FIRST COMMUNITY CORP /SC/
Form 10-K
March 28, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2007

Or

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

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

First Community Corporation

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer," "large accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One):

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

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

As of June 30, 2007, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $47,913,000 based on the closing sale price of $16.70 on June 30, 2007, as reported on The NASDAQ Capital Market.

3,196,854 shares of the issuer's common stock were issued and outstanding as of March 15, 2008.

Documents Incorporated by Reference

Proxy Statement for the Annual Meeting of Shareholders Part III (Portions of Items 10-14) to be held on May 21, 2008.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Report contains statements which constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. 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 those described below under Item 1A- Risk Factors and the following:

- success and timing of other business strategies;
- 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;
- general economic conditions, either nationally or regionally and especially in our 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;
- the adequacy of our 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;
- loss of consumer confidence and economic disruptions resulting from terrorist activities;
- changes in the securities markets; and
- other risks and uncertainties detailed from time to time in our filings with the Securities and Exchange Commission.

We undertake no obligation to publicly update or otherwise revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

PART I

Item 1. Business

General

First Community Corporation, a bank holding company registered under the Bank Holding Company Act of 1956, was incorporated under the laws of South Carolina in 1994 primarily to own and control all of the capital stock of First Community Bank, N.A., which commenced operations in August 1995. On October 1, 2004, we completed our acquisition of DutchFork Bancshares, Inc. and its wholly-owned subsidiary, Newberry Federal Savings Bank. During the second quarter of 2006, we completed our acquisition of DeKalb Bankshares, Inc., the holding company for The Bank of Camden. We engage in a commercial banking business from our main office in Lexington, South Carolina and our 11 full-service offices are located in Lexington (two), Forest Acres, Irmo, Cayce-West Columbia, Gilbert, Chapin, Northeast Columbia, Prosperity, Newberry and Camden. We offer a wide-range of traditional banking products and services for professionals and small-to medium-sized businesses, including consumer and commercial, mortgage, brokerage and investment, and insurance services. We also offer online banking to our customers. Our stock trades on The NASDAQ Capital Market under the symbol FCCO.

The company is not an accelerated filer as defined in Rule 12b-2 of the Exchange Act. As a result, the company qualifies for the extended compliance period with respect to the accountants report on management's assessment of internal control over financial reporting required by PCAOB Auditing Standards No. 5.

Location and Service Area

The bank is engaged in a general commercial and retail banking business, emphasizing the needs of small-to-medium sized businesses, professional concerns and individuals, primarily in Richland, Lexington, Kershaw and Newberry counties of South Carolina and the surrounding areas.

Richland County, Lexington County, Kershaw County and Newberry 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 Richland and Lexington 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, Lexington, Kershaw and Newberry Counties, which include the primary service areas for the existing twelve sites of the bank, had estimated populations in 2006 of 348,226, 240,160, 57,490 and 37,762, respectively.

The principal components of the economy within our market area 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, 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 10 years and we expect that the area, as well as the service industry needed to support it, will to continue to grow. For 2004, Richland, Lexington, Kershaw and Newberry Counties had estimated median household incomes of $40,025, $46,517, $41,242 and $33,920, respectively, compared to $39,454 for South Carolina as a whole.

Banking Services

We offer a full range of deposit services that are typically available in most banks and thrift institutions, including checking accounts, NOW accounts, savings accounts and other time deposits of various types, ranging from daily money market accounts to longer-term certificates of deposit. The transaction accounts and time certificates are tailored to our principal market area at rates competitive to those offered in the area. In addition, we offer certain retirement account services, such as Individual Retirement Accounts (IRAs). All deposit accounts are insured by the FDIC up to the maximum amount allowed by law (generally, $100,000 or $250,000 in the case of IRA accounts per depositor subject to aggregation rules). We solicit these accounts from individuals, businesses, associations and organizations, and governmental authorities.

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

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

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

Competition

The banking business is highly competitive. We compete as a financial intermediary with other commercial banks, savings and loan associations, credit unions and money market mutual funds operating in Richland, Lexington, Kershaw and Newberry Counties and elsewhere. As of June 30, 2007, there were 20 financial institutions operating approximately 189 offices in Lexington, Richland, Kershaw and Newberry Counties. The competition among the various financial institutions is based upon a variety of factors, including interest rates offered on deposit accounts, interest rates charged on loans, credit and service charges, the quality of services rendered, the convenience of banking facilities and, in the case of loans to large commercial borrowers, relative lending limits. Size gives larger banks certain advantages in competing for business from large corporations. These advantages include higher lending limits and the ability to offers services in other areas of South Carolina. As a result, we do not generally attempt to compete for the banking relationships of large corporations, but concentrate our efforts on small-to-medium sized businesses and individuals. We believe we have competed effectively in this market by offering quality and personal service.

Employees

As of December 31, 2007, we had 138 full-time employees. We believe that our relations with our employees are good.

SUPERVISION AND REGULATION

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

The following discussion is not intended to be a complete list of all the activities regulated by the banking laws or of the impact of such laws and regulations on our operations. It is intended only to briefly summarize some material provisions.

First Community Corporation

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

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

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

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

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

performing selected insurance underwriting activities.

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

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

Change in Control. In addition, and subject to certain exceptions, the Bank Holding Company Act and the Change in Bank Control Act, together with regulations promulgated thereunder, 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. In certain cases, a company may also be presumed to have control under the BHCA if it acquires 5% or more of any class of voting securities of a bank holding company. Our common stock is registered under Section 12 of the Securities Exchange Act. The regulations provide a procedure for rebutting control when ownership of any class of voting securities is below 25%.

Source of Strength. In accordance with Federal Reserve Board policy, we are expected to act as a source of financial strength to the bank and to commit resources to support the bank in circumstances in which we might not otherwise do so. If the bank were to become "under-capitalized (see below First Community Bank, N.A. Prompt Corrective Action"), we would be required to provide a guarantee of the bank's plan to return to capital adequacy. Additionally, 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 non-bank subsidiary, other than a non-bank subsidiary of a bank, upon the Federal Reserve's determination that such activity or control constitutes a serious risk to the financial soundness or stability of any depository institution subsidiary of a bank holding company. Federal bank regulatory authorities have additional discretion to require a bank holding company to divest itself of any bank or non-bank subsidiaries if the agency determines that divestiture may aid the depository institution's financial condition. Further, any loans by bank holding company to a subsidiary bank are subordinate in right of payment to deposits and certain other indebtedness of the subsidiary bank. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank at a certain level would be assumed by the bankruptcy trustee and entitled to priority payment.

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

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

First Community Bank, N.A.

The bank operates as a national banking association incorporated under the laws of the United States and subject to examination by the Office of the Comptroller of the Currency (the "OCC"). Deposits in the bank are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a maximum amount, which is currently $100,000 for each non-retirement depositor and $250,000 for certain retirement-account depositors. Accordingly, the FDIC also has enforcement authority over the bank. The OCC and the FDIC regulate or monitor virtually all areas of the bank's operations, including

- security devices and procedures;
- adequacy of capitalization and loss reserves;
- loans;
- investments;
- borrowings;
- deposits;
- mergers;
- issuances of securities;
- payment of dividends;
- interest rates payable on deposits;
- interest rates or fees chargeable on loans;
- establishment of branches;
- corporate reorganizations;
- maintenance of books and records; and
- adequacy of staff training to carry on safe lending and deposit gathering practices.

The OCC requires that the bank maintain specified capital ratios of capital to assets and imposes limitations on the bank's aggregate investment in real estate, bank premises, and furniture and fixtures. Two categories of regulatory capital are used in calculating these ratios Tier 1 capital and total capital. Tier 1 capital generally includes common equity, retained earnings, a limited amount of qualifying preferred stock, and qualifying minority interests in consolidated subsidiaries, reduced by goodwill and certain other intangible assets, such as core deposit intangibles, and certain other assets. Total capital generally consists of Tier 1 capital plus Tier 2 capital, which includes the allowance for loan losses, preferred stock that did not qualify as Tier 1 capital, certain types of subordinated debt and a limited amount of other items.

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

The minimum capital ratios for both the company and the bank are generally 8% for total capital, 4% for Tier 1 capital and 4% for leverage. To be eligible to be classified as "well-capitalized," the bank must generally maintain a total capital ratio of 10% or more, a Tier 1 capital ratio of 6% or more, and a leverage ratio of 5% or more. Certain implications of the regulatory capital classification system is discussed in greater detail below.

Prompt Corrective Action. The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") established a "prompt corrective action" program in which every bank is placed in one of five regulatory categories, depending primarily on its regulatory capital levels. The OCC and the other federal banking regulators are permitted to take increasingly severe action as a bank's capital position or financial condition declines below the "Adequately Capitalized" level described below. Regulators are also empowered to place in receivership or require the sale of a bank to another depository institution when a bank's leverage ratio reaches two percent. Better capitalized institutions are generally subject to less onerous regulation and supervision than banks with lesser amounts of capital. The OCC's regulations set forth five capital categories, each with specific regulatory consequences. The categories are:

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

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

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

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

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

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

If the bank is not well capitalized, it cannot accept brokered deposits without prior FDIC approval and, if approval is granted, cannot offer an effective yield in excess of 75 basis points on interests paid on deposits of comparable size and maturity in such institution's normal market area for deposits accepted from within its normal market area, or national rate paid on deposits of comparable size and maturity for deposits accepted outside the bank's normal market area. Moreover, if the bank becomes less than adequately capitalized, it must adopt a capital restoration plan acceptable to the OCC that is subject to a limited performance guarantee by the corporation. The bank also would become subject to increased regulatory oversight, and is increasingly restricted in the scope of its permissible activities. Each company having control over an undercapitalized institution also must provide a limited guarantee that the institution will comply with its capital restoration plan. Except under limited circumstances consistent with an accepted capital restoration plan, an undercapitalized institution may not grow. An undercapitalized institution may not acquire another institution, establish additional branch offices or engage in any new line of business unless determined by the appropriate Federal banking agency to be consistent with an accepted capital restoration plan, or unless the FDIC determines that the proposed action will further the purpose of prompt corrective action. The appropriate federal banking agency may take any action authorized for a significantly undercapitalized institution if an undercapitalized institution fails to submit an acceptable capital restoration plan or fails in any material respect to implement a plan accepted by the agency. A critically undercapitalized institution is subject to having a receiver or conservator appointed to manage its affairs and for loss of its charter to conduct banking activities.

An insured depository institution may not pay a management fee to a bank holding company controlling that institution or any other person having control of the institution if, after making the payment, the institution, would be undercapitalized. In addition, an institution cannot make a capital distribution, such as a dividend or other distribution that is in substance a distribution of capital to the owners of the institution if following such a distribution the institution would be undercapitalized. Thus, if payment of such a management fee or the making of such would cause the bank to become undercapitalized, it could not pay a management fee or dividend to us. As of December 31, 2007, the bank was deemed to be "well capitalized."

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

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

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

Deposit Insurance and Assessments. Deposits at the bank are insured by the Deposit Insurance Fund (the "DIF") as administered by the FDIC, up to the applicable limits established by law generally $100,000 per accountholder and $250,000 for certain retirement accountholders. In November 2006, the FDIC adopted final regulations that set the deposit insurance assessment rates that took effect in 2007. The FDIC uses a risk-based assessment system that assigns insured depository institutions to one of four risk categories based on three primary sources of information supervisory risk ratings for all institutions, financial ratios for most institutions, including the company, and long-term debt issuer ratings for large institutions that have such ratings. The new premium rate structure imposes a minimum assessment of from five to seven cents for every $100 of domestic deposits on institutions that are assigned to the lowest risk category. This category is expected to encompass substantially all insured institutions, including the bank. A one time assessment credit is available to offset up to 100% of the 2007 assessment. Any remaining credit can be used to offset up to 90% of subsequent annual assessments through 2010. For institutions assigned to higher risk categories, the premium that took effect in 2007 ranges from ten cents to forty-three cents per $100 of deposits.

The FDIC also collects a deposit-based assessment from insured financial institutions on behalf of The Financing Corporation (FICO). The funds from these assessments are used to service debt issued by FICO in its capacity as a financial vehicle for the Federal Savings & Loan Insurance Corporation. The FICO assessment rate is set quarterly and in 2006 ranged from 1.32 cents to 1.24 cents per $100 of assessable deposits. For the first quarter of 2007, the FICO assessment rate was 1.22 cents per $100 of assessable deposits.

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

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

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

The bank is also subject to certain restrictions on extensions of credit to executive officers, directors, certain principal shareholders, and their related interests. Such extensions of credit (i) must be made on substantially the same terms, including interest rates, and collateral, 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. The company's principal source of cash flow, including cash flow to pay dividends to its shareholders, is dividends it receives from the bank. Statutory and regulatory limitations apply to the bank's payment of dividends to the company. As a general rule, the amount of a dividend may not exceed, without prior regulatory approval, the sum of net income in the calendar year to date and the retained net earnings of the immediately preceding two calendar years. A depository institution may not pay any dividend if payment would cause the institution to become undercapitalized or if it already is undercapitalized. The OCC may prevent the payment of a dividend if it determine that the payment would be an unsafe and unsound banking practice. The OCC also has advised that a national bank should generally pay dividends only out of current operating earnings.

Branching. National banks are required by the National Bank Act to adhere to branch office banking laws applicable to state banks in the states in which they are located. Under current South Carolina law, the bank may open branch offices throughout South Carolina with the prior approval of the OCC. In addition, with prior regulatory approval, the bank is able to acquire existing banking operations in South Carolina. Furthermore, federal legislation permits interstate branching, including out-of-state acquisitions by bank holding companies, interstate branching by banks if allowed by state law, and interstate merging by banks. South Carolina law currently permits, with limited exceptions, branching across state lines through interstate mergers.

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

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

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

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

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

The deposit operations of the bank also are subject to:

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

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

Anti-Money Laundering. Financial institutions must maintain anti-money laundering programs that include established internal policies, procedures, and controls; a designated compliance officer; an ongoing employee training program; and testing of the program by an independent audit function. The company and the bank are also prohibited from entering into specified financial transactions and account relationships and must meet enhanced standards for due diligence and "knowing your customer" in their dealings with foreign financial institutions and foreign customers. Financial institutions must take reasonable steps to conduct enhanced scrutiny of account relationships to guard against money laundering and to report any suspicious transactions, and recent laws provide law enforcement authorities with increased access to financial information maintained by banks. Anti-money laundering obligations have been substantially strengthened as a result of the USA Patriot Act, enacted in 2001 and renewed in 2006. Bank regulators routinely examine institutions for compliance with these obligations and are required to consider compliance in connection with the regulatory review of applications. The regulatory authorities have been active in imposing "cease and desist" orders and money penalty sanctions against institutions found to be violating these obligations.

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

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

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

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

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

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

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

Effect of Governmental Monetary Policies. Our earnings are affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The Federal Reserve 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 1A. Risk Factors

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

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

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

Making loans and other extensions of credit is an essential element of our business. Although we seek to mitigate risks inherent in lending by adhering to specific underwriting practices, our loans and other extensions of credit may not be repaid. The risk of nonpayment is affected by a number of factors, including:

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

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

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

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

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

Lack of seasoning of our loan portfolio may increase the risk of credit defaults in the future.

Due to the rapid growth of our bank over the past several years, a material portion of the loans in our loan portfolio and of our lending relationships are of relatively recent origin. In general, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process we refer to as "seasoning." As a result, a portfolio of older loans will usually behave more predictably than a newer portfolio. Because of our internal loan growth, the current level of delinquencies and defaults may not be representative of the level that will prevail when the portfolio becomes more seasoned, which may be higher than current levels. If delinquencies and defaults increase, we may be required to increase our provision for loan losses, which would adversely affect our results of operations and financial condition.

An economic downturn, especially one affecting the Lexington, Richland, Newberry, and Kershaw Counties and the surrounding areas, could reduce our customer base, our level of deposits, and demand for financial products such as loans.

We are operating in a challenging and uncertain economic environment, including generally uncertain national and local conditions. Our success significantly depends upon the growth in population, income levels, deposits, and housing starts in our market of Lexington, Richland, Newberry, and Kershaw Counties and the surrounding area. If the communities in which we operate do not grow or if prevailing economic conditions locally or nationally are unfavorable, our business may not succeed. An economic downturn would likely contribute to the deterioration of the quality of our loan portfolio and reduce our level of deposits, which in turn would hurt our business. If an economic downturn occurs in the economy as a whole, or in Lexington, Richland, Newberry, and Kershaw Counties and the surrounding area, borrowers may be less likely to repay their loans as scheduled. Moreover, the value of real estate or other collateral that may secure our loans could be adversely affected. Unlike many larger institutions, we are not able to spread the risks of unfavorable local economic conditions across a large number of diversified economies. An economic downturn could, therefore, result in losses that materially and adversely affect our business.

We have a concentration of credit exposure in commercial real estate and a downturn in commercial real estate could adversely affect its business, financial condition, and results of operations.

As of December 31, 2007, we had approximately $130.7 million in loans outstanding to borrowers in the commercial real estate industry, representing approximately 42.4% of our total loans outstanding as of that date. The real estate consists primarily of owner-occupied properties, warehouse and other commercial properties. These types of loans are generally viewed as having more risk of default than residential real estate loans. They are also typically larger than residential real estate loans and consumer loans and depend on cash flows from the owner's business or the property to service the debt. Cash flows may be affected significantly by general economic conditions, and a downturn in the local economy or in occupancy rates in the local economy where the property is located could increase the likelihood of default. Because our loan portfolio contains a number of commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans could cause a significant increase in our level of non-performing loans. An increase in non-performing loans could result in a loss of earnings from these loans, an increase in the related provision for loan losses and an increase in charge-offs, all of which could have a material adverse effect on our financial condition and results of operations.

Our commercial real estate loans have grown 31.0%, or $31.0, million since December 31, 2006. The banking regulators are giving commercial real estate lending greater scrutiny, and may require banks with higher levels of commercial real estate loans to implement more stringent underwriting, internal controls, risk management policies and portfolio stress testing, as well as possibly higher levels of allowances for losses and capital levels as a result of commercial real estate lending growth and exposures.

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

A significant portion of our loan portfolio is secured by real estate. As of December 31, 2007, approximately 88.3% of our loans had real estate as a primary or secondary component of collateral. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. A weakening of the real estate market in our primary market area could result in an increase in the number of borrowers who default on their loans and a reduction in the value of the collateral securing their loans, which in turn could have an adverse effect on our profitability and asset quality. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, our earnings and capital could be adversely affected. Acts of nature, including hurricanes, tornados, earthquakes, fires and floods, which may cause uninsured damage and other loss of value to real estate that secures these loans, may also negatively impact our financial condition.

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

The investment securities portfolio is a significant component of our total earning assets. Total securities averaged $172.3 million in 2007, as compared to $175.1 million in 2006. This represents 36.2% and 40.0% of the average earning assets for the year ended December 31, 2007 and 2006, respectively. At December 31, 2007, the portfolio was 35.8% of earning assets. Turmoil in the financial markets could impair the market value of our investment portfolio, which could adversely affect our net income and possibly our capital.

During the last half of 2007 the bond markets and many institutional holders of bonds came under a great deal of stress partially as a result of increasing delinquencies in the sub-prime mortgage lending market. At December 31, 2007 we had mortgage backed securities including collateralized mortgage obligations (CMO's) with a fair value of $91.4 million. Of these, $61.8 million were issued by government sponsored enterprises and $29.6 million are by other issuers. We believe that none of the CMOs held at December 31, 2007 are deemed to be invested in "high risk" tranches. Although none of the collateralized mortgage obligations that we hold are classified as sub-prime obligations or considered the "high risk" tranches, the majority of "structured" investments within all credit markets have been impacted by volatility and credit concerns. The result has been that the market for these investments has become less liquid and the spread as compared to alternative investments has widened dramatically. To a lesser extent mortgage backed securities issued by government sponsored enterprises (GSE's) such as FHLMC and FNMA have been impacted and spreads have increased on these investments. These entities have also experienced increasing delinquencies in the underlying loans that make up the mortgage backed securities and CMO's.

At December 31, 2007, we also had investments in variable rate preferred stock issued by the Federal Home Loan Mortgage Corporation (FHLMC) with a fair value of $10.9 million, and book value of $14.2 million. The market for these preferred securities has been impacted by the current credit and liquidity concerns in the overall bond market. As a result of the current economic cycle the Federal Home Loan Mortgage Corporation recently issued additional preferred stock to enhance their capital levels. These fixed rate securities were issued at a yield significantly higher than the yield currently being realized on our FHLMC holdings.

As of December 31, 2007 and 2006, all of the mortgage backed securities issued by GSE's and others, as well as our preferred stock investments, are classified as "Available for Sale." Unrealized losses on these investments are not considered to be "other than temporary" and we have the intent and ability to hold these until they mature or recover our current book value. We currently maintain substantial liquidity which supports our intent and ability to hold these investments until they mature, or until a market price recovery in the case of preferred stock investment. However, if we were to cease to have the ability and intent to hold these investments until maturity or a market price recovery, or were to sell these securities at a loss, it could adversely affect our net income and possibly our capital.

Changes in prevailing interest rates may reduce our profitability.

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

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

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

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

We are subject to extensive regulation that could limit or restrict our activities.

We operate in a highly regulated industry and are subject to examination, supervision, and comprehensive regulation by various regulatory agencies. Our compliance with these regulations is costly and restricts certain of our activities, including payment of dividends, mergers and acquisitions, investments, loans and interest rates charged, interest rates paid on deposits, and locations of offices. We are also subject to capitalization guidelines established by our regulators, which require us to maintain adequate capital to support our growth.

The laws and regulations applicable to the banking industry could change at any time, and we cannot predict the effects of these changes on our business and profitability. Because government regulation greatly affects the business and financial results of all commercial banks and bank holding companies, our cost of compliance could adversely affect our ability to operate profitably.

The Sarbanes-Oxley Act of 2002, and the related rules and regulations promulgated by the Securities and Exchange Commission that are now applicable to us, have increased the scope, complexity, and cost of corporate governance, reporting, and disclosure practices. To comply with the Sarbanes-Oxley Act, we have previously hired outside consultant to assist with our internal audit and internal control functions. We have experienced, and we expect to continue to experience, greater compliance costs, including costs related to internal controls, as a result of the Sarbanes-Oxley Act.

We have performed the system and process evaluation and testing (and any necessary remediation) required to comply with the management certification for 2007. Currently the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act are not applicable to us until December 31, 2009. We currently anticipate that our auditors will be able to provide the attestation relating to internal controls and all other aspects of Section 404 in 2009. In the event internal control deficiencies are identified in the future that we are unable to remediate in a timely manner or if we are not able to maintain the requirements of Section 404, we could be subject to scrutiny by regulatory authorities and the trading price of our stock could decline. Moreover, effective internal controls are necessary for us to produce reliable financial reports and are important to helping prevent financial fraud. If we cannot provide reliable financial reports or prevent fraud, our business and operating results could be harmed, investors and regulators could lose confidence in our reported financial information, and the trading price of our stock could drop significantly. We currently anticipate that we will continue to fully implement the requirements relating to internal controls and all other aspects of Section 404 within required time frames.

Our continued pace of growth may require us to raise additional capital in the future, but that capital may not be available when it is needed.

We are required by regulatory authorities to maintain adequate levels of capital to support our operations. To support our continued growth, we may need to raise additional capital. Our ability to raise additional capital, if needed, will depend in part on conditions in the capital markets at that time, which are outside our control. Accordingly, we cannot assure you of our ability to raise additional capital, if needed, on terms acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations through internal growth and acquisitions could be materially impaired. In addition, if we decide to raise additional equity capital, your interest could be diluted.

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

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

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

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

- the potential inaccuracy of the estimates and judgments used to evaluate credit, operations, management, and market risks with respect to a target institution;

the time and costs of evaluating new markets, hiring or retaining experienced local management, and opening new offices and the time lags between these activities and the generation of sufficient assets and deposits to support the costs of the expansion;

the incurrence and possible impairment of goodwill associated with an acquisition and possible adverse effects on our results of operations; and

the risk of loss of key employees and customers.

Our underwriting decisions may materially and adversely affect our business.

While we generally underwrite the loans in our portfolio in accordance with our own internal underwriting guidelines and regulatory supervisory guidelines, in certain circumstances we have made loans which exceed either our internal underwriting guidelines, supervisory guidelines, or both. As of December 31, 2007, approximately $9.0 million of our loans, or 17.6% of our bank's capital, had loan-to-value ratios that exceeded regulatory supervisory guidelines, of which 2 loans totaling approximately $60,000 had loan-to-value ratios of 100% or more. In addition, supervisory limits on commercial loan to value exceptions are set at 30% of our bank's capital. At December 31, 2007, $8.2 million of our commercial loans, or 16.1% of our bank's capital, exceeded the supervisory loan to value ratio. The number of loans in our portfolio with loan-to-value ratios in excess of supervisory guidelines, our internal guidelines, or both could increase the risk of delinquencies and defaults in our portfolio.

Our small to medium-sized business target markets may have fewer financial resources to weather a downturn in the economy.

We target the banking and financial services needs of small and medium-sized businesses. These businesses generally have fewer financial resources in terms of capital borrowing capacity than larger entities. If general economic conditions negatively impact these businesses in the markets in which we operate, our business, financial condition, and results of operation may be adversely affected.

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

Our loan losses could exceed our allowance for loan losses. Our average loan size continues to increase and reliance on our historic allowance for loan losses may not be adequate. Approximately 76% of our loan portfolio is composed of construction, commercial mortgage and commercial loans. Repayment of such loans is generally considered more subject to market risk than residential mortgage loans. Industry experience shows that a portion of loans will become delinquent and a portion of loans will require partial or entire charge-off. Regardless of the underwriting criteria utilized, losses may be experienced as a result of various factors beyond our control, including among other things, changes in market conditions affecting the value of loan collateral and problems affecting the credit of our borrowers.

Item 1B. Unresolved SEC Comments.

We have no unresolved staff comments with the SEC regarding our periodic or currect reports under the Exchange Act.

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 branch is a 2.29 acre plot of land. This site was purchased for $576,000 and the building cost were approximately $1.0 million. The branch operates in an 8,500 square foot facility located on this site.

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

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

Irmo Property. We operate a branch office facility at 1030 Lake Murray Boulevard, Irmo, South Carolina 29063. The Irmo site is approximately 1.00 acre. The banking facility is approximately 3,200 square feet with a total cost of land and facility of approximately $1.1 million. This property is owned by the bank.

Cayce/West Columbia Property. We operate a branch office facility at 506 Meeting Street, West Columbia, South Carolina, 29169. The Cayce/West Columbia site is approximately 1.25 acres. The banking facility is approximately 3,800 square feet with a total cost of land and facility of approximately $935,000. This property is owned by the bank.

Gilbert Property. We operate a branch office at 4325 Augusta Highway Gilbert, South Carolina 29054. The facility is an approximate 3000 square foot facility located on an approximate one acre lot. The total cost of the land and facility was approximately $768,000. This property is owned by the bank.

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

Northeast Columbia. We operate a branch office facility at 9822 Two Notch Rd, Columbia, South Carolina 29223. The facility is approximately 3,000 square feet and is located on a 1.0 acre lot. The total cost of the facility and land was approximately $1.2 million. This property is owned by the bank.

Prosperity Property. We operate a branch office at 101 N. Wheeler Avenue, Prosperity, South Carolina 29127. This office was acquired in connection with the DutchFork merger. The banking facility is approximately 1,300 square feet and is located on a .31 acre lot. The total cost of the facility and land was approximately $175,000. This property is owned by the bank.

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

Redbank Property. We operate a branch office facility at 1449 Two Notch Road, Lexington, South Carolina 29073. This branch opened for operation on February 3, 2005. The facility is approximately 3,000 square feet and is located on a 1.0 acre lot. The total cost of the facility and land was approximately $1.3 million. This property is owned by the bank.

Camden Property. We operate a branch office facility at 631 DeKalb Street, Camden, South Carolina 29020. This office was acquired in connection with the DeKalb merger. The facility is approximately 11,247 square feet and is located on a 2.2 acre lot. The total cost of the facility and land was approximately $2.4 million. This property is owned by the bank.

Highway 219 Property. A .61 acre lot located on highway 219 in Newberry County was acquired in connection with the DutchFork merger. This lot may be used for a future branch location but no definitive plans have been made. The cost of the lot was $430,000. This property is owned by the bank.

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 Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities.

As of March 1, 2008, there were approximately 1,549 shareholders of record of our common stock. On January 15, 2003, our stock began trading on The NASDAQ Capital Market under the trading symbol of "FCCO." Prior to January 15, 2003, our stock was quoted on the OTC Bulletin Board under the trading symbol "FCCO.OB." The following table sets forth the high and low sales price information as reported by NASDAQ in 2007 and 2006, and the dividends per share declared on our common stock in each such quarter. All information has been adjusted for any stock splits and stock dividends effected during the periods presented.

	High	Low	Dividends
2007			
Quarter ended March 31, 2007	$ 18.99	$ 16.52	$ 0.06
Quarter ended June 30, 2007	$ 17.85	$ 16.57	$ 0.07
Quarter ended September 30, 2007	$ 16.66	$ 14.53	$ 0.07
Quarter ended December 31, 2007	$ 16.18	$ 12.00	$ 0.07
2006			
Quarter ended March 31, 2006	$ 19.63	$ 17.75	$ 0.05
Quarter ended June 30, 2006	$ 18.79	$ 17.11	$ 0.06
Quarter ended September 30, 2006	$ 18.32	$ 16.62	$ 0.06
Quarter ended December 31, 2006	$ 18.75	$ 16.50	$ 0.06

We expect 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. Our ability to pay dividends is generally limited by the ability of our subsidiary bank to pay dividends to us. As a national bank, our 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, 2007, the bank had $9.0 million 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.

On June 21, 2006, our board of directors approved a new plan to repurchase up to 150,000 shares of our common stock on the open market. On April 17, 2007 and January 15, 2008 the Board approved an increase of 50,000 to be repurchased at each meeting. This brought the total available to be repurchased under the plan since inception to 250,000 shares. The following table reflects share repurchase activity during the fourth quarter ended December 31, 2007:

Period	**Total Number of Shares Purchased**	**Average Price Paid Per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(1)**
October 1, 2007 to October 31, 2007				75,387
November 1, 2007 to November 30, 2007	14,700	$ 15.84	14,700	60,687
December 1, 2007 to December 31,2007	500	$ 15.00	500	60,187
Total	15,200	$ 15.81	15,200	60,187

(1) Includes 50,000 shares authorized by the Board of Directors on January 15, 2008.

Performance Graph

The following information in this Item 5 of this Annual Report is not deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 or to the liabilities of Section 18 of the Securities Exchange Act of 1934, and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent we specifically incorporate it by reference into such a filing.

The following graph sets forth the performance of First Community Corporation's common stock for the five year period ended December 31, 2007 as compared to the NASDAQ Composite Index and the NASDAQ Bank Index. The graph assumes $100 originally invested on December 31, 2002 and that any and all subsequent dividends were reinvested in additional shares. The performance graph represents past performance and should not be considered to be an indication of future performance.

FIVE YEAR CUMULATIVE TOTAL RETURNS

COMPARISON OF FIRST COMMUNITY CORPORATION,
NASDAQ STOCK MARKET (U.S.) INDEX,
AND NASDAQ BANK INDEX

See Tabular Information Below

	12/31/2002	12/31/2003	12/31/2004	12/31/2005	12/31/2006	12/31/2007
First Community Corporation	100.00	165.14	153.06	143.28	131.18	102.98
NASDAQ Composite Index	100.00	150.77	164.57	168.07	185.54	205.31
NASDAQ Bank Index	100.00	131.78	147.71	142.28	168.80	135.20

Item 6. Selected Financial Data

First Community Corporation

Selected Financial Data

(Amounts in thousands, except per share data)

	2007	2006	2005	2004	2003
Operations Statement Data:					
Net interest income	$ 15,290	$ 14,323	$ 12,994	$ 9,596	$ 7,648
Provision for loan losses	492	528	329	245	167
Non-interest income	5,017	4,401	3,298	1,774	1,440
Non-interest expense	14,125	13,243	11,838	7,977	6,158
Income taxes	1,725	1,452	1,032	963	965
Net income	$ 3,965	$ 3,501	$ 3,093	$ 2,185	$ 1,797
Per Share Data:					
Net income diluted	$ 1.21	$ 1.10	$ 1.04	$ 1.09	$ 1.08
Cash dividends	.27	.23	.20	0.20	0.19
Book value at period end	19.93	19.36	17.82	18.09	12.21
Tangible book value at period end	10.67	10.05	8.34	8.19	11.74
Balance Sheet Data:					
Total assets	$ 565,613	$ 548,056	$ 467,455	$ 455,706	$ 215,029
Loans	310,028	275,189	221,668	186,771	121,008
Securities	175,258	176,523	176,372	196,026	58,954
Deposits	405,854	414,941	349,604	337,064	185,259
Shareholders' equity	63,996	63,208	50,767	50,463	19,509
Average shares outstanding	3,234	3,097	2,847	1,903	1,590
Performance Ratios:					
Return on average assets	0.72%	0.68%	0.67%	0.76%	0.88%
Return on average equity	6.24%	6.12%	6.12%	8.00%	9.49%
Return on average tangible equity	11.83%	12.69%	13.33%	10.39%	9.94%
Net interest margin	3.21%	3.27%	3.30%	3.72%	4.02%
Dividend payout ratio	21.95%	20.35%	18.35%	17.39%	16.81%
Asset Quality Ratios:					
Allowance for loan losses to period End total loans	1.14%	1.17%	1.22%	1.48%	1.41%
Allowance for loan losses to Non-performing assets	286.06%	688.44%	487.54%	1,250.68%	1,757.73%
Non-performing assets to total assets	.22%	.09%	.12%	.03%	.04%
Net charge-offs (recoveries) to average loans	.06%	.13%	.19%	.13%	(.01%)
Capital and Liquidity Ratios:					
Tier 1 risk-based capital	13.66%	13.48%	13.24%	12.91%	13.21%
Total risk-based capital	14.61%	14.40%	14.12%	13.86%	14.42%
Leverage ratio	9.31%	9.29%	9.29%	8.51%	8.87%
Equity to assets ratio	11.31%	11.53%	10.86%	9.60%	9.07%
Average loans to average deposits	73.45%	64.83%	59.81%	61.00%	63.33%

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

Overview

First Community Corporation is a one bank holding company headquartered in Lexington, South Carolina. We operate from our main office in Lexington, South Carolina and our 11 full-service offices are located in Lexington (two), Forest Acres, Irmo, Cayce-West Columbia, Gilbert, Chapin, Northeast Columbia, Prosperity, Newberry and Camden. During the second quarter of 2006, we completed our acquisition of DeKalb Bankshares, Inc., the holding company for The Bank of Camden. The merger added one office in Kershaw County located in the Midlands of South Carolina. During the fourth quarter of 2004, we completed our first acquisition of another financial institution when we merged with DutchFork Bancshares, Inc., the holding company for Newberry Federal Savings Bank. The merger added three offices in Newberry County. In 2007, our College Street office in Newberry was consolidated with our Wilson Road Office in Newberry. We engage in a general commercial and retail banking business characterized by personalized service and local decision making, emphasizing the banking needs of small to medium-sized businesses, professional concerns and individuals.

During 2007, we experienced loan growth of 12.7%, or $34.8 million. Deposits decreased by 2.2% or $9.1 million during 2007. The continued growth in our loan portfolio is consistent with our strategy to leverage the deposit base in Newberry County that we acquired in the DutchFork acquisition in 2004. Our loan to deposit ratio at December 31, 2007 was 76.4% as compared to 66.3% at December 31, 2006. The growth in the loan portfolio was funded primarily by cash flow provided from our investment portfolio and a decrease in our overnight federal funds sold and securities purchased under agreements to resell. Total assets grew to $565.6 million, loans to $310.0 million and deposits decreased to $405.8 million at December 31, 2007. Our net income increased $463,000 in 2007, or 13.2%, over the year ended December 31, 2006. The increase was primarily attributable to the continued growth in the level of earning assets as well as an increase in non-interest income. Net income was $4.0 million, or $1.21 diluted earnings per share in 2007, compared to $3.5 million, or $1.10 diluted earnings per share in 2006.

The following discussion describes our results of operations for 2007 as compared to 2006 (and 2006 compared to 2005 and also analyzes our financial condition as of December 31, 2007 as compared to December 31, 2006. Like most community banks, we derive most of our income from interest we receive on our loans and investments. A primary source of funds for making these loans and investments is our deposits, on which we pay interest. Consequently, one of the key measures of our success is our amount of net interest income, or the difference between the income on our interest-earning assets, such as loans and investments, and the expense on our interest-bearing liabilities, such as deposits. Another key measure is the spread between the yield we earn on these interest-earning assets and the rate we pay on our interest-bearing liabilities.

We have included a number of tables to assist in our description of these measures. For example, the "Average Balances" table shows the average balance during 2007, 2006 and 2005 of each category of our assets and liabilities, as well as the yield we earned or the rate we paid with respect to each category. A review of this table shows that our loans typically provide higher interest yields than do other types of interest earning assets, which is why we intend to channel a substantial percentage of our earning assets into our loan portfolio. Similarly, the "Rate/Volume Analysis" table helps demonstrate the impact of changing interest rates and changing volume of assets and liabilities during the years shown. We also track the sensitivity of our various categories of assets and liabilities to changes in interest rates, and we have included a "Sensitivity Analysis Table" to help explain this. Finally, we have included a number of tables that provide detail about our investment securities, our loans, and our deposits and other borrowings.

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

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

Mergers

On June 9, 2006 we consummated our merger with DeKalb Bankshares, Inc. Pursuant to the merger, we issued 364,034 shares of common stock valued at $7.6 million and paid $2.4 million in cash to shareholders of DeKalb. Other costs related to the merger included stock options valued at $585,000 and direct acquisition costs of $277,000. The fair value of assets acquired at the date of acquisition was $46.4 million, including $4.9 million in goodwill and $522,000 in core deposit intangible. The fair value of liabilities assumed amounted to $36.2 million. Periods prior to June 9, 2006 do not include the effect of the merger with DeKalb.

On October 1, 2004, we completed our merger with DutchFork Bancshares, Inc. Pursuant to the merger, we issued 1,169,898 shares of common stock valued at $27.3 million and paid $18.3 million to shareholders of DutchFork. Other costs related to the merger included stock options valued at $2.6 million and direct acquisition costs of $1.1 million. The fair value of assets acquired at the date of acquisition was $224.2 million, including $24.2 million in goodwill and $2.9 million in core deposit intangible. The fair value of liabilities assumed amounted to $174.9 million.

Critical Accounting Policies

We have adopted various accounting policies that govern the application of accounting principles generally accepted in the United States of America and that are consistent with general practices within the banking industry in the preparation of our financial statements. Our significant accounting policies are described in footnote 2 to our audited consolidated financial statements as of December 31, 2007, as included in our annual report.

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

We believe the allowance for loan losses is the critical accounting policy that requires the most significant judgments and estimates when preparing our consolidated financial statements. Some of the more critical judgments supporting the amount of our allowance for loan losses include judgments about the credit worthiness of borrowers, the estimated value of the underlying collateral, cash flow assumptions, the determination of loss factors for estimating credit losses, the impact of current events, and other factors impacting the level of probable inherent losses. Under different conditions or using different assumptions, the actual amount of credit losses incurred by us may be different from management's estimates provided in our consolidated financial statements. Please see "Allowance for

Loan Losses" for a more complete discussion of our processes and methodology for determining our allowance for loan losses.

Results of Operations

Our net income was $4.0 million, or $1.21 diluted earnings per share, for the year ended December 31, 2007, as compared to net income of $3.5 million, or $1.10 diluted earnings per share, for the year ended December 31, 2006, and $3.1 million, or $1.04 diluted earnings per share, for the year ended December 31, 2005. The increase in net income for 2007 as compared to 2006 resulted primarily from an increase in the level of average earning assets of $38.2 million. The effect of the increase in earning assets was offset by a 6 basis point decrease in the net interest margin from 3.27% during 2006 to 3.21% during 2007. On a tax equivalent basis, the net interest margin was 3.29% and 3.36% for the years ended December 31, 2007 and 2006, respectively. Net interest spread, the difference between the yield on earning assets and the rate paid on interest-bearing liabilities, was 2.69% in 2007 as compared to 2.88% in 2006 and 3.05% in 2005. See below under "Net Interest Income" and "Market Risk and Interest Rate Sensitivity" for a further discussion about the effect of this decrease in the net interest spread and in our net interest margin. Net interest income increased to $15.3 million for the year ended December 31, 2007 from $14.3 million in 2006. The provision for loan losses was $492,000 in 2007 as compared to $528,000 in 2006. Non-interest income increased to $5.0 million in 2007 from $4.4 million in 2006 due primarily to increased deposit service charges resulting from higher average deposit account balances as well as increased ATM/Debit Card fees and a favorable adjustment on financial instruments that are carried at fair value. Non-interest expense increased to $14.1 million in 2007 as compared to $13.2 million in 2006. This increase is attributable to increases in all expense categories required to support the continued growth of the bank.

The increase in net income from 2005 to 2006 resulted primarily from an increase in the level of average earning assets of $44.0 million, which was partially offset by a decrease in the net interest margin from 3.30% in 2005 compared to 3.27% in 2006. Earning assets averaged $393.9 million in 2005 as compared to $437.9 million in 2006. Non-interest income increased from $3.3 million in 2005 to $4.4 million in 2006 due to increased deposit service charges resulting from higher account balances as well as the introduction of an Overdraft Protection in the fourth quarter of 2005. In addition, in 2006 we had net losses on the securities of $69,000 as compared to gains of $188,000 in 2005. Non-interest expense increased to $13.2 million in 2006 as compared to $11.8 million in 2005. This increase is attributable to expenses of the former DeKalb Bancshares being included in the 2006 operations for approximately six months. In addition, increased occupancy expense resulted from the move to a new 29,000 square foot operations center in July 2006.

Net Interest Income

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

Net interest income totaled $15.3 million in 2007, $14.3 million in 2006 and $13.0 million in 2005. The yield on earning assets, which was 5.42% in 2005, increased to 6.22% and 6.50% in 2006 and 2007, respectively. The rate paid on interest-bearing liabilities was 2.37% in 2005, 3.34% in 2006 and 3.81% in 2007. The fully taxable equivalent net interest margin was 3.44% in 2005, 3.36% in 2006 and 3.29% in 2007. The continued decrease in net interest margin in 2007 as compared to 2006 was a result of a smaller rise in average yields on interest earning assets relative to the rise in the average cost of interest-bearing liabilities. Our loan to deposit ratio on average during 2007 was 73.4%, as compared to

64.8% in 2006 and 59.8% during 2005. Loans typically provide a higher yield than other types of earning assets and thus one of our goals continues to be to grow the loan portfolio as a percentage of earning assets which should improve the overall yield on earning assets and the net interest margin. At December 31, 2007, the loan to deposit ratio had increased to 76.4%.

The flat yield curve throughout much the first half of 2007 as well as an increasing competitive deposit and lending environment were significant contributors to the decline in the net interest margin. The yield on earning assets increased by 28 basis points in 2007 as compared to 2006, whereas the cost of interest-bearing funds increased by 47 basis points during the same period. The higher increase in the cost of funds as compared to yield on interest earning assets was due to an increase in our funding cost on time deposits. Approximately, 84.4% of our time deposits reprice within 12 months. The short end of the yield curve declined in the latter half of 2007 but the competitive pricing environment within our market kept rates on these deposits high in comparison to the yield curve decline. The average cost of time deposits was 4.77% in 2007 as compared to 4.18% and 2.89% in 2006 and 2005, respectively. The average borrowed funds to total interest bearing-liabilities in 2007 was 19.6%, as compared to 17.0% and 19.2% in 2006 and 2005, respectively. Longer term borrowed funds typically have a higher interest rate than our mix of deposit products. Our average cost of borrowed funds for 2007 was 4.80% as compared to 4.70% and 3.84% in 2006 and 2005, respectively.

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

	Year ended December 31,								
	2007			2006			2005		
(In thousands)	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Assets									
Earning assets									
Loans	$ 296,991	$ 22,243	7.49%	$ 249,209	$ 18,613	7.47%	$ 202,143	$ 13,608	6.73%
Securities	172,269	8,326	4.83%	175,145	7,891	4.51%	184,057	7,465	4.06%
Other short-term investments (2)	6,819	386	5.67%	13,543	741	5.47%	7,670	271	
Total earning assets	476,079	30,955	6.50%	437,897	27,245	6.22%	393,870	21,344	5.42%
Cash and due from banks	10,530			10,170			10,456		
Premises and equipment	20,518			19,211			14,710		
Intangible assets	30,079			29,603			27,320		
Other assets	19,824			17,945			15,404		
Allowance for loan losses	(3,416)			(3,002)			(2,774)		
Total assets	$ 553,614			$ 511,824			$ 458,986		
Liabilities									
Interest-bearing liabilities									
Interest-bearing transaction accounts	$ 51,491	215	0.42%	$ 58,099	305	0.52%	$ 55,289	187	0.34%
Money market accounts	41,908	1,315	3.14%	48,399	1,547	3.20%	41,615	829	1.99%
Savings deposits	25,799	180	0.70%	29,108	209	0.72%	31,988	214	0.67%
Time deposits	211,411	10,084	4.77%	185,653	7,768	4.18%	156,131	4,513	2.89%
Other borrowings	80,656	3,872	4.80%	65,815	3,093	4.70%	67,941	2,606	3.84%
Total interest-bearing liabilities	411,265	15,666	3.81%	387,074	12,922	3.34%	352,964	8,349	2.37%
Demand deposits	73,752			63,167			52,964		
Other liabilities	.5,013			.4,378			2,536		
Shareholders' equity	63,584			57,205			50,522		
Total liabilities and shareholders' equity	$ 553,614			$ 511,824			$ 458,986		
Net interest spread			2.69%			2.88%			3.05%
Net interest income/margin		$ 15,289	3.21%		$ 14,323	3.27%		$ 12,995	3.30%
Net interest margin (tax equivalent)			3.29%			3.36%			3.44%

(1)

All loans and deposits are domestic. Average loan balances 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.

	2007 versus 2006			2006 versus 2005		
	Increase (decrease) due to			Increase (decrease) due to		
(In thousands)	Volume	Rate	Net	Volume	Rate	Net
Assets						
Earning assets						
Loans	$ 3,578	$ 52	$ 3,630	$ 3,404	$ 1,600	$ 5,004
Investment securities	(131)	566	435	(330)	757	427
Other short-term investments	(380)	25	(355)	274	196	470
Total earning assets	2,597	1,113	3,710	2,538	3.363	5,901
Interest-bearing liabilities						
Interest-bearing transaction accounts	(44)	(46)	(90)	10	108	118
Money market accounts	(204)	(28)	(232)	152	566	718
Savings deposits	(23)	(6)	(29)	(26)	21	(5)
Time deposits	1,153	1,163	2,316	967	2,288	3,255
Other short-term Borrowings	711	68	779	(79)	565	487
Total interest-bearing liabilities	717	2,027	2,744	870	3,702	4,573
Net interest income			$ 966			$ 1,328

Market Risk and Interest Rate Sensitivity

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

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

The following table illustrates our interest rate sensitivity at December 31, 2007.

Interest Sensitivity Analysis

(In thousands)	Within One Year	One to Three Years	Three to Five Years	Over Five Years	Total
Assets					
Earning assets					
Loans (1)	$ 146,217	$ 81,738	$ 63,464	$ 18,009	$ 309,428
Securities (2)	67,964	31,501	13,605	65,893	178,963
Federal funds sold, securities purchased under agreements to resell and other earning assets	4,242				4,242
Total earning assets	218,423	113,239	77,069	83,902	492,633
Liabilities					
Interest bearing liabilities					
Interest bearing deposits					
NOW accounts	12,479	21,879	7,293	7,293	48,944
Money market accounts	30,982	8,111			39,093
Savings deposits	7,281	10,195	3,398	3,398	24,272
Time deposits	174,906	31,319	3,705	4,104	214,034
Total interest-bearing deposits	225,648	71,504	14,396	14,795	326,343
Other borrowings	39,522	27,984	70	22,245	89,821
Total interest-bearing liabilities	265,170	99,488	14,466	37,040	416,164
Period gap	$ (46,747)	$ 13,751	$ 62,603	$ 46,862	$ 76,469
Cumulative gap	$ (46,747)	$ (32,996)	$ 29,607	$ 76,469	$ 76,469
Ratio of cumulative gap to total earning assets	(9.49)%	(6.60)%	6.01%	15.52%	15.52%

(1) Loans classified as non-accrual as of December 31, 2007 are not included in the balances.

(2) Securities based on amortized cost.

At December 31, 2007, we had entered into interest rate cap and floor agreements with a notional amount of $10.0 million each. The cap rate of interest is 4.50% three month LIBOR and the floor rate of interest is 5.00% three month LIBOR. The fair value of the agreements at December 31, 2007 were $458,000. These agreements were entered into to protect assets and liabilities from the negative effects of volatility in interest rates. The agreements provide for a payment to the bank of the difference between the cap/floor rate of interest and the market rate of interest. The bank's exposure to credit risk is limited to the ability of the counterparty to make potential future payments required pursuant to the agreement. The bank's exposure to market risk of loss is limited to the market value of the cap and floor. The market value of the cap was $28,000 and the floor market value was $429,000 at December 31, 2007. Any gain or loss on the value of these contracts are recognized in earnings on a current basis. The bank received payments under the terms of the cap contract in the amount $92,000 and $49,000 during the year ended December 31, 2007 and 2006, respectively. No payments were received in on the cap contract in 2005. No payments were received under the terms of the floor contract in 2007 and 2006. The bank recognized $178,000, $18,409 and $37,897 in other income to reflect the increase in the value of the contracts for the years ended December 31, 2007, 2006 and 2005, respectively. The cap agreement and floor agreement expire on August 1, 2009 and August 31, 2011, respectively.

Through simulation modeling, we monitor the effect that an immediate and sustained change in interest rates of 100 basis points and 200 basis points up and down will have on net-interest income over the next 12 months. Based on the many factors and assumptions used in simulating the effect of changes in interest rates, the following table estimates the hypothetical percentage change in net interest income at December 31, 2007 and 2006 over the subsequent 12 months. Even though we are liability sensitive the model at December 31, 2007 reflects a decrease in net interest income in a declining rate environment. This primarily results from the current level of interest rates being paid on our interest bearing transaction accounts as well as money market accounts. The interest rates on these accounts are at a level where they can not be repriced in proportion to the change in interest rates. The increase and decrease of 100 and 200 basis points assume a simultaneous and parallel change in interest rates along the entire yield curve.

Net Interest Income Sensitivity

	Hypothetical percentage change in net interest income December 31,	
Change in short-term interest rates	**2007**	**2006**
+200bp	-0.67%	-2.73%
+100bp	+0.35%	-1.19%
Flat		
-100bp	-2.75%	-0.79%
-200bp	-7.07%	-4.16%

We also perform a valuation analysis projecting future cash flows from assets and liabilities to determine the Present Value of Equity (PVE) over a range of changes in market interest rates. The sensitivity of PVE to changes in interest rates is a measure of the sensitivity of earnings over a longer time horizon. At December 31, 2007 and 2006 the PVE, exposure in a plus 200 basis point increase in market interest rates was estimated to be 15.39% and 9.92%, respectively.

Provision and Allowance for Loan Losses

At December 31, 2007, the allowance for loan losses amounted to $3.5 million, or 1.14% of total loans, as compared to $3.2 million, or 1.17% of total loans, at December 31, 2006. Our provision for loan loss was $492,000 for the year ended December 31, 2007 as compared to $528,000 and $329,000 for the years ended December 31, 2006 and 2005, respectively. The provision is made based on our assessment of general loan loss risk and asset quality. The allowance for loan losses represents an amount which we believe will be adequate to absorb probable losses on existing loans that may become uncollectible. Our judgment as to the adequacy of the allowance for loan losses is based on a number of assumptions about future events, which we believe to be reasonable, but which may or may not prove to be accurate. Our determination of the allowance for loan losses is based on evaluations of the collectability of loans, including consideration of factors such as the balance of impaired loans, the quality, mix, and size of our overall loan portfolio, economic conditions that may affect the borrower's ability to repay, the amount and quality of collateral securing the loans, our historical loan loss experience, and a review of specific problem loans. We also consider subjective issues such as changes in the lending policies and procedures, changes in the local/national economy, changes in volume or type of credits, changes in volume/severity of problem loans, quality of loan review and board of director oversight and concentrations of credit. Periodically, we adjust the amount of the allowance based on changing circumstances. We charge recognized losses to the allowance and add subsequent recoveries back to the allowance for loan losses.

We perform an analysis quarterly to assess the risk within the loan portfolio. The portfolio is segregated into similar risk components for which historical loss ratios are calculated and adjusted for identified changes in current portfolio characteristics. Historical loss ratios are calculated by product type and by regulatory credit risk classification. The allowance consist of an allocated and unallocated allowance. The allocated portion is determined by types and ratings of loans within the portfolio. The unallocated portion of the allowance is established for losses that exist in the remainder of the portfolio and compensates for uncertainty in estimating the loan losses.

There can be no assurance that charge-offs of loans in future periods will not exceed the allowance for loan losses as estimated at any point in time or that provisions for loan losses will not be significant to a particular accounting period. The allowance is also subject to examination and testing for adequacy by regulatory agencies, which may consider such factors as the methodology used to determine adequacy and the size of the allowance relative to that of peer institutions. Such regulatory agencies could require us to adjust our allowance based on information available to them at the time of their examination.

At December 31, 2007, 2006, and 2005, we had non-accrual loans in the amount of $600,000, $449,000 and $101,000 respectively. Nonaccrual loans at December 31, 2007 consisted of 11 loans one in the amount of $285,000 which has subsequently been sold with no additional loss. The other ten loans, the largest of which is $75,000, are all secured by real estate. We have reappraised the collateral on each of these loans and have written them down to their estimated fair value. It is not anticipated that we will incur any material losses on these loans.

There were $324,000, $1.6 million, and $387,000 in loans delinquent greater than 30 days at December 31, 2007, 2006 and 2005, respectively. There were $501,000, $22,000 and $34,000 in loans greater than 90 days delinquent and still accruing interest at December 31, 2007, 2006 and 2005, respectively. The increase in the loans delinquent 90 days and still accruing relates primarily to two loans totaling $453,000. Both of these are single family residential properties. One of these in the amount of $167,000 has been sold subsequent to year end with no loss of principal or interest. The second in the amount of $286,000 had a loan to value of approximately 46.0% and was listed for sale at December 31, 2007. The property is located on the coast of South Carolina where property has been selling at a slower pace in recent months and property values have declined. This property has been listed for sale and an offer was received in the first quarter of 2008. The seller subsequently decided they were not willing to accept the offer that was presented. Based on these circumstances and the fact that it will take additional time to sell the property, this loan has subsequently been placed in a non-accrual status. The offer that was received was in excess of our current loan balance and we do not anticipate any principal loss on this loan.

Our management continuously monitors non-performing, classified and past due loans to identify deterioration regarding the condition of these loans. We identified 4 loans in the amount of $569,000 which are current as to principal and interest and not included in non-performing assets but that could be potential problem loans.

Allowance for Loan Losses

(Dollars in thousands)	2007	2006	2005	2004	2003
Average loans outstanding	$ 296,991	$ 249,209	$ 202,143	$ 141,793	$ 111,928
Loans outstanding at period end	$ 310,028	$ 275,189	$ 221,668	$ 186,771	$ 121,009
Total nonaccrual loans	$ 600	$ 449	$ 101		$ 80
Loans past due 90 days and still accruing	$ 501	$ 22	$ 34	$ 80	$ 109
Beginning balance of allowance	$ 3,215	$ 2,701	$ 2,764	$ 1,705	$ 1,525
Loans charged-off:					
1-4 family residential mortgage	320	97	119	5	27
Home equity	32		274		
Commercial	28	142	56	196	157
Installment & credit card	102	53	72	93	51
Overdrafts	140	153			
Total loans charged-off	622	445	521	294	235
Recoveries:					
1-4 family residential mortgage	80	2			
Home equity	5				
Commercial	281	59	99	90	247
Installment & credit card	15	20	30	23	1
Overdrafts	64	30			
Total recoveries	445	111	129	113	248
Net loans charged off (recovered)	177	334	392	181	(13)
Provision for loan losses	492	528	329	245	167
Purchased in acquisition		320		995	
Balance at period end	$ 3,530	$ 3,215	$ 2,701	$ 2,764	$ 1,705
Net charge-offs to average loans	0.06%	0.13%	0.19%	0.13%	(0.01)%
Allowance as percent of total loans	1.14%	1.17%	1.22%	1.48%	1.41%
Non-performing loans as % of total loans	.19%	.16%	.05%		0.07%
Allowance as % of non-performing loans	588.33%	716.04%	2674.26%		2131.25%

The following table presents an allocation of the allowance for loan losses at the end of each of the past four years. The allocation is calculated on an approximate basis and is not necessarily indicative of future losses or allocations. The entire amount is available to absorb losses occurring in any category of loans. Prior to December 31, 2003, we did not allocate the allowance to loan losses to categories of loans but rather evaluated the allowance on an overall portfolio basis. The change as of

December 31, 2003 to allocating the allowance to loan losses to loan categories had no financial statement effect on the allowance for loan losses.

Allocation of the Allowance for Loan Losses

	2007		2006		2005		2004		2003	
Dollars in thousands	**Amount**	**% of loans in category**	**Amount**	**% of loans in category**	**Amount**	**% of loans in category**	**Amount**	**% of loans in category**	**Amount**	**% of loans in category**
Commercial, Financial and Agricultural	$ 129	8.7%	$ 83	8.6%	$ 574	10.0%	$ 462	10.2%	$ 285	9.5%
Real Estate Construction	343	9.1%	884	11.4%	611	9.0%	348	4.3%	214	6.4%
Real Estate Mortgage:										
Commercial	1,989	55.8%	1,692	50.5%	953	50.9%	1,285	51.8%	792	60.1%
Residential	553	16.8%	323	17.4%	275	16.8%	478	19.0%	293	9.8%
Consumer	198	9.6%	133	12.1%	213	13.3%	135	14.7%	85	14.2%
Unallocated	318	N/A	100	N/A	75	N/A	56	N/A	36	N/A
Total	$ 3,530	100.0%	$ 3,215	100.0%	$ 2,701	100.0%	$ 2,764	100.0%	$ 1,705	100.0%

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

Noninterest Income and Expense

Noninterest Income. Our primary source of noninterest income is service charges on deposit accounts. In addition, we originate mortgage loans that are pre-sold and funded by the third party acquirer, for which we receive a fee. Other sources of noninterest income are derived from commissions on sale of non-deposit investment products, bankcard fees, ATM/debit card fees, commissions on check sales, safe deposit box rent, wire transfer and official check fees. Noninterest income for the year ended December 31, 2007 was $5.0 million as compared to $4.4 million for 2006, an increase of $617,000, or 14.0%. Deposit service charges increased from $2.4 million in 2006 to $2.7 million in 2007. This increase is due primarily to increased deposit service charges resulting from higher average deposit account balances as well as certain adjustments in our deposit service charge fees during 2007. Mortgage Origination Fees as well as Commissions on the Sale of non-deposit products were relatively stable between 2007 as compared to 2006. During 2007, we sold securities in the amount of $13.9 million that resulted in net gains of $49,000. We sold the investments in 2007 to restructure certain investments within the portfolio that had small balances or relatively short maturities. The funds received were used to pay down overnight advances and purchase other securities with a longer maturity. In the first quarter of 2006, we sold securities that resulted in a loss of $69,000. The proceeds from the sale of the securities were used to pay down $5.0 million in FHLB advances resulting in a gain on the early extinguishment of debt of $159,000. We had favorable adjustments in financial instruments carried at fair value of $168,000 in 2007 as compared to $68,000 in 2006. See Note 14 to the financial statements for a detailed analysis of the assets and liabilities carried at fair value. "Other" non-interest income increased $234,000 from $1.1 million in 2006 to $1.3 million in

2007. This increase is primarily attributable to an increase in ATM/debit card fees of $182,000. ATM/debit card fees were $375,000 in 2006 as compared to $557,000 in 2007.

Noninterest income amounted to $4.4 million in 2006 as compared to $3.3 million in 2005, an increase of $1.1 million (33.3%). During the fourth quarter of 2005, we introduced a formalized overdraft privilege program, which contributed to the increase in deposit service charges in 2006 as compared 2005. Deposit service charges amounted to $2.4 million in 2006 as compared to $1.5 million in 2005. Mortgage origination fees increased to $450,000 in 2006 as compared to $362,000 in 2005. This increase resulted from continued historically low mortgage interest rates as well as the addition of one full time and one part-time originator in the last half of 2005 and another full time originator was added as a result of the DeKalb acquisition in June 2006. In the first quarter of 2006, we sold securities that resulted in a loss of $69,000. The proceeds from the sale of the securities were used to pay down $5.0 million in FHLB advances resulting in a gain on the early extinguishment of debt of $159,000. This compares to gains on the sale of securities in the amount of $181,000 that were recognized in the first quarter of 2005 as we continued to restructure the investment portfolio acquired from DutchFork. A gain on the early extinguishment of debt in the amount of $124,000 was realized in the fourth quarter of 2005. This also resulted from the pay down of approximately $5.0 million of the FHLB advances. Commissions on the sale of non-deposit investment products increased to $321,000 in 2006 as compared to $230,000 in 2005. This increase results from emphasis on this source of income through branch referrals as well as additional calling efforts. Other noninterest income increased to $1.1 million in 2006 as compared to $931,000 in 2005. This is a result of all categories of other noninterest income increasing, including loan late charges increasing by $11,000, ATM/debit card fees and surcharges by $147,000 and income from increases in value of bank owned life insurance of approximately $47,000. The increases in loan late charges and ATM/debit card fees and surcharges are a result of the continued growth of the bank. In July 2006, we purchased an additional $3.5 million in bank owned life insurance which resulted in the increase in this source of income in 2006 as compared to 2005.

Noninterest Expense. In the very competitive financial services industry, we recognize the need to place a great deal of emphasis on expense management and continually evaluate and monitor growth in discretionary expense categories in order to control future increases. Over the last five years we have expanded our branch network and completed two acquisitions. The first acquisition was completed in October 2004 when we acquired DutchFork Bancshares located in Newberry, South Carolina. The second acquisition was completed in June 2006 when we acquired Dekalb Bankshares in Camden, South Carolina. In July 2006, construction was completed and we occupied our new 29,000 square foot administrative center. As a result of management's expansion strategy and the move into the new administrative center all categories of non-interest expense have continued to increase over the last several years. Due to the rapid growth over the last several years, during the fourth quarter of 2006 and first quarter 2007 we introduced two initiatives that impacted the 2007 results. We began to hire additional personnel specifically Retail Bankers, in many of our offices to increase our lending capacity and to continue to focus on core deposit growth. In addition, in December 2006 we engaged a consulting firm to assist in identifying process efficiency improvements, expense control opportunities and non-interest income enhancements. We felt that these two initiatives along with an overall evaluation of our infrastructure would position us to continue to seek de novo branch expansion as well as possible acquisition opportunities in key markets within South Carolina if opportunities present themselves sometime in the future.

Noninterest expense increased to $14.1 million for the year ended December 31, 2007 from $13.2 million for the year ended December 31, 2006. Salary and employee benefits increased $414,000 in 2007 as compared to 2006. We added approximately 8 employees in connection with the merger with DeKalb. These employees were included in operations for a full year in 2007 and approximately seven months during 2006. In the last quarter of 2006, as part of the initiatives discussed in the previous paragraph, we hired an additional five retail bankers within the branch offices. These positions along with the employees that were retained as a result of the DeKalb merger are the primary reason for the increase in salary and benefits in 2007 as compared to 2006. Occupancy expense increased $214,000 from $946,000 in 2006 to $1.2 million in 2007. The increase is primarily a result of the increased expense associated with the administrative center and the Camden branch being included for the entire year of 2007 whereas only for five months and seven months, respectively in 2006. Marketing expenses increased $130,000 in 2007 as compared to 2006. This increase is a result of increasing the amount of television advertising in our markets in 2007 as compared to previous years. ATM/Debit card processing costs are primarily associated with third party processor supporting our network of ATM machines as well as processing ATM and Debit card activity. The expense related to these activities increased $82,000 as a result of the increased activity and numbers of outstanding cards. Supplies and telephone expense decreased by $53,000 and $20,000 primarily as a result of some one-time charges incurred in 2006 relative to our acquisition of The Bank of Camden. Professional fees increased from $833,000 in 2006 to $903,000 in 2007. The increase results primarily from the cost of the consulting engagement discussed previously which were partially offset by fees paid in 2006 for implementing an overdraft privilege program. In 2007, we also incurred approximately $26,000 in consulting fees relative to implementing compliance with Sarbanes Oxley Act of 2002. The Securities and Exchange Commission has granted an extension for the independent attestation report on internal controls until December 31, 2009. There will be continued cost incurred relative to complying with the requirements of Section 404 into 2008 and beyond. Amortization of intangibles increased approximately $33,000, which is a result of amortization of the core deposit premium associated with the DeKalb merger for an entire year in 2007 as compared to seven months in 2006.

Noninterest expense increased to $13.2 million for the year ended December 31, 2006 from $11.8 million for the year ended December 31, 2005. Salary and employee benefits increased $594,000 million in 2006 as compared to 2005. As previously discussed, we added approximately 8 employees in connection with the merger with DeKalb. These employees were included in operations for approximately seven months during 2006. In addition, there were approximately six new full time positions added to the bank during 2006. These new employees were hired to support the continued growth of the bank. Occupancy expense increased $139,000 from $807,000 in 2005 to $946,000 in 2006. The increase is primarily a result of the increased expense associated with the administrative center and the Camden branch for approximately five months and seven months, respectively. The expense related ATM/debit card processing activities increased $66,000 as a result of the increased activity and numbers of outstanding cards. Telephone expense increased $90,000 as result of enhancements to our data network and the addition of the Camden branch. Professional fees increased from $415,000 in 2005 to $833,000 in 2006. This increase results primarily from the expense associated with the implementation of the overdraft privilege program. Expenses in 2006 related to implementing this program were approximately $290,000. Ongoing professional expenses related to this program after 2006 are not anticipated to be significant. Professional fees in 2006 also include approximately $180,000 for consulting services relative to the investment portfolio. Amortization of intangibles increased approximately $42,000, which is a result of amortization of the core deposit premium associated with the DeKalb merger. The core deposit premium acquired in this merger amounted to $522,000 and is being amortized on a straight-line basis over seven years.

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

	Year ended December 31,		
(In thousands)	2007	2006	2005
Salary and employee benefits	$ 7,301	$ 6,887	$ 6,292
Occupancy	1,160	946	807
Equipment	1,270	1,241	1,246
Marketing and public relations	459	329	337
ATM/debit card processing	347	265	199
Supplies	218	271	262
Telephone	361	381	291
Correspondent services	157	169	167
Insurance	278	255	246
Professional fees	903	833	415
Postage	196	168	164
Amortization of intangibles	670	637	595
Other	805	861	817
	$ 14,125	$ 13,243	$ 11,838

In accordance with regulations adopted to implement the Federal Deposit Insurance Reform Act of 2005 ("FDIRA"), deposit insurance premium assessments are based upon perceived risks to the DIF, by evaluating an institution's supervisory ratios and other financial ratios and then determining insurance premiums based upon the institutions risk profile. Most financial institutions began paying deposit insurance premium in 2007 under this legislation. As a result of our acquisition of DutchFork Bancshares (formerly a SAIF insured institution), we had a credit that offset our premiums throughout 2007. Without the existing credit, our premiums would have been approximately $240,000 (6 basis point on deposits). In 2008, the balance of the credit will be utilized and it is estimated that the total premiums we will pay will be approximately $225,000.

Income Tax Expense

Income tax expenses for the year ended December 31, 2007 were $1.7 million or 30.3% of income before taxes, as compared to $1.5 million, or 29.3% of income before taxes, for the year ended December 31, 2006. Income taxes for 2005 were $1.0 million, or 25.0% of income before taxes. We recognize deferred tax assets for future deductible amounts resulting from differences in the financial statement and tax bases of assets and liabilities and operating loss carry forwards. A valuation allowance is then established to reduce the deferred tax asset to the level that it is more likely than not that the tax benefit will be realized. There are no valuation allowances established for deferred taxes as of December 31, 2007 and 2006. The increase in the effective tax rate in 2007 over 2006 and 2006 over 2005 is primarily a result of the decrease in the percentage of tax exempt income from municipal bonds and preferred stock dividends in relation to net income before taxes. As of December 31, 2007, we hold bank qualified municipal bonds with a book value of $10.8 million, preferred stock of $14.0 million and bank owned life insurance with a book value of $9.6 million. These holdings will continue to reduce the company's effective tax rate in future periods.

Financial Position

Total assets at December 31, 2007 were $565.6 million as compared to $548.1 million at December 31, 2006. Average earning assets increased to $476.1 million during 2007 from $437.9 million during 2006. Asset growth included growth in loans of $34.8 million during 2007. Loans at

December 31, 2006 were $275.2 as compared to $310.0 million at December 31, 2007. Investment securities were $175.2 at December 31, 2007 as compared to $176.5 million at December 31, 2006. Securities sold under agreements to repurchase decreased by $13.5 million at December 31, 2007 as compared to December 31, 2006. The increase in loans was primarily funded by the decrease in federal funds sold and an increase in Federal Home Loan Bank advances. Federal Home Loan Bank advances increased by $21.1 million as of December 31, 2007 compared to December 31, 2006. Shareholders' equity totaled $63.9 million at December 31, 2007 as compared to $63.2 million at December 31, 2006. The increase was a result of retained earnings of $3.1 million, proceeds from issuance of stock under stock option plans and the dividend reinvestment plan of $900,000. These increases were offset by the repurchase of common stock totaling $2.0 million and a cumulative adjustment to initially apply FASB Statement No. 159. In 2006 the Board of Directors approved a stock repurchase plan to repurchase up to 150,000 shares. The Board has subsequently approved increases to the plan allowing up to a total of 250,000 to be repurchased. In 2006, we repurchased 70,100 for $1.3 million and in 2007, 119,713 shares were repurchased for $2.0 million.

As of January 1, 2007, we elected early adoption of Statement of Financial Accounting Standards No. 159 ("SFAS 159") "The Fair Value Option for Financial Assets and Financial Liabilities". We reclassified certain corporate structured securities, which did not contain an interest rate floor, from the "available-for-sale" category to the "trading" category. The reclassification resulted in a cumulative adjustment to reduce retained earnings in the amount of $560,000 as of January 1, 2007. Changes in the "fair value" of assets or liabilities classified under the fair value option in accordance with SFAS 159 are recognized in earnings on a going forward basis. The carrying value of securities reclassified under SFAS 159 as of January 1, 2007 amounted to $3.3 million. Prior to adoption of SFAS 159 we had not maintained any investment securities in a trading account. With the ability to classify both financial assets and liabilities under the fair value option on an instrument by instrument basis, we believe this standard can provide an opportunity to assist us in managing the impact of interest rate volatility in the future. See Note 3 of the financial statements for disclosures applicable to SFAS 159.

Earning Assets

Loans. Loans typically provide higher yields than the other types of earning assets, and thus one of our goals is to have loans be the largest category of our earning assets. During 2007, loans accounted for 62.4% of average earning assets as compared to 56.9% of average earning assets in 2006. The 5.5% increase in the ratio during 2006 demonstrates progress towards our asset mix goals. The growth of the loan portfolio both in total dollars and as a percentage of total earning assets will continues to be a major focus into 2008 and thereafter. Associated with the higher loan yields are the inherent credit and liquidity risks, which we attempt to control and counterbalance. We are committed to achieving our asset mix goals without sacrificing asset quality. Loans averaged $297.0 million during 2007, as compared to $249.2 million in 2006.

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

(In thousands)	December 31, 2007	2006	2006	2004	2003
Commercial, financial & agricultural	$ 26,912	$ 23,595	$ 22,091	$ 19,001	$ 11,518
Real estate:					
Construction	28,141	31,474	19,955	8,066	7,782
Mortgage residential	52,018	47,950	37,251	35,438	11,804
Mortgage commercial	173,173	138,886	112,915	96,811	72,668
Consumer	29,784	33,284	29,456	27,455	17,237
Total gross loans	310,028	275,189	221,668	186,771	121,009
Allowance for loan losses	(3,530)	(3,215)	(2,701)	(2,764)	(1,705)
Total net loans	$ 306,498	$ 271,974	$ 218,967	$ 184,007	$ 119,304

In the context of this discussion, a real estate mortgage loan is defined as any loan, other than loans for construction purposes, secured by real estate, regardless of the purpose of the loan. We follow the common practice of financial institutions in the company's market area of obtaining a security interest in real estate whenever possible, in addition to any other available collateral. This collateral is taken to reinforce the likelihood of the ultimate repayment of the loan and tends to increase the magnitude of the real estate loan components. Generally, we limit the loan-to-value ratio to 80%. The principal components of our loan portfolio, at year-end 2007 and 2006, were commercial mortgage loans in the amount of $173.2 million and $138.9 million, representing 55.9% and 50.5% of the portfolio, respectively. Significant portions of these commercial mortgage loans are made to finance owner-occupied real estate. We continue to maintain a conservative philosophy regarding our underwriting guidelines, and believe it will reduce the risk elements of the loan portfolio through strategies that diversify the lending mix.

The repayment of loans in the loan portfolio as they mature is a source of liquidity. The following table sets forth the loans maturing within specified intervals at December 31, 2007.

Loan Maturity Schedule and Sensitivity to Changes in Interest Rates

(In thousands)	December 31, 2007 One Year or Less	Over One Year Through Five Years	Over Five Years	Total
Commercial, financial & agricultural	$ 10,189	$ 15,451	$ 1,272	$ 26,912
Real estate construction	24,064	4,077		28,141
All other loan	51,290	131,022	72,663	254,975
	$ 85,543	$ 150,550	$ 73,935	$ 310,028
Loans maturing after one year with:				
Fixed interest rates				$ 177,983
Floating interest rates				46,502
				$ 224,485

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

Investment Securities

The investment securities portfolio is a significant component of our total earning assets. Total securities averaged $172.3 million in 2007, as compared to $175.1 million in 2006. This represents 36.2% and 40.0% of the average earning assets for the year ended December 31, 2007 and 2006, respectively. At December 31, 2007, the portfolio was 35.8% of earning assets.

At December 31, 2007 we had mortgage backed securities including collateralized mortgage obligations (CMO's) with a fair value of $91.4 million. Of these $61.8 million were issued by government sponsored enterprises and $29.6 million are by other issuers. We believe that none of the CMOs held at December 31, 2007 are deemed to be invested in "high risk" tranches. Prior to acquiring a CMO, we perform a detailed analysis of the changes in value and the impact on cash flows in a changing interest rate environment to ensure that it meets our investment objectives as outlined in our investment policies.

During the last half of 2007 the bond markets and many institutional holders of bonds came under a great deal of stress partially as a result of increasing delinquencies in the sub-prime mortgage lending market. As previously stated we own approximately $29.6 million of collateralized mortgage obligations that are not issued by government sponsored enterprises. Although these are not classified as sub-prime obligations or considered the "high risk" tranches the majority of "structured" investments within all credit markets have been impacted by volatility and credit concerns. The result has been that the market for these investments has become less liquid and the spread as compared to alternative investments has widened dramatically. We have performed a detailed analysis of each of the CMO pools that we hold including a review of the underlying loan delinquencies, collateral value and resulting credit support. As of December 31, 2007 we have not identified any CMO's that we believe have probable losses as a result of credit defaults. We will continue to monitor each of these pools on a quarterly basis to identify any deterioration in the credit quality, collateral values and credit support underlying the investments. To a lesser extent the same concerns discussed have also impacted mortgage backed securities issued by government sponsored enterprises (GSE's) such as FHLMC and FNMA. The result has been increased spreads on these investments. These entities have also experienced increasing delinquencies in the underlying loans that make up the mortgage backed securities and CMO's. As of December 31, 2007 and 2006, all of the mortgage backed securities issued by GSE's and others are classified as "Available for Sale." Unrealized losses on these investments are not considered to be "other than temporary" and we have the intent and ability to hold these until they mature or recover our current book value. As discussed under "Liquidity Management", we continue to maintain substantial liquidity which supports our intent and ability to hold these investments until they mature.

At December 31, 2007, we also had investments in variable rate preferred stock issued by the Federal Home Loan Mortgage Corporation (FHLMC) with a fair value of $10.9 million, and book value of $14.2 million which were acquired in the DutchFork transaction. In addition, we acquired other fixed and variable rate preferred stocks issued by FHLMC and FNMA in the DutchFork transaction. During the fourth quarter of 2004, we sold approximately $33.0 million primarily fixed rate, preferred stock securities. As a result of marking the securities to market at the date of acquisition, substantially no gain or loss on those transactions was recognized in 2004. In the first quarter of 2005, we sold preferred stock securities with an approximate carrying value of $12.0 million. A gain of approximately $136,000 was realized in the first quarter of 2005 on these sales. During 2006, we sold preferred stock with a carrying value of approximately $17.1 million for a net gain of approximately $9,000. At December 31, 2007, the remaining preferred stock securities owned have an average book value of 85% of their par value. The remaining FHLMC preferred stock securities have adjustable rates. There have been no significant downgrades in the credit rating of the issuer.

As with the discussion relative to mortgage backed securities and CMO's the market for these preferred securities have been impacted by the current credit and liquidity concerns in the overall bond market. As a result of the current economic cycle the Federal Home Loan Mortgage Corporation recently issued additional preferred stock to enhance their capital levels. These fixed rate securities were issued at a yield significantly higher than the yield currently being realized on our FHLMC holdings. As the issues regarding subprime lending and credit concerns become clearer and uncertainty diminishes, we believe that the preferred stock securities will undergo some level of spread tightening particularly in relation to the recent current fixed rate issue. As a result of the current economic concerns the fair value of our holdings have been impacted. In the first half of 2007, our holdings traded at a level in excess of our current carrying value on several occasions and within a much narrower range of our carrying value up until the current overall market concerns became prevalent in the news. Since that time the issue has traded in a wide range from approximately $30.85 per share to $39.85 per share. Our current carrying value is $43.75 per share with a par value of $50.00 per share. As previously stated our holdings are variable rate in nature and reprice every five years. We believe that given the adjustable rate nature of our securities, the dividend rate will adjust to a level more in line with current or future interest rates at a preset time in the future. The Company's investments in preferred stock issued by the Federal Home Loan Mortgage Corporation (FHLMC) have no contractual maturity. Therefore, the ability to hold these securities by itself does not provide evidence that a decline in market value is other than temporary. The Company's unrealized losses in its preferred stock investments are not considered impaired on an other-than-temporary basis. The Company will continue to consider whether it has the ability and intent to hold these investments until a market price recovery and whether evidence indicating the cost of these investments is recoverable outweighs evidence to the contrary.

Our objective in the management of the investment portfolio is to maintain a portfolio of high quality, liquid investments. This policy is particularly important as we continue to emphasize increasing the percentage of the loan portfolio to total earning assets. At December 31, 2007, the estimated weighted average life of the portfolio was 7.9 years, duration of approximately 3.7 years, and a weighted average tax equivalent yield of approximately 5.14%. Based on our evaluation of securities that currently have unrealized losses, and our ability and intent to hold these investments until a recovery of fair value, we do not consider any of the investments to be other-than-temporarily impaired at December 31, 2007.

The carrying value of securities reclassified under SFAS 159 as of January 1, 2007 amounted to $3.3 million. Prior to adoption of SFAS 159, we had not maintained any investment securities in a trading account.

The following table shows the investment portfolio composition.

	December 31,		
(In thousands)	**2007**	**2006**	**2005**
Trading Securities at fair value			
Mortgage-backed securities	$ 2,876	$	$
	2,876		
Securities available-for-sale at fair value:			
U.S. Treasury	1,022	1,004	$ 992
U.S. Government sponsored enterprises	45,873	56,660	57,479
Mortgage-backed securities	91,382	79,426	69,794
State and local government	4,476	4,481	253
FHLMC preferred stock	10,927	14,005	28,214
Corporate bonds	5,788	8,792	8,607
Other	1,440	1,459	1,344
	160,908	165,827	166,683
Securities held-to-maturity (amortized cost):			
State and local government	6,257	6,429	5,654
Other	60	60	60
	6,317	6,489	5,714
Total	$ 170,101	$ 172,316	$ 172,397

We hold other investments carried at cost which includes stock in the Federal Reserve Bank of Richmond and the Federal Home Loan Bank of Atlanta. These investments amounted to $5.2 million, $4.2 million and $4.0 million at December 31, 2007, 2006 and 2005, respectively.

Investment Securities Maturity Distribution and Yields

The following table shows, at carrying value, the scheduled maturities and average yields of securities held at December 31, 2007.

	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years	
(In thousands)	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**
Held-to-maturity:								
State and local government	$ 2,117	4.04%	$ 2,983	3.79%	$ 1,157	4.00%	$	
Other			10	6.57%	50	4.91%		
Total investment securities held-to-Maturity	2,117	4.04%	2,993	3.87%	1,207	4.04%		
Available-for-sale:								
U.S. treasury			1,022	5.12%				
Government sponsored enterprises	14,298	4.71%	20,536	4.38%	5,027	5.17%	6,012	5.41%
Mortgage-backed securities	1,087	4.15%	46,110	5.08%	23,108	5.76%	21,077	5.68%
State and local government			452	4.00%	1,523	4.05%	2,501	4.20%
FHLMC preferred stock							10,927	4.43%
Corporate			961	7.85%	2,366	4.84%	2,461	4.59%
Other							1,440	3.73%
Total investment securities available-for-sale	15,385	4.67%	69,081	4.83%	32,024	5.52%	44,418	5.13%
Total investment securities	$ 17,502	4.60%	$ 72,074	4.79%	$ 33,231	5.46%	$ 44,418	5.13%

Short-Term Investments

Short-term investments, which consist of federal funds sold, securities purchased under agreements to resell and interest bearing deposits, averaged $6.8 million in 2007, as compared to $13.5 million in 2006. At December 31, 2007, short- term investments totaled $4.2 million. These funds are a primary source of liquidity and are generally invested in an earning capacity on an overnight basis.

Deposits and Other Interest-Bearing Liabilities

Deposits. Average deposits were $404.4 million during 2007, compared to $384.4 million during 2006. Average interest-bearing deposits were $330.6 million in 2007, as compared to $321.3 million in 2006.

The following table sets forth the deposits by category:

	December 31,					
	2007		2006		2005	
(In thousands)	**Amount**	**% of Deposits**	**Amount**	**% of Deposits**	**Amount**	**% of Deposits**
Demand deposit accounts	$ 79,508	19.6%	$ 73,676	17.8%	$ 57,327	16.4%
NOW accounts	48,944	12.0%	64,043	15.4%	60,756	17.4%
Money market accounts	39,094	9.6%	50,799	12.2%	45,582	13.0%
Savings accounts	24,272	6.0%	26,135	6.3%	29,819	8.5%
Time deposits less than $100,000	122,436	30.2%	119,083	28.7%	100,612	28.8%
Time deposits more than $100,000	91,600	22.6%	81,205	19.6%	55,508	15.9%

	December 31,					
	$ 405,854	100.0%	$ 414,941	100.0%	$ 349,604	100.0%

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Core deposits, which exclude certificates of deposit of $100,000 or more, provide a relatively stable funding source for the loan portfolio and other earning assets. Core deposits were $314.3 million and $337.7 million at December 31, 2007 and 2006, respectively. A stable base of deposits is expected to continue be the primary source of funding to meet both our short-term and long-term liquidity needs in the future. The maturity distribution of time deposits is shown in the following table.

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

	December 31, 2007				
(In thousands)	Within Three Months	After Three Through Six Months	After Six Through Twelve Months	After Twelve Months	Total
Certificates of deposit of $100,000 or more	$ 25,170	$ 20,483	$ 27,431	$ 18,516	$ 91,600

There were no other time deposits of $100,000 or more at December 31, 2007.

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 deposits obtained through brokers. These brokered deposits can be unreliable as long-term funding sources. Accordingly, we do not currently accept brokered deposits.

Borrowed funds. Borrowed funds consist of securities sold under agreements to repurchase, Federal Home Loan Bank advances and long-term debt as a result of issuing $15.0 million in trust preferred securities. Short-term borrowings in the form of securities sold under agreements to repurchase averaged $26.3 million, $19.1 and $11.0 million during 2007, 2006 and 2005, respectively. The maximum month-end balance during 2007, 2006 and 2005 was $29.0 million, $24.7 million and $14.9 million, respectively. The average rate paid during these periods was 4.36%, 3.90% and 3.38%, respectively. The balance of securities sold under agreements to repurchase were $23.3 million and $19.5 million at December 31, 2007 and 2006, respectively. The repurchase agreements all mature within one to four days and are generally originated with customers that have other relationships with the company and tend to provide a stable and predictable source of funding. As a member of the Federal Home Loan Bank of Atlanta (FHLB Atlanta) the bank has access to advances from the FHLB Atlanta for various terms and amounts. During 2007 and 2006, the average outstanding advances amounted to $38.7 million and $31.1 million, respectively.

The following is a schedule of the maturities for Federal Home Loan Bank Advances as of December 31, 2007 and 2006:

	December 31,			
	2007		2006	
(In thousands) Maturing	Amount	Rate	Amount	Rate
2008	$		1,954	3.79%
2010	26,383	3.64%	26,853	3.64%
2011	500	5.15%	500	5.35%
After five years	22,416	1.00%	450	1.00%
	$ 49,299	3.64%	29,758	3.64%

We have one advance not included in the above table that we are carrying at fair value in accordance with SFAS 159. The advance is in the amount of $1.5 million and at December 31, 2007 had a fair value of $1.532 million. The advance matures on June 12, 2009 and has a fixed rate of interest of 5.56%.

Purchase premiums included in advances acquired in the merger with DutchFork reflected in the advances maturing in 2010 amount to $1.4 million and $1.9 million at December 31, 2007 and 2006, respectively. The coupon rate on these advances is 5.76%. In addition to the above borrowings, we issued $15.0 million in trust preferred securities on September 16, 2004. The securities accrue and pay distributions quarterly at a rate of LIBOR plus 257 basis points. The debt may be redeemed in full anytime after September 16, 2009 with notice and matures on September 16, 2034.

Capital Adequacy

Total shareholders' equity as of December 31, 2007 was $64.0 million as compared to $63.2 million as of December 31, 2006. This increase was attributable to retained net income for the year ended December 31, 2007 of $3.1 million, the issuance of shares in the dividend reinvestment plan and upon the exercise of stock options valued at $900,000. Offsetting this increase was an increase in net unrealized loss of $1.2 million net of tax effect in the market value of investment securities available-for sale and the repurchase of 120,000 shares at a total price of $2.0 million pursuant to a stock repurchase program we instituted during the third quarter of 2006 authorizing the repurchase of up to 150,000 shares of our common stock. The authorized number of shares to be repurchased has subsequently been increased the Board of Directors to 250,000. During the first quarter of 2007, we paid a quarterly dividend of $0.06 per share. For the last three quarters of 2007, our dividend was $0.07 per share. In 2006, we paid a quarterly cash dividends of $.05 per share in the first quarter and $.06 per share in the subsequent three quarters. Dividends were paid in 2005 at a rate of $0.05 per share throughout the year. A dividend reinvestment plan was implemented in the third quarter of 2003. The plan allows existing shareholders the option of reinvesting cash dividends as well as making optional purchases of up to $5,000 in the purchase of common stock per quarter.

The following table shows the return on average assets (net income divided by average total assets), return on average equity (net income divided by average equity), and equity to assets ratio (average equity divided by average total assets) for the three years ended December 31, 2007.

	2007	2006	2005
Return on average assets	0.72%	0.68%	0.67%
Return on average equity	6.24%	6.12%	6.12%
Equity to assets ratio	11.31%	11.53%	10.86%

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 4%, but this minimum ratio is increased by 100 to 200 basis points for other than the highest-rated institutions. The trust preferred securities in the amount of $15.0 million that were issued on September 16, 2004 qualify as tier 1 capital under the regulatory guidelines and are included in the amounts reflected below.

The company and the bank exceeded their regulatory capital ratios at December 31, 2007 and 2006, as set forth in the following table.

Analysis of Capital (In thousands)	**Required Amount**	**%**	**Actual Amount**	**%**	**Excess Amount**	**%**
The Bank:						
December 31, 2007						
Risk Based Capital						
Tier 1	$ 14,794	4.00%	$ 47,400	12.8%	$ 32,606	8.8%
Total Capital	29,589	8.00%	50,930	13.8%	21,341	5.8%
Tier 1 Leverage	21,675	4.00%	47,400	8.8%	25,725	4.4%
December 31, 2006						
Risk Based Capital						
Tier 1	$ 14,009	4.0%	$ 43,039	12.3%	29,031	8.3%
Total Capital	28,018	8.0%	46,254	13.2%	18,236	5.2%
Tier 1 Leverage	20,266	4.0%	43,039	8.5%	22,773	4.5%
The Company:						
December 31, 2007						
Risk Based Capital						
Tier 1	$ 14,827	4.00%	$ 50,644	13.7%	$ 35,811	9.7%
Total Capital	29,654	8.00%	54,174	14.6%	24,520	6.6%
Tier 1 Leverage	21,752	4.00%	50,644	9.3%	28,892	5.3%
December 31, 2006						
Risk Based Capital						
Tier 1	$ 14,030	4.0%	$ 47,238	13.5%	$ 33,208	9.5%
Total Capital	28,060	8.0%	50,453	14.4%	22,393	6.4%
Tier 1 Leverage	20,343	4.0%	47,238	9.3%	26,895	5.3%

Liquidity Management

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

With the successful completion of the common stock offering in 1995, the secondary offering completed in 1998, the trust preferred offering completed in September 2004, the acquisition of DutchFork in October 2004 and the acquisition of DeKalb in June 2006, the company has maintained a high level of liquidity and adequate capital, along with continued retained earnings, sufficient to fund the operations of the bank for at least the next 12 months. The company's management anticipates that the bank will remain a well capitalized institution for at least the next 12 months. Shareholders' equity was 11.3% of total assets at December 31, 2007 and 11.5% at December 31, 2006. Funds sold and short-term interest bearing deposits are our primary source of liquidity and averaged $6.8 million and $13.5 million during the year ended December 31, 2007 and 2006, respectively. The bank maintains federal funds purchased lines, in the amount of $10.0 million each with two financial institutions, although these were not utilized in 2007. 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 securities and or eligible loans. We regularly review the liquidity position of the company and have implemented internal policies establishing guidelines for sources of asset based liquidity and limit the total amount of purchased funds used to support the balance sheet and funding from non core sources. We believe that our existing stable base of core deposits along with continued growth in this deposit base will enable us to meet our long term liquidity needs successfully.

CONTRACTUAL OBLIGATIONS

The following table provides payments due by period for various contractual obligations as of December 31, 2007

	Payments Due by Period					
(in thousands)	**Within One Year**	**Over One to Two Years**	**Over Two to Three Years**	**Over Three to Five Years**	**After Five Years**	**Total**
Certificate accounts	$ 174.749	$ 19,080	$ 12,396	$ 3,705	$ 4,105	$ 214,035
Short-term borrowings	23,524					23,524
Long-term debt			26,383	500	38,334	65,217
Purchases						
Total contractual obligations	$ 198,273	$ 19,080	$ 38,779	$ 4,205	$ 42,439	$ 302,776

Off-Balance Sheet Arrangements

In the normal course of operations, we engage in a variety of financial transactions that, in accordance with generally accepted accounting principles, are not recorded in the financial statements, or are recorded in amounts that differ from the notional amounts. These transactions involve, to varying degrees, elements of credit, interest rate, and liquidity risk. Such transactions are used by the company for general corporate purposes or for customer needs. Corporate purpose transactions are used to help manage credit, interest rate, and liquidity risk or to optimize capital. Customer transactions are used to manage customers' requests for funding. Please refer to Note 15 of the company's financial statements for a discussion of our off-balance sheet arrangements.

Impact of Inflation

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Please refer to "Market Risk and Interest Rate Sensitivity," "Loan Maturity Schedule and Sensitivity to Changes in Interest Rates," "Investment Securities Majority Distribution and Yields" in Item 6 for quantitative and qualitative disclosures about market risk, which information is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data.

Additional information required under this Item 8 may be found under the Notes to Financial Statements under Note 21.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

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

Our management assessed the effectiveness of our internal controls over financial reporting as of December 31, 2007. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-Integrated Framework.

Based on that assessment, we believe that, as of December 31, 2007, our internal control over financial reporting is effective based on those criteria.

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

/s/ Michael C. Crapps	/s/ Joseph G. Sawyer
Michael C. Crapps *Chief Executive Officer and President*	Joseph G. Sawyer *Senior Vice President and Chief Financial Officer;*

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
First Community Corporation
Lexington, South Carolina

We have audited the accompanying consolidated balance sheets of First Community Corporation and subsidiary (the Company) as of December 31, 2007 and 2006 and the related consolidated statements of income, changes in shareholders' equity and comprehensive income (loss), and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Community Corporation and subsidiary at December 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We were not engaged to examine management's assertion about the effectiveness of First Community Corporation's internal control over financial reporting as of December 31, 2007 included in the accompanying Management's Report on Internal Control Over Financial Reporting and, accordingly, we do not express an opinion thereon.

/s/ Elliott Davis, LLC

Elliott Davis, LLC
Columbia, South Carolina
March 20, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
First Community Corporation
Lexington, South Carolina

I have audited the consolidated statement of income, shareholders' equity and comprehensive income, and cash flows of First Community Corporation for the year ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these consolidated financial statements based on my audits.

I conducted the audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of First Community Corporation for the year ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

/s/ Clifton D. Bodiford

Clifton D. Bodiford
Certified Public Accountant
Columbia, South Carolina
January 13, 2006

FIRST COMMUNITY CORPORATION

Consolidated Balance Sheets

	December 31, 2007	December 31, 2006
ASSETS		
Cash and due from banks	$ 9,439,159	$ 10,021,781
Interest-bearing bank balances	48,196	47,786
Federal funds sold and securities purchased under agreements to resell	4,194,276	17,745,404
Investment securities available for sale	160,908,253	165,826,683
Investment securities held to maturity (market value of $6,360,733 and $6,509,148 at December 31, 2007 and 2006, respectively)	6,316,570	6,488,796
Trading securities	2,876,086	
Other investments, at cost	5,156,595	4,207,795
Loans	310,028,490	275,188,567
Less, allowance for loan losses	3,530,328	3,214,624
Net loans	306,498,162	271,973,943
Property, furniture and equipment net	19,701,466	20,960,332
Bank owned life insurance	9,919,728	9,606,657
Goodwill	27,761,219	27,761,219
Core deposit intangible net	1,983,280	2,652,917
Other assets	10,809,810	10,762,430
Total assets	$ 565,612,800	$ 548,055,743
LIABILITIES		
Deposits:		
Non-interest bearing demand	$ 79,508,510	$ 73,676,415
NOW and money market accounts	88,038,360	114,842,382
Savings	24,272,030	26,134,834
Time deposits less than $100,000	122,435,709	119,082,462
Time deposits $100,000 and over	91,599,759	81,205,314
Total deposits	405,854,368	414,941,407
Securities sold under agreements to repurchase	23,334,200	19,472,580
Federal Home Loan Bank Advances	49,299,478	29,757,545
Federal Home Loan Bank Advances, at fair value	1,532,541	
Junior subordinated debt	15,464,000	15,464,000
Other borrowed money	190,386	148,886
Other liabilities	5,942,207	5,063,674
Total liabilities	501,617,180	484,848,092
SHAREHOLDERS' EQUITY		
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 3,211,011 in 2007 and 3,264,608 in 2006	3,211,011	3,264,608
Additional paid in capital	48,616,512	49,695,346
Retained earnings	14,564,054	12,033,065
Accumulated other comprehensive income (loss)	(2,395,957)	(1,785,368)
Total shareholders' equity	63,995,620	63,207,651

	December 31,	
Total liabilities and shareholders' equity	$ 565,612,800	$ 548,055,743

See Notes to Consolidated Financial Statements

FIRST COMMUNITY CORPORATION

Consolidated Statements of Income

	Year Ended December 31,		
	2007	**2006**	**2005**
Interest income:			
Loans, including fees	$ 22,243,261	$ 18,612,615	$ 13,607,962
Investment securities taxable	7,892,720	7,554,554	7,233,836
Investment securities non taxable	433,142	336,373	230,676
Other short term investments	386,423	741,406	271,276
Total interest income	30,955,546	27,244,948	21,343,750
Interest expense:			
Deposits	11,794,273	9,828,817	5,743,340
Securities sold under agreement to repurchase	1,118,867	804,532	275,738
Other borrowed money	2,752,878	2,288,344	2,330,252
Total interest expense	15,666,018	12,921,693	8,349,330
Net interest income	15,289,528	14,323,255	12,994,420
Provision for loan losses	491,975	528,124	328,679
Net interest income after provision for loan losses	14,797,553	13,795,131	12,665,741
Non-interest income:			
Deposit service charges	2,722,224	2,390,053	1,462,111
Mortgage origination fees	407,102	450,437	361,856
Commission on sale non deposit products	356,478	321,308	229,888
Gain (loss) on sale of securities	49,438	(68,962)	188,419
Gain on early extinguishment of debt		159,416	124,436
Fair value gain (loss) adjustments	167,547	67,658	37,898
Other	1,314,640	1,080,997	893,309
Total non-interest income	5,017,429	4,400,907	3,297,917
Non-interest expense:			
Salaries and employee benefits	7,300,976	6,886,509	6,292,239
Occupancy	1,159,831	945,561	807,258
Equipment	1,270,358	1,240,943	1,245,577
Marketing and public relations	458,750	329,173	337,481
Amortization of intangibles	669,637	636,529	594,741
Other	3,265,862	3,203,899	2,561,091
Total non-interest expense	14,125,414	13,242,614	11,838,387
Net income before tax	5,689,568	4,953,424	4,125,271
Income taxes	1,724,980	1,452,225	1,032,600
Net income	$ 3,964,588	$ 3,501,199	$ 3,092,671
Basic earnings per common share	$ 1.23	$ 1.13	$ 1.09

	Year Ended December 31,		
Diluted earnings per common share	$ 1.21	$ 1.10	$ 1.04

See Notes to Consolidated Financial Statements

FIRST COMMUNITY CORPORATION

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

	Number Shares Issued	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total
Balance December 31, 2004	2,788,902	$ 2,788,902	$ 41,832,090	$ 6,712,849	$ (871,152)	$ 50,462,689
Comprehensive income:						
Net income				3,092,671		3,092,671
Accumulated other comprehensive loss, net of income tax benefit of $1,443,352					(2,680,511)	
Less: reclassification adjustment for gains included in net income, net of tax of $65,946					(122,472)	
Other comprehensive loss					(2,802,983)	(2,802,983)
Comprehensive income:						289,688
Cash dividend ($0.20 per share)				(565,432)		(565,432)
Exercise of stock options	52,845	52,845	399,814			452,659
Dividend reinvestment plan	6,880	6,880	120,301			127,181
Balance December 31, 2005	2,848,627	2,848,627	42,352,205	9,240,088	(3,674,135)	50,766,785
Comprehensive income:						
Net income				3,501,199		3,501,199
Accumulated other comprehensive income, net of income tax of $1,006,146					1,843,666	
Plus: reclassification adjustment for loss included in net income, net of tax of '$23,864					45,101	
Other comprehensive income					1,888,767	1,888,767
Comprehensive income:						5,389,966
Cash dividend ($0.23 per share)				(708,222)		(708,222)
Stock issued in acquisition	364,034	364,034	7,212,859			7,576,893
Repurchase of common stock	(70,100)	(70,100)	(1,183,990)			(1,254,090)
Exercise of stock options	112,932	112,932	1,164,478			1,277,410
Dividend reinvestment plan	9,115	9,115	149,794			158,909
Balance December 31, 2006	3,264,608	3,264,608	49,695,346	12,033,065	(1,785,368)	63,207,651
Comprehensive income:						
Net income				3,964,588		3,964,588
Cumulative adjustment to initially apply FASB Statement No. 159				(559,678)	559,678	
Accumulated other comprehensive loss, net of income tax benefit of $606,178					(1,137,629)	
Less: reclassification adjustment for gain included in net income, net of tax benefit of $16,800					(32,638)	
Other comprehensive loss					(1,170,267)	(1,170,267)
Comprehensive income:						2,794,321

	Number Shares Issued	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total
Cash dividend ($0.27 per share)				(873,921)		(873,921)
Repurchase of common stock	(119,713)	(119,713)	(1,912,905)			(2,032,618)
Exercise of stock options	54,230	54,230	660,692			714,922
Dividend reinvestment plan	11,886	11,886	173,379			185,265
Balance December 31, 2007	3,211,011	$ 3,211,011	$ 48,616,512	$ 14,564,054	$ (2,395,957)	$ 63,995,620

See Notes to Consolidated Financial Statements

FIRST COMMUNITY CORPORATION

Consolidated Statements of Cash Flows

	Year Ended December 31,		
	2007	**2006**	**2005**
Cash flows from operating activities:			
Net income	$ 3,964,588	$ 3,501,199	$ 3,092,671
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation	1,139,716	1,000,804	926,776
Premium amortization (Discount accretion)	(716,912)	(457,553)	(345,763)
Provision for loan losses	491,975	528,124	328,679
Amortization of intangibles	669,637	636,529	594,741
Gain on sale of property and equipment			(29,983)
(Gain) loss on sale of securities	(49,438)	68,962	(188,418)
Net increase in fair value option instruments and derivatives	(167,546)		
Gain on early extinguishment of debt		(159,416)	(124,436)
(Increase) decrease in other assets	479,641	270,071	(693,657)
Increase in accounts payable	878,534	938,647	591,691
Net cash provided by operating activities	6,690,195	6,327,367	4,152,301
Cash flows from investing activities:			
Proceeds from sale of securities available-for-sale	13,873,917	21,241,484	39,071,729
Purchase of investment securities available-for-sale	(46,309,630)	(34,671,451)	(51,368,761)
Maturity/call of investment securities available-for-sale	31,269,723	27,050,486	27,267,768
Purchase of investment securities held-to-maturity		(800,000)	(50,000)
Maturity/call of investment securities held-to-maturity	148,686		325,000
Purchase of investment securities held-for-trading	(3,098,097)		
Maturity of investment securities held-for-trading	252,518		
Proceeds from sale of securities held-for-trading	3,463,665		
Increase in loans	(34,835,911)	(27,179,342)	(35,288,308)
Net cash disbursed in business combination		(1,229,598)	
Proceeds from sale of property and equipment	318,000		401,733
Purchase of bank owned life insurance		(3,500,000)	
Purchase of property and equipment	(198,850)	(3,366,410)	(2,595,715)
Net cash used in investing activities	(35,115,979)	(22,454,831)	(22,236,554)
Cash flows from financing activities:			
Increase (decrease) in deposit accounts	(9,087,039)	38,035,208	12,539,867
Advances from the Federal Home Loan Bank	45,000,000	9,000,000	19,580,000
Repayment of advances from the Federal Home Loan Bank	(25,017,285)	(18,078,829)	(26,752,661)
Advances from the Federal Home Loan Bank fair value option	1,500,000		
Increase (decrease) in securities sold under agreements to repurchase	3,861,620	2,668,250	6,256,500
Increase (decrease) in other borrowings	41,500	(20,347	