses to period-end total loans	1.45%	1.49%	1.41%	1.38%	1.14%
Allowance for loan losses to non-performing assets	35.83%	37.39%	58.21%	178.53%	286.06%
Selected Ratios:					
Return on average assets:					
GAAP earnings (loss)	0.44%	0.20%	(3.90)%	(1.10)%	0.72%
Operating earnings(3)	0.44%	0.20%	0.39%	0.48%	0.72%
Return on average common equity:					
GAAP earnings (loss)	7.98%	3.73%	(49.66)%	(11.11)%	6.20%
Operating earnings (loss)(3)	7.98%	3.73%	4.98%	4.82%	6.20%
Return on average tangible common equity:					
GAAP earnings (loss)	8.16%	3.87%	(89.13)%	(21.60)%	11.83%
Operating earnings (loss)	8.16%	3.87%	8.94%	9.37%	11.83%
Efficiency Ratio(1)	75.55%	73.07%	73.47%	72.74%	68.41%
Noninterest income to operating revenue(2)	25.55%	17.48%	21.97%	19.78%	24.71%
Net interest margin	3.33%	3.26%	3.10%	3.16%	3.21%
Equity to assets	8.06%	6.97%	6.84%	10.48%	11.31%
Tangible common shareholders' equity to tangible assets	6.04%	5.00%	4.80%	4.42%	6.39%
Tier 1 risk-based capital	15.33%	13.73%	12.41%	12.58%	13.66%

Total risk-based capital	17.25%	14.99%	13.56%	13.73%	14.61%
Leverage	9.40%	8.79%	8.41%	8.28%	9.31%
Average loans to average deposits	70.59%	73.53%	76.99%	75.45%	73.45%

(1) The efficiency ratio is a key performance indicator in our industry. The ratio is computed by dividing non-interest expense, less goodwill impairment, by the sum of net interest income on a tax equivalent basis and non-interest

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income, net of any securities gains or losses and OTTI on securities. It is a measure of the relationship between operating expenses and earnings.

(2) Operating revenue is defined as net interest income plus noninterest income, excluding OTTI related to the write-down of FHLMC preferred shares in 2008.

(3) Constitutes a non-GAAP financial measure. Please see "Reconciliation of Non-GAAP Financial Measures" below.

(4) Includes non-accrual loans, loans > 90 days delinquent and still accruing interest and OREO.

Reconciliations

The following is a reconciliation for the five years ended December 31, 2011, of net income (loss) as reported for generally accepted accounting principles ("GAAP") and the non-GAAP measure referred to throughout our discussion of "operating earnings."

	December 31,				
(Dollars in thousands)	**2011**	**2010**	**2009**	**2008**	**2007**
Net income (loss), as reported (GAAP)	$ 3,324	$ 1,854	$ (25,231)	$ (6,793)	$ 3,965
Add: Income tax expense (benefit)	1,457	565	696	(3,761)	1,725
	4,781	2,419	(24,535)	(10,554)	5,690
Non-operating items:					
Goodwill impairment charge			27,761		
Other-than-temporary-impairment on FHLMC preferred shares				14,325	
Pre-tax operating earnings	4,781	2,419	3,226	3,771	5,690
Related income tax expense	1,457	565	696	825	1,725
Operating earnings, (net income, excluding non operating items)	$ 3,324	$ 1,854	$ 2,530	$ 2,946	$ 3,965

The following is a reconciliation for the five years ended December 31, 2011, of non-interest income (loss) as reported for GAAP and the non-GAAP measure referred to throughout our discussion regarding non-interest income (loss).

(Dollars in thousands)	**2011**	**2010**	**2009**	**2008**	**2007**
Non-interest income (loss), as reported (GAAP)	$ 6,285	$ 3,844	$ 5,032	$ (10,084)	$ 5,017
Non-operating items:					
Other-than-temporary-impairment charge				14,325	
Operating non-interest income	$ 6,285	$ 3,844	$ 5,032	$ 4,241	$ 5,017

The following is a reconciliation for the five years ended December 31, 2011, of non-interest expense as reported for GAAP and the non-GAAP measure referred to throughout our discussion regarding non-interest expense.

(Dollars in thousands)	**2011**	**2010**	**2009**	**2008**	**2007**
Non-interest expense, as reported (GAAP)	$ 18,401	$ 17,684	$ 44,341	$ 15,539	$ 14,125
Non-operating items:					
Impairment of goodwill			27,761		
Operating non-interest expense	$ 18,401	$ 17,684	$ 16,580	$ 15,539	$ 14,125

Our management believes that the non-GAAP measures above are useful because they enhance the ability of investors and management to evaluate and compare our operating results from period to

period in a meaningful manner. These non-GAAP measures should not be considered as an alternative to any measure of performance as promulgated under GAAP, and investors should consider the OTTI charges in the second and third quarter of 2008 when assessing the performance of the company. Non-GAAP measures have limitations as analytical tools, and investors should not consider them in isolation or as a substitute for analysis of the company's results as reported under GAAP.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

First Community Corporation is a one bank holding company headquartered in Lexington, South Carolina. We operate from our main office in Lexington, South Carolina, and our 11 full-service offices located in Lexington (two), Forest Acres, Irmo, Cayce-West Columbia, Gilbert, Chapin, Northeast Columbia, Prosperity, Newberry and Camden, South Carolina. During the second quarter of 2006, we completed our acquisition of DeKalb Bankshares, Inc., the holding company for The Bank of Camden. The merger added one office in Kershaw County located in the Midlands of South Carolina. During the fourth quarter of 2004, we completed our first acquisition of another financial institution when we merged with DutchFork Bancshares, Inc., the holding company for Newberry Federal Savings Bank. The merger added three offices in Newberry County. In 2007, our College Street office in Newberry was consolidated with our Wilson Road Office in Newberry. On September 15, 2008, the Company completed the acquisition of two financial planning and investment advisory firms, EAH Financial Group and Pooled Resources, LLC. In addition, the Bank expanded its residential mortgage business unit with the acquisition of the assets of Palmetto South Mortgage Corporation ("Palmetto South"), effective July 31, 2011. Palmetto South, which operates as a division of the Bank, offers mortgage loan products for home purchase or refinance in the South Carolina market area. We engage in a general commercial and retail banking business characterized by personalized service and local decision making, emphasizing the banking needs of small to medium-sized businesses, professional concerns and individuals.

The following discussion describes our results of operations for 2011, as compared to 2010 and 2009, and also analyzes our financial condition as of December 31, 2011, as compared to December 31, 2010. Like most community banks, we derive most of our income from interest we receive on our loans and investments. A primary source of funds for making these loans and investments is our deposits, on which we pay interest. Consequently, one of the key measures of our success is our amount of net interest income, or the difference between the income on our interest-earning assets, such as loans and investments, and the expense on our interest-bearing liabilities, such as deposits.

We have included a number of tables to assist in our description of these measures. For example, the "Average Balances" table shows the average balance during 2011, 2010 and 2009 of each category of our assets and liabilities, as well as the yield we earned or the rate we paid with respect to each category. A review of this table shows that our loans typically provide higher interest yields than do other types of interest earning assets, which is why we intend to channel a substantial percentage of our earning assets into our loan portfolio. Similarly, the "Rate/Volume Analysis" table helps demonstrate the impact of changing interest rates and changing volume of assets and liabilities during the years shown. We also track the sensitivity of our various categories of assets and liabilities to changes in interest rates, and we have included a "Sensitivity Analysis Table" to help explain this. Finally, we have included a number of tables that provide detail about our investment securities, our loans, and our deposits and other borrowings.

There are risks inherent in all loans, so we maintain an allowance for loan losses to absorb probable losses on existing loans that may become uncollectible. We establish and maintain this allowance by charging a provision for loan losses against our operating earnings. In the following section we have included a detailed discussion of this process, as well as several tables describing our allowance for loan losses and the allocation of this allowance among our various categories of loans.

In addition to earning interest on our loans and investments, we earn income through fees and other expenses we charge to our customers. We describe the various components of this noninterest income, as well as our noninterest expense, in the following discussion. The discussion and analysis also identifies significant factors that have affected our financial position and operating results during the periods included in the accompanying financial statements. We encourage you to read this discussion and analysis in conjunction with the financial statements and the related notes and the other statistical information also included in this report.

On October 14, 2008, the Treasury announced the CPP under the EESA, pursuant to which the Treasury could make senior preferred stock investments in participating financial institutions that would qualify as Tier I capital. Based on our risk-weighted assets as of September 30, 2008, we were eligible to issue up to $11.3 million in new senior preferred stock under the program. On November 21, 2008, as part of the CPP, the Company entered into the CPP Purchase Agreement with the Treasury, pursuant to which we issued and sold to the Treasury (i) the Series T Preferred Stock and (ii) the CPP Warrant, for an aggregate purchase price of $11.3 million in cash. The proceeds from this offering qualify as Tier 1 capital under the regulatory capital guidelines.

Cumulative dividends on the Series T Preferred Stock accrue on the liquidation preference at a rate of 5% per annum for the first five years, and at a rate of 9% per annum thereafter, but will be paid only if, as, and when declared by the company's board of directors. The Series T Preferred Stock has no maturity date and ranks senior to the common stock with respect to the payment of dividends and distributions and amounts payable upon liquidation, dissolution and winding up of the company. The Series T Preferred Stock generally is non-voting.

Under the terms of the CPP Purchase Agreement, the Company may redeem the Series T Preferred Stock at par after February 15, 2012. Prior to this date, the company may redeem the Series T Preferred Stock at par if (i) the Company has raised aggregate gross proceeds in one or more Qualified Equity Offerings (as defined in the CPP Purchase Agreement) in excess of approximately $2.8 million, and (ii) the aggregate redemption price does not exceed the aggregate net proceeds from such Qualified Equity Offerings. The Recovery Act signed by the President on February 17, 2009 amended the terms of the CPP Purchase Agreement, allowing the Company to redeem the Series T Preferred Stock prior to February 15, 2012. However, any redemption remains subject to the consent of the Federal Reserve.

Recent Regulatory Developments

On April 6, 2010, the Bank entered into the Formal Agreement with the OCC, its primary regulator. The Formal Agreement is based on the findings of the OCC during a 2009 on-site examination of the bank. As reflected in the Formal Agreement, the OCC's primary concern with the Bank was driven by the rating agencies downgrades of non-agency MBS in its investment portfolio. These securities, purchased in 2004 through 2008, were all rated AAA by the rating agencies at the time of purchase; however, they have been impacted by the economic recession and the stress on the residential housing sector. These ratings do not reflect the discounted purchase price paid by the Bank. They only reflect their analysis of the performance of the security overall, and therefore, a downgrade does not capture the risk of loss to the Bank. The Formal Agreement did not require any adjustment to the Bank's balance sheet or income statement; nor did it change the Bank's "well capitalized" status. The OCC has, however, separately established the following individual minimum capital ratios for the bank: a Tier 1 leverage capital ratio of at least 8.00%, a Tier 1 risk-based capital ratio of at least 10.00%, and a Total risk-based capital ratio of at least 12.00%. As of December 31, 2011, the Bank exceeded each of these ratios and remained "well capitalized."

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The Board of Directors has appointed an independent compliance committee made up of directors to monitor and report on compliance with the terms of the Formal Agreement. The Bank intends to take all actions necessary to enable it to comply with the requirements of the Formal Agreement, and as of the date hereof, management has submitted all documentation required as of this date to the OCC. There can be no assurance that the Bank will be able to continue to comply fully with the provisions of the Formal Agreement, and the determination of our compliance will be made by the OCC. However, management believes the Bank is currently in compliance with all provisions of the Formal Agreement. Failure to meet the requirements of the Formal Agreement could result in additional regulatory requirements, which could result in regulators taking additional enforcement actions against the bank.

As previously disclosed, on June 15, 2010, the Company entered into the 2010 MOU with the Federal Reserve. The 2010 MOU included, among other things, a requirement that the Company obtain the prior written approval of the Federal Reserve before declaring or paying any dividends or directly or indirectly accepting dividends or any other form of payment representing a reduction in capital from the Bank. The 2010 MOU has been terminated and replaced in its entirety by the 2011 MOU with the Federal Reserve, which eliminates the requirement that the Company receive prior approval from the Federal Reserve before declaring or paying any dividends. The 2011 MOU also provides that the Company will ensure that any Company dividends on common or preferred stock, or payments on trust preferred securities, are paid in accordance with applicable regulations and guidance issued by the Federal Reserve Board.

In addition, the 2011 MOU provides that if the Bank or the Company (on a consolidated basis) were to become less than adequately capitalized then the Company would not make payments on subordinated debt not related to trust preferred securities without Federal Reserve approval. The Bank and the Company are currently considered "well capitalized." To be considered adequately capitalized, the OCC and Federal Reserve Board minimum regulatory capital guidelines for Tier 1 risk-based capital, total risk-based capital and Tier 1 leverage ratios are 4.0%, 8.0% and 4.0%, respectively. As of December 31, 2011, the Bank's risk-based capital ratios of Tier 1 capital, total capital and leverage were 15.12%, 16.38% and 9.27%, respectively, and the Company's risk-based capital ratios of Tier 1 capital, total capital, leverage ratio were 15.33%, 17.25% and 9.40%, respectively.

As in the 2010 MOU, the 2011 MOU includes, among other things, a requirement that the Company obtain the prior written approval of the Federal Reserve before appointing any new director or senior executive officer or changing the position of any senior executive officer; directly or indirectly, incurring, increasing or guaranteeing any debt; and directly or indirectly, purchasing or redeeming any shares of its stock. The 2011 MOU eliminates the requirement contained in the 2010 MOU that the Company obtain written approval from the Federal Reserve prior to taking dividends from the Bank. With respect to Bank dividends, the 2011 MOU only requires that any dividends from the Bank must be paid in compliance with requirements established by the Bank's regulators. The 2011 MOU will remain in effect until further modified or terminated by the Federal Reserve.

Critical Accounting Policies

We have adopted various accounting policies that govern the application of accounting principles generally accepted in the United States and with general practices within the banking industry in the preparation of our financial statements. Our significant accounting policies are described in the notes to our consolidated financial statements in this report.

Certain accounting policies involve significant judgments and assumptions by us that have a material impact on the carrying value of certain assets and liabilities. We consider these accounting policies to be critical accounting policies. The judgment and assumptions we use are based on historical experience and other factors, which we believe to be reasonable under the circumstances. Because of the nature of the judgment and assumptions we make, actual results could differ from these judgments and estimates that could have a material impact on the carrying values of our assets and liabilities and our results of operations.

We believe the allowance for loan losses is the critical accounting policy that requires the most significant judgment and estimates used in preparation of our consolidated financial statements. Some of the more critical judgments supporting the amount of our allowance for loan losses include judgments about the credit worthiness of borrowers, the estimated value of the underlying collateral, the assumptions about cash flow, determination of loss factors for estimating credit losses, the impact of current events, and conditions, and other factors impacting the level of probable inherent losses. Under different conditions or using different assumptions, the actual amount of credit losses incurred by us may be different from management's estimates provided in our consolidated financial statements. Refer to the portion of this discussion that addresses our allowance for loan losses for a more complete discussion of our processes and methodology for determining our allowance for loan losses.

The evaluation and recognition of other-than-temporary impairment ("OTTI") on certain investments including our private label mortgage-backed securities and other corporate debt security holdings requires significant judgment and estimates. Some of the more critical judgments supporting the evaluation of OTTI include projected cash flows including prepayment assumptions, default rates and severities of losses on the underlying collateral within the security. Under different conditions or utilizing different assumptions, the actual OTTI recognized by us may be different from the actual amounts recognized in our consolidated financial statements. See Note 5 to the financial statements for the disclosure of certain of the assumptions used as well as OTTI recognized in the financial statements during the years ended December 31, 2011, 2010 and 2009.

Results of Operations

Our net income was $3.3 million, or $0.81 diluted earnings per common share, for the year ended December 31, 2011, as compared to net income of $1.9 million, or $0.36 diluted loss per common share, for the year ended December 31, 2010, and a net loss of $25.2 million, or $7.95 diluted loss per common share, for the year ended December 31, 2009. The net loss for 2009 was primarily a result of a specific transaction which is discussed in the following paragraph below. During the year ended December 31, 2011, we continued to show improvement in our net interest income and the related net interest margin. We continued to control the growth in assets by reducing funding from FHLB borrowings. As a result of the continued slow economic recovery, loan demand remained very weak throughout 2011. Loans, excluding loans held for sale, decreased by $5.6 million at December 31, 2011, as compared to December 31, 2010. Average loan balances were decreased during 2011 to $329.5 million compared to $337.1 million in 2010.

Our net income was $1.9 million, or $0.36 diluted earnings per common share, for the year ended December 31, 2010, as compared to net loss of $25.2 million, or $7.95 diluted loss per common share, for the year ended December 31, 2009, and a net loss of $6.8 million, or $2.14 diluted loss per common share, for the year ended December 31, 2008.During the year ended December 31, 2010, we returned to profitability after two years of net losses which were primarily a result of two specific transactions one occurring in 2009 and one in 2008 each of which are discussed in the following paragraphs below. During the year ended December 31, 2010, we were able to improve our net interest income and the related net interest margin. We continued to control the growth in assets by reducing funding from brokered certificates of deposits and other borrowings. As a result of the continued slow economic recovery, loan demand remained very weak throughout 2010. Loans decreased by $14.2 million at December 31, 2010 as compared to December 31, 2009. Average loan balances were relatively flat during 2010 at $337.1 million as compared to $337.7 million in 2009.

During the year ended December 31, 2009, we recognized a non-cash goodwill impairment charge of $27.8 million, or $8.51 per diluted share, that represented the complete write-off of our goodwill intangible. Goodwill resulted from business acquisitions and represented the value attributable to unidentifiable intangible elements in the businesses acquired. The analysis and valuation which was performed in the third quarter 2009 resulted in our determination that goodwill was impaired. This determination was reflective of the impact of the then and ongoing economic environment and its effect on the banking industry and our company. The calculation of fair value as part of the goodwill impairment test is subject to significant management judgment and estimates. Industry-wide, market capitalization and acquisition multiples had significantly declined since 2004 and 2006, which are the dates of the acquisition of Dutchfork Bankshares and DeKalb Bancshares, respectively. Our company experienced the same trend, with a decline in its market price per share and an extended period of time trading at a discount to book value and tangible book value. This non-cash charge represented the accounting recognition of the events. Given the non-cash nature of a goodwill charge, this non-interest expense item had no adverse impact upon our regulatory capital, liquidity position, operating performance or our prospects for future earnings. There was no tax benefit recognized as a result of this goodwill impairment charge.

Net interest income increased $180 thousand in 2011 from $18.1 million in 2010 to $18.3 million in 2011. The increase in net interest income is primarily due to the increase in the net interest margin in 2011 as compared to 2010. The impact of the improvement in net interest margin was somewhat offset by a decrease in average earning assets of $5.5 million from $556.0 million during 2010 to $550.5 million in 2011. The net interest margin, on a tax equivalent basis, during 2010 was 3.28%, as compared to 3.33% during 2011. Net interest spread, the difference between the yield on earning assets and the rate paid on interest-bearing liabilities, was 3.11% in 2011, as compared to 3.01% in 2010. See below under "Net Interest Income" and "Market Risk and Interest Rate Sensitivity" for a further discussion about the effect of the increase in net interest margin. The provision for loan losses was $1.9 million in 2010 as compared to $1.4 million in 2011. Non-interest income was $3.8 million in 2010 as compared to $6.3 million in 2011. This increase is primarily due to lower other-than-temporary-impairment charges, and increases in both mortgage origination fees and fee income on investment advisory services and commission on sale of non-deposit products in 2011 as compared to 2010. Non-interest expense increased to $18.4 million in 2011 as compared to $17.7 million in 2010. As discussed below under "Non-interest income and expense," the increase is primarily attributable to increases in salary and benefits of $578 thousand in 2011 as compared to 2010.

Net interest income increased by $260 thousand in 2010 from $17.9 million in 2009 to $18.1 million in 2010. The increase in net interest income is primarily due to the increase in the net interest margin in 2010 as compared to 2009. The impact of the improvement in net interest margin was somewhat offset by a decrease in average earning assets of $20.8 million from $576.8 million during 2009 to $556.0 million in 2010. The net interest margin, on a tax equivalent basis, during 2010 was 3.28% as compared to 3.12% during 2009. Net interest spread, the difference between the yield on earning assets and the rate paid on interest-bearing liabilities, was 2.80% in 2009 as compared to 3.01% in 2010. The provision for loan losses was $3.1 million in 2009 as compared to $1.9 million in 2010. Non-interest income was $3.8 million in 2010 as compared to $5.0 million in 2009. This decrease is primarily due to a negative fair value adjustment on an interest rate swap contract, higher other-than-temporary-impairment charges, and less gains on sales of investments in 2010 as compared to 2009. Operating non-interest expense (see "Reconciliation" above) increased to $17.7 million in 2010 as compared to $16.6 million in 2009. As discussed below under "Non-interest income and expense," the increase is primarily attributable to increases in salary and benefits of $680 thousand and $622 thousand in other real estate expenses in 2010 as compared to 2009.

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Net Interest Income

Net interest income is our primary source of revenue. Net interest income is the difference between income earned on assets and interest paid on deposits and borrowings used to support such assets. Net interest income is determined by the rates earned on our interest-earning assets and the rates paid on our interest-bearing liabilities, the relative amounts of interest-earning assets and interest-bearing liabilities, and the degree of mismatch and the maturity and repricing characteristics of its interest-earning assets and interest-bearing liabilities.

Net interest income totaled $18.3 million in 2011, $18.1 million in 2010 and $17.9 million in 2009. The yield on earning assets was 4.64%, 4.95%, and 5.37% in 2011, 2010 and 2009, respectively. The rate paid on interest-bearing liabilities was 1.53%, 1.94%, and 2.57% in 2011, 2010, and 2009, respectively. The fully taxable equivalent net interest margin was 3.33% in 2011, 3.28% in 2010 and 3.12% in 2009. Our loan to deposit ratio on average during 2011 was 70.6%, as compared to 73.5% during 2010 and 77.0% during 2009. Loans typically provide a higher yield than other types of earning assets, and thus, one of our goals is to grow the loan portfolio as a percentage of earning assets in order to improve the overall yield on earning assets and the net interest margin. At December 31, 2011, the loan (including held for sale) to deposit ratio was 70.6%.

The net interest margin showed slight improvement in 2011 as compared to 2010. Starting in early 2008 and continuing through 2011, interest rates have been at historic lows. The yield on earning assets decreased by 31 basis points and our cost of funds decreased by 41 basis points in 2011 as compared to 2010. This resulted in an increase in our net interest spread of 10 basis points in 2011 as compared to 2010. Our average borrowings and time deposits, which are typically the higher costing funding source, decreased $18.6 million and $14.8 million, respectively, in 2011 as compared to 2010. This results from ongoing successful efforts to control the growth of our balance sheet and also increasing our funding from lower costing sources (non-interest bearing transaction accounts, interest-bearing transaction accounts, money market accounts and savings deposits). During 2011, the average balance in these accounts increased by $26.9 million. This change in the mix of funding sources contributed to the improvement in our margin between the two periods. Throughout 2011, time deposits and borrowed funds represented 65.1% of our total interest bearing funding sources and in 2010 these balances represented 70.3% of our interest bearing funding sources.

The net interest margin improved in 2010 as compared to 2009 after two years of declining margins in 2009 and 2008. The yield on earning assets decreased by 42 basis points and our cost of funds decreased by 63 basis points in 2010 as compared to 2009. This resulted in an increase in our net interest spread of 21 basis points in 2010 as compared to 2009. Our average borrowings and time deposits, which as noted above, are typically the higher costing funding sources decreased $38.8 million and $10.3 million, respectively, in 2010 as compared to 2009. During the same period our average transaction accounts (interest and non-interest bearing, money market accounts and savings deposits) increased by $24.3 million. This change in the mix of funding sources contributed to the increase in our margin between the two periods. Throughout 2010, time deposits and borrowed funds represented 70.3% of our total interest bearing funding sources and in 2009 these balances represented 76.4% of our interest bearing funding sources.

Average Balances, Income Expenses and Rates. The following table depicts, for the periods indicated, certain information related to our average balance sheet and our average yields on assets and average costs of liabilities. Such yields are derived by dividing income or expense by the average balance of the corresponding assets or liabilities. Average balances have been derived from daily averages.

	Year ended December 31,								
		2011			2010			2009	
(Dollars in thousands)	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Assets									
Earning assets									
Loans(1)	$ 329,534	$ 19,110	5.80%	$ 337,143	$ 19,851	5.89%	$ 337,743	$ 20,226	5.99%
Securities	205,744	6,342	3.08%	194,426	7,566	3.89%	219,947	10,658	4.85%
Other short-term investments(2)	15,178	74	0.49%	24,420	94	0.38%	19,131	97	0.51%
Total earning assets	550,456	25,526	4.64%	555,989	27,511	4.95%	576,821	30,981	5.37%
Cash and due from banks	7,992			7,556			8,464		
Premises and equipment	17,759			18,343			19,159		
Intangible assets	740			1,189			22,498		
Other assets	31,791			30,755			25,068		
Allowance for loan losses	(4,823)			(4,882)			(4,373)		
Total assets	$ 603,915			$ 608,950			$ 647,637		
Liabilities									
Interest-bearing liabilities(2)									
Interest-bearing transaction accounts	$ 83,625	270	0.32%	$ 70,138	359	0.51%	$ 60,152	270	0.45%
Money market accounts	48,802	209	0.43%	44,293	307	0.69%	36,027	324	0.90%
Savings deposits	32,093	48	0.15%	29,271	76	0.26%	24,596	71	0.29%
Time deposits	219,737	4,046	1.84%	238,297	5,539	2.32%	248,607	8,069	3.25%
Other borrowings	87,460	2,636	3.01%	102,282	3,093	3.02%	141,047	4,370	3.10%
Total interest-bearing liabilities	471,717	7,209	1.53%	484,281	9,374	1.94%	510,429	13,104	2.57%
Demand deposits	82,572			76,485			69,276		
Other liabilities	5,286			5,269			6,233		
Shareholders' equity	44,340			42,915			61,699		
Total liabilities and shareholders' equity	$ 603,915			$ 608,950			$ 647,637		
Net interest spread			3.11%			3.01%			2.80%
Net interest income/margin		$ 18,317	3.33%		$ 18,137	3.26%		$ 17,877	3.10%
Net interest margin (tax equivalent)(3)			3.33%			3.28%			3.12%

(1) All loans and deposits are domestic. Average loan balances include non-accrual loans and loans held for sale.

(2) The computation includes federal funds sold, securities purchased under agreement to resell and interest bearing deposits.

(3) Based on 32.5% marginal tax rate.

The following table presents the dollar amount of changes in interest income and interest expense attributable to changes in volume and the amount attributable to changes in rate. The combined effect

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in both volume and rate, which cannot be separately identified, has been allocated proportionately to the change due to volume and due to rate.

	2011 versus 2010 Increase (decrease) due to			2010 versus 2009 Increase (decrease) due to		
(In thousands)	**Volume**	**Rate**	**Net**	**Volume**	**Rate**	**Net**
Assets						
Earning assets						
Loans	$ (428)	$ (313)	$ (741)	$ (36)	$ (340)	$ (375)
Investment securities	420	(1,645)	(1,225)	(1,237)	(2,099)	(3,092)
Other short-term investments	(41)	21	(20)	27	(23)	(3)
Total earning assets	(277)	(1,709)	(1,986)	(1,119)	(2,439)	(3,470)
Interest-bearing liabilities						
Interest-bearing transaction accounts	60	(149)	(89)	45	38	89
Money market accounts	36	(134)	(98)	74	(74)	(17)
Savings deposits	7	(35)	(28)	13	(7)	5
Time deposits	(407)	(1,086)	(1,493)	(335)	(2,290)	(2,530)
Other short-term borrowings	(447)	(11)	(458)	(1,201)	(105)	(1,277)
Total interest-bearing liabilities	(250)	(1,916)	(2,166)	(671)	(3,224)	(3,730)
Net interest income			$ 180			$ 260

Market Risk and Interest Rate Sensitivity

Market risk reflects the risk of economic loss resulting from adverse changes in market prices and interest rates. The risk of loss can be measured in either diminished current market values or reduced current and potential net income. Our primary market risk is interest rate risk. We have established an Asset/Liability Management Committee ("ALCO") to monitor and manage interest rate risk. The ALCO monitors and manages the pricing and maturity of its assets and liabilities in order to diminish the potential adverse impact that changes in interest rates could have on our net interest income. The ALCO has established policy guidelines and strategies with respect to interest rate risk exposure and liquidity.

A monitoring technique employed by us is the measurement of our interest sensitivity "gap," which is the positive or negative dollar difference between assets and liabilities that are subject to interest rate repricing within a given period of time. Also, asset/liability modeling is performed to assess the impact varying interest rates and balance sheet mix assumptions will have on net interest income. Interest rate sensitivity can be managed by repricing assets or liabilities, selling securities available-for-sale, replacing an asset or liability at maturity or by adjusting the interest rate during the life of an asset or liability. Managing the amount of assets and liabilities repricing in the same time interval helps to hedge the risk and minimize the impact on net interest income of rising or falling interest rates. Neither the "gap" analysis or asset/liability modeling are precise indicators of our interest sensitivity position due to the many factors that affect net interest income including, the timing, magnitude and frequency of interest rate changes as well as changes in the volume and mix of earning assets and interest-bearing liabilities.

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The following table illustrates our interest rate sensitivity at December 31, 2011.

Interest Sensitivity Analysis

(Dollars in thousands)	Within One Year	One to Three Years	Three to Five Years	Over Five Years	Total
Assets					
Earning assets					
Loans(1)	$ 98,097	$ 128,241	$ 74,907	$ 17,663	$ 318,908
Loans Held for Sale	3,725				3,725
Securities(2)	69,115	52,910	31,893	50,792	204,710
Federal funds sold, securities purchased under agreements to resell and other earning assets	5,893				5,893
Total earning assets	176,830	181,151	106,800	68,455	533,236
Liabilities					
Interest bearing liabilities					
Interest bearing deposits					
NOW accounts	19,258	31,227	12,615	25,230	88,330
Money market accounts	12,038	16,854	4,815	14,446	48,153
Savings deposits	6,810	5,107	3,405	18,726	34,048
Time deposits	143,694	52,930	13,858		210,482
Total interest-bearing deposits	181,800	106,118	34,693	58,402	381,013
Other borrowings	30,839	5,606	4,353	34,593	75,391
Total interest-bearing liabilities	212,639	111,724	39,046	92,995	456,404
Period gap	$ (35,809)	$ 69,427	$ 67,754	$ (24,540)	$ 76,832
Cumulative gap	$ (35,809)	$ 33,618	$ 101,372	$ 76,832	$ 76,832
Ratio of cumulative gap to total earning assets	(6.72)%	6.30%	19.01%	14.41%	14.41%

(1) Loans classified as non-accrual as of December 31, 2011 are not included in the balances.

(2) Securities based on amortized cost.

We entered into a five year interest rate swap agreement on October 8, 2008. The swap agreement has a $10.0 million notional amount. We receive a variable rate of interest on the notional amount based on a three month LIBOR rate and pay a fixed rate interest of 3.66%. The contract was entered into to protect us from the negative impact of rising interest rates. Our exposure to credit risk is limited to the ability of the counterparty to make potential future payments required pursuant to the agreement. Our exposure to market risk of loss is limited to the changes in the market value of the swap between reporting periods. At December 31, 2011 and 2010, the fair value of the contract was a negative $602 thousand and $778 thousand, respectively. The fair value adjustment during each reporting period is recognized in other income. For the years ended December 31, 2011, 2010 and 2009, the adjustment reflected in earnings amounted to ($166) thousand, $(581) thousand and $58 thousand, respectively. The fair value of the contract is the present value, over the remaining term of the contract, of the difference between the estimated swap rate, for the remaining term, at the reporting date multiplied by the notional amount and the fixed interest rate of 3.66% multiplied by the notional amount of the contract.

Through simulation modeling, we monitor the effect that an immediate and sustained change in interest rates of 100 basis points and 200 basis points up and down will have on net-interest income over the next 12 months. Based on the many factors and assumptions used in simulating the effect of changes in interest rates, the following table estimates the hypothetical percentage change in net interest income at December 31, 2011 and 2010 over the subsequent 12 months. Even though we are liability sensitive, the model at December 31, 2011 reflects a decrease in net interest income in a declining rate environment. This primarily results from the current level of interest rates being paid on our interest bearing transaction accounts as well as money market accounts. The interest rates on these accounts are at a level where they cannot be repriced in proportion to the change in interest rates. The increase and decrease of 100 and 200 basis points assume a simultaneous and parallel change in interest rates along the entire yield curve.

Net Interest Income Sensitivity

	Hypothetical percentage change in net interest income December 31,	
Change in short-term interest rates	**2011**	**2010**
+200bp	3.05%	(0.48)%
+100bp	2.06%	(0.37)%
Flat		
-100bp	(7.48)%	(1.69)%
-200bp	(12.91)%	(6.72)%

We also perform a valuation analysis projecting future cash flows from assets and liabilities to determine the Present Value of Equity ("PVE") over a range of changes in market interest rates. The sensitivity of PVE to changes in interest rates is a measure of the sensitivity of earnings over a longer time horizon. At December 31, 2011 and 2010, the PVE exposure in a plus 200 basis point increase in market interest rates was estimated to be 2.70% and -30.04%, respectively. During 2011, the improvement in the PVE to rising rates is a result of two factors. The first is the change in the mix of our funding sources as noted above in the "Net Interest Income" section above. The other and the most significant impact results from changes in certain assumption in our interest rate risk model. During 2011, we performed an internal analysis of our deposit products as it relates to repricing and decay assumptions on certain of our deposit products. This study resulted in lengthening the average life and decay rates of our deposit products from what had been modeled in prior periods. The change in assumptions was not run for prior periods as the change in these assumptions has no impact on the results of operations or financial position.

Provision and Allowance for Loan Losses

At December 31, 2011, the allowance for loan losses amounted to $4.7 million, or 1.45% of loans, as compared $4.9 million, or 1.49% of loans, at December 31, 2010. Our provision for loan loss was $1.4 million for the year ended December 31, 2011, as compared to $1.9 million and $3.1 million for the years ended December 31, 2010 and 2009, respectively. The provision is made based on our assessment of general loan loss risk and asset quality. The allowance for loan losses represents an amount which we believe will be adequate to absorb probable losses on existing loans that may become uncollectible. Our judgment as to the adequacy of the allowance for loan losses is based on a number of assumptions about future events, which we believe to be reasonable, but which may or may not prove to be accurate. Our determination of the allowance for loan losses is based on evaluations of the collectability of loans, including consideration of factors such as the balance of impaired loans, the quality, mix, and size of our overall loan portfolio, economic conditions that may affect the borrower's ability to repay, the amount and quality of collateral securing the loans, our historical loan loss experience, and a review of specific problem loans. We also consider subjective issues such as changes in the lending policies and procedures, changes in the local/national economy, changes in volume or type of credits, changes in volume/severity of problem loans, quality of loan review and board of director oversight and concentrations of credit. Periodically, we adjust the amount of the allowance based on changing circumstances. We charge recognized losses to the allowance and add subsequent recoveries back to the allowance for loan losses. There can be no assurance that charge-offs of loans in future periods will not exceed the allowance for loan losses as estimated at any point in time or that provisions for loan losses will not be significant to a particular accounting period, especially considering the overall weakness in the commercial real estate market in our market areas.

We perform an analysis quarterly to assess the risk within the loan portfolio. The portfolio is segregated into similar risk components for which historical loss ratios are calculated and adjusted for identified changes in current portfolio characteristics. Historical loss ratios are calculated by product type and by regulatory credit risk classification (See Note 6 Loans). The annualized weighted average loss ratios over the last 24 months for loans classified substandard, special mention and pass have been approximately 5.7%, 2.9% and 0.3%, respectively. The allowance consists of an allocated and unallocated allowance. The allocated portion is determined by types and ratings of loans within the portfolio. The unallocated portion of the allowance is established for losses that exist in the remainder of the portfolio and compensates for uncertainty in estimating the loan losses. As a result of the economic downturn beginning in 2008 and continuing into 2012, real estate values have been dramatically impacted. With our loan portfolio consisting of a large percentage of real estate secured loans we, like most financial institutions, have experienced increasing delinquencies and problem loans. We are not immune to the continued effects of the recessionary economy and continue to experience some deterioration of our loan portfolio in general as evidenced by the increase in non-performing assets from our pre 2008 historic levels. Non-performing assets increased from $8.3 million (0.85% of total assets) at December 31, 2009, to $13.2 million (2.20% of total assets) at December 31, 2010, and to $12.8 million (2.16% of total assets) at December 31, 2011. While we have seen modest moderation in this ratio as of December 31, 2011 and we believe our ratios remain favorable in comparison to current industry results, we continue to be concerned about the impact of this economic environment on our customer base of local businesses and professionals. As noted below in the "Allocation of the Allowance for Loan Losses" table the unallocated portion of the allowance as a percentage of the total allowance has grown over the last several years. The allocated portion of the allowance is based on historical loss experience as well as certain qualitative factors as explained above. The qualitative factors have been established based on certain assumptions made as a result of the current economic conditions and as conditions change are adjusted to be directionally consistent with these changes. With the ongoing uncertainty in economic conditions and particularly real estate valuations we do not believe it would be prudent to reduce substantially the overall level of our allowance at this time. As we have experienced a leveling off of rated and potential problem assets as well as the slight reduction in non-performing assets, we have decreased our provision for loan losses in 2011 and 2010 as compared to 2009. As economic conditions show continued sustainable improvement, the unallocated portion of the allowance should decrease as a percentage of the total allowance. In the near term, this percentage may continue to increase slightly.

Our company has a significant portion of its loan portfolio with real estate as the underlying collateral. At December 31, 2011, approximately 92.0% of the loan portfolio had real estate collateral as compared to approximately 91.9% at December 31, 2010 (see Note 16 to financial statements for concentrations of credit). When loans, whether commercial or personal, are granted, they are based on the borrower's ability to generate repayment cash flows from income sources sufficient to service the debt. Real estate is generally taken to reinforce the likelihood of the ultimate repayment and as a secondary source of repayment. During this economic cycle many borrowers' traditional income sources have been impacted negatively and real estate values have dropped significantly. We will continue to work closely with all our borrowers that are experiencing economic problems as a result of this cycle and believe we have the processes in place to monitor and identify problem credits. Until this economic cycle reverses, we are likely to continue to experience higher than historical delinquencies and problem loans. There can be no assurance that charge-offs of loans in future periods will not exceed the allowance for loan losses as estimated at any point in time or that provisions for loan losses will not be significant to a particular accounting period. The allowance is also subject to examination and testing for adequacy 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. Such regulatory agencies could require us to adjust our allowance based on information available to them at the time of their examination.

At December 31, 2011, 2010, and 2009, we had non-accrual loans in the amount of $5.4 million, $5.9 million and $4.1 thousand, respectively. Nonaccrual loans at December 31, 2011 consisted of 31 loans. All of these loans are considered to be impaired, are substantially all real estate-related, and have been measured for impairment under the fair value of the collateral method. We consider a loan to be impaired when, based upon current information and events, it is believed that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Such fair values are obtained using independent appraisals, which we consider to be level 2 inputs. The aggregate amount of impaired loans was $9.4 million and $9.6 million for the years ending December 31, 2011 and 2010, respectively. The non-accrual loans range in size from $1 thousand to $2.0 million. The largest relationship is in the amount of $2.0 million with a mortgage on an owner occupied commercial business located in the midlands of South Carolina, as well as additional collateral consisting of marketable securities.

In addition to the non-accrual loans that are considered to be impaired, we have five loans totaling $3.9 million that are classified as trouble debt restructurings but are accruing loans as of December 31, 2011. The largest of these is for $3.1 million. This loan is collateralized by real estate lots and additional real estate located in the midlands of South Carolina. This is an amortizing loan underwritten on the strength of the individual's business. Due to the collateral coverage on this credit, and the individual's other sources of cash flow, it is not anticipated that we would incur a material loss in the event the debtor fails to service the debt under the restructured terms. The concession made on this loan consisted of reducing the interest rate from the original contract rate for a period of six months. After six months the rate is reset back to the original rate. The other four loans included as troubled debt restructurings range in size from $30 thousand to $400 thousand and have been evaluated for impairment based on the fair value of the underlying collateral (See Note 6, Loans, to the consolidated financial statements for additional disclosures related to impaired loans and troubled debt restructurings).

There were $3.2 million, $2.4 million, and $2.2 million in loans delinquent 30 to 89 days at December 31, 2011, 2010 and 2009, respectively. There were $25 thousand, $373 thousand and $1.0 thousand in loans greater than 90 days delinquent and still accruing interest at December 31, 2011, 2010 and 2009, respectively.

Our management continuously monitors non-performing, classified and past due loans to identify deterioration regarding the condition of these loans. We have identified 3 loans in the amount of $1.5 million, which are current as to principal and interest at December 31, 2011 and not included in non-performing assets, that could be potential problem loans. Each of these loans is real estate-related, and the loans range in size from $300 thousand to $800 thousand. They have been identified as potential problems based on our review that their traditional sources of cash flow may have been impacted and that they may ultimately not be able to service the debt. These loans are continually monitored and are considered in our overall evaluation of the adequacy of our allowance for loan losses.

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The following table summarizes the activity related to our allowance for loan losses.

Allowance for Loan Losses

(Dollars in thousands)	2011	2010	2009	2008	2007
Average loans and loans held for sale outstanding	$ 329,534	$ 337,143	$ 337,743	$ 318,954	$ 296,991
Loans and loans held for sale outstanding at period end	$ 328,036	$ 329,954	$ 344,187	$ 332,964	$ 310,028
Total nonaccrual loans	$ 5,403	$ 5,890	$ 4,136	$ 1,757	$ 600
Loans past due 90 days and still accruing	$ 25	$ 373	$ 1,022	$ 59	$ 501
Beginning balance of allowance	$ 4,911	$ 4,854	$ 4,581	$ 3,530	$ 3,215
Loans charged-off:					
Construction and development loans			1,402		
1 - 4 family residential mortgage	465	1,273	450	763	320
Non-farm non-residential mortgage	498	223	117		
Multifamily residential	84				
Home equity	285	187	107	16	32
Commercial	265	125	700	271	28
Installment & credit card	62	91	174	90	103
Overdrafts	37	50	34	110	140
Total loans charged-off	1,696	1,949	2,984	1,250	623
Recoveries:					
1 - 4 family residential mortgage	5	43	9	41	80
Non-farm non-residential mortgage		2	8		
Home equity	5	9	4	4	5
Commercial	31	32	73	52	281
Installment & credit card	10	19	54	18	16
Overdrafts	13	23	6	57	64
Total recoveries	64	128	154	172	446
Net loans charged off	1,632	1,821	2,830	1,078	177
Provision for loan losses	1,420	1,878	3,103	2,129	492
Balance at period end	$ 4,699	$ 4,911	$ 4,854	$ 4,581	$ 3,530
Net charge -offs to average loans	0.50%	0.54%	0.84%	0.34%	0.06%
Allowance as percent of total loans	1.45%	1.49%	1.41%	1.38%	1.14%
Non-performing loans as % of total loans	1.67%	1.90%	1.50%	.55%	.36%
Allowance as % of non-performing loans	86.60%	78.41%	94.11%	252.26%	320.62%

The following table presents an allocation of the allowance for loan losses at the end of each of the past five years. The allocation is calculated on an approximate basis and is not necessarily indicative of future losses or allocations. The entire amount is available to absorb losses occurring in any category of loans.

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Allocation of the Allowance for Loan Losses

	2011		2010		2009		2008		2007	
Dollars in thousands	**Amount**	**% of loans in category**	**Amount**	**% of loans in category**	**Amount**	**% of loans in category**	**Amount**	**% of loans in category**	**Amount**	**% of loans in category**
Commercial, Financial and Agricultural	$ 331	6.4%	$ 681	6.2%	$ 634	6.6%	$ 681	8.3%	$ 129	8.7%
Real Estate Construction		3.6%	905	3.2%	1,331	5.8%	1,319	8.7%	343	9.1%
Real Estate Mortgage:										
Commercial	1,475	67.9%	1,404	66.2%	1,522	62.2%	1,641	57.7%	1,989	55.8%
Residential	514	11.8%	465	14.1%	243	14.8%	289	15.7%	553	16.8%
Consumer	578	10.3%	414	10.3%	133	10.6%	100	9.6%	198	9.6%
Unallocated	1,801	N/A	1,043	N/A	991	N/A	551	N/A	318	N/A
Total	$ 4,699	100.0%	$ 4,911	100.0%	$ 4,854	100.0%	$ 4,581	100.0%	$ 3,530	100.0%

Accrual of interest is discontinued on loans when we believe, after considering economic and business conditions and collection efforts that a borrower's financial condition is such that the collection of interest is doubtful. A delinquent loan is generally placed in nonaccrual status when it becomes 90 days or more past due. At the time a loan is placed in nonaccrual status, all interest, which has been accrued on the loan but remains unpaid, is reversed and deducted from earnings as a reduction of reported interest income. No additional interest is accrued on the loan balance until the collection of both principal and interest becomes reasonably certain.

Noninterest Income and Expense

Noninterest Income. A significant source of noninterest income is service charges on deposit accounts. We also originate fixed rate residential loans on a servicing released basis in the secondary market. These loans are fixed rate residential loans that are originated in our name. These loans have locked in price commitments to be purchased by investors at the time of closing. Therefore, these loans present very little market risk for the Company. We usually deliver to, and receive funding from, the investor within 30 days. Other sources of noninterest income are derived from investment advisory fees and commissions on non-deposit investment products, bankcard fees, ATM/debit card fees, commissions on check sales, safe deposit box rent, wire transfer and official check fees. Non-interest income increased from $3.8 million in 2010 to $6.3 million in 2011. Deposit service charges decreased by $65 thousand in 2011 as compared to 2010, primarily as a continued modest decline in overdraft fees. Changes to Regulation E that became effective July 1, 2010 required that customers affirmatively opt in to our overdraft protection program. To the extent customers who had previously utilized this product did not opt in, these changes have resulted in reduced fees resulting from ATM and point of sale transactions. It is expected that this regulatory change, along with other proposals or recommendations related to overdraft protection programs, mandated limitations on the number of items an institution can charge within established time frames, as well as, the order in which items presented for payment must be processed on accounts, may continue to reduce deposit service charge fees in the future. Mortgage origination fees increased by $939 thousand to $1.9 million in 2011 from $1.0 million in 2010. As previously noted the addition of Palmetto South as of July 31, 2011 was a significant contributor to the increased mortgage fees in the third and fourth quarters of 2011. Gross fees from the Palmetto South division during the third and fourth quarters amounted to approximately $880 thousand. In addition historically low interest rates continued to impact refinancing activity during 2011. Investment advisory fees and non-deposit commissions increased to $767 thousand in 2011 as compared to $501 thousand in 2010. This increase results from a continued effort and emphasis placed on this revenue source, as well as an overall increase in the assets under management as a result of the increases in the stock market during 2011.

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For the year ended December 31, 2011, we had net gains on the sale of securities in the amount of $575 thousand, as compared to $827 thousand in the comparable period of 2010. The net gains related primarily to the sale of certain non-agency MBSs that had previously been downgraded by the rating agencies to below investment grade, other investment grade non-agency MBSs, agency MBSs and shares of Federal Home Loan Mortgage Corporation (FHLMC) preferred stock. The FHLMC preferred stock had previously been written down in 2008 as a result of FHLMC being placed into conservatorship. These sales served to significantly reduce the level of securities on our balance sheet that are rated below investment grade (see Note 5 Investment Securities to our Consolidated Financial Statements for further information). The cash generated from these transactions has been reinvested in our investment portfolio, primarily in securities with a risk rating of 20% or less. During 2010, we restructured a portion of our available-for-sale investments. During the second quarter of 2010, we sold a CDO and realized a loss in the amount of $1.7 million. Approximately $41.0 million in available-for-sale GSE bonds and MBSs were sold that realized a gain of approximately $1.7 million. In the third and fourth quarters of 2010, we sold two corporate securities, certain non-taxable municipal securities and other GSE securities and realized gains of $711 thousand. The sales and resulting net gains during the last half of 2010 were a result of our desire to restructure the portfolio to better position us for a rising rate environment as well as investing in securities that have a lower regulatory risk weighting such as GNMA mortgage-backed securities and SBA pools.

Other than temporary impairment ("OTTI") charges (credit component) were $297 thousand in 2011 as compared to $1.6 million in 2010. The 2011 OTTI charges were taken on four below investment grade private label MBSs. We engage a third party to obtain information about structure and anticipated cash flows to assist us in evaluating and monitoring our private label mortgage backed securities portfolio on a quarterly basis (see Note 5 "Investments" to our Consolidated Financial Statements for further information). In 2010, OTTI charges of $477 thousand (credit component) were realized on nine private label mortgage backed securities and $1.1 million on one pooled trust preferred security.

During 2011, we recorded a negative fair value adjustment on an interest rate swap with a notional amount of $10.0 million in the amount of $166 thousand. This compares to a negative fair value adjustment of $581 thousand during 2010. The interest rate swap was entered into in 2008 to protect assets and liabilities from the negative impact in a rising interest rate environment (See "Market Risk and Interest Rate Sensitivity" discussion). In 2011, we realized a loss on early extinguishment of debt in the amount of $188 thousand. "Other"non-interest income increased by $253 thousand in 2011 as compared to 2010. The increase primarily relates to increases in ATM surcharge and debit card exchange fees of $220 thousand. This results from an increase in number of new transaction accounts as well as increased usage of our debit card product by existing customers. During 2010, we realized fee income related to ATM and debit card usage, to include interchange fees, of approximately $840 thousand as compared to $1.0 million in 2011.

Noninterest income decreased from $5.0 million in 2009 to $3.8 million in 2010. Deposit service charges decreased by $437 thousand in 2010 as compared to 2009. Since 2007, we have experienced fewer items being presented for payment on accounts with insufficient funds and as a result this source of fee income has continued to decline. In addition, as previously discussed the changes to Regulation E that became effective July 1, 2010 impacted the fees related to overdrafts on ATM and point of sale transactions. Mortgage origination fees increased by $281 thousand to $1.0 million in 2010 from $753 thousand in 2009. This increase is a result of historically low interest rates causing an increase in the level of refinancing activity during 2010. For the year ended December 31, 2010, we had gains on the sale of securities in the amount of $827 thousand, as compared to $1.5 million in the comparable period of 2009. During 2009, we sold approximately $13.0 million in investments in the fourth quarter of 2009 to fund the early extinguishment of $25.0 million in advances. The loss on early extinguishment of debt of $658 thousand was offset by the gains realized on the sale of $13.0 million in investments. Other gains realized throughout 2009 were realized to take advantage of favorable spreads on certain available-for sale securities and shorten the average life of the portfolio. OTTI charges of $1.6 million (credit component) in 2010 as discussed above compare to $1.0 million taken during 2009. During 2009, aggregate OTTI was recognized on five investments. The first, in the amount of $510 thousand, was an equity investment in another financial institution that was closed by the OCC and placed into receivership on May 1, 2009. The charge of $510 thousand represented the entire balance of the investment. An additional charge of $491 thousand was taken on four private label mortgage backed securities ("PLMBSs"). The negative fair value adjustment in 2010 of $581 thousand compares to a positive adjustment of $58 thousand in 2009 on interest rate swap agreement entered into in 2008 with a notional amount of $10.0 discussed previously. Non-interest income "Other" increased by $56 thousand in 2010 as compared to 2009. The increase results from modest increases in all other miscellaneous fees.

Noninterest Expense. In the very competitive financial services industry, we recognize the need to place a great deal of emphasis on expense management and continually evaluate and monitor growth in discretionary expense categories in order to control future increases. Noninterest expense increased from $17.7 million in 2010 to $18.4 million in 2011. Salary and benefit expense increased $578 thousand from $8.9 million in the 2010 to $9.5 million in 2011. At December 31, 2010, we had 147 full time equivalent employees as compared to 157 full time employees at December 31, 2011. The increase in number of full time equivalent employees, as well as normal salary adjustments made over the last 12 months, account for the increase in salary and benefit expense in 2011 as compared to 2010. As previously noted, we acquired Palmetto South on July 31, 2011, which is the primary contributor to the increase in the number of full time equivalent employees in 2011 as compared to 2010. ATM/debit card processing expense increased by $58 thousand in 2011 as compared to 2010. This increase is a result of increased number of accounts as well as higher utilization by existing customers of the debit card product. FDIC insurance assessments decreased $114 thousand in 2011 as compared 2010. During the second quarter of 2011, the FDIC changed the assessment from a deposit base to an asset based calculation. The impact to community banks in our asset range was to generally lower the amount of our assessment. This change in the calculation accounts for the lower overall FDIC assessment in 2011 as compared to 2010. In November 2009, all insured institutions with limited exceptions were required to prepay insurance assessments for a three-year period. Our prepayment made in December 2009 amounted to approximately $2.9 million. At December 31, 2011, the remaining prepaid insurance assessment amounted to $1.0 million and is included in "Other assets".

During the third quarter of 2009, we recognized an impairment charge of $27.8 million related to goodwill acquired in previous acquisitions (see discussion above under "Results of Operations"). Operating noninterest expense increased from $16.6 million in 2009 to $17.7 million in 2010. Total non-interest expense, excluding the goodwill impairment in 2009, increased by $1.1 million, or 6.6%, 2010, as compared to 2009. Salary and benefit expense increased $680 thousand from $8.3 million in 2009 to $8.9 million in the 2010. At December 31, 2010 we had 147 full time equivalent employees as compared to 140 full time employees at December 31, 2009. The increase in number of full time equivalent employees, normal salary adjustments made over the last 12 months as well as a lower amount of deferred salary expense resulting from decreased loan originations account for the increase in salary and benefit expense in 2010 as compared to 2009. FDIC insurance assessments decreased $102 thousand in 2010 as compared 2009. During the second quarter of 2009, the FDIC assessed a one-time special assessment on all insured institutions of 10 basis points. This special assessment amounted to $500 thousand and was expensed in the second quarter of 2009. The FDIC assessment rate for 2010 averaged approximately 19.9 basis points. The recently passed financial institution reform legislation broadens the assessment base for calculation of the FDIC assessment. In November 2009, all insured institutions with limited exceptions were required to prepay insurance assessments for a three-year period. Our prepayment made in December 2009 amounted to approximately $2.9 million. At December 31, 2010, the remaining prepaid insurance assessment amounted to $1.8 million and is included in "Other assets". Other real estate expense increased to $823 thousand during 2010 as compared to $201 thousand in the same period of 2009. This is a result of the increased balance of other real estate owned and includes cost associated with foreclosure, force placed insurance coverage as well as property taxes paid on prior year delinquent taxes on these properties. It is anticipated that these other real estate costs will remain at or near the 2010 levels throughout 2011. Non-interest expense "Other Miscellaneous" decreased by $132 thousand from $756 thousand in 2009 to $624 thousand in 2010.

The following table sets forth for the periods indicated the primary components of noninterest expense:

	Year ended December 31,		
(In thousands)	**2011**	**2010**	**2009**
Salary and employee benefits	$ 9,520	$ 8,942	$ 8,262
Occupancy	1,289	1,229	1,198
Equipment	1,147	1,162	1,249
Marketing and public relations	452	402	343
ATM/debit card processing	472	414	342
Supplies	178	150	221
Telephone	307	302	300
Courier	66	63	79
Correspondent services	193	97	34
FDIC/FICO premium	889	1,003	1,105
Insurance	213	220	194
Other real estate expenses	840	823	201
Professional fees	1,040	1,068	1,132
Loss on limited partnership interest	119	119	119
Postage	174	181	192
Director fees	319	264	232
Amortization of intangibles	517	621	621
Impairment of goodwill			27,761
Other	666	624	756
	$ 18,401	$ 17,684	$ 44,341

Income Tax Expense

Income tax expense for 2011 was $1.5 million as compared to income tax expense for the year ended December 31, 2010 of $565 thousand and $696 thousand for the year ended December 31, 2009. We recognize deferred tax assets for future deductible amounts resulting from differences in the financial statement and tax bases of assets and liabilities and operating loss carry forwards. A valuation allowance is then established to reduce the deferred tax asset to the level that it is more likely than not that the tax benefit will be realized. In 2008, we established a deferred tax valuation allowance of $425 thousand primarily related to contribution carry forwards that expired at the end of 2010. Contribution carry forwards of approximately $710 thousand expired in 2010 and the related valuation allowance in the amount of $241 thousand was reversed. At December 31, 2011, there is a remaining deferred tax valuation reserve in the amount of $132 thousand primarily related to a capital loss carryforward. The net loss generated during 2009 was a result of the impairment of goodwill acquired in tax free acquisitions and therefore is not deductible for income tax purposes. As of December 31, 2011 we have a tax net loss carryforward of approximately $9.6 million. Approximately $1.6 million of this carryforward expires in 2025 and the balance of $8.0 million expires in 2032. See Note 14, Income

Taxes, to the financial statements for a reconciliation of the tax expense. It is anticipated that our effective tax rate for 2012 will be between 32% and 34%.

Financial Position

Assets totaled $593.9 million at December 31, 2011 as compared to $599.0 million at December 31, 2010, a decrease of $5.1 million. Over the last two years, we have attempted to control balance sheet growth by paying down FHLB advances as they mature or prepaying the advances when the pricing and our liquidity were favorable. Loans at December 31, 2010 were $330.0 million as compared to $324.3 million (excluding loans held for sale) at December 31, 2011. We funded in excess of $46.5 million of new loan production in 2011, but due to scheduled pay downs during the period as well as transfers from loans to other real estate owned, loans declined by $5.7 million from December 31, 2010 to December 31, 2011. At December 31, 2011, loans accounted for 60.0% of earning assets, as compared to 60.6% at December 31, 2010. The loan-to-deposit ratio at December 31, 2011 was 69.8% as compared to 72.5% at December 31, 2010. During 2011, we began to close and fund loans originated for sale, in the secondary market, in the name of First Community Bank, N.A. These loans are generally held for less than thirty days and have locked in purchase commitments by investors prior to closing. Prior to 2011, the loans originated for sale were closed and funded in the investors name and therefore were not reflected on our balance sheet. At December 31, 2011, loans held for sale amounted to $3.7 million. Investment securities increased from $196.2 million at December 31, 2010 to $206.7 million at December 31, 2011. Short-term federal funds sold and interest-bearing bank balances decreased from $19.3 million at December 31, 2010 to $5.9 million at December 31, 2011. The decrease was a result of paying down FHLB advances and our decision to reduce the overall level of funds invested in these overnight investments due to the very low interest rate environment. Deposits increased by $9.0 million to $464.6 million at December 31, 2011 as compared to $455.3 million at December 31, 2010. At December 31, 2011, we had no brokered certificates of deposits. As previously discussed due to the current economic cycle and the significant emphasis by regulators and the investment community on tangible capital, regulatory capital ratios and overall liquidity, we have attempted to control the growth of our balance sheet throughout 2011. We have focused on growing our core deposit base while continuing to fund soundly underwritten loans. To improve our exposure to rising interest rates (see "Market Risk Management" section), the growth in deposits was invested in shorter maturity amortizing investments such as agency CMOs and SBA pools. During 2011, we sold certain non-agency MBSs that had previously been downgraded by the rating agencies to below investment grade, other investment grade non-agency MBSs, agency MBS's and shares of Federal Home Loan Mortgage Corporation (FHLMC) preferred stock. The FHLMC preferred stock had previously been written down in 2008 as a result of FHLMC being placed into conservatorship. These sales served to significantly reduce the level of securities on our balance sheet that are rated below investment grade (see Note 5, Investment Securities, for further information). The following table summarizes the carrying value of investment securities in our portfolio that have been downgraded below investment grade as of December 31, 2009, 2010 and 2011, respectively.

	12/31/09	12/31/10	12/31/2011
Total Non-Agency MBSs	$ 65,793	$ 51,436	$ 16,487
Below Investment Grade Non-Agency MBSs	$ 42,863	$ 37,078	$ 13,633
Other Below Investment Grade Securities	8,857	1,877	
Total Below Investment Grade Securities	$ 51,720	$ 38,955	$ 13,633

The funds received from the sale of these downgraded investments as well as other investment sales transaction were primarily invested in securities that have a lower regulatory risk weighting such as GSE mortgage-backed securities and SBA pools. These securities carry a zero to twenty percent

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regulatory risk weighting for regulatory capital purposes. We also do not consider any of our investments to have additional other-than-temporary impairment in excess of amounts previously recognized at December 31, 2011.

Shareholders' equity totaled $47.9 million at December 31, 2011, as compared to $41.8 million at December 31, 2010. Net income available to common shareholders less dividend payments to common shareholders resulted in retained deficit decreasing to $17.6 million as of December 31, 2011. Due to the low interest rate environment and the reduction in below investment grade securities, accumulated other comprehensive income increased from a deficit at December 31, 2010 of $2.2 million to a positive $1.3 million at December 31, 2011.

Earning Assets

Loans. Loans typically provide higher yields than the other types of earning assets. During 2011, loans accounted for 59.9% of average earning assets as compared to 60.6% of average earning assets in 2010. The loan portfolio averaged $329.5 million in 2011 as compared to $337.1 million in 2010. Loans decreased from $330.0 million at December 31, 2010 to $324.3 million at December 31, 2011. Quality loan portfolio growth continues to be a strategic focus into 2012 and thereafter. Associated with the higher loan yields are the inherent credit and liquidity risks, which we attempt to control and counterbalance. A goal of the Treasury's CPP, which we participated in 2008, was to provide capital to financial institutions to assist in unfreezing the credit markets. One of our goals as a community bank has, and continues to be, to grow our assets through quality loan growth by providing credit to small and mid-size businesses, as well as individuals within the markets we serve. In 2011, we funded new loans of approximately $46.5 million. Loan production and portfolio growth rates continue to be impacted by the current economic recession, as borrowers are less inclined to leverage their corporate and personal balance sheets. However, we remain committed to meeting the credit needs of our local markets. A continuation of the very slow recovery from recessionary national and local economic conditions, as well as deterioration of asset quality within our Company, could significantly impact our ability to grow our loan portfolio. Significant increases in regulatory capital expectations beyond the traditional "well capitalized" ratios and significantly increased regulatory burdens will impede our ability to leverage our balance sheet and expand the loan portfolio.

The following table shows the composition of the loan portfolio by category:

	December 31,				
(In thousands)	**2011**	**2010**	**2009**	**2008**	**2007**
Commercial, financial & agricultural	$ 20,608	$ 20,555	$ 22,758	$ 27,833	$ 26,912
Real estate:					
Construction	11,767	10,540	19,972	28,832	28,141
Mortgage residential	38,337	46,684	50,985	52,423	52,018
Mortgage commercial	220,288	218,298	214,178	191,832	173,173
Consumer:					
Home equity	27,976	27,747	28,824	23,872	21,183
Other	5,335	6,130	7,470	8,172	8,601
Total gross loans	324,311	329,954	344,187	332,964	310,028
Allowance for loan losses	(4,699)	(4,911)	(4,854)	(4,581)	(3,530)
Total net loans	$ 319,612	$ 325,043	$ 339,333	$ 328,383	$ 306,498

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In the context of this discussion, a real estate mortgage loan is defined as any loan, other than loans for construction purposes, secured by real estate, regardless of the purpose of the loan. We follow the common practice of financial institutions in the Company's market area of obtaining a security interest in real estate whenever possible, in addition to any other available collateral. This collateral is taken to reinforce the likelihood of the ultimate repayment of the loan and tends to increase the magnitude of the real estate loan components. Generally, we limit the loan-to-value ratio to 80%. The principal components of our loan portfolio at year-end 2011 and 2010 were commercial mortgage loans in the amount of $220.3 million and $218.2 million, representing 67.9% and 66.1% of the portfolio, respectively. Significant portions of these commercial mortgage loans are made to finance owner-occupied real estate. We continue to maintain a conservative philosophy regarding our underwriting guidelines, and believe it will reduce the risk elements of the loan portfolio through strategies that diversify the lending mix.

The repayment of loans in the loan portfolio as they mature is a source of liquidity. The following table sets forth the loans maturing within specified intervals at December 31, 2010.

Loan Maturity Schedule and Sensitivity to Changes in Interest Rates

	December 31, 2011			
(in thousands)	**One Year or Less**	**Over one Year Through Five Years**	**Over five years**	**Total**
Commercial, financial and agricultural	$ 7,278	$ 12,921	$ 409	$ 20,608
R/E-Construction	8,988	2,779		11,767
All other loan	37,884	200,679	53,373	291,936
	$ 54,150	$ 216,379	$ 53,782	$ 324,311
Loans maturing after one year with:				
Variable Rate				$ 48,545
Fixed Rate				221,616
				$ 270,161

The information presented in the above table is based on the contractual maturities of the individual loans, including loans which may be subject to renewal at their contractual maturity. Renewal of such loans is subject to review and credit approval, as well as modification of terms upon their maturity.

Investment Securities

The investment securities portfolio is a significant component of our total earning assets. Total securities averaged $205.7 million in 2011, as compared to $194.4 million in 2010. This represents 37.4% and 35.0% of the average earning assets for the year ended December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, our investment securities portfolio amounted to $206.7 million and $196.1 million, respectively.

Beginning in 2008 and continuing into 2012, the bond markets and many institutional holders of bonds have come under a great deal of stress partially as a result of increasing delinquencies in the sub-prime mortgage lending market. As of December 31, 2011, we own total MBSs and CMOs with an amortized cost of $141.1 million and an approximate fair value of $141.6 million. These included securities with an amortized cost of $124.6 million and approximate fair value of $126.9 million issued by GSEs. The contractual cash flows of the investments are guaranteed by the GSE. Accordingly, it is expected that the securities would not be settled at a price less than our amortized cost.

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Also included in our MBS and CMO portfolio are PLMBSs with an amortized cost of $16.5 million and approximate fair value of $14.7 million at December 31, 2011. Although at the time of purchase, these were not classified as sub-prime obligations or considered the "high risk" tranches, the majority of "structured" investments within all credit markets have been impacted by volatility and credit concerns and economic stresses throughout 2008 through 2011. The result has been that the market for these investments are less liquid and the spread as compared to alternative investments widened dramatically. During the second quarter of 2008, we implemented a leverage strategy whereby we acquired approximately $63.2 million in certain non-agency MBSs and CMOs. All of the mortgage assets acquired in this transaction were classified as prime or ALT-A securities and represented the senior or super-senior tranches of the securities. The assets acquired as part of this strategy were classified as held-to-maturity in the investment portfolio. Due to the significant spreads on these securities, they were all purchased at discounts. Starting in early 2009, many of these securities acquired in the leverage strategy, as well as others that were owned prior to 2008, began to be downgraded by the various rating agencies, and at December 31, 2011, 10 CUSIPs held have been downgraded below investment grade. We perform an internal detailed analysis on each CUSIP on a quarterly basis. The analysis includes stressing each security using various assumptions for conditional default rate (CDR), prepayment speeds (CPR) and severities of loss on underlying collateral once it is liquidated. In addition, we have an independent third party perform an analysis of each security to assist with evaluating and stressing each of the securities that have been downgraded below investment grade. Our analysis to evaluate the credit loss component of the impairment includes stressing the expected cash flows using the average CPR, CDRs and severities over the last six months. The ongoing assumptions for average prepayment rate, default rate and severity used in the valuation were approximately 5.6%, 2.6% and 49.8% respectively. For all loans in the pools sixty day delinquent or more it is assumed they will be resolved across a two year period at loss severities based on location and category. Each CUSIP is reviewed and if circumstances indicate that a shorter time frame is appropriate because CDRs and severities are rapidly increasing, we will adjust these assumptions. For the year ended December 31, 2011, we recognized impairment charges on four PLMBS investments whereby the credit component was $297 thousand recognized through earnings. (see Note 5 to the financial statements). For the year ended December 31, 2010, we recognized the credit impairment charges of $477 thousand as the credit component on nine PLMBS securities through earnings. Our exposure to future losses resulting from OTTI has been greatly reduced as result of the overall reduction through the sale of a number of these investments in 2011 (see Financial Position discussion above). Our remaining PLMBSs continue to experience high levels of delinquencies in the underlying loans that make up the PLMBSs, and as a result we could experience additional OTTI in the future.

The following table summarizes the PLMBSs portfolio by credit rating as of December 31, 2011. The rating reflects the lowest rating by any major rating agency.

Credit Rating	Number of CUSIPs	Par Value	Amortized Cost	Fair Value
AAA	6	$ 1,674	$ 1,674	$ 1,596
AA	1	353	353	351
Aa2	1	87	87	87
Aa3	1	378	378	366
A1	1	362	362	336
Below Investment Grade	12	16,044	13,633	11,982
Total	22	$ 18,898	$ 16,487	$ 14,718

In our opinion, the current rating system does not properly reflect the overall risk in these types of multi-obligor bonds. Generally, they are rated below investment grade when there is a projected loss of a level of principal based on the par value of the bond. The process does not adequately consider what the holder paid for the bond or the impact that they are multi-obligor securities. This can cause an entire security to be rated below investment grade even though a majority of the underlying obligors are paying timely on the underlying obligation. We believe that the robust internal and independent external monitoring process that we have in place allows us to properly evaluate the credit risk underlying these securities and record any further OTTI in a timely manner.

We also hold corporate bonds and other securities with an amortized cost value of $1.5 million and fair value of $1.4 million as of December 31, 2011. At December 31, 2011 we held no corporate debt securities rated below investment grade. For corporate debt securities, we review the underlying issuer's credit quality, additional underlying credit support, and the length of maturity of the bond. If our analysis determines that it is likely we will recover all of the projected cash flows, we do not deem the security to be OTTI.

At December 31, 2011, the estimated weighted average life of the portfolio was approximately 5.7 years, duration of approximately 3.7, and a weighted average tax equivalent yield of approximately 3.10%

The following table shows the investment portfolio composition.

	December 31,		
(Dollars in thousands)	**2011**	**2010**	**2009**
Securities available-for-sale at fair value:			
U.S. Government sponsored enterprises	$ 34	$ 13,738	$ 7,718
Small Business Administration pools	36,479	31,496	9,408
Mortgage-backed securities	141,631	121,257	94,124
State and local government	20,488	19,055	8,179
FHLMC preferred stock	21	235	348
Corporate bonds	1,415	2,585	11,192
Other	964	943	867
	201,032	189,309	131,836
Securities held-to-maturity (amortized cost):			
State and local government			2,711
Mortgage-backed securities			53,333
Other			60
			56,104
Total	$ 201,032	$ 189,309	$ 187,940

We hold other investments carried at cost which includes stock in the Federal Reserve and the FHLB. These investments amounted to $5.6 million, $6.8 million, and $7.9 million at December 31, 2011, 2010 and 2009, respectively.

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Investment Securities Maturity Distribution and Yields

The following table shows, at amortized cost, the scheduled maturities and average yield of securities held at December 31, 2011

	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years	
(In thousands)	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**
Available-for-sale:								
Government sponsored enterprises	$		$ 31	4.97%	$		$	
Small Business Administration pools			9,977	1.22%	14,247	3.38%	11,665	1.66%
Mortgage-backed securities	7,170	1.63%	101,394	2.72%	25,255	4.09%	7,285	4.21%
State and local government	501	3.30%	909	3.69%	18,207	3.75%		
Corporate			1,000	4.00%	500	3.51%		
Other			60	0.78%		0.00%	872	4.48%
Total investment securities available-for-sale	$ 7,671	1.74%	$ 113,371	2.61%	$ 58,209	3.80%	$ 19,822	2.72%

(1) Yield calculated on tax equivalent basis

Short-Term Investments

Short-term investments, which consist of federal funds sold, securities purchased under agreements to resell and interest bearing deposits, averaged $15.2 million in 2011, as compared to $24.4 million in 2010. During 2009 we started maintaining the majority of our short term overnight investments in our account at the Federal Reserve rather than in federal funds at various correspondent banks. At December 31, 2011, short-term investments including funds on deposit at the Federal Reserve totaled $5.1 million. These funds are a primary source of liquidity and are generally invested in an earning capacity on an overnight basis.

Deposits and Other Interest-Bearing Liabilities

Deposits. Average deposits were $466.8 million during 2011, compared to $458.5 million during 2010. Average interest-bearing deposits were $384.3 million during 2011, as compared to $382.0 million during 2010.

The following table sets forth the deposits by category:

	December 31,					
	2011		2010		2009	
(In thousands)	**Amount**	**% of Deposits**	**Amount**	**% of Deposits**	**Amount**	**% of Deposits**
Demand deposit accounts	$ 83,572	18.0%	$ 72,625	16.0%	$ 72,656	16.2%
NOW accounts	88,330	19.0%	78,814	17.3%	64,569	14.4%
Money market accounts	48,153	10.40%	44,790	9.8%	40,090	8.9%
Savings accounts	34,048	7.3%	29,886	6.6%	25,757	5.7%
Time deposits less than $100,000	128,616	27.7%	143,946	31.6%	156,422	34.8%
Time deposits more than $100,000	81,866	17.6%	85,283	18.7%	90,082	20.0%
	$ 464,585	100.0%	$ 455,344	100.0%	$ 449,576	100.0%

Core deposits, which exclude certificates of deposit of $100,000 or more, provide a relatively stable funding source for the loan portfolio and other earning assets. Core deposits were $370.1 million and

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$344.6 million at December 31, 2011 and 2010, respectively. Included in time deposits less than $100,000 are brokered deposits of $14.9 at December 31, 2009. We had no brokered deposits as of December 31, 2011 and 2010.

A stable base of deposits is expected to continue be the primary source of funding to meet both our short-term and long-term liquidity needs in the future. The maturity distribution of time deposits is shown in the following table.

Maturities of Certificates of Deposit and Other Time Deposit of $100,000 or more

	December 31, 2011				
(In thousands)	**Within Three Months**	**After Three Through Six Months**	**After Six Through Twelve Months**	**After Twelve Months**	**Total**
Certificates of deposit of $100,000 or more	$ 11,360	$ 18,393	$ 24,727	$ 27,386	$ 81,866

There were no other time deposits of $100,000 or more at December 31, 2011.

Large certificate of deposit customers tend to be extremely sensitive to interest rate levels, making these deposits less reliable sources of funding for liquidity planning purposes than core deposits.

Borrowed funds. Borrowed funds consist of securities sold under agreements to repurchase, FHLB advances and long-term debt as a result of issuing $15.0 million in trust preferred securities. Short-term borrowings in the form of securities sold under agreements to repurchase averaged $15.9 million, $17.4 and $24.6 million during 2011, 2010 and 2009, respectively. The maximum month-end balances during 2011, 2010 and 2009 were $18.1 million, $21.8 million and $28.9 million, respectively. The average rates paid during these periods were 0.25%, 0.35% and 0.40%, respectively. The balances of securities sold under agreements to repurchase were $13.6 million and $12.7 million at December 31, 2011 and 2010, respectively. The repurchase agreements all mature within one to four days and are generally originated with customers that have other relationships with the company and tend to provide a stable and predictable source of funding. As a member of the FHLB, the bank has access to advances from the FHLB for various terms and amounts. During 2011 and 2010, the average outstanding advances amounted to $56.0 million and $69.3 million, respectively.

The following is a schedule of the maturities for FHLB Advances as of December 31, 2011 and 2010:

	December 31,			
	2011		2010	
(In thousands) Maturing	**Amount**	**Rate**	**Amount**	**Rate**
2011			18,000	3.06%
2012	1,000	0.36%		
2013	4,000	3.58%	10,500	3.39%
2015	6,500	4.09%	7,500	4.06%
After five years	32,362	4.13%	32,094	4.11%
	$ 43,862	3.99%	$ 68,094	3.72%

During the fourth quarter of 2011, we prepaid $4.0 million in advances that were scheduled to mature in January 2013. In addition to the above borrowings, we issued $15.0 million in trust preferred securities on September 16, 2004. The securities accrue and pay distributions quarterly at a rate of three month LIBOR plus 257 basis points. The debt may be redeemed in full anytime after September 16, 2009 with notice and matures on September 16, 2034. In the fourth quarter of 2011, we issued $2.5 million in 8.75% subordinated notes maturing December 16, 2019. Interest is payable quarterly and the notes may be prepaid at anytime without penalty. Warrants for 107,500 shares of common stock at $5.90 per share were issued in connection with the issuance of the subordinated debt. The warrants expire December 16, 2019.

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Capital Adequacy and Dividends

Total shareholders' equity as of December 31, 2011 was $47.9 million as compared to $41.8 million as of December 31, 2010. Retention of earnings available to common shareholders less dividend payments on our common stock, plus an increase in accumulated other comprehensive income accounted for the increase in shareholders' equity. In November 2008, we issued $11.35 million in preferred stock under the CPP plan. Preferred dividends of 5% were paid during the year ended December 31, 2011 and 2010 on the preferred stock issued under the CPP plan. During each quarter of 2010 and 2011, we paid a dividend on our common stock of $0.04 per share.

In addition, a dividend reinvestment plan was implemented in the third quarter of 2003. The plan allows existing shareholders the option of reinvesting cash dividends as well as making optional purchases of up to $5,000 in the purchase of common stock per quarter.

The following table shows the return (loss) on average assets (net income divided by average total assets), return on average equity (net income divided by average equity), and equity to assets ratio for the three years ended December 31, 2011.

	2011	2010	2009
Return on average assets	0.44%	0.20%	(3.90)%
Return on average common equity	7.98%	3.73%	(49.66)%
Equity to assets ratio(1)	8.06%	6.98%	6.84%
Dividend Payout Ratio	5.79%	28.1%	N/A

(1) Includes Series T perpetual preferred stock issued November 21, 2008

On November 21, 2008, as part of the CPP established by the Treasury under the EESA, First Community Corporation entered into the CPP Purchase Agreement with the Treasury dated November 21, 2008, whereby we issued and sold to the Treasury (i) the Series T Preferred Stock and (ii) the CPP Warrant for an aggregate purchase price of $11.350 million in cash. The proceeds from this offering qualify as Tier 1 capital under the regulatory capital guidelines.

Cumulative dividends on the Series T Preferred Stock accrue on the liquidation preference at a rate of 5% per annum for the first five years, and at a rate of 9% per annum thereafter, but will be paid only if, as, and when declared by the board of directors. The Series T Preferred Stock has no maturity date and ranks senior to the common stock with respect to the payment of dividends and distributions and amounts payable upon liquidation, dissolution and winding up of the company. The Series T Preferred Stock generally is non-voting.

Under the terms of the CPP Purchase Agreement, we may redeem the Series T Preferred Stock at par after February 15, 2012. Prior to this date, we may redeem the Series T Preferred Stock at par if (i) we raise aggregate gross proceeds in one or more Qualified Equity Offerings (as defined in the CPP Purchase Agreement) in excess of approximately $2.8 million, and (ii) the aggregate redemption price does not exceed the aggregate net proceeds from such Qualified Equity Offerings. The Recovery Act signed by the President on February 17, 2009 amended the terms of the CPP Purchase Agreement, allowing us to redeem the Series T Preferred Stock prior to February 15, 2012. However, any redemption remains subject to the consent of the Federal Reserve.

On April 6, 2010, the Bank entered into the Formal Agreement with the OCC, our primary bank regulator. The Formal Agreement is based on the findings of the OCC during a 2009 on-site examination of the Bank. As reflected in the Formal Agreement, the OCC's primary concern with the Bank was driven by the rating agencies downgrades of non-agency MBS in its investment portfolio. These securities, purchased in 2004 through 2008, were all rated AAA by the rating agencies at the time of purchase; however, they have been impacted by the economic recession and the stress on the residential housing sector (see discussion above under "Investments" and Note 5, Investments, to the Consolidated Financial Statements"). The Formal Agreement did not require any adjustment to the Bank's balance sheet or income statement; nor did it change the Bank's "well capitalized" status.

In addition to the Formal Agreement, the OCC has separately established the following individual minimum capital ratios for the Bank: a Tier 1 leverage capital ratio of at least 8.00%, a Tier 1 risk-based capital ratio of at least 10.00%, and a Total risk-based capital ratio of at least 12.00%. As of December 31, 2011, the Bank exceeded each of these ratios and remained well capitalized. The Board of Directors has appointed an independent compliance committee made up of directors to monitor and report on compliance with the terms of the Formal Agreement. The Bank has taken and will continue to take all actions necessary to enable it to comply with the requirements of the Formal Agreement, and as of the date hereof management has submitted all documentation required as of this date to the OCC. There can be no assurance that the Bank will be able to continue to comply fully with the provisions of the Formal Agreement, and the determination of our compliance will be made by the OCC. However, management believes the Bank is currently in compliance with all provisions of the Formal Agreement. Failure to meet the requirements of the Formal Agreement could result in additional regulatory requirements, which could result in regulators taking additional enforcement actions against the Bank.

The Bank's risk-based capital ratios of leverage ratio, Tier 1, and total capital were 9.27%, 15.12%, and 16.38%, respectively, at December 31, 2011 as compared to 8.48%, 13.24%, and 14.49%, respectively, at December 31, 2010. The Company's risk-based capital ratios of leverage ratio, Tier 1, and total capital were 9.40%, 15.33%, and 17.25%, respectively at December 31, 2011 as compared to 8.79%, 13.73% and 14.99%, respectively at December 31, 2010. Our management anticipates that the Bank and the Company will remain a well capitalized institution for at least the next 12 months. In addition, we believe that we will continue to exceed the individual capital ratios established by the OCC noted above for at least the next 12 months.

Dividends that may be paid by the Bank to the Company are subject to legal limitations and regulatory capital requirements. In addition to the Formal Agreement, as a national bank, the Bank is prohibited from declaring a dividend on its shares of common stock in any year in excess of an amount equal to the sum of the net income of the Bank for that year and the retained net income of the Bank for the preceding two years, *minus* the sum of any transfers required by the OCC and any transfers required to be made to a fund for the retirement of any preferred stock, unless the OCC approves the declaration and payment of dividends in excess of such amount. As a national bank, the Bank also cannot pay dividends from permanent capital without prior OCC approval. Further, the Company cannot pay cash dividends on its common stock during any calendar quarter unless full dividends on the Series T preferred stock for the dividend period ending during the calendar quarter have been declared and the Company has not failed to pay a dividend in the full amount of the Series T Preferred Stock with respect to the period in which such dividend payment in respect of its common stock would occur. However, restrictions currently exist, including within the Formal Agreement, that prohibit the Bank from paying cash dividends to the Company.

During the fourth quarter of 2011, we prepaid $4.0 million in advances that were scheduled to mature in January 2013. In addition to the above borrowings, we issued $15.0 million in trust preferred securities on September 16, 2004. The securities accrue and pay distributions quarterly at a rate of three month LIBOR plus 257 basis points. The debt may be redeemed in full anytime after September 16, 2009 with notice and matures on September 16, 2034. In the fourth quarter of 2011, we issued $2.5 million in 8.75% subordinated notes maturing in December 16, 2019. Interest is payable quarterly and the notes may be prepaid at anytime without penalty. Warrants for 107,500 shares of common stock at $5.90 per share were issued in connection with the issuance of the subordinated debt. The warrants expire December 16, 2019.

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The Company and the Bank exceeded their regulatory capital ratios at December 31, 2011 and 2010, as set forth in the following table:

(In thousands)	Required Amount	%	Actual Amount	%	Excess Amount	%
The Bank:						
December 31, 2011						
Risk Based Capital						
Tier 1	$ 14,647	4.00%	$ 55,377	15.1%	$ 40,730	11.1%
Total Capital	29,294	8.00%	59,971	16.4%	30,677	8.4%
Tier 1 Leverage	23,898	4.00%	55,377	9.3%	31,479	5.3%
December 31, 2010						
Risk Based Capital						
Tier 1	$ 15,480	4.00%	$ 51,225	13.2%	$ 35,745	9.2%
Total Capital	30,960	8.00%	56,078	14.5%	25,118	6.5%
Tier 1 Leverage	24,172	4.00%	51,225	8.5%	27,053	4.5%
The Company:						
December 31, 2011						
Risk Based Capital						
Tier 1	$ 14,668	4.00%	$ 56,207	15.3%	$ 41,539	11.3%
Total Capital	29,335	8.00%	63,256	17.3%	33,921	9.3%
Tier 1 Leverage	23,909	4.00%	56,207	9.4%	32,298	5.4%
December 31, 2010						
Risk Based Capital						
Tier 1	$ 15,509	4.00%	$ 53,252	13.7%	$ 37,743	9.7%
Total Capital	31,020	8.00%	58,105	15.0%	27,085	7.0%
Tier 1 Leverage	24,227	4.00%	53,252	8.8%	29,025	4.8%

As noted above the OCC has separately established the following individual minimum capital ratios for the bank: a Tier 1 leverage capital ratio of at least 8.00%, a Tier 1 risk-based capital ratio of at least 10.00%, and a Total risk-based capital ratio of at least 12.00%. As of December 31, 2011, the bank exceeds these ratios.

Liquidity Management

Liquidity management involves monitoring sources and uses of funds in order to meet its day-to-day cash flow requirements while maximizing profits. Liquidity represents our ability to convert assets into cash or cash equivalents without significant loss and to raise additional funds by increasing liabilities. Liquidity management is made more complicated because different balance sheet components are subject to varying degrees of management control. For example, the timing of maturities of the investment portfolio is very predictable and subject to a high degree of control at the time investment decisions are made. However, net deposit inflows and outflows are far less predictable and are not subject to nearly the same degree of control. Asset liquidity is provided by cash and assets which are readily marketable, or which can be pledged, or which will mature in the near future. Liability liquidity is provided by access to core funding sources, principally the ability to generate customer deposits in our market area. In addition, liability liquidity is provided through the ability to borrow against approved lines of credit (federal funds purchased) from correspondent banks and to borrow on a secured basis through securities sold under agreements to repurchase. The Bank is a member of the FHLB and has the ability to obtain advances for various periods of time. These advances are secured by securities pledged by the Bank or assignment of loans within the Bank's portfolio.

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With the successful completion of the common stock offering in 1995, the secondary offering completed in 1998, the trust preferred offering completed in September 2004, the acquisition of DutchFork in October 2004, the acquisition of DeKalb in June 2006, the preferred stock offering under the CPP program in November 2008, and the Unit offering in December 2011, we have maintained a high level of liquidity and adequate capital along with retained earnings less the 2009 and 2008 net loss, sufficient to fund the operations of the Bank for at least the next 12 months. We anticipate that the Bank will remain a well capitalized institution for at least the next 12 months. The loss related to goodwill impairment in 2009 was a noncash charge and had no impact on regulatory capital or tangible equity. Total shareholders' equity was 8.07% of total assets at December 31, 2011 and 7.0% at December 31, 2010. Funds sold and short-term interest bearing deposits are our primary source of liquidity and averaged $15.2 million and $24.4 million during the year ended December 31, 2011 and 2010, respectively. The Bank maintains federal funds purchased lines, in the amount of $10.0 million each with two financial institutions, although these were not utilized in 2011. The FHLB has approved a line of credit of up to 25% of the Bank's assets, which would be collateralized by a pledge against specific investment securities and or eligible loans. We regularly review the liquidity position of the Company and have implemented internal policies establishing guidelines for sources of asset based liquidity and limit the total amount of purchased funds used to support the balance sheet and funding from non-core sources. We believe that our existing stable base of core deposits, along with continued growth in this deposit base, will enable us to meet our long term liquidity needs successfully.

We believe our liquidity remains adequate to meet operating and loan funding requirements and that our existing stable base of core deposits, along with continued growth in this deposit base, will enable us to meet our long-term and short-term liquidity needs successfully.

Off-Balance Sheet Arrangements

In the normal course of operations, we engage in a variety of financial transactions that, in accordance with GAAP, 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 customers' requests for funding. Please refer to Note 16 of the Company's financial statements for a discussion of our off-balance sheet arrangements.

Impact of Inflation

Unlike most industrial companies, the assets and liabilities of financial institutions such as the company and the bank are primarily monetary in nature. Therefore, interest rates have a more significant effect on our performance than do the effects of changes in the general rate of inflation and change in prices. In addition, interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services. As discussed previously, we continually seek to manage the relationships between interest sensitive assets and liabilities in order to protect against wide interest rate fluctuations, including those resulting from inflation.

Item 8. Financial Statements and Supplementary Data.

Additional information required under this Item 8 may be found under the Notes to Financial Statements under Note 24.

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of First Community Corporation is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;

- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal controls over financial reporting as of December 31, 2011. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control Integrated Framework.

Based on that assessment, we believe that, as of December 31, 2011, our internal control over financial reporting is effective based on those criteria.

This annual report does not include an attestation report of our registered public accounting firm regarding our internal control over financial reporting. Management's report on internal control over financial reporting was not subject to attestation by our registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the company to provide only management's report in this annual report.

/s/ MICHAEL C. CRAPPS	/s/ JOSEPH G. SAWYER
Chief Executive Officer and President	*Senior Vice President and Chief Financial Officer*

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
First Community Corporation
Lexington, South Carolina

We have audited the accompanying consolidated balance sheets of First Community Corporation and subsidiary (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of income (loss), changes in shareholders' equity and comprehensive income (loss), and cash flows for each of the years in the three year period ended December 31, 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Community Corporation and subsidiary as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

/s/ Elliott Davis, LLC

Columbia, South Carolina
March 27, 2012

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FIRST COMMUNITY CORPORATION

Consolidated Balance Sheets

(Dollars in thousands, except par values)	**December 31, 2011**	**2010**
ASSETS		
Cash and due from banks	$ 10,599	$ 7,114
Interest-bearing bank balances	5,512	19,102
Federal funds sold and securities purchased under agreements to resell	381	245
Investment securities available for sale	201,032	189,309
Other investments, at cost	5,637	6,841
Loans held for sale	3,725	
Loans	324,311	329,954
Less, allowance for loan losses	4,699	4,911
Net loans	319,612	325,043
Property, furniture and equipment net	17,483	18,026
Bank owned life insurance	10,974	10,773
Other real estate owned	7,351	6,904
Intangible assets	365	881
Goodwill	571	
Other assets	10,645	14,785
Total assets	$ 593,887	$ 599,023
LIABILITIES		
Deposits:		
Non-interest bearing demand	$ 83,572	$ 72,625
NOW and money market accounts	136,483	123,604
Savings	34,048	29,886
Time deposits less than $100,000	128,616	143,946
Time deposits $100,000 and over	81,866	85,283
Total deposits	464,585	455,344
Securities sold under agreements to repurchase	13,616	12,686
Federal Home Loan Bank Advances	43,862	68,094
Junior subordinated debt	17,913	15,464
Other borrowed money		120
Other liabilities	6,015	5,518
Total liabilities	545,991	557,226
SHAREHOLDERS' EQUITY		
Preferred stock, par value $1.00 per share; 10,000,000 shares authorized; 11,350 issued and outstanding	11,137	11,035
Common stock, par value $1.00 per share; 10,000,000 shares authorized; issued and outstanding 3,307,531 at December 31, 2011 and 3,270,135 at December 31, 2010	3,308	3,270
Common stock warrants issued	560	509
Additional paid in capital	49,165	48,956
Accumulated Deficit	(17,603)	(19,732)
Accumulated other comprehensive income (loss)	1,329	(2,241)
Total shareholders' equity	47,896	41,797
Total liabilities and shareholders' equity	$ 593,887	$ 599,023

See Notes to Consolidated Financial Statements

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FIRST COMMUNITY CORPORATION

Consolidated Statements of Income (Loss)

	Year Ended December 31,		
(Dollars in thousands except per share amounts)	**2011**	**2010**	**2009**
Interest income:			
Loans, including fees	$ 19,110	$ 19,851	$ 20,226
Investment securities taxable	6,291	7,376	10,332
Investment securities non taxable	51	190	326
Other short term investments	74	94	97
Total interest income	25,526	27,511	30,981
Interest expense:			
Deposits	4,573	6,281	8,734
Securities sold under agreement to repurchase	40	60	98
Other borrowed money	2,596	3,033	4,272
Total interest expense	7,209	9,374	13,104
Net interest income	18,317	18,137	17,877
Provision for loan losses	1,420	1,878	3,103
Net interest income after provision for loan losses	16,897	16,259	14,774
Non-interest income:			
Deposit service charges	1,810	1,875	2,312
Mortgage origination fees	1,973	1,034	753
Investment advisory fees and non-deposit commissions	767	501	495
Gain on sale of securities	575	827	1,489
Gain (loss) on sale of other assets	(155)	35	(73)
Other-than-temporary-impairment write-down on securities	(297)	(1,560)	(1,001)
Fair value gain (loss) adjustments	(166)	(581)	58
Loss on early extinguishment of debt	(188)		(658)
Other	1,966	1,713	1,657
Total non-interest income	6,285	3,844	5,032
Non-interest expense:			
Salaries and employee benefits	9,520	8,942	8,262
Occupancy	1,289	1,229	1,198
Equipment	1,147	1,162	1,249
Marketing and public relations	452	402	343
FDIC Insurance assessments	889	1,003	1,105
Other real estate expense	840	823	201
Amortization of intangibles	517	621	621
Impairment of goodwill			27,761
Other	3,747	3,502	3,601
Total non-interest expense	18,401	17,684	44,341
Net income (loss) before tax	4,781	2,419	(24,535)
Income tax expense	1,457	565	696

Net income (loss)	**$ 3,324**	**$ 1,854**	**$ (25,231)**
Preferred stock dividends	670	664	656
Net income (loss) available to common shareholders	**$ 2,654**	**$ 1,190**	**$ (25,887)**
Basic earnings (loss) per common share	$ 0.81	$ 0.36	$ (7.95)
Diluted earnings per (loss) common share	$ 0.81	$ 0.36	$ (7.95)

See Notes to Consolidated Financial Statements

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FIRST COMMUNITY CORPORATION

Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income (Loss)

(Dollars and shares in thousands)	Preferred Stock	Number Shares Issued	Common Stock	Common Stock Warrants	Additional Paid-in Capital	Nonvested Restricted Stock	Accumulated Deficit	Accumulated Other Comprehensive Income (loss)	Total
Balance December 31, 2008	$ 10,850	3,227	$ 3,227	$ 509	$ 48,732	$ (186)	$ 6,263	$ (1,239)	$ 68,156
Comprehensive income:									
Net loss							(25,231)		(25,231)
Other comprehensive income (loss):									
Unrealized gain during period on available-for-sale securities net of tax of $692								1,211	
Unrealized market loss on held-to-maturity securities net of tax benefit of $580								(1,096)	
Less: reclassification adjustment for gain included in net income, net of tax expense of $285								(529)	
Other comprehensive loss								(414)	(414)
Comprehensive loss:									(25,645)
Amortization compensation restricted stock						107			107
Dividends: Common stock ($0.24 per share)							(777)		(777)
Preferred stock	89						(656)		(567)
Dividend reinvestment plan		25	25		141				166
Balance December 31, 2009	10,939	3,252	3,252	509	48,873	(79)	(20,401)	(1,653)	41,440
Comprehensive Income:									
Net income							1,854		1,854
Other comprehensive income (loss):									
Unrealized loss during period on available-for-sale securities net of tax of $564								(1,065)	
Reclassification adjustment for Other-than-temporary impairment on securities net of tax benefit of $546								1,014	
Reclassification adjustment for gain included in net income, net of tax expense of $289								(537)	
Other comprehensive loss								(588)	(588)
Comprehensive income									1,266
Amortization of compensation on restricted stock						79			79
Dividends: Common ($0.16 per share)							(521)		(521)
Preferred stock	96						(664)		(568)
Dividend reinvestment plan		18	18		83				101
Balance, December 31, 2010	11,035	3,270	3,270	509	48,956		(19,732)	(2,241)	41,797
Comprehensive Income:									
Net income							3,324		3,324
Other comprehensive income (loss):									
Unrealized gain during period on available-for-sale securities net of tax of $1,964								3,751	
Reclassification adjustment for Other-than-temporary impairment on securities net of tax benefit of $104								193	
Less: reclassification adjustment for gain included in net income, net of tax expense of $201								(374)	

Other comprehensive income								3,570	3,570
Comprehensive income									6,894
Issuance of stock warrants				51					51
Issuance of restricted stock		23	23		133	(65)			91
Amortization of compensation on restricted stock						65			65
Dividends: Common ($0.16 per share)							(525)		(525)
Preferred stock	102						(670)		(568)
Dividend reinvestment plan		15	15		76				91
Balance, December 31, 2011	$ 11,137	$ 3,308	3,308	$ 560	$ 49,165	$	$ (17,603)	$ 1,329	$ 47,896

See Notes to Consolidated Financial Statements

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FIRST COMMUNITY CORPORATION

Consolidated Statements of Cash Flows

	Year Ended December 31,		
(Amounts in thousands)	**2011**	**2010**	**2009**
Cash flows from operating activities:			
Net income (loss)	$ 3,324	$ 1,854	$ (25,231)
Adjustments to reconcile net income (loss) to net cash provided in operating activities			
Depreciation	841	882	985
Premium amortization (discount accretion)	1,968	1,421	57
Provision for loan losses	1,420	1,878	3,103
Writedowns of other real estate owned	261	333	
Loss on sale of other real estate owned	155	3	20
Amortization of intangibles	517	621	621
Gain on sale of securities	(575)	(827)	(1,489)
Other-than-temporary-impairment charges on securities	297	1,560	1,001
Net (increase) decrease in fair value option instruments and derivatives	166	581	(58)
Goodwill Impairment			27,761
Loss on early extinguishment of debt	188		658
(Increase) decrease in other assets	1,214	1,016	(1,730)
Increase (decrease) in accounts payable	496	336	(792)
Net cash provided in operating activities	10,272	9,658	4,906
Cash flows from investing activities:			
Proceeds from sale of securities available-for-sale	56,003	85,456	35,159
Purchase of investment securities available-for-sale	(103,040)	(140,374)	(60,478)
Maturity/call of investment securities available-for-sale	40,441	42,910	50,210
Purchase of investment securities held-to-maturity		(10)	(2,123)
Maturity/call of investment securities held-to-maturity		8,874	13,552
Maturity of investment securities held-for-trading			736
Proceeds from sale of securities held-for-trading			1,802
(Increase) decrease in loans	(3,484)	4,778	(17,761)
Proceeds from sale of other real estate owned	3,020	3,208	1,187
Proceeds from sale of land	10		200
Purchase of property and equipment	(308)	(242)	(472)
Net cash provided (used) in investing activities	(7,358)	4,600	22,012
Cash flows from financing activities:			
Increase in deposit accounts	9,242	5,710	25,589
Advances from the Federal Home Loan Bank	7,500		4,000
Repayment of advances from the Federal Home Loan Bank	(31,921)	(5,232)	(39,389)
Increase (decrease) in securities sold under agreements to repurchase	929	(7,990)	(7,475)
Increase (decrease) in other borrowings	(120)	(44)	12
Proceeds from issuance of subordinated note payable	2,500		
Dividend reinvestment plan	182	101	166
Dividends paid: Common Stock	(525)	(522)	(777)
Preferred Stock	(670)	(664)	(567)
Net cash used in financing activities	(12,883)	(8,641)	(18,441)
Net increase (decrease) in cash and cash equivalents	(9,969)	5,617	8,477
Cash and cash equivalents at beginning of year	26,461	20,844	12,367

Cash and cash equivalents at end of year	$	16,492	$	26,461	$	20,844
Supplemental disclosure:						
Cash paid during the period for: Interest	$	7,706	$	9,413	$	14,205
Taxes	$		$		$	350
Non-cash investing and financing activities:						
Unrealized (loss) gain on securities available-for-sale	$	3,570	$	(588)	$	1,090
Transfer of loans to foreclosed property	$	3,889	$	7,278	$	3,635
Transfer of HTM securities to AFS securities	$		$	46,244	$	

See Notes to Consolidated Financial Statements

FIRST COMMUNITY CORPORATION

Notes to Consolidated Financial Statements

Note 1 ORGANIZATION AND BASIS OF PRESENTATION

The consolidated financial statements include the accounts of First Community Corporation (the "company") and its wholly owned subsidiary First Community Bank, N.A (the "bank"). The company owns all of the common stock of FCC Capital Trust I. All material intercompany transactions are eliminated in consolidation. The company was organized on November 2, 1994, as a South Carolina corporation, and was formed to become a bank holding company. The bank opened for business on August 17, 1995. FCC Capital Trust I is an unconsolidated special purpose subsidiary organized for the sole purpose of issuing trust preferred securities.

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. These principles require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses. The estimation process includes management's judgment as to future losses on existing loans based on an internal review of the loan portfolio, including an analysis of the borrower's current financial position, the consideration of current and anticipated economic conditions and the effect on specific borrowers. In determining the collectability of loans management also considers the fair value of underlying collateral. Various regulatory agencies, as an integral part of their examination process, review the company's allowance for loan losses. Such agencies may require the company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination. Because of these factors it is possible that the allowance for loan losses could change materially.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, due from banks, interest-bearing bank balances, federal funds sold and securities purchased under agreements to resell. Generally federal funds are sold for a one-day period and securities purchased under agreements to resell mature in less than 90 days.

Investment Securities

Investment securities are classified as either held-to-maturity, available-for-sale or trading securities. In determining such classification, securities that the company has the positive intent and ability to hold to maturity are classified as held-to maturity and are carried at amortized cost. Securities classified as available-for-sale are carried at estimated fair values with unrealized gains and losses included in shareholders' equity on an after tax basis. Trading securities are carried at estimated fair value with unrealized gains and losses included in Non-interest income (See Note 5).

Gains and losses on the sale of available-for-sale securities and trading securities are determined using the specific identification method. Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are judged to be other than temporary are written down to fair value and charged to income in the Consolidated Statement of Income (Loss).

FIRST COMMUNITY CORPORATION

Notes to Consolidated Financial Statements (Continued)

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

*Mortgage Loans Held for S*ale

The company originates fixed rate residential loans on a servicing released basis in the secondary market. Loans closed but not yet settled with an investor, are carried in the company's loans held for sale portfolio. These loans are fixed rate residential loans that have been originated in the company's name and have closed. Virtually all of these loans have commitments to be purchased by investors at a locked in by price with the investors on the same day that the loan was locked in with the company's customers. Therefore, these loans present very little market risk for the company.

The company usually delivers to, and receives funding from, the investor within 30 days. Commitments to sell these loans to the investor are considered derivative contracts and are sold to investors on a "best efforts" basis. The company is not obligated to deliver a loan or pay a penalty if a loan is not delivered to the investor. As a result of the short-term nature of these derivative contracts, the fair value of the mortgage loans held for sale in most cases is the same as the value of the loan amount at its origination. These loans are classified as Level 2.

Loans and Allowance for Loan Losses

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal balance adjusted for any charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest is recognized over the term of the loan based on the loan balance outstanding. Fees charged for originating loans, if any, are deferred and offset by the deferral of certain direct expenses associated with loans originated. The net deferred fees are recognized as yield adjustments by applying the interest method.

The allowance for loan losses is maintained at a level believed to be adequate by management to absorb potential losses in the loan portfolio. Management's determination of the adequacy of the allowance is based on an evaluation of the portfolio, past loss experience, economic conditions and volume, growth and composition of the portfolio.

The company considers a loan to be impaired when, based upon current information and events, it is believed that the company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans that are considered impaired are accounted for at the lower of carrying value or fair value. The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due, generally when a loan becomes 90 days past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received first to principal and then to interest income.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the asset's estimated useful life. Estimated lives range up to 39 years for buildings and up to 10 years for furniture, fixtures and equipment.

FIRST COMMUNITY CORPORATION

Notes to Consolidated Financial Statements (Continued)

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill and Other Intangible Assets

Goodwill represents the cost in excess of fair value of net assets acquired (including identifiable intangibles) in purchase transactions. Other intangible assets represent premiums paid for acquisitions of core deposits (core deposit intangibles). Core deposit intangibles are being amortized on a straight-line basis over seven years. Goodwill and identifiable intangible assets are reviewed for impairment annually or whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. The annual valuation is performed on September 30 of each year.

Other Real Estate Owned

Other real estate owned includes real estate acquired through foreclosure. Other real estate owned is carried at the lower of cost (principal balance at date of foreclosure) or fair value minus estimated cost to sell. Any write-downs at the date of foreclosure are charged to the allowance for loan losses. Expenses to maintain such assets, subsequent changes in the valuation allowance, and gains or losses on disposal are included in other expenses.

Comprehensive Income

The company reports comprehensive income in accordance with ASC 220, "Comprehensive Income." ASC 220 requires that all items that are required to be reported under accounting standards as comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The disclosures requirements have been included in the company's consolidated statements of changes in shareholders' equity and comprehensive income (loss).

Mortgage Origination Fees

Mortgage origination fees relate to activities comprised of accepting residential mortgage applications, qualifying borrowers to standards established by investors and selling the mortgage loans to the investors under pre-existing commitments. The loans are funded by the investor at closing and the related fees received by the company for these services are recognized at the time the loan is closed.

Advertising Expense

Advertising and public relations costs are generally expensed as incurred. External costs incurred in producing media advertising are expensed the first time the advertising takes place. External costs relating to direct mailing costs are expensed in the period in which the direct mailings are sent.

Income Taxes

A deferred income tax liability or asset is recognized for the estimated future effects attributable to differences in the tax bases of assets or liabilities and their reported amounts in the financial statements as well as operating loss and tax credit carry forwards. The deferred tax asset or liability is measured using the enacted tax rate expected to apply to taxable income in the period in which the deferred tax asset or liability is expected to be realized.

In 2006, the FASB issued guidance related to Accounting for Uncertainty in Income Taxes. This guidance clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial

FIRST COMMUNITY CORPORATION

Notes to Consolidated Financial Statements (Continued)

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

statements in accordance with FASB ASC topic 740-10, "Income Taxes. It also prescribes a recognition threshold and measurement of a tax position taken or expected to be taken in an enterprise's tax return.

Stock Based Compensation Cost

The Company accounts for stock based compensation under the fair value provisions of the accounting literature. Compensation expense is recognized in salaries and employee benefits.

The fair value of each grant is estimated on the date of grant using the Black-Sholes option pricing model. No options were granted in 2011, 2010 or 2009.

Earnings (Loss) Per Share

Basic earnings (loss) per common share ("EPS") excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS is computed by dividing net income available to common shareholders by the weighted average number of shares of common stock and common stock equivalents. Common stock equivalents consist of stock options and warrants and are computed using the treasury stock method.

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. In preparing these financial statements, subsequent events were evaluated through the time the financial statements were issued and all material subsequent events have been either recognized or disclosed in the notes to the financial statements.

Segment Information

ASC Topic 280-10, "Segment Reporting," requires selected segment information of operating segments based on a management approach. The Company operates as one business segment.

Recently Issued Accounting Standards

In July 2010, the Receivables topic of the Accounting Standards Codification ("ASC") was amended by Accounting Standards Update ("ASU") 2010-20 to require expanded disclosures related to a company's allowance for credit losses and the credit quality of its financing receivables. The amendments require the allowance disclosures to be provided on a disaggregated basis. The Company is required to include these disclosures in its interim and annual financial statements. See Note 6, Loans, for applicable disclosures.

Disclosures about Troubled Debt Restructurings ("TDRs") required by ASU 2010-20 were deferred by the Financial Accounting Standards Board ("FASB") in ASU 2011-01 issued in January 2011. In April 2011, the FASB issued ASU 2011-02 to assist creditors with their determination of when

FIRST COMMUNITY CORPORATION

Notes to Consolidated Financial Statements (Continued)

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

a restructuring is a TDR. The determination is based on whether the restructuring constitutes a concession and whether the debtor is experiencing financial difficulties as both events must be present. Disclosures related to TDRs under ASU 2010-20 were required beginning with the quarter ended September 30, 2011, and have been presented in Note 6, Loans.

In December 2010, the Intangibles topic of the ASC was amended to modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. Any resulting goodwill impairment should be recorded as a cumulative effect adjustment to beginning retained earnings upon adoption. Impairments occurring subsequent to adoption should be included in earnings. The amendment was effective for the Company on January 1, 2011.

In September 2011, the Intangibles topic was again amended to permit an entity to consider qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. This amendment was effective for the Company on January 1, 2012.

In December 2010, the Business Combinations topic of the ASC was amended to specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendment also requires that the supplemental pro forma disclosures include a description of the nature and amount of any material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. This amendment is effective for the Company for business combinations for which the acquisition date is on or after January 1, 2011. The Company does not expect the amendment to have any impact on the financial statements.

In April 2011, the criteria used to determine effective control of transferred assets in the Transfers and Servicing topic of the ASC was amended by ASU 2011-03. The requirement for the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms and the collateral maintenance implementation guidance related to that criterion were removed from the assessment of effective control. The other criteria to assess effective control were not changed. The amendments are effective for the Company beginning January 1, 2012 but are not expected to have a material effect on the financial statements.

ASU 2011-04 was issued in May 2011 to amend the Fair Value Measurement topic of the ASC by clarifying the application of existing fair value measurement and disclosure requirements and by changing particular principles or requirements for measuring fair value or for disclosing information about fair value measurements. The amendments were effective for the Company beginning January 1, 2012 but are not expected to have a material effect on the financial statements.

The Comprehensive Income topic of the ASC was amended in June 2011. The amendment eliminates the option to present other comprehensive income as a part of the statement of changes in stockholders' equity and requires consecutive presentation of the statement of net income and other comprehensive income. The amendments will be applicable to the Company on January 1, 2012 and will be applied retrospectively. In December 2011, the topic was further amended to defer the effective date of presenting reclassification adjustments from other comprehensive income to net income on the

FIRST COMMUNITY CORPORATION

Notes to Consolidated Financial Statements (Continued)

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

face of the financial statements. Companies should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect prior to the amendments while FASB redeliberates future requirements.

The Balance Sheet topic of the ASC was amended in December 2011 for companies with financial instruments and derivative instruments that offset or are subject to a master netting agreement. The amendments require disclosure of both gross information and net information about instruments and transactions eligible for offset or subject to an agreement similar to a master netting agreement. The amendments are effective for reporting periods beginning on or after January 1, 2013 and must be provided retrospectively for all comparative periods presented. The Company does not expect these amendments to have a material effect on its financial statements.

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

Risk and Uncertainties

In the normal course of business, the company encounters two significant types of risks: economic and regulatory. There are three main components of economic risk: interest rate risk, credit risk and market risk. The company is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or on a different basis, than its interest-earning assets. Credit risk is the risk of default on the company's loan and investment portfolios that results from borrowers' or issuer's inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of collateral underlying loans and investments and the valuation of real estate held by the company.

The company is subject to regulations of various governmental agencies (regulatory risk). These regulations can and do change significantly from period to period. The company also undergoes periodic examinations by the regulatory agencies, which may subject it to further changes with respect to asset valuations, amounts of required loan loss allowances and operating restrictions from regulators' judgments based on information available to them at the time of their examination.

Reclassifications

Certain captions and amounts in the 2010 and 2009 consolidated financial statements were reclassified to conform to the 2011 presentation.

Note 3 FAIR VALUE MEASUREMENT

The company adopted FASB ASC Fair Value Measurement Topic 820, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC 820 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. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and

FIRST COMMUNITY CORPORATION

Notes to Consolidated Financial Statements (Continued)

Note 3 FAIR VALUE MEASUREMENT (Continued)

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:

Level l Quoted prices in active markets for identical assets or liabilities.

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 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.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value on a recurring basis:

Investment Securities Available for Sale: Measurement is on a recurring basis based upon quoted market prices, if available. If quoted market prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for prepayment assumptions, projected credit losses, and liquidity. Level 1 securities include those traded on an active exchange or by dealers or brokers in active over-the-counter markets. Level 2 securities include mortgage-backed securities issued both by government sponsored enterprises and private label mortgage-backed securities. Generally these fair values are priced from established pricing models. Level 3 securities include corporate debt obligations and asset-backed securities that are less liquid or for which there is an inactive market.

Investment Securities Held-to-Maturity: Investment securities that are held-to-maturity and considered other-than-temporarily- impaired are recorded at fair value in accordance with FASB ASC Topic on "Investments- Debt and Equity Securities" on a non-recurring basis. If the company does not expect to recover the entire amortized cost basis of the security, OTTI is considered to have occurred. See Note 5 for determining allocation between current earnings and comprehensive income. Measurement is based upon quoted market prices, if available. If quoted market prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for prepayment assumptions, projected credit losses, and liquidity. Level 2 securities include private label mortgage-backed securities. Generally these fair values are priced from established pricing models.

Loans: Loans that are considered impaired are recorded at fair value on a non-recurring basis. Once a loan is considered impaired, measurement is based upon FASB ASC 310-10-35 "Loan Impairment." The fair value is estimated using one of several methods, including collateral liquidation value, market value of similar debt and discounted cash flows. Those impaired loans not requiring a specific charge against the allowance represent loans for which the fair value of the expected repayments or collateral meet or exceed the recorded investment in the loan. At December 31, 2011 and 2010, substantially all of the total impaired loans were evaluated based on the fair value of the underlying collateral. When the company records the fair value based upon a current appraisal the fair

FIRST COMMUNITY CORPORATION

Notes to Consolidated Financial Statements (Continued)

Note 3 FAIR VALUE MEASUREMENT (Continued)

value measurement is considered Level 2. When a current appraisal is not available or there is estimated further impairment the measurement is considered a Level 3 measurement.

Other Real Estate Owned (OREO): OREO is carried at the lower of carrying value or fair value on a non-recurring basis. Fair value is based upon independent appraisals or management's estimation of the collateral. When the OREO value is based upon a current appraisal it is considered a Level 2 measurement. When a current appraisal is not available or there is estimated further impairment the measurement is considered a Level 3 measurement.

Derivative Financial Instruments: Interest rate swaps are carried at fair value and measured on a recurring basis. The measurement is based on valuation techniques including discounted cash flows analysis for each derivative. The analysis reflects the contractual remaining term of derivative, interest rates, volatility and expected cash payments. The measurement of the interest rate swap is considered to be a Level 3 measurement.

Goodwill and Other Intangible Assets: Goodwill and other intangible assets are measured for impairment on an annual basis, as of September 30, or more frequently if there is a change in circumstances. If the goodwill or other intangibles exceed the fair value, an impairment charge is recorded in an amount equal to the excess. Impairment is tested utilizing accepted valuation techniques utilizing discounted cash flows of the business unit, and implied fair value based on a multiple of earnings and tangible book value for merger transactions. The measurement of these fair values is considered a Level 3 measurement.

The following tables summarize quantitative disclosures about the fair value measurement for each category of assets and liabilities that are measured on a recurring basis carried at fair value as of December 31, 2011 and 2010.

Description	**December 31, 2011**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Available for sale securities				
Government sponsored enterprises	$ 34	$	$ 34	$
Mortgage-backed securities	141,631		141,631	
Small Business Administration securities	36,479		36,479	
State and local government	20,488		20,488	
Corporate and other securities	2,400	926	1,474	
	201,032	926	200,106	
Interest rate swap	(602)			(602)
Total	$ 200,430	$ 926	$ 200,106	$ (602)

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FIRST COMMUNITY CORPORATION

Notes to Consolidated Financial Statements (Continued)

Note 3 FAIR VALUE MEASUREMENT (Continued)

Description	December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities				
Government sponsored enterprises	$ 13,738	$	$ 13,738	$
Mortgage-backed securities	121,257		121,257	
Small Business Administration securities	31,496		31,496	
State and local government	19,055		18,430	625
Corporate and other securities	3,763	1,118	2,463	182
	189,309	1,118	187,384	807
Interest rate swap	(778)			(778)
Total	$ 188,531	$ 1,118	$ 187,384	$ 29

During the fourth quarter of 2011, a state and local government bond with a fair value of $579 thousand was called and removed from the Level 3 category.

The following tables reconcile the changes in Level 3 financial instruments for the year ended December 31, 2011 and 2010 measured on a recurring basis:

	2011		
(Dollars in thousands)	**State and local government securities**	**Corporate and other securities**	**Interest rate Swap**
Beginning Balance	$ 625	$ 182	$ (778)
Total gains or losses (realized/unrealized)			
Included in earnings		(103)	(166)
Included in other comprehensive income		(79)	
Purchases, issuances, and settlements	(625)		342
Transfers in and/or out of Level 3			
Ending Balance	$	$	$ (602)

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FIRST COMMUNITY CORPORATION

Notes to Consolidated Financial Statements (Continued)

Note 3 FAIR VALUE MEASUREMENT (Continued)

(Dollars in thousands)	2010 State and local government securities	Corporate and other securities	Interest rate Swap
Beginning Balance	$	$ 5,780	$ (535)
Total gains or losses (realized/unrealized)			
Included in earnings		(2,782)	(581)
Included in other comprehensive income		1,384	
Purchases, issuances, and settlements	(44)	(4,200)	338
Transfers in and/or out of Level 3	669		
Ending Balance	$ 625	$ 182	$ (778)

The following tables reflect the changes in fair values for the year ended December 31, 2011, 2010 and 2009 and where these changes are included in the income statement.

(Dollars in thousands)	2011 Non-interest income: Fair-value adjustment gain (loss)	2010 Non-interest income: Fair-value adjustment gain (loss)	2009 Non-interest income: Fair-value adjustment gain (loss)
Trading securities	$	$	$ 33
Interest rate swap	(166)	(581)	7
Federal Home Loan Bank Advance			18
Total	$ (166)	$ (581)	$ 58

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FIRST COMMUNITY CORPORATION

Notes to Consolidated Financial Statements (Continued)

Note 3 FAIR VALUE MEASUREMENT (Continued)

The following tables summarize quantitative disclosures about the fair value for each category of assets carried at fair value as of December 31, 2011 and December 31, 2010 that are measured on a non-recurring basis.

(Dollars in thousands) Description	**December 31, 2011**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Impaired loans:				
Commercial & Industrial	$ 44	$	$ 44	$
Real estate:				
Mortgage-residential	622		622	
Mortgage-commercial	8,666		8,666	
Consumer:				
Home equity				
Other	19		19	
Total impaired	9,351		9,351	
Other real estate owned:				
Construction	2,156		2,156	
Mortgage-residential	4,278		4,278	
Mortgage-commercial	917		917	
Total other real estate owned	7,351		7,351	
Total	$ 16,702	$	$ 16,702	$

(Dollars in thousands) Description	**December 31, 2010**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Impaired loans:				
Commercial & Industrial	$ 96	$	$ 96	$
Real estate:				
Mortgage-residential	1,527		1,527	
Mortgage-commercial	7,818		7,818	
Consumer:				
Home equity	38		38	
Other	12		12	
Total impaired	9,491		9,491	
Other real estate owned:				
Construction	2,331		2,331	
Mortgage-residential	3,306		3,306	
Mortgage-commercial	1,267		1,267	

Total other real estate owned		6,904				6,904	
Total	$	16,395	$		$	16,395	$

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FIRST COMMUNITY CORPORATION

Notes to Consolidated Financial Statements (Continued)

Note 3 FAIR VALUE MEASUREMENT (Continued)

The company has a large percentage of loans with real estate serving as collateral. Loans which are deemed to be impaired are primarily valued on a nonrecurring basis at the fair value 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 amount of impaired loans was $9.4 million and $9.6 million for the years ended December 31, 2011 and 2010, respectively.

Goodwill and other intangible assets are measured on a non-recurring basis at least annually. The valuation is performed at September 30 of each year. Market capitalization and acquisition multiples have significantly declined since 2004 and 2006, which are the dates of the acquisition of Dutchfork Bankshares and DeKalb Bancshares, respectively. The multiples and the resulting valuations declined dramatically throughout 2008 and 2009 as a result of the current economic downturn. The test at September 30, 2009 reflected goodwill impairment. As a result, the company recognized an impairment charge in the amount of $27.8 million in the third quarter of 2009. The impairment charge resulted in all of the goodwill intangible related to these two acquisitions, being written off as of September 30, 2009. As a result of the acquisition of Palmetto South mortgage on July 31, 2011, we have recorded goodwill in the amount of $571 thousand. Beginning in 2012 and each year, thereafter, this goodwill will be tested for impairment.

Note 4 BUSINESS COMBINATIONS

The Bank expanded its residential mortgage business unit with the acquisition of the assets of Palmetto South Mortgage Corporation ("Palmetto South"), effective July 31, 2011. Palmetto South, which operates as a division of the Bank, offers mortgage loan products for home purchase or refinance in the South Carolina market area. The acquisition price will be paid during a three year earn out period with the actual amount calculated based on the achievement of certain profitability metrics. The earn out terms over the three year period provide for contingent consideration which ranges from $0 to $1.2 million based upon annual net income. Management anticipates the amount will be approximately $600 thousand based upon recent past operating results and as such a contingent liability was recognized for this amount when considering business combination accounting rules. The purchase price of operating assets was $22 thousand. This acquisition was not considered material to the financial statements.

FIRST COMMUNITY CORPORATION

Notes to Consolidated Financial Statements (Continued)

Note 5 INVESTMENT SECURITIES

The amortized cost and estimated fair values of investment securities are summarized below:

AVAILABLE-FOR-SALE:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2011:				
Government sponsored enterprises	$ 31	$ 3	$	$ 34
Mortgage-backed securities	141,103	2,876	2,348	141,631
Small Business Administration pools	35,889	634	44	36,479
State and local government	19,617	871		20,488
Corporate and other securities	2,432	54	86	2,400
	$ 199,072	$ 4,438	$ 2,478	$ 201,032
December 31, 2010:				
Government sponsored enterprises	$ 13,793	$ 44	$ 99	$ 13,738
Mortgage-backed securities	124,113	1,558	4,414	121,257
Small Business Administration pools	31,451	135	90	31,496
State and local government	19,128	217	290	19,055
Corporate and other securities	4,311	244	792	3,763
	$ 192,796	$ 2,198	$ 5,685	$ 189,309

In the fourth quarter of 2010, the company reclassified all investments in the held-to-maturity portfolio to the available-for-sale portfolio.

At December 31, 2011, corporate and other securities available-for-sale included the following at fair value: corporate bonds at $1.4 million, mutual funds at $904.9 thousand and Federal Home Loan Mortgage Corporation preferred stock of $20.9 thousand. At December 31, 2010, corporate and other securities available-for-sale included the following at fair value: corporate bonds at $2.6 million, mutual funds at $883.1 thousand and Federal Home Loan Mortgage Corporation preferred stock of $234.6 thousand.

Other investments, at cost include FHLB and Federal Reserve Bank Stock in the amount of $3.8 million and $1.8 million at December 31, 2011 and $5.2 million and $1.7 million at December 31, 2010, respectively.

For the year ended December 31, 2011, proceeds from the sale of securities available-for-sale amounted to $56.0 million. Gross realized gains amounted to $2.6 million and gross realized losses amounted to $2.0 million. For the year ended December 31, 2010, proceeds from the sale of securities available-for-sale amounted to $85.5 million. Gross realized gains amounted to $2.5 million and gross realized losses amounted to $1.7 million. For the year ended December 31, 2009, proceeds from the sale of securities available-for-sale and held for trading amounted to $35.2 million and $1.8 million, respectively. Gross realized gains amounted to $1.5 million and there were no gross realized losses in 2009. The tax provision applicable to the net realized gain was approximately 4,175.0 thousand, $256.0 thousand, and $390.0 thousand for 2011, 2010 and 2009, respectively.

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FIRST COMMUNITY CORPORATION

Notes to Consolidated Financial Statements (Continued)

Note 5 INVESTMENT SECURITIES (Continued)

The amortized cost and fair value of investment securities at December 31, 2011, by contractual maturity, follow. Expected maturities differ from contractual maturities because borrowers may have the right to call or prepay the obligations with or without prepayment penalties.

	Available-for-sale	
(Dollars in thousands)	**Amortized Cost**	**Fair Value**
Due in one year or less	$ 7,671	$ 7,591
Due after one year through five years	113,370	114,434
Due after five years through ten years	58,209	58,992
Due after ten years	19,822	20,015
	$ 199,072	$ 201,032

Securities with an amortized cost of $35.1 million and fair value of $36.6 million at December 31, 2011, were pledged to secure FHLB Advances, public deposits, demand notes due the Treasury and securities sold under agreements to repurchase. Securities with an amortized cost of $47.0 million and fair value of $47.5 million at December 31, 2010, were pledged to secure FHLB Advances, public deposits, demand notes due the Treasury and securities sold under agreements to repurchase.

The following tables show gross unrealized losses and fair values, aggregated by investment category and length of time that individual securities have been in a continuous loss position at December 31, 2011 and 2010.

	Less than 12 months		12 months or more		Total	
December 31, 2011 (Dollars in thousands)	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
Available-for-sale securities:						
Government Sponsored Enterprise mortgage-backed securities	$ 25,113	$ 163	$ 3,269	$ 24	$ 28,382	$ 187
Small Business Administration pools	6,108	38	2,203	6	8,311	44
Non-agency mortgage-backed securities	574	3	13,275	2,158	13,849	2,161
Corporate bonds and other	940	60				