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*Ideas and Execution on Financial Institutions*

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## FCCO—First Community Corporation

### Modest Capital Raise Allows For Optimization of TARP Repayment. Maintain “Outperform”.

#### OVERVIEW

FCCO ended 2011 on a high note, producing core profits of \$0.23 per share. Significant revenue improvements, lower credit costs, and improved efficiencies have allowed the company to expand its core earnings run rate over 150% from first quarter’s level. Much of the revenue improvement stems from the contributions of its mortgage banking and wealth management lines of business. The mortgage operation has benefitted from the rate environment as well as its July acquisition of Palmetto South Mortgage Corporation, a residential mortgage business based in Columbia, South Carolina.

Capital levels have continued to build and the tangible common equity ratio now exceeds 6% for the first time in 14 quarters. In addition, regulatory capital levels were boosted in late December via the issuance of \$2.5mm in subordinated notes which resolved parent company liquidity issues. FCCO now has the opportunity to optimize how they repay TARP given lack of credit problems. We think this decision could involve a discount price given the evolving plans of the US Treasury Department to cease the program before the Fall 2012 Elections.

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<div style="display: flex; justify-content: space-between;"> <div style="width: 50%;"> <p>FCCO (First Community Corporation (Sc)) Nasdaq CM 20-Jan-2012 Op 7.20 Hi 7.24 Lo 7.15 Cl 7.17 Vol 2,824 Chg +0.07 (+0.99%) ▲</p> </div> <div style="width: 45%; border-left: 1px solid black; padding-left: 5px;"> <p style="text-align: center;"><b>ESTIMATES</b></p> <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th></th> <th>2010</th> <th>2011</th> <th>2012</th> <th>2013</th> </tr> </thead> <tbody> <tr> <td>Q1</td> <td>\$0.13</td> <td>\$0.12</td> <td>\$0.17</td> <td>\$0.14</td> </tr> <tr> <td>Q2</td> <td>\$0.10</td> <td>\$0.17</td> <td>\$0.16</td> <td>\$0.18</td> </tr> <tr> <td>Q3</td> <td>\$0.07</td> <td>\$0.24</td> <td>\$0.17</td> <td>\$0.20</td> </tr> <tr> <td>Q4</td> <td><u>\$0.07</u></td> <td><u>\$0.27</u></td> <td><u>\$0.18</u></td> <td><u>\$0.18</u></td> </tr> <tr> <td><b>FY</b></td> <td><b>\$0.37</b></td> <td><b>\$0.75</b></td> <td><b>\$0.68</b></td> <td><b>\$0.71</b></td> </tr> <tr> <td>P/E</td> <td>19.5x</td> <td>9.6x</td> <td>10.5x</td> <td>10.2x</td> </tr> </tbody> </table> <table border="1" style="width: 100%; border-collapse: collapse; text-align: center; margin-top: 5px;"> <thead> <tr> <th></th> <th>2012</th> <th>2013</th> </tr> </thead> <tbody> <tr> <td><b>Tangible Book per Share:</b></td> <td><b>\$9.89</b></td> <td><b>\$10.45</b></td> </tr> <tr> <td><b>Pre-Tax Pre-Provision EPS:</b></td> <td><b>\$1.71</b></td> <td><b>\$1.29</b></td> </tr> <tr> <td><b>Pre-Pre ROAA</b></td> <td><b>0.93%</b></td> <td><b>1.04%</b></td> </tr> </tbody> </table> </div> </div> <p style="text-align: right; margin-top: 10px;"><b>Implied Gain/Loss versus Current Price: 15.0%</b></p>					2010	2011	2012	2013	Q1	\$0.13	\$0.12	\$0.17	\$0.14	Q2	\$0.10	\$0.17	\$0.16	\$0.18	Q3	\$0.07	\$0.24	\$0.17	\$0.20	Q4	<u>\$0.07</u>	<u>\$0.27</u>	<u>\$0.18</u>	<u>\$0.18</u>	<b>FY</b>	<b>\$0.37</b>	<b>\$0.75</b>	<b>\$0.68</b>	<b>\$0.71</b>	P/E	19.5x	9.6x	10.5x	10.2x		2012	2013	<b>Tangible Book per Share:</b>	<b>\$9.89</b>	<b>\$10.45</b>	<b>Pre-Tax Pre-Provision EPS:</b>	<b>\$1.71</b>	<b>\$1.29</b>	<b>Pre-Pre ROAA</b>	<b>0.93%</b>	<b>1.04%</b>		
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*Please see important disclosures regarding FIG Partners’ equity rating system, distribution of ratings, and other report disclosures on the last page of this report.*

Our forecast calls for TARP repayment in 4Q-2012 given our belief FCCO's valuation will lift as credit and earnings continue to improve. Further, we believe there is a good chance FCCO will be successful in having its formal agreement with the regulators lifted following their next exam, which begins mid 2012. Special mention and classified assets both declined this quarter with a classified ratio of 41%, below levels concerning to regulators.

Our modeling incorporates a \$12mm capital raise at December 31, 2012 to repay TARP at \$7.50 per share. Under this forecast, the Tangible Common Equity ratio and Tangible Book Value per share move to ~8.0% and \$9.90, respectively. The Tier 1 Leverage ratio would exceed 9.5% following repayment, in line with the average TARP repayer.

We are maintaining our "Outperform" rating on shares of FCCO. Our one year price target of just over \$8.00 assumes shares trade at ~11.5x our 2013 EPS estimate of \$0.71, which factors in a higher share count to permit TARP repayment. This still pegs future value ~12% ahead of the current stock price.

### Our Present Value Analysis on FCCO Shares

Today's Date:	1/22/2012		
Year-End	12/31/2011	12/31/2012	12/31/2013
Days Left Each Year	-22	344	709
Discount Rate	14.0%	14.0%	14.0%
Discount Factor	1.0079	0.8838	0.7753

	<u>2011E</u>	<u>2012E</u>	<u>2013E</u>	<u>Terminal PE</u>	<u>2013 Value</u>	<u>Present Value</u>
<b>Tangible Book</b>	\$10.90	\$9.89	\$10.45	<b>0.79x</b>	\$8.25	<b>\$7.29</b>
<b>GAAP EPS Run-Rate</b>	\$1.09	\$0.68	\$0.71	<b>11.5x</b>	\$8.25	<b>\$7.29</b>

Source: FIG Partners Research

### 4Q11 EPS REVIEW

- FCCO reported 4Q profits of \$0.27 per share. Pre Pre EPS were \$0.51 while Pre Pre ROA was 2.2%. Tangible book value rose to \$10.89, up \$0.36 linked quarter.
- Core revenues expanded 1% due entirely to a 5% increase in fee income as spread revenue was mostly unchanged. Mortgage revenues expanded nicely along with a jump in "other" income, partially offset by jump in OTTI expense.
- NIM-Net interest margin declined 5bps to 3.32%. Earning asset yields dropped 15bps, with Loan yields -14bps and Securities off by 26bps. Cost of funds improved by 10bps, though remains somewhat high at 1.17%. NIM is expected to slip modestly in 2012.
- Operating expense increased modestly, though remain elevated at just over 3% of average assets. This is primarily a function of efforts to build fee based businesses and therefore not unexpected. OREO expense increased 50% linked quarter and accounts for 4% of total expense.
- Loan balances held stable as demand remains tepid and FCCO has been focused on controlling the size of its balance sheet. Excellent progress has been made on reducing levels of non core funding. Pure deposits increased 10% in 2011 while CDs are down a similar amount.
- Nonperforming assets (including TDRs) declined \$1.2mm to \$16.8mm, or ~5% of loans & OREO. Resolution of NPAs is expected to take time as management is under no pressure to unload assets at distressed prices.
- Special mention dropped \$2.8mm, or 25% linked quarter, to \$8.5mm, or 2.6% of loans. Classifieds represent 41% of Tier 1 plus reserves and could approach 35% by year end. Classified loans represent 5.5% of loans.
- FCCO is effectively moving through the credit process as OREO represents nearly 45% of nonperforming assets.
- Net charge offs were slightly lower at only \$319k, or 0.40% of average loans, and were matched with a nearly equal level of provisioning. Reserve coverage of nonperforming loans is 50%.

**Investment Portfolio (000's)**

	4Q09	4Q10	1Q11	2Q11	3Q11	4Q11	% of Assets
Total Non-Agency MBS	40.8	51.4	23.5	18.4	17.7	16.5	3%
Below I-Grade Non-Agency MBS	42.9	37.1	19.1	14.5	14.0	13.3	2%
Other Below Investment Grade	8.9	1.9	1.9	1.9	1.0	0.0	0%
<b>Total Below Investment Grade</b>	<b>51.7</b>	<b>39.0</b>	<b>21.0</b>	<b>16.4</b>	<b>15.0</b>	<b>17.3</b>	<b>3%</b>
<b>Below I-Grade to Total Portfolio</b>	<b>26%</b>	<b>20%</b>	<b>11%</b>	<b>8%</b>	<b>7%</b>	<b>6%</b>	

FCCO had reduced its below investment grade securities nearly \$35mm, or ~66% since 4Q09 to 6% of securities from 26% earlier.

Source: FIG Partners Research

**FCCO - First Community Corporation**

Criticized Asset Trends - 4 Quarter Look Back

	12/31/2011	9/30/2011	6/30/2011	3/31/2011	12/30/2010
Special Mention	8,508 2.5%	11,278 3.3%	10,778 3.2%	9,510 2.8%	8,608 2.6%
Substandard	17,813 5.3%	17,919 5.3%	17,342 5.2%	19,769 5.8%	21,920 6.5%
Doubtful	0 0.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%
OREO	7,351 2.2%	8,269 2.4%	8,972 2.7%	7,903 2.3%	6,904 2.0%
Total Loans	328,026	329,428	326,296	334,166	329,954
Pass	294,354 87.8%	291,962 86.5%	289,204 86.3%	296,984 86.8%	292,522 86.8%
Criticized	33,672 10.0%	37,466 11.1%	37,092 11.1%	37,182 10.9%	37,432 11.1%
Classified Assets	25,164 7.5%	26,188 7.8%	26,314 7.8%	27,672 8.1%	28,824 8.6%
LLR	4,699 1.4%	4,708 1.4%	4,716 1.4%	4,655 1.4%	4,911 1.5%
Tier 1 Capital	56,207	54,741	53,884	52,935	53,252
Loans + OREO	335,377	337,697	335,268	342,069	336,858
LLR-to-Criticized	14.0%	12.6%	12.7%	12.5%	13.1%
LLR-to-Classified and OREO	17.9%	16.1%	16.8%	15.9%	16.1%
Criticized-to-Tier 1 + LLR	55.3%	63.0%	63.3%	64.6%	64.4%
LLR-to-Classified Assets	18.7%	18.0%	17.9%	16.8%	17.0%
LLR-to-Classified and OREO	26.4%	26.3%	27.2%	23.5%	22.4%
Classified-to-Tier 1 + LLR	41.3%	44.1%	44.9%	48.1%	49.6%

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

Classified Loans have declined nearly 20% since year end reducing the Classified Ratio to 41%.

**BACKGROUND & RISKS**

Headquartered in Lexington, South Carolina, FCCO is a ~\$600 million 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.

Earnings Model

	Annual			2011 Quarterly			2012 Quarterly			2013 Quarterly					
	2011A	2012E	2013E	1Q11A	2Q11A	3Q11A	4Q11A	1Q12E	2Q12E	3Q12E	4Q12E	1Q13E	2Q13E	3Q13E	4Q13E
Income Data: (\$ in Millions)															
Net Interest Income	\$18.3	\$18.3	\$18.7	\$4.5	\$4.6	\$4.6	\$4.6	\$4.5	\$4.6	\$4.6	\$4.6	\$4.5	\$4.6	\$4.7	\$4.8
Loan Loss Provision	\$1.4	\$1.4	\$1.3	\$0.4	\$0.4	\$0.4	\$0.3	\$0.4	\$0.4	\$0.4	\$0.4	\$0.3	\$0.3	\$0.3	\$0.3
Non-Interest Income	\$6.5	\$6.7	\$7.7	\$1.3	\$1.4	\$1.8	\$2.0	\$1.7	\$1.6	\$1.6	\$1.6	\$1.9	\$2.0	\$2.0	\$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)	\$0.0	\$0.0	\$0.1	\$0.0	(\$0.1)	(\$0.1)	\$0.0	\$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	\$18.4	\$19.3	\$20.0	\$4.8	\$4.5	\$4.6	\$4.6	\$4.8	\$4.8	\$4.8	\$4.8	\$5.0	\$5.0	\$5.0	\$5.0
Pre-Tax Income	\$4.8	\$4.3	\$5.0	\$0.8	\$1.0	\$1.4	\$1.6	\$1.1	\$1.0	\$1.1	\$1.1	\$1.0	\$1.3	\$1.4	\$1.3
Taxes	\$1.5	\$1.3	\$1.6	\$0.2	\$0.3	\$0.4	\$0.5	\$0.3	\$0.3	\$0.3	\$0.4	\$0.3	\$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	\$0.0	\$0.0	\$0.0
Net Income	\$3.3	\$2.9	\$3.5	\$0.6	\$0.7	\$1.0	\$1.1	\$0.7	\$0.7	\$0.7	\$0.7	\$0.7	\$0.9	\$1.0	\$0.9
Preferred Dividend	\$0.7	\$0.7	\$0.0	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.0	\$0.0	\$0.0	\$0.0
Net Income Avail. To Common	\$2.7	\$2.3	\$3.5	\$0.4	\$0.6	\$0.8	\$0.9	\$0.6	\$0.5	\$0.6	\$0.6	\$0.7	\$0.9	\$1.0	\$0.9
Avg. Shares O/S	3.3	3.3	4.9	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	4.9	4.9	4.9	4.9
<b>Earnings Per Share (EPS)</b>	<b>\$0.81</b>	<b>\$0.68</b>	<b>\$0.71</b>	<b>\$0.12</b>	<b>\$0.17</b>	<b>\$0.24</b>	<b>\$0.27</b>	<b>\$0.17</b>	<b>\$0.16</b>	<b>\$0.17</b>	<b>\$0.18</b>	<b>\$0.14</b>	<b>\$0.18</b>	<b>\$0.20</b>	<b>\$0.18</b>
Per Share Data:															
Reported Book Value	\$11.13	\$10.04	\$10.58	\$9.61	\$10.02	\$10.77	\$11.13	\$11.21	\$11.28	\$11.36	\$10.04	\$10.14	\$10.28	\$10.44	\$10.58
<b>Tangible Book Value</b>	<b>\$10.90</b>	<b>\$9.89</b>	<b>\$10.45</b>	<b>\$9.39</b>	<b>\$9.85</b>	<b>\$10.53</b>	<b>\$10.90</b>	<b>\$10.98</b>	<b>\$11.06</b>	<b>\$11.14</b>	<b>\$9.89</b>	<b>\$10.00</b>	<b>\$10.14</b>	<b>\$10.30</b>	<b>\$10.45</b>
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
<b>Pre-Tax, Pre-Provision EPS</b>	<b>\$1.93</b>	<b>\$1.71</b>	<b>\$1.29</b>	<b>\$0.43</b>	<b>\$0.53</b>	<b>\$0.58</b>	<b>\$0.51</b>	<b>\$0.47</b>	<b>\$0.46</b>	<b>\$0.48</b>	<b>\$0.48</b>	<b>\$0.30</b>	<b>\$0.35</b>	<b>\$0.37</b>	<b>\$0.36</b>
<b>CORE GAAP EPS</b>	<b>\$0.83</b>	<b>\$0.68</b>	<b>\$0.71</b>	<b>\$0.10</b>	<b>\$0.19</b>	<b>\$0.25</b>	<b>\$0.29</b>	<b>\$0.17</b>	<b>\$0.16</b>	<b>\$0.17</b>	<b>\$0.18</b>	<b>\$0.14</b>	<b>\$0.18</b>	<b>\$0.20</b>	<b>\$0.18</b>
KEY Ratios:															
Net Interest Margin	3.34%	3.29%	3.35%	3.30%	3.37%	3.37%	3.32%	3.30%	3.30%	3.28%	3.28%	3.32%	3.34%	3.36%	3.38%
Return on Avg Assets	0.55%	0.48%	0.57%	0.38%	0.48%	0.63%	0.71%	0.48%	0.47%	0.49%	0.49%	0.47%	0.58%	0.63%	0.59%
Return on Avg Equity	8.12%	5.82%	6.85%	5.18%	6.94%	9.24%	10.86%	6.08%	5.83%	6.12%	5.34%	5.72%	7.02%	7.60%	7.03%
<b>Pre-Tax Pre-Provision ROA</b>	<b>1.05%</b>	<b>0.93%</b>	<b>1.04%</b>	<b>0.94%</b>	<b>1.15%</b>	<b>1.25%</b>	<b>1.12%</b>	<b>1.03%</b>	<b>1.01%</b>	<b>1.03%</b>	<b>1.04%</b>	<b>0.96%</b>	<b>1.12%</b>	<b>1.19%</b>	<b>1.13%</b>
Efficiency Ratio	72.32%	76.50%	75.18%	79.54%	71.84%	68.89%	69.48%	76.54%	76.87%	76.32%	76.04%	77.85%	74.93%	73.53%	74.33%
Overhead Ratio	3.05%	3.17%	3.27%	3.17%	2.96%	3.01%	3.07%	3.20%	3.18%	3.16%	3.15%	3.32%	3.29%	3.25%	3.24%
TCE/TA	6.07%	8.06%	8.44%	5.07%	5.34%	5.74%	6.07%	6.12%	6.13%	6.15%	8.06%	8.28%	8.32%	8.36%	8.44%
TCE/RWA	10.22%	13.56%	13.97%	8.13%	8.72%	9.43%	10.22%	10.30%	10.32%	10.35%	13.56%	13.71%	13.77%	13.84%	13.97%
Period-End Balances: (\$ in Millions)															
Earning Assets	\$540	\$548	\$552	\$546	\$544	\$547	\$540	\$540	\$543	\$546	\$548	\$538	\$544	\$549	\$552
Total Assets	\$594	\$603	\$608	\$607	\$605	\$607	\$594	\$594	\$597	\$600	\$603	\$593	\$599	\$605	\$608
Risk-Weighted Assets	\$352	\$358	\$367	\$378	\$370	\$369	\$352	\$352	\$354	\$356	\$358	\$358	\$361	\$365	\$367
Gross Loans	\$328	\$333	\$341	\$334	\$326	\$329	\$328	\$328	\$330	\$331	\$333	\$333	\$336	\$340	\$341
Total Deposits	\$465	\$481	\$498	\$466	\$471	\$473	\$465	\$467	\$472	\$476	\$481	\$483	\$488	\$493	\$498
Intangibles	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1
Total Common Equity	\$37	\$49	\$52	\$31	\$33	\$36	\$37	\$37	\$37	\$38	\$49	\$50	\$50	\$51	\$52

**FIG Partners LLC Distribution of Ratings**

	Buy/Outperform	Hold/Market-Perform	Sell/Underperform
% Rated	49.4%	42.7%	7.9%
IB Client % in Category	29.5%	18.4%	14.3%

**DISCLOSURES**

**Research Report Disclosures**

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- There are no material conflicts of interest of the analyst or FIG Partners LLC at the time of this report
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- FIG has not 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
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**Equity Rating System as of July 1, 2003**

- 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
- Sell/Underperform** 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.