

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549  
Form 10-KSB

(Mark One)

X Annual Report under Section 13 or 15(d) of the Securities Exchange Act of 1934 (*No fee required*)

For the fiscal year ended December 31, 2002

or

Transition Report under Section 13 or 15(d) of the Securities Exchange Act of 1934 (*No fee required*)

For the transition period from      to  
Commission file no. 33-86258

## First Community Corporation

(Name of Small Business Issuer 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

Issuer's Telephone Number, Including Area Code

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 [X] No [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B in this form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB. [X]

The aggregate market value of the voting stock as of March 7, 2003, held by non-affiliates of the registrant based on the closing price as of March 7, 2003, was \$21,571,000

The issuer's revenues for its most recent fiscal year were \$10,079,000. 1,587,970 shares of the Issuer's common stock were issued and outstanding as of March 7, 2003.

### Documents Incorporated by Reference

Portions of the Registrants definitive Proxy Statement for its April 24, 2002 Annual Meeting of Shareholders, are incorporated by reference into Part III thereof.

Transitional Small Business Disclosure Format. (Check one): Yes [ ] No [X]

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## PART I

### Item 1. Business.

#### **General**

First Community Corporation was incorporated as a South Carolina corporation on November 2, 1994, primarily to own and control all of the capital stock of First Community Bank, N.A. The company presently engages in no business other than owning and managing the bank. The bank is a national banking association, which, engages in a commercial banking business from its main office in Lexington, South Carolina and five branch offices in Richland and Lexington counties of South Carolina. The bank's deposits are insured by the Federal Deposit Insurance Corporation (the "FDIC"), and it is a member of the Federal Reserve System.

In July 1995, the Company completed its initial public offering of 688,077 shares of its common stock, at a price of \$10.00 per share. On August 17, 1995, the bank opened for business. On July 10, 1998 the company closed a secondary offering in which it issued 517,500 shares of common stock. The net proceeds received in the secondary offering were approximately \$6.6 million after deducting issuance costs. The proceeds were used to purchase properties and construct and outfit three branches over an eighteen month period. The estimated cost for the three branches was approximately \$3.0 million. The remaining proceeds are being used to support the growth of the three new branch offices, as well as the company's two existing branches, and for other general corporate purposes. On February 9, 2001 the company acquired a sixth office when it purchased certain assets and assumed certain liabilities associated with the Chapin, South Carolina branch of Newberry Federal Savings Bank.

#### **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 and Lexington counties of South Carolina and the surrounding area. The bank has its main office located in the city of Lexington, South Carolina in Lexington County and five branch offices located in Forest Acres, Irmo, West Columbia, Gilbert and Chapin all of which are located in Lexington and Richland Counties. See Item II, "Description of Properties.

Lexington County and Richland County are located in the geographic center of the state of South Carolina. Columbia, the capital of South Carolina, is located within and divided between these two counties. Columbia can be reached via three interstate highways: I-20, I-26, and I-77. Columbia is served by several airlines as well as by passenger and freight rail service. According to the U. S. Census Bureau, Richland and Lexington Counties, which include the primary service areas for the existing six sites of the bank, had an estimated population in 2000 of 536,691. Lexington County had a population of 216,014 and Richland County had a population of 320,677. The principal components of the economy within the company's market areas are service industries, government, and wholesale and retail trade. The largest employers in the area each of which employs in excess of 3,000 people in the Midlands area, include Fort Jackson Army Base, the University of South Carolina, Palmetto Health Alliance, Blue Cross Blue Shield and SCANA Corporation. The area has experienced steady growth over the past ten years and the company expects the area, as well as the service industry needed to support it, to continue to grow. Both Richland and Lexington Counties have one of the highest per capita personal incomes in the state, at \$27,988 and \$26,643, respectively in 1999 compared to \$23,538 for South Carolina as a whole.

#### **Banking Services**

The bank offers a full range of deposit services that are typically available in most banks and savings and loan associations, 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 the bank's principal market area at rates competitive to those offered in the area. In addition, the bank offers certain retirement account services, such as Individual Retirement Accounts (IRAs). All deposit accounts are insured by the FDIC up to the maximum amount allowed by law (generally, \$100,000 per depositor subject to aggregation rules). The bank solicits these accounts from individuals, businesses, associations and organizations, and governmental authorities.

The bank also offers 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 purchase of equipment and machinery. Consumer loans include secured and unsecured loans for financing automobiles, home improvements, education and personal investments. The bank also makes real estate construction and acquisition loans. The bank originates fixed and variable rate mortgage loans in the name of a third party which, are sold into the secondary market. The bank's 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 the bank is subject to a loan-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. The bank 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 the Board of Directors of the bank 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 cash management services, safe deposit boxes, travelers checks, direct deposit of payroll and social security checks, and automatic drafts for various accounts. The bank offers non-deposit investment products and other investment brokerage services through a registered representative with an affiliation through GAA Securities, Inc. The bank is associated with Star and Plus networks of automated teller machines and Mastermoney debit cards that may be used by bank customers throughout South Carolina and other regions. The bank also offers VISA and Mastercard credit card services through a correspondent bank as an agent for the bank.

The bank does not currently exercise trust powers, but can begin to do so with the prior approval of the OCC.

## **Competition**

The banking business is highly competitive. The bank competes as a financial intermediary with other commercial banks, savings and loan associations, credit unions and money market mutual funds operating in the Columbia area and elsewhere. As of December 31, 2001, there were fourteen commercial banks operating approximately 148 offices and three thrifts with a total of 7 offices in the Lexington and Richland county area.

The company faces increased competition from both federally chartered and state chartered financial institutions, as well as credit unions, consumer finance companies, insurance companies and other institutions in the company's market area. A number of these competitors are well established in the Lexington and Richland County area. Many of them have substantially greater resources and lending limits than the bank and offer certain services, such as extensive branch networks and established trust services that the bank does not currently provide. The company believes that the community bank focus of the bank with its emphasis on service to small and medium size businesses, individual and professional concerns, gives it an advantage in this market.

## **Employees**

The bank presently has 58 full-time employees and three part-time employees. The company does not have any employees other than its officers, none whom receive any additional remuneration for their services to the company.

## **Supervision and Regulation**

We are subject to extensive state and federal banking laws and regulations which 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.

## **Gramm-Leach-Bliley Act**

The Gramm-Leach-Bliley Act, previously known as the Financial Services Modernization Act of 1999, was signed into law on November 12, 1999. Among other things, the Act repeals the restrictions on banks affiliating with securities firms contained in sections 20 and 32 of the Glass-Steagall Act. The Act also permits bank holding companies to engage in a statutorily provided list of financial activities, including insurance and securities underwriting and agency activities, merchant banking, and insurance company portfolio investment activities. The Act also authorizes activities that are “complementary” to financial activities.

The Act is intended, in part, to grant to community banks certain powers as a matter of right that larger institutions have accumulated on an ad hoc basis. Nevertheless, the Act may have the result of increasing the amount of competition that we face from larger institutions and other types of companies. In fact, it is not possible to predict the full effect that the Act will have on us. From time to time other changes are proposed to laws affecting the banking industry, and these changes could have a material effect on our business and prospects.

The Gramm-Leach-Bliley Act also contains provisions regarding consumer privacy. These provisions require financial institutions to disclose their policy for collecting and protecting confidential information. Customers generally may prevent financial institutions from sharing personal financial information with nonaffiliated third parties except for third parties that market an institution’s own products and services. 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 the consumer.

## **First Community Corporation**

Because our holding company, First Community Corporation, owns the outstanding capital stock of our bank, our holding company is a bank holding company under the federal Bank Holding Company Act of 1956 and the South Carolina Banking and Branching Efficiency Act.

*The Bank Holding Company Act.* Under the Bank Holding Company Act, our holding company is subject to periodic examination by the Federal Reserve and required to file periodic reports of its operations and any additional information that the Federal Reserve may require. Our activities at the holding company level are limited to:

- banking and managing or controlling banks;
- furnishing services to or performing services for our subsidiaries; and
- engaging in other activities that the Federal Reserve determines to be so closely related to banking and managing or controlling banks as to be a proper incident thereto.

*Investments, Control, and Activities.* With certain limited exceptions, the Bank Holding Company Act requires every bank holding company to obtain the prior approval of the Federal Reserve before:

- acquiring substantially all the assets of any bank;
- acquiring direct or indirect ownership or control of any voting shares of any bank if after the acquisition it would own or control more than 5% of the voting shares of such bank (unless it already owns or controls the majority of such shares); or
- merging or consolidating with another bank holding company.

In addition, and subject to certain exceptions, the Bank Holding Company Act and the Change in Bank Control Act 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 is rebuttably presumed to exist if a person acquires 10% or more, but less than 25%, of any class of voting securities and either the company has registered securities under Section 12 of the Securities Exchange Act of 1934 or no other person owns a greater percentage of that class of voting securities immediately after the transaction. Our common stock is registered under the Securities Exchange Act of 1934. The regulations provide a procedure for challenge of the rebuttable control presumption.

Under the Bank Holding Company Act, a bank holding company is generally prohibited from engaging in, or acquiring direct or indirect control of more than 5% of the voting shares of any company engaged in, nonbanking activities unless the Federal Reserve Board has found those activities to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Some of the activities that the Federal Reserve Board has determined by regulation to be proper incidents to the business of a bank holding company include:

- making or servicing loans and certain types of leases;
- engaging in certain insurance and discount brokerage activities;
- performing certain data processing services;
- acting in certain circumstances as a fiduciary or investment or financial adviser;
- owning savings associations; and
- making investments in certain corporations or projects designed primarily to promote community welfare.

The Federal Reserve Board imposes certain capital requirements on our 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 described below under “Capital Regulations.” Subject to capital requirements and certain other restrictions, our holding company is able to borrow money to make a capital contribution to our bank, and these loans may be repaid from dividends paid from our bank to our company. Our ability to pay dividends is subject to regulatory restrictions as described below in “First Community Bank, N.A. – Dividends.” Our holding company is also able to raise capital for contribution to our bank by issuing securities without having to receive regulatory approval, subject to compliance with federal and state securities laws.

*Source of Strength; Cross-Guarantee.* In accordance with Federal Reserve Board policy, our holding company is expected to act as a source of financial strength to our bank and to commit resources to support our bank in circumstances in which our holding company might not otherwise do so. Under the Bank Holding Company Act, the Federal Reserve Board may 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’s holding company. Further, federal bank regulatory authorities have 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.

*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. Prior to acquiring the capital stock of a national bank, we are not required to obtain the approval of the Board, but we must notify them at least 15 days prior to doing so. We must receive the 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.**

Our bank, First Community Bank, N.A., operates as a national banking association incorporated under the laws of the United States and subject to examination by the Office of the Comptroller of the Currency. Deposits in the bank are insured by the FDIC up to a maximum amount, which is generally \$100,000 per depositor subject to aggregation rules.

The Office of the Comptroller of the Currency and the FDIC regulate or monitor virtually all areas of our 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 Office of the Comptroller of the Currency requires banks to maintain specified capital ratios and imposes limitations on banks' aggregate investment in real estate, bank premises, and furniture and fixtures. The Office of the Comptroller of the Currency also requires banks to prepare annual reports on their financial condition and to conduct annual audits of their financial affairs in compliance with its minimum standards and procedures.

Under the FDIC Improvement Act, 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 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 their state supervisor when applicable. The FDIC Improvement Act directs the FDIC to develop 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 FDIC Improvement Act also requires the federal banking regulatory agencies to 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;
- loan documentation;
- credit underwriting;
- interest rate risk exposure; and
- asset quality.

National banks and their holding companies which have been chartered or registered or have undergone a change in control within the past two years or which have been deemed by the Office of the Comptroller of the Currency or the Federal Reserve Board to be troubled institutions must give the Office of the Comptroller of the Currency or the Federal Reserve Board 30 days' prior notice of the appointment of any senior executive officer or director. Within the 30 day period, the Office of the Comptroller of the Currency or the Federal Reserve Board, as the case

may be, may approve or disapprove any such appointment.

*Deposit Insurance.* The FDIC has adopted a risk-based assessment system for determining an insured depository institutions' insurance assessment rate. The system that takes into account the risks attributable to different categories and concentrations of assets and liabilities. An institution is placed into one of three capital categories: (1) well capitalized; (2) adequately capitalized; or (3) undercapitalized. The FDIC also assigns an institution to one of three supervisory subgroups, based on the FDIC's determination of the institution's financial condition and the risk posed to the deposit insurance funds. Assessments range from 0 to 27 cents per \$100 of

deposits, depending on the institution's capital group and supervisory subgroup. In addition, the FDIC imposes assessments to help pay off the \$780 million in annual interest payments on the \$8 billion Financing Corporation bonds issued in the late 1980s as part of the government rescue of the thrift industry.

The FDIC may terminate its insurance of deposits if it finds that the institution has engaged in unsafe and 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.

*Transactions With Affiliates and Insiders.* Our bank is subject to the provisions of Section 23A of the Federal Reserve Act, which 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 our 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. Compliance is also required with certain provisions designed to avoid the taking of low quality assets.

Our bank is also subject to the provisions of Section 23B of the Federal Reserve Act which, 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. Our bank is 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, 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.

*Dividends.* A national bank may not pay dividends from its capital. All dividends must be paid out of undivided profits then on hand, after deducting expenses, including reserves for losses and bad debts. In addition, a national bank is prohibited from declaring a dividend on its shares of common stock until its surplus equals its stated capital, unless there has been transferred to surplus no less than one-tenth of the bank's net profits of the preceding two consecutive half-year periods (in the case of an annual dividend). The approval of the Office of the Comptroller of the Currency is required if the total of all dividends declared by a national bank in any calendar year exceeds the total of its net profits for that year combined with its retained net profits for the preceding two years, less any required transfers to surplus.

*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 Office of the Comptroller of the Currency. In addition, with prior regulatory approval, the bank will be 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 if allowed by state law, and interstate merging by banks. South Carolina law, with limited exceptions, currently permits branching across state lines through interstate mergers.

*Community Reinvestment Act.* The Community Reinvestment Act requires that, in connection with examinations of financial institutions within their respective jurisdictions, the Federal Reserve, the FDIC, or the Office of the Comptroller of the Currency shall evaluate the record of each financial institution 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. Under the Gramm-Leach-Bliley Act, banks with aggregate assets of not more than \$250 million will be subject to a Community Reinvestment Act examination only once every 60 months if the bank receives an outstanding rating, once every 48 months if it receives a satisfactory rating, and as needed if the rating is less than satisfactory. Additionally, under the Gramm-Leach-Bliley Act, banks are required to publicly disclose the terms of various Community Reinvestment Act-related agreements.

*Other Regulations.* 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.

*Capital Regulations.* The federal bank regulatory authorities have adopted risk-based capital guidelines for banks and bank holding companies that are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies and account for off-balance sheet items. The guidelines are minimums, and the federal regulators have noted that banks and bank holding companies contemplating significant expansion programs should not allow expansion to diminish their capital ratios and should maintain ratios in excess of the minimums. We have not received any notice indicating that either our holding company or our bank is subject to higher capital requirements. The current guidelines require all bank holding companies and federally-regulated banks to maintain a minimum risk-based total capital ratio equal to 8%, of which at least 4% must be Tier 1 capital. Tier 1 capital includes common shareholders' equity, qualifying perpetual preferred stock, and minority interests in equity accounts of consolidated subsidiaries, but excludes goodwill and most other intangibles and excludes the allowance for loan and lease losses. Tier 2 capital includes the excess of any preferred stock not included in Tier 1 capital, mandatory convertible securities, hybrid capital instruments, subordinated debt and intermediate term-preferred stock, and general reserves for loan and lease losses up to 1.25% of risk-weighted assets.

Under these guidelines, banks' and bank holding companies' assets are given risk-weights of 0%, 20%, 50%, or 100%. In addition, certain off-balance sheet items are given credit conversion factors to convert them to asset equivalent amounts to which an appropriate risk-weight applies. These computations result in the total risk-weighted assets. Most loans are assigned to the 100% risk category, except for first mortgage loans fully secured by residential property and, under certain circumstances, residential construction loans, both of which carry a 50% rating. Most investment securities are assigned to the 20% category, except for municipal or state revenue bonds, which have a 50% rating, and direct obligations of or obligations guaranteed by the United States Treasury or United States Government agencies, which have a 0% rating.

The federal bank regulatory authorities have also implemented a leverage ratio, which is equal to Tier 1 capital as a percentage of average total assets less intangibles, to be used as a supplement to the risk-based guidelines. The principal objective of the leverage ratio is to place a constraint on the maximum degree to which a bank holding company may leverage its equity capital base. The minimum required leverage ratio for top-rated institutions is 3%, but most institutions are required to maintain an additional cushion of at least 100 to 200 basis points.

The FDIC Improvement Act established a new capital-based regulatory scheme designed to promote early intervention for troubled banks which requires the FDIC to choose the least expensive resolution of bank failures. The new capital-based regulatory framework contains five categories of compliance with regulatory capital requirements, including “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized,” and “critically undercapitalized.” To qualify as a “well capitalized” institution, a bank must have a leverage ratio of no less than 5%, a Tier 1 risk-based ratio of no less than 6%, and a total risk-based capital ratio of no less than 10%, and the bank must not be under any order or directive from the appropriate regulatory agency to meet and maintain a specific capital level. Currently, we qualify as “well capitalized.”

Under the FDIC Improvement Act regulations, the applicable agency can treat an institution as if it were in the next lower category if the agency determines (after notice and an opportunity for hearing) that the institution is in an unsafe or unsound condition or is engaging in an unsafe or unsound practice. The degree of regulatory scrutiny of a financial institution increases, and the permissible activities of the institution decreases, as it moves downward through the capital categories. Institutions that fall into one of the three undercapitalized categories may be required to do some or all of the following:

- submit a capital restoration plan;
- raise additional capital;
- restrict their growth, deposit interest rates, and other activities;
- improve their management;
- eliminate management fees; or
- divest themselves of all or a part of their operations.

These capital guidelines can affect us in several ways. If we grow at a rapid pace, our capital may be depleted too quickly, and a capital infusion from our holding company may be necessary which could impact our ability to pay dividends. Our capital levels currently are adequate; however, rapid growth, poor loan portfolio performance, poor earnings performance, or a combination of these factors could change our capital position in a relatively short period of time. If we fail to meet these capital requirements, our bank would be required to develop and file a plan with the Office of the Comptroller of the Currency describing the means and a schedule for achieving the minimum capital requirements. In addition, our bank would generally not receive regulatory approval of any application that requires the consideration of capital adequacy, such as a branch or merger application, unless our bank could demonstrate a reasonable plan to meet the capital requirement within a reasonable period of time. Bank holding companies controlling financial institutions can be called upon to boost the institutions’ capital and to partially guarantee the institutions’ performance under their capital restoration plans.

*Enforcement Powers.* The Financial Institutions Reform, Recovery and Enforcement Act expanded and increased civil and criminal penalties available for use by the federal regulatory agencies against depository institutions and certain “institution-affiliated parties.” Institution-affiliated parties primarily include management, employees, and agents of a financial institution, as well as independent contractors and consultants such as attorneys and accountants and others who participate in the conduct of the financial institution’s affairs. 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 20 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’ power to issue cease-and-desist orders were expanded. Such orders may, among other things, require affirmative action to correct any harm resulting from a violation or practice, including restitution, reimbursement, indemnification 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.

*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 Bank’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.

*Proposed Legislation and Regulatory Action.* New regulations and statutes are regularly proposed that contain wide-ranging proposals for altering the structures, regulations, and competitive relationships of the nation's financial institutions. We cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which our business may be affected by any new regulation or statute.

## Item 2. Description of Property.

*Lexington Property.* The principal place of business of both the company and our main office is located at 5455 Sunset Boulevard, Lexington, South Carolina 29072. The site of the bank's main office is a 2.29 acre plot of land. The site was purchased for \$576,000. The company and the bank are operating in an 8500 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 \$300,000 for future expansion. This site is designed to allow the addition of 12,000 to 18,000 square feet to the facility at some future date and as needed.

*Forest Acres Property.* The bank operates a branch office facility at 4404 Forest Drive, Columbia, South Carolina 29206. The Forest Acres site is a .71 acre plot of land which was acquired at a cost of \$376,000. The banking facility is approximately 4,000 square feet with a total cost of construction of approximately \$545,000 including paving and landscaping.

*Irmo Property.* The bank operates a branch office facility at 1030 Lake Murray Boulevard, Irmo, South Carolina 29063. The Irmo site is approximately a 1.00 acre plot of land which was acquired at a cost of \$449,000. The banking facility is approximately 3,200 square feet with a total cost of construction of approximately \$630,000 including paving and landscaping.

*Cayce/West Columbia Property.* The bank operates a branch office facility at 506 Meeting Street, West Columbia, South Carolina, 29169. The Cayce/West Columbia site is approximately a 1.25 acre plot of land which was acquired at a cost of \$300,000. The banking facility is approximately 3,800 square feet with a total cost of construction of approximately \$635,000 including paving and landscaping.

*Gilbert Property.* The company operates a branch office at 4325 Augusta Highway Gilbert, South Carolina 29054. The facility is an approximate 700 square foot modular unit located on an approximate one acre lot. The total cost of the land and construction was approximately \$205,000.

*Chapin Office.* The company operates a branch office facility at 137 Amicks Ferry Rd., Chapin South Carolina 29036. The facility is approximately 2200 square feet and is located on three acres of land. The total cost of the facility and land was approximately \$695,000.

## Item 3. Legal Proceedings.

Neither the company nor the bank is a party to, nor is any of their property the subject of, any material pending legal proceedings related to the business of the company or the bank.

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

No matter was submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

## PART II

### Item 5. Market for Common Equity and Related Stockholder Matters.

The Company's articles of incorporation authorize it to issue up to 10,000,000 shares of common stock, par value \$1.00 per share (the "Common Stock"), of which 1,270,609 were issued and outstanding as of December 31, 2001. On January 24, 2002 the board of directors approved a 5 for 4 stock split in the form of a stock dividend payable on February 28, 2002 to stockholders of record on January 31, 2002. On January 15, 2003 the Company stock began trading on the Nasdaq Small Cap market under the trading symbol of FCCO. Prior to January 15, 2003 the stock was quoted on the OTC Bulletin Board under the trading symbol FCCO.OB.

On May 20, 2002, August 15, 2002 and November 15, 2002 the company paid cash dividends to its shareholders of record as of May 6, 2002, July 31, 2002 and October 31, 2002, respectively at \$0.04 per share. Prior to such dividends the company had not declared or distributed any cash dividends to its shareholders since inception. The company expects comparable dividends to be paid to the shareholders for the foreseeable future. Notwithstanding the foregoing, the future dividend policy of the company 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. As a National Bank, First Community Bank may only pay dividends out of its net profits then on hand, after deducting expenses, including losses and bad debts. In addition, the bank is prohibited from declaring a dividend on its shares of common stock until its surplus equals its stated capital, unless there has been transferred to surplus no less than one-tenth of the bank's net profits of the preceding two consecutive half-year periods (in the case of an annual dividend). The approval of the OCC will be required if the total of all dividends declared in any calendar year by the bank exceeds the bank's net profits to date, as defined, for that year combined with its retained net profits for the preceding two years less any required transfers to surplus. At December 31, 2002, the bank has \$3,396,000 free of these restrictions. 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. The following is a summary of stock prices for the company which were quoted on the OTC Bulletin Board throughout 2002. The prices have been adjusted for all periods to reflect the effects of the June 30, 2001, 5% stock dividend and the February 28, 2002, 5-for-4 stock split.

<b>2002</b>	<b>High</b>	<b>Low</b>
First quarter	\$14.00	\$ 9.57
Second quarter	\$14.50	\$13.00
Third quarter	\$14.50	\$12.25
Fourth quarter	\$13.30	\$12.75
<b>2001</b>	<b>High</b>	<b>Low</b>
First quarter	\$11.43	\$ 9.90
Second quarter	\$12.95	\$ 9.90
Third quarter	\$11.80	\$11.00
Fourth quarter	\$11.60	\$ 9.80
<b>2000</b>	<b>High</b>	<b>Low</b>
First quarter	\$12.95	\$11.43
Second quarter	\$13.23	\$10.67
Third quarter	\$11.90	\$10.67
Fourth quarter	\$11.62	\$10.00

The price listed above are quotations, which reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

Item 6. Management's Discussion and Analysis.

The following selected consolidated financial data for the five years ended December 31, 2002 are derived from the consolidated financial statements and other data of the company. The consolidated financial statements for the years ended December 31, 1998 through 2002, were audited by Clifton D. Bodiford, CPA, independent auditor. The selected consolidated financial data should be read in conjunction with the consolidated financial statements of the company, including the accompanying notes, included elsewhere herein.

Selected Financial Data

Amounts in thousands, except per share data)

	Year ended December 31,				
	2002	2001	2000	1999	1998
<b>Operations Statement Data:</b>					
Net interest income	\$ 7,044	\$ 5,523	\$ 4,376	\$ 3,652	\$ 2,659
Provision for loan losses	677	407	161	210	179
Non-interest income	1,232	938	594	481	436
Non-interest expense	5,377	4,381	3,306	2,669	2,009
Income taxes	758	569	519	436	60
Net income	\$ 1,464	\$ 1,104	\$ 984	\$ 818	\$ 847
<b>Per Share Data:</b>					
Net income diluted (1)	\$ 0.90	\$ \$0.68	\$ 0.61	\$ 0.50	\$ 0.67
Cash dividends	0.12	—	—	—	—
Book value at period end (1)	11.61	10.56	9.70	8.86	8.59
Tangible book value at period end (1)	11.02	9.85	9.70	8.86	8.58
<b>Balance Sheet Data:</b>					
Total assets	\$ 195,201	\$156,555	\$111,986	\$94,889	\$73,152
Loans	99,991	87,519	67,984	52,297	40,819
Securities	69,785	46,366	28,735	30,722	22,843
Deposits	168,062	134,402	92,755	76,971	56,006
Shareholders' equity	18,439	16,776	15,369	14,041	13,612
Average shares outstanding (1)	1,588	1,585	1,584	1,584	1,584
<b>Performance Ratios:</b>					
Return on average assets	0.82%	0.77%	0.94%	0.90%	1.33%
Return on average equity	8.35%	6.86%	6.76%	5.90%	8.68%
Dividend payout ratio	13.05%	—	—	—	—
Net interest margin	4.26%	4.19%	4.59%	4.33%	4.54%
<b>Asset Quality Ratios:</b>					
Allowance for loan losses to period end total loans	1.53%	1.14%	1.30%	1.34%	1.30%
Allowance for loan losses to non-performing assets	1,059.03%	247.52%	N/A	N/A	N/A
Non-performing assets to total assets	0.07%	0.26%	N/A	N/A	N/A
Net charge-offs to average loans	0.16%	0.35%	(0.01%)	0.08%	0.08%
<b>Capital and Liquidity Ratios:</b>					
Tier 1 risk-based capital	14.03%	14.91%	19.30%	22.80%	27.40%
Total risk-based capital	15.28%	15.88%	20.40%	24.00%	28.50%
Leverage ratio	8.77%	10.04%	13.80%	15.00%	18.60%
Equity to asset	9.45%	10.32%	13.72%	14.80%	18.61%
Average loans to average deposits	60.71%	65.08%	70.30%	61.80%	66.81%

(1) Adjusted for the June 30, 2001 5% stock dividend and the February 28, 2002 5-for-4 stock split

## Management's Discussion and Analysis.

This Report contains statements, which constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and the Securities Exchange Act of 1934. These statements are based on many assumptions and estimates and are not guarantees of future performance. Our actual results may differ materially from those projected 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," "will," "expect," "anticipate," "believe," "intend," "plan," and "estimate," as well as similar expressions, are meant to identify such forward-looking statements. Potential risks and uncertainties include, but are not limited to:

- 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;
- the level of allowance for loan loss;
- the rate of delinquencies and amounts of charge-offs;
- the rates of loan growth;
- adverse changes in asset quality and resulting credit risk-related losses and expenses;
- general economic conditions, either nationally or regionally and especially in primary service area, becoming less favorable than expected resulting in, among other things, a deterioration in credit quality;
- changes occurring in business conditions and inflation;
- changes in technology;
- changes in monetary and tax policies;
- changes in the securities markets; and
- other risks and uncertainties detailed from time to time in our filings with the Securities and Exchange Commission.

## General

First Community Corporation is a one bank holding company. The company commenced operations on November 2, 1994. The bank, the company's only subsidiary, began operations on August 17, 1995 from its first office located in Lexington, South Carolina. On September 14, 1995 the company opened its second office located in Forest Acres, South Carolina. The bank now has six offices, all of which are located in either Lexington County or Richland County, South Carolina. The company engages 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 company experienced substantial asset growth during 2002 with assets totaling \$195.2 million at December 31, 2002, increasing by 24.6% or \$38.6 million from December 31, 2001. The asset growth was primarily funded by deposit growth of \$33.7 million or 25.1%. Deposits totaled \$168.1 million at December 31, 2002 compared to \$134.4 million at December 31, 2001.

The company's net income increased \$360,000 in 2002, or 32.6%, over the year ended December 31, 2001. Net income was \$1.5 million or \$.90 diluted earnings per share in 2002, compared to \$1.1 million or \$.68 diluted earnings per share in 2001. On January 24, 2002 the board of directors approved a 5-for-4 stock split payable February 28, 2002. Per share data has been adjusted to reflect the issuance of the stock dividend and stock split.

The following discussion and analysis is intended to assist the readers in understanding and evaluating the financial condition and results of operations of the company. This review should be read in conjunction with the company's financial statements and accompanying notes included elsewhere herein. This analysis provides an overview of the significant changes that occurred during the periods presented.

## Results of Operations

The company's net income was \$1.5 million, or \$0.90 diluted earnings per share, for the year ended December 31, 2002, as compared to net income of \$1.1 million, or \$0.68 diluted earnings per share, for the year ended December 31, 2001, and \$984,000 or \$0.61 diluted earnings per share for the year ended December 31, 2000. The increase in net income for 2002 as compared to 2001 resulted primarily from an increase in the level of average earning assets of \$33.8 million. In addition the net interest margin increased from 4.19% to 4.26%. Net interest income increased from \$5.5 million in 2001 to \$7.0 million in the year ended December 31, 2002. Non interest income increased from \$938,000 in 2001 to \$1.2 million in 2002 due primarily to increased deposit service charges resulting from higher average deposit account balances as well as increased mortgage origination fees generated as a result of the low interest rate environment throughout 2002. Non-interest expense increased to \$5.4 million in 2002 as compared to \$4.4 million in 2001. This increase is attributable to increases in all expense categories required to support the continued growth the bank has experienced over the last several years. During 1999, the company opened two new offices, in 2000 one office was opened and in 2001 the bank acquired an office from another financial institution. Since beginning the expansion in 1999 the bank has continued to leverage its initial investments by increasing both deposits and earning assets at each of these locations.

The increase in net income from 2000 to 2001 resulted primarily from two factors, which included an increase in the level of average earning assets of \$36.5 million offset by a 40 basis point decline in the net interest margin. Earning assets averaged \$95.3 million in 2000 as compared to \$131.8 million in 2001. Non-interest income increased from \$594,000 in 2000 to \$938,000 in 2001 due to increased deposit service charges and increases in mortgage origination fees. Non-interest expense increased to \$4.4 million in 2001 as compared to \$3.3 million in 2000. This increase again was primarily due to the cost associated with expansion of the branch offices during 1999 through 2001, and expansion of the support infrastructure necessary to operate these new offices.

### Net Interest Income

The largest component of operating earnings for the company is net interest income, which 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 the company's interest-earning assets and the rates paid on its 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 \$7.0 million in 2002, \$5.5 million in 2001 and \$4.4 million in 2000. Net interest spread, the difference between the yield on earning assets and the rate paid on interest-bearing liabilities, was 3.91% in 2002 as compared to 3.50% in 2001 and 3.64% in 2000. The reason for the increase in net interest income between 2002 and 2001 was due to the \$33.7 million increase in the level of earning assets between the two periods and a slight increase of 7 basis point in the net interest margin. Similarly, the increase in net interest income between 2001 and 2000 was due to the \$36.5 million increase in the level of earning assets between the two periods offset by a 40 basis points decline in the net interest margin. In 2002 loans represented 56.8% of average earning assets as compared to 60.3% in 2001. Loans typically provide a higher yield than other types of earning assets and thus one of the company's goals is to grow the loan portfolio as a percentage of earning assets. The yield on earning assets decreased from 7.29% in 2001 to 5.95% in 2002. The decrease was a result of the substantial decrease in market interest rates that took place throughout 2001 and 2002. This decrease in yield on average earning assets was offset by a decrease in the rate paid on interest-bearing liabilities to 2.04% in 2002 from 3.79% in 2001.

*Average Balances, Income Expenses and Rates.* The following tables depict, for the periods indicated, certain information related to the company's average balance sheet and its 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.

*Average Balances, Income, Expenses and Rates*

(In thousands)	2002			Year ended December 31, 2001			2000		
	Average Balance	Income/Expense	Yield/Rate	Average Balance	Income/Expense	Yield/Rate	Average Balance	Income/Expense	Yield/Rate
<b>Assets</b>									
Earning assets									
Loans	\$ 93,992	\$7,025	7.47%	\$ 79,466	\$6,855	8.63%	\$ 60,001	\$ 5,586	9.31%
Securities	58,462	2,614	4.47%	40,766	2,310	5.67%	29,002	1,743	6.01%
Other short-term investments (2)	13,074	208	1.59%	11,548	446	3.86%	6,249	399	6.39%
Total earning assets	165,528	9,847	5.95%	131,780	9,611	7.29%	95,252	7,728	8.11%
Cash and due from banks	5,359			3,808			3,307		
Premises and equipment	6,644			6,564			5,808		
Other assets	2,362			2,186			1,015		
Allowance for loan losses	(1,245)			(1,005)			(791)		
Total assets	\$178,648			\$143,333			\$104,591		
<b>Liabilities</b>									
Interest-bearing liabilities									
Interest-bearing transaction accounts	\$ 27,509	\$ 80	0.29%	\$ 15,475	\$ 118	0.76%	\$ 10,654	\$ 90	0.84%
Money market accounts	27,848	413	1.48%	22,158	716	3.23%	13,736	630	4.59%
Savings deposits	8,917	82	0.92%	7,155	142	1.98%	7,525	251	3.34%
Time deposits	67,500	2,185	3.24%	59,173	2,990	5.05%	39,011	2,158	5.53%
Other short term borrowings	5,305	43	0.81%	4,003	122	3.05%	4,014	224	5.58%
Total interest-bearing liabilities	137,079	2,803	2.04%	107,964	4,088	3.79%	74,940	3,353	4.47%
Demand deposits	23,045			18,149			14,422		
Other liabilities	983			1,121			673		
Shareholders' equity	17,541			16,099			14,556		
Total liabilities and shareholders' equity	\$178,648			\$143,333			\$104,591		
Net interest spread			3.91%			3.50%			3.64%
Net interest income/margin		\$7,044	4.26%		\$5,523	4.19%		\$4,375	4.59%

(1) All loans and deposits are domestic. Average balance of loans include non-accrual loans.

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

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

(In thousands)	2002 versus 2001 Increase (decrease ) due to			2001 versus 2000 Increase (decrease ) due to		
	Volume	Rate	Net	Volume	Rate	Net
<b>Assets</b>						
Earning assets						
Loans	\$ 631	\$ (461)	\$ 170	\$1,640	\$(371)	\$1,269
Investment securities	591	(287)	304	660	(93)	567
Other short-term investments	69	(307)	(238)	87	(40)	47
Total earning assets	842	(606)	236	2,557	(674)	1,883
Interest-bearing liabilities						
Interest-bearing transaction accounts	(194)	155	(39)	36	(7)	29
Money market accounts	274	(577)	(303)	166	(80)	86
Savings deposits	51	(111)	(60)	(11)	(97)	(108)
Time deposits	518	(1,322)	(804)	999	(168)	831
Other short term borrowings	63	(142)	(79)	(1)	(101)	(102)
Total interest-bearing liabilities	1,821	(3,106)	(1,285)	1,129	(393)	736
Net interest income			1,521			1,147

*Interest Sensitivity.* The company 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 its net interest income. A monitoring technique employed by the company is the measurement of the company's 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 by the company 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. The company evaluates interest sensitivity risk and then formulates guidelines regarding asset generation and repricing, funding sources and pricing, and off-balance sheet commitments in order to decrease interest sensitivity risk.

The following table illustrates the company's interest rate sensitivity at December 31, 2002.

### Interest Sensitivity Analysis

(In thousands)	December 31, 2002					
(In thousands)	Within Three Months	After Three Through Six Months	After Six Through Twelve Months	One Year through Five Years	Over Five Years or Nonsensitive	Total
<b>Assets</b>						
<b>Earning assets</b>						
Loans (1)	\$36,245	\$ 4,887	\$ 7,013	\$51,615	\$ 87	\$ 99,847
Securities	4,580	6,000	2,142	40,472	16,591	69,785
Federal funds sold, securities purchased under agreements to resell and other earning assets	10,145					10,145
<b>Total earning assets</b>	<b>50,970</b>	<b>10,887</b>	<b>9,155</b>	<b>92,087</b>	<b>16,678</b>	<b>179,777</b>
<b>Liabilities</b>						
<b>Interest bearing liabilities</b>						
Interest bearing deposits NOW accounts	3,556	3,807	7,615	15,229		30,207
Savings deposits	1,227	1,227	2,455	4,909		9,818
Money market accounts	27,920					27,920
Time deposits	19,409	17,475	18,324	17,785		72,993
<b>Total interest-bearing deposits</b>	<b>52,112</b>	<b>22,509</b>	<b>28,394</b>	<b>37,923</b>		<b>140,938</b>
Other short term borrowings	7,306					7,306
<b>Total interest-bearing liabilities</b>	<b>59,418</b>	<b>22,509</b>	<b>28,394</b>	<b>37,923</b>		<b>148,244</b>
Period gap	\$ (8,448)	\$ (11,622)	\$ (19,239)	\$54,164	\$16,678	\$ 31,533
Cumulative gap	\$ (8,448)	\$ (20,070)	\$ (39,309)	\$14,855	\$31,533	
Ratio of cumulative gap to total earning assets	(4.7%)	(11.2%)	(21.9%)	8.3%	17.5%	

(1) Loan balances do not include non-accrual loans in the amount of \$144,000 at December 31, 2002.

The company generally would benefit from increasing market rates of interest when it has an asset-sensitive gap and generally would benefit from decreasing market rates of interest when it is liability sensitive. The company currently is liability sensitive over all time frames within one year. However, the company's gap analysis is not a precise indicator of its interest sensitivity position. The analysis presents only a static view of the timing of maturities and repricing opportunities, without taking into consideration that changes in interest rates do not affect all assets and liabilities equally. Net interest income is also impacted by other significant factors, including changes in the volume and mix of earning assets and interest-bearing liabilities.

### Provision and Allowance for Loan Losses

The company has developed policies and procedures for evaluating the overall quality of its credit portfolio and the timely identification of potential problem credits. Management's judgment as to the adequacy of the allowance is based upon a number of assumptions about future events, which it believes to be reasonable, but which may or may not be valid. Thus, there can be no assurance that charge-offs in future periods will not exceed the allowance for loan losses or that additional increases in the loan loss allowance will not be required.

Additions to the allowance for loan losses, which are expensed as the provision for loan losses on the company's income statement, are made periodically to maintain the allowance at an appropriate level based on management's analysis of the potential risk in the loan portfolio. Currently the allowance for loan losses is allocated on an overall portfolio basis. Management intends to implement an allocation system in the future. This system will allocate the allowance to loan categories, and will be implemented at the time the size and mix of the portfolio support such a system. The objective of management has been to fund the allowance for loan losses at approximately 1.1% to 1.5% of total loans until a tested historical loss experience has been established. The amount of the provision is a function of the level of loans outstanding, the level of nonperforming loans, historical loan loss experience, the amount of loan losses actually charged against the reserve during a given period, and

current and anticipated economic conditions. Management has also established a loan review process in an attempt to ensure that its loan loss allowance is adequate. This process includes a review by the management senior credit committee of all loans originated for \$100,000 or more. In addition all loan relationships with aggregate credit of \$500,000 or more are reviewed annually and loans regardless of amount criticized or classified by management in accordance with regulatory guidelines are reviewed annual.

At December 31, 2002 and 2001, the allowance for loan losses amounted to \$1.5 million and \$1.0 million, respectively. This represents 1.52% and 1.14% of outstanding loans at December 31, 2002 and 2001, respectively. At December 31, 2002 and 2001 the company had non-accrual loans in the amount of \$144,000 and \$404,000, respectively. There were no non-accrual, restructured or other non-performing loans at December 31, 2000. There was \$340,000, \$421,000 and \$336,000 in loans delinquent greater than 30 days at December 31, 2002, 2001 and 2000, respectively. There were \$24,000 in loans greater than 90 days delinquent at December 31, 2002 and none in 2001 and 2000. The provision for loan losses was \$677,000, \$407,000 and \$161,000 for the years ended December 31, 2002, 2001 and 2000, respectively. The provision for loan loss has been increased in 2002 and 2001 as a result of higher amounts charged-off in these years. The provision was made based on management's assessment of general loan loss risk and asset quality.

#### Allowance For Loan Losses

(Dollars in thousands)	Year ended December 31,		
	2002	2001	2000
Average loans outstanding	\$ 93,992	\$79,466	\$60,001
Loans outstanding at period end	\$ 99,991	\$87,519	\$67,984
Total non-performing loans	\$ 144	\$ 404	—
Beginning balance of allowance	\$ 1,000	\$ 873	\$ 704
Loans charged-off:			
1-4 family residential mortgage	—	7	—
Home equity	—	—	—
Commercial	156	270	5
Installment & credit card	16	7	2
Total loans charged-off	172	284	7
Recoveries:			
1-4 family residential mortgage	—	—	—
Home equity	19	—	—
Commercial	1	4	14
Installment & credit card	—	—	1
Total recoveries	20	4	15
Net loans charged off	152	280	(8)
Provision for loan losses	677	407	161
Balance at period end	\$ 1,525	\$ 1,000	\$ 873
Net charge-offs to average loans	0.16%	0.35%	(.01%)
Allowance as percent of total loans	1.53%	1.14%	1.28%
Non-performing loans as % of total loans	0.14%	0.46%	—
Allowance as % of non-performing loans	1059.03%	247.52%	—

Accrual of interest is discontinued on loans when management believes, 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.

*Potential Problem Loans.* A potential problem loan is one in which management has serious doubts about the borrower's future performance under the terms of the loan contract. These loans are current as to principal and interest and, accordingly, they are not included in

nonperforming assets categories. At December 31, 2002, the company had no loans considered by management to be potential problem loans. The level of potential problem loans is one factor to be used in the determination of the adequacy of the allowance for loan losses.

## Noninterest Income and Expense

*Noninterest Income.* The company's primary source of noninterest income is service charges on deposit accounts. In addition, the company originates mortgage loans that are closed in the name of a third party for which the company receives a fee. Other sources of noninterest income is derived from commissions on sale of non-deposit investment products, bankcard fees, commissions on check sales, safe deposit box rent, wire transfer and official check fees. Noninterest income for the year ended December 31, 2002, was \$1.2 million as compared to \$938,000 for 2001, an increase of \$294,000 or 31.3%. This increase is primarily a result of the growth in deposit account balances and the related deposit account fees. Deposit account fees amounted to \$587,000 in 2002 as compared to \$475,000 in 2001. Mortgage loan fee income increased to \$300,000 for the year ended December 31, 2002 as compared to \$217,000 in 2001. This increase was attributable to the significant reduction in market interest rates throughout 2001 and 2002, which resulted in more new home sales and a significant increase in mortgage refinancings. Commissions on the sale of non-deposit investment products increased \$16,000 from \$100,000 in 2001 to \$116,000 in 2002. The company continues to place emphasis on these sources of noninterest income by attempting to increase mortgage loan fee income and commissions on the sale of non-deposit investment products.

Noninterest income amounted to \$594,000 in 2000. The increase in 2001 of \$344,000 or 57.8% as compared to 2000 is also primarily attributable to increased deposit account balances and the related deposit account fees. Deposit account fees increased \$142,000 or 42.4% in 2001 as compared to 2000. In addition mortgage loan fees increased \$129,000 from \$88,000 in 2000 to \$217,000 in 2001. As previously stated market interest rates dropped significantly in 2001 resulting in more new home sales and refinancings.

*Noninterest Expense.* In the very competitive financial services industry, management recognizes the need to place a great deal of emphasis on expense management and continually evaluates and monitors growth in discretionary expense categories in order to control future increases. Noninterest expense increased to \$5.4 million for the year ended December 31, 2002 from \$4.4 million for the year ended December 31, 2001. Salary and employee benefits increased \$384,000 in 2002 as compared to 2001. This increase results from an increase of 5 full time equivalent employees from 53 at December 31, 2001 to 58 at December 31, 2002. In addition, during 2001 the company added 7 new positions. All of these positions have been added to support the continued growth of the bank both in operation areas and branch offices. Equipment expense increased by \$103,000 or 19.6%, in 2002, as compared to 2001. This is primarily attributable to increased depreciation and maintenance contract expense related to equipment purchased to upgrade and improve existing technology. During 2002 the bank introduced check imaging and upgraded certain telecommunications and data network systems. The company continues to evaluate its technology systems in order to enhance its delivery of services and currently has plans in 2003 to invest in and introduce an internet banking product for both its consumer and commercial customers. In addition the company has plans to upgrade its teller and customer service platform systems in 2003. Noninterest expense in 2002 and 2001 includes amortization of the deposit premium intangible of \$185,000 and \$124,000, respectively related to the acquisition of the Chapin office in February 2001. The deposit premium of \$1.2 million is being amortized over a period of seven years. Marketing and public relations expense for 2002 increased by \$97,000 as a result of planned increases in advertising to include the use of television media in our markets.

Noninterest expense increased to \$4.4 million for the year ended December 2001 from \$3.3 million for the year ended December 31, 2000. Salary and employee benefit expense increased \$665,000 in 2001 as compared to 2000. This increase resulted from an increase of 7 full time equivalent employees from 46 at December 31, 2000 to 53 at December 31, 2001. Four of these were added when the bank acquired its sixth banking office in Chapin, South Carolina in February 2001. Significantly higher health insurance cost also contributed to the higher salary and benefit expense in 2001 compared to 2000. Equipment expense increased by \$118,000 in 2001 as compared to 2000. This is attributable to increased depreciation and maintenance contract expense related to equipment purchased for the Chapin office as well as other technology upgrades purchased to improve existing technology.

The following table sets forth for the periods indicated the primary components of non-interest expense:

(In thousands)	Year ended December 31,		
	2002	2001	2000
Salary and employee benefits	\$2,740	\$2,356	\$1,691
Occupancy	340	294	247
Equipment	629	526	408
Marketing and public relations	244	147	198
Data processing	86	77	137
Supplies	161	110	87
Telephone	128	103	64
Correspondent services	72	78	60
Insurance	113	86	60
Professional fees	176	94	86
Postage	75	78	56
Amortization of intangibles	185	124	—
Other	428	308	211
	<u>\$5,377</u>	<u>\$4,381</u>	<u>\$3,305</u>

#### Income Tax Expense

Income tax expenses for the year ended December 31, 2002 were \$758,000 or 34.1% of income before taxes as compared to \$569,000 and 34.0% of income before taxes for the year ended December 31, 2001. Income taxes for 2000 were \$520,000 or 34.6% of income before taxes. The company recognizes 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. At current established federal and state statutory income tax rates it is anticipated that income tax expense for the company will remain approximately 34.0% to 35.0 % of income before taxes in the future.

#### Financial Position

Total assets at December 31, 2002 were \$195.2 million as compared to \$156.6 million at December 31, 2001. Average earning assets increased to \$165.5 million during 2002 as compared to \$131.8 million during 2001. Asset growth included a net increase in loans of \$12.5 million from \$87.5 million at December 31, 2001 to \$100.0 million at December 31, 2002. Investment securities increased \$23.4 million from \$46.4 million at yearend 2001 to \$69.8 million at December 31, 2002. The growth in the various asset categories was primarily funded by an increase in deposit account balances of \$33.7 million from \$134.4 million at December 31, 2001 to \$168.1 million at December 31, 2002. Shareholders' equity totaled \$16.8 million at December 31, 2001 as compared to \$18.4 million at December 31, 2002. This increase was a result of an increase in retained earnings of \$1.3 million and an increase of the unrealized gain on available for sale securities \$393,000 during 2002.

#### Earning Assets

*Loans.* Loans typically provide higher yields than the other types of earning assets, and thus one of the bank's goals is to have loans be the largest category of the bank's earning assets. At December 31, 2002 loans accounted for 55.6% of earning assets as compared to 61.1% of earning assets at December 31, 2001. Associated with the higher loan yields are the inherent credit and liquidity risks which management attempts to control and counterbalance. Management is committed to achieving its asset mix goals without sacrificing asset quality. Loans averaged \$94.0 million during 2002, as compared to \$79.5 million in 2001.

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

(In thousands)	December 31,					
	2002		2001		2000	
	Amount	Percent	Amount	Percent	Amount	Percent
Commercial, financial & agricultural	\$10,688	10.7%	\$12,408	14.2%	\$12,414	18.3%
Real estate:						
Construction	7,533	7.5%	10,126	11.6%	3,879	5.7%
Mortgage – residential	11,055	11.1%	9,272	10.6%	8,327	12.2%
Mortgage – commercial	55,290	55.3%	41,744	47.7%	31,525	46.4%
Consumer	15,425	15.4%	13,968	15.9%	11,839	17.4%
<b>Total gross loans</b>	<b>99,991</b>	<b>100.0%</b>	<b>87,518</b>	<b>100.0%</b>	<b>67,984</b>	<b>100.0%</b>
Allowance for loan losses	(1,525)		(1,000)		(873)	
<b>Total net loans</b>	<b>\$98,466</b>		<b>\$86,518</b>		<b>\$67,111</b>	

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. The company follows 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 the company limits the loan-to-value ratio to 80%. The principal components of the company's loan portfolio, at year-end 2002 and 2001, were commercial mortgage loans in the amount of \$55.3 million and \$41.7 million, representing 55.3% and 47.7% of the portfolio, respectively. Significant portions of these commercial mortgage loans are made to finance owner-occupied real estate. Management maintains a conservative philosophy regarding its underwriting guidelines, and believes it will reduce the risk elements of its 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 for the company. The following table sets forth the company's loans maturing within specified intervals at December 31, 2002.

#### Loan Maturity Schedule and Sensitivity to Changes in Interest Rates

(In thousands)	December 31, 2002			
	One Year or Less	Over One Year Through Five Years	Over Five Years	Total
Commercial, financial & agricultural	\$ 3,957	\$ 6,731	\$ —	\$10,688
Real estate – construction	7,404	129	—	7,533
All other loan	11,056	61,530	9,184	81,770
	<b>\$22,417</b>	<b>\$68,390</b>	<b>\$9,184</b>	<b>\$99,991</b>
Loans maturing after one year with:				
Fixed interest rates				\$58,434
Floating interest rates				19,140
				<b>\$77,574</b>

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 the company's total earning assets. Total securities averaged \$58.5 million in 2002, as compared to \$40.8 million in 2001. This represents 35.3% and 31.0% of the average earning assets for the year ended December 31, 2002 and 2001, respectively. The objective of the company in its management of the investment portfolio is to maintain a portfolio of high quality, highly liquid investments with returns competitive with short term U.S. Treasury or agency obligations. This policy is particularly important as the company continues to emphasize increasing the percentage of the loan portfolio to total earning assets. At December 31, 2002, the weighted average life of the portfolio was 2.1 years and the weighted average tax equivalent yield was 4.3%. The company primarily invests in U.S. Treasury securities and securities of other U. S. Government agencies with maturities up to ten years. In 1998, as a result of utilizing all prior net operating losses the company began investing in South Carolina state and local government obligations with maturities of up to 15 years.

The following table shows, at carrying value, the scheduled maturities and average yields of securities held.

*Investment Securities Maturity Distribution and Yields (1)*

(In thousands)	December 31, 2002							
	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
<b>Held-to-maturity:</b>								
State and local government	\$ 252	5.02%	\$ 968	5.82%	\$ 2,628	5.68%	\$ 1,159	6.69%
Other					10	5.85%	—	
<b>Total investment securities held-to-maturity</b>	<b>252</b>	<b>5.02%</b>	<b>968</b>	<b>5.82%</b>	<b>2,638</b>	<b>5.68%</b>	<b>1,159</b>	<b>6.68%</b>
<b>Available-for-sale:</b>								
U.S. treasury	1,266	2.30%	3,072	2.70%	—	—	—	—
U.S. government agencies	10,575	2.45%	26,454	4.29%	8,890	4.79%	—	—
Mortgage-backed securities	—	—	636	6.09%	5,673	4.75%	7,503	5.48%
Other	—	—	—	—	—	—	699	6.00%
<b>Total investment securities available-for-sale</b>	<b>11,841</b>	<b>2.43%</b>	<b>30,162</b>	<b>4.16%</b>	<b>14,563</b>	<b>4.77%</b>	<b>8,202</b>	<b>5.52%</b>
<b>Total investment securities</b>	<b>\$12,093</b>	<b>2.48%</b>	<b>\$31,130</b>	<b>4.21%</b>	<b>\$17,201</b>	<b>4.91%</b>	<b>\$9,361</b>	<b>5.65%</b>

(1) Investments with a call feature are shown as of the contractual maturity date.

*Short-Term Investments.* Short-term investments, which consist of federal funds sold, securities purchased under agreements to resell and interest bearing deposits, averaged \$13.1 million in 2002, as compared to \$11.5 million in 2001. At December 31, 2002, short-term investments totaled \$10.1 million. These funds are a primary source of the company's liquidity and are generally invested in an earning capacity on an overnight basis.

**Deposits and Other Interest-Bearing Liabilities**

*Deposits.* Average total deposits were \$154.8 million during 2002, compared to \$122.1 million during 2001. Average interest-bearing deposits were \$131.8 million in 2002, as compared to \$104.0 million in 2001.

The following table sets forth the deposits of the company by category.

(In thousands)	December 31,					
	2002		2001		2000	
	Amount	% of Deposits	Amount	% of Deposits	Amount	% of Deposits
Demand deposit accounts	\$ 27,124	16.1%	\$ 19,687	14.7%	\$17,222	18.6%
NOW accounts	30,207	18.0%	15,415	11.5%	13,554	14.6%
Money market accounts	27,920	16.6%	24,050	17.9%	14,299	15.4%
Savings accounts	9,818	5.8%	7,774	5.8%	5,285	5.7%

Time deposits less than \$100,000	46,647	27.8%	40,906	30.4%	20,779	22.4%
Time deposits more than \$100,000	26,346	15.7%	26,570	19.7%	21,615	23.3%
	<u>46,647</u>	<u>27.8%</u>	<u>40,906</u>	<u>30.4%</u>	<u>20,779</u>	<u>22.4%</u>
	<u>26,346</u>	<u>15.7%</u>	<u>26,570</u>	<u>19.7%</u>	<u>21,615</u>	<u>23.3%</u>
	<u>\$168,062</u>	<u>100.0%</u>	<u>\$134,402</u>	<u>100.0%</u>	<u>\$91,754</u>	<u>100.0%</u>

Core deposits, which exclude certificates of deposit of \$100,000 or more, provide a relatively stable funding source for the company's loan portfolio and other earning assets. The company's core deposits were \$141.7 million and \$107.8 million at December 31, 2002 and 2001, respectively. A stable base of deposits are expected to be the company's primary source of funding to meet both its short-term and long-term liquidity needs in the future.

The maturity distribution of the company's time deposits is shown in the following table.

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

(In thousands)	December 31, 2002				Total
	Within Three Months	After Three Through Six Months	After Six Through Twelve Months	After Twelve Months	
Certificates of \$100,000 or more	\$8,041	\$6,008	\$6,127	\$6,170	\$26,346

There were no Other Time Deposits of \$100,000 or more at December 31, 2002.

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. Some financial institutions partially fund their balance sheets using large certificates of deposit obtained through brokers. These brokered deposits are generally expensive and are unreliable as long-term funding sources. Accordingly, the company does not accept brokered deposits.

*Borrowed funds.* Borrowed funds consist primarily of short-term borrowings in the form of securities sold under agreements to repurchase, and Federal Home Loan Bank advances. These borrowings averaged \$5.2 million and \$4.0 million during 2002 and 2001, respectively. The repurchase agreements are generally originated with customers that have other relationships with the company and tend to provide a stable and predictable source of funding. Repurchase agreements averaged \$5.2 million and \$3.8 million during 2002 and 2001, respectively. During 1999 the bank became a member of the Federal Home Loan Bank of Atlanta (FHLB Atlanta) and as such has access to advances from the FHLB Atlanta for various terms and amounts. During 2001 the average outstanding advances amounted to \$115,000. There were no advances in 2002.

#### Capital

Total shareholders' equity as of December 31, 2002 was \$18.4 million, an increase of \$1.6 million or approximately 9.5% compared with shareholders equity of \$16.8 million as of December 31, 2001. This increase was attributable to net income for the year ended December 31, 2002 of \$1.5 million and an increase in the net unrealized gain of \$393,000 net of tax effect in the market value of investment securities available-for-sale. During the second quarter of 2002 the company paid its first annual cash dividend of \$0.04 per share. Subsequent to this first cash dividend the company paid a \$0.04 per share dividend in the third and fourth quarter of 2002. Total dividends paid in 2002 amounted to \$191,000.

Under the capital guidelines of the Federal Reserve and the OCC, the company and the bank are currently required to maintain a minimum risk-based total capital ratio of 8%, with at least 4% being Tier 1 capital. Tier 1 capital consists of common shareholders' equity, qualifying perpetual preferred stock, and minority interests in equity accounts of consolidated subsidiaries, less goodwill. In addition, the bank must maintain a minimum Tier 1 leverage ratio (Tier 1 capital to total assets) of at least 3%, but this minimum ratio is increased by 100 to 200 basis points for other than the highest-rated institutions.

The company and the bank exceeded their regulatory capital ratios, as set forth in the following table.

Analysis of Capital (In thousands)	Required Amount	%	Actual Amount	%	Excess Amount	%
<b>The Bank:</b>						
December 31, 2002						
Risk Based Capital						
Tier 1	\$4,775	4.0%	\$13,559	11.4%	\$ 8,748	7.4%
Total Capital	9,551	8.0%	15,052	12.6%	5,501	4.6%
Tier 1 Leverage	5,682	3.0%	13,559	7.2%	7,877	4.2%
December 31, 2002						
Risk Based Capital						
Tier 1	\$4,104	4.0%	\$11,899	11.6%	\$ 7,795	7.6%
Total Capital	8,208	8.0%	12,899	12.6%	4,691	4.6%
Tier 1 Leverage	4,518	3.0%	11,899	7.9%	7,381	4.9%
<b>The Company:</b>						
December 31, 2002						
Risk Based Capital						
Tier 1	\$4,797	4.0%	\$16,831	14.0%	\$11,834	10.0%
Total Capital	9,594	8.0%	18,330	15.3%	8,736	7.3%
Tier 1 Leverage	5,759	3.0%	16,831	8.8%	11,072	5.8%
December 31, 2002						
Risk Based Capital						
Tier 1	\$4,124	4.0%	\$15,377	14.9%	\$11,253	10.9%
Total Capital	8,248	8.0%	16,377	15.9%	8,129	7.9%
Tier 1 Leverage	4,594	3.0%	15,377	10.0%	10,783	7.0%

On July 10, 1998 the Company closed a secondary offering in which 679,218 additional shares (adjusted for the June 30, 2001 5% stock dividend and the February 28, 2002 5-for-4 stock split) were issued with proceeds after offering expenses of approximately \$6.6 million. Approximately \$4.1 million of the proceeds from this offering were used to provide additional capital to the bank. The company is using the proceeds of the secondary offering to support its continued growth and believe that its capital resources are adequate to meet its operating needs.

#### Liquidity Management

Liquidity management involves monitoring the company's sources and uses of funds in order to meet its day-to-day cash flow requirements while maximizing profits. Liquidity represents the ability of a company 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 the company's 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 Atlanta and has the ability to obtain advances for various periods of time. These advances will be secured by securities pledged by the bank or assignment of specific loans within the bank's portfolio.

With the successful completion of the common stock offering in 1995 and the secondary offering completed in July 1998, the company has maintained a high level of liquidity that has been adequate to meet planned capital expenditures, as well as providing the necessary cash requirements of the company and the bank needed for operations. The company's funds sold and short term interest bearing deposits position, its primary source of liquidity, averaged \$13.1 million during the year ended December 31, 2002, and was \$10.1 million at December 31, 2002. The company also maintains federal funds purchased lines, in the amount of \$4.5 million with several financial institutions, although these have not been utilized in 2002. The FHLB Atlanta has approved a line of credit of up to 15% of the bank assets which would be collateralized by a pledge against specific investment

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. Management believes that its existing stable base of core deposits along with continued growth in this deposit base will enable the company to meet its long term liquidity needs successfully.

#### 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 the company's 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, management seeks 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 7. Financial Statements

REPORT OF INDEPENDENT AUDITOR

The Board of Directors  
First Community Corporation  
Lexington, South Carolina

I have audited the accompanying balance sheets of First Community Corporation as of December 31, 2002 and 2001, and the related statements of operations, statements of comprehensive income, changes in shareholders equity and cash flows for the three years ended December 31, 2002. These financial statements are the responsibility of management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted the audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of First Community Corporation at December 31, 2002 and 2001 and the results of its operations and its cash flows for the three years ended December 31, 2002, in conformity with generally accepted accounting principles in the United States of America.

/s/Clifton D. Bodiford  
Certified Public Accountant  
Columbia, SC  
January 15, 2003

**FIRST COMMUNITY CORPORATION**  
**Consolidated Balance Sheets**

	2002	December 31, 2001
<b>ASSETS</b>		
Cash and due from banks	\$ 7,698,671	\$ 5,402,419
Interest-bearing bank balances	935,536	1,011,648
Federal funds sold and securities purchased under agreements to resell	9,209,069	8,424,738
Investment securities - available for sale	64,767,700	42,267,602
Investment securities - held to maturity (market value of \$5,160,669 and \$4,063,566 at December 31, 2002 and 2001, respectively)	5,016,990	4,098,594
Loans	99,991,248	87,518,579
Less, allowance for loan losses	1,525,308	1,000,412
Net loans	98,465,940	86,518,167
Property, furniture and equipment - net	6,811,540	6,496,975
Intangible assets	942,295	1,127,575
Other assets	1,352,974	1,207,473
<b>Total assets</b>	<b>\$195,200,715</b>	<b>\$156,555,191</b>
<b>LIABILITIES</b>		
Deposits:		
Non-interest bearing demand	\$ 27,124,475	\$ 19,686,677
NOW and money market accounts	58,127,157	39,465,531
Savings	9,818,007	7,773,866
Time deposits less than \$100,000	46,646,739	40,905,744
Time deposits \$100,000 and over	26,346,095	26,569,838
<b>Total deposits</b>	<b>168,062,473</b>	<b>134,401,656</b>
Securities sold under agreements to repurchase	7,306,064	4,050,700
Other borrowed money	164,287	162,349
Other liabilities	1,229,168	1,164,284
<b>Total liabilities</b>	<b>176,761,992</b>	<b>139,778,989</b>
<b>SHAREHOLDERS' EQUITY</b>		
Preferred stock, par value \$1.00 per share; 10,000,000 shares authorized; none issued and outstanding		
Common stock, par value \$1.00 per share; 10,000,000 shares authorized; issued and outstanding 1,587,970 in 2002 and 1,270,609 in 2001	1,587,970	1,270,609
Additional paid in capital	12,771,383	13,088,744
Retained earnings	3,414,234	2,144,611
Accumulated other comprehensive income	665,136	272,238
<b>Total shareholders' equity</b>	<b>18,438,723</b>	<b>16,776,202</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$195,200,715</b>	<b>\$156,555,191</b>

**See Notes to Consolidated Financial Statements**

**FIRST COMMUNITY CORPORATION**  
**Consolidated Statements of Income**

	Year Ended December 31,		
	2002	2001	2000
<b>Interest income:</b>			
Loans, including fees	\$7,025,363	\$6,855,382	\$5,586,231
Investment securities - available-for-sale	2,427,970	2,183,435	1,574,914
Investment securities - held-to-maturity	186,206	126,961	167,869
Other short term investments	207,577	445,469	399,345
<b>Total interest income</b>	<b>9,847,116</b>	<b>9,611,247</b>	<b>7,728,359</b>
<b>Interest expense:</b>			
Deposits	2,759,818	3,966,442	3,129,006
Securities sold under agreement to repurchase	41,601	118,796	178,026
Other borrowed money	1,380	3,066	45,666
<b>Total interest expense</b>	<b>2,802,799</b>	<b>4,088,304</b>	<b>3,352,698</b>
<b>Net interest income</b>	<b>7,044,317</b>	<b>5,522,943</b>	<b>4,375,661</b>
Provision for loan losses	677,000	407,300	160,500
<b>Net interest income after provision for loan losses</b>	<b>6,367,317</b>	<b>5,115,643</b>	<b>4,215,161</b>
<b>Non-interest income:</b>			
Deposit service charges	586,918	475,331	333,720
Mortgage origination fees	300,363	217,074	88,070
Gain on sale of securities	60,616	—	—
Other	284,359	245,680	172,631
<b>Total non-interest income</b>	<b>1,232,256</b>	<b>938,085</b>	<b>594,421</b>
<b>Non-interest expense:</b>			
Salaries and employee benefits	2,740,255	2,356,126	1,690,740
Occupancy	340,269	294,438	247,341
Equipment	629,119	526,251	408,153
Marketing and public relations	244,334	147,138	198,475
Amortization of intangibles	185,280	123,520	—
Other	1,238,255	933,180	761,135
<b>Total non-interest expense</b>	<b>5,377,512</b>	<b>4,380,653</b>	<b>3,305,844</b>
<b>Net income before tax</b>	<b>2,222,061</b>	<b>1,673,075</b>	<b>1,503,738</b>
Income taxes	757,701	569,421	519,693
<b>Net income</b>	<b>\$1,464,360</b>	<b>\$1,103,654</b>	<b>\$ 984,045</b>
<b>Basic earnings per common share</b>	<b>\$ 0.92</b>	<b>\$ 0.69</b>	<b>\$ 0.62</b>
<b>Diluted earnings per common share</b>	<b>\$ 0.90</b>	<b>\$ 0.68</b>	<b>\$ 0.61</b>

See Notes to Consolidated Financial Statements

**FIRST COMMUNITY CORPORATION**  
**Consolidated Statements of Comprehensive Income**

	Year ended December 31,		
	2002	2001	2000
Net income	\$1,464,360	\$1,103,654	\$ 984,045
Other comprehensive income (loss), net of tax:			
Unrealized gains (losses) arising during the period, net of tax effect of \$211,560, \$141,041 and \$190,383, for the years ended 'December 31, 2002, 2001 and 2000, respectively	392,898	274,975	343,997
Comprehensive income	<u>\$1,857,258</u>	<u>\$1,378,629</u>	<u>\$1,328,042</u>

**See Notes to Consolidated Financial Statements**

**FIRST COMMUNITY CORPORATION**  
**Consolidated Statement of Changes in Shareholder's Equity**

	Shares Issued	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance December 31, 1999	1,207,177	\$1,207,177	\$12,248,087	\$ 932,192	\$(346,734)	\$14,040,722
Net income				984,045		984,045
Other comprehensive income loss, net of tax - unrealized loss on available-for-sale securities					343,997	343,997
Balance December 31, 2000	1,207,177	1,207,177	12,248,087	1,916,237	(2,737)	15,368,764
Net income				1,103,654		1,103,654
5% stock dividend	60,282	60,282	813,807	(875,280)		(1,191)
Stock options exercised	3,150	3,150	26,850			30,000
Other comprehensive income, net of tax - unrealized gain on available-for-sale securities					274,975	274,975
Balance December 31, 2001	1,270,609	1,270,609	13,088,744	2,144,611	272,238	16,776,202
Net income				1,464,360		1,464,360
5-for-4 stock split	317,361	317,361	(317,361)	(4,181)		(4,181)
Cash dividend (\$0.12 per share)				(190,556)		(190,556)
Other comprehensive income, net of tax - unrealized gain on available-for-sale securities					392,898	392,898
Balance December 31, 2002	1,587,970	\$1,587,970	\$12,771,383	\$3,414,234	\$ 665,136	\$18,438,723

**See Notes to Consolidated Financial Statements**

**FIRST COMMUNITY CORPORATION**  
**Consolidated Statements of Cash Flows**

Year Ended December 31,

	2002	2001	2000
<b>Cash flows from operating activities:</b>			
Net income	\$ 1,464,360	\$ 1,103,654	\$ 984,045
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation	502,666	469,479	381,959
Premium amortization (Discount accretion)	146,623	(124,558)	(157,396)
Provision for loan losses	677,000	407,300	160,500
Amortization of intangibles	185,280	161,445	—
Gain on sale of securities	(60,616)	—	—
Increase in other assets	(382,533)	(294,670)	(281,058)
Increase in accounts payable	64,884	375,716	341,071
<b>Net cash provided in operating activities</b>	<b>2,597,664</b>	<b>2,098,366</b>	<b>1,429,121</b>
<b>Cash flows from investing activities:</b>			
Purchase of investment securities available-for-sale	(55,130,066)	(56,263,765)	(9,547,213)
Maturity/call of investment securities available-for-sale	33,207,257	40,263,667	12,230,447
Purchase of investment securities held-to-maturity	(951,762)	(2,590,493)	—
Maturity/call of investment securities held-to-maturity	—	1,500,000	—
Increase in loans	(12,624,773)	(19,794,785)	(15,677,798)
Acquisition of branch	—	11,899,144	—
Purchase of property and equipment	(817,231)	(896,268)	(1,071,006)
<b>Net cash used in investing activities</b>	<b>(36,316,575)</b>	<b>(25,882,500)</b>	<b>(14,065,570)</b>
<b>Cash flows from financing activities:</b>			
Increase in deposit accounts	33,660,817	28,469,970	15,783,472
Proceeds from exercise of stock options	—	30,000	—
Cash in lieu of fractional shares	(4,181)	(1,191)	—
Cash dividends paid	(190,556)	—	—
Increase in securities sold under agreements to repurchase	3,255,364	1,101,300	1,291,900
Increase (decrease) in other borrowings	1,938	38,269	(1,647,876)
<b>Net cash provided from financing activities</b>	<b>36,723,382</b>	<b>29,638,348</b>	<b>15,427,496</b>
<b>Net increase in cash and cash equivalents</b>	<b>3,004,471</b>	<b>5,854,214</b>	<b>2,791,047</b>
Cash and cash equivalents at beginning of period	14,838,805	8,984,591	6,193,544
<b>Cash and cash equivalents at end of period</b>	<b>\$ 17,843,276</b>	<b>\$ 14,838,805</b>	<b>\$ 8,984,591</b>
<b>Supplemental disclosure:</b>			
Cash paid during the period for:			
Interest	\$ 2,754,208	\$ 3,938,716	\$ 3,108,530
Taxes	\$ 818,000	\$ 526,534	\$ 271,065
<b>Non-cash investing and financing activities:</b>			
Unrealized gain on securities available-for-sale	\$ 629,930	\$ 416,016	\$ 534,379

**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). 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.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The financial statements are prepared in accordance with generally accepted accounting principles which 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 reserve 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 borrowers current financial position, the consideration of current and anticipated economic conditions and the effect on specific borrowers. In determining the collectibility 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, 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 or available-for-sale. 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. All other securities are classified as available-for-sale and carried at estimated fair values with unrealized gains and losses included in shareholders' equity on an after tax basis.

Gains and losses on the sale of available-for-sale 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.

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

## 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 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.

## Intangible Assets

Intangible assets consist primarily of core deposit premiums and goodwill resulting from the Company's acquisition of a branch office during 2001. Core deposit intangibles and goodwill are being amortized over seven years on a straight-line basis.

## Marketing and Public Relations Expense

The company expenses marketing and public relations expense as incurred

## 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 carryforwards. 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.

## Stock Based Compensation Cost

The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees". Accordingly, compensation cost for stock options is measured as the excess, if any, of the market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock. Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123) was issued in October 1995, and encourages but does not require, adoption of a fair value method of accounting for employee stock based compensation plans. The company has adopted the disclosure-only provisions of SFAS 123 and has disclosed in the footnotes pro-forma net income and earnings per share information as if the fair value method had been applied.

## Earnings Per Share

Basic earnings per 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 by the weighted number of average shares of common stock and common stock equivalents. Common stock equivalents consist of stock options and are computed using the treasury stock method.

## Segment Information

Statement of Financial Accounting Standards (SFAS) No. 131 “Disclosures about Segments of an Enterprise and Related Information” requires selected segment information of operating segments based on a management approach. The company operates as one business segment.

## Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS 141, “Business Combinations” and SFAS 142, “Goodwill and Other Intangible Assets”. SFAS 141 eliminates the pooling of interest method of accounting for business combinations and requires the purchase method. The Statement also requires that intangible assets be reported separately from goodwill. This Statement is effective for all transactions initiated after June 30, 2001. Under SFAS 141, the company was required to evaluate its existing intangible assets and goodwill that were acquired in prior business combinations and make any necessary reclassifications in order to conform with the new criteria for recognition apart from goodwill. Upon adoption of SFAS 142, the company reassessed the useful lives of its intangible assets and did not make any adjustments to amortization periods for any periods presented.

In October 2002, the FASB issued SFAS 147, “Acquisition of Certain Financial Institutions, an amendment to SFAS 72 and SFAS 144. SFAS 147 removes acquisitions of financial institutions from the scope of SFAS 72 and requires that those transactions be accounted for in accordance with SFAS 141, “Business Combinations” and SFAS 142, “Goodwill and Other Intangible Assets”, except for transactions between mutual enterprises. The provisions of SFAS 147, are effective for financial statements issued on or after October 1, 2002 and early adoption is permitted. The adoption of SFAS 147 is not material to the company.

## Note 3 - PURCHASE OF BRANCH OFFICE

On February 9, 2001, the bank purchased certain assets and assumed certain liabilities associated with the Chapin, South Carolina branch of Newberry Federal Savings Bank. The acquisition was accounted for as a purchase. The premium paid for deposit liabilities and other intangible assets recorded as a result of this transaction are being amortized on a straight- line basis over a period of seven years. Summarized below are the assets and liabilities recorded as a result of the purchase.

Cash and cash equivalents	\$11,343,432
Loans	20,254
Premises and equipment	692,456
Other assets, including deposit premium	1,239,448
<b>Total assets</b>	<b>\$13,295,590</b>
Deposits	\$13,171,607
Accrued interest and other liabilities	123,983
<b>Total liabilities</b>	<b>\$13,295,590</b>

Note 4 - INVESTMENT SECURITIES

The amortized cost and estimated fair values of investment securities are summarized below:  
HELD-TO-MATURITY:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
December 31, 2002:				
State and local government	\$5,006,990	\$166,981	\$23,302	\$5,150,669
Other	10,000	—	—	10,000
	<u>\$5,016,990</u>	<u>\$166,981</u>	<u>\$23,302</u>	<u>\$5,160,669</u>
December 31, 2001:				
State and local government	\$4,088,594	\$ —	\$35,028	\$4,053,566
Other	10,000	—	—	10,000
	<u>\$4,098,594</u>	<u>\$ —</u>	<u>\$35,028</u>	<u>\$4,063,566</u>

AVAILABLE-FOR-SALE:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
December 31, 2002:				
US Treasury securities	\$ 4,273,006	\$ 64,818	\$ —	\$ 4,337,824
US Government agency securities	45,282,395	639,734	2,975	45,919,154
Mortgage-backed securities	13,473,976	337,546	—	13,811,522
Other	699,200	—	—	699,200
	<u>\$63,728,577</u>	<u>\$1,042,098</u>	<u>\$ 2,975</u>	<u>\$64,767,700</u>
December 31, 2001:				
US Treasury securities	\$ 6,268,651	\$ 91,049	\$ 2,882	\$ 6,356,818
US Government agency securities	23,991,449	332,509	41,897	24,282,061
Mortgage-backed securities	11,009,009	85,802	55,388	11,039,423
Other	589,300	—	—	589,300
	<u>\$41,858,409</u>	<u>\$ 509,360</u>	<u>\$100,167</u>	<u>\$42,267,602</u>

For the year ended December 31, 2002, proceeds from the sales of securities available-for-sale amounted to \$2,590,782. Gross realized gains amounted to \$60,616. There were no gross realized losses. The tax provision applicable to the realized gain was approximately \$20,700. There were no sales of securities in 2001 or 2000.

The amortized cost and fair value of investment securities at December 31, 2002, 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.

	Held-to-maturity		Available-for-sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 251,677	\$ 253,688	\$11,805,042	\$11,841,321
Due after one year through five years	967,818	993,914	29,607,016	30,160,981
Due after five years through ten years	2,637,735	2,704,916	14,299,649	14,563,323
Due after ten years	1,159,760	1,208,151	8,016,870	8,202,075
	<u>\$5,016,990</u>	<u>\$5,160,669</u>	<u>\$63,728,577</u>	<u>\$64,767,700</u>

Securities with an amortized cost of \$9,053,000 and fair value of \$9,092,000 at December 31, 2002, were pledged to secure public deposits, demand notes due the U.S. Treasury and securities sold under agreements to repurchase

Note 5 - LOANS

Loans summarized by category are as follows:

	2002	December 31, 2001
Commercial, financial and agricultural	\$10,688,366	\$12,408,018
Real estate - construction	7,533,065	10,126,256
Real estate - mortgage		
Commercial	55,289,732	41,743,783
Residential	11,054,830	9,272,238
Consumer	15,425,255	13,968,284
	<u>\$99,991,248</u>	<u>\$87,518,579</u>

Activity in the allowance for loan losses was as follows:

	2002	December 31, 2001	2000
Balance at the beginning of year	\$1,000,412	\$ 873,356	\$703,993
Provision for loan losses	677,000	407,300	160,500
Charged off loans	(171,735)	(283,578)	(6,687)
Recoveries	19,631	3,334	15,550
Balance at end of year	<u>\$1,525,308</u>	<u>\$1,000,412</u>	<u>\$873,356</u>

At December 31, 2002, the Bank had loans on non accrual in the amount of \$143,915. If these loans had been current in accordance with their original terms interest income during the year would have been recognized in the amount of \$5,234. Recorded interest on these loans amounted to \$1,609. Loans classified as impaired at December 31, 2002 and 2001 totaled \$143,915 and \$404,332, respectively. These loans were recorded at or below fair value. The average recorded investment in loans classified as impaired for the years ended December 31, 2002 and 2001 amounted to \$184,250 and \$298,900, respectively.

Loans outstanding to Bank directors, executive officers and their related business interests amounted to \$2,467,539 and \$3,059,619 at December 31, 2002 and 2001, respectively. Repayments on these loans during the year ended December 31, 2002 were \$1,344,080 and loans made amounted to \$752,000. 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 an unrelated persons and generally do not involve more than the normal risk of collectibility.

Note 6 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	2002	December 31, 2001
Land	\$2,806,306	\$2,806,306
Premises	3,248,851	3,212,566
Equipment	2,659,045	1,878,099
	<u>8,714,202</u>	<u>7,896,971</u>
Accumulated depreciation	1,902,662	1,399,996
	<u>\$6,811,540</u>	<u>\$6,496,975</u>

Provision for depreciation included in operating expenses for the years ended December 31, 2002, 2001 and 2000 amounted to \$502,665, \$469,479 and \$381,959, respectively



Note 7 - DEPOSITS

At December 31, 2002, the scheduled maturities of Certificates of Deposits are as follows:

2003	\$55,211,152
2004	8,150,441
2005	3,272,764
2006	—
2007	6,357,477
	<u>\$72,991,834</u>

Note 8 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE AND OTHER BORROWED MONEY

Securities sold under agreements to repurchase generally mature within one to four days from the transaction date. The weighted average interest rate at December 31, 2002 and 2001, was 0.51% and 0.84%, respectively. The maximum month-end balance during 2002 and 2001 was \$7,306,000 and \$4,203,900 respectively.

Other borrowed money at December 31, 2002 and 2001 consisted of \$164,287 and \$162,349, respectively which was due under the treasury tax and loan note program.

Note 9 - INCOME TAXES

Income tax expense for the years ended December 31, 2002, 2001 and 2000 consists of the following:

	2002	Year ended December 31 2001	2000
	<u>          </u>	<u>          </u>	<u>          </u>
Current			
Federal	\$ 917,475	\$ 660,111	\$506,021
State	91,064	61,589	44,871
	<u>1,008,539</u>	<u>721,700</u>	<u>550,892</u>
Deferred			
Federal	(229,816)	(139,518)	(28,585)
State	(21,022)	(12,761)	(2,614)
	<u>(250,838)</u>	<u>(152,279)</u>	<u>(31,199)</u>
Change in valuation allowance	—	—	—
Income tax expense	<u>\$ 757,701</u>	<u>\$ 569,421</u>	<u>\$519,693</u>

A reconciliation from expected federal tax expense to effective income tax expense for the periods indicated are as follows:

	2002	Year ended December 31 2001	2000
Expected federal income tax expense	\$755,500	\$568,845	\$511,271
State income tax net of federal benefit	60,100	40,649	29,615
Tax exempt interest	(58,700)	(35,588)	(18,790)
Other	801	(4,485)	(2,403)
	<u>\$757,701</u>	<u>\$569,421</u>	<u>\$519,693</u>

The following is a summary of the tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities:

	December 31, 2002	2001
<b>Assets:</b>		
Provision for bad debts	\$548,969	\$360,054
Excess basis of intangible assets	64,436	31,042
Deferred tax asset	<u>613,405</u>	<u>391,096</u>
<b>Liabilities:</b>		
Cash basis accounting for tax purposes	—	15,696
Tax depreciation in excess of book depreciation	61,746	74,579
Unrealized gain on securities available-for-sale	373,987	150,738
Total deferred tax liabilities	<u>435,733</u>	<u>241,013</u>
Net deferred tax asset recognized	<u>\$177,672</u>	<u>\$150,083</u>

There was no valuation allowance for deferred tax assets at either December 31, 2002 or 2001. No valuation allowance has been established as it is management's belief that realization of the deferred tax asset is more likely than not. The net deferred asset is included in other assets on the consolidated balance sheets.

A portion of the change in the net deferred tax asset relates to unrealized gains and losses on securities available-for-sale. The related tax expense of \$223,249 has been recorded directly to shareholders' equity. The balance of the change in the net deferred tax asset results from current period deferred tax benefit of \$250,838.

Note 10 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, "Disclosure about Fair Value of Financial Instruments" (SFAS 107), requires the Company to disclose estimated fair values for its financial instruments. Fair value estimates, methods, and assumptions are set forth below.

Cash and short term investments - The carrying amount of these financial instruments (cash and due from banks, federal funds sold and securities purchased under agreements to resell) approximate fair value. All mature within 90 days and do not present unanticipated credit concerns.

Investment Securities - Fair values are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Loans - For certain categories of loans, such as variable rate loans and other lines of credit, the carrying amount, is a reasonable estimate of fair value as the Company has the ability to reprice the loan as interest rate changes occur. The fair value of other loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. As discount rates are based on current loan rates as well as management estimates, the fair values presented may not be indicative of the value negotiated in an actual sale.

Accrued Interest Receivable- The fair value approximates the carrying value.

Deposits - The fair value of demand deposits, savings accounts, and money market accounts is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposits is estimated by discounting the future cash flows using rates currently offered for deposits of similar remaining maturities.

Short Term Borrowings - The carrying value of short term borrowings (securities sold under agreements to repurchase and demand notes to the U.S. Treasury) approximates fair value.

Accrued Interest Payable - The fair value approximates the carrying value.

Commitments to Extend Credit - The fair value of these commitments is immaterial because their underlying interest rates approximate market.

The carrying amount and estimated fair value of the Company's financial instruments are as follows:

	December 31, 2002		December 31, 2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets:</b>				
Cash and short term investments	\$ 17,843,276	\$ 17,843,276	\$ 14,838,805	\$ 14,838,805
<b>Investment securities:</b>				
Held-to-maturity	\$ 5,016,990	\$ 5,160,669	\$ 4,098,594	\$ 4,063,566
Available-for-sale	64,767,700	64,767,700	42,267,602	42,267,602
Total investment securities	\$ 69,784,690	\$ 69,928,369	\$ 46,366,196	\$ 46,331,168
<b>Loans</b>				
Adjustable rate	\$ 27,625,376	\$ 27,625,376	\$ 23,873,650	\$ 23,873,650
Fixed rate	72,365,872	72,780,214	63,644,929	64,057,293
Total loans	99,991,248	100,405,590	87,518,579	87,930,943
Allowance for loan losses	1,525,308	—	1,000,412	—
Net loans	\$ 98,465,940	\$100,405,590	\$ 86,518,167	\$ 87,930,943
Accrued interest receivable	\$ 976,296	\$ 976,296	\$ 884,554	\$ 884,554
<b>Financial liabilities:</b>				
<b>Deposits</b>				
Non-interest bearing demand	\$ 27,124,475	\$ 27,124,475	\$ 19,686,677	\$ 19,686,677
NOW and money market accounts	58,127,157	58,127,157	39,465,531	39,465,531
Savings	9,818,007	9,818,007	7,773,866	7,773,866
Certificates of deposit	72,992,834	74,292,406	67,475,582	68,190,514
Total deposits	\$168,062,473	\$169,362,045	\$134,401,656	\$135,116,588
Short term borrowings	\$ 7,470,351	\$ 7,470,351	\$ 4,213,049	\$ 4,213,049
Accrued interest payable	\$ 632,485	\$ 632,485	\$ 609,466	\$ 609,466

Note 11 - OFF-BALANCE SHEET FINANCIAL INSTRUMENTS AND CONCENTRATIONS OF CREDIT RISK

The Bank is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of these instruments. The Bank uses the same credit policies in making commitments as for on-balance sheet instruments. At December 31, 2002, the Bank had commitments to extend credit including unused lines of credit \$19,241,000.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require a payment of a fee. Since commitments may expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the party. Collateral held varies but may include inventory, property and equipment, residential real estate and income producing commercial properties.



The primary market area served by the Bank is Lexington and Richland Counties within the Midlands of South Carolina. Management closely monitors its credit concentrations and attempts to diversify the portfolio within its primary market area. At December 31, 2002, management does not consider there to be any significant credit concentration within the portfolio. Although, the Bank's loan portfolio as well as existing commitments reflect the diversity of its primary market area, a substantial portion of its debtors ability to honor their contracts is dependent upon the economic stability of the area.

Note 12 - OTHER EXPENSES

A summary of the components of other non-interest expense is as follows:

	2002	December 31, 2001	2000
Data processing	\$ 85,876	\$ 77,286	\$137,433
Supplies	161,063	109,889	86,874
Telephone	127,670	102,875	63,981
Correspondent services	71,690	77,863	60,246
Insurance	89,491	85,413	60,472
Postage	75,341	78,247	56,466
Professional fees	175,600	93,753	85,760
Other	451,524	307,854	209,903
	<u>\$1,238,255</u>	<u>\$933,180</u>	<u>\$761,135</u>

Note 13 - STOCK OPTIONS

The Company has adopted a Stock Option Plan under which an aggregate of 190,050 shares have been reserved for issuance by the Company upon the grant of stock options or restricted stock awards. The number of shares and average exercise price have been adjusted for the June 30, 2001 5 % stock dividend and the February 28, 2002 5-for-4 stock split. The plan provides for the grant of options to key employees and Directors as determined by a Stock Option Committee made up of at least two members of the Board of Directors. Options are exercisable for a period of ten years from date of grant.

Stock option transactions for the years ended December 31, 2002, 2001 and 2000 are summarized as follows:

	Shares	Weighted Average Exercise Price
Outstanding January 1, 2000	165,702	9.64
Granted	3,937	10.66
Forfeited	982	13.63
	<u>168,657</u>	<u>9.64</u>
Outstanding December 31, 2000	168,657	9.64
Exercised	3,937	7.63
Forfeited	6,890	10.35
	<u>157,830</u>	<u>9.66</u>
Outstanding December 31, 2001	157,830	9.66
Granted	1,000	13.75
Forfeited	329	13.99
	<u>158,501</u>	<u>9.68</u>
Outstanding December 31, 2002	158,501	9.68
Exercisable at December 31, 2001	147,526	\$ 9.39

In October 1995, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards No. 123, “Accounting for Stock Based Compensation” (SFAS 123). The statement defines a fair value based method of accounting for employee stock options granted after December 31, 1994. However, SFAS 123 allows an entity to account for these plans according to Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (“APB 25”), provided pro forma disclosure of net income and earnings per share are made as if SFAS 123 had been applied. The Company has elected to use APB 25 and provide the required pro-forma disclosures. Accordingly, no compensation cost has been recognized in the financial statements for the Company’s stock option plan.

The following summarizes pro-forma data in accordance with SFAS 123:

	2002	Year ended December 31, 2001	2000
Net income, pro-forma	\$1,441,026	\$1,083,736	\$953,946
Basic earnings/loss per common share, pro-forma	\$ 0.91	\$ 0.68	\$ 0.60
Diluted earnings loss per common share, pro-forma	\$ 0.88	\$ 0.67	\$ 0.59

The fair value of each grant is estimated on the date of grant using the Black-Sholes option pricing model. The weighted average fair value of options granted during 2000 and 2002 was \$5.08 and \$4.90, respectively.

In calculating the pro-forma disclosures, the fair value of options granted is estimated as of the date of grant using the Black-Sholes option pricing model with the following weighted-average assumptions:

	2002	2000
Dividend yield	1.5%	0.9%
Expected volatility	25.3%	26.6%
Risk-free interest rate	4.8%	5.0%
Expected life	10 YEARS	7 YEARS

There were no options granted in 2001.

#### Note 14- EMPLOYEE BENEFIT PLAN

The Company maintains a 401 (k) plan which covers substantially all employees. Participants may contribute up to the maximum allowed by the regulation. During the year ended December 31, 2002, 2001 and 2000 the plan expense amounted to \$93,130, \$78,365 and \$52,692 respectively. The Company matches 50% of an employees contribution up to 6.00% of the participants contribution.

Note 15 - EARNINGS PER SHARE

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

	2002	Year ended December 31, 2001	2000
Numerator (Included in basic and diluted earnings per share)	\$1,464,360	\$1,103,654	\$ 984,045
Denominator			
Weighted average common shares outstanding for:			
Basic earnings per share	1,587,970	1,587,970	1,584,820
Dilutive securities:			
Stock options - Treasury stock method	42,867	32,044	36,994
Diluted earnings per share	1,630,837	1,620,014	1,621,814

The average market price used in calculating the assumed number of shares issued for the years ended December 31, 2002, 2001 and 2000 was \$12.83, \$11.10 and \$11.46, respectively

Note 16 - CAPITAL REQUIREMENTS AND DIVIDEND RESTRICTIONS

The Company and Bank are subject to various federal and state regulatory requirements, including regulatory capital requirements. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's and Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weighting, and other factors. The Company and Bank are required to maintain minimum Tier 1 capital, total risk-based capital and Tier 1 leverage ratios of 4%, 8% and 3%, respectively.

At December 31, 2002, the most recent notification from the Comptroller of the Currency categorized the bank as well capitalized under the regulatory framework for prompt corrective action. To be well capitalized the bank must maintain minimum Tier 1 capital, Total risk-based capital and Tier 1 leverage ratios of 6%, 10% and 5%, respectively. There are no conditions or events since that notification that management believes have changed the bank's well capitalized status.

The actual capital amounts and ratios for the Bank and the Company are as follows:

	2002		2001	
	Amount	Ratio	Amount	Ratio
First Community Corporation				
Tier 1 Capital	\$16,831,000	14.03%	\$15,377,000	14.91%
Total Risked Based Capital	18,330,000	15.28%	16,377,000	15.88%
Tier 1 Leverage	16,831,000	8.77%	15,377,000	10.04%
First Community Bank, NA				
Tier 1 Capital	\$13,559,000	11.36%	\$11,899,000	11.60%
Total Risked Based Capital	15,052,000	12.61%	12,899,000	12.57%
Tier 1 Leverage	13,559,000	7.16%	11,899,000	7.90%

During 2002 the Company initiated its first cash dividend payouts. The dividend payout ratio was 13.3%. Under applicable federal law, the Comptroller of the Currency restricts a national bank's total dividend payments in any calendar year to net profits of that year combined 'with retained net profits for the two preceding years. At December 31, 2002, there was \$3,396,000 in retained net profits free of such restriction.

Note 17 - PARENT COMPANY FINANCIAL INFORMATION

The balance sheets, statements of operations and cash flows for First Community Corporation (Parent Only) follow:

Condensed Balance Sheets	At December 31,	
	2002	2001
<b>Assets:</b>		
Cash on deposit	\$ 181,237	\$ 264,068
Interest-bearing deposits with the bank	581,778	733,131
Securities purchased under agreement to resell	828,490	732,154
Investment securities available-for-sale	1,768,510	1,777,525
Investment in bank subsidiary	14,501,250	13,025,817
Other	21,671	23,142
<b>Total assets</b>	<b>\$17,882,936</b>	<b>\$16,555,837</b>
<b>Liabilities:</b>		
Other	\$ 97,319	\$ 33,983
<b>Shareholders' equity</b>	<b>17,785,617</b>	<b>16,521,854</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$17,882,936</b>	<b>\$16,555,837</b>

  

Condensed Statements of Operations	Year ended December 31,		
	2002	2001	2000
<b>Income:</b>			
Interest income	\$ 120,358	\$ 162,867	\$176,173
Equity in undistributed earnings of subsidiary	1,475,434	1,045,390	875,567
<b>Expenses:</b>			
Other	131,432	94,203	66,695
<b>Income before taxes</b>	<b>1,464,360</b>	<b>1,114,054</b>	<b>985,045</b>
Income taxes	—	10,400	1,000
<b>Net Income</b>	<b>\$1,464,360</b>	<b>\$1,103,654</b>	<b>\$984,045</b>

## Condensed Statements of Cash Flows

Year ended December 31,

	2002	2001	2000
Cash flows from operating activities:			
Net Income	\$ 1,464,360	\$ 1,103,654	\$ 984,045
Adjustments to reconcile net income to net cash used by operating activities			
Increase in equity in undistributed earnings of subsidiary	(1,475,434)	(1,045,390)	(875,567)
Other-net	67,962	4,482	(26,982)
Net cash provided (used) by operating activities	56,888	62,746	81,496
Cash flows from investing activities:			
Purchase of investment security available-for-sale	(750,000)	—	—
Maturity of investment security available-for-sale	750,000	—	—
Net cash provided (used) by investing activities	—	—	—
Cash flows from financing activities:			
Cash in lieu of fractional shares	(4,181)	(1,191)	—
Dividends paid	(190,555)	—	—
Proceeds from issuance of common stock	—	30,000	—
Net cash provided by financing activities	(194,736)	28,809	—
Increase in cash and cash equivalents	(137,848)	91,555	81,496
Cash and cash equivalent, beginning of period	1,729,353	1,637,798	1,556,302
Cash and cash equivalent, end of period	\$ 1,591,505	\$ 1,729,353	\$1,637,798

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not Applicable.

**PART III**

Item 9. Directors and Executive Officers of the Registrant.

The information required by this item is set forth under "Election of Directors" on pages 2 through 5 of the Registrant's Proxy Statement filed in connection with the 2003 Annual Meeting of Shareholders (the "2003 Proxy Statement"), which information is incorporated herein by reference.

Item 10. Executive Compensation.

The information required by this item is set forth under "Compensation of Directors and Executive Officers" on pages 6 through 7 of the 2003 Proxy Statement, which information is incorporated herein by reference.

Item 11. Security Ownership of Certain Beneficial Owners and Management.

The information required by this item is set forth under "Security Ownership of Certain Beneficial Owners and Management" on page 9 of the 2003 Proxy Statement, which information is incorporated herein by reference.

Item 12. Certain Relationships and Related Transactions.

The information required by this item is set forth under "Certain Relationships and Related Transactions" on page 11 of the 2003 Proxy Statement, which information is incorporated herein by reference.

Item 13. Exhibits, List and Reports on Form 8-K.

(a) The following documents are filed as part of this report:

- 3.1 Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the company's Registration Statement No. 33-86258 on Form S-1).
- 3.2 Bylaws (incorporated by reference to Exhibit 3.2 to the company's Registration Statement No. 33-86258 on Form S-1).
- 4.1 Provisions in the company's Articles of Incorporation and Bylaws defining the rights of holders of the company's Common Stock (incorporated by reference to Exhibit 4.1 to the company's Registration Statement No. 33-86258 on Form S-1).
- 10.1 Employment Agreement dated June 1, 1994, by and between Michael C. Crapps and the Company (incorporated by reference to Exhibit 10.1 to the company's Registration Statement No. 33-86258 on Form S-1)\*
- 10.2 Employment Agreement dated June 1, 1994, by and between James C. Leventis and the Company (incorporated by reference to Exhibit 10.2 to the company's Registration Statement No. 33-86258 on Form S-1)\*
- 10.3 First Community Corporation 1999 Stock Incentive Plan (Incorporated by reference to the Company's 1998 Annual Report and Form 10 KSB).
- 10.4 Employment Agreement dated September 2, 2002 by and between David K. Proctor and the Company.
- 10.5 Employment Agreement dated June 12, 2002 by and between Joseph G. Sawyer and the Company.
- 21.1 Subsidiaries of the company.

- Denotes executive compensation contract or arrangement.

(b) Reports on Form 8-K

On November 13, 2002 the Chief Executive officer, Michael C. Crapps, and the Chief Financial Officer, Joseph G. Sawyer each furnished the Securities and Exchange Commission the certification required pursuant to 18 U.S.C. Section 1350 as an exhibit to a Form 8-K filing.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

First Community Corporation  
Date: March 18, 2003

By: /s/ Michael C. Crapps

\_\_\_\_\_  
Michael C. Crapps  
President and Chief Executive Officer

By: /s/ Joseph G. Sawyer

\_\_\_\_\_  
Joseph G. Sawyer  
Senior Vice President  
Chief Financial and Accounting Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
<u>/s/ Richard K. Bogan</u> Richard K. Bogan	Director	March 18, 2003
<u>/s/ Thomas C. Brown</u> Thomas C. Brown	Director	March 18, 2003
<u>/s/ Chimin J. Chao</u> Chimin J. Chao	Director	March 18, 2003
<u>/s/ Michael C. Crapps</u> Michael C. Crapps	Director, President and Chief Executive Officer	March 18, 2003
<u>/s/ Hinton G. Davis</u> Hinton G. Davis	Director	March 18, 2003
<u>/s/ Anita B. Easter</u> Anita B. Easter	Director	March 18, 2003
<u>/s/ O.A. Ethridge</u> O.A. Ethridge	Director	March 18, 2003

<b>Signature</b>	<b>Title</b>	<b>Date</b>
<u>/s/ George H. Fann, Jr.</u> George H. Fann, Jr.	Director	March 18, 2003
<u>/s/ W. James Kitchens, Jr.</u> W. James Kitchens, Jr.	Director	March 18, 2003
<u>/s/ James C. Leventis</u> James C. Leventis	Director, Chairman of the Board and Secretary	March 18, 2003
<u>/s/ Angelo L. Tsiantis</u> Angelo L. Tsiantis	Director	March 18, 2003
<u>/s/Loretta R. Whitehead</u> Loretta R. Whitehead	Director	March 18, 2003
<u>/s/Mitchell M. Willoughby</u> Mitchell M. Willoughby	Director	March 18, 2003

## Certification

I, Michael C. Crapps, certify that:

1. I have reviewed this annual report on Form 10-KSB of First Community Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report December 31,2002; and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors.
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report

financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 18, 2003

/s/ Michael C. Crapps

Michael C. Crapps  
President and CEO

## Certification

I, Joseph G. Sawyer, certify that:

7. I have reviewed this annual report on Form 10-KSB of First Community Corporation;
8. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
9. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
10. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report September 30, 2002; and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
11. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors.
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

12. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 18, 2003

/s/ Joseph G. Sawyer

Joseph G. Sawyer  
Senior Vice President and CFO

## FIRST COMMUNITY BANK

## EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (this "Agreement") is made by and between First Community Bank, N.A. (the "Employer"), a wholly owned subsidiary of First Community Corporation (the "Company"), and David K. Proctor, an individual resident of South Carolina (the "Employee"), as of this 2nd day of September, 2002 ("Effective Date").

The Employer presently employs the Employee as its Senior Credit Officer and Senior Vice President. The Employer recognizes that the Employee's contribution to the growth and success of the Employer is substantial. The Employer desires to provide for the continued employment of the Employee and to make certain changes in the Employee's employment arrangements which the Employer has determined will reinforce and encourage the continued dedication of the Employee to the Employer and will promote the best interests of the Employer and the Company's shareholders. The Employee is willing to continue to serve the Employer on the terms and conditions herein provided.

In consideration of the foregoing, the mutual covenants contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree that on the Effective Date:

1. Employment. The Employer shall continue to employ the Employee, and the Employee shall continue to serve the Employer, as Senior Credit Officer and a Senior Vice President upon the terms and conditions set forth herein. The Employee shall have such authority and responsibilities as are consistent with his position and which may be set forth in this Agreement or assigned by the Board of Directors of the Employer (the "Board of Directors") from time to time. The Employee shall devote his full business time, attention, skill and efforts to the performance of his duties hereunder, except during periods of illness or periods of vacation and leaves of absence consistent with the Employer's policy. The Employee may devote reasonable periods of time to perform charitable and other community activities and to manage his personal investments; provided, however, that such activities will not materially interfere with the performance of his duties hereunder and will not be in conflict or competitive with, or adverse to, the interests of the Employer. Under no circumstances will the Employee work for any competitor or have any financial interest in any competitor of the Employer; provided, however, that the Employee may invest in up to 1% of the publicly-traded stock or securities of any company whose stock or securities are traded on a national exchange.

2. Term. Unless earlier terminated as provided herein, the Employee's employment under this Agreement shall commence on the date hereof and be for a term (the "Term") of three years. At the end of each day of the Term, the Term shall be extended for an additional day so

that the remaining term shall continue to be three years; provided that the Employee or the Employer may at any time, by written notice, fix the Term to a finite term of three years commencing with the date of the notice, in which case the Agreement shall continue through its remaining term but shall not be extended absent written agreement by both the Employer and the Employee.

3. Compensation and Benefits.

a. Initially, the Employer shall pay the Employee a salary at a rate of \$89,278.08 per annum. The Employer shall have the right to increase or decrease this salary from time to time in accordance with the salary payment practices of the Employer. The Board of Directors shall review the Employee's salary at least annually and may increase or decrease the Employee's base salary if it determines in its sole discretion that an increase or decrease is appropriate.

b. The Employee shall participate in any retirement, welfare, deferred compensation, life and health insurance, and other benefit plans or programs of the Employer now or hereafter applicable to the Employee or applicable generally to employees of the Employer, as determined by the Board of Directors.

c. The Employer shall continue to reimburse the Employee for reasonable travel and other expenses related to the Employee's duties which are incurred and accounted for in accordance with the Employer's standard business practices.

d. The Employee shall be eligible to receive cash bonuses based on the Employee's achievement of specified goals and criteria. These goals and criteria may include both annual and long-term goals, may provide for vesting over a specified time period, and shall be established annually by the Human Resources Committee of the Board of Directors. For purposes of this Agreement, a bonus shall not be deemed to be earned prior to the date it is actually paid to the Employee except to the extent that the Employer specifically provides otherwise in a writing delivered to the Employee.

4. Termination.

a. The Employee's employment under this Agreement may be terminated prior to the end of the Term only as follows:

- (i) upon the death of the Employee;
- (ii) upon the disability of the Employee for a period of 90 days which, in the opinion of the Board of Directors, renders him unable to perform the essential functions of his job and for which reasonable accommodation is unavailable. For purposes of this Agreement, a "disability" is defined as a physical or mental

impairment that substantially limits one or more major life activities, and a "reasonable accommodation" is one that does not impose an undue hardship on the Employer;

- (iii) upon the determination of Cause for termination, in which event such employment may be terminated by written notice at the election of the Employer. For purposes of this Agreement, "Cause" shall consist of any of (A) the commission by the Employee of a willful act (including, without limitation, a dishonest or fraudulent act) or a grossly negligent act, or the willful or grossly negligent omission to act by the Employee, which is intended to cause, causes, or is reasonably likely to cause material harm to the Employer (including harm to its business reputation); (B) the indictment of the Employee for the commission or perpetration by the Employee of any felony or any crime involving dishonesty, moral turpitude or fraud; (C) the material breach by the Employee of this Agreement that, if susceptible of cure, remains uncured ten days following written notice to the Employee of such breach; (D) the exhibition by the Employee of a standard of behavior within the scope of his employment that is materially disruptive to the orderly conduct of the Employer's business operations (including, without limitation, substance abuse or sexual misconduct) to a level which, in the Board of Directors' good faith and reasonable judgment, is materially detrimental to the Employer's best interest, that, if susceptible of cure, remains uncured ten days following written notice to the Employee of such specific inappropriate behavior; (E) the receipt of any form of notice, written or otherwise, that any regulatory agency having jurisdiction over the Employer intends to institute any form of formal or informal (e.g., a memorandum of understanding which relates to the Employee's performance) regulatory action against the Employee or the Employer if the Board of Directors determines that the subject matter of such action involves acts or omissions by or under the supervision of the Employee or that termination of the Employee would advance the Employer's compliance with the purpose of the action or would assist the Employer in avoiding or reducing the restrictions or adverse effects to the Employer related to the regulatory action; or (F) the failure of the Employee to render the services hereunder in accordance with an appropriate performance standard determined in the sole discretion of the Board of Directors;
- (iv) by the Employee for Good Reason upon delivery of a Notice of Termination to the Employer within a 90-day period beginning on

the 30th day after the occurrence of a Change in Control or within a 90-day period beginning on the one year anniversary of the occurrence of a Change in Control; or

(v) by written notice by either the Employee or the Employer (termination "Without Cause").

b. If the Employee's employment is terminated because of the Employee's death, the Employee's estate shall receive any sums due him as base salary and/or reimbursement of expenses through the end of the month during which death occurred, plus any bonus earned or accrued under the Bonus Plan through the date of death (including any amounts awarded for previous years but which were not yet vested) and a pro rata share of any bonus with respect to the current fiscal year which had been earned as of the date of the Employee's death.

c. During the period of any incapacity leading up to the termination of the Employee's employment as a result of disability, the Employer shall continue to pay the Employee his full base salary at the rate then in effect and all perquisites and other benefits (other than any bonus) until the Employee becomes eligible for benefits under any long-term disability plan or insurance program applicable to the Employee (regardless of whether the policy is maintained by the Employer), provided that the amount of any such payments to the Employee shall be reduced by the sum of the amounts, if any, payable to the Employee for the same period under such disability benefit or pension plan. Furthermore, the Employee shall receive any bonus earned or accrued under the Bonus Plan through the date of incapacity (including any amounts awarded for previous years but which were not yet vested) and a pro rata share of any bonus with respect to the current fiscal year which had been earned as of the date of the Employee's incapacity. The Employee acknowledges that the Employer has made available the opportunity for the Employee to obtain the Employee's own coverage under a long-term disability plan or insurance program but that the Employer currently does not maintain such a policy on behalf of the Employee.

d. If the Employee's employment is terminated for Cause as provided above, or if the Employee resigns (except for a termination of employment for Good Reason pursuant to Section 4(a)(iv)), the Employee shall receive any sums due him as base salary and/or reimbursement of expenses through the date of such termination, but Employee will thereby forfeit any rights in any unpaid bonus, including, without limitation, any bonus amounts awarded for previous years which were not yet vested and any share of any bonus with respect to the current fiscal year which had been earned as of the date of such termination or resignation.

e. If the Employee's employment is terminated Without Cause, the Employer shall pay to the Employee severance compensation in an amount equal to 100% of his then-current monthly base salary each month for three months from the date of termination, plus any bonus earned or accrued under the Bonus Plan through the date of termination and a

pro rata share of any bonus with respect to the current fiscal year which had been earned as of the date of the Employee's termination. However, Section 4(f) shall apply instead of this Section 4(e) to any termination Without Cause after a Change in Control.

f. Upon a Change in Control, the Employee may terminate his employment hereunder for any reason upon delivery of notice to the Employer within a 90-day period beginning on the 30th day after the occurrence of a Change in Control or within a 90-day period beginning on the one year anniversary of the occurrence of a Change in Control. If the Employee terminates his employment for Good Reason pursuant to Section 4(a)(iv) or if the Employer terminates the Employee Without Cause after a Change in Control, in addition to other rights and remedies available in law or equity, the restrictive covenants contained in Section 9 shall not apply and, in addition, the Employee shall be entitled to the following: (i) the Employer shall pay the Employee in cash within 15 days of such termination date any sums due him as base salary and/or reimbursement of expenses through the date of such termination, plus any bonus earned or accrued under the Bonus Plan through the date of termination (including any amounts awarded for previous years but which were not yet vested) and a pro rata share of any bonus with respect to the current fiscal year which had been earned as of the date of the Employee's termination (and any forfeiture in other restrictive provisions applicable to each award shall not apply); and (ii) the Employer shall pay the Employee in cash within 15 days of such termination date one lump sum payment in an amount equal to two times the Employee's then current annual base salary.

g. With the exceptions of the provisions of this Section 4, and the express terms of any benefit plan under which the Employee is a participant, upon termination of the Employee's employment, the Employer shall have no obligation to the Employee for, and the Employee waives and relinquishes, any further compensation or benefits (exclusive of COBRA benefits). At the time of termination of employment, the Employee shall enter into a form of release acknowledging such remaining obligations and discharging the Employer, as well as the Employer's officers, directors and employees with respect to their actions for or on behalf of the Employer, from any other claims or obligations arising out of or in connection with the Employee's employment by the Employer, including the circumstances of such termination.

h. Notwithstanding Section 4(g) of this Agreement, if the Employee's employment is terminated in accordance with Section 4(a)(iv) of this Agreement, Employer shall at its expense continue for a period of two years (the "Continuation Period") on behalf of Employee the benefits provided (x) to Employee at any time during the 90-day period prior to the Change in Control or at any time thereafter or (y) to other similarly situated employees who continue in the employ of Employer during the Continuation Period. The coverage and benefits (including deductibles and costs) provided during the Continuation Period shall be no less favorable to Employee than the most favorable of such coverages and benefits during any of the periods referred to in clauses (x) and (y) above. Employer's obligation with respect to the foregoing benefits shall be limited to the extent that Employee obtains any such benefits pursuant to a subsequent employer's benefit plans, in which case Employer may reduce the coverage of any benefits it is required to provide Employee as long as the aggregate coverages and benefits of

the combined benefit plans is no less favorable to Employee than the coverages and benefits required to be provided under this provision. This section shall not be interpreted so as to limit any benefits to which Employee may be entitled under any of Employer's employee benefit plans, programs or practices following Employee's termination of employment, including without limitation, retiree medical and life insurance benefits. Employer shall not, by virtue of this provision, be under any obligation to continue to maintain any particular plan or program.

i. In the event that the Employee's employment is terminated for any reason and the Employee serves as a director of the Company, the Employer, or any other subsidiary of the Company, the Employee shall (and does hereby) tender his resignation from such positions effective as of the date of termination.

j. The parties intend that the severance payments and other compensation provided for herein are reasonable compensation for the Employee's services to the Employer and shall not constitute "excess parachute payments" within the meaning of Section 280G(b) of the Internal Revenue Code of 1986 and any regulations thereunder. In the event that the Employer's independent accountants acting as auditors for the Employer on the date of a Change in Control determine that the payments provided for herein constitute "excess parachute payments," then the Employee's compensation payable hereunder shall be decreased, so as to equal an amount that is \$1.00 less than three times the Employee's "base amount," as that term is defined in Section 280G(b) of the Internal Revenue Code, if, and only if, reducing the Employee's compensation will put the Employee in a better after-tax position than if the Employee's compensation was not reduced.

k. Notwithstanding anything to the contrary herein, if the Employee is suspended or temporarily prohibited from participating in the conduct of the Employer's affairs by a notice served under section 8(e)(3) or (g)(1) of Federal Deposit Insurance Act (12 U.S.C. 1818 (e)(3) and (g)(1)), the Employer's obligations under this Agreement shall be suspended as of the date of service unless stayed by appropriate proceedings. If the charges in the notice are dismissed, the Employer may in its discretion (i) pay the Employee all or part of the compensation withheld while the obligations under this Agreement were suspended and (ii) reinstate (in whole or in part) any of such obligations which were suspended.

l. Notwithstanding anything to the contrary herein, if the Employee is removed or permanently prohibited from participating in the conduct of the Employer's affairs by an order issued under section 8 (e)(4) or (g)(1) of the Federal Deposit Insurance Act (12 U.S.C. 1818 (e)(4) or (g)(1)), all obligations of the Employee under this Agreement shall terminate as of the effective date of the order, but any vested rights of the parties hereto shall not be affected.

m. Notwithstanding anything to the contrary herein, if the Employer is in default (as defined in section 3(x)(1) of the Federal Deposit Insurance Act), all obligations under this Agreement shall terminate as of the date of default, but this paragraph (4)(m) shall not affect any vested rights of the parties hereto.

n. Any payments made to the Employee pursuant to this Agreement, or otherwise, are subject to and conditioned upon their compliance with 12 U.S.C. Section 1828(k) and any regulations promulgated thereunder.

5. Ownership of Work Product. The Employer shall own all Work Product arising during the course of the Employee's employment (prior, present or future). For purposes hereof, "Work Product" shall mean all intellectual property rights, including all Trade Secrets, U.S. and international copyrights, patentable inventions, and other intellectual property rights, in any programming, documentation, technology, work of authorship or other work product that relates to the Employer, its business or its customers and that Employee conceives, develops, or delivers to the Employer or that otherwise arises out of the services provided by the Employee to the Employer hereunder, at any time during his employment, during or outside normal working hours, in or away from the facilities of the Employer, and whether or not requested by the Employer. If the Work Product contains any materials, programming or intellectual property rights that the Employee conceived or developed prior to, and independent of, the Employee's work for the Employer, the Employee agrees to identify the pre-existing items to the Employer, and the Employee grants the Employer a worldwide, unrestricted, royalty-free right, including the right to sublicense such items. The Employee agrees to take such actions and execute such further acknowledgments and assignments as the Employer may reasonably request to give effect to this provision.

6. Protection of Trade Secrets. The Employee agrees to maintain in strict confidence and, except as necessary to perform his duties for the Employer, the Employee agrees not to use or disclose any Trade Secrets of the Employer or the Company during or after his employment. For the purposes hereof, "Trade Secret" means information, including, without limitation, technical or non-technical data, a formula, a pattern, a compilation, a program, a device, a method, a technique, a process, a drawing, financial data, financial plans, product plans, information on customers or a list of actual or potential customers or suppliers, which: (i) derives economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

7. Protection of Other Confidential Information. In addition, the Employee agrees to maintain in strict confidence and, except as necessary to perform his duties for the Employer, not to use or disclose any Confidential Business Information of the Employer or the Company during his employment and for a period of 24 months following termination of the Employee's employment. "Confidential Business Information" shall mean any internal, non-public information (other than Trade Secrets already addressed above) concerning the Employer's or the Company's financial position and results of operations (including revenues, assets, net income, etc.); annual and long-range business plans; product or service plans; marketing plans and methods; training, educational and administrative manuals; customer and supplier information and purchase histories; and employee lists. The provisions of Sections 6

and 7 above shall also apply to protect Trade Secrets and Confidential Business Information of third parties provided to the Employer under an obligation of secrecy.

8. Return of Materials. The Employee shall surrender to the Employer, promptly upon its request and in any event upon termination of the Employee's employment, all media, documents, notebooks, computer programs, handbooks, data files, models, samples, price lists, drawings, customer lists, prospect data, or other material of any nature whatsoever (in tangible or electronic form) in the Employee's possession or control, including all copies thereof, relating to the Employer, its business, or its customers. Upon the request of the Employer, Employee shall certify in writing compliance with the foregoing requirement.

9. Restrictive Covenants.

a. No Solicitation of Customers. During the Employee's employment with the Employer and for a period of 24 months thereafter, the Employee shall not (except on behalf of or with the prior written consent of the Employer), either directly or indirectly, on the Employee's own behalf or in the service or on behalf of others, solicit or attempt to solicit Customers to induce or encourage them to acquire or obtain from anyone other than the Employer or its subsidiaries any product or service competitive with or substitute for any of the Employer's Products. For purposes of this Section, "Customer" refers to any person or group of persons with whom the Employee had direct material contact with regard to the selling, delivery, or support of the Employer's Products, including servicing such person's or group's account, during the period of 12 months preceding the solicitation date. The "Employer's Products" refers to the products and services that the Employer or any of its subsidiaries or affiliates offered or sold within six months of the solicitation date. This restriction does not apply after a Change in Control.

b. No Recruitment of Personnel. During the Employee's employment with the Employer and for a period of 24 months thereafter, the Employee shall not, either directly or indirectly, on the Employee's own behalf or in the service or on behalf of others, solicit or induce any employee of or consultant to the Employer or any of its subsidiaries or affiliates to leave his or her position with the Employer (or the subsidiary or affiliate), or recruit or attempt to recruit such persons to accept employment or any other position with another business. This restriction does not apply after a Change in Control.

c. Non-Competition Agreement. During the Employee's employment with the Employer and for a period of 12 months thereafter, the Employee shall not (without the prior written consent of the Employer) compete with the Employer or any of its affiliates by, directly or indirectly, forming, serving as an organizer, director or officer of, or consultant to, or acquiring or maintaining more than a 1% passive investment in, a depository financial institution or holding company therefor if such depository institution or holding company has one or more offices or branches located within a radius of ten miles from (i) the main office of the Employer

or (ii) any branch office of the Employer. This restriction does not apply after a Change in Control.

d. Independent Provisions. The provisions in each of the above Sections 9(a), 9(b), and 9(c) are independent, and the unenforceability of any one provision shall not affect the enforceability of any other provision.

10. Successors; Binding Agreement. This Agreement shall be binding upon and shall inure to the benefit of the Employer and its successors and assigns. Neither this Agreement nor any right or interest hereunder shall be assignable or transferable by the Employee, his beneficiaries or legal representatives, except by will or by the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Employee's legal personal representative.

11. Notice. For the purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or sent by certified mail, return receipt requested, postage prepaid, addressed to the respective addresses last given by each party to the other; provided, however, that all notices to the Employer shall be directed to the attention of the Employer with a copy to the Secretary of the Employer. All notices and communications shall be deemed to have been received on the date of delivery thereof.

12. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of South Carolina without giving effect to the conflict of laws principles thereof. Any action brought by any party to this Agreement shall be brought and maintained in a court of competent jurisdiction in State of South Carolina.

13. Non-Waiver. Failure of the Employer to enforce any of the provisions of this Agreement or any rights with respect thereto shall in no way be considered to be a waiver of such provisions or rights, or in any way affect the validity of this Agreement.

14. Enforcement. The Employee agrees that in the event of any breach or threatened breach by the Employee of any covenant contained in Section 6, 7, 9(a), 9(b), or 9(c) hereof, the resulting injuries to the Employer would be difficult or impossible to estimate accurately, even though irreparable injury or damages would certainly result. Accordingly, an award of legal damages, if without other relief, would be inadequate to protect the Employer. The Employee, therefore, agrees that in the event of any such breach, the Employer shall be entitled to obtain from a court of competent jurisdiction an injunction to restrain the breach or anticipated breach of any such covenant, and to obtain any other available legal, equitable, statutory, or contractual relief. Should the Employer have cause to seek such relief, no bond shall be required from the Employer, and the Employee shall pay all attorney's fees and court costs which the Employer may incur to the extent the Employer prevails in its enforcement action.

15. Saving Clause. The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof. If any provision or clause of this Agreement, or portion thereof, shall be held by any court or other tribunal of competent jurisdiction to be illegal, void, or unenforceable in such jurisdiction, the remainder of such provision shall not be thereby affected and shall be given full effect, without regard to the invalid portion. It is the intention of the parties that, if any court construes any provision or clause of this Agreement, or any portion thereof, to be illegal, void, or unenforceable because of the duration of such provision or the area or matter covered thereby, such court shall reduce the duration, area, or matter of such provision, and, in its reduced form, such provision shall then be enforceable and shall be enforced.

16. Certain Definitions.

a. "Change in Control" shall mean the occurrence during the Term of any of the following events, unless such event is a result of a Non-Control Transaction:

(i) The individuals who, as of the date of this Agreement, are members of the Board of Directors of the Company (the "Incumbent Board") cease for any reason to constitute at least 50% of the Board of Directors of the Company; provided, however, that if the election, or nomination for election by the Company's shareholders, of any new director was approved in advance by a vote of at least 50% of the Incumbent Board, such new director shall, for purposes of this Agreement, be considered as a member of the Incumbent Board; provided, further, that no individual shall be considered a member of the Incumbent Board if such individual initially assumed office as a result of either an actual or threatened "Election Contest" (as described in Rule 14a-11 promulgated under the Securities Exchange Act of 1934 (the "Exchange Act"), or other actual or threatened solicitation of proxies or consents by or on behalf of any person other than the Board of Directors of the Company (a "Proxy Contest"), including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest.

(ii) An acquisition (other than directly from the Company) of any voting securities of the Company (the "Voting Securities") by any "Person" (as the term "person" is used for purposes of Section 13(d) or 14(d) of the Exchange Act) immediately after which such Person has "Beneficial Ownership" (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 50% or more of the combined voting power of the Company's then outstanding Voting Securities; provided, however, that in determining whether a Change in Control has occurred, Voting Securities which are acquired in a Non-Control Acquisition shall not constitute an acquisition which would cause a Change in Control.

(iii) Consummation of: (i) a merger, consolidation, or reorganization involving the Company; (ii) a complete liquidation or dissolution of the Company;

or (iii) the sale or other disposition of all or substantially all of the assets of the Company to any Person (other than a transfer to a Subsidiary).

(iv) A notice of an application is filed with the Office of Comptroller of the Currency (the "OCC") or the Federal Reserve Board or any other bank or thrift regulatory approval (or notice of no disapproval) is granted by the Federal Reserve, the OCC, the Federal Deposit Insurance Corporation, or any other regulatory authority for permission to acquire control of the Company or any of its banking subsidiaries; provided that if the application is filed in connection with a transaction which has been approved by the Board, then the Change in Control shall not be deemed to occur until consummation of the transaction.

b. "Good Reason" shall mean the occurrence after a Change in Control of any of the events or conditions described in subsections (i) through (viii) hereof:

(i) a change in the Employee's status, title, position or responsibilities (including reporting responsibilities) which, in the Employee's reasonable judgment, represents an adverse change from his status, title, position or responsibilities as in effect at any time within ninety days preceding the date of a Change in Control or at any time thereafter; the assignment to the Employee of any duties or responsibilities which, in the Employee's reasonable judgment, are inconsistent with his status, title, position or responsibilities as in effect at any time within ninety days preceding the date of a Change in Control or at any time thereafter; any removal of the Employee from or failure to reappoint or reelect him to any of such offices or positions, except in connection with the termination of his employment for disability or Cause, as a result of his death, or by the Employee other than for Good Reason, or any other change in condition or circumstances that in the Employee's reasonable judgment makes it materially more difficult for the Employee to carry out the duties and responsibilities of his office than existed at any time within ninety days preceding the date of Change in Control or at any time thereafter;

(ii) a reduction in the Employee's base salary or any failure to pay the Employee any compensation or benefits to which he is entitled within five days of the date due;

(iii) the Employer's requiring the Employee to be based at any place outside a 30-mile radius from the executive offices occupied by the Employee immediately prior to the Change in Control, except for reasonably required travel on the Employer's business which is not materially greater than such travel requirements prior to the Change in Control;

(iv) the failure by the Employer to (A) continue in effect (without reduction in benefit level and/or reward opportunities) any material compensation or employee benefit plan in which the Employee was participating

at any time within ninety days preceding the date of a Change in Control or at any time thereafter, unless such plan is replaced with a plan that provides substantially equivalent compensation or benefits to the Employee, or (B) provide the Employee with compensation and benefits, in the aggregate, at least equal (in terms of benefit levels and/or reward opportunities) to those provided for under each other employee benefit plan, program and practice in which the Employee was participating at any time within ninety days preceding the date of a Change in Control or at any time thereafter;

(v) the insolvency or the filing (by any party, including the Company or the Employer) of a petition for bankruptcy of the Company or the Employer, which petition is not dismissed within sixty days;

(vi) any material breach by the Employer of any material provision of this Agreement;

(vii) any purported termination of the Employee's employment for Cause by the Employer which does not comply with the terms of this Agreement; or

(viii) the failure of the Employer to obtain an agreement, satisfactory to the Employee, from any successor or assign to assume and agree to perform this Agreement, as contemplated in Section 10 hereof.

Any event or condition described in clause (i) through (viii) above which occurs prior to a Change in Control but which the Employee reasonably demonstrates (A) was at the request of a third party, or (B) otherwise arose in connection with, or in anticipation of, a Change in Control which actually occurs, shall constitute Good Reason for purposes of this Agreement, notwithstanding that it occurred prior to the Change in Control. The Employee's right to terminate his employment for Good Reason shall not be affected by his incapacity due to physical or mental illness.

c. "Non-Control Transaction" shall mean a transaction described below:

(i) the shareholders of the Company, immediately before such merger, consolidation or reorganization, own, directly or indirectly, immediately following such merger, consolidation or reorganization, at least 50% of the combined voting power of the outstanding voting securities of the corporation resulting from such merger, consolidation or reorganization (the "Surviving Corporation") in substantially the same proportion as their ownership of the Voting Securities immediately before such merger, consolidation or reorganization; and

(ii) immediately following such merger, consolidation or reorganization, the number of directors on the board of directors of the Surviving Corporation who were members of the Incumbent Board shall at least equal the number of directors who were affiliated with or appointed by the other party to the merger, consolidation or reorganization.

d. "Notice of Termination" shall mean a written notice of termination from the Employer or the Employee which specifies an effective date of termination, indicates the specific termination provision in this Agreement relied upon, and, in the case of a termination for Good Reason or for Cause, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Employee's employment under the provision so indicated.

17. Entire Agreement. This Agreement constitutes the entire agreement between the parties hereto and supersedes all prior agreements, if any, understandings and arrangements, oral or written, between the parties hereto with respect to the subject matter hereof.

18. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Employer has caused this Agreement to be executed and its seal to be affixed hereunto by its officers thereunto duly authorized, and the Employee has signed and sealed this Agreement, effective as of the date first above written.

FIRST COMMUNITY BANK, N.A.

By: /s/ Michael C. Crapps  
Name: Michael C. Crapps  
Title: President & CEO

EMPLOYEE

/s/ David K. Proctor  
Name: David K. Proctor

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## FIRST COMMUNITY BANK

## EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (this "Agreement") is made by and between First Community Bank, N.A. (the "Employer"), a wholly owned subsidiary of First Community Corporation (the "Company"), and Joseph G. Sawyer, an individual resident of South Carolina (the "Employee"), as of this 12th day of June, 2002 ("Effective Date").

The Employer presently employs the Employee as its Chief Financial Officer and Senior Vice President. The Employer recognizes that the Employee's contribution to the growth and success of the Employer is substantial. The Employer desires to provide for the continued employment of the Employee and to make certain changes in the Employee's employment arrangements which the Employer has determined will reinforce and encourage the continued dedication of the Employee to the Employer and will promote the best interests of the Employer and the Company's shareholders. The Employee is willing to continue to serve the Employer on the terms and conditions herein provided.

In consideration of the foregoing, the mutual covenants contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree that on the Effective Date:

1. Employment. The Employer shall continue to employ the Employee, and the Employee shall continue to serve the Employer, as Chief Financial Officer and Senior Vice President upon the terms and conditions set forth herein. The Employee shall have such authority and responsibilities as are consistent with his position and which may be set forth in this Agreement or assigned by the Board of Directors of the Employer (the "Board of Directors") from time to time. The Employee shall devote his full business time, attention, skill and efforts to the performance of his duties hereunder, except during periods of illness or periods of vacation and leaves of absence consistent with the Employer's policy. The Employee may devote reasonable periods of time to perform charitable and other community activities and to manage his personal investments; provided, however, that such activities will not materially interfere with the performance of his duties hereunder and will not be in conflict or competitive with, or adverse to, the interests of the Employer. Under no circumstances will the Employee work for any competitor or have any financial interest in any competitor of the Employer; provided, however, that the Employee may invest in up to 1% of the publicly-traded stock or securities of any company whose stock or securities are traded on a national exchange.

2. Term. Unless earlier terminated as provided herein, the Employee's employment under this Agreement shall commence on the date hereof and be for a term (the "Term") of three years. At the end of each day of the Term, the Term shall be extended for an additional day so

that the remaining term shall continue to be three years; provided that the Employee or the Employer may at any time, by written notice, fix the Term to a finite term of three years commencing with the date of the notice, in which case the Agreement shall continue through its remaining term but shall not be extended absent written agreement by both the Employer and the Employee.

3. Compensation and Benefits.

a. Initially, the Employer shall pay the Employee a salary at a rate of \$91,260.00 per annum. The Employer shall have the right to increase or decrease this salary from time to time in accordance with the salary payment practices of the Employer. The Board of Directors shall review the Employee's salary at least annually and may increase or decrease the Employee's base salary if it determines in its sole discretion that an increase or decrease is appropriate.

b. The Employee shall participate in any retirement, welfare, deferred compensation, life and health insurance, and other benefit plans or programs of the Employer now or hereafter applicable to the Employee or applicable generally to employees of the Employer, as determined by the Board of Directors.

c. The Employer shall continue to reimburse the Employee for reasonable travel and other expenses related to the Employee's duties which are incurred and accounted for in accordance with the Employer's standard business practices.

d. The Employee shall be eligible to receive cash bonuses based on the Employee's achievement of specified goals and criteria. These goals and criteria may include both annual and long-term goals, may provide for vesting over a specified time period, and shall be established annually by the Human Resources Committee of the Board of Directors. For purposes of this Agreement, a bonus shall not be deemed to be earned prior to the date it is actually paid to the Employee except to the extent that the Employer specifically provides otherwise in a writing delivered to the Employee.

4. Termination.

a. The Employee's employment under this Agreement may be terminated prior to the end of the Term only as follows:

- (i) upon the death of the Employee;
- (ii) upon the disability of the Employee for a period of 90 days which, in the opinion of the Board of Directors, renders him unable to perform the essential functions of his job and for which reasonable accommodation is unavailable. For purposes of this Agreement, a "disability" is defined as a physical or mental

impairment that substantially limits one or more major life activities, and a "reasonable accommodation" is one that does not impose an undue hardship on the Employer;

- (iii) upon the determination of Cause for termination, in which event such employment may be terminated by written notice at the election of the Employer. For purposes of this Agreement, "Cause" shall consist of any of (A) the commission by the Employee of a willful act (including, without limitation, a dishonest or fraudulent act) or a grossly negligent act, or the willful or grossly negligent omission to act by the Employee, which is intended to cause, causes, or is reasonably likely to cause material harm to the Employer (including harm to its business reputation); (B) the indictment of the Employee for the commission or perpetration by the Employee of any felony or any crime involving dishonesty, moral turpitude or fraud; (C) the material breach by the Employee of this Agreement that, if susceptible of cure, remains uncured ten days following written notice to the Employee of such breach; (D) the exhibition by the Employee of a standard of behavior within the scope of his employment that is materially disruptive to the orderly conduct of the Employer's business operations (including, without limitation, substance abuse or sexual misconduct) to a level which, in the Board of Directors' good faith and reasonable judgment, is materially detrimental to the Employer's best interest, that, if susceptible of cure, remains uncured ten days following written notice to the Employee of such specific inappropriate behavior; (E) the receipt of any form of notice, written or otherwise, that any regulatory agency having jurisdiction over the Employer intends to institute any form of formal or informal (e.g., a memorandum of understanding which relates to the Employee's performance) regulatory action against the Employee or the Employer if the Board of Directors determines that the subject matter of such action involves acts or omissions by or under the supervision of the Employee or that termination of the Employee would advance the Employer's compliance with the purpose of the action or would assist the Employer in avoiding or reducing the restrictions or adverse effects to the Employer related to the regulatory action; or (F) the failure of the Employee to render the services hereunder in accordance with an appropriate performance standard determined in the sole discretion of the Board of Directors;
- (iv) by the Employee for Good Reason upon delivery of a Notice of Termination to the Employer within a 90-day period beginning on

the 30th day after the occurrence of a Change in Control or within a 90-day period beginning on the one year anniversary of the occurrence of a Change in Control; or

(v) by written notice by either the Employee or the Employer (termination "Without Cause").

b. If the Employee's employment is terminated because of the Employee's death, the Employee's estate shall receive any sums due him as base salary and/or reimbursement of expenses through the end of the month during which death occurred, plus any bonus earned or accrued under the Bonus Plan through the date of death (including any amounts awarded for previous years but which were not yet vested) and a pro rata share of any bonus with respect to the current fiscal year which had been earned as of the date of the Employee's death.

c. During the period of any incapacity leading up to the termination of the Employee's employment as a result of disability, the Employer shall continue to pay the Employee his full base salary at the rate then in effect and all perquisites and other benefits (other than any bonus) until the Employee becomes eligible for benefits under any long-term disability plan or insurance program applicable to the Employee (regardless of whether the policy is maintained by the Employer), provided that the amount of any such payments to the Employee shall be reduced by the sum of the amounts, if any, payable to the Employee for the same period under such disability benefit or pension plan. Furthermore, the Employee shall receive any bonus earned or accrued under the Bonus Plan through the date of incapacity (including any amounts awarded for previous years but which were not yet vested) and a pro rata share of any bonus with respect to the current fiscal year which had been earned as of the date of the Employee's incapacity. The Employee acknowledges that the Employer has made available the opportunity for the Employee to obtain the Employee's own coverage under a long-term disability plan or insurance program but that the Employer currently does not maintain such a policy on behalf of the Employee.

d. If the Employee's employment is terminated for Cause as provided above, or if the Employee resigns (except for a termination of employment for Good Reason pursuant to Section 4(a)(iv)), the Employee shall receive any sums due him as base salary and/or reimbursement of expenses through the date of such termination, but Employee will thereby forfeit any rights in any unpaid bonus, including, without limitation, any bonus amounts awarded for previous years which were not yet vested and any share of any bonus with respect to the current fiscal year which had been earned as of the date of such termination or resignation.

e. If the Employee's employment is terminated Without Cause, the Employer shall pay to the Employee severance compensation in an amount equal to 100% of his then-current monthly base salary each month for three months from the date of termination, plus any bonus earned or accrued under the Bonus Plan through the date of termination and a

pro rata share of any bonus with respect to the current fiscal year which had been earned as of the date of the Employee's termination. However, Section 4(f) shall apply instead of this Section 4(e) to any termination Without Cause after a Change in Control.

f. Upon a Change in Control, the Employee may terminate his employment hereunder for any reason upon delivery of notice to the Employer within a 90-day period beginning on the 30th day after the occurrence of a Change in Control or within a 90-day period beginning on the one year anniversary of the occurrence of a Change in Control. If the Employee terminates his employment for Good Reason pursuant to Section 4(a)(iv) or if the Employer terminates the Employee Without Cause after a Change in Control, in addition to other rights and remedies available in law or equity, the restrictive covenants contained in Section 9 shall not apply and, in addition, the Employee shall be entitled to the following: (i) the Employer shall pay the Employee in cash within 15 days of such termination date any sums due him as base salary and/or reimbursement of expenses through the date of such termination, plus any bonus earned or accrued under the Bonus Plan through the date of termination (including any amounts awarded for previous years but which were not yet vested) and a pro rata share of any bonus with respect to the current fiscal year which had been earned as of the date of the Employee's termination (and any forfeiture in other restrictive provisions applicable to each award shall not apply); and (ii) the Employer shall pay the Employee in cash within 15 days of such termination date one lump sum payment in an amount equal to two times the Employee's then current annual base salary.

g. With the exceptions of the provisions of this Section 4, and the express terms of any benefit plan under which the Employee is a participant, upon termination of the Employee's employment, the Employer shall have no obligation to the Employee for, and the Employee waives and relinquishes, any further compensation or benefits (exclusive of COBRA benefits). At the time of termination of employment, the Employee shall enter into a form of release acknowledging such remaining obligations and discharging the Employer, as well as the Employer's officers, directors and employees with respect to their actions for or on behalf of the Employer, from any other claims or obligations arising out of or in connection with the Employee's employment by the Employer, including the circumstances of such termination.

h. Notwithstanding Section 4(g) of this Agreement, if the Employee's employment is terminated in accordance with Section 4(a)(iv) of this Agreement, Employer shall at its expense continue for a period of two years (the "Continuation Period") on behalf of Employee the benefits provided (x) to Employee at any time during the 90-day period prior to the Change in Control or at any time thereafter or (y) to other similarly situated employees who continue in the employ of Employer during the Continuation Period. The coverage and benefits (including deductibles and costs) provided during the Continuation Period shall be no less favorable to Employee than the most favorable of such coverages and benefits during any of the periods referred to in clauses (x) and (y) above. Employer's obligation with respect to the foregoing benefits shall be limited to the extent that Employee obtains any such benefits pursuant to a subsequent employer's benefit plans, in which case Employer may reduce the coverage of any benefits it is required to provide Employee as long as the aggregate coverages and benefits of

the combined benefit plans is no less favorable to Employee than the coverages and benefits required to be provided under this provision. This section shall not be interpreted so as to limit any benefits to which Employee may be entitled under any of Employer's employee benefit plans, programs or practices following Employee's termination of employment, including without limitation, retiree medical and life insurance benefits. Employer shall not, by virtue of this provision, be under any obligation to continue to maintain any particular plan or program.

i. In the event that the Employee's employment is terminated for any reason and the Employee serves as a director of the Company, the Employer, or any other subsidiary of the Company, the Employee shall (and does hereby) tender his resignation from such positions effective as of the date of termination.

j. The parties intend that the severance payments and other compensation provided for herein are reasonable compensation for the Employee's services to the Employer and shall not constitute "excess parachute payments" within the meaning of Section 280G(b) of the Internal Revenue Code of 1986 and any regulations thereunder. In the event that the Employer's independent accountants acting as auditors for the Employer on the date of a Change in Control determine that the payments provided for herein constitute "excess parachute payments," then the Employee's compensation payable hereunder shall be decreased, so as to equal an amount that is \$1.00 less than three times the Employee's "base amount," as that term is defined in Section 280G(b) of the Internal Revenue Code, if, and only if, reducing the Employee's compensation will put the Employee in a better after-tax position than if the Employee's compensation was not reduced.

k. Notwithstanding anything to the contrary herein, if the Employee is suspended or temporarily prohibited from participating in the conduct of the Employer's affairs by a notice served under section 8(e)(3) or (g)(1) of Federal Deposit Insurance Act (12 U.S.C. 1818 (e)(3) and (g)(1)), the Employer's obligations under this Agreement shall be suspended as of the date of service unless stayed by appropriate proceedings. If the charges in the notice are dismissed, the Employer may in its discretion (i) pay the Employee all or part of the compensation withheld while the obligations under this Agreement were suspended and (ii) reinstate (in whole or in part) any of such obligations which were suspended.

l. Notwithstanding anything to the contrary herein, if the Employee is removed or permanently prohibited from participating in the conduct of the Employer's affairs by an order issued under section 8 (e)(4) or (g)(1) of the Federal Deposit Insurance Act (12 U.S.C. 1818 (e)(4) or (g)(1)), all obligations of the Employee under this Agreement shall terminate as of the effective date of the order, but any vested rights of the parties hereto shall not be affected.

m. Notwithstanding anything to the contrary herein, if the Employer is in default (as defined in section 3(x)(1) of the Federal Deposit Insurance Act), all obligations under this Agreement shall terminate as of the date of default, but this paragraph (4)(m) shall not affect any vested rights of the parties hereto.

n. Any payments made to the Employee pursuant to this Agreement, or otherwise, are subject to and conditioned upon their compliance with 12 U.S.C. Section 1828(k) and any regulations promulgated thereunder.

5. Ownership of Work Product. The Employer shall own all Work Product arising during the course of the Employee's employment (prior, present or future). For purposes hereof, "Work Product" shall mean all intellectual property rights, including all Trade Secrets, U.S. and international copyrights, patentable inventions, and other intellectual property rights, in any programming, documentation, technology, work of authorship or other work product that relates to the Employer, its business or its customers and that Employee conceives, develops, or delivers to the Employer or that otherwise arises out of the services provided by the Employee to the Employer hereunder, at any time during his employment, during or outside normal working hours, in or away from the facilities of the Employer, and whether or not requested by the Employer. If the Work Product contains any materials, programming or intellectual property rights that the Employee conceived or developed prior to, and independent of, the Employee's work for the Employer, the Employee agrees to identify the pre-existing items to the Employer, and the Employee grants the Employer a worldwide, unrestricted, royalty-free right, including the right to sublicense such items. The Employee agrees to take such actions and execute such further acknowledgments and assignments as the Employer may reasonably request to give effect to this provision.

6. Protection of Trade Secrets. The Employee agrees to maintain in strict confidence and, except as necessary to perform his duties for the Employer, the Employee agrees not to use or disclose any Trade Secrets of the Employer or the Company during or after his employment. For the purposes hereof, "Trade Secret" means information, including, without limitation, technical or non-technical data, a formula, a pattern, a compilation, a program, a device, a method, a technique, a process, a drawing, financial data, financial plans, product plans, information on customers or a list of actual or potential customers or suppliers, which: (i) derives economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

7. Protection of Other Confidential Information. In addition, the Employee agrees to maintain in strict confidence and, except as necessary to perform his duties for the Employer, not to use or disclose any Confidential Business Information of the Employer or the Company during his employment and for a period of 24 months following termination of the Employee's employment. "Confidential Business Information" shall mean any internal, non-public information (other than Trade Secrets already addressed above) concerning the Employer's or the Company's financial position and results of operations (including revenues, assets, net income, etc.); annual and long-range business plans; product or service plans; marketing plans and methods; training, educational and administrative manuals; customer and supplier information and purchase histories; and employee lists. The provisions of Sections 6

and 7 above shall also apply to protect Trade Secrets and Confidential Business Information of third parties provided to the Employer under an obligation of secrecy.

8. Return of Materials. The Employee shall surrender to the Employer, promptly upon its request and in any event upon termination of the Employee's employment, all media, documents, notebooks, computer programs, handbooks, data files, models, samples, price lists, drawings, customer lists, prospect data, or other material of any nature whatsoever (in tangible or electronic form) in the Employee's possession or control, including all copies thereof, relating to the Employer, its business, or its customers. Upon the request of the Employer, Employee shall certify in writing compliance with the foregoing requirement.

9. Restrictive Covenants.

a. No Solicitation of Customers. During the Employee's employment with the Employer and for a period of 24 months thereafter, the Employee shall not (except on behalf of or with the prior written consent of the Employer), either directly or indirectly, on the Employee's own behalf or in the service or on behalf of others, solicit or attempt to solicit Customers to induce or encourage them to acquire or obtain from anyone other than the Employer or its subsidiaries any product or service competitive with or substitute for any of the Employer's Products. For purposes of this Section, "Customer" refers to any person or group of persons with whom the Employee had direct material contact with regard to the selling, delivery, or support of the Employer's Products, including servicing such person's or group's account, during the period of 12 months preceding the solicitation date. The "Employer's Products" refers to the products and services that the Employer or any of its subsidiaries or affiliates offered or sold within six months of the solicitation date. This restriction does not apply after a Change in Control.

b. No Recruitment of Personnel. During the Employee's employment with the Employer and for a period of 24 months thereafter, the Employee shall not, either directly or indirectly, on the Employee's own behalf or in the service or on behalf of others, solicit or induce any employee of or consultant to the Employer or any of its subsidiaries or affiliates to leave his or her position with the Employer (or the subsidiary or affiliate), or recruit or attempt to recruit such persons to accept employment or any other position with another business. This restriction does not apply after a Change in Control.

c. Non-Competition Agreement. During the Employee's employment with the Employer and for a period of 12 months thereafter, the Employee shall not (without the prior written consent of the Employer) compete with the Employer or any of its affiliates by, directly or indirectly, forming, serving as an organizer, director or officer of, or consultant to, or acquiring or maintaining more than a 1% passive investment in, a depository financial institution or holding company therefor if such depository institution or holding company has one or more offices or branches located within a radius of ten miles from (i) the main office of the Employer

or (ii) any branch office of the Employer. This restriction does not apply after a Change in Control.

d. Independent Provisions. The provisions in each of the above Sections 9(a), 9(b), and 9(c) are independent, and the unenforceability of any one provision shall not affect the enforceability of any other provision.

10. Successors; Binding Agreement. This Agreement shall be binding upon and shall inure to the benefit of the Employer and its successors and assigns. Neither this Agreement nor any right or interest hereunder shall be assignable or transferable by the Employee, his beneficiaries or legal representatives, except by will or by the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Employee's legal personal representative.

11. Notice. For the purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or sent by certified mail, return receipt requested, postage prepaid, addressed to the respective addresses last given by each party to the other; provided, however, that all notices to the Employer shall be directed to the attention of the Employer with a copy to the Secretary of the Employer. All notices and communications shall be deemed to have been received on the date of delivery thereof.

12. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of South Carolina without giving effect to the conflict of laws principles thereof. Any action brought by any party to this Agreement shall be brought and maintained in a court of competent jurisdiction in State of South Carolina.

13. Non-Waiver. Failure of the Employer to enforce any of the provisions of this Agreement or any rights with respect thereto shall in no way be considered to be a waiver of such provisions or rights, or in any way affect the validity of this Agreement.

14. Enforcement. The Employee agrees that in the event of any breach or threatened breach by the Employee of any covenant contained in Section 6, 7, 9(a), 9(b), or 9(c) hereof, the resulting injuries to the Employer would be difficult or impossible to estimate accurately, even though irreparable injury or damages would certainly result. Accordingly, an award of legal damages, if without other relief, would be inadequate to protect the Employer. The Employee, therefore, agrees that in the event of any such breach, the Employer shall be entitled to obtain from a court of competent jurisdiction an injunction to restrain the breach or anticipated breach of any such covenant, and to obtain any other available legal, equitable, statutory, or contractual relief. Should the Employer have cause to seek such relief, no bond shall be required from the Employer, and the Employee shall pay all attorney's fees and court costs which the Employer may incur to the extent the Employer prevails in its enforcement action.

15. Saving Clause. The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof. If any provision or clause of this Agreement, or portion thereof, shall be held by any court or other tribunal of competent jurisdiction to be illegal, void, or unenforceable in such jurisdiction, the remainder of such provision shall not be thereby affected and shall be given full effect, without regard to the invalid portion. It is the intention of the parties that, if any court construes any provision or clause of this Agreement, or any portion thereof, to be illegal, void, or unenforceable because of the duration of such provision or the area or matter covered thereby, such court shall reduce the duration, area, or matter of such provision, and, in its reduced form, such provision shall then be enforceable and shall be enforced.

16. Certain Definitions.

a. "Change in Control" shall mean the occurrence during the Term of any of the following events, unless such event is a result of a Non-Control Transaction:

(i) The individuals who, as of the date of this Agreement, are members of the Board of Directors of the Company (the "Incumbent Board") cease for any reason to constitute at least 50% of the Board of Directors of the Company; provided, however, that if the election, or nomination for election by the Company's shareholders, of any new director was approved in advance by a vote of at least 50% of the Incumbent Board, such new director shall, for purposes of this Agreement, be considered as a member of the Incumbent Board; provided, further, that no individual shall be considered a member of the Incumbent Board if such individual initially assumed office as a result of either an actual or threatened "Election Contest" (as described in Rule 14a-11 promulgated under the Securities Exchange Act of 1934 (the "Exchange Act"), or other actual or threatened solicitation of proxies or consents by or on behalf of any person other than the Board of Directors of the Company (a "Proxy Contest"), including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest.

(ii) An acquisition (other than directly from the Company) of any voting securities of the Company (the "Voting Securities") by any "Person" (as the term "person" is used for purposes of Section 13(d) or 14(d) of the Exchange Act) immediately after which such Person has "Beneficial Ownership" (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 50% or more of the combined voting power of the Company's then outstanding Voting Securities; provided, however, that in determining whether a Change in Control has occurred, Voting Securities which are acquired in a Non-Control Acquisition shall not constitute an acquisition which would cause a Change in Control.

(iii) Consummation of: (i) a merger, consolidation, or reorganization involving the Company; (ii) a complete liquidation or dissolution of the Company;

or (iii) the sale or other disposition of all or substantially all of the assets of the Company to any Person (other than a transfer to a Subsidiary).

(iv) A notice of an application is filed with the Office of Comptroller of the Currency (the "OCC") or the Federal Reserve Board or any other bank or thrift regulatory approval (or notice of no disapproval) is granted by the Federal Reserve, the OCC, the Federal Deposit Insurance Corporation, or any other regulatory authority for permission to acquire control of the Company or any of its banking subsidiaries; provided that if the application is filed in connection with a transaction which has been approved by the Board, then the Change in Control shall not be deemed to occur until consummation of the transaction.

b. "Good Reason" shall mean the occurrence after a Change in Control of any of the events or conditions described in subsections (i) through (viii) hereof:

(i) a change in the Employee's status, title, position or responsibilities (including reporting responsibilities) which, in the Employee's reasonable judgment, represents an adverse change from his status, title, position or responsibilities as in effect at any time within ninety days preceding the date of a Change in Control or at any time thereafter; the assignment to the Employee of any duties or responsibilities which, in the Employee's reasonable judgment, are inconsistent with his status, title, position or responsibilities as in effect at any time within ninety days preceding the date of a Change in Control or at any time thereafter; any removal of the Employee from or failure to reappoint or reelect him to any of such offices or positions, except in connection with the termination of his employment for disability or Cause, as a result of his death, or by the Employee other than for Good Reason, or any other change in condition or circumstances that in the Employee's reasonable judgment makes it materially more difficult for the Employee to carry out the duties and responsibilities of his office than existed at any time within ninety days preceding the date of Change in Control or at any time thereafter;

(ii) a reduction in the Employee's base salary or any failure to pay the Employee any compensation or benefits to which he is entitled within five days of the date due;

(iii) the Employer's requiring the Employee to be based at any place outside a 30-mile radius from the executive offices occupied by the Employee immediately prior to the Change in Control, except for reasonably required travel on the Employer's business which is not materially greater than such travel requirements prior to the Change in Control;

(iv) the failure by the Employer to (A) continue in effect (without reduction in benefit level and/or reward opportunities) any material compensation or employee benefit plan in which the Employee was participating

at any time within ninety days preceding the date of a Change in Control or at any time thereafter, unless such plan is replaced with a plan that provides substantially equivalent compensation or benefits to the Employee, or (B) provide the Employee with compensation and benefits, in the aggregate, at least equal (in terms of benefit levels and/or reward opportunities) to those provided for under each other employee benefit plan, program and practice in which the Employee was participating at any time within ninety days preceding the date of a Change in Control or at any time thereafter;

(v) the insolvency or the filing (by any party, including the Company or the Employer) of a petition for bankruptcy of the Company or the Employer, which petition is not dismissed within sixty days;

(vi) any material breach by the Employer of any material provision of this Agreement;

(vii) any purported termination of the Employee's employment for Cause by the Employer which does not comply with the terms of this Agreement; or

(viii) the failure of the Employer to obtain an agreement, satisfactory to the Employee, from any successor or assign to assume and agree to perform this Agreement, as contemplated in Section 10 hereof.

Any event or condition described in clause (i) through (viii) above which occurs prior to a Change in Control but which the Employee reasonably demonstrates (A) was at the request of a third party, or (B) otherwise arose in connection with, or in anticipation of, a Change in Control which actually occurs, shall constitute Good Reason for purposes of this Agreement, notwithstanding that it occurred prior to the Change in Control. The Employee's right to terminate his employment for Good Reason shall not be affected by his incapacity due to physical or mental illness.

c. "Non-Control Transaction" shall mean a transaction described below:

(i) the shareholders of the Company, immediately before such merger, consolidation or reorganization, own, directly or indirectly, immediately following such merger, consolidation or reorganization, at least 50% of the combined voting power of the outstanding voting securities of the corporation resulting from such merger, consolidation or reorganization (the "Surviving Corporation") in substantially the same proportion as their ownership of the Voting Securities immediately before such merger, consolidation or reorganization; and

(ii) immediately following such merger, consolidation or reorganization, the number of directors on the board of directors of the Surviving Corporation who were members of the Incumbent Board shall at least equal the number of directors who were affiliated with or appointed by the other party to the merger, consolidation or reorganization.

d. "Notice of Termination" shall mean a written notice of termination from the Employer or the Employee which specifies an effective date of termination, indicates the specific termination provision in this Agreement relied upon, and, in the case of a termination for Good Reason or for Cause, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Employee's employment under the provision so indicated.

17. Entire Agreement. This Agreement constitutes the entire agreement between the parties hereto and supersedes all prior agreements, if any, understandings and arrangements, oral or written, between the parties hereto with respect to the subject matter hereof.

18. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Employer has caused this Agreement to be executed and its seal to be affixed hereunto by its officers thereunto duly authorized, and the Employee has signed and sealed this Agreement, effective as of the date first above written.

FIRST COMMUNITY BANK, N.A.

By: /s/ Michael C. Crapps  
Name: Michael C. Crapps  
Title: President @ CEO

EMPLOYEE

/s/ Joseph G. Sawyer  
Name: Joseph G. Sawyer

SUBSIDIARIES OF REGISTRANT

First Community Bank, N.A.

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, the Chief Executive Officer and the Chief Financial Officer of first Community Corporation (the "Company"), each certify that, to his or her knowledge on the date of this certification:

1. The annual report of the Company for the period ending December 31, 2002, as filed with the Securities and Exchange Commission on this date (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael C. Crapps

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Michael C. Crapps  
Chief Executive Officer  
March 18, 2003

/s/ Joseph G. Sawyer

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Joseph G. Sawyer  
Chief Financial Officer