

First Community Corporation

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(FCCO:NASDAQ)

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Company Comment

Rating Outperform 2

Banking

Reiterate Outperform; 3Q Results Beat, EPS Growth Profile Remains Strong

Recommendation: We are reiterating our **Outperform** rating and \$12 price target on shares of First Community following 3Q13 results that beat expectations on stronger margin expansion and better loan growth than expected, only partially offset by higher operating expense. As expected, mortgage banking revenue decreased markedly on a drop-off in refinance activity. That said, revenue from its wealth management business continued to grow, now up over 50% year-over-year as both market improvements and recent hires have resulted in strong growth in assets under management. Combined with the expected closing of the Savannah River acquisition in early 1Q14, we expect management will be able to replace lost revenue from the anticipated decline in mortgage banking and drive EPS growth in the 10%+ range for the foreseeable future. As such, we believe valuation makes an investment in the stock very attractive at current levels, driving our **Outperform** rating.

- ◆ **3Q13 results beat.** First Community reported GAAP and operating EPS of \$0.20, above our \$0.19 estimate; we are consensus.
- ◆ **Steeper yield curve benefits margin.** Net interest margin (NIM) expanded 7 bp sequentially to 3.18%, above our 3.08% estimate, driven both by higher yields in the securities portfolio and by lower funding costs. Extended duration in its mortgage backed securities portfolio drove a reduction in premium amortization expense, which combined with higher reinvestment rates in the securities portfolio was the primary driver of margin upside in 3Q. Given Savannah's higher yielding loan portfolio and the ability for First Community to reduce its excess liquidity to pay-off higher cost acquired deposits, we expect NIM will improve to 3.24% in 2014 declining to 3.19% in 2015 as lower purchase accounting accretion will add some pressure.
- ◆ **Mortgage banking weakens as expected.** In late September we lowered our 3Q13 EPS estimate to \$0.19 from \$0.21 on an expected 30% linked quarter decline in mortgage banking revenue due to the industry-wide drop in refinance activity; actual results were down 35%. Given seasonality in the purchase business and continued pressure to gain on sale margins, we expect the next couple of quarters will demonstrate continued pressure in the business. That said, we believe the Savannah River acquisition will provide some opportunity to expand the business and offset some of these pressures longer term.
- ◆ **Estimates:** We are increasing our 2013E operating EPS to \$0.82 from \$0.80 but maintaining our 2014 EPS estimate of \$0.90. We are also introducing our 2015E EPS of \$1.00.

Valuation: Our \$12 price target is based on 1.25x our 3Q14 tangible book value (TBV) estimate of \$9.60, 13.3x our 2014E EPS, and 12.0x our 2015E EPS, basically in line with micro-cap peers at 1.26x, 14.0x, and 11.9x, respectively. We believe a peer multiple is fair given that the company is executing on capital deployment plans and driving double-digit EPS growth expectations.

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
Old 2013E	0.19A	0.23A	0.19	0.19	0.80	0.74	26
New 2013E	0.19A	0.23A	0.20A	0.20	0.82	0.76	26
Old 2014E	0.21	0.23	0.24	0.23	0.90	0.77	31
New 2014E	0.19	0.23	0.24	0.23	0.90	0.77	31
Old 2015E	NA	NA	NA	NA	NA	NA	NA
New 2015E	UR	UR	UR	UR	1.00	1.00	32

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 7 and Analyst Certification on page 7.

Current and Target Price

Current Price (Oct-16-13 2:00 p.m.)	\$10.17
Target Price:	\$12.00
52-Week Range	\$11.16 - \$8.11
Suitability	Aggressive Growth

Market Data

Shares Out. (mil.)	5.3
Market Cap. (mil.)	\$54
Avg. Daily Vol. (10 day)	6,134
Dividend/Yield	\$0.24/2.4%
Book Value (Sep-13)	\$9.98
Tang. BVPS (Sep-13)	\$9.87

Earnings & Valuation Metrics

	2012A	2013E	2014E	2015E
P/E Ratios (Non-GAAP)	11.2x	12.4x	11.3x	10.2x

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 \$0.82 from \$0.80 but maintaining our 2014 EPS estimate of \$0.90. For 2013, lower premium amortization expense and higher reinvestment rates in its securities portfolio drives our NIM expectation higher, resulting in greater net interest income. For 2014, this benefit, coupled with a slightly higher fee income estimate, is fully offset by higher provision expense given the addition of the Savannah River loan portfolio and our loan growth forecasts. We are also introducing our 2015E EPS of \$1.00.

Earnings Estimates

(\$ in thousands)	2013E			2014E			2015E
	Old	Current	Change	Old	Current	Change	Current
Operating EPS	\$0.80	\$0.82	\$0.02	\$0.90	\$0.90	\$0.00	\$1.00
GAAP EPS	\$0.74	\$0.76	\$0.02	\$0.77	\$0.77	\$0.00	\$1.00
Core PTPP* Earnings	6,857	7,036	3%	9,272	9,515	3%	10,523
Avg. Earning Assets	585,286	579,527	-1%	771,754	730,774	-5%	766,004
NIM	3.10%	3.15%	6 bps	3.08%	3.24%	16 bps	3.19%
Net Interest Income	17,668	17,846	1%	23,249	23,221	0%	23,958
Provision	530	519	-2%	560	950	70%	900
Operating Fee Income	8,137	8,093	-1%	7,395	7,436	1%	7,977
Operating Expense	19,375	19,419	0%	21,571	21,342	-1%	21,612
Operating Efficiency	75%	75%	-22 bps	70%	70%	-78 bps	68%
Tax Rate	27.4%	27.1%	-35 bps	30.0%	30.0%	0 bps	30.0%
Diluted shares	5,308	5,306	0%	6,593	6,483	-2%	6,600
Dividends per share	\$0.22	\$0.22	\$0.00	\$0.24	\$0.24	\$0.00	\$0.24
Reserves/Loans	1.25%	1.22%	-2 bps	0.90%	0.93%	3 bps	0.94%
NPAs/Loans	2.52%	2.37%	-14 bps	1.59%	1.47%	-12 bps	1.17%
NCOs/Avg. Loans	0.23%	0.26%	3 bps	0.14%	0.17%	4 bps	0.13%

*PTPP = pre-tax, pre-provision

We are increasing our 2013 operating EPS estimate to \$0.82 from \$0.80, primarily on higher net interest income expectations. We are maintaining our 2014 operating EPS estimate of \$0.90 as higher fee income and lower operating expense estimates are fully offset by higher provision expense expectations. We are also introducing 2015 EPS estimates of \$1.00.

Source: Company reports and Raymond James research

Margin Expands From Uptick in Interest Rates

NIM expanded 7 bp linked quarter to 3.18%, above our 3.08% estimate, as the company has benefitted from a recent increase in longer timer interest rates coupled with a continued reduction in funding costs. While First Community produced sequential loan growth of 1.2%, we believe higher reinvestment rates in the company's securities portfolio coupled with lower premium amortization expense related to extended duration in its mortgage-backed securities book accounted for the majority of margin expansion. Assuming loan growth opportunities in its markets allow for continued deployment of liquidity into its loan portfolio, we expect margin trends could remain relatively stable especially with continued loan growth. That said, despite fierce competitive pricing pressures easing, overall loan demand remains soft and will limit any outsized growth opportunities at present.

Turning to the right side of the balance sheet, time deposit costs declined 6 bp linked quarter to 0.80% while costs in other categories basically remained flat. We note that the bank improved its average core deposit mix to 67% from 65% in 2Q13 as displayed in the following table. However, with the cost of funds at 0.63% compared to the micro-cap peer median of 0.61%, we anticipate there is little room to trim funding costs further. That said, the pending Savannah River acquisition will likely improve the mix further given its favorable 79% core deposit mix according to the bank's call report at 3Q12, and should also provide some opportunity for First Community to use excess liquidity to reduce some acquired higher cost deposits. 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 earning asset mix to limit meaningful margin contraction until short rates rise and sustainable strong loan demand returns. Taking all of these factors into account, we expect NIM expansion to 3.27% in 1Q14 and then gradual compression to 3.19% in 4Q14 where it remains roughly level through 2015.

Deposit Mix Improves

(\$ in thousands)	% of Total	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	2Q13A-3Q13A	3Q12A-3Q13A
Demand deposits	20.2%	81,213	82,544	82,252	84,247	86,443	90,168	93,098	97,163	95,777	100,967	104,944	3.9%	12.7%
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	104,146	2.9%	13.5%
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	80,839	6.0%	51.0%
Savings deposits	9.3%	30,369	31,957	32,275	33,733	36,445	38,752	39,955	40,898	42,589	46,355	48,490	4.6%	21.4%
Time deposits	34.9%	224,612	221,800	218,948	213,719	208,565	201,079	195,230	188,837	182,116	173,879	167,516	-3.7%	-14.2%
Total Average Deposits	100%	461,023	466,985	469,214	469,968	466,585	471,955	473,589	473,857	476,695	498,720	505,935	1.4%	6.8%
Core Deposit Mix		51%	53%	53%	55%	55%	57%	59%	60%	62%	65%	67%		

Source: Company reports and Raymond James research

Asset Quality Picture Remains Stable

Non-performing assets (NPAs) declined 1.6% linked quarter to \$8.7 million, or 2.5% of loans and real estate owned (REO), while problem asset balances (special mention and substandard loans) dropped 6.9% to \$20.6 million, or 6.0% of total loans. Dissecting NPA balances, nonaccrual loans decreased to \$5.1 million from \$6.0 million at 2Q13, but REO increased to \$3.6 million from \$2.8 million over the same period. We are not concerned about the increase in REO balances as we believe the linked quarter movement demonstrates positive strides in the NPA resolution process. As such, we would not be surprised to see NPA balances exhibit some lumpiness from normal migration of problem credits; however, with net charge-offs registering just 0.28% of average loans in 3Q13 and not exceeding this level since 4Q11, management's proven conservative underwriting should quell any fears over any wholesale deterioration. We believe the health of the loan portfolio remains favorable, and we expect reserve levels will move down to 0.95% in 1Q14 (due to the addition of the acquired loan portfolio) and remain at this level through 2015, from 1.25% at 3Q13.

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
Palmetto Bancshares, Inc.	PLMT	\$1,085	74%	20%	77%	3.91%	5.26%	4.12%	0.21%	0.21%	29%	66%	0.50%	6.97%	2.31%	33%	9.1%	10.1%	13.7%
CNB Corporation	CNBW	\$954	57%	19%	57%	3.11%	5.80%	3.35%	0.32%	NA	19%	69%	0.48%	5.68%	2.38%	42%	9.6%	9.7%	17.6%
Security Federal Corporation	SFDL	\$867	59%	NA	57%	2.81%	5.79%	3.71%	0.53%	NA	18%	71%	1.05%	7.56%	2.86%	38%	6.4%	7.8%	16.7%
Southern First Bancshares, Inc.	SFST	\$839	64%	15%	109%	3.69%	5.04%	4.62%	0.47%	NA	11%	66%	0.33%	2.42%	1.39%	57%	5.8%	9.3%	11.3%
Tidelands Bancshares, Inc.	TDBK	\$505	40%	5%	76%	2.66%	4.84%	3.97%	0.94%	1.19%	10%	106%	0.36%	18.98%	1.93%	10%	-1.5%	2.2%	3.0%
HCSB Financial Corporation	HCFB	\$513	40%	8%	68%	2.90%	5.05%	4.09%	0.83%	1.17%	14%	80%	1.47%	19.76%	6.69%	34%	-3.9%	-2.1%	-2.9%
First Community Corporation	FCCO	\$633	67%	21%	67%	3.10%	5.19%	3.70%	0.37%	0.67%	32%	72%	0.23%	2.58%	1.28%	50%	8.3%	10.6%	17.3%
Peer Group Medians:		\$839	59%	17%	68%	3.10%	5.19%	3.97%	0.47%	0.92%	18%	71%	0.48%	6.97%	2.31%	38%	6.4%	9.3%	13.7%

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	FY15E P/E	Deposit Premium	Dividend Yield	ROA (MRQ)	ROE (MRQ)	ROTCE (MRQ)	ROTCE (FY13E)	ROTCE (FY14E)	ROTCE (FY15E)	FY13E EPS Growth	FY14E EPS Growth	FY15E EPS Growth
Industry Medians	529	\$152	\$1,294	1.62x	15.4x	14.5x	13.1x	5%	2.4%	0.85%	7.9%	9.8%	10.5%	10.5%	11.5%	7%	7%	12%
Large Cap (>\$3B)	32	\$6,566	\$49,545	1.83x	14.5x	13.7x	12.4x	9%	2.2%	1.09%	9.3%	12.5%	12.5%	12.5%	12.6%	7%	6%	9%
Mid-Cap (\$750M - \$3B)	67	\$1,597	\$8,679	1.79x	16.3x	15.0x	13.4x	9%	2.3%	1.05%	8.9%	12.1%	11.9%	11.9%	11.9%	7%	8%	11%
Small-Cap (\$300M - \$750M)	79	\$467	\$3,014	1.58x	15.3x	14.5x	13.2x	7%	2.5%	0.95%	9.5%	11.3%	11.1%	11.1%	11.7%	8%	6%	12%
Micro-Cap (<\$300M)	351	\$88	\$907	1.26x	14.7x	14.0x	11.9x	3%	2.5%	0.74%	7.2%	8.6%	8.7%	8.7%	9.6%	4%	8%	20%
Regional Medians																		
Mid-Atlantic	123	\$147	\$1,207	1.36x	15.1x	14.5x	13.0x	5%	2.7%	0.84%	8.0%	9.8%	10.3%	11.0%	11.5%	8%	7%	10%
Midwest	138	\$109	\$1,195	1.14x	14.2x	13.6x	12.7x	4%	2.4%	0.84%	8.1%	10.2%	10.7%	10.9%	11.4%	5%	4%	11%
New England	34	\$149	\$1,318	1.33x	15.3x	14.7x	14.1x	4%	3.1%	0.74%	6.4%	9.7%	9.8%	10.8%	8.9%	20%	13%	11%
Southwest	23	\$822	\$3,594	1.70x	17.6x	17.1x	14.2x	8%	1.7%	0.98%	8.8%	10.9%	10.8%	10.9%	11.5%	0%	10%	13%
West	83	\$228	\$1,426	1.35x	16.4x	15.0x	13.5x	6%	2.3%	1.02%	8.6%	10.1%	9.4%	9.6%	12.0%	7%	8%	14%
Southeast	128	\$138	\$1,120	1.25x	16.3x	14.5x	12.7x	4%	2.2%	0.74%	6.8%	8.9%	10.3%	10.3%	11.5%	9%	10%	15%

Note: Priced as of October 15, 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	3Q13 30-Sep	4Q13E 31-Dec	2013E 31-Dec	1Q14E 31-Mar	2Q14E 30-Jun	3Q14E 30-Sep	4Q14E 31-Dec	2014E 31-Dec	2015E 31-Dec
Net Interest Income	18,317	4,509	4,451	4,329	4,285	17,574	4,279	4,423	4,570	4,574	17,846	5,362	5,926	5,978	5,955	23,221	23,958
Provision for loan losses	1,420	230	71	115	80	496	150	100	129	140	519	200	250	250	250	950	900
Net Interest Income after Provision	16,897	4,279	4,380	4,214	4,205	17,078	4,129	4,323	4,441	4,434	17,327	5,162	5,676	5,728	5,705	22,271	23,058
Deposit service charges	1,810	389	375	395	403	1,562	361	367	387	399	1,514	404	408	421	423	1,655	1,739
Mortgage origination fees	1,973	723	877	1,393	1,249	4,242	1,015	1,183	770	578	3,546	491	530	562	506	2,089	2,188
Investment advisory fees and commissions	767	147	162	183	159	651	198	218	279	287	982	310	335	362	380	1,388	1,749
Gain on sale of securities	575	11	(38)	(35)	88	26	15	133	4	0	152	0	0	0	0	0	0
Gain (loss) on sale of other assets	(155)	50	(36)	(22)	(81)	(89)	(2)	32	(23)	0	7	0	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	0
OTTI	(297)	(200)	0	0	0	(200)	0	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	0
Other	1,908	497	519	508	514	2,038	496	505	524	527	2,052	558	586	580	580	2,305	2,301
Noninterest Income	6,227	1,463	1,855	2,402	2,235	7,955	2,083	2,295	1,941	1,790	8,109	1,763	1,859	1,925	1,889	7,436	7,977
Non-Operating items	(231)	(293)	(78)	(77)	(90)	(538)	13	22	(19)	0	16	0	0	0	0	0	0
Operating Noninterest Income	6,458	1,756	1,933	2,479	2,325	8,493	2,070	2,273	1,960	1,790	8,093	1,763	1,859	1,925	1,889	7,436	7,977
Total Revenue	24,544	5,972	6,306	6,731	6,520	25,529	6,362	6,718	6,511	6,364	25,955	7,125	7,785	7,903	7,844	30,657	31,935
Total Operating Revenue	24,775	6,265	6,384	6,808	6,610	26,067	6,349	6,696	6,530	6,364	25,939	7,125	7,785	7,903	7,844	30,657	31,935
Salaries and employee benefits	9,520	2,558	2,747	2,874	2,973	11,152	2,992	2,994	2,948	2,889	11,823	3,178	3,267	3,283	3,283	13,011	13,199
Occupancy	1,289	345	335	352	326	1,358	346	334	343	353	1,376	459	528	531	531	2,049	2,118
Equipment	1,147	287	283	307	291	1,168	283	314	310	312	1,219	310	307	307	307	1,231	1,224
Marketing and public relations	452	186	108	73	111	478	93	112	106	111	422	156	125	100	130	510	484
FDIC assessment	889	184	196	117	100	597	99	102	108	102	411	123	131	138	132	525	557
Other real estate expense	840	119	267	173	451	1,010	112	115	189	100	516	50	50	50	50	200	200
Amortization of intangibles	517	51	51	51	51	204	51	45	32	32	160	51	64	64	64	243	256
Other	3,689	882	921	876	799	3,478	831	939	921	1,311	4,002	2,167	894	894	894	4,848	3,574
Noninterest Expense	18,343	4,612	4,908	4,823	5,102	19,445	4,807	4,955	4,957	5,211	19,930	6,495	5,366	5,366	5,390	22,617	21,612
Non-Operating items	0	0	0	0	0	0	0	28	33	450	511	1,275	0	0	0	1,275	0
Operating Noninterest Expense	18,343	4,612	4,908	4,823	5,102	19,445	4,807	4,927	4,924	4,761	19,419	5,220	5,366	5,366	5,390	21,342	21,612
Income Before Tax	4,781	1,130	1,327	1,793	1,338	5,588	1,405	1,663	1,425	1,013	5,506	430	2,170	2,286	2,204	7,090	9,423
Income tax expense	1,457	331	399	573	317	1,620	367	460	379	284	1,490	129	651	686	661	2,127	2,827
GAAP Net Income	3,324	799	928	1,220	1,021	3,968	1,038	1,203	1,046	730	4,017	301	1,519	1,600	1,542	4,963	6,596
Dividends on preferred stock	670	169	168	339	0	976	0	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	1,046	730	4,017	301	1,519	1,600	1,542	4,963	6,596
Operating Net Income to Common	2,838	827	801	1,139	1,014	3,782	988	1,218	1,078	1,054	4,339	1,194	1,519	1,600	1,542	5,855	6,596
Diluted shares	3,289	3,329	3,357	4,726	5,262	4,168	5,292	5,311	5,309	5,311	5,306	6,164	6,587	6,590	6,593	6,483	6,600
GAAP EPS - diluted	\$0.81	\$0.19	\$0.23	\$0.19	\$0.19	\$0.79	\$0.20	\$0.23	\$0.20	\$0.14	\$0.76	\$0.05	\$0.23	\$0.24	\$0.23	\$0.77	\$1.00
Operating EPS - diluted	\$0.86	\$0.25	\$0.24	\$0.24	\$0.19	\$0.91	\$0.19	\$0.23	\$0.20	\$0.20	\$0.82	\$0.19	\$0.23	\$0.24	\$0.23	\$0.90	\$1.00

Financial Highlights

TBV/share	\$10.83	\$11.25	\$11.14	\$10.10	\$10.23	\$10.23	\$10.22	\$9.86	\$9.87	\$9.95	\$9.95	\$9.24	\$9.41	\$9.60	\$9.78	\$9.78	\$10.56
TCE/Assets	6.0%	6.2%	6.2%	8.7%	8.9%	8.9%	8.7%	8.3%	8.2%	8.3%	8.3%	7.8%	7.9%	7.9%	8.1%	8.1%	8.4%
Loans/Deposits	70%	69%	69%	68%	70%	70%	67%	67%	68%	68%	68%	69%	70%	71%	71%	71%	73%
Loan Growth	-1.7%	2.1%	-1.9%	-0.4%	2.7%	2.4%	0.5%	2.2%	1.2%	0.5%	4.4%	0.5%	1.5%	1.2%	1.5%	36.3%	5.6%
NPAs/Loans	3.85%	3.21%	2.90%	3.19%	2.59%	2.59%	2.59%	2.56%	2.48%	2.37%	2.37%	1.77%	1.65%	1.55%	1.47%	1.47%	1.17%
NCOs/Avg. Loans	0.49%	0.22%	0.09%	0.20%	0.18%	0.17%	0.28%	0.23%	0.28%	0.25%	0.26%	0.18%	0.18%	0.16%	0.16%	0.17%	0.13%
Reserves/Loans	1.45%	1.43%	1.46%	1.45%	1.39%	1.39%	1.36%	1.30%	1.25%	1.22%	1.22%	0.94%	0.93%	0.93%	0.93%	0.93%	0.94%
NIM	3.34%	3.36%	3.30%	3.12%	3.12%	3.23%	3.15%	3.11%	3.18%	3.17%	3.15%	3.25%	3.27%	3.23%	3.20%	3.24%	3.19%
G&A/Avg. Assets	3.04%	3.11%	3.28%	3.16%	3.38%	3.23%	3.17%	3.37%	3.12%	2.99%	3.16%	2.95%	2.73%	2.70%	2.69%	2.76%	2.65%
Efficiency Ratio	74%	74%	77%	71%	77%	75%	76%	74%	75%	75%	75%	73%	69%	68%	69%	70%	68%
Effective tax rate	30.5%	29.3%	30.1%	32.0%	23.7%	29.0%	26.1%	27.7%	26.6%	28.0%	27.1%	30.0%	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%	0.68%	0.66%	0.71%	0.67%	0.77%	0.80%	0.77%	0.76%	0.81%
ROE (operating)	6.4%	6.9%	6.5%	7.8%	7.5%	7.2%	7.3%	8.8%	8.2%	7.9%	8.1%	8.0%	9.1%	9.5%	9.0%	8.9%	9.2%
ROTCE (operating)	8.7%	9.2%	8.6%	8.8%	7.7%	8.5%	7.3%	8.9%	8.3%	8.0%	8.2%	8.4%	9.9%	10.2%	9.7%	9.6%	9.9%
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	\$0.24

Core PTPP earnings

PTPP ROA

Source: Company reports and Raymond James research

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	3Q13 30-Sep	4Q13E 31-Dec	1Q14E 31-Mar	2Q14E 30-Jun	3Q14E 30-Sep	4Q14E 31-Dec	4Q15E 31-Dec
Stated Equity	47,896	49,307	49,296	54,278	54,183	54,770	52,828	52,862	53,274	65,921	67,045	68,251	69,399	74,414
Preferred	11,137	11,164	11,191	750	0	0	0	0	0	0	0	0	0	0
Intangibles	936	884	834	782	731	680	635	603	571	5,220	5,156	5,092	5,028	4,772
Tangible Common Equity	35,823	37,259	37,271	52,746	53,452	54,090	52,193	52,259	52,703	60,701	61,889	63,159	64,371	69,642
Book Value	\$11.11	\$11.52	\$11.39	\$10.25	\$10.37	\$10.35	\$9.98	\$9.98	\$10.05	\$10.03	\$10.20	\$10.38	\$10.55	\$11.29
Tangible BV	\$10.83	\$11.25	\$11.14	\$10.10	\$10.23	\$10.22	\$9.86	\$9.87	\$9.95	\$9.24	\$9.41	\$9.60	\$9.78	\$10.56
Shares Outstanding	3,308	3,311	3,346	5,224	5,227	5,290	5,293	5,296	5,298	6,571	6,574	6,577	6,580	6,592
Equity/Assets	8.1%	8.2%	8.2%	9.0%	9.0%	8.8%	8.3%	8.3%	8.4%	8.4%	8.5%	8.5%	8.6%	8.9%
TCE ratio	6.0%	6.2%	6.2%	8.7%	8.9%	8.7%	8.3%	8.2%	8.3%	7.8%	7.9%	7.9%	8.1%	8.4%
Leverage Ratio	9.40%	9.77%	9.94%	10.56%	10.63%	10.78%	10.61%	10.64%						
Tier 1 Capital Ratio	15.33%	15.69%	16.64%	17.94%	17.33%	17.59%	17.51%	17.29%						
Total Capital Ratio	17.25%	17.62%	18.59%	19.88%	18.58%	18.82%	18.68%	18.40%						
Total Assets	593,887	601,501	598,014	606,339	602,925	625,855	633,185	635,927	635,927	780,627	792,336	800,260	804,261	832,733
Other short-term investments	5,893	14,520	18,205	9,894	7,021	23,758	14,560	9,958						
Investment securities	206,669	202,699	201,381	210,734	205,972	220,604	225,915	230,712						
Loans held for sale	3,725	3,863	4,356	8,685	9,658	4,238	5,789	2,529						
Loans	324,311	331,090	324,913	323,534	332,111	333,720	341,089	345,064	346,789	453,523	460,326	465,850	472,838	499,381
Allowance for loan losses	(4,699)	(4,745)	(4,742)	(4,695)	(4,621)	(4,534)	(4,439)	(4,323)	(4,247)	(4,243)	(4,287)	(4,352)	(4,415)	(4,709)
Other assets	57,988	54,074	53,901	58,187	52,784	48,069	50,271	51,987						
Total Liabilities	545,991	552,194	548,718	552,061	548,742	571,085	580,357	583,065						
Total deposits	464,585	476,874	474,019	474,465	474,977	497,024	509,619	508,592	513,678	659,088	655,793	659,072	662,367	685,632
Securities sold under repo	13,616	13,479	12,817	15,651	15,900	17,216	15,650	17,076						
FHLB advances	43,862	38,857	38,496	38,491	36,344	36,339	34,335	34,330						
Junior sub debt	17,913	17,914	17,916	17,917	15,464	15,464	15,464	15,464						
Other liabilities	6,015	5,070	5,470	5,537	6,057	5,042	5,289	7,603						

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

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Market Perform (Hold)	43%	39%	57%	31%	9%	23%	0%	0%
Underperform (Sell)	7%	1%	0%	21%	3%	0%	0%	0%

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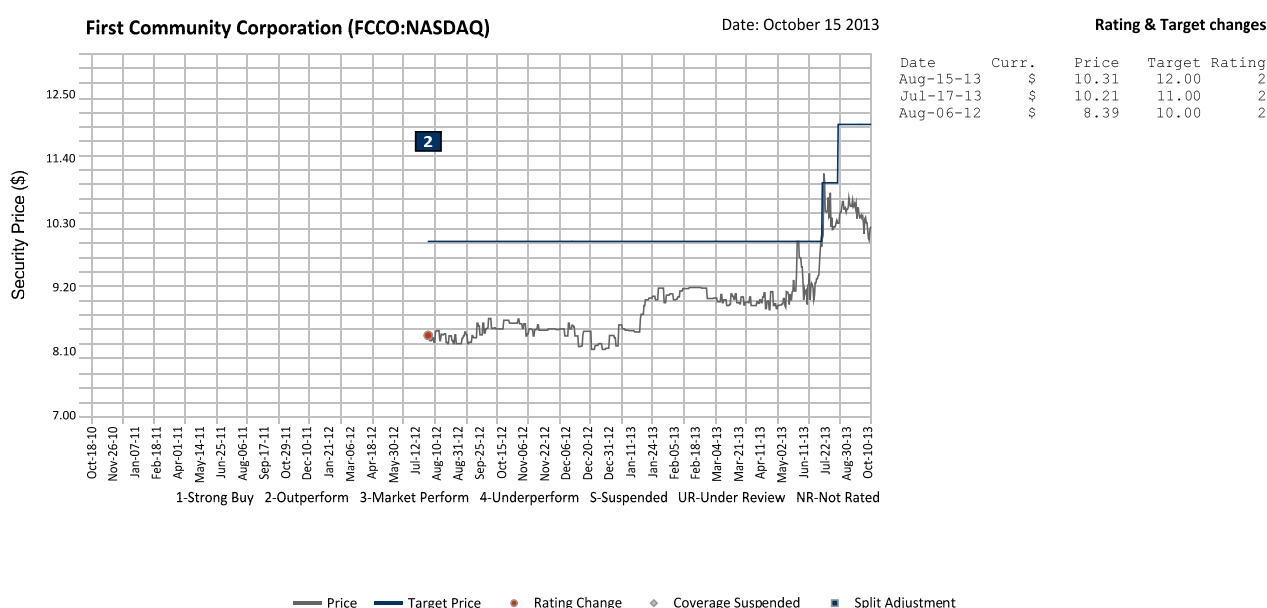
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Company Name	Disclosure
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Target Prices: The information below indicates our target price and rating changes for FCCO stock over the past three years.



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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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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