FIRST COMMUNITY BANCSHARES INC /NV/
Form 10-Q
November 06, 2015
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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, 2015

Commission file number 000-19297

FIRST COMMUNITY BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Nevada	**55-0694814**
(State or other jurisdiction of incorporation)	**(IRS Employer Identification No.)**

P.O. Box 989

Bluefield, Virginia	**24605-0989**
(Address of principal executive offices)	**(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. x 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). x 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	x
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 x 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; 18,188,022 shares outstanding as of October 30, 2015

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FIRST COMMUNITY BANCSHARES, INC.

FORM 10-Q

For the quarter ended September 30, 2015

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

FIRST COMMUNITY BANCSHARES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share and per share data)	**September 30, 2015** (Unaudited)	**December 31, 2014**
Assets		
Cash and due from banks	$ 33,555	$ 39,450
Federal funds sold	27,118	196,873
Interest-bearing deposits in banks	1,351	1,337
Total cash and cash equivalents	62,024	237,660
Securities available for sale	382,212	326,117
Securities held to maturity	72,596	57,948
Loans held for sale	523	1,792
Loans held for investment, net of unearned income:		
Covered under loss share agreements	90,203	122,240
Not covered under loss share agreements	1,600,271	1,567,176
Less allowance for loan losses	(20,127)	(20,227)
Loans held for investment, net	1,670,347	1,669,189
FDIC indemnification asset	22,049	27,900
Premises and equipment, net	53,442	55,844
Other real estate owned:		
Covered under loss share agreements	4,079	6,324
Not covered under loss share agreements	5,088	6,638
Interest receivable	5,910	6,315
Goodwill	100,810	100,722
Other intangible assets	5,583	6,421
Other assets	93,453	105,066
Total assets	$ 2,478,116	$ 2,607,936
Liabilities		
Deposits:		
Noninterest-bearing	$ 442,021	$ 417,729
Interest-bearing	1,460,881	1,583,030
Total deposits	1,902,902	2,000,759
Interest, taxes, and other liabilities	25,356	26,062

Securities sold under agreements to repurchase	124,076	121,742
FHLB borrowings	65,000	90,000
Other borrowings	15,955	17,999
Total liabilities	2,133,289	2,256,562
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; 0 and 15,151 shares outstanding at September 30, 2015, and December 31, 2014, respectively		15,151
Common stock, $1 par value; 50,000,000 shares authorized; 21,381,779 and 20,499,683 shares issued at September 30, 2015, and December 31, 2014, respectively; 3,068,354 and 2,093,464 shares in treasury at September 30, 2015, and December 31, 2014, respectively	21,382	20,500
Additional paid-in capital	227,621	215,873
Retained earnings	152,046	141,206
Treasury stock, at cost	(52,484)	(35,751)
Accumulated other comprehensive loss	(3,738)	(5,605)
Total stockholders equity	344,827	351,374
Total liabilities and stockholders equity	$ 2,478,116	$ 2,607,936

See Notes to Consolidated Financial Statements.

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FIRST COMMUNITY BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(Amounts in thousands, except share and per share data)	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Interest income				
Interest and fees on loans held for investment	$ 22,259	$ 23,407	$ 65,999	$ 69,651
Interest on securities taxable	1,062	1,196	3,167	4,830
Interest on securities nontaxable	994	1,108	3,013	3,329
Interest on deposits in banks	33	40	246	117
Total interest income	24,348	25,751	72,425	77,927
Interest expense				
Interest on deposits	1,384	1,782	4,676	5,505
Interest on short-term borrowings	497	526	1,486	1,511
Interest on long-term debt	798	1,428	2,685	4,803
Total interest expense	2,679	3,736	8,847	11,819
Net interest income	21,669	22,015	63,578	66,108
Provision for (recovery of) loan losses	381	(2,439)	1,757	633
Net interest income after provision for loan losses	21,288	24,454	61,821	65,475
Noninterest income				
Wealth management	790	670	2,231	2,396
Service charges on deposit accounts	3,744	3,606	10,154	10,099
Other service charges and fees	1,974	1,852	5,987	5,473
Insurance commissions	1,650	1,695	5,336	5,113
Impairment losses on securities		(219)		(737)
Portion of losses recognized in other comprehensive income				
Net impairment losses recognized in earnings		(219)		(737)
Net (loss) gain on sale of securities	(39)	320	151	306
Net FDIC indemnification asset amortization	(1,768)	(1,096)	(5,179)	(3,166)
Net gain on acquisition				
Other operating income	723	839	3,367	3,021
Total noninterest income	7,074	7,667	22,047	22,505
Noninterest expense				
Salaries and employee benefits	9,971	9,924	29,357	29,872
Occupancy expense of bank premises	1,443	1,469	4,404	4,825
Furniture and equipment	1,259	1,212	3,854	3,611
Amortization of intangible assets	281	179	837	532

FDIC premiums and assessments	377	419	1,181	1,311
FHLB debt prepayment fees		3,047	1,702	3,047
Merger, acquisition, and divestiture expense		285	86	285
Other operating expense	5,688	4,934	15,667	15,329
Total noninterest expense	19,019	21,469	57,088	58,812
Income before income taxes	9,343	10,652	26,780	29,168
Income tax expense	3,084	3,609	8,388	9,393
Net income	6,259	7,043	18,392	19,775
Dividends on preferred stock		228	105	683
Net income available to common shareholders	$ 6,259	$ 6,815	$ 18,287	$ 19,092
Basic earnings per common share	$ 0.34	$ 0.37	$ 0.98	$ 1.04
Diluted earnings per common share	0.34	0.36	0.97	1.02
Cash dividends per common share	0.14	0.13	0.40	0.37
Weighted average basic shares outstanding	18,470,348	18,402,764	18,644,679	18,407,173
Weighted average diluted shares outstanding	18,500,975	19,466,126	18,895,909	19,472,136

See Notes to Consolidated Financial Statements.

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FIRST COMMUNITY BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(Amounts in thousands, except share and per share data)	**Three Months Ended September 30, 2015**	**2014**	**Nine Months Ended September 30, 2015**	**2014**
Comprehensive Income				
Net income	$ 6,259	$ 7,043	$ 18,392	$ 19,775
Other comprehensive income, before tax:				
Available-for-sale securities:				
Unrealized losses on securities available for sale with other-than-temporary impairment		(346)		(128)
Unrealized gains on securities available for sale without other-than-temporary impairment	3,815	846	2,993	12,774
Less: reclassification adjustment for losses (gains) realized in net income	39	(320)	(151)	(306)
Less: reclassification adjustment for credit-related other-than-temporary impairments recognized in net income		219		737
Unrealized gains on available-for-sale securities	3,854	399	2,842	13,077
Employee benefit plans:				
Net actuarial (loss) gain on pension and other postretirement benefit plans	(1)	(2)	(98)	29
Less: reclassification adjustment for amortization of prior service cost and net actuarial loss included in net periodic benefit cost	82	66	245	195
Unrealized gains on employee benefit plans	81	64	147	224
Other comprehensive income, before tax	3,935	463	2,989	13,301
Income tax expense	(1,475)	(174)	(1,122)	(5,009)
Other comprehensive income, net of tax	2,460	289	1,867	8,292
Total comprehensive income	$ 8,719	$ 7,332	$ 20,259	$ 28,067

See Notes to Consolidated Financial Statements.

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FIRST COMMUNITY BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (UNAUDITED)

ounts in thousands, except share and per share data)	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Tota
nce January 1, 2014	$ 15,251	$ 20,493	$ 215,663	$ 125,826	$ (33,887)	$ (14,740)	$ 328,6
income				19,775			19,7
r comprehensive income						8,292	8,2
mon dividends declared $0.37 per share				(6,807)			(6,8
erred dividends declared $45.00 per share				(683)			(6
erred stock converted to common stock 6,900 shares	(100)	7	93				
ty-based compensation expense			175				1
mon stock options exercised 554 shares					9		
ricted stock awards 13,933 shares			(202)		238		
hase of treasury shares 132,773 shares at $16.29 per e					(2,168)		(2,1
nce September 30, 2014	$ 15,151	$ 20,500	$ 215,729	$ 138,111	$ (35,808)	$ (6,448)	$ 347,2
nce January 1, 2015	$ 15,151	$ 20,500	$ 215,873	$ 141,206	$ (35,751)	$ (5,605)	$ 351,3
income				18,392			18,3
r comprehensive income						1,867	1,8
mon dividends declared $0.40 per share				(7,447)			(7,4
erred dividends declared $15.00 per share				(105)			(1
erred stock converted to common stock 882,096 es	(12,784)	882	11,902				
emption of preferred stock 2,367 shares	(2,367)						(2,3
ty-based compensation expense			43				
mon stock options exercised 3,000 shares			(10)		51		
ricted stock awards 22,561 shares			(192)		383		1
ance of treasury stock to 401(k) plan 18,275 shares			5		311		3
hase of treasury shares 1,018,726 shares at $17.13 per e					(17,478)		(17,4
nce September 30, 2015	$	$ 21,382	$ 227,621	$ 152,046	$ (52,484)	$ (3,738)	$ 344,8

See Notes to Consolidated Financial Statements.

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FIRST COMMUNITY BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Amounts in thousands)	Nine Months Ended September 30, 2015	2014
Operating activities		
Net income	$ 18,392	$ 19,775
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,757	633
Depreciation and amortization of property, plant, and equipment	3,143	3,286
Amortization of premiums on investments, net	5,872	4,509
Amortization of FDIC indemnification asset, net	5,179	3,166
Amortization of intangible assets	837	532
Gain on sale of loans	(439)	(536)
Equity-based compensation expense	43	175
Restricted stock awards	191	36
Issuance of treasury stock to 401(k) plan	316	
Loss (gain) on sale of property, plant, and equipment	26	(64)
Loss on sale of other real estate	2,538	2,407
Gain on sale of securities	(151)	(306)
Net impairment losses recognized in earnings		737
FHLB debt prepayment fees	1,702	3,047
Proceeds from sale of mortgage loans	18,531	23,237
Origination of mortgage loans	(16,823)	(22,968)
Decrease in accrued interest receivable	405	1,175
Decrease in other operating activities	7,262	2,545
Net cash provided by operating activities	48,781	41,386
Investing activities		
Proceeds from sale of securities available for sale	266	139,544
Proceeds from maturities, prepayments, and calls of securities available for sale	22,350	40,703
Proceeds from maturities and calls of securities held to maturity	190	190
Payments to acquire securities available for sale	(81,540)	(4,311)
Payments to acquire securities held to maturity	(15,003)	(30,704)
Originations of loans, net	(6,994)	(64,120)
Proceeds from the redemption of FHLB stock, net	1,279	3,224
Net cash paid in mergers, acquisitions, and divestitures	(88)	(202)
Proceeds from the FDIC	2,411	2,937
(Payments to acquire) proceeds from sale of property, plant, and equipment, net	(919)	(1,389)
Proceeds from sale of other real estate	5,365	8,169
Net cash (used in) provided by investing activities	(72,683)	94,041
Financing activities		
Net increase in noninterest-bearing deposits	24,292	57,843

Net decrease in interest-bearing deposits	(122,149)	(76,310)
Net decrease in federal funds purchased		(16,000)
Securities sold under agreements to repurchase, net	2,334	(3,869)
Repayments of FHLB and other borrowings	(28,746)	(38,088)
Redemption of preferred stock	(2,367)	
Proceeds from stock options exercised	41	9
Excess tax benefit from equity-based compensation	5	1
Payments for repurchase of treasury stock	(17,478)	(2,168)
Payments of common dividends	(7,447)	(6,807)
Payments of preferred dividends	(219)	(683)
Net cash used in financing activities	(151,734)	(86,072)
Net (decrease) increase in cash and cash equivalents	(175,636)	49,355
Cash and cash equivalents at beginning of period	237,660	56,567
Cash and cash equivalents at end of period	$ 62,024	$ 105,922
Supplemental transactions noncash items		
Transfer of loans to other real estate	$ 4,139	$ 9,631
Loans originated to finance other real estate	37	671

See Notes to Consolidated Financial Statements.

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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, 2015, our operations were conducted through 62 locations in 4 states: Virginia, West Virginia, North 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, 2014, has been derived from the audited consolidated financial statements included in the Company s Annual Report on Form 10-K (the 2014 Form 10-K), as filed with the Securities and Exchange Commission (the SEC) on March 3, 2015. 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 2014 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 2014 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.

Recent Accounting Pronouncements

There were no recent accounting pronouncements that had, or are likely to have, a material effect on the Company s financial position or results of operations.

Acquisitions and Divestitures

On December 12, 2014, the Company completed the sale of thirteen branches to CresCom Bank (CresCom), Charleston, South Carolina. The divestiture consisted of ten branches in the Southeastern, Coastal region of North Carolina and three branches in South Carolina, all of which were previously acquired in the FDIC-assisted acquisition of Waccamaw Bank (Waccamaw). At closing, CresCom assumed total deposits of $215.19 million and total loans of $70.04 million. The transaction excluded loans covered under FDIC loss share agreements. The Company recorded a net gain of $755 thousand in connection with the divestiture, which included a deposit premium received from CresCom of $6.45 million and goodwill allocation of $6.45 million.

On October 24, 2014, the Company completed the acquisition of seven branches from Bank of America, National Association. At acquisition, the branches had total deposits of $318.88 million. The Company assumed the deposits for a premium of $5.79 million. No loans were included in the purchase. Additionally, the Company purchased the real estate or

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assumed the leases associated with the branches. The Company recorded goodwill of $1.37 million in connection with the acquisition. These fair value estimates are considered preliminary, and are subject to change for up to one year after the closing date of the acquisition as additional information relative to closing date fair values may become available. The acquisition expanded the Company s presence by six branches in Southwestern Virginia and one branch in Central North Carolina.

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,	
	2015	**2014**	**2015**	**2014**
(Amounts in thousands, except share and per share data)				
Net income	$ 6,259	$ 7,043	$ 18,392	$ 19,775
Dividends on preferred stock		228	105	683
Net income available to common shareholders	$ 6,259	$ 6,815	$ 18,287	$ 19,092
Weighted average number of common shares outstanding, basic	18,470,348	18,402,764	18,644,679	18,407,173
Dilutive effect of potential common shares from:				
Stock options	26,804	17,375	24,938	18,027
Restricted stock	3,823	568	3,091	506
Convertible preferred stock		1,045,419	223,201	1,046,430
Weighted average number of common shares outstanding, diluted	18,500,975	19,466,126	18,895,909	19,472,136
Basic earnings per common share	$ 0.34	$ 0.37	$ 0.98	$ 1.04
Diluted earnings per common share	0.34	0.36	0.97	1.02
Antidilutive potential common shares:				
Stock options	130,382	255,244	130,382	255,244

During the first quarter of 2015, the Company notified holders of its 6% Series A Noncumulative Convertible Preferred Stock (Series A Preferred Stock) of its intent to redeem all of the outstanding shares. Prior to redemption, holders converted 12,784 shares of Series A Preferred Stock with each share convertible into 69 shares of the

Company s common stock. The Company redeemed the remaining 2,367 shares for $2.37 million along with accrued and unpaid dividends of $9 thousand. As a result of the redemption, there were no shares of Series A Preferred Stock outstanding as of September 30, 2015, compared to 15,151 shares as of December 31, 2014 and 15,151 shares as of September 30, 2014.

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Note 2. Investment Securities

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

	September 30, 2015			
(Amounts in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Agency securities	$ 32,173	$ 80	$ (577)	$ 31,676
Municipal securities	127,705	4,038	(655)	131,088
Single issue trust preferred securities	55,867		(6,433)	49,434
Corporate securities	70,798		(144)	70,654
Certificates of deposit	5,000			5,000
Mortgage-backed Agency securities	94,432	427	(734)	94,125
Equity securities	222	13		235
Total	$ 386,197	$ 4,558	$ (8,543)	$ 382,212

	December 31, 2014			
(Amounts in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Agency securities	$ 34,604	$ 11	$ (1,017)	$ 33,598
Municipal securities	134,784	4,823	(692)	138,915
Single issue trust preferred securities	55,822		(9,685)	46,137
Corporate securities	5,000	109		5,109
Mortgage-backed Agency securities	102,506	470	(857)	102,119
Equity securities	226	19	(6)	239
Total	$ 332,942	$ 5,432	$ (12,257)	$ 326,117

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

	September 30, 2015			
(Amounts in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Agency securities	$ 61,895	$ 366	$	$ 62,261
Municipal securities	190	1		191
Corporate securities	10,511	67		10,578

Total	$ 72,596	$ 434	$	$ 73,030

	December 31, 2014			
	Amortized Cost	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
(Amounts in thousands)				
U.S. Agency securities	$ 46,987	$ 22	$ (54)	$ 46,955
Municipal securities	379	7		386
Corporate securities	10,582		(34)	10,548
Total	$ 57,948	$ 29	$ (88)	$ 57,889

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The following table presents the amortized cost and aggregate fair value of available-for-sale securities and held-to-maturity securities, by contractual maturity, as of September 30, 2015. Actual maturities could differ from contractual maturities because issuers may have the right to call or prepay obligations with or without penalties.

(Amounts in thousands)	Amortized Cost	Fair Value
Available-for-sale securities		
Due within one year	$ 56,044	$ 55,956
Due after one year but within five years	20,108	20,137
Due after five years but within ten years	75,932	78,955
Due after ten years	134,459	127,804
	286,543	282,852
Mortgage-backed securities	94,432	94,125
Certificates of deposit	5,000	5,000
Equity securities	222	235
Total	$ 386,197	$ 382,212
Held-to-maturity securities		
Due within one year	$ 190	$ 191
Due after one year but within five years	72,406	72,839
Due after five years but within ten years		
Due after ten years		
Total	$ 72,596	$ 73,030

The following table presents the proceeds from sales of available-for-sale securities and the gross realized gains and losses on those sales in the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
(Amounts in thousands)				
Gross realized gains	$ 26	$ 746	$ 292	$ 2,257
Gross realized losses	(65)	(426)	(141)	(1,951)
Net gain (loss) on sale of securities	$ (39)	$ 320	$ 151	$ 306

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, 2015					
	Less than 12 Months		12 Months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(Amounts in thousands)						
U.S. Agency securities	$	$	$ 24,670	$ (577)	$ 24,670	$ (577)
Municipal securities	13,702	(172)	10,222	(483)	23,924	(655)
Single issue trust preferred securities			49,434	(6,433)	49,434	(6,433)
Corporate securities	62,257	(144)			62,257	(144)
Mortgage-backed Agency securities	14,367	(99)	39,126	(635)	53,493	(734)
Total	$ 90,326	$ (415)	$ 123,452	$ (8,128)	$ 213,778	$ (8,543)

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	December 31, 2014					
	Less than 12 Months		12 Months or longer		Total	
(Amounts in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Agency securities	$	$	$ 29,448	$ (1,017)	$ 29,448	$ (1,017)
Municipal securities	1,112	(8)	25,007	(684)	26,119	(692)
Single issue trust preferred securities			46,137	(9,685)	46,137	(9,685)
Mortgage-backed Agency securities	2,778	(3)	45,790	(854)	48,568	(857)
Equity securities	150	(6)			150	(6)
Total	$ 4,040	$ (17)	$ 146,382	$ (12,240)	$ 150,422	$ (12,257)

There were no unrealized losses related to held-to-maturity securities in a continuous unrealized loss position for less than 12 months and for 12 months or longer as of September 30, 2015. 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 December 31, 2014.

	December 31, 2014					
	Less than 12 Months		12 Months or longer		Total	
(Amounts in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Agency securities	$ 28,188	$ (54)	$	$	$ 28,188	$ (54)
Corporate securities	10,548	(34)			10,548	(34)
Total	$ 38,736	$ (88)	$	$	$ 38,736	$ (88)

As of September 30, 2015, there were 108 securities in an unrealized loss position, and their combined depreciation in value represented 1.88% of the investment securities portfolio. As of December 31, 2014, there were 97 individual securities in an unrealized loss position, and their combined depreciation in value represented 3.21% of the investment securities portfolio.

The Company reviews its investment portfolio quarterly for indications of OTTI. Debt securities not beneficially owned by the Company include securities issued from the U.S. Department of the Treasury (Treasury), municipal securities, single issue trust preferred securities, corporate securities, and certificates of deposit. 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. Temporary impairment on these securities is primarily related to changes in benchmark interest rates, changes in pricing in the credit markets, destabilization in the Eurozone, and other current economic factors. During the three and nine months ended September 30, 2015 and 2014, the Company incurred no OTTI charges related to debt securities not beneficially owned.

Debt securities beneficially owned by the Company consist of 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 and nine months ended September 30, 2015, the Company incurred no credit-related OTTI charges related to debt securities beneficially owned. 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 associated with a non-Agency MBS that was sold in November 2014.

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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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
(Amounts in thousands)				
Beginning balance[1]	$	$ 8,284	$	$ 7,798
Additions for credit losses on securities previously recognized		219		705
Ending balance	$	$ 8,503	$	$ 8,503

(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 and nine months ended September 30, 2015, the Company incurred no OTTI charges related to equity holdings. 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.

The carrying amount of securities pledged for various purposes totaled $243.75 million as of September 30, 2015, and $268.78 million as of December 31, 2014.

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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:

	September 30, 2015		December 31, 2014	
(Amounts in thousands)	**Amount**	**Percent**	**Amount**	**Percent**
Non-covered loans held for investment				
Commercial loans				
Construction, development, and other land	$ 45,930	2.72%	$ 41,271	2.44%
Commercial and industrial	85,319	5.05%	83,099	4.92%
Multi-family residential	93,356	5.52%	97,480	5.77%
Single family non-owner occupied	144,725	8.56%	135,171	8.00%
Non-farm, non-residential	479,297	28.35%	473,906	28.05%
Agricultural	2,414	0.14%	1,599	0.09%
Farmland	27,135	1.61%	29,517	1.75%
Total commercial loans	878,176	51.95%	862,043	51.02%
Consumer real estate loans				
Home equity lines	107,655	6.37%	110,957	6.57%
Single family owner occupied	492,157	29.11%	485,475	28.74%
Owner occupied construction	40,141	2.37%	32,799	1.94%
Total consumer real estate loans	639,953	37.85%	629,231	37.25%
Consumer and other loans				
Consumer loans	75,084	4.44%	69,347	4.10%
Other	7,058	0.42%	6,555	0.39%
Total consumer and other loans	82,142	4.86%	75,902	4.49%
Total non-covered loans	1,600,271	94.66%	1,567,176	92.76%
Total covered loans	90,203	5.34%	122,240	7.24%
Total loans held for investment, net of unearned income	$ 1,690,474	100.00%	$ 1,689,416	100.00%
Loans held for sale	$ 523		$ 1,792	

Deferred loan fees totaled $3.74 million as of September 30, 2015, and $3.39 million as of December 31, 2014. For information concerning unfunded loan commitments, see Note 13, Litigation, Commitments and Contingencies, to the Condensed Consolidated Financial Statements of this report.

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The following table presents the components of the Company s covered loan portfolio, disaggregated by class, as of the dates indicated:

(Amounts in thousands)	September 30, 2015	December 31, 2014
Covered loans		
Commercial loans		
Construction, development, and other land	$ 7,573	$ 13,100
Commercial and industrial	1,326	2,662
Multi-family residential	699	1,584
Single family non-owner occupied	2,899	5,918
Non-farm, non-residential	15,712	25,317
Agricultural	35	43
Farmland	656	716
Total commercial loans	28,900	49,340
Consumer real estate loans		
Home equity lines	51,205	60,391
Single family owner occupied	9,736	11,968
Owner occupied construction	278	453
Total consumer real estate loans	61,219	72,812
Consumer and other loans		
Consumer loans	84	88
Total covered loans	$ 90,203	$ 122,240

Purchased Credit Impaired Loans

Certain purchased loans are identified as impaired when fair values are established at acquisition. These purchased credit impaired (PCI) loans are aggregated into loan pools that have common risk characteristics. The Company s loan pools consist of Waccamaw commercial, Waccamaw lines of credit, Waccamaw serviced home equity lines, Waccamaw residential, Peoples Bank of Virginia (Peoples) commercial, and Peoples residential. The Company closed the Waccamaw consumer loan pool during the first quarter of 2015 due to an insignificant remaining balance. The Company estimates cash flows to be collected on PCI loans and discounts those cash flows at a market rate of interest. The following table presents the carrying and contractual unpaid principal balance of PCI loans, by acquisition, as of the dates indicated:

	September 30, 2015		December 31, 2014	
(Amounts in thousands)	Carrying Balance	Unpaid Principal Balance	Carrying Balance	Unpaid Principal Balance
PCI Loans, by acquisition				
Peoples Bank of Virginia	$ 6,277	$ 11,505	$ 7,090	$ 13,669

Waccamaw Bank	38,681	67,996	53,835	86,641
Other acquired	1,281	1,324	1,358	1,401
Total PCI Loans	$ 46,239	$ 80,825	$ 62,283	$ 101,711

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The following tables present the activity in the accretable yield related to PCI loans, by acquisition, in the periods indicated:

	Nine Months Ended September 30, 2015			
	Peoples	Waccamaw	Other	Total
(Amounts in thousands)				
Beginning balance	$ 4,745	$ 19,048	$	$ 23,793
Additions		2		2
Accretion	(1,906)	(5,069)		(6,975)
Reclassifications from nonaccretable difference	583	3,225		3,808
Removals, extensions, and other events	(27)	5,203		5,176
Ending balance	$ 3,395	$ 22,409	$	$ 25,804

	Nine Months Ended September 30, 2014			
	Peoples	Waccamaw	Other	Total
(Amounts in thousands)				
Beginning balance	$ 5,294	$ 10,338	$ 8	$ 15,640
Additions	98	24		122
Accretion	(1,601)	(4,540)	(29)	(6,170)
Reclassifications from nonaccretable difference	1,205	13,968	29	15,202
Removals, extensions, and other events	(521)	(1,445)		(1,966)
Ending balance	$ 4,475	$ 18,345	$ 8	$ 22,828

Note 4. Credit Quality

The Company identifies loans for potential impairment through a variety of means, including, but not limited to, ongoing loan review, renewal processes, delinquency data, market communications, and public information. If the Company determines that it is probable all principal and interest amounts contractually due will not be collected, the loan is generally deemed to be impaired. The following table presents the recorded investment and related information for loans considered to be impaired, excluding PCI loans, as of the periods indicated:

	September 30, 2015			December 31, 2014		
(Amounts in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with no related allowance:						
Commercial loans						
Single family non-owner occupied	$ 783	$ 785	$	$ 466	$ 466	$
Non-farm, non-residential	8,772	9,159		5,705	6,049	
Consumer real estate loans						
Single family owner occupied	1,334	1,404		3,397	3,494	

Owner occupied construction						
Total impaired loans with no allowance	10,889	11,348		9,568	10,009	
Impaired loans with a related allowance:						
Commercial loans						
Single family non-owner occupied	621	624	117	367	367	45
Non-farm, non-residential	5,359	5,374	1,711	3,772	3,772	1,000
Consumer real estate loans						
Single family owner occupied	4,798	4,817	760	2,341	2,512	437
Owner occupied construction	353	356	53			
Total impaired loans with an allowance	11,131	11,171	2,641	6,480	6,651	1,482
Total impaired loans	$ 22,020	$ 22,519	$ 2,641	$ 16,048	$ 16,660	$ 1,482

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The following tables present the average recorded investment and interest income recognized on impaired loans, excluding PCI loans, in the periods indicated:

	Three Months Ended September 30,			
	2015		2014	
(Amounts in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance:				
Commercial loans				
Commercial and industrial	$	$	$ 1,258	$
Single family non-owner occupied	792	27	321	7
Non-farm, non-residential	8,878	72	5,971	
Farmland				
Consumer real estate loans				
Single family owner occupied	1,353		2,880	10
Owner occupied construction				
Total impaired loans with no allowance	11,023	99	10,430	17
Impaired loans with a related allowance:				
Commercial loans				
Multi-family residential			5,568	1
Single family non-owner occupied	629		369	1
Non-farm, non-residential	5,417	15	4,386	6
Consumer real estate loans				
Single family owner occupied	4,847	13	2,528	8
Owner occupied construction	357	1		
Total impaired loans with an allowance	11,250	29	12,851	16
Total impaired loans	$ 22,273	$ 128	$ 23,281	$ 33

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	Nine Months Ended September 30,			
	2015		2014	
(Amounts in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance:				
Commercial loans				
Commercial and industrial	$	$	$ 614	$ 17
Single family non-owner occupied	571	28	247	8
Non-farm, non-residential	8,834	295	6,089	89
Farmland			241	11
Consumer real estate loans				
Home equity lines			88	2
Single family owner occupied	2,578	100	2,179	61
Owner occupied construction	117			
Total impaired loans with no allowance	12,100	423	9,458	188
Impaired loans with a related allowance:				
Commercial loans				
Commercial and industrial			2,932	47
Multi-family residential			5,586	23
Single family non-owner occupied	558	22	370	2
Non-farm, non-residential	4,740	51	4,404	31
Consumer real estate loans				
Home equity lines			76	1
Single family owner occupied	3,325	26	3,216	42
Owner occupied construction	119	1		
Total impaired loans with an allowance	8,742	100	16,584	146
Total impaired loans	$ 20,842	$ 523	$ 26,042	$ 334

The Company determined that two of the six open PCI loan pools were impaired as of September 30, 2015, compared to two of seven impaired pools as of December 31, 2014. The following tables present additional information related to the impaired loan pools as of the dates, and in the periods, indicated:

(Amounts in thousands)	September 30, 2015	December 31, 2014
Recorded investment	$ 3,015	$ 14,607
Unpaid principal balance	3,978	31,169
Allowance for loan losses	20	58

Three Months Ended September 30,		Nine Months Ended September 30,	
2015	2014	2015	2014

(Amounts in thousands)				
Interest income recognized	$ 96	$ 82	$ 273	$ 2,154
Average recorded investment	3,045	1,416	3,464	35,063

As part of the ongoing monitoring of the Company s loan portfolio, management tracks certain credit quality indicators that include: trends related to the risk rating of commercial loans, the level of classified commercial loans, net charge-offs, nonperforming loans, and general economic conditions. The Company s loan review function generally analyzes all commercial loan relationships greater than $4.0 million annually and at various times during the year. Smaller commercial and retail loans are sampled for review during the year. Loan risk ratings may be upgraded or downgraded to reflect current information identified during the loan review process.

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The Company uses a risk grading matrix to assign a risk grade to each loan in its portfolio. The general characteristics of each risk grade are as follows:

Pass   This grade is assigned to loans with acceptable credit quality and risk. The Company further segments this grade based on borrower characteristics that include capital strength, earnings stability, liquidity leverage, and industry conditions.

Special Mention   This grade is assigned to loans that require an above average degree of supervision and attention. These loans have the characteristics of an asset with acceptable credit quality and risk; however, adverse economic or financial conditions exist that create potential weaknesses deserving of management s close attention. If potential weaknesses are not corrected, the prospect of repayment may worsen.

Substandard   This grade is assigned to loans that have well defined weaknesses that may make payment default, or principal exposure, possible. In order to meet repayment terms, these loans will likely be dependent on collateral liquidation, secondary repayment sources, or events outside the normal course of business.

Doubtful   This grade is assigned to loans on nonaccrual status. These loans have the weaknesses inherent in substandard loans; however, the weaknesses are so severe that collection or liquidation in full is extremely unlikely based on current facts, conditions, and values. Due to certain specific pending factors, the amount of loss cannot yet be determined.

Loss   This grade is assigned to loans that will be charged off or charged down when payments, including the timing and value of payments, are determined to be uncertain. This risk grade does not imply that the asset has no recovery or salvage value, but simply means that it is not practical or desirable to defer writing off, either all or a portion of, the loan balance even though partial recovery may be realized in the future.

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Losses on covered loans are generally reimbursable by the FDIC at the applicable loss share percentage, 80%; therefore, covered loans are disclosed separately in the following credit quality discussion. PCI loan pools are disaggregated and included in their applicable loan class in the following discussion. PCI loans are generally not classified as nonaccrual or nonperforming due to the accrual of interest income under the accretion method of accounting. The following tables present loans held for investment, by internal credit risk grade, as of the periods indicated:

	September 30, 2015					
(Amounts in thousands)	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Loss**	**Total**
Non-covered loans						
Commercial loans						
Construction, development, and other land	$ 43,843	$ 684	$ 1,403	$	$	$ 45,930
Commercial and industrial	83,525	555	1,239			85,319
Multi-family residential	79,400	13,044	912			93,356
Single family non-owner occupied	135,722	3,502	5,501			144,725
Non-farm, non-residential	451,724	8,836	18,737			479,297
Agricultural	2,386	25	3			2,414
Farmland	25,229	1,248	658			27,135
Consumer real estate loans						
Home equity lines	105,104	1,224	1,327			107,655
Single family owner occupied	464,709	6,865	20,583			492,157
Owner occupied construction	39,413		728			40,141
Consumer and other loans						
Consumer loans	74,832	64	188			75,084
Other	7,058					7,058
Total non-covered loans	1,512,945	36,047	51,279			1,600,271
Covered loans						
Commercial loans						
Construction, development, and other land	4,189	2,138	1,246			7,573
Commercial and industrial	1,285	16	25			1,326
Multi-family residential	492		207			699
Single family non-owner occupied	1,838	576	485			2,899
Non-farm, non-residential	10,223	1,884	3,605			15,712
Agricultural	35					35
Farmland	373		283			656
Consumer real estate loans						
Home equity lines	18,508	31,835	862			51,205
Single family owner occupied	6,123	1,693	1,920			9,736
Owner occupied construction	115	63	100			278
Consumer and other loans						
Consumer loans	84					84
Other						
Total covered loans	43,265	38,205	8,733			90,203

Total loans	$	1,556,210	$	74,252	$	60,012	$	$	$ 1,690,474

	December 31, 2014					
(Amounts in thousands)	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Non-covered loans						
Commercial loans						
Construction, development, and other land	$ 38,858	$ 1,384	$ 1,029	$	$	$ 41,271
Commercial and industrial	81,196	616	1,287			83,099
Multi-family residential	89,503	7,007	970			97,480
Single family non-owner occupied	126,155	3,333	5,683			135,171
Non-farm, non-residential	441,385	13,028	19,493			473,906
Agricultural	1,589		10			1,599
Farmland	26,876	1,432	1,209			29,517
Consumer real estate loans						
Home equity lines	107,688	1,606	1,663			110,957
Single family owner occupied	454,833	8,884	21,758			485,475
Owner occupied construction	32,551		248			32,799
Consumer and other loans						
Consumer loans	68,592	520	235			69,347
Other	6,555					6,555
Total non-covered loans	1,475,781	37,810	53,585			1,567,176
Covered loans						
Commercial loans						
Construction, development, and other land	7,598	3,227	2,275			13,100
Commercial and industrial	2,528	82	52			2,662
Multi-family residential	1,400		184			1,584
Single family non-owner occupied	2,703	2,059	1,156			5,918
Non-farm, non-residential	12,672	4,341	8,304			25,317
Agricultural	43					43
Farmland	420		296			716
Consumer real estate loans						
Home equity lines	21,295	38,296	800			60,391
Single family owner occupied	7,094	2,040	2,834			11,968
Owner occupied construction	84	264	105			453
Consumer and other loans						
Consumer loans	88					88
Other						
Total covered loans	55,925	50,309	16,006			122,240
Total loans	$ 1,531,706	$ 88,119	$ 69,591	$	$	$ 1,689,416

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The following table presents nonaccrual loans, by loan class, as of the dates indicated:

	September 30, 2015			December 31, 2014		
(Amounts in thousands)	**Non-covered**	**Covered**	**Total**	**Non-covered**	**Covered**	**Total**
Commercial loans						
Construction, development, and other land	$ 99	$ 68	$ 167	$	$ 18	$ 18
Commercial and industrial	72	16	88	123	34	157
Multi-family residential	72		72	245		245
Single family non-owner occupied	1,763		1,763	601	77	678
Non-farm, non-residential	6,872	39	6,911	2,334	1,317	3,651
Agricultural				4		4
Farmland	151		151			
Consumer real estate loans						
Home equity lines	544	453	997	792	204	996
Single family owner occupied	7,097	239	7,336	6,389	682	7,071
Owner occupied construction	353		353		106	106
Consumer and other loans						
Consumer loans	77		77	68		68
Total nonaccrual loans	$ 17,100	$ 815	$ 17,915	$ 10,556	$ 2,438	$ 12,994

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The following tables present the aging of past due loans, by loan class, as of the dates indicated. Nonaccrual loans 30 days or more past due are included in the applicable delinquency category. There were no non-covered or covered accruing loans contractually past due 90 days or more as of September 30, 2015, or as of December 31, 2014.

	September 30, 2015					
(Amounts in thousands)	**30 - 59 Days Past Due**	**60 - 89 Days Past Due**	**90+ Days Past Due**	**Total Past Due**	**Current Loans**	**Total Loans**
Non-covered loans						
Commercial loans						
Construction, development, and other land	$ 42	$ 11	$ 99	$ 152	$ 45,778	$ 45,930
Commercial and industrial	55		55	110	85,209	85,319
Multi-family residential	72	77		149	93,207	93,356
Single family non-owner occupied	241	441	1,134	1,816	142,909	144,725
Non-farm, non-residential	800	42	5,473	6,315	472,982	479,297
Agricultural					2,414	2,414
Farmland	71	69	151	291	26,844	27,135
Consumer real estate loans						
Home equity lines	320	24	458	802	106,853	107,655
Single family owner occupied	2,802	1,743	3,209	7,754	484,403	492,157
Owner occupied construction					40,141	40,141
Consumer and other loans						
Consumer loans	435	42	25	502	74,582	75,084
Other					7,058	7,058
Total non-covered loans	4,838	2,449	10,604	17,891	1,582,380	1,600,271
Covered loans						
Commercial loans						
Construction, development, and other land	93	2	42	137	7,436	7,573
Commercial and industrial		9	16	25	1,301	1,326
Multi-family residential					699	699
Single family non-owner occupied		3		3	2,896	2,899
Non-farm, non-residential	15	108	39	162	15,550	15,712
Agricultural					35	35
Farmland					656	656
Consumer real estate loans						
Home equity lines	454	106	8	568	50,637	51,205
Single family owner occupied		93	14	107	9,629	9,736
Owner occupied construction	186	20		206	72	278
Consumer and other loans						
Consumer loans					84	84
Other						
Total covered loans	748	341	119	1,208	88,995	90,203
Total loans	$ 5,586	$ 2,790	$ 10,723	$ 19,099	$ 1,671,375	$ 1,690,474

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	December 31, 2014					
(Amounts in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	90+ Days Past Due	Total Past Due	Current Loans	Total Loans
Non-covered loans						
Commercial loans						
Construction, development, and other land	$ 39	$ 46	$	$ 85	$ 41,186	$ 41,271
Commercial and industrial	285	6	103	394	82,705	83,099
Multi-family residential	81	110		191	97,289	97,480
Single family non-owner occupied	914	513	425	1,852	133,319	135,171
Non-farm, non-residential	1,075	783	1,984	3,842	470,064	473,906
Agricultural			4	4	1,595	1,599
Farmland	89			89	29,428	29,517
Consumer real estate loans						
Home equity lines	492	103	571	1,166	109,791	110,957
Single family owner occupied	5,436	1,931	4,564	11,931	473,544	485,475
Owner occupied construction					32,799	32,799
Consumer and other loans						
Consumer loans	544	84	26	654	68,693	69,347
Other					6,555	6,555
Total non-covered loans	8,955	3,576	7,677	20,208	1,546,968	1,567,176
Covered loans						
Commercial loans						
Construction, development, and other land	120	17		137	12,963	13,100
Commercial and industrial	84	12	34	130	2,532	2,662
Multi-family residential					1,584	1,584
Single family non-owner occupied	122		77	199	5,719	5,918
Non-farm, non-residential	124	140	1,258	1,522	23,795	25,317
Agricultural					43	43
Farmland	3			3	713	716
Consumer real estate loans						
Home equity lines	858	318	168	1,344	59,047	60,391
Single family owner occupied	134	34	415	583	11,385	11,968
Owner occupied construction					453	453
Consumer and other loans						
Consumer loans					88	88
Other						
Total covered loans	1,445	521	1,952	3,918	118,322	122,240
Total loans	$ 10,400	$ 4,097	$ 9,629	$ 24,126	$ 1,665,290	$ 1,689,416

The Company may make concessions in interest rates, loan terms, and/or amortization terms when restructuring loans for borrowers experiencing financial difficulty. Restructured loans in excess of $250 thousand are evaluated for a specific reserve based on either the collateral or net present value method, whichever is most applicable. Specific reserves in the allowance for loan losses attributed to troubled debt restructurings (TDRs) totaled $641 thousand as of September 30, 2015, and $475 thousand as of December 31, 2014. Restructured loans under $250 thousand are subject to the reserve calculation at the historical loss rate for classified loans. Certain TDRs are classified as nonperforming at the time of restructuring and are returned to performing status after six months of satisfactory payment performance; however, these loans remain identified as impaired until full payment or other satisfaction of the obligation occurs. The following table presents interest income related to TDRs in the periods, indicated:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2015	**2014**	**2015**	**2014**
(Amounts in thousands)				
Interest income recognized	$ 148	$ 188	$ 456	$ 466

Loans acquired with credit deterioration, with a discount, are generally not considered TDRs as long as the loans remain in the assigned loan pool. There were no covered loans recorded as TDRs as of September 30, 2015, or December 31, 2014.

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The following table presents loans modified as TDRs, by loan class, segregated by accrual status, as of the dates indicated:

(Amounts in thousands)	September 30, 2015			December 31, 2014		
	Nonaccrual (1)	Accruing	Total	Nonaccrual (1)	Accruing	Total
Commercial loans						
Single family non-owner occupied	$ 132	$ 824	$ 956	$	$ 1,088	$ 1,088
Non-farm, non-residential		4,632	4,632	83	4,743	4,826
Consumer real estate loans						
Home equity lines		44	44		47	47
Single family owner occupied	338	8,296	8,634	471	8,412	8,883
Owner occupied construction	353	243	596		244	244
Total TDRs	$ 823	$ 14,039	$ 14,862	$ 554	$ 14,534	$ 15,088

(1) TDRs on nonaccrual status are included in the total nonaccrual loan balance disclosed in the table above.

The following tables present loans modified as TDRs, by type of concession made and loan class, that were restructured during the periods indicated. The post-modification recorded investment represents the loan balance immediately following modification.

	Three Months Ended September 30,					
	2015			2014		
(Amounts in thousands)	Total Contracts	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Total Contracts	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Below market interest rate						
Single family owner occupied		$	$	3	$ 1,715	$ 1,715
Extended payment term						
Single family non-owner occupied				1	468	468
Below market interest rate and extended payment term						
Single family owner occupied	4	307	307	2	84	84
Total	4	$ 307	$ 307	6	$ 2,267	$ 2,267

	Nine Months Ended September 30,					
	2015			2014		
(Amounts in thousands)	Total Contracts	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Total Contracts	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Below market interest rate						
Single family owner occupied		$	$	4	$ 1,850	$ 1,850

Owner occupied construction						1		245		245
Total						5		2,095		2,095
Extended payment term										
Single family non-owner occupied						1		468		468
Non-farm, non-residential						1		303		303
Total						2		771		771
Below market interest rate and extended payment term										
Single family owner occupied	5		342		342	5		487		487
Total	5	$	342	$	342	12	$	3,353	$	3,353

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The following tables present loans modified as TDRs, by loan class, that were restructured within the previous 12 months, for which there was a payment default during the periods indicated:

	Three Months Ended September 30,			
	2015		2014	
(Amounts in thousands)	Total Contracts	Pre-Modification Recorded Investment	Total Contracts	Pre-Modification Recorded Investment
Commercial loans				
Single family non-owner occupied	1	$ 78		$
Consumer real estate loans				
Single family owner occupied			2	312
Owner occupied construction				
Total	1	$ 78	2	$ 312

	Nine Months Ended September 30,			
	2015		2014	
(Amounts in thousands)	Total Contracts	Pre-Modification Recorded Investment	Total Contracts	Pre-Modification Recorded Investment
Commercial loans				
Single family non-owner occupied	1	$ 78		$
Consumer real estate loans				
Single family owner occupied			2	312
Owner occupied construction	1	353		
Total	2	$ 431	2	$ 312

Other real estate owned (OREO) consists of properties acquired through foreclosure. The following table presents information related to OREO as of the dates indicated:

(Amounts in thousands)	September 30, 2015	December 31, 2014
Non-covered OREO	$ 5,088	$ 6,638
Covered OREO	4,079	6,324
Total OREO	$ 9,167	$ 12,962
Non-covered OREO secured by residential real estate	$ 2,280	$ 6,155
Residential real estate loans in the foreclosure process[(1)]	3,138	4,561

(1) The recorded investment in consumer mortgage loans collateralized by residential real estate that are in the process of foreclosure according to local requirements of the applicable jurisdiction.

Note 5. Allowance for Loan Losses

The allowance for loan losses is maintained at a level management deems adequate to absorb probable loan losses inherent in the loan portfolio. The allowance is increased by provisions charged to operations and reduced by net charge-offs. While management uses its best judgment and information available, the ultimate adequacy of the allowance is dependent on a variety of factors that may be beyond the Company s control: the performance of the Company s loan portfolio, the economy, changes in interest rates, the view of regulatory authorities towards loan classifications, and other factors. These uncertainties may result in a material change to the allowance for loan losses in the near term; however, the amount of the change cannot reasonably be estimated.

The Company s allowance is comprised of specific reserves related to loans individually evaluated, including credit relationships, and general reserves related to loans not individually evaluated that are segmented into groups with similar risk characteristics, based on an internal risk grading matrix. General reserve allocations are based on management s judgments of qualitative and quantitative factors about macro and micro economic conditions reflected within the loan portfolio and the economy. For loans acquired in a business combination, loans identified as credit impaired at the acquisition date are grouped into pools and evaluated separately from the non-PCI portfolio. The Company aggregates PCI loans into the following pools: Waccamaw commercial, Waccamaw lines of credit, Waccamaw serviced home equity lines, Waccamaw residential, Waccamaw consumer, Peoples commercial, and Peoples residential. The Company closed the Waccamaw consumer loan pool during the first quarter of 2015 due to an insignificant remaining balance. Provisions calculated for PCI loans are offset by an adjustment to the FDIC indemnification asset to reflect the indemnified portion, 80%, of the post-acquisition exposure.

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While allocations are made to various portfolio segments, the allowance for loan losses, excluding reserves allocated to specific loans and PCI loan pools, is available for use against any loan loss management deems appropriate. As of September 30, 2015, management believed the allowance was adequate to absorb probable loan losses inherent in the loan portfolio.

The following tables present the aggregate activity in the allowance for loan losses in the periods indicated:

	Three Months Ended September 30, 2015		
(Amounts in thousands)	Allowance Excluding PCI Loans	Allowance for PCI Loans	Total Allowance
Beginning balance	$ 20,144	$ 114	$ 20,258
Provision for (recovery of) loan losses	400	(94)	306
Benefit attributable to the FDIC indemnification asset		75	75
Provision for (recovery of) loan losses charged to operations	400	(19)	381
Recovery of loan losses recorded through the FDIC indemnification asset		(75)	(75)
Charge-offs	(689)		(689)
Recoveries	252		252
Net charge-offs	(437)		(437)
Ending balance	$ 20,107	$ 20	$ 20,127

	Three Months Ended September 30, 2014		
(Amounts in thousands)	Allowance Excluding PCI Loans	Allowance for PCI Loans	Total Allowance
Beginning balance	$ 23,493	$ 418	$ 23,911
Recovery of loan losses	(2,335)	(214)	(2,549)
Benefit attributable to the FDIC indemnification asset		110	110
Recovery of loan losses charged to operations	(2,335)	(104)	(2,439)
Recovery of loan losses recorded through the FDIC indemnification asset		(110)	(110)

Charge-offs	(1,118)		(1,118)
Recoveries	915		915
Net charge-offs	(203)		(203)
Ending balance	$ 20,955	$ 204	$ 21,159

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(Amounts in thousands)	Nine Months Ended September 30, 2015 Allowance Excluding PCI Loans	Allowance for PCI Loans	Total Allowance
Beginning balance	$ 20,169	$ 58	$ 20,227
Provision for (recovery of) loan losses	1,766	(38)	1,728
Benefit attributable to the FDIC indemnification asset		29	29
Provision for (recovery of) loan losses charged to operations	1,766	(9)	1,757
Recovery of loan losses recorded through the FDIC indemnification asset		(29)	(29)
Charge-offs	(2,940)		(2,940)
Recoveries	1,112		1,112
Net charge-offs	(1,828)		(1,828)
Ending balance	$ 20,107	$ 20	$ 20,127

(Amounts in thousands)	Nine Months Ended September 30, 2014 Allowance Excluding PCI Loans	Allowance for PCI Loans	Total Allowance
Beginning balance	$ 23,322	$ 755	$ 24,077
Provision for (recovery of) loan losses	733	(551)	182
Benefit attributable to the FDIC indemnification asset		451	451
Provision for (recovery of) loan losses charged to operations	733	(100)	633
Recovery of loan losses recorded through the FDIC indemnification asset		(451)	(451)
Charge-offs	(5,119)		(5,119)
Recoveries	2,019		2,019
Net charge-offs	(3,100)		(3,100)
Ending balance	$ 20,955	$ 204	$ 21,159

The following tables present the components of the activity in the allowance for loan losses, excluding PCI loans, by loan segment, in the periods indicated:

	Three Months Ended September 30, 2015			
	Commercial	Consumer Real Estate	Consumer and Other	Total
(Amounts in thousands)				
Beginning balance	$ 12,995	$ 6,468	$ 681	$ 20,144
Provision for (recovery of) loan losses charged to operations	6	20	374	400
Loans charged off	(150)	(130)	(409)	(689)
Recoveries credited to allowance	102	86	64	252
Net charge-offs	(48)	(44)	(345)	(437)
Ending balance	$ 12,953	$ 6,444	$ 710	$ 20,107

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	Three Months Ended September 30, 2014			
	Commercial	Consumer Real Estate	Consumer and Other	Total
(Amounts in thousands)				
Beginning balance	$ 16,747	$ 6,123	$ 623	$ 23,493
(Recovery of) provision for loan losses charged to operations	(3,131)	561	235	(2,335)
Loans charged off	(558)	(219)	(341)	(1,118)
Recoveries credited to allowance	613	192	110	915
Net recoveries (charge-offs)	55	(27)	(231)	(203)
Ending balance	$ 13,671	$ 6,657	$ 627	$ 20,955

	Nine Months Ended September 30, 2015			
	Commercial	Consumer Real Estate	Consumer and Other	Total
(Amounts in thousands)				
Beginning balance	$ 13,010	$ 6,489	$ 670	$ 20,169
Provision for loan losses charged to operations	754	136	876	1,766
Loans charged off	(1,111)	(622)	(1,207)	(2,940)
Recoveries credited to allowance	300	441	371	1,112
Net charge-offs	(811)	(181)	(836)	(1,828)
Ending balance	$ 12,953	$ 6,444	$ 710	$ 20,107

	Nine Months Ended September 30, 2014			
	Commercial	Consumer Real Estate	Consumer and Other	Total
(Amounts in thousands)				
Beginning balance	$ 16,090	$ 6,597	$ 635	$ 23,322
(Recovery of) provision for loan losses charged to operations	(478)	592	619	733
Loans charged off	(2,839)	(1,184)	(1,096)	(5,119)
Recoveries credited to allowance	898	652	469	2,019
Net charge-offs	(1,941)	(532)	(627)	(3,100)
Ending balance	$ 13,671	$ 6,657	$ 627	$ 20,955

The following tables present the components of the activity in the allowance for loan losses for PCI loans, by loan segment, in the periods indicated:

	Three Months Ended September 30, 2015			
(Amounts in thousands)	Commercial	Consumer Real Estate	Consumer and Other	Total
Beginning balance	$	$ 114	$	$ 114
Recovery of PCI loan losses		(94)		(94)
Benefit attributable to FDIC indemnification asset		75		75
Recovery of loan losses charged to operations		(19)		(19)
Recovery of loan losses recorded through the FDIC indemnification asset		(75)		(75)
Ending balance	$	$ 20	$	$ 20

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(Amounts in thousands)	Three Months Ended September 30, 2014 Commercial	Consumer Real Estate	Consumer and Other	Total
Beginning balance	$ 16	$ 402	$	$ 418
Recovery of PCI loan losses	(8)	(206)		(214)
Benefit attributable to FDIC indemnification asset		110		110
Recovery of loan losses charged to operations	(8)	(96)		(104)
Recovery of loan losses recorded through the FDIC indemnification asset		(110)		(110)
Ending balance	$ 8	$ 196	$	$ 204

(Amounts in thousands)	Nine Months Ended September 30, 2015 Commercial	Consumer Real Estate	Consumer and Other	Total
Beginning balance	$ 37	$ 21	$	$ 58
Recovery of PCI loan losses	(37)	(1)		(38)
Benefit (provision) attributable to FDIC indemnification asset	30	(1)		29
Recovery of loan losses charged to operations	(7)	(2)		(9)
(Recovery of) provision for loan losses recorded through the FDIC indemnification asset	(30)	1		(29)
Ending balance	$	$ 20	$	$ 20

(Amounts in thousands)	Nine Months Ended September 30, 2014 Commercial	Consumer Real Estate	Consumer and Other	Total
Beginning balance	$ 77	$ 678	$	$ 755
Recovery of PCI loan losses	(69)	(482)		(551)
Benefit attributable to FDIC indemnification asset	55	396		451
Recovery of loan losses charged to operations	(14)	(86)		(100)
Recovery of loan losses recorded through the FDIC indemnification asset	(55)	(396)		(451)
Ending balance	$ 8	$ 196	$	$ 204

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The following tables present the Company s allowance for loan losses and recorded investment in loans evaluated for impairment, excluding PCI loans, by loan class, as of the dates indicated:

	September 30, 2015			
(Amounts in thousands)	**Loans Individually Evaluated for Impairment**	**Allowance for Loans Individually Evaluated**	**Loans Collectively Evaluated for Impairment**	**Allowance for Loans Collectively Evaluated**
Commercial loans				
Construction, development, and other land	$	$	$ 51,526	$ 1,087
Commercial and industrial			86,339	516
Multi-family residential			93,848	1,532
Single family non-owner occupied	1,404	117	142,509	3,076
Non-farm, non-residential	14,131	1,711	473,456	4,702
Agricultural			2,449	18
Farmland			27,791	194
Total commercial loans	15,535	1,828	877,918	11,125
Consumer real estate loans				
Home equity lines			127,599	1,162
Single family owner occupied	6,132	760	494,515	4,205
Owner occupied construction	353	53	39,957	264
Total consumer real estate loans	6,485	813	662,071	5,631
Consumer and other loans				
Consumer loans			75,168	710
Other			7,058	
Total consumer and other loans			82,226	710
Total loans, excluding PCI loans	$ 22,020	$ 2,641	$ 1,622,215	$ 17,466

	December 31, 2014			
(Amounts in thousands)	**Loans Individually Evaluated for Impairment**	**Allowance for Loans Individually Evaluated**	**Loans Collectively Evaluated for Impairment**	**Allowance for Loans Collectively Evaluated**
Commercial loans				
Construction, development, and other land	$	$	$ 51,608	$ 1,151
Commercial and industrial			85,353	690
Multi-family residential			98,880	1,917
Single family non-owner occupied	833	45	135,223	3,183

Non-farm, non-residential	9,477	1,000	475,353	4,805
Agricultural			1,642	13
Farmland			30,233	206
Total commercial loans	10,310	1,045	878,292	11,965
Consumer real estate loans				
Home equity lines			134,006	1,330
Single family owner occupied	5,738	437	489,820	4,498
Owner occupied construction			32,983	224
Total consumer real estate loans	5,738	437	656,809	6,052
Consumer and other loans				
Consumer loans			69,429	670
Other			6,555	
Total consumer and other loans			75,984	670
Total loans, excluding PCI loans	$ 16,048	$ 1,482	$ 1,611,085	$ 18,687

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The following table presents the Company s allowance for loan losses related to PCI loans and recorded investment in PCI loans, by loan pool, as of the dates indicated:

	September 30, 2015		December 31, 2014	
(Amounts in thousands)	Loan Pools	Allowance for Loan Pools With Impairment	Loan Pools	Allowance for Loan Pools With Impairment
Commercial loans				
Waccamaw commercial	$ 5,580	$	$ 13,392	$ 37
Waccamaw lines of credit			461	
Peoples commercial	5,102		5,875	
Other	1,281		1,358	
Total commercial loans	11,963		21,086	37
Consumer real estate loans				
Waccamaw serviced home equity lines	31,261		37,342	
Waccamaw residential	1,840	1	2,638	
Peoples residential	1,175	19	1,215	21
Total consumer real estate loans	34,276	20	41,195	21
Consumer and other loans				
Waccamaw consumer[1]			2	
Total loans	$ 46,239	$ 20	$ 62,283	$ 58

(1) Closed during the first quarter of 2015.

Note 6. FDIC Indemnification Asset

The Company entered into loss share agreements with the FDIC in 2012 in connection with the FDIC-assisted acquisition of Waccamaw. Under the loss share agreements, the FDIC agreed to cover 80% of most loan and foreclosed real estate losses. Certain expenses incurred in relation to these covered assets are reimbursable by the FDIC. Estimated reimbursements are netted against the expense on covered assets in the Company s consolidated statements of income. The following table presents activity in the FDIC indemnification asset in the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
(Amounts in thousands)				
Beginning balance	$ 23,653	$ 30,908	$ 27,900	$ 34,691
Decrease in estimated losses on covered loans	(75)	(110)	(29)	(451)
	801	674	1,359	1,233

Increase in estimated losses on covered OREO				
Reimbursable expenses from the FDIC	44	88	409	375
Net amortization	(1,768)	(1,096)	(5,179)	(3,166)
Reimbursements from the FDIC	(606)	(719)	(2,411)	(2,937)
Ending balance	$ 22,049	$ 29,745	$ 22,049	$ 29,745

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Note 7. Deposits

The following table presents the components of deposits as of the dates indicated:

(Amounts in thousands)	September 30, 2015	December 31, 2014
Noninterest-bearing demand deposits	$ 442,021	$ 417,729
Interest-bearing deposits:		
Interest-bearing demand deposits	343,303	353,874
Money market accounts	216,567	225,196
Savings deposits	310,060	300,282
Certificates of deposit	452,836	557,352
Individual retirement accounts	138,115	146,326
Total interest-bearing deposits	1,460,881	1,583,030
Total deposits	$ 1,902,902	$ 2,000,759

Note 8. Borrowings

Short-term borrowings generally consist of federal funds purchased and retail repurchase agreements, which are typically collateralized with agency MBS. Long-term borrowings consist of wholesale repurchase agreements; FHLB borrowings, including convertible and callable advances; and other obligations. The following table presents the composition of borrowings as of the dates indicated:

	September 30, 2015		December 31, 2014	
(Amounts in thousands)	Balance	Weighted Average Rate(1)	Balance	Weighted Average Rate(1)
Federal funds purchased	$		$	0.34%
Securities sold under agreements to repurchase:				
Retail	74,076	0.10%	71,742	0.13%
Wholesale	50,000	3.71%	50,000	3.71%
Total securities sold under agreements to repurchase	124,076		121,742	
FHLB borrowings	65,000	4.04%	90,000	4.07%
Subordinated debt	15,464		15,464	
Other debt	491		2,535	
Total borrowings	$ 205,031		$ 229,741	

(1) Weighted average contractual rate

The following schedule presents the remaining contractual maturities of repurchase agreements, by type of collateral pledged, as of September 30, 2015:

(Amounts in thousands)	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater Than 90 Days	Total
U.S. Agency securities	$ 57,535	$	$	$	$ 57,535
Municipal securities				546	546
Mortgage-backed Agency securities	15,042	202	170	50,581	65,995
Total	$ 72,577	$ 202	$ 170	$ 51,127	$ 124,076

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The following schedule presents the contractual maturities of wholesale repurchase agreements and FHLB borrowings, by year, as of September 30, 2015:

(Amounts in thousands)	Wholesale Repurchase Agreements	FHLB Borrowings	Total
2015	$	$	$
2016	25,000		25,000
2017		15,000	15,000
2018			
2019	25,000		25,000
2020 and thereafter		50,000	50,000
	$ 50,000	$ 65,000	$ 115,000
Weighted average maturity (in years)	2.33	4.42	3.51

The FHLB may redeem callable advances at quarterly intervals after various lockout periods, which could substantially shorten the lives of the advances. If called, the advance may be paid in full or converted into another FHLB credit product. Prepayment of an advance may result in substantial penalties based on the differential between the contractual note and current advance rate for similar maturities. The Company prepaid $25 million of a FHLB convertible advance bearing an interest rate of 4.15% that was scheduled to mature in 2017 during the second quarter of 2015. The prepayment penalty associated with the $25 million FHLB debt repayment totaled $1.70 million.

The Company is required to pledge qualifying collateral to secure FHLB advances and letters of credit. As of September 30, 2015, the Company provided for FHLB letters of credit to collateralize public unit deposits totaling $6.19 million. FHLB borrowings were secured by qualifying loans that totaled $874.93 million as September 30, 2015, and $980.63 million as of December 31, 2014. Unused borrowing capacity with the FHLB, net of FHLB letters of credit, totaled $422.42 million as of September 30, 2015.

Subordinated debt consists of Company-issued junior subordinated debentures (Debentures). The Company-issued Debentures totaling $15.46 million to the Trust in October 2003 with an interest rate of three-month London InterBank Offered Rate (LIBOR) plus 2.95%. The Trust was able to purchase the Debentures through the issuance of trust preferred securities, which had substantially identical terms as the Debentures. The Debentures mature on October 8, 2033, and are currently callable quarterly. Net proceeds from the offering were contributed as capital to the Bank to support further growth. The Company s obligations under the Debentures and other relevant Trust agreements, in aggregate, constitute a full and unconditional guarantee by the Company of the Trust s obligations. The preferred securities issued by the Trust are not included in the Company s consolidated balance sheets; however, these securities qualify as Tier 1 capital for regulatory purposes, subject to guidelines issued by the Board of Governors of the Federal Reserve System (Federal Reserve). The Federal Reserve s quantitative limits did not prevent the Company from including all $15.46 million in trust preferred securities outstanding in Tier 1 capital as of September 30, 2015, and December 31, 2014.

The Company maintains a $15.00 million unsecured, committed line of credit with an unrelated financial institution that carries an interest rate of one-month LIBOR plus 2.00% and matures in April 2016. As of September 30, 2015, there was no outstanding balance on the line compared to an outstanding balance of $2.00 million as of December 31, 2014.

Note 9. Derivative Instruments and Hedging Activities

The Company primarily uses derivative instruments to protect against the risk of adverse price or interest rate movements on the value of certain assets and liabilities and on future cash flows. Derivative instruments represent contracts between parties that usually require little or no initial net investment and result in one party delivering cash or another asset to the other party based on a notional amount and an underlying asset as specified in the contract. These derivative instruments may consist of interest rate swaps, floors, caps, collars, futures, forward contracts, and written and purchased options. Derivative instruments are subject to counterparty credit risk due to the possibility that the Company will incur a loss because a counterparty, which may be a bank, a broker-dealer or a customer, fails to meet its contractual obligations. This risk is measured as the expected positive replacement value of contracts. Derivative contracts may be executed only with exchanges or counterparties approved by the Company s Asset/Liability Management Committee.

As of September 30, 2015, the Company s derivative instruments consisted of interest rate lock commitments (IRLCs), forward sale loan commitments, and interest rate swaps. Generally, derivative instruments help the Company manage exposure to market risk and meet customer financing needs. Market risk represents the possibility that economic value or net interest income will be adversely affected by fluctuations in external factors such as interest rates, market-driven loan rates, prices, or other economic factors.

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IRLCs and forward sale loan commitments. In the normal course of business, the Company enters into IRLCs with customers on mortgage loans intended to be sold in the secondary market and commitments to sell those originated mortgage loans. The Company enters into IRLCs to provide potential borrowers an interest rate guarantee. Once a mortgage loan is closed and funded, it is included within loans held for sale and awaits sale and delivery into the secondary market. From the date we issue the commitment through the date of sale into the secondary market, the Company has exposure to interest rate movement resulting from the risk that interest rates will change from the rate quoted to the borrower. Due to these interest rate fluctuations, the Company s balance of mortgage loans held for sale is subject to changes in fair value. Typically, the fair value of these loans declines when interest rates rise and increase when interest rates decline. The fair values of the Company s IRLCs and forward sale loan commitments are recorded at fair value as a component of other assets and other liabilities in the consolidated balance sheets. These derivatives do not qualify as hedging instruments; therefore, changes in fair value are recorded in earnings.

Interest rate swaps. The Company uses interest rate swap contracts to modify its exposure to interest rate risk caused by changes in the LIBOR curve in relation to certain designated fixed rate loans. These instruments are used to convert these fixed rate loans to an effective floating rate. If the LIBOR rate falls below the loan s stated fixed rate for a given period, the Company will owe the floating rate payer the notional amount times the difference between LIBOR and the stated fixed rate. If LIBOR is above the stated rate for a given period, the Company will receive payments based on the notional amount times the difference between LIBOR and the stated fixed rate. The Company s interest rate swaps qualify as fair value hedging instruments; therefore, changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings in the same period.

The Company entered into a fourteen-year, $1.20 million notional interest rate swap agreement in March 2015, a fifteen-year, $4.37 million notional interest rate swap agreement in February 2014, and a ten-year, $3.50 million notional interest rate swap agreement in October 2013. The loan hedged by the October 2013 swap paid off in 2014 and the swap was terminated. The swap agreements, which are accounted for as fair value hedges, and the loans hedged by the agreements are recorded at fair value. The fair value hedges were effective as of September 30, 2015.

The following table presents the aggregate contractual or notional amounts of the Company s derivative instruments as of the dates indicated:

(Amounts in thousands)	September 30, 2015 Notional or Contractual Amount	December 31, 2014 Notional or Contractual Amount	September 30, 2014 Notional or Contractual Amount
Derivatives designated as hedges:			
Interest rate swaps	$ 5,479	$ 4,363	$ 7,819
Derivatives not designated as hedges:			
IRLCs	4,925	1,391	2,948
Forward sale loan commitments	5,448	3,183	4,094
Total derivatives not designated as hedges	10,373	4,574	7,042
Total derivatives	$ 15,852	$ 8,937	$ 14,861

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The following table presents the fair values of the Company s derivative instruments as of the dates indicated:

	September 30, 2015		December 31, 2014		September 30, 2014	
(Amounts in thousands)	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Derivatives designated as hedges:						
Interest rate swaps	$	$ 318	$	$ 209	$	$ 189
Derivatives not designated as hedges:						
IRLCs	27		5			7
Forward sale loan commitments		27		5	7	
Total derivities not designated as hedges	27	27	5	5	7	7
Total derivaties	$ 27	$ 345	$ 5	$ 214	$ 7	$ 196

The Company s derivative and hedging activity had no effect on the Company s consolidated statements of income for the three and nine months ended September 30, 2015 or September 30, 2014.

Note 10. Employee Benefit Plans

The Company maintains the Supplemental Executive Retention Plan (SERP) for key members of senior management. The following table presents the components of the SERP s net periodic pension cost in the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
(Amounts in thousands)				
Service cost	$ 33	$ 26	$ 100	$ 79
Interest cost	71	73	211	218
Amortization of losses	2		5	
Amortization of prior service cost	46	47	140	140
Net periodic cost	$ 152	$ 146	$ 456	$ 437

The Company maintains the Directors Supplemental Retirement Plan (the Directors Plan) for non-management directors. The following table presents the components of the Directors Plan s net periodic pension cost in the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
(Amounts in thousands)				
Service cost	$ 12	$ 6	$ 35	$ 17
Interest cost	13	12	40	35

Amortization of losses		15				45		
Amortization of prior service cost		18		18		54		54
Net periodic cost	$	58	$	36	$	174	$	106

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Note 11. Accumulated Other Comprehensive Income

The following tables present the activity in accumulated other comprehensive income (AOCI), net of tax, by component for the periods indicated:

	Three Months Ended September 30,					
	2015			2014		
(Amounts in thousands)	Unrealized Gains (Losses) on Available-for-Sale Securities	Employee Benefit Plan	Total	Unrealized Gains (Losses) on Available-for-Sale Securities	Employee Benefit Plan	Total
Beginning balance	$ (4,899)	$ (1,299)	$ (6,198)	$ (5,736)	$ (1,001)	$ (6,737)
Other comprehensive gain before reclassifications	2,433	102	2,535	186	81	267
Reclassified from AOCI	(24)	(51)	(75)	63	(41)	22
Net comprehensive gain	2,409	51	2,460	249	40	289
Ending balance	$ (2,490)	$ (1,248)	$ (3,738)	$ (5,487)	$ (961)	$ (6,448)

	Nine Months Ended September 30,					
	2015			2014		
(Amounts in thousands)	Unrealized Gains (Losses) on Available-for-Sale Securities	Employee Benefit Plan	Total	Unrealized Gains (Losses) on Available-for-Sale Securities	Employee Benefit Plan	Total
Beginning balance	$ (4,266)	$ (1,339)	$ (5,605)	$ (13,640)	$ (1,100)	$ (14,740)
Other comprehensive gain before reclassifications	1,682	244	1,926	8,422	261	8,683
Reclassified from AOCI	94	(153)	(59)	(269)	(122)	(391)
Net comprehensive gain	1,776	91	1,867	8,153	139	8,292
Ending balance	$ (2,490)	$ (1,248)	$ (3,738)	$ (5,487)	$ (961)	$ (6,448)

The following table presents reclassifications out of AOCI by component in the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,		
(Amounts in thousands)	2015	2014	2015	2014	Income Statement Line Item Affected
Available-for-sale securities					

(Losses) gains realized in net income	$ (39)	$ 320	$ 151	$ 306	Net gain (loss) on sale of securities
Credit-related OTTI recognized in net income		(219)		(737)	Net impairment losses recognized in earnings
	(39)	101	151	(431)	Income before income taxes
Income tax effect	(15)	38	57	(162)	Income tax expense
	(24)	63	94	(269)	Net income
Employee benefit plans					
Amortization of prior service cost	(65)	(66)	(195)	(195)	(1)
Amortization of losses	(17)		(50)		(1)
	(82)	(66)	(245)	(195)	Income before income taxes
Income tax effect	(31)	(25)	(92)	(73)	Income tax expense
	(51)	(41)	(153)	(122)	Net income
Reclassified from AOCI, net of tax	$ (75)	$ 22	$ (59)	$ (391)	Net income

(1) Amortization is included in net periodic pension cost. See Note 10, Employee Benefit Plans.

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Note 12. Fair Value

Financial Instruments Measured at Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments under the valuation hierarchy, is presented in the following discussion. The fair value hierarchy ranks the inputs used in measuring fair value as follows:

Level 1 Observable, unadjusted quoted prices in active markets

Level 2 Inputs other than quoted prices included in Level 1 that are directly or indirectly observable for the asset or liability

Level 3 Unobservable inputs with little or no market activity that require the Company to use reasonable inputs and assumptions

The Company uses fair value measurements to record adjustments to certain financial assets and liabilities on a recurring basis. Additionally, the Company may be required to record certain assets at fair value on a nonrecurring basis in specific circumstances, such as evidence of impairment. Methodologies used to determine fair value might be highly subjective and judgmental in nature, such as cash flow estimates, risk characteristics, credit quality measurements, and interest rates; therefore, valuations may not be precise. Since fair values are estimated as of a specific date, the amounts actually realized or paid on the settlement or maturity of these instruments may be significantly different from estimates. See Summary of Significant Accounting Policies in Note 1, General, to the Condensed Consolidated Financial Statements of this report.

Assets and Liabilities Reported at Fair Value on a Recurring Basis

Available-for-Sale Securities. Securities available for sale are reported at fair value on a recurring basis. The fair value of Level 1 securities is based on quoted market prices in active markets, if available. The Company also uses Level 1 inputs to value equity securities that are traded in active markets. If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are primarily derived from or corroborated by observable market data. Level 2 securities use fair value measurements from independent pricing services obtained by the Company. These fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and bond terms and conditions. The Company s Level 2 securities include U.S. Treasury securities, single issue trust preferred securities, corporate securities, MBS, and certain equity securities that are not actively traded. Securities are based on Level 3 inputs when there is limited activity or less transparency to the valuation inputs. In the absence of observable or corroborated market data, internally developed estimates that incorporate market-based assumptions are used when such information is available.

Fair value models may be required when trading activity has declined significantly or does not exist, prices are not current, or pricing variations are significant. For Level 3 securities, the Company obtains the cash flow of specific securities from third parties that use modeling software to determine cash flows based on market participant data and knowledge of the structures of each individual security. The fair values of Level 3 securities are determined by applying proper market observable discount rates to the cash flow derived from third-party models. Discount rates are developed by determining credit spreads above a benchmark rate, such as LIBOR, and adding premiums for illiquidity, which are based on a comparison of initial issuance spread to LIBOR versus a financial sector curve for recently issued debt to LIBOR. Securities with increased uncertainty about the receipt of cash flows are discounted at higher rates due to the addition of a deal-specific credit premium based on assumptions about the performance of the underlying collateral. Finally, internal fair value model pricing and external pricing observations are combined by assigning weights to each pricing observation. Pricing is reviewed for reasonableness based on the direction of the specific markets and the general economic indicators.

Loans Held for Investment. Loans held for investment are reported at fair value using discounted future cash flows that apply current interest rates for loans with similar terms and borrower credit quality. Loans related to fair value hedges are recorded at fair value on a recurring basis.

Deferred Compensation Assets and Liabilities. Securities held for trading purposes are recorded at fair value on a recurring basis and included in other assets in the consolidated balance sheets. These securities include assets related to employee deferred compensation plans, which are generally invested in Level 1 equity securities. The liability associated with these deferred compensation plans is carried at the fair value of the obligation to the employee, which corresponds to the fair value of the invested assets.

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Derivative Assets and Liabilities. Derivatives are recorded at fair value on a recurring basis. The Company obtains dealer quotes, Level 2 inputs, based on observable data to value derivatives.

The following tables summarize financial assets and liabilities recorded at fair value on a recurring basis, segregated by the level of valuation inputs in the fair value hierarchy, as of the dates indicated:

	September 30, 2015			
		Fair Value Measurements Using		
(Amounts in thousands)	Total Fair Value	Level 1	Level 2	Level 3
Available-for-sale securities:				
U.S. Agency securities	$ 31,676	$	$ 31,676	$
Municipal securities	131,088		131,088	
Single issue trust preferred securities	49,434		49,434	
Corporate securities	70,654		70,654	
Certificates of deposit	5,000		5,000	
Agency MBS	94,125		94,125	
Equity securities	235	217	18	
Total available-for-sale securities	$ 382,212	$ 217	$ 381,995	$
Fair value loans	$ 4,887	$	$ 4,887	$
Deferred compensation assets	$ 3,425	$ 3,425	$	$
Derivative assets				
Forward sale loan commitments	$ 27	$	$ 27	$
Total derivative assets	$ 27	$	$ 27	$
Deferred compensation liabilities	$ 3,425	$ 3,425	$	$
Derivative liabilities				
Interest rate swaps	$ 318	$	$ 318	$
IRLCs	27		27	
Total derivative liabilities	$ 345	$	$ 345	$

	December 31, 2014			
		Fair Value Measurements Using		
(Amounts in thousands)	Total Fair Value	Level 1	Level 2	Level 3
Available-for-sale securities:				

U.S. Agency securities	$ 33,598	$	$ 33,598	$
Municipal securities	138,915		138,915	
Single issue trust preferred securities	46,137		46,137	
Corporate securities	5,109		5,109	
Agency MBS	102,119		102,119	
Equity securities	239	221	18	
Total available-for-sale securities	$ 326,117	$ 221	$ 325,896	$
Fair value loans	$ 3,406	$	$ 3,406	$
Deferred compensation assets	$ 3,380	$ 3,380	$	$
Derivative assets				
IRLCs	$ 5	$	$ 5	$
Total derivative assets	$ 5	$	$ 5	$
Deferred compensation liabilities	$ 3,380	$ 3,380	$	$
Derivative liabilities				
Interest rate swaps	$ 209	$	$ 209	$
Forward sale loan commitments	5		5	
Total derivative liabilities	$ 214	$	$ 214	$

There were no changes in valuation techniques during the nine months ended September 30, 2015 or 2014. If the Company determines that a valuation technique change is necessary, the change is assumed to have occurred at the end of the respective reporting period. In addition, there were no transfers into or out of Level 3 of the fair value hierarchy during the nine months ended September 30, 2015, or September 30, 2014.

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Assets Measured at Fair Value on a Nonrecurring Basis

Impaired Loans. Impaired loans are recorded at fair value on a nonrecurring basis when repayment is expected solely from the sale of the loan s collateral. Fair value is based on appraised value adjusted for customized discounting criteria, Level 3 inputs.

The Company maintains an active and robust problem credit identification system. The impairment review includes obtaining third-party collateral valuations to help management identify potential credit impairment and determine the amount of impairment to record. The Company s Special Assets staff assumes the management and monitoring of all loans determined to be impaired. Internal collateral valuations are generally performed within two to four weeks of identifying the initial potential impairment. The internal valuation compares the original appraisal to current local real estate market conditions and considers experience and expected liquidation costs. A third-party valuation is typically received within thirty to forty-five days of completing the internal valuation. When a third-party valuation is received, it is reviewed for reasonableness. Once the valuation is reviewed and accepted, discounts are applied to fair market value, based on, but not limited to, our historical liquidation experience for like collateral, resulting in an estimated net realizable value. The estimated net realizable value is compared to the outstanding loan balance to determine the appropriate amount of specific impairment reserve.

Specific reserves are generally recorded for impaired loans while third-party valuations are in process and for impaired loans that continue to make some form of payment. While waiting to receive the third-party appraisal, the Company regularly reviews the relationship to identify any potential adverse developments and begins the tasks necessary to gain control of the collateral and prepare it for liquidation, including, but not limited to, engagement of counsel, inspection of collateral, and continued communication with the borrower. Generally, the only difference between the current appraised value, less liquidation costs, and the carrying amount of the loan, less the specific reserve, is any downward adjustment to the appraised value that the Company deems appropriate, such as the costs to sell the property. Impaired loans that do not meet certain criteria and do not have a specific reserve have typically been written down through partial charge-offs to net realizable value. Based on prior experience, the Company rarely returns loans to performing status after they have been partially charged off. Credits identified as impaired move quickly through the process towards ultimate resolution, except in cases involving bankruptcy and various state judicial processes that may extend the time for ultimate resolution.

Other Real Estate Owned. OREO is recorded at fair value on a nonrecurring basis using Level 3 inputs. The Company calculates the fair value of OREO from current or prior appraisals that have been adjusted for valuation declines, estimated selling costs, and other proprietary qualitative adjustments that are deemed necessary.

The following tables summarize assets measured at fair value on a nonrecurring basis, segregated by the level of valuation inputs in the fair value hierarchy, in the periods indicated:

		September 30, 2015		
	Total	**Fair Value Measurements Using**		
	Fair Value	**Level 1**	**Level 2**	**Level 3**
(Amounts in thousands)				
Impaired loans not covered by loss share agreements	$ 11,131			$ 11,131
OREO, not covered by loss share agreements	4,790			4,790
OREO, covered by loss share agreements	2,938			2,938

	December 31, 2014			
	Total Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
(Amounts in thousands)				
Impaired loans not covered by loss share agreements	$ 6,480			$ 6,480
OREO, not covered by loss share agreements	5,462			5,462
OREO, covered by loss share agreements	5,247			5,247

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Quantitative Information about Level 3 Fair Value Measurements

The following table presents quantitative information for assets measured at fair value on a nonrecurring basis using Level 3 valuation inputs in the periods indicated:

	Valuation Technique	Unobservable Input	Range (Weighted Average) September 30, 2015	December 31, 2014
Impaired loans	Discounted appraisals (1)	Appraisal adjustments (2)	6% to 41% (24%)	1% to 33% (22%)
OREO, not covered	Discounted appraisals (1)	Appraisal adjustments (2)	10% to 100% (36%)	10% to 47% (26%)
OREO, covered	Discounted appraisals (1)	Appraisal adjustments (2)	16% to 94% (47%)	10% to 52% (44%)

(1) Fair value is generally based on appraisals of the underlying collateral.
(2) Appraisals may be adjusted by management for customized discounting criteria, estimated sales costs, and proprietary qualitative adjustments.

Fair Value of Financial Instruments

The Company uses various methodologies and assumptions to estimate the fair value of certain financial instruments. A description of the valuation methodologies used for instruments not previously discussed is as follows:

Cash and Cash Equivalents. Cash and cash equivalents are reported at their carrying amount, which is considered a reasonable estimate due to the short-term nature of these instruments.

Held-to-Maturity Securities. Securities held to maturity are reported at fair value using quoted market prices or dealer quotes.

Loans Held for Sale. Loans held for sale are reported at the lower of cost or estimated fair value. Estimated fair value is based on the market price of similar loans.

FDIC Indemnification Asset. The FDIC indemnification asset is reported at fair value using discounted future cash flows that apply current discount rates.

Accrued Interest Receivable/Payable. Accrued interest receivable/payable is reported at their carrying amount, which is considered a reasonable estimate due to the short-term nature of these instruments.

Deposits and Securities Sold Under Agreements to Repurchase. Deposits without a stated maturity, such as demand, interest-bearing demand, and savings, are reported at their carrying amount, the amount payable on demand as of the reporting date, which is considered a reasonable estimate of fair value. Deposits and repurchase agreements with fixed maturities and rates are reported at fair value using discounted future cash flows that apply interest rates available in the market for instruments with similar characteristics and maturities.

FHLB and Other Borrowings. FHLB and other borrowings are reported at fair value using discounted future cash flows that apply interest rates available to the Company for borrowings with similar characteristics and maturities.

Trust preferred obligations are reported at fair value using current credit spreads in the market for similar issues.

Off-Balance Sheet Instruments. The Company believes that fair values of unfunded commitments to extend credit, standby letters of credit, and financial guarantees are not meaningful; therefore, off-balance sheet instruments are not addressed in the fair value disclosures. The Company believes it is not feasible or practical to accurately disclose the fair values of off-balance sheet instruments due to the uncertainty and difficulty in assessing the likelihood and timing of advancing available proceeds, the lack of an established market for these instruments, and the diversity in fee structures. For additional information regarding the unfunded, contractual value of off-balance sheet financial instruments, see Note 13, Litigation, Commitments and Contingencies, to the Condensed Consolidated Financial Statements of this report.

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The following tables present the carrying amount and fair value of the Company s financial instruments, segregated by the level of valuation inputs in the fair value hierarchy, as of the dates indicated:

	September 30, 2015				
	Carrying		Fair Value Measurements Using		
(Amounts in thousands)	Amount	Fair Value	Level 1	Level 2	Level 3
Assets					
Cash and cash equivalents	$ 62,024	$ 62,024	$ 62,024	$	$
Available-for-sale securities	382,212	382,212	217	381,995	
Held-to-maturity securities	72,596	73,030		73,030	
Loans held for sale	523	523		523	
Loans held for investment less allowance	1,670,347	1,705,601		5,205	1,700,396
FDIC indemnification asset	22,049	12,998			12,998
Accrued interest receivable	5,910	5,910		5,910	
Derivative financial assets	27	27		27	
Deferred compensation assets	3,425	3,425	3,425		
Liabilities					
Demand deposits	$ 442,021	$ 442,021	$	$ 442,021	$
Interest-bearing demand deposits	343,303	343,303		343,303	
Savings deposits	526,627	526,627		526,627	
Time deposits	590,952	591,757		591,757	
Securities sold under agreements to repurchase	124,076	125,089		125,089	
Accrued interest payable	1,347	1,347		1,347	
FHLB and other borrowings	80,955	85,629		85,629	
Derivative financial liabilities	345	345		345	
Deferred compensation liabilities	3,425	3,425	3,425		

	December 31, 2014				
	Carrying		Fair Value Measurements Using		
(Amounts in thousands)	Amount	Fair Value	Level 1	Level 2	Level 3
Assets					
Cash and cash equivalents	$ 237,660	$ 237,660	$ 237,660	$	$
Available-for-sale securities	326,117	326,117	221	325,896	
Held-to-maturity securities	57,948	57,889		57,889	
Loans held for sale	1,792	1,790		1,790	
Loans held for investment less allowance	1,669,189	1,738,553		3,406	1,735,147
FDIC indemnification asset	27,900	18,040			18,040
Accrued interest receivable	6,315	6,315		6,315	
Derivative financial assets	5	5		5	
Deferred compensation assets	3,380	3,380	3,380		
Liabilities					
Demand deposits	$ 417,729	$ 417,729	$	$ 417,729	$
Interest-bearing demand deposits	353,874	353,874		353,874	
Savings deposits	525,478	525,478		525,478	

Time deposits	703,678	704,590		704,590	
Securities sold under agreements to repurchase	121,742	123,114		123,114	
Accrued interest payable	1,668	1,668		1,668	
FHLB and other borrowings	107,999	116,599		116,599	
Derivative financial liabilities	214	214		214	
Deferred compensation liabilities	3,380	3,380	3,380		

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Note 13. Litigation, Commitments and Contingencies

Litigation

In the normal course of business, the Company is a defendant in various legal actions and asserted claims. While the Company and its legal counsel are unable to assess the ultimate outcome of each of these matters with certainty, the Company believes the resolution of these actions, singly or in the aggregate, should not have a material adverse effect on the financial condition, results of operations or cash flows of the Company.

Commitments and Contingencies

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit, and financial guarantees. These instruments involve, to varying degrees, elements of credit and interest rate risk beyond the amount recognized in the balance sheets. The contractual amounts of these instruments reflect the extent of involvement the Company has in particular classes of financial instruments. If the other party to a financial instrument does not perform, the Company s credit loss exposure is the same as the contractual amount of the instrument. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer s creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management s credit evaluation of the customer. Collateral may include accounts receivable, inventory, property, plant and equipment, and income producing commercial properties. Commitments to extend credit also include outstanding commitments related to mortgage loans that are sold on a best efforts basis into the secondary loan market. The Company maintains a reserve for the risk inherent in unfunded lending commitments, which is included in other liabilities in the consolidated balance sheets.

Standby letters of credit and financial guarantees are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending credit to customers. The amount of collateral obtained, if deemed necessary, to secure the customer s performance under certain letters of credit is based on management s credit evaluation of the customer.

The following table presents the Company s off-balance sheet financial instruments as of the dates indicated:

	September 30, 2015	December 31, 2014
(Amounts in thousands)		
Commitments to extend credit	$ 203,658	$ 236,471
Commitments related to secondary market mortgage loans	4,925	1,391
Standby letters of credit and financial guarantees	7,400	3,581

Total off-balance sheet risk	$	215,983	$	241,443
Reserve for unfunded commitments	$	326	$	326

The Company provided for letters of credit with the FHLB totaling $6.19 million as of September 30, 2015, and $6.18 million as of December 31, 2014. The FHLB letters of credit provide an attractive alternative to pledging securities for public unit deposits.

The Company issued $15.46 million of trust preferred securities in a private placement through the Trust. The Company has committed to irrevocably and unconditionally guarantee the following payments or distributions to holders of the trust preferred securities to the extent the Trust has not made such payments or distributions and the Company has the funds available: accrued and unpaid distributions, the redemption price, and, upon a dissolution or termination of the Trust, the lesser of the liquidation amount and all accrued and unpaid distributions and the amount of assets of the Trust remaining available for distribution.

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ITEM 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Unless the context suggests otherwise, the terms First Community, Company, we, our, and us refer to First Community Bancshares, Inc. and its subsidiaries as a consolidated entity. The following Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to help the reader understand our financial condition, changes in financial condition, and results of operations. MD&A contains forward-looking statements and should be read in conjunction with our consolidated financial statements, accompanying notes, and other financial information included in this Quarterly Report on Form 10-Q and our 2014 Annual Report on Form 10-K (the 2014 Form 10-K).

Cautionary Statement Regarding Forward-Looking Statements

We may make forward-looking statements in filings with the Securities and Exchange Commission, including this Quarterly Report on Form 10-Q and the accompanying Exhibits, filings incorporated by reference, reports to our shareholders, and other communications that we make in good faith pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements represent our beliefs, plans, objectives, goals, guidelines, expectations, anticipations, estimates, and intentions. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are based on various factors, many of which are beyond our control. The words may, could, should, would, believe, anticipate, es expect, intend, plan, and other similar expressions identify forward-looking statements. The following factors, among others, could cause our financial performance to differ materially from that expressed in such forward-looking statements:

the strength of the U.S. economy in general and the strength of the local economies in which we conduct operations;

the effects of, and changes in, trade, monetary, and fiscal policies and laws, including interest rate policies of the Federal Reserve System;

inflation, interest rate, market and monetary fluctuations;

our timely development of competitive new products and services and the acceptance of these products and services by new and existing customers;

the willingness of customers to substitute competitors products and services for our products and services and vice versa;

the impact of changes in financial services laws and regulations, including laws about taxes, banking, securities, and insurance, and the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act;

the impact of the U.S. Department of the Treasury and federal banking regulators continued implementation of programs to address capital and liquidity in the banking system;

further, future and proposed rules, including those that are part of the process outlined in the International Basel Committee on Banking Supervision s Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems, which are expected to require banking institutions to increase levels of capital;

technological changes;

the effect of acquisitions, including, without limitation, the failure to achieve the expected revenue growth and/or expense savings from such acquisitions;

the growth and profitability of our noninterest, or fee, income being less than expected;

unanticipated regulatory or judicial proceedings;

changes in consumer spending and saving habits; and

our success at managing the risks involved in the foregoing.

We caution that the foregoing list of important factors is not exclusive. If one or more of the factors affecting these forward-looking statements proves incorrect, our actual results, performance, or achievements could differ materially from those expressed in, or implied by, forward-looking statements contained in this Quarterly Report on Form 10-Q and other reports we filed with the SEC. Therefore, we caution you not to place undue reliance on our forward-looking information and statements. We do not intend to update any forward-looking statements, whether written or oral, to reflect changes. All forward-looking statements attributable to our Company are expressly qualified by these cautionary statements. See Part II, Item 1A, Risk Factors, of this report and Part I, Item 1A, Risk Factors, of our 2014 Form 10-K.

Company Overview

First Community Bancshares, Inc. (the Company) is a financial holding company, headquartered in Bluefield, Virginia, that provides commercial banking services through its wholly-owned subsidiary First Community Bank (the Bank). The Bank operates fifty-two banking locations under the name First Community Bank in West Virginia, Virginia, and North Carolina and under the trade name People s Community Bank, a Division of First Community Bank, in Tennessee. The Bank offers wealth management and investment advice through its wholly-owned subsidiary First Community Wealth Management (FCWM) and the Bank s Trust Division, which reported combined assets under management of $710 million

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as of September 30, 2015. These assets are not our assets, but are managed under various fee-based arrangements as fiduciary or agent. The Company provides insurance services through its wholly-owned subsidiary Greenpoint Insurance Group, Inc. (Greenpoint), headquartered in High Point, North Carolina, which operates eleven locations under the Greenpoint name and under the trade names First Community Insurance Services (FCIS) and Carolina Insurers Associates in North Carolina, Carr & Hyde Insurance and FCIS in Virginia, and FCIS in West Virginia. We reported total assets of $2.48 billion as of September 30, 2015. Our common stock is traded on the NASDAQ Global Select Market under the symbol, FCBC.

We fund our lending and investing activities primarily through the retail deposit operations of our branch banking network, with additional funding provided by retail and wholesale repurchase agreements and borrowings from the Federal Home Loan Bank (FHLB). We invest our funds primarily in loans to retail and commercial customers. In addition to loans, we invest a portion of our funds in various debt securities, including those of the United States and its agencies, municipals, and certain corporate notes, debt instruments, and equity securities. We also maintain overnight interest-bearing balances with the Federal Reserve and other correspondent banks. The difference between interest earned on assets and interest paid on liabilities is our primary source of earnings. Our net interest income is supplemented by fees for services, commissions on sales, and various deposit service charges.

Critical Accounting Estimates

We prepare our consolidated financial statements in accordance with generally accepted accounting principles (GAAP) in the United States and conform to general practices within the banking industry. Our financial position and results of operations require management to make judgments and estimates to develop the amounts reflected and disclosed in the consolidated financial statements. Different assumptions in the application of these estimates could result in material changes to our consolidated financial position and consolidated results of operations. Estimates, assumptions, and judgments are based on historical experience and other factors including expectations of future events believed to be reasonable under the circumstances that are periodically evaluated. These estimates are generally necessary when assets and liabilities are required to be recorded at estimated fair value, a decline in the value of an asset carried on the financial statements at fair value warrants an impairment write-down or establishment of a valuation reserve, or an asset or liability needs to be recorded based upon the probability of occurrence of a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. Fair values and information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or, when available, are provided by third-party sources. When third-party information is not available, valuation adjustments are estimated by management primarily through the use of financial modeling techniques and appraisal estimates. Our accounting policies are fundamental in understanding MD&A and the disclosures presented in the notes to consolidated statements. Our critical accounting estimates are described in detail in the Critical Accounting Estimates section in Part II, Item 7 of our 2014 Form 10-K.

Performance Overview

Highlights of our results of operations for the quarter and nine months ended September 30, 2015, and financial condition as of September 30, 2015, include the following:

- The Company s non-covered loan portfolio as of September 30, 2015, increased $33.10 million, or 2.11%, compared with December 31, 2014.

The Company prepaid $25 million in Federal Home Loan Bank convertible advances during the first nine months of 2015. The prepayment was in keeping with the Company s strategic goal of reducing high cost wholesale debt.

The Company repurchased 334,319 common shares during the third quarter, bringing total repurchased shares to 1,018,726 during the first nine months of 2015.

The Company significantly exceeds regulatory well capitalized targets as of September 30, 2015.

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Results of Operations

Net Income

The following table presents our net income and related information in the periods indicated:

	Three Months Ended September 30,		Three Months Ended		Nine Months Ended September 30,		Nine Months Ended	
	2015	2014	Increase (Decrease)	% Change	2015	2014	Increase (Decrease)	% Chang
nounts in thousands, except per share data)								
t income	$ 6,259	$ 7,043	$ (784)	-11.13%	$ 18,392	$ 19,775	$ (1,383)	-6.99
t income available to common shareholders	6,259	6,815	(556)	-8.16%	18,287	19,092	(805)	-4.22
sic earnings per common share	0.34	0.37	(0.03)	-8.11%	0.98	1.04	(0.06)	-5.77
luted earnings per common share	0.34	0.36	(0.02)	-5.56%	0.97	1.02	(0.05)	-4.90
turn on average assets	1.00%	1.06%	-0.06%	-5.66%	0.96%	0.99%	-0.03%	-3.03
turn on average common equity	7.18%	8.15%	-0.97%	-11.90%	7.07%	7.86%	-0.79%	-10.05

Three-Month Comparison. Net income decreased in the third quarter of 2015 compared to the same quarter of the prior year due to a $2.82 million increase in the provision for loan losses, a $593 thousand decrease in noninterest income, and a $346 thousand decrease in net interest income offset by a $2.45 million decrease in noninterest expense and a $525 thousand decrease in income tax. The increase in the provision was primarily due to a recovery of loan losses related to the release of specific reserves on a problem credit that experienced favorable resolution during the third quarter of 2014.

Nine-month Comparison. Net income decreased in the first nine months of 2015 compared to the same period of the prior year primarily due to a $2.53 million decrease in net interest income, a $458 thousand decrease in noninterest income, and a $1.12 million increase in the provision for loan losses offset by a $1.72 million decrease in noninterest expense and a $1.01 million decrease in income tax. The increase in the provision was primarily due to the release of specific reserves on a problem credit that experienced favorable resolution during the third quarter of 2014.

Net Interest Income

Net interest income, our largest contributor to earnings, comprised 75.39% of total net interest and noninterest income in the third quarter of 2015 compared to 74.17% in the same quarter of 2014. Net interest income comprised 74.25% of total net interest and noninterest income in the first nine months of 2015 compared to 74.60% in the same period of 2014.

Net interest income is analyzed on a fully taxable equivalent (FTE) basis, a non-GAAP financial measure. The FTE basis adjusts for the tax benefits of income from certain tax exempt loans and investments using the federal statutory rate of 35%. We believe this measure to be the preferred industry measurement of net interest income and provides better comparability between taxable and tax exempt amounts. We use this non-GAAP financial measure to monitor net interest income performance and to manage the composition of our balance sheet.

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The following tables present our average consolidated balance sheets, as of the dates indicated, and the net interest analysis, on a FTE basis, in the periods indicated:

	Three Months Ended September 30,					
	2015			2014		
(Amounts in thousands)	**Average Balance**	**Interest(1)**	**Average Yield/ Rate(1)**	**Average Balance**	**Interest(1)**	**Average Yield/ Rate(1)**
Assets						
Earning assets						
Loans(2)	$ 1,675,787	$ 22,291	5.28%	$ 1,766,769	$ 23,460	5.27%
Securities available-for-sale	382,099	2,394	2.49%	376,778	2,811	2.96%
Securities held-to-maturity	72,624	195	1.07%	24,189	73	1.20%
Interest-bearing deposits	48,750	33	0.27%	45,826	40	0.35%
Total earning assets	2,179,260	24,913	4.53%	2,213,562	26,384	4.73%
Other assets	305,331			331,771		
Total assets	$ 2,484,591			$ 2,545,333		
Liabilities						
Interest-bearing deposits						
Demand deposits	$ 335,831	$ 52	0.06%	$ 349,013	$ 49	0.06%
Savings deposits	532,445	83	0.06%	521,334	121	0.09%
Time deposits	613,598	1,249	0.81%	675,454	1,612	0.95%
Total interest-bearing deposits	1,481,874	1,384	0.37%	1,545,801	1,782	0.46%
Borrowings						
Federal funds purchased	7		0.00%	69		0.00%
Retail repurchase agreements	72,740	16	0.09%	69,565	23	0.13%
Wholesale repurchase agreements	50,000	473	3.75%	50,000	474	3.76%
FHLB advances and other borrowings	80,985	806	3.95%	142,115	1,457	4.07%
Total borrowings	203,732	1,295	2.52%	261,749	1,954	2.96%
Total interest-bearing liabilities	1,685,606	2,679	0.63%	1,807,550	3,736	0.82%
Noninterest-bearing demand deposits	433,164			371,877		
Other liabilities	20,028			18,888		
Total liabilities	2,138,798			2,198,315		
Stockholders equity	345,793			347,018		
Total liabilities and stockholders equity	$ 2,484,591			$ 2,545,333		

Net interest income, FTE	$ 22,234	$ 22,648
Net interest rate spread	3.90%	3.91%
Net interest margin	4.05%	4.06%

(1) Fully taxable equivalent (FTE) basis based on the federal statutory rate of 35%
(2) Nonaccrual loans are included in average balances; however, no related interest income is recorded during the period of nonaccrual.

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	Nine Months Ended September 30,					
	2015			2014		
(Amounts in thousands)	Average Balance	Interest[(1)]	Average Yield/ Rate[(1)]	Average Balance	Interest[(1)]	Average Yield/ Rate[(1)]
Assets						
Earning assets						
Loans[(2)]	$ 1,675,118	$ 66,107	5.28%	$ 1,744,422	$ 69,818	5.35%
Securities available-for-sale	358,690	7,225	2.69%	434,462	9,808	3.02%
Securities held-to-maturity	70,454	577	1.09%	12,858	127	1.32%
Interest-bearing deposits	125,295	246	0.26%	40,587	117	0.39%
Total earning assets	2,229,557	74,155	4.45%	2,232,329	79,870	4.78%
Other assets	311,825			337,298		
Total assets	$ 2,541,382			$ 2,569,627		
Liabilities						
Interest-bearing deposits						
Demand deposits	$ 342,639	$ 156	0.06%	$ 363,780	$ 154	0.06%
Savings deposits	532,641	289	0.07%	525,269	387	0.10%
Time deposits	655,314	4,231	0.86%	695,585	4,964	0.95%
Total interest-bearing deposits	1,530,594	4,676	0.41%	1,584,634	5,505	0.46%
Borrowings						
Federal funds purchased	2			1,192	3	0.34%
Retail repurchase agreements	70,325	53	0.10%	73,669	74	0.13%
Wholesale repurchase agreements	50,000	1,405	3.76%	50,000	1,405	3.76%
FHLB advances and other borrowings	91,305	2,713	3.97%	158,009	4,832	4.09%
Total borrowings	211,632	4,171	2.64%	282,870	6,314	2.98%
Total interest-bearing liabilities	1,742,226	8,847	0.68%	1,867,504	11,819	0.85%
Noninterest-bearing demand deposits	429,661			343,568		
Other liabilities	20,472			18,758		
Total liabilities	2,192,359			2,229,830		
Stockholders equity	349,023			339,797		
Total liabilities and stockholders equity	$ 2,541,382			$ 2,569,627		
Net interest income, FTE		$ 65,308			$ 68,051	
Net interest rate spread			3.77%			3.93%
Net interest margin			3.92%			4.08%

(1) FTE basis based on the federal statutory rate of 35%
(2) Nonaccrual loans are included in average balances; however, no related interest income is recorded during the period of nonaccrual.

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The following table presents the impact on FTE net interest income resulting from changes in volume (average volume times the prior year s average rate), rate (average rate times the prior year s average volume), and rate/volume (average volume times the change in average rate), in the periods indicated:

	Three Months Ended September 30, 2015 Compared to 2014 Dollar Increase (Decrease) due to				Nine Months Ended September 30, 2015 Compared to 2014 Dollar Increase (Decrease) due to			
(Amounts in thousands)	Volume	Rate	Rate/ Volume	Total	Volume	Rate	Rate/ Volume	Total
Interest earned on:								
Loans(1)	$ (1,208)	$ 41	$ (2)	$ (1,169)	$ (2,774)	$ (976)	$ 39	$ (3,711)
Securities available-for-sale(1)	40	(450)	(7)	(417)	(1,711)	(1,057)	185	(2,583)
Securities held-to-maturity(1)	146	(8)	(16)	122	569	(22)	(97)	450
Interest-bearing deposits with other banks	3	(9)	(1)	(7)	244	(37)	(78)	129
Total interest earning assets	(1,019)	(426)	(26)	(1,471)	(3,672)	(2,092)	49	(5,715)
Interest paid on:								
Demand deposits	(2)	5		3	(9)	12	(1)	2
Savings deposits	3	(40)	(1)	(38)	5	(102)	(1)	(98)
Time deposits	(148)	(237)	22	(363)	(287)	(473)	27	(733)
Federal funds purchased					(3)			(3)
Retail repurchase agreements	1	(8)		(7)	(3)	(18)		(21)
Wholesale repurchase agreements		(1)		(1)				
FHLB advances and other borrowings	(627)	(43)	19	(651)	(2,040)	(137)	58	(2,119)
Total interest-bearing liabilities	(773)	(324)	40	(1,057)	(2,337)	(718)	83	(2,972)
Change in net interest income(1)	$ (246)	$ (102)	$ (66)	$ (414)	$ (1,335)	$ (1,374)	$ (34)	$ (2,743)

(1) FTE basis based on the federal statutory rate of 35%

(2) Nonaccrual loans are included in average balances; however, no related interest income is recorded during the period of nonaccrual.

The following table reconciles net interest income, as presented in our consolidated statements of income, and net interest income on a FTE basis, in the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
(Amounts in thousands)				

Net interest income, GAAP	$ 21,669	$ 22,015	$ 63,578	$ 66,108
FTE adjustment[1]	565	633	1,730	1,943
Net interest income, FTE[1]	$ 22,234	$ 22,648	$ 65,308	$ 68,051

(1) The FTE basis adjusts for the tax benefits of income from certain tax exempt loans and investments using the federal statutory rate of 35%.

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The interest and the average yield on loans include accretion income from acquired loan portfolios. The following tables present our average consolidated balance sheets, as of the dates indicated, and net interest analysis, on a FTE basis excluding the impact of non-cash purchase accounting accretion, in the periods indicated:

	Three Months Ended September 30,			
	2015		2014	
(Amounts in thousands)	Interest[(1)]	Average Yield/ Rate[(1)]	Interest[(1)]	Average Yield/ Rate[(1)]
Earning assets				
Loans[(2)]	$ 22,291	5.28%	$ 23,460	5.27%
Accretion income	2,930		2,813	
Less: cash accretion income	903		1,367	
Non-cash accretion income	2,027		1,446	
Loans, excluding non-cash accretion	20,264	4.80%	22,014	4.94%
Other earning assets	2,622	2.07%	2,924	2.60%
Total earning assets	22,886	4.17%	24,938	4.47%
Total interest-bearing liabilities	2,679	0.63%	3,736	0.82%
Net interest income, tax equivalent	$ 20,207		$ 21,202	
Net interest rate spread, less non-cash accretion		3.54%		3.65%
Net interest margin, less non-cash accretion		3.68%		3.80%

(1) FTE basis based on the federal statutory rate of 35%

(2) Nonaccrual loans are included in average balances; however, no related interest income is recorded during the period of nonaccrual.

	Nine Months Ended September 30,			
	2015		2014	
(Amounts in thousands)	Interest[(1)]	Average Yield/ Rate[(1)]	Interest[(1)]	Average Yield/ Rate[(1)]
Earning assets				
Loans[(2)]	$ 66,107	5.28%	$ 69,818	5.35%
Accretion income	8,765		8,724	
Less: cash accretion income	3,326		3,214	
Non-cash accretion income	5,439		5,510	

Loans, excluding non-cash accretion	60,668	4.84%	64,308	4.93%
Other earning assets	8,048	1.94%	10,052	2.75%
Total earning assets	68,716	4.12%	74,360	4.45%
Total interest-bearing liabilities	8,847	0.68%	11,819	0.85%
Net interest income, tax equivalent	$ 59,869		$ 62,541	
Net interest rate spread, less non-cash accretion		3.44%		3.60%
Net interest margin, less non-cash accretion		3.59%		3.75%

(1) FTE basis based on the federal statutory rate of 35%
(2) Nonaccrual loans are included in average balances; however, no related interest income is recorded during the period of nonaccrual.

Three-Month Comparison. Net interest income under GAAP decreased $346 thousand or 1.57%, and net interest income on a FTE basis decreased $414 thousand, or 1.83%, in the third quarter of 2015 compared to the same quarter of the prior year. Changes in the average balances of and yields/rates on earning assets and interest-bearing liabilities resulted in a one basis point decrease in the net interest rate spread and a one basis point decrease in the net interest margin.

Loan interest accretion totaled $2.93 million in the third quarter of 2015, of which $903 thousand was received in cash, compared to $2.81 million in the same quarter of the prior year, of which $1.37 million was received in cash. Excluding non-cash accretion income, the yield on loans decreased 14 basis points, compared to an increase of one basis point under GAAP. Excluding non-cash accretion income, the net interest margin decreased 12 basis points compared to a decrease of one basis point under GAAP. We expect the purchase accounting interest accretion to continue to decline in future periods due to acquired portfolio attrition.

Average earning assets decreased $34.30 million, or 1.55%, in the third quarter of 2015 compared to the same quarter of the prior year primarily due to decreases in the average covered loan portfolio. The yield on earning assets decreased 20 basis points, which was largely due to decreases in the average balance of the loan portfolio and average yield of available-for-sale securities. Interest-bearing deposits with banks are primarily comprised of excess liquidity kept at the FRB of Richmond bearing overnight market rates.

As of September 30, 2015, interest-bearing liabilities included interest-bearing deposits; retail repurchase agreements, consisting of collateralized retail deposits and commercial treasury accounts; wholesale repurchase agreements; FHLB advances; and other borrowings. Average interest-bearing liabilities decreased $121.94 million, or 6.75%, in the third quarter of 2015 compared to the same quarter of the prior year, primarily due to the prepayment of FHLB advances and the decline in average interest-bearing demand and time deposit balances. The yield on interest-bearing liabilities decreased 19 basis points, which was largely due to a 44 basis point decrease in the rate on borrowings. Average interest-bearing deposits decreased $63.93 million, or 4.14%, which was driven by a $61.86 million, or 9.16%, decrease in average time deposits and a $13.18 million, or 3.78%, decrease in interest-bearing demand deposits offset by a $11.11 million, or 2.13%, increase in savings deposits, which include money market and savings accounts. Average borrowings decreased $58.02 million, or 22.17%, which was driven by a $61.13 million, or 43.01%, decrease in FHLB and other borrowings.

Nine-month Comparison. Net interest income under GAAP decreased $2.53 million, or 3.83%, and FTE net interest income decreased $2.74 million, or 4.03%, in the first nine months of 2015 compared to the same period of the prior year. Changes in the average balances of and yields/rates on earning assets and interest-bearing liabilities resulted in a 16 basis point decrease in the net interest rate spread and a 16 basis point decrease in the net interest margin.

Loan interest accretion totaled $8.77 million in the first nine months of 2015, of which $3.33 million was received in cash, compared to $8.72 million in the same period of the prior year, of which $3.21 million was received in cash. Excluding non-cash accretion income, the yield on loans decreased 9 basis points, compared to a decrease of 7 basis points under GAAP. Excluding non-cash accretion income, the net interest margin decreased 16 basis points compared to a decrease of 16 basis points under GAAP. We expect the purchase accounting interest accretion to continue to decline in future periods due to acquired portfolio attrition.

Average earning assets decreased $2.77 million, or 0.12%, in the first nine months of 2015 compared to the same period of the prior year primarily due to increases in interest-bearing deposits held with other financial institutions and securities held to maturity. The yield on earning assets decreased 33 basis points, which was largely due to a decrease in the average balance and yield of available-for-sale securities and loans. During the first six months of 2015, we purchased low-yield, short-term bonds in the held-to-maturity category to provide for the funding necessary to extinguish certain wholesale borrowings as they come due and invested excess liquidity on a short-term basis. Interest-bearing deposits with banks are primarily comprised of excess liquidity kept at the FRB of Richmond bearing overnight market rates.

Average interest-bearing liabilities decreased $125.28 million, or 6.71%, in the first nine months of 2015 compared to the same period of the prior year, primarily due to the prepayment of FHLB advances and the decline in average interest-bearing demand and time deposit balances. The yield on interest-bearing liabilities decreased 17 basis points, which was largely due to a 34 basis point decrease in the rate on borrowings. Average interest-bearing deposits decreased $54.04 million, or 3.41%, which was driven by a $40.27 million, or 5.79%, decrease in average time deposits and a $21.14 million, or 5.81%, decrease in interest-bearing demand deposits offset by a $7.37 million, or 1.40%, increase in savings deposits, which include money market and savings accounts. Average borrowings decreased $71.24 million, or 25.18%, which was driven by a $66.70 million, or 42.22%, decrease in FHLB and other borrowings.

Provision for Loan Losses

Three-Month Comparison. The provision for loan losses is added to the allowance for loan losses after net charge-offs have been deducted to bring the allowance to a level management determines necessary to absorb probable losses in the existing loan portfolio. The provision charged to operations increased $2.82 million to $381 thousand in the third quarter of 2015 compared to a recovery of $2.44 million in the same quarter of the prior year. The recovery was primarily due to the release of specific reserves on a problem credit that experienced favorable resolution during the third quarter of 2014. The PCI loan portfolio realized a recovery of $94 thousand in the third quarter of 2015, resulting in a $75 thousand recovery recorded through the FDIC indemnification asset to reflect the indemnified portion of the post-acquisition exposure and a $19 thousand provision charged to operations. See Allowance for Loan Losses in the Financial Condition section below.

Nine-month Comparison. The provision charged to operations increased $1.12 million to $1.76 million in the first nine months of 2015 compared to the same period of the prior year. The increase was primarily due to the release of specific reserves on a problem credit that experienced favorable resolution during the third quarter of 2014. The PCI loan portfolio realized a recovery of $38 thousand in the first nine months of 2015, resulting in a $29 thousand recovery recorded through the FDIC indemnification asset to reflect the indemnified portion of the post-acquisition exposure and a $9 thousand recovery charged to operations.

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Noninterest Income

Noninterest income consists of all revenues not included in interest and fee income related to earning assets. Noninterest income comprised 24.61% of total net interest and noninterest income in the third quarter of 2015 compared to 25.83% in the same quarter of the prior year. Noninterest income comprised 25.75% of total net interest and noninterest income in the first nine months of 2015 compared to 25.40% in the same period of the prior year. The following table presents the components of, and changes in, noninterest income in the periods indicated:

	Three Months Ended September 30,		Three Months Ended		Nine Months Ended September 30,		Nine Months Ended	
	2015	2014	Increase (Decrease)	% Change	2015	2014	Increase (Decrease)	% Change
(Amounts in thousands)								
Wealth management	$ 790	$ 670	$ 120	17.91%	$ 2,231	$ 2,396	$ (165)	-6.89%
Service charges on deposit accounts	3,744	3,606	138	3.83%	10,154	10,099	55	0.54%
Other service charges and fees	1,974	1,852	122	6.59%	5,987	5,473	514	9.39%
Insurance commissions	1,650	1,695	(45)	-2.65%	5,336	5,113	223	4.36%
Net impairment loss		(219)	219	-100.00%		(737)	737	-100.00%
Net (loss) gain on sale of securities	(39)	320	(359)	-112.19%	151	306	(155)	-50.65%
Net FDIC indemnification asset amortization	(1,768)	(1,096)	(672)	61.31%	(5,179)	(3,166)	(2,013)	63.58%
Other operating income	723	839	(116)	-13.83%	3,367	3,021	346	11.45%
Noninterest income	$ 7,074	$ 7,667	$ (593)	-7.73%	$ 22,047	$ 22,505	$ (458)	-2.04%

Three-Month Comparison. Noninterest income decreased $593 thousand, or 7.73%, in the third quarter of 2015 compared to the same quarter of the prior year. Wealth management revenues, which include fees and commissions for trust and investment advisory services, increased for the Trust Division and FCWM. Service charges on deposit accounts and other service charges and fees increased primarily from an increase in monthly service charges on checking accounts and debit card income. Insurance commissions decreased largely due to a decrease in fees. In the third quarter of 2015, we realized a net loss of $39 thousand on the sale of securities. See Note 2, Investment Securities, to the Condensed Consolidated Financial Statements in Item 1 of this report. We recorded net negative amortization related to the FDIC indemnification asset of $1.77 million as a result of improved loss estimates and payoffs in the covered Waccamaw loan portfolio. Other operating income decreased primarily due to a $57 thousand decrease in income from bank owned life insurance policies.

Excluding the impact from OTTI charges, the sale of securities, the net amortization on the FDIC indemnification asset, and death benefits from bank owned life insurance policies, noninterest income increased $219 thousand, or 2.53%, to $8.88 million in the third quarter of 2015, compared with $8.66 million in the same quarter of the prior year.

Nine-month Comparison. Noninterest income decreased $458 thousand, or 2.04%, in the first nine months of 2015 compared to the same period of the prior year. Wealth management revenues decreased as a result of higher estate settlement fees earned in the same period of the prior year. Service charges on deposit accounts and other service charges and fees increased primarily from an increase in monthly service charges on checking accounts and debit card income, offset by a decrease in insufficient fee income. Insurance commissions increased largely due to an increase in property and casualty premium commissions and contingency profit-sharing revenue income. In the first nine months of 2015, we realized a net gain of $151 thousand on the sale of securities. See Note 2, Investment Securities, to the Condensed Consolidated Financial Statements in Item 1 of this report. We recorded net negative amortization related to the FDIC indemnification asset of $5.18 million as a result of improved loss estimates and payoffs in the covered Waccamaw loan portfolio. Other operating income increased primarily due to a $1.14 million after tax death benefit from the maturity of a bank owned life insurance policy offset by a $536 thousand bank owned life insurance benefit recognized in the same period of the prior year.

Excluding the impact from OTTI charges, the sale of securities, the net amortization on the FDIC indemnification asset, and death benefits from bank owned life insurance policies, noninterest income decreased $1.65 million, or 7.35%, to $20.75 million in the first nine months of 2015, compared with $22.40 million in the same period of the prior year.

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Noninterest Expense

The following table presents the components of, and changes in, noninterest expense in the periods indicated:

	Three Months Ended September 30,		Three Months Ended		Nine Months Ended September 30,		Nine Months Ended	
	2015	2014	Increase (Decrease)	% Change	2015	2014	Increase (Decrease)	% Change
(Amounts in thousands)								
Salaries and employee benefits	$ 9,971	$ 9,924	$ 47	0.47%	$ 29,357	$ 29,872	$ (515)	-1.72%
Occupancy of bank premises	1,443	1,469	(26)	-1.77%	4,404	4,825	(421)	-8.73%
Furniture and equipment	1,259	1,212	47	3.88%	3,854	3,611	243	6.73%
Amortization of intangible assets	281	179	102	56.98%	837	532	305	57.33%
FDIC premiums and assessments	377	419	(42)	-10.02%	1,181	1,311	(130)	-9.92%
FHLB debt prepayment		3,047	(3,047)		1,702	3,047	(1,345)	
Merger, acquisition, and divestiture		285	(285)		86	285	(199)	
Other operating expense	5,688	4,934	754	15.28%	15,667	15,329	338	2.20%
Total noninterest expense	$ 19,019	$ 21,469	$ (2,450)	-11.41%	$ 57,088	$ 58,812	$ (1,724)	-2.93%

Three-Month Comparison. Noninterest expense decreased $2.45 million, or 11.41%, in the third quarter of 2015 compared to the same quarter of the prior year. Full-time equivalent employees, calculated using the number of hours worked, decreased to 677 as of September 30, 2015, from 691 as of September 30, 2014. The reduction in full-time equivalent employees was primarily due to net branch divestiture activity that occurred during the fourth quarter of 2014. Occupancy, furniture, and equipment expense remained relatively stable in the third quarter of 2015 compared to the same quarter of the prior year. The increase in other operating expense included an increase in the net loss on sales and expenses related to OREO of $641 thousand to $1.22 million in the third quarter of 2015 compared to $579 thousand in the same quarter of the prior year.

Nine-month Comparison. Noninterest expense decreased $1.72 million, or 2.93%, in the first nine months of 2015 compared to the same period of the prior year. Occupancy, furniture, and equipment expense decreased $178 thousand, or 2.11%, in the first nine months of 2015, which was primarily due to the branch divestiture activity that occurred during the fourth quarter of 2014. Acquisition and divestiture expense totaled $86 thousand in the first nine months of 2015, which was related to branch acquisition and divestiture activity that occurred in the fourth quarter of 2014. We prepaid $25 million of a FHLB convertible advance with a May 2017 maturity and 4.15% interest rate during the second quarter of 2015, which resulted in a prepayment penalty of $1.70 million. The increase in other operating expense included a $213 thousand branch property write-down offset by a $248 thousand decrease in expenses related to employee benefit plans. Other operating expenses also included an increase in the net loss on sales and expenses related to OREO of $273 thousand to $1.96 million in the first nine months of 2015 compared to $1.69 million in the same period of the prior year.

Income Tax Expense

Income tax as a percentage of pretax income may vary significantly from statutory rates due to permanent differences, which are items of income and expense excluded by law from the calculation of taxable income. Our most significant permanent differences generally include interest income on municipal securities and increases in the cash surrender value of officers life insurance policies, which are both exempt from federal income tax. Income tax expense decreased $525 thousand, or 14.55%, and the effective rate decreased 87 basis points to 33.01% in the third quarter of 2015 compared to the same quarter of the prior year. The decrease in the effective tax rate was largely due to a decrease in taxable revenues as a percent of net earnings. Income tax expense decreased $1.01 million, or 10.70%, and the effective rate decreased 89 basis points to 31.31% in the first nine months of 2015 compared to the same period of the prior year. The decrease in the effective tax rate was largely due to the tax exempt nature of the death benefit received.

Financial Condition

Total assets were $2.48 billion as of September 30, 2015, a decrease of $129.82 million, or 4.98%, compared with $2.61 billion as of December 31, 2014. Total liabilities were $2.13 billion as of September 30, 2015, a decrease of $123.27 million, or 5.46%, compared with $2.26 billion as of December 31, 2014. Our book value per common share was $18.83 as of September 30, 2015, an increase of $0.77, or 4.26%, compared with $18.06 as of December 31, 2014.

Cash and Cash Equivalents

Cash and cash equivalents as of September 30, 2015, decreased $175.64 million, or 73.90%, compared to December 31, 2014. The decrease was primarily due to the deployment of liquidity to redeem our convertible preferred shares, repurchase common stock, purchase investment securities to provide the funding necessary to extinguish certain borrowings as they come due, and establish a short-term investment portfolio.

Investment Securities

Available-for-sale securities as of September 30, 2015, decreased $56.10 million, or 17.20%, compared to December 31, 2014. The market value of securities available for sale as a percentage of amortized cost was 98.97% as of September 30, 2015, compared to 97.95% as of December 31, 2014. Held-to-maturity securities as of September 30, 2015, increased $14.65 million, or 25.28%, compared to December 31, 2014, due to the purchase of low-yield, short-term bonds to provide funding to extinguish certain wholesale borrowings when due. Investment securities classified as held to maturity are comprised primarily of U.S. Agency securities and high grade municipal bonds. The market value of securities held to maturity as a percentage of amortized cost was 100.60% as of September 30, 2015, compared with 99.90% as of December 31, 2014.

Investment securities are reviewed quarterly for possible OTTI. We recognized no credit-related OTTI charges in earnings associated with debt securities beneficially owned for the three months ended September 30, 2015, compared to $219 thousand for the same period of 2014. We recongnized no credit-related OTTI charges in earnings associated with debt securities beneficially owned for the nine months ended September 30, 2015, compared to $705 thousand for the same period of 2014. These charges were related to a non-Agency mortgage-backed security that was sold in November 2014. We recognized no OTTI charges in earnings associated with equity securities for the three months ended September 30, 2015 or September 30, 2014. We recognized no OTTI charges in earnings associated with equity securities for the nine months ended September 30, 2015, compared to $32 thousand for the nine months ended September 30, 2014. See Note 2, Investment Securities, to the Condensed Consolidated Financial Statements in Item 1 of this report.

Loans Held for Sale

Loans held for sale as of September 30, 2015, decreased $1.27 million, or 70.81%, compared to September 30, 2014. Loans held for sale consist of mortgage loans sold on a best efforts basis into the secondary loan market; accordingly, we do not retain the interest rate risk involved in these long-term commitments. The gross notional amount of outstanding commitments to originate mortgage loans in the secondary market totaled $4.92 million for 27 commitments as of September 30, 2015, and $1.39 million for 9 commitments as of December 31, 2014.

Loans Held for Investment

Our 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. Loans held for investment as of September 30, 2015, increased $1.06 million, or 0.06%, compared to December 31, 2014. The non-covered loan portfolio increased $33.10 million, or 2.11%, compared to December 31, 2014. The increase was primarily due to increased loan demand throughout all segments of the loan portfolio. The covered loan portfolio as of September 30, 2015, decreased $32.04 million, or 26.21%, compared to December 31, 2014, due to continued runoff in the covered Waccamaw portfolio. The average loan to deposit ratio was 85.45% for the nine months ended September 30, 2015, compared to 90.47% for the same period of 2014. See Note 3, Loans, to the Condensed Consolidated Financial

Statements in Item 1 of this report.

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The following table presents loans, net of unearned income with non-covered loans disaggregated by class, as of the periods indicated:

(Amounts in thousands)	September 30, 2015 Amount	September 30, 2015 Percent	December 31, 2014 Amount	December 31, 2014 Percent	September 30, 2014 Amount	September 30, 2014 Percent
Non-covered loans held for investment						
Commercial loans						
Construction, development, and other land	$ 45,930	2.72%	$ 41,271	2.44%	$ 42,775	2.43%
Commercial and industrial	85,319	5.05%	83,099	4.92%	88,709	5.03%
Multi-family residential	93,356	5.52%	97,480	5.77%	99,812	5.66%
Single family non-owner occupied	144,725	8.56%	135,171	8.00%	143,904	8.16%
Non-farm, non-residential	479,297	28.35%	473,906	28.05%	491,933	27.91%
Agricultural	2,414	0.14%	1,599	0.09%	2,149	0.12%
Farmland	27,135	1.61%	29,517	1.75%	31,938	1.81%
Total commercial loans	878,176	51.95%	862,043	51.02%	901,220	51.12%
Consumer real estate loans						
Home equity lines	107,655	6.37%	110,957	6.57%	112,863	6.40%
Single family owner occupied	492,157	29.11%	485,475	28.74%	498,523	28.28%
Owner occupied construction	40,141	2.37%	32,799	1.94%	45,015	2.56%
Total consumer real estate loans	639,953	37.85%	629,231	37.25%	656,401	37.24%
Consumer and other loans						
Consumer loans	75,084	4.44%	69,347	4.10%	71,252	4.04%
Other	7,058	0.42%	6,555	0.39%	7,308	0.42%
Total consumer and other loans	82,142	4.86%	75,902	4.49%	78,560	4.46%
Non-covered loans held for investment	1,600,271	94.66%	1,567,176	92.76%	1,636,181	92.82%
Covered loans	90,203	5.34%	122,240	7.24%	126,611	7.18%
Total loans held for investment	1,690,474	100.00%	1,689,416	100.00%	1,762,792	100.00%
Allowance for loan losses	20,127		20,227		21,159	
Total loans held for investment, less allowance	$ 1,670,347		$ 1,669,189		$ 1,741,633	
Loans held for sale	$ 523		$ 1,792		$ 1,150	

The following table presents covered loans disaggregated by class as of the periods indicated:

(Amounts in thousands)	September 30, 2015	December 31, 2014	September 30, 2014
Covered loans held for investment			

Commercial loans			
Construction, development, and other land	$ 7,573	$ 13,100	$ 13,184
Commercial and industrial	1,326	2,662	2,646
Multi-family residential	699	1,584	1,612
Single family non-owner occupied	2,899	5,918	6,212
Non-farm, non-residential	15,712	25,317	26,238
Agricultural	35	43	151
Farmland	656	716	729
Total commercial loans	28,900	49,340	50,772
Consumer real estate loans			
Home equity lines	51,205	60,391	62,772
Single family owner occupied	9,736	11,968	12,504
Owner occupied construction	278	453	466
Total consumer real estate loans	61,219	72,812	75,742
Consumer and other loans			
Consumer loans	84	88	97
Covered loans held for investment	$ 90,203	$ 122,240	$ 126,611

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Risk Elements

Nonperforming assets consist of loans accounted for on a nonaccrual basis, accruing loans contractually past due 90 days or more, unseasoned troubled debt restructurings (TDRs), and OREO. Loans acquired with credit deterioration, with a discount, continue to accrue interest based on expected cash flows; therefore, PCI loans are not generally considered nonaccrual. See Note 4, Credit Quality, to the Condensed Consolidated Financial Statements in Item 1 of this report. The following table summarizes the components of nonperforming assets and presents additional details for nonperforming and restructured loans as of the periods indicated:

(Amounts in thousands)	September 30, 2015	December 31, 2014	September 30, 2014
Non-covered nonperforming			
Nonaccrual loans	$ 17,100	$ 10,556	$ 11,480
Accruing loans past due 90 days or more	3		
TDRs(1)	74	2,726	3,450
Total nonperforming loans	17,177	13,282	14,930
Non-covered OREO	5,088	6,638	5,612
Total nonperforming assets	$ 22,265	$ 19,920	$ 20,542
Covered nonperforming			
Nonaccrual loans	$ 815	$ 2,438	$ 1,131
Accruing loans past due 90 days or more			
Total nonperforming loans	815	2,438	1,131
Covered OREO	4,079	6,324	7,620
Total nonperforming assets	$ 4,894	$ 8,762	$ 8,751
Total nonperforming			
Nonaccrual loans	$ 17,915	$ 12,994	$ 12,611
Accruing loans past due 90 days or more	3		
TDRs(1)	74	2,726	3,450
Total nonperforming loans	17,992	15,720	16,061
OREO	9,167	12,962	13,232
Total nonperforming assets	$ 27,159	$ 28,682	$ 29,293
Additional Information			
Performing TDRs(2)	$ 13,965	$ 11,808	$ 11,701
Total TDRs(3)	14,039	14,534	15,151

Non-covered ratios			
Nonperforming loans to total loans	1.07%	0.85%	0.91%
Nonperforming assets to total assets	0.93%	0.80%	0.85%
Non-PCI allowance to nonperforming loans	117.06%	151.85%	140.35%
Non-PCI allowance to total loans	1.26%	1.29%	1.28%
Total ratios			
Nonperforming loans to total loans	1.06%	0.93%	0.91%
Nonperforming assets to total assets	1.10%	1.10%	1.15%
Allowance for loan losses to nonperforming loans	111.87%	128.67%	131.74%
Allowance for loan losses to total loans	1.19%	1.20%	1.20%

(1) TDRs not performing or restructured within the past six months, excludes nonaccrual TDRs of $485 thousand, $306 thousand and $306 thousand for the periods ended September 30, 2015, December 31, 2014, and September 30, 2014, respectively.

(2) TDRs with six months or more of satisfactory payment performance, excludes nonaccrual TDRs of $338 thousand, $248 thousand, and $179 thousand for the periods ended September 30, 2015, December 31, 2014, and September 30, 2014, respectively.

(3) Perfoming and nonperforming TDRs, excludes nonaccrual TDRs of $823 thousand, $554 thousand, and $485 thousand for the periods ended September 30, 2015, December 31, 2014, and September 30, 2014, respectively.

Ongoing activity in the classification and categories of nonperforming loans include collections on delinquencies, foreclosures, loan restructurings, and movements into or out of the nonperforming classification as a result of changing economic conditions, borrower financial capacity, or resolution efforts. Non-covered accruing loans contractually past due 90 days or more totaled $3 thousand as of September 30, 2015. There were no non-covered accruing loans contractually past due 90 days or more as of December 31, 2014, or September 30, 2014. There were no covered accruing loans contractually past due 90 days or more as of September 30, 2015, December 31, 2014, or September 30, 2014.

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Non-covered nonaccrual loans as of September 30, 2015, increased $6.54 million, or 61.99%, from December 31, 2014, and $5.62 million, or 48.95%, from September 30, 2014. As of September 30, 2015, non-covered nonaccrual loans were largely attributed to the following loan classes: single family owner occupied (41.51%) and non-farm, non-residential (40.19%). As of September 30, 2015, approximately $191 thousand, or 1.12%, of non-covered nonaccrual loans were attributed to performing loans acquired in business combinations. Certain loans included in the nonaccrual category have been written down to estimated realizable value or assigned specific reserves in the allowance for loan losses based upon management s estimate of loss at ultimate resolution.

When restructuring loans for borrowers experiencing financial difficulty, we generally make concessions in interest rates, loan terms, and/or amortization terms. Certain TDRs are classified as nonperforming at time of restructuring and are returned to performing status after six months of satisfactory payment performance; however, these loans remain identified as impaired until full payment or other satisfaction of the obligation occurs. Accruing TDRs as of September 30, 2015, decreased $495 thousand, or 3.41%, from December 31, 2014, and $1.11 million, or 7.34%, from September 30, 2014. Nonperforming accruing TDRs totaled $74 thousand, or 0.53% of total accruing TDRs as of September 30, 2015, compared to $2.73 million, or 18.76% of total accruing TDRs, as of December 31, 2014, and $3.45 million, or 22.77% of total accruing TDRs, as of September 30, 2014. The allowance for loan losses attributed to TDRs totaled $641 thousand as of September 30, 2015, $475 thousand as of December 31, 2014, and $653 thousand as of September 30, 2014.

Non-covered delinquent loans, comprised of loans 30 days or more past due and nonaccrual loans, totaled $22.97 million as of September 30, 2015, an increase of $986 thousand, or 4.49%, compared with December 31, 2014, and an increase of $2.02 million, or 9.66%, compared with September 30, 2014. Non-covered delinquent loans as a percentage of total non-covered loans measured 1.44% as of September 30, 2015, which is attributed to loans 30 days or more past due of 0.37% and nonaccrual loans of 1.07%. Non-covered nonperforming loans, comprised of nonaccrual loans and nonperforming and unseasoned TDRs, as a percentage of total non-covered loans were 1.07% as of September 30, 2015, 0.85% at December 31, 2014, and 0.91% at September 30, 2014.

Non-covered OREO, which is carried at the lesser of estimated net realizable value or cost, decreased $1.55 million, or 23.35%, as of September 30, 2015, compared with December 31, 2014, and decreased $524 thousand, or 9.34%, as of September 30, 2014. As of September 30, 2015, non-covered OREO consisted of 50 properties with an average holding period of 11 months. The net loss on the sale of OREO totaled $1.08 million in the third quarter of 2015 compared to $422 thousand in the same quarter of the prior year. The net loss on the sale of OREO totaled $1.50 million in the first nine months of 2015 compared to $1.20 million in the same period of the prior year. The following table details activity within OREO for the periods indicated:

	Nine Months Ended September 30,					
	2015			**2014**		
	Non-covered	**Covered**	**Total**	**Non-covered**	**Covered**	**Total**
(Amounts in thousands)						
Beginning balance	$ 6,638	$ 6,324	$ 12,962	$ 7,318	$ 7,541	$ 14,859
Additions	2,479	1,660	4,139	3,111	6,509	9,620
Disposals	(3,189)	(2,994)	(6,183)	(4,016)	(4,839)	(8,855)
Valuation adjustments	(840)	(911)	(1,751)	(801)	(1,591)	(2,392)
Ending balance	$ 5,088	$ 4,079	$ 9,167	$ 5,612	$ 7,620	$ 13,232

Non-covered nonperforming assets as of September 30, 2015, increased $2.35 million, or 11.77%, from December 31, 2014, and $1.72 million, or 8.39%, from September 30, 2014. Non-covered nonperforming assets as a percentage of total non-covered assets were 0.93% as of September 30, 2015, 0.80% as of December 31, 2014, and 0.85% as of September 30, 2014.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level management deems sufficient to absorb probable loan losses inherent in the loan portfolio. The allowance is increased by charges to earnings in the form of provisions and recoveries of prior loan charge-offs and decreased by loans charged off. The provision for loan losses is calculated and charged to expense to bring the allowance to an appropriate level using a systematic process of measurement that requires significant judgments and estimates.

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Management performs quarterly assessments to determine the appropriate level of the allowance for loan losses. The allowance for loan losses includes specific allocations to significant individual loans and credit relationships and general reserves to the remaining loans that have been deemed impaired. Loans not specifically identified are grouped into pools based on similar risk characteristics. Management s general reserve allocations are based on judgments of qualitative and quantitative factors about macro and micro economic conditions reflected in the loan portfolio and the economy. For loans acquired in business combinations, a provision is recorded for any credit deterioration after the acquisition. Loans identified with credit impairment at acquisition are grouped into pools and evaluated separately from the non-PCI portfolio. The provision calculated for PCI loans is offset by an adjustment to the FDIC indemnification asset to reflect the indemnified portion of the post-acquisition exposure. See Critical Accounting Estimates above, as well as Significant Accounting Policies in Note 1, General, and Note 5, Allowance for Loan Losses, to the Condensed Consolidated Financial Statements in Item 1 of this report.

Our allowance for loan losses as of September 30, 2015, decreased $100 thousand, or 0.49%, compared with December 31, 2014, and decreased $1.03 million, or 4.88%, compared with September 30, 2014. The allowance attributed to the non-PCI loan portfolio as a percentage of non-covered loans held for investment was 1.26% as of September 30, 2015, 1.29% at December 31, 2014, and 1.28% at September 30, 2014. The cash flow analysis identified two of our six open PCI loan pools as impaired as of September 30, 2015, compared to two of seven PCI loan pools at December 31, 2014, and one of seven loan pools at September 30, 2014. The allowance attributed to the PCI loan portfolio totaled $20 thousand as of September 30, 2015, $58 thousand as of December 31, 2014, and $418 thousand as of September 30, 2014. During the third quarter of 2015, a recovery of $75 thousand was recorded through the FDIC indemnification asset to reflect the indemnified portion of the post-acquisition exposure, compared to $29 thousand during the first nine months of 2015. As of September 30, 2015, management considered the allowance to be adequate based upon analysis of the portfolio; however, no assurance can be made that additions to the allowance will not be required in future periods.

Our qualitative risk factors continue to reflect a reduced risk of loan losses due to improvements in general economic conditions and asset quality metrics offset by an increased risk of loan losses due to credit concentrations. Net charge-offs increased $234 thousand in the third quarter of 2015 compared to the same quarter of the prior year and decreased $1.27 million, or 41.03%, in the first nine months of 2015 compared to the same period of the prior year. The portfolio continues to be monitored for deterioration in credit, which may result in the need to increase the allowance for loan losses in future periods.

The following tables present activity in our allowance for loan losses for the periods indicated:

	Three Months Ended September 30,					
	2015			**2014**		
(Amounts in thousands)	**Non-PCI Portfolio**	**PCI Portfolio**	**Total**	**Non-PCI Portfolio**	**PCI Portfolio**	**Total**
Beginning balance	$ 20,144	$ 114	$ 20,258	$ 23,493	$ 418	$ 23,911
Provision for (recovery of) loan losses	400	(94)	306	(2,335)	(214)	(2,549)
Benefit attributable to the FDIC indemnification asset		75	75		110	110
Provision for (recovery of) loan losses charged to operations	400	(19)	381	(2,335)	(104)	(2,439)

Provision for (recovery of) loan losses recorded through the FDIC indemnification asset		(75)	(75)		(110)	(110)
Charge-offs	(689)		(689)	(1,118)		(1,118)
Recoveries	252		252	915		915
Net charge-offs	(437)		(437)	(203)		(203)
Ending balance	$ 20,107	$ 20	$ 20,127	$ 20,955	$ 204	$ 21,159

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	Nine Months Ended September 30, 2015			Nine Months Ended September 30, 2014		
(Amounts in thousands)	Non-PCI Portfolio	PCI Portfolio	Total	Non-PCI Portfolio	PCI Portfolio	Total
Beginning balance	$ 20,169	$ 58	$ 20,227	$ 23,322	$ 755	$ 24,077
Provision for (recovery of) loan losses	1,766	(38)	1,728	733	(551)	182
Benefit attributable to the FDIC indemnification asset		29	29		451	451
Provision for loan losses charged to operations	1,766	(9)	1,757	733	(100)	633
Provision for (recovery of) loan losses recorded through the FDIC indemnification asset		(29)	(29)		(451)	(451)
Charge-offs	(2,940)		(2,940)	(5,119)		(5,119)
Recoveries	1,112		1,112	2,019		2,019
Net charge-offs	(1,828)		(1,828)	(3,100)		(3,100)
Ending balance	$ 20,107	$ 20	$ 20,127	$ 20,955	$ 204	$ 21,159

Deposits

Total deposits as of September 30, 2015, decreased $97.86 million, or 4.89%, compared to December 31, 2014. Interest-bearing demand deposits decreased $10.57 million and time deposits decreased $112.73 million as of September 30, 2015, compared to December 31, 2014. Noninterest-bearing demand deposits increased $24.29 million and savings deposits, which include money market and savings accounts, increased $1.15 million as of September 30, 2015, compared to December 31, 2014.

Borrowings

Total borrowings as of September 30, 2015, decreased $24.71 million, or 10.76%, compared to December 31, 2014. Short-term borrowings consist of retail repurchase agreements. The balance of retail repurchase agreements increased $2.33 million, or 1.92%, as of September 30, 2015, compared to December 31, 2014. Securities underlying retail repurchase agreements remain under our control during the terms of the agreements. Long-term borrowings consist of wholesale repurchase agreements; FHLB borrowings, including convertible and callable advances; and other obligations. The balance and weighted average rate of wholesale repurchase agreements remained constant at $50.00 million and 3.71%, respectively, as of September 30, 2015, compared to December 31, 2014. As of September 30, 2015, wholesale repurchase agreements had contractual maturities between one and four years. The balance of FHLB borrowings decreased $25.00 million, or 27.78%, as of September 30, 2015, compared to December 31, 2014, and the weighted average rate decreased 3 basis points to 4.04%. We prepaid $25 million of a FHLB convertible advance with a May 2017 maturity and 4.21% interest rate during the second quarter of 2015, which resulted in a prepayment penalty of $1.70 million. As of September 30, 2015, FHLB borrowings had contractual maturities between one and six years. Included in other borrowings is $15.46 million of junior subordinated debentures (Debentures) that were issued by the Company in October 2003 through the Trust with an interest rate of three-month London InterBank Offered Rate (LIBOR) plus 2.95%. The Debentures mature in October 2033 and are currently callable at the option of the Company. The Company maintains a $15.00 million unsecured, committed line of credit with an unrelated financial institution that carries an interest rate of one-month LIBOR plus 2.00% and matures in April 2016. As of September 30, 2015, there was no outstanding balance on the line compared to an outstanding balance of $2.00 million as of December 31, 2014.

Stockholders Equity

Total stockholders equity decreased $6.55 million, or 1.86%, from $351.37 million as of December 31, 2014, to $344.83 million as of September 30, 2015. The change in stockholders equity was primarily due to the repurchase of 1,018,726 shares of our common stock, common dividends of $7.45 million, and the redemption of 2,367 shares of Series A Preferred Stock offset by net income of $18.39 million and other comprehensive income of $1.87 million.

Liquidity and Capital Resources

Liquidity is a measure of our ability to raise sufficient cash, or convert assets to cash, to meet our financial obligations. We maintain a liquidity risk management policy and contingency funding policy (Liquidity Plan) that is designed to detect potential liquidity issues to protect depositors, creditors, and shareholders. The Liquidity Plan includes various internal and external indicators that are reviewed on a recurring basis by our Asset/Liability Management Committee (ALCO) and the

Board of Directors. ALCO reviews liquidity risk exposure and policies related to liquidity management, ensures that systems and internal controls are consistent with liquidity policies, and provides accurate reports about liquidity needs, sources, and compliance.

As of September 30, 2015, we maintained liquidity in the form of unencumbered cash on hand and deposits with other financial institutions of $62.02 million, availability on federal funds lines with correspondent banks of $105.00 million, credit available from the Federal Reserve Bank discount window of $9.09 million, unused borrowing capacity with the FHLB of $422.42 million, and unpledged available-for-sale securities of $138.47 million. Cash on hand and deposits with other financial institutions, as well as lines of credit extended from correspondent banks and the FHLB, are immediately available to satisfy deposit withdrawals, customer credit needs, and our operations. Unused borrowing capacity with the FHLB is reported net of letters of credit held to secure public unit deposits. As of September 30, 2015, we provided letters of credit to public depositors with the FHLB totaling $6.19 million. Available-for-sale securities represent a secondary source of liquidity upon conversion to a liquid asset. Our approved lines of credit with correspondent banks are available as backup liquidity sources.

As a holding company, the Company does not conduct significant operations. The Company s primary sources of liquidity are dividends received from the Bank and borrowings. Dividends paid by the Bank are subject to certain regulatory limitations. As of September 30, 2015, the Company s liquid assets consisted of cash and investment securities totaling $23.73 million. The Company s cash reserves and investments provide adequate working capital to meet obligations and projected dividends to shareholders for the next twelve months. The Company maintains a $15.00 million unsecured, committed line of credit with an unrelated financial institution. As of September 30, 2015, there was no outstanding balance on the line.

Capital Adequacy Requirements

Risk-based capital guidelines, issued by state and federal banking agencies, include balance sheet assets and off-balance sheet arrangements weighted by the risks inherent in the specific asset type. Basel III Capital Rules became effective on January 1, 2015, subject to a four-year phase-in period. The Company s required initial minimum capital ratios under Basel III include:

4.5% Common equity Tier 1 capital to risk-weighted assets

6.0% Tier 1 capital to risk-weighted assets

8.0% Total capital to risk-weighted assets

Our capital ratios presented for the quarter ended September 30, 2015, are based on the Basel III requirements, while prior period information is based on the requirements under Basel II. A detailed description of the Basel III Capital Rules is included in Part I, Item 1 of the Company s 2014 Form 10-K. The following table presents our capital ratios as of the dates indicated:

	September 30, 2015	December 31, 2014
Common equity Tier 1 ratio		

First Community Bancshares, Inc.	14.60%	NA
First Community Bank	13.27%	NA
Tier 1 risk-based capital ratio		
First Community Bancshares, Inc.	14.79%	16.43%
First Community Bank	13.27%	14.48%
Total risk-based capital ratio		
First Community Bancshares, Inc.	16.01%	17.68%
First Community Bank	14.49%	15.73%
Tier 1 leverage ratio		
First Community Bancshares, Inc.	10.52%	10.12%
First Community Bank	9.39%	8.87%

As of September 30, 2015, and December 31, 2014, our capital ratios were well in excess of the minimum standards and classified as well capitalized under regulatory capital adequacy standards applicable to that period. Additionally, our capital ratios were in excess of the minimum standards under the Basel III Capital Rules on a fully phased-in basis, if such requirements were in effect, as of September 30, 2015.

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Off-Balance Sheet Arrangements

We extend contractual commitments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. Our exposure to credit loss in the event of nonperformance by other parties to financial instruments is the same as the contractual amount of the instrument.

The following table presents our off-balance sheet arrangements as of the dates indicated:

(Amounts in thousands)	September 30, 2015	December 31, 2014
Commitments to extend credit	$ 203,658	$ 236,471
Commitments related to secondary market mortgage loans	4,925	1,391
Standby letters of credit and financial guarantees	7,400	3,581
Total off-balance sheet risk	$ 215,983	$ 241,443
Reserve for unfunded commitments	$ 326	$ 326

Impact of Inflation and Changing Prices

Our consolidated financial statements and related notes are presented in accordance with GAAP, which requires the measurement of results of operations and financial position in historical dollars. Inflation may cause a rise in price levels and changes in the relative purchasing power of money. These inflationary effects are not reflected in historical dollar measurements. The primary effect of inflation on our operations is increased operating costs. In management s opinion, interest rates have a greater impact on our financial performance than inflation. Interest rates do not necessarily fluctuate in the same direction, or to the same extent, as the price of goods and services; therefore, the effect of inflation on businesses with large investments in property, plant, and inventory is generally more significant than the effect on financial institutions. The U.S. inflation rate continues to be relatively stable, and management believes that any changes in inflation will not be material to our financial performance.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our profitability is largely dependent upon net interest income, which is the difference between interest income on interest-earning assets, such as loans and securities, and interest expense on interest-bearing liabilities, such as deposits and borrowings. Our Company, like other financial institutions, is subject to interest rate risk to the degree that interest-earning assets reprice differently than interest-bearing liabilities. We manage our mix of assets and liabilities with the goal of limiting exposure to interest rate risk, ensuring adequate liquidity, and coordinating sources and uses of funds while maintaining an acceptable level of net interest income given the current interest rate environment.

Net interest income, our primary component of operational revenue, is subject to variation due to changes in interest rate environments and unbalanced repricing opportunities on earning assets and interest-bearing liabilities. Interest rate risk has four primary components: repricing risk, basis risk, yield curve risk, and option risk. Repricing risk occurs when earning assets and paying liabilities reprice at differing times as interest rates change. Basis risk occurs when underlying rates on assets and liabilities change at different levels or in varying degrees. Yield curve risk is the risk of adverse consequences that occurs when the same instrument experiences unequal change in the spread between two or more rates for different maturities. Lastly, option risk occurs from embedded options, often put or call options, given or sold to holders of financial instruments.

To mitigate the effect of changes in the general level of interest rates, we manage repricing opportunities and thus, our interest rate sensitivity. We seek to control our interest rate risk exposure to insulate net interest income and net earnings from fluctuations in the general level of interest rates. To measure our exposure to interest rate risk, quarterly simulations of net interest income are performed using financial models that project net interest income through a range of possible interest rate environments, including rising, declining, most likely, and flat rate scenarios. We use a simulation model that captures all earning assets, interest-bearing liabilities, and off-balance sheet financial instruments and combines the various factors affecting rate sensitivity into an earnings outlook for a range of assumed interest rate scenarios. Simulation results show the existence and severity of interest rate risk in each rate environment based on the current balance sheet position, assumptions about changes in the volume and mix of interest-earning assets and interest-paying liabilities, and our estimate of yields earned on assets and rates paid on deposit instruments and borrowings. These assumptions are inherently uncertain and, as a result, the model cannot precisely predict the impact of fluctuations in interest rates on net interest income. Actual results will differ from simulated results due to the timing, magnitude, and frequency of interest rate changes and changes in market conditions and our strategies. The earnings simulation model provides the best tool for managing interest rate risk available to us and the industry.

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We have established policy limits for tolerance of interest rate risk in various interest rate scenarios. In addition, the policy addresses exposure limits to changes in the economic value of equity per predefined policy guidelines. The most recent simulation indicates that current exposure to interest rate risk is within our defined policy limits.

The following table summarizes the impact of immediate and sustained rate shocks in the interest rate environment on net interest income. The model simulates rate changes of plus 300 to minus 100 basis points from the base simulation and illustrates the prospective effects of hypothetical interest rate changes over a twelve-month period. This modeling technique, although useful, does not take into account all strategies that management might undertake in response to a sudden and sustained rate shock as depicted. As market conditions vary from those assumed in the sensitivity analysis, actual results will differ due to prepayment and refinancing levels likely deviating from those assumed, the varying impact of interest rate change caps or floors on adjustable rate assets, the potential effect of changing debt service levels on customers with adjustable rate loans, depositor early withdrawals and product preference changes, and other internal and external variables. As of September 30, 2015, the Federal Open Market Committee maintained a target range for federal funds of 0 to 25 basis points, rendering a complete downward shock of 200 basis points meaningless; thus, downward rate scenarios are limited to minus 100 basis points. In the downward rate shocks presented, benchmark interest rates are assumed to have floors near 0%.

(Amounts in thousands, except basis points)	September 30, 2015		December 31, 2014	
Increase (Decrease) in Interest Rates in Basis Points	**Change in Net Interest Income**	**Percent Change**	**Change in Net Interest Income**	**Percent Change**
300	$ (664)	-0.8%	$ 3,619	4.2%
200	(503)	-0.6%	2,183	2.5%
100	(437)	-0.5%	871	1.0%
(100)	(2,269)	-2.6%	290	0.3%

Item 4. Controls and Procedures
Evaluation of Disclosure Controls and Procedures

In connection with this report, we conducted an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of our disclosure controls and procedures under the Exchange Act Rule 13a-15(b). Based upon that evaluation, the CEO and CFO concluded that, as of September 30, 2015, our disclosure controls and procedures were effective.

Disclosure controls and procedures are our Company s controls and other procedures that are designed to ensure that information we are required to disclose in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information we are required to disclose in the reports that we file or submit under the Exchange Act is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Management, including the CEO and CFO, does not expect that our disclosure controls and internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our Company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, collusion of two or more people, or management s override of the controls.

Changes in Internal Control over Financial Reporting

We assess the adequacy of our internal control over financial reporting quarterly and enhance our controls in response to internal control assessments and internal and external audit and regulatory recommendations. There were no changes in our internal control over financial reporting during the quarter ended September 30, 2015, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

We are currently a defendant in various legal actions and asserted claims in the normal course of business. Although we are unable to assess the ultimate outcome of each of these matters with certainty, we are of the belief that the resolution of these actions should not have a material adverse effect on our financial position, results of operations, or cash flows.

ITEM 1A. Risk Factors

A description of the Company s risk factors is included in Part I, Item 1A, Risk Factors, of our 2014 Form 10-K. Our risk factors discuss potential events, trends, or other circumstances that could adversely affect our business, financial condition, results of operations, cash flows, liquidity, access to capital resources, and, consequently, cause the market value of our common stock to decline. These risks could cause our future results to differ materially from historical results and expectations of future financial performance. There may be risks and uncertainties that we have not identified or that we have deemed immaterial that could adversely affect our business; therefore, our risk factors are not intended to be an exhaustive list of all risks we face. There have been no material changes from the risk factors previously disclosed in our 2014 Form 10-K.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Not Applicable

(b) Not Applicable

(c) Issuer Purchases of Equity Securities

The following table provides information regarding purchases of our common stock made by us or on our behalf by any affiliated purchaser, as defined in Rule 10b-18(a)(3) under the Exchange Act, during the dates indicated:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan	Maximum Number of Shares that May Yet be Purchased Under the Plan(1)
July 1-31, 2015	111,861	$ 18.23	111,861	148,297
August 1-31, 2015	129,872	17.67	129,872	2,108,425
September 1-30, 2015	92,586	17.64	92,586	1,931,646
Total	334,319	$ 17.85	334,319	

(1) Our stock repurchase plan, as amended, authorizes the purchase and retention of up to 5,000,000 shares. On August 25, 2015, our Board of Directors approved changes to our stock repurchase plan to authorize the repurchase and retention of up to 5,000,000 shares of our outstanding common stock, an increase of 2,000,000 shares. The plan has no expiration date and is currently in effect. No determination has been made to terminate the plan or to cease making purchases. We held 3,068,354 shares in treasury as of September 30, 2015.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

None.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

(a) Exhibits and index required

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Exhibit No.	Exhibit
2.1	Purchase and Assumption Agreement between First Community Bank and CresCom Bank dated August 6, 2014. (33)
2.2	Purchase and Assumption Agreement between Bank of America, National Association and First Community Bank dated June 9, 2014. (34)
3.1	Articles of Incorporation of First Community Bancshares, Inc., as amended (1)
3.2	Amended and Restated Bylaws of First Community Bancshares, Inc. (2)
4.1	Specimen stock certificate of First Community Bancshares, Inc. (3)
4.2	Indenture Agreement dated September 25, 2003. (4)
4.3	Declaration of Trust of FCBI Capital Trust dated September 25, 2003, as amended and restated. (5)
4.4	Preferred Securities Guarantee Agreement dated September 25, 2003. (6)
10.1**	First Community Bancshares, Inc. 1999 Stock Option Agreement (7) and Plan. (8)
10.1.1**	First Community Bancshares, Inc. 1999 Stock Option Plan, Amendment One. (9)
10.2**	First Community Bancshares, Inc. 2001 Nonqualified Director Stock Option Plan. (10)
10.3**	Employment Agreement between First Community Bancshares, Inc. and John M. Mendez dated December 16, 2008, as amended and restated (20) and Waiver Agreement. (27)
10.4**	First Community Bancshares, Inc. and Affiliates Executive Retention Plan (11), Amendment #1 (12), and Amendment #2. (30)
10.5**	First Community Bancshares, Inc. Split Dollar Plan and Agreement. (13)
10.6**	First Community Bancshares, Inc. Supplemental Directors Retirement Plan, as amended and restated. (14)
10.7**	First Community Bancshares, Inc. Nonqualified Supplemental Cash or Deferred Retirement Plan, as amended and restated. (15)
10.9**	Form of Indemnification Agreement between First Community Bancshares, Inc., its Directors, and Certain Executive Officers. (16)
10.10**	Form of Indemnification Agreement between First Community Bank, its Directors, and Certain Executive Officers. (16)
10.11**	First Community Bancshares, Inc. 2004 Omnibus Stock Option Plan (17) and Stock Award Agreement. (18)
10.12**	First Community Bancshares, Inc. 2012 Omnibus Equity Compensation Plan. (29)
10.13**	First Community Bancshares, Inc. Directors Deferred Compensation Plan, as amended and restated. (19)
10.14**	Employment Agreement between First Community Bancshares, Inc. and David D. Brown dated April 16, 2015. (21)
10.16**	

	Employment Agreement between First Community Bancshares, Inc. and E. Stephen Lilly dated April 16, 2015. (22)
10.17**	Employment Agreement between First Community Bancshares, Inc. and Gary R. Mills dated April 16, 2015. (23)
10.18**	Employment Agreement between First Community Bancshares, Inc. and Martyn A. Pell dated April 16, 2015. (24)
10.19**	Employment Agreement between First Community Bank and Robert L. Schumacher dated April 16, 2015. (25)
10.20**	Employment Agreement between First Community Bancshares, Inc. and William P. Stafford, II dated April 16, 2015. (35)
10.21**	Employment Agreement between First Community Bank and Mark R. Evans dated July 31, 2009. (26)
10.22**	Form of Restricted Stock Grant Agreement under First Community Bancshares, Inc. 2012 Omnibus Equity Compensation Plan. (31)
10.23**	Separation Agreement and Release between First Community Bancshares, Inc. and John M. Mendez dated August 28, 2013. (32)
11	Statement Regarding Computation of Earnings per Share. (28)
31.1*	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2*	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
32*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101***	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Condensed Consolidated Balance Sheets as of September 30, 2015, (Unaudited), and December 31, 2014; (ii) Condensed Consolidated Statements of Income (Unaudited) for the three and nine months ended September 30, 2015 and 2014; (iii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2015 and 2014; (iv) Condensed Consolidated Statements of Stockholders Equity (Unaudited) for the nine months ended September 30, 2015 and 2014; (v) Condensed Consolidated Statements of Cash Flows (Unaudited) for the nine months ended September 30, 2015 and 2014; and (vi) Notes to Condensed Consolidated Financial Statements (Unaudited).

* Incorporated herewith.
** Indicates a management contract or compensation plan.
*** Submitted electronically herewith.

(1) Incorporated by reference from Exhibit 3(i) of the Quarterly Report on Form 10-Q for the period ended June 30, 2010, filed on August 16, 2010.
(2) Incorporated by reference from Exhibit 3.1 of the Current Report on Form 8-K dated September 24, 2013, filed on September 26, 2013.
(3) Incorporated by reference from Exhibit 4.1 of the Annual Report on Form 10-K for the period ended December 31, 2002, filed on March 25, 2003, amended on March 31, 2003.
(4) Incorporated by reference from Exhibit 4.2 of the Quarterly Report on Form 10-Q for the period ended September 30, 2003, filed on November 10, 2003.
(5) Incorporated by reference from Exhibit 4.3 of the Quarterly Report on Form 10-Q for the period ended September 30, 2003, filed on November 10, 2003.
(6) Incorporated by reference from Exhibit 4.4 of the Quarterly Report on Form 10-Q for the period ended September 30, 2003, filed on November 10, 2003.
(7) Incorporated by reference from Exhibit 10.5 of the Quarterly Report on Form 10-Q for the period ended June 30, 2002, filed on August 14, 2002.
(8) Incorporated by reference from Exhibit 10.1 of the Annual Report on Form 10-K for the period ended December 31, 1999, filed on March 30, 2000, amended on April 13, 2000.
(9) Incorporated by reference from Exhibit 10.1.1 of the Quarterly Report on Form 10-Q for the period ended March 31, 2004, filed on May 7, 2004.
(10) Incorporated by reference from Exhibit 10.4 of the Quarterly Report on Form 10-Q for the period ended June 30, 2002, filed on August 14, 2002.
(11) Incorporated by reference from Exhibit 10.1 of the Current Report on Form 8-K dated December 30, 2008, filed on January 5, 2009.
(12) Incorporated by reference from Exhibit 10.3 of the Current Report on Form 8-K dated December 16, 2010, filed on December 17, 2010.
(13) Incorporated by reference from Exhibit 10.5 of the Annual Report on Form 10-K for the period ended December 31, 1999, filed on March 30, 2000, amended on April 13, 2000.
(14) Incorporated by reference from Exhibit 10.1 of the Current Report on Form 8-K dated December 16, 2010, filed on December 17, 2010.
(15) Incorporated by reference from Exhibit 99.1 of the Current Report on Form 8-K dated August 22, 2006, filed on August 23, 2006.
(16) Incorporated by reference from Exhibit 10.1 and Exhibit 10.2 of the Current Report on Form 8-K dated February 25, 2014, filed on March 3, 2014.
(17) Incorporated by reference from Annex B to the 2004 First Community Bancshares, Inc. Definitive Proxy Statement filed on March 15, 2004.
(18) Incorporated by reference from Exhibit 10.13 of the Quarterly Report on Form 10-Q for the period ended June 30, 2004, filed on August 6, 2004.
(19) Incorporated by reference from Exhibit 99.2 of the Current Report on Form 8-K dated August 22, 2006, filed on August 23, 2006.
(20) Incorporated by reference from Exhibit 10.1 of the Current Report on Form 8-K dated and filed on December 16, 2008.
(21) Incorporated by reference from Exhibit 10.3 of the Current Report on Form 8-K dated and filed on April 16, 2015.
(22) Incorporated by reference from Exhibit 10.5 of the Current Report on Form 8-K dated and filed on April 16, 2015.
(23) Incorporated by reference from Exhibit 10.2 of the Current Report on Form 8-K dated and filed on April 16, 2015.
(24) Incorporated by reference from Exhibit 10.4 of the Current Report on Form 8-K dated and filed on April 16, 2015.

(25) Incorporated by reference from the Current Report on Form 8-K dated and filed on April 16, 2015.
(26) Incorporated by reference from Exhibit 2.1 of the Current Report on Form 8-K dated April 2, 2009, filed on April 3, 2009.
(27) Incorporated by reference from Exhibit 10.2 of the Current Report on Form 8-K dated December 16, 2010, filed on December 17, 2010.
(28) Incorporated by reference from Note 1 of the Notes to Condensed Consolidated Financial Statements included herein.
(29) Incorporated by reference from the 2012 First Community Bancshares, Inc. Definitive Proxy Statement filed on March 7, 2012.
(30) Incorporated by reference from Exhibit 10.1 of the Current Report on Form 8-K dated February 21, 2013, filed on February 25, 2013.
(31) Incorporated by reference from Exhibit 99.1 of the Current Report on Form 8-K dated and filed May 28, 2013.
(32) Incorporated by reference from Exhibit 99.1 of the Current Report on Form 8-K/A dated August 12, 2013, filed on September 3, 2013.

(33) Incorporated by reference from Exhibit 99.1 of the Current Report on Form 8-K dated August 6, 2014, filed on August 7, 2014.
(34) Incorporated by reference from Exhibit 99.3 of the Current Report on Form 8-K/A dated June 9, 2014, filed on June 10, 2014.
(35) Incorporated by reference from Exhibit 10.1 of the Current Report on Form 8-K dated and filed on April 16, 2015.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 6th day of November, 2015.

First Community Bancshares, Inc.

(Registrant)

/s/ William P. Stafford, II
William P. Stafford, II
Chief Executive Officer
(Principal Executive Officer)

/s/ David D. Brown
David D. Brown
Chief Financial Officer
(Principal Accounting Officer)

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EXHIBIT INDEX

Exhibit No.	Exhibit
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Condensed Consolidated Balance Sheets as of September 30, 2015, (Unaudited), and December 31, 2014; (ii) Condensed Consolidated Statements of Income (Unaudited) for the three and nine months ended September 30, 2015 and 2014; (iii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2015 and 2014; (iv) Condensed Consolidated Statements of Stockholders Equity (Unaudited) for the nine months ended September 30, 2015 and 2014; (v) Condensed Consolidated Statements of Cash Flows (Unaudited) for the nine months ended September 30, 2015 and 2014; and (vi) Notes to Condensed Consolidated Financial Statements (Unaudited).