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First Community Corporation

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(FCCO-NASDAQ)

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Company Comment

Banking

Reiterate MO2 - Loan Growth Disappoints, Expense Management Shines

Recommendation: We reiterate our **Outperform** rating and $12 price target on shares of First Community following 2Q14 results that fell short of expectations, primarily on lower revenue than expected. While loan production was strong during the quarter, pay-downs and payoffs remain a challenge, driving greater margin compression and lower revenue than anticipated. The Savannah River acquisition integration remains on track, and the bank is witnessing a number of loan opportunities within the new market that have the potential to drive upside to our longer-term loan growth estimates, in our view. We are confident that management will successfully drive improved operating leverage from the transaction, and we model a drop in the efficiency ratio below 70% in 2H15 from 73% in 2Q14. As such, we believe valuation makes an investment in the stock attractive at current levels, driving our **Outperform** rating.

- **2Q14 results miss expectations.** First Community reported GAAP and operating EPS of $0.18, below both our estimate and the consensus of $0.22. Lower revenue (spread revenue and fee income) and higher provision expense drove the shortfall relative to our expectations.
- **Loan growth remains a challenge.** 2Q loans grew an anemic 0.2% linked quarter, well below our 2.0% estimate despite loan production of $21 million, up meaningfully from $15 million in 1Q14. Management now expects loan growth in the low single-digit range for 2014; however, it has recently become more aggressive from a pricing perspective in an effort to drive quarterly loan production in the $25-30 million range. While lower loan pricing obviously has an adverse impact on loan portfolio yields, it should stabilize margin, as the bank expects it can fund new loan growth by shifting its earning asset mix out of securities. With 36% 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) were basically flat at $10.9 million, or 2.4% of loans and real estate owned (REO). A roughly $500,000 charge off on a $2.3 million credit that moved into nonaccrual status in 1Q14 helped offset some additions to nonaccrual from smaller credits. We are currently modeling for net charge-offs (NCOs) to ease to 0.16% of average loans in 4Q14 and 0.11% in 4Q15 from 0.45% in 2Q14, given our favorable view of First Community's underwriting standards.
- **Estimates:** We are reducing our 2014 operating EPS estimate to $0.81 from $0.87, but maintaining our 2015 operating EPS estimate of $0.95.

Valuation: Our $12 price target is based on 1.1x our 2Q15 tangible book value (TBV) estimate of $10.51 and roughly 13x our 2015E EPS, a slight discount to micro-cap peer medians of 1.2x and 13.6x, 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	0.22	0.23	0.23	0.87	0.83	32
New2014E	**0.18A**	**0.18A**	**0.22**	**0.23**	**0.81**	**0.77**	**31**
Old2015E	UR	UR	UR	UR	0.95	0.95	34
New2015E	**0.20**	**0.23**	**0.26**	**0.26**	**0.95**	**0.95**	**33**

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

Rating

Outperform 2

Current and Target Price

Current Price (Jul-16-14 3:20 p.m.)	$10.80
Target Price:	$12.00
52-Week Range	$11.37 - $8.44
Suitability	Aggressive Growth

Market Data

Shares Out. (mil.)	6.7
Market Cap. (mil.)	$72
Avg. Daily Vol. (10 day)	6,742
Dividend/Yield	$0.24/2.2%
Book Value (Jun-14)	$10.67
Tang. BVPS (Jun-14)	$9.84

Earnings & Valuation Metrics

	2013A	2014E	2015E
P/E Ratios (Non-GAAP)	13.3x	13.3x	11.4x

Company Description

First Community Corporation, headquartered in Lexington, South Carolina, is an $800 million asset bank holding company that operates 14 branches in the midlands region of the state.

Please read domestic and foreign disclosure/risk information beginning on page 7 and Analyst Certification on page 7.

Guidance Tracker – First Community Corporation (FCCO)

Source	Category	Target Period	Trending	Guidance
2014Q2 Earnings	Loan	2014Y	▽	Management is targeting low-single digit organic loan growth in 2014.
2014Q2 Earnings	NIM	2014Q3	▽	Management expects 3Q14 margin to be flat to slightly down.
2014Q2 Earnings	NIM	2014Q4	▽	Management expects 4Q14 margin pressure related to the expected $43 million deposit acquisition with an average anticipated spread of 70 bp.
2014Q2 Earnings	NIM	2015Y	▽	Management expects 2015Y margin to remain stable as earning asset mix improvement is offset by loan pricing pressures.
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	2014Q3	▭	Management expects mortgage banking income will continue to rebound as seasonality drives more originations along with opportunities in the new Augusta, GA market.
2014Q2 Earnings	Noninterest Income	2014Y	▭	Expect recent wealth management hires will grow assets under management.
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 reducing our 2014 operating EPS estimates to $0.81 from $0.87, but maintaining our 2015 EPS estimates of $0.95. A more aggressive pricing approach for new loan production combined with the impact of the expected $43 million deposit purchase at the end of 3Q14 drives our margin expectations lower for both periods. For 2014, this pressure, coupled with a higher provision expense expectation, is not fully offset by a lower expense base than previously anticipated. For 2015, additional expense saves related to the Savannah River acquisition cost saves fully offsets pressure related to lower margin expectations.

Earnings Estimates

($ in thousands)	2014E			2015E		
	Old	Current	Change	Old	Current	Change
Operating EPS	**$0.87**	**$0.81**	**($0.06)**	**$0.95**	**$0.95**	**$0.00**
GAAP EPS	**$0.83**	**$0.77**	**($0.06)**	**$0.95**	**$0.95**	**$0.00**
Core PTPP* Earnings	9,180	8,936	-3%	10,399	10,426	0%
Avg. Earning Assets	709,222	719,772	1%	752,036	765,685	2%
NIM	3.44%	3.35%	-9 bps	3.40%	3.27%	-14 bps
Net Interest Income	23,863	23,554	-1%	25,040	24,485	-2%
Provision	750	950	27%	900	900	0%
Operating Fee Income	8,155	7,913	-3%	8,768	8,738	0%
Operating Expense	23,126	22,986	-1%	23,609	23,097	-2%
Operating Efficiency	72%	73%	82 bps	70%	70%	-31 bps
Tax Rate	29.7%	28.5%	-117 bps	32.0%	31.0%	-100 bps
Diluted shares	6,567	6,599	0%	6,691	6,733	1%
Dividends per share	$0.24	$0.24	$0.00	$0.24	$0.24	$0.00
Reserves/Loans	0.91%	0.89%	-1 bps	0.91%	0.91%	0 bps
NPAs/Loans	2.05%	2.36%	31 bps	1.62%	2.15%	53 bps
NCOs/Avg. Loans	0.18%	0.24%	6 bps	0.13%	0.13%	0 bps

*PTPP = pre-tax, pre-provision

We are reducing our 2014 operating EPS estimate to $0.81 from $0.87, but maintaining our 2015 EPS estimates of $0.95. For 2014, lower revenue and higher provision expense expectations are only partially offset by a lower operating expense base. For 2015, lower spread revenue is fully offset by lower operating expenses.

Source: Company reports and Raymond James research

Muted Loan Growth Drives Margin Pressure

NIM contracted 2 bp linked quarter to 3.38%, below our 3.47% estimate, as loan growth was relatively flat at just 0.2% linked quarter, well below our 2.0% estimate. Management noted that loan pay-downs and payoffs more than offset a 40% sequential increase in loan production to $21 million, driving greater margin compression than anticipated. While loan yields stabilized during the quarter, management noted that it is becoming more aggressive on pricing to drive greater production and stem payoff pressures. While a more competitive pricing stance will likely add pressures to the portfolio yield, we believe deploying liquidity into loan growth out of the securities portfolio will help stave off pressures from lower loan yields. Management noted that the Augusta, GA market continues to display relatively strong demand for larger credits and will be additive to First Community's low single-digit legacy loan growth in 2014. If the concentration of loans to earning assets improves from 61.8% in 2Q14, we would expect some margin stability. 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 5 bp sequentially to 0.51% from a combination of lower deposit costs and an improvement in the core deposit mix. We note that the bank improved its average core deposit mix to 73% from 70% in 1Q14, as displayed in the following table; however, with the cost of funds sitting just below the micro-cap peer median of 0.53%, 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. Despite this benefit, costs will eventually bottom, which will 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 3.23% in 4Q14 due to the impact of liquidity from the expected $43 million deposit acquisition from First South and gradually expand to 3.30% in 4Q15.

Deposit Mix Improving

($ in thousands)	% of Total	4Q11	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	1Q14A-2Q14A	2Q13A-2Q14A
Demand deposits	20.6%	84,247	97,163	95,777	100,967	104,944	111,984	121,060	131,762	8.8%	30.5%
Interest-bearing accounts	21.3%	89,307	92,466	95,237	101,247	104,146	102,087	124,029	135,875	9.6%	34.2%
Money market accounts	22.8%	48,962	54,493	60,976	76,272	80,839	80,094	116,326	145,973	25.5%	91.4%
Savings deposits	7.9%	33,733	40,898	42,589	46,355	48,490	51,638	50,191	50,593	0.8%	9.1%
Time deposits	27.3%	213,719	188,837	182,116	173,879	167,516	162,489	174,384	174,712	0.2%	0.5%
Total Average Deposits	**100%**	**469,968**	**473,857**	**476,695**	**498,720**	**505,935**	**508,292**	**585,990**	**638,915**	**9.0%**	**28.1%**
Core Deposit Mix		**55%**	**60%**	**62%**	**65%**	**67%**	**68%**	**70%**	**73%**		

Source: Company reports and Raymond James research

Asset Quality Picture Remains Intact

Nonperforming assets (NPAs) dropped 0.6% linked quarter to $10.9 million, or 2.4% of loans and REO. Dissecting NPA balances, nonaccrual loans decreased to $7.6 million from $7.9 million at 1Q14, while REO increased to $3.3 million from $3.1 million over the same period. Net charge-offs (NCOs) increased $287,000 from the prior quarter to $495,000, or 0.45% of average loans. The decrease in nonaccrual loans and increase in NCOs was primarily driven by a $502,000 write down of a $2.3 million legacy commercial loan. Excluding the effect of the write down, NPAs increased 4% linked quarter to $11.4 million, or 2.6% of loans and REO, while NCOs decreased to a net recovery of $7,000. Secured by land lots and an equestrian facility, the legacy commercial loan's collateral raises some concern and we would not be surprised to see additional write-downs. That said, this event is an example of late cycle lumpiness and should not tarnish the bank's asset quality picture, in our view. We believe the health of the loan portfolio remains favorable, and we expect reserve levels will remain at 0.9% through 2015.

First Community Regional Peer Group Comparison

		Balance Sheet Ratios				Income Statement Ratios							Credit				Capital		
Company	Ticker	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 Citizens Bancorporation, Inc.	FCBN	$8,532	86%	29%	61%	2.59%	4.17%	2.83%	0.09%	NA	35%	75%	0.21%	3.08%	1.17%	38%	6.9%	8.3%	16.2%
South State Corporation	SSB	$7,991	78%	24%	85%	4.87%	5.77%	5.12%	0.15%	0.23%	20%	67%	0.05%	1.28%	0.81%	63%	7.3%	8.7%	12.8%
Palmetto Bancshares, Inc.	PLMT	$1,099	80%	21%	81%	3.88%	4.77%	3.97%	0.06%	0.06%	25%	74%	0.13%	5.95%	2.14%	36%	11.5%	11.4%	14.8%
CNB Corporation	CNBW	$962	60%	21%	54%	3.07%	5.63%	3.24%	0.25%	NA	16%	69%	0.70%	4.98%	2.25%	45%	9.8%	9.9%	18.4%
Carolina Financial Corporation	CARO	$919	59%	12%	78%	3.45%	4.65%	4.14%	0.45%	0.67%	40%	77%	-0.21%	2.59%	1.37%	53%	9.3%	11.2%	15.2%
Security Federal Corporation	SFDL	$849	60%	NA	54%	2.90%	5.44%	3.54%	0.42%	NA	17%	73%	0.56%	5.88%	2.70%	46%	6.8%	8.5%	18.4%
Southern First Bancshares, Inc.	SFST	$937	62%	16%	107%	3.63%	4.75%	4.42%	0.39%	0.82%	11%	66%	0.27%	2.26%	1.38%	61%	6.2%	9.2%	10.8%
Tidelands Bancshares, Inc.	TDBK	$477	37%	6%	77%	2.96%	4.78%	4.13%	0.89%	1.09%	8%	97%	0.19%	11.99%	1.80%	15%	-1.9%	2.2%	2.9%
Southcoast Financial Corporation	SOCB	$453	57%	16%	102%	3.81%	5.21%	4.70%	0.52%	NA	12%	76%	-0.13%	3.75%	1.81%	48%	9.6%	10.4%	14.1%
Coastal Banking Company, Inc.	CBCO	$410	56%	12%	87%	3.94%	5.98%	4.74%	0.62%	NA	63%	90%	0.41%	7.06%	1.49%	21%	6.2%	11.4%	20.4%
Greer Bancshares Incorporated	GRBS	$362	68%	15%	69%	2.98%	4.90%	3.81%	0.33%	NA	13%	73%	-0.80%	2.57%	1.60%	62%	4.6%	9.7%	15.5%
First Reliance Bancshares, Inc.	FSRL	$354	72%	23%	84%	4.32%	5.48%	4.80%	0.41%	0.47%	24%	89%	0.15%	7.95%	1.17%	15%	4.7%	12.2%	14.9%
Bank of South Carolina Corporation	BKSC	$359	NA	NA	NA	NA	5.18%	4.19%	NA	NA	NA	NA	0.00%	NA	NA	NA	10.5%	10.2%	13.4%
First Community Corporation	**FCCO**	**$798**	**73%**	**21%**	**68%**	**3.36%**	**4.89%**	**3.82%**	**0.29%**	**0.55%**	**25%**	**71%**	**0.20%**	**2.48%**	**0.93%**	**38%**	**7.9%**	**10.7%**	**15.6%**
Peer Group Medians:		**$823**	**62%**	**18%**	**78%**	**3.45%**	**5.04%**	**4.14%**	**0.39%**	**0.55%**	**20%**	**74%**	**0.17%**	**3.75%**	**1.49%**	**45%**	**7.1%**	**10.1%**	**15.1%**

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

				Valuation Metrics					Profitability Metrics						
	Count	Mkt Cap (M)	Assets (M)	P/TBV	FY14E P/E	FY15E P/E	Deposit Premium	Dividend Yield	ROA (MRQ)	ROE (MRQ)	ROTCE (MRQ)	ROTCE (FY14E)	ROTCE (FY15E)	FY14E EPS Growth	FY15E EPS Growth
Industry Medians	**517**	**$161**	**$1,355**	**1.46x**	**16.0x**	**13.6x**	**5%**	**2.3%**	**0.81%**	**7.7%**	**9.1%**	**10.3%**	**10.7%**	**7%**	**12%**
Large Cap (>$3B)	35	$6,372	$44,346	1.79x	15.5x	14.2x	10%	2.0%	0.97%	8.7%	11.4%	11.8%	12.2%	3%	8%
Mid-Cap ($750M - $3B)	70	$1,459	$7,983	1.82x	16.3x	14.4x	9%	2.0%	1.00%	8.4%	11.3%	11.5%	12.2%	8%	11%
Small-Cap ($300M - $750M)	76	$446	$3,142	1.58x	14.9x	12.9x	6%	2.4%	0.93%	8.6%	10.0%	10.5%	11.1%	7%	11%
Micro-Cap (<$300M)	336	$94	$902	1.23x	16.2x	13.6x	3%	2.4%	0.71%	7.1%	8.0%	8.0%	8.7%	8%	16%
Regional Medians															
Mid-Atlantic	123	$138	$1,198	1.34x	15.0x	13.4x	5%	2.8%	0.84%	7.8%	9.2%	10.3%	10.4%	7%	10%
Midwest	135	$135	$1,258	1.20x	13.8x	12.9x	3%	2.2%	0.81%	7.9%	9.9%	10.5%	10.6%	3%	8%
New England	34	$150	$1,422	1.34x	17.1x	14.4x	5%	3.1%	0.71%	6.2%	8.6%	10.1%	10.6%	8%	11%
Southwest	20	$999	$5,097	1.87x	17.5x	15.8x	9%	1.7%	0.96%	9.1%	10.9%	11.0%	12.2%	8%	13%
West	83	$212	$1,470	1.32x	17.0x	14.4x	5%	2.1%	0.90%	7.5%	8.8%	9.9%	10.9%	10%	12%
Southeast	122	$159	$1,256	1.24x	16.9x	13.7x	5%	1.9%	0.73%	7.2%	8.1%	9.4%	10.8%	9%	19%

Note: Priced as of July 15, 2014. 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)	2012 31-Dec	1Q13 31-Mar	2Q13 30-Jun	3Q13 30-Sep	4Q13 31-Dec	2013E 31-Dec	1Q14 31-Mar	2Q14 30-Jun	3Q14E 30-Sep	4Q14E 31-Dec	2014E 31-Dec	1Q15E 31-Mar	2Q15E 30-Jun	3Q15E 30-Sep	4Q15E 31-Dec	2015E 31-Dec
Net Interest Income	17,574	4,279	4,423	4,570	4,777	18,049	5,496	5,947	6,009	6,103	23,554	5,956	6,076	6,181	6,271	24,485
Provision for loan losses	496	150	100	129	149	528	150	400	200	200	950	225	225	225	225	900
Net Interest Income after Provision	**17,078**	**4,129**	**4,323**	**4,441**	**4,628**	**17,521**	**5,346**	**5,547**	**5,809**	**5,903**	**22,604**	**5,731**	**5,851**	**5,956**	**6,046**	**23,585**
Deposit service charges	1,562	361	367	387	392	1,507	366	379	391	406	1,543	441	425	439	441	1,746
Mortgage origination fees	4,242	1,015	1,183	770	799	3,767	619	702	807	727	2,855	690	794	873	803	3,160
Investment advisory fees and commissions	651	198	218	279	277	972	257	198	248	272	975	280	294	309	318	1,202
Gain on sale of securities	26	15	133	4	(79)	73	8	78	0	0	86	0	0	0	0	0
Gain (loss) on sale of other assets	(89)	(2)	32	(23)	(8)	(1)	12	(24)	0	0	(12)	0	0	0	0	0
Fair value gain (loss) adjustment	(58)	0	(2)	0	0	(2)	0	0	0	0	0	0	0	0	0	0
OTTI	(200)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Loss on early extinguishment of debt	(217)	0	(141)	0	0	(141)	0	(67)	0	0	(67)	0	0	0	0	0
Other	2,038	496	505	524	491	2,016	613	633	646	649	2,541	652	655	659	662	2,628
Noninterest Income	**7,955**	**2,083**	**2,295**	**1,941**	**1,872**	**8,191**	**1,875**	**1,899**	**2,092**	**2,054**	**7,920**	**2,064**	**2,169**	**2,280**	**2,225**	**8,738**
Non-Operating items	(538)	13	22	(19)	(87)	(71)	20	(13)	0	0	7	0	0	0	0	0
Operating Noninterest Income	**8,493**	**2,070**	**2,273**	**1,960**	**1,959**	**8,262**	**1,855**	**1,912**	**2,092**	**2,054**	**7,913**	**2,064**	**2,169**	**2,280**	**2,225**	**8,738**
Total Revenue	**25,529**	**6,362**	**6,718**	**6,511**	**6,649**	**26,240**	**7,371**	**7,846**	**8,100**	**8,157**	**31,474**	**8,020**	**8,245**	**8,461**	**8,496**	**33,222**
Total Operating Revenue	**26,067**	**6,349**	**6,696**	**6,530**	**6,736**	**26,311**	**7,351**	**7,859**	**8,100**	**8,157**	**31,467**	**8,020**	**8,245**	**8,461**	**8,496**	**33,222**
Salaries and employee benefits	11,152	2,992	2,994	2,948	3,079	12,013	3,424	3,272	3,288	3,272	13,256	3,272	3,239	3,239	3,255	13,006
Occupancy	1,358	346	334	343	361	1,384	413	465	484	484	1,845	486	481	484	479	1,929
Equipment	1,168	283	314	310	299	1,206	339	375	375	375	1,464	377	373	373	373	1,496
Marketing and public relations	478	93	112	106	230	541	161	212	191	248	812	310	217	174	226	926
FDIC assessment	597	99	102	108	108	417	124	131	135	133	523	147	149	149	142	587
Other real estate expense	1,010	112	115	189	113	529	138	117	100	100	455	75	75	75	75	300
Amortization of intangibles	204	51	45	32	32	160	42	63	63	63	231	63	63	63	63	252
Other	3,478	831	939	921	1,481	4,172	1,385	1,150	1,150	1,150	4,835	1,150	1,150	1,150	1,150	4,600
Noninterest Expense	**19,445**	**4,807**	**4,955**	**4,957**	**5,703**	**20,422**	**6,026**	**5,785**	**5,786**	**5,825**	**23,421**	**5,880**	**5,747**	**5,706**	**5,763**	**23,097**
Non-Operating items	0	0	28	33	506	567	420	15	0	0	435	0	0	0	0	0
Operating Noninterest Expense	**19,445**	**4,807**	**4,927**	**4,924**	**5,197**	**19,855**	**5,606**	**5,770**	**5,786**	**5,825**	**22,986**	**5,880**	**5,747**	**5,706**	**5,763**	**23,097**
Income Before Tax	**5,588**	**1,405**	**1,663**	**1,425**	**797**	**5,290**	**1,195**	**1,661**	**2,115**	**2,132**	**7,103**	**1,915**	**2,273**	**2,530**	**2,508**	**9,226**
Income tax expense	1,620	367	460	379	(53)	1,153	333	460	613	618	2,025	594	705	784	777	2,860
GAAP Net Income	**3,968**	**1,038**	**1,203**	**1,046**	**850**	**4,137**	**862**	**1,201**	**1,502**	**1,514**	**5,078**	**1,321**	**1,568**	**1,746**	**1,730**	**6,366**
Dividends on preferred stock	676	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
GAAP Net Income to Common	**3,292**	**1,038**	**1,203**	**1,046**	**850**	**4,137**	**862**	**1,201**	**1,502**	**1,514**	**5,078**	**1,321**	**1,568**	**1,746**	**1,730**	**6,366**
Operating Net Income to Common	**3,782**	**988**	**1,218**	**1,078**	**1,001**	**4,286**	**1,117**	**1,199**	**1,502**	**1,514**	**5,331**	**1,321**	**1,568**	**1,746**	**1,730**	**6,366**
Diluted shares	4,168	5,292	5,311	5,309	5,354	5,317	6,229	6,719	6,722	6,725	6,599	6,728	6,731	6,734	6,737	6,733
GAAP EPS - diluted	$0.79	$0.20	$0.23	$0.20	$0.16	$0.78	$0.14	$0.18	$0.22	$0.23	$0.77	$0.20	$0.23	$0.26	$0.26	$0.95
Operating EPS - diluted	**$0.91**	**$0.19**	**$0.23**	**$0.20**	**$0.19**	**$0.81**	**$0.18**	**$0.18**	**$0.22**	**$0.23**	**$0.81**	**$0.20**	**$0.23**	**$0.26**	**$0.26**	**$0.95**
Financial Highlights																
TBV/share	$10.23	$10.22	$9.86	$9.87	$9.83	$9.83	$9.40	$9.84	$10.01	$10.19	$10.19	$10.33	$10.51	$10.72	$10.92	$10.92
TCE/Assets	8.9%	8.7%	8.3%	8.2%	8.2%	8.2%	7.9%	8.4%	8.5%	8.6%	8.6%	8.8%	8.9%	9.1%	9.2%	9.2%
Loans/Deposits	70%	67%	67%	68%	70%	70%	68%	69%	69%	67%	67%	65%	66%	67%	68%	68%
Loan Growth	2.4%	0.5%	2.2%	1.2%	0.7%	4.7%	27.7%	0.2%	0.5%	1.0%	32.4%	0.5%	1.5%	1.5%	2.0%	5.6%
NPAs/Loans	2.59%	2.59%	2.56%	2.48%	2.50%	2.50%	2.46%	2.44%	2.48%	2.36%	2.36%	2.33%	2.27%	2.22%	2.15%	2.15%
NCOs/Avg. Loans	0.17%	0.28%	0.23%	0.28%	0.29%	0.27%	0.20%	0.45%	0.16%	0.16%	0.24%	0.14%	0.13%	0.12%	0.11%	0.13%
Reserves/Loans	1.39%	1.36%	1.30%	1.25%	1.21%	1.21%	0.94%	0.91%	0.91%	0.89%	0.89%	0.90%	0.90%	0.91%	0.91%	0.91%
NIM	3.23%	3.15%	3.11%	3.18%	3.29%	3.18%	3.40%	3.38%	3.37%	3.23%	3.35%	3.24%	3.25%	3.27%	3.30%	3.27%
G&A/Avg. Assets	3.23%	3.17%	3.37%	3.12%	3.26%	3.23%	3.06%	3.21%	2.93%	2.95%	3.03%	2.98%	2.92%	2.89%	2.91%	2.92%
Efficiency Ratio	75%	76%	74%	75%	77%	75%	76%	73%	71%	71%	73%	73%	70%	67%	68%	70%
Effective tax rate	29.0%	26.1%	27.7%	26.6%	-6.6%	21.8%	27.9%	27.7%	29.0%	29.0%	28.5%	31.0%	31.0%	31.0%	31.0%	31.0%
ROA (operating)	0.63%	0.65%	0.83%	0.68%	0.63%	0.70%	0.61%	0.67%	0.76%	0.77%	0.70%	0.67%	0.80%	0.88%	0.87%	0.81%
ROE (operating)	7.2%	7.3%	8.8%	8.2%	7.5%	8.0%	7.0%	6.8%	8.4%	8.3%	7.7%	7.2%	8.4%	9.2%	9.0%	8.4%
ROTCE (operating)	8.5%	7.3%	8.9%	8.3%	7.6%	8.1%	7.4%	7.5%	9.1%	9.0%	8.3%	7.7%	9.0%	9.9%	9.6%	9.1%
Dividends per share	$0.16	$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
Core PTPP earnings	**6,956**	**1,654**	**1,884**	**1,795**	**1,652**	**6,985**	**1,883**	**2,206**	**2,415**	**2,432**	**8,936**	**2,215**	**2,573**	**2,830**	**2,808**	**10,426**
PTPP ROA	*1.16%*	*1.09%*	*1.29%*	*1.14%*	*1.04%*	*1.14%*	*1.03%*	*1.23%*	*1.22%*	*1.23%*	*1.18%*	*1.12%*	*1.30%*	*1.43%*	*1.42%*	*1.32%*

Source: Company reports and Raymond James research

First Community Corporation

Balance Sheet	**4Q12**	**1Q13**	**2Q13**	**3Q13**	**4Q13**	**1Q14**	**2Q14**	**3Q14E**	**4Q14E**	**1Q15E**	**2Q15E**	**3Q15E**	**4Q15E**
($ in thousands)	**31-Dec**	**31-Mar**	**30-Jun**	**30-Sep**	**31-Dec**	**31-Mar**	**30-Jun**	**30-Sep**	**31-Dec**	**31-Mar**	**30-Jun**	**30-Sep**	**31-Dec**
Stated Equity	**54,183**	**54,770**	**52,828**	**52,862**	**52,671**	**68,765**	**70,992**	**72,094**	**73,208**	**74,130**	**75,298**	**76,643**	**77,973**
Preferred	0	0	0	0	0	0	0	0	0	0	0	0	0
Intangibles	731	680	635	603	571	6,218	5,467	5,404	5,341	5,278	5,215	5,152	5,089
Tangible Common Equity	**53,452**	**54,090**	**52,193**	**52,259**	**52,100**	**62,547**	**65,525**	**66,690**	**67,867**	**68,852**	**70,083**	**71,491**	**72,884**
Book Value	$10.37	$10.35	$9.98	$9.98	$9.93	$10.34	$10.67	$10.83	$10.99	$11.12	$11.29	$11.49	$11.68
Tangible BV	**$10.23**	**$10.22**	**$9.86**	**$9.87**	**$9.83**	**$9.40**	**$9.84**	**$10.01**	**$10.19**	**$10.33**	**$10.51**	**$10.72**	**$10.92**
Shares Outstanding	5,227	5,290	5,293	5,296	5,303	6,652	6,656	6,659	6,662	6,665	6,668	6,671	6,674
Equity/Assets	9.0%	8.8%	8.3%	8.3%	8.3%	8.6%	9.0%	9.1%	9.3%	9.4%	9.5%	9.7%	9.8%
TCE ratio	**8.9%**	**8.7%**	**8.3%**	**8.2%**	**8.2%**	**7.9%**	**8.4%**	**8.5%**	**8.6%**	**8.8%**	**8.9%**	**9.1%**	**9.2%**
Leverage Ratio	10.63%	10.78%	10.61%	10.64%	10.77%	10.67%	10.10%						
Tier 1 Capital Ratio	17.39%	17.59%	17.51%	17.29%	17.60%	15.67%	15.79%						
Total Capital Ratio	18.64%	18.82%	18.68%	18.40%	18.68%	16.51%	16.61%						
Total Assets	**602,925**	**625,855**	**633,185**	**635,927**	**633,309**	**797,873**	**786,687**	**790,620**	**790,620**	**786,667**	**790,601**	**790,601**	**794,554**
Other short-term investments	7,021	23,758	14,560	9,958	5,927	24,055	14,741						
Investment securities	205,972	220,604	225,915	230,712	227,030	255,484	250,775						
Loans held for sale	9,658	4,238	5,789	2,529	3,790	3,837	2,990						
Loans	**332,111**	**333,720**	**341,089**	**345,064**	**347,597**	**443,868**	**444,670**	**446,893**	**460,362**	**462,664**	**469,604**	**476,648**	**486,181**
Allowance for loan losses	(4,621)	(4,534)	(4,439)	(4,323)	(4,219)	(4,161)	(4,066)	(4,088)	(4,106)	(4,170)	(4,243)	(4,326)	(4,419)
Other assets	52,784	48,069	50,271	51,987	53,184	74,790	77,577						
Total Liabilities	**548,742**	**571,085**	**580,357**	**583,065**	**580,638**	**729,108**	**715,695**						
Total deposits	474,977	497,024	509,619	508,592	497,071	654,438	640,057	643,257	689,474	710,158	706,607	710,140	713,691
Securities sold under repo	15,900	17,216	15,650	17,076	18,634	19,492	16,374						
FHLB advances	36,344	36,339	34,335	34,330	43,325	34,321	37,916						
Junior sub debt	15,464	15,464	15,464	15,464	15,464	15,464	15,464						
Other liabilities	6,057	5,042	5,289	7,603	6,144	5,393	5,884						

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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.

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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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Strong Buy (SB1) Expected to appreciate and produce a total return of at least 25.0% over the next twelve months.
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			
	RJA	RJL	RJ LatAm	RJEE	RJA	RJL	RJ LatAm	RJEE
Strong Buy and Outperform (Buy)	55%	67%	50%	47%	22%	38%	0%	0%
Market Perform (Hold)	40%	30%	50%	38%	9%	20%	0%	0%
Underperform (Sell)	5%	3%	0%	15%	0%	40%	0%	0%

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Total Return (TR) Lower risk equities possessing dividend yields above that of the S&P 500 and greater stability of principal.

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Company Name	Disclosure
First Community Corporation	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.

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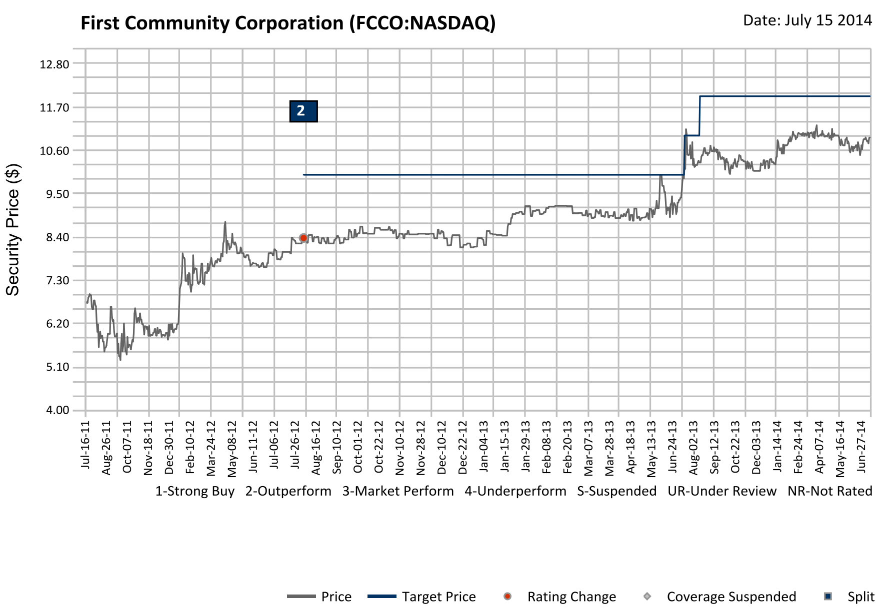
Target Prices: The information below indicates our target price and rating changes for FCCO stock over the past three years.



Rating & Target changes

Date	Curr.	Price	Target	Rating
Aug-15-13	$	10.31	12.00	2
Jul-17-13	$	10.21	11.00	2
Aug-06-12	$	8.39	10.00	2

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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