

First Community Corporation

July 17, 2013

(FCCO:NASDAQ)

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Company Comment

Rating

Outperform 2

Banking

Reiterate Outperform - Revenue Picture Solidifying, Loan Growth Helping

Recommendation: We are reiterating our **Outperform** rating on shares of First Community and raising our price target to \$11 from \$10 following 2Q13 results that beat expectations on higher revenue, primarily from mortgage banking income. Management remains focused on maintaining a diversified revenue stream given the challenges in the current environment to spread revenue generation, and 2Q13 did not disappoint with fee income totaling 34% of total revenue on an operating basis. Mortgage banking has been an area that current management has invested in, and we believe investors should be pleased with the purchase mix of the business, which suggests to us that a sizeable portion of the business is sustainable. While the company announced a quarterly dividend increase of 20% to \$0.06 per share, the stock still remains tied to the company's ability to deploy excess capital for profitable balance sheet growth. Options include M&A, de novo branching, or continued investments in fee income businesses. We assume it can successfully deploy its excess capital base longer term to drive profitability ratios well in excess of peers, which warrants an **Outperform** rating on the stock, in our view, especially given its discount valuation relative to peers on a price to tangible book value basis.

- ◆ **2Q13 results beat.** First Community reported GAAP and operating EPS of \$0.23, above both our \$0.20 estimate and the \$0.21 consensus. Relative to our model, upside was from higher revenue, primarily in mortgage banking. Some revenue upside was offset by higher legal and professional fees, which could have been driven by strategic activities.
- ◆ **Mortgage banking stronger than expected on purchase activity.** Management has invested in its mortgage banking business in recent years, and 2Q13 demonstrated continued strength as revenue increased nearly 20% sequentially versus our forecast for a 5% decline. While we do not believe the beat alone will excite investors, the more meaningful metric is the increase in purchase volume, which rose to 49% of total production, from 30% in 1Q13. We believe this trend should be viewed favorably as an indication that the business will experience some support as refinance volumes likely fall off meaningfully in 2H13.
- ◆ **Low rate environment pressures margin.** Net interest margin (NIM) contracted 4 basis points (bp) sequentially to 3.11%, below our 3.14% estimate, driven mainly by lower yields in the securities portfolio. While the linked quarter compression was more than expected, 2.2% loan growth was stronger than our estimate and drove net interest income above our model. We increased our margin expectations on higher loan growth, though we still expect meaningful compression to 3.05% by 4Q13 and 2.85% by 4Q14.
- ◆ **Estimates:** We are increasing our 2013E operating EPS to \$0.83 from \$0.80 but maintaining our 2014 EPS estimate of \$0.75.

Valuation: Our new \$11 price target is based on 1.1x our 2Q14 tangible book value (TBV) estimate of \$10.40 and 14.7x our 2014E EPS, a discount to micro-cap peers at 1.2x on a TBV basis but a slight premium to peers at 13.9x on 2014 EPS estimates. We believe TBV should serve as a floor to the stock until the company can deploy capital to drive higher EPS levels, but a premium multiple to peers is unlikely until that point.

Non-GAAP EPS	Q1 Mar	Q2 Jun	Q3 Sep	Q4 Dec	Full Year	GAAP EPS Full Year	Revenues (mil.)
2012A	\$0.25	\$0.24	\$0.24	\$0.19	\$0.91	\$0.79	\$26
Old2013E	0.19A	0.20	0.21	0.20	0.80	0.81	26
New2013E	0.19A	0.23A	0.21	0.20	0.83	0.83	26
Old2014E	0.17	0.18	0.20	0.20	0.75	0.75	25
New2014E	0.17	0.19	0.20	0.19	0.75	0.75	25

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 (Jul-17-13 2:50 p.m.)	\$10.21
Target Price: Old: \$10.00	New: \$11.00
52-Week Range	\$10.00 - \$7.85
Suitability	Aggressive Growth

Market Data

Shares Out. (mil.)	5.3
Market Cap. (mil.)	\$54
Avg. Daily Vol. (10 day)	7,357
Dividend/Yield	\$0.24/2.4%
Book Value (Jun-13)	\$9.98
Tang. BVPS (Jun-13)	\$9.86

Earnings & Valuation Metrics

	2012A	2013E	2014E
P/E Ratios (Non-GAAP)	11.2x	12.3x	13.6x

Company Description

First Community Corporation, headquartered in Lexington, South Carolina, is a \$600 million asset bank holding company that operates 11 branches in the midlands region of the state.

Raymond James Revised Earnings Estimates

As displayed in the following table, we are increasing our 2013 operating EPS estimate to \$0.83 from \$0.80 but maintaining our 2014 EPS estimate of \$0.75. For 2013, we increased our average earning asset estimate due to a more optimistic view of loan growth, and tweaked our mortgage banking revenue forecasts up given continued investment in this business. These benefits are only partially offset by an increase in operating expense. For 2014, we expect that momentum in loan growth will continue and believe the margin will benefit from a shift in the bank's earning asset mix to a higher concentration of loans. That said, lower mortgage banking volumes decrease our fee income estimate and, when combined with a higher expense base, fully offset our higher spread revenue expectations.

Earnings Estimates

(\$ in thousands)	2013E			2014E		
	Old	Current	Change	Old	Current	Change
Operating EPS	\$0.80	\$0.83	\$0.03	\$0.75	\$0.75	\$0.00
GAAP EPS	\$0.81	\$0.83	\$0.02	\$0.75	\$0.75	\$0.00
Core PTPP* Earnings	6,979	7,041	1%	6,383	6,438	1%
Avg. Earning Assets	576,291	585,286	2%	610,125	622,719	2%
NIM	3.10%	3.10%	0 bps	2.84%	2.93%	9 bps
Net Interest Income	17,350	17,668	2%	16,773	17,734	6%
Provision	550	530	-4%	530	560	6%
Operating Fee Income	8,217	8,350	2%	7,747	7,374	-5%
Operating Expense	19,025	19,404	2%	18,337	18,870	3%
Operating Efficiency	74%	75%	17 bps	75%	75%	37 bps
Tax Rate	28.3%	27.5%	-85 bps	30.0%	30.0%	0 bps
Diluted shares	5,295	5,308	0%	5,306	5,323	0%
Dividends per share	\$0.21	\$0.22	\$0.01	\$0.24	\$0.24	\$0.00
Reserves/Loans	1.28%	1.25%	-3 bps	1.24%	1.18%	-7 bps
NPA's/Loans	2.20%	2.52%	32 bps	1.50%	2.06%	56 bps
NCO's/Avg. Loans	0.22%	0.23%	1 bps	0.13%	0.17%	4 bps

*PTPP = pre-tax, pre-provision

We are increasing our 2013 operating EPS estimate to \$0.83 from \$0.80 but maintaining our 2014 EPS estimates of \$0.75. For 2013, higher revenue expectations are only partially offset by higher expense estimates. For 2014, higher spread revenue expectations, driven by better liquidity deployment, is fully offset by lower fee income and higher expense estimates.

Source: Company reports and Raymond James research

Margin Contracts as Pressures Mount

NIM contracted 4 bp linked quarter to 3.11%, below our 3.14% estimate, as a reduction in funding costs did not overtake the decline in earning asset yields. Specifically, total funding costs eased 7 bp sequentially to 0.67% while total earning asset yields dropped 13 bp to 3.68% as the yield in the securities portfolio fell 22 bp to 1.55%. That said, we were pleased to see loan yields remain relatively level at 5.20% compared to 5.23% in 1Q13. Combined with relatively strong sequential loan growth of 2.2%, above our 1.5% estimate, our outlook for net interest income has improved somewhat significantly. We believe 2Q's loan growth is evidence that loan demand is firming in its markets, which could stave off some natural pressures to yields in the low interest rate environment as the bank shifts its earning assets from cash and securities to loans. Nevertheless, loan pricing remains very competitive throughout the company's markets from larger regional banks. That said, the bank is more willing to compete on price for A-grade credits and choosing to remain shorter on duration by not extending out more than seven years compared to large competitors that are reaching out 10 to 15 years with fixed rates on commercial real estate loans.

Turning to the right side of the balance sheet, time deposit costs declined 12 bp linked quarter to 0.86% while costs in other categories eased slightly or remained flat. We also note that the bank improved its average core deposit mix to 65% from 62% in 1Q13 as displayed in the following table. With the cost of funds slightly above the micro-cap peer median of 0.65%, we anticipate there is additional room to trim funding costs at the bank, mainly from reducing some higher cost time deposits over the next couple

of months. Despite these benefits that will offset some pressure on earning asset yields, costs will eventually bottom, which will place even more focus on loan pricing, loan growth, and asset mix to limit meaningful margin contraction until the yield curve steepens more meaningfully and sustainable strong loan demand returns. With our view of a still challenged loan growth environment and fewer levers on the funding side, we currently model NIM compressing to 3.05% by 4Q13, then 2.85% by 4Q14.

Deposit Mix Improves

(\$ in thousands)	% of Total	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	1Q13A- 2Q13A	2Q12A- 2Q13A
Demand deposits	20.2%	81,213	82,544	82,252	84,247	86,443	90,168	93,098	97,163	95,777	100,967	5.4%	12.0%
Interest-bearing accounts	20.3%	78,382	81,150	85,519	89,307	84,989	89,647	91,778	92,466	95,237	101,247	6.3%	12.9%
Money market accounts	15.3%	46,447	49,534	50,220	48,962	50,143	52,309	53,528	54,493	60,976	76,272	25.1%	45.8%
Savings deposits	9.3%	30,369	31,957	32,275	33,733	36,445	38,752	39,955	40,898	42,589	46,355	8.8%	19.6%
Time deposits	34.9%	224,612	221,800	218,948	213,719	208,565	201,079	195,230	188,837	182,116	173,879	-4.5%	-13.5%
Total Average Deposits	100%	461,023	466,985	469,214	469,968	466,585	471,955	473,589	473,857	476,695	498,720	4.6%	5.7%
Core Deposit Mix		51%	53%	53%	55%	55%	57%	59%	60%	62%	65%		

Source: Company reports and Raymond James research

Asset Quality Picture Remains Intact

Non-performing assets (NPAs) remained basically flat linked quarter at \$8.8 million, or 2.6% of loans and real estate owned (REO), while problem asset balances (special mention and substandard loans) declined \$841,000 to \$22.1 million, or 6.4% of total loans. While nonaccrual loans ticked up, REO balances decreased and led to a minimal \$79,000 increase in NPAs. We are not concerned about the small increase despite our forecast of a slight decline given quality loan portfolio performance through most of the credit cycle. Net charge-offs (NCOs) registered just 0.23% of average loans in 2Q13 and have not exceeded 0.28% over the past six quarters, demonstrating the company's conservative underwriting standards. As such, we believe the health of the loan portfolio remains favorable, and we expect reserve levels will move down to 1.25% by 4Q13 and 1.18% by 4Q14, from 1.30% at 2Q13.

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	NPAs/ Loans	Reserves/ Loans	Reserves/ NPAs	TCE ratio	Leverage Ratio	Tier 1 risk-based
First Financial Holdings, Inc.	FFCH	\$3,217	65%	17%	95%	4.47%	5.85%	5.50%	0.49%	0.87%	33%	68%	1.05%	2.91%	1.89%	65%	7.2%	10.7%	15.3%
Palmetto Bancshares, Inc.	PLMT	\$1,099	73%	19%	75%	3.72%	5.38%	4.07%	0.36%	0.35%	27%	72%	0.38%	7.10%	2.37%	33%	9.1%	9.6%	13.5%
CNB Corporation	CNBW	\$943	56%	18%	58%	3.09%	5.75%	3.37%	0.37%	NA	17%	71%	1.59%	6.46%	2.44%	38%	9.7%	9.6%	17.3%
Security Federal Corporation	SFDL	\$876	58%	NA	58%	2.74%	5.68%	3.70%	0.58%	NA	21%	71%	1.38%	8.43%	2.82%	33%	6.7%	7.9%	16.9%
Southern First Bancshares, Inc.	SFST	\$822	63%	14%	109%	3.64%	5.10%	4.63%	0.55%	1.01%	11%	66%	0.52%	2.67%	1.41%	53%	5.9%	9.5%	11.5%
Tidelands Bancshares, Inc.	TDBK	\$513	40%	4%	75%	2.35%	4.81%	3.76%	1.02%	1.26%	8%	107%	0.26%	20.75%	1.97%	9%	-1.0%	2.4%	3.3%
HCSB Financial Corporation	HCFB	\$513	40%	8%	68%	2.90%	5.05%	3.99%	0.83%	1.17%	14%	80%	1.47%	19.47%	6.69%	34%	-3.9%	-2.0%	-2.8%
First Community Corporation	FCCO	\$626	64%	20%	67%	3.11%	5.16%	3.80%	0.43%	0.74%	33%	72%	0.28%	2.74%	1.34%	49%	8.7%	10.8%	17.6%
Peer Group Medians:		\$849	61%	17%	71%	3.10%	5.27%	3.90%	0.52%	0.94%	19%	72%	0.78%	6.78%	2.17%	36%	7.0%	9.5%	14.4%

Peer group consists of banks based in SC with Assets between \$500 million and \$4 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	FY13E P/E	FY14E P/E	Deposit Premium	Dividend Yield	ROA (MRQ)	ROE (MRQ)	ROTCE (MRQ)	ROTCE (FY13E)	ROTCE (FY14E)
Industry Medians	510	\$151	\$1,298	1.60x	15.3x	14.4x	5%	2.4%	0.77%	7.3%	9.1%	9.9%	9.9%
Large Cap (>\$3B)	30	\$6,669	\$55,083	1.78x	13.9x	13.2x	8%	2.2%	1.05%	9.2%	12.4%	12.3%	12.3%
Mid-Cap (\$750M - \$3B)	64	\$1,537	\$9,313	1.61x	15.9x	14.9x	8%	2.4%	0.98%	8.5%	11.4%	11.4%	11.4%
Small-Cap (\$300M - \$750M)	73	\$475	\$3,124	1.67x	15.3x	14.7x	6%	2.5%	0.92%	8.5%	10.3%	10.5%	10.5%
Micro-Cap (<\$300M)	343	\$85	\$896	1.22x	14.8x	13.9x	4%	2.6%	0.66%	6.5%	7.8%	8.5%	8.5%
Regional Medians													
Mid-Atlantic	115	\$141	\$1,105	1.32x	15.2x	14.5x	5%	2.9%	0.78%	8.0%	9.6%	10.0%	10.7%
Midwest	134	\$108	\$1,256	1.14x	14.2x	13.7x	4%	2.4%	0.77%	7.5%	9.6%	10.3%	10.3%
New England	34	\$149	\$1,307	1.25x	15.1x	14.3x	4%	3.1%	0.76%	6.6%	9.0%	10.0%	10.5%
Southwest	21	\$765	\$3,374	1.62x	16.5x	15.3x	8%	1.7%	0.83%	8.1%	9.6%	9.0%	8.7%
West	78	\$228	\$1,417	1.30x	15.9x	14.6x	5%	2.2%	0.86%	7.6%	8.4%	9.6%	9.5%
Southeast	128	\$140	\$1,117	1.19x	16.3x	14.9x	5%	2.1%	0.67%	6.1%	8.0%	9.5%	9.7%

Note: Priced as of July 17, 2013. Excludes banks with less than \$500 million in assets, Mutual Holding Companies, and trust banks.

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

First Community Corporation

Income Statement

(\$ in thousands)

	2011 31-Dec	1Q12 31-Mar	2Q12 30-Jun	3Q12 30-Sep	4Q12 31-Dec	2012 31-Dec	1Q13 31-Mar	2Q13 30-Jun	3Q13E 30-Sep	4Q13E 31-Dec	2013E 31-Dec	1Q14E 31-Mar	2Q14E 30-Jun	3Q14E 30-Sep	4Q14E 31-Dec	2014E 31-Dec
Net Interest Income	18,317	4,509	4,451	4,329	4,285	17,574	4,279	4,423	4,441	4,526	17,668	4,367	4,425	4,462	4,479	17,734
Provision for loan losses	1,420	230	71	115	80	496	150	100	140	140	530	140	140	140	140	560
Net Interest Income after Provision	16,897	4,279	4,380	4,214	4,205	17,078	4,129	4,323	4,301	4,386	17,138	4,227	4,285	4,322	4,339	17,174
Deposit service charges	1,810	389	375	395	403	1,562	361	367	405	419	1,552	396	401	427	429	1,653
Mortgage origination fees	1,973	723	877	1,393	1,249	4,242	1,015	1,183	946	757	3,902	644	669	689	620	2,623
Investment advisory fees and commissions	767	147	162	183	159	651	198	218	240	237	893	247	257	267	278	1,048
Gain on sale of securities	575	11	(38)	(35)	88	26	15	133	0	0	148	0	0	0	0	0
Gain (loss) on sale of other assets	(155)	50	(36)	(22)	(81)	(89)	(2)	32	0	0	30	0	0	0	0	0
Fair value gain (loss) adjustment	(166)	(33)	(4)	(20)	(1)	(58)	0	(2)	0	0	(2)	0	0	0	0	0
OTTI	(297)	(200)	0	0	0	(200)	0	0	0	0	0	0	0	0	0	0
Loss on early extinguishment of debt	(188)	(121)	0	0	(96)	(217)	0	(141)	0	0	(141)	0	0	0	0	0
Other	1,908	497	519	508	514	2,038	496	505	500	502	2,003	507	518	512	512	2,050
Noninterest Income	6,227	1,463	1,855	2,402	2,235	7,955	2,083	2,295	2,091	1,916	8,385	1,794	1,844	1,896	1,840	7,374
Non-Operating items	(231)	(293)	(78)	(77)	(90)	(538)	13	22	0	0	35	0	0	0	0	0
Operating Noninterest Income	6,458	1,756	1,933	2,479	2,325	8,493	2,070	2,273	2,091	1,916	8,350	1,794	1,844	1,896	1,840	7,374
Total Revenue	24,544	5,972	6,306	6,731	6,520	25,529	6,362	6,718	6,531	6,442	26,053	6,161	6,269	6,358	6,320	25,108
Total Operating Revenue	24,775	6,265	6,384	6,808	6,610	26,067	6,349	6,696	6,531	6,442	26,018	6,161	6,269	6,358	6,320	25,108
Salaries and employee benefits	9,520	2,558	2,747	2,874	2,973	11,152	2,992	2,994	2,964	2,934	11,884	2,905	2,905	2,905	2,891	11,606
Occupancy	1,289	345	335	352	326	1,358	346	334	341	330	1,351	335	332	334	330	1,332
Equipment	1,147	287	283	307	291	1,168	283	314	317	319	1,233	317	314	314	314	1,259
Marketing and public relations	452	186	108	73	111	478	93	112	101	106	412	132	93	74	96	395
FDIC assessment	889	184	196	117	100	597	99	102	108	103	412	111	107	112	107	437
Other real estate expense	840	119	267	173	451	1,010	112	115	100	100	427	50	50	50	50	200
Amortization of intangibles	517	51	51	51	51	204	51	45	45	45	186	45	45	45	45	180
Impairment of goodwill	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	3,689	882	921	876	799	3,478	831	939	892	865	3,527	865	865	865	865	3,461
Noninterest Expense	18,343	4,612	4,908	4,823	5,102	19,445	4,807	4,955	4,867	4,803	19,432	4,761	4,711	4,699	4,699	18,870
Non-Operating items	0	0	0	0	0	0	0	28	0	0	28	0	0	0	0	0
Operating Noninterest Expense	18,343	4,612	4,908	4,823	5,102	19,445	4,807	4,927	4,867	4,803	19,404	4,761	4,711	4,699	4,699	18,870
Income Before Tax	4,781	1,130	1,327	1,793	1,338	5,588	1,405	1,663	1,524	1,499	6,091	1,260	1,419	1,519	1,481	5,678
Income tax expense	1,457	331	399	573	317	1,620	367	460	427	420	1,673	378	426	456	444	1,703
GAAP Net Income	3,324	799	928	1,220	1,021	3,968	1,038	1,203	1,097	1,079	4,417	882	993	1,063	1,036	3,975
Dividends on preferred stock	670	169	168	339	0	676	0	0	0	0	0	0	0	0	0	0
GAAP Net Income to Common	2,654	630	760	881	1,021	3,292	1,038	1,203	1,097	1,079	4,417	882	993	1,063	1,036	3,975
Operating Net Income to Common	2,838	827	801	1,139	1,014	3,782	988	1,218	1,097	1,079	4,383	882	993	1,063	1,036	3,975
Diluted shares	3,289	3,329	3,357	4,726	5,262	4,168	5,292	5,311	5,313	5,315	5,308	5,318	5,321	5,324	5,327	5,323
GAAP EPS - diluted	\$0.81	\$0.19	\$0.23	\$0.19	\$0.19	\$0.79	\$0.20	\$0.23	\$0.21	\$0.20	\$0.83	\$0.17	\$0.19	\$0.20	\$0.19	\$0.75
Operating EPS - diluted	\$0.86	\$0.25	\$0.24	\$0.24	\$0.19	\$0.91	\$0.19	\$0.23	\$0.21	\$0.20	\$0.83	\$0.17	\$0.19	\$0.20	\$0.19	\$0.75

Financial Highlights

TVB/share	\$10.83	\$11.25	\$11.14	\$10.10	\$10.23	\$10.23	\$10.22	\$9.86	\$10.01	\$10.16	\$10.16	\$10.27	\$10.40	\$10.54	\$10.68	\$10.68
TCE/Assets	6.0%	6.2%	6.2%	8.7%	8.9%	8.9%	8.7%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.2%	8.2%	8.2%
Loans/Deposits	70%	69%	69%	68%	70%	70%	67%	67%	67%	67%	67%	66%	67%	68%	68%	68%
Loan Growth	-1.7%	2.1%	-1.9%	-0.4%	2.7%	2.4%	0.5%	2.2%	1.0%	1.5%	5.3%	1.0%	1.5%	1.0%	1.5%	5.1%
NPA's/Loans	3.85%	3.21%	2.90%	3.19%	2.59%	2.59%	2.59%	2.56%	2.55%	2.52%	2.52%	2.47%	2.38%	2.27%	2.06%	2.06%
NCO's/Avg. Loans	0.49%	0.22%	0.09%	0.20%	0.18%	0.17%	0.28%	0.23%	0.22%	0.20%	0.23%	0.18%	0.18%	0.15%	0.15%	0.17%
Reserves/Loans	1.45%	1.43%	1.46%	1.45%	1.39%	1.39%	1.36%	1.30%	1.27%	1.25%	1.25%	1.23%	1.20%	1.19%	1.18%	1.18%
NIM	3.34%	3.36%	3.30%	3.12%	3.12%	3.23%	3.15%	3.11%	3.08%	3.05%	3.10%	3.00%	2.95%	2.90%	2.85%	2.93%
G&A/Avg. Assets	3.04%	3.11%	3.28%	3.16%	3.38%	3.23%	3.17%	3.37%	3.06%	2.97%	3.14%	2.91%	2.85%	2.79%	2.74%	2.82%
Efficiency Ratio	74%	74%	77%	71%	77%	75%	76%	74%	75%	75%	75%	77%	75%	74%	74%	75%
Effective tax rate	30.5%	29.3%	30.1%	32.0%	23.7%	29.0%	26.1%	27.7%	28.0%	28.0%	27.5%	30.0%	30.0%	30.0%	30.0%	30.0%
ROA (operating)	0.47%	0.56%	0.54%	0.75%	0.67%	0.63%	0.65%	0.83%	0.69%	0.67%	0.71%	0.54%	0.60%	0.63%	0.60%	0.59%
ROE (operating)	6.4%	6.9%	6.5%	7.8%	7.5%	7.2%	7.3%	8.8%	8.2%	8.0%	8.1%	6.5%	7.2%	7.6%	7.3%	7.1%
ROTCE (operating)	8.7%	9.2%	8.6%	8.8%	7.7%	8.5%	7.3%	8.9%	8.3%	8.1%	8.2%	6.5%	7.2%	7.7%	7.4%	7.2%
Dividends per share	\$0.16	\$0.04	\$0.04	\$0.04	\$0.04	\$0.16	\$0.05	\$0.05	\$0.06	\$0.06	\$0.22	\$0.06	\$0.06	\$0.06	\$0.06	\$0.24

Core PTPP earnings

PTPP ROA

Source: Company reports and Raymond James research

6,602	1,603	1,575	1,819	1,959	6,956	1,654	1,884	1,764	1,739	7,041	1,450	1,609	1,709	1,671	6,438
1.09%	1.08%	1.05%	1.19%	1.30%	1.16%	1.09%	1.29%	1.11%	1.08%	1.14%	0.89%	0.97%	1.01%	0.97%	0.96%

First Community Corporation**Balance Sheet**

(\$ in thousands)

	4Q11 31-Dec	1Q12 31-Mar	2Q12 30-Jun	3Q12 30-Sep	4Q12 31-Dec	1Q13 31-Mar	2Q13 30-Jun	3Q13E 30-Sep	4Q13E 31-Dec	1Q14E 31-Mar	2Q14E 30-Jun	3Q14E 30-Sep	4Q14E 31-Dec
Stated Equity	47,896	49,307	49,296	54,278	54,183	54,770	52,828	53,608	54,369	54,933	55,607	56,352	57,070
Preferred	11,137	11,164	11,191	750	0	0	0	0	0	0	0	0	0
Intangibles	936	884	834	782	731	680	635	590	545	500	455	410	365
Tangible Common Equity	35,823	37,259	37,271	52,746	53,452	54,090	52,193	53,018	53,824	54,433	55,152	55,942	56,705
Book Value	\$11.11	\$11.52	\$11.39	\$10.25	\$10.37	\$10.35	\$9.98	\$10.12	\$10.26	\$10.36	\$10.49	\$10.62	\$10.75
Tangible BV	\$10.83	\$11.25	\$11.14	\$10.10	\$10.23	\$10.22	\$9.86	\$10.01	\$10.16	\$10.27	\$10.40	\$10.54	\$10.68
Shares Outstanding	3,308	3,311	3,346	5,224	5,227	5,290	5,293	5,295	5,297	5,300	5,303	5,306	5,309
Equity/Assets	8.1%	8.2%	8.2%	9.0%	9.0%	8.8%	8.3%	8.4%	8.3%	8.4%	8.3%	8.3%	8.2%
TCE ratio	6.0%	6.2%	6.2%	8.7%	8.9%	8.7%	8.3%	8.3%	8.3%	8.3%	8.3%	8.2%	8.2%
Leverage Ratio	9.40%	9.77%	9.94%	10.56%	10.63%	10.78%	10.61%						
Tier 1 Capital Ratio	15.33%	15.69%	16.64%	17.94%	17.33%	17.59%	17.51%						
Total Capital Ratio	17.25%	17.62%	18.59%	19.88%	18.58%	18.82%	18.68%						
Total Assets	593,887	601,501	598,014	606,339	602,925	625,855	633,185	639,517	652,307	655,569	668,680	678,710	692,285
Other short-term investments	5,893	14,520	18,205	9,894	7,021	23,758	14,560						
Investment securities	206,669	202,699	201,381	210,734	205,972	220,604	225,915						
Loans held for sale	3,725	3,863	4,356	8,685	9,658	4,238	5,789						
Loans	324,311	331,090	324,913	323,534	332,111	333,720	341,089	344,500	349,667	353,164	358,462	362,046	367,477
Allowance for loan losses	(4,699)	(4,745)	(4,742)	(4,695)	(4,621)	(4,534)	(4,439)	(4,390)	(4,357)	(4,339)	(4,319)	(4,324)	(4,327)
Other assets	57,988	54,074	53,901	58,187	52,784	48,069	50,271						
Total Liabilities	545,991	552,194	548,718	552,061	548,742	571,085	580,357						
Total deposits	464,585	476,874	474,019	474,465	474,977	497,024	509,619	514,715	519,862	535,458	532,781	535,445	538,122
Securities sold under repo	13,616	13,479	12,817	15,651	15,900	17,216	15,650						
FHLB advances	43,862	38,857	38,496	38,491	36,344	36,339	34,335						
Junior sub debt	17,913	17,914	17,916	17,917	15,464	15,464	15,464						
Other liabilities	6,015	5,070	5,470	5,537	6,057	5,042	5,289						

Company Citations

Company Name	Ticker	Exchange	Currency	Closing Price	RJ Rating	RJ Entity
First Financial Holdings, Inc.	FFCH	NASDAQ	\$	23.48	3	RJ & Associates

Notes: Prices are as of the most recent close on the indicated exchange and may not be in US\$. See Disclosure section for rating definitions. Stocks that do not trade on a U.S. national exchange may not be registered for sale in all U.S. states. NC=not covered.

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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.

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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.

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.

Underperform (MU4) Expected to underperform the underlying country index.

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	Coverage Universe Rating Distribution				Investment Banking Distribution			
	RJA	RJL	RJ LatAm	RJEE	RJA	RJL	RJ LatAm	RJEE
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Market Perform (Hold)	42%	33%	66%	35%	8%	26%	0%	0%
Underperform (Sell)	6%	1%	3%	20%	2%	0%	0%	0%

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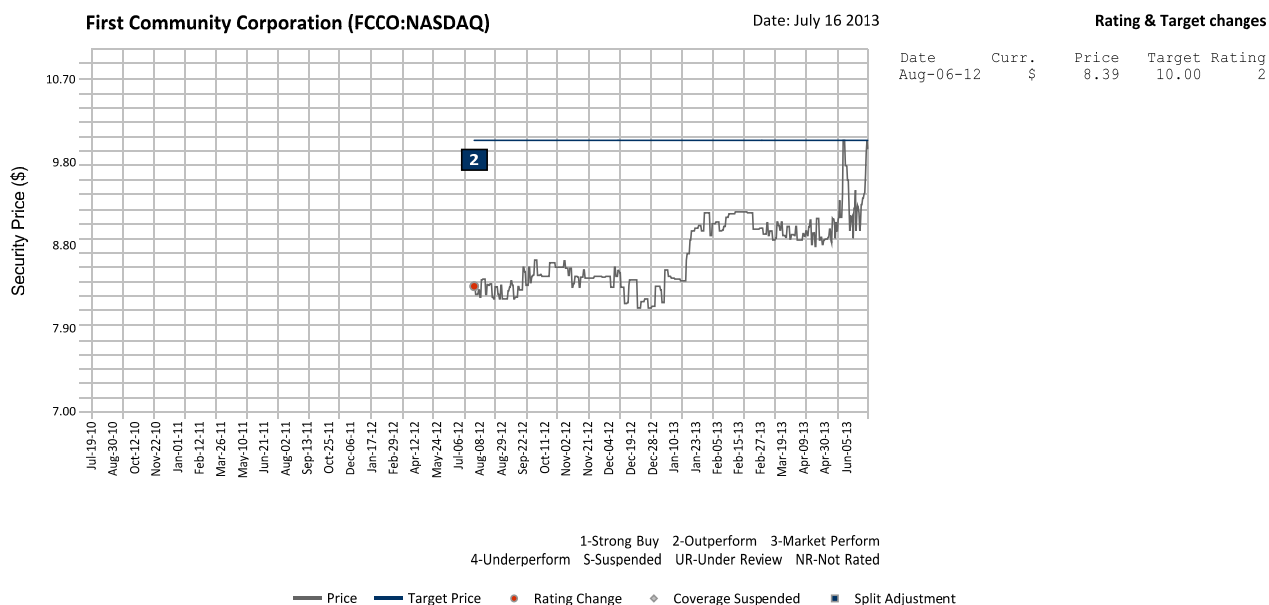
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Company Name	Disclosure
First Community Corporation	Raymond James & Associates lead-managed a follow-on offering of FCCO shares within the past 12 months. Raymond James & Associates makes a market in shares of FCCO. Raymond James & Associates received non-investment banking securities-related compensation from FCCO within the past 12 months.
First Financial Holdings, Inc.	Raymond James & Associates makes a market in shares of FFCH.

Stock Charts, Target Prices, and Valuation Methodologies

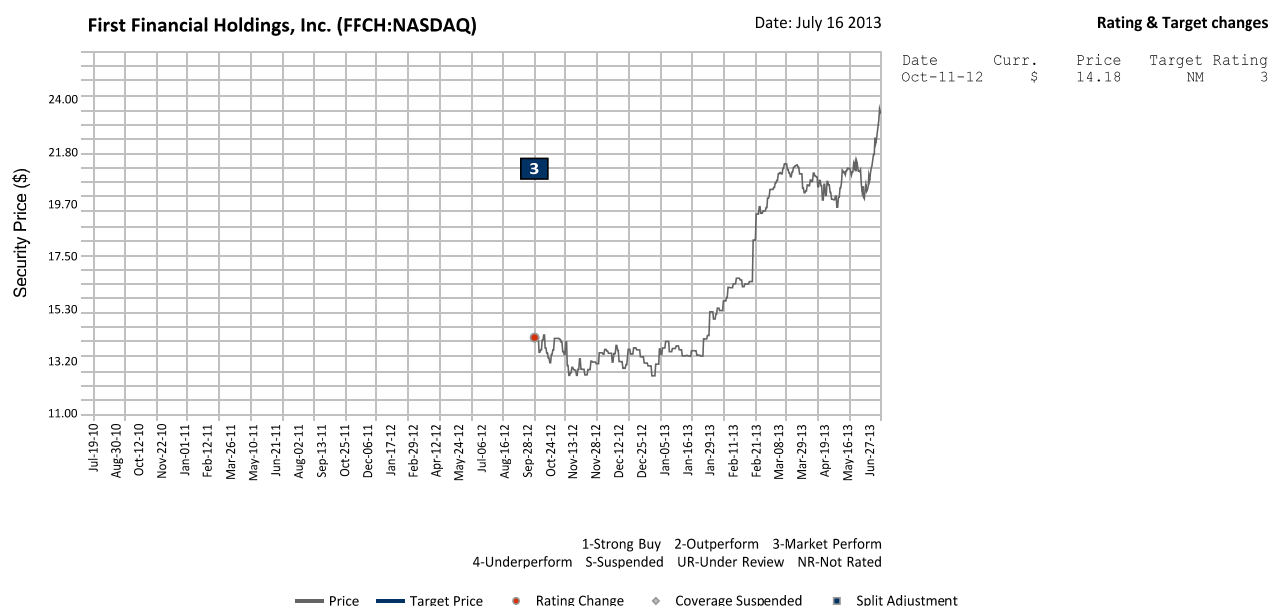
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Target Prices: The information below indicates our target price and rating changes for FCCO stock over the past three years.



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.

The information below indicates target price and rating changes for other subject companies included in this research.



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Specific Investment Risks Related to the Industry or Issuer

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.

Company-Specific Risks for First Financial Holdings, Inc.**Interest Rate Risk**

As a commercial bank, First Financial'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 Financial 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 Financial'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 Financial's margins and pressure its profitability.

Acquisition Risk

In April of 2009 and 2012, First Financial acquired Cape Fear Bank and Plantation Federal Bank, respectively, both through FDIC assistance. While credit risk is limited from these acquisitions, in our view, given the FDIC loss share agreement on the acquired loan portfolio, significant integration risk exists. Even though the transactions have closed, these acquisitions pose execution risk, and the ability of management to achieve revenue and expense goals is not a given.

Regulatory Reform

With the myriad regulatory and legislative changes facing the industry, these amendments will pressure fee income across the industry. First Financial'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.

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