

FIRST COMMUNITY BANCSHARES INC /NV/

Form 10-Q

November 07, 2014

[Table of Contents](#)

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2014

Commission file number 000-19297

FIRST COMMUNITY BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction

of incorporation)

55-0694814
(IRS Employer

Identification No.)

P.O. Box 989

Bluefield, Virginia
(Address of principal executive offices)

24605-0989
(Zip Code)

(276) 326-9000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
 Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class Common Stock, \$1.00 Par Value; 18,402,919 shares outstanding as of November 3, 2014

Table of Contents

FIRST COMMUNITY BANCSHARES, INC.

FORM 10-Q

For the quarter ended September 30, 2014

INDEX

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets as of September 30, 2014 (Unaudited) and December 31, 2013</u>	3
<u>Condensed Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2014 and 2013 (Unaudited)</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three and Nine Months Ended September 30, 2014 and 2013 (Unaudited)</u>	5
<u>Condensed Consolidated Statements of Changes in Stockholders' Equity for the Nine Months Ended September 30, 2014 and 2013 (Unaudited)</u>	6
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2014 and 2013 (Unaudited)</u>	7
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	8
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	45
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	62
Item 4. <u>Controls and Procedures</u>	63
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	64
Item 1A. <u>Risk Factors</u>	64
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	64
Item 3. <u>Defaults Upon Senior Securities</u>	64
Item 4. <u>Mine Safety Disclosures</u>	64
Item 5. <u>Other Information</u>	64
Item 6. <u>Exhibits</u>	65
<u>SIGNATURES</u>	68
<u>EXHIBIT INDEX</u>	69

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****FIRST COMMUNITY BANCSHARES, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

	September 30, 2014	December 31, 2013
	(Unaudited)	
<i>(Amounts in thousands, except share and per share data)</i>		
Assets		
Cash and due from banks	\$ 44,703	\$ 43,598
Federal funds sold	55,503	1,817
Interest-bearing deposits in banks	5,716	11,152
Total cash and cash equivalents	105,922	56,567
Securities available for sale	351,693	519,820
Securities held to maturity	31,029	568
Loans held for sale	1,150	883
Loans held for investment, net of unearned income:		
Covered under loss share agreements	126,611	151,682
Not covered under loss share agreements	1,636,181	1,559,039
Less allowance for loan losses	(21,159)	(24,077)
Loans held for investment, net	1,741,633	1,686,644
FDIC indemnification asset	29,745	34,691
Premises and equipment, net	59,283	61,116
Other real estate owned:		
Covered under loss share agreements	7,620	7,541
Not covered under loss share agreements	5,612	7,318
Interest receivable	6,346	7,521
Goodwill	105,657	105,455
Other intangible assets	2,334	2,866
Other assets	102,103	111,524
Total assets	\$ 2,550,127	\$ 2,602,514
Liabilities		
Deposits:		
Noninterest-bearing	\$ 397,523	\$ 339,680
Interest-bearing	1,534,752	1,611,062
Total deposits	1,932,275	1,950,742
Interest, taxes, and other liabilities	25,131	22,770

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Federal funds purchased		16,000
Securities sold under agreements to repurchase	114,439	118,308
FHLB borrowings	115,000	150,000
Other borrowings	16,047	16,088
Total Liabilities	2,202,892	2,273,908
Stockholders equity		
Preferred stock, undesignated par value; 1,000,000 shares authorized: Series A Noncumulative Convertible Preferred Stock, \$0.01 par value; 25,000 shares authorized; 15,151 and 15,251 shares outstanding at September 30, 2014, and December 31, 2013, respectively	15,151	15,251
Common stock, \$1 par value; 50,000,000 shares authorized; 20,499,683 and 20,493,057 shares issued at September 30, 2014, and December 31, 2013, respectively; 2,096,764 and 1,978,478 shares in treasury at September 30, 2014, and December 31, 2013, respectively	20,500	20,493
Additional paid-in capital	215,729	215,663
Retained earnings	138,111	125,826
Treasury stock, at cost	(35,808)	(33,887)
Accumulated other comprehensive loss	(6,448)	(14,740)
Total stockholders equity	347,235	328,606
Total Liabilities and Stockholders Equity	\$ 2,550,127	\$ 2,602,514

See Notes to Consolidated Financial Statements.

Table of Contents

FIRST COMMUNITY BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

<i>(Amounts in thousands, except share and per share data)</i>	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Interest income				
Interest and fees on loans held for investment	\$ 23,407	\$ 23,439	\$ 69,651	\$ 72,547
Interest on securities taxable	1,196	1,999	4,830	5,754
Interest on securities nontaxable	1,108	1,216	3,329	3,631
Interest on deposits in banks	40	42	117	180
Total interest income	25,751	26,696	77,927	82,112
Interest expense				
Interest on deposits	1,782	2,147	5,505	6,792
Interest on short-term borrowings	526	517	1,511	1,686
Interest on long-term debt	1,428	1,706	4,803	5,084
Total interest expense	3,736	4,370	11,819	13,562
Net interest income	22,015	22,326	66,108	68,550
(Recovery of) provision for loan losses	(2,439)	2,333	633	6,680
Net interest income after provision for loan losses	24,454	19,993	65,475	61,870
Noninterest income				
Wealth management	670	863	2,396	2,680
Service charges on deposit accounts	3,606	3,582	10,099	10,065
Other service charges and fees	1,852	1,777	5,473	5,356
Insurance commissions	1,695	1,559	5,113	4,533
Impairment losses on securities	(219)		(737)	
Portion of losses recognized in other comprehensive income				
Net impairment losses recognized in earnings	(219)		(737)	
Net gain (loss) on sale of securities	320	(39)	306	191
Net FDIC indemnification asset amortization	(1,096)	(1,089)	(3,166)	(4,290)
Other operating income	839	1,458	3,021	4,285
Total noninterest income	7,667	8,111	22,505	22,820
Noninterest expense				
Salaries and employee benefits	9,924	11,080	29,872	31,150
Occupancy expense of bank premises	1,469	1,700	4,825	5,350
Furniture and equipment	1,212	1,288	3,611	3,931
Amortization of intangible assets	179	183	532	545
FDIC premiums and assessments	419	460	1,311	1,401

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FHLB debt prepayment fees	3,047		3,047	
Merger, acquisition, and divestiture expense	285		285	57
Other operating expense	4,934	5,442	15,329	15,796
Total noninterest expense	21,469	20,153	58,812	58,230
Income before income taxes	10,652	7,951	29,168	26,460
Income tax expense	3,609	2,539	9,393	8,472
Net income	7,043	5,412	19,775	17,988
Dividends on preferred stock	228	261	683	772
Net income available to common shareholders	\$ 6,815	\$ 5,151	\$ 19,092	\$ 17,216
Basic earnings per common share	\$ 0.37	\$ 0.26	\$ 1.04	\$ 0.86
Diluted earnings per common share	0.36	0.26	1.02	0.85
Cash dividends per common share	0.13	0.12	0.37	0.36
Weighted average basic shares outstanding	18,402,764	20,008,861	18,407,173	20,013,095
Weighted average diluted shares outstanding	19,466,126	21,123,788	19,472,136	21,196,063

See Notes to Consolidated Financial Statements.

Table of Contents**FIRST COMMUNITY BANCSHARES, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)**

<i>(Amounts in thousands, except share and per share data)</i>	Three Months Ended September 30, 2014 2013		Nine Months Ended September 30, 2014 2013	
Comprehensive Income				
Net income	\$ 7,043	\$ 5,412	\$ 19,775	\$ 17,988
Other comprehensive income (loss), before tax:				
Available-for-sale securities:				
Unrealized losses on securities available for sale with other-than-temporary impairment	(346)	(861)	(128)	(1,043)
Unrealized gains (losses) on securities available for sale without other-than-temporary impairment	846	(453)	12,774	(16,057)
Less: reclassification adjustment for (gains) losses realized in net income	(320)	39	(306)	(191)
Less: reclassification adjustment for credit related other-than-temporary impairments recognized in net income	219		737	
Unrealized gains (losses) on available-for-sale securities	399	(1,275)	13,077	(17,291)
Employee benefit plans:				
Net actuarial (loss) gain on pension and other postretirement benefit plans	(2)	220	29	(104)
Net prior service cost attributed to plan amendments		(94)		(282)
Less: reclassification adjustment for amortization of prior service cost and net actuarial loss included in net periodic benefit cost	66	82	195	245
Unrealized gains (losses) on employee benefit plans	64	208	224	(141)
Other comprehensive income (loss), before tax	463	(1,067)	13,301	(17,432)
Income tax (expense) benefit	(174)	400	(5,009)	6,512
Other comprehensive income (loss), net of tax	289	(667)	8,292	(10,920)
Total comprehensive income	\$ 7,332	\$ 4,745	\$ 28,067	\$ 7,068

See Notes to Consolidated Financial Statements.

Table of Contents**FIRST COMMUNITY BANCSHARES, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY
(UNAUDITED)**

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
<i>(Amounts in thousands, except share and per share data)</i>							
Balance January 1, 2013	\$ 17,421	\$ 20,343	\$ 213,829	\$ 113,013	\$ (6,458)	\$ (1,825)	\$ 356,323
Net income				17,988			17,988
Other comprehensive loss						(10,920)	(10,920)
Common dividends declared \$0.36 per share				(7,211)			(7,211)
Preferred dividends declared \$45.00 per share				(772)			(772)
Preferred stock converted to common stock 134,550 shares	(1,950)	135	1,815				
Equity-based compensation expense			213				213
Common stock options exercised 789 shares			(9)		16		7
Restricted stock awards 35,117 shares			(177)		703		526
Purchase of treasury shares 335,192 shares at \$15.52 per share					(5,207)		(5,207)
Balance September 30, 2013	\$ 15,471	\$ 20,478	\$ 215,671	\$ 123,018	\$ (10,946)	\$ (12,745)	\$ 350,947
Balance January 1, 2014	\$ 15,251	\$ 20,493	\$ 215,663	\$ 125,826	\$ (33,887)	\$ (14,740)	\$ 328,606
Net income				19,775			19,775
Other comprehensive income						8,292	8,292
Common dividends declared \$0.37 per share				(6,807)			(6,807)
Preferred dividends declared \$45.00 per share				(683)			(683)
Preferred stock converted to common stock 6,900 shares	(100)	7	93				
Equity-based compensation expense			175				175

Common stock options exercised 554 shares					9		9
Restricted stock awards 13,933 shares			(202)		238		36
Purchase of treasury shares 132,773 shares at \$16.29 per share					(2,168)		(2,168)
Balance September 30, 2014	\$ 15,151	\$ 20,500	\$ 215,729	\$ 138,111	\$ (35,808)	\$ (6,448)	\$ 347,235

See Notes to Consolidated Financial Statements.

Table of Contents**FIRST COMMUNITY BANCSHARES, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

<i>(Amounts in thousands)</i>	Nine Months Ended September 30,	
	2014	2013
Operating activities		
Net income	\$ 19,775	\$ 17,988
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	633	6,680
Depreciation and amortization of property, plant, and equipment	3,286	3,730
Amortization of premiums on investments, net	4,509	408
Amortization of FDIC indemnification asset, net	3,166	4,290
Amortization of intangible assets	532	545
Gain on sale of loans	(536)	(1,040)
Equity-based compensation expense	175	213
Gain on sale of property, plant, and equipment	(64)	(51)
Loss on sale of other real estate	2,407	1,733
Gain on sale of securities	(306)	(191)
Net impairment losses recognized in earnings	737	
FHLB debt prepayment fees	3,047	
Gain on prepayment of debt		(296)
Proceeds from sale of mortgage loans	23,237	65,823
Origination of mortgage loans	(22,968)	(58,936)
Decrease (increase) in accrued interest receivable	1,175	(1,472)
Decrease (increase) in other operating activities	2,581	(10,835)
Net cash provided by operating activities	41,386	28,589
Investing activities		
Proceeds from sale of securities available for sale	139,544	104,240
Proceeds from maturities, prepayments, and calls of securities available for sale	40,703	67,650
Proceeds from maturities and calls of securities held to maturity	190	250
Payments to acquire securities available for sale	(4,311)	(201,138)
Payments to acquire securities held to maturity	(30,704)	
(Originations) collections of loans, net	(64,120)	10,892
Proceeds from the redemption of FHLB stock, net	3,224	1,184
Net cash paid in mergers, acquisitions, and divestitures	(202)	(201)
Proceeds from the FDIC	2,937	13,573
Payments to acquire property, plant, and equipment	(2,346)	(2,460)
Proceeds from sale of property, plant, and equipment	957	113
Proceeds from sale of other real estate	8,169	4,885
Net cash provided by (used in) investing activities	94,041	(1,012)
Financing activities		
Net increase in noninterest-bearing deposits	57,843	10,599

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Net decrease in interest-bearing deposits	(76,310)	(44,209)
Net decrease in federal funds purchased	(16,000)	
Repayments of securities sold under agreements to repurchase	(3,869)	(21,471)
Repayments of long-term debt	(38,088)	(11,596)
Proceeds from stock options exercised	9	7
Excess tax benefit from equity-based compensation	1	
Payments for repurchase of treasury stock	(2,168)	(5,207)
Payments of common dividends	(6,807)	(7,211)
Payments of preferred dividends	(683)	(761)
Net cash used in financing activities	(86,072)	(79,849)
Net increase (decrease) in cash and cash equivalents	49,355	(52,272)
Cash and cash equivalents at beginning of period	56,567	144,847
Cash and cash equivalents at end of period	\$ 105,922	\$ 92,575
Supplemental transactions noncash items		
Transfer of loans to other real estate	\$ 9,631	\$ 13,631
Loans originated to finance other real estate	671	3,184
<i>See Notes to Consolidated Financial Statements.</i>		

Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****Note 1. General**

First Community Bancshares, Inc. is a financial holding company that provides banking products and services to individuals and commercial customers through its wholly-owned subsidiary, First Community Bank (the *Bank*), a Virginia-chartered banking institution, and personal and commercial insurance products and services through its wholly-owned subsidiary Greenpoint Insurance Group, Inc. (*Greenpoint*). The Bank offers wealth management services and investment advice through its Trust Division and wholly-owned subsidiary First Community Wealth Management (*FCWM*), a registered investment advisory firm. Unless the context suggests otherwise, the use of the term *Company* refers to First Community Bancshares, Inc. (*the Company*) and its subsidiaries as a consolidated entity. The Company operates in one business segment, Community Banking, which consists of commercial and consumer banking, lending activities, wealth management, and insurance services. The Company's executive office is located at One Community Place, Bluefield, Virginia. As of September 30, 2014, our operations were conducted through 69 locations in 5 states: Virginia, West Virginia, North Carolina, South Carolina, and Tennessee.

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles (*GAAP*) in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments, including normal recurring accruals, necessary for a fair presentation have been made. All significant intercompany balances and transactions have been eliminated in consolidation. Operating results for the interim period are not necessarily indicative of the results that may be expected for the full calendar year.

The condensed consolidated balance sheet as of December 31, 2013, has been derived from the audited consolidated financial statements included in the Company's Annual Report on Form 10-K (the *2013 Form 10-K*), as filed with the Securities and Exchange Commission (the *SEC*) on March 11, 2014. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with GAAP have been omitted in accordance with standards for the preparation of interim consolidated financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company's 2013 Form 10-K.

Significant Accounting Policies

A complete and detailed description of the Company's significant accounting policies is included in Note 1, *Summary of Significant Accounting Policies*, of the Notes to Consolidated Financial Statements in Part II, Item 8 of the Company's 2013 Form 10-K. A discussion of the Company's application of critical accounting estimates is included in *Critical Accounting Estimates* in Item 2 of this report.

Reclassifications and Corrections

Certain amounts reported in prior years have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the Company's results of operations, financial position, or cash flow.

Acquisitions and Divestitures

On October 24, 2014, the Company completed the acquisition of seven branches from Bank of America, National Association. At acquisition, the seven branches had deposit totals of approximately \$318 million. No loans were included in the purchase. The transaction was accounted for under the business combination method of accounting and

accordingly, assets and liabilities acquired and consideration exchanged were recorded at estimated fair value on the acquisition date. The acquisition expands the Company's presence by six branches in southwestern Virginia and one branch in central North Carolina.

On August 6, 2014, the Company entered into a Purchase and Assumption Agreement with CresCom Bank, Charleston, South Carolina, in which the Bank is selling thirteen branches to CresCom Bank. Ten of the branches are located in the southeastern, coastal region of North Carolina and three branches are located in South Carolina. At announcement, the thirteen branches had deposit totals of approximately \$230 million and loan totals of approximately \$59 million. The loans being sold are not subject to the Company's loss share agreement with the Federal Deposit Insurance Corporation (FDIC) in connection with its purchase and assumption of Waccamaw Bank (Waccamaw). Subject to the satisfaction of customary closing conditions, the transaction is expected to close in the fourth quarter of 2014.

Table of Contents**Earnings per Common Share**

Basic earnings per common share is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of potential common stock that could be issued by the Company. In accordance with the treasury stock method of accounting, potential common stock could be issued for stock options, nonvested restricted stock awards, performance based stock awards, and convertible preferred stock. Diluted earnings per common share is calculated by dividing net income by the weighted average number of common shares outstanding for the period plus the number of dilutive potential common shares. The calculation of diluted earnings per common share excludes potential common shares that have an exercise price greater than the average market value of the Company's common stock because the effect would be antidilutive.

The following table presents the calculation of basic and diluted earnings per common share for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
<i>(Amounts in thousands, except share and per share data)</i>				
Net income	\$ 7,043	\$ 5,412	\$ 19,775	\$ 17,988
Dividends on preferred stock	228	261	683	772
Net income available to common shareholders	\$ 6,815	\$ 5,151	\$ 19,092	\$ 17,216
Weighted average number of common shares outstanding, basic	18,402,764	20,008,861	18,407,173	20,013,095
Dilutive effect of potential common shares from:				
Stock options	17,375	19,877	18,027	17,640
Restricted stock	568	3,588	506	6,613
Convertible preferred stock	1,045,419	1,091,462	1,046,430	1,158,715
Weighted average number of common shares outstanding, diluted	19,466,126	21,123,788	19,472,136	21,196,063
Basic earnings per common share	\$ 0.37	\$ 0.26	\$ 1.04	\$ 0.86
Diluted earnings per common share	0.36	0.26	1.02	0.85
Antidilutive potential common shares:				
Stock options	255,244	310,558	255,244	328,258
Restricted stock		76		26
Total potential antidilutive shares	255,244	310,634	255,244	328,284

The Company's Series A Noncumulative Convertible Preferred Stock (Series A Preferred Stock) carries a 6% dividend rate. Each share of the Series A Preferred Stock is convertible into 69 shares of the Company's common stock at any time. The Company may redeem the shares at face value and the shares mandatorily convert on May 20, 2016. The

Series A Preferred Stock outstanding totaled 15,151 shares as of September 30, 2014, 15,251 shares as of December 31, 2013, and 15,471 shares as of September 30, 2013.

Table of Contents**Note 2. Investment Securities**

The following tables present the amortized cost and fair value of available-for-sale securities, including gross unrealized gains and losses, as of the dates indicated:

	September 30, 2014				
<i>(Amounts in thousands)</i>	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	OTTI in AOCI⁽¹⁾
U.S. Treasury securities	\$ 9,729	\$	\$ (251)	\$ 9,478	\$
Municipal securities	137,899	4,411	(1,248)	141,062	
Single issue trust preferred securities	55,807		(7,125)	48,682	
Corporate securities	5,000	48		5,048	
Mortgage-backed securities:					
Agency	140,528	292	(3,301)	137,519	
Non-Agency Alt-A residential	11,284		(1,622)	9,662	(1,622)
Total mortgage-backed securities	151,812	292	(4,923)	147,181	(1,622)
Equity securities	226	20	(4)	242	
Total	\$ 360,473	\$ 4,771	\$ (13,551)	\$ 351,693	\$ (1,622)

	December 31, 2013				
<i>(Amounts in thousands)</i>	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	OTTI in AOCI⁽¹⁾
U.S. Treasury securities	\$ 9,708	\$	\$ (695)	\$ 9,013	\$
Municipal securities	147,049	1,868	(4,637)	144,280	
Single issue trust preferred securities	55,764		(9,530)	46,234	
Corporate securities	5,000		(129)	4,871	
Mortgage-backed securities:					
Agency	306,319	2,575	(8,508)	300,386	
Non-Agency Alt-A residential	12,543		(2,754)	9,789	(2,754)
Total mortgage-backed securities	318,862	2,575	(11,262)	310,175	(2,754)
Equity securities	5,259	24	(36)	5,247	
Total	\$ 541,642	\$ 4,467	\$ (26,289)	\$ 519,820	\$ (2,754)

(1) Other-than-temporary impairment in accumulated other comprehensive income

The following tables present the amortized cost and fair value of held-to-maturity securities, including gross unrealized gains and losses, as of the dates indicated:

	September 30, 2014			
<i>(Amounts in thousands)</i>	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Agency securities	\$ 20,045	\$	\$ (87)	\$ 19,958
Municipal securities	379	3		382
Corporate securities	10,605	1	(43)	10,563
Total	\$ 31,029	\$ 4	\$ (130)	\$ 30,903

	December 31, 2013			
<i>(Amounts in thousands)</i>	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Municipal securities	\$ 568	\$ 11	\$	\$ 579
Total	\$ 568	\$ 11	\$	\$ 579

Table of Contents

The following table presents the amortized cost and fair value of available-for-sale securities and held-to-maturity securities, by contractual maturity, as of September 30, 2014. Actual maturities could differ from contractual maturities because issuers may have the right to call or prepay obligations with or without penalties.

<i>(Amounts in thousands)</i>	Amortized Cost	Fair Value
Available-for-sale securities		
Due within one year	\$ 3,229	\$ 3,233
Due after one year but within five years	6,994	7,196
Due after five years but within ten years	53,570	55,008
Due after ten years	144,642	138,833
	208,435	204,270
Mortgage-backed securities	151,812	147,181
Equity securities	226	242
Total	\$ 360,473	\$ 351,693
Held-to-maturity securities		
Due within one year	\$ 190	\$ 191
Due after one year but within five years	30,839	30,712
Due after five years but within ten years		
Due after ten years		
Total	\$ 31,029	\$ 30,903

Table of Contents

The following tables present the fair values and unrealized losses for available-for-sale securities in a continuous unrealized loss position for less than 12 months and for 12 months or longer as of the dates indicated:

	September 30, 2014					
	Less than 12 Months		12 Months or longer		Total	
<i>(Amounts in thousands)</i>	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities	\$	\$	\$ 9,478	\$ (251)	\$ 9,478	\$ (251)
Municipal securities	1,023	(7)	27,964	(1,241)	28,987	(1,248)
Single issue trust preferred securities			48,682	(7,125)	48,682	(7,125)
Mortgage-backed securities:						
Agency	19,654	(76)	95,524	(3,225)	115,178	(3,301)
Non-Agency Alt-A residential			9,661	(1,622)	9,661	(1,622)
Total mortgage-backed securities	19,654	(76)	105,185	(4,847)	124,839	(4,923)
Equity securities	152	(4)			152	(4)
Total	\$ 20,829	\$ (87)	\$ 191,309	\$ (13,464)	\$ 212,138	\$ (13,551)

	December 31, 2013					
	Less than 12 Months		12 Months or longer		Total	
<i>(Amounts in thousands)</i>	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities	\$ 9,013	\$ (695)	\$	\$	\$ 9,013	\$ (695)
Municipal securities	57,950	(4,147)	3,049	(490)	60,999	(4,637)
Single issue trust preferred securities			46,234	(9,530)	46,234	(9,530)
Corporate securities	4,871	(129)			4,871	(129)
Mortgage-backed securities:						
Agency	114,047	(4,361)	55,706	(4,147)	169,753	(8,508)
Non-Agency Alt-A residential			9,789	(2,754)	9,789	(2,754)
Total mortgage-backed securities	114,047	(4,361)	65,495	(6,901)	179,542	(11,262)
Equity securities	4,976	(24)	20	(12)	4,996	(36)
Total	\$ 190,857	\$ (9,356)	\$ 114,798	\$ (16,933)	\$ 305,655	\$ (26,289)

The following table presents the fair values and unrealized losses for held-to-maturity securities in a continuous unrealized loss position for less than 12 months and for 12 months or longer as of the dates indicated. There were no held-to-maturity securities in a continuous unrealized loss position as of December 31, 2013.

	September 30, 2014				Total	
	Less than 12 Months		12 Months or longer		Fair	Unrealized
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized

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<i>(Amounts in thousands)</i>	Value	Losses	Value	Losses	Value	Losses
U.S. Agency securities	\$ 19,958	\$ (87)	\$	\$	\$ 19,958	\$ (87)
Corporate securities	7,439	(43)			7,439	(43)
Total	\$ 27,397	\$ (130)	\$	\$	\$ 27,397	\$ (130)

As of September 30, 2014, there were 114 individual securities in an unrealized loss position, and their combined depreciation in value represented 3.57% of the investment securities portfolio. As of December 31, 2013, there were 219 individual securities in an unrealized loss position, and their combined depreciation in value represented 5.06% of the available-for-sale securities portfolio.

Table of Contents

The following table presents the components of the Company's net loss or gain from the sale of securities in the periods indicated:

<i>(Amounts in thousands)</i>	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Gross realized gains	\$ 746	\$	\$ 2,257	\$ 307
Gross realized losses	(426)	(39)	(1,951)	(116)
Net gain (loss) on sale of securities	\$ 320	\$ (39)	\$ 306	\$ 191

The carrying value of securities pledged to secure public deposits and for other purposes was \$260.45 million as of September 30, 2014, and \$284.77 million as of December 31, 2013.

The Company reviews its investment portfolio on a quarterly basis for indications of OTTI. Debt securities not beneficially owned by the Company include securities issued from the U.S. Department of the Treasury (the Treasury), municipal securities, and single issue trust preferred securities. For debt securities not beneficially owned, the Company analyzes factors such as the severity and duration of the impairment, adverse conditions within the issuing industry, prospects for the issuer, performance of the security, changes in rating by rating agencies, and other qualitative factors to determine if the impairment will be recovered. If the evaluation suggests that the impairment will not be recovered, the Company calculates the present value of the security to determine the amount of OTTI. The security is then written down to its current present value and the Company calculates and records the amount of the loss due to credit factors in earnings through noninterest income and the amount due to other factors in stockholders equity through OCI. During the three and nine months ended September 30, 2014, and September 30, 2013, the Company incurred no OTTI charges related to debt securities not beneficially owned. Temporary impairment on these securities is primarily related to changes in interest rates, certain disruptions in the credit markets, destabilization in the Eurozone, and other current economic factors.

Debt securities beneficially owned by the Company consist of corporate securities and mortgage-backed securities (MBS). For debt securities beneficially owned, the Company analyzes the cash flows for each applicable security to determine if an adverse change in cash flows expected to be collected has occurred. If the projected value of cash flows at the current reporting date is less than the present value previously projected, and less than the current book value, an adverse change has occurred. The Company then compares the current present value of cash flows to the current net book value to determine the credit-related portion of the OTTI. The credit-related OTTI is recorded in earnings through noninterest income and any remaining noncredit-related OTTI is recorded in stockholders equity through OCI. During the three months ended September 30, 2014, the Company incurred credit-related OTTI charges associated with debt securities beneficially owned of \$219 thousand. During the nine months ended September 30, 2014, the Company incurred credit-related OTTI charges associated with debt securities beneficially owned of \$705 thousand. These charges were related to a non-Agency MBS. During the three and nine months ended September 30, 2013, the Company incurred no credit-related OTTI charges associated with debt securities beneficially owned.

The Company uses a discounted cash flow model for the non-Agency Alt-A residential MBS with the following assumptions: constant voluntary prepayment rate of 2.5%, a customized constant default rate scenario that assumes approximately 13% of the remaining underlying mortgages will default over the life of the security, and a customized loss severity rate scenario that ramps the loss rate down from 45% to 10% over the course of approximately 27 months. The following table presents the activity for credit-related losses recognized in earnings on debt securities

where a portion of an OTTI was recognized in OCI for the periods indicated:

<i>(Amounts in thousands)</i>	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Beginning balance ⁽¹⁾	\$ 8,284	\$ 7,478	\$ 7,798	\$ 7,478
Additions for credit losses on securities previously recognized	219		705	
Ending balance	\$ 8,503	\$ 7,478	\$ 8,503	\$ 7,478

(1) The beginning balance includes credit related losses included in OTTI charges recognized on debt securities in prior periods.

For equity securities, the Company considers its intent to hold or sell the security before recovery, the severity and duration of the decline in fair value of the security below its cost, the financial condition and near-term prospects of the issuer, and whether the decline appears to be related to issuer, general market, or industry conditions to determine if the impairment will be recovered. If the Company deems the impairment other-than-temporary in nature, the security is written down to its current present value and the OTTI loss is charged to earnings. During the three months ended September 30, 2014, the Company incurred no OTTI charges related to equity holdings. During the nine months ended September 30, 2014, the Company incurred OTTI charges related to certain equity holdings of \$32 thousand. During the three and nine months ended September 30, 2013, the Company recognized no OTTI charges related to equity securities.

Table of Contents**Note 3. Loans*****Loan Portfolio***

The Company's loans held for investment are grouped into three segments (commercial loans, consumer real estate loans, and consumer and other loans) with each segment divided into various classes. Covered loans are defined as loans acquired in FDIC-assisted transactions that are covered by loss share agreements. The following table presents loans, net of unearned income and disaggregated by class, as of the periods indicated:

<i>(Amounts in thousands)</i>	September 30, 2014		December 31, 2013	
	Amount	Percent	Amount	Percent
Non-covered loans held for investment				
Commercial loans				
Construction, development, and other land	\$ 42,775	2.43%	\$ 35,255	2.06%
Commercial and industrial	88,709	5.03%	95,455	5.58%
Multi-family residential	99,812	5.66%	70,197	4.10%
Single family non-owner occupied	143,904	8.16%	135,559	7.92%
Non-farm, non-residential	491,933	27.91%	475,911	27.82%
Agricultural	2,149	0.12%	2,324	0.14%
Farmland	31,938	1.81%	32,614	1.91%
Total commercial loans	901,220	51.12%		