

FIRST COMMUNITY CORP /SC/
Form S-4/A
July 12, 2017

As filed with the Securities and Exchange Commission on July 12, 2017

Registration No. 333-218564

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1

to

FORM S-4

REGISTRATION STATEMENT

UNDER THE SECURITIES ACT OF 1933

FIRST COMMUNITY CORPORATION

(Exact name of registrant as specified in its charter)

South Carolina	6022	57-1010751
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

5455 Sunset Blvd.

Lexington, South Carolina 29072

(803) 951-2265

(Address, including zip code, and telephone number,
including area code, of registrant's principal executive offices)

Michael C. Crapps

President and Chief Executive Officer

First Community Corporation

5455 Sunset Blvd.

Lexington, South Carolina 29072

(803) 951-2265

(Name, address, including zip code, and telephone number,
including area code of agent for service)

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(864) 250-2207

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Approximate date of commencement of the proposed sale of the securities to the public: As soon as practicable after the effectiveness of this registration statement and the satisfaction or waiver of all other conditions to the merger described in the proxy statement/prospectus.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer)
Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer)

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to Section 8(a), may determine.

The information in this proxy statement/prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This proxy statement/prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Preliminary—Subject to Completion Dated July 12, 2017

PROXY STATEMENT/PROSPECTUS

Prospectus of First Community Corporation Proxy Statement of Cornerstone Bancorp

PROPOSED MERGER OF

FIRST COMMUNITY CORPORATION

AND CORNERSTONE BANCORP – YOUR VOTE IS VERY IMPORTANT

To the Shareholders of Cornerstone Bancorp:

On behalf of the boards of directors of First Community Corporation (“First Community”) and Cornerstone Bancorp (“Cornerstone”), we are pleased to deliver our proxy statement/prospectus for a merger involving First Community and Cornerstone, with First Community as the surviving corporation.

Cornerstone will hold a special meeting of Cornerstone shareholders on September 19, 2017 at 4:00 p.m., at the main office of Cornerstone at 1670 East Main Street, Easley, South Carolina 29640. At the special meeting, you will be asked to vote on (1) the merger of Cornerstone with and into First Community described in more detail herein, and (2) the approval of a proposal to adjourn the special meeting, if necessary or appropriate, to allow time to solicit additional proxies to approve the merger agreement.

If the merger is completed, each outstanding share of Cornerstone common stock will be exchanged for either \$11.00 in cash or 0.54 shares of First Community common stock or a combination of cash and shares. Each shareholder of Cornerstone will have the opportunity to elect to receive cash, First Community common stock or a combination of cash and First Community common stock in exchange for the shareholder’s Cornerstone shares. Elections by Cornerstone shareholders will, however, be prorated if necessary so that in the aggregate 70% of Cornerstone’s non-dissenting shares of common stock will be converted into the right to receive shares of First Community common

stock and 30% will be converted into the right to receive the cash consideration.

The value of the First Community shares to be issued in the merger will fluctuate between now and the closing date of the merger. First Community common stock is listed on The NASDAQ Capital Market under the symbol "FCCO". Based on the \$20.30 closing price per share of First Community common stock on The NASDAQ Capital Market on July 7, 2017, the latest practicable date before mailing out this proxy statement/prospectus, the equivalent value of the merger consideration per share of Cornerstone common stock (assuming a 70/30 stock-cash mixed election) was approximately \$10.97, and the aggregate merger consideration was approximately \$25,469,163. **We urge you to obtain current market quotations for First Community common stock because the value of the First Community shares to be issued in the merger will fluctuate.**

As of July 14, 2017, the record date for the Cornerstone special meeting of shareholders, there were 2,320,991 shares of Cornerstone common stock outstanding and entitled to vote at the special meeting. Based on such outstanding Cornerstone common stock, if the merger is approved, First Community will issue an aggregate of 877,334 shares of its common stock to holders of Cornerstone common stock upon completion of the merger.

We cannot complete the merger unless we obtain approval of shareholders of Cornerstone common stock at the special meeting and the necessary regulatory agency approvals. **Your vote is important.** Whether or not you plan to attend the special shareholders' meeting, please take the time to vote as soon as possible.

This document serves as the proxy statement for the special meeting of Cornerstone shareholders and a prospectus for the offering and issuance of approximately 877,334 shares of First Community common stock to be issued to holders of Cornerstone common stock in the merger, and it includes important information about the proposed merger, the companies participating in the merger, and the agreement and plan of merger. **We encourage you to read this entire document carefully, including the "Risk Factors" section beginning on page 18.**

Cornerstone's board of directors has determined that the merger is in the best interests of Cornerstone and its shareholders, has approved the merger agreement and the transactions contemplated thereby, and recommends that Cornerstone common shareholders vote "FOR" the merger and "FOR" the motion to adjourn the special meeting if necessary or appropriate to do so.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued under this proxy statement/prospectus or determined if this proxy statement/prospectus is accurate or adequate. Any representation to the contrary is a criminal offense. The shares of First Community common stock to be issued in the merger are not savings or deposit accounts or other obligations of any bank or non-bank subsidiary of either of our companies, and they are not insured by the Federal Deposit Insurance Corporation, the Deposit Insurance Fund, or any other governmental agency.

This proxy statement/prospectus is dated _____, 2017, and is first being mailed to shareholders of Cornerstone on or about July 31, 2017.

CORNERSTONE BANCORP

1670 E. Main Street

Easley, South Carolina 29640

(864) 306-1444

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

TO BE HELD ON SEPTEMBER 19, 2017

To the shareholders of Cornerstone Bancorp:

A special meeting of shareholders of Cornerstone Bancorp (“Cornerstone”) will be held at the main office of Cornerstone, 1670 E. Main Street, Easley, South Carolina, 29640 on Tuesday, September 19, 2017 at 4:00 p.m., local time, for the following purposes:

To consider and vote upon a proposal to approve the Agreement and Plan of Merger dated as of April 11, 2017, by and between First Community Corporation and Cornerstone under which Cornerstone will be merged with and into First Community Corporation. A copy of the merger agreement is attached to the accompanying proxy statement/prospectus as Appendix A.

To consider and vote on a proposal to authorize the board of directors to adjourn the special meeting, if necessary or appropriate, to allow time for further solicitation of proxies in the event there are insufficient votes present at the special meeting, in person or by proxy, to approve the merger agreement.

3. To transact any other business as may properly come before the meeting or any adjournment or postponement.

Only shareholders of record of Cornerstone common stock at the close of business on July 14, 2017 will be entitled to notice of and to vote at the special meeting and at any adjournment or postponement at the special meeting. A complete list of these shareholders will be available at Cornerstone’s offices prior to the meeting. Although holders of Cornerstone Series A Preferred Stock are being given notice of the special meeting as required by the South Carolina Business Corporation Act, holders of the preferred stock are not entitled to vote at the meeting.

Holders of Cornerstone common stock who comply with the provisions of South Carolina law relating to dissenters' rights applicable to the merger are entitled to assert dissenters' rights under the South Carolina dissenters' rights law, a copy of which is attached as Appendix B to the attached proxy statement/prospectus.

Your vote is very important. Whether or not you plan to attend the special meeting, we encourage you to vote as soon as possible. If you hold your shares of record in your name, you can vote by telephone, through the Internet, or by signing, dating and mailing your proxy card in the envelope enclosed. Telephone and Internet voting permits you to vote at your convenience, 24 hours a day, seven days a week. Detailed voting instructions are included on your proxy card. If you hold your shares of record in your name, you may also attend the special meeting and vote in person. If your shares are held in "street name," please follow the instructions provided by your broker or other nominee to vote your shares. If your shares are held in street name and you wish to attend the special meeting and vote in person, you must present proof of ownership and appropriate voting documents from your broker or other nominee. If you hold your shares of record in your name, you may change or revoke your proxy at any time before it is voted by giving written notice of revocation to Cornerstone's Corporate Secretary, or by filing a properly executed proxy of a later date with Cornerstone's Corporate Secretary, at or before the meeting, or by attending and voting your shares in person at the meeting. If your shares are held in street name, you may change or revoke your voting instructions by submitting new voting instructions to your broker or other nominee as specified in your broker or other nominee's instructions.

Cornerstone's Board of Directors has approved and adopted the merger agreement and the transactions it contemplates, and has determined that the merger is in the best interests of Cornerstone and its shareholders. **CORNERSTONE'S BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT CORNERSTONE SHAREHOLDERS VOTE "FOR" THE PROPOSALS ABOVE.**

We do not know of any other matters to be presented at the special meeting but if other matters are properly presented, the persons named as proxies will vote on such matters at their discretion.

By Order of the Board of Directors

/s/ J. Rodger Anthony

J. Rodger Anthony

President and Chief Executive Officer

Easley, South Carolina
, 2017

WHERE YOU CAN FIND MORE INFORMATION

First Community is subject to the information requirements of the Securities Exchange Act of 1934 (the “Exchange Act”), which means that it is required to file certain reports, proxy statements, and other business and financial information with the Securities and Exchange Commission (“SEC”). You may read and copy any materials that First Community files with the SEC at the Public Reference Room of the SEC at 100 F. Street N.E., Washington, D.C. 20549. You may also obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website at <http://www.sec.gov> where you can access reports, proxy, information and registration statements, and other information regarding registrants that file electronically with the SEC. Such filings are also available free of charge at First Community’s website at <https://www.firstcommunitysc.com/> under the “Investors” heading. Except as specifically incorporated by reference into this document, information on First Community’s website or filed with the SEC is not part of this document.

First Community has filed a registration statement on Form S-4, of which this document forms a part. As permitted by SEC rules, this document does not contain all of the information included in the registration statement or in the exhibits or schedules to the registration statement. You may read and copy the registration statement, including any amendments, schedules and exhibits, at the addresses set forth below. Statements contained in this document as to the contents of any contract or other documents referred to in this document are not necessarily complete. In each case, you should refer to the copy of the applicable contract or other document filed as an exhibit to the registration statement. This document incorporates by reference documents that First Community has previously filed, and that it may file through the date of the special meeting of Cornerstone shareholders, with the SEC. They contain important information about the company and its financial condition. For further information, please see the section entitled “Incorporation of Certain Documents by Reference.” These documents are available without charge to you upon written or oral request to First Community’s principal executive offices. The address and telephone numbers of such principal executive office are listed below.

First Community Corporation

5455 Sunset Blvd.

Lexington, South Carolina 29072

Attention: Joseph G. Sawyer

Executive Vice President and Chief Financial Officer

To obtain timely delivery of these documents, you must request the information no later than September 11, 2017, in order to receive them before Cornerstone’s special meeting of shareholders.

First Community common stock is traded on The NASDAQ Capital Market under the symbol “FCCO.”

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APPENDIX A Agreement and Plan of Merger

APPENDIX B South Carolina Statutes for Dissenters' Rights

APPENDIX C Fairness Opinion of Raymond James & Associates, Inc.

APPENDIX D Unaudited Consolidated Financial Information of First Community Corporation

APPENDIX E Cornerstone Bancorp Consolidated Financial Statements

QUESTIONS AND ANSWERS ABOUT THE MERGER AND THE SPECIAL MEETING

The following are some questions that you may have regarding the merger and the special shareholders' meeting, and brief answers to those questions. We urge you to carefully read the remainder of this proxy statement/prospectus and the appendices and documents incorporated herein by reference because the information in this section does not provide all the information that might be important to you with respect to the merger and the special shareholders' meeting.

Q: Why am I receiving this proxy statement/prospectus?

First Community and Cornerstone have agreed to the merger of Cornerstone with and into First Community, pursuant to the terms of the merger agreement that is described in this proxy statement/prospectus. A copy of the merger agreement is included as Appendix A to these materials. Cornerstone Bank will be merged with and into **A:** First Community Bank as soon as practicable following the merger. The mergers cannot be completed unless, among other things, two-thirds of the outstanding shares of Cornerstone's common stock vote in favor of the proposal to approve the merger agreement. Accordingly, Cornerstone shareholders are being asked to vote at the special meeting on approval of the merger agreement.

Cornerstone shareholders will also be asked to vote on a proposal to adjourn the Cornerstone special meeting, if necessary or appropriate, to allow time to solicit additional proxies in favor of the proposal to approve the merger agreement, if there are insufficient votes at the time of such adjournment to approve such proposal.

We are sending you this proxy statement/prospectus because the Cornerstone board is soliciting your proxy to vote your shares at the special meeting. It also serves as First Community's prospectus with respect to the shares of First Community common stock First Community will issue to Cornerstone shareholders in connection with the merger. This document contains important information about the merger and the other proposal being voted on at the Cornerstone special meeting, and you should carefully read it, together with the appendices and the information incorporated by reference.

Q: When and where will the special meeting be held?

A: The special meeting of shareholders of Cornerstone shareholders will be held on Tuesday, September 19, 2017, at 4:00 p.m., at the main office of Cornerstone, 1670 East Main Street, Easley, South Carolina 29640.

Q: Who is entitled to vote at the special meeting?

A: Only Cornerstone common shareholders of record at the close of business on July 14, 2017, the record date, are entitled to notice of and to vote at the special meeting and any adjournment thereof.

Q: What am I being asked to vote on, and how does the board recommend that I vote?

Holders of Cornerstone common stock are being asked to vote “**FOR**” the approval of the merger agreement that provides for the merger of Cornerstone with and into First Community. The board of directors of Cornerstone unanimously adopted the merger agreement, determined that the merger is in the best interests of the Cornerstone shareholders, and recommends that Cornerstone shareholders vote “**FOR**” approval of the merger agreement. In

A: addition, Cornerstone shareholders are being asked to grant authority to Cornerstone’s board of directors to adjourn the special shareholders’ meeting to allow time for further solicitation of proxies in the event there are insufficient votes present at the special shareholders’ meeting, in person or by proxy, to approve the merger agreement. Cornerstone shareholders are being asked to vote “**FOR**” approval of the adjournment proposal.

Q: What vote is required to approve each proposal?

Approval of the merger agreement requires the affirmative vote of two-thirds of the outstanding shares of Cornerstone common stock entitled to vote at the special meeting. Approval of the adjournment proposal requires that the number of shares voted at the special meeting, in person or by proxy, in favor of the proposal exceed the number of shares voted against the proposal.

Q: Why is my vote important?

The merger agreement must be approved by the affirmative vote of the holders of two-thirds of the outstanding shares of Cornerstone common stock. Accordingly, if a Cornerstone shareholder fails to vote on the merger agreement, or does not instruct his or her broker how to vote any shares held for him or her in “street name,” it will have the same effect as a vote against the merger agreement.

Q: Why is Cornerstone merging with First Community?

Cornerstone is merging with First Community because the boards of directors of both companies believe that the merger will provide shareholders of both companies with substantial benefits and will enable the combined company to better serve its customers. The combined company would have an increased presence in the upstate region of South Carolina. A detailed discussion of the background of and reasons for the proposed merger is contained under the headings “Background of the Merger,” “Cornerstone’s Reasons for the Merger; Recommendation of the Cornerstone Board of Directors,” and “First Community’s Reasons for the Merger,” under “Proposal No. 1—The Merger.”

Q: What will I receive in the merger?

Each share of Cornerstone common stock can be exchanged for either: (i) \$11.00 in cash; (ii) 0.54 shares of First Community common stock; or (iii) a combination of cash and shares of First Community common stock.

However, a shareholder’s receipt of the exact form of consideration he or she elects is subject to the limitation that in total, 30% of Cornerstone’s non-dissenting shares of common stock outstanding will be exchanged for cash, and 70% of Cornerstone’s non-dissenting shares of common stock outstanding will be exchanged for shares of First Community common stock. If the cash or stock consideration elected by all shareholders exceeds either the 30% cash or 70% stock limitation, the exchange agent will prorate the cash and stock consideration shareholders receive.

First Community will not issue fractional shares in the merger. Instead, you will receive a cash payment, without interest, for the value of any fraction of a share of First Community common stock that you would otherwise be entitled to receive. The method for determining the value of a fractional share is described on page 44 of this proxy statement/prospectus.

Each outstanding share of First Community common stock will remain outstanding after the merger.

Q: How do I elect to receive cash, stock, or a combination of both for my Cornerstone common stock?

A: A joint election form/letter of transmittal will be sent to you shortly after the effective time of the merger, which will include instructions and the deadline date for making your election as to the form of consideration you prefer to receive in the merger. The election form will permit you to elect to receive cash, First Community common stock, or a combination of cash and First Community common stock for your shares of Cornerstone common stock, subject to the limitations on total stock and cash consideration explained in the answer, immediately above. Please pay special attention to these election and transmittal materials since failure to follow the instructions may mean

that you will not receive the consideration you desire. An election will be properly made only if the exchange agent receives a properly executed election form by the deadline date. The election deadline has not been determined. However, the deadline will be clearly stated in the transmittal materials that will be delivered to you. Please follow the instructions provided in the joint election form/letter of transmittal to properly elect to receive cash, stock or a combination of both for your Cornerstone common stock.

Q: If I am a Cornerstone shareholder, am I assured of receiving the exact form of consideration I elect to receive?

No. In total, 30% of Cornerstone's non-dissenting shares of common stock outstanding will be exchanged for cash and 70% of Cornerstone's non-dissenting shares of common stock outstanding will be exchanged for shares of First Community common stock. Therefore, the form of consideration you receive will depend in part on the elections of other Cornerstone shareholders so that 30% of Cornerstone's non-dissenting shares of common stock outstanding will be exchanged for cash and 70% of the total outstanding non-dissenting shares of Cornerstone common stock will be exchanged for shares of First Community common stock. Accordingly, there is no assurance that you will receive the form of consideration you elect with respect to all of your shares of Cornerstone common stock. If the elections of all Cornerstone shareholders result in an oversubscription of cash or First Community common stock, the exchange agent will allocate the consideration you will receive between cash and First Community common stock in accordance with the proration procedures described under the heading "Proposal No. 1—The Merger—Allocation of the Merger Consideration" beginning on page 46.

Q: If my shares are held in an individual retirement account, or "IRA," how will my shares be voted and how will the election for cash or shares of First Community common stock be made?

The custodian of your IRA will vote your shares on the proposal to approve the merger agreement and make the election to receive cash or shares of First Community common stock in accordance with the terms of your account agreement. You should contact your IRA custodian with any questions about the terms of your account agreement.

Q: Will the value of the merger consideration change between the date of this proxy statement/ prospectus and the time the merger is completed?

YES. The value of the merger consideration to be issued in First Community common stock will fluctuate between the date of this proxy statement/prospectus and the completion of the merger based upon the market value of First Community common stock. Any fluctuation in the market price of First Community common stock after the date of this document may change the value of the shares of First Community common stock that Cornerstone shareholders will receive. Cornerstone shareholders should obtain current market quotations for First Community common stock, which is traded under the symbol "FCCO" on The NASDAQ Capital Market.

The value of the merger consideration to be paid in cash will not fluctuate.

Q: Will Cornerstone shareholders be taxed on the cash and First Community common stock that they receive in exchange for their Cornerstone shares?

A: We expect that the exchange of shares of Cornerstone common stock for First Community common stock by Cornerstone shareholders generally will be tax-free to you for federal income tax purposes. However, you will have to pay taxes at either capital gains or ordinary income rates, depending upon individual circumstances and on the

cash received in exchange for your shares of Cornerstone common stock, including cash received in lieu of fractional shares of First Community common stock. To review the tax consequences to Cornerstone shareholders in greater detail, see “Proposal No. 1—The Merger—Material U.S. Federal Income Tax Consequences and Opinion of Tax Counsel” beginning on page 51.

Q: If I am a Cornerstone shareholder, what happens if I don't make an election for cash or shares of First Community common stock?

If you fail to make an election prior to the election deadline, the exchange agent will have the discretion to determine the type of consideration you will receive in exchange for your shares of Cornerstone common stock. The type of consideration you will receive will be determined by the type of consideration other Cornerstone shareholders elect to receive so that, in total, 30% of the outstanding non-dissenting shares of Cornerstone common stock will be exchanged for cash and 70% of the total outstanding non-dissenting shares of Cornerstone common stock will be exchanged for shares of First Community common stock. For more information concerning the merger consideration, election procedures, and allocation procedures, see "Proposal No. 1—The Merger—Merger Consideration," "—Election of the Form of Payment of the Merger Consideration," and "—Allocation of the Merger Consideration" beginning on page 45.

Q: What should I do now?

A: After you have carefully read this proxy statement/prospectus and decided how you wish to vote your shares, please vote your shares promptly so that your shares will be represented and voted at the special meeting.

If you are a record holder and hold your shares in your name: You do not have to attend the special meeting to vote. The Cornerstone board of directors is soliciting proxies so that you can vote before the special meeting. Even if you currently plan to attend the special meeting, we recommend that you vote by proxy before the special meeting so that your vote will be counted if you later decide not to attend. There are three ways a record holder can vote by proxy:

·By Internet: You may vote over the Internet by going to the website shown on your proxy card and following the instructions when prompted;

·By Telephone: You may vote by telephone by calling the toll free number shown on your proxy card; or

·By Mail: You may vote by completing, signing, dating and returning the enclosed proxy card.

If you vote over the Internet or by telephone, please do **NOT** return a proxy card through the mail unless you intend to revoke your Internet or telephone vote.

If you vote using one of the methods described above, you will be designating J. Rodger Anthony and Jennifer M. Champagne as your proxies to vote your shares as you instruct. If you vote over the Internet or by telephone or by signing and returning your proxy card without giving specific instructions, these individuals will vote your shares by following the recommendations of the Cornerstone board of directors. If any other business properly comes before the special meeting, these individuals will vote on those matters in a manner they consider appropriate.

If your shares are held in "street name" by a broker or other nominee: You may vote your shares before the special meeting by mail, by completing, signing and returning the voting instruction form you received from your broker or other nominee. You should check your voting instruction form to see if any alternative method, such as Internet or telephone voting, is available to you.

Q: If my shares are held in "street name" by my broker or other nominee, will my broker or other nominee vote my shares for me?

NO. Your broker or other nominee will NOT vote your shares on the proposal to approve the merger agreement unless you provide instructions on how to vote. You should instruct your broker or other nominee how to vote your shares following the directions your broker or other nominee provides. Please note that you may not vote shares **A:** held in street name by returning a proxy card directly to Cornerstone or by voting in person at the special meeting unless you provide a “legal proxy,” which you must obtain from your broker or other nominee, and provide it to Cornerstone, together with proof of your share ownership.

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Q: What if I abstain from voting or fail to instruct my broker or other nominee?

With respect to the merger agreement proposal, if you (1) fail to submit a proxy or vote in person at the special meeting, (2) mark “Abstain” on your proxy card, or (3) fail to instruct your broker or other nominee how to vote, it will have the same effect as a vote “Against” the merger proposal. If you fail to submit a proxy or vote in person at the special meeting or fail to instruct your broker or other nominee how to vote, or mark “Abstain” on your proxy card with respect to the adjournment proposal, it will have no effect on the adjournment proposal.

Q: Can I change my vote after I have submitted my proxy?

A: YES. If you hold your shares of record in your name, there are three ways you can change your vote after you have submitted your proxy:

First, you may send a written notice to Cornerstone’s Corporate Secretary stating that you would like to revoke your proxy.

Second, you may complete and submit a later dated proxy with new voting instructions. The latest vote actually received by Cornerstone prior to the special shareholders’ meeting will be your vote. Any earlier votes will be revoked.

Third, you may attend the special shareholders’ meeting and vote in person. Any earlier votes will be revoked. Simply attending the meeting without voting, however, will not revoke your proxy.

If your shares are held in street name by a broker or other nominee and you have instructed your broker or other nominee to vote your shares, you must follow the directions you receive from your broker to change or revoke your proxy.

Q: Can I attend the special meeting and vote my shares in person?

A: YES. All Cornerstone shareholders, including shareholders of record and shareholders who hold their shares through brokers or other nominees, are invited to attend the special meeting. Record holders of Cornerstone common stock can vote in person at the special meeting. If you are not a shareholder of record, you must obtain a proxy, executed in your favor, from the record holder of your shares, such as a broker or other nominee, and present proof of Cornerstone share ownership to be able to vote in person at the special meeting.

Q: Will my ownership percentage and voting interest be reduced after the merger?

YES. Cornerstone shareholders currently have the right to vote in the election of the Cornerstone board of directors and on other matters affecting Cornerstone. Upon the completion of the merger, each Cornerstone shareholder who receives First Community common stock in the merger will be a shareholder of First Community with a percentage ownership of First Community that is much smaller than such shareholder's current percentage ownership of Cornerstone. It is currently expected that the former shareholders of Cornerstone as a group will receive shares in the merger constituting approximately 11.6% of the outstanding shares of First Community's common stock immediately after the merger. Accordingly, former Cornerstone shareholders will have significantly less influence on the management and policies of First Community than they now have on the management and policies of Cornerstone.

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Q: Do I have the right to dissent and obtain the “fair value” for my shares?

YES. South Carolina law permits you to dissent from the merger and to obtain payment in cash of the “fair value” of your shares of Cornerstone common stock. To do this, you must follow specific procedures, including, among others, delivering written notice to Cornerstone before the shareholder vote on the merger agreement is taken of your intent to demand payment for your shares if the merger is completed and not voting your shares in favor of the merger agreement. If you follow the required procedures, your only right will be to receive the “fair value” of your common stock in cash. Copies of the applicable South Carolina statutes are attached to this proxy statement/prospectus as Appendix B. See “Proposal No. 1—The Merger—Dissenters’ Rights” beginning on page 49. **A:** Because of the complexity of the procedures for exercising dissenters’ rights, if you are considering exercising dissenters’ rights, you are encouraged to seek the advice of legal counsel. Failure to strictly comply with the applicable South Carolina law provisions will result in the loss of your right to dissent.

Q: Should I send in my stock certificates now?

NO. You should not send in your stock certificates at this time. Shortly after the effective time of the merger, the **A:** exchange agent will send all Cornerstone shareholders an election form and written instructions for exchanging Cornerstone stock certificates for the merger consideration.

Q: When do you expect to complete the merger?

We intend to complete the merger on October 20, 2017. However, we cannot assure you when or if the merger will **A:** occur. We must first obtain the approval of the Cornerstone shareholders at the special shareholders’ meeting and the necessary regulatory approvals.

Q: Whom should I call with questions about the merger?

Cornerstone shareholders should call J. Rodger Anthony, President and Chief Executive Officer, at (864) 306-1444. **A:** First Community shareholders should call Michael C. Crapps, President and Chief Executive Officer, at (803) 951-2265.

SUMMARY

This summary highlights material information about the merger and the special shareholders' meeting contained later in this proxy statement/prospectus. This summary does not contain all of the information that may be important to you, and we urge you to carefully read this entire document, including the exhibits and appendices, to better understand the merger and its potential impact on you before deciding how to vote. Each item in this summary includes a page reference directing you to a more complete discussion of the item.

The Companies (page 76 for First Community and page 84 for Cornerstone)

First Community Corporation

5455 Sunset Blvd.

Lexington, South Carolina 29072

(803) 951-2265

Attention: Michael C. Crapps, President and Chief Executive Officer

First Community, a bank holding company registered under the Bank Holding Company Act of 1956 (the "BHCA"), was incorporated under the laws of South Carolina in 1994 primarily to own and control all of the capital stock of First Community Bank ("First Community Bank"), which commenced operations in August 1995. First Community Bank's primary federal regulator is the Federal Deposit Insurance Corporation (the "FDIC"). First Community Bank is also regulated and examined by the South Carolina Board of Financial Institutions (the "SCBFI").

First Community Bank engages in a commercial banking business from its main office in Lexington, South Carolina and its 15 full-service offices located in the Midlands of South Carolina to include: Lexington County (6), Richland County (4), Newberry County (2) and Kershaw County (1); and the Central Savannah River area to include: Aiken County (1) and Augusta (1), which is located in Richmond County, Georgia. In addition, First Community Bank conducts business from a loan production office located in Greenville County, South Carolina and a mortgage loan production office in Richland County, South Carolina. First Community Bank offers 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. First Community Bank also offers online banking to its customers.

Cornerstone Bancorp

1670 E. Main Street

Easley, South Carolina 29640

(864) 306-1444

Attention: J. Rodger Anthony, President and Chief Executive Officer

Cornerstone is a South Carolina corporation incorporated in 1999. Cornerstone is a bank holding company registered under the BHCA with no operations other than those carried on by its wholly owned subsidiary, Cornerstone National Bank (“Cornerstone Bank”). Cornerstone Bank was organized in 1999 and conducts a general banking business under a national bank charter granted by the Office of the Comptroller of the Currency of the United States (the “OCC”) pursuant to the National Bank Act. Cornerstone Bank conducts its activities from its main office in the City of Easley in Pickens County, South Carolina, which opened in September, 1999, and from a branch office located in the Berea area of Greenville County, South Carolina, which opened in August, 2002, and from a branch office in the Powdersville/Piedmont area of Anderson County, South Carolina, which opened in July 2005. In 2004, Cornerstone established a wholly owned subsidiary, Crescent Financial Services, Inc. (“Crescent”), which is an insurance agency.

Cornerstone Bank’s primary market areas are the city of Easley, South Carolina and the immediately surrounding areas of Pickens County, the Berea area of Greenville County, and the Powdersville and Piedmont areas of Anderson County, and contiguous areas.

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The Merger (page 27)

Under the terms of the merger agreement, Cornerstone will merge with and into First Community, with First Community as the surviving entity. Simultaneously with the merger or immediately thereafter, Cornerstone Bank will merge with and into First Community Bank, and First Community Bank will be the surviving bank (we refer to this merger as the “bank merger”). Both First Community and First Community Bank will continue their existence under South Carolina law, while Cornerstone and Cornerstone Bank will cease to exist. The merger agreement is attached as Appendix A and is incorporated into this proxy statement/prospectus by reference. We encourage you to read the merger agreement carefully as it is the legal document that governs the merger.

What Cornerstone Shareholders Will Receive in the Merger (page 44)

If the merger is completed, each outstanding share of Cornerstone common stock will be exchanged for either: (i) \$11.00 in cash, (ii) 0.54 shares of First Community common stock, or (iii) a combination of cash and shares of First Community common stock. Each shareholder of Cornerstone will have the opportunity to elect the form of merger consideration that he or she prefers. If a shareholder does not choose a preference, the merger consideration to be received by him or her will be determined by the exchange agent depending on the amount of cash and shares elected by those Cornerstone shareholders who make an express election. Elections by Cornerstone shareholders are limited by the requirement that 30% of the total number of outstanding non-dissenting shares of Cornerstone common stock will be exchanged for cash and 70% of the outstanding non-dissenting shares of Cornerstone common stock will be exchanged for shares of First Community common stock. If the elections made by Cornerstone shareholders would result in an oversubscription for either cash or stock, then the exchange agent will prorate the amount of cash and stock to be issued to Cornerstone shareholders as necessary to satisfy this requirement. Therefore, the form of consideration that a Cornerstone shareholder receives will depend in part on the elections of other Cornerstone shareholders. Cornerstone shareholders will not receive any fractional shares of First Community common stock. Instead, you will receive a cash payment, without interest, for the value of any fraction of a share of First Community common stock that you would otherwise be entitled to receive in an amount equal to such fractional part of a share of First Community common stock multiplied by the volume weighted average price (rounded up to the nearest cent) of First Community common stock on The NASDAQ Capital Market during the 10 consecutive trading days ending on the fifth trading day immediately prior to the date on which the effective time of the merger occurs.

After the merger, First Community’s existing shareholders will own approximately 88.4% of First Community’s total outstanding shares, on a fully diluted basis, and Cornerstone’s shareholders will own approximately 11.6% of First Community’s outstanding shares, on a fully diluted basis.

Merger Consideration Election (page 44)

Shortly after the effective time of the merger, First Community will cause the exchange agent to deliver or mail to Cornerstone shareholders an election form and instructions for making an election as to the form of consideration

preferred to be received in the merger. The available elections, election procedures, and deadline for making elections are described under the heading “Proposal No. 1—The Merger—Election of the Form of Payment of the Merger Consideration” on page 45. To be effective, an election form must be properly completed and received by First Community’s exchange agent no later than 4:00 p.m. local time on the date set forth on the election form sent to Cornerstone shareholders. If a Cornerstone shareholder does not make an election by the election deadline, the exchange agent has the discretion to choose the consideration such shareholder will receive.

After the election deadline, the elections made by Cornerstone shareholders may be adjusted as necessary to ensure that First Community pays cash in exchange for 30% of the outstanding non-dissenting shares of Cornerstone common stock and First Community common stock in exchange for 70% of the outstanding non-dissenting shares of Cornerstone common stock. The merger agreement provides the method, which is described under the heading “Proposal No. 1—The Merger—Allocation of the Merger Consideration” on page 46, for allocating shares of First Community common stock and cash to be received for the shares of Cornerstone common stock, based on the elections made. Accordingly, a Cornerstone shareholder may receive less cash and more shares of First Community common stock, or more shares of First Community common stock and less cash, than elected.

Effect of the Merger on Cornerstone Preferred Stock

Unless redeemed before the effective time of the merger, each of the shares of Cornerstone's 8% cumulative perpetual preferred stock, series A, no par value (the "Cornerstone Series A Preferred Stock") outstanding at the effective time of the merger will automatically be converted into the right to receive one share of the First Community preferred stock to be designated, prior to the effective time, as 8% cumulative perpetual preferred stock, series A (the "First Community Series A Preferred Stock"), and the shares of First Community Series A Preferred Stock will otherwise have the same rights, preferences, privileges and voting powers, and limitations and restrictions thereof, as the Cornerstone Series A Preferred Stock immediately prior to the conversion.

Effect of the Merger on Cornerstone Stock Options

As of the date of this proxy statement/prospectus, there were outstanding options to purchase 30,525 shares of Cornerstone common stock, with a weighted average exercise price of \$9.72 per share. All of these outstanding options were held by directors or executive officers. At the effective time of the merger, all rights with respect to the Cornerstone common stock pursuant to the stock options granted by Cornerstone, which are outstanding immediately prior to the effective time of the merger, whether or not exercisable, will convert into an obligation of First Community to pay and a right of the holder to receive a cash payment equal to the product obtained by multiplying (1) the number of shares of Cornerstone common stock underlying such holder's options by (2) the excess, if any, of the fair market value per share (as defined below) minus the exercise price per share under such option (provided, that if the fair market value per share does not exceed the exercise price per share of a particular option, then by \$0.01). The fair market value per share for purposes of this calculation is the sum of (x) \$11.00 multiplied by 0.30, plus (y) the product of the volume weighted average price (rounded up to the nearest cent) of First Community common stock on The NASDAQ Capital Market during the 10 consecutive trading days ending on the fifth trading day immediately prior to the date on which the effective time of the merger occurs, multiplied by the exchange ratio (0.54), multiplied by 0.70.

Regulatory Approvals (page 60)

First Community believes that because the merger qualifies as a "waiver transaction" under the applicable rules and regulations of the Board of Governors of the Federal Reserve System (the "Federal Reserve"), and that we are not required to file a formal merger application with the Federal Reserve and must only make a notice filing with the Federal Reserve with respect to the merger. For the merger of Cornerstone Bank with and into First Community Bank, we must obtain approval from the FDIC and the SCBFI. As of the date of this proxy statement/prospectus, we have not received the required regulatory approvals from the FDIC or the SCBFI; however, the Federal Reserve has advised us of its non-objection to characterization of the merger as a "waiver transaction" and consummation of the merger without a formal application.

Cornerstone's Special Shareholders' Meeting (page 24)

Cornerstone will hold its special shareholders' meeting on Tuesday, September 19, 2017, at 4:00 p.m., local time at its main offices, 1670 E. Main Street, Easley, South Carolina 29640.

Cornerstone's Record Date and Voting (page 24)

If you owned shares of Cornerstone common stock at the close of business on July 14, 2017, the record date for the Cornerstone special shareholders' meeting, you are entitled to vote on the merger agreement and the adjournment proposal as well as any other matters considered at the special shareholders' meeting. On the record date, there were 2,320,911 shares of Cornerstone common stock outstanding. You will have one vote at the meeting for each share of common stock you owned on the record date. The affirmative vote of the holders of two-thirds of Cornerstone's outstanding shares of common stock is required to approve the merger agreement. Abstentions and broker non-votes will have the same effect as votes against the merger agreement. Approval of the proposal to adjourn the special meeting, if necessary or appropriate, to allow time for further solicitation of proxies to approve the merger agreement, requires that more shares vote in favor of the proposal than vote against the proposal. Abstentions and broker non-votes will have no effect on the results of the vote on the adjournment proposal. As of July 14, 2017, Cornerstone's directors and executive officers and their affiliates beneficially owned approximately 24.9% of the outstanding shares of Cornerstone common stock. Each of Cornerstone's directors and executive officers has agreed, subject to several conditions, to vote his or her shares of Cornerstone common stock in favor of the merger agreement.

Cornerstone’s Board of Directors Recommends that Cornerstone Shareholders Vote “FOR” the Approval of the Merger Agreement (page 26) and “FOR” the Approval of the Adjournment Proposal

Cornerstone’s board of directors has determined that the merger, the merger agreement, and the transactions contemplated by the merger agreement are advisable and in the best interests of Cornerstone and its shareholders and has adopted the merger agreement. Cornerstone’s board of directors recommends that Cornerstone shareholders vote “**FOR**” the approval of the merger agreement. For the factors considered by Cornerstone’s board of directors in reaching its decision to adopt the merger agreement, see “Proposal No. 1—The Merger—Cornerstone’s Reasons for the Merger; Recommendation of the Cornerstone Board of Directors.” Cornerstone’s board of directors also recommends that Cornerstone shareholders vote “**FOR**” approval of the proposal to adjourn the special meeting, if necessary or appropriate, to allow time for further solicitation of proxies to approve the merger agreement.

Interests of Executive Officers, Employees and Directors of Cornerstone that Differ from Your Interests (page 54)

When considering whether to approve the merger agreement, you should be aware that some directors and officers of Cornerstone have interests in the merger that differ from the interests of other Cornerstone shareholders, including the following:

Following the merger, First Community will generally indemnify and provide liability insurance to the present directors and officers of Cornerstone, subject to certain exceptions;

Each incumbent director of Cornerstone will be invited to join an upstate advisory board of First Community Bank and will receive certain advisory fees for their service;

J. Rodger Anthony, President and Chief Executive Officer, Jennifer M. Champagne, Chief Financial Officer, and Susan S. Jolly, Senior Lender, will receive lump-sum cash payments pursuant to their change in control agreements with Cornerstone following the effectuation of the merger;

After the closing of the merger, J. Rodger Anthony, President and Chief Executive Officer of Cornerstone, will serve as a consultant with First Community for six months pursuant to a Consulting Agreement.

After closing of the merger, Susan S. Jolly, Cornerstone’s Senior Vice President and Senior Lender and a director, will be employed by First Community Bank as a Senior Commercial Banker.

Each board member was aware of these and other interests and considered them before approving and adopting the merger agreement.

Federal Income Tax Consequences (page 51)

Cornerstone’s shareholders generally will not recognize gain or loss for U.S. federal income tax purposes on the receipt of shares of First Community common stock in the merger in exchange for the shares of Cornerstone common stock surrendered. Cornerstone shareholders will be taxed, however, on any cash consideration they receive in the merger, including any cash they receive in lieu of fractional shares of First Community common stock. First Community shareholders will have no direct tax consequences as a result of the merger. Tax matters are complicated, and the tax consequences of the merger may vary among Cornerstone shareholders. We urge each Cornerstone shareholder to contact his, her or its own tax advisor to fully understand the tax implications of the merger.

Opinion of Cornerstone’s Financial Advisor (page 35)

At the request of Cornerstone’s board of directors on April 11, 2017, Raymond James & Associates, Inc. (“Raymond James”) rendered its opinion (the “Opinion”), as to the fairness, as of such date, from a financial point of view, to the holders of Cornerstone’s outstanding common stock of the merger consideration to be received by such holders in the merger, based upon and subject to the qualifications, assumptions and other matters considered in connection with the preparation of its opinion.

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The full text of the written Opinion of Raymond James, dated April 11, 2017, which sets forth, among other things, the various qualifications, assumptions and limitations on the scope of the review undertaken, is attached as Appendix C to this document. Raymond James provided its Opinion for the information and assistance of the Cornerstone board of directors (solely in each director's capacity as such) in connection with, and for purposes of, its consideration of the merger and its Opinion only addresses whether the merger consideration to be received by the holders of the common stock in the transaction pursuant to the merger agreement is fair, from a financial point of view, to such holders. The Opinion of Raymond James does not address any other term or aspect of the merger agreement or the transaction contemplated thereby. The Opinion does not constitute a recommendation to the Cornerstone board or any holder of Cornerstone common stock as to how the Cornerstone board, such shareholder or any other person should vote or otherwise act with respect to the merger or any other matter.

Comparative Rights of Shareholders (page 66)

The rights of Cornerstone's shareholders are currently governed by South Carolina corporate law and Cornerstone's articles of incorporation and bylaws. The rights of First Community's shareholders are currently governed by South Carolina corporate law and First Community's articles of incorporation and bylaws. Upon consummation of the merger, the shareholders of Cornerstone who receive stock consideration will become shareholders of First Community, and South Carolina corporate law, as well as the articles of incorporation and bylaws of First Community, will govern their rights. First Community's articles of incorporation and bylaws differ somewhat from those of Cornerstone.

Conditions to Consummation (page 58)

The obligations of Cornerstone and First Community to consummate the merger are subject to the satisfaction or waiver (to the extent permitted) of several conditions, including, among others:

- Cornerstone shareholders must have approved the merger agreement;
- The required regulatory approvals and any other required consents must have been received;

The registration statement registering the shares of First Community common stock to be received by Cornerstone shareholders, of which this proxy statement/prospectus is a part, must have been declared effective by the SEC; and

First Community must have filed with The NASDAQ Capital Market a notification form for the listing of the shares of First Community common stock to be received by Cornerstone shareholders, and the NASDAQ must not have objected to such listing.

No assurances can be provided as to when or if all of the conditions precedent to the merger can or will be satisfied or waived by the appropriate party. As of the date of this proxy statement/prospectus, the parties know of no reason to believe that any of the conditions set forth above will not be satisfied. The conditions to consummation of the merger may be waived, in whole or in part, to the extent permissible under applicable law, by the party for whose benefit the condition has been imposed, without the approval of such party's shareholders.

Termination of the Merger Agreement and Termination Fee (page 60)

Notwithstanding the approval of the merger agreement by Cornerstone shareholders, the parties can mutually agree at any time to terminate the merger agreement before completing the merger.

Either First Community or Cornerstone can also terminate the merger agreement:

If the other party materially breaches any representation, warranty or covenant in the merger agreement which cannot be or is not cured within 30 days of notice of such breach; provided, that such breach is reasonably likely to have a material adverse effect on such breaching party or to prevent such breaching party from complying in all material respects with its covenants;

If any regulatory authority whose approval is required for consummation of the merger makes a final decision not to approve the merger, or if any final law or order permanently restrains, enjoins, or otherwise prohibits consummation of the merger; or

If the merger is not completed by February 28, 2018.

First Community can terminate the merger agreement if Cornerstone's board of directors (i) withdraws or modifies its recommendation that the Cornerstone shareholders approve the merger agreement or approves or recommends an acquisition proposal by a third party, (ii) fails to reaffirm the merger agreement after being requested to do so following the announcement of an acquisition proposal by a third party, or (iii) otherwise fails to comply with the terms of the merger agreement regarding obtaining shareholder approval of the merger agreement and soliciting other offers for an acquisition of Cornerstone. In this event, Cornerstone must pay a \$950,000 termination fee to First Community.

Cornerstone can also terminate the merger agreement if it receives an acquisition proposal from a third party that is superior to First Community's proposal and concludes after receiving legal and financial advice that the board of directors would be in breach of its fiduciary duties if the board did not accept the superior proposal; provided, however, First Community would then have the opportunity to match the superior proposal in order to proceed with the merger. Cornerstone would pay a \$950,000 termination fee to First Community if it were to terminate the merger agreement for this reason.

Termination Fee (page 61)

In addition to the circumstances set forth above under which Cornerstone must pay the termination fee to First Community, if the merger agreement is terminated under certain circumstances following the communication of an acquisition proposal to Cornerstone, and if within one year after the termination of the merger agreement, Cornerstone consummates an acquisition transaction or enters into an acquisition agreement that is ultimately consummated, then Cornerstone must also pay the \$950,000 termination fee to First Community.

Accounting Treatment (page 65)

First Community will account for the merger using the acquisition method of accounting. Under this accounting method, First Community would record the acquired identifiable assets and liabilities assumed at their fair market value at the time the merger is complete. Any excess of the cost of Cornerstone over the sum of the fair values of tangible and identifiable intangible assets less liabilities assumed would be recorded as goodwill. Based on an assumed purchase price of \$27.0 million and utilizing information as of March 31, 2017, estimated goodwill and other intangibles would total approximately \$10.6 million. First Community's reported income would include the operations of Cornerstone after the merger. Financial statements of First Community after completion of the merger would reflect the impact of the acquisition of Cornerstone. Financial statements of First Community issued before completion of the

merger would not be restated retroactively to reflect Cornerstone's historical financial position or results of operations.

Market Price and Dividend Information

First Community's common stock is currently listed on The NASDAQ Capital Market under the symbol "FCCO". Cornerstone's common stock is not listed on an exchange but is quoted on the OTC Bulletin Board under the symbol "CTOT".

As of July 7, 2017, there were approximately 1,412 holders of record of common stock of First Community. As of July 7, 2017, there were 515 holders of record of Cornerstone common stock. The following table presents the closing sale prices per share of First Community common stock and Cornerstone common stock on April 11, 2017, the last trading day before we publicly announced the merger agreement, and the closing sale prices per share for First Community common stock and Cornerstone common stock on July 7, 2017, the last practicable trading day prior to mailing this proxy statement/prospectus. The table also presents the equivalent value of the merger consideration per share of Cornerstone common stock on those dates, calculated by multiplying the closing price of First Community common stock on those dates by the exchange ratio.

Date	First Community Closing Price	Cornerstone Closing Price	Equivalent Cornerstone Per Share Value
April 11, 2017	\$ 20.70	\$ 9.00	\$ 11.18
July 7, 2017	\$ 20.30	\$ 10.46	\$ 10.96

The following table sets forth, for the periods indicated, the high and low sales prices per share of First Community's and Cornerstone's common stock as quoted on NASDAQ and the OTC Markets, respectively. First Community paid quarterly dividends as shown below. There is no established trading market for shares of Cornerstone common stock. Cornerstone has paid a cash dividend on its common stock only once, on May 9, 2008. In January 2016, Cornerstone declared a 5% stock dividend on its common stock.

	First Community Common Stock			Cornerstone Common Stock ⁽¹⁾		
	High	Low	Dividend	High	Low	Dividend
2017						
Third Quarter (through July 7, 2017)	\$ 21.00	20.30	—	\$ 10.83	10.46	—
Second Quarter	22.45	18.50	0.09	11.20	6.74	—
First Quarter	23.55	16.10	0.09	6.60	5.98	—
2016						
Fourth Quarter	18.95	14.80	0.08	6.00	5.75	—
Third Quarter	15.75	13.74	0.08	5.80	5.51	—
Second Quarter	14.94	13.56	0.08	5.46	5.06	—
First Quarter	14.98	12.66	0.08	5.67	4.85	—
2015						
Fourth Quarter	15.59	12.03	0.07	4.81	4.81	—
Third Quarter	12.75	11.53	0.07	4.76	3.95	—
Second Quarter	12.97	11.15	0.07	4.19	3.67	—
First Quarter	12.03	10.72	0.07	4.05	3.57	—

(1) Adjusted for 5% stock dividend paid in second quarter of 2016.

The closing sales price of First Community common stock as of April 11, 2017, the last trading day before the merger agreement was announced, was \$20.70. The closing sales price of First Community's common stock as of July 7, 2017, the most recent date feasible for inclusion in these materials, was \$20.30. The closing sales price of Cornerstone's common stock as of April 11, 2017, the last trading day before the merger agreement was announced, was \$9.00. The closing sales price of Cornerstone's common stock as of July 7, 2017, the most recent date feasible for inclusion in these materials, was \$10.46.

Because the exchange ratio is fixed and because the market price of First Community common stock is subject to fluctuation, the market value of the shares of First Community common stock that Cornerstone shareholders may receive in the merger may increase or decrease prior to and following the merger. Cornerstone shareholders are urged to obtain current market quotations for First Community common stock, which are available at www.nasdaq.com.

Notwithstanding the foregoing, the future dividend policy of First Community 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. First Community's ability to pay dividends is generally limited by the ability of First Community Bank to pay dividends to it. As a South Carolina chartered bank, First Community Bank is subject to limitations on the amount of dividends that it is permitted to pay. Unless otherwise instructed by the SCBFI,

First Community Bank is generally permitted under South Carolina state banking regulations to pay cash dividends of up to 100% of net income in any calendar year without obtaining the prior approval of the SCBFI.

NASDAQ Listing

First Community will list the shares of First Community common stock to be issued to the shareholders of Cornerstone in connection with the merger on The NASDAQ Capital Market under the symbol "FCCO".

Resale of First Community Common Stock (page 49)

The shares of First Community common stock to be issued to the shareholders of Cornerstone in connection with the merger will be freely tradable by such shareholders, except that if any Cornerstone shareholders are deemed to be affiliates of First Community, they must abide by certain transfer restrictions under the Securities Act.

Dissenters' Rights (page 49 and Appendix B)

Under South Carolina law, a holder of Cornerstone common stock will be entitled to dissent from the merger and obtain payment in cash of the fair value of his or her shares of Cornerstone common stock. If you wish to assert dissenters' rights, (i) you must deliver to Cornerstone before the vote is taken on the merger written notice of your intent to demand payment for your shares if the merger is effectuated, and (ii) you must not vote your shares in favor of the merger agreement. If you do not satisfy these requirements and the other detailed requirements of the South Carolina dissenters' rights statutes, you will not be entitled to payment for your shares under those statutes. The text of the South Carolina dissenters' rights statutes is attached to this proxy statement/prospectus as Appendix B, and this summary is qualified in its entirety by the text of the South Carolina statutes. As long as you do not vote in favor of the merger, your failure to vote against the merger will not constitute a waiver of your appraisal rights. A vote against the merger will not satisfy the notice requirement under the South Carolina dissenters' rights statutes.

Because of the complexity of the procedures for exercising dissenters' rights, if you are considering exercising dissenters' rights, you are encouraged to seek the advice of legal counsel. Failure strictly to comply with the applicable South Carolina law provisions will result in the loss of your right to dissent.

SELECTED CONSOLIDATED FINANCIAL INFORMATION OF FIRST COMMUNITY

First Community's summary consolidated financial data is presented below as of and for the three months ended March 31, 2017 and 2016 and as of and for the years ended December 31, 2012 through December 31, 2016. The summary consolidated financial data presented below as of or for the years ended December 31, 2012 through 2016 is derived from First Community's audited consolidated financial statements, which were audited by Elliott Davis Decosimo, LLC. First Community's audited consolidated balance sheets as of December 31, 2016 and 2015 and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three year period ended December 31, 2016 are incorporated by reference into this proxy statement/prospectus from First Community's Annual Report on Form 10-K for the year ended December 31, 2016, as filed with the SEC. First Community's selected consolidated financial data as of and for the three months ended March 31, 2017 and 2016 has not been audited but, in the opinion of management, contains all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the financial position and the results of operations and cash flows for such periods. First Community's results for the three months ended March 31, 2017, are not necessarily indicative of First Community's results of operations that may be expected for the year ending December 31, 2017. The following summary consolidated financial data should be read in conjunction with First Community's consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations," which is incorporated by reference into this proxy/prospectus from First Community's Annual Report on Form 10-K for the year ended December 31, 2016.

(Dollars in thousands except per share amounts)	As of or For the Three Months Ended March 31,		As of or For the Years Ended December 31,			
	2017	2016	2016	2015	2014	2013
Balance Sheet Data:						
Total assets	\$914,913	\$870,409	\$914,793	\$862,734	\$812,363	\$633,300
Loans held for sale	4,191	2,545	5,707	2,962	4,124	3,790
Loans, net	555,298	494,021	546,709	489,191	443,844	347,590
Deposits	775,611	722,236	766,622	716,151	669,583	497,070
Total common shareholders' equity	83,131	81,611	81,861	79,038	74,528	52,671
Total shareholders' equity	83,131	81,611	81,861	79,038	74,528	52,671
Average shares outstanding, basic	6,688	6,573	6,617	6,558	6,538	5,285
Average shares outstanding, diluted	6,813	6,751	6,787	6,719	6,607	5,334
Results of Operations:						
Interest income	\$7,773	\$7,137	\$29,506	\$28,649	\$27,298	\$21,783
Interest expense	712	800	3,047	3,396	3,567	3,734
Net interest income	7,061	6,337	26,459	25,253	23,731	18,049
Provision for loan losses	116	140	774	1,138	881	528
Net interest income after provision for loan losses	6,945	6,197	25,685	24,115	22,850	17,521
Non-interest income (1)	1,978	2,089	8,339	8,611	8,031	8,118
Securities gains (1)	54	59	601	355	182	73
Non-interest expenses	6,720	6,342	25,776	24,678	23,960	20,422
Income before taxes	2,203	1,944	8,849	8,403	7,103	5,290
Income tax expense	447	476	2,167	2,276	1,982	1,153
Net income	1,756	1,468	6,682	6,127	5,121	4,137
Amortization of warrants	—	—	—	—	—	—

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Preferred stock dividends, including discount accretion and redemption costs	—	—	—	—	—	—	—	—	—
Net income available to common shareholders	1,756	1,468	6,682	6,127	5,121	4,137			
Per Share Data:									
Basic earnings per common share	\$0.27	\$0.22	\$1.01	\$0.93	\$0.78	\$0.78			
Diluted earnings per common share	0.26	0.22	0.98	0.91	0.78	0.78			
Book value at period end	12.41	12.19	12.24	11.81	11.18	9.93			
Tangible book value at period end	11.50	11.24	11.31	10.84	10.25	9.83			
Dividends per common share	\$0.09	\$0.08	0.32	0.28	0.24	0.22			
Asset Quality Ratios:									
Non-performing assets to total assets (3)	0.52	% 0.86	% 0.57	% 0.85	% 1.17	% 1.39			
Non-performing loans to period end loans	0.64	% 1.22	% 0.75	% 0.99	% 1.48	% 1.56			
Net charge-offs to average loans	—	0.01	% 0.03	% 0.14	% 0.22	% 0.27			
Allowance for loan losses to period-end total loans	0.97	% 0.95	% 0.94	% 0.94	% 0.93	% 1.21			
Allowance for loan losses to non-performing assets	113.51	% 62.25	% 99.35	% 62.98	% 43.37	% 48.07			
Selected Ratios:									
Return on average assets:									
GAAP earnings	0.78	% 0.68	% 0.75	% 0.73	% 0.73	% 0.66			
Return on average common equity:									
GAAP earnings	8.63	% 7.35	% 8.08	% 7.94	% 8.13	% 7.68			
Return on average tangible common equity:									
GAAP earnings	9.32	% 7.99	% 8.76	% 8.68	% 8.88	% 7.78			
Efficiency Ratio (1)	74.31	% 73.86	% 72.27	% 71.25	% 74.14	% 76.69			
Noninterest income to operating revenue (2)	21.88	% 24.79	% 25.26	% 26.20	% 25.71	% 31.22			
Net interest margin (tax equivalent)	3.52	% 3.33	% 3.35	% 3.38	% 3.40	% 3.18			
Equity to assets	9.09	% 9.38	% 8.95	% 9.16	% 9.17	% 8.32			
Tangible common shareholders' equity to tangible assets	8.48	% 8.70	% 8.33	% 8.47	% 8.48	% 8.23			
Tier 1 risk-based capital	14.66	% 15.41	% 14.46	% 15.40	% 16.12	% 17.60			
Total risk-based capital	15.51	% 16.24	% 15.28	% 16.21	% 16.94	% 18.68			
Leverage	10.21	% 10.23	% 10.23	% 10.19	% 10.02	% 10.77			
Average loans to average deposits (4)	73.61	% 68.68	% 69.62	% 68.75	% 69.14	% 69.17			

(1) The efficiency ratio is a key performance indicator in our industry. The ratio is computed by dividing non-interest expense by the sum of net interest income on a tax equivalent basis and non-interest income, net of any securities gains or losses. Non-interest income for the calculation of efficiency ratio excludes OTTI on securities of \$200 thousand in 2012. The efficiency ratio is a measure of the relationship between operating expenses and earnings.

(2) Operating revenue is defined as net interest income plus noninterest income.

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

(4) Includes loans held for sale.

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Reconciliations

Certain financial information presented above is determined by methods other than in accordance with GAAP. These non-GAAP financial measures include “efficiency ratio,” “tangible book value at period end,” “return on average tangible common equity” and “tangible common shareholders’ equity to tangible assets.” The “efficiency ratio” is defined as non-interest expense, divided by the sum of net interest income on a tax equivalent basis and non-interest income, net of any securities gains or losses and OTTI on securities. Non-interest income for the calculation of efficiency ratio excludes OTTI on securities of \$200 thousand in 2012. The efficiency ratio is a measure of the relationship between operating expenses and earnings. “Tangible book value at period end” is defined as total equity reduced by recorded intangible assets divided by total common shares outstanding. “Tangible common shareholders’ equity to tangible assets” is defined as total common equity reduced by recorded intangible assets divided by total assets reduced by recorded intangible assets. Our management believes that these non-GAAP measures are useful because they enhance the ability of investors and management to evaluate and compare our operating results from period-to-period in a meaningful manner. Non-GAAP measures have limitations as analytical tools, and investors should not consider them in isolation or as a substitute for analysis of the Company’s results as reported under GAAP.

The table below provides a reconciliation of non-GAAP measures to GAAP:

	March, 31		December 31,				
	2017	2016	2016	2015	2014	2013	2012
Tangible book value per common share							
Tangible common equity per common share (non-GAAP)	\$11.50	11.24	\$11.28	10.84	10.25	9.83	10.23
Effect to adjust for intangible assets	0.91	0.95	0.92	0.97	0.93	0.10	0.14
Book value per common share (GAAP)	\$12.41	12.19	\$12.20	11.81	11.18	9.93	10.37
Return on average tangible common equity							
Return on average tangible common equity (non-GAAP)	9.32 %	7.99 %	8.79 %	8.68 %	8.88 %	7.78 %	7.55 %
Effect to adjust for intangible assets	(0.69)%	(0.64)%	(0.73)%	(0.74)%	(0.75)%	(0.10)%	(0.15)%
Return on average common equity (GAAP)	8.63 %	7.35 %	8.06 %	7.94 %	8.13 %	7.68 %	7.40 %
Tangible common shareholders’ equity to tangible assets							
Tangible common equity to tangible assets (non-GAAP)	8.48 %	8.70 %	8.33 %	8.47 %	8.48 %	8.23 %	8.88 %
Effect to adjust for intangible assets	0.61 %	0.68 %	0.62 %	0.69 %	0.69 %	0.09 %	0.11 %
Common equity to assets (GAAP)	9.09 %	9.38 %	8.95 %	9.16 %	9.17 %	8.32 %	8.99 %

SELECTED CONSOLIDATED FINANCIAL INFORMATION OF CORNERSTONE

Cornerstone's summary consolidated financial data is presented below as of and for the three months ended March 31, 2017 and as of and for the years ended December 31, 2012 through December 31, 2016. The summary consolidated financial data presented below as of or for the years ended December 31, 2012 through 2016 is derived from Cornerstone's audited consolidated financial statements, which were audited by Elliott Davis Decosimo, LLC. Cornerstone's audited consolidated balance sheets as of December 31, 2016 and 2015 and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three year period ended December 31, 2016 are included as Appendix E to this proxy statement/prospectus. Cornerstone's selected consolidated financial data as of and for the three months ended March 31, 2017 has not been audited but, in the opinion of management, contains all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the financial position and the results of operations and cash flows for such periods. Cornerstone's results for the three months ended March 31, 2017, are not necessarily indicative of Cornerstone's results of operations that may be expected for the year ending December 31, 2017. The following summary consolidated financial data should be read in conjunction with Cornerstone's consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Appendix E to in this proxy/prospectus and under "Information about Cornerstone."

Dollars in thousands, except per share amounts

	3/31/2017⁽³⁾	12/31/2016	12/31/2015	12/31/2014	12/31/2013	12/31/2012
Balance Sheet Data						
Total Assets	\$ 152,864	\$ 145,954	\$ 143,690	\$ 142,978	\$ 146,331	\$ 151,353
Loans held for sale	—	—	—	—	—	—
Loans, net	66,857	71,478	75,369	76,904	75,496	84,870
Deposits	131,751	125,881	121,723	118,929	124,189	126,012
Total common shareholders' equity (1)	18,781	18,502	18,189	17,386	15,420	16,445
Total shareholders' equity	19,819	19,540	19,227	18,424	16,458	17,483
Average shares outstanding- basic	2,321	2,321	2,321	2,321	2,321	2,321
Average shares outstanding- diluted	2,321	2,321	2,321	2,321	2,321	2,321
Results of Operations						
Interest income	\$ 1,149	\$ 4,932	\$ 5,154	\$ 5,377	\$ 5,606	\$ 6,024
Interest expense	98	408	460	636	876	1,192
Net interest income	1,051	4,524	4,694	4,741	4,730	4,832
Provision (negative provision) for loan losses	—	(200)	(300)	—	(250)	470
Net interest income after provision for loan losses	1,051	4,724	4,994	4,741	4,980	4,362
Noninterest income	204	774	718	854	900	847
Securities gains	—	113	181	178	—	308
Noninterest expenses	1,018	4,518	5,224	4,742	5,723	5,496
Income before taxes	237	1,093	669	1,031	157	21
Income tax expense (benefit)	81	362	(756)	—	—	—

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Net income	156		731		1,425		1,031		157		21	
Preferred stock dividends	(21)	(83)	(83)	(112)	(103)	(95)
Net income (loss) available to common shareholders	135		648		1,342		919		54		(74)
Per Share Data:												
Basic earnings per common share	\$.06		\$ 0.28		\$ 0.58		\$ 0.40		\$ 0.02		\$ (0.03)
Diluted earnings per common share	.06		0.28		0.58		0.40		0.02		(0.03)
Book value (per common share) at period end	8.09		7.97		7.84		7.49		6.64		7.09	
Tangible book value (per common share) at period end	8.09		7.97		7.84		7.49		6.64		7.09	
Dividends per common share	—		—		—		—		—		—	
Asset quality ratios:												
Non-performing assets to total assets (2)	1.7	%	1.8	%	2.7	%	5.1	%	7.0	%	11.3	%
Non-performing loans to total loans	.04	%	0.1	%	0.0	%	1.0	%	0.0	%	1.3	%
Net charge-offs (recoveries) to average loans	—	%	(.002)%	(.009)%	.033	%	.131	%	.664	%
Allowance for loan losses to period-end total loans	1.52	%	1.42	%	1.60	%	1.94	%	2.01	%	2.19	%
Allowance for loan losses to non-performing assets	40	%	39	%	32	%	21	%	15	%	11	%
Selected ratios:												
Return on Average assets (3)	.42	%	.49	%	1.00	%	.71	%	.11	%	.01	%
Return on average common equity (3)	2.9	%	3.4	%	7.7	%	5.6	%	.34	%	(.45)%
Return on average tangible common equity (3)	2.9	%	3.4	%	7.7	%	5.6	%	.34	%	(.45)%
Efficiency ratio (4)	81.1	%	85.2	%	96.0	%	83.6	%	100.1	%	95.1	%
Noninterest income to operating revenue (5)	19.4	%	19.6	%	19.2	%	21.8	%	19.0	%	23.9	%
Net interest margin (tax equivalent)	3.08	%	3.33	%	3.63	%	3.69	%	3.72	%	3.61	%
Equity to assets	13.0	%	13.4	%	13.4	%	12.9	%	11.2	%	11.6	%
Tangible common shareholders equity to tangible assets	12.3	%	12.7	%	12.7	%	12.2	%	10.5	%	10.9	%
Tier 1 risk-based capital	23.2	%	21.7	%	19.4	%	18.4	%	16.80		14.9	%
Total risk-based capital	24.4	%	22.8	%	20.7	%	19.7	%	18.1	%	16.2	%
Leverage (Tier 1 capital to average assets)	13.1	%	13.3	%	12.9	%	12.5	%	11.4	%	10.8	%
Average loans to average deposits	53.1	%	59.3	%	64.2	%	62.6	%	64.3	%	68.9	%

(1) Excludes \$1,038 of preferred stock outstanding.

(2) Non-performing assets includes non-accrual loans and OREO. There were no loans over 90 days delinquent and still accruing interest

(3) Annualized, where applicable.

The Efficiency ratio is a key performance indicator in our industry. The ratio is computed by dividing noninterest expense by the sum of interest income (tax equivalent basis) and noninterest income, net of any securities gains or losses.

(5) Operating revenue is defined as net interest income plus noninterest income.

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UNAUDITED COMPARATIVE PER COMMON SHARE DATA

The following summary presents per share information for First Community and Cornerstone on a historical, pro forma combined and pro forma diluted equivalent basis for the periods and as of the dates indicated below. The pro forma information gives effect to the merger accounted for using the acquisition method of accounting. This information should be read in conjunction with the historical financial statements and related notes and pro forma condensed consolidated financial data included elsewhere in this proxy statement/prospectus or incorporated by reference into this proxy statement/prospectus. The pro forma information should not be relied upon as being indicative of the historical results First Community and Cornerstone would have had if the merger had occurred before such periods or the future results that the First Community will experience after the merger.

The pro forma combined income per diluted share has been computed based on the diluted average number of shares of common stock of First Community adjusted for the additional shares to be issued in connection with the acquisition of Cornerstone. The merger equivalent income per diluted share of Cornerstone is based on the number of shares of First Community common stock into which each share of Cornerstone common stock will be converted in the merger.

The pro forma combined book value per share is based upon the pro forma combined equity of First Community divided by the pro forma number of outstanding shares of the combined companies as of March 31, 2017. The merger equivalent book value per share of Cornerstone is based on the 877,334 shares of First Community common stock into which the 1,624,693 shares of Cornerstone common stock outstanding as of March 31, 2017 will be converted in the merger. The foregoing assumes that the shares of First Community common stock to be issued will have a value of \$20.30 per share, the closing price per share of First Community common stock as of July 7, 2017 and that 30% of the outstanding non-dissenting shares of Cornerstone common stock will be exchanged for cash. The actual price of First Community stock on the date of merger may be different than the price used for the pro forma.

	As of and for the three months ended March 31, 2017	As of and for the year ended December 31, 2016
Net Income Per Common Share:		
Earnings per diluted share:		
First Community	\$ 0.26	\$ 0.98
Cornerstone	0.06	0.28
Pro Forma Combined	0.25	0.98
First Community merger equivalent ⁽¹⁾	0.14	0.53
Net Book Value Per Common Share (at period end)		
First Community	\$ 12.41	\$ 12.20
Cornerstone	8.54	8.42
Pro Forma Combined	13.47	13.29
First Community merger equivalent ⁽¹⁾	7.27	7.18
Cash Dividends Declared⁽²⁾		
First Community	\$ 0.09	\$ 0.32
Cornerstone	—	—
Pro Forma Combined	0.09	0.32
First Community merger equivalent ⁽¹⁾	0.0486	0.1728

- (1) Calculated by multiplying the pro forma combined amounts by 0.54.
- (2) First Community pro forma combined cash dividends and merger equivalent cash dividends are based only upon First Community's historical amounts.

RISK FACTORS

If the merger is consummated and you are a Cornerstone common stock shareholder, you may receive shares of First Community common stock in exchange for your shares of Cornerstone common stock. An investment in First Community common stock is subject to a number of risks and uncertainties, many of which also apply to your existing investment in Cornerstone common stock. Risks and uncertainties relating to general economic conditions are not summarized below. Those risks, among others, are highlighted on page 22 under the heading “Cautionary Statement Regarding Forward-Looking Statements.”

However, there are a number of other risks and uncertainties relating to First Community that you should consider in deciding how to vote on the merger agreement in addition to the risks and uncertainties associated with financial institutions generally. Many of these risks and uncertainties could affect First Community’s future financial results and may cause First Community’s future earnings and financial condition to be less favorable than First Community’s expectations. In addition to the other information, including risk factors, incorporated by reference herein from First Community’s Annual Reports on Form 10-K for the year ended December 31, 2016, you should carefully read and consider the following factors in evaluating the merger and in deciding whether to elect to receive cash, shares of First Community common stock or some combination thereof in the merger.

Risks Related to the Merger

First Community and Cornerstone shareholders will experience a reduction in percentage ownership and voting power of their shares as a result of the merger.

First Community shareholders and Cornerstone shareholders will experience a reduction in their respective percentage ownership interests and effective voting power relative to their respective percentage ownership interests in First Community and Cornerstone compared to their ownership interests and voting power prior to the merger. If the merger is consummated, current First Community shareholders will own approximately 88.4% of First Community’s outstanding common stock, on a fully diluted basis, and current Cornerstone shareholders will own approximately 11.6% of First Community’s outstanding common stock, on a fully diluted basis. Accordingly, former Cornerstone shareholders will own less than a majority of the outstanding voting stock of the combined company and could, as a result, be outvoted by current First Community shareholders if such current First Community shareholders voted together as a group. Shareholders of both companies will experience a reduction in percentage ownership and voting power of their shares as a result of the merger.

Because the market price of First Community common stock will fluctuate, Cornerstone shareholders cannot be sure of the exact value of shares of First Community common stock they will receive.

Upon completion of the merger, each outstanding share of Cornerstone common stock will be converted into the merger consideration consisting of cash, shares of First Community common stock, or a combination of cash and shares of First Community common stock, as provided in the merger agreement. If a Cornerstone shareholder receives only cash as merger consideration, the value of the merger consideration that such Cornerstone shareholder receives will be independent of any fluctuations in the market price of First Community common stock. If a Cornerstone shareholder receives First Community common stock as part or all of the merger consideration, the value of such shares of First Community common stock received for each share of Cornerstone common stock will depend on the price per share of First Community common stock at the time the shares are actually received by a Cornerstone shareholder. The closing price of First Community common stock on the date that the shareholder actually receives the shares of such stock after the merger is completed and the closing price of First Community stock on the date on which the effective time of the merger occurs may vary from each other, as well as from the closing price of First Community common stock on the date that the First Community and Cornerstone announced the merger, on the date that this proxy statement/prospectus is being mailed to First Community and Cornerstone shareholders, and on the date of the special shareholders' meeting. Stock price changes may result from a variety of factors, including general market and economic conditions, changes in First Community's business, operations and prospects, and regulatory considerations, among other things. Many of these factors are beyond the control of First Community. Accordingly, at the time of the Cornerstone special shareholders' meeting, because of the above timing differences, Cornerstone shareholders will not be able to calculate the number of shares of First Community common stock they may receive upon completion of the merger or the exact value of First Community common stock they may receive upon completion of the merger.

The form of merger consideration Cornerstone shareholders ultimately receive could be different from the form elected based on the form of merger consideration elected by other Cornerstone shareholders.

All Cornerstone shareholders will be permitted to make an election as to the form of consideration to receive. However, because the total amount of First Community common stock and cash to be issued in the merger is fixed, the exchange agent will be allowed, subject to limitations set forth in the merger agreement, to adjust the form of consideration that a Cornerstone shareholder will receive in order to ensure that 30% of the outstanding non-dissenting shares of Cornerstone common stock are converted into cash and 70% of the outstanding non-dissenting shares of Cornerstone common stock are converted into shares of First Community common stock. Consequently, if either the stock consideration or the cash consideration is oversubscribed, Cornerstone shareholders could receive a different form of consideration from the form they elect.

Combining the two companies may be more difficult, costly, or time consuming than First Community or Cornerstone expects.

The success of the merger will depend, in part, on First Community's ability to realize the anticipated benefits and cost savings from combining the businesses of First Community and Cornerstone. However, to realize these anticipated benefits and cost savings, we must successfully combine the businesses of First Community and Cornerstone. If we are not able to achieve these objectives, the anticipated benefits and cost savings of the merger may not be realized fully or at all or may take longer to realize than expected.

First Community and Cornerstone have operated, and, until completion of the merger, will continue to operate, independently. It is possible that the integration process could result in the loss of key employees or disruption of each company's ongoing business or inconsistencies in standards, controls, procedures, and policies that would adversely affect First Community's ability to maintain relationships with clients, depositors, and employees or to achieve the anticipated benefits of the merger. Integration efforts between the two companies will also divert management attention and resources. These integration matters could have an adverse effect on each of First Community and Cornerstone during that transition period.

First Community and Cornerstone will incur significant transaction and merger-related integration costs in connection with the merger.

First Community and Cornerstone expect to incur significant costs associated with completing the merger and integrating the operations of the two companies. First Community and Cornerstone are continuing to assess the impact of these costs. Although First Community and Cornerstone believe that the elimination of duplicate costs, as well as the realization of other efficiencies related to the integration of the businesses, will offset incremental transaction and merger-related costs over time, this net benefit may not be achieved in the near term, or at all.

First Community has not previously operated in Easley, Berea and Piedmont, South Carolina.

Cornerstone's service areas include Easley, Berea and Piedmont, South Carolina. The banking business in these areas is competitive, and the level of competition may increase further. First Community has not previously participated in these markets, and there may be unexpected challenges and difficulties that could adversely affect First Community following the merger.

The fairness opinion obtained by Cornerstone from its financial advisors will not reflect changes in circumstances between the date of the signing of the merger agreement and the completion of the merger.

Cornerstone has obtained a fairness opinion dated April 11, 2017 from Raymond James, and such opinion has not been updated as of the date of this proxy statement/prospectus and will not be updated at the time of the completion of the merger. Changes in the operations and prospects of Cornerstone or First Community, general market and economic conditions and other factors that may be beyond the control of Cornerstone and First Community, and on which the fairness opinion was based, may alter the value of Cornerstone or First Community or the prices of shares of Cornerstone common stock or First Community common stock by the time the merger is completed. The fairness opinion does not address the fairness of the merger consideration, from a financial point of view, at the time the merger is completed or as of any other date than the date of the opinion. The fairness opinion that Cornerstone received from its financial advisor is attached as Appendix C to this proxy statement/prospectus. For a description of the opinion, see “Proposal No. 1 – The Merger—Opinion of Cornerstone’s Financial Advisor.” For a description of the other factors considered by Cornerstone’s board of directors in determining to approve the merger, see “Proposal No. 1—The Merger—Cornerstone’s Reasons for the Merger; Recommendation of the Cornerstone Board of Directors.”

First Community and Cornerstone may not receive regulatory approvals or such approvals may take longer than expected or impose conditions First Community and Cornerstone do not presently anticipate.

The merger of the two banks must be approved by the FDIC and the SCBFI. These regulatory agencies will consider, among other things, the competitive impact of the bank merger, each of First Community and Cornerstone’s financial and managerial resources, and the convenience and needs of the communities to be served. As part of that consideration, First Community and Cornerstone expect that the FDIC will review the capital position, safety and soundness, and legal and regulatory compliance matters and Community Reinvestment Act matters. There can be no assurance as to whether the necessary regulatory approvals will be received, the timing of such approvals, or whether any conditions will be imposed that might limit the combined company’s ability to do business after the bank merger as presently anticipated.

The merger agreement limits Cornerstone’s ability to pursue alternatives to the merger.

The merger agreement contains provisions that limit Cornerstone’s ability to discuss competing third party proposals to acquire all or a significant part of Cornerstone. In addition, Cornerstone has agreed to pay First Community a termination fee of \$950,000 if the transaction is terminated because Cornerstone decides to pursue another acquisition transaction, among other things. These provisions might discourage a potential competing acquirer that might have an interest in acquiring all or a significant part of Cornerstone from considering or proposing that acquisition, even if it were prepared to pay consideration with a higher per share price than that proposed in the merger with First Community, or might result in a potential competing acquirer proposing to pay a lower per share price to acquire Cornerstone than it might otherwise have proposed to pay.

Cornerstone directors and executive officers have financial interests in the merger that are different from, or in addition to, the interests of Cornerstone shareholders.

Executive officers of Cornerstone negotiated certain terms of the merger agreement with their counterparts at First Community, and Cornerstone's board of directors adopted the merger agreement and by a unanimous vote of the directors recommended that Cornerstone shareholders vote to approve the merger agreement and the merger on the terms set forth in the merger agreement. In considering these facts and the other information contained in this proxy statement/prospectus, Cornerstone shareholders should be aware that Cornerstone's directors and executive officers have financial interests in the merger that are different from, or in addition to, the interests of Cornerstone shareholders. For example, each of the Cornerstone directors will be provided with indemnification and liability insurance, and will be invited to participate on an upstate advisory board of First Community Bank following the merger and will receive certain advisory fees for their service. J. Rodger Anthony, Cornerstone's President and Chief Executive Officer, Jennifer M. Champagne, Cornerstone's Chief Financial Officer, and Susan S. Jolly, Cornerstone's Senior Lender, will receive lump-sum cash payments pursuant to their change in control agreements with Cornerstone following the effectuation of the merger. In addition, at the closing of the merger, J. Rodger Anthony, President and Chief Executive Officer of Cornerstone, will continue as a consultant with First Community pursuant to a Consulting Agreement, and Susan S. Jolly, Cornerstone's Senior Vice President and Senior Lender and a director, will be employed by First Community Bank as a Senior Commercial Banker. These and some other additional interests of Cornerstone directors and executive officers may create potential conflicts of interest and cause some of these persons to view the proposed transaction differently than Cornerstone shareholders may view it. See "Proposal No.1 — The Merger—Interests of Executive Officers, Employees and Directors of Cornerstone in the Merger" for information about these financial interests.

If the merger is not completed, First Community common stock and Cornerstone common stock could be materially adversely affected.

The merger is subject to customary conditions to closing, including the approval of the holders of Cornerstone common stock. In addition, First Community and Cornerstone may terminate the merger agreement under certain circumstances. If First Community and Cornerstone do not complete the merger, the market price of First Community common stock or Cornerstone common stock may fluctuate to the extent that the current market prices of those shares reflect a market assumption that the merger will be completed. Further, whether or not the merger is completed, First Community and Cornerstone will also be obligated to pay certain investment banking, legal and accounting fees, and related expenses in connection with the merger, which could negatively impact results of operations when incurred. In addition, neither company would realize any of the expected benefits of having completed the merger. If the merger is not completed, First Community and Cornerstone cannot assure their respective shareholders that additional risks will not materialize or not materially adversely affect the business, results of operations and stock prices of First Community and Cornerstone.

The merger may fail to qualify as a reorganization for federal income tax purposes, resulting in a Cornerstone shareholder's recognition of taxable gain or loss in respect of all of his or her shares of Cornerstone common stock.

First Community and Cornerstone intend for the merger to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code"). We will not ask the Internal Revenue Service ("IRS") to provide a ruling on the matter. First Community and Cornerstone will, as a condition to closing, each obtain an opinion from their respective counsel that the merger will constitute a reorganization for federal income tax purposes. However, these opinions do not bind the IRS or prevent the IRS from adopting a contrary position. If the merger fails to qualify as a reorganization, Cornerstone shareholders generally would recognize gain or loss on all shares of Cornerstone common stock surrendered in the merger, regardless of whether surrendered for cash consideration or stock consideration. For each share, the gain or loss recognized would be an amount equal to the difference between the shareholder's adjusted tax basis in that share and the amount of cash or the fair market value of the First Community common stock received in exchange for that share upon completion of the merger. If the merger qualifies as a reorganization, Cornerstone shareholders may still recognize taxable gain with respect to the amount of cash received upon completion of the merger in exchange for their shares of Cornerstone common stock.

There are certain risks relating to First Community's business.

You should read and consider risk factors specific to First Community's business that will also affect the combined company after the merger. These risks are described in the section entitled "Risk Factors" in First Community's Annual Report on Form 10-K for the fiscal year ended December 31, 2016 and in other documents incorporated by reference into this document. See "Where You Can Find More Information" for the location of information incorporated by reference into this document.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This proxy statement/prospectus, including information included or incorporated by reference in this document, contains statements which constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act. Forward-looking statements may relate to, among other matters, the financial condition, results of operations, plans, objectives, future performance, and business of each of First Community and Cornerstone, as well as certain information relating to the merger. Forward-looking statements are based on many assumptions and estimates and are not guarantees of future performance. The actual results may differ materially from those anticipated in any forward-looking statements, as they will depend on many factors about which First Community and Cornerstone are unsure, including many factors that are beyond their control. The words “may,” “would,” “could,” “should,” “will,” “expect,” “anticipate,” “predict,” “project,” “potential,” “continue,” “contemplate,” “seek,” “intend,” “plan,” “forecast,” “goal,” “indicate,” “point to,” “target,” and “estimate,” as well as similar expressions, are meant to describe such forward-looking statements. Potential risks and uncertainties that could cause actual results to differ materially from those anticipated in our forward-looking statements include, but are not limited to, those described under “Risk Factors” section beginning on page 18 and the following:

- expected revenue synergies and cost savings from the merger may not be fully realized;
- revenues following the merger may be lower than expected;
 - ability to obtain governmental approvals of the merger on the proposed terms and schedule;
- failure of Cornerstone’s shareholders to approve the merger agreement;
- First Community’s ability to maintain appropriate levels of capital and to comply with its capital ratio requirements; examinations by First Community’s regulatory authorities, including the possibility that the regulatory authorities may, among other things, require First Community to increase its allowance for loan losses or write down assets or otherwise impose restrictions or conditions on its operations, including, but not limited to, its ability to acquire or be acquired;
- changes in economic conditions, either nationally or regionally and especially in First Community’s primary market areas, resulting in, among other things, a deterioration in credit quality;
- changes in interest rates, including an impact on First Community’s margin or a decline in its mortgage production and a decrease in the profitability of its mortgage banking operations;
- greater than expected losses due to higher credit losses generally and specifically because losses in the sectors of First Community’s loan portfolio secured by real estate are greater than expected due to economic factors, including, but not limited to, declining real estate values, increasing interest rates, increasing unemployment, or changes in payment behavior or other factors;
- changes in the amount of First Community’s loan portfolio collateralized by real estate and weaknesses in the South Carolina and national real estate markets;
- the adequacy of the level of First Community’s allowance for loan losses and the amount of loan loss provisions required in future periods;
- the rate of loan growth in recent or future years;
- First Community’s ability to retain its existing customers, including its deposit relationships;
 - significant increases in competitive pressure in the banking and financial services industries;
- changes in political conditions or the legislative or regulatory environment, including, but not limited to, the interpretation and enforcement of consumer laws and regulations, changes in federal or state tax laws or interpretations thereof by taxing authorities and other governmental initiatives affecting the banking and financial service industries;

- changes occurring in business conditions and inflation;
- increased funding costs due to market illiquidity, increased competition for funding, or increased regulatory requirements with regard to funding;
- First Community's business continuity plans or data security systems could prove to be inadequate, resulting in a material interruption in, or disruption to, business and a negative impact on results of operations;
- changes in deposit flows;
- changes in technology;
- changes in monetary and tax policies;

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

- loss of consumer confidence and economic disruptions resulting from terrorist activities or other military actions;
- First Community's expectations regarding its operating revenues, expenses, effective tax rates and other results of operations;
- First Community's anticipated capital expenditures and estimates regarding its capital requirements;
- First Community's liquidity and working capital requirements;
- competitive pressures among depository and other financial institutions;
- the growth rates of the markets in which First Community competes;
- First Community's anticipated strategies for growth and sources of new operating revenues;
- First Community's current and future products, services, applications and functionality and plans to promote them;
- anticipated trends and challenges in First Community's business and in the markets in which it operates;
- the evolution of technology affecting our products, services and markets;
- acquisition integration risks, including potential deposit attrition, higher than expected costs, customer loss and business disruption, including, without limitation, potential difficulties in maintaining relationships with key personnel and other integration related- matters, and the inability to identify and successfully negotiate and complete additional combinations with potential merger or acquisition partners or to successfully integrate such businesses, including the ability to realize the benefits and cost savings from, and limit any unexpected liabilities associated with, any such business combinations;
- First Community's ability to stay abreast of new or modified laws and regulations that currently apply or become applicable to it business;
- estimates and estimate methodologies used in preparing First Community's consolidated financial statements and determining option exercise prices; and
- other risks and uncertainties detailed from time to time in First Community's filings with the SEC.

Because of these and other risks and uncertainties, First Community's or Cornerstone's actual future results may be materially different from the results indicated by any forward-looking statements. In addition, First Community's and Cornerstone's past results of operations do not necessarily indicate their future results. Therefore, both companies caution you not to place undue reliance on their forward-looking information and statements. Both companies undertake no obligation to update or otherwise revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

All forward-looking statements in this proxy statement/prospectus are based on information available to First Community and Cornerstone as of the date of this proxy statement/prospectus. Although both companies believe that the expectations reflected in our forward-looking statements are reasonable, neither company can guarantee you that these expectations will be achieved. Both companies undertake no obligation to publicly update or otherwise revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

SPECIAL SHAREHOLDERS' MEETING

General

This document constitutes a proxy statement of Cornerstone in connection with its solicitation of proxies from its shareholders for the vote on the merger agreement and on the authorization to adjourn the special shareholders' meeting, as well as a prospectus of First Community in connection with its issuance of shares of First Community common stock as part of the merger consideration. The proxy statement/prospectus is being mailed by Cornerstone and First Community to Cornerstone shareholders of record on or about July 31, 2017, together with the notice of the special shareholders' meeting and a proxy solicited by Cornerstone's board of directors for use at the special shareholders' meeting and at any adjournments or postponements of the special shareholders' meeting.

Meeting Date, Time, and Place and Record Date

The Cornerstone special shareholders' meeting will be held at the main office of Cornerstone, 1670 East Main Street, Easley, South Carolina, 29640, at 4:00 p.m., local time, on Tuesday, September 19, 2017. Only holders of Cornerstone common stock of record at the close of business on July 14, 2017 will be entitled to receive notice of and to vote at the special shareholders' meeting. As of the record date, there were 2,320,991 shares of Cornerstone common stock outstanding and entitled to vote, with each such share entitled to one vote.

Matters to be Considered

At the Cornerstone special shareholders' meeting, Cornerstone shareholders will be asked to approve the merger agreement. Under the merger agreement, Cornerstone will merge with and into First Community. Shares of Cornerstone common stock will be converted into the right to receive cash, shares of common stock of First Community, or a combination of both cash and shares of common stock of First Community, at the shareholder's election. If a shareholder elects cash, the shareholder will receive \$11.00 for each share of Cornerstone common stock. If a shareholder elects stock, the shareholder will receive a 0.54 shares of First Community common stock. If a shareholder elects a combination, the shareholder will receive a combination of cash and First Community common stock for each share of Cornerstone common stock. Elections by shareholders are limited by a requirement that 30% of the total number of outstanding non-dissenting shares of Cornerstone common stock will be exchanged for cash and that 70% of the total number of outstanding non-dissenting shares of Cornerstone common stock will be exchanged for First Community common stock. If the elections made by Cornerstone shareholders would result in elections for either cash or stock that exceed these limitations, then the exchange agent will prorate the amount of cash and stock to be issued to Cornerstone shareholders as necessary to satisfy this requirement. Therefore, the form of consideration you receive will depend in part on the elections of other Cornerstone shareholders. First Community will not issue fractional shares in the merger. Instead, you will receive a cash payment, without interest, for the value of any fraction of a share of First Community common stock that you would otherwise be entitled to receive in an amount equal to

such fractional part of a share of First Community common stock multiplied by the volume weighted average price (rounded up to the nearest cent) of First Community common stock on The NASDAQ Capital Market during the 10 consecutive trading days ending on the fifth trading day immediately prior to the date on which the effective time of the merger occurs (referred to in the merger agreement as the “Average Parent Stock Price.”)

Cornerstone shareholders will also be asked to consider a proposal to authorize the board of directors to adjourn the special shareholders’ meeting to allow time for further solicitation of proxies in the event there are insufficient votes present at the special shareholders’ meeting, in person or by proxy, to approve the merger agreement. Finally, Cornerstone shareholders may also be asked to consider any other business that properly comes before the special shareholders’ meeting.

Each copy of this proxy statement/prospectus mailed to Cornerstone shareholders is accompanied by a proxy form for use at the special shareholders’ meeting.

Vote Required

Approval of the merger agreement requires the affirmative vote of the holders of two-thirds of all shares of Cornerstone common stock entitled to vote at the Cornerstone special shareholders' meeting. Approval of the proposal to authorize adjournment will require that more shares of common stock present in person or by proxy and entitled to vote on the matter vote in favor of the matter than vote against.

On the record date, there were 2,320,991 outstanding shares of Cornerstone common stock, each of which is entitled to one vote at the special shareholders' meeting. On that date, the directors and executive officers of Cornerstone and their affiliates beneficially owned a total of approximately 24.9% of the outstanding shares of Cornerstone common stock. Each of Cornerstone's directors and executive officers has agreed, subject to several conditions, to vote his or her shares of Cornerstone common stock in favor of the merger agreement. The presence, in person or by proxy, of shares of Cornerstone common stock representing a majority of Cornerstone's outstanding shares entitled to vote at the special meeting is necessary in order for there to be a quorum at the special shareholders' meeting. A quorum must be present in order for the vote on the merger agreement to occur.

Voting of Proxies

Shares of common stock represented by properly executed proxies received at or prior to the Cornerstone special shareholders' meeting will be voted at the special shareholders' meeting in the manner specified by the holders of such shares. Properly executed proxies that do not contain voting instructions will be voted "**FOR**" approval of the merger agreement and "**FOR**" the proposal to authorize adjournment.

Any record shareholder present in person or by proxy at the special shareholders' meeting who abstains from voting will be counted for purposes of determining whether a quorum exists.

Because approval of the merger agreement requires the affirmative vote of the holders of two-thirds of all shares of Cornerstone common stock entitled to vote at the Cornerstone special shareholders' meeting, abstentions and broker non-votes will have the same effect as votes against the proposal. Accordingly, Cornerstone's board of directors urges its shareholders to complete, date, and sign the accompanying proxy form and return it promptly in the enclosed, postage-paid envelope. Abstentions and broker non-votes will have no effect on the results of the vote on the proposal to authorize adjournment.

Revocability of Proxies

If you are a record shareholder, the grant of a proxy on the enclosed proxy card does not preclude you from voting in person or otherwise revoking your proxy. If you are a record shareholder, you may change or revoke your proxy at any time prior to its exercise by delivering to the Corporate Secretary of Cornerstone either a duly executed revocation or a proxy bearing a later date. In addition, if you are a record shareholder, you may revoke a proxy prior to its exercise by voting in person at the special shareholders' meeting. All written notices of revocation and other communications with respect to the revocation of Cornerstone proxies should be addressed to Cornerstone Bancorp, 1670 E. Main Street, Easley, South Carolina 29640, Attention: Corporate Secretary. Attendance at the special shareholders' meeting will not in and of itself constitute revocation of a proxy.

If your shares are held in street name by a broker or other nominee, you may change or revoke your voting instructions by submitting new voting instructions to your broker or other nominee as specified in your broker or other nominee's instructions.

Solicitation of Proxies

Cornerstone will pay all of the costs of soliciting proxies in connection with its special shareholders' meeting, except that First Community will pay the costs of filing the registration statement with the SEC, of which this proxy statement/prospectus is a part, and one-half of the costs of printing this proxy statement/prospectus. Solicitation of proxies may be made in person or by mail, telephone, or facsimile, or other form of communication by directors, officers, and employees of Cornerstone who will not be specially compensated for such solicitation. Nominees, fiduciaries, and other custodians will be requested to forward solicitation materials to beneficial owners and to secure their voting instructions, if necessary, and will be reimbursed for the expenses incurred in sending proxy materials to beneficial owners.

No person is authorized to give any information or to make any representation not contained in this proxy statement/prospectus and, if given or made, such information or representation should not be relied upon as having been authorized by Cornerstone, First Community, or any other person. The delivery of this proxy statement/prospectus does not, under any circumstances, create any implication that there has been no change in the business or affairs of Cornerstone or First Community since the date of the proxy statement/prospectus.

Recommendation of the Cornerstone Board of Directors

Cornerstone's board of directors has determined that the merger agreement and the transactions contemplated by it are in the best interests of Cornerstone and its shareholders. The board of directors of Cornerstone recommends that the Cornerstone shareholders vote "FOR" the merger proposal and "FOR" the proposal to adjourn the special meeting to solicit additional proxies, if necessary or appropriate.

In the course of reaching its decision to adopt the merger agreement and the transactions contemplated in the merger agreement, Cornerstone's board of directors, among other things, consulted with its legal advisors, Haynsworth Sinkler Boyd, P.A., regarding the legal terms of the merger agreement, and with its financial advisor, Raymond James & Associates, Inc., as to the fairness, from a financial point of view, of the consideration to be received by the holders of Cornerstone common stock in the merger. For a discussion of the factors considered by Cornerstone's board of directors in reaching its conclusion, see "Proposal No. 1—The Merger—Background of the Merger" and "—Cornerstone's Reasons for the Merger; Recommendation of the Cornerstone Board of Directors."

Cornerstone shareholders should note that Cornerstone's directors have certain interests in, and may derive benefits as a result of, the merger that are in addition to their interests as shareholders of Cornerstone. See "Proposal No. 1—The Merger—Interests of Executive Officers, Employees and Directors of Cornerstone in the Merger."

PROPOSAL NO. 1 - THE MERGER

The descriptions of the terms and conditions of the merger, the merger agreement, and any related documents in this proxy statement/prospectus are qualified in their entirety by reference to the copy of the merger agreement attached as Appendix A to this proxy statement/prospectus and incorporated herein by reference, to the registration statement, of which this proxy statement/prospectus is a part, and to the exhibits to the registration statement.

General

The Cornerstone board of directors is using this proxy statement/prospectus to solicit proxies from the holders of Cornerstone common stock for use at the Cornerstone special shareholders' meeting.

Cornerstone Proposal

At the Cornerstone special shareholders' meeting, holders of Cornerstone common stock will be asked to vote upon the adoption of the merger agreement. The merger will not be completed unless Cornerstone's shareholders adopt the merger agreement and, by doing so, approve the proposed merger.

Background of the Merger

The financial crisis that began in 2008, the related recession and the slow recovery brought with them a significant increase in the regulatory burdens on community banks without corresponding benefits. The costs of maintaining competitive information technology and cyber-services increased even as reduced interest rates reduced the opportunities to profit from lending activities. Cornerstone Bank also found it difficult to obtain qualified, experienced commercial lenders and compliance managers at reasonable costs. Although Cornerstone has the benefit of being in a desirable, growing market, it became increasingly apparent to Cornerstone's management and board of directors that, if Cornerstone were to remain independent, it would need to grow substantially in order to achieve economies of scale and results of operations comparable to those of larger financial institutions in the southeastern United States. Substantial growth in a short period of time typically involves heightened risks, and Cornerstone's management noted that the benefits of such growth for shareholders might be better achieved through a merger with a larger financial institution on favorable terms.

At the end of April, 2015, the OCC terminated its Formal Agreement with Cornerstone Bank, marking the Bank's completion of a nearly five-year effort to improve the quality of its loan portfolio and its policies and procedures to

reduce the risk of experiencing significant losses during any future economic downturns. During 2015 and 2016, Cornerstone received unsolicited, informal indications of interest from several other financial institutions that were interested in exploring a business combination transaction. In each case, Cornerstone management met with representatives of the interested parties and explored the possibilities. Using publicly available information about bank merger transactions in the Southeastern United States, management concluded it would not feel comfortable recommending a transaction to the Cornerstone board of directors that had a value of less than approximately \$10.00 per share of Cornerstone common stock. Management also identified as important considerations for a merger transaction that the merger partner's policies and approach to business be compatible with Cornerstone's in order to limit any disruption to customers and provide a reasonable continuing employment opportunity for many Cornerstone employees, and that the transaction enhance the liquidity of the Cornerstone shareholders' investment. Management communicated its price target and other considerations to the interested parties and provided requested information about Cornerstone. Ultimately, only the contact by First Community, which is discussed below, resulted in a formal proposal for a transaction.

During some of the informal discussions, management sought the advice of a representative of Raymond James & Associates, Inc., ("Raymond James") regarding the current state of the Southeastern bank merger market and the identity of potential merger partners that might have an interest in Cornerstone. On October 6, 2016, management met with Raymond James and reviewed a list of eighteen potential business combination partners, including all of the institutions referred to above. The discussion included the profile of each company and the liquidity and pricing ratios for each company.

Shortly after, but unrelated to, the October 6 meeting, the Cornerstone CEO was contacted by Hovde Group, LLC, First Community's financial advisor, seeking to set up a meeting between the CEOs of First Community and Cornerstone.

On October 11, 2016 the Cornerstone board of directors met informally and received a briefing by the Cornerstone CEO regarding the challenges facing Cornerstone and informal contacts by investment bankers and other banks inquiring as to Cornerstone's appetite for a business combination transaction. The Cornerstone CEO solicited the board's views regarding remaining independent versus consideration of a business combination transaction. The Cornerstone directors agreed that the Cornerstone CEO should continue to talk to interested parties.

A meeting with the First Community CEO was held on October 20, 2016. The First Community CEO explained that he had reviewed Cornerstone's publicly available data and believed that the two companies were compatible in their business models and customer profiles. He explained that First Community had recently opened a loan production office in Greenville and was looking to expand its presence in the Upstate region of South Carolina. The Cornerstone CEO indicated that Cornerstone was willing to explore a possible transaction, and the meeting concluded with an agreement that the First Community CEO would contact the Cornerstone CEO the following week.

The First Community CEO telephoned the Cornerstone CEO during the week of October 24, 2016, and said that he was interested in having further discussions, but that he needed to consult with the First Community board of directors before doing so.

In late October 2016, the Cornerstone CEO requested that Raymond James submit a proposal to provide financial advisory services to Cornerstone with respect to a potential merger transaction. Raymond James submitted the proposal on November 1, 2016.

The Cornerstone board of directors met on November 8, 2016, and received a report from management outlining its prior informal discussions with potential business combination parties, its criteria for evaluating a proposal and its recommendation to engage Raymond James as a financial adviser. Raymond James is a nationally recognized investment banking firm that is regularly engaged as a financial adviser to community banks in connection with mergers and other corporate transactions. The board of directors authorized management to engage Raymond James and to continue to explore the opportunity for a merger. Also present at the meeting was a representative of Haynsworth Sinkler Boyd, P.A. ("Haynsworth"), legal counsel to Cornerstone, who reviewed with Cornerstone's board of directors their legal obligations in connection with any transaction that would result in the sale of Cornerstone. Haynsworth has represented Cornerstone since its inception as corporate, securities, and bank regulatory counsel. Haynsworth has extensive experience with bank mergers and acquisitions, and it was, therefore, natural for Cornerstone to use Haynsworth in connection with a proposed transaction.

During December 2016 and January 2017, with the assistance of the management of Cornerstone, Raymond James reviewed due diligence materials provided by Cornerstone and placed relevant due diligence materials into a virtual data room for potential transaction partners to review.

On December 1, 2016, First Community and Cornerstone entered into a confidentiality agreement and First Community began conducting due diligence on Cornerstone shortly thereafter.

At its meeting on December 13, 2016, the Cornerstone board received an update on developments since the previous meeting of the board.

On January 10, 2017 a representative of Raymond James met with the Cornerstone board to discuss possible terms of a transaction with First Community and the board's interest in continuing discussion with First Community. Items discussed included consideration for a potential business combination transaction, stock/cash mix of consideration, the potential for employee retention, treatment of in-the-money options outstanding, time frames for a transaction and the potential for volatility in the value of any stock consideration received in a transaction. The board expressed a willingness to move forward with discussions with First Community.

On January 26, 2017, First Community submitted a non-binding expression of interest to Cornerstone containing the proposed terms of a merger transaction pursuant to which Cornerstone would merge into First Community for merger consideration of \$10.50 per share of Cornerstone common stock (based on a recent 30-day volume weighted average price of First Community common stock of \$18.50). The proposed merger consideration was 30% cash and 70% in First Community stock (at an exchange ratio of 0.5676 shares of First Community common stock per share of Cornerstone common stock that would be converted into First Community stock).

On January 30, 2017, the Cornerstone board held a telephonic meeting with Haynsworth and Raymond James to review the January 26, 2017 non-binding expression of interest. The Cornerstone board authorized the Cornerstone CEO to agree to the non-binding expression of interest subject to clarification of the period for exclusive negotiations and non-compete agreements for the employee directors.

Between January 31, 2017 and Friday, February 24, 2017 Cornerstone and First Community, acting through their financial advisers and CEOs, held a number of discussions regarding Cornerstone and the terms of a non-binding expression of interest, including with respect to the exclusivity period, non-competition and non-solicitation requirements for employee directors, Cornerstone's change in control payment obligations to employee directors, the effect of the increasing price of First Community stock on the consideration for a merger and the amount of the merger consideration. Members of the First Community management team also conducted an on-site due diligence visit to Cornerstone's offices on February 11 and 12, 2017 to review loan files and other data that had not been placed in the virtual data room.

Between January 26, 2017 and Friday, February 24, 2017, First Community's common stock traded at notably higher average prices than the 30-day volume weighted average price of First Community common stock of \$18.50 that had been used as the basis for the non-binding expression of interest submitted by First Community on January 26, 2017.

First Community revised its merger consideration proposal and on Monday, February 27, 2017, First Community presented a revised non-binding expression of interest to Cornerstone. The terms of the February 27 letter included cash merger consideration of \$11.00 per share of Cornerstone common stock that would be converted into cash in the merger and an exchange ratio of 0.54 shares of First Community common stock per share of Cornerstone common stock that would be converted into First Community stock (which, based on the 30-day volume weighted average price of First Community common stock of \$20.41 as of Friday, February 24, 2017, implied a value of \$11.02 per share of Cornerstone common stock that would be converted into First Community stock). The CEO of Cornerstone spoke to the CEO of First Community regarding the terms of the proposed non-compete terms for Cornerstone's senior lender and reached an understanding regarding the proposed terms.

The Cornerstone board held a telephonic meeting on February 27, 2017 and discussed the revised non-binding expression of interest. The Cornerstone board determined that Cornerstone should continue moving forward with merger discussions with First Community.

On February 28, 2017 Cornerstone's CEO notified First Community's CEO that the terms of the February 27, 2017 non-binding expression of interest were an acceptable basis for the negotiation of a binding definitive merger agreement for presentation to the Cornerstone board of directors.

On March 3, 2017, First Community submitted a proposed definitive merger agreement to Cornerstone. Over the next several weeks, Cornerstone, First Community and their respective legal counsel and financial advisers negotiated the terms and conditions of the merger agreement, including the termination provisions, and related agreements. During this time, representatives of Cornerstone and representatives of First Community engaged in a number of additional due diligence conversations.

On March 20, 2017, First Community and Cornerstone entered into a confidentiality agreement with respect to non-public due diligence information regarding First Community. Cornerstone thereafter conducted additional due diligence of First Community.

On April 4, 2017, the Cornerstone board of directors met with Raymond James and Haynsworth to consider the First Community proposal and draft merger agreement. Haynsworth reviewed with Cornerstone's board of directors their obligations to Cornerstone and its shareholders and reminded them that the acceptance of the non-binding expression of interest from First Community did not obligate Cornerstone to enter into the merger agreement. Haynsworth then reviewed in detail the terms of the most recent draft of the merger agreement. Raymond James made a presentation that summarized the financial matters associated with the proposed transaction and included comparisons to certain publicly traded companies similar to First Community and Cornerstone, an analysis of recently completed mergers and acquisitions similar to the proposed merger, an analysis of estimated future earnings and terminal value of Cornerstone and other analyses relevant to the financial terms of the merger. The presentation also described the estimated impact of the proposed transaction on First Community. Raymond James reviewed with the Cornerstone board of directors its preliminary analysis of the merger consideration. Raymond James advised the board that its analysis was as of such date and based upon and subject to various qualifications and assumptions described in the meeting, including and subject to further review of transaction terms and negotiation. At this meeting the board did not request and Raymond James did not provide a fairness opinion. Haynsworth then presented to Cornerstone's board of directors draft resolutions to approve and authorize the signing of the merger agreement and the submission of the merger agreement to Cornerstone's shareholders for approval with the recommendation of Cornerstone's board of directors that Cornerstone's shareholders vote for approval of the merger agreement. After discussion, Cornerstone's board of directors voted to adopt the resolutions and approve the signing of the merger agreement, subject to their decision being ratified at a telephonic meeting of the board of directors to be held two days later and to Raymond James' written fairness opinion being delivered on April 11, 2017.

On April 6, 2017, the Cornerstone board of directors held a telephonic meeting, also attended telephonically by Haynsworth and Raymond James, and ratified their previous decision to approve the merger agreement and authorize the Cornerstone CEO to sign the merger agreement on April 11, 2017 after receipt of Raymond James' written fairness opinion.

On April 11, 2017, Raymond James delivered its written fairness opinion to the Cornerstone board of directors. Thereafter, the merger agreement was executed by officers of First Community and Cornerstone, and, before the market opened on April 12, 2017, First Community and Cornerstone issued a joint press release announcing the execution of the merger agreement and the terms of the proposed acquisition of Cornerstone by First Community.

Cornerstone's Reasons for the Merger; Recommendation of the Cornerstone Board of Directors

After careful consideration at its meetings on October 11, 2016, November 8, 2016, December 13, 2016, January 10, 2017, February 7, 2017, February 27, 2017, April 4, 2017 and April 6, 2017, Cornerstone's board of directors determined that the merger agreement is in the best interests of Cornerstone and its shareholders and that the consideration to be received in the merger is fair to the Cornerstone shareholders. Accordingly, Cornerstone's board of directors adopted and approved the merger agreement and unanimously recommends that Cornerstone shareholders vote "FOR" approval of the merger agreement.

In reaching its decision to adopt and approve the merger agreement and recommend the merger to its shareholders, Cornerstone's board of directors consulted with Cornerstone's management, as well as its legal and financial advisors, and considered as part of its process a number of positive factors, including the following material factors:

the board of directors' knowledge of and deliberation with respect to Cornerstone's business, operations, financial condition, earnings and prospects, and of First Community's business, operations, financial condition, earnings and prospects, taking into account the results of Cornerstone's due diligence review of First Community and information provided by Raymond James;

the board of directors' knowledge of and deliberation with respect to the current environment in the financial services industry, including national, regional and local economic conditions, continued consolidation, increased regulatory burdens, evolving trends in technology and increasing nationwide and global competition, current financial market conditions, and the likely effects of these factors on the companies' potential growth, development, productivity, profitability and strategic options, and the historical market prices of Cornerstone and First Community common stock;

the careful review undertaken by Cornerstone's board of directors and management, with the assistance of Cornerstone's financial advisor, with respect to the strategic challenges and alternatives available to Cornerstone if it remained an independent community bank;

the complementary aspects of the Cornerstone and First Community businesses, including customer focus, geographic coverage, business orientation and compatibility of the companies' management and operating styles;

the potential expense-saving and revenue-enhancing opportunities in connection with the merger, the related potential impact on the combined company's earnings and the fact that the nature of the merger consideration would allow former Cornerstone shareholders to participate as First Community shareholders in the benefits of such savings opportunities and the future performance of the combined company generally;

the terms of the merger agreement, and the presentation by Cornerstone's legal counsel regarding the merger and the merger agreement;

the prospect of Cornerstone's shareholders becoming shareholders of a company with a much larger shareholder base resulting in a much more liquid common stock;

the prospect of Cornerstone's shareholders becoming shareholders of a company with a history of paying cash dividends;

First Community's successful track record and Cornerstone's board of directors' belief that the combined enterprise would benefit from application of First Community's ability to take advantage of economies of scale and grow in the current economic environment while providing improved service to Cornerstone's customers, communities and markets, making First Community an attractive partner for Cornerstone;

the preliminary analysis presented to Cornerstone by Raymond James on April 4, 2017, regarding the financial matters associated with the proposed transaction that included comparisons to selected publicly traded companies, analysis of recently completed mergers and acquisitions similar to the proposed merger and other analyses relevant to the financial terms of the merger;

the written opinion delivered to Cornerstone's board of directors by Raymond James to the effect that, as of April 11, 2017, and based upon and subject to the assumptions, procedures, considerations, qualifications, and limitations set forth in the opinion, the merger consideration to be received pursuant to the merger agreement was fair, from a financial point of view, to the holders of shares of Cornerstone common stock;

the financial terms of the merger, including the fact that, based on the closing price of First Community common stock on the Nasdaq Global Market as of market close on April 3, 2017 (the trading day prior to Cornerstone's board of directors' preliminary decision), the implied value of the per share merger consideration represented a substantial premium over the recent trading price of Cornerstone common stock on the over-the-counter market;

the board of directors' belief that the proposed merger with First Community would generally be a tax-free transaction to Cornerstone's shareholders with respect to the First Community common stock to be received by Cornerstone's shareholders in the merger; and

the regulatory and other approvals required in connection with the merger and the board of directors' determination as to the likelihood that the approvals needed to complete the merger would be obtained without unacceptable conditions.

Cornerstone's board of directors also considered as a part of its process potential risks and potentially negative factors concerning the merger in connection with its deliberations on the proposed transaction, including the following material factors:

the potential risk that a further downturn in the South Carolina housing and business markets could negatively impact First Community's loan portfolio, and thereby affect the value of the First Community common stock to be received by Cornerstone's shareholders in the merger;

the potential risk of diverting management focus and resources from other strategic opportunities and from operational matters while working to implement the merger;

the provisions of the merger agreement restricting Cornerstone's solicitation of third-party acquisition proposals and providing for the payment of a termination fee in certain circumstances, which Cornerstone's board of directors understood, while potentially limiting the willingness of a third party to propose a competing business combination transaction with Cornerstone, were a condition to First Community's willingness to enter into the merger agreement;

the fact that Cornerstone's board of directors and executive officers have other interests in the merger that are different from, or in addition to, their interests as Cornerstone shareholders. See "— Interests of Cornerstone Directors and Executive Officers in the Merger;"

the possibility that the merger could be announced but not consummated, and the possibility that Cornerstone could lose customers, business and employees as a result of announcing the transaction; and

the possibility that the required regulatory and other approvals might not be obtained.

The foregoing recitation of factors considered by Cornerstone's board of directors as part of its process is not intended to be exhaustive, but is believed to include substantially all material factors considered by Cornerstone's board of directors. In view of the wide variety of the factors considered in connection with its evaluation of the merger and the complexity of these matters, Cornerstone's board of directors did not find it useful, and did not attempt, to quantify, rank or otherwise assign relative weights to these factors. Furthermore, in considering the factors described above, the individual members of Cornerstone's board of directors may have given different weights to different factors. Cornerstone's board of directors conducted an overall analysis of the factors described above, engaged in thorough discussions among themselves, had discussions with, and questioned, Cornerstone's management and legal and financial advisors, and considered the factors overall to be favorable to, and to support, its determination.

The foregoing explanation of Cornerstone's board of directors' reasoning and all other information presented in this section is forward-looking in nature and, therefore, should be read in light of the factors discussed in the section entitled "Warning About Forward-Looking Statements."

Cornerstone's Unaudited Prospective Financial Information

Cornerstone does not as a matter of course publicly disclose forecasts or internal projections as to future performance, revenues, earnings, financial condition or other results due to, among other reasons, the uncertainty of the underlying assumptions and estimates. However, in connection with the evaluation of a potential merger, Cornerstone management prepared certain relevant projections of Cornerstone's future financial performance, which we refer to as the Cornerstone management projections, which contain unaudited prospective financial information with respect to Cornerstone on a standalone, pre-merger basis, and which were made available to Cornerstone's financial advisor, Raymond James. The Cornerstone management projections for 2017 through 2022 were also provided to First Community. The Cornerstone management projections were not prepared with a view toward public disclosure and the inclusion of the Cornerstone management projections in this document should not be regarded as an indication that Cornerstone or any other recipient of the Cornerstone management projections considered, or now considers, them to be necessarily predictive of actual future results. Neither Cornerstone nor any of its affiliates assumes any responsibility for the accuracy of the Cornerstone management projections. The Cornerstone management projections were not prepared with a view toward complying with the guidelines of the SEC, the guidelines established by the Public Company Accounting Oversight Board for preparation or presentation of financial information, or generally accepted accounting principles in the United States. Neither Cornerstone's current independent registered public accounting firm, Elliott Davis Decosimo, LLC, nor any other independent accountants, have compiled, examined or performed any procedures with respect to the Cornerstone management projections, or expressed any opinion or any other form of assurance on such information or its achievability. The report of Elliott Davis Decosimo, LLC that

appears in Appendix E to this document relates only to Cornerstone's historical financial information. It does not extend to any prospective financial information.

The Cornerstone prospective financial information reflects numerous estimates and assumptions made by Cornerstone management with respect to industry performance, general business, economic, regulatory, market and financial conditions and other future events, as well as matters specific to Cornerstone's business, all of which are difficult to predict and many of which are beyond Cornerstone's control. The Cornerstone management projections also reflect assumptions as to certain business decisions that are subject to change. The Cornerstone management projections reflect subjective judgment in many respects and thus are susceptible to multiple interpretations and periodic revisions based on actual experience and business developments. As such, the Cornerstone management projections constitute forward-looking information and are subject to risks and uncertainties that could cause actual results to differ materially from the results forecasted in such prospective information, including, but not limited to, Cornerstone's performance, industry performance, general business and economic conditions, customer requirements, competition, and adverse changes in applicable laws, regulations or rules, interest rates, and the regulatory environment. See "Information About Cornerstone—Cautionary Notice With Respect to Forward-Looking Statements" beginning on page 84. None of Cornerstone, First Community nor any of their financial advisors nor any of their affiliates assumes any responsibility for the validity, accuracy or completeness of the Cornerstone management projections described below. The Cornerstone management projections do not take into account any circumstances or events occurring after the date they were prepared, including the transactions contemplated by the merger agreement. Further, the Cornerstone management projections do not take into account the effect of any failure of the merger to occur. None of Cornerstone, First Community nor any of their financial advisors nor any of their affiliates intends to, and each of them disclaims any obligation to, update, revise or correct such Cornerstone management projections if they are or become inaccurate (even in the short term). The inclusion of the Cornerstone management projections herein should not be deemed an admission or representation by Cornerstone or First Community that they are viewed by Cornerstone or First Community as material information of Cornerstone, particularly in light of the inherent risks and uncertainties associated with such forecasts.

(Dollars in thousands, except per share amounts)	Estimated FYE December 31,					
	2017	2018	2019	2020	2021	2022
Balance Sheet Summary						
Assets						
Cash & Securities	\$62,160	\$64,883	\$67,937	\$71,070	\$74,450	\$77,986
Loans Held for Investment	80,162	86,093	92,462	99,303	106,651	114,489
Loan Loss Reserves	1,036	1,121	1,210	1,298	1,386	1,488
Total Net Loans	79,126	84,972	91,253	98,005	105,264	113,001
Deferred Tax Asset	779	779	779	779	779	779
Other Assets	9,103	8,598	8,234	7,872	7,511	7,424
Total Assets	\$151,169	\$159,231	\$168,203	\$177,726	\$188,004	\$199,190
Liabilities & Shareholders' Equity						
Total Deposits	\$129,832	\$137,215	\$145,448	\$154,175	\$163,425	\$172,945
Other Liabilities	1,255	1,294	1,362	1,431	1,503	2,114
Total Liabilities	131,087	138,509	146,809	155,606	164,928	175,058
Other Preferred Equity	999	999	999	999	999	999
Common Equity	19,083	19,724	20,395	21,121	22,077	23,133
Total Equity	20,082	20,723	21,394	22,120	23,076	24,131
Total Liabilities & Shareholders' Equity	\$151,169	\$159,231	\$168,203	\$177,726	\$188,004	\$199,190
Income Statement Summary						
Interest Income	\$4,843	\$5,182	\$5,554	\$5,890	\$6,394	\$6,836
Interest Expense	403	495	775	975	1,090	1,154
Net Interest Income	4,440	4,686	4,779	4,915	5,304	5,682
Provision for Loan Losses	9	85	88	88	88	102
Non-Interest Income	828	827	826	826	826	874
Non-Interest Expense	4,313	4,331	4,375	4,426	4,467	4,730
Net Income before Taxes	946	1,097	1,142	1,226	1,574	1,725
Provision for Income Taxes	322	373	388	417	535	586
Net Income	625	724	754	809	1,039	1,138
Preferred Dividends and Accretion	83	83	83	83	83	83
Net Income Available to Common	\$542	\$641	\$671	\$726	\$956	\$1,055
Common Shares Outstanding (000s)	2,321	2,321	2,321	2,321	2,321	2,321
Fully Diluted Shares (000s)	2,321	2,321	2,321	2,321	2,321	2,321
Diluted Earnings Per Share	\$0.23	\$0.28	\$0.29	\$0.31	\$0.41	\$0.45

Opinion of Cornerstone's Financial Advisor

Cornerstone retained Raymond James as financial advisor on November 29, 2016. Pursuant to that engagement, the Cornerstone board of directors requested that Raymond James evaluate the fairness, from a financial point of view, to the holders of Cornerstone's outstanding common stock of the merger consideration to be received by such holders pursuant to the merger agreement. Raymond James is a nationally recognized investment banking firm that is regularly engaged as a financial adviser to community banks in connection with mergers and acquisitions and other corporate transactions.

At the request of Cornerstone's board of directors, on April 11, 2017, Raymond James delivered its written opinion (the "Opinion"), as to the fairness, as of April 11, 2017, from a financial point of view, to the holders of Cornerstone's outstanding common stock of the merger consideration to be received by such holders in the transaction pursuant to the merger agreement, based upon and subject to the qualifications, assumptions and other matters considered in connection with the preparation of its Opinion.

The full text of the written Opinion of Raymond James is attached as Appendix C to this document. The summary of the Opinion of Raymond James set forth in this document is qualified in its entirety by reference to the full text of such written opinion. Holders of Cornerstone common stock are urged to read this opinion in its entirety.

Raymond James provided its Opinion for the information of the Cornerstone board of directors (solely in each director's capacity as such) in connection with, and for purposes of, its consideration of the transaction and its opinion only addresses whether the merger consideration to be received by the holders of the Cornerstone common stock in the transaction pursuant to the merger agreement was fair, from a financial point of view, to such holders. The Opinion of Raymond James does not address any other term or aspect of the merger agreement or the transaction contemplated thereby. The Raymond James Opinion does not constitute a recommendation to the board or to any holder of Cornerstone common stock as to how the board, such shareholder or any other person should vote or otherwise act with respect to the transaction or any other matter. Raymond James does not express any opinion as to the likely trading range of First Community's common stock following the merger, which may vary depending on numerous factors that generally impact the price of securities or on the financial condition of First Community at that time.

In connection with its review of the proposed transaction and the preparation of its Opinion, Raymond James, among other things:

Reviewed the financial terms and conditions as stated in the draft of the Agreement and Plan of Merger by and between First Community Corporation and Cornerstone Bancorp dated as of April 11, 2017;

reviewed certain information related to the historical, current and future operations, financial condition and prospects of Cornerstone made available to Raymond James by Cornerstone, including, but not limited to, financial projections prepared by the management of Cornerstone relating to Cornerstone for the periods ending through December 31, 2022, as approved for use by Cornerstone (the “Projections”);

· reviewed Cornerstone’s recent public filings and certain other publicly available information regarding Cornerstone;

· reviewed financial, operating and other information regarding Cornerstone and the industry in which it operates;

· reviewed the financial and operating performance of Cornerstone and those of selected public companies that Raymond James deemed to be relevant;

· considered the publicly available financial terms of certain transactions Raymond James deemed to be relevant;

reviewed the current and historical market prices and trading volume for the Cornerstone common stock, and the current market prices of the publicly traded securities of certain companies that Raymond James deemed to be relevant;

conducted such other financial studies, analyses and inquiries and considered such other information and factors as Raymond James deemed appropriate; and

discussed with members of the senior management of Cornerstone certain information relating to the aforementioned and any other matters which Raymond James deemed relevant.

With Cornerstone's consent, Raymond James assumed and relied upon the accuracy and completeness of all information supplied by or on behalf of Cornerstone or otherwise reviewed by or discussed with Raymond James, and Raymond James undertook no duty or responsibility to, nor did it, independently verify any of such information. Raymond James did not make or obtain an independent appraisal of the assets or liabilities (contingent or otherwise) of Cornerstone. Raymond James is not an expert in the evaluation of loan and lease portfolios for purposes of assessing the adequacy of the allowances for loan losses; accordingly, Raymond James assumed that such allowances for losses are in the aggregate adequate to cover such losses. With respect to the projections and any other information and data provided to or otherwise reviewed by or discussed with it, Raymond James, with the board's consent, assumed that the projections and such other information and data were reasonably prepared in good faith on bases reflecting the best currently available estimates and judgments of management of Cornerstone, and Raymond James relied upon Cornerstone to advise it promptly if any information previously provided became inaccurate or was required to be updated during the period of its review. Raymond James expressed no opinion with respect to the Projections or the assumptions on which they were based. Raymond James assumed that the final form of the merger agreement would be substantially similar to the draft reviewed by Raymond James, and that the transaction will be consummated in accordance with the terms of the merger agreement without waiver or amendment of any conditions thereto. Furthermore, Raymond James assumed, in all respects material to its analysis, that the representations and warranties of each party contained in the merger agreement were true and correct and that each such party will perform all of the covenants and agreements required to be performed by it under the merger agreement without being waived. Raymond James relied upon and assumed, without independent verification, that (i) the transaction will be consummated in a manner that complies in all respects with all applicable international, federal and state statutes, rules and regulations, and (ii) all governmental, regulatory, and other consents and approvals necessary for the consummation of the transaction will be obtained and that no delay, limitations, restrictions or conditions will be imposed or amendments, modifications or waivers made that would have an effect on the transaction or Cornerstone that would be material to the analyses or Opinion.

Raymond James relied upon, without independent verification, the assessment of Cornerstone's management and its legal, tax, accounting and regulatory advisors with respect to all legal, tax, accounting and regulatory matters, including without limitation that the transaction will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended.

The Opinion is based upon market, economic, financial and other circumstances and conditions existing and disclosed to Raymond James as of April 10, 2017 and any material change in such circumstances and conditions would require

a reevaluation of the Opinion, which Raymond James has no obligation to undertake. Raymond James relied upon and assumed, without independent verification, that there had been no change in the business, assets, liabilities, financial condition, results of operations, cash flows or prospects of Cornerstone since the respective dates of the most recent financial statements and other information, financial or otherwise, provided to Raymond James that would be material to its analyses or the Opinion, and that there was no information or any facts that would make any of the information reviewed by Raymond James incomplete or misleading in any material respect.

Raymond James expressed no opinion as to the underlying business decision to effect the transaction, the structure or tax consequences of the transaction or the availability or advisability of any alternatives to the transaction. Raymond James provided advice to the board with respect to the proposed transaction. Raymond James did not, however, recommend any specific amount of consideration or that any specific consideration constituted the only appropriate consideration for the transaction. The Opinion does not express any opinion as to the value of First Community's common stock or its likely trading range following the transaction, which may vary depending on numerous factors that generally impact the price of securities or on the financial condition of First Community at that time. The Opinion is limited to the fairness, from a financial point of view, of the merger consideration to be received by the holders of the common shares.

Raymond James expressed no opinion with respect to any other reasons, legal, business, or otherwise, that may support the decision of the Cornerstone board of directors to approve or consummate the transaction. Furthermore, no opinion, counsel or interpretation is intended by Raymond James on matters that require legal, accounting or tax advice. It is assumed that such opinions, counsel or interpretations have been or will be obtained from the appropriate professional sources. Furthermore, Raymond James relied, with the consent of the board, on the fact that Cornerstone has been assisted by legal, accounting and tax advisors and Raymond James, with the consent of the board, relied upon and assumed the accuracy and completeness of the assessments by Cornerstone and its advisors as to all legal, accounting and tax matters with respect to Cornerstone and the transaction.

In formulating the Opinion, Raymond James considered only what it understood to be the consideration to be received by the holders of Cornerstone common shares as is described above and Raymond James did not consider and Raymond James expressed no opinion on the fairness of the amount or nature of any compensation to be paid or payable to any of Cornerstone's officers, directors or employees, or class of such persons, whether relative to the compensation received by the holders of the common shares or otherwise. Raymond James was not requested to opine as to, and the Opinion did not express an opinion as to or otherwise address, among other things: (1) the fairness of the transaction to the holders of any class of securities, creditors, or other constituencies of Cornerstone, or to any other party, except and only to the extent expressly set forth in the last sentence of the Opinion or (2) the fairness of the transaction to any one class or group of Cornerstone's or any other party's security holders or other constituencies vis-à-vis any other class or group of Cornerstone's or such other party's security holders or other constituents (including, without limitation, the allocation of any consideration to be received in the transaction amongst or within such classes or groups of security holders or other constituents). Raymond James did not express any opinion as to the impact of the transaction on the solvency or viability of Cornerstone or First Community or the ability of Cornerstone or First Community to pay their respective obligations when they come due.

Material Financial Analyses

The following summarizes the material financial analyses provided by Raymond James to the Cornerstone board of directors on April 11, 2017, which material was considered by Raymond James in rendering its opinion. No company or transaction used in the analyses described below is identical or directly comparable to Cornerstone, First Community or the contemplated transaction.

Selected Companies Analysis.

Raymond James analyzed the relative valuation multiples of seven (7) publicly-traded banks and thrifts in the Southeast (Alabama, Arkansas, Florida, Georgia, Mississippi, North Carolina, South Carolina, Tennessee, Virginia and West Virginia) with the following financial characteristics: (i) total assets between \$100 million and \$250 million; (ii) tangible common equity to tangible assets ratio (TCE / TA) between 10.0% and 15.0%; (iii) return on average assets (ROAA) for the last twelve months (LTM) between 0.25% and 1.50%; and (iv) nonperforming assets to assets ratio (NPAs / Assets) less than 3.00%. The aforementioned financial characteristics were shown for the bank

subsidiary if consolidated data was unavailable, and the financial characteristics were based on the most recent LTM period reported as of April 10, 2017. Raymond James excluded targets of announced mergers, grey market-traded companies, mutual holding companies, and companies with an average daily trading volume of less than 100 shares per day over the three months ended April 10, 2017. The selected companies that Raymond James deemed relevant included the following:

- Exchange Bankshares, Inc. (EXCH)
- Farmers Bank of Appomattox (FBPA)
- Bank of McKenney (BOMK)
- Pinnacle Bancshares, Inc. (PCLB)

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- United Tennessee Bankshares (UNTN)
- Virginia Bank Bankshares, Inc. (VABB)
- BlueHarbor Bank (BLHK)

Raymond James calculated various financial multiples for each company, including: (i) price per share at close on April 10, 2017 compared to tangible book value (TBV) per share at December 31, 2016; and (ii) price per share at close on April 10, 2017 to LTM earnings per share (EPS) for the most recent LTM period reported. LTM EPS financial multiples greater than two standard deviations away from the unadjusted mean were considered not meaningful. Raymond James reviewed the mean, median, 25th percentile and 75th percentile relative valuation multiples of the selected public companies and compared them to corresponding valuation multiples for Cornerstone implied by the merger consideration. The results of the selected public companies analysis are summarized below:

	Price / TBV Per Share		Price / LTM EPS	
Mean	87	%	12.9	x
Median	88	%	11.5	x
25 th Percentile	81	%	10.8	x
75 th Percentile	93	%	14.5	x
Cornerstone Common Share Merger Consideration	144	%	41.0	x

Furthermore, Raymond James applied the mean, median, 25th percentile and 75th percentile relative valuation multiples for each of the metrics to Cornerstone's actual financial results and determined the implied equity price per share of Cornerstone common stock and then compared those implied equity values per share to the merger consideration of \$11.49 per share. The results of this are summarized below:

	Price / TBV Per Share	Price / LTM EPS
Mean	\$ 6.93	\$ 3.60
Median	\$ 6.99	\$ 3.22
25 th Percentile	\$ 6.50	\$ 3.02
75 th Percentile	\$ 7.42	\$ 4.06
Cornerstone Common Share Merger Consideration	\$ 11.49	\$ 11.49

Selected Transaction Analysis.

Raymond James analyzed publicly available information relating to selected regional transactions announced since January 1, 2015 involving targets headquartered in the Southeast with the following financial characteristics: (i) total assets between \$100 million and \$250 million; (ii) TCE / TA between 10.0% and 15.0%; (iii) LTM ROAA greater than 0.00%; and (iv) NPAs / Assets less than 3.00%. Raymond James also analyzed publicly available information relating to selected national transactions announced since November 8, 2016 involving targets headquartered in the

United States with the following financial characteristics: (i) total assets between \$100 million and \$250 million; and (ii) TCE / TA greater than 8.0%. The aforementioned financial characteristics were shown for the bank subsidiary if consolidated data was unavailable, and the financial characteristics were based on the most recent LTM period reported. LTM ROAA and LTM EPS metrics were 35% tax-effected for S Corporations. Both regional and national selected transaction analyses excluded transactions without publicly disclosed deal value or sufficient information, transactions with equity ownership acquired less than 100%, investor recapitalizations and mergers of equals. The regional and national selected transactions used in the analysis included:

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Regional

- ◆ Acquisition of American Trust Bank of East Tennessee by Citco Community Bancshares, Inc. (7/22/2016)
- ◆ Acquisition of Independence Bank of Georgia by Pinnacle Financial Corp. (07/01/2016)
- ◆ Acquisition of Highland County Bancshares, Inc. by Summit Financial Group, Inc. (02/29/2016)
- ◆ Acquisition of Congaree Bancshares, Inc. by Carolina Financial Corp. (01/06/2016)
- ◆ Acquisition of Civic Bank & Trust by Franklin Financial Network, Inc. (12/14/2015)
- ◆ Acquisition of Oldtown Bank by Entegra Financial (11/24/2015)
- ◆ Acquisition of Columbus Community Bank by Southern States Bancshares, Inc. (7/21/2015)
- ◆ Acquisition of Highland Financial Services, Inc. by Hamilton State Bancshares (05/15/2015)
- ◆ Acquisition of Calusa Financial Corp., Inc. by Achieva CU (05/05/2015)
- ◆ Acquisition of PBSC Financial Corp. by Carolina Alliance Bank (03/24/2015)
- ◆ Acquisition of Community Business Bank by Community & Southern Holdings, Inc. (01/30/2015)

National:

- ◆ Acquisition of Bucks County Bank by First Bank (03/29/2017)
- ◆ Acquisition of CenterPointe Community Bank by Northwest Bancorp. (03/23/2017)
- ◆ Acquisition of Benchmark Bancorp, Inc. by United Bancshares, Inc. (03/22/2017)
- ◆ Acquisition of Patriot Federal Bank by Kinderhook Bank Corp. (03/15/2017)
- ◆ Acquisition of Citizens Bancshares, Inc. by Investar Holding Corp. (03/08/2017)
- ◆ Acquisition of Sound Banking Co. by West Town Bancorp, Inc. (02/17/2017)
- ◆ Acquisition of Premier Bancshares, Inc. by First Guaranty Bancshares, Inc. (01/30/2017)
- ◆ Acquisition of Blanco National Holdings, Inc. by Texas State Bankshares, Inc. (11/29/2016)

Raymond James examined valuation multiples of transaction value compared to the target companies' (i) most recent quarter tangible book value per share, (ii) most recent LTM EPS and (iii) most recent quarter core deposits (total deposits less time deposits greater than \$100,000). Tangible book value per share and LTM EPS transaction valuation multiples were shown on a per share basis where possible, and if per share valuation metrics were unavailable, aggregate pricing multiples were used. Tangible book value per share and LTM EPS transaction valuation multiples greater than two standard deviations from the unadjusted mean were considered not meaningful. Valuation multiples based on core deposits were based on aggregate transaction values. Raymond James reviewed the mean, median, 25th percentile and 75th percentile relative valuation multiples of the selected transactions and compared them to corresponding valuation multiples for Cornerstone implied by the merger consideration. Furthermore, Raymond James applied the mean, median, 25th percentile and 75th percentile relative valuation multiples to Cornerstone's tangible book value per share, LTM EPS, and core deposits to determine the implied equity price per share and then compared those implied equity values per share to the merger consideration of \$11.49 per share. The results of the selected transactions analysis are summarized below:

Regional:

	Deal Value per Share/ TBV Per Share		Implied Equity Price Per Share
Mean	129	%	\$ 10.32
Median	130	%	\$ 10.35
25th Percentile	121	%	\$ 9.67
75th Percentile	137	%	\$ 10.96
Cornerstone Common Share Merger Consideration	144	%	\$ 11.49

	Deal Value per Share/ LTM EPS		Implied Equity Price Per Share
Mean	25.2	x	\$ 7.04
Median	24.6	x	\$ 6.87
25th Percentile	19.1	x	\$ 5.34
75th Percentile	26.4	x	\$ 7.40
Cornerstone Common Share Merger Consideration	41.0	x	\$ 11.49

	Premium/Core Deposits		Implied Equity Price Per Share
Mean	5.7	%	\$ 10.70
Median	5.6	%	\$ 10.62
25th Percentile	3.6	%	\$ 9.70
75th Percentile	7.4	%	\$ 11.50
Cornerstone Common Share Merger Consideration	7.4	%	\$ 11.49

National:

	Deal Value per Share/ TBV Per Share		Implied Equity Price Per Share
Mean	137	%	\$ 10.91
Median	129	%	\$ 10.32
25th Percentile	124	%	\$ 9.89
75th Percentile	145	%	\$ 11.58
Cornerstone Common Share Merger Consideration	144	%	\$ 11.49

	Deal Value per Share/ LTM EPS		Implied Equity Price Per Share
Mean	22.7	x	\$ 6.34
Median	21.8	x	\$ 6.10
25th Percentile	20.5	x	\$ 5.75
75th Percentile	26.1	x	\$ 7.32
Cornerstone Common Share Merger Consideration	41.0	x	\$ 11.49

	Premium/Core Deposits		Implied Equity Price Per Share
Mean	5.0	%	\$ 10.38

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Median	5.1	%	\$ 10.41
25th Percentile	3.8	%	\$ 9.82
75th Percentile	6.5	%	\$ 11.08
Cornerstone Common Share Merger Consideration	7.4	%	\$ 11.49

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Discounted Cash Flow Analysis.

Raymond James analyzed the discounted present value of Cornerstone’s projected free cash flows for the years ending December 31, 2017 through December 31, 2022 on a standalone basis. Raymond James used tangible common equity in excess of a target ratio of 8.0% at the end of each projection period for free cash flow.

The discounted cash flow analysis was based on the projections. Consistent with the periods included in the Projections, Raymond James used calendar year 2022 as the final year for the analysis and applied multiples, ranging from 13.0x to 17.0x to calendar year 2022 adjusted net income in order to derive a range of terminal values for Cornerstone in 2022.

The projected free cash flows and terminal values were discounted using rates ranging from 13.5% to 15.5%. The resulting range of present equity values was divided by the number of diluted shares outstanding in order to arrive at a range of present values per Cornerstone share. Raymond James reviewed the range of per share prices derived in the discounted cash flow analysis and compared them to the price per share for Cornerstone implied by the merger consideration. The results of the discounted cash flow analysis are summarized below:

	Implied Equity Price Per Share
Minimum	\$ 5.72
Maximum	\$ 6.88
Common Share Merger Consideration	\$ 11.49

Additional Considerations.

The preparation of a fairness opinion is a complex process and is not susceptible to a partial analysis or summary description. Raymond James believes that its analyses must be considered as a whole and that selecting portions of its analyses, without considering the analyses taken as a whole, would create an incomplete view of the process underlying its opinion. In addition, Raymond James considered the results of all such analyses and did not assign relative weights to any of the analyses, but rather made qualitative judgments as to significance and relevance of each analysis and factor, so the ranges of valuations resulting from any particular analysis described above should not be taken to be the view of Raymond James as to the actual value of Cornerstone.

In performing its analyses, Raymond James made numerous assumptions with respect to industry performance, general business, economic and regulatory conditions and other matters, many of which are beyond the control of Cornerstone. The analyses performed by Raymond James are not necessarily indicative of actual values, trading

values or actual future results which might be achieved, all of which may be significantly more or less favorable than suggested by such analyses. Such analyses were provided to the Cornerstone board of directors (solely in each director's capacity as such) and were prepared solely as part of the analysis of Raymond James of the fairness, from a financial point of view, to the holders of Cornerstone common stock of the merger consideration to be received by such holders in connection with the proposed transaction pursuant to the merger agreement. The analyses do not purport to be appraisals or to reflect the prices at which companies may actually be sold, and such estimates are inherently subject to uncertainty. The Opinion of Raymond James was one of many factors taken into account by the Cornerstone board in making its determination to approve the transaction. Neither Raymond James's Opinion nor the analyses described above should be viewed as determinative of the Cornerstone board of directors' or Cornerstone management's views with respect to Cornerstone, First Community or the transaction. Raymond James provided advice to Cornerstone with respect to the proposed transaction. Raymond James did not, however, recommend any specific amount of consideration to the board or that any specific merger consideration constituted the only appropriate consideration for the transaction nor did Raymond James advise Cornerstone with respect to its strategic alternatives. Cornerstone placed no limits on the scope of the analysis performed, or opinion expressed, by Raymond James.

The Raymond James Opinion was necessarily based upon market, economic, financial and other circumstances and conditions existing and disclosed to it on April 10, 2017, and any material change in such circumstances and conditions may affect the Opinion of Raymond James, but Raymond James does not have any obligation to update, revise or reaffirm that Opinion. Raymond James relied upon and assumed, without independent verification, that there had been no change in the business, assets, liabilities, financial condition, results of operations, cash flows or prospects of Cornerstone since the respective dates of the most recent financial statements and other information, financial or otherwise, provided to Raymond James that would be material to its analyses or its Opinion, and that there was no information or any facts that would make any of the information reviewed by Raymond James incomplete or misleading in any material respect.

During the two years preceding the date of Raymond James's written Opinion, Raymond James has not been engaged by, performed investment banking services for or received any compensation from Cornerstone or First Community (other than any amounts that were paid by Cornerstone to Raymond James under the engagement letter described in this proxy statement pursuant to which Raymond James was retained as a financial advisor to Cornerstone to assist in reviewing strategic alternatives).

For services rendered in connection with the delivery of its Opinion, Cornerstone paid Raymond James a customary investment banking fee in the amount of \$150,000 upon delivery of its Opinion. Cornerstone also paid Raymond James a \$25,000 non-refundable cash retainer upon Cornerstone's signing of the engagement letter described in this proxy statement. Cornerstone will also pay Raymond James a customary transaction fee equal to the greater of (i) \$300,000 or (ii) 1.75% of any transaction value paid for advisory services in connection with the transaction, upon the closing of the transaction. The fairness opinion fee and cash retainer shall be credited against the transaction fee. Cornerstone also agreed to reimburse Raymond James for its expenses incurred in connection with its services, including the fees and expenses of its counsel, and will indemnify Raymond James against certain liabilities arising out of its engagement.

Raymond James is actively involved in the investment banking business and regularly undertakes the valuation of investment securities in connection with public offerings, private placements, business combinations and similar transactions. In the ordinary course of business, Raymond James may trade in the securities of Cornerstone and First Community for its own account and for the accounts of its customers and, accordingly, may at any time hold a long or short position in such securities. Raymond James may provide investment banking, financial advisory and other financial services to Cornerstone and/or First Community or other participants in the transaction in the future, for which Raymond James may receive compensation.

First Community's Reasons for the Merger

In the course of reaching its decision to merge with Cornerstone, the First Community board of directors considered many factors, including the positive and negative factors described elsewhere in this proxy statement/prospectus, and concluded that the adoption of the merger agreement, and the consummation of the merger described therein, is

advisable and in the best interests of First Community and First Community's shareholders.

In reaching their conclusion, the members of the First Community board of directors relied on, among other things, their personal knowledge of First Community, Cornerstone, and the banking industry, on information provided by executive officers of First Community, and on advice and information provided by First Community's legal and financial advisors.

The First Community board of directors considered numerous factors, including, among other things, the following, which are not intended to be exhaustive and are not presented in any relative order of importance:

- the business, earnings, operations, financial condition, management, prospects, capital levels, and asset quality of both First Community and Cornerstone;

- the board's understanding of the current and prospective environment in which First Community and Cornerstone operate, including national, regional and local economic conditions, the competitive and regulatory environment for financial institutions generally, and the likely effect of these factors on First Community in the context of the proposed merger;

the board's review and discussions with First Community's management concerning the due diligence examination of Cornerstone, including First Community's due diligence review of the composition and quality of Cornerstone's loan portfolio and First Community's use of a third party loan review firm;

the markets served by Cornerstone are in many respects similar to the existing markets of First Community, without any overlap in their existing branch facilities;

the directors' beliefs with respect to the compatibility of the business cultures of First Community and Cornerstone, including the strategic focus of each company on local businesses and professionals;

the belief of the board of directors that combining the two companies presented opportunities to realize economies of scale, including cost savings, operational, marketing and other synergies, and the board's consideration of the risks that anticipated cost savings and synergies would not be achieved;

the views of the First Community board of directors as to the anticipated pro forma impact of the merger on the profitability, earnings per share, tangible book value per share, capital ratios, and loan to deposit ratio of First Community;

the costs associated with the merger and integrating the operations of First Community and Cornerstone;

the board's belief that the greater scale that will be achieved by the merger will better position the combined company for further growth and profitability;

the potential increase in the pro forma market capitalization of First Community, which could result in higher visibility and exposure in the capital markets, which in turn could have positive valuation implications;

the structure of the merger and the terms of the merger agreement, including the exchange ratio and the cash merger consideration; and

the views of the board of directors as to the likelihood that the regulatory approvals necessary to complete the transaction would be obtained.

The foregoing information and factors considered by First Community's board of directors is not exhaustive, but includes material factors that First Community's board of directors considered and discussed in approving and recommending the merger. In view of the wide variety of factors considered and discussed by First Community's board of directors in connection with its evaluation of the merger and the complexity of these factors, the board of directors did not consider it practical to, nor did it attempt to, quantify, rank, or otherwise assign any specific or relative weights to the specific factors that it considered in reaching its decision; rather it considered all of the factors as a whole. The board of directors discussed the foregoing factors internally and with First Community's management and legal and financial advisors and reached the general consensus that the merger was in the best interests of First Community and its shareholders. First Community's board of directors also relied on the experience and expertise of First Community's financial advisor for quantitative analysis of the financial terms of the merger. In considering the foregoing factors, individual directors may have assigned different weights to different factors. It should be noted that this explanation of the reasoning of First Community's board of directors and other information presented in this section are forward-looking in nature and, therefore, should be read in light of the factors discussed under "Cautionary Statement Regarding Forward-Looking Statements" on page 22.

Merger Consideration

Under the merger agreement, Cornerstone shareholders may elect to receive one of the following forms of payment of merger consideration in exchange for their shares of Cornerstone common stock (subject to the limitations and adjustments discussed below):

·\$11.00 in cash for each share of Cornerstone common stock held—the cash consideration;

·0.54 shares of First Community common stock for each share of Cornerstone common stock held—the stock consideration; or

·A combination of cash consideration and stock consideration for all shares of Cornerstone common stock held in such proportions as requested by the shareholder—the mixed consideration.

The merger agreement provides that First Community will issue shares of First Community common stock for 70% of the non-dissenting shares of Cornerstone common stock outstanding on the effective date of the merger and pay cash for the remaining 30% of the non-dissenting shares of Cornerstone common stock outstanding. Cornerstone shareholders are entitled to elect to receive the cash consideration, the stock consideration, or the mixed consideration, in whole share increments, with respect to the holders' shares of Cornerstone common stock. In other words, by promptly completing and timely delivering the election form, you can elect to receive cash for your shares of Cornerstone common stock, shares of First Community common stock for your shares of Cornerstone common stock, or cash and shares of First Community common stock in such proportions as you choose for your shares of Cornerstone common stock. As discussed below, however, you may not receive the type of merger consideration you elect.

If shareholders of Cornerstone in the aggregate elect the form of consideration so that either cash would be paid as merger consideration for more than 30% of the outstanding non-dissenting shares of Cornerstone common stock or shares of First Community common stock would be issued as merger consideration for more than 70% of the outstanding non-dissenting shares of Cornerstone common stock, the merger agreement provides a method to reallocate cash or stock so that the merger consideration will not exceed either threshold. For a description of the reallocation method, see "Proposal No. 1—The Merger—Allocation of the Merger Consideration." Accordingly, you may receive less cash and more shares, or more shares and less cash than you elect. Either of these events is likely to result in different tax consequences from those that would have resulted had you received the exact form of merger consideration you elected.

No fractional shares of First Community common stock will be issued in connection with the merger. Instead, you will receive a cash payment, without interest, for the value of any fraction of a share of First Community common stock that you would otherwise be entitled to receive in an amount equal to such fractional part of a share of First Community common stock multiplied by the volume weighted average price (rounded up to the nearest cent) of First Community common stock on The NASDAQ Capital Market during the 10 consecutive trading days ending on the

fifth trading day immediately prior to the date on which the effective time of the merger occurs.

Neither Cornerstone nor First Community (or their respective boards of directors) nor Cornerstone's financial advisor make any recommendation as to whether you should choose the cash consideration, stock consideration, or mixed consideration for your shares of Cornerstone common stock. You should consult with your own financial and tax advisors about this decision.

Shares of First Community common stock are listed for trading on The NASDAQ Capital Market under the symbol "FCCO." On April 11, 2017, which was the last trading day before the announcement of the merger, the price of a share of First Community common stock closed at \$20.70 per share, and on July 7, 2017, the latest practicable date before mailing out this proxy statement/prospectus, the price of a share of First Community common stock closed at \$20.30 per share. You should be aware that the market value of shares of First Community common stock will fluctuate, and neither First Community nor Cornerstone can give you any assurance as to what the price of shares of First Community common stock will be when the merger becomes effective. We urge you to obtain information on the market value of shares of First Community common stock that is more recent than that provided in the proxy statement/prospectus. See "Summary—Market Price and Dividend Information" on page 12.

Illustration of Allocation of the Merger Consideration

The following table illustrates calculations of consideration at different prices for First Community common stock that would be received by a holder of 100 shares of Cornerstone common stock depending on whether the shareholder elected the cash consideration, the stock consideration, or a mixed consideration. These calculations do not take into consideration the effects of taxation. See “Proposal No. 1—The Merger—Material U.S. Federal Income Tax Consequences and Opinion of Tax Counsel” on page 51.

The assumed closing values of the shares of First Community common stock set forth in the table have been included for representative purposes only and are based on the high and low closing values for the shares of First Community common stock for the first quarter of 2017, the closing values for the shares of First Community common stock on April 11, 2017, the last trading day prior to the announcement of the merger, and the closing value on July 7, 2017, the latest practicable date before mailing out this proxy statement/prospectus. The closing value at the time the merger becomes effective may be less than \$16.10 or more than \$23.55. We cannot predict what the closing value for shares of First Community common stock will be or what the value of the shares of First Community common stock to be issued in the merger will be at or following the merger becoming effective.

Estimating the Value of 100 Shares of Cornerstone Common Stock

(Assuming various cash/share elections and First Community common stock closing values)

	Mixed Election (30/70 Cash-Stock)	All Stock Election	All Cash Election
Assuming a \$20.70 closing value (April 11, 2017, last trading day prior to announcement of merger)			
Value of Cash Consideration Received	\$ 330.00	\$—	\$ 1,100.00
Value of Stock Consideration Received	\$ 782.46	\$ 1,117.80	\$—
Value of Total Consideration Received	\$ 1,112.46	1,117.80	1,100.00
Assuming a \$23.55 closing value (high closing value during first quarter of 2017)			
Value of Cash Consideration Received	\$ 330.00	\$—	\$ 1,100.00
Value of Stock Consideration Received	\$ 890.19	\$ 1,271.70	\$—
Value of Total Consideration Received	\$ 1,220.19	\$ 1,271.70	\$ 1,100.00
Assuming a \$16.10 closing value (low closing value during first quarter of 2017)			
Value of Cash Consideration Received	\$ 330.00	\$—	\$ 1,100.00
Value of Stock Consideration Received	\$ 608.58	\$ 869.40	\$—
Value of Total Consideration Received	\$ 938.58	\$ 869.40	1,100.00

Assuming a \$20.30 closing value (July 7, 2017)

Value of Cash Consideration Received	\$ 330.00	\$—	\$1,100.00
Value of Stock Consideration Received	\$ 767.34	\$1,096.20	\$—
Value of Total Consideration Received	\$ 1,097.34	\$1,096.20	\$1,100.00

Election of the Form of Payment of the Merger Consideration

Shortly after the effective time of the merger, First Community's exchange agent will deliver or mail to Cornerstone shareholders an election form and instructions for making an election as to the form of merger consideration preferred to be received in the merger, subject to the allocation procedures described below. Upon receipt of the election form, each Cornerstone shareholder should complete, date, and sign the election form and return it promptly in the prepaid, pre-addressed envelope provided with the election form. If any Cornerstone shareholders do not make an election by 4:00 pm local time on the date set forth in the instructions on the election form, such shareholders will be deemed not to have made an election and the exchange agent will choose the type of merger consideration constituting the per share purchase price to distribute to such non-electing shareholders according to the allocation procedures.

Elections will be properly made if the election form is accompanied by one or more certificates representing the shares of Cornerstone common stock covered by the election form, or the guaranteed delivery of such certificates. Elections may be revoked or changed upon written notice to the exchange agent before the election deadline. If a Cornerstone shareholder revokes the election form and does not properly make a new election by the election deadline, the Cornerstone shareholder will be deemed to have not made an election with respect to the shares covered by the revoked election form, and the exchange agent will determine the type of consideration to be received.

The exchange agent will have reasonable discretion to determine whether any election, revocation, or change has been properly or timely made and to disregard immaterial defects in the election form, and any good faith decision of the exchange agent regarding such matters will be conclusive and binding. ***Neither First Community nor the exchange agent is obligated to notify any person of any defect in an election form.***

Allocation of the Merger Consideration

The merger agreement limits the aggregate number of shares of Cornerstone common stock which First Community will exchange for cash to 30% of the total outstanding non-dissenting shares of Cornerstone common stock. The merger agreement also limits the aggregate number of shares of Cornerstone common stock which First Community will exchange for shares of First Community common stock to 70% of the total outstanding non-dissenting shares of Cornerstone common stock.

If the stock consideration elected by Cornerstone shareholders in the aggregate exceeds 70% of the total outstanding non-dissenting shares of Cornerstone common stock, then shareholders choosing cash consideration and shareholders who did not make an election will receive cash consideration, and each shareholder who chose the stock consideration will receive (i) a number of shares of First Community common stock equal to the exchange ratio times the product obtained by multiplying the number of shares of Cornerstone common stock as to which the shareholder chose the stock election by a fraction, the numerator of which is 70% of the total outstanding non-dissenting shares of Cornerstone common stock and the denominator of which is the aggregate number of shares of Cornerstone common stock elected by all Cornerstone shareholders to be converted into shares of First Community common stock, and (ii) cash for the remaining amount of shares of Cornerstone common stock held by the shareholder.

If the cash consideration elected by Cornerstone shareholders in the aggregate exceeds 30% of the total outstanding non-dissenting shares of Cornerstone common stock, then shareholders choosing stock consideration and shareholders who did not make an election will receive the stock consideration, and each shareholder who chose the cash consideration will receive (i) \$11.00 times the product obtained by multiplying the number of shares of Cornerstone common stock as to which the shareholder chose the cash election by a fraction, the numerator of which is 30% of the total outstanding non-dissenting shares of Cornerstone common stock and the denominator of which is the aggregate number of shares of Cornerstone common stock elected by all Cornerstone shareholders to be converted into cash, and (ii) shares of First Community common stock for the remaining amount of shares of Cornerstone common stock held by the shareholder.

If the stock consideration elected by the Cornerstone shareholders in the aggregate does not exceed 70% of the total outstanding non-dissenting shares of Cornerstone common stock and the cash consideration elected by the Cornerstone shareholders in the aggregate does not exceed 30% of the total outstanding non-dissenting shares of Cornerstone common stock, then shareholders electing the cash consideration will receive all cash in exchange for their shares of Cornerstone common stock, shareholders electing the stock consideration will receive all stock in exchange for their shares of Cornerstone common stock, shareholders electing the mixed consideration will receive a combination of cash consideration and stock consideration in exchange for their shares of Cornerstone common stock, and the shareholders making no election will receive either the cash consideration, stock consideration, or mixed consideration such that the aggregate number of shares of Cornerstone common stock to be exchanged for cash is 30%

of the total outstanding non-dissenting shares of Cornerstone common stock and the aggregate number of shares of Cornerstone common stock to be exchanged for stock is 70% of the total outstanding non-dissenting shares of Cornerstone common stock.

Conversion of Stock; Treatment of Stock Options

Conversion of Cornerstone Common Stock. At the effective time of the merger, each share of Cornerstone common stock outstanding generally will be converted into and exchanged for the right to receive either (i) \$11.00 in cash; (ii) 0.54 shares of First Community common stock; or (iii) a combination of both cash and stock.

Cash will also be exchanged for any fractional shares. Any Cornerstone shareholder who would otherwise have been entitled to receive a fraction of a share of First Community common stock in the merger will receive, in lieu thereof, cash (without interest) for the value of any fraction of a share of First Community common stock that you would otherwise be entitled to receive in an amount equal to such fractional part of a share of First Community common stock multiplied by the volume weighted average price (rounded up to the nearest cent) of First Community common stock on The NASDAQ Capital Market during the 10 consecutive trading days ending on the fifth trading day immediately prior to the date on which the effective time of the merger occurs.

Some shares of Cornerstone common stock may not be converted in the merger. Each outstanding share of Cornerstone common stock owned by First Community, Cornerstone, or their respective subsidiaries (in each case other than shares of Cornerstone common stock held on behalf of third parties or as a result of debts previously contracted) will be canceled at the effective time of the merger and will cease to be outstanding. In addition, shares of Cornerstone common stock held by Cornerstone shareholders properly exercising their dissenters' rights will not be converted in the merger.

Stock Options. At the effective time of the merger, all rights with respect to the Cornerstone common stock pursuant to the stock options granted by Cornerstone, which are outstanding immediately prior to the effective time of the merger, whether or not exercisable, will convert into an obligation of First Community to pay and a right of the holder to receive a cash payment equal to the product obtained by multiplying (1) the number of shares of Cornerstone common stock underlying such holder's options by (2) the excess, if any, of the fair market value per share (as defined below) minus the exercise price per share under such option (provided, that if the fair market value per share does not exceed the exercise price per share of a particular option, then by \$0.01). The fair market value per share for purposes of this calculation is the sum of (x) \$11.00 multiplied by 0.30, plus (y) the product of the volume weighted average price (rounded up to the nearest cent) of First Community common stock on The NASDAQ Capital Market during the 10 consecutive trading days ending on the fifth trading day immediately prior to the date on which the effective time of the merger occurs, multiplied by the exchange ratio (0.54), multiplied by 0.70.

Effective Time of the Merger

If the merger agreement is approved by the requisite vote of the holders of common stock of Cornerstone and all other required governmental and other consents and approvals are received, and if the other conditions to the obligations of

the parties to consummate the merger are satisfied or waived (as permitted), the merger will be consummated and effected on the date and at the time the articles of merger reflecting the merger are filed with the Secretary of State of South Carolina. Unless otherwise mutually agreed upon in writing by First Community's and Cornerstone's chief executive officers, both parties will use their reasonable efforts to cause the effective time of the merger to occur within 10 business days of the last of the following dates to occur:

- the effective date (including expiration of any applicable waiting period) of the last required consent of any regulatory authority having authority over and approving or exempting the merger; or

- the date on which Cornerstone shareholders approve the merger agreement.

Assuming satisfaction of all of the conditions to consummation of the merger, the merger is intended to be made effective October 20, 2017. However, there can be no assurance when or if the merger will occur.

Either party may terminate the merger agreement prior to the effective time, under several circumstances. See “Proposal No. 1—The Merger—Conditions to Consummation” and “— Amendment, Waiver, and Termination.”

Exchange of Certificates

Shortly after the effective time of the merger, First Community will mail the election form and instructions to each record holder of Cornerstone common stock for use in effecting the surrender and cancellation of those certificates in exchange for cash and/or First Community common stock, which will be issued in uncertificated “book entry” form. Risk of loss and title to the certificates will remain with the holder until proper delivery of such certificates to First Community or its exchange agent by former Cornerstone shareholders. **Cornerstone shareholders should not surrender their certificates for exchange until they receive the election form and instructions from First Community.** Shortly after the effective time of the merger, following the receipt of transmittal materials and instructions from First Community’s exchange agent, each holder of shares of Cornerstone common stock issued and outstanding at the effective time must surrender to the exchange agent the certificate or certificates representing their shares to First Community together with duly executed transmittal materials. As soon as reasonably practicable after the effective time of the merger, Cornerstone shareholders will receive the consideration to which they are entitled under the merger agreement, together with any undelivered dividends or distributions in respect of such shares (without interest). First Community will not be obligated to deliver the consideration to which any former holder of Cornerstone common stock is entitled until the holder surrenders the certificate or certificates representing his or her shares for exchange (or an indemnity satisfactory to Cornerstone, First Community, and the exchange agent, if any certificates are lost, stolen, or destroyed) and until the effective time of the merger. The certificate or certificates so surrendered must be duly endorsed as First Community may require. Former holders of Cornerstone common stock will be responsible for all charges and expenses associated with replacing any lost, mutilated, stolen, or destroyed certificates, including any indemnity bond expenses. First Community will not be liable to a holder of Cornerstone common stock for any property delivered in good faith to a public official pursuant to any applicable abandoned property law.

If you do not timely submit the election form along with your certificates of Cornerstone common stock, First Community’s exchange agent will mail to you a letter of transmittal with instructions for submitting your Cornerstone common stock certificate in exchange for First Community common stock or the cash consideration of \$11.00 per share. At that time, you will need to carefully review the instructions, complete the materials enclosed with the instructions and return the materials along with your Cornerstone stock certificate(s). Whether you will receive First Community common stock and/or cash will depend on the election of other Cornerstone shareholders. (See “The Merger—Terms of the Merger—Allocation of First Community Common Stock and Cash,” below.) As soon as reasonably practicable after receipt of the properly completed letter of transmittal and your Cornerstone stock certificate(s), First Community’s exchange agent will mail a statement of a book entry of First Community common stock or a check (or a book entry statement and a check) for the merger consideration. No interest will be paid on any cash payment.

First Community or its exchange agent will maintain a book entry list of First Community common stock to which each former Cornerstone shareholder is entitled. Certificates evidencing First Community common stock into which the shareholder’s Cornerstone common stock has been converted will not be issued. First Community’s exchange agent will deliver a statement of such book entry and other information as required by law within a reasonable time following the surrender of a Cornerstone certificate.

After the effective time of the merger, record holders of certificates that represented outstanding Cornerstone common stock immediately prior to the effective time of the merger will have no rights with respect to the certificates other than the right to surrender the certificates and receive in exchange the aggregate number of whole shares of First

Community common stock (issued in book entry form) and/or the cash consideration to which the holder is entitled pursuant to the merger agreement.

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Book entry shares representing shares of First Community common stock will be dated the effective date of the merger and will entitle the holders to dividends, distributions, and all other rights and privileges of a First Community shareholder from the effective date. Until the certificates representing Cornerstone common stock are surrendered for exchange, holders of such certificates will not receive the cash and/or stock consideration or dividends or distributions on First Community common stock into which such shares have been converted. When the certificates are surrendered to the exchange agent, any unpaid dividends or other distributions will be paid without interest. First Community has the right to withhold dividends or any other distributions on its shares until the Cornerstone stock certificates are surrendered for exchange.

In addition, holders of certificates that represented outstanding Cornerstone common stock immediately prior to the effective time of the merger will be entitled to vote after the effective time of the merger and after allocation of the cash and stock consideration at any meeting of First Community shareholders the number of whole shares of First Community common stock into which such shares have been converted, even if such holder has not surrendered such certificates for exchange as set forth above.

First Community shareholders will not be required to exchange certificates representing their shares of First Community common stock or otherwise take any action after the merger is completed.

Resale of First Community Common Stock

The shares of First Community common stock to be issued to shareholders of Cornerstone under the merger agreement will be freely tradable by such shareholders without restriction, except that if any Cornerstone shareholders are deemed to be affiliates of First Community, they must abide by certain transfer restrictions under the Securities Act.

Dissenters' Rights

Under South Carolina law, holders of Cornerstone common stock will be entitled to dissent from the merger and to obtain payment in cash of the fair value of his or her shares of Cornerstone common stock. Any Cornerstone shareholder who wishes to exercise dissenters' rights is urged to consult legal counsel before attempting to exercise dissenters' rights. Failure to comply strictly with all of the procedures set forth in Chapter 13 of the South Carolina Business Corporation Act (the "SCBCA"), which consists of Sections 33-13-101 through 33-13-310, may result in the loss of a shareholder's statutory dissenters' rights. In such case, such shareholder will be entitled to receive only the merger consideration under the merger agreement.

The following discussion is a summary of Sections 33-13-101 through 33-13-310 of the SCBCA, which set forth the procedures for Cornerstone shareholders to dissent from the proposed merger and to demand statutory dissenters' rights under the SCBCA. The following discussion is not a complete statement of the provisions of the SCBCA relating to the rights of Cornerstone shareholders to receive payment of the fair value of their shares and does not create any rights for shareholders. The only rights of shareholders are those provided by Sections 33-13-101 through 33-13-310 of the SCBCA, the full text of which is provided in its entirety as Appendix B to this proxy statement/prospectus. The following summary does not constitute any legal or other advice, nor does it constitute a recommendation that shareholders exercise their dissenters' rights under Section 33-13-101 through 33-13-310 of the SCBCA. Unless otherwise required by context, all references in Sections 33-13-101 to 33-13-310 of the SCBA and in this section to a "shareholder" are to the holder of record or the beneficial owner of the shares of Cornerstone common stock as to which dissenters' rights are asserted.

A record holder of Cornerstone common stock who wishes to assert dissenters' rights (i) must deliver to Cornerstone before the vote is taken on the merger agreement written notice of his intent to demand payment for his shares if the

merger is effectuated, and (ii) must not vote his shares in favor of the merger agreement. A vote in favor of the merger agreement cast by the holder of a proxy solicited by Cornerstone shall not disqualify a shareholder from demanding payment for his shares. A shareholder who does not satisfy these requirements is not entitled to payment for his shares under the applicable South Carolina statutes. As long as a Cornerstone shareholder does not vote in favor of the merger, his or her failure to vote against the merger will not constitute a waiver of the holder's appraisal rights. A vote against the merger will not satisfy the notice requirement under the South Carolina dissenters' rights statutes.

If the merger is authorized at the Cornerstone special shareholders' meeting, Cornerstone will deliver, no later than 10 days after the special shareholders' meeting, a written dissenters' notice to all Cornerstone shareholders who satisfied the two requirements set forth above. The written dissenters' notice will state where the payment demand must be sent and where stock certificates must be deposited, will inform holders of uncertificated shares to what extent transfer of the shares is to be restricted after the payment demand is received, will supply a form for demanding payment that includes the date of the first announcement to news media or to shareholders of the terms of the proposed merger and requires that the person asserting dissenters' rights certify whether or not he or, if he is a nominee asserting dissenters' rights on behalf of a beneficial shareholder, the beneficial shareholder acquired beneficial ownership of the shares before that date, will set a date by which Cornerstone must receive the payment demand, which date will not be less than 30 or more than 60 days after the written dissenters' notice is delivered, will set a date by which certificates for certificated shares must be deposited, which date will not be earlier than 20 days after the demand date, and will be accompanied by a copy of the applicable South Carolina statutes. A shareholder sent a dissenters' notice must demand payment, certify whether he (or the beneficial shareholder on whose behalf he is asserting dissenters' rights) acquired the beneficial ownership of the shares before the date set forth in the dissenters' notice, and deposit his certificates in accordance with the terms of the notice. A dissenting shareholder who does not comply with the requirements that he demand payment and deposit his or her share certificates where required, each by the date set in the dissenters' notice, is not entitled to payment for his or her shares under the applicable South Carolina statutes.

As soon as the merger is consummated, or upon receipt of a payment demand, Cornerstone will pay to each dissenting shareholder who complied with the requirements set forth above the amount Cornerstone estimates to be the fair value of his or her shares, plus accrued interest. The payment will be accompanied by Cornerstone's balance sheet as of the end of a fiscal year ending not more than 16 months before the date of payment, an income statement for that year, a statement of changes in shareholders' equity for that year, and the latest available interim financial statements, if any; a statement of Cornerstone's estimate of the fair value of the shares and an explanation of how the fair value was calculated; an explanation of how the interest was calculated; a statement of the dissenter's right to demand additional payment; and a copy of the applicable South Carolina statutes. If Cornerstone does not consummate the proposed merger within 60 days after the date set for demanding payment and depositing share certificates, Cornerstone, within the same 60 day period, shall return the deposited certificates and release the transfer restrictions imposed on the uncertificated shares. If the shareholder believes the amount paid or offered is less than fair value of his shares or that the interest due is calculated incorrectly, or Cornerstone fails to make payment or offer payment within 60 days after the date set for demanding payment, or if the merger is not consummated, Cornerstone fails to return the deposited certificates or release transfer restrictions imposed on uncertificated shares within 60 days after the date set for demanding payment, he or she may notify Cornerstone in writing of his or her own estimate of fair value of his shares and amount of interest due and demand payment of his estimate (less the payment already received) or reject Cornerstone's offer and demand payment of the fair value of his or her shares and interest due. However, a dissenting shareholder waives his or her right to demand additional payment if he or she fails to notify Cornerstone of his or her demand in writing within 30 days after Cornerstone made or offered payment for his or her shares. If a demand for additional payment remains unsettled, Cornerstone will commence a court proceeding within 60 days after receiving the demand for additional payment and petition the court to determine the fair value of the shares and the accrued interest. If Cornerstone does not commence the proceeding within the 60 day period, Cornerstone shall pay each dissenter whose demand remains unsettled the amount demanded.

Exercise of dissenters' rights by holders of Cornerstone common stock will result in the recognition of gain or loss, as the case may be, for federal income tax purposes. The court in such an appraisal proceeding will determine all costs of the proceeding and assess the costs against Cornerstone, except the court may assess costs against some or all of the dissenting shareholders, in amounts the court finds equitable, to the extent the dissenting shareholders acted arbitrarily, vexatiously, or not in good faith in demanding payment. The court may also assess the fees and expenses of counsel and experts for the respective parties, in the amounts the court finds equitable (a) against First Community or Cornerstone if the court finds that they did not comply substantially with Chapter 13 of the SCBCA or (b) against

First Community, Cornerstone or the dissenting shareholders if the court finds that the party against whom the fees and expenses are assessed acted arbitrarily, vexatiously, or not in good faith. If the court finds that the services of counsel for any dissenting shareholder were of substantial benefit to other dissenting shareholders similarly situated, and that the fees for those services should not be assessed against First Community or Cornerstone, the court may award to these counsel reasonable fees to be paid out of the amounts awarded to the dissenting shareholders who were benefited.

Material U.S. Federal Income Tax Consequences and Opinion of Tax Counsel

Subject to the limitations, assumptions and qualifications described herein, in the opinion of Nelson Mullins Riley & Scarborough, LLP, the following discussion summarizes the anticipated material U.S. federal income tax consequences of the merger generally applicable to U.S. holders (as defined below) of Cornerstone common stock that exchange their shares in the merger. This summary is based upon the Internal Revenue Code of 1986, as amended (the “Code”), Treasury regulations promulgated thereunder, judicial authorities, published positions of the Internal Revenue Service (“IRS”) and other applicable authorities, all as in effect on the date of this discussion and all of which are subject to change (possibly with retroactive effect) and differing interpretations. The opinion of tax counsel for First Community is filed as Exhibit 8.1 to the registration statement on Form S-4 of which this document is a part. The opinion is based on representations, covenants and undertakings provided by First Community and Cornerstone and on customary factual assumptions. If any of the representations or assumptions upon which the opinion is based are inconsistent with the actual facts, the U.S. federal income tax consequences of the merger could be adversely affected. The opinion described above will not be binding on the IRS or any court. First Community and Cornerstone have not sought and will not seek any ruling from the IRS regarding any matters relating to the merger, and as a result, there can be no assurance that the IRS will not assert, or that a court would not sustain, a position contrary to any of the conclusions set forth below.

This summary is limited to U.S. holders (as defined below) that hold their shares of Cornerstone common stock as a capital asset within the meaning of Section 1221 of the Code (generally, property held for investment). Furthermore, this discussion does not address all of the tax consequences that may be relevant to a particular Cornerstone shareholder or to Cornerstone shareholders that are subject to special rules under U.S. federal income tax laws, such as: shareholders that are not U.S. holders; financial institutions; insurance companies; mutual funds; tax-exempt organizations; S corporations or other pass-through entities (or investors in such entities); regulated investment companies; real estate investment trusts; dealers in securities or currencies; persons subject to the alternative minimum tax provisions of the Code; former citizens or residents of the United States; persons whose functional currency is not the U.S. dollar; traders in securities that elect to use a mark-to-market method of accounting; persons who own more than 5% of the outstanding common stock of Cornerstone; persons who hold Cornerstone common stock as part of a straddle, hedge, constructive sale or conversion transaction; and U.S. holders who acquired their shares of Cornerstone common stock through the exercise of an employee stock option or otherwise as compensation.

In addition, this discussion does not address any alternative minimum tax or any state, local or foreign tax consequences of the merger, nor does it address any other U.S. federal tax consequences (such as gift or estate taxes) including any tax consequences arising under the unearned income Medicare contribution tax pursuant to Section 1411 of the Code. Determining the actual tax consequences of the merger to each Cornerstone shareholder may be complex. They will depend on each Cornerstone shareholder’s specific situation and on factors that are not within the control of First Community or Cornerstone. Accordingly, each Cornerstone shareholder should consult his or her tax advisor with respect to the particular tax consequences of the merger to such holder.

For purposes of this section, the term “U.S. holder” means a beneficial owner of Cornerstone common stock that for United States federal income tax purposes is: a citizen or resident of the United States; a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States, any state thereof or the District of Columbia; an estate that is subject to U.S. federal income tax on its income regardless of its source; or a trust, the substantial decisions of which are controlled by one or more U.S. persons and which is subject to the primary supervision of a U.S. court, or a trust that validly has elected under applicable Treasury regulations to be treated as a U.S. person for U.S. federal income tax purposes.

If a partnership (including any entity or arrangement that is treated as a partnership for U.S. federal income tax purposes) holds Cornerstone common stock, the tax treatment of a partner generally will depend on the status of the

partners and the activities of the partnership. Partnerships and partners in such a partnership should consult their tax advisers about the tax consequences of the merger to them.

Holders of Cornerstone common stock are urged to consult with their own tax advisors as to the tax consequences of the merger in their particular circumstances, including the applicability and effect of the alternative minimum tax and any state, local or foreign and other tax laws and of any changes in those laws.

Tax Consequences of the Merger

The merger will constitute a “reorganization” within the meaning of Section 368(a) of the Code. Consummation of the merger is conditioned upon First Community and Cornerstone each receiving a written tax opinion, dated the closing date of the merger, from their respective outside legal counsel to the effect that, based upon facts, representations and assumptions set forth in such opinions, (i) the merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code, and (ii) First Community and Cornerstone will each be a party to that reorganization within the meaning of Section 368(b) of the Code. An opinion of counsel represents the counsel’s best legal judgment and is not binding on the IRS or any court, and as a result, there can be no assurance that the IRS will not assert, or that a court would not sustain, a position contrary to any such opinion. In addition, if any of the representations or assumptions upon which these opinions are based are inconsistent with the actual facts, the U.S. federal income tax consequences of the merger could be adversely affected. Accordingly, each Cornerstone shareholder should consult its tax advisor with respect to the particular tax consequences of the merger to such holder.

Tax Consequences to First Community and Cornerstone

Each of First Community and Cornerstone will be a party to the merger within the meaning of Section 368(b) of the Code, and neither First Community nor Cornerstone will recognize any gain or loss as a result of the merger.

Tax Consequences to Shareholders

The federal income tax consequences of the merger to a U.S. holder who exchanges Cornerstone stock in the merger generally will depend on whether the shareholder exchanges its Cornerstone common stock for cash, First Community common stock or a combination of cash and First Community common stock.

Exchange Solely for Cash. In general, if pursuant to the merger a U.S. holder exchanges all of its shares of Cornerstone common stock solely for cash, that shareholder will recognize gain or loss equal to the difference between the amount of cash received and its adjusted tax basis in the shares of Cornerstone common stock surrendered. Such gain or loss must be calculated separately for each identifiable block of shares surrendered in the exchange and any gain or loss generally will be long-term capital gain or loss if the U.S. holder has held such stock for more than one year as of the merger date. If, however, the U.S. holder constructively owns shares of Cornerstone common stock that are exchanged for shares of First Community common stock in the merger or owns shares of First Community common stock actually or constructively after the merger, the consequences to that shareholder may be similar to the consequences described below under the heading “Exchange for First Community Common Stock and Cash,” except that the amount of consideration, if any, treated as a dividend may not be limited to the amount of that shareholder’s gain.

Exchange Solely for First Community Common Stock. If pursuant to the merger a U.S. holder exchanges all of its shares of Cornerstone common stock solely for shares of First Community common stock, that shareholder will not recognize any gain or loss except in respect of cash received in lieu of any fractional share of First Community common stock (as discussed below).

Exchange for First Community Common Stock and Cash. If pursuant to the merger a U.S. holder exchanges all of its shares of Cornerstone common stock for a combination of First Community common stock and cash, the U.S. holder generally will recognize gain (but not loss) in an amount equal to the lesser of: (1) the amount of cash received in exchange for the Cornerstone common stock in the merger (excluding any cash received in lieu of fractional shares of First Community common stock) and (2) the excess, if any, of (a) the sum of the amount of cash treated as received in exchange for Cornerstone common stock in the merger (excluding any cash received in lieu of fractional shares of First Community common stock) plus the fair market value of First Community common stock (including the fair market value of any fractional share) received in the merger (determined when the merger occurs), over (b) the U.S. holder's tax basis in the Cornerstone common stock exchanged. For this purpose, gain or loss must be calculated separately for each identifiable block of shares surrendered in the exchange, and a loss realized on one block of shares may not be used to offset a gain realized on another block of shares. Any recognized gain generally will be long-term capital gain if the U.S. holder has held its Cornerstone common stock for more than one year as of the merger date. If, however, the cash received has the effect of the distribution of a dividend, the gain would be treated as a dividend to the extent of the Cornerstone shareholder's ratable share of accumulated earnings and profits as calculated for United States federal income tax purposes. See "Possible Treatment of Cash as a Dividend."

Possible Treatment of Cash as a Dividend. There are certain circumstances in which all or part of the gain recognized by a U.S. holder will be treated as a dividend rather than as capital gain. In general, such determination depends on whether, and to what extent, the merger reduces a U.S. holder's percentage share ownership interest in First Community that the U.S. holder actually and constructively owns in comparison to the percentage interest the U.S. holder actually and constructively would have owned in First Community had such U.S. holder received only First Community common stock (and no cash) in the merger. Because the possibility of dividend treatment depends primarily upon a U.S. holder's particular circumstances, including the application of certain constructive ownership rules, a U.S. holder should consult its own tax advisor regarding the potential income tax treatment by the U.S. holder of any gain recognized in connection with the merger.

Cash Received in Lieu of a Fractional Share. If a U.S. holder receives cash in the merger instead of a fractional share interest in First Community common stock, the U.S. holder will be treated as having received such fractional share in the merger, and then as having received cash in exchange for such fractional share. Gain or loss would be recognized in an amount equal to the difference between the amount of cash received and the Cornerstone shareholder's adjusted tax basis allocable to such fractional share. Except as described in the section entitled "Possible Treatment of Cash as a Dividend", this gain or loss generally will be a capital gain or loss, and will be long-term capital gain or loss if, as of the effective date of the merger, the U.S. holder held its shares of Cornerstone common stock for more than one year.

Tax Basis in, and Holding Period for, First Community Common Stock. The aggregate tax basis of the First Community common stock received by a U.S. holder as a result of the merger (including any fractional share deemed received and redeemed as described above) will be the same as such shareholder's aggregate tax basis in its Cornerstone common stock surrendered in the merger, decreased by the amount of cash received in exchange for such Cornerstone common stock (excluding any cash received in lieu of a fractional share of First Community common stock) and increased by the amount of gain, if any, recognized in the exchange (excluding any gain recognized with respect to fractional share of First Community common stock deemed sold in the merger). The holding period of the First Community common stock (including any fractional share deemed received and redeemed as described above) a U.S. holder receives as a result of the exchange will include the holding period of Cornerstone common stock surrendered in the merger. If a U.S. holder has differing bases or holding periods in respect of its shares of Cornerstone common stock, it should consult its tax advisor with regard to identifying the bases or holding periods of the particular shares of First Community common stock received in the exchange.

Backup Withholding and Information Reporting. A non-corporate U.S. holder may be subject under certain circumstances to information reporting and backup withholding (currently at a rate of 28%) on any cash payments

received. A U.S. holder generally will not be subject to backup withholding, however, if such U.S. holder (1) furnishes a correct taxpayer identification number, certifies that it is not subject to backup withholding and otherwise complies with all the applicable requirements of the backup withholding rules; or (2) provides proof that it is otherwise exempt from backup withholding. Any amounts withheld under the backup withholding rules are not an additional tax and generally will be allowed as a refund or credit against the U.S. holder's U.S. federal income tax liability, provided such U.S. holder timely furnishes the required information to the IRS. U.S. holders should consult their own tax advisors regarding the application of backup withholding based on their particular circumstances and the availability and procedure for obtaining an exemption from backup withholding.

A Cornerstone shareholder who receives First Community common stock as a result of the merger will be required to retain records pertaining to the merger. Each Cornerstone shareholder who is required to file a U.S. federal income tax return and who is a “significant holder” will be required to file a statement with such U.S. federal income tax return in accordance with Treasury Regulations Section 1.368-3 setting forth information regarding the parties to the merger, the date of the merger, such Cornerstone shareholder’s basis in the Cornerstone common stock surrendered and the fair market value of the First Community common stock and cash received in the merger. A “significant holder” is a holder of Cornerstone common stock who receives First Community common stock in the merger and who, immediately before the merger, owned at least 5% of the outstanding stock of Cornerstone or securities of Cornerstone with a basis for federal income tax purposes of at least \$1 million.

THE PRECEDING DISCUSSION IS INTENDED ONLY AS A SUMMARY OF THE MATERIAL UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER AND DOES NOT PURPORT TO BE A COMPLETE ANALYSIS OR DISCUSSION OF ALL POTENTIAL INCOME TAX EFFECTS RELEVANT THERETO OR A DISCUSSION OF ANY OTHER TYPE OF TAXES. CORNERSTONE SHAREHOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE SPECIFIC TAX CONSEQUENCES TO THEM OF THE MERGER, INCLUDING TAX RETURN REPORTING REQUIREMENTS, THE APPLICABILITY AND EFFECT OF NON-U.S., FEDERAL, STATE, LOCAL, AND OTHER APPLICABLE TAX LAWS, AND THE EFFECT OF ANY PROPOSED CHANGES IN THE TAX LAWS.

Management and Operations after the Merger

Directors and Executive Officers of First Community. After the merger, the current directors of First Community will continue to serve as directors of the combined company.

Michael C. Crapps will continue to serve as President and Chief Executive Officer of First Community. Joseph G. Sawyer will continue to serve as Executive Vice President and Chief Financial Officer. David K. Proctor will continue to serve as Executive Vice President and Chief Credit Officer. J. Ted Nissen will continue to serve as Executive Vice President and Chief Commercial and Retail Banking Officer. Tanya A. Butts will continue to serve as Executive Vice President and Chief Operations Officer/Chief Risk Officer. Robin D. Brown will continue to serve as Executive Vice President and Chief Human Resources and Marketing Officer.

At the closing of the merger, J. Rodger Anthony, President and Chief Executive Officer of Cornerstone, will serve as a consultant with First Community for six months pursuant to a Consulting Agreement.

Interests of Executive Officers, Employees, and Directors of Cornerstone in the Merger

General. Some of the executive officers, employees and directors of Cornerstone may be deemed to have interests in the merger in addition to their interests as shareholders of Cornerstone generally. These interests include, among others, the appointment of Cornerstone directors to the Upstate Advisory Board of First Community Bank, proposed employee benefits for those who become employees of First Community or a First Community subsidiary after the merger, insurance coverage and indemnification for Cornerstone’s directors and officers, the entry into a consulting agreement with First Community by Cornerstone’s president and chief executive officer, change of control payments to executive officers of Cornerstone pursuant to existing change of control agreements with Cornerstone, and lump

sum payments in exchange for outstanding Cornerstone stock options, as described below. Cornerstone's board of directors was aware of these interests during its deliberations regarding the merits of the merger and when determining to recommend to Cornerstone shareholders that they vote in favor of the merger proposal.

Advisory Board. It is anticipated that the directors of Cornerstone in office immediately prior to the effective time of the merger will be invited to serve as First Community Bank's Upstate Advisory Board and will be entitled to receive a fee of \$200 for each advisory board meeting attended.

Employee Benefits. The merger agreement generally provides that First Community will furnish to those employees of Cornerstone who become employees of First Community or a First Community subsidiary after the effective time of the merger benefits on the same basis as it provides coverage to other First Community employees, and First Community will use commercially reasonable efforts to cause any pre-existing condition, eligibility waiting period, or other limitation or exclusion otherwise applicable under such plans to new employees not to apply to a Cornerstone employee or his or her covered dependents who were covered under a similar Cornerstone plan at the effective time of the merger. For purposes of eligibility and vesting under First Community's employee benefit plans, service with Cornerstone prior to the effective time of the merger will be treated as service with First Community or its subsidiaries. First Community will use commercially reasonable efforts to cause any successor First Community employee benefit plan providing health coverage to give credit towards satisfaction of any annual deductible limitation and out-of-pocket maximum applied under such successor plan for any deductible, co-payment and other cost-sharing amounts previously paid by a Cornerstone employee respecting his or her participation in the corresponding Cornerstone benefit plan during the plan year prior to the transition effective date.

Change in Control Payments under Existing Change in Control Agreements of Cornerstone Executives. In 2007, Cornerstone entered into Change of Control Agreements with J. Rodger Anthony, its president and chief executive officer, Jennifer M. Champagne, its senior vice president and chief financial officer, and Susan S. Jolly, its senior vice president and senior lender (each referred to within this discussion as an "Executive"). The agreements automatically renew each year unless, at least 30 days prior to an annual anniversary date, Cornerstone gives notice that the agreements will not renew.

The agreements provide that, if there is a "change of control" of Cornerstone, the Executive will be entitled to a lump sum payment equal to a multiple of his or her annual salary in effect at the date of termination. For Mr. Anthony, this multiple is three times his annual salary then in effect; and for each of Mrs. Champagne and Mrs. Jolly, this multiple is one and one-half times her annual salary then in effect. If, however, the amount of any such lump-sum payment, plus any other amount treated as a parachute payment under Section 280G of the Internal Revenue Code equals or exceeds three times the base amount described in Section 280G of the Internal Revenue Code, then the amount due under the agreements will be adjusted to have a value for purposes of Section 280G of three times the base amount less \$100. The Executive will also be entitled to any vested benefits under any retirement or benefit plan.

Any amounts paid pursuant to the agreements will be deemed severance pay, and the Executive will not be under any duty to mitigate damages and no income received by the Executive thereafter will reduce the amount owed to the Executive.

A "change of control" is deemed to occur under the agreements if either (i) voting control of more than 50% of the common stock of Cornerstone is acquired, directly or indirectly, by any person or group acting in concert, (ii) Cornerstone is merged with or into any other entity and Cornerstone is not the surviving entity of the merger, unless the shareholders of Cornerstone immediately prior to the merger continue to own more than 50% of the voting power of the stock of the surviving company, (iii) voting control of more than 50% of the common stock of any Cornerstone subsidiary by which Executive is principally employed is acquired, directly or indirectly, by any person or group acting in concert, or (iv) any Cornerstone subsidiary by which Executive is principally employed is merged with or

into another entity which is not also a Cornerstone subsidiary and such subsidiary is not the surviving entity of the merger, unless immediately after the merger Cornerstone owns more than 50% of the voting power of the surviving company.

The merger will constitute a “change of control” under the Change of Control Agreements, and upon completion of the Merger, Mr. Anthony, Mrs. Champagne and Mrs. Jolly will receive payments under the agreements of \$617,765, \$211,050 and \$209,475, respectively.

The foregoing is merely a summary of the Change of Control Agreements and is not intended to create any rights in any person, and is qualified in its entirety by reference to such agreements, the forms of which are filed with the SEC.

Change in Control Compensation for Cornerstone Executive Officers. The following table sets forth the estimated potential severance benefits and other “golden parachute” compensation payable to Cornerstone’s named executive officers in connection with the merger. This table does not include the value of benefits that are vested without regard to the occurrence of the merger:

Name	Cash (\$)	Equity (\$)	Pension/ NQDC (\$)	Perquisites/ Benefits (\$)	Tax Reimbursement (\$)	Other (\$)	Total (\$)
J. Rodger Anthony	\$617,765	—	—	—	—	—	\$617,765
Jennifer M. Champagne	211,050	—	—	—	—	—	211,050
Susan S. Jolly	209,475	—	—	—	—	—	209,475

Split Dollar Life Insurance. Cornerstone has purchased split dollar life insurance policies covering Mr. Anthony, Mrs. Champagne and Mrs. Jolly, and entered into agreements with each of them relating to these policies. Cornerstone owns these life insurance policies and paid for them in full when it purchased them in 2004. The agreements provide that death proceeds under the policies will be divided between Cornerstone and the respective beneficiaries of Mr. Anthony, Mrs. Champagne and Mrs. Jolly. If, at the time of death, Mr. Anthony is either employed by Cornerstone, retired from employment with Cornerstone, or has been terminated from employment with Cornerstone as a result of disability before age 65, his beneficiary will receive the total death proceeds under the policy, less the policy surrender value, Cornerstone will receive the remainder of the proceeds (which will be at least the surrender value), and Cornerstone and his beneficiary will share any interest due on the death proceeds on a pro rata basis. If, at the time of death, Mrs. Champagne or Mrs. Jolly is currently employed by Cornerstone, retired from employment with Cornerstone, or has been terminated from employment with Cornerstone as a result of disability before age 65, her beneficiary will be entitled to an amount equal to two times her final base salary if the death occurs on or before the insured's 65th birthday or one and one-half times her final base salary if the death occurs after the insured's sixty-fifth birthday, Cornerstone will receive the remainder of the proceeds (which will be at least the policy surrender value), and Cornerstone and her beneficiary will share any interest due on the death proceeds on a pro rata basis. The executive's interest fully vests upon completion of five years continuous service, or immediately upon a change of control. Mr. Anthony, Mrs. Champagne and Mrs. Jolly are all fully vested.

The foregoing is merely a summary of the Split Dollar Life Insurance Agreements and is not intended to create any rights in any person, and is qualified in its entirety by reference to such agreements, the forms of which are filed with the SEC.

Insurance and Indemnification. First Community has agreed to provide directors' and officers' insurance coverage for directors and officers of Cornerstone and Cornerstone Bank, by purchasing or directing Cornerstone to purchase, at First Community's election, continuation coverage under Cornerstone's current policy for directors and officers for a period of not less than six years after the effective time of the merger. First Community has also agreed to indemnify the present and former directors, officers, and employees of Cornerstone and Cornerstone Bank against all liabilities and damages for all acts or omissions arising out of service for Cornerstone or, at Cornerstone's request, for another entity, occurring at or prior to the merger to the fullest extent permitted under the SCBCA, Section 402 of the Sarbanes-Oxley Act, the federal securities laws and FDIC Regulations Part 359, the rules and regulations of any other regulatory authority, and by Cornerstone's articles of incorporation and bylaws.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers, and controlling persons pursuant to the foregoing provisions, First Community has been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable.

Stock Options. The directors and executive officers of Cornerstone held options to purchase an aggregate of 30,525 shares of common stock as of April 11, 2017, all of which were fully vested. As described above under the caption “Proposal No. 1—The Merger—Conversion of Stock; Treatment of Stock Options,” each outstanding, whether or not exercisable, option to acquire Cornerstone common stock granted pursuant to certain stock option agreements entered into by Cornerstone and the directors and executive officers of Cornerstone will be cancelled immediately prior to the effective time of the merger in exchange for a cash payment equal to the product obtained by multiplying (1) the number of shares of Cornerstone common stock underlying such holder’s options by (2) the excess, if any, of the fair market value per share (as defined below) minus the exercise price per share under such option (provided, that if the fair market value per share does not exceed the exercise price per share of a particular option, then by \$0.01). The fair market value per share for purposes of this calculation is the sum of (x) \$11.00 multiplied by 0.30, plus (y) the product of the volume weighted average price (rounded up to the nearest cent) of First Community common stock on The NASDAQ Capital Market during the 10 consecutive trading days ending on the fifth trading day immediately prior to the date on which the effective time of the merger occurs, multiplied by the exchange ratio (0.54), multiplied by 0.70.

The following table sets forth the total number of Cornerstone stock options held by each of the executive officers and non-employee directors of Cornerstone and the estimated value of the total payment for the executive's or non-employee director's options in connection with the merger. All of the outstanding options were fully vested as of April 11, 2017. The estimated value of the payments is based on the relevant merger consideration value of \$11.00.

<i>Executives</i>	Total Options (#)	Options Vested (#)	Options that Vest In Connection with the Merger [#]	Estimated Value of Total Payment for Options In Connection With the Merger (\$)
J. Rodger Anthony	5,550	5,550	—	\$ 7,104
Jennifer M. Champagne	5,550	5,550	—	\$ 7,104
Susan S. Jolly	5,550	5,550	—	\$ 7,104
<i>Directors</i>				
J. Samuel Cox	—	—	—	\$ —
J. Bruce Gaston	2,775	2,775	—	\$ 3,552
S. Ervin Hendricks Jr.	2,775	2,775	—	\$ 3,552
Joe E. Hooper	2,775	2,775	—	\$ 3,552
Ronnie L. Smith	—	—	—	\$ —
John M. Warren, Jr.	2,775	2,775	—	\$ 3,552
George I. Wike, Jr.	2,775	2,775	—	\$ 3,552

Redemption of Cornerstone Series A Preferred Stock. As reflected in the section “Security Ownership of Certain Beneficial Owners and Management of Cornerstone,” several directors and executive officers of Cornerstone, among other persons, own shares of Cornerstone Series A Preferred Stock. The merger agreement requires Cornerstone to use its reasonable best efforts to redeem all of the outstanding shares of Cornerstone Series A Preferred Stock prior to the effective time of the merger, subject, however, to the receipt of all required consents, approvals, and authorization of, and there being no objection to such redemption by, the Federal Reserve. The redemption price of the Series A Preferred Stock, as provided in the Amendment to Cornerstone’s Articles of Incorporation authorizing such series, is \$1,000 per share plus any accrued and unpaid dividends to the date fixed for redemption. Messrs. Anthony, Gaston, Hooper and Warren and Mmes. Champagne and Jolly own Series A Preferred Stock.

Consulting Agreement with J. Rodger Anthony. Mr. Anthony currently serves as the president and chief executive officer and as a director of Cornerstone and Cornerstone Bank. Simultaneously with the execution of the merger agreement, Mr. Anthony executed a consulting agreement with First Community Bank that will become effective immediately prior to the effective time of the merger. The consulting agreement will have a six-month term, subject to early termination for death or disability, and will require Mr. Anthony to, among other things, introduce current Cornerstone customers, employees, and shareholders to First Community and assist in their transition to First Community, facilitate the disposition of other real estate owned of Cornerstone Bank, and assist with other merger integration matters to ensure a successful integration of Cornerstone into First Community. Under the consulting agreement, Mr. Anthony will receive compensation in the amount of \$3,000 per month or the pro rata portion of a month based on the number of business days for which he provides services to First Community Bank, and First Community Bank will reimburse him for reasonable business expenses. The consulting agreement also restricts Mr. Anthony’s ability to compete with First Community Bank or solicit its customers or employees for the later of two years following the effective time of the merger or one year following the expiration of the term of the consulting agreement or any earlier termination of the consulting agreement.

Employment of Susan S. Jolly. Prior to execution of the merger agreement, First Community discussed with Susan S. Jolly, Cornerstone's Senior Vice President and Senior Lender and a director, employing Mrs. Jolly as a senior commercial banker of First Community Bank after effectiveness of the merger. Subsequent to execution of the merger agreement, First Community Bank agreed, after effectiveness of the merger, to employ Mrs. Jolly on an at-will basis as a senior vice president and to compensate her at the same annual salary as her current salary of \$139,650, and to provide her benefits commensurate with those provided to other similarly situated employees of First Community Bank.

Non-Solicitation or Non-Competition Agreements with Cornerstone Executives and Directors.

Non-Solicitation Agreement with Jennifer M. Champagne. As an inducement to and a condition of First Community's willingness to enter into the merger agreement and consummate the merger, Jennifer M. Champagne, senior vice president and chief financial officer of Cornerstone, entered into a non-solicitation agreement with First Community that will prohibit her from recruiting employees and soliciting customers of First Community until the later of two years after the merger or one year following the termination of her service as an employee, a consultant, and an advisory director of First Community Bank (if applicable). She will also be subject to confidentiality obligations during this term.

Non-Competition Agreement with Susan S. Jolly. As an inducement to and a condition of First Community's willingness to enter into the merger agreement and consummate the merger, Susan S. Jolly, senior lender of Cornerstone Bank, entered into a non-competition agreement with First Community that will prohibit her from recruiting employees of First Community until the later of 24 months after the merger or 12 months following the termination of her service as an employee, a consultant and an advisory director of First Community Bank (if applicable), and will prohibit her from soliciting customers of First Community until the later of 18 months after the merger or one year following the termination of her service as an employee, a consultant, and an advisory director of First Community Bank (if applicable). She will also be subject to confidentiality obligations during this term. The agreement will also prohibit her from competing against First Community in Anderson, Greenville, and Pickens Counties of South Carolina until the later of 18 months after the merger or one year following the termination of her service as an employee, a consultant, and an advisory director of First Community Bank (if applicable); *provided, however*, that if her service as an employee, a consultant, and an advisory director of First Community Bank (if applicable) is terminated by First Community without cause, the restrictive period will be reduced to six months following such termination of service.

Non-Competition Agreements with Cornerstone Directors Other Than Jennifer M. Champagne and Susan S. Jolly. As an inducement to and a condition of First Community's willingness to enter into the merger agreement and consummate the merger, the directors of Cornerstone, other than Jennifer M. Champagne and Susan S. Jolly, have each entered into a non-competition agreement with First Community that will restrict their ability to enter into certain competitive business activities until the later of two years after the merger or six months following the termination of their service as an advisory board member of First Community Bank (if applicable). During this term, the directors will be prohibited from recruiting employees, soliciting customers, or competing with First Community within Anderson, Greenville, and Pickens Counties of South Carolina. The directors will also be subject to confidentiality obligations during this term.

Merger Consideration to be Received by Cornerstone Directors and Executive Officers in Exchange for Their Shares of Cornerstone Common Stock and Options. Cornerstone’s directors and executive officers will be entitled to receive the same merger consideration for their shares of Cornerstone common stock as all other holders of Cornerstone common stock, and will be entitled to choose among cash, First Community common stock, or a combination of cash and common stock on the same basis as all other Cornerstone shareholders.

Conditions to Consummation

The obligations of Cornerstone and First Community to consummate the merger are subject to the satisfaction or waiver (to the extent permitted) of several conditions, including, among others:

- Cornerstone shareholders must have approved the merger agreement;

- The required regulatory approvals described under “The Merger—Regulatory Matters” must have been received, generally without any conditions or requirements which would, in the reasonable judgment of the board of directors of First Community, materially adversely affect the economic or business benefits of the transactions contemplated by the merger agreement such that, had First Community known about such condition or requirement, it would not have entered into the merger agreement;

Each party must have received all consents (other than those described in the preceding paragraph) required for consummation of the merger and for the prevention of a default under any contract of such party which, if not obtained or made, would reasonably likely have, individually or in the aggregate, a material adverse effect on such party, generally without any conditions or requirements which would, in the reasonable judgment of the board of directors of First Community, materially adversely affect the economic or business benefits of the transactions contemplated by the merger agreement such that, had First Community known about such condition or requirement, it would not have entered into the merger agreement;

The registration statement registering the shares of First Community common stock to be received by Cornerstone shareholders, of which this proxy statement/prospectus is a part, must have been declared effective by the SEC, no stop order suspending the effectiveness of the registration statement may have been issued, no action, suit, proceeding, or investigation by the SEC to suspend the effectiveness of the registration statement may have been initiated and be continuing, and all necessary approvals under federal and state securities laws relating to the issuance or trading of the shares of First Community common stock issuable pursuant to the merger must have been received;

No court or regulatory authority may have taken any action which prohibits, restricts, or makes illegal the consummation of the transactions contemplated by the merger agreement;

First Community must have filed with The NASDAQ Capital Market a notification form for the listing of the shares of First Community common stock to be delivered to the shareholders of Cornerstone as merger consideration, and The NASDAQ Capital Market shall not have objected to the listing of such shares of First Community common stock;

Each party's representations and warranties must remain accurate, and each party must have performed all of the agreements and covenants to be performed by it pursuant to the merger agreement and must have delivered certificates confirming satisfaction of the foregoing requirements and certain other matters;

Neither party shall have experienced a material adverse effect since December 31, 2016;

First Community must have received from Cornerstone the required executed consulting agreement, non-solicitation agreement, non-competition agreements, acknowledgment and agreements, support agreements, and claims letters by the appropriate executive officers and directors of Cornerstone;

Cornerstone must not have received notice from its holders of Cornerstone common stock of their intent to exercise their dissenters' rights with respect to shares that represent more than an aggregate of 10% of the outstanding shares of Cornerstone common stock;

Cornerstone's shareholders equity must not be less than \$18,241,688, without giving effect to reasonable expenses incurred by Cornerstone in connection with the merger, accumulated other comprehensive income or the redemption of Cornerstone's Series A preferred stock, and Cornerstone Bank's allowance for loan losses must have been

maintained in a manner consistent with GAAP, applicable regulatory guidelines and accounting principles, and past practices of Cornerstone Bank;

No directors or executive officers of Cornerstone shall have exercised any stock options for the purchase of Cornerstone common stock following the execution of the merger agreement;

·First Community shall pay the merger consideration as provided by the merger agreement; and

·All parties must stand ready to consummate the bank merger immediately following the merger.

No assurances can be provided as to when or if all of the conditions precedent to the merger can or will be satisfied or waived by the appropriate party. As of the date of this proxy statement/prospectus, the parties know of no reason to believe that any of the conditions set forth above will not be satisfied.

The conditions to consummation of the merger may be waived, in whole or in part, to the extent permissible under applicable law, by the party for whose benefit the condition has been imposed, without the approval of such parties' shareholders.

Representations and Warranties Made by First Community and Cornerstone in the Merger Agreement

First Community and Cornerstone have made certain customary representations and warranties to each other in the merger agreement. For information on these representations and warranties, please refer to the merger agreement attached as Appendix A.

Regulatory Matters

First Community is responsible for filing all applications necessary to obtain any required regulatory approvals of the transactions contemplated by the merger agreement as soon as reasonably practicable after the date thereof.

Completion of the merger between First Community and Cornerstone is subject to the prior receipt of all consents or approvals of, or the provision of notices to, federal and state authorities required to complete the merger. The merger is subject to the provision of notice to the Federal Reserve because the merger qualifies as a "waiver transaction" under applicable Federal Reserve rules and regulations. First Community filed notice with the Federal Reserve on June 26, 2017, and on July 6, 2017, the Federal Reserve advised First Community of its non-objection to characterization of the merger as a "waiver transaction" and consummation of the merger without a formal application.

Under the merger agreement, it is contemplated that Cornerstone Bank will be merged with and into First Community Bank immediately following the consummation of the merger of Cornerstone and First Community. The bank merger is subject to the prior approvals of the FDIC and the SCBFI. First Community Bank filed the applications with the FDIC and with the SCBFI on May 22, 2017. As of the date of this proxy statement/prospectus, neither the FDIC nor the SCBFI had granted its approval. FDIC approval or possible approval of the combination: (i) reflects only the view that the transaction does not contravene applicable competitive standards imposed by law and is consistent with regulatory policies relating to safety and soundness; (ii) is not an opinion that the proposed combination is financially favorable to the shareholders or that the FDIC has considered the adequacy of the terms of the transaction; and (iii) is not an endorsement of, or recommendation for, the combination.

Amendment, Waiver, and Termination

To the extent permitted by law, Cornerstone and First Community, with the approval of their respective boards of directors, may amend the merger agreement by written agreement at any time without the approval of Cornerstone shareholders or First Community shareholders. However, after the approval of the merger by Cornerstone shareholders, no amendment may decrease or modify the consideration to be received without the further approval of Cornerstone shareholders.

Prior to or at the effective time of the merger, either Cornerstone or First Community may waive any default in the performance of any term of the merger agreement by the other party, may waive or extend the time for the fulfillment by the other party of any of its obligations under the merger agreement, and may waive any of the conditions precedent to the obligations of such party under the merger agreement, except any condition that, if not satisfied, would result in the violation of an applicable law.

The merger agreement may be terminated, and the merger abandoned, at any time prior to its effective time, by mutual consent of the boards of directors of Cornerstone and First Community. In addition, the merger agreement may be terminated, and the merger abandoned, prior to the effective time of the merger by either Cornerstone or First Community if:

the other party breaches any representation, warranty or covenant in the merger agreement which cannot be or is not cured within 30 days of notice of such breach; provided, that such breach is reasonably likely to have a material adverse effect on such breaching party or to prevent such breaching party from complying in all material respects with its covenants;

any consent of any regulatory authority required for consummation of the merger is denied by final nonappealable action of the regulatory authority or if any action taken by the regulatory authority is not appealed within the time limit for appeal; any law or order permanently prohibiting the merger shall have become final and nonappealable; or Cornerstone shareholders fail to approve the merger agreement at the special shareholders' meeting; or

the merger has not been consummated by February 28, 2018.

Notwithstanding approval of the merger by Cornerstone shareholders, First Community may terminate the merger if:

the board of directors of Cornerstone withdraws, qualifies, or modifies, or proposes publicly to withdraw, qualify or modify, in a manner adverse to First Community, its recommendation that the Cornerstone shareholders approve the merger agreement, or approves or recommends, or proposes publicly to approve or recommend an acquisition proposal by any other person;

the board of directors of Cornerstone fails to reaffirm its recommendation that the Cornerstone shareholders approve the merger agreement within 10 business days after First Community requests such reaffirmation at any time following the public announcement of an acquisition proposal by any other person;

Cornerstone fails to comply in all material aspects with Section 7.1 (Shareholder Approvals) or 7.3 (Other Offers, etc.) of the merger agreement regarding obtaining shareholder approval for the merger agreement and solicitation of other offers for an acquisition of Cornerstone; or

Cornerstone has received notice from its holders of Cornerstone common stock of their intent to exercise their dissenters' rights with respect to shares that represent more than an aggregate of 10% of the outstanding shares of Cornerstone common stock.

In this event, Cornerstone must pay First Community a termination fee of \$950,000.

Cornerstone can also terminate the merger agreement if it receives an acquisition proposal from a third party that is superior to First Community's proposal and concludes after receiving legal and financial advice that the board of directors would be in breach of its fiduciary duties if the board of directors did not accept the superior proposal; provided, however, First Community would then have the opportunity to match the superior proposal in order to proceed with the merger. In this event, Cornerstone must pay First Community a termination fee of \$950,000.

In addition, if (i) an acquisition proposal with respect to Cornerstone is communicated to the shareholders, senior management, or board of directors of Cornerstone or any person publicly announces an intention to make an acquisition proposal with respect to Cornerstone after the date of the merger agreement, (ii) the merger agreement is

then terminated due to a failure to obtain the Cornerstone shareholder vote, a material breach of the merger agreement by Cornerstone, or failure to close the merger by February 28, 2018, and (iii) within one year after the termination of the merger agreement, Cornerstone consummates an acquisition transaction or enters into an acquisition agreement that is ultimately consummated, then it must pay the \$950,000 termination fee to First Community.

Conduct of Business Pending the Merger

Under the merger agreement, both parties have agreed, except as otherwise contemplated by the merger agreement or with the prior written consent of the other party, to:

- operate its business only in the usual, regular, and ordinary course;

- use commercially reasonable efforts to preserve intact its business organizations and assets and maintain its rights and franchises;

- use commercially reasonable efforts to cause its representations and warranties to be correct at all times; and

take no action which would (1) adversely affect the ability of any party to obtain any consents required for the transactions contemplated by the merger agreement without imposition of a condition or restriction which, in the reasonable judgment of the board of directors of First Community, would so materially adversely impact the economic or business benefits of the transactions contemplated by the merger agreement such that, had First Community known of such condition or requirement, it would not have entered into the merger agreement, or (2) adversely affect in any material respect the ability of either party to perform its covenants and agreements under the merger agreement.

In addition, Cornerstone has agreed, except as otherwise contemplated by the merger agreement or with the prior written consent of First Community, to:

- use its best efforts to provide all information requested by First Community related to loans or other transactions made by Cornerstone to a person with a total relationship credit commitment exceeding \$500,000;

- provide written notice to First Community prior to entering into or making any loans or other transactions with a person with a total relationship credit commitment exceeding \$250,000 other than residential mortgage loans for which Cornerstone has a commitment to buy from a reputable investor; and

- consult with First Community prior to entering into or making any loans that exceed regulatory loan to value guidelines;

In addition, Cornerstone has agreed in the merger agreement not to take certain actions relating to the operation of its business pending consummation of the merger without the prior consent of First Community. Such actions include, among others:

· amending the articles of incorporation, bylaws, or other governing corporate instruments;

· incurring any additional debt obligation or other obligation for borrowed money in excess of an aggregate of \$200,000, except in the ordinary course of business consistent with past practices, or allowing the imposition of a lien on any asset;

· repurchasing, redeeming, or otherwise acquiring or exchanging (other than exchanges in the ordinary course under employee benefit plans and the redemption of the outstanding Cornerstone Series A preferred stock) any shares (or securities convertible into any shares) of capital stock or paying any dividend on common stock (other than accrued dividends on the Cornerstone Series A preferred stock);

· except for the merger agreement, issuing, selling, pledging, encumbering, authorizing the issuance of, entering into any contract to issue, sell, pledge, encumber or authorize the issuance of, or otherwise permit to become outstanding, any additional shares of Cornerstone common stock, any other capital stock of any Cornerstone entity, or any right;

adjusting, splitting, combining, or reclassifying any capital stock or issuing or authorizing the issuance of any other securities in respect of, or in substitution for, shares of common stock, or selling, leasing, mortgaging, or otherwise disposing of any shares or assets other than in the ordinary course for reasonable and adequate consideration;

except for purchases of U.S. government securities or U.S. government agency securities, which in either case have maturities of two years or less, purchasing any securities or making any material investments, except in the ordinary course of business consistent with past practice, either by purchasing stock or securities, contributing to capital, transferring assets, or purchasing any assets, in any person or otherwise acquiring direct or indirect control over any person other than in connection with foreclosures of loans in the ordinary course of business;

except as contemplated by the merger agreement, granting any bonuses or increase in compensation or benefits to employees, officers, or directors (except, with respect to employees who are not directors or officers, in accordance with past practice and, with respect to officers and directors, as previously disclosed), committing or agreeing to pay any severance or termination pay, change in control, or any stay or other bonus to any director, officer, or employee (except as previously disclosed), entering into, terminating or amending any retention, severance change in control or employment agreements, changing any fees or other compensation or other benefits to directors, or, except in order to cancel Cornerstone stock options as contemplated by the merger agreement, waiving any stock repurchase rights, accelerating, amending, or changing the exercisability period of any right or restricted stock, repricing options or warrants, or authorizing cash payments in exchange for any rights, or accelerating, vesting, or committing or agreeing to accelerate or vest any amounts, benefits, or rights;

entering into or amending (unless required by law or the merger agreement) any employment contract that does not have the unconditional right to terminate without certain liability;

subject to certain exceptions, adopting any new employee benefit plan or terminating or withdrawing from or materially changing any existing plan or program;

making any change in tax or accounting methods or systems of internal accounting controls, except for any change required by law, regulatory accounting requirements, or generally accepted accounting principles, or at the specific request of First Community;

commencing any litigation other than in accordance with past practice or settling any litigation for money damages in excess of any amount covered by insurance plus the amount of any deductible or retainage or restrictions on operations;

entering into, modifying, amending, or terminating any material contracts other than with respect to those involving aggregate payments of less than, or the provision of goods or services with a market value of less than, \$25,000 per annum, subject to certain exceptions;

except to satisfy a commitment made before the date of the merger agreement, making, renegotiating, renewing, increasing, extending, modifying, or purchasing any loan or credit to any borrower or making any commitment in

respect of the foregoing, except, with respect to any extension of credit to a person with a total relationship commitment amount equal to or less than \$1,000,000 (provided, that extensions of credit equal to or less than \$25,000 to a person with a total relationship commitment amount exceeding \$1,000,000 shall not be subject to the prior written consent of First Community), in conformity with existing lending policies and policies, or waiving, releasing, compromising, or assigning any material rights or claims or making any adverse changes in the mix, rates, terms, or maturities of its deposits or other liabilities;

making or increasing any loans or other extensions of credit or the commitment to do so to any director or executive officer of Cornerstone or Cornerstone Bank or any entity controlled by a director or executive officer, except for loans or extensions of credit made on terms generally available to the public and other than renewals of existing loans or commitments;

restructuring or materially changing its investment securities portfolio or its interest rate risk position through purchases, sales or otherwise, or the manner in which the portfolio is classified or reported;

making any capital expenditures in excess of \$10,000 (individually or in the aggregate) over the amount set forth in the budget provided to First Community prior to the date of the merger agreement and thereafter approved by First Community, other than pursuant to binding commitments as of April 11, 2017, and other expenditures necessary to maintain existing assets in good repair or to make payment of necessary taxes;

establishing or committing to establish any new branch or office facility or filing any application to relocate or terminate the operation of any banking office;

taking any action that is intended or expected to result in any of its representations and warranties set forth in the merger agreement being or becoming untrue in any material respect at any time prior to the effective time, or in any of the conditions to the merger not being satisfied or in a violation of the merger agreement;

knowingly taking any action that would prevent or impede the merger from qualifying as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code;

agreeing to take, making any commitment to take, or adopting any resolutions in support of any actions prohibited by any of these covenants;

maintaining Cornerstone Bank's allowance for loan losses in a manner inconsistent with GAAP and applicable regulatory guidelines and accounting principles, practices, and methods consistent with past practices; or

taking any action or failing to take any action that at the time of such action or inaction is reasonably likely to prevent, or would be reasonably likely to materially interfere with, the consummation of the merger.

In addition, Cornerstone has agreed that neither it, nor its affiliates or representatives, will solicit an acquisition proposal (generally, a tender offer or proposal for a merger, asset acquisition, or other business combination), other than the transactions contemplated by the merger agreement. Pursuant to the merger agreement, except to the extent necessary to comply with the fiduciary duties of their board of directors, neither Cornerstone, nor any affiliate or representative of such party, will, prior to the shareholder vote on the merger agreement and subject to certain exceptions, furnish any non-public information that it is not legally obligated to furnish, or negotiate with respect to, or enter into any contract with respect to, any acquisition proposal. In the merger agreement, Cornerstone also agreed to terminate any existing negotiations with any other parties with respect to any of the foregoing and agreed to use its reasonable efforts to cause its representatives to comply with any of the foregoing.

Expenses and Fees

The merger agreement provides that each party will be responsible for its own direct costs and expenses incurred in connection with the negotiation and consummation of the transactions contemplated by the merger agreement, including filing, registration and application fees, printing fees, and fees and expenses of its own financial or other consultants, investment bankers, accountants, and counsel.

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The merger agreement provides for the payment of a \$950,000 termination fee to First Community, if (i) the board of directors of Cornerstone withdraws, qualifies, or modifies, or proposes publicly to withdraw, qualify or modify, in a manner adverse to First Community, its recommendation that the Cornerstone shareholders approve the merger agreement, or approves or recommends, or proposes publicly to approve or recommend an acquisition proposal by any other person; (ii) the board of directors of Cornerstone fails to reaffirm its recommendation that the Cornerstone shareholders approve the merger agreement within 10 business days after First Community requests such reaffirmation at any time following the public announcement of an acquisition proposal by any other person; (iii) Cornerstone fails to comply in all material aspects with Section 7.1 (Shareholder Approvals) or 7.3 (Other Offers, etc.) of the merger agreement regarding obtaining shareholder approval for the merger agreement and solicitation of other offers for an acquisition of Cornerstone; or (iv) Cornerstone has received notice from its holders of Cornerstone common stock of their intent to exercise their dissenters' rights with respect to shares that represent more than an aggregate of 10% of the outstanding shares of Cornerstone common stock. In addition, Cornerstone must pay First Community the \$950,000 termination fee to First Community if it terminates the merger agreement following receipt of an acquisition proposal from a third party that is superior to First Community's proposal and concludes after receiving legal and financial advice that the board of directors would be in breach of its fiduciary duties if the board of directors did not accept the superior proposal. Also, if (i) an acquisition proposal with respect to Cornerstone is communicated to the shareholders, senior management, or board of directors of Cornerstone or any person publicly announces an intention to make an acquisition proposal with respect to Cornerstone after the date of the merger agreement, (ii) the merger agreement is then terminated due to a failure to obtain the Cornerstone shareholder vote, a material breach of the merger agreement by Cornerstone, or failure to close the merger by June 30, 2016, and (iii) within one year after the termination of the merger agreement, Cornerstone consummates an acquisition transaction or enters into an acquisition agreement that is ultimately consummated, then it must pay the \$950,000 termination fee to First Community.

Accounting Treatment

The merger will be accounted for under the acquisition method of accounting within generally accepted accounting principles. Under the acquisition method of accounting, the assets (including identifiable intangible assets) and liabilities (including executory contracts and other commitments) of Cornerstone as of the effective date of the merger will be recorded at their respective fair values and added to those of First Community. Any excess of purchase price over the fair values of assets acquired and liabilities assumed will be recorded as goodwill. Financial statements of First Community issued after the merger will reflect these fair values and will not be restated retroactively to reflect the historical financial position or results of operations of Cornerstone before the effective date of the merger.

COMPARATIVE RIGHTS OF FIRST COMMUNITY AND CORNERSTONE SHAREHOLDERS

At the effective time of the merger, holders of Cornerstone common stock who elect to receive First Community common stock as merger consideration, or who otherwise receive First Community common stock due to the proration of their cash merger consideration election as described elsewhere in this proxy statement/prospectus, will become holders of First Community common stock. The following is a summary of the material differences between the rights of holders of First Community common stock and the rights of holders of Cornerstone common stock. The rights of holders of First Community common stock and those of holders of Cornerstone common stock arise from the South Carolina Business Corporation Act (“SCBCA”), in addition to differing provisions of their respective articles of incorporation and bylaws.

This summary does not purport to be a complete description of the provisions affecting and differences between the rights of First Community shareholders and Cornerstone shareholders. The identification of specific provisions or differences is not meant to indicate that other equally or more significant differences do not exist. This summary is qualified in its entirety by reference to the SCBCA and to the governing corporate documents of First Community and Cornerstone, to which the shareholders of Cornerstone are referred.

Authorized Capital Stock

First Community

First Community is authorized to issue 10,000,000 shares of common stock, par value \$1.00 per share, of which 6,697,130 shares were issued and outstanding as of March 31, 2017, and of which no shares are reserved for issuance pursuant to outstanding First Community options and 97,180 are reserved for issuance pursuant to outstanding First Community warrants, and 10,000,000 shares of preferred stock, par value \$1.00, of which no shares are issued and outstanding. First Community’s shareholders do not have preemptive rights. First Community’s shares of common stock are not assessable.

Cornerstone

Cornerstone is authorized to issue 20,000,000 shares of common stock, no par value per share, and 10,000,000 shares of preferred stock. As of March 31, 2017, there were 2,320,991 shares of Cornerstone common stock outstanding and 1,038 shares of Cornerstone preferred stock outstanding. Cornerstone’s shareholders do not have preemptive rights. Cornerstone’s shares of common stock are nonassessable.

Size of Board of Directors

First Community

First Community's articles of incorporation provide that the board must consist of not less than nine directors and no more than 25 directors, with the exact number fixed by the board of directors. First Community's board of directors is currently comprised of 15 persons. Following the merger, no Cornerstone directors will be joining the First Community board.

Cornerstone

The articles of incorporation of Cornerstone provide that the board of directors has the power to set the number of directors from time to time at six or more directors. The Cornerstone board of directors is currently comprised of 10 directors.

Classification of Directors

First Community

First Community's articles of incorporation divide the board of directors into three classes with staggered terms so that the terms of only approximately one-third of the board members expire at each annual meeting. Each director serves for a three-year term ending on the date of the third annual meeting following the meeting at which such director was elected.

Cornerstone

So long as Cornerstone has six or more directors, the directors shall be divided into three classes, with each class elected to staggered three-year terms so that the terms of approximately one-third of the directors expire each year. Cornerstone has 10 directors and, therefore, has a staggered board of directors.

Election of Directors

First Community

First Community's bylaws also provide that the directors will be elected by a plurality of the votes cast at each annual meeting, with the nominees receiving the highest number of votes being elected as directors.

Cornerstone

Cornerstone's bylaws provide that directors will be elected at each annual meeting by a plurality of the votes cast.

Removal of Directors

First Community

First Community's articles of incorporation provide that the shareholders do not have the right to remove any one or all of the directors prior to the end of their term of office except by the affirmative vote of the holders of at least sixty-six and two-thirds of the shares entitled to vote at an election of directors.

Cornerstone

Under the articles of incorporation and bylaws of Cornerstone, the shareholders entitled to vote for the election of directors may remove a director, with or without cause; provided, however, an affirmative vote of 80 percent of the outstanding shares of Cornerstone common stock is required to remove any or all of the directors without cause.

Filling Vacancies on the Board of Directors

First Community

First Community's bylaws provide that (a) the office of a director shall become vacant if he dies, resigns, or is removed from office, and (b) the board of directors may declare vacant the office of a director if (i) he is interdicted or adjudicated an incompetent, (ii) an action is filed by or against him, or any entity of which he is employed as his principal business activity, under the bankruptcy laws of the United States, (iii) in the sole opinion of the board of directors he becomes incapacitated by illness or other infirmity so that he is unable to perform his duties for a period of six months or longer, or (iv) he ceases at any time to have the qualifications required by law, the articles of incorporation or the bylaws. The remaining directors may, by a majority vote, fill any vacancy on the board of directors (including any vacancy resulting from an increase in the authorized number of directors, or from the failure of the shareholders to elect the full number of authorized directors) for an unexpired term; provided that the shareholders shall have the right at any special meeting called for such purpose prior to action by the board of directors to fill the vacancy.

Cornerstone

The remaining directors, although less than a quorum, may by majority vote choose a successor or successors to fill any vacancy of the Cornerstone board of directors, and any director so chosen shall hold office until the next annual meeting of shareholders and until a successor is duly elected and qualified, unless sooner displaced. If the directors remaining in office are unable, by majority vote, to fill such vacancy within 30 days of the occurrence thereof, the president or the secretary may call a special meeting of the shareholders at which such vacancy shall be filled. The Cornerstone board of directors may increase or decrease by not more than 30 percent the number of directors last approved by the shareholders. Any vacancy on the board of directors created by the increase in the number of directors may be filled by a majority vote of the board of directors or by the shareholders. Any director elected to fill a vacancy created by an increase in the number of directors shall serve until the next annual meeting of shareholders.

Nomination of Director Candidates

First Community

First Community's bylaws provide that nomination of persons to serve as directors of the company, other than those made by or on behalf of the board of directors, must be made in writing and delivered either by personal delivery or by United States mail, postage prepaid, return receipt requested, to the secretary of the company no later than (i) with respect to an election to be held at an annual meeting of shareholders, 90 days in advance of such meeting; and (ii) with respect to an election to be held at a special meeting of shareholders for the election of directors, the close of business on the seventh day following the date on which notice of such meeting is first given to shareholders. Each notice shall set forth: (i) the name and address of the shareholder who intends to make the nomination and of the person or persons to be nominated; (ii) a representation that the shareholder is a holder of record of stock of the company entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (iii) a description of all arrangements or understandings between the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder; (iv) such other information regarding each nominee proposed by such shareholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the SEC, had the nominee been nominated, or intended to be nominated, by the board of directors; and (v) the consent of each nominee to serve as a director if so elected. The chairman of the meeting may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure. The chairman of any such meeting, for good cause shown and with proper regard for the orderly conduct of business at the meeting, may waive in whole or in part the operation of these procedures.

Notwithstanding the above, if the First Community or First Community Bank is subject to the requirements of Section 914 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, then no person may be nominated by a shareholder for election as a director at any meeting of shareholders unless the shareholder furnishes the written notice required as described above to the secretary of the company at least 90 days prior to the date of the meeting and

the nominee has received regulatory approval to serve as a director prior to the date of the meeting.

Cornerstone

Cornerstone's articles of incorporation and bylaws do not contain advance notice provisions with respect to shareholder proposals. However, shareholder nominations for directors must be received by Cornerstone at least 90 days prior to any meeting called for the election of directors, must be in writing, and must include any information required by Cornerstone's bylaws.

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Shareholder Action Without Meeting

First Community

First Community's articles of incorporation provide that shareholder action by written consent in lieu of a meeting is permitted only if such consent is unanimous.

Cornerstone

Whenever by any provision of law the vote of Cornerstone shareholders at a meeting is required or permitted to be taken in connection with any corporate action, the meeting and vote of shareholders may be dispensed with if all the shareholders who would have been entitled to vote on the action if such meeting were held consent in writing to such corporate action being taken.

Calling Meetings of Shareholders

First Community

First Community's bylaws provide that special meetings of the shareholders, for any purpose or purposes, unless otherwise required by the SCBCA, the articles of incorporation, or the bylaws, may be called by the chief executive officer, the president, the chairman, or a majority of the board of directors. In addition, First Community shall, if and to the extent that it is required by applicable law, hold a special meeting of shareholders if the holders of at least 10% of all the votes entitled to be cast on any issue proposed to be considered at such special meeting sign, date and deliver to the secretary of the company one or more written demands for the meeting. Such written demands shall be delivered to the secretary by certified mail, return receipt requested. Such written demands sent to the secretary shall set forth as to each matter the shareholder or shareholders propose to be presented at the special meeting (i) a description of the purpose or purposes for which the meeting is to be held (including the specific proposal(s) to be presented); (ii) the name and record address of the shareholder or shareholders proposing such business; (iii) the class and number of shares of the company that are owned of record by the shareholder or shareholders as of a date within 10 days of the delivery of the demand; (iv) the class and number of shares of the company that are held beneficially, but not held of record, by the shareholder or shareholders as of a date within 10 days of the delivery of the demand; and (v) any interest of the shareholder or shareholders in such business. Any such special shareholders' meeting shall be held at a location designated by the board of directors. The board of directors may set such rules for any such meeting as it may deem appropriate, including when the meeting will be held (subject to any requirements of the SCBCA), the agenda for the meeting (which may include any proposals made by the board of directors), who may attend the meeting in addition to shareholders of record and other such matters.

Cornerstone

Cornerstone's bylaws provide that special meetings of the Cornerstone shareholders may be called by the president or the chairman of the board of directors or a majority of the directors and must be called by the president or secretary at the request in writing of a majority of the directors, or at the request in writing of shareholders owning at least 10 percent in amount of the shares of Cornerstone common stock issued and outstanding and entitled to vote.

Indemnification of Directors, Executive Officers, and Employees

First Community

First Community's bylaws provide that First Community shall indemnify, to the fullest extent provided by law, all directors, officers, employees, agents of the corporation and any person who, at the corporation's request, is or was serving as director, officer, partner, trustee, employee or agent of another corporation or entity, against liability and expenses in any proceeding arising out of their status or activities in any of the foregoing capacities, provided that the party (i) conducted himself in good faith, (ii) reasonably believed: (A) in the case of conduct in his official capacity with First Community, that his conduct was in its best interest; and (B) in all other cases, that his conduct was at least not opposed to its best interest; and (iii) in the case of any criminal proceeding, he had no reasonable cause to believe his conduct was unlawful.

Cornerstone

Neither Cornerstone's articles of incorporation nor its bylaws has a provision relating to indemnification of directors, officers, employees or agents of Cornerstone. However, under the SCBCA, Cornerstone has the authority to indemnify a director, officer, employee or agent against liability and expenses in any proceeding arising out of his or her status as such, provided that the individual (i) conducted himself or herself in good faith, (ii) reasonably believed: (A) in the case of conduct in his or her official capacity with Cornerstone, that his or her conduct was in its best interest, and (B) in all other cases, that his or her conduct was at least not opposed to its best interest; and (iii) in the case of any criminal proceeding, he or she had no reasonable cause to believe his or her conduct was unlawful. Under the SCBCA, Cornerstone is required to indemnify a director or officer who was wholly successful, on the merits or otherwise, in the defense of any proceeding to which he or she was a party because of his or her status as a director against reasonable expenses incurred in connection with the proceeding.

Limitation of Liability for Directors

First Community

First Community's articles of incorporation provide that, to the maximum extent permitted from time to time by the SCBCA, no director shall be personally liable to First Community or its shareholders for monetary damages for a breach of a fiduciary duty as a director, except that a director may be liable (i) for any breach of the director's duty of loyalty to First Community or its shareholders, (ii) for acts and omissions not in good faith or which involve intentional misconduct or a knowing violation of law, and (iii) for any transaction from which the director derives any improper personal benefits.

Cornerstone

Cornerstone's articles of incorporation provide that, to the maximum extent permitted by the SCBCA, no director of Cornerstone shall be personally liable for monetary damages to Cornerstone or its shareholders for breach of fiduciary duty as a director occurring after the effective date of the articles of incorporation.

Amendment to Articles of Incorporation

First Community

The SCBCA provides that a South Carolina corporation's articles of incorporation generally may be amended only upon approval by (i) two-thirds of the votes entitled to be cast on the amendment, regardless of the class or voting group to which the shares belong and (ii) two-thirds of the votes entitled to be cast on the amendment within each voting group entitled to vote as a separate voting group on the amendment. First Community's articles of incorporation also provide that the affirmative vote of the holders of not less than sixty-six and two thirds percent of the votes entitled to be cast by the holders of all outstanding shares of voting stock shall be required to amend the optional provisions which First Community elected to include in the articles of incorporation or to adopt any provision inconsistent with the articles of incorporation.

Cornerstone

Any amendment to Cornerstone's articles of incorporation (other than amendments that may adopted by the Cornerstone board of directors without shareholder approval) to change the number of shares or classes of shares Cornerstone is authorized to issue, or to change the name of Cornerstone, may be adopted upon approval by the affirmative vote of a majority of the outstanding shares of Cornerstone.

Unless approved by the affirmative vote of at least two-thirds of the Cornerstone board of directors, amendments concerning the following matters shall not be effective unless approved by the affirmative vote of 80% of the outstanding shares of Cornerstone:

- preemptive rights;
- cumulative voting;
- number, classification and staggered terms of directors;
- business combinations;
- limitation of director liability;
- quorum;
- mergers, consolidations, exchanges, sales of assets or dissolution;
- nomination of directors;
- removal of directors;
- duty of directors; and
- amendment to articles of incorporation.

If two-thirds of the Cornerstone board of directors approves an amendment concerning the matters set forth above, then such amendment need only be approved by an affirmative vote of holders of two-thirds of the outstanding shares of Cornerstone.

Amendment to Bylaws

First Community

First Community's articles of incorporation provide that the board of directors shall have the concurrent power with the shareholders to adopt, amend, or repeal the bylaws of First Community. The board of directors may amend the bylaws upon the affirmative vote of a majority of the directors present at a meeting at which a quorum is present. The shareholders may amend the bylaws only upon the affirmative vote of the holders of not less than sixty-six and two-thirds percent of the votes entitled to be cast by the holders of all outstanding shares of the voting stock.

Cornerstone

The bylaws of Cornerstone may be amended by the Cornerstone board of directors, with the exception of any bylaw adopted by the shareholders of Cornerstone that expressly provides that the Cornerstone board of directors may not adopt, amend or repeal such bylaw. Any bylaw adopted by the Cornerstone board of directors may be amended or repealed by the vote of the holders of a majority of the shares entitled at such time to vote for the election of directors.

Shareholder Vote on Fundamental Issues

First Community

First Community's articles of incorporation provide that the affirmative vote of the holders of at least sixty-six and two-thirds percent of the outstanding shares of common stock entitled to vote are required to approve any merger, consolidation, or sale of First Community or any substantial part of the First Community's assets.

Cornerstone

Cornerstone's articles of incorporation provide that any plan of merger, consolidation or exchange, or any plan for the sale of all, or substantially all, of the property and assets, with or without the goodwill, of Cornerstone, or any resolution to dissolve Cornerstone, which plan or resolution was not adopted by the affirmative vote of at least two-thirds of the full board of directors, must be approved by the affirmative vote of at least 80% of the outstanding shares of Cornerstone.

Cornerstone's articles of incorporation also provide that, when evaluating any proposed plan of merger, consolidation, exchange, or sale of all, or substantially all, of the assets of Cornerstone, the board of directors must consider the interests of the employees of Cornerstone and the community or communities in which Cornerstone and its subsidiaries do business in addition to the interests of Cornerstone's shareholders.

Control Share Acquisition Provisions

First Community

Section 35-2-101 et seq. of the SCBCA contains a control share acquisition statute that, in general terms, provides that where a shareholder acquires issued and outstanding shares of a corporation's voting stock (referred to as control shares) within one of several specified ranges (one-fifth or more but less than one-third, one-third or more but less than a majority, or a majority or more), approval of the control share acquisition by the corporation's shareholders must be obtained before the acquiring shareholder may vote the control shares. The required shareholder vote is a majority of all votes entitled to be cast, excluding "interested shares," defined as shares held by the acquiring person, officers of the corporation and employees who are also directors of the corporation. A corporation may, however, opt-out of the control share statute through a charter or bylaw provision. First Community has specifically opted out of coverage of the control share acquisition provisions of South Carolina law, and therefore, the SCBCA control share acquisition statute does not apply to acquisitions of shares of First Community common stock.

Cornerstone

The SCBCA control share acquisition statute only applies to corporations that have a class of securities registered under the Exchange Act. Because Cornerstone does not have a class of securities registered under the Exchange Act, the statute does not apply to Cornerstone.

Business Combination Statute

First Community

South Carolina law (Article 2 of Chapter 2 of Title 35 of the South Carolina Code of Laws, 1976 (as amended)) prohibits specified "business combinations" with "interested shareholders" unless certain conditions are satisfied. The act defines an "interested shareholder" as any person (other than the corporation or any of its subsidiaries) that (i) beneficially owns 10% or more of the corporation's outstanding voting shares or (ii) at any time within the preceding two-year period beneficially owned 10% of the voting power of the corporation's outstanding shares and is an affiliate or associate of the corporation.

Covered business combinations with interested shareholders or an affiliate or associate of an interested shareholder include, among other transactions:

· merger of the corporation;

· sale, lease, exchange, mortgage, pledge, transfer, or other disposition of assets having a value equal to 10% or more of the value of all assets of the corporation, the value of all outstanding shares of the corporation, or the earning power or net income of the corporation;

· transfer of shares of the corporation equaling 5% or more of the market value of all outstanding shares of the corporation; and

· dissolution or liquidation of the corporation proposed by or under an arrangement with an interested shareholder or its affiliate or associate.

Covered business combinations are prohibited unless:

- the board of directors of the corporation approved of the business combination before the interested shareholder became an interested shareholder;
- a majority of shares not beneficially owned by the interested shareholder approved the combination; and
- certain transactional requirements are met.

Covered business combinations are prohibited for two years after an interested shareholder becomes interested unless the board of directors of the corporation approved of the business combination before the interested party became interested.

First Community is subject to the business combination provisions of South Carolina law.

Cornerstone

Cornerstone's articles of incorporation provide that, whether or not Cornerstone has a class of voting shares registered with the SEC or another federal agency under Section 12 of the Exchange Act, any "business combination," as defined in Section 35-2-205 of the SCBCA (as such section may from time to time be amended) shall only be undertaken in compliance with the provisions of Article 2 of Chapter 2 of Title 35 of the South Carolina Code (as such article may from time to time be amended), as though Cornerstone had a class of voting shares registered under the Exchange Act; provided, however, if Article 2 of Chapter 2 of Title 35 of the South Carolina Code shall at any time be repealed, this provision of Cornerstone's articles of incorporation shall not also be repealed, but shall remain in effect, unless repealed by the shareholders, in the form such provision was in effect immediately prior to such repeal.

Dissenters' Rights

First Community

The dissenters' rights of First Community shareholders are governed in accordance with the SCBCA. Under South Carolina law, a dissenting or objecting shareholder has the right to demand and receive payment of the fair value of

the shareholder's shares in the event of (1) the consummation of a plan of merger if shareholder approval is required and the shareholder is entitled to vote on the plan, or if the corporation to be merged is a subsidiary that is merged with its parent; (2) the consummation of a plan of share exchange if the shareholder is entitled to vote on the plan; (3) the consummation of a sale or exchange of all or substantially all of the property of the corporation other than in the ordinary course of business if the shareholder is entitled to vote on the sale or exchange; (4) an amendment to the corporation's articles of incorporation in a way that materially and adversely affects the shareholder's rights; (5) in certain circumstances, the conversion of a corporation into a limited liability company or a partnership; or (6) a transaction, to the extent the corporation's articles of incorporation, bylaws or a resolution of the corporation's board of directors provides for dissenters' rights relating to such a transaction.

The SCBCA provides that a shareholder may not demand the fair value of the shareholder's shares and is bound by the terms of the transaction if, among other things, the shares are listed on a national securities exchange on the record date for determining shareholders entitled to vote on the matter. Shares of First Community common stock are currently listed on The NASDAQ Capital Market, a national securities exchange.

Cornerstone

The dissenters' rights of Cornerstone shareholders are governed in accordance with the SCBCA, and are provided for with respect to any of the transactions outlined above under "Dissenter's Rights – First Community." Because Cornerstone does not currently have a class of stock listed on a national securities exchange, Cornerstone shareholders who comply with the requirements of the SCBCA are entitled to assert dissenter's rights and obtain the fair value of their shares in the event Cornerstone engages in any of the transactions outlined under such section above.

Exclusive Forum

First Community

First Community's bylaws provide that, unless First Community consents in writing to the selection of an alternative forum, the sole and exclusive forum for derivative actions, claims of a breach of fiduciary duty, any claims arising out of the SCBCA, First Community's articles of incorporation or its bylaws, or any action governed by the internal affairs doctrine shall be the United States District Court for the District of South Carolina, Columbia Division (or, if the federal district court does not have jurisdiction, the Circuit Courts of the State of South Carolina located in Lexington County).

Cornerstone

Cornerstone's bylaws provide that, unless Cornerstone consents in writing to the selection of an alternative forum, the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of Cornerstone, (ii) any action asserting a claim of breach of a fiduciary duty owed by any director or officer or other employee of Cornerstone to Cornerstone or Cornerstone's shareholders, (iii) any action asserting a claim against Cornerstone or any director or officer or other employee of Cornerstone arising pursuant to any provision of the SCBCA or Cornerstone's articles of incorporation or bylaws (as any may be amended from time to time), or (iv) any action asserting a claim against Cornerstone or any director or officer or other employee of Cornerstone governed by the internal affairs doctrine, shall be a state court located within the State of South Carolina (or, if no state court located within the State of South Carolina has jurisdiction, the federal district court for the District of South Carolina).

PROPOSAL NO. 2 – AUTHORIZATION TO ADJOURN

At the special shareholders' meeting, Cornerstone shareholders are being asked to consider and vote on a proposal to authorize management to adjourn the meeting, if necessary or appropriate, to allow time for further solicitation of proxies if there are insufficient votes present at the meeting, in person or by proxy, to approve the merger agreement.

Cornerstone's board of directors recommends that Cornerstone shareholders vote "FOR" the proposal to authorize management to adjourn the special meetings to allow time for the further solicitation of proxies to approve the merger agreement.

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INFORMATION ABOUT FIRST COMMUNITY CORPORATION

In this section, First Community is referred to as the “First Community”, “we” and “our”.

General

Financial and other information about First Community is set forth in First Community’s Form 10-K for the year ended December 31, 2016, which includes certain provisions of First Community’s proxy statement for its 2017 annual meeting, and the Form 10-Q for the quarter ended March 31, 2017, which are incorporated herein by reference. See “Incorporation of Certain Documents by Reference” beginning on page 120, and “Where You Can Find More Information” on page 1.

Description of First Community Capital Stock

General

The articles of incorporation of First Community authorize the issuance of capital stock consisting of 10,000,000 shares of common stock, \$1.00 par value per share, and 10,000,000 shares of preferred stock, \$1.00 par value per share. As of March 31, 2017, we had issued and outstanding 6,697,130 shares of common stock held by 1,428 shareholders of record and no shares of preferred stock.

In the future, the authorized but unissued and unreserved shares of common stock and preferred stock will be available for issuance for general purposes, including, but not limited to, possible issuance as stock dividends or stock splits, employee benefit plans, future mergers or acquisitions, or future private placements or public offerings. Except as may be required to approve a merger or other transaction in which the additional authorized shares of common stock or preferred stock would be issued, no shareholder approval will be required for the issuance of those shares. See section entitled “Comparative Rights of First Community and Cornerstone Shareholders” for a discussion of the rights of the holders of First Community common stock as compared to the holders of Cornerstone common stock.

The description of our capital stock below is qualified in its entirety by reference to our articles of incorporation.

Common Stock

General

Each share of common stock has the same relative rights as, and is identical in all respects to, each other share of common stock.

Voting Rights

Each share of common stock will entitle the holder thereof to one vote on all matters upon which shareholders have the right to vote. There are no cumulative voting rights.

In general, except as otherwise provided in our articles of incorporation, (i) amendments to our articles of incorporation must be approved by two-thirds of the votes entitled to be cast, regardless of voting group, and in addition by two-thirds of the votes entitled to be cast within each voting group entitled to vote separately thereon; and (ii) the dissolution of the Company must be approved by two-thirds of the votes entitled to be cast thereon.

Our articles of incorporation provide that a merger, consolidation, or sale of the Company or any substantial part of the Company's assets must be approved by the affirmative vote of the holders of at least sixty-six and two-thirds of our outstanding shares of common stock entitled to vote.

Our articles of incorporation provide that our board of directors may alter, amend, or repeal any of our bylaws or adopt new bylaws, subject to our shareholders' concurrent right to alter, amend, or repeal any of our bylaws or adopt new bylaws.

Dividends

Holders of shares of common stock are entitled to receive dividends when and as declared by the board of directors out of funds legally available therefore. Our ability to pay dividends will be dependent on our earnings and financial condition and subject to certain restrictions imposed by state and federal laws.

No Preemptive or Conversion Rights

Holders of shares of our common stock do not have preemptive rights to purchase additional shares of our common stock and have no conversion, redemption, or sinking fund rights.

Calls and Assessments

All of the issued and outstanding shares of our common stock are non-assessable and non-callable.

Liquidation Rights

In the event of our liquidation, dissolution, or winding up, the holders of shares of our common stock shall be entitled to receive, in cash or in kind, our assets available for distribution remaining after payment or provision for payment of our debts and liabilities and distributions or provision for distributions to holders of our preferred stock that may be issued and outstanding having preference over common shares.

Certain Ownership Restrictions

A holder with as little as a 5% interest in First Community could, under certain circumstances, be subject to regulation as a “bank holding company” and possibly other restrictions. Specifically, any entity (including a “group” composed of natural persons) owning 25% or more of our outstanding common stock, or 5% or more if such holder otherwise exercises a “controlling influence” over the Company, may be subject to regulation as a “bank holding company” in accordance with the BHCA. In addition, (i) any bank holding company or foreign bank with a U.S. presence may be required to obtain the approval of the Federal Reserve under the BHCA to acquire or retain 5% or more of our outstanding common stock and (ii) any person other than a bank holding company may be required to obtain

regulatory approval under the Change in Bank Control Act of 1978 to acquire or retain 10% or more of our outstanding common stock. Becoming a bank holding company imposes certain statutory and regulatory restrictions and burdens, and might require the holder to divest all or a portion of the holder's investment in our common stock. In addition, because a bank holding company is required to provide managerial and financial strength for its bank subsidiary, such a holder may be required to divest investments that may be deemed incompatible with bank holding company status, such as a material investment in a company unrelated to banking. Further, subject to a FDIC policy statement published in August 2009, under certain circumstances, holders of 5% or more of the Company's securities could be required to be subject to certain restrictions, such as an inability to sell or trade their securities for a period of three years, among others, in order for the Company to participate in an FDIC-assisted transaction of a failed bank.

NASDAQ

Our common stock is listed on The NASDAQ Capital Market under the symbol "FCCO".

Preferred Stock

Our board of directors, without shareholder approval, is empowered to authorize the issuance, in one or more series, of shares of preferred stock at such times, for such purposes and for such consideration as it may deem advisable. The board of directors is also authorized to fix before the issuance thereof the designation, voting, conversion, preference and other relative rights, qualifications and limitations of any such series of preferred stock. Accordingly, our board of directors, without shareholder approval, may authorize the issuance of one or more series of preferred stock with voting and conversion rights which could adversely affect the voting power of the holders of common stock and, under certain circumstances, discourage an attempt by others to gain control of the Company.

The creation and issuance of any additional series of preferred stock, and the relative rights, designations and preferences of such series, if and when established, will depend on, among other things, our future capital needs, then existing market conditions and other factors that, in the judgment of our board of directors, might warrant the issuance of preferred stock.

Certain Protective Provisions

General

Our articles of incorporation and bylaws, as well as the SCBCA, contain certain provisions designed to enhance the ability of our board of directors to deal with attempts to acquire control of us. These provisions may be deemed to have an anti-takeover effect and may discourage takeover attempts which have not been approved by the board of directors (including takeovers which certain shareholders may deem to be in their best interest). To the extent that such takeover attempts are discouraged, temporary fluctuations in the market price of common stock resulting from actual or rumored takeover attempts may be inhibited. These provisions also could discourage or make more difficult a merger, tender offer or proxy contest, even though such transaction may be favorable to the interests of shareholders, and could potentially adversely affect the market price of our common stock.

The following briefly summarizes protective provisions that are contained in our articles of incorporation and bylaws and which are provided by the SCBCA. This summary is necessarily general and is not intended to be a complete description of all the features and consequences of those provisions and is qualified in its entirety by reference to our articles of incorporation and bylaws and the statutory provisions contained in the SCBCA.

Authorized but Unissued Stock

The authorized but unissued shares of common stock and preferred stock will be available for future issuance without shareholder approval. These additional shares may be used for a variety of corporate purposes, including future private or public offerings to raise additional capital, corporate acquisitions, and employee benefit plans. The existence of authorized but unissued and unreserved shares of common stock and preferred stock may enable the board of directors to issue shares to persons friendly to current management, which could render more difficult or discourage any attempt to obtain control of us by means such as a proxy contest, tender offer, or merger, and thereby protect the continuity of the Company's management.

Supermajority Shareholder Vote Required for Merger

The articles of incorporation require the affirmative vote of the holders of at least two-thirds of the outstanding shares of common stock entitled to vote to approve any merger, consolidation, or sale of us or any substantial part of the our assets.

Number and Qualifications of Directors

The articles and bylaws provide that the number of directors shall be fixed from time to time by resolution adopted by a majority of the directors then in office, but may not consist of fewer than nine nor more than 25 members. The bylaws also provide that no individual who is or becomes a Business Competitor (as defined below) or who is or becomes affiliated with, employed by, or a representative of any individual, corporation, or other entity which the board of directors, after having such matter formally brought to its attention, determines to be in competition with us or any of our subsidiaries (any such individual, corporation, or other entity being a "Business Competitor") shall be eligible to serve as a director if the board of directors determines that it would not be in our best interests for such individual to serve as a director. Any financial institution having branches or affiliates within the counties in which we operate is presumed to be a Business Competitor unless the board of directors determines otherwise.

Staggered Board of Directors

Our board of directors is divided into three classes so that each director serves for a term ending on the date of the third annual meeting following the annual meeting at which such director was elected. In the event of any increase in the authorized number of directors, the newly created directorships resulting from such increase shall be apportioned among the three classes of directors so as to maintain such classes as nearly equal as possible, and the terms of any newly created directorships filled by the board from such increase in the number of directors shall expire at the next election of directors by the shareholders. Approximately one-third of the board of directors will be elected at each annual meeting of shareholders. The classification of directors, together with the provisions in the articles of incorporation and bylaws described below that limit the ability of shareholders to remove directors and that permit the remaining directors to fill any vacancies on the board of directors, have the effect of making it more difficult for shareholders to change the composition of the board of directors. As a result, at least two annual meetings of shareholders may be required for the shareholders to change a majority of the directors, whether or not a change in the board of directors would be beneficial and whether or not a majority of shareholders believe that such a change would be desirable, and three meetings, rather than one, would be required to replace the entire board.

Removal of Directors and Filling Vacancies

Our articles of incorporation provide that a director may be removed from office prior to the expiration of such director's term only if such removal is approved by the affirmative vote of the holders of at least sixty-six and two-thirds of the shares entitled to vote at an election of directors. Our bylaws provide that all vacancies on our board may be filled by the board of directors for the unexpired term.

Advance Notice Requirements for Shareholder Proposals

Our bylaws establish advance notice procedures with regard to shareholder proposals. These procedures provide that the shareholder must submit information regarding the proposal, together with the proposal, to our corporate secretary at least 90 days in advance of the annual meeting. Shareholders submitting proposals for inclusion in our proxy statement must comply with the proxy rules under the Exchange Act. We may reject a shareholder proposal that is not made in accordance with such procedures.

Certain Nomination Requirements

Pursuant to our bylaws, we have established certain nomination requirements for an individual to be elected as a director of the Company at any annual or special meeting of the shareholders, including that the nominating party

provide us within a specified time prior to the meeting (i) the name and address of the shareholder who intends to make the nomination and of the person or persons to be nominated; (ii) a representation that the shareholder is a holder of record of stock of the Company entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (iii) a description of all arrangements or understandings between the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder; (iv) such other information regarding each nominee proposed by such shareholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the SEC, had the nominee been nominated, or intended to be nominated, by the board of directors; and (v) the consent of each nominee to serve as a director of the Company if so elected. The chairman of any shareholders' meeting may, for good cause shown, waive the operation of these provisions. These provisions could reduce the likelihood that a third party would nominate and elect individuals to serve on our board of directors.

Business Combinations with Interested Shareholders

The South Carolina business combinations statute provides that a 10% or greater shareholder of a resident domestic corporation cannot engage in a “business combination” (as defined in the statute) with such corporation for a period of two years following the date on which the 10% shareholder became such, unless the business combination or the acquisition of shares is approved by a majority of the disinterested members of such corporation’s board of directors before the 10% shareholder’s share acquisition date. This statute further provides that at no time (even after the two-year period subsequent to such share acquisition date) may the 10% shareholder engage in a business combination with the relevant corporation unless certain approvals of the board of directors or disinterested shareholders are obtained or unless the consideration given in the combination meets certain minimum standards set forth in the statute. The law is very broad in its scope and is designed to inhibit unfriendly acquisitions but it does not apply to corporations whose articles of incorporation contain a provision electing not to be covered by the law. Our articles of incorporation do not contain such a provision. An amendment of our articles of incorporation to that effect would, however, permit a business combination with an interested shareholder even though that status was obtained prior to the amendment.

Factors to be Considered in Certain Transactions

Our articles of incorporation grant the board of directors the discretion, when considering whether a proposed merger or similar transaction is in the best interests of the Company and our shareholders, to take into account the effect of the transaction on the employees, customers and suppliers of our Company and upon the communities in which offices of the Company are located, to the extent permitted by South Carolina law.

Indemnification

South Carolina Business Corporation Act. The SCBCA provides that a corporation may indemnify any of its directors and officers against liability incurred in connection with a proceeding if:

- the director or officer acted in good faith;
- the director or officer reasonably believed such conduct was in, or not opposed to, the corporation’s best interest; and
- in connection with any criminal action or proceeding, the director or officer had no reasonable cause to believe that his or her conduct was unlawful.

However, the SCBCA provides that directors or officers may not be indemnified in connection with a proceeding by or in the right of the corporation in which the director was adjudged liable to the corporation or in connection with any other proceeding charging improper personal benefit to him, whether or not involving action in his official capacity, in which he was adjudged liable on the basis that personal benefit was improperly received by him.

The SCBCA also empowers a corporation to provide insurance for directors and officers against liability arising out of their positions, even though the insurance coverage may be broader than the corporation's power to indemnify. The Company maintains directors' and officers' liability insurance for the benefit of its directors and officers.

First Community Corporation. The bylaws of First Community require the Company to indemnify any person who was, is, or is threatened to be made a named defendant or respondent in any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, or investigative, by reason of service by such person as a director of the Company or its subsidiary bank or any other corporation which he served as such at the request of the Company. Except as noted in the next paragraph, directors are entitled to be indemnified against judgments, penalties, fines, settlements, and reasonable expenses actually incurred by the director in connection with the proceeding. Directors are also entitled to have the Company advance any such expenses prior to final disposition of the proceeding, upon delivery of a written affirmation by the director of his good faith belief that the standard of conduct necessary for indemnification has been met and a written undertaking to repay the amounts advanced if it is ultimately determined that the standard of conduct has not been met.

Under the bylaws, First Community shall indemnify an individual made a party to a proceeding because he is or was a director against liability incurred in the proceeding if: (i) he conducted himself in good faith; (ii) he reasonably believed: (A) in the case of conduct in his official capacity with First Community, that his conduct was in its best interest; and (B) in all other cases, that his conduct was at least not opposed to its best interest; and (iii) in the case of any criminal proceeding, he had no reasonable cause to believe his conduct was unlawful. The termination of a proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent is not, of itself, determinative that the director did not meet the standard of conduct described in the preceding sentence. The determination of whether the director met the standard of conduct described herein shall be made in accordance with Section 33-8-550 of the SCBCA or any successor provision or provisions. In addition to the bylaws, Section 33-8-520 of the SCBCA requires that “a corporation indemnify a director who was wholly successful, on the merits or otherwise, in the defense of any proceeding to which he was a party because he is or was a director of the corporation against reasonable expenses incurred by him in connection with the proceeding.” The SCBCA also provides that upon application of a director a court may order indemnification if it determines that the director is entitled to such indemnification under the applicable standard of the SCBCA. However, under the articles of incorporation, indemnification will be disallowed if it is established that the director (i) breached his duty of loyalty to First Community, (ii) engaged in intentional misconduct or a knowing violation of law, or (iii) derived an improper personal benefit.

The board of directors also has the authority to extend to officers, employees, and agents the same indemnification rights held by directors, subject to all of the accompanying conditions and obligations. The board of directors has extended or intends to extend indemnification rights to all of its executive officers.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling First Community pursuant to the provisions discussed above, First Community has been informed that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable.

Certain rules of the Federal Deposit Insurance Corporation limit the ability of certain depository institutions, their subsidiaries and their affiliated depository institution holding companies to indemnify affiliated parties, including institution directors. In general, subject to the ability to purchase directors and officers liability insurance and to advance professional expenses under certain circumstances, the rules prohibit such institutions from indemnifying a director for certain costs incurred with regard to an administrative or enforcement action commenced by any federal banking agency that results in a final order or settlement pursuant to which the director is assessed a civil money penalty, removed from office, prohibited from participating in the affairs of an insured depository institution or required to cease and desist from or take an affirmative action described in Section 8(b) of the Federal Deposit Insurance Act (12 U.S.C, (S) 1818(b)).

Limitation of Liability

Our articles of incorporation provide that to the full extent that the SCBCA permits the limitation or elimination of the liability of directors or officers, our directors or officers shall not be liable to us or our shareholders for monetary damages for breach of his or her duty as a director, except that a director may be liable (a) for any breach of the director's duty of loyalty to the Company or its shareholders, (b) for acts and omissions not in good faith or which involve intentional misconduct or a knowing violation of criminal law or of any federal or state securities law, including without limitation, laws proscribing insider trading or manipulation of the market for any security, and (c) for any transaction from which the director derives any improper personal benefits.

Exclusive Forum

Unless First Community consents in writing to the selection of an alternative forum, the sole and exclusive forum for derivative actions, claims of a breach of fiduciary duty, any claims arising out of the SCBCA, First Community's articles of incorporation or its bylaws, or any action governed by the internal affairs doctrine shall be the United States District Court for the District of South Carolina, Columbia Division (or, if the federal district court does not have jurisdiction, the Circuit Courts of the State of South Carolina located in Lexington County).

Registrar and Transfer Agent

The registrar and transfer agent for our common stock is Computershare.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS**AND MANAGEMENT OF FIRST COMMUNITY**

The following table sets forth information known to the company with respect to beneficial ownership of the company's common stock as of March 31, 2017 for (i) each director and nominee, (ii) each holder of 5.0% or greater of the company's common stock, (iii) the company's named executive officers, and (iv) all executive officers and directors as a group. Unless otherwise indicated, the mailing address for each beneficial owner is care of First Community Corporation, 5455 Sunset Boulevard, Lexington, South Carolina, 29072.

Name	Number of Shares Owned ⁽¹⁾	Right to Acquire ⁽²⁾	% of Beneficial Ownership ⁽³⁾	
Directors and Executive Officers				
Richard K. Bogan	6,479	—	.10	%
Thomas C. Brown	24,504	7,740	.48	%
C. Jimmy Chao	37,618		.56	%
Michael C. Crapps	72,967	1,290	1.11	%
Anita B. Easter	20,853	—	.31	%
O.A. Ethridge	23,990	4,730	.43	%
George H. Fann, Jr.	79,616	24,080	1.54	%
W. James Kitchens, Jr.	8,140	34,400	.63	%
J. Thomas Johnson	33,629	—	.50	%
J. Randolph Potter	15,929	—	.24	%
David K. Proctor	29,235	430	.44	%
E. Leland Reynolds	22,287	—	.33	%
Joseph G. Sawyer	34,565	—	.52	%
Paul S. Simon	27,596	—	.41	%
Alexander Snipe, Jr.	6,021	—	.09	%
Roderick M. Todd, Jr.	8,589	—	.13	%
Mitchell M. Willoughby	41,878	4,300	.69	%
All executive officers and directors as a group (17 persons)	493,896	76,970	8.51	%
5% Shareholders				
FJ Capital Management ⁽⁴⁾	374,400	—	5.59	%
Manulife Asset Management (US) LLC, et al ⁽⁵⁾	368,559	—	5.50	%
Wellington Management Group, LLP ⁽⁶⁾	435,145	—	6.50	%
Banc Funds Company LLC, et al ⁽⁷⁾	373,319	—	5.58	%
RMB Capital Holdings, LLC ⁽⁸⁾	486,176	—	7.26	%

⁽¹⁾ Beneficial ownership is determined under the rules of the SEC and generally includes voting or investment power with respect to securities. Except as indicated in the footnotes to this table and pursuant to applicable community property laws, to the company's knowledge the persons named in the table above have sole voting and investment

power with respect to all shares of common stock beneficially owned.

(2) Includes shares that may be acquired within the next 60 days as of March 31, 2017 by exercising vested stock options but does not include any unvested stock options. On December 16, 2012, the company sold 2,500 units, with each unit consisting of a subordinated note and a warrant to purchase 43 shares of common stock of the company at an exercise price equal to \$5.90 per share, to certain accredited investors, including directors and executive officers of the company. Warrants for 97,180 common shares remain outstanding and are exercisable at any time and expire December 16, 2019. Outstanding warrants issued to directors and executive officers have been included in the table.

(3) For each individual, this percentage is determined by assuming the named person exercises all options which he or she has the right to acquire within 60 days, but that no other persons exercise any options or warrants. For the directors and executive officers as a group, this percentage is determined by assuming that each director and executive officer exercises all options which he or she has the right to acquire within 60 days, but that no other persons exercise any warrant or options. The calculations are based on 6,695,753 shares of common stock outstanding on March 31, 2017.

(4) Based on information set forth in a Schedule 13G/A filed with the SEC on January 27, 2017 by FJ Capital Management, LLC and certain related entities. FJ Capital Management, LLC beneficially owned 374,400 shares of common stock as of December 31, 2016, with shared voting power over 374,400 shares and shared dispositive power over 374,400 shares. The address of FJ Capital Management, LLC is 1313 Dolley Madison Blvd., Suite 306, McLean, VA. 22101.

(5) Based on information set forth in a Schedule 13G/A filed with the SEC on February 13, 2017, by Manulife Asset Management (US) LLC and certain related entities. Manulife Asset Management (US) LLC beneficially owned 368,559 shares of common stock as of December 31, 2016, with sole voting power over 368,559 shares and sole dispositive power over 368,559 shares. The address of Manulife Asset Management (US) LLC is 197 Clarendon Street, Boston, Massachusetts 02116.

(6) Based on information set forth in a Schedule 13G filed with the SEC on February 9, 2017 by Wellington Management Group, LLP and certain related entities. Wellington Management Group, LLP beneficially owned 435,145 shares of common stock as of December 31, 2016, with shared voting power over 435,145 shares and shared dispositive power over 435,145 shares. The address of Wellington Management Group, LLP is 280 Congress Street, Boston, MA 02210.

(7) Based on information set forth in a Schedule 13G/A filed with the SEC on February 14, 2017 by Banc Funds Company, LLC and certain related entities. Banc Funds Company, LLC beneficially owned 373,319 shares of common stock as of December 31, 2016, with sole voting power over 373,319 shares and sole dispositive power over 373,319 shares. The address of The Banc Funds Company LLC is 20 North Wacker Drive, Suite 3300, Chicago IL, 60606.

(8) Based on information set forth in a Schedule 13G filed with the SEC on February 13, 2017 by RMB Capital Holdings, LLC and certain related entities. RMB Capital Holdings, LLC beneficially owned 486,176 shares of common stock as of December 31, 2016, with shared voting power over 486,176 shares and shared dispositive power over 486,176 shares. The address of RMB Capital Holdings is 115 S. LaSalle Street, 34th Floor, Chicago, IL 60603.

INFORMATION ABOUT CORNERSTONE

In this section, Cornerstone is referred to as “Cornerstone”, “we” and “our” and Cornerstone National Bank is referred to as “Cornerstone Bank” or the “Bank”.

Cautionary Notice With Respect To Forward-Looking Statements

Statements about Cornerstone Bancorp (“Cornerstone”) included in this proxy statement/prospectus that are not historical in nature are intended to be, and are hereby identified as “forward looking statements.” Words such as “may,” “will,” “anticipate,” “assume,” “should,” “indicate,” “would,” “believe,” “contemplate,” “expect,” “seek,” “estimate,” “continue,” “project,” “predict,” “could,” “intend,” “target,” “potential,” and other similar words and expressions of the future identify forward-looking statements. Cornerstone cautions readers that forward looking statements, including without limitation, those relating to Cornerstone’s future business prospects, revenues, working capital, adequacy of the allowance for loan losses, liquidity, capital needs, interest costs, income, and the economy, are subject to certain risks and uncertainties that could cause actual results to differ from those indicated in the forward looking statements, due to several important factors identified in this report, among others.

These forward-looking statements are based on Cornerstone’s current expectations, estimates and projections about Cornerstone’s industry, management’s beliefs, and assumptions made by management. Such information includes, without limitation, discussions as to estimates, expectations, beliefs, plans, strategies, objectives, goals, anticipations, and intentions concerning the Cornerstone’s future financial and operating performance. These statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that are difficult to predict, particularly in light of the fact that Cornerstone is a relatively new company with limited operating history. Therefore, actual results may differ materially from those expressed or forecasted in such forward-looking statements. The risks and uncertainties include, but are not limited to:

- future economic and business conditions;
- lack of sustained growth and disruptions in the economy of Cornerstone’s market areas, including, but not limited to, falling real estate values and increasing levels of unemployment;
- government monetary and fiscal policies;
- the effects of changes in interest rates on the levels, composition and costs of deposits, loan demand, and the values of loan collateral, securities, and interest sensitive assets and liabilities;
- the effects of competition from a wide variety of local, regional, national and other providers of financial, investment, and insurance services, as well as competitors that offer banking products and services by mail, telephone, computer and/or the Internet;
- the effects of credit rating downgrades on the value of investment securities issued or guaranteed by various governments and government agencies, including the United States of America;
- credit risks;
- higher than anticipated levels of defaults on loans;

- perceptions by depositors about the safety of their deposits;
- the failure of assumptions underlying the establishment of the allowance for loan losses and other estimates, including the value of collateral securing loans;
- changes in assumptions underlying allowances on deferred tax assets;
- changes in assumptions underlying, or accuracy of, analysis relating to other-than-temporary impairment of assets;
- accuracy of fair value measurements and the methods and assumptions used to estimate fair value;
- changes in requirements of regulatory authorities;
- changes in laws and regulations, including tax, banking and securities laws and regulations and deposit insurance assessments;
- changes in accounting policies, rules and practices;
- changes in technology or products that may be more difficult or costly to implement, or less effective, than anticipated;
- cybersecurity risk related to our dependence on internal security systems and the technology of outside service providers, as well as the potential impacts of third party security breaches;

the effects of war or other conflicts, acts of terrorism or other catastrophic events that may affect general economic conditions and economic confidence;
·loss of consumer or investor confidence; and
·other factors and information described in this proxy statement/prospectus and in any of the reports we provide to shareholders.

All forward-looking statements are expressly qualified in their entirety by this cautionary notice. Cornerstone has no obligation, and does not undertake, to update, revise or correct any of the forward-looking statements after the date of this proxy statement/prospectus. Cornerstone has expressed its expectations, beliefs and projections in good faith and believes they have a reasonable basis. However, there is no assurance that these expectations, beliefs or projections will result or be achieved or accomplished.

BUSINESS OF CORNERSTONE

General

Cornerstone is a bank holding company and has no significant operations other than those carried on by its wholly owned subsidiary, Cornerstone Bank. Cornerstone Bank commenced business in 1999, and conducts a general banking business from three offices in Easley, Greenville, and Powdersville, South Carolina. In 2004, Cornerstone Bank established a wholly owned subsidiary, Crescent Financial Services, Inc. (“Crescent”), which is an insurance agency that engages in limited operations.

Properties

Cornerstone’s and Cornerstone Bank’s main office is located at 1670 East Main Street in Easley, South Carolina. Cornerstone Bank also maintains full-service branch locations at 45 Farris Bridge Road in the Berea area of Greenville, South Carolina and at 11000 Anderson Highway in the Powdersville area of Piedmont, South Carolina. An operations center is located at 1664 East Main Street in Easley, South Carolina. Cornerstone owns all of these properties and believes they are well-suited to the banking business.

Competition

South Carolina law permits statewide branching by banks and savings and loan associations. Consequently, many financial institutions have branches located in several communities. According to the FDIC Summary of Deposits at June 30, 2016, in addition to Cornerstone Bank, 14 commercial banks and one savings institution operate branches in

Pickens County. In addition to Cornerstone Bank, 28 commercial banks and 2 savings institutions operate branches in Greenville County. In addition to Cornerstone Bank, 17 commercial banks and one savings institution operate branches in Anderson County. The principal areas and methods of competition in the banking industry are the services offered, pricing of those services, the convenience and availability of the services, and the degree of expertise and personal manner with which those services are offered.

Cornerstone Bank encounters strong competition from most of the financial institutions in its extended market area. In the conduct of certain areas of its business, Cornerstone Bank also competes with credit unions, insurance companies, money market mutual funds and other financial institutions, some of which are not subject to the same degree of regulation and restrictions as Cornerstone Bank. Most of these competitors have substantially greater resources and lending abilities than Cornerstone Bank and offer certain services, such as international banking, investment banking, and trust services, which Cornerstone Bank does not presently provide.

Services of Cornerstone Bank

Deposits

Cornerstone Bank offers a full range of deposit services, including checking accounts, NOW accounts, retirement accounts (including Individual Retirement Accounts), time deposits and savings accounts of various types, ranging from daily money market accounts to longer-term certificates of deposit. The transaction accounts and time certificates are tailored to the principal market area at rates competitive with those offered by other institutions in the area. All deposit accounts are insured by the FDIC up to the maximum amount permitted by law. Cornerstone Bank solicits these accounts from individuals, businesses, associations and organizations, and government authorities.

Lending Activities

Cornerstone Bank offers a range of lending services, including commercial loans, consumer loans, and real estate mortgage loans. To address the risks inherent in making loans, management maintains an allowance for loan losses based on, among other things, an evaluation of Cornerstone Bank's loan loss experience, management's experience in the market area, peer data, the amount of and trends in past due and nonperforming loans, current economic conditions and the values of loan collateral.

Real Estate Loans

One of the primary components of Cornerstone Bank's loan portfolio is loans secured by first or second mortgages on residential and commercial real estate. These loans generally consist of short to mid-term commercial real estate loans, construction and development loans and residential real estate loans (including home equity and second mortgage loans). Interest rates may be fixed or adjustable and the Bank frequently charges an origination fee. Cornerstone Bank seeks to manage credit risk in the commercial real estate portfolio by emphasizing loans on owner-occupied office and retail buildings where the loan-to-value ratio at origination, established by independent appraisals, does not exceed 80%. In addition, the Bank generally requires personal guarantees of the principal owners of the property. The loan-to-value ratio at origination for first and second residential mortgage loans generally does not exceed 80%, and for construction loans generally does not exceed 75%-80%, of cost. Cornerstone Bank employs a reappraisal policy to routinely monitor real estate collateral values on real estate loans where the repayment is dependent on sale of the collateral. In addition, in an effort to control interest rate risk, long term residential mortgages are not originated for Cornerstone Bank's portfolio.

Commercial Loans

Cornerstone Bank makes loans for commercial purposes in various lines of business. Commercial loans include both secured and unsecured loans for working capital (including inventory and receivables), loans for business expansion (including acquisition of real estate and improvements), and loans for purchases of equipment and machinery. Equipment loans are typically made for a term of five years or less at either fixed or variable rates, with the loan fully amortized over the term and secured by the financed equipment. Working capital loans typically have terms not exceeding one year and are usually secured by accounts receivable, inventory or personal guarantees of the principals of the business. Commercial loans vary greatly depending upon the circumstances and loan terms are structured on a case-by-case basis to better serve customer needs.

Consumer Loans

Cornerstone Bank makes a variety of loans to individuals for personal and household purposes, including secured and unsecured installment and term loans, home equity loans and lines of credit and unsecured revolving lines of credit. The secured installment and term loans to consumers generally consist of loans to purchase automobiles, boats, recreational vehicles, mobile homes and household furnishings, with the collateral for each loan being the purchased property.

Other Services

Cornerstone Bank participates in a network of automated teller machines that may be used by bank customers throughout the United States and the world. Cornerstone Bank offers credit and debit cards together with related lines of credit. The lines of credit may be used for overdraft protection as well as pre-authorized credit for personal purchases and expenses. Credit cards are underwritten and funded by a third party provider. Cornerstone Bank also provides stored value cards, direct deposit of payroll and social security checks, and automatic drafts for various accounts, but does not currently provide trust banking services. Cornerstone Bank offers foreign payments and currency exchange through a correspondent bank. Cornerstone Bank offers an Internet banking product accessible via Cornerstone Bank's custom website at www.cornerstonenatlbank.com. The interactive banking product includes an electronic bill payment service that allows customers to make scheduled and/or recurring bill payments electronically. Cornerstone Bank also offers mobile banking as a component of internet banking. Additionally, Cornerstone Bank offers remote check deposit services, merchant services, and other business related services to commercial and small business customers.

Employees

As of March 31, 2017, Cornerstone Bank employed 31 people.

Legal Proceedings

In the ordinary course of operations, Cornerstone may be party to various legal proceedings from time to time. We do not believe there is any pending or threatened proceeding against us, which, if determined adversely, would have a material effect on our business, results of operations, or financial condition.

MARKET FOR CORNERSTONE'S COMMON EQUITY, AND RELATED SHAREHOLDER MATTERS

Although the common stock of Cornerstone may be traded from time to time on an individual basis, no active trading market has developed and none may develop in the foreseeable future. The common stock is not listed on any exchange. The stock is quoted (in terms of actual trades) on the OTC markets under the symbol "CTOT."

The following table shows prices of Cornerstone's common stock reported by the OTC market for the past two years. The prices shown reflect actual trades as reported by the OTC market without retail mark-up, mark-down or commissions.

	Quarter		Year ended		Year ended	
	ended March 31, 2017		December 31, 2016		December 31, 2015 ⁽¹⁾	
	Low	High	Low	High	Low	High
First Quarter	\$5.98	\$6.60	\$4.85	\$5.67	\$3.57	\$4.05
Second Quarter	N/A	N/A	\$5.06	\$5.46	\$3.67	\$4.19
Third Quarter	N/A	N/A	\$5.51	\$5.80	\$3.95	\$4.76
Fourth Quarter	N/A	N/A	\$5.75	\$6.00	\$4.81	\$4.81

(1) Stock prices adjusted to reflect 5% stock dividend declared in the first quarter of 2016.

The last trade reported by the OTC market on April 11, 2017, the day before the merger was announced, was for 1200 shares at a price of \$9.00 per share. The most recent trade reported by the OTC market feasible for inclusion in these materials was for 525 shares at a price of \$10.46 on July 7, 2017.

As of July 7, 2017, there were 515 holders of record of Cornerstone's common stock, excluding individual participants in security position listings.

The dividend policy of Cornerstone is subject to the discretion of its board of directors and depends upon a number of factors, including earnings, financial conditions, cash needs and general business conditions, as well as applicable regulatory considerations. Because Cornerstone has no operations other than those of Cornerstone Bank and only has limited income of its own, Cornerstone would rely on dividends from Cornerstone Bank as its principal source of cash to pay cash dividends.

Each national banking association is required by federal law to obtain the prior approval of the OCC, the primary Federal regulator of national banks, for the payment of dividends if the total of all dividends declared by the board of directors of such bank in any year will exceed the total of (i) such bank's net profits (as defined and interpreted by regulation) for that year plus (ii) the retained net profits (as defined and interpreted by regulation) for the preceding two years, less any required transfers to surplus. In addition, national banks can only pay dividends to the extent that retained net profits (including the portion transferred to surplus) exceed bad debts (as defined by regulation).

The payment of dividends by Cornerstone and Cornerstone Bank may also be affected or limited by other factors, such as the requirements to maintain adequate capital above regulatory guidelines. In addition, if, in the opinion of the applicable regulatory authority, a bank under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which, depending on the financial condition of such bank, could include the payment of dividends), such authority may require, after notice and hearing, that such bank cease and desist from such practice. The OCC has indicated that paying dividends that deplete a national bank's capital base to an inadequate level would be an unsafe and unsound banking practice. The Federal Reserve, the OCC and the FDIC have issued policy statements that provide that bank holding companies and insured banks should generally only pay cash dividends out of current operating earnings.

Cornerstone did not pay cash dividends on its common stock during the years ended December 31, 2016, 2015, or 2014, but paid a 5% stock dividend on the common stock in 2016. Under its now terminated Memorandum of Understanding ("MOU") with the Federal Reserve, Cornerstone was required to seek permission of the Federal Reserve prior to paying dividends. As a result, dividends on Cornerstone's preferred stock accumulated, but were not paid prior to December 31, 2014. In 2015 the Federal Reserve approved payment of the dividends that had accumulated from issuance of the preferred stock until December 31, 2014. The Federal Reserve terminated the MOU in 2015, and Cornerstone began paying dividends on the preferred shares on a quarterly basis. For the first quarter of 2017, and for the years ended December 31, 2016 and 2015, Cornerstone paid dividends on the preferred stock totaling \$20,760, \$83,040 and \$490,845, respectively.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS**AND MANAGEMENT OF CORNERSTONE**

The following table shows the number and percentage of shares of Cornerstone common stock and Cornerstone preferred stock owned by the directors, the named executive officers, owners of more than 5% of the outstanding common or preferred stock, and all directors and executive officers as a group as of March 31, 2017. Unless otherwise indicated, the mailing address for each beneficial owner is care of Cornerstone Bancorp, 1670 E. Main Street, Easley, South Carolina 29640.

Name of Beneficial Owner (and Address of 5% Owners)	Common Stock			Preferred Stock		
	Amount and Nature of Beneficial Ownership	% of Outstanding Common Stock		Amount and Nature of Beneficial Ownership	% of Outstanding Preferred Stock	
J. Rodger Anthony ⁽¹⁾	117,587	5.00	%	300	28.90	%
Jennifer M. Champagne ⁽²⁾	10,221	.43	%	100	9.63	%
J. Samuel Cox	1,325	.06	%	—	—	%
J. Bruce Gaston ⁽³⁾	61,344	2.61	%	50	4.82	%
Susan S. Jolly ⁽⁴⁾	21,049	.90	%	75	7.23	%
S. Ervin Hendricks, Jr. ⁽⁵⁾	60,563	2.57	%	—	—	%
Joe E. Hooper ⁽⁶⁾	74,550	3.17	%	100	9.63	%
Ronnie L. Smith	5,122	.22	%	—	—	%
John M. Warren, Jr., M.D. ⁽⁷⁾	36,666	1.56	%	50	4.82	%
George I. Wike, Jr. ⁽⁸⁾	219,100	9.32	%	—	—	%
P. O. Box 98, Tigerville, South Carolina						
All directors and executive Officers as a group (10 persons) ⁽⁹⁾	607,527	25.84	%	675	65.03	%
Janice E. Childress ⁽¹⁰⁾	225,105	9.57	%	100	9.63	%
P. O. Box 1367, Easley, South Carolina 29641						

Except as otherwise indicated, to the knowledge of management, all shares are owned directly with sole voting power.

(1)Includes 7,233 shares owned by Mr. Anthony's spouse; and 5,550 shares subject to currently exercisable options.

(2)Includes 5,550 shares subject to currently exercisable options.

(3)Includes 5,602 shares owned by Mr. Gaston's spouse; and 2,775 shares subject to currently exercisable options.

(4)Includes 5,287 shares owned by Mrs. Jolly's spouse; and 5,550 shares subject to currently exercisable options.

(5)Includes 2,775 shares subject to currently exercisable options.

(6)Includes 2,775 shares subject to currently exercisable options.

(7)Includes 2,775 shares subject to currently exercisable options.

(8)Includes 40,672 shares owned by Mr. Wike's spouse; and 2,775 shares subject to currently exercisable options.

(9) Includes 30,525 shares subject to currently exercisable options.

(10) Includes 113,571 shares held by a trust of which Ms. Childress is the trustee.

Management's Discussion and Analysis of Financial Condition and Results of Operation FOR CORNERSTONE BANCORP

In this section, Cornerstone is referred to as "Cornerstone", "we" and "our" and Cornerstone National Bank is referred to as "Cornerstone Bank" or the "Bank."

The following information describes various financial aspects of Cornerstone Bank's business. This information should be read in conjunction with the consolidated financial statements of Cornerstone, which appear elsewhere in this document.

Critical Accounting Policies

Cornerstone has adopted various accounting policies, which govern the application of accounting principles generally accepted in the United States of America ("U.S.") in the preparation of Cornerstone's financial statements. The significant accounting policies of Cornerstone are described in the notes to the consolidated financial statements.

Certain accounting policies involve significant judgments and assumptions by management, which have a material impact on the carrying value of certain assets and liabilities. Management considers such accounting policies to be critical accounting policies. The judgments and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances. Because of the nature of the judgments and assumptions made by management, actual results could differ from these judgments and estimates, which could have a material impact on the carrying values of assets and liabilities and the results of operations of Cornerstone.

Cornerstone believes the allowance for loan losses is a critical accounting policy that requires the most significant judgments and estimates used in preparation of its consolidated financial statements. Refer to Note 1 to the consolidated financial statements for a detailed description of the Cornerstone's estimation process and methodology related to the allowance for loan losses.

Effect of Economic Trends

The current outlook for Cornerstone's market areas and for the national economy in the U.S. is stable to optimistic. Cornerstone has continued to divest assets acquired in foreclosure during the last economic downturn. In 2017 Cornerstone expects continued improvement in its market areas.

Earnings Performance

Cornerstone reported net income of \$731,048 in 2016, \$1.4 million in 2015, and \$1.0 million in 2014. 2015 results include the removal of the valuation allowance against Cornerstone's deferred tax asset of \$1,049,742 with a total income tax benefit of \$755,678 for the year. After adjusting for dividends allocated to preferred shares, net income per common share in 2016 was \$0.28 per share. After adjusting for dividends allocated to preferred shares and a 5% stock dividend on common stock declared in January, 2016, net income per common share was \$0.58 for 2015 and \$0.40 for 2014.

Cornerstone's net interest income (the difference between interest earned on interest earning assets and interest paid on interest bearing liabilities) of \$4.5 million for 2016 was slightly lower than the \$4.7 million for 2015 and 2014. Cornerstone's net interest income after provision for loan losses was \$4.7 million, \$5.0 million, and \$4.7 million in 2016, 2015, and 2014, respectively. Cornerstone recorded a reduction in the allowance for loan losses in two of the last three years. Reductions in the allowance were \$200,000 in 2016 and \$300,000 in 2015. The reductions were a result of decreases in the loan portfolio and in nonperforming and problem loans. There was no provision for loan losses in 2014. Cornerstone had noninterest income of approximately \$900,000 in 2016 and 2015, and \$1.0 million in 2014. Noninterest income for each of the years in the three-year period ended December 31, 2016 included gains on the sale of investments. Gains on sales of investments were \$113,258 in 2016, \$180,891 in 2015 and \$177,980 in 2014. Cornerstone had total noninterest expenses of \$4.5 million in 2016, \$5.2 million in 2015, and \$4.7 million in 2014.

Cornerstone earned net income of \$155,619 during the first quarter of 2017 compared to \$152,660 for the first quarter of 2016. After adjusting for dividends allocated to preferred shares and giving effect to the 5% stock dividend declared in January 2016, net income per common share was \$.06 in the first quarter of 2017 and 2016.

Net Interest Income

Net interest income is the amount of interest earned on interest earning assets (loans, investment securities, time deposits in other banks and federal funds sold), less the interest expenses incurred on interest bearing liabilities (interest bearing deposits and borrowed money), and is the principal source of Cornerstone Bank's earnings. Net interest income is affected by the level of interest rates, volume and mix of interest earning assets and the relative funding of these assets. Due to the fact that Cornerstone Bank's and therefore, Cornerstone's, assets are largely monetary in nature, material changes in interest rates can have a material impact on Cornerstone Bank's net interest income.

Net interest income for 2016 was \$4.5 million, and \$4.7 million for each of the years ended December 31, 2015 and 2014. The decrease in net interest income in 2016 was primarily driven by a decrease in interest income from loans receivable. During the year competition in Cornerstone's market area was significant, forcing interest rates lower for eligible borrowers. Loan balances declined in the fourth quarter of 2016 as some market participants prepaid their loans or refinanced with lenders offering lower rates, while others delayed projects due to market uncertainty. The decline in balances contributed to the decrease in interest income from loans. As the economy in Cornerstone's market area continues to improve and shorter term interest rates threaten to increase, refinancing activity motivated by lower interest rates is expected to decline and additional borrowing activity may be motivated by the desire to borrow before interest rates rise substantially.

Net interest income for the first quarter of 2017 was \$1.1 million compared to \$1.2 million in 2016. The decrease in 2017 in comparison to 2016 was primarily due to changes in interest income from loans receivable. The decrease in interest income on loans was attributable to a combination of lower volumes of loans outstanding and lower rates. Average loans outstanding for the quarter were \$68.6 million for the first quarter of 2017 compared to \$76.4 million for the first quarter of 2016. In the latter part of 2016 and in early 2017 Cornerstone Bank experienced several loan payoffs, and outstanding loans have been slowly recovering. Average loan yields were lower in the first quarter of 2017 than in the first quarter of 2016 by 19 basis points. Low offering rates in Cornerstone Bank's market area have persisted into the first quarter of 2017. In addition to the changes in interest income related to loans, increases in Federal funds sold balances and interest-bearing balances increased interest income, and more than offset a decline in interest income on investments. The interest income decline in investments was driven by lower rates as higher yielding securities have paid down. The offsetting increase in interest income from Federal funds sold and other interest bearing balances primarily relates to an increase in short-term interest rates. Cornerstone recorded no provision for loan losses in the first quarter of either year.

The tables, "Average Balances, Yields and Rates," provide a detailed analysis of the effective yields and rates on the categories of interest earning assets and interest bearing liabilities for the Company for the years ended December 31, 2016, 2015, and 2014. A comparison for the quarters ended March 31, 2017 and 2016 are also included below.

Average Balances, Yields and Rates

(Dollars in thousands)

	Year ended December 31, 2016				Year ended December 31, 2015			
	Average Balances(1)	Interest Income/ Expense	Average Yields/ Rates(2)	%	Average Balances(1)	Interest Income/ Expense	Average Yields/ Rates(2)	%
Assets								
Securities	\$ 45,233	\$ 1,057	2.34	%	\$ 39,889	\$ 1,036	2.60	%
Tax-exempt securities	311	7	2.21	%	1,257	53	4.21	%
Federal Funds Sold and other interest-earning balances	15,335	110	.71	%	11,480	31	.27	%
Loans (3), (4)	75,125	3,758	5.00	%	77,528	4,034	5.20	%
Total interest earning assets	136,004	4,932	3.63	%	130,154	5,154	3.96	%
Noninterest earning assets, net	11,708				12,736			
Total assets	\$ 147,712				\$ 142,890			
Liabilities and shareholders' equity								
Interest bearing liabilities:								
Interest bearing transaction accounts	\$ 20,681	44	.21	%	\$ 18,742	40	.21	%
Savings and money market	43,748	92	.21	%	42,481	90	.21	%
Time deposits	37,667	264	.70	%	39,037	252	.65	%
Total interest bearing deposits	102,096	400	.39	%	100,260	382	.38	%
Borrowings	666	8	1.20	%	3,196	77	2.41	%
Total interest bearing liabilities	102,762	408	.40	%	103,456	459	.44	%
Noninterest bearing demand deposits and other Liabilities and equity	44,950				39,434			
Total liabilities and shareholders' equity	\$ 147,712				\$ 142,890			
Interest rate spread (5)			3.23	%			3.52	%
Net interest income and net yield on earning assets (6)		\$ 4,524	3.33	%		\$ 4,695	3.61	%
Interest free funds supporting earning assets (7)	\$ 33,242				\$ 26,698			

(1) Average balances of interest-earning assets and interest-bearing liabilities calculated on a daily basis.

(2) Calculated based on the number of days in the year. Yield calculated on a pre-tax basis. The estimated tax equivalent yield on tax-exempt securities, assuming a 33% tax rate, was 3.29% in 2016 and 6.29% in 2015.

(3) Nonaccruing loans are included in the average loan balances and income on such loans is recognized on a cash basis.

(4) Interest income on loans includes loan fee income as well as interest income. The amount of loan origination fees included was \$85,260 in 2016 and \$151,926 in 2015.

(5) Total yield on interest earning assets less the rate paid on total interest bearing liabilities.

(6) Net interest income divided by total interest earning assets.

(7) Total interest earning assets less total interest bearing liabilities.

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Average Balances, Yields and Rates

(Dollars in thousands)

	Year ended December 31, 2015				Year ended December 31, 2014			
	Average	Interest Income/ Expense	Average Yields/ Rates(2)		Average	Interest Income/ Expense	Average Yields/ Rates(2)	
	Balances(1)				Balances(1)			
Assets								
Securities	\$ 39,889	\$ 1,036	2.60 %		\$ 37,409	\$ 981	2.62 %	
Tax-exempt securities	1,257	53	4.21 %		3,806	156	4.10 %	
Federal Funds Sold and other interest-earning balances	11,480	31	.27 %		12,393	23	.18 %	
Loans (3), (4)	77,528	4,034	5.20 %		76,875	4,217	5.49 %	
Total interest earning assets	130,154	5,154	3.96 %		130,483	5,377	4.12 %	
Noninterest earning assets, net	12,736				14,921			
Total assets	\$ 142,890				\$ 145,404			
Liabilities and shareholders' equity								
Interest bearing liabilities:								
Interest bearing transaction accounts	\$ 18,742	40	.21 %		\$ 17,467	40	.23 %	
Savings and money market	42,481	90	.21 %		44,755	106	.24 %	
Time deposits	39,037	252	.65 %		41,854	304	.73 %	
Total interest bearing deposits	100,260	382	.38 %		104,076	450	.43 %	
Borrowings	3,196	77	2.41 %		5,105	186	3.64 %	
Total interest bearing liabilities	103,456	459	.44 %		109,181	636	.58 %	
Noninterest bearing demand deposits and other Liabilities and equity	39,434				36,223			
Total liabilities and shareholders' equity	\$ 142,890				\$ 145,404			
Interest rate spread (5)			3.52 %				3.54 %	
Net interest income and net yield on earning assets (6)		\$ 4,695	3.61 %			\$ 4,741	3.63 %	
Interest free funds supporting earning assets (7)	\$ 26,698				\$ 21,302			

(1) Average balances of interest-earning assets and interest-bearing liabilities calculated on a daily basis.

(2) Calculated based on the number of days in the year. Yield calculated on a pre-tax basis. The estimated tax equivalent yield on tax-exempt securities, assuming a 33% tax rate, was 6.29% in 2015 and 6.12% in 2014.

(3) Nonaccruing loans are included in the average loan balances and income on such loans is recognized on a cash basis.

(4) Interest income on loans includes loan fee income as well as interest income. The amount of loan origination fees included was \$151,926 in 2015 and \$145,924 in 2014.

(5) Total yield on interest earning assets less the rate paid on total interest bearing liabilities.

(6) Net interest income divided by total interest earning assets.

(7) Total interest earning assets less total interest bearing liabilities.

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Average Balances, Yields and Rates

(Dollars in thousands)

	Quarter ended March 31, 2017				Quarter ended March 31, 2016			
	Average Balances(1)	Interest Income/ Expense	Average Yields/ Rates(2)	%	Average Balances(1)	Interest Income/ Expense	Average Yields/ Rates(2)	%
<u>Assets</u>								
Securities	\$ 44,313	\$ 257	2.35	%	\$ 45,275	\$ 274	2.45	%
Tax-exempt securities	368	2	2.27	%	131	1	3.09	%
Federal Funds Sold and other interest-earning balances	25,095	55	.89	%	11,783	24	.82	%
Loans (3), (4)	68,604	835	4.94	%	76,422	966	5.13	%
Total interest earning assets	138,380	1,149	3.37	%	133,611	1,265	3.84	%
Noninterest earning assets, net	11,011				12,148			
Total assets	\$ 149,391				\$ 145,759			
<u>Liabilities and shareholders' equity</u>								
Interest bearing liabilities:								
Interest bearing transaction accounts	\$ 21,838	11	.21	%	\$ 19,077	10	.22	%
Savings and money market	43,729	23	.21	%	42,839	23	.21	%
Time deposits	36,753	64	.71	%	38,773	66	.69	%
Total interest bearing deposits	102,320	98	.39	%	100,689	99	.40	%
Borrowings	334	—	—	%	1,417	8	2.29	%
Total interest bearing liabilities	102,654	98	.39	%	102,106	107	.42	%
Noninterest bearing demand deposits and other								
Liabilities and equity	46,737				43,653			
Total liabilities and shareholders' equity	\$ 149,391				\$ 145,759			
Interest rate spread (5)			2.98	%			3.41	%
Net interest income and net yield on earning assets (6)		\$ 1,051	3.08	%		\$ 1,158	3.51	%
Interest free funds supporting earning assets (7)	\$ 35,726				\$ 31,505			

(1) Average balances of interest-earning assets and interest-bearing liabilities calculated on a daily basis.

(2) Calculated based on the number of days in the period. Yield calculated on a pre-tax basis. The estimated tax equivalent yield on tax-exempt securities assuming a 33% tax rate was 3.39% in 2017 and 3.11% in 2016.

(3) Nonaccruing loans are included in the average loan balances and income on such loans is recognized on a cash basis.

(4) Interest income on loans includes loan fee income as well as interest income. The amount of loan origination fees included was \$17 thousand in the first quarter of 2017 and \$29 thousand in the first quarter of 2016.

(5) Total yield on interest earning assets less the rate paid on total interest bearing liabilities.

(6) Net interest income divided by total interest earning assets.

(7) Total interest earning assets less total interest bearing liabilities.

Rate/Volume Analysis of Net Interest Income

As discussed under the caption "Net Interest Income," Cornerstone Bank's net income is largely dependent on net interest income. The table below calculates the relative impact on net interest income caused by changes in the average balances (volume) of interest sensitive assets and liabilities and the impact caused by changes in interest rates earned or paid. Each table compares two periods as indicated below. The effect of a change in average balance has been determined by applying the average rate in the earlier year to the change in average balance in the later year, as compared with the earlier year. The effect of a change in the average rate has been determined by applying the average balance in the earlier year to the change in the average rate in the later year, as compared with the earlier year. In 2016, for the second straight year, changes in loan rates had the most significant impact on changes in net interest income. However, the impact of lower overall loan balances was almost as significant. Changes in average balances of broker repurchase agreements had the most significant impact on changes in interest expense in 2015.

Year ended December 31, 2016 compared to 2015

(Dollars in thousands)	Increase (Decrease) Due to		
	Rate	Volume	Net
Interest earned on:			
Securities (1)	\$ (134)	\$ 109	\$ (25)
Federal Funds sold and other interest-earning balances	72	6	78
Loans	(131)	(145)	(276)
Total interest earning assets	(224)	1	(223)
Interest paid on:			
Deposits	19	(2)	17
Borrowings	(1)	(68)	(69)
Total interest bearing liabilities	19	(71)	(52)
Change in Net Interest Income (2)			\$ (171)

Year ended December 31, 2015 compared to 2014

(Dollars in thousands)	Increase (Decrease) Due to		
	Rate	Volume	Change
Interest earned on:			
Securities (1)	\$ (46)	\$ (2)	\$ (48)
Federal Funds sold and other interest-earning balances	11	(3)	8
Loans	(219)	36	(183)
Total interest income	(254)	31	(223)
Interest paid on:			

Deposits	(41)	(26)	(67)
Borrowings	8	(117)	(109)
Total interest expense	(37)	(139)	(176)

Change in Net Interest Income (2) \$ (47)

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Quarter ended March 31, 2017 compared to 2016

(Dollars in thousands)	Increase (Decrease) Due to		
	Rate	Volume	Change
Interest earned on:			
Securities (1)	\$ (11)	\$ (4)	\$ (15)
Federal Funds sold and other interest-earning balances	2	29	31
Loans	(38)	(93)	(131)
Total interest income	(55)	(60)	(115)
Interest paid on:			
Deposits	1	(1)	—
Borrowings	—	(8)	(8)
Total interest expense	1	(9)	(8)
Change in Net Interest Income (2)			\$ (107)

(1) Income calculated on a pre-tax basis.

Changes in interest income attributable to both Rate and Volume, calculated as the difference between the average (2) balances for the periods multiplied by the difference between the average rates for the periods, has been allocated proportionately to Rate and Volume.

Market Risk and Interest Rate Sensitivity

Interest rate sensitivity measures the timing and magnitude of the repricing of assets compared with the repricing of liabilities and is an important part of asset/liability management. The objective of interest rate sensitivity management is to generate stable growth in net interest income, and to control the risks associated with interest rate movements. Management constantly reviews interest rate risk exposure and the expected interest rate environment so that adjustments in interest rate sensitivity can be made in a timely manner.

When interest sensitive liabilities exceed interest sensitive assets for a specific repricing “horizon,” a negative interest sensitivity gap results. The gap is positive when interest sensitive assets exceed interest sensitive liabilities. For a bank with a negative gap such as Cornerstone Bank, falling interest rates would be expected to have a positive effect on net interest income and increasing rates would be expected to have the opposite effect. However, if one or more assumptions prove incorrect, the margin may not be impacted in the manner expected. On a cumulative basis, rate sensitive liabilities exceeded rate sensitive assets, resulting in a liability sensitive position at the end of 2016 of \$56.5 million, for a cumulative gap to total earning assets ratio of .47 calculated at the three-months to one-year time horizon, assuming that all assets and liabilities would reprice at the earliest possible time. On a cumulative basis, rate sensitive liabilities exceeded rate sensitive assets, resulting in a liability sensitive position as of March 31, 2017 of \$61.7 million, for a cumulative gap to total earning assets ratio of .52 calculated at the three-months to one-year time horizon, assuming that all assets and liabilities would reprice at the earliest possible time. However, these analyses

include mortgage-backed and other securities in their final year of maturity and assume that all non-maturing deposits will reprice immediately. Many instruments may not reprice in conjunction with final maturities, and interest-bearing liabilities, in particular, may not reprice in conjunction with or by the same magnitude as movements in market interest rates.

The following table reflects the balances of interest earning assets and interest bearing liabilities at the earlier of their repricing or maturity dates. Variable rate loans are reflected at the earlier of their contractual maturity date or the date at which the loan may be repriced contractually. Deposits in other banks and debt securities are reflected at the earlier of each instrument's repricing date for variable rate instruments or the ultimate maturity date for fixed rate instruments. Overnight federal funds sold are reflected in the earliest repricing interval due to the immediately available nature of these funds. Interest bearing liabilities with no contractual maturity, such as interest bearing transaction accounts and savings deposits are reflected in the earliest repricing interval due to contractual arrangements which give management the opportunity to vary the rates paid on these deposits within a thirty-day or shorter period. However, Cornerstone Bank is under no obligation to vary the rates paid on those deposits within any given period. Fixed rate time deposits, principally certificates of deposit, are reflected at their contractual maturity dates. Federal funds purchased are presented in the immediate repricing interval because the interest rate paid adjusts at the beginning of each month. The table does not reflect repricing that could occur as a result of prepayment of loans or early withdrawal of time deposits or movement into or out of non-maturing deposit accounts.

Interest Sensitivity Analysis

	December 31, 2016							Total
	1-3 Immediate Months	3-12 Months	1-3 Years	3-5 Years	5-15 Years	>15 Years		
(Dollars in thousands)								
Interest earning assets								
Securities (1)	\$3,741	\$—	\$378	\$—	\$5,430	\$25,139	\$9,713	\$44,401
Federal funds sold and other interest-bearing balances	1,490	100	—	1,500	1,500	—	—	4,590
Loans (2)(3)	5,216	2,382	15,684	21,561	24,285	3,284	96	72,508
	10,447	2,482	16,062	23,061	31,215	28,423	9,809	121,499
Interest bearing deposits								
Interest bearing transaction accounts	22,108	—	—	—	—	—	—	22,108
MMDAs & Savings	44,488	—	—	—	—	—	—	44,488
Time deposits	149	4,214	14,323	14,918	2,933	—	—	36,537
Federal Funds purchased and Customer repurchase agreements	258	—	—	—	—	—	—	258
Borrowings	—	—	—	—	—	—	—	—
	67,003	4,214	14,323	14,918	2,933	—	—	103,391
Interest sensitivity gap	\$(56,556)	\$(1,732)	\$1,739	\$8,143	\$28,282	\$28,423	\$9,809	\$18,108
Cumulative interest sensitivity gap	\$(56,556)	\$(58,288)	\$(56,549)	\$(48,406)	\$(20,124)	\$8,299	\$18,108	\$18,108
Gap ratio	(5.41)	(.70)	(.11)	.35	.91	1.00	1.00	
Cumulative gap ratio	(5.41)	(4.51)	(1.95)	(.93)	(.24)	.07	.15	
Cumulative gap to total earning assets	(.47)	(.48)	(.47)	(.40)	(.17)	.07	.15	

Securities with call features have been included in the period in which the security matures. Interest-bearing (1) transaction accounts have been included in the earliest possible period, although actual repricing may differ from the timing and magnitude of changes in market interest rates.

(2) There were no unamortized deferred loan fees included in the above table.

(3) Nonaccruing loans of \$78,986 are included in the 2016 table. All nonaccruing loans are included in the >15 years category.

Interest Sensitivity Analysis

	December 31, 2015							Total
	1-3 Immediate Months	3-12 Months	1-3 Years	3-5 Years	5-15 Years	>15 Years		
(Dollars in thousands)								
Interest earning assets								
Securities (1)	\$4,429	\$—	\$—	\$1,099	\$—	\$27,490	\$14,216	\$47,234
	165	100	—	500	2,250	—	—	3,015

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Federal funds sold and other interest-bearing balances								
Loans (2)(3)	10,557	1,668	8,750	22,484	31,750	1,388	—	76,597
	15,151	1,768	8,750	24,083	34,000	28,878	14,216	126,846
Interest bearing deposits								
Interest bearing transaction accounts	19,430	—	—	—	—	—	—	19,430
MMDAs & Savings	42,814	—	—	—	—	—	—	42,814
Time deposits	183	5,796	16,037	13,059	3,882	—	—	38,957
Federal Funds purchased and Customer repurchase agreements	402	—	—	—	—	—	—	402
Borrowings	—	—	—	2,000	—	—	—	2,000
	62,829	5,796	16,037	15,059	3,882	—	—	103,603
Interest sensitivity gap	\$(47,678)	\$(4,028)	\$(7,287)	\$9,024	\$30,118	\$28,878	\$14,216	\$23,243
Cumulative interest sensitivity gap	\$(47,678)	\$(51,706)	\$(58,993)	\$(49,969)	\$(19,851)	\$9,027	\$23,243	\$23,243
Gap ratio	(3.15)	(2.28)	(.83)	.37	.89	1.00	1.00	
Cumulative gap ratio	(3.15)	(3.06)	(2.30)	(1.00)	(.24)	.08	.18	
Cumulative gap to total earning assets	(.38)	(.41)	(.47)	(.39)	(.16)	.07	.18	

Securities with call features have been included in the period in which the security matures. Interest-bearing (1) transaction accounts have been included in the earliest possible period, although actual repricing may differ from the timing and magnitude of changes in market interest rates.

(2) There were no unamortized deferred loan fees included in the above table.

(3) There were no loans on nonaccrual as of December 31, 2015.

Interest Sensitivity Analysis

	March 31, 2017							Total
	1-3 Immediate Months	3-12 Months	1-3 Years	3-5 Years	5-15 Years	>15 Years		
(Dollars in thousands)								
Interest earning assets								
Securities (1)	\$—	\$3,684	\$363	\$—	\$6,643	\$24,859	\$11,132	\$46,681
Federal funds sold and other interest-bearing balances	1,245	—	100	1,500	1,500	—	—	4,345
Loans (2)(3)	4,724	2,608	13,057	21,679	24,779	999	41	67,887
	5,969	6,292	13,520	23,179	32,922	25,858	11,173	118,913
Interest bearing deposits								
Interest bearing transaction accounts	22,683	—	—	—	—	—	—	22,683
MMDAs & Savings	44,135	—	—	—	—	—	—	44,135
Time deposits	140	6,827	12,558	14,556	2,404	60	—	36,545
Federal Funds purchased and Customer repurchase agreements	1,159	—	—	—	—	—	—	1,159
	\$68,117	6,827	12,558	14,556	2,404	60	—	104,522
Interest sensitivity gap	\$(62,148)	\$(535)	\$962	\$8,623	\$30,518	\$25,798	\$11,173	\$14,391
Cumulative interest sensitivity gap	\$(62,148)	\$(62,683)	\$(61,721)	\$(53,098)	\$(22,580)	\$3,218	\$14,391	\$14,391
Gap ratio	(10.41)	(.09)	(.07)	(.37)	(.93)	(1.00)	(1.00)	
Cumulative gap ratio	(10.41)	(5.11)	(2.39)	(1.08)	(.28)	.03	.12	
Cumulative gap to total earning assets	(.52)	(.53)	(.52)	(.45)	(.19)	.03	.12	

Securities with call features have been included in the period in which the security matures. Interest-bearing (1) transaction accounts have been included in the earliest possible period, although actual repricing may differ from the timing and magnitude of changes in market interest rates.

(2) There were no unamortized deferred loan fees included in the above table.

(3) Nonaccruing loans of \$30,080 are included in the March 31, 2017 table. All nonaccruing loans are included in the >15 years category.

Provision and Allowance for Loan Losses

The allowance for loan losses is increased by provisions that are direct charges to operating expense. Losses on loans are charged against the allowance in the period in which management determines that it is likely that such loans have become uncollectible. Recoveries of previously charged off loans will be credited to the allowance. The provision for loan losses charged to operating expenses reflects the amount deemed appropriate by management to establish an adequate reserve to meet the probable loan losses incurred in the current loan portfolio. Management's judgment is based on periodic and regular evaluation of individual loans, the overall risk characteristics of the various portfolio segments, past experience with losses, delinquency trends, and prevailing economic conditions.

In reviewing the adequacy of the allowance for loan losses, management applies a consistent methodology that is updated quarterly. Management takes into consideration the historical loan losses experienced by Cornerstone Bank, current economic conditions affecting the borrowers' ability to repay, the volume of loans, and the trends in delinquent, nonaccruing, and any potential problem loans, and the quality of collateral securing nonperforming and problem loans. Management considers the allowance for loan losses to be adequate to cover its estimate of loan losses inherent in the loan portfolio as of March 31, 2017 and December 31, 2016.

To estimate the amount of allowance necessary Cornerstone Bank separates the portfolio into segments. The portfolio is first separated into groups according to the internal loan rating assigned by management. Loans rated Special Mention, Substandard, Doubtful or Loss, as defined in the Bank's loan policy, are evaluated individually for impairment and the estimate of the amount of allowance for loan losses is computed based on individual facts and circumstances, such as appraised value of collateral, and similar factors. The remaining loans, which are rated satisfactory or above, are then grouped by category according to the same definitions used in regulatory reporting. Cornerstone Bank generally lends on various types of real-estate collateral, and the regulatory definitions, which split real estate collateral into several sub-types, provide a defined, consistent system for tracking loan balances and charge-offs. These categories are also useful in comparing Cornerstone Bank to its regional community bank peers. Cornerstone Bank's historical charge-off rates, by regulatory category, are calculated, and reviewed for additional subjective factors that should be considered for the current outlook. Charge-off ratios may be increased or decreased based on other environmental factors which may need to be considered, such as unemployment rates and volatility of real estate values.

The resulting adjusted charge-off factors are then applied to ending balances of loans not specifically reviewed for impairment. These estimates, along with the loans specifically reviewed for impairment, are used in the analysis of the adequacy of the allowance for loan losses completed on a quarterly basis. See notes 1 and 6 to Cornerstone's consolidated financial statements for further information, including the amount of loans in each rating category as described above. The allowance for loan losses is also subject to periodic evaluation by various regulatory authorities and may be subject to adjustment upon their examination.

Aggregate activity in the allowance for loan losses for the years ended December 31, 2016, 2015, 2014, 2013 and 2012 and the quarter ended March 31, 2017 is summarized in the table below.

(Dollars in Thousands)

	3/31/2017	2016	2015	2014	2013	2012
Average loans outstanding	\$68,604	\$75,125	\$77,528	\$76,875	\$80,920	\$91,926
Loans at period end	67,887	72,508	76,597	78,425	77,043	86,772
Total nonaccrual loans	30	79	—	795	—	1,114
Loans 90 days past due and still accruing	—	—	—	—	—	—
Beginning Allowance for Loan Losses	1,030	1,228	1,521	1,546	1,902	2,042
	Q1 2017	2016	2015	2014	2013	2012
Charge-offs by loan category						
Loans secured by real estate – construction/development	\$—	\$—	\$—	\$60	\$—	\$305
Loans secured by real estate –single family	—	—	3	15	127	66
Loans secured by real estate –nonfarm, nonresidential	—	—	—	—	—	16
Loans secured by real estate –multifamily	—	—	—	—	—	—
Loans secured by real estate – farmland	—	—	—	—	—	—
Commercial and industrial loans	—	—	—	—	—	243
Loans to consumers	—	1	—	—	—	—
Total charge-offs	\$—	\$1	\$3	\$75	\$127	\$630
Recoveries						
Loans secured by real estate – construction/development	\$—	\$—	\$—	\$50	\$11	\$12
Loans secured by real estate –single family	—	—	10	—	—	1
Loans secured by real estate –nonfarm, nonresidential	—	—	—	—	—	—
Loans secured by real estate –multifamily	—	—	—	—	—	—
Loans secured by real estate – farmland	—	—	—	—	—	—
Commercial and industrial loans	—	3	—	—	10	8
Loans to consumers	—	—	—	—	—	—
Total Recoveries	—	3	10	50	21	20
Total net charge-offs	—	2	7	(25)	(106)	(610)
Provision for Loan Losses	—	(200)	(300)	—	(250)	470
Ending Allowance for Loan Losses	\$1,030	\$1,030	\$1,228	\$1,521	\$1,546	\$1,902
Net C/O (recoveries) to average loans	0.00 %	(.00)%	(.01)%	.03 %	.13 %	.66 %
Allowance as a percentage of total loans	1.52 %	1.42 %	1.60 %	1.94 %	2.01 %	2.19 %

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Nonperforming loans as a % of total Loans	0.04	%	0.11	%	0.00	%	1.01	%	0.00	%	1.28	%
Allowance as a % of non-performing loans	3,423	%	1,304	%	N/A		191	%	N/A		171	%

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Activity for the year ended December 31, 2016 and 2015 in the allowance, by portfolio segment, is presented in the table below.

Year ended December 31, 2016

	Loans Secured by Real Estate							Unallocated	Total
	Construction	Single family (1)	Nonfarm, nonresidential	Multifamily	Commercial and industrial	Consumer			
(Dollars in thousands)									
Beginning Balance	\$ 165	\$ 161	\$ 329	\$ 5	\$ 34	\$ 7	\$ 527	\$ 1,228	
Provision	(45)	(35)	(7)	(2)	22	20	(153)	(200)	
Charge-offs	—	—	—	—	—	(1)	—	(1)	
Recoveries	—	—	—	—	3	—	—	3	
Ending Balance	\$ 120	\$ 126	\$ 322	\$ 3	\$ 59	\$ 26	\$ 374	\$ 1,030	

Year ended December 31, 2015

	Loans Secured by Real Estate							Unallocated	Total
	Construction	Single family (1)	Nonfarm, nonresidential	Multifamily	Commercial and industrial	Consumer			
(Dollars in thousands)									
Beginning Balance	\$ 253	\$ 243	\$ 433	\$ 7	\$ 62	\$ 12	\$ 511	\$ 1,521	
Provision	(88)	(89)	(104)	(2)	(28)	(5)	16	(300)	
Charge-offs	—	(3)	—	—	—	—	—	(3)	
Recoveries	—	10	—	—	—	—	—	10	
Ending Balance	\$ 165	\$ 161	\$ 329	\$ 5	\$ 34	\$ 7	\$ 527	\$ 1,228	

(1)Includes HELOC loans.

Cornerstone has allocated the allowance for loan losses among the various segments of the portfolio. The allowance allocations as of December 31, 2016 and December 31, 2015 are presented in the table below.

(Dollars in thousands)

Category	2016			2015			2014			2013			2012	
	Loans in category	ALLL	% of Loans In Category	Loans in category	ALLL	% of Loans In Category	Loans in category	ALLL	% of Loans In Category	Loans in category	ALLL	% of Loans In Category	Loans in category	% of Loans in category
Real Estate-Construction/Dev	11,460	120	1.0 %	15,024	165	1.1 %	15,896	253	1.6 %	16,467	324	2.0 %	20,4	
Real Estate-Single Family	9,797	126	1.3 %	10,092	161	1.6 %	12,065	243	2.0 %	13,123	307	2.3 %	13,5	
Real Estate-Nonfarm,	41,821	322	0.8 %	42,855	329	0.8 %	40,866	433	1.1 %	37,733	566	1.5 %	41,7	

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nonresidential

Real Estate-Multifamily	2,304	3	0.1 %	3,606	5	0.1 %	4,408	7	0.2 %	5,099	10	0.2 %	4,43
Real Estate-Farmland	259	—	0.0 %	274	—	0.0 %	288	—	0.0 %	211	—	0.0 %	218
Commercial and industrial	5,777	59	1.0 %	3,813	34	0.9 %	4,459	62	1.4 %	3,860	77	2.0 %	5,94
Consumer	1,090	26	2.4 %	933	7	0.9 %	443	12	2.7 %	550	9	1.6 %	464
Unallocated	—	374	N/A	—	527	N/A	—	511	N/A	—	253	N/A	—
Total	72,508	1,030	1.4 %	76,597	1,228	1.6 %	78,425	1,521	1.9 %	77,043	1,546	2.0 %	86,7

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Noninterest Income

Noninterest income, which consists primarily of service charges on deposit accounts, gains and losses on securities sales, and other fee income, was fairly stable in 2016 in comparison to 2015. Service fees on deposits increased during the year, but were offset by a decline in the gain on sale of available for sale investments. The increase in service fees in 2016 was primarily related to certain business accounts. Noninterest income decreased by \$133 thousand in 2015 compared to 2014. The primary reason for the decrease was a decline in brokerage income in 2015. Brokerage income was \$225 thousand in 2014 and declined to \$80 thousand in 2015. Brokerage income fluctuates with the volume and types of commissions earned.

Noninterest income for the first quarter of 2017 was \$204 thousand compared to \$287 thousand for the first quarter of 2016. Noninterest income for the first quarter of 2016 included a gain on the sale of securities of \$113 thousand. The gain was generated in order to offset the penalty for prepayment of a \$2.0 million FHLB advance. The penalty for prepayment of the advance totaled \$110 thousand, and was included in noninterest expense in the first quarter of 2016.

Noninterest Expenses

Noninterest expenses, which consist primarily of salaries and employee benefits, occupancy costs, data processing expenses and professional and regulatory fees, totaled \$4.5 million in 2016, \$5.2 million in 2015, and \$4.7 million in 2014. The most significant reason for the decline in noninterest expense in 2016 was a decline in expenses related to foreclosed real estate. As Cornerstone reduces its holdings of assets acquired in foreclosure, holding costs, adjustments to carrying values and losses on sales are also reduced. Cornerstone also experienced declines in expenses related to occupancy costs, advertising, professional and regulatory fees, and other operating expenses. Professional and regulatory fees decreased as a result of decreases in FDIC insurance premiums and regulatory examination fees.

The expense decreases described above were partially offset by increases in other areas. Increases in noninterest expenses in 2016 resulted from increases in data processing, electronic transaction processing and supplies expenses. Data processing costs continue to increase as volume increases in the electronic delivery channel, new features are added to the Bank's products, and steps are taken to increase the protections around Cornerstone's network. A fee in the amount of \$110 thousand for prepayment of an advance from the FHLB was also included in 2016 noninterest expenses. Cornerstone's efficiency ratio, which is measured as the ratio of noninterest expense to the sum of net interest income plus other income expressed as a percentage, was 83.5% in 2016, 93.4% in 2015, and 82.1% in 2014. If securities gains are excluded from the calculation, the efficiency ratio was 85.2% in 2016, 96.0% in 2015, and 83.6% in 2014. For the first quarter of 2017 the efficiency ratio was 81.1%.

Cornerstone recorded noninterest expense of \$1.0 million in the first quarter of 2017 compared to \$1.2 million in the first quarter of 2016. Expenses related to foreclosed property, salaries and benefits, and professional and regulatory fees each declined in 2017 in comparison to 2016. Foreclosed property expenses have been declining as properties are sold. Cornerstone's average outstanding balance of foreclosed real estate was \$2.5 million in the first quarter of 2017 compared to \$3.9 million in the first quarter of 2016. In addition, salaries and benefits declined in the first quarter of 2017 in comparison to the first quarter of 2016 as the result of a slightly lower number of full time equivalent employees. Professional and regulatory expenses declined in the first quarter of 2017 as compared to the first quarter of 2016 primarily as the result of lower costs for FDIC insurance premiums. Premiums for FDIC insurance declined after the FDIC Insurance Fund met a certain threshold.

Income Taxes

Cornerstone recorded income tax expense of \$80 thousand in the first quarter of 2017. In 2016 Cornerstone recorded income tax expense of \$362 thousand. In 2015 Cornerstone recorded a net income tax benefit of \$756 thousand as a result of reversing the valuation allowance against its deferred tax asset, net of current income taxes. The valuation allowance was recorded against Cornerstone's deferred tax asset in 2011. A valuation allowance is recorded against a deferred tax asset in situations where evidence regarding the ability to use the benefit in the near term does not outweigh the likelihood that the benefit will not be available for use. In 2015 Cornerstone was able to demonstrate that evidence exists that Cornerstone will be able to utilize the tax benefits in the near term. In 2014 Cornerstone did not record any expense for income taxes. Refer to Notes 1 and 15 to Cornerstone's consolidated financial statements contained elsewhere herein for more information.

Loan Portfolio Composition

The composition of net loans by category as used by management to evaluate the quality of the portfolio is presented below.

(In Thousands)	March	December 31,	
	31, 2017	2016	2015
Loans secured by real estate-construction/development	\$10,761	\$11,460	\$15,024
Loans secured by real estate- single family (1)	9,586	9,797	10,092
Loans secured by real estate-nonfarm, non-residential	40,109	41,821	42,855
Loans secured by real estate-multifamily	2,250	2,304	3,606
Loans secured by real estate-farmland	255	259	274
Commercial and industrial	3,888	5,777	3,813
Consumer	1,038	1,090	933
Loans, gross	67,887	72,508	76,597
Less allowance for loan losses	(1,030)	(1,030)	(1,228)
Loans, net	\$66,857	\$71,478	\$75,369

This category also includes home equity lines of credit (“HELOCs”) and junior liens. HELOCs totaled \$2.6 million (1) as of March 31, 2017 and \$2.8 million and \$3.0 million as of December 31, 2016 and 2015, respectively. There were no closed-end junior liens outstanding as of March, 31, 2017, December 31, 2016 or 2015.

Credit Quality Indicators

Management of Cornerstone Bank uses a number of credit quality indicators in evaluations of credit quality of the portfolio. Delinquency is one type of credit quality indicator that is closely monitored by management. Generally, the accrual of interest will be discontinued on impaired loans when principal or interest becomes 90 days past due, or when payment in full is not anticipated, and any previously accrued interest on such loans will be reversed against current income. Any subsequent interest income will be recognized on a cash basis when received unless collectability of a significant amount of principal is in serious doubt. In such cases, collections are credited first to the remaining principal balance on a cost recovery basis. During the year ended December 31, 2016, interest included in net interest income on loans on nonaccrual at year end totaled \$3,868. During the year ended December 31, 2016 and quarter ended March 31, 2017, additional income that would have been recorded if the loans were current was \$872 and \$441, respectively. There were no loans considered Potential Problem Loans by management of Cornerstone as of December 31, 2016 or March 31, 2017. Various measures monitored by management related to delinquency are provided below:

(In Thousands)	March	December 31,	
	31, 2017	2016	2015
Loans on non-accrual	\$ 30	\$ 79	\$—

Accruing loans past due 90 days or more	\$ —	\$ —	\$ —
Loans past due 30-89 days	\$ —	\$ 12	\$ 17
Restructured Loans, accruing	\$ 616	\$ 676	\$ 2,656

An additional credit quality indicator is the risk grade assigned to loans in the portfolio. Management uses a system of defined grades to categorize loans and monitor on a consistent basis. Loans are generally rated Satisfactory, Special Mention, Substandard, Doubtful or Loss. There were no loans rated Doubtful or Loss as of March 31, 2017.

Loans in each of the remaining categories as of March 31, 2017 are included in the table below. See Cornerstone's Consolidated Financial statements contained herein for additional information.

(In Thousands)	March 31, 2017			Total
	Special Mention	Substandard	Satisfactory	
Loans secured by real estate—construction/development	\$39	\$ —	\$ 10,722	\$10,761
Loans secured by real estate— single family (1)	398	350	8,838	9,586
Loans secured by real estate— nonfarm, nonresidential	—	674	39,435	40,109
Loans secured by real estate— multi-family	—	—	2,250	2,250
Loans secured by real estate—farmland	—	—	255	255
Commercial and industrial loans	—	197	3,691	3,888
Consumer loans	49	—	989	1,038
Total	\$486	\$ 1,220	\$ 66,181	\$67,887

(1) Includes HELOC loans.

Management also monitors loans that have been restructured in a troubled debt restructuring (“TDR”). No loans were designated as TDR loans during the first quarter of 2017. Loans that are performing under their restructured terms totaled \$616 thousand as of March 31, 2017.

Concentrations of Credit

Cornerstone makes loans to individuals and businesses in and around Upstate South Carolina for various personal and commercial purposes. Cornerstone Bank has a diversified loan portfolio and the borrowers’ ability to repay their loans is not dependent upon any specific economic sector. Cornerstone Bank monitors concentrations in its customer base using the North American Industry Codes (“NAIC”) describing the industries from which our customers derive their income, and using certain regulatory definitions. As of March 31, 2017 and December 31, 2016, Cornerstone Bank has concentrations of credit in the industries categorized as real estate rental and leasing, accommodation and food services, construction, and retail trade, which by NAIC category comprise over 25% of Tier 1 Capital adjusted for the allowance for loan losses. Cornerstone Bank also has a concentration in loans collateralized by real estate according to the regulatory definition. Management controls risk inherent in real estate lending through lending policies which set forth guidelines such as appraisal requirements, loan-to-value maximums, and other terms.

Maturity Distribution of Loans

Cornerstone Bank’s loan portfolio contains a component of adjustable rate loans. As of March 31, 2017, approximately \$4.6 million or 6.9% of Cornerstone Bank’s loan portfolio was variable rate. These loans are generally tied to the prime rate and may or may not have minimum or maximum rates included in the terms.

The following table sets forth the maturity distribution of the Bank's loans, by type, as of March 31, 2017, as well as the type of interest requirement on loans with maturities greater than one year. For purposes of this table, variable rate loans are included in the period of their final maturity, as opposed to their repricing date.

Maturity Distribution of Loans

	March 31, 2017			Total
	(Dollars in thousands)			
	1 Year	1-5	5	
	or Less	Years	Years	
			or	
			More	
(In Thousands)				
Loans secured by real estate-construction/development	\$3,818	\$6,943	\$—	\$10,761
Loans secured by real estate- single family, (1)	322	6,958	2,306	9,586
Loans secured by real estate- nonfarm, non-residential	6,103	32,398	1,608	40,109
Loans secured by real estate- multifamily	460	1,790	—	2,250
Loans secured by real estate- farmland	—	255	—	255
Commercial and industrial	3,356	532	—	3,888
Consumer	150	838	50	1,038
Total	\$14,209	\$49,714	\$3,964	\$67,887
Predetermined rate, maturity greater than one year				\$50,456
Variable rate, maturity greater than one year				\$3,222

(1) This category also includes home equity lines of credit ("HELOCs") and junior liens. HELOCs totaled \$2.6 million as of March 31, 2017. There were no closed-end junior liens outstanding as of March, 31, 2017.

Investment Securities

The investment portfolio is a significant component of earning assets and a source of liquidity. Total investment securities averaged \$45.5 million in 2016 as compared to \$41.1 million in 2015. At March 31, 2017, our investment portfolio amounted to \$46.0 million.

	March 31, 2017	December 31, 2016	2015	2014	2013	2012
(Dollars in thousands)						
Available for sale:						
Mortgage-backed securities	\$ 11,781	\$10,062	\$13,722	\$11,088	\$14,618	\$15,727
Collateralized mortgage obligations	4,196	2,957	1,734	—	—	—
Government sponsored enterprise bonds	3,215	3,189	4,397	5,320	8,668	6,494
Municipal bonds	11,604	11,576	11,907	14,216	12,305	8,153
Small business Administration Pools	15,230	15,963	14,770	9,258	1,963	1,000
Total available for sale	\$ 46,026	\$43,747	\$46,530	\$39,882	\$37,554	\$31,374

Cornerstone Bank holds other investments at cost as required for membership in FHLB Atlanta and the Federal Reserve. Our investments were as follows:

	March 31, 2017	December 31, 2016	2015	2014	2013	2012
(Dollars in thousands)						
Federal Reserve Bank of Richmond stock	\$ 426	\$426	\$426	\$426	\$426	\$425
FHLB Atlanta stock	\$ 229	\$227	\$278	\$236	\$286	\$350

Investment Securities Maturity Distribution and Yields

The following table shows, at amortized cost, the expected maturities and average yield (computed on a pre-tax basis) of securities held at December 31, 2016:

	Within 1 year		After 1 and within 5 Years		After 5 within 10 Years		After 10 years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
(Dollars in thousands)								
Available for sale:								
Mortgage-backed securities	—	—	—	—	4,526	1.71 %	5,734	2.01 %
	—	—	—	—	—	—	3,032	1.96 %

Collateralized mortgage obligations									
Government sponsored enterprise bonds	—	—	1,000	1.00 %	2,250	2.50 %	—	—	
Municipal bonds (1)	—	—	749	3.49 %	3,082	3.45 %	7,710	3.51 %	
Small business Administration Pools	—	—	701	2.79 %	6,354	1.88 %	9,055	1.94 %	
Total available for sale	—	—	% \$ 2,450	2.28 %	\$ 16,212	2.21 %	\$ 25,531	2.41 %	

The category Municipal bonds includes one security in the amount of \$367 thousand that is a tax-exempt security. (1) The estimated tax equivalent yield is 3.26%, and the bond is included in the amounts maturing after 10 years in the above table.

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Other than debt securities issued by US Government or US Government agencies, there were no investments owned by Cornerstone as of December 31, 2016 or March 31, 2017, of any issuer that exceeded 10% of Cornerstone's shareholders' equity.

Other Short-term Investments

Cornerstone holds other short-term investments in the form of Federal funds sold and overnight investments at the Federal Reserve and the FHLB Atlanta. These investments averaged \$15.3 million in 2016 and \$11.5 million in 2015. As of March 31, 2017 short-term investments totaled \$24.6 million.

Certificate of Deposit Investments

As of March 31, 2017 and December 31, 2016 Cornerstone Bank held thirteen certificates of deposit at other banks totaling approximately \$3.1 million. The certificates have an average yield of 1.98% and mature at various dates through 2021. In 2017, 2016, and 2015, one certificate in the amount of \$100,000 was held in conjunction with an agreement to provide Cornerstone Bank's customers with a credit card product. The certificate matures annually in conjunction with the agreement. The certificate pays interest at the target Federal Funds rate plus 10 basis points, averaging .48% and .225% during 2016 and 2015, respectively.

Deposits

The following table sets forth Cornerstone Bank's deposits by category:

	March 31,		December 31,		2015	2014		2013
	2017	% of Total	2016	% of Total		2014	% of Total	
(Dollars in thousands)								
Noninterest bearing	\$28,388	21.5 %	\$22,748	18.1 %	\$20,522	16.9 %	\$19,437	16.3 %
Interest bearing:								
NOW accounts	22,683	17.2 %	22,108	17.6 %	19,430	16.0 %	17,873	15.0 %
Money market accounts	13,551	10.3 %	13,431	10.7 %	11,833	9.7 %	12,761	10.7 %
Savings	30,584	23.2 %	31,057	24.7 %	30,981	25.5 %	29,546	24.8 %
Time, less than \$100,000	21,034	16.0 %	21,220	16.9 %	22,110	18.2 %	23,338	19.6 %
Time, Over \$100,000, less than 250,000	11,628	8.8 %	11,692	9.3 %	12,857	10.6 %	12,326	10.4 %
Time, \$250,000 and over	3,883	2.9 %	3,625	2.9 %	3,990	3.3 %	3,648	3.1 %
Total deposits	\$131,751	100.0 %	\$125,881	100.0 %	\$121,723	100.0 %	\$118,929	100.0 %
Total over \$100,000	\$15,511	11.8 %	\$15,317	12.2 %	\$16,847	13.8 %	\$15,974	13.4 %

The following table sets forth Cornerstone Bank's average deposits by category:

Average Deposits

	2016		2015		2014		2013		2012	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
(Dollars in thousands)										
Noninterest-bearing demand	\$24,624	— %	\$20,552	— %	\$18,808	— %	\$15,785	— %	\$15,530	— %
Interest-bearing transaction accounts	20,681	0.21 %	18,742	0.21 %	17,467	0.23 %	16,851	0.28 %	15,995	0.31 %
Savings and money market	43,748	0.21 %	42,481	0.21 %	44,755	0.24 %	45,208	0.28 %	47,147	0.43 %
Time deposits	37,667	0.70 %	39,037	0.65 %	41,854	0.73 %	47,946	1.03 %	54,745	1.31 %
Total average deposits	\$126,720	0.32 %	\$120,812	0.32 %	\$122,884	0.37 %	\$125,790	0.53 %	\$133,417	0.72 %

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The following table sets forth Cornerstone Bank's time deposits greater than \$100,000 by maturity.

Maturities of Certificates of Deposit of \$100,000 or more as of:

(In Thousands)	March 31, 2017	December 31, 2016
Time deposits of \$100,000 or more:		
Within 3 months	\$ 2,703	\$ 1,147
After 3 Months through six Months	2,131	2,712
After 6 thru 12 months	2,126	2,558
After 12 months	8,551	8,900
Total time deposits of \$100,000 or more:	\$ 15,511	\$ 15,317

Borrowings

Cornerstone Bank had a line of credit to borrow funds from the FHLB in the amount of 25% of the Bank's assets as of March 31, 2017 and December 31, 2016, and up 10% of the Bank's assets as of December 31, 2015. Any funds borrowed from the FHLB are collateralized by a lien on certain of the Bank's available for sale securities and loans.

There were no amounts borrowed from FHLB as of March 31, 2017 or December 31, 2016. As of December 31, 2015, the Bank had \$2.0 million borrowed from the FHLB at a rate of 3.52%. The borrowing was scheduled to mature on January 16, 2018. In February 2016, the Company prepaid its outstanding FHLB advance incurring a prepayment penalty of \$110 thousand. During 2016 the highest balance as of any month end for borrowings from the FHLB was \$2.0 million. The average rate paid on advances in 2016 was 3.48%. The average balance for the year 2016 was \$230 thousand. During 2015 the highest balance as of any month end for borrowings from FHLB was \$2.1 million. The average rate paid on advances in 2015 was 3.52%. The average balance for the year 2015 was \$2.1 million.

Also at December 31, 2016, Cornerstone Bank had an unused line of credit to purchase federal funds totaling \$4.0 million from an unrelated bank. This line of credit is available on an overnight basis for general corporate purposes of Cornerstone Bank. The lender has reserved the right to withdraw the line at its option.

Capital Adequacy and Dividends

	Quarter ended March 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014	
Return on average assets	.42	% .49	% 1.00	% .71	%

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Return on average equity (1)	3.19	%	3.68	%	7.72	%	5.88	%
Equity to assets ratio (average) (1)	13.13	%	13.45	%	12.92	%	12.05	%
Return on average equity (2)	3.37	%	3.88	%	8.18	%	6.25	%
Equity to assets ratio (average) (2)	12.44	%	12.75	%	12.19	%	11.33	%
Dividend payout ratio	—	%	—	%	—	%	—	%

(1) Calculated using Net Income and including Preferred Stock in average equity

(2) Calculated using Net Income and excluding Preferred Stock

Cornerstone Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on Cornerstone Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, Cornerstone Bank must meet specific capital guidelines that involve quantitative measures of Cornerstone Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Cornerstone Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require Cornerstone Bank to maintain minimum amounts and ratios. In July 2013, federal bank regulatory agencies issued final rules to revise their risk-based capital requirements and the method for calculating risk-weighted assets consistent with agreements that were reached by the Basel Committee on Banking Supervision (“Basel III”). The Basel III rules became effective January 1, 2015 and include transition provisions which implement certain portions of the rules through January 1, 2019. The rules define and quantify minimum thresholds for Common Equity Tier 1 (“CET 1”), total, and Tier 1 capital to risk-weighted assets, and Tier 1 capital to adjusted total assets (“Tier 1 leverage ratio”). Tier 1 capital of Cornerstone Bank consists of common shareholders equity, excluding the unrealized gain or loss on securities available-for-sale, less certain intangible assets (if applicable), while CET 1 is comprised of Tier 1 capital, adjusted for certain regulatory deductions and limitations. Tier 2 capital consists of the allowance for loan losses subject to certain limitations. Total capital for purposes of computing the capital ratios consists of the sum of Tier 1 and Tier 2 capital. The new rules require banks to hold CET 1 capital in excess of minimum risk-based capital ratios by at least 2.5 percent to avoid limits on capital distributions and certain discretionary bonus payments to executive officers. This additional capital or “Capital Conservation Buffer” will be phased in over a five-year period beginning in 2016. The requirement for 2016 is .625% and the requirement for 2017 is 1.25%. In addition, risk-weights assigned to various categories of assets were revised effective January 1, 2015. Management believes, as of March 31, 2017 and December 31, 2016 and 2015, that Cornerstone Bank meets all capital adequacy requirements to which it is subject. Cornerstone Bank’s actual capital amounts and ratios and minimum regulatory amounts and ratios established by regulations are set forth below.

(Dollars in thousands)	Required		Actual		Excess	
	Amount	%	Amount	%	Amount	%
March 31, 2017						
Total Capital (to risk weighted assets)	\$6,766	8.0%	\$20,633	24.4%	\$13,867	16.4%
Tier 1 Capital (to risk weighted assets)	\$5,075	6.0%	\$19,603	23.2%	\$14,528	17.2%
Common Equity Tier 1 Capital	\$3,806	4.5%	\$19,603	23.2%	\$15,797	18.7%
Tier 1 leverage ratio	\$5,979	4.0%	\$19,603	13.1%	\$13,624	9.1%
December 31, 2016						
Total Capital (to risk weighted assets)	\$7,162	8.0%	\$20,437	22.8%	\$13,275	14.8%
Tier 1 Capital (to risk weighted assets)	\$5,372	6.0%	\$19,407	21.7%	\$14,035	15.7%
Common Equity Tier 1 Capital	\$4,029	4.5%	\$19,407	21.7%	\$15,378	17.2%
Tier 1 leverage ratio	\$5,844	4.0%	\$19,527	13.3%	\$13,683	9.3%
December 31, 2015						
Total Capital (to risk weighted assets)	\$7,641	8.0%	\$19,749	20.7%	\$12,108	12.7%
Tier 1 Capital (to risk weighted assets)	\$5,731	6.0%	\$18,553	19.4%	\$12,822	13.4%
Common Equity Tier 1 Capital	\$4,298	4.5%	\$18,553	19.4%	\$14,255	14.9%
Tier 1 leverage ratio	\$5,750	4.0%	\$18,553	12.9%	\$12,803	8.9%

Liquidity Management

Liquidity is the ability to meet current and future obligations through liquidation or maturity of existing assets or the acquisition of additional liabilities. Adequate liquidity management is necessary to meet the requirements of customers for loans and deposit withdrawals in the most timely and economical manner. Some liquidity is ensured by maintaining assets that may be immediately converted into cash at minimal cost (amounts due from banks and federal funds sold). However, the most manageable sources of liquidity are composed of liabilities, with the primary focus on liquidity management being on the ability to obtain deposits within Cornerstone Bank’s service area. Core deposits

(total deposits less time deposits greater than \$250,000 and brokered deposits) provide a relatively stable funding base, and were equal to 83.7% of total assets at December 31, 2016 and 83.6% at March 31, 2017.

Asset liquidity is provided from several sources, including amounts due from banks and federal funds sold, unpledged securities, and funds from maturing loans. Cornerstone had \$25.9 million and \$16.1 million in cash and cash equivalents at March 31, 2017 and December 31, 2016, respectively. Cornerstone has access to a line of credit with the FHLB, which is subject to various conditions and may be terminated at the option of the lender, as an additional source of liquidity funding. The line with the FHLB is equal to 25% of assets, provided that adequate collateral is available for pledging. The line may be used for short or long term funding needs and may be used on a fixed or variable-rate basis. As of March 31, 2017 and December 31, 2016, the Bank had no funds borrowed from the FHLB. At March 31, 2017 and December 31, 2016, approximately \$38.2 million and \$36.5 million, respectively, of additional funds were available under the FHLB line provided that eligible collateral is available. Cornerstone Bank primarily uses bonds and mortgage-backed securities issued by U.S. Government agencies to collateralize advances, but can also pledge loans as collateral. The FHLB has a blanket lien on the loan portfolio, although Cornerstone Bank only pledges certain types of loans as collateral. As of December 31, 2016 securities with a collateral value of \$2.86 million were pledged as collateral to the FHLB. Additional securities with a market value of \$37.7 million and \$38.6 million were unpledged as of December 31, 2016 and March 31, 2017, respectively, and could be used as collateral for borrowings or sold should Cornerstone require additional funding. Loans in the amount of \$5.6 million as of December 31, 2016 had been identified as eligible collateral for FHLB advances. Cornerstone Bank also has access to the Discount Window of the Federal Reserve Bank of Richmond (the "Federal Reserve".) Any borrowing from the Discount Window would be collateralized by loans not already pledged as collateral to the FHLB. Cornerstone Bank also has access to a short term line of credit with an unrelated bank up to \$4.0 million. The line of credit is available on a daily basis for general corporate purposes of Cornerstone Bank. The lender has reserved the right to withdraw the line at its option. Management believes that Cornerstone Bank's overall liquidity sources are adequate to meet its operating needs in the ordinary course of its business.

Off-Balance Sheet Risk

Cornerstone, through the operations of Cornerstone Bank, makes contractual commitments to extend credit in the ordinary course of its business activities. These commitments are legally binding agreements to lend money to customers of Cornerstone Bank at predetermined interest rates for a specified period of time. At March 31, 2017 and December 31, 2016 and 2015, unfunded commitments to extend credit were \$7.7 million, \$6.4 million, and \$7.5 million, respectively. At March 31, 2017, the unfunded commitments consisted of \$3.3 million at variable rates and \$4.4 million at fixed rates with \$3.3 million expiring within one year. At December 31, 2016, the unfunded commitments consisted of \$3.3 million at variable rates and \$3.1 million at fixed rates with \$1.6 million expiring within one year. Past experience indicates that many of these commitments to extend credit will expire unused and it is unlikely that a large portion would be used in a short period of time. However, through its various sources of liquidity discussed above, the Bank believes that it will have the necessary resources to meet these obligations should the need arise.

In addition to commitments to extend credit, Cornerstone Bank also issues standby letters of credit which are assurances to a third party that it will not suffer a loss if Cornerstone Bank's customer fails to meet its contractual obligation to the third party. Standby letters of credit totaled approximately \$283 thousand and \$302 thousand at March 31, 2017 and December 31, 2016, respectively. Past experience indicates that many of these standby letters of credit will expire unused. However, through its various sources of liquidity discussed above, the Bank believes that it will have the necessary resources to meet these obligations should the need arise.

The Bank offers an automatic overdraft protection product. Approximately \$978 thousand and \$976 thousand of overdraft protection was available to customers under this product as of March 31, 2017 and December 31, 2016, respectively. Cornerstone Bank expects the majority of this capacity will not be utilized. During the first quarter of 2017 the average balance of demand deposit overdrafts for all participating banking clients was approximately \$13 thousand. During 2016, the average balance of demand deposit overdrafts for all participating banking clients was approximately \$15 thousand.

Neither Cornerstone nor Cornerstone Bank is involved in other off-balance sheet contractual relationships, unconsolidated related entities that have off-balance sheet arrangements or transactions that could result in liquidity needs or other commitments or significantly impact earnings. Cornerstone did not maintain any obligations under non-cancelable operating lease agreements at March 31, 2017 or December 31, 2016. Cornerstone Bank extended its contract with a company that provides data and item processing, and ATM network services in 2014. Monthly minimum costs for these services are currently approximately \$25 thousand. Volume-related costs may increase as volume increases.

Refer to Notes 13 and 17 to Cornerstone's consolidated financial statements for additional discussion on these and other commitments and contingencies and financial instruments with off-balance sheet risk.

Impact of Inflation

Since the assets and liabilities of a bank are primarily monetary in nature (payable in fixed, determinable amounts), the performance of a bank is affected more by changes in interest rates than by inflation. Interest rates generally increase as the rate of inflation increases, but the magnitude of the change in rates may not be the same.

While the effect of inflation on banks is normally not as significant as is its influence on those businesses that have large investments in plant and inventories, it does have an effect. During periods of high inflation, there are normally corresponding increases in the money supply, and banks will normally experience above-average growth in assets, loans and deposits. Additionally, general increases in the prices of goods and services usually result in increased operating expenses.

SUPERVISION AND REGULATION

Cornerstone and Cornerstone Bank are extensively regulated under federal and state law. The following information describes certain aspects of that regulation applicable to Cornerstone and Cornerstone Bank and does not purport to be complete. Proposals to change the laws and regulations governing the industry are frequently raised in the U.S. Congress, in state legislatures, and before the various bank regulatory agencies. The likelihood and timing of any changes and the impact such changes might have on Cornerstone and Cornerstone Bank are impossible to determine with any certainty. A change in applicable laws or regulations, or a change in the way such laws or regulations are interpreted by regulatory agencies or courts, may have a material impact on the business, operations, and earnings of Cornerstone and Cornerstone Bank.

Cornerstone

Cornerstone is qualified as a bank holding company ("BHC") within the meaning of the Bank Holding Company Act of 1956, as amended (the "BHC Act"), and is registered as such with the Federal Reserve. As a bank holding company, Cornerstone is subject to supervision, regulation and examination by the Federal Reserve and is required to file various reports and additional information with the Federal Reserve. Cornerstone is also subject to certain banking laws of South Carolina and is subject to possible reporting to and examination by the SCBFI.

Under the Gramm-Leach-Bliley Act, a BHC may elect to become a financial holding company and thereby engage in a broader range of financial and other activities than are permissible for traditional BHC's. In order to qualify for the election, all of the depository institution subsidiaries of the BHC must be well capitalized, well managed, and have achieved a rating of "satisfactory" or better under the Community Reinvestment Act (the "CRA"). Financial holding companies are permitted to engage in activities that are "financial in nature" or incidental or complementary thereto as determined by the Federal Reserve. The Gramm-Leach-Bliley Act identifies several activities as "financial in nature," including insurance underwriting and sales, investment advisory services, merchant banking and underwriting, and dealing or making a market in securities. Cornerstone has not elected to become a financial holding company, and has no plans to become a financial holding company.

Cornerstone Bank

Cornerstone Bank is a federally chartered national bank and is a member of the Federal Reserve System. It is subject to federal regulation by the OCC, the Federal Reserve, and the FDIC.

Depository institutions, including Cornerstone Bank, are subject to extensive federal and state regulations that significantly affect their business and activities. Regulatory bodies have broad authority to implement standards and initiate proceedings designed to prohibit depository institutions from engaging in unsafe and unsound banking practices. The standards relate generally to operations and management, asset quality, interest rate exposure, and capital. Bank regulatory agencies are authorized to take action against institutions that fail to meet such standards.

As with other financial institutions, the earnings of Cornerstone Bank are affected by general economic conditions and by the monetary policies of the Federal Reserve. The Federal Reserve exerts substantial influence on interest rates and credit conditions, primarily through open market operations in U.S. Government securities, setting the reserve requirements of member banks, and establishing the discount rate on member bank borrowings. The policies of the Federal Reserve have a direct impact on loan and deposit growth and the interest rates charged and paid thereon. They also impact the source, cost of funds, and the rates of return on investments. Changes in the Federal Reserve's monetary policies have had a significant impact on the operating results of Cornerstone Bank and other financial institutions and are expected to continue to do so in the future; however, the exact impact of such conditions and policies upon future business and earnings cannot accurately be predicted.

The Dodd-Frank Act

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). The Dodd-Frank Act significantly restructured the financial regulatory regime in the United States and has had a broad impact on the financial services industry as a result of the significant regulatory and compliance changes required under the act. A summary of certain provisions of the Dodd-Frank Act, which are more fully discussed in the following sections, is set forth below:

Increased Capital Standards. The federal banking agencies are required to establish minimum leverage and risk-based capital requirements for banks and bank holding companies. See "Capital Requirements" below. Among other things, the Dodd-Frank Act provides for newer and stronger standards.

Deposit Insurance. The Dodd-Frank Act makes permanent the \$250,000 deposit insurance limit for insured deposits. Amendments to the Federal Deposit Insurance Act also revise the assessment base against which an insured depository institution's deposit insurance premiums paid to the Deposit Insurance Fund (the "DIF") will be calculated. Under the amendments, the assessment base will no longer be the institution's deposit base, but rather its average consolidated total assets less its average tangible equity during the assessment period. Additionally, the Dodd-Frank Act makes changes to the minimum designated reserve ratio of the DIF, increasing the minimum from 1.15% to 1.35% of the estimated amount of total insured deposits and eliminating the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds. The Dodd-Frank Act also provides that depository institutions may pay interest on demand deposits.

The Consumer Financial Protection Bureau (“CFPB”). The CFPB is charged with establishing and enforcing rules and regulations under certain federal consumer protection laws with respect to the conduct of providers of certain consumer financial products and services.

Compensation Practices. The Dodd-Frank Act provides that the appropriate federal regulators must establish standards prohibiting as an unsafe and unsound practice any compensation plan of a bank holding company or bank that provides an insider or other employee with “excessive compensation” or that could lead to a material financial loss to such firm. In June 2010, prior to the Dodd-Frank Act, the federal bank regulatory agencies promulgated the *Interagency Guidance on Sound Incentive Compensation Policies*, which requires that financial institutions establish metrics for measuring the impact of activities to achieve incentive compensation with the related risk to the financial institution of such behavior.

Although a significant number of the rules and regulations mandated by the Dodd-Frank Act have been finalized, certain of the act’s requirements have yet to be implemented. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the federal bank regulatory agencies in the future, the full extent of the impact such requirements on the operations of Cornerstone and Cornerstone Bank is unclear. The future changes resulting from the Dodd-Frank Act may affect the profitability of business activities, require changes to certain business practices, impose more stringent regulatory requirements or otherwise adversely affect the business and financial condition of Cornerstone and Cornerstone Bank. These changes may also require Cornerstone to invest significant management attention and resources to evaluate and make necessary changes to comply with new statutory and regulatory requirements.

Deposit Insurance

The deposits of Cornerstone Bank are insured up to applicable limits by the Deposit Insurance Fund of the FDIC and are subject to deposit insurance assessments to maintain the DIF. On April 1, 2011, the deposit insurance assessment base changed from total deposits to average total assets minus average tangible equity, pursuant to a rule issued by the FDIC as required by the Dodd-Frank Act. Also on April 1, 2011, the FDIC began utilizing a risk-based assessment system that imposed insurance premiums based upon a risk category matrix that took into account a bank's capital level and supervisory rating. Effective July 1, 2016, the FDIC again changed its deposit insurance pricing and eliminated all risk categories and now uses the "financial ratios method" based on CAMELS composite ratings to determine assessment rates for small established institutions with less than \$10 billion in assets. The CAMELS rating system is a supervisory rating system designed to take into account and reflect all financial and operational risks that a bank may face, including capital adequacy, asset quality, management capability, earnings, liquidity and sensitivity to market risk ("CAMELS"). CAMELS composite ratings set a maximum assessment for CAMELS 1 and 2 rated banks, and set minimum assessments for lower rated institutions.

The FDIC's "reserve ratio" of the DIF to total industry deposits reached its 1.15% target effective June 30, 2016. On March 15, 2016, the FDIC implemented by final rule certain Dodd-Frank Act provisions by raising the DIF's minimum reserve ratio from 1.15% to 1.35%. The FDIC imposed a 4.5 basis point annual surcharge on insured depository institutions with total consolidated assets of \$10 billion or more. The new rule grants credits to smaller banks for the portion of their regular assessments that contribute to increasing the reserve ratio from 1.15% to 1.35%.

In addition, all FDIC insured institutions are required to pay assessments to the FDIC at an annual rate of approximately one basis point of insured deposits to fund interest payments on bonds issued by the Financing Corporation, an agency of the federal government established to recapitalize the predecessor to the Savings Association Insurance Fund. These assessments will continue until the Financing Corporation bonds mature in 2019.

Capital Requirements

The Federal Reserve, the OCC and the FDIC have issued substantially similar risk-based and leverage capital guidelines applicable to all banks and bank holding companies. In addition, those regulatory agencies may from time to time require that a banking organization maintain capital above the minimum levels because of its financial condition or actual or anticipated growth. Under the risk-based capital requirements of these federal bank regulatory agencies that were effective through December 31, 2016, Cornerstone and Cornerstone Bank were required to maintain a minimum ratio of total capital (which is defined as core capital and supplementary capital less certain specified deductions from total capital such as reciprocal holdings of depository institution capital instruments and equity investments) to risk-weighted assets of at least 8.0%. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet activities, recourse obligations, residual interests and direct credit substitutes, were multiplied by a risk-weight factor assigned by the capital regulation based on the risks believed inherent in the type of asset.

On June 7, 2012, the Federal Reserve issued a series of proposed rules intended to revise and strengthen its risk-based and leverage capital requirements and its method for calculating risk-weighted assets. The rules were proposed to implement the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. On July 2, 2013, the Federal Reserve approved certain revisions to the proposals and finalized new capital requirements for banking organizations.

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Effective January 1, 2015, the final rules required Cornerstone and Cornerstone Bank to comply with the following new minimum capital ratios: (i) a new common equity Tier 1 capital ratio of 4.5% of risk-weighted assets; (ii) a Tier 1 capital ratio of 6% of risk-weighted assets (increased from the prior requirement of 4%); (iii) a total capital ratio of 8% of risk-weighted assets (unchanged from the prior requirement); and (iv) a Tier 1 leverage ratio of 4% of total assets (unchanged from the prior requirement). These are the initial capital requirements, which will be phased in over a four-year period. When fully phased in on January 1, 2019, the rules will require Cornerstone and Cornerstone Bank to maintain (i) a minimum ratio of common equity Tier 1 to risk-weighted assets of at least 4.5%, plus a 2.5% “capital conservation buffer” (which is added to the 4.5% common equity Tier 1 ratio as that buffer is phased in, effectively resulting in a minimum ratio of common equity Tier 1 to risk-weighted assets of at least 7% upon full implementation), (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the 2.5% capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation), (iii) a minimum ratio of total capital to risk-weighted assets of at least 8.0%, plus the 2.5% capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation), and (iv) a minimum leverage ratio of 4%, calculated as the ratio of Tier 1 capital to average assets.

The Tier 1 and total capital to risk-weighted asset ratios of Cornerstone Bank were 21.7% and 22.8%, respectively, as of December 31, 2016, thus exceeding the minimum requirements. The common equity Tier 1 capital ratio of Cornerstone Bank was 21.7% as of December 31, 2016. The Tier 1 leverage ratio of Cornerstone Bank was 13.3% as of December 31, 2016, exceeding the minimum requirements.

The phase in of the capital conservation buffer requirement began on January 1, 2016, at 0.625% of risk-weighted assets, increasing by the same amount each year until fully implemented at 2.5% on January 1, 2019. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of common equity Tier 1 to risk-weighted assets above the minimum but below the conservation buffer will face constraints on dividends, equity repurchases, and compensation based on the amount of the shortfall.

With respect to Cornerstone Bank, the rules also revised the “prompt corrective action” regulations pursuant to Section 38 of the FDIA by (i) introducing a common equity Tier 1 capital ratio requirement at each level (other than critically undercapitalized), with the required ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum ratio for well-capitalized status being 8.0% (as compared to the prior ratio of 6.0%); and (iii) eliminating the current provision that provides that a bank with a composite supervisory rating of 1 may have a 3.0% Tier 1 leverage ratio and still be well-capitalized. These new thresholds were effective for Cornerstone Bank as of January 1, 2015. The minimum total capital to risk-weighted assets ratio (10.0%) and minimum Tier 1 leverage ratio (5.0%) for well-capitalized status were unchanged by the final rules.

The new capital requirements also included changes in the risk weights of assets to better reflect credit risk and other risk exposures. These include a 150% risk weight (up from 100%) for certain high volatility commercial real estate acquisition, development and construction loans and nonresidential mortgage loans that are 90 days past due or otherwise on nonaccrual status, a 20% (up from 0%) credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancelable, a 250% risk weight (up from

100%) for mortgage servicing rights and deferred tax assets that are not deducted from capital, and increased risk-weights (from 0% to up to 600%) for equity exposures.

Based on management's understanding and interpretation of the new capital rules, it believes that, as of December 31, 2016, Cornerstone and Cornerstone Bank meet all capital adequacy requirements under such rules on a fully phased-in basis as if such requirements were in effect as of such date.

Dividends

Cornerstone's principal source of cash flow, including cash flow to pay dividends to its shareholders, is dividends it receives from Cornerstone Bank. Statutory and regulatory limitations apply to Cornerstone Bank's payment of dividends to Cornerstone. 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 determines 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.

Permitted Activities

As a bank holding company, Cornerstone is limited to managing or controlling banks, furnishing services to or performing services for its subsidiaries, and engaging in other activities that the Federal Reserve determines by regulation or order to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. In determining whether a particular activity is permissible, the Federal Reserve must consider whether the performance of such an activity reasonably can be expected to produce benefits to the public that outweigh possible adverse effects. Possible benefits include greater convenience, increased competition, and gains in efficiency. Possible adverse effects include undue concentration of resources, decreased or unfair competition, conflicts of interest, and unsound banking practices. Despite prior approval, the Federal Reserve may order a bank holding company or its subsidiaries to terminate any activity or to terminate ownership or control of any subsidiary when the Federal Reserve has reasonable cause to believe that a serious risk to the financial safety, soundness or stability of any bank subsidiary of that bank holding company may result from such an activity.

Banking Acquisitions; Changes in Control

The BHC Act requires, among other things, the prior approval of the Federal Reserve in any case where a bank holding company proposes to (i) acquire direct or indirect ownership or control of more than 5% of the outstanding voting stock of any bank or bank holding company (unless it already owns a majority of such voting shares), (ii) acquire all or substantially all of the assets of another bank or bank holding company, or (iii) merge or consolidate with any other bank holding company. In determining whether to approve a proposed bank acquisition, the Federal Reserve will consider, among other factors, the effect of the acquisition on competition, the public benefits expected to be received from the acquisition, the projected capital ratios and levels on a post-acquisition basis, and the acquiring institution's performance under the Community Reinvestment Act of 1977 (the "CRA") and its compliance with fair housing and other consumer protection laws.

Subject to certain exceptions, the BHC Act and the Change in Bank Control Act, together with the applicable regulations, require Federal Reserve approval (or, depending on the circumstances, no notice of disapproval) prior to any person or company acquiring "control" of a bank or bank holding company. A conclusive presumption of control exists if an individual or company acquires the power, directly or indirectly, to direct the management or policies of an insured depository institution or to vote 25% or more of any class of voting securities of any insured depository institution. A rebuttable presumption of control exists if a person or company acquires 10% or more but less than 25% of any class of voting securities of an insured depository institution and either the institution has registered its securities with the Securities and Exchange Commission under Section 12 of the Exchange Act or no other person will own a greater percentage of that class of voting securities immediately after the acquisition. Cornerstone's common stock is not registered under Section 12 of the Exchange Act.

In addition, South Carolina law requires the prior approval of the SCBFI for a company to acquire (as defined by South Carolina law) a South Carolina bank or any holding company that controls a South Carolina bank, subject to limited exceptions.

Source of Strength

Federal Reserve policy has historically required bank holding companies to act as a source of financial and managerial strength to their subsidiary banks. The Dodd-Frank Act codified this policy as a statutory requirement. Under this requirement, Cornerstone is expected to commit resources to support Cornerstone Bank, including at times when Cornerstone may not be in a financial position to provide such resources. Any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment to depositors and to certain other indebtedness of such subsidiary banks. In the event of a bank holding company's bankruptcy, any commitment by a bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the holding company bankruptcy trustee and entitled to priority of payment.

Safety and Soundness

There are a number of obligations and restrictions imposed on bank holding companies and their subsidiary banks by law and regulatory policy that are designed to minimize potential loss to the depositors of such depository institutions and the FDIC insurance fund in the event of a depository institution default. For example, under the Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”), to avoid receivership of an insured depository institution subsidiary, a bank holding company is required to guarantee the compliance of any subsidiary bank that may become “undercapitalized” with the terms of any capital restoration plan filed by such subsidiary with its appropriate federal bank regulatory agency up to the lesser of (i) an amount equal to 5% of the institution’s total assets at the time the institution became undercapitalized or (ii) the amount that is necessary (or would have been necessary) to bring the institution into compliance with all applicable capital standards as of the time the institution fails to comply with such capital restoration plan.

Under FDICIA, the federal bank regulatory agencies have adopted guidelines prescribing safety and soundness standards. These guidelines establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines. In addition, the agencies adopted regulations that authorize, but do not require, an institution which has been notified that it is not in compliance with safety and soundness standard to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the prompt corrective action provisions described above.

The Federal Deposit Insurance Corporation Improvement Act

Under FDICIA, the federal bank regulatory agencies possess broad powers to take prompt corrective action to resolve problems of insured depository institutions. The extent of these powers depends upon whether the institution is “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized,” or “critically undercapitalized,” as defined by the law.

Reflecting changes under the new Basel III capital requirements, the relevant capital measures that became effective on January 1, 2015 for prompt corrective action are the total capital ratio, the common equity Tier 1 capital ratio, the Tier 1 capital ratio and the leverage ratio. A bank will be (i) “well capitalized” if the institution has a total risk-based capital ratio of 10.0% or greater, a common equity Tier 1 capital ratio of 6.5% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, and a leverage ratio of 5.0% or greater, and is not subject to any capital directive order; (ii) “adequately capitalized” if the institution has a total risk-based capital ratio of 8.0% or greater, a common equity Tier 1 capital ratio of 4.5% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, and a leverage ratio of 4.0% or greater and is not “well capitalized”; (iii) “undercapitalized” if the institution has a total risk-based capital ratio that is less than 8.0%, a common equity Tier 1 capital ratio less than 4.5%, a Tier 1 risk-based capital ratio of less than 6.0% or a

leverage ratio of less than 4.0%; (iv) “significantly undercapitalized” if the institution has a total risk-based capital ratio of less than 6.0%, a common equity Tier 1 capital ratio less than 3.0%, a Tier 1 risk-based capital ratio of less than 4.0% or a leverage ratio of less than 3.0%; and (v) “critically undercapitalized” if the institution’s tangible equity is equal to or less than 2.0% of average quarterly tangible assets. An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. A bank’s capital category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of Cornerstone Bank’s overall financial condition or prospects for other purposes. Management believes, as of December 31, 2016 and 2015, Cornerstone met the requirements for being classified as “well capitalized.”

