UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

for the quarterly period ended March 31, 2012

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

for the transition period from to

Commission File No. 000-28344

FIRST COMMUNITY CORPORATION

(Exact name of registrant as specified in its charter)

South Carolina	**57-1010751**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5455 Sunset Boulevard, Lexington, South Carolina 29072

(Address of principal executive offices) (Zip Code)

(803) 951-2265

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes o No

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

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: On May 10, 2012, 3,310,572 shares of the issuer s common stock, par value $1.00 per share, were issued and outstanding.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

FIRST COMMUNITY CORPORATION

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except par value)	March 31, 2012 (Unaudited)	December 31, 2011
ASSETS		
Cash and due from banks	$ 9,707	$ 10,599
Interest-bearing bank balances	14,080	5,512
Federal funds sold and securities purchased under agreements to resell	440	381
Investment securities - available for sale	197,017	201,032
Other investments, at cost	5,682	5,637
Loans held for sale	3,863	3,725
Loans	331,090	324,311
Less, allowance for loan losses	4,745	4,699
Net loans	326,345	319,612
Property, furniture and equipment - net	17,363	17,483
Bank owned life insurance	11,083	10,974
Other real estate owned	5,383	7,351
Intangible assets	313	365
Goodwill	571	571
Other assets	9,654	10,645
Total assets	$ 601,501	$ 593,887
LIABILITIES		
Deposits:		
Non-interest bearing demand	$ 91,148	$ 83,572
NOW and money market accounts	142,111	136,483
Savings	38,697	34,048
Time deposits less than $100,000	124,144	128,616
Time deposits $100,000 and over	80,773	81,866
Total deposits	476,873	464,585
Securities sold under agreements to repurchase	13,479	13,616
Federal Home Loan Bank advances	38,857	43,862
Junior subordinated debt	17,913	17,913
Other liabilities	5,072	6,015
Total liabilities	552,194	545,991
Commitments and contingencies		
SHAREHOLDERS EQUITY		
Preferred stock, par value $1.00 per share, 10,000,000 shares authorized; 11,350 issued and outstanding	11,164	11,137
Common stock, par value $1.00 per share; 10,000,000 shares authorized; issued and outstanding 3,310,572 at March 31, 2012 3,307,531 at December 31, 2011	3,311	3,308
Common stock warrants issued	560	560
Additional paid in capital	49,184	49,165
Accumulated deficit	(17,104)	(17,603)
Accumulated other comprehensive income	2,192	1,329

Total shareholders equity		49,307		47,896
Total liabilities and shareholders equity	$	601,501	$	593,887

See Notes to Consolidated Financial Statements

Table of Contents

FIRST COMMUNITY CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands, except per share amounts)	Three Months ended March 31, 2012	2011
Interest and dividend income:		
Loans, including fees	$ 4,627	$ 4,808
Taxable securities	1,315	1,592
Non-taxable securities	86	19
Federal funds sold and securities purchased under resale agreements	6	11
Other	10	10
Total interest income	6,044	6,440
Interest expense:		
Deposits	927	1,258
Federal funds sold and securities sold under agreement to repurchase	9	8
Other borrowed money	599	720
Total interest expense	1,535	1,986
Net interest income	4,509	4,454
Provision for loan losses	230	360
Net interest income after provision for loan losses	4,279	4,094
Non-interest income:		
Deposit service charges	389	458
Mortgage origination fees	723	191
Commissions on sale of non-deposit investment products	147	175
Gain on sale of securities	11	134
Gain (loss) on sale of other assets	50	(47)
Other-than-temporary-impairment write-down on securities	(200)	(4)
Fair value adjustment gains (losses)	(33)	4
Loss on early extinguishment of debt	(121)	
Other	497	516
Total non-interest income	1,463	1,427
Non-interest expense:		
Salaries and employee benefits	2,558	2,313
Occupancy	345	309
Equipment	287	281
Marketing and public relations	186	171
FDIC Assessment	184	255
Other real estate expense	119	346
Amortization of intangibles	51	155
Other	882	893
Total non-interest expense	4,612	4,723
Net income before tax	1,130	798
Income taxes	331	228
Net income	$ 799	$ 570
Preferred stock dividends, including discount accretion	169	167
Net income available to common shareholders	$ 630	$ 403
Basic earnings per common share	$ 0.19	$ 0.12
Diluted earnings per common share	$ 0.19	$ 0.12

See Notes to Consolidated Financial Statements

Table of Contents

FIRST COMMUNITY CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(Dollars in thousands)	**Three months ended March 31, 2012**	**2011**
Net income	$ 799	$ 570
Other comprehensive income:		
Unrealized gain during the period on available-for-sale securities, net of tax expense of $379 and $262, respectively	741	483
Less: Reclassification adjustment for gain on available-for-sale securities included in net income, net of tax expense of $4 and $47, respectively	(7)	(87)
Reclassification adjustment for Other-than-temporary-impairment on securities net of tax benefit of $71 and $1, respectively	129	3
Other comprehensive income	863	399
Comprehensive income	$ 1,662	$ 969

See Notes to Consolidated Financial Statements

Table of Contents

FIRST COMMUNITY CORPORATION

Consolidated Statements of Changes in Shareholder s Equity

Three Months ended March 31, 2012 and March 31, 2011

(Unaudited)

(Dollars in thousands)	Preferred Stock	Common Shares Issued	Common Stock	Common Stock Warrants	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (loss)	Total
Balance December 31, 2010	$ 11,035	3,270	$ 3,270	$ 509	$ 48,956	$ (19,732)	$ (2,241)	$ 41,797
Net income						570		570
Other comprehensive income net of tax expense of $215							399	399
Dividends: Common ($0.04 per share)						(131)		(131)
Preferred						(167)		(167)
Accretion	25							25
Dividend reinvestment plan		4	4		18			22
Balance, March 31, 2011	$ 11,060	3,274	$ 3,274	$ 509	$ 48,974	$ (19,460)	$ (1,842)	$ 42,515
Balance December 31, 2011	$ 11,137	3,308	$ 3,308	$ 560	$ 49,165	$ (17,603)	$ 1,329	$ 47,896
Net income						799		799
Other comprehensive income net of tax expense of $325							863	863
Dividends: Common ($0.04 per share)						(131)		(131)
Preferred						(169)		(169)
Accretion	27							27
Dividend reinvestment plan		3	3		19			22
Balance, March 31, 2012	$ 11,164	3,311	$ 3,311	$ 560	$ 49,184	$ (17,104)	$ 2,192	$ 49,307

See Notes to Consolidated Financial Statements

Table of Contents

FIRST COMMUNITY CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)	Three months ended March 31, 2012	2011
Cash flows from operating activities:		
Net income	$ 799	$ 570
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation	203	216
Premium amortization	580	481
Provision for loan losses	230	360
Write-down s of other real estate owned	24	1
(Gain) loss on sale of other real estate owned	(50)	47
Amortization of intangibles	51	155
Gain on sale of securities	(11)	(134)
Other-than-temporary-impairment on securities	200	4
Net (increase) decrease in fair value of option instruments and derivatives	33	(4)
Loss on early extinguishment of debt	121	
Decrease in other assets	402	970
Decrease in other liabilities	(943)	(1,447)
Net cash provided from operating activities	1,639	1,219
Cash flows from investing activities:		
Purchase of investment securities available-for-sale	(8,022)	(37,184)
Maturity of investment securities available-for-sale	8,322	9,836
Proceeds from sale of securities available-for-sale	4,239	25,965
Increase in loans	(7,513)	(6,087)
Proceeds from sale of other real estate owned	2,407	224
Purchase of property and equipment	(84)	(57)
Net cash used in investing activities	(651)	(7,303)
Cash flows from financing activities:		
Increase in deposit accounts	12,288	10,638
Increase (decrease) in securities sold under agreements to repurchase	(137)	1,656
Decrease in other borrowings		(20)
Advances from the Federal Home Loan Bank	1,500	
Repayment of advances from FHLB	(6,626)	(3,254)
Dividends paid: Common Stock	(131)	(131)
Preferred Stock	(169)	(167)
Dividend reinvestment plan	22	22
Net cash provided from financing activities	6,747	8,744
Net increase in cash and cash equivalents	7,735	2,660
Cash and cash equivalents at beginning of period	16,492	26,460
Cash and cash equivalents at end of period	24,227	29,120
Supplemental disclosure:		
Cash paid during the period for:		
Interest	$ 1,821	$ 2,360
Income taxes	$	$
Non-cash investing and financing activities:		
Unrealized gain on securities	$ 1,309	$ 615
Transfer of loans to foreclosed property	$ 413	$ 1,268

See Notes to Consolidated Financial Statements

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

Note 1 - Basis of Presentation

In the opinion of management, the accompanying unaudited consolidated balance sheets, and the consolidated statements of income, comprehensive income, changes in shareholders equity, and the cash flows of First Community Corporation (the Company), present fairly in all material respects the Company s financial position at March 31, 2012 and December 31, 2011, the Company s results of operations and cash flows for the three months ended March 31, 2012 and 2011. The results of operations for the three months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

In the opinion of management, all adjustments necessary to fairly present the consolidated financial position and consolidated results of operations have been made. All such adjustments are of a normal, recurring nature. All significant intercompany accounts and transactions have been eliminated in consolidation. The consolidated financial statements and notes thereto are presented in accordance with the instructions for Form 10-Q. The information included in the Company s 2011 Annual Report on Form 10-K should be referred to in connection with these unaudited interim financial statements.

Note 2 Earnings Per Common Share

The following reconciles the numerator and denominator of the basic and diluted earnings per common share computation:

(In thousands except average market price)

	Three months ended March 31, 2012	2011
Numerator (Net income available to common shareholders)	$ 630	$ 403
Denominator		
Weighted average common shares outstanding for:		
Basic earnings per share	3,308	3,272
Dilutive securities:		
Warrants Treasury stock method	21	
Diluted earnings per share	3,329	3,272
The average market price used in calculating assumed number of shares	$ 7.29	$ 6.34

At March 31, 2012, there were 75,022 outstanding options at an average exercise price of $19.69 and warrants for 196,000 shares at $8.69. None of these options or warrants has an exercise price below the average market price of $7.29 for the three-month period ended March 31, 2012, therefore they are not deemed to be dilutive. 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. These warrants expire December 16, 2019 and are included in dilutive securities in the table above.

Table of Contents

Note 3 Assets and Liabilities Measured at Fair Value

In connection with the adoption of the Fair Value Option, the Company adopted the requirements of the FASB (Financial Accounting Standards Board) ASC (Accounting Standards Codification) Fair Value Measurement Topic which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value is defined 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. The Fair Value Measurement Topic also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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.

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 March 31, 2012, 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 value measurement 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.

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 and is considered a Level 2 measurement. When the OREO value is based upon a current appraisal or 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

Table of Contents

Note 3 Assets and Liabilities Measured at Fair Value continued

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.

The following tables reflect the changes in fair values for the three-month periods ended March 31, 2012 and 2011 and where these changes are included in the income statement:

(Dollars in thousands)

March 31, 2012

Description	**Non-interest income: Fair value adjustment gain (loss)**	**Total**
Interest rate swap	$ (33)	$ (33)
Total	$ (33)	$ (33)

(Dollars in thousands)

March 31, 2011

Description	**Non-interest income: Fair value adjustment gain (loss)**	**Total**
Interest rate swap	$ 4	$ 4
Total	$ 4	$ 4

Table of Contents

Note 3 Assets and Liabilities Measured at Fair Value - continued

The following table summarizes quantitative disclosures about the fair value for each category of assets carried at fair value as of March 31, 2012 and December 31, 2011 that are measured on a recurring basis.

(Dollars in thousands)

Description	**March 31, 2012**	**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	$ 32	$	$ 32	$
Mortgage backed securities	138,350		138,350	
Small Business Administration securities	35,347		35,347	
State and local government	20,813		20,813	
Corporate and other securities	2,475	914	1,561	
	197,017	914	196,103	
Interest rate swap	(553)			(553)
Total	$ 196,464	$ 914	$ 196,103	$ (553)

(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)**
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)

11

Table of Contents

Note 3 Assets and Liabilities Measured at Fair Value continued

The following tables reconcile the changes in Level 3 financial instruments for the three months ended March 31, 2012 and March 31, 2011, that are measured on a recurring basis.

(Dollars in thousands)		**Interest rate Swap**
Beginning Balance December 31, 2011	$	(602)
Total gains or losses (realized/unrealized)		
Included in earnings		(33)
Included in other comprehensive income		
Purchases, issuances, and settlements		82
Transfers in and/or out of Level 3		
Ending Balance March 31, 2012	$	(553)

(Dollars in thousands)		**State and local government securities**		**Corporate and other securities**		**Interest rate Swap**
Beginning Balance December 31, 2010	$	625	$	182	$	(778)
Total gains or losses (realized/unrealized)						
Included in earnings				(4)		4
Included in other comprehensive income				(67)		
Purchases, issuances, and settlements						84
Transfers in and/or out of Level 3						
Ending Balance March 31, 2011	$	625	$	111	$	(690)

Table of Contents

Note 3 Assets and Liabilities Measured at Fair Value - continued

The following tables summarize quantitative disclosures about the fair value for each category of assets carried at fair value as of March 31, 2012 and December 31, 2011 that are measured on a non-recurring basis.

(Dollars in thousands)

Description	March 31, 2012	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	$ 42	$	$ 42	$
Real estate:				
Mortgage-residential	605		605	
Mortgage-commercial	8,923		8,923	
Consumer:				
Home equity				
Other	32		32	
Total impaired	9,602		9,602	
Other real estate owned:				
Construction	554		554	
Mortgage-residential	450		450	
Mortgage-commercial	4,379		4,379	
Total other real estate owned	5,383		5,383	
Total	$ 14,986	$	$ 14,986	$

(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	$

Table of Contents

Note 3 Assets and Liabilities Measured at Fair Value - 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 $9.6 million and $9.4 million for the three months ended March 31, 2012 and year ended December 31, 2011, respectively.

For Level 3 assets and liabilities measured at fair value on a recurring or non-recurring basis as of March 31, 2012, the significant unobservable inputs used in the fair value measurements were as follows:

(Dollars in thousands)	**Fair Value as of March 31, 2012**	**Valuation Technique**	**Rate**
Interest Rate Swap	$ 553	Discounted cash flows	3.08%

Note 4 Investment Securities

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

(Dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
March 31, 2012:				
Government sponsored enterprises	$ 29	$ 3	$	$ 32
Mortgage-backed securities	136,593	2,702	945	138,350
Small Business Administration pools	34,750	630	33	35,347
State and local government	19,945	868		20,813
Corporate and other securities	2,432	69	26	2,475
	$ 193,749	$ 4,272	$ 1,004	$ 197,017
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

During the three months ended March 31, 2012 and March 31, 2011, the Company received proceeds of $4.2 million and $25.9 million, respectively, from the sale of investment securities available-for-sale, amounting to gains of $190.6 thousand and $1.1 million in earnings for each respective period. Losses from the sale of investments for the three months ended March 31, 2012 and March 31, 2011 amounted to $179.9 thousand and $1.0 million respectively. As prescribed by FASB ASC 320-10-35, for the quarter ended March 31, 2011, the Company recognized the credit component of an OTTI of its debt securities in earnings and the non-credit component in other comprehensive income

Table of Contents

(OCI) for those securities in which the Company does not intend to sell the security and it is more likely than not the Company will not be required to sell the securities prior to recovery.

At March 31 2012, corporate and other securities available-for-sale included the following at fair value: corporate bonds at $1.5 million, mutual funds at $894.6 thousand, foreign debt of $59 thousand, and Federal Home Loan Mortgage Corporation (the FHLMC or Freddie Mac) preferred stock of $19.8 thousand. 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, foreign debt of $59 thousand and FHLMC preferred stock of $20.9 thousand.

Table of Contents

Note 4 Investment Securities continued

During the three months ended March 31, 2012 and March 31, 2011, the Company recorded OTTI losses on and available-for-sale securities as follows:

(Dollars in thousands)		Three months ended March 31, 2012 Available-for-sale securities		Three months ended March 31, 2011 Available-for-sale securities
Total OTTI charge realized and unrealized	$	415	$	71
OTTI recognized in other comprehensive income (non-credit component)		215		67
Net impairment losses recognized in earnings (credit component)	$	200	$	4

During 2012 and 2011, an OTTI occurred of which only a portion was attributed to credit loss and recognized in earnings. The remainder was reported in other comprehensive income. The following is an analysis of amounts relating to credit losses on debt securities recognized in earnings during the three months ended March 31, 2012 and March 31, 2011.

(Dollars in thousands)		2012 Available for Sale		2011 Available for Sale
Balance at beginning of period	$	930	$	2,143
Other-than-temporary-impairment not previously recognized		173		
Additional increase for which an other-than-temporary impairment was previously recognized related to credit losses		27		4
Other-than-temporary-impairment previously recognized on securities sold		(50)		(169)
Realized losses during the period		(77)		(28)
Balance related to credit losses on debt securities at end of period	$	1,003	$	1,950

Table of Contents

Note 4 Investment Securities - continued

For the three months ended March 31, 2012, there were two non-agency mortgage backed securities with OTTI in which only the amount of loss related to credit was recognized in earnings. In evaluating the non-agency mortgage backed securities, relevant assumptions such as prepayment rate, default rate and loss severity on a loan level basis are used in determining the expected recovery of the contractual cash flows. The assumptions are that all loans greater than 60 days delinquent will be resolved across a two-year period at loss severities based on location and category. The balance of the underlying portfolio cash flows are evaluated using ongoing assumptions for loss severities, prepayment rates and default rates. The ongoing assumptions for average prepayment rate, default rate and severity used in the valuations were approximately 5.6%, 2.5%, and 50.5%, respectively. The underlying collateral on substantially all of these securities is fixed rate residential first mortgages located throughout the United States. The underlying collateral includes various percentages of owner-occupied, as well as, investment related single-family, 2-4 family and condominium residential properties. The securities were purchased at various discounts to par value. Based on the assumptions used in valuing the securities, the Company believes the existing discount and remaining subordinated collateral provide coverage against future credit losses on the downgraded securities for which no OTTI has been recognized.

Table of Contents

Note 4 Investment Securities - continued

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 March 31, 2012 and December 31, 2011.

March 31, 2012 (Dollars in thousands)	Less than 12 months Fair Value	Less than 12 months Unrealized Loss	12 months or more Fair Value	12 months or more Unrealized Loss	Total Fair Value	Total Unrealized Loss
Available-for-sale securities:						
Government Sponsored Enterprise mortgage-backed securities	$ 15,003	$ 53	$ 2,085	$ 33	$ 17,088	$ 86
Small Business Administration pools	4,077	19	3,957	14	8,034	33
Non-agency mortgage-backed securities	504	16	11,073	843	11,577	859
Corporate bonds and other			524	26	524	26
Total	$ 19,584	$ 88	$ 17,639	$ 916	$ 37,223	$ 1,004

December 31, 2011 (Dollars in thousands)	Less than 12 months Fair Value	Less than 12 months Unrealized Loss	12 months or more Fair Value	12 months or more Unrealized Loss	Total Fair Value	Total 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	524	26	1,464	86
Total	$ 32,735	$ 264	$ 19,271	$ 2,214	$ 52,006	$ 2,478

Government Sponsored Enterprise, Mortgage-Backed Securities: Beginning in 2008 and continuing through 2011 and 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. At March 31, 2012, the Company s wholly-owned subsidiary, First Community Bank, N.A. (the Bank), owns mortgage-backed securities (MBSs) including collateralized mortgage obligations (CMOs) with a book value of $122.5 million and approximate fair value of $125.1 million issued by government sponsored entities (GSEs). Current economic conditions have impacted MBSs issued by GSEs such as the FHLMC and the Federal National Mortgage Association (the FNMA or Fannie Mae). These entities have experienced increasing delinquencies in the underlying loans that make up the MBSs and CMOs. As of March 31, 2012 and December 31, 2011, all of the MBSs issued by GSEs are classified as Available for Sale . Unrealized losses on these investments are not considered to be other than temporary and we have the intent and ability to hold these until they mature or recover the current book value. 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 the amortized cost of the Company s investment. Because the Company has the ability and intent to hold these investments until a recovery of fair value, which may be maturity, the Company does not consider the investments to be other than temporarily impaired at March 31, 2012.

Table of Contents

Note 4 Investment Securities continued

Non-agency mortgage backed securities: The Company also holds private label mortgage-backed securities (PLMBSs), including CMOs, at March 31, 2012 with an amortized cost of $14.1 million and approximate fair value of $13.2 million. Although these are 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 beginning in 2008 and continuing through 2011 and into 2012. The result has been that the market for these investments has become less liquid and the spread as compared to alternative investments has widened dramatically. During the second quarter of 2008, the Company 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. Each of the CMO pools included in this leverage transaction, as well as privately held CMOs held previously in the available-for-sale portfolio, has been analyzed by reviewing underlying loan delinquencies, collateral value and resulting credit support. These securities have continued to experience increasing delinquencies in the underlying loans that make up the MBSs and CMOs. Management monitors each of these pools on a quarterly basis to identify any deterioration in the credit quality, collateral values and credit support underlying the investments.

During the quarter ended March 31, 2012, the Company identified two PLMBS with a fair value of $2.5 million that it considers other-than-temporarily-impaired. As prescribed by FASB ASC 320-10-65, the Company has recognized an impairment charge in earnings of $199.8 thousand (credit component). The $199.8 thousand represents the estimated credit losses on these securities for the quarter ended March 31, 2012. During the quarter ended March 31, 2011, no OTTI charges were recorded in earnings for the PLMBS portfolio. The credit losses were estimated by projecting the expected cash flows estimating prepayment speeds, increasing defaults and collateral loss severities. The credit loss portion of the impairment charge represents the difference between the present value of the expected cash flows and the amortized cost basis of the securities.

The following table summarizes as of March 31, 2012 the number of CUSIPs, par value, carrying value and fair value of the non-agency mortgage-backed/CMOs securities by credit rating. The credit rating reflects the lowest credit rating by any major rating agency. All non-agency mortgage-backed /CMO securities are in the super senior or senior tranche.

(Dollars in thousands)

Credit Rating	**Number of CUSIPs**	**Par Value**	**Amortized Cost**	**Fair Value**
AAA	6	$ 1,411	$ 1,411	$ 1,404
AA	1	323	323	308
A1	1	356	356	346
Aa2	1	85	85	85
Aa3	1	285	285	282
Below Investment Grade	10	14,030	11,611	10,795
Total	20	$ 16,490	$ 14,071	$ 13,220

During the first quarter of 2012, the Company sold two non-agency mortgage-backed securities that were rated below investment grade with a total book value of approximately $1.4 million. The $179.9 thousand loss on the sale of these securities was offset by a $190.6 thousand gain on the sale of one municipal bond and one Government sponsored enterprise mortgage-backed security, both of which were rated above investment grade. The sales of these non-agency mortgage-backed securities during the quarter have served to reduce the level of securities on the Company s balance sheet that are rated below investment grade.

Table of Contents

Note 4 Investment Securities - continued

Corporate Bonds: The Company s unrealized loss on investments in corporate bonds is the result of one bond that is rated Aa3 by Moody (investment grade) with a fair value of $475.0 thousand and a book value of $499.7 thousand. The economic conditions from 2009 to 2011 and into 2012 have had a significant impact on all corporate debt obligations. As a result, the spreads on all of the securities have widened dramatically and the liquidity of many of these investments has been negatively impacted. All of the corporate bonds held by the Company are reviewed on a quarterly basis to identify downgrades by rating agencies as well as deterioration of the underlying collateral or the issuer s ability to service the debt obligation. Other than the preferred term security, the Company does not consider these investments to be other-than-temporarily impaired at March 31, 2012.

Small Business Administration Pools: These pools are guaranteed pass-thru with the full faith and credit of the United States government. Because the Company has the ability and intent to hold these investments until a recovery of fair value, which may be maturity, the Company does not consider the investments to be other-than-temporarily impaired at March 31, 2012.

State and Local Governments and Other: There were no unrealized losses on these investments and the Company does not consider the investments to be other-than-temporarily impaired at March 31, 2012.

Table of Contents

Note 4 Investment Securities - continued

The following sets forth the amortized cost and fair value of investment securities at March 31, 2012 by contractual maturity. Expected maturities differ from contractual maturities because borrowers may have the right to call or prepay the obligations with or without prepayment penalties. Mortgage-backed securities are based on average life at estimated prepayment speeds.

	Available-for-sale	
(Dollars in thousands)	**Amortized Cost**	**Fair Value**
Due in one year or less	$ 12,974	$ 12,823
Due after one year through five years	109,954	111,637
Due after five years through ten years	53,426	54,865
Due after ten years	17,395	17,692
	$ 193,749	$ 197,017

Note 5 Loans

Loans summarized by category as of March 31, 2012, December 31, 2011 and March 31, 2011 are as follows:

(Dollars in thousands)	**March 31, 2012**	**December 31, 2011**	**March 31, 2011**
Commercial, financial and agricultural	$ 20,786	$ 20,608	$ 20,915
Real estate:			
Construction	14,796	11,767	11,516
Mortgage-residential	38,986	38,337	45,194
Mortgage-commercial	224,372	220,288	222,872
Consumer:			
Home equity	27,119	27,976	27,610
Other	5,031	5,335	6,049
Total	$ 331,090	$ 324,311	$ 334,156

Activity in the allowance for loan losses for the quarter ended March 31, 2012, the year ended December 31, 2011, and the quarter ended March 31, 2011 was as follows:

(Dollars in thousands)	**March 31, 2012**	**December 31, 2011**	**March 31, 2011**
Balance at the beginning of period	$ 4,699	$ 4,911	$ 4,911
Provision for loan losses	230	1,420	360
Charged off loans	(212)	(1,696)	$ (638)
Recoveries	28	64	22
Balance at end of period	$ 4,745	$ 4,699	$ 4,655

Table of Contents

Note 5 Loans-continued

The detailed activity in the allowance for loan losses and the recorded investment in loans receivable as of and for the three months ended March 31, 2012 and the year ended December 31, 2011 is as follows:

(Dollars in thousands)

2012	**Commercial**	**Real estate Construction**	**Real estate Mortgage Residential**	**Real estate Mortgage Commercial**	**Consumer Home equity**	**Consumer Other**	**Unallocated**	**Total**
Allowance for loan losses:								
Beginning balance December 31, 2011	$ 331	$	$ 514	$ 1,475	$ 521	$ 57	$ 1,801	$ 4,699
Charge-offs			13	178		21		212
Recoveries	12		7		2	7		28
Provisions	(36)		(8)	133	43	10	88	230
Ending balance March 31, 2012	$ 307	$	$ 500	$ 1,430	$ 566	$ 53	$ 1,889	$ 4,745
Ending balances:								
Individually evaluated for impairment	$ 1	$	$	$	$	$	$	$ 1
Collectively evaluated for impairment	306		500	1,430	566	53	1,889	4,744
Loans receivable:								
Ending balance-total	$ 20,786	$ 14,796	$ 38,986	$ 224,372	$ 27,119	$ 5,031		$ 331,090
Ending balances:								
Individually evaluated for impairment	43		605	8,923		32		9,603
Collectively evaluated for impairment	$ 20,743	$ 14,796	$ 38,381	$ 215,449	$ 27,119	$ 4,999	$	$ 321,487

Table of Contents

Note 5 Loans-continued

(Dollars in thousands)

2011	Commercial	Real estate Construction	Real estate Mortgage Residential	Real estate Mortgage Commercial	Consumer Home equity	Consumer Other	Unallocated	Total
Allowance for loan losses:								
Beginning balance December 31, 2010	$ 681	$ 905	$ 465	$ 1,404	$ 325	$ 88	$ 1,043	$ 4,911
Charge-offs	265		186	861	285	99		1,696
Recoveries	31		5		5	23		64
Provisions	(116)	(905)	230	932	476	45	758	1,420
Ending balance December 31, 2011	$ 331	$	$ 514	$ 1,475	$ 521	$ 57	$ 1,801	$ 4,699
Ending balances:								
Individually evaluated for impairment	$ 1	$	$	$ 1	$	$	$	$ 2
Collectively evaluated for impairment	330		514	1,474	521	57	1,801	4,697
Loans receivable:								
Ending balance-total	$ 20,608	$ 11,767	$ 38,337	$ 220,288	$ 27,976	$ 5,335	$	$ 324,311
Ending balances:								
Individually evaluated for impairment	45		622	8,667		19		9,353
Collectively evaluated for impairment	$ 20,563	$ 11,767	$ 37,715	$ 211,621	$ 27,976	$ 5,316	$	$ 314,958

Loans outstanding to bank directors, executive officers and their related business interests amounted to $11.3 million and $6.4 million at March 31, 2012 and March 31, 2011, respectively. Repayments on these loans during the three months ended March 31, 2012 were $749.3 thousand and loans made amounted to $390.0 thousand. Repayments on these loans during the three months ended March 31, 2011 were $200 thousand and loans made amounted to $790 thousand. Related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and generally do not involve more than the normal risk of collectability.

Table of Contents

Note 5 Loans-continued

The following table presents at March 31, 2012 and December 31, 2011 loans individually evaluated and considered impaired under FASB ASC 310 Accounting by Creditors for Impairment of a Loan. Impairment includes performing troubled debt restructurings.

(Dollars in thousands)

	March 31, 2012	December 31, 2011
Total loans considered impaired	$ 9,603	$ 9,353
Loans considered impaired for which there is a related allowance for loan loss:		
Outstanding loan balance	33	148
Related allowance	1	2
Loans considered impaired and previously written down to fair value	9,570	9,205
Average impaired loans	10,146	9,926

The following tables are by loan category and present at March 31, 2012 and December 31, 2011 loans individually evaluated and considered impaired under FAS ASC 310 Accounting by Creditors for Impairment of a Loan. Impairment includes performing troubled debt restructurings.

(Dollars in thousands)

March 31, 2012	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no allowance recorded:					
Commercial	$ 10	$ 17	$	$ 18	$
Real estate:					
Construction					
Mortgage-residential	605	632		648	
Mortgage-commercial	8,923	9,347		9,353	68
Consumer:					
Home Equity					
Other	32	32		94	
With an allowance recorded:					
Commercial	33	33	1	33	
Real estate:					
Construction					
Mortgage-residential					
Mortgage-commercial					
Consumer:					
Home Equity					
Other					

Total:					
Commercial	43	50	1	51	
Real estate:					
Construction					
Mortgage-residential	605	632		648	
Mortgage-commercial	8,923	9,347		9,353	68
Consumer:					
Home Equity					
Other	32	32		94	
	$ 9,603	$ 10,061	$ 1	$ 10,146	$ 68

Table of Contents

Note 5 Loans-continued

(Dollars in thousands)

December 31, 2011	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no allowance recorded:					
Commercial	$ 12	$ 19	$	$ 21	$
Real estate:					
Construction					
Mortgage-residential	622	650		656	4
Mortgage-commercial	8,552	8,975		9,066	382
Consumer:					
Home Equity					
Other	19	19		30	1
With an allowance recorded:					
Commercial	33	33	1	36	2
Real estate:					
Construction					
Mortgage-residential					
Mortgage-commercial	115	115	1	117	8
Consumer:					
Home Equity					
Other					
Total:					
Commercial	45	52	1	57	2
Real estate:					
Construction					
Mortgage-residential	622	650		656	4
Mortgage-commercial	8,667	9,090	1	9,183	390
Consumer:					