

First Community Corporation

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(FCCO:NASDAQ)

William J. Wallace IV, (301) 657-1548, William.Wallace@RaymondJames.com

Charles Wohlhuter, Res. Assoc., (404) 442-5832, Charles.Wohlhuter@RaymondJames.com

Company Comment

Rating Outperform 2

Banking

Maintain Outperform - Revenue Pressures Should Remain Manageable

Recommendation: We reiterate our **Outperform** rating and \$10 price target on First Community after 1Q13 results that were in line with our expectations. Dissecting revenue trends in the quarter, margin expansion and a higher earning assets balance drove strength in net interest income, while slightly weaker mortgage banking revenue relative to our expectations kept fee income at bay. That said, fee income was 33% of total operating revenue, demonstrating the company's strategic focus of maintaining a diversified revenue stream in the challenging lending environment. Loan growth will remain challenged for the foreseeable future, but some recent firming in loan demand could see growth accelerate in 2Q13. With an 8.7% tangible common equity ratio at 1Q13, the success of an investment in the stock still remains tied to the company's ability to deploy capital for profitable growth. We believe there are several acquisition opportunities that the company could pursue, and management remains active in pursuing these opportunities as well as investigating other potential areas of growth either through de novo branches or through 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.

- ◆ **1Q13 results miss consensus.** First Community reported GAAP EPS of \$0.20. Excluding \$15,000 of net gains, we calculate operating EPS of \$0.19, in line with our estimate but below the \$0.20 consensus.
- ◆ **Mortgage banking pressure mounts.** Fee income remains a key strategic focus for the bank to help offset pressures on net interest income. While mortgage banking remains a key component of fee income, mortgage revenue slid 19% linked quarter due to seasonality and slowing refinance activity. We expect mortgage origination volumes will slow in coming quarters; however, advisory income was higher than expected and could provide some offset to declining mortgage revenue as the company continues to invest in this business.
- ◆ **Margin expansion surprises.** The net interest margin (NIM) expanded 3 bp sequentially to 3.15%, above our 3.09% estimate, driven mainly by lower deposit costs and an improved deposit mix. While we were pleased to see the linked quarter expansion, we believe margin pressures are mounting, as declines in loan yields accelerated from the prior quarter. As such, we are forecasting NIM contraction to 3.00% by 4Q13 and 2.78% by 4Q14.
- ◆ **Estimates:** We are maintaining our 2013 and 2014 EPS operating estimates of \$0.80 and \$0.75, respectively.

Valuation: Our \$10 price target is based on 0.9x our 1Q14 tangible book value (TBV) estimate of \$10.81 and 13.3x our 2014E EPS, a discount to micro-cap peers at 1.1x on a TBV basis, but a slight premium to peers at 12.1x on 2014 EPS estimates. While capital levels remain strong, until the company deploys excess capital to drive better-than-peer returns on equity, we expect a discount on a TBV basis will remain.

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	0.19	0.20	0.21	0.20	0.80	0.80	25
New 2013E	0.19A	0.20	0.21	0.20	0.80	0.81	26
Old 2014E	UR	UR	UR	UR	0.75	0.75	25
New 2014E	0.17	0.18	0.20	0.20	0.75	0.75	25

Rows may not add due to rounding. UR: Under Review. 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 (Apr-18-13) \$8.98
 Target Price: \$10.00
 52-Week Range \$9.25 - \$7.60
 Suitability Aggressive Growth

Market Data
 Shares Out. (mil.) 5.2
 Market Cap. (mil.) \$47
 Avg. Daily Vol. (10 day) 11,951
 Dividend/Yield \$0.20/2.2%
 Book Value (Mar-13) \$10.35
 Tang. BVPS (Mar-13) \$10.22

Earnings & Valuation Metrics

	2012A	2013E	2014E
P/E Ratios (Non-GAAP)	9.9x	11.2x	12.0x

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 maintaining our 2013 and 2014 operating EPS estimates of \$0.80 and \$0.75, respectively. For both periods, we expect higher spread revenue will fully offset lower fee income expectations, which is mainly driven by less mortgage banking revenue than previously modeled.

Earnings Estimates

(\$ in thousands)	2013E			2014E		
	Old	Current	Change	Old	Current	Change
Operating EPS	\$0.80	\$0.80	\$0.00	\$0.75	\$0.75	\$0.00
GAAP EPS	\$0.80	\$0.81	\$0.01	\$0.75	\$0.75	\$0.00
Core PTPP* Earnings	7,121	6,979	-2%	6,353	6,383	0%
Avg. Earning Assets	560,980	576,291	3%	577,261	610,125	6%
NIM	3.04%	3.10%	6 bps	2.87%	2.84%	-4 bps
Net Interest Income	16,480	17,350	5%	16,012	16,773	5%
Provision	600	550	-8%	500	530	6%
Operating Fee Income	8,826	8,217	-7%	8,639	7,747	-10%
Operating Expense	18,660	19,025	2%	18,498	18,337	-1%
Operating Efficiency	74%	74%	68 bps	75%	75%	-26 bps
Tax Rate	30.0%	28.3%	-167 bps	30.0%	30.0%	0 bps
Diluted shares	5,267	5,295	1%	5,277	5,306	1%
Dividends per share	\$0.21	\$0.21	\$0.00	\$0.24	\$0.24	\$0.00
Reserves/Loans	1.36%	1.28%	-8 bps	1.35%	1.24%	-11 bps
NPAs/Loans	1.95%	2.20%	24 bps	1.35%	1.50%	15 bps
NCOs/Avg. Loans	0.15%	0.22%	7 bps	0.10%	0.13%	3 bps

*PTPP = pre-tax, pre-provision

We are maintaining our 2013 and 2014 operating EPS estimates of \$0.80 and \$0.75, respectively. For both periods, higher spread revenue expectations are fully offset by lower fee income estimates.

Source: Company reports and Raymond James research

Margin Expands but Pressures Mounting

NIM expanded 3 bp linked quarter to 3.15%, which was above our 3.09% estimate. We expected continued declines in earning assets would offset any reduction in funding costs; however, the company retired roughly \$4.5 million in higher cost debt in mid-4Q12, and 1Q13 marked the first full quarter of this benefit. Interest-bearing deposit costs decreased across the board led by a marked 23 bp sequential drop in time deposits costs to 0.98%. These benefits, combined with an improvement in the average core deposit mix to 62% from 60% in 4Q12, as displayed in the following table, lowered funding costs 12 bp to 0.74%, marking acceleration from a 10 bp decrease in 4Q12. We anticipate there is additional room to trim funding costs at the bank, mainly from reducing higher cost time deposits with weighted average costs of roughly 0.90% to 0.60% over the next few months; however, the benefit will diminish as costs eventually bottom. While we see these as defensive moves to stave off significant NIM compression, additional focus will be placed on loan pricing and asset mix to limit meaningful margin contraction until the yield curve steepens once again and strong loan demand returns. In evidence of this, loan balances increased 0.5% linked quarter, which is a slow-down from the 2.7% level in the prior quarter, but we believe there has been some incremental firming in loan demand, which should keep the portfolio from contracting. Loan pricing remains very competitive throughout the company's markets from larger regional lending institutions, placing greater pressure on terms. 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 who are reaching out 10 to 15 years with fixed rates on commercial real estate loans. With our view of a still challenged loan growth environment and fewer levers on the funding side, we currently model NIM compressing to 3.00% by 4Q13 then 2.78% by 4Q14.

Deposit Mix Improves

(\$ in thousands)	% of Total	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	4Q12A-1Q13A	1Q12A-1Q13A
Demand deposits	20.5%	81,213	82,544	82,252	84,247	86,443	90,168	93,098	97,163	95,777	-1.4%	10.8%
Interest-bearing accounts	19.5%	78,382	81,150	85,519	89,307	84,989	89,647	91,778	92,466	95,237	3.0%	12.1%
Money market accounts	11.5%	46,447	49,534	50,220	48,962	50,143	52,309	53,528	54,493	60,976	11.9%	21.6%
Savings deposits	8.6%	30,369	31,957	32,275	33,733	36,445	38,752	39,955	40,898	42,589	4.1%	16.9%
Time deposits	39.9%	224,612	221,800	218,948	213,719	208,565	201,079	195,230	188,837	182,116	-3.6%	-12.7%
Total Average Deposits	100%	461,023	466,985	469,214	469,968	466,585	471,955	473,589	473,857	476,695	0.6%	2.2%
Core Deposit Mix		51%	53%	53%	55%	55%	57%	59%	60%	62%		

Source: Company reports and Raymond James research

NPA Balances Remain Flat, but Credit Costs Drop

While problem asset balances declined linked quarter, NPAs remained flat at \$8.7 million or 2.6% of loans and real estate owned (REO). Importantly, classified assets declined meaningfully, as a large credit was upgraded from substandard to special mention during the quarter and will likely move to Pass within the next couple of quarters. That said, nonaccrual loans (NALs) ticked up 14.3% sequentially to \$5.4 million, though we expect this increase will be one-time in nature. Management conservatively decided to move two real estate credits totaling \$800,000 into nonaccrual status due to cash flow issues; the loans remain current and appraisals suggest collateral value above the unpaid principal balance of the credits, which should limit any risk of outsized losses. On a positive note, REO expense decreased markedly to \$112,000 from \$451,000 in 4Q12, returning to a more normalized level. We believed the jump in REO costs in 4Q12 was more one-time in nature, and our view was confirmed by the sequential drop. We expect credit costs (provision and REO expenses) will trend lower as the credit cycle matures. We believe the health of the loan portfolio remains favorable, as NCOs were just 0.28% of average loans in 1Q13, which adds to our comfort level that loss rates will remain in check going forward. As such, the company's credit picture remains intact, and we expect reserves will move down to 1.3% of loans by 4Q13 and 1.2% by 4Q14.

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	\$3,216	63%	15%	96%	4.71%	5.96%	5.77%	0.52%	0.90%	33%	67%	1.07%	2.51%	1.73%	69%	7.1%	10.5%	14.9%
Palmetto Bancshares, Inc.	PLMT	\$1,145	67%	18%	72%	3.50%	5.28%	3.98%	0.46%	NA	23%	78%	0.99%	7.63%	2.39%	31%	8.6%	9.2%	13.2%
CNB Corporation	CNBW	\$945	56%	19%	60%	3.27%	6.08%	3.60%	0.43%	NA	18%	68%	0.64%	6.42%	2.47%	38%	9.7%	9.5%	17.0%
Security Federal Corporation	SFDL	\$890	57%	NA	60%	2.76%	5.67%	3.79%	0.66%	NA	16%	71%	1.24%	7.87%	2.77%	35%	6.7%	7.7%	16.5%
Southern First Bancshares, Inc.	SFST	\$798	60%	14%	112%	3.71%	5.18%	4.81%	0.65%	NA	12%	62%	0.70%	2.98%	1.41%	47%	6.0%	9.7%	11.8%
Tidelands Bancshares, Inc.	TDBK	\$527	38%	4%	75%	2.50%	4.88%	3.96%	1.11%	NA	9%	103%	1.88%	20.97%	1.98%	9%	-0.8%	2.6%	3.5%
HCSB Financial Corporation	HCFB	\$513	40%	8%	68%	2.90%	5.05%	4.09%	0.83%	1.17%	14%	80%	1.47%	18.83%	6.69%	36%	-3.9%	-1.6%	-2.4%
First Community Corporation	FCCO	\$626	63%	NA	67%	3.11%	5.44%	3.97%	0.43%	0.74%	33%	74%	0.28%	2.75%	1.34%	49%	8.7%	10.6%	17.3%
Peer Group Medians:		\$844	58%	14%	70%	3.19%	5.36%	3.98%	0.59%	0.90%	17%	73%	1.03%	7.03%	2.18%	37%	6.9%	9.3%	14.0%

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	520	\$133	\$1,254	1.41x	13.0x	12.2x	3%	2.7%	0.76%	7.3%	9.2%	9.9%	9.9%
Large Cap (>\$3B)	26	\$7,510	\$73,848	1.44x	11.4x	10.3x	7%	2.6%	1.06%	9.2%	12.2%	12.0%	12.0%
Mid-Cap (\$750M - \$3B)	60	\$1,341	\$10,531	1.46x	13.8x	13.0x	7%	2.3%	1.06%	8.4%	11.4%	11.3%	11.3%
Small-Cap (\$300M - \$750M)	65	\$454	\$3,700	1.45x	12.9x	12.0x	4%	2.9%	0.95%	8.9%	10.7%	10.7%	10.7%
Micro-Cap (<\$300M)	369	\$84	\$921	1.10x	13.0x	12.1x	2%	2.7%	0.67%	6.4%	8.1%	8.7%	8.7%
Regional Medians													
Mid-Atlantic	117	\$129	\$1,171	1.20x	13.0x	12.1x	3%	3.3%	0.82%	7.4%	9.8%	9.9%	10.5%
Midwest	134	\$100	\$1,254	1.03x	11.9x	11.3x	2%	2.5%	0.79%	7.9%	9.9%	10.3%	10.4%
New England	33	\$136	\$1,303	1.16x	13.1x	12.4x	4%	3.2%	0.75%	5.5%	8.8%	9.7%	10.2%
Southwest	21	\$626	\$3,663	1.36x	14.8x	13.4x	5%	2.2%	0.78%	8.3%	8.9%	8.7%	9.1%
West	81	\$184	\$1,373	1.16x	13.3x	12.3x	4%	2.5%	0.89%	7.7%	8.7%	9.5%	9.4%
Southeast	134	\$123	\$1,101	1.04x	14.1x	12.7x	3%	2.3%	0.63%	6.0%	8.0%	9.1%	9.6%

Note: Priced as of April 18, 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	2Q13E 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	4,352	4,370	4,349	17,350	4,119	4,169	4,220	4,265	16,773
Provision for loan losses	1,420	230	71	115	80	496	150	130	130	140	550	135	135	130	130	530
Net Interest Income after Provision	16,897	4,279	4,380	4,214	4,205	17,078	4,129	4,222	4,240	4,209	16,800	3,984	4,034	4,090	4,135	16,243
Deposit service charges	1,810	389	375	395	403	1,562	361	371	394	408	1,534	375	379	404	421	1,579
Mortgage origination fees	1,973	723	877	1,393	1,249	4,242	1,015	964	974	877	3,830	789	789	813	731	3,121
Investment advisory fees and commissions	767	147	162	183	159	651	198	208	216	225	847	234	243	253	263	993
Gain on sale of securities	575	11	(38)	(35)	88	26	15	0	0	0	15	0	0	0	0	0
Gain (loss) on sale of other assets	(155)	50	(36)	(22)	(81)	(89)	(2)	0	0	0	(2)	0	0	0	0	0
Fair value gain (loss) adjustment	(166)	(33)	(4)	(20)	(1)	(58)	0	0	0	0	0	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	0	0	0	0	0	0	0	0	0
Other	1,908	497	519	508	514	2,038	496	506	501	503	2,006	508	519	513	513	2,054
Noninterest Income	6,227	1,463	1,855	2,402	2,235	7,955	2,083	2,049	2,085	2,013	8,230	1,906	1,930	1,983	1,928	7,747
Non-Operating items	(231)	(293)	(78)	(77)	(90)	(538)	13	0	0	0	13	0	0	0	0	0
Operating Noninterest Income	6,458	1,756	1,933	2,479	2,325	8,493	2,070	2,049	2,085	2,013	8,217	1,906	1,930	1,983	1,928	7,747
Total Revenue	24,544	5,972	6,306	6,731	6,520	25,529	6,362	6,401	6,455	6,362	25,579	6,025	6,098	6,203	6,194	24,520
Total Operating Revenue	24,775	6,265	6,384	6,808	6,610	26,067	6,349	6,401	6,455	6,362	25,566	6,025	6,098	6,203	6,194	24,520
Salaries and employee benefits	9,520	2,558	2,747	2,874	2,973	11,152	2,992	2,962	2,962	2,932	11,849	2,903	2,903	2,903	2,889	11,598
Occupancy	1,289	345	335	352	326	1,358	346	336	342	332	1,356	337	334	335	332	1,338
Equipment	1,147	287	283	307	291	1,168	283	280	283	284	1,131	283	280	280	280	1,123
Marketing and public relations	452	186	108	73	111	478	93	104	94	98	389	123	86	69	90	368
FDIC assessment	889	184	196	117	100	597	99	104	103	103	410	105	106	106	106	424
Other real estate expense	840	119	267	173	451	1,010	112	125	100	100	437	50	50	50	50	200
Amortization of intangibles	517	51	51	51	51	204	51	51	51	51	204	51	51	51	51	204
Other	3,689	882	921	876	799	3,478	831	814	806	798	3,250	782	774	767	759	3,082
Noninterest Expense	18,343	4,612	4,908	4,823	5,102	19,445	4,807	4,776	4,742	4,700	19,025	4,634	4,585	4,561	4,557	18,337
Non-Operating items	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Operating Noninterest Expense	18,343	4,612	4,908	4,823	5,102	19,445	4,807	4,776	4,742	4,700	19,025	4,634	4,585	4,561	4,557	18,337
Income Before Tax	4,781	1,130	1,327	1,793	1,338	5,588	1,405	1,494	1,583	1,522	6,005	1,256	1,379	1,512	1,507	5,653
Income tax expense	1,457	331	399	573	317	1,620	367	433	459	441	1,701	377	414	454	452	1,696
GAAP Net Income	3,324	799	928	1,220	1,021	3,968	1,038	1,061	1,124	1,081	4,304	879	965	1,058	1,055	3,957
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	1,061	1,124	1,081	4,304	879	965	1,058	1,055	3,957
Operating Net Income to Common	2,838	827	801	1,139	1,014	3,782	988	1,061	1,124	1,081	4,254	879	965	1,058	1,055	3,957
Diluted shares	3,289	3,329	3,357	4,726	5,262	4,168	5,292	5,294	5,296	5,298	5,295	5,301	5,304	5,307	5,310	5,306
GAAP EPS - diluted	\$0.81	\$0.19	\$0.23	\$0.19	\$0.19	\$0.79	\$0.20	\$0.20	\$0.21	\$0.20	\$0.81	\$0.17	\$0.18	\$0.20	\$0.20	\$0.75
Operating EPS - diluted	\$0.86	\$0.25	\$0.24	\$0.24	\$0.19	\$0.91	\$0.19	\$0.20	\$0.21	\$0.20	\$0.80	\$0.17	\$0.18	\$0.20	\$0.20	\$0.75

Financial Highlights

TBV/share	\$10.83	\$11.25	\$11.14	\$10.10	\$10.23	\$10.23	\$10.22	\$10.38	\$10.55	\$10.70	\$10.70	\$10.81	\$10.93	\$11.08	\$11.22	\$11.22
TCE/Assets	6.0%	6.2%	6.2%	8.7%	8.9%	8.9%	8.7%	8.6%	8.7%	8.6%	8.6%	8.7%	8.6%	8.6%	8.5%	8.5%
NPA's/Loans	3.85%	3.21%	2.90%	3.19%	2.59%	2.59%	2.59%	2.48%	2.37%	2.20%	2.20%	2.00%	1.82%	1.66%	1.50%	1.50%
NCO's/Avg. Loans	0.49%	0.22%	0.09%	0.20%	0.18%	0.17%	0.28%	0.20%	0.20%	0.20%	0.22%	0.15%	0.15%	0.10%	0.10%	0.13%
Reserves/Loans	1.45%	1.43%	1.46%	1.45%	1.39%	1.39%	1.36%	1.33%	1.31%	1.28%	1.28%	1.27%	1.25%	1.25%	1.24%	1.24%
NIM	3.34%	3.36%	3.30%	3.12%	3.12%	3.23%	3.15%	3.14%	3.10%	3.00%	3.10%	2.90%	2.85%	2.81%	2.78%	2.84%
G&A/Avg. Assets	3.04%	3.11%	3.28%	3.16%	3.38%	3.23%	3.17%	3.02%	2.96%	2.89%	3.01%	2.81%	2.75%	2.69%	2.64%	2.72%
Efficiency Ratio	74%	74%	77%	71%	77%	75%	76%	75%	73%	74%	74%	77%	75%	74%	74%	75%
Effective tax rate	30.5%	29.3%	30.1%	32.0%	23.7%	29.0%	26.1%	29.0%	29.0%	29.0%	28.3%	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%	0.67%	0.70%	0.66%	0.67%	0.53%	0.58%	0.62%	0.61%	0.59%
ROE (operating)	6.4%	6.9%	6.5%	7.8%	7.5%	7.2%	7.3%	7.7%	8.0%	7.6%	7.6%	6.1%	6.6%	7.2%	7.1%	6.8%
ROTCE (operating)	8.7%	9.2%	8.6%	8.8%	7.7%	8.5%	7.3%	7.8%	8.1%	7.7%	7.7%	6.2%	6.7%	7.3%	7.1%	6.8%
Dividends per share	\$0.16	\$0.04	\$0.04	\$0.04	\$0.05	\$0.17	\$0.05	\$0.05	\$0.05	\$0.06	\$0.21	\$0.06	\$0.06	\$0.06	\$0.06	\$0.24

Core PTPP earnings

PTPP ROA	6,602	1,603	1,575	1,819	1,959	6,956	1,654	1,749	1,813	1,762	6,979	1,441	1,564	1,692	1,687	6,383
	1.09%	1.08%	1.05%	1.19%	1.30%	1.16%	1.09%	1.11%	1.13%	1.08%	1.10%	0.87%	0.94%	1.00%	0.98%	0.95%

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	2Q13E 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	55,566	56,426	57,189	57,750	58,397	59,137	59,873
Preferred	11,137	11,164	11,191	750	0	0	0	0	0	0	0	0	0
Intangibles	936	884	834	782	731	680	629	578	527	476	425	374	323
Tangible Common Equity	35,823	37,259	37,271	52,746	53,452	54,090	54,937	55,848	56,662	57,274	57,972	58,763	59,550
Book Value	\$11.11	\$11.52	\$11.39	\$10.25	\$10.37	\$10.35	\$10.50	\$10.66	\$10.80	\$10.90	\$11.01	\$11.15	\$11.28
Tangible BV	\$10.83	\$11.25	\$11.14	\$10.10	\$10.23	\$10.22	\$10.38	\$10.55	\$10.70	\$10.81	\$10.93	\$11.08	\$11.22
Shares Outstanding	3,308	3,311	3,346	5,224	5,227	5,290	5,292	5,294	5,296	5,299	5,302	5,305	5,308
Equity/Assets	8.1%	8.2%	8.2%	9.0%	9.0%	8.8%	8.7%	8.8%	8.7%	8.7%	8.7%	8.6%	8.6%
TCE ratio	6.0%	6.2%	6.2%	8.7%	8.9%	8.7%	8.6%	8.7%	8.6%	8.7%	8.6%	8.6%	8.5%
Leverage Ratio	9.40%	9.77%	9.94%	10.56%	10.63%	10.78%							
Tier 1 Capital Ratio	15.33%	15.69%	16.64%	17.94%	17.39%	17.59%							
Total Capital Ratio	17.25%	17.62%	18.59%	19.88%	18.64%	18.82%							
Total Assets	593,887	601,501	598,014	606,339	602,925	625,855	638,372	644,756	657,651	660,939	674,158	684,270	697,956
Other short-term investments	5,893	14,520	18,205	9,894	7,021	23,758							
Investment securities	206,669	202,699	201,381	210,734	205,972	220,604							
Loans held for sale	3,725	3,863	4,356	8,685	9,658	4,238							
Loans	324,311	331,090	324,913	323,534	332,111	333,720	338,726	340,419	345,526	348,981	354,216	357,758	363,124
Allowance for loan losses	(4,699)	(4,745)	(4,742)	(4,695)	(4,621)	(4,534)	(4,496)	(4,456)	(4,425)	(4,429)	(4,433)	(4,474)	(4,513)
Other assets	57,988	54,074	53,901	58,187	52,784	48,069							
Total Liabilities	545,991	552,194	548,718	552,061	548,742	571,085							
Total deposits	464,585	476,874	474,019	474,465	474,977	497,024	492,054	492,054	492,054	506,815	504,281	506,803	506,803
Securities sold under repo	13,616	13,479	12,817	15,651	15,900	17,216							
FHLB advances	43,862	38,857	38,496	38,491	36,344	36,339							
Junior sub debt	17,913	17,914	17,916	17,917	15,464	15,464							
Other liabilities	6,015	5,070	5,470	5,537	6,057	5,042							

Company Citations

Company Name	Ticker	Exchange	Currency	Closing Price	RJ Rating	RJ Entity
First Financial Holdings, Inc.	FFCH	NASDAQ	\$	19.88	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.

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.

Raymond James Latin American rating definitions

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.

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
Strong Buy and Outperform (Buy)	51%	64%	28%	47%	21%	31%	0%	0%
Market Perform (Hold)	43%	34%	66%	33%	10%	26%	0%	0%
Underperform (Sell)	6%	1%	6%	20%	0%	0%	0%	0%

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High Risk (HR) Companies with less predictable earnings (or losses), rapidly changing market dynamics, financial and competitive issues, higher price volatility (beta), and risk of principal.

Venture Risk (VR) Companies with a short or unprofitable operating history, limited or less predictable revenues, very high risk associated with success, and a substantial risk of principal.

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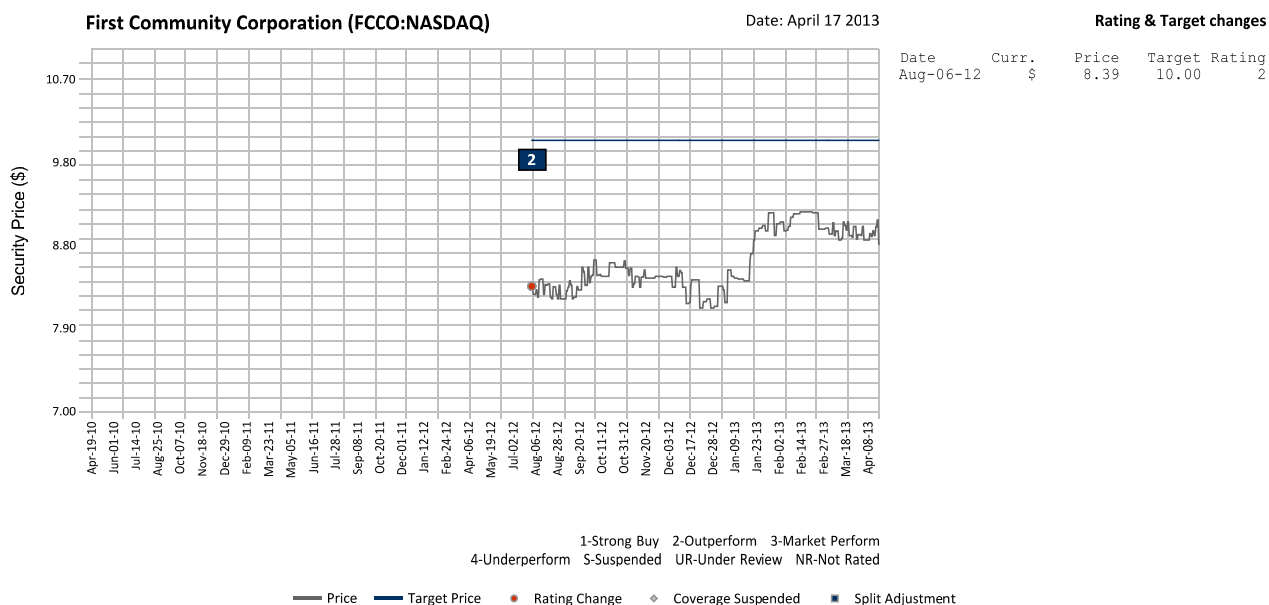
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Company Name	Disclosure
First Community Corporation	Raymond James & Associates lead-managed a follow-on offering of FCCO shares within the past 12 months. Raymond James & Associates makes a market in shares of FCCO. Raymond James & Associates received 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

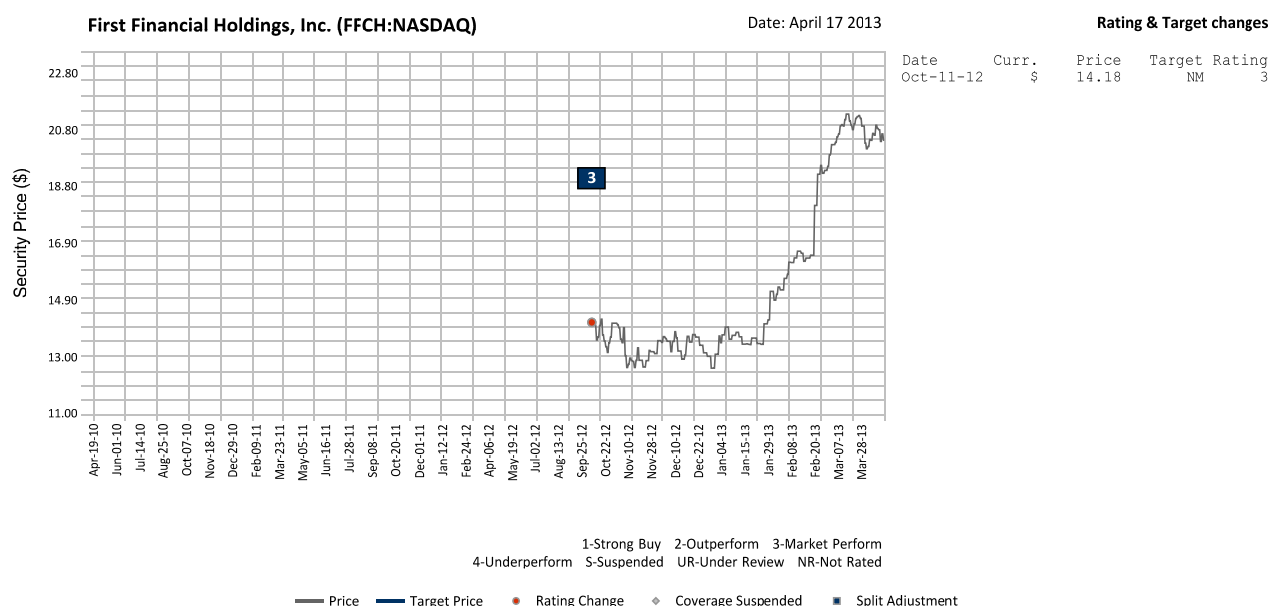
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Target Prices: The information below indicates our target price and rating changes for FCCO stock over the past three years.



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.

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