FIG Partners

Ideas and Execution on Financial Institutions

Company Update

Brian Martin, CFA
312-461-4346
bmartin@figpartners.com

Christopher Marinac, CFA
404-601-7210

January 18, 2013

FCCO: $8.90
"Outperform"
Price Target: $10.50

Summary Statistics	
Exchange	NASDAQ
Market Cap ($M)	$45.7
Avg. Volume	1,639
Annual Dividend	$0.20
Dividend Yield	2.3%
Tangible Book/Share	$10.23
Price/Tangible Book	86%
Price/2013 EPS	11.7x
Price/2014 EPS	10.9x
Total Assets ($M)	$602,925
TCE/TA	8.9%
ROAA (2013)	0.7%
ROAE (2013)	7.57%

EPS Estimates	2011	2012	2013	2014
Q1	$0.12	$0.19	$0.20	-
Q2	$0.17	$0.23	$0.20	-
Q3	$0.24	$0.19	$0.18	-
Q4	$0.27	$0.19	$0.18	-
FY	$0.81	$0.79	**$0.75**	**$0.80**

Industry Type	Bank
Headquarters	Lexington, SC
Offices	11
Date Established	1995
CEO	Michael C. Crapps
CFO	Joseph G. Sawyer

First Community Corporation

Discount Valuation Persists Despite Improved Capital & Continued TBV Growth - Maintain "Outperform" Rating

- FCCO posted 4Q12 core EPS. Lower than expected margin and higher OREO costs led to the shortfall and more than overshadowed positive loan growth and improving credit metrics.
- A key positive in the quarter was the nearly $10 million, or 11% annualized growth in loans. Low to mid single digit growth is projected for 2013 in line with full year 2012. Favorable trends were also noted on the deposit front as mix improvements continued to be noted with growth in pure deposits.
- Total core revenues declined 2% as expansion in top line was more than offset by an 8% reduction in fee income reflecting lower mortgage income. Management hopes to offset an expected drop in refinance activity in 2013 with additional producers. Increasing trust revenues is also a priority.
- NIM held steady at 3.12% despite a 35 bps decline in yields on investment securities driven by greater than expected prepayments speeds of mortgage backed securities. We see a slight downward bias over the next 12-24 months reflecting ongoing re-pricing within the loan portfolio. Cost of funds has room to move lower due primarily to CD re-pricing opportunities.
- Credit improved such that NPAs declined 33% and are now sub 3% of loans & OREO, NCOs remained low at ~20 bps of average loans and classified assets dropped 5% on the heels of OREO sales resulting in a classified ratio of 32%.
- Core expenses were stable at $4.7 million and represent 3.1% of assets. Little change is expected in operating expenses in 2013 as declines in FDIC assessment & OREO expense offset increases elsewhere. OREO costs should trend lower given lower balances and less valuation adjustments as real estate values stabilize.
- We are maintaining our "Outperform" rating on shares of FCCO. With credit and capital in excellent shape and our outlook for positive earnings and growth in tangible book we expect shares to trend toward tangible book at a minimum even with a ROTCE of ~8%. Our price target of $10.50 assumes shares trade at 14x our 2013 estimate or 100% of projected tangible book value per share.

Please see important disclosures regarding FIG Partners' equity rating system, distribution of ratings, and other report disclosures on the last page of this report.

Additional Analysis

Taking into account weaker than expected 4Q12 results we are lowering our 2013E EPS to $0.75 from $0.85 and establishing our 2014E EPS at $0.80. Low to mid single digit loan growth is expected and should continue to be funded by the investment portfolio which remains lofty at nearly 35% of assets. Given our outlook for modest organic growth and little change in rates, net interest margin has a slight downward bias over the next 12-24 months reflecting ongoing re-pricing within the loan portfolio. Cost of funds has room to move lower due primarily to CD repricing opportunities. Specifically, FCCO has nearly $100 million in CDs yielding ~97 bps which should reset ~25-30 bps lower over the next twelve months. While the securities portfolio may not have bottomed yet there is limited room for it to move lower following this quarter's 35 bps decline to 1.71% in conjunction with accelerating prepayments on mortgage backed securities. We are modeling a 2013 NIM of ~3.10% vs. a 3.12% in 4Q12 and 3.23% for FY 2012. This outlook pencils to a slight decline in top line revenue in 2013; 1.7%, or ~$300k to $17.3 million.

Non Agency MBS securities rated below investment grade have been eliminated from the portfolio.

Investment Portfolio (000's)					
	1Q12	2Q12	3Q12	4Q12	% of Assets
Total Non-Agency MBS	14.0	3.7	3.7	3.1	1%
Below I-Grade Non-Agency MBS	11.6	1.7	1.7	1.6	0%
Other Below Investment Grade	0.0	0.0	0.0	0.0	0%
Total Below Investment Grade	11.6	1.7	1.7	1.6	0%
Below I-Grade as % of Tot Bond Portfolio	6%	1%	1%	1%	

With regard to fee income, mortgage income is the largest component and industry forecasts call for a 20-25% drop in revenues as refinance activity slows. Management is optimistic they can hold mortgage revenues flat in 2013 by adding several new originators; however, we are more cautious and modeling a 10% decline in revenues. We believe this drop will be offset by a slight pick-up in service charges and investment income, which fell short of expectations in 2012, such that full year core fee income is flat. Expenses are expected to be stable in 2013 as declines in the FDIC assessment and OREO expense offset increases in other areas.

A strength of the FCCO business model is its revenue diversification. During periods of declining interest rates mortgage revenue picks-up while spread revenue declines; the opposite occurs as rates begin to rise. An imperfection with this model has to do with timing. Namely, we suspect the refinance activity could slow sharply later this year with little change in rates; thus the outcome could be a drop in mortgage revenue without a corresponding increase in spread revenue. This should normalize over time; however, it may be a near-term drag if new producers are unable to compensate for lost refinance business.

Improvement in credit is expected to continue; however with nonperformers at reduced levels, the pace should be more measured in 2013. The relative reserve has held steady in the mid 1.40% range for some time now and we do not that expect to change materially going forward even with an im-

proving credit forecast. This level seems appropriate given the current economic environment plus this ratio is at risk of declining should FCCO consummate an acquisition. While any acquired loans would receive a credit mark and not be allocated to the reserve, we think a decline in the reserve to below peer levels would not be well received by investors or prudent at this point in the cycle. As such, management would likely need to rebuild the reserve following the acquisition, impacting future earnings.

With credit and capital in good shape and earnings improving FCCO is well positioned to become more offensive minded, something that was not possible a year ago given lower capital levels, the overhang of TARP, and its formal agreement with regulators. Valuation remains low though this may not be a significant impediment as many banks in the state are trading at lower relative valuations than FCCO. Further, many of its fellow South Carolina peers are unable to consider M&A at the moment given ongoing credit problems and regulatory constraints. No deals appear imminent and we expect management to be disciplined on pricing ie. minimal or no dilution to TBV. In the absence of acquisitions, we would expect FCCO to consider de novo branching in existing markets.

We are maintaining our Outperform rating on shares of FCCO. With credit and capital in excellent shape and our outlook for positive earnings and growth in tangible book we expect shares to trend toward tangible book at a minimum even with a ROTCE of ~8%. Our price target of $10.50 assumes shares trade at 14x our 2013 estimate, or 100% of projected tangible book value per share.

4Q12 EPS Review

FCCO posted 4Q12 EPS of $0.19. Excluding two cents in nonrecurring expense, we peg core EPS at $0.21, down from $0.23 last quarter. Lower than expected margin and higher OREO costs led to the shortfall and more than overshadowed positive loan growth and improving credit metrics.

Total core revenues declined 2% as modest expansion in top line was more than offset by an 8% reduction in fee income reflecting lower mortgage income.

Net interest margin held steady despite a 35 bps decline in yields on investment securities driven by greater than expected prepayments of mortgage backed securities and the corresponding write down of the premium. Investment yields may not have reached a bottom yet; however, there should be considerably less pressure prospectively. Continued reductions in the cost of funds and reinvestment of excess liquidity from the common stock offering positively impacted 4Q12 margin serving to offset pressure. Loan yields declined 8 bps and were largely as expected.

Loan balances were a bright spot in the quarter expanding nearly $10 million, or 10.6% annualized. For the full year 2012 loans increased $8 million, or 2.5%. Deposits were mostly flat though mix improvements were noted with pure deposits expanding ~$6 million to 67% of total deposits.

Credit improved such that NPAs declined 33% and are now sub 3% of loans & OREO, NCOs remained low at ~20 bps of average loans and classified assets dropped 5% on the heels of OREO sales resulting in a classified ratio of 32%.

	3Q-2012	Δ	4Q-2012
EPS	**$0.19**	-	**$0.19**
Operating/Core EPS	**$0.23**	-	**$0.21**
FIG Estimate	-	-	**$0.26**
Street Estimate	**$0.17**	-	**$0.21**
Net Interest Income (FTE)	4.2	1.1%	4.3
Loan Loss Provision	0.1	(30.4%)	0.1
Core Non-Interest Income (ex. sec.)	2.4	(8.0%)	2.2
Core Non-Interest Expense	4.7	0.0%	4.7
Net Charge-Offs	0.2	(4.3%)	0.2
NCOs % of Avg Loans (bps)	20	108bps	128
NCOs % of Provision (bps)	140	53bps	193
Tangible Book Per Share*	$10.10	1.3%	$10.23
Net Interest Margin (FTE)	3.12%	0bps	3.12%
Gross Loans ($Mil.)	323.5	2.7%	332.1
TCE Ratio (TCE/TA)*	8.71%	17bps	8.88%
NPAs to Loans/REO	4.33%	(1)bps	2.89%

*As Reported by the company

Source: FIG Partners Research, Company Disclosure

Core expenses were stable at $4.65 million and represent 3.1% of average assets. OREO expense increased nearly $300k, or 166% driven by increased property taxes on OREO owned and a loss on the sale of a branch sight which was never developed. The latter is one time in nature whereas the property taxes will be recurring; however, FCCO plans to accrue for these in 2013 and thus spread the cost out quarterly rather than absorbing them in one quarter as occurred in 4Q12. Reduced OREO levels (-$1.6 million in 4Q12) should pave the way for lower less property taxes in 2013.

Tangible common equity expanded 17 bps to 8.88%. Management increased the dividend a penny to $0.05 per quarter resulting in a payout ratio of approximately 25%.

FCCO- First Community Corporation

Criticized Asset Trends - 5 Quarter Look Back

	12/31/12		9/30/12		6/30/12		3/31/12		12/31/11	
Special Mention	8,696	2.6%	8,539	2.6%	9,917	3.0%	8,632	2.6%	8,508	2.6%
Substandard	17,612	5.2%	17,160	5.2%	16,612	5.0%	16,807	5.0%	17,813	5.4%
Doubtful	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
OREO	3,987	1.2%	5,570	1.7%	4,909	1.5%	5,383	1.6%	7,351	2.2%
Total Loans	332,111		323,534		324,913		331,090		324,311	
Pass	301,816	89.8%	292,265	88.8%	293,475	89.0%	300,268	89.2%	290,639	87.6%
Criticized	30,295	9.0%	31,269	9.5%	31,438	9.5%	30,822	9.2%	33,672	10.2%
Classified	21,599	6.4%	22,730	6.9%	21,521	6.5%	22,190	6.6%	25,164	7.6%
LLR	4,621	1.4%	4,695	1.4%	4,742	1.4%	4,745	1.4%	4,699	1.4%
Tier 1 Capital	63,400		63,860		58,822		57,461		56,207	
Loans + OREO	336,098		329,104		329,822		336,473		331,662	
LLR-to-Criticized		**15.3%**		**15.0%**		**15.1%**		**15.4%**		**14.0%**
LLR-to-Criticized sans OREO		**17.6%**		**18.3%**		**17.9%**		**18.7%**		**17.9%**
Criticized-to-Tier 1 + LLR		**44.5%**		**45.6%**		**49.5%**		**49.5%**		**55.3%**
LLR-to-Classified		**21.4%**		**20.7%**		**22.0%**		**21.4%**		**18.7%**
LLR-to-Classified sans OREO		**26.2%**		**27.4%**		**28.5%**		**28.2%**		**26.4%**
Classified-to-Tier 1 + LLR		**31.8%**		**33.2%**		**33.9%**		**35.7%**		**41.3%**

Source: FIG Partners Research, SNL Financial, FCCO 10-Q filings.

BACKGROUND & RISKS

Headquartered in Lexington, South Carolina, First Community (FCCO) is a ~$600 Million bank holding company (BHC) and the parent of First Community Bank, NA. Founded in 1995 by a group of former executives from Republic National Bank (acquired by South Financial Group, Inc.), FCCO provides traditional retail, commercial and mortgage banking services through a network of 11 branches in the Midlands area of South Carolina.

We see primary risks to include (1) integration of acquisitions; (2) negative impact from persistently low or rapidly changing

First Community Corporation (FCCO) **Updated on 1/18/2013**

Earnings Model

	Annual				2012 Quarterly				2013 Quarterly			
	2011A	2012E	2013E	2014E	1Q12A	2Q12A	3Q12A	4Q12A	1Q13E	2Q13E	3Q13E	4Q13E
Income Data: ($ in Millions)												
Net Interest Income	$18.3	$17.6	$17.3	$17.6	$4.5	$4.5	$4.3	$4.3	$4.3	$4.3	$4.4	$4.4
Loan Loss Provision	$1.4	$0.5	$0.65	$0.75	$0.2	$0.1	$0.1	$0.1	$0.2	$0.2	$0.2	$0.2
Non-Interest Income	$6.5	$8.2	$8.2	$8.8	$1.8	$1.9	$2.4	$2.1	$2.2	$2.1	$1.9	$1.9
Gain/Loss on Loan Sales	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Gain/Loss on Securities	($0.0)	($0.3)	$0.0	$0.0	($0.3)	($0.0)	($0.0)	$0.1	$0.0	$0.0	$0.0	$0.0
One-Time Items	($0.1)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Non-Interest Expense	$18.5	$19.4	$19.2	$19.7	$4.6	$4.9	$4.8	$5.1	$4.9	$4.8	$4.8	$4.8
Pre-Tax Income	$4.8	$5.6	$5.6	$5.9	$1.1	$1.3	$1.8	$1.3	$1.5	$1.5	$1.3	$1.3
Taxes	$1.5	$1.6	$1.6	$1.7	$0.3	$0.4	$0.6	$0.3	$0.4	$0.4	$0.4	$0.4
Extraordinary Items	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Net Income	$3.3	$4.0	$4.0	$4.2	$0.8	$0.9	$1.2	$1.0	$1.0	$1.0	$0.9	$0.9
Preferred Dividend	$0.7	$0.7	$0.0	$0.0	$0.2	$0.2	$0.3	$0.0	$0.0	$0.0	$0.0	$0.0
Net Income Avail. To Common	**$2.6**	**$3.3**	**$4.0**	**$4.2**	**$0.6**	**$0.8**	**$0.9**	**$1.0**	**$1.0**	**$1.0**	**$0.9**	**$0.9**
Avg. Shares O/S	3.3	4.2	5.3	5.3	3.3	3.4	4.7	5.3	5.3	5.3	5.3	5.3
Earnings Per Share (EPS)	**$0.81**	**$0.79**	**$0.75**	**$0.80**	**$0.19**	**$0.23**	**$0.19**	**$0.19**	**$0.20**	**$0.20**	**$0.18**	**$0.18**
Per Share Data:												
Reported Book Value	$11.13	$10.37	$10.92	$11.53	$11.52	$11.39	$10.25	$10.37	$10.51	$10.66	$10.79	$10.92
Tangible Book Value	**$10.90**	**$10.23**	**$10.79**	**$11.41**	**$11.25**	**$11.14**	**$10.10**	**$10.23**	**$10.38**	**$10.53**	**$10.66**	**$10.79**
Dividends	$0.16	$0.16	$0.20	$0.20	$0.04	$0.04	$0.04	$0.04	$0.05	$0.05	$0.05	$0.05
Pre-Tax, Pre-Provision EPS	**$1.94**	**$1.53**	**$1.19**	**$1.27**	**$0.48**	**$0.51**	**$0.45**	**$0.36**	**$0.34**	**$0.34**	**$0.32**	**$0.32**
CORE GAAP EPS	**$0.84**	**$0.85**	**$0.75**	**$0.80**	**$0.25**	**$0.23**	**$0.19**	**$0.18**	**$0.20**	**$0.20**	**$0.18**	**$0.18**
KEY Ratios:												
Net Interest Margin	3.34%	3.23%	3.10%	3.08%	3.36%	3.30%	3.12%	3.12%	3.11%	3.10%	3.10%	3.09%
Return on Avg Assets	0.55%	0.66%	0.66%	0.68%	0.54%	0.62%	0.80%	0.68%	0.69%	0.70%	0.63%	0.62%
Return on Avg Equity	8.10%	7.42%	7.12%	7.19%	6.86%	8.00%	7.22%	7.57%	7.59%	7.58%	6.75%	6.58%
Pre-Tax Pre-Provision ROA	**1.05%**	**1.06%**	**1.03%**	**1.08%**	**1.07%**	**1.14%**	**1.39%**	**1.25%**	**1.18%**	**1.19%**	**1.11%**	**1.10%**
Efficiency Ratio	72.27%	74.56%	74.64%	73.81%	72.70%	75.78%	70.46%	78.44%	74.26%	73.72%	75.09%	75.16%
Overhead Ratio	3.06%	3.23%	3.18%	3.18%	3.11%	3.28%	3.16%	3.38%	3.22%	3.17%	3.16%	3.16%
TCE/TA	6.07%	8.88%	9.48%	9.84%	6.20%	6.24%	8.71%	8.88%	9.16%	9.29%	9.39%	9.48%
TCE/RWA	10.22%	14.66%	15.40%	15.72%	10.18%	10.09%	14.75%	14.66%	14.88%	15.10%	15.25%	15.40%
Period-End Balances: ($ in Millions)												
Earning Assets	$540	$557	$550	$559	$552	$549	$557	$557	$547	$547	$548	$550
Total Assets	$594	$603	$596	$607	$602	$598	$606	$603	$593	$593	$594	$596
Risk-Weighted Assets	$352	$365	$366	$379	$366	$370	$358	$365	$365	$365	$365	$366
Gross Loans	$328	$332	$342	$354	$335	$329	$332	$332	$332	$335	$339	$342
Total Deposits	$465	$475	$481	$487	$477	$474	$474	$475	$477	$479	$480	$481
Intangibles	$1	$1	$1	$1	$1	$1	$1	$1	$1	$1	$1	$1
Total Common Equity	$37	$54	$57	$60	$38	$38	$54	$54	$55	$56	$56	$57

Source: FIG Partners Research, SNL Financial LLC

Compliance

FIG Partners LLC Distribution of Ratings

	Buy/Outperform	Hold/Market-Perform	Sell/Underperform
% Rated	37.1%	58.8%	4.1%
IB Client % in Category	22.2%	24.6%	0.0%

Equity Rating System as of July 1, 2003

Buy/Outperform "O" FIG expects that total return of the subject stock will outperform the industry benchmark (BIX) over the next 12 months

Hold/Market-Perform "M-P" FIG expects that total return of the subject stock will perform inline with the industry benchmark (BIX) over the next 12 months

Sell/Underperform "U" FIG expects that total return of the subject stock will under perform the industry benchmark (BIX) over the next 12 months

For purposes of FINRA rule 2711, outperform is classified as a buy, market perform is a hold and underperform is a sell. The industry benchmark that we use is the S&P Bank Index referred to as the BIX.

Ratings Changes for First Community Corporation (FCCO)

Additional Risks to Our Earnings Model Assumptions & Ratings:

Unexpected and/or rapid changes in interest rates may have significant negative impact on the company's balance-sheet. Likewise, persistently low interest rates, and/or a flat yield curve may add downward pressure to revenues and the absolute level of NIM-Net Interest Margin.

Declines in asset quality beyond our estimates due to an economic slowdown in the company's operating footprint may require increased expenses for loan losses which could decrease profitability. Further, this may cause an increase in Net Charge-offs, Nonperforming loans, and Classified Assets.

New rules set forth by regulatory agencies could reduce future profitability by eliminating certain revenue items, adding additional expenses, or requiring this institution to hold more capital. A similar effect is possible if new legislation (local, state, or federal) is passed.

Any regulatory action or litigation against the company could impact future earnings and also affect the public market perception towards this stock.

Compliance

- Neither the research analyst nor any member of the analyst's household has any financial interest in the subject company
- At the prior month end, neither FIG Partners LLC nor any of its partners or officers owned more than 1% of the outstanding equity securities of the subject company
- There are no material conflicts of interest of the analyst or FIG Partners LLC at the time of this report
- FIG has been a manager or co-manager of a public offering of any securities of the recommended issuer within the last three years
- FIG has received investment banking compensation from the subject company in the last three years
- FIG intends to seek investment banking compensation from the subject in the next three months
- The subject company is a client of FIG
- Neither the analyst nor anyone at FIG serves as an officer, director, or advisory board member of the subject company
- FIG will usually make a market in the subject security and was making a market in this security at the time of this report's publication
- All analysts are compensated based on a number of factors including the overall profits of FIG Partners LLC which includes investment banking revenues, but no analyst receives any compensation which is based on a specific investment banking service or transaction
- To determine price target, our analysts utilize a variety of valuation techniques including but not limited to: peer analysis, absolute P/E, relative P/E, projected P/E, absolute P/B, relative P/B, projected P/B, deposit premium, and a discounted cash flow model
- This research report reflects the analyst's actual opinion
- No research analyst is subject to the supervision or control of any employee of the member's investment banking department
- No employee of the investment banking department has reviewed or approved this report prior to publication
- The report has not been approved by the subject company, but may have been reviewed for factual accuracy except for the research summary, research rating and price target
- The subject company has not promised directly or indirectly favorable research, a specific rating or a specific price target nor has the subject company been threatened with a change in research as an inducement for business or compensation
- Additional information is available by request
- The information contained herein has been prepared from sources and data we believe to be reliable but we make no representation as to its accuracy or completeness. The opinions expressed herein are our own unless otherwise noted and are subject to change without notice. The price and value of the securities mentioned herein will fluctuate; past performance is no guarantee of future results.
- This report is published solely for informational purposes and should not be construed as an offer to buy or sell, or a solicitation of an offer to buy or sell, any security. The securities discussed herein are not suitable for everyone; each investor should assess his or her own particular financial condition and investment objectives before making any investment decisions.
- FIG Partners LLC may act as principal for its own account or as agent for both buyer and seller in connection with the purchase or sale of any security discussed herein.
- Reproduction or redistribution of this report in any form is prohibited except with the written permission of FIG Partners LLC.
- The author is employed by FIG Partners LLC, a broker-dealer
- Data sources for the report are Bloomberg Financial L.P., SNL Financial LC, Stockcharts.com, Thompson Financial and regulatory filings.