



Ideas and Execution on Financial Institutions

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FCCO—First Community Corporation

Noisy 3Q12 to Pave Way for Improved EPS in 4th Qtr. Adjusting Est. & Maintain Rating

OVERVIEW

FCCO reported 2Q-2012 profits of \$0.23. Overall it was a clean quarter free from unusual items that have clipped results in recent quarters. Core revenues expanded despite a drop in top line revenues, benefitting from increased fee income as well as lack of OTTI charges. Credit metrics and capital ratios improved while tangible book value slipped eleven cents reflecting a negative OCI adjustment and the regular quarterly dividend. Margin contraction and higher expenses partially offset the aforementioned positives. Other key quarterly developments included (1) the lifting of its formal agreement with the regulators in late June and (2) its intent to raise over \$12.5 million in common equity to repay TARP (See earlier reports).

Solid second quarter results along with the termination of the formal agreement should pave the way for the completion of the capital raise in relatively short order. We assume ~\$14.4 million is raised at a discount to the current price. Proceeds are slated to redeem TARP; which we believe will come to auction sometime in third quarter. Our modeling assumes FCCO will be the successful bidder on its TARP shares at ~95 cents on the dollar—similar pricing to other winning bank bids. Should FCCO lose the bid, our belief is

Ticker (exchange)	FCCO	NASDAQ	Industry Type:
Price (date)	\$7.84	7/12/12	Bank
Market Cap (\$M)	\$26.2	BIX Index: 152.08	Headquarters:
Avg. Volume (\$ Vol)	2,500.0	\$19,600	Lexington, SC
Annual Dividend (Yield)	0.16	2.0%	Date Established:
Tang. Book Value (P/TB)	\$11.14	70%	1995

FIG Research Rating: "Outperform"

Price Target: \$9.75

	2013 Est.	Multiple	PV
GAAP EPS	\$0.85	11.5x	\$9.75

Tangible Book	\$10.58	0.92x	\$9.75
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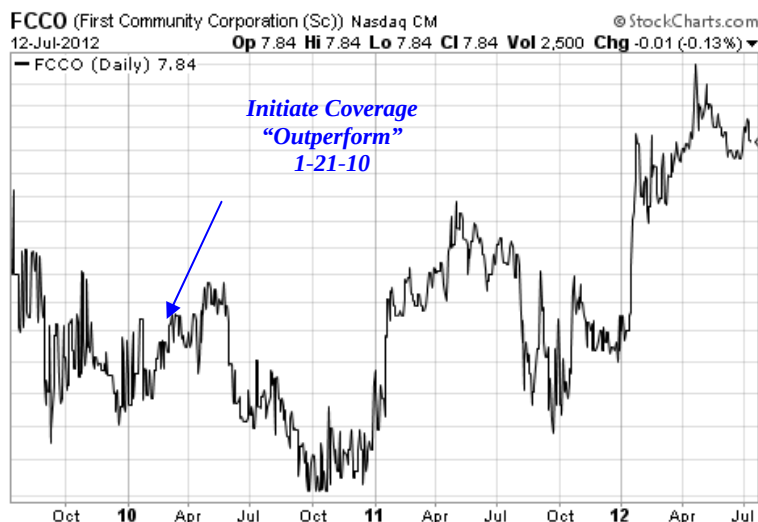
Implied Gain/Loss versus Current Price: 24.4%

ESTIMATES

	2010	2011	2012	2013
Q1	\$0.13	\$0.12	\$0.19	\$0.19
Q2	\$0.10	\$0.17	\$0.23	\$0.21
Q3	\$0.07	\$0.24	\$0.13	\$0.23
Q4	\$0.07	\$0.27	\$0.20	\$0.22
FY	\$0.37	\$0.75	\$0.74	\$0.85

P/E	21.3x	10.5x	10.6x	9.2x
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	2012	2013
Tangible Book per Share:	\$9.88	\$10.58
Pre-Tax Pre-Provision EPS:	\$1.54	\$1.41
Pre-Pre ROAA	1.07%	1.20%



Ideas & Execution on Financial Institutions

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they will redeem it at par as originally planned. Under our forecast, 3Q12 tangible common equity increases over 200 bps to ~8.4% while tangible book value is diluted ~12% to \$9.75. We estimate the payback period for this TBV dilution at approximately seven quarters. Tier 1 Leverage and Risk Based ratios increase ~60 bps and 95 bps, respectively to 10.5% and 18.6%. Management is opting to take dilution to tangible book value on the front end (today) rather than continue to pay the TARP dividend and limit their ability to grow. Should they opt to not raise capital, TARP payback could take up to four years; over which time the rate would increase to 9%. While there is no right/wrong method to redeem TARP; it will be critical for FCCO to grow and leverage its capital to limit shareholder dilution. Given current economic conditions, this will almost certainly entail a combination of organic and external growth. FCCO has proven a disciplined acquirer integrating two whole bank deals since inception while looking at over thirty deals over that period. The removal of TARP as well as continued improvement in credit and earnings should help lift FCCO valuation which could aid future M&A. We estimate FCCO could add ~\$150 million in new assets while maintaining a 7% TCE ratio.

We expect 3Q12 earnings to be noisy given the pending capital raise and potential TARP redemption and corresponding accelerated accretion of the discount which we peg at ~\$160,000, or \$0.05 per share. We also expect FCCO to apply to become a state chartered bank from a national bank. We estimate this would result in annual pre-tax savings of ~\$150k and would give FCCO the opportunity to be in closer contact with regulatory decision makers who can meet face-to-face and who better understand their markets.

We are maintaining our Outperform rating on shares of FCCO. Our price target of ~\$9.75 assumes shares trade at ~11x our 4Q13 annualized EPS run rate, or nearly 90% of projected tangible book value. We realize this is somewhat generous given a sub 9% return on tangible common equity.

Present Value Analysis For FCCO

Today's Date:	7/12/2012	
Year-End	12/31/2012	12/31/2013
Days Left Each Year	172	537
Discount Rate	14.0%	14.0%
Discount Factor	0.9401	0.8247

	2012E	2013E	Terminal PE	2013 Value	Present Value
GAAP EPS	\$0.73	\$0.85	11.0x	\$9.34	\$7.70
Tangible Book	\$9.88	\$10.58	0.93x	\$9.80	\$8.08

Source: FIG Partners Research

2Q12 EPS REVIEW

FCCO reported 2Q12 core profits of \$0.23 per share. Pre-Pre EPS increased 7% to \$1.7 million, or \$0.51 per share producing a 1.14% Pre Pre ROA. Tangible book declined eleven cents despite the quarterly profit reflecting a negative OCI adjustment (~\$715k).

Core revenues increased over 4% despite a decrease in top line revenue due to strength in mortgage and investment advisory lines of business. Further, lack of OTTI impairment, which was -\$200k last quarter, was also a contributing factor.

Top line revenue narrowed 1.3% despite growth in average earning assets as net interest margin contracted 6 bps to 3.30%. Contraction reflected remixing in the bond portfolio as higher yielding non agency MBS were replaced with lower risk weighted investments earning lower yields. This was done to assist with having the formal agreement lifted.

Yields on investments dropped 38 bps to 2.39% reflecting the aforementioned remixing while loan yields dropped a modest 7 bps and remain healthy at nearly 5.6%. Cost of funds improved 11 bps to 1.03% benefitting from reductions and re-pricing of CDs.

Non agency mortgage backed securities rated below investment grade have been reduced to \$1.7 million from ~\$43 million at 4Q09 representing less than 1% of the bond portfolio.

Investment Portfolio (000's)						
	4Q09	4Q10	4Q11	1Q12	2Q12	% of Assets
Total Non-Agency MBS	40.8	51.4	16.5	14.0	3.7	1%
Below I-Grade Non-Agency MBS	42.9	37.1	13.3	11.6	1.7	0%
Other Below Investment Grade	8.9	1.9	0.0	0.0	0.0	0%
Total Below Investment Grade	<u>51.7</u>	<u>39.0</u>	<u>13.3</u>	<u>11.6</u>	<u>1.7</u>	0%
Below I-Grade as % of Tot Bond Portfolio	26%	20%	6%	6%	1%	

Source: FIG Partners Research

FCCO's Non Agency MBS securities which are rated below investment grade have been reduced to \$2 million, or less than 1% of the investment portfolio.

Core expenses increased 3.3% impacted by greater mortgage production and are elevated at 3.3% of average assets. This is primarily a function of efforts to build fee based businesses and therefore not unexpected. OREO expense increased ~125% and represents 5.5% of total expense.

Loans HFI decreased an annualized 7% following two consecutive quarters of expansion. Modest organic growth is expected going forward augmented by potential external expansion as the company looks to leverage its expected capital.

Deposits dropped modestly; though mix improvements were noted paving the way for further reductions in the cost of funds. Modest growth in pure deposits was more than offset by reductions in CDs. Pure deposits account for 65% of deposits.

Nonperforming assets (including TDRs) declined nearly \$1 million to \$13.6 million, or 4.1% of loans and OREO. The pace of resolution may require an extended time as management is under no pressure to unload assets at distressed prices. 30-89 days past due declined over 25% to \$2.4 million, or 0.73% of average loans.

Special mention credits increased modestly as upgrades exceeded downgrades. Classified assets represent 34% of Tier 1 capital plus reserves. OREO represents over 35% of nonperforming assets demonstrating FCCO is effectively moving through the credit process.

Net charge offs declined to a low 0.09% of average loans; provisioning essentially matched charge offs of \$75k. Reserve coverage of NPLs is 54%, or 102% Excluding TDRs.

We expect FCCO to complete its pending capital raise sometime in 3Q12 and repay TARP with the proceeds. See our attached table for 3Q12 regulatory and GAAP capital projections.

Capital Levels & Ratio				
	2Q12		3Q12E	
Tang. Common Equity	37.3	6.24%	50.9	8.48%
Tier 1 Leverage	58.8	9.94%	62.1	10.57%
Risk Based	68.7	16.64%	69.1	18.60%
Tang. Book Value	\$11.14		\$9.72	

Source: FIG Partners Research

Our Projections assume a \$14.4mm capital raise at \$7.50 and TARP redemption at ~\$95 cents on the dollar via Treasury auction.

We estimate the payback period for TBV dilution at approximately seven quarters.

FCCO - First Community Corporation*Criticized Asset Trends - 5 Quarter Look Back*

Special Mention Credits have increased modestly the past 2 quarters as upgrades have exceeded downgrades.

	6/30/2012		3/31/2012		12/31/2011		9/30/2011		6/30/2011	
Special Mention	9,917	3.0%	8,632	2.6%	8,508	2.6%	11,278	3.4%	10,778	3.2%
Substandard	16,612	5.0%	16,807	5.0%	17,813	5.4%	17,919	5.4%	17,342	5.2%
Doubtful	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
OREO	4,909	1.5%	5,383	1.6%	7,351	2.2%	8,269	2.5%	8,972	2.7%
Total Loans	324,913		331,090		324,311		324,333		325,671	

Pass	298,384	90.5%	305,651	90.8%	297,990	89.8%	295,136	88.7%	297,551	88.9%
Criticized	31,438	9.5%	30,822	9.2%	33,672	10.2%	37,466	11.3%	37,092	11.1%
Classified Assets	21,521	6.5%	22,190	6.6%	25,164	7.6%	26,188	7.9%	26,314	7.9%
LLR	4,742	1.4%	4,745	1.4%	4,699	1.4%	4,708	1.4%	4,716	1.4%
Tier 1 Capital	58,822		57,461		56,207		54,741		53,884	
Loans + OREO	329,822		336,473		331,662		332,602		334,643	

LLR-to-Criticized	15.1%	15.4%	14.0%	12.6%	12.7%
LLR-to-Classified and OREO	17.9%	18.7%	17.9%	16.1%	16.8%

Criticized-to-Tier 1 + LLR	49.5%	49.5%	55.3%	63.0%	63.3%
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LLR-to-Classified Assets	22.0%	21.4%	18.7%	18.0%	17.9%
LLR-to-Classified and OREO	28.5%	28.2%	26.4%	26.3%	27.2%

Classified-to-Tier 1 + LLR	33.9%	35.7%	41.3%	44.1%	44.9%
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Source: FIG Partners Research, FCCO 10-Q filings.

Classified Assets have declined nearly 20% over the LTM reducing the Classified Ratio to 34%.

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 interest rates and/or a flattening yield curve; and (3) potential for rising credit costs in light of further growth in unemployment.

First Community Corporation (FCCO)

Updated on 7/13/2012

Earnings Model

	Annual			2011 Quarterly				2012 Quarterly				2013 Quarterly			
	2011A	2012E	2013E	1Q11A	2Q11A	3Q11A	4Q11A	1Q12A	2Q12A	3Q12E	4Q12E	1Q13E	2Q13E	3Q13E	4Q13E
Income Data: (\$ in Millions)															
Net Interest Income	\$18.3	\$18.0	\$18.2	\$4.5	\$4.6	\$4.6	\$4.6	\$4.5	\$4.5	\$4.5	\$4.5	\$4.4	\$4.5	\$4.6	\$4.6
Loan Loss Provision	\$1.4	\$0.8	\$1.0	\$0.4	\$0.4	\$0.4	\$0.3	\$0.2	\$0.1	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3
Non-Interest Income	\$6.5	\$7.3	\$7.6	\$1.3	\$1.4	\$1.8	\$2.0	\$1.8	\$1.9	\$1.8	\$1.8	\$1.9	\$1.9	\$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	\$0.0	\$0.0	\$0.0
Gain/Loss on Securities	(\$0.0)	(\$0.3)	\$0.0	\$0.1	\$0.0	(\$0.1)	(\$0.1)	(\$0.3)	(\$0.0)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
One-Time Items	(\$0.1)	\$0.0	\$0.0	\$0.0	(\$0.1)	\$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	\$18.9	\$18.5	\$4.8	\$4.5	\$4.6	\$4.6	\$4.6	\$4.9	\$4.7	\$4.6	\$4.7	\$4.6	\$4.6	\$4.6
Pre-Tax Income	\$4.8	\$5.3	\$6.4	\$0.8	\$1.0	\$1.4	\$1.6	\$1.1	\$1.3	\$1.4	\$1.5	\$1.4	\$1.6	\$1.7	\$1.7
Taxes	\$1.5	\$1.6	\$1.9	\$0.2	\$0.3	\$0.4	\$0.5	\$0.3	\$0.4	\$0.4	\$0.5	\$0.4	\$0.5	\$0.5	\$0.5
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	\$0.0	\$0.0	\$0.0
Net Income	\$3.3	\$3.7	\$4.5	\$0.6	\$0.7	\$1.0	\$1.1	\$0.8	\$0.9	\$0.9	\$1.0	\$1.0	\$1.1	\$1.2	\$1.2
Preferred Dividend	\$0.7	\$0.7	\$0.0	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.3	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Net Income Avail. To Common	\$2.6	\$3.0	\$4.5	\$0.4	\$0.6	\$0.8	\$0.9	\$0.6	\$0.8	\$0.6	\$1.0	\$1.0	\$1.1	\$1.2	\$1.2
Avg. Shares O/S	3.3	4.2	5.2	3.3	3.3	3.3	3.3	3.3	3.4	4.8	5.2	5.2	5.2	5.2	5.2
Earnings Per Share (EPS)	\$0.81	\$0.73	\$0.85	\$0.12	\$0.17	\$0.24	\$0.27	\$0.19	\$0.23	\$0.13	\$0.20	\$0.19	\$0.21	\$0.23	\$0.22
Per Share Data:															
Reported Book Value	\$11.13	\$10.03	\$10.72	\$9.61	\$10.02	\$10.77	\$11.13	\$11.52	\$11.39	\$9.87	\$10.03	\$10.18	\$10.35	\$10.54	\$10.72
Tangible Book Value	\$10.90	\$9.88	\$10.58	\$9.39	\$9.85	\$10.53	\$10.90	\$11.25	\$11.14	\$9.72	\$9.88	\$10.03	\$10.20	\$10.39	\$10.58
Dividends	\$0.16	\$0.16	\$0.16	\$0.04	\$0.04	\$0.04	\$0.04	\$0.04	\$0.04	\$0.04	\$0.04	\$0.04	\$0.04	\$0.04	\$0.04
Pre-Tax, Pre-Provision EPS	\$1.94	\$1.54	\$1.41	\$0.42	\$0.48	\$0.55	\$0.57	\$0.48	\$0.51	\$0.36	\$0.35	\$0.33	\$0.37	\$0.38	\$0.38
CORE GAAP EPS	\$0.84	\$0.81	\$0.85	\$0.10	\$0.19	\$0.26	\$0.29	\$0.25	\$0.23	\$0.13	\$0.20	\$0.19	\$0.21	\$0.23	\$0.22
KEY Ratios:															
Net Interest Margin	3.34%	3.31%	3.26%	3.30%	3.37%	3.37%	3.32%	3.36%	3.30%	3.28%	3.28%	3.27%	3.26%	3.25%	3.24%
Return on Avg Assets	0.55%	0.62%	0.72%	0.38%	0.48%	0.63%	0.71%	0.54%	0.62%	0.63%	0.68%	0.65%	0.73%	0.76%	0.74%
Return on Avg Equity	8.10%	7.07%	8.21%	5.18%	6.94%	9.17%	10.86%	6.86%	8.00%	5.54%	7.88%	7.46%	8.37%	8.65%	8.34%
Pre-Tax Pre-Provision ROA	1.05%	1.07%	1.20%	0.91%	1.03%	1.21%	1.25%	1.07%	1.14%	1.15%	1.23%	1.14%	1.26%	1.30%	1.28%
Efficiency Ratio	72.27%	73.77%	70.66%	79.54%	71.84%	68.71%	69.48%	72.70%	75.78%	72.97%	71.27%	72.20%	69.75%	68.88%	69.06%
Overhead Ratio	3.06%	3.14%	3.00%	3.17%	2.96%	3.02%	3.07%	3.11%	3.28%	3.13%	3.06%	3.07%	3.00%	2.97%	2.94%
TCE/TA	6.07%	8.55%	9.02%	5.07%	5.34%	5.74%	6.07%	6.20%	6.24%	8.48%	8.55%	8.81%	8.88%	8.95%	9.02%
TCE/RWA	10.22%	13.82%	14.33%	8.13%	8.72%	9.43%	10.22%	10.18%	10.09%	13.70%	13.82%	14.00%	14.11%	14.22%	14.33%
Period-End Balances: (\$ in Millions)															
Earning Assets	\$540	\$556	\$564	\$546	\$544	\$547	\$540	\$552	\$549	\$552	\$556	\$547	\$553	\$558	\$564
Total Assets	\$594	\$606	\$615	\$607	\$605	\$607	\$594	\$602	\$598	\$601	\$606	\$597	\$603	\$609	\$615
Risk-Weighted Assets	\$352	\$374	\$387	\$378	\$370	\$369	\$352	\$366	\$370	\$371	\$374	\$375	\$379	\$383	\$387
Gross Loans	\$328	\$333	\$344	\$334	\$326	\$329	\$328	\$335	\$329	\$331	\$333	\$334	\$338	\$341	\$344
Total Deposits	\$465	\$484	\$501	\$466	\$471	\$473	\$465	\$477	\$474	\$479	\$484	\$486	\$491	\$496	\$501
Intangibles	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1
Total Common Equity	\$37	\$53	\$56	\$31	\$33	\$36	\$37	\$38	\$38	\$52	\$53	\$53	\$54	\$55	\$56

Source: FIG Partners Research, SNL Financial LLC

FIG Partners LLC Distribution of Ratings

	Buy/Outperform	Hold/Market-Perform	Sell/Underperform
% Rated	50.5%	43.3%	6.2%
IB Client % in Category	30.6%	19.0%	0.0%

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