

First Community Corporation

October 18, 2017

(FCCO-NASDAQ)

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Company Comment

Rating _____ Market Perform 3

Banking

Reiterate Market Perform; Results Beat on Expense Management, Valuation Fair

Recommendation: We are maintaining our **Market Perform** rating on FCCO shares following 3Q17 results that exceeded both our and consensus expectations. Relative to our model, lower operating expense was the primary driver of upside. Elsewhere, core operating trends were largely as expected, with fee income and spread revenue matching our estimates. From a loan growth perspective, after sequential loan balances declined in 2Q due to elevated payoffs, growth reaccelerated as the company reported a 2.7% sequential increase in loan balances, above our 2.5% estimate but modestly below the 2.8% consensus. We note the higher-than-expected provision expense was largely a result of the robust loan growth in the quarter, as credit trends remain relatively benign. Finally, we continue to view its pending acquisition of Cornerstone Bancorp (CTOT/\$11.65/Not Covered), which remains on track for an October 20 close, favorably as we believe the deal will help generate stronger operating leverage moving forward. Ultimately, we continue to view the risk/reward dynamic as balanced at current levels as we do not see an identifiable catalyst for upside to EPS growth expectations at this time.

- ◆ **3Q17 results beat:** FCCO reported 3Q17 GAAP EPS of \$0.28. Excluding \$228,000 in merger-related expense, we estimate operating EPS of \$0.30, above both our \$0.28 estimate and the \$0.29 consensus.
- ◆ **Loan growth rebounds:** After decreasing 0.3% sequentially in 2Q (due to elevated payoffs), loan growth reaccelerated and registered at 2.7%, above our 2.5% estimate but modestly below the 2.8% consensus. Moving forward, we believe the pipeline across its Southeast markets remains solid and expect annual organic growth to hold in the 8-9% range through 2019.
- ◆ **Expect modest margin expansion:** Margin expanded 3 bp linked quarter to 3.52%, just below our 3.53% estimate but above the 3.49% consensus, as a 4 bp sequential increase in earning asset yields was coupled with flat funding costs. Moving forward, we expect margin to gradually expand to 3.63% in 4Q19, inclusive of the impact of its pending Cornerstone acquisition.
- ◆ **Estimates:** We are increasing our 2017 and 2018 operating EPS estimates to \$1.09 and \$1.35 from \$1.05 and \$1.30, respectively. We are also introducing 2019 EPS estimates of \$1.45.

Valuation: FCCO trades at 1.8x 3Q17 TBV of \$12.02, 19.9x our 2017E EPS, and 16.1x our 2018E EPS, compared to micro-cap peers at 1.7x, 18.5x, and 15.5x, respectively. Without better visibility into a stronger EPS growth profile, we believe upside from current levels is limited.

Non-GAAP EPS	Q1 Mar	Q2 Jun	Q3 Sep	Q4 Dec	Full Year	GAAP EPS Full Year	Revenues (mil.)
2016A	\$0.22	\$0.26	\$0.24	\$0.24	\$0.96	\$0.99	\$35
Old 2017E	0.24A	0.25A	0.28	0.28	1.05	1.06	39
New 2017E	0.24A	0.25A	0.30A	0.30	1.09	1.08	39
Old 2018E	0.30	0.32	0.33	0.35	1.30	1.30	46
New 2018E	0.31	0.33	0.35	0.36	1.35	1.35	46
Old 2019E	NA	NA	NA	NA	NA	NA	NA
New 2019E	UR	UR	UR	UR	1.45	1.45	49

Rows may not add due to rounding. Non-GAAP EPS is operating earnings and excludes one-time items. UR: Under Review.

Please read domestic and foreign disclosure/risk information beginning on page 12 and Analyst Certification on page 12.

Current and Target Price

Current Price (Oct-18-17 close) \$21.75
 Target Price: NM
 52-Week Range \$23.55 - \$14.80
 Suitability High Risk/Growth

Market Data

Shares Out. (mil.) 6.7
 Market Cap. (mil.) \$146
 Avg. Daily Vol. (10 day) 3,098
 Dividend/Yield \$0.36/1.7%
 Book Value (Sep-17) \$12.91
 Tang. BVPS (Sep-17) \$12.02

Earnings & Valuation Metrics

	2016A	2017E	2018E	2019E
P/E Ratios (Non-GAAP)	22.7x	20.0x	16.1x	15.0x

Company Description

First Community Corporation, headquartered in Lexington, South Carolina, is a \$915 million asset bank holding company that operates 15 branches, primarily in the midlands region of the state, with a small presence in eastern Georgia.

Guidance Tracker – First Community Corporation (FCCO)

RAYMOND JAMES®

Source	Category	Target Period	Trending	Guidance
2017Q1 Earnings	Asset Quality	2017Y	—	Management expects its reserve balance to hold relatively flat from 1Q levels.
2016Q4 Earnings	Loan	2017Y	—	Management is targeting 10% annual loan growth.
Press Release/8-K	M&A	2018Y	—	From its acquisition of Cornerstone Bancorp, company expects a TBV dilution earn back of less than four years, mid-single digit EPS accretion in the first full year, and cost saves of 40.0% (without banking office closures).
Press Release/8-K	NIM	Long-term	—	One of First Community's primary strategic initiatives is to re-mix the asset side of its balance sheet, moving toward a goal of an 80% loan-to-earning asset mix; thereby enhancing net interest income and earnings per share.
2016Q4 Earnings	Noninterest Income	2017Y	—	Management expects to grow mortgage banking revenue in a rising rate environment, driven by contributions from the company's recently hired Augusta team.
2017Q1 Earnings	Tax Rate	2017Y	▲	Assuming pre-tax income holds near current levels, the company anticipates the tax rate will be approximately 25.5-26.0%.

Source: Raymond James research; company reports

Analyst: Wally Wallace

Raymond James Revised Earnings Estimates

As illustrated in the following table, we are increasing our 2017 and 2018 operating EPS estimates to \$1.09 and \$1.35 from \$1.05 and \$1.30, respectively. We are also introducing 2019 EPS estimates of \$1.45.

Earnings Estimates

(\$ in thousands)	2017E			2018E			2019E
	Old	Current	Change	Old	Current	Change	Current
Operating EPS	\$1.05	\$1.09	\$0.04	\$1.30	\$1.35	\$0.05	\$1.45
GAAP EPS	\$1.06	\$1.08	\$0.02	\$1.30	\$1.35	\$0.05	\$1.45
Core PTPP* Earnings	10,617	11,057	4%	14,967	15,232	2%	16,721
Avg. Earning Assets	867,154	869,251	0%	1,034,226	1,038,677	0%	1,100,903
NIM	3.53%	3.52%	-1 bps	3.56%	3.54%	-1 bps	3.60%
Net Interest Income	29,700	29,735	0%	35,910	35,952	0%	38,732
Provision	494	560	13%	1,100	750	-32%	1,150
Operating Fee Income	9,658	9,545	-1%	10,554	10,324	-2%	10,421
Operating Expense	28,947	28,372	-2%	31,797	31,344	-1%	32,733
Operating Efficiency	74%	72%	-132 bps	68%	68%	-70 bps	67%
Tax Rate	24.7%	24.9%	25 bps	26.5%	26.5%	0 bps	26.5%
Diluted shares	6,980	6,980	0%	7,698	7,699	0%	7,715
Dividends per share	\$0.36	\$0.36	\$0.00	\$0.40	\$0.40	\$0.00	\$0.40
Loan Growth	18.6%	18.9%	23 bps	9.3%	8.8%	-54 bps	9.3%
Reserves/Loans	0.88%	0.90%	2 bps	0.91%	0.91%	0 bps	0.93%
NPA's/Loans	0.62%	0.57%	-5 bps	0.63%	0.58%	-5 bps	0.60%
NCO's/Avg. Loans	0.00%	-0.01%	-1 bps	0.05%	0.02%	-3 bps	0.05%

*PTPP = pre-tax, pre-provision

We are increasing our 2017 and 2018 operating EPS estimates to \$1.09 and \$1.35 from \$1.05 and \$1.30, respectively. For both periods, lower operating expense is the primary driver of our increase. We are also introducing 2019 EPS estimates of \$1.45.

Source: Company reports, Raymond James research.

Comparison of Actual Results to Raymond James and Consensus Estimates

As illustrated in the following table, First Community reported 3Q17 operating EPS of \$0.30, above both our \$0.28 estimate and the \$0.29 consensus. Relative to our model, a modestly higher loan loss provision was more than offset by lower operating expenses. From a loan growth perspective, the company reported a 2.7% sequential increase in loan balances, above our 2.5% estimate but modestly below the 2.8% consensus. The company's reported NIM of 3.52% came in above the 3.49% consensus but modestly below our 3.53% estimate.

Actual vs. Raymond James and Consensus

	Actual	Raymond James	dif (+/-)	Consensus	dif (+/-)	Consensus High	Consensus Low	Consensus # of Estimates
PER SHARE DATA								
Operating EPS	\$0.30	\$0.28	\$0.02	\$0.29	\$0.02	\$0.29	\$0.28	2
Book value per share	12.91	12.87	0.04	12.89	0.03	12.90	12.87	3
Tangible book value	12.02	11.99	0.04	12.00	0.03	12.00	11.99	3
Dividends per share	0.09	0.09	0.00	0.09	0.00	0.09	0.09	3
Avg. fully diluted shares (mil.)	6.8	6.8	0.0	6.8	0.0	6.8	6.8	3
INCOME STATEMENT								
Net interest income	7.2	7.2	0.0	7.3	-0.1	7.5	7.2	3
Loan loss provision	0.2	0.1	0.1	0.1	0.0	0.2	0.1	3
Fee income	2.4	2.5	0.0	2.5	-0.1	2.6	2.5	3
Revenue	9.7	9.7	0.0	9.8	-0.2	10.0	9.7	2
Non-interest expense	6.7	7.0	-0.4	7.0	-0.4	7.0	7.0	3
Pre-tax income	2.6	2.5	0.1	2.7	-0.1	2.9	2.5	3
Taxes	0.7	0.7	0.0	0.8	-0.1	0.9	0.7	3
Net income	2.1	1.9	0.2	1.9	0.1	2.0	1.9	3
BALANCE SHEET								
Loans	568	567	1	569	0	570	567	3
Loan growth	2.7%	2.5%	22 bp	2.8%	-9 bp	3.0%	2.5%	3
Average Deposits	770	796	-26	788	-18	796	779	2
FINANCIAL RATIOS								
Net interest margin (NIM)	3.52%	3.53%	-1 bp	3.49%	3 bp	3.53%	3.43%	3
Efficiency ratio	69.1%	72.8%	-369 bp	71.2%	-213 bp	73.0%	70.0%	3
Net charge-offs / Avg. loans	0.00%	0.01%	-1 bp	0.03%	-3 bp	0.05%	0.01%	2
ROA	0.90%	0.82%	8 bp	0.85%	5 bp	0.88%	0.82%	3
ROE	9.6%	8.8%	80 bp	9.1%	47 bp	9.4%	8.8%	3

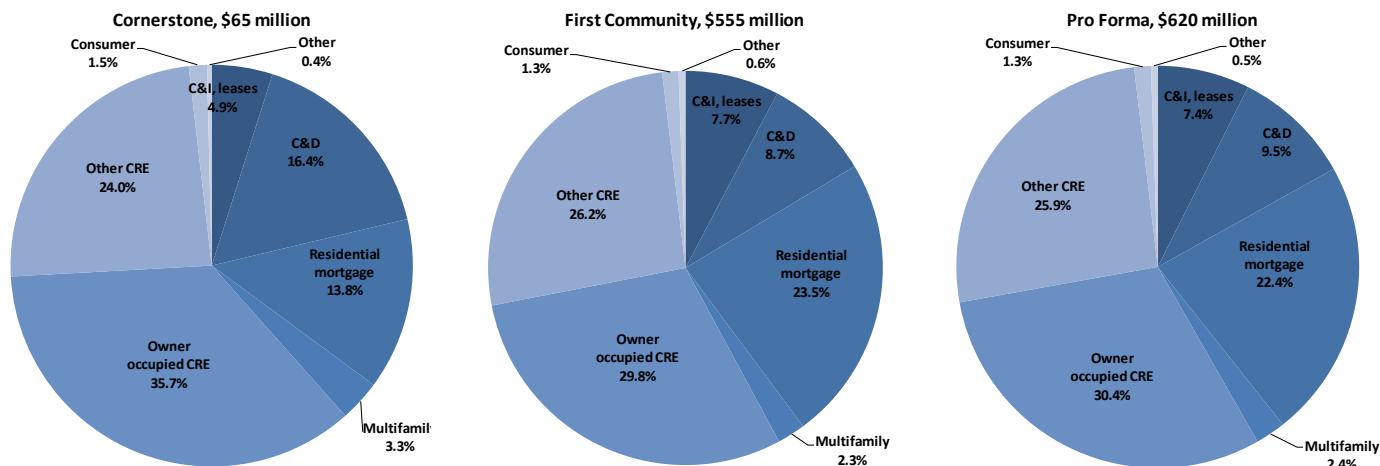
Source: SNL Financial; FactSet; Raymond James research; company reports

Note: Dollar amounts in millions, except per share data

Pro Forma Balance Sheet Analysis

The following charts display the 2Q17 loan portfolios, based on regulatory data, for First Community and Cornerstone as well as on a pro forma basis. The acquired portfolio will increase First Community's loan portfolio by approximately 12% before purchase accounting marks, with the loan portfolio shifting to a slightly higher concentration of construction and commercial real estate (CRE) loans and a lower concentration of residential mortgage loans. To this point, construction and CRE loans increase to 9.5% and 56.4% of total loans pro forma from 7.7% and 56.0%, respectively, while residential mortgage decreases to 22.4% from 23.5%.

2Q17 Loan Portfolio Snapshots

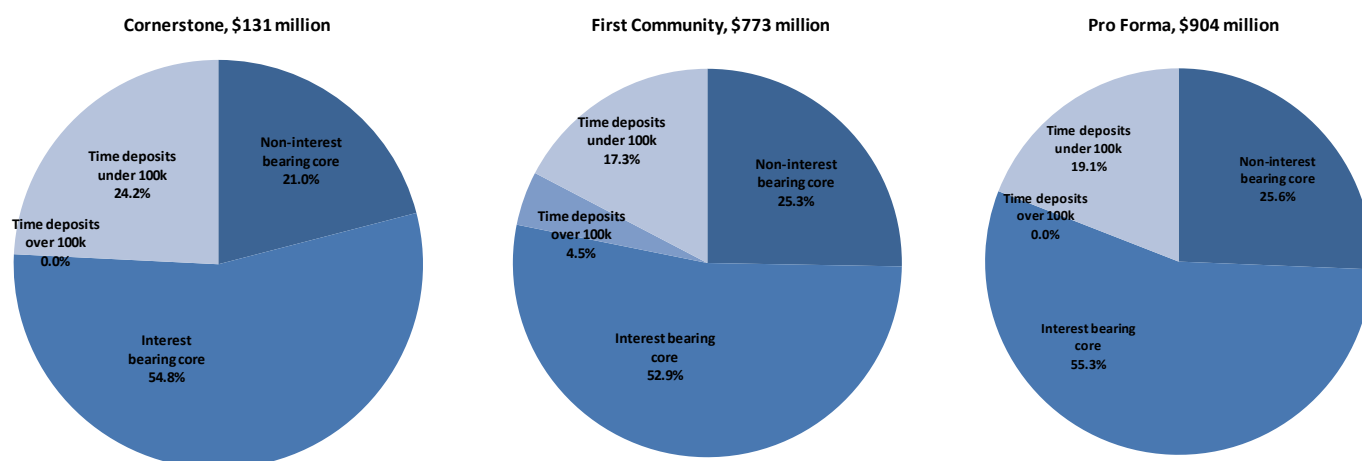


Note: Financials per regulatory filings as of 6/30/17.

Source: SNL Financial and Raymond James research.

With the addition of Cornerstone's deposit base, First Community's core deposit mix decreases 35 bp to 77.8% on a pro forma basis, according to regulatory filings. Given Cornerstone's higher cost of interest bearing deposits (0.38% at 2Q17), we estimate that First Community's total deposit costs would tick up 1 bp to 0.24%. That said, we suspect the company could look to run off a portion of Cornerstone's higher cost CD deposits, which could provide some funding cost relief.

2Q17 Deposit Portfolio Snapshots



Note: Financials per regulatory filings as of 6/30/17.

Source: SNL Financial and Raymond James research.

From a market share standpoint, the transaction will expand First Community's footprint to the Greenville-Anderson-Mauldin metropolitan statistical area (MSA), where the company will enter with the eightieth largest deposit market share. As illustrated in the following table, the company adds approximately \$129 million in in-market deposits, equating to a 0.84% market share. We believe First Community's bolstered Upstate South Carolina presence provides the company with a strong platform to further build its deposit base and loan portfolio in the region.

Greenville-Anderson-Mauldin, SC MSA Deposit Market Share Breakout

Deposit Rank	Institution	Number of Branches	Total Deposits in Market (\$000)	Total Market Share (%)
1	Wells Fargo & Co.	30	2,648,035	17.24
2	Bank of America Corp.	18	2,179,359	14.19
3	BB&T Corp.	27	1,822,437	11.87
4	Toronto-Dominion Bank	20	1,515,039	9.86
5	SunTrust Banks Inc.	19	938,320	6.11
6	First Citizens BancShares Inc.	19	795,455	5.18
7	South State Corporation	9	773,355	5.04
8	United Community Banks Inc.	15	741,125	4.83
9	Southern First Bancshares Inc	4	618,817	4.03
10	Travelers Rest Bancshares Inc.	10	551,644	3.59
18	First Community Corporation (Pro Forma)	3	128,621	0.84
18	Cornerstone Bancorp	3	128,621	0.84
NA	First Community Corporation (Current)	NA	NA	NA

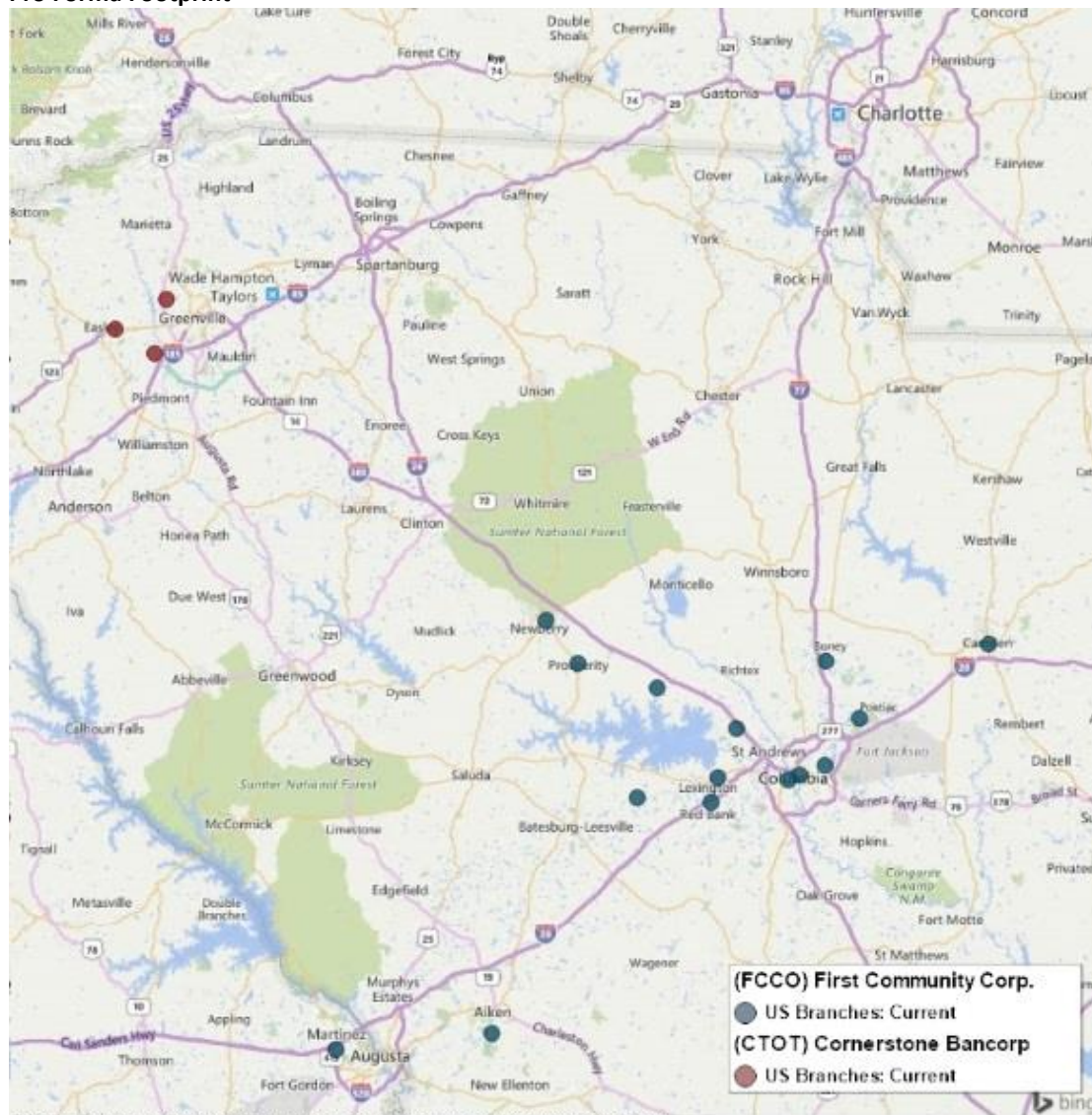
Note: Deposit market share data as of June 30, 2016.

Source: SNL Financial and Raymond James research.

Bank Branch Map

The map on the following page illustrates First Community's 15-branch footprint with Cornerstone's three branches positioned in the Greenville-Anderson-Mauldin MSA. While we anticipate First Community will retain the acquired branches, we expect the company to reap cost efficiencies through terminating back-office redundancies. With an expanded presence in the Upstate South Carolina region, we believe the company is poised to capitalize on the region's strong growth profile.

Pro Forma Footprint



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Source: SNL Financial.

First Community Regional Peer Group Comparison

Company	Ticker	Balance Sheet Ratios				Income Statement Ratios							Credit				Capital		
		Assets (\$M)	Core Deposits	Nonint Deposits	Loans/ Deposits	NIM	Loan Yields	Yield on Earning Assets	Cost of Deposits	Cost of Funds	Fee Income/ Revenue	Efficiency Ratio	NCOs/ Avg. Loans	NPA's/ Loans	Reserves/ Loans	Reserves/ NPA's	TCE ratio	Leverage Ratio	Tier 1 risk-based
South State Corporation	SSB	\$11,154	89%	29%	91%	4.12%	4.63%	4.22%	0.12%	0.16%	27%	57%	0.06%	0.41%	0.53%	131%	9.1%	10.1%	12.8%
Carolina Financial Corporation	CARO	\$2,192	65%	20%	86%	3.87%	5.06%	4.48%	0.51%	0.65%	29%	57%	-0.01%	0.56%	0.73%	130%	11.0%	12.2%	16.3%
Southern First Bancshares, Inc.	SFST	\$1,539	74%	21%	100%	3.48%	4.55%	4.24%	0.55%	0.76%	17%	58%	0.11%	0.90%	1.18%	131%	9.3%	10.4%	12.2%
Security Federal Corporation	SFDL	\$857	67%	NA	53%	3.35%	5.52%	3.68%	0.36%	NA	18%	75%	0.19%	3.52%	2.23%	63%	8.8%	10.5%	19.1%
Carolina Alliance Bank	CRLN	\$673	74%	NA	94%	3.50%	4.37%	4.10%	0.47%	NA	19%	75%	0.00%	1.56%	1.02%	66%	10.6%	10.7%	12.0%
Coastal Banking Company, Inc.	CBCO	\$636	64%	19%	96%	4.10%	4.99%	4.83%	0.64%	NA	52%	67%	0.15%	2.43%	0.99%	41%	10.8%	12.3%	20.2%
GrandSouth Bancorporation	GRRB	\$604	57%	15%	91%	5.89%	7.39%	6.94%	NA	NA	4%	77%	0.67%	2.17%	1.35%	62%	8.1%	10.1%	12.3%
South Atlantic Bancshares, Inc.	SABK	\$519	86%	NA	91%	3.93%	4.60%	4.30%	NA	NA	15%	72%	0.66%	0.11%	0.73%	693%	11.3%	8.5%	10.6%
Bank of South Carolina Corporation	BKSC	\$430	88%	34%	67%	3.58%	5.55%	4.17%	0.11%	NA	15%	56%	-0.03%	0.90%	1.50%	166%	10.0%	9.9%	14.4%
First Reliance Bancshares, Inc.	FSRL	\$436	80%	25%	88%	4.32%	5.15%	5.02%	0.31%	NA	37%	82%	-0.01%	1.76%	0.90%	51%	6.5%	9.9%	12.0%
First Community Corporation	FCCO	\$915	78%	25%	72%	3.48%	4.47%	3.73%	0.23%	0.33%	25%	71%	-0.03%	0.91%	0.98%	107%	8.7%	10.4%	15.0%
Peer Group Medians:		\$673	74%	23%	91%	3.87%	4.99%	4.24%	0.36%	0.49%	19%	71%	0.06%	0.91%	0.99%	107%	9.3%	10.4%	12.8%

Peer group consists of banks based in SC with assets between roughly \$500 million and \$10 billion and excludes Mutual Holding Companies. Data as of most recent quarter. Core deposits exclude all time deposits.

Note: Peer comparisons can be skewed during earnings reporting season due to the timing of reports. Credit metrics include covered NPA and Loan balances for banks that have acquired institutions with FDIC loss share arrangements which can skew credit metrics negatively. SNL calculates certain metrics differently than individual companies in some cases which can cause variance from our models.

Source: SNL Financial and Raymond James research

Select Valuation and Profitability Metrics

	Count	Mkt Cap (M)	Assets (M)	Valuation Metrics					Profitability Metrics						
				P/TBV	2017 P/E	2018 P/E	Deposit Premium	Dividend Yield	ROA (2Q17)	ROE (2Q17)	ROTC (2Q17)	ROTC (2017E)	ROTC (2018E)	2017 EPS Growth	2018E EPS Growth
Industry Medians	536	\$268	\$1,625	2.00x	18.4x	15.7x	9%	2.0%	0.97%	8.9%	10.4%	11.1%	12.0%	13%	16.2%
Large Cap (>\$10B)	17	\$28,398	\$207,223	1.78x	14.8x	13.2x	9%	2.2%	1.05%	8.7%	12.4%	11.9%	12.8%	16%	12%
Mid-Cap (\$2B - \$10B)	65	\$3,655	\$19,036	2.23x	18.2x	15.8x	13%	1.9%	1.09%	9.1%	12.7%	11.9%	12.9%	11%	14%
Small-Cap (\$500M - \$2B)	118	\$862	\$4,506	2.23x	19.0x	15.9x	13%	2.0%	1.11%	9.5%	12.2%	11.7%	12.7%	14%	17%
Micro-Cap (<\$500M)	336	\$134	\$984	1.68x	18.5x	15.5x	5%	1.9%	0.87%	8.6%	9.2%	9.0%	10.3%	13%	18%
Asset Size Medians															
Over \$50B	18	\$26,668	\$179,315	1.76x	15.0x	13.3x	8%	2.2%	1.02%	8.6%	12.3%	11.8%	12.7%	16%	12%
\$10B to \$50B	57	\$3,757	\$19,965	2.08x	17.8x	15.6x	12%	2.0%	1.05%	8.7%	12.0%	11.8%	12.6%	10%	13%
\$5B to \$10B	55	\$1,600	\$7,245	2.35x	18.8x	16.2x	15%	2.1%	1.14%	9.9%	13.3%	12.7%	13.5%	11%	15%
\$1B to \$5B	234	\$310	\$1,806	1.91x	18.9x	15.7x	9%	1.8%	0.97%	9.3%	10.3%	10.5%	11.2%	15%	18%
\$500M to \$1B	172	\$84	\$670	1.49x	18.6x	14.9x	4%	2.2%	0.80%	8.0%	8.4%	8.1%	8.9%	11%	21%

Priced as of October 17, 2017.

Note: Excludes banks with less than \$500 million in assets, Mutual Holding Companies, and trust banks. Forward P/E and ROTE metrics are based on FactSet

Source: SNL Financial, FactSet, and Raymond James research

First Community Corporation**Income Statement**

(\$ in thousands)

	1Q16 31-Mar	2Q16 30-Jun	3Q16 30-Sep	4Q16 31-Dec	2016 31-Dec	1Q17 31-Mar	2Q17 30-Jun	3Q17 30-Sep	4Q17E 31-Dec	2017E 31-Dec	1Q18E 31-Mar	2Q18E 30-Jun	3Q18E 30-Sep	4Q18E 31-Dec	2018E 31-Dec	2019E 31-Dec
Net Interest Income	6,337	6,677	6,651	6,794	26,459	7,061	7,048	7,227	8,399	29,735	8,578	8,810	9,125	9,439	35,952	38,732
Provision for loan losses	140	217	179	238	774	116	78	166	200	560	100	150	250	250	750	1,150
Net Interest Income after Provision	6,197	6,460	6,472	6,556	25,685	6,945	6,970	7,061	8,199	29,175	8,478	8,660	8,875	9,189	35,202	37,582
Deposit service charges	347	340	377	341	1,405	320	348	379	495	1,542	517	543	594	551	2,206	2,302
Mortgage origination fees	665	913	937	867	3,382	670	1,261	1,032	980	3,943	882	971	971	922	3,746	3,523
Investment advisory fees and commissions	291	297	283	264	1,135	258	314	336	346	1,254	350	360	367	378	1,455	1,590
Gain on sale of securities	59	64	478	0	601	54	172	124	0	350	0	0	0	0	0	0
Gain (loss) on sale of other assets	3	(84)	45	3	(33)	20	68	40	0	128	0	0	0	0	0	0
Loss on early extinguishment of debt	0	0	(459)	0	(459)	(58)	(223)	(165)	0	(446)	0	0	0	0	0	0
Other	724	734	726	725	2,909	714	705	676	710	2,805	720	728	731	739	2,918	3,006
Noninterest Income	2,089	2,264	2,387	2,200	8,940	1,978	2,645	2,422	2,532	9,577	2,470	2,601	2,663	2,590	10,324	10,421
Non-Operating items	62	(20)	64	3	109	16	17	(1)	0	32	0	0	0	0	0	0
Operating Noninterest Income	2,027	2,284	2,323	2,197	8,831	1,962	2,628	2,423	2,532	9,545	2,470	2,601	2,663	2,590	10,324	10,421
Total Revenue	8,426	8,941	9,038	8,994	35,399	9,039	9,693	9,649	10,931	39,312	11,048	11,411	11,789	12,029	46,276	49,153
Total Operating Revenue	8,364	8,961	8,974	8,991	35,290	9,023	9,676	9,650	10,931	39,280	11,048	11,411	11,789	12,029	46,276	49,153
Salaries and employee benefits	3,751	3,833	3,888	3,851	15,323	4,086	4,313	4,122	4,658	17,179	4,565	4,633	4,703	4,773	18,674	19,572
Occupancy	559	511	531	566	2,167	527	539	532	601	2,199	619	625	632	638	2,514	2,603
Equipment	429	437	442	420	1,728	446	506	396	436	1,784	457	453	498	473	1,881	1,966
Marketing and public relations	94	195	240	336	865	221	298	96	134	749	137	151	151	173	612	672
FDIC assessment	138	138	60	76	412	78	78	78	70	304	89	91	73	73	326	339
Other real estate expense	51	21	115	14	201	27	29	19	75	150	75	75	75	75	300	300
Amortization of intangibles	83	80	80	75	318	75	74	74	122	345	134	133	132	130	529	508
Other	1,237	1,118	1,227	1,180	4,762	1,260	1,533	1,577	1,619	5,989	1,603	1,619	1,635	1,651	6,507	6,771
Noninterest Expense	6,342	6,333	6,583	6,518	25,776	6,720	7,370	6,894	7,714	28,698	7,680	7,779	7,898	7,988	31,344	32,733
Non-Operating items	49	0	0	0	49	0	98	228	0	326	0	0	0	0	0	0
Operating Noninterest Expense	6,293	6,333	6,583	6,518	25,727	6,720	7,272	6,666	7,714	28,372	7,680	7,779	7,898	7,988	31,344	32,733
Income Before Tax	1,944	2,391	2,276	2,238	8,849	2,203	2,245	2,589	3,016	10,053	3,268	3,482	3,641	3,791	14,182	15,271
Income tax expense	476	646	599	446	2,167	447	581	696	784	2,508	866	923	965	1,005	3,758	4,047
GAAP Net Income	1,468	1,745	1,677	1,792	6,682	1,756	1,664	1,893	2,232	7,545	2,402	2,559	2,676	2,786	10,424	11,224
Operating Net Income	1,458	1,760	1,630	1,654	6,502	1,618	1,724	2,060	2,232	7,635	2,402	2,559	2,676	2,786	10,424	11,224
Diluted shares	6,751	6,733	6,762	6,805	6,763	6,813	6,803	6,808	7,496	6,980	7,693	7,697	7,701	7,705	7,699	7,715
GAAP EPS - diluted	\$0.22	\$0.26	\$0.25	\$0.26	\$0.99	\$0.26	\$0.24	\$0.28	\$0.30	\$1.08	\$0.31	\$0.33	\$0.35	\$0.36	\$1.35	\$1.45
Operating EPS - diluted	\$0.22	\$0.26	\$0.24	\$0.24	\$0.96	\$0.24	\$0.25	\$0.30	\$0.30	\$1.09	\$0.31	\$0.33	\$0.35	\$0.36	\$1.35	\$1.45

Financial Highlights

TBV/share	\$11.23	\$11.62	\$11.63	\$11.28	\$11.28	\$11.50	\$11.79	\$12.02	\$11.92	\$11.92	\$12.15	\$12.40	\$12.66	\$12.94	\$12.94	\$14.05
TCE/Assets	8.7%	8.8%	8.6%	8.3%	8.3%	8.5%	8.7%	8.9%	8.5%	8.5%	8.5%	8.6%	8.6%	8.6%	8.6%	8.8%
Loans/Deposits	68%	70%	68%	71%	71%	72%	72%	74%	74%	74%	72%	74%	74%	78%	78%	82%
Loan Growth	1.0%	3.5%	2.4%	4.4%	11.8%	1.6%	-0.3%	2.7%	2.0%	18.9%	1.0%	2.0%	2.5%	3.0%	8.8%	9.3%
Deposit Growth	0.8%	1.0%	5.0%	0.1%	7.0%	1.2%	-0.3%	-0.4%	-2.0%	14.1%	4.0%	-1.0%	3.0%	-2.0%	3.9%	3.9%
NPA's/Loans	1.51%	1.14%	0.97%	0.95%	0.95%	0.83%	0.70%	0.64%	0.57%	0.57%	0.57%	0.57%	0.58%	0.58%	0.58%	0.60%
NCO's/Avg. Loans	0.04%	0.02%	0.01%	0.05%	0.03%	-0.03%	-0.03%	0.00%	0.02%	-0.01%	0.00%	0.02%	0.02%	0.05%	0.02%	0.05%
Reserves/Loans	0.95%	0.95%	0.96%	0.95%	0.95%	0.97%	0.99%	0.99%	0.90%	0.90%	0.90%	0.90%	0.91%	0.91%	0.91%	0.93%
NIM	3.33%	3.43%	3.29%	3.35%	3.35%	3.52%	3.49%	3.52%	3.54%	3.52%	3.52%	3.52%	3.55%	3.58%	3.54%	3.60%
G&A/Avg. Assets	2.91%	2.88%	2.92%	2.88%	2.90%	2.95%	3.20%	2.93%	3.10%	3.04%	2.82%	2.81%	2.81%	2.79%	2.81%	2.76%
Efficiency Ratio	75%	71%	73%	72%	73%	74%	75%	69%	71%	72%	70%	68%	67%	66%	68%	67%
Effective tax rate	24.5%	27.0%	26.3%	19.9%	24.5%	20.3%	25.9%	26.9%	26.0%	24.9%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%
ROA (operating)	0.67%	0.80%	0.72%	0.73%	0.73%	0.71%	0.76%	0.90%	0.90%	0.82%	0.88%	0.93%	0.95%	0.97%	0.93%	0.95%
ROE (operating)	7.3%	8.6%	7.7%	7.9%	7.9%	7.8%	12.6%	9.6%	9.3%	9.6%	9.1%	9.5%	9.8%	10.0%	9.6%	9.7%
ROTCE (operating)	7.9%	9.3%	8.3%	8.6%	8.5%	8.5%	14.2%	10.3%	10.4%	10.5%	10.5%	11.0%	11.2%	11.5%	11.1%	10.9%
Dividends per share	\$0.08	\$0.08	\$0.08	\$0.08	\$0.32	\$0.09	\$0.09	\$0.09	\$0.09	\$0.36	\$0.10	\$0.10	\$0.10	\$0.10	\$0.40	\$0.40

Source: Company reports and Raymond James research

First Community Corporation**Balance Sheet**

(\$ in thousands)

Stated Equity

Intangibles

Tangible Common Equity

Book Value

Tangible BV

Shares Outstanding

Equity/Assets

TCE ratio

Leverage Ratio

Tier 1 Capital Ratio

Total Capital Ratio

Total Assets

Other short-term investments

Investment securities

Loans held for sale

Loans

Allowance for loan losses

Other assets

Total Liabilities

Total deposits

Securities sold under repo

FHLB advances

Junior sub debt

Other liabilities

1Q16 31-Mar	2Q16 30-Jun	3Q16 30-Sep	4Q16 31-Dec
81,611	84,211	84,208	81,861
6,415	6,335	6,255	6,180
75,196	77,876	77,953	75,681
\$12.19	\$12.57	\$12.56	\$12.20
\$11.23	\$11.62	\$11.63	\$11.28
6,693	6,699	6,703	6,708
9.4%	9.5%	9.2%	8.9%
8.7%	8.8%	8.6%	8.3%
10.23%	10.24%	10.17%	10.23%
15.41%	15.30%	15.09%	14.46%
16.24%	16.14%	15.93%	15.28%
870,409	888,837	915,251	914,793
15,835	10,010	24,944	10,074
286,019	286,766	288,174	272,396
2,545	7,707	4,250	5,707
494,021	511,303	523,441	546,709
(4,687)	(4,877)	(5,047)	(5,214)
76,676	77,928	79,489	85,121
788,798	804,626	831,043	832,932
722,236	729,623	765,923	766,622
20,697	21,112	22,232	19,527
24,432	32,445	21,022	24,035
14,964	14,964	14,964	14,964
6,469	6,482	6,902	7,784

1Q17 31-Mar	2Q17 30-Jun	3Q17 30-Sep	4Q17E 31-Dec
83,131	85,059	86,595	104,934
6,105	6,031	5,956	14,484
77,026	79,028	80,639	90,450
\$12.41	\$12.69	\$12.91	\$13.83
\$11.50	\$11.79	\$12.02	\$11.92
6,697	6,702	6,706	7,587
9.1%	9.3%	9.5%	9.7%
8.5%	8.7%	8.9%	8.5%
10.21%	10.41%	10.55%	
14.66%	15.02%	14.73%	
15.51%	15.89%	15.60%	
914,913	915,462	914,228	1,076,655
18,035	22,356	15,393	
262,538	259,117	248,672	
4,191	6,590	6,018	
555,298	553,420	568,488	649,858
(5,368)	(5,490)	(5,656)	(5,824)
80,219	79,469	81,313	
831,782	830,403	827,633	874,680
775,611	773,126	770,082	
19,388	17,319	17,469	
15,548	17,997	17,255	
14,964	14,964	14,964	
6,271	6,997	7,863	

1Q18E 31-Mar	2Q18E 30-Jun	3Q18E 30-Sep	4Q18E 31-Dec	4Q19E 31-Dec
106,577	108,377	110,293	112,319	120,498
14,350	14,217	14,085	13,955	13,446
92,228	94,161	96,208	98,365	107,052
\$14.04	\$14.27	\$14.51	\$14.77	\$15.81
\$12.15	\$12.40	\$12.66	\$12.94	\$14.05
7,591	7,595	7,599	7,603	7,619
9.7%	9.7%	9.7%	9.7%	9.8%
8.5%	8.6%	8.6%	8.6%	8.8%
1,098,188	1,114,661	1,131,381	1,159,665	1,224,674
656,356	669,483	686,221	706,807	772,553
(5,924)	(6,041)	(6,257)	(6,420)	(7,181)
909,668	900,571	927,588	909,036	944,742

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Underperform (MU4) Expected to underperform the S&P 500 or its sector over the next six to 12 months and should be sold.

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Market Perform (MP3) The stock is expected to perform generally in line with the S&P/TSX Composite Index over the next twelve months and is potentially a source of funds for more highly rated securities.

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	Coverage Universe Rating Distribution*			Investment Banking Distribution		
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Market Perform (Hold)	42%	28%	33%	12%	26%	0%
Underperform (Sell)	5%	2%	12%	10%	25%	0%

* Columns may not add to 100% due to rounding.

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Company Name	Disclosure
First Community Corporation	Raymond James & Associates makes a market in shares of FCCO.
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	Raymond James and Associates, Inc. acted as financial advisor to Cornerstone Bancorp in connection to the acquisition by First Community Corporation.

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Risks include various geopolitical and macroeconomic variables, including credit quality deterioration, sudden changes in interest rates, M&A risk related to deal announcements, integration risk, and regulatory and mortgage-related concerns. Furthermore, competition for loans and deposits could exert downward pressure on revenue growth.

Company-Specific Risks for First Community Corporation

Interest Rate Risk

As a commercial bank, First Community's revenue stream is sensitive to changes in interest rates, and earnings estimates could vary based on changes in the slope of the yield curve.

Credit Risk

First Community originates residential, commercial, and consumer loans, which may enter default, especially during times of economic stress. Depending on the health of the economy and the creditworthiness of its borrowers, loans could default more rapidly than anticipated, which could translate into higher losses at the bank.

Macroeconomic Risk

If unemployment levels rise or if the housing market weakens further, credit losses could accelerate more rapidly than anticipated, causing downside to our earnings expectations. Conversely, if unemployment levels decline and the housing market strengthens meaningfully, or if losses in weak markets are less than expected, there could be upside to our estimates.

Competition

Substantial competition exists in all of First Community's primary markets, from domestic banks and thrifts, foreign banks, and specialty finance companies. The level and aggressiveness of competition could lead to adverse pressures on both asset yields and funding costs, which could negatively impact First Community's margins and pressure its profitability.

Regulatory Reform

With the myriad regulatory and legislative changes facing the industry, these amendments will pressure fee income across the industry. First Community's asset size excludes it from the new debit interchange provision in the Durbin amendment under the Dobb-Frank Act; however, competitive industry pressures will likely force the company to charge similar fees in order to compete, which will ultimately impact profitability.

Acquisition Risk

First Community recently announced its acquisition of Cornerstone Bancorp (April 2017). Acquiring a financial services company involves a number of risks, including those related to asset quality issues, loss of customers, entering new and unfamiliar markets, and integration of the acquired bank. In particular, integration poses a number of challenges, as the company must expend substantial resources to integrate acquired entities. Such failure to integrate acquired entities may adversely affect the company's results of operations and financial condition.

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