

First Community Corporation

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(FCCO-NASDAQ)

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Company Comment

Rating _____
Outperform 2

Banking

Maintain Outperform - Eyes on Loan Growth; Fee Income Trends Are Strong

Recommendation: We are reiterating our **Outperform** rating and \$12 price target on shares of First Community following 3Q14 results that exceeded expectations, primarily on higher fee income than expected. The biggest positive in the quarter was strength in the bank's mortgage banking and wealth management segments, which both exceeded our revenue estimates. Although spread revenue exceeded our estimate, loan pay-downs and payoffs remain a challenge as average loan balances shrunk despite loan production holding at 2Q levels. That said, the bank has adjusted its pricing model in order to be more competitive and expects 4Q results will begin to demonstrate success in growing the loan portfolio on a core basis. We are confident that management will successfully drive a rebound in loan growth with continued strength in fee income businesses driving our efficiency ratio expectations below 70% in 2H15 from 72% in 3Q14. As such, we believe valuation makes an investment in the stock attractive at current levels, driving our **Outperform** rating.

- ◆ **3Q14 results beat expectations.** First Community reported GAAP and operating EPS of \$0.23, above both our Street high \$0.22 and the \$0.21 consensus.
- ◆ **Loan growth in focus.** 3Q loans grew 0.9% linked quarter; however, excluding \$8.7 million in loans acquired from First South, loan balances shrunk 1.2%, well below our 0.5% estimate. Management has recently lowered its price limits in an attempt to compete more effectively. After roughly 7-8 bp of anticipated NIM pressure in 4Q14 related to the purchase of \$40 million in deposits and just \$8 million in loans, management expects it can expand NIM through liquidity deployment into the loan portfolio. With 35% of its earning asset base in securities, we believe there is ample room to fund nearly \$150 million in loan growth without driving any earning asset growth.
- ◆ **Credit metrics remain stable.** Nonperforming assets (NPAs) decreased 14.3% linked quarter to \$9.8 million, or 2.2% of loans and real estate owned (REO). Further, net charge-offs (NCOs) decreased \$440,000 from the prior quarter to just \$55,000, or 0.05% of average loans. We are currently modeling for NCOs to hover between 0.13% and 0.15% through 4Q16 given our favorable view of First Community's underwriting standards.
- ◆ **Estimates:** We are increasing our 2014E operating EPS to \$0.83 from \$0.81 and maintaining our 2015E operating EPS of \$0.95. We are also introducing 2016E EPS of \$1.05.

Valuation: Our \$12 price target is based on 1.1x our 3Q15 tangible book value (TBV) estimate of \$10.67, 12.6x our 2015E EPS, and 11.4x our 2016E EPS, a slight discount to micro-cap peer medians of 1.2x, 13.4x, and 12.7x, respectively. We believe a slight discount is warranted until the company can better demonstrate its ability to execute on capital deployment plans and drive ROTCE expectations at or above the peer group.

Non-GAAP EPS	Q1 Mar	Q2 Jun	Q3 Sep	Q4 Dec	Full Year	GAAP EPS Full Year	Revenues (mil.)
2013A	\$0.19	\$0.23	\$0.20	\$0.19	\$0.81	\$0.78	\$26
Old2014E	0.18A	0.18A	0.22	0.23	0.81	0.77	31
New2014E	0.18A	0.18A	0.23A	0.23	0.83	0.79	32
Old2015E	0.20	0.23	0.26	0.26	0.95	0.95	33
New2015E	0.21	0.24	0.25	0.25	0.95	0.95	34
Old2016E	NA	NA	NA	NA	NA	NA	NA
New2016E	NA	NA	NA	NA	1.05	1.05	36

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

Please read domestic and foreign disclosure/risk information beginning on page 8 and Analyst Certification on page 8.

Current and Target Price

Current Price (Oct-22-14)	\$10.60
Target Price:	\$12.00
52-Week Range	\$11.37 - \$10.10
Suitability	Aggressive Growth

Market Data

Shares Out. (mil.)	6.7
Market Cap. (mil.)	\$71
Avg. Daily Vol. (10 day)	11,431
Dividend/Yield	\$0.24/2.3%
Book Value (Sep-14)	\$10.89
Tang. BVPS (Sep-14)	\$9.95

Earnings & Valuation Metrics

	2013A	2014E	2015E	2016E
P/E Ratios (Non-GAAP)	13.1x	12.8x	11.2x	10.1x

Company Description

First Community Corporation, headquartered in Lexington, South Carolina, is an \$831 million asset bank holding company that operates 15 branches in the midlands region of the state.

Guidance Tracker – First Community Corporation (FCCO)

RAYMOND JAMES®

Source	Category	Target Period	Trending	Guidance
2014Q3 Earnings	Loan	2015Y	—	Management is targeting at least 4% loan growth in 2015.
2014Q3 Earnings	NIM	2014Q4	—	Management expects 4Q14 margin to contract roughly 7 bp due to pressure related to the company's recently closed \$43 million deposit acquisition.
2013Q4 Earnings	Noninterest Expense	Long-term	—	Hires related to regulatory compliance will increase overhead expenses, adding some challenges to reducing the efficiency ratio.
2014Q2 Earnings	Noninterest Expense	2015H1	▲	Management anticipates \$160,000 in annual compensation expense savings.
2014Q2 Earnings	Noninterest Income	2014Y	—	Expect recent wealth management hires will grow assets under management.
2014Q3 Earnings	Noninterest Income	2015Y	—	Management is targeting mortgage banking production of roughly \$100 million in 2015.
2014Q2 Earnings	Tax Rate	Long-term	▼	The company anticipates the tax rate will range between 28% and 29%.

Source: Raymond James research; company reports

Raymond James Revised Earnings Estimates

As displayed in the following table, we are increasing our 2014 operating EPS estimate to \$0.83 from \$0.81 and maintaining our 2015 EPS estimates of \$0.95. We are also introducing 2016 EPS estimates of \$1.05.

Earnings Estimates

(\$ in thousands)	2014E			2015E			2016E
	Old	Current	Change	Old	Current	Change	Current
Operating EPS	\$0.81	\$0.83	\$0.02	\$0.95	\$0.95	\$0.00	\$1.05
GAAP EPS	\$0.77	\$0.79	\$0.02	\$0.95	\$0.95	\$0.00	\$1.05
Core PTPP* Earnings	8,936	9,127	2%	10,426	10,517	1%	11,634
Avg. Earning Assets	719,772	714,617	-1%	765,685	753,876	-2%	770,019
NIM	3.35%	3.41%	6 bps	3.27%	3.43%	17 bps	3.52%
Net Interest Income	23,554	23,826	1%	24,485	25,317	3%	26,546
Provision	950	977	3%	900	950	6%	1,000
Operating Fee Income	7,913	8,209	4%	8,738	8,935	2%	9,572
Operating Expense	22,986	23,368	2%	23,097	24,036	4%	24,684
Operating Efficiency	73%	73%	-10 bps	70%	70%	65 bps	68%
Tax Rate	28.5%	28.5%	-1 bps	31.0%	31.0%	0 bps	32.0%
Diluted shares	6,599	6,601	0%	6,733	6,737	0%	6,749
Dividends per share	\$0.24	\$0.24	\$0.00	\$0.24	\$0.24	\$0.00	\$0.24
Loan Growth	32.4%	32.3%	-16 bps	5.6%	3.5%	-207 bps	5.6%
Reserves/Loans	0.89%	0.93%	3 bps	0.91%	0.95%	4 bps	0.97%
NPAs/Loans	2.47%	2.08%	-39 bps	2.25%	1.93%	-32 bps	1.54%
NCOs/Avg. Loans	0.24%	0.21%	-3 bps	0.13%	0.15%	2 bps	0.14%

*PTPP = pre-tax, pre-provision

We are increasing our 2014 operating EPS estimate to \$0.83 from \$0.81 and maintaining our 2015 EPS estimates of \$0.95. For 2014, higher revenue more than offsets higher expense expectations. For 2015, higher revenue fully offsets a higher expense base. We are also introducing 2016 EPS estimates of \$1.05.

Source: Company reports and Raymond James research

Margin Expands on Improvements in Earning Asset Yields and Funding Costs

NIM expanded 10 bp linked quarter to 3.48%, well above our 3.37% estimate, owing to 6 bp and 2 bp improvements in average earning asset yields and funding costs, respectively. Dissecting the change in earning asset yields, an 18 bp increase in securities yields more than offset 2 bp and 9 bp declines in loan yields and other funds, respectively. While we are pleased to see loan yields remain relatively stable, we were disappointed with loan growth during the quarter. Excluding \$8.7 million in loans acquired from First South, end of period loan balances decreased 1.2% sequentially as payoff pressures and a very competitive lending environment continue to hinder loan growth. That said, we believe management is becoming more aggressive on pricing to drive greater production and stem payoff pressures, which will likely add pressures to the portfolio yield. As such, we believe deploying liquidity into loan growth out of the securities portfolio will be the key to staving off pressures from lower loan yields. If the concentration of average loans to earning assets can meaningfully improve from 62.3% in 3Q14, we would expect margin expansion to be a real possibility. That said, the overall environment remains competitive for grade-A credits and will, therefore, likely limit any outsized growth opportunities at present.

Turning to the right side of the balance sheet, funding costs trickled down 2 bp sequentially to 0.49% from a combination of lower deposit costs and a slight improvement in the core deposit mix. We note that the bank improved its average core deposit mix to 73.2% from 72.7% in 2Q14, as displayed in the following table; however, with the cost of funds sitting below the micro-cap peer median of 0.52%, we anticipate there is little room remaining to trim funding costs further. That said, we expect First Community may use some excess liquidity to reduce acquired higher cost time deposits, providing some benefit to funding costs, especially following its acquisition of \$43 million in deposits from First South, which closed on September 26. Despite this benefit, costs will eventually bottom, which will likely place even more focus on loan pricing, loan growth, and the earning asset mix as levers to limit meaningful margin contraction until short-term interest rates rise and sustainable, strong loan demand returns. Taking all of these factors into account, we expect NIM to compress to 3.38% in 4Q14 due to the impact of liquidity from the \$43 million deposit acquisition and gradually expand to 3.46% by 4Q15 and 3.56% by 4Q16.

Deposit Mix Improving

(\$ in thousands)	% of Total	4Q11	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	2Q14A-3Q14A	3Q13A-3Q14A
Demand deposits	21.0%	84,247	97,163	95,777	100,967	104,944	111,984	121,060	131,762	133,891	1.6%	27.6%
Interest-bearing accounts	20.9%	89,307	92,466	95,237	101,247	104,146	102,087	124,029	135,875	133,554	-1.7%	28.2%
Money market accounts	23.2%	48,962	54,493	60,976	76,272	80,839	80,094	116,326	145,973	147,916	1.3%	83.0%
Savings deposits	8.2%	33,733	40,898	42,589	46,355	48,490	51,638	50,191	50,593	52,346	3.5%	8.0%
Time deposits	26.8%	213,719	188,837	182,116	173,879	167,516	162,489	174,384	174,712	170,889	-2.2%	2.0%
Total Average Deposits	100%	469,968	473,857	476,695	498,720	505,935	508,292	585,990	638,915	638,596	0.0%	26.2%
Core Deposit Mix		54.5%	60.1%	61.8%	65.1%	66.9%	68.0%	70.2%	72.7%	73.2%		

Source: Company reports and Raymond James research

Asset Quality Picture Remains Intact

Nonperforming assets (NPAs) dropped 14.3% linked quarter to \$9.8 million, or 2.2% of loans and REO. Dissecting NPA balances, nonaccrual loans decreased to \$6.8 million from \$8.1 million at 2Q14, while REO decreased to \$3.0 million from \$3.3 million over the same period. Additionally, net charge-offs (NCOs) decreased \$440,000 from the prior quarter to just \$55,000, or 0.05% of average loans. Taking all of these facts into account, we believe the health of the loan portfolio remains favorable, and we expect reserve levels will remain in the mid 0.90% range through 2016.

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	\$7,994	79%	25%	86%	4.69%	5.61%	4.99%	0.14%	0.22%	23%	64%	0.10%	1.17%	0.78%	67%	7.6%	8.9%	12.9%
Palmetto Bancshares, Inc.	PLMT	\$1,097	81%	23%	83%	3.77%	4.65%	3.88%	0.05%	0.05%	26%	73%	-0.14%	5.02%	1.98%	39%	12.0%	11.7%	15.3%
Carolina Financial Corporation	CARO	\$1,039	62%	14%	84%	3.53%	4.67%	4.06%	NA	NA	41%	74%	-0.14%	2.32%	1.28%	55%	9.0%	10.9%	14.8%
Southern First Bancshares, Inc.	SFST	\$1,008	64%	17%	108%	3.66%	4.71%	4.42%	NA	NA	16%	60%	0.54%	2.40%	1.34%	56%	6.2%	9.0%	10.7%
CNB Corporation	CNBW	\$961	62%	22%	55%	3.11%	5.64%	3.26%	0.24%	NA	17%	68%	0.70%	4.50%	2.19%	49%	10.0%	10.0%	18.5%
Security Federal Corporation	SFDL	\$844	61%	NA	54%	3.15%	5.55%	3.75%	0.38%	NA	17%	68%	0.94%	7.42%	2.56%	35%	7.3%	8.7%	19.3%
Tidelands Bancshares, Inc.	TDBK	\$482	38%	7%	74%	2.90%	4.91%	4.10%	0.92%	NA	10%	98%	0.00%	10.90%	1.59%	15%	-1.9%	2.0%	2.7%
Southcoast Financial Corporation	SOCB	\$464	59%	16%	110%	3.66%	4.87%	4.49%	NA	NA	12%	66%	0.11%	3.53%	1.67%	47%	9.8%	10.4%	14.1%
Coastal Banking Company, Inc.	CBCO	\$443	54%	12%	88%	3.83%	5.57%	4.59%	0.64%	NA	71%	82%	0.11%	6.65%	1.53%	23%	6.0%	10.3%	19.4%
Bank of South Carolina Corporation	BKSC	\$377	80%	NA	NA	NA	5.51%	4.34%	NA	NA	NA	NA	-0.06%	NA	NA	NA	9.5%	9.9%	13.6%
First Reliance Bancshares, Inc.	FSRL	\$364	73%	23%	82%	4.38%	5.47%	4.78%	0.28%	0.37%	25%	87%	-0.01%	7.63%	1.17%	15%	4.6%	12.1%	15.0%
Greer Bancshares Incorporated	GRBS	NA	67%	NA	74%	NA	4.91%	3.87%	NA	NA	NA	NA	0.01%	2.19%	NA	NA	10.2%	9.9%	15.6%
First Community Corporation	FCCO	\$831	75%	NA	65%	3.50%	5.03%	3.82%	0.26%	0.50%	27%	70%	0.05%	2.43%	0.92%	38%	8.0%	10.1%	15.8%
Peer Group Medians:		\$838	64%	17%	82%	3.66%	5.03%	4.10%	0.27%	0.30%	23%	70%	0.05%	4.02%	1.53%	39%	8.0%	10.0%	15.0%

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 Profitability and Valuation Metrics

	Count	Mkt Cap (M)	Assets (M)	Valuation Metrics					Profitability Metrics						
				P/TBV	FY15E P/E	FY16E P/E	Deposit Premium	Dividend Yield	ROA (MRQ)	ROE (MRQ)	ROTCE (MRQ)	ROTCE (FY15E)	ROTCE (FY16E)	FY15E EPS Growth	FY16E EPS Growth
Industry Medians	532	\$165	\$1,353	1.51x	13.3x	12.1x	4%	2.4%	0.88%	8.1%	9.7%	10.8%	11.6%	11%	10%
Large Cap (>\$3B)	33	\$6,477	\$48,680	1.63x	13.3x	11.8x	8%	2.2%	1.09%	8.4%	12.4%	11.6%	12.2%	7%	11%
Mid-Cap (\$750M - \$3B)	72	\$1,437	\$8,534	1.68x	13.6x	12.2x	7%	2.3%	1.05%	8.4%	11.7%	12.0%	12.3%	10%	10%
Small-Cap (\$300M - \$750M)	87	\$461	\$3,175	1.54x	12.9x	11.9x	6%	2.4%	1.04%	9.5%	10.9%	10.8%	11.2%	12%	10%
Micro-Cap (<\$300M)	340	\$94	\$890	1.15x	13.4x	12.7x	3%	2.4%	0.78%	7.5%	8.6%	8.5%	8.8%	13%	10%
Regional Medians															
Mid-Atlantic	126	\$131	\$1,149	1.20x	13.1x	12.2x	4%	3.0%	0.84%	7.8%	9.1%	10.2%	11.1%	11%	8%
Midwest	138	\$132	\$1,223	1.21x	12.5x	11.4x	4%	2.2%	0.88%	8.6%	10.3%	10.9%	11.7%	7%	10%
New England	36	\$170	\$1,494	1.36x	14.6x	13.5x	5%	3.0%	0.73%	6.6%	9.6%	10.3%	10.9%	8%	12%
Southwest	22	\$881	\$4,415	1.84x	15.8x	13.8x	10%	1.8%	1.09%	9.7%	11.4%	11.8%	12.6%	15%	12%
West	83	\$218	\$1,648	1.26x	13.6x	12.3x	6%	2.3%	1.05%	8.6%	10.4%	11.3%	11.8%	11%	11%
Southeast	127	\$169	\$1,275	1.25x	13.4x	11.7x	5%	1.9%	0.83%	7.6%	9.4%	10.6%	11.4%	19%	13%

Priced as of October 22, 2014.

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 First Call consensus estimates.

Source: SNL Financial, Thomson One, and Raymond James research

First Community Corporation**Income Statement***(\$ in thousands)*

	1Q13 31-Mar	2Q13 30-Jun	3Q13 30-Sep	4Q13 31-Dec	2013E 31-Dec	1Q14 31-Mar	2Q14 30-Jun	3Q14 30-Sep	4Q14E 31-Dec	2014E 31-Dec	1Q15E 31-Mar	2Q15E 30-Jun	3Q15E 30-Sep	4Q15E 31-Dec	2015E 31-Dec	2016E 31-Dec
Net Interest Income	4,279	4,423	4,570	4,777	18,049	5,496	5,947	6,096	6,287	23,826	6,153	6,294	6,399	6,472	25,317	26,546
Provision for loan losses	150	100	129	149	528	150	400	152	275	977	225	225	250	250	950	1,000
Net Interest Income after Provision	4,129	4,323	4,441	4,628	17,521	5,346	5,547	5,944	6,012	22,849	5,928	6,069	6,149	6,222	24,367	25,546
Deposit service charges	361	367	387	392	1,507	366	379	400	426	1,571	462	452	467	454	1,835	1,900
Mortgage origination fees	1,015	1,183	770	799	3,767	619	702	1,016	813	3,150	772	888	977	899	3,536	3,887
Investment advisory fees and commissions	198	218	279	277	972	257	198	267	320	1,042	256	269	283	291	1,099	1,286
Gain on sale of securities	15	133	4	(79)	73	8	78	16	0	102	0	0	0	0	0	0
Gain (loss) on sale of other assets	(2)	32	(23)	(8)	(1)	12	(24)	10	0	(2)	0	0	0	0	0	0
Fair value gain (loss) adjustment	0	(2)	0	0	(2)	0	0	0	0	0	0	0	0	0	0	0
Loss on early extinguishment of debt	0	(141)	0	0	(141)	0	(67)	0	0	(67)	0	0	0	0	0	0
Other	496	505	524	491	2,016	613	633	591	609	2,446	612	615	618	621	2,466	2,500
Noninterest Income	2,083	2,295	1,941	1,872	8,191	1,875	1,899	2,300	2,168	8,242	2,102	2,224	2,344	2,265	8,935	9,572
Non-Operating items	13	22	(19)	(87)	(71)	20	(13)	26	0	33	0	0	0	0	0	0
Operating Noninterest Income	2,070	2,273	1,960	1,959	8,262	1,855	1,912	2,274	2,168	8,209	2,102	2,224	2,344	2,265	8,935	9,572
Total Revenue	6,362	6,718	6,511	6,649	26,240	7,371	7,846	8,396	8,456	32,069	8,255	8,518	8,743	8,737	34,253	36,118
Total Operating Revenue	6,349	6,696	6,530	6,736	26,311	7,351	7,859	8,370	8,456	32,036	8,255	8,518	8,743	8,737	34,253	36,118
Salaries and employee benefits	2,992	2,994	2,948	3,079	12,013	3,424	3,272	3,502	3,327	13,525	3,294	3,376	3,427	3,409	13,506	13,962
Occupancy	346	334	343	361	1,384	413	465	489	499	1,866	501	504	506	509	2,020	2,061
Equipment	283	314	310	299	1,206	339	375	414	426	1,554	431	435	439	444	1,749	1,820
Marketing and public relations	93	112	106	230	541	161	212	218	262	853	314	220	176	229	938	951
FDIC assessment	99	102	108	108	417	124	131	138	149	542	156	158	158	159	632	646
Other real estate expense	112	115	189	113	529	138	117	105	100	460	75	75	75	75	300	200
Amortization of intangibles	51	45	32	32	160	42	63	64	67	236	67	67	67	67	269	269
Other	831	939	921	1,481	4,172	1,385	1,150	1,130	1,141	4,806	1,147	1,153	1,159	1,164	4,623	4,775
Noninterest Expense	4,807	4,955	4,957	5,703	20,422	6,026	5,785	6,060	5,971	23,842	5,985	5,988	6,007	6,056	24,036	24,684
Non-Operating items	0	28	33	506	567	420	15	39	0	474	0	0	0	0	0	0
Operating Noninterest Expense	4,807	4,927	4,924	5,197	19,855	5,606	5,770	6,021	5,971	23,368	5,985	5,988	6,007	6,056	24,036	24,684
Income Before Tax	1,405	1,663	1,425	797	5,290	1,195	1,661	2,184	2,209	7,249	2,045	2,305	2,486	2,431	9,267	10,434
Income tax expense	367	460	379	(53)	1,153	333	460	632	641	2,066	634	715	771	754	2,873	3,339
GAAP Net Income	1,038	1,203	1,046	850	4,137	862	1,201	1,552	1,569	5,184	1,411	1,591	1,715	1,677	6,394	7,095
Operating Net Income	988	1,218	1,078	1,001	4,286	1,151	1,221	1,561	1,569	5,502	1,411	1,591	1,715	1,677	6,394	7,095
Diluted shares	5,292	5,311	5,309	5,354	5,317	6,229	6,719	6,727	6,730	6,601	6,733	6,736	6,739	6,742	6,737	6,749
GAAP EPS - diluted	\$0.20	\$0.23	\$0.20	\$0.16	\$0.78	\$0.14	\$0.18	\$0.23	\$0.23	\$0.79	\$0.21	\$0.24	\$0.25	\$0.25	\$0.95	\$1.05
Operating EPS - diluted	\$0.19	\$0.23	\$0.20	\$0.19	\$0.81	\$0.18	\$0.18	\$0.23	\$0.23	\$0.83	\$0.21	\$0.24	\$0.25	\$0.25	\$0.95	\$1.05

Financial Highlights

TBV/share	\$10.22	\$9.86	\$9.87	\$9.83	\$9.83	\$9.40	\$9.84	\$9.95	\$10.13	\$10.13	\$10.29	\$10.47	\$10.67	\$10.87	\$10.87	\$11.71
TCE/Assets	8.7%	8.3%	8.2%	8.2%	8.2%	7.9%	8.4%	8.0%	8.2%	8.2%	8.4%	8.5%	8.6%	8.8%	8.8%	9.2%
Loans/Deposits	67%	67%	68%	70%	70%	68%	69%	65%	63%	63%	61%	62%	62%	63%	63%	64%
Loan Growth	0.5%	2.2%	1.2%	0.7%	4.7%	27.7%	0.2%	0.9%	0.5%	32.3%	0.0%	1.0%	1.0%	1.5%	3.5%	5.6%
NPA's/Loans	2.59%	2.56%	2.48%	2.50%	2.50%	2.46%	2.56%	2.17%	2.08%	2.08%	2.06%	2.02%	1.98%	1.93%	1.93%	1.54%
NCO's/Avg. Loans	0.28%	0.23%	0.28%	0.29%	0.27%	0.20%	0.45%	0.05%	0.15%	0.21%	0.15%	0.15%	0.14%	0.14%	0.15%	0.14%
Reserves/Loans	1.36%	1.30%	1.25%	1.21%	1.21%	0.94%	0.91%	0.93%	0.93%	0.93%	0.94%	0.94%	0.95%	0.95%	0.95%	0.97%
NIM	3.15%	3.11%	3.18%	3.29%	3.18%	3.40%	3.38%	3.48%	3.38%	3.41%	3.40%	3.42%	3.44%	3.46%	3.43%	3.52%
G&A/Avg. Assets	3.17%	3.37%	3.12%	3.26%	3.23%	3.06%	3.21%	3.08%	2.87%	3.05%	2.89%	2.89%	2.89%	2.91%	2.89%	2.92%
Efficiency Ratio	76%	74%	75%	77%	75%	76%	73%	72%	71%	73%	73%	70%	69%	69%	70%	68%
Effective tax rate	26.1%	27.7%	26.6%	-6.6%	21.8%	27.9%	27.7%	28.9%	29.0%	28.5%	31.0%	31.0%	31.0%	31.0%	31.0%	32.0%
ROA (operating)	0.65%	0.83%	0.68%	0.63%	0.70%	0.63%	0.68%	0.80%	0.76%	0.72%	0.68%	0.77%	0.83%	0.81%	0.77%	0.84%
ROE (operating)	7.3%	8.8%	8.2%	7.5%	8.0%	7.2%	7.0%	8.7%	8.6%	7.9%	7.6%	8.4%	9.0%	8.6%	8.4%	8.7%
ROTCE (operating)	7.3%	8.9%	8.3%	7.6%	8.1%	7.6%	7.6%	9.5%	9.4%	8.6%	8.3%	9.2%	9.7%	9.3%	9.1%	9.4%
Dividends per share	\$0.05	\$0.05	\$0.06	\$0.06	\$0.22	\$0.06	\$0.06	\$0.06	\$0.06	\$0.24	\$0.06	\$0.06	\$0.06	\$0.06	\$0.24	\$0.24

Core PTPP earnings

PTPP ROA	1.654	1.884	1.795	1.652	6.985	1.883	2.206	2.454	2.584	9.127	2.345	2.605	2.811	2.756	10.517	11.634
	1.09%	1.29%	1.14%	1.04%	1.14%	1.03%	1.23%	1.26%	1.24%	1.19%	1.13%	1.26%	1.35%	1.32%	1.27%	1.38%

Source: Company reports and Raymond James research

First Community Corporation**Balance Sheet**

(\$ in thousands)

Stated Equity

Preferred

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

1Q13 31-Mar	2Q13 30-Jun	3Q13 30-Sep	4Q13 31-Dec
54,770	52,828	52,862	52,671
0	0	0	0
680	635	603	571
54,090	52,193	52,259	52,100
\$10.35	\$9.98	\$9.98	\$9.93
\$10.22	\$9.86	\$9.87	\$9.83
5,290	5,293	5,296	5,303
8.8%	8.3%	8.3%	8.3%
8.7%	8.3%	8.2%	8.2%
10.78%	10.61%	10.64%	10.77%
17.59%	17.51%	17.29%	17.60%
18.82%	18.68%	18.40%	18.68%
625,855	633,185	635,927	633,309
23,758	14,560	9,958	5,927
220,604	225,915	230,712	227,030
4,238	5,789	2,529	3,790
333,720	341,089	345,064	347,597
(4,534)	(4,439)	(4,323)	(4,219)
48,069	50,271	51,987	53,184
571,085	580,357	583,065	580,638
497,024	509,619	508,592	497,071
17,216	15,650	17,076	18,634
36,339	34,335	34,330	43,325
15,464	15,464	15,464	15,464
5,042	5,289	7,603	6,144

1Q14 31-Mar	2Q14 30-Jun	3Q14 30-Sep	4Q14E 31-Dec
68,765	70,992	72,563	73,732
0	0	0	0
6,218	5,467	6,308	6,241
62,547	65,525	66,255	67,491
\$10.34	\$10.67	\$10.89	\$11.07
\$9.40	\$9.84	\$9.95	\$10.13
6,652	6,656	6,660	6,663
8.6%	9.0%	8.7%	8.9%
7.9%	8.4%	8.0%	8.2%
10.67%	10.10%	10.33%	
15.67%	15.79%	15.78%	
16.51%	16.61%	16.61%	
797,873	786,687	830,917	830,917
24,055	14,741	43,654	
255,484	250,775	263,924	
3,837	2,990	3,404	
443,868	444,670	448,556	459,799
(4,161)	(4,066)	(4,156)	(4,261)
74,790	77,577	75,535	
729,108	715,695	758,354	
654,438	640,057	686,971	733,406
19,492	16,374	17,650	
34,321	37,916	32,312	
15,464	15,464	15,464	
5,393	5,884	5,957	

1Q15E 31-Mar	2Q15E 30-Jun	3Q15E 30-Sep	4Q15E 31-Dec	4Q16E 31-Dec
74,743	75,933	77,248	78,525	84,016
0	0	0	0	0
6,174	6,106	6,039	5,972	5,703
68,569	69,827	71,209	72,553	78,313
\$11.21	\$11.39	\$11.58	\$11.76	\$12.56
\$10.29	\$10.47	\$10.67	\$10.87	\$11.71
6,666	6,669	6,672	6,675	6,687
9.0%	9.1%	9.3%	9.4%	9.8%
8.4%	8.5%	8.6%	8.8%	9.2%
826,762	830,896	830,896	835,051	860,332
459,799	464,397	469,041	476,076	502,776
(4,313)	(4,365)	(4,452)	(4,536)	(4,880)
755,408	751,631	755,389	759,166	785,831

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Strong Buy (SB1) Expected to appreciate, produce a total return of at least 15%, and outperform the S&P 500 over the next six to 12 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, a total return of at least 15% is expected to be realized over the next 12 months.

Outperform (MO2) Expected to appreciate and outperform the S&P 500 over the next 12-18 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12-18 months.

Market Perform (MP3) Expected to perform generally in line with the S&P 500 over the next 12 months.

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.

Underperform (MU4) The stock is expected to underperform the S&P/TSX Composite Index or its sector over the next six to twelve months and should be sold.

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Outperform (MO2) Expected to appreciate and produce a total return of between 15.0% and 25.0% over the next twelve months.

Market Perform (MP3) Expected to perform in line with the underlying country index.

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	Coverage Universe Rating Distribution				Investment Banking Distribution			
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Market Perform (Hold)	40%	27%	50%	42%	8%	30%	0%	0%
Underperform (Sell)	4%	3%	0%	13%	0%	20%	0%	0%

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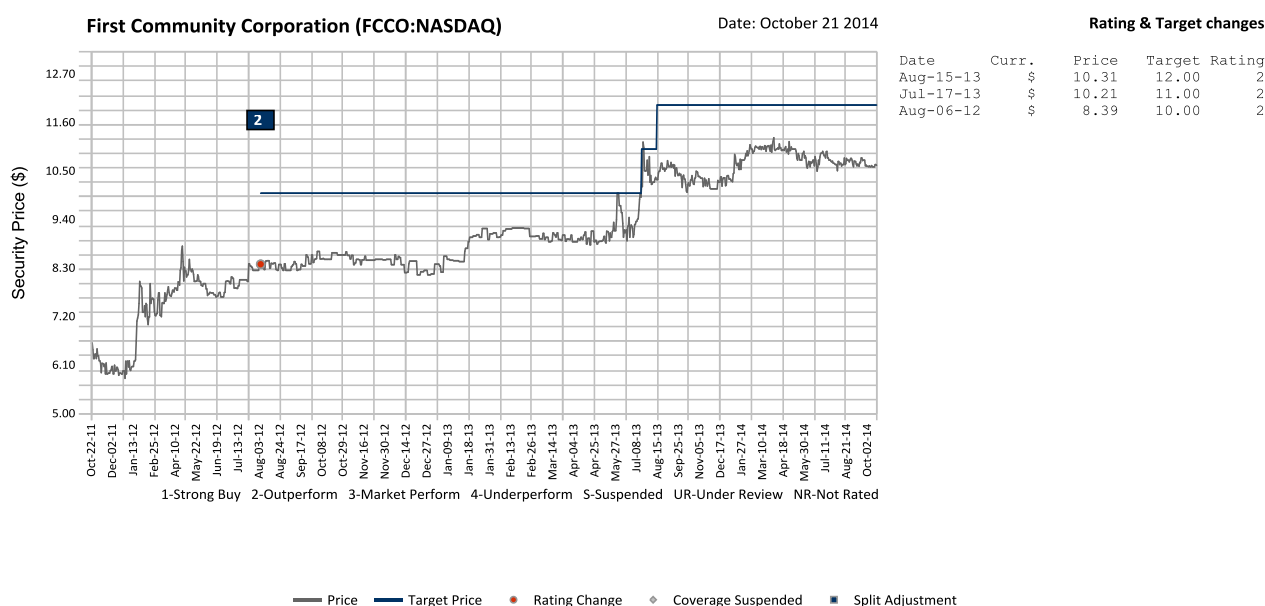
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Company Name	Disclosure
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Target Prices: The information below indicates our target price and rating changes for FCCO stock over the past three years.



Valuation Methodology: For First Community Corporation, our valuation methodology utilizes a 12-month estimate of intrinsic value and also takes into consideration the company's price/tangible book value and P/E ratio in comparison to its return on tangible equity and its peer group.

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Banking Industry Risk Factors

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

In August 2013, the company announced the acquisition of Savannah River Financial Corporation. While credit risk is limited from this acquisition, in our view, given credit quality metrics of the acquired loan portfolio, integration risk exists. The Savannah River acquisition poses execution risk, and the ability of management to achieve revenue and expense goals is not a given.

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