

Company Update

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FCCO: \$8.65
“Outperform”
Price Target: \$10.00

Summary Statistics

Exchange	NASDAQ
Market Cap (\$M)	45.8
Avg. Volume	9,796
Annual Dividend	\$0.16
Dividend Yield	1.8%
Tangible Book/Share	\$10.10
Price/Tangible Book	86%
Price/2012 EPS	10.7x
Price/2013 EPS	10.3x
Total Assets (\$M)	\$606.3
TCE/TA	13.1%
ROAE (2013)	7.9%
ROAA (2013)	0.71%

EPS Estimates

	2010	2011	2012	2013
Q1	\$0.13	\$0.12	\$0.19	\$0.21
Q2	\$0.10	\$0.17	\$0.23	\$0.21
Q3	\$0.07	\$0.24	\$0.19	\$0.21
Q4	\$0.06	\$0.27	\$0.20	\$0.21
FY	\$0.36	\$0.81	\$0.81	\$0.84

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

First Community Corporation

*Well Positioned for Growth Following New Capital & Tarp Exit;
Maintain “Outperform” Rating*

- FCCO posted 3Q12 EPS of \$0.19 with core EPS of \$0.23 excluding nonrecurring costs associated with the TARP exit. Pre-Tax Pre-Provision earnings increased 24% to \$2.1 million producing a 1.4% Pre Pre ROA.
- A key positive in the quarter was the \$525,000 or 58% surge in mortgage banking income which led to a 30% increase in fee income. This more than offset the \$122,000 decline in top line revenue leading to a 7% increase in core revenues.
- Top line was negatively impacted by 18 bps of NIM contraction to 3.12% as pressure on asset yields and loan shrinkage more than offset further reductions in the cost of funds to 96 bps. Loan yields declined 11 bps to 5.48% with securities falling a greater 33 bps to 2.06%. Excess liquidity from the capital raise also clipped margin by 6 bps. The redemption of \$2.5 million in 8.75% sub debt in 4th quarter will benefit NIM.
- Loan balances declined ~\$2 million while excess liquidity was deployed into the bond portfolio. Deposit balances were unchanged though mix improvements continued to be noted with pure deposits increasing \$5 million to 66% of total deposits.
- Core expenses held stable at \$4.6 million and represents 3.0% of average assets. Lower regulatory costs along with modest growth could drive a sub 3% ratio.
- We are maintaining our “Outperform” rating on shares of FCCO. Our price target of \$10 assumes shares trade at 11.75x our 2013 EPS estimate, or ~92% of projected tangible book value per shares.

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

Following the termination of its formal regulatory agreement and successful capital raise and exit from TARP; FCCO is well positioned to capitalize on growth opportunities. Given the current economic landscape this will almost certainly entail a combination of organic and external growth. Notably, many of its fellow South Carolina peers are unable to participate in M&A at the moment given ongoing credit problems and regulatory constraints. We estimate FCCO could add approximately \$150 million in new assets and still maintain a 7% TCE ratio.

We estimate there are roughly 30 banks less than \$200 million in assets across their SC footprint. We expect management to be very selective on the deal front such that any transaction would be 1) immediately accretive to EPS and 2) result in minimum dilution to tangible book value with a pay-

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.

Investment Portfolio (000's)							
	4Q09	4Q10	4Q11	1Q12	2Q12	3Q12	% of Assets
Total Non-Agency MBS	40.8	51.4	16.5	14.0	3.7	3.7	1%
Below I-Grade Non-Agency MBS	42.9	37.1	13.3	11.6	1.7	1.7	0%
Other Below Investment Grade	8.9	1.9	0.0	0.0	0.0	0.0	0%
Total Below Investment Grade	51.7	39.0	13.3	11.6	1.7	1.7	0%
Below I-Grade as % of Tot Bond Portfolio	26%	20%	6%	6%	1%	1%	

Source: FIG Partners Research, and FCCO 3Q12 Earnings Release

back period of three years or less. We do not see the company's discount valuation as a hurdle to getting a deal done considering many banks in the state are trading at lower relative valuation. Further, we expect FCCO's valuation to improve given recent events and our improving profit forecast. In our view, the recent shift to a state regulated bank does not impact its ability to receive regulatory approval on an M&A transaction.

Modest organic growth is expected as loan demand remains soft. We are modeling low to low single digit loan growth in 2013 with funding attributed to the investment portfolio which accounts for a lofty 35% of assets. A reduction in excess liquidity and pending repayment of higher priced sub debt should boost 4th quarter margin. However, ongoing pressure on asset yields is expected to more than offset its ability to lower funding costs (CD rates) thereafter resulting in modest margin contraction. FCCO's average CD rate is higher than peer reflecting a longer duration. To the extent loan growth does not materialize, we would not be surprised to see FCCO look to prepay some of its FHLB advances.

Capital levels reflect successful equity raise and TARP exit.

Capital Levels & Ratio				
	2Q12		3Q12	
Tang. Common Equity	37.3	6.24%	52.7	8.71%
Tier 1 Leverage	58.8	9.94%	58.8	5.04%
Risk Based	68.7	16.64%	58.1	13.55%
Tang. Book Value	\$11.14		\$10.10	



We expect mortgage revenues to remain elevated over the next several quarters and gradually decrease thereafter. From an expense standpoint, the recent shift to a state regulated institution results in annual savings of \$170,000 some of which was realized in third quarter. The termination of its formal agreement results in additional savings of \$280,000 annually.

Our 4Q12 and full year 2013 EPS estimates of \$0.20 and \$0.85 are unchanged as greater than expected NIM compression is offset by lower provisioning and slightly greater fee income. Our modeling calls for provisioning to hold stable in 2013 despite our outlook for improving credit trends and a large unallocated reserve. We believe it is prudent to maintain reserves at or near current levels (1.45%) rather than draw them down and have to rebuild them following an acquisition.

We are maintaining our “Outperform” rating on shares of FCCO. Our price target of \$10 assumes shares trade at 11.75x our 2013 EPS estimate, or ~92% of projected tangible book value per shares.

3Q12 EPS Review

FCCO posted 3Q12 EPS of \$0.19 with core EPS of \$0.23 excluding nonrecurring costs associated with the TARP exit. Pre-Tax Pre-Provision earnings increased 24% to \$2.1 million producing a 1.4% Pre Pre ROA.

A key positive in the quarter was the \$525,000 or 58% surge in mortgage banking income which led to a 30% increase in fee income. This more than offset the \$122,000 decline in top line revenue leading to a 7% increase in core revenues.

Top line was negatively impacted by 18 bps of NIM contraction to 3.12% as pressure on asset yields and loan shrinkage more than offset further reductions in the cost of funds to 96 bps. Loan yields declined 11 bps to 5.48% with securities falling a greater 33 bps to 2.06%. Excess liquidity from the capital raise also clipped margin by 6 bps. The redemption of \$2.5 million in 8.75% sub debt in 4th quarter will benefit NIM.

Loan balances declined ~\$2 million while excess liquidity was deployed into the bond portfolio. Deposit balances were unchanged though mix improvements continued to be noted with pure deposits increasing \$5 million to 66% of total deposits.

Core expenses held stable at \$4.6 million and represents 3.0% of average assets. Lower regulatory costs along with modest growth could drive a sub 3% ratio.

Total credit costs, inclusive of provision and OREO expense, declined 15% to ~\$288,000 despite modest deterioration in credit underscored by a 6% and 7%, increase in classifieds assets and NPAs, respectively. Three new nonaccrual credits more than offset transfers to OREO, leading to the uptick in NPAs to \$14.6 million, or 4.33% of loans & OREO.

The classified ratio was largely unchanged at 33%. Special mention credits decreased 14% to \$8.6 million reflecting both upgrades and downgrades. 30-89 days past due increased \$1 million to 1% of loans. Net charge offs were modest at 19bps of average loans.

TCE expanded 250 bps to 8.71% following the \$13.9 million capital raise with TBV dropping ~\$1.00 per share to \$10.10 given the additional shares.



FCCO- First Community Corporation

Criticized Asset Trends - 5 Quarter Look Back

	<u>9/30/2012</u>		<u>6/30/2012</u>		<u>3/31/2012</u>		<u>12/31/2011</u>		<u>9/30/2011</u>	
Special Mention	8,539	2.6%	9,917	3.0%	8,632	2.6%	8,508	2.6%	11,278	3.4%
Substandard	17,160	5.2%	16,612	5.0%	16,807	5.0%	17,813	5.4%	17,919	5.4%
Doubtful	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
OREO	5,570	1.7%	4,909	1.5%	5,383	1.6%	7,351	2.2%	8,269	2.5%
Total Loans	323,534		324,913		331,090		324,311		324,333	
Pass	292,265	88.8%	293,475	89.0%	300,268	89.2%	290,639	87.6%	286,867	86.2%
Criticized	31,269	9.5%	31,438	9.5%	30,822	9.2%	33,672	10.2%	37,466	11.3%
Classified	22,730	6.9%	21,521	6.5%	22,190	6.6%	25,164	7.6%	26,188	7.9%
LLR	4,695	1.4%	4,742	1.4%	4,745	1.4%	4,699	1.4%	4,708	1.4%
Tier 1 Capital	63,860		58,822		57,461		56,207		54,741	
Loans + OREO	329,104		329,822		336,473		331,662		332,602	
LLR-to-Criticized		15.0%		15.1%		15.4%		14.0%		12.6%
LLR-to-Criticized sans OREO		18.3%		17.9%		18.7%		17.9%		16.1%
Criticized-to-Tier 1 + LLR		45.6%		49.5%		49.5%		55.3%		63.0%
LLR-to-Classified		20.7%		22.0%		21.4%		18.7%		18.0%
LLR-to-Classified sans OREO		27.4%		28.5%		28.2%		26.4%		26.3%
Classified-to-Tier 1 + LLR		33.2%		33.9%		35.7%		41.3%		44.1%

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 10/19/2012

Earnings Model

	Annual			2011 Quarterly				2012 Quarterly				2013 Quarterly			
	2011A	2012E	2013E	1Q11A	2Q11A	3Q11A	4Q11A	1Q12A	2Q12A	3Q12A	4Q12E	1Q13E	2Q13E	3Q13E	4Q13E
Income Data: (\$ in Millions)															
Net Interest Income	\$18.3	\$17.8	\$17.9	\$4.5	\$4.6	\$4.6	\$4.6	\$4.5	\$4.5	\$4.3	\$4.5	\$4.4	\$4.5	\$4.5	\$4.5
Loan Loss Provision	\$1.4	\$0.6	\$0.6	\$0.4	\$0.4	\$0.4	\$0.3	\$0.2	\$0.1	\$0.1	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2
Non-Interest Income	\$6.5	\$7.9	\$7.7	\$1.3	\$1.4	\$1.8	\$2.0	\$1.8	\$1.9	\$2.4	\$1.8	\$2.0	\$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)	(\$0.4)	\$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	\$19.0	\$18.6	\$4.8	\$4.5	\$4.6	\$4.6	\$4.6	\$4.9	\$4.8	\$4.7	\$4.7	\$4.6	\$4.6	\$4.6
Pre-Tax Income	\$4.8	\$5.8	\$6.4	\$0.8	\$1.0	\$1.4	\$1.6	\$1.1	\$1.3	\$1.8	\$1.5	\$1.6	\$1.6	\$1.6	\$1.6
Taxes	\$1.5	\$1.8	\$2.0	\$0.2	\$0.3	\$0.4	\$0.5	\$0.3	\$0.4	\$0.6	\$0.5	\$0.5	\$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	\$4.0	\$4.4	\$0.6	\$0.7	\$1.0	\$1.1	\$0.8	\$0.9	\$1.2	\$1.0	\$1.1	\$1.1	\$1.1	\$1.1
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	\$3.3	\$4.4	\$0.4	\$0.6	\$0.8	\$0.9	\$0.6	\$0.8	\$0.9	\$1.0	\$1.1	\$1.1	\$1.1	\$1.1
Avg. Shares O/S	3.3	4.2	5.2	3.3	3.3	3.3	3.3	3.3	3.4	4.7	5.2	5.2	5.2	5.2	5.2
Earnings Per Share (EPS)	\$0.81	\$0.79	\$0.85	\$0.12	\$0.17	\$0.24	\$0.27	\$0.19	\$0.23	\$0.19	\$0.20	\$0.21	\$0.21	\$0.21	\$0.21
Per Share Data:															
Reported Book Value	\$11.13	\$10.40	\$11.09	\$9.61	\$10.02	\$10.77	\$11.13	\$11.52	\$11.39	\$10.25	\$10.40	\$10.57	\$10.75	\$10.92	\$11.09
Tangible Book Value	\$10.90	\$10.26	\$10.95	\$9.39	\$9.85	\$10.53	\$10.90	\$11.25	\$11.14	\$10.10	\$10.26	\$10.43	\$10.61	\$10.78	\$10.95
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	\$1.61	\$1.34	\$0.42	\$0.48	\$0.55	\$0.57	\$0.48	\$0.51	\$0.45	\$0.34	\$0.36	\$0.37	\$0.36	\$0.36
CORE GAAP EPS	\$0.84	\$0.87	\$0.85	\$0.10	\$0.19	\$0.26	\$0.29	\$0.25	\$0.23	\$0.19	\$0.20	\$0.21	\$0.21	\$0.21	\$0.21
KEY Ratios:															
Net Interest Margin	3.34%	3.24%	3.14%	3.30%	3.37%	3.37%	3.32%	3.36%	3.30%	3.12%	3.18%	3.16%	3.15%	3.13%	3.12%
Return on Avg Assets	0.55%	0.66%	0.71%	0.38%	0.48%	0.63%	0.71%	0.54%	0.62%	0.80%	0.67%	0.72%	0.72%	0.71%	0.70%
Return on Avg Equity	8.10%	7.43%	7.87%	5.18%	6.94%	9.17%	10.86%	6.86%	8.00%	7.22%	7.61%	8.06%	8.04%	7.77%	7.64%
Pre-Tax Pre-Provision ROA	1.05%	1.11%	1.13%	0.91%	1.03%	1.21%	1.25%	1.07%	1.14%	1.39%	1.18%	1.23%	1.24%	1.21%	1.22%
Efficiency Ratio	72.27%	73.19%	71.79%	79.54%	71.84%	68.71%	69.48%	72.70%	75.78%	70.46%	72.97%	72.01%	71.48%	71.76%	71.62%
Overhead Ratio	3.08%	3.15%	3.00%	3.17%	2.96%	3.02%	3.07%	3.11%	3.28%	3.16%	3.05%	3.06%	3.00%	2.98%	2.97%
TCE/TA	6.07%	8.83%	9.39%	5.07%	5.34%	5.74%	6.07%	6.20%	6.24%	8.71%	8.83%	9.08%	9.19%	9.29%	9.39%
TCE/RWA	10.22%	15.02%	15.72%	8.13%	8.72%	9.43%	10.22%	10.18%	10.09%	14.82%	15.02%	15.20%	15.38%	15.55%	15.72%
Period-End Balances: (\$ in Millions)															
Earning Assets	\$540	\$559	\$560	\$546	\$544	\$547	\$540	\$552	\$549	\$557	\$559	\$552	\$554	\$557	\$560
Total Assets	\$594	\$608	\$610	\$607	\$605	\$607	\$594	\$602	\$598	\$606	\$608	\$601	\$604	\$607	\$610
Risk-Weighted Assets	\$352	\$357	\$364	\$378	\$370	\$369	\$352	\$366	\$370	\$356	\$357	\$358	\$360	\$362	\$364
Gross Loans	\$328	\$332	\$342	\$334	\$326	\$329	\$328	\$335	\$329	\$332	\$332	\$335	\$337	\$340	\$342
Total Deposits	\$465	\$476	\$482	\$466	\$471	\$473	\$465	\$477	\$474	\$474	\$476	\$478	\$479	\$480	\$482
Intangibles	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1
Total Common Equity	\$37	\$54	\$58	\$31	\$33	\$36	\$37	\$38	\$38	\$54	\$54	\$55	\$56	\$57	\$58

Source: FIG Partners Research, SNL Financial LLC



Compliance

FIG Partners LLC Distribution of Ratings

	Buy/Outperform	Hold/Market-Perform	Sell/Underperform
% Rated	35.4%	58.6%	6.1%
IB Client % in Category	31.4%	20.7%	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
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- No employee of the investment banking department has reviewed or approved this report prior to publication
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