

FIRST COMMUNITY BANCSHARES INC /NV/

Form 10-Q

November 07, 2014

[Table of Contents](#)

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2014

Commission file number 000-19297

FIRST COMMUNITY BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction

of incorporation)

55-0694814
(IRS Employer

Identification No.)

P.O. Box 989

Bluefield, Virginia
(Address of principal executive offices)

24605-0989
(Zip Code)

(276) 326-9000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer

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

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

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

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

Table of Contents

FIRST COMMUNITY BANCSHARES, INC.

FORM 10-Q

For the quarter ended September 30, 2014

INDEX

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

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

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

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

See Notes to Consolidated Financial Statements.

Table of Contents

FIRST COMMUNITY BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

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

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

See Notes to Consolidated Financial Statements.

Table of Contents

FIRST COMMUNITY BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

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

See Notes to Consolidated Financial Statements.

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

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

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

See Notes to Consolidated Financial Statements.

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

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

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

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

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

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

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

Significant Accounting Policies

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

Reclassifications and Corrections

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

Acquisitions and Divestitures

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

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

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

Table of Contents**Earnings per Common Share**

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

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

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

Table of Contents

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

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

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

<i>(Amounts in thousands)</i>	September 30, 2014		December 31, 2013	
	Amount	Percent	Amount	Percent
Non-covered loans held for investment				
Commercial loans				
Construction, development, and other land	\$ 42,775	2.43%	\$ 35,255	2.06%
Commercial and industrial	88,709	5.03%	95,455	5.58%
Multi-family residential	99,812	5.66%	70,197	4.10%
Single family non-owner occupied	143,904	8.16%	135,559	7.92%
Non-farm, non-residential	491,933	27.91%	475,911	27.82%
Agricultural	2,149	0.12%	2,324	0.14%
Farmland	31,938	1.81%	32,614	1.91%
Total commercial loans	901,220	51.12%	847,315	49.53%
Consumer real estate loans				
Home equity lines	112,863	6.40%	111,770	6.53%
Single family owner occupied	498,523	28.28%	496,012	28.99%
Owner occupied construction	45,015	2.56%	28,703	1.68%
Total consumer real estate loans	656,401	37.24%	636,485	37.20%
Consumer and other loans				
Consumer loans	71,252	4.04%	71,313	4.17%
Other	7,308	0.42%	3,926	0.23%
Total consumer and other loans	78,560	4.46%	75,239	4.40%
Total non-covered loans	1,636,181	92.82%	1,559,039	91.13%
Total covered loans	126,611	7.18%	151,682	8.87%
Total loans held for investment, net of unearned income	\$ 1,762,792	100.00%	\$ 1,710,721	100.00%
Loans held for sale	\$ 1,150		\$ 883	

Table of Contents

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

<i>(Amounts in thousands)</i>	September 30, 2014	December 31, 2013
Covered loans		
Commercial loans		
Construction, development, and other land	\$ 13,184	\$ 15,865
Commercial and industrial	2,646	3,325
Multi-family residential	1,612	1,933
Single family non-owner occupied	6,212	7,449
Non-farm, non-residential	26,238	34,646
Agricultural	151	164
Farmland	729	873
Total commercial loans	50,772	64,255
Consumer real estate loans		
Home equity lines	62,772	69,206
Single family owner occupied	12,504	16,919
Owner occupied construction	466	1,184
Total consumer real estate loans	75,742	87,309
Consumer and other loans		
Consumer loans	97	118
Total covered loans	\$ 126,611	\$ 151,682

Purchased Credit Impaired Loans

When the fair values of purchased loans are established at acquisition, certain loans are identified as impaired. 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, Peoples Bank of Virginia (Peoples) commercial, Waccamaw serviced home equity lines, Waccamaw residential, Peoples residential, and Waccamaw consumer. 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:

<i>(Amounts in thousands)</i>	Peoples	Waccamaw	Other	Total
Carrying balance, January 1, 2013	\$ 26,907	\$ 112,093	\$ 2,340	\$ 141,340
Carrying balance, December 31, 2013	9,196	70,584	1,931	81,711
Unpaid principal balance, December 31, 2013	17,431	105,677	5,390	128,498
Carrying balance, January 1, 2014	\$ 9,196	\$ 70,584	\$ 1,931	\$ 81,711

Carrying balance, September 30, 2014	7,432	56,580	1,393	65,405
Unpaid principal balance, September 30, 2014	14,142	89,385	4,824	108,351

Table of Contents

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

<i>(Amounts in thousands)</i>	Peoples	Waccamaw	Other	Total
Nine months ended September 30, 2013				
Beginning balance	\$ 2,342	\$ 21,886	\$ 15	\$ 24,243
Additions	148	189		337
Accretion	(1,315)	(4,558)	(108)	(5,981)
Reclassifications from (to) nonaccretable difference	4,276	(6,477)	101	(2,100)
Removal events	(1,417)	(2,127)		(3,544)
Ending balance	\$ 4,034	\$ 8,913	\$ 8	\$ 12,955
Nine months ended September 30, 2014				
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
Removal events	(521)	(1,445)		(1,966)
Ending balance	\$ 4,475	\$ 18,345	\$ 8	\$ 22,828

For information concerning off-balance sheet financing, see Note 13, *Litigation, Commitments and Contingencies*, to the Condensed Consolidated Financial Statements of this report.

Table of Contents**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, 2014			December 31, 2013		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
<i>(Amounts in thousands)</i>						
Impaired loans with no related allowance:						
Commercial loans						
Commercial and industrial	\$ 1,258	\$ 1,439	\$	\$ 292	\$ 292	\$
Single family non-owner occupied	268	268		289	317	
Non-farm, non-residential	5,468	5,812		5,352	5,682	
Farmland				351	363	
Consumer real estate loans						
Home equity lines				257	264	
Single family owner occupied	2,787	2,878		2,006	2,414	
Total impaired loans with no allowance	9,781	10,397		8,547	9,332	
Impaired loans with a related allowance:						
Commercial loans						
Commercial and industrial				4,897	10,244	3,794
Multi-family residential	5,567	5,567	500			
Single family non-owner occupied	369	369	46	375	375	47
Non-farm, non-residential	4,382	4,382	623	600	600	114
Consumer real estate loans						
Single family owner occupied	2,374	2,526	504	4,844	5,035	735
Total impaired loans with an allowance	12,692	12,844	1,673	10,931	16,484	4,742
Total impaired loans	\$ 22,473	\$ 23,241	\$ 1,673	\$ 19,478	\$ 25,816	\$ 4,742

Table of Contents

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

	For the Three Months Ended			
	September 30, 2014		September 30, 2013	
<i>(Amounts in thousands)</i>	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance:				
Commercial loans				
Construction, development, and other land	\$	\$	\$ 6,375	\$ 40
Commercial and industrial	1,258			
Multi-family residential				
Single family non-owner occupied	321	7	317	
Non-farm, non-residential	5,971		8,194	
Farmland			667	3
Consumer real estate loans				
Home equity lines			546	
Single family owner occupied	2,880	10	2,794	
Owner occupied construction				
Consumer and other loans				
Consumer loans				
Total impaired loans with no allowance	10,430	17	18,893	43
Impaired loans with a related allowance:				
Commercial loans				
Construction, development, and other land			463	
Commercial and industrial			5,328	11
Multi-family residential	5,568	1		
Single family non-owner occupied	369	1	365	
Non-farm, non-residential	4,386	6	606	
Consumer real estate loans				
Home equity lines			535	9
Single family owner occupied	2,528	8	5,093	13
Total impaired loans with an allowance	12,851	16	12,390	33
Total impaired loans	\$ 23,281	\$ 33	\$ 31,283	\$ 76

Table of Contents

	For the Nine Months Ended			
	September 30, 2014		September 30, 2013	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
<i>(Amounts in thousands)</i>				
Impaired loans with no related allowance:				
Commercial loans				
Construction, development, and other land	\$	\$	\$ 5,133	\$ 294
Commercial and industrial	614	17	834	11
Multi-family residential			24	3
Single family non-owner occupied	247	8	1,146	93
Non-farm, non-residential	6,089	89	7,739	296
Farmland	241	11	372	12
Consumer real estate loans				
Home equity lines	88	2	518	25
Single family owner occupied	2,179	61	2,069	70
Owner occupied construction			20	5
Consumer and other loans				
Consumer loans			4	
Total impaired loans with no allowance	9,458	188	17,859	809
Impaired loans with a related allowance:				
Commercial loans				
Construction, development, and other land			1,409	117
Commercial and industrial	2,932	47	4,009	11
Multi-family residential	5,586	23	126	7
Single family non-owner occupied	370	2	1,064	12
Non-farm, non-residential	4,404	31	1,791	26
Consumer real estate loans				
Home equity lines	76	1	329	3
Single family owner occupied	3,216	42	4,318	54
Total impaired loans with an allowance	16,584	146	13,046	230
Total impaired loans	\$ 26,042	\$ 334	\$ 30,905	\$ 1,039

The Company determined that one of the seven PCI loan pools was impaired as of September 30, 2014, compared to four impaired pools as of December 31, 2013, and September 30, 2013. The following tables present balance and interest income related to the impaired loan pools as of the dates, and in the periods, indicated:

<i>(Amounts in thousands)</i>	September 30, 2014	December 31, 2013
Recorded investment	\$ 1,208	\$ 52,033
Unpaid principal balance	1,223	69,320
Allowance for loan losses	196	747

<i>(Amounts in thousands)</i>	Three Months Ended September 30,		Three Months Ended September 30,	
	2014	2013	2014	2013
Interest income recognized	\$ 82	\$ 721	\$ 2,154	\$ 839
Average recorded investment	1,416	23,538	35,063	15,799

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 on an annual basis and at various times during the year. In addition, 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.

Table of Contents

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.

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. In addition, PCI loans are generally not classified as nonaccrual or nonperforming due to the accrual of interest income under the accretion method of accounting.

Table of Contents

The following tables present loans held for investment, by internal credit risk grade, as of the periods indicated:

<i>(Amounts in thousands)</i>	September 30, 2014					Total
	Pass	Special Mention	Substandard	Doubtful	Loss	
Non-covered loans						
Commercial loans						
Construction, development, and other land						
	\$ 40,408	\$ 1,107	\$ 1,260	\$	\$	\$ 42,775
Commercial and industrial	84,377	585	2,489	1,258		88,709
Multi-family residential	91,963	1,466	6,383			99,812
Single family non-owner occupied	133,860	3,361	6,683			143,904
Non-farm, non-residential	457,927	14,380	19,626			491,933
Agricultural	2,138		11			2,149
Farmland	28,991	1,585	1,362			31,938
Consumer real estate loans						
Home equity lines	109,825	1,593	1,445			112,863
Single family owner occupied	467,381	10,182	20,960			498,523
Owner occupied construction	44,545		470			45,015
Consumer and other loans						
Consumer loans	70,350	689	213			71,252
Other	7,308					7,308
Total non-covered loans	1,539,073	34,948	60,902	1,258		1,636,181
Covered loans						
Commercial loans						
Construction, development, and other land						
	7,467	2,750	2,967			13,184
Commercial and industrial	2,483	83	80			2,646
Multi-family residential	1,421		191			1,612
Single family non-owner occupied	2,907	2,123	1,182			6,212
Non-farm, non-residential	13,227	5,081	7,930			26,238
Agricultural	151					151
Farmland	431		298			729
Consumer real estate loans						
Home equity lines	21,767	40,090	915			62,772
Single family owner occupied	7,619	1,565	3,320			12,504
Owner occupied construction	152	151	163			466
Consumer and other loans						
Consumer loans	97					97
Other						
Total covered loans	57,722	51,843	17,046			126,611
Total loans	\$ 1,596,795	\$ 86,791	\$ 77,948	\$ 1,258	\$	\$ 1,762,792

Table of Contents

<i>(Amounts in thousands)</i>	December 31, 2013					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Non-covered loans						
Commercial loans						
Construction, development, and other land						
	\$ 30,719	\$ 1,094	\$ 3,139	\$ 303	\$	\$ 35,255
Commercial and industrial	87,589	1,056	2,919	3,891		95,455
Multi-family residential	67,257	2,237	703			70,197
Single family non-owner occupied	121,367	4,501	9,316	375		135,559
Non-farm, non-residential	440,334	21,046	14,500	31		475,911
Agricultural	2,306	8	10			2,324
Farmland	27,421	1,721	3,472			32,614
Consumer real estate loans						
Home equity lines	107,411	1,355	2,789	215		111,770
Single family owner occupied	460,166	8,170	27,507	169		496,012
Owner occupied construction	28,242	261	200			28,703
Consumer and other loans						
Consumer loans	69,973	864	472		4	71,313
Other	3,918		8			3,926
Total non-covered loans	1,446,703	42,313	65,035	4,984	4	1,559,039
Covered loans						
Commercial loans						
Construction, development, and other land						
	9,722	1,378	4,714	51		15,865
Commercial and industrial	2,865	247	189	24		3,325
Multi-family residential	1,472		461			1,933
Single family non-owner occupied	4,362	1,519	1,552	16		7,449
Non-farm, non-residential	13,077	4,630	16,901	38		34,646
Agricultural	164					164
Farmland	572		301			873
Consumer real estate loans						
Home equity lines	23,189	44,746	1,269	2		69,206
Single family owner occupied	10,832	148	5,939			16,919
Owner occupied construction	198		986			1,184
Consumer and other loans						
Consumer loans	118					118
Other						
Total covered loans	66,571	52,668	32,312	131		151,682
Total loans	\$ 1,513,274	\$ 94,981	\$ 97,347	\$ 5,115	\$ 4	\$ 1,710,721

Credit quality continued to improve in the non-covered and covered loan portfolios as non-covered classified loans declined \$15.23 million, or 13.56%, and covered classified loans declined \$16.22 million, or 19.06%, as of September 30, 2014, compared to December 31, 2013.

Table of Contents

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

<i>(Amounts in thousands)</i>	September 30, 2014			December 31, 2013		
	Non-covered	Covered	Total	Non-covered	Covered	Total
Commercial loans						
Construction, development, and other land	\$	\$ 90	\$ 90	\$ 1,187	\$ 761	\$ 1,948
Commercial and industrial	2,356	22	2,378	5,341	92	5,433
Multi-family residential	80		80			
Single family non-owner occupied	761	77	838	1,966	222	2,188
Non-farm, non-residential	2,338	152	2,490	2,685		2,685
Farmland				441	301	742
Consumer real estate loans						
Home equity lines	180	204	384	765	232	997
Single family owner occupied	5,497	471	5,968	6,567	1,555	8,122
Owner occupied construction	226	115	341		190	190
Consumer and other loans						
Consumer loans	42		42	201		201
Total	11,480	1,131	12,611	19,153	3,353	22,506
Purchased impaired loans				8		8
Total nonaccrual loans	\$ 11,480	\$ 1,131	\$ 12,611	\$ 19,161	\$ 3,353	\$ 22,514

Table of Contents

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 accruing loans contractually past due 90 days or more as of September 30, 2014, or December 31, 2013. There were no covered accruing loans contractually past due 90 days or more as of September 30, 2014, compared to \$86 thousand as of December 31, 2013.

<i>(Amounts in thousands)</i>	September 30, 2014				Current Loans	Total Loans
	30 - 59 Days Past Due	60 - 89 Days Past Due	90+ Days Past Due	Total Past Due		
Non-covered loans						
Commercial loans						
Construction, development, and other						
land	\$ 27	\$	\$	\$ 27	\$ 42,748	\$ 42,775
Commercial and industrial	1,433		1,079	2,512	86,197	88,709
Multi-family residential	173			173	99,639	99,812
Single family non-owner occupied	1,074	280	667	2,021	141,883	143,904
Non-farm, non-residential	411	871	1,229	2,511	489,422	491,933
Agricultural	4			4	2,145	2,149
Farmland					31,938	31,938
Consumer real estate loans						
Home equity lines	444	466	174	1,084	111,779	112,863
Single family owner occupied	4,770	2,423	3,881	11,074	487,449	498,523
Owner occupied construction			226	226	44,789	45,015
Consumer and other loans						
Consumer loans	381	100	37	518	70,734	71,252
Other					7,308	7,308
Total non-covered loans	8,717	4,140	7,293	20,150	1,616,031	1,636,181
Covered loans						
Commercial loans						
Construction, development, and other						
land	226		72	298	12,886	13,184
Commercial and industrial	17	104	22	143	2,503	2,646
Multi-family residential					1,612	1,612
Single family non-owner occupied	100	40	77	217	5,995	6,212
Non-farm, non-residential	68		152	220	26,018	26,238
Agricultural					151	151
Farmland					729	729
Consumer real estate loans						
Home equity lines	585	76	204	865	61,907	62,772
Single family owner occupied	125	13	389	527	11,977	12,504
Owner occupied construction			115	115	351	466
Consumer and other loans						
Consumer loans					97	97
Other						

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Total covered loans	1,121	233	1,031	2,385	124,226	126,611
Total loans	\$ 9,838	\$ 4,373	\$ 8,324	\$ 22,535	\$ 1,740,257	\$ 1,762,792

Table of Contents

<i>(Amounts in thousands)</i>	December 31, 2013					
	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						
	\$ 118	\$ 10	\$ 532	\$ 660	\$ 34,595	\$ 35,255
Commercial and industrial	93	39	2,631	2,763	92,692	95,455
Multi-family residential	115			115	70,082	70,197
Single family non-owner occupied	611	554	1,203	2,368	133,191	135,559
Non-farm, non-residential	1,014	318	1,770	3,102	472,809	475,911
Agricultural					2,324	2,324
Farmland	245			245	32,369	32,614
Consumer real estate loans						
Home equity lines						
	289	317	442	1,048	110,722	111,770
Single family owner occupied	7,428	1,228	145	8,801	487,211	496,012
Owner occupied construction	205		2,284	2,489	26,214	28,703
Consumer and other loans						
Consumer loans						
	811	86	105	1,002	70,311	71,313
Other						
					3,926	3,926
Total non-covered loans	10,929	2,552	9,112	22,593	1,536,446	1,559,039
Covered loans						
Commercial loans						
Construction, development, and other land						
	479		453	932	14,933	15,865
Commercial and industrial	5	44	92	141	3,184	3,325
Multi-family residential					1,933	1,933
Single family non-owner occupied			184	184	7,265	7,449
Non-farm, non-residential	209			209	34,437	34,646
Agricultural					164	164
Farmland			301	301	572	873
Consumer real estate loans						
Home equity lines						
	488	86	163	737	68,469	69,206
Single family owner occupied	197	120	1,466	1,783	15,136	16,919
Owner occupied construction			190	190	994	1,184
Consumer and other loans						
Consumer loans						
					118	118
Other						
Total covered loans	1,378	250	2,849	4,477	147,205	151,682
Total loans	\$ 12,307	\$ 2,802	\$ 11,961	\$ 27,070	\$ 1,683,651	\$ 1,710,721

The Company may make concessions in interest rates, loan terms and/or amortization terms when restructuring loans for borrowers experiencing financial difficulty. All restructured loans to borrowers experiencing financial difficulty 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 \$653 thousand as of September 30, 2014, and \$1.84 million as of December 31, 2013. 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 Company recognized interest income on TDRs of \$188 thousand for the three months ended September 30, 2014, and \$183 thousand for the three months ended September 30, 2013. The Company recognized interest income on TDRs of \$466 thousand for the nine months ended September 30, 2014, and \$422 thousand for the nine months ended September 30, 2013.

Table of Contents

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, 2014, or December 31, 2013. The following table presents loans modified as TDRs, by loan class, segregated by accrual status, as of the dates indicated:

<i>(Amounts in thousands)</i>	September 30, 2014			December 31, 2013		
	Nonaccrual ⁽¹⁾	Accruing	Total	Nonaccrual ⁽¹⁾	Accruing	Total
Commercial loans						
Commercial and industrial	\$	\$	\$	\$ 1,115	\$	\$ 1,115
Single family non-owner occupied		837	837	375		375
Non-farm, non-residential	103	5,370	5,473	128	5,490	5,618
Consumer real estate loans						
Home equity lines		48	48	159	51	210
Single family owner occupied	382	8,652	9,034	423	6,670	7,093
Owner occupied construction		244	244			
Total TDRs	\$ 485	\$ 15,151	\$ 15,636	\$ 2,200	\$ 12,211	\$ 14,411

(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.

<i>(Amounts in thousands)</i>	Three Months Ended September 30,					
	2014			2013		
	Pre-Modification	Post-Modification	Total	Pre-Modification	Post-Modification	Total
	Contract	Investment	Contract	Investment	Contract	Investment
Below market interest rate						
Single family owner occupied	3	\$ 1,715	\$ 1,715	1	\$ 359	\$ 326
Extended payment term						
Single family non-owner occupied	1	468	468			
Below market interest rate and extended payment term						
Single family owner occupied	2	84	84	2	642	600
Total	6	\$ 2,267	\$ 2,267	3	\$ 1,001	\$ 926

**Nine Months Ended September 30,
2014**

		Pre- Modification Total	Pre- Modification Recorded Investment	Post- Modification Recorded Investment	Pre- Modification Total	Pre- Modification Recorded Investment	Post- Modification Recorded Investment
<i>(Amounts in thousands)</i>							
Below market interest rate							
Single family owner occupied	4	\$	1,850	\$	1,850	1	\$ 359 \$ 326
Owner occupied construction	1		245		245		
Total	5		2,095		2,095	1	359 326
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		487		487	2	642 600
Total	12	\$	3,353	\$	3,353	3	\$ 1,001 \$ 926

Table of Contents

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:

<i>(Amounts in thousands)</i>	Three Months Ended September 30,			
	2014		2013	
	Total	Pre-Modification	Total	Pre-Modification
	Contracts	Recorded Investment	Contracts	Recorded Investment
Commercial loans				
Non-farm, non-residential		\$	1	\$ 978
Consumer real estate loans				
Single family owner occupied	2	312		
Total	2	\$ 312	1	\$ 978

<i>(Amounts in thousands)</i>	Nine Months Ended September 30,			
	2014		2013	
	Total	Pre-Modification	Total	Pre-Modification
	Contracts	Recorded Investment	Contracts	Recorded Investment
Commercial loans				
Non-farm, non-residential		\$	1	\$ 978
Consumer real estate loans				
Single family owner occupied	2	312		
Total	2	\$ 312	1	\$ 978

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 utilizes 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 has aggregated PCI loans into the following pools: Waccamaw commercial, Waccamaw lines of credit, Peoples commercial, Waccamaw serviced home equity lines, Waccamaw residential, Peoples residential, and Waccamaw consumer. 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. 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, 2014, management believed the allowance was adequate to absorb probable loan losses inherent in the loan portfolio.

Table of Contents

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

<i>(Amounts in thousands)</i>	Allowance Excluding PCI Loans	Allowance for PCI Loans	Total Allowance
Three months ended September 30, 2013			
Beginning balance	\$ 23,114	\$ 8	\$ 23,122
Provision for loan losses	2,110	1,035	3,145
Benefit attributable to the FDIC indemnification asset		(812)	(812)
Provision for loan losses charged to operations	2,110	223	2,333
Provision for loan losses recorded through the FDIC indemnification asset		812	812
Charge-offs	(3,022)		(3,022)
Recoveries	1,420		1,420
Net charge-offs	(1,602)		(1,602)
Ending balance	\$ 23,622	\$ 1,043	\$ 24,665
Three months ended September 30, 2014			
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

Table of Contents

<i>(Amounts in thousands)</i>	Allowance Excluding PCI Loans	Allowance for PCI Loans	Total Allowance
Nine months ended September 30, 2013			
Beginning balance	\$ 25,762	\$ 8	\$ 25,770
Provision for loan losses	6,457	1,035	7,492
Benefit attributable to the FDIC indemnification asset		(812)	(812)
Provision for loan losses charged to operations	6,457	223	6,680
Provision for loan losses recorded through the FDIC indemnification asset		812	812
Charge-offs	(11,511)		(11,511)
Recoveries	2,914		2,914
Net charge-offs	(8,597)		(8,597)
Ending balance	\$ 23,622	\$ 1,043	\$ 24,665
Nine months ended September 30, 2014			
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:

<i>(Amounts in thousands)</i>	Commercial	Consumer Real Estate	Consumer and Other	Total
Three months ended September 30, 2013				
Beginning balance	\$ 15,873	\$ 6,658	\$ 583	\$ 23,114

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Provision for (recovery of) loan losses charged to operations	1,551	(807)	1,366	2,110
Loans charged off	(2,561)	1,026	(1,487)	(3,022)
Recoveries credited to allowance	1,194	39	187	1,420
Net (charge-offs) recoveries	(1,367)	1,065	(1,300)	(1,602)
Ending balance	\$ 16,057	\$ 6,916	\$ 649	\$ 23,622

Three months ended September 30, 2014

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

Table of Contents

<i>(Amounts in thousands)</i>	Commercial	Consumer Real Estate	Consumer and Other	Total
Nine months ended September 30, 2013				
Beginning balance	\$ 17,259	\$ 7,906	\$ 597	\$ 25,762
Provision for loan losses charged to operations	4,338	422	1,697	6,457
Loans charged off	(7,394)	(1,747)	(2,370)	(11,511)
Recoveries credited to allowance	1,854	335	725	2,914
Net charge-offs	(5,540)	(1,412)	(1,645)	(8,597)
Ending balance	\$ 16,057	\$ 6,916	\$ 649	\$ 23,622
Nine months ended September 30, 2014				
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:

<i>(Amounts in thousands)</i>	Commercial	Consumer Real Estate	Consumer and Other	Total
Three months ended September 30, 2013				
Beginning balance	\$ 8	\$	\$	\$ 8
Purchased impaired provision	158	877		1,035
Benefit attributable to FDIC indemnificaton asset	(242)	(570)		(812)
(Recovery of) provision for loan losses charged to operations	(84)	307		223
Provision for loan losses recorded through the FDIC indemnificaton asset	242	570		812
Ending balance	\$ 166	\$ 877	\$	\$ 1,043
Three months ended September 30, 2014				
Beginning balance	\$ 16	\$ 402	\$	\$ 418
Purchased impaired recovery	(8)	(206)		(214)

Benefit attributable to FDIC indemnificaton asset			110		110
Recovery of loan losses charged to operations	(8)	(96)		(104)	
Recovery of loan losses recorded through the FDIC indemnificaton asset		(110)		(110)	
Ending balance	\$ 8	\$ 196	\$	\$ 204	

Table of Contents

<i>(Amounts in thousands)</i>	Commercial	Consumer Real Estate	Consumer and Other	Total
Nine months ended September 30, 2013				
Beginning balance	\$ 8	\$	\$	\$ 8
Purchased impaired provision	158	877		1,035
Benefit attributable to FDIC indemnificaton asset	(242)	(570)		(812)
(Recovery of) provision for loan losses charged to operations	(84)	307		223
Provision for loan losses recorded through the FDIC indemnificaton asset	242	570		812
Ending balance	\$ 166	\$ 877	\$	\$ 1,043
Nine months ended September 30, 2014				
Beginning balance	\$ 77	\$ 678	\$	\$ 755
Purchased impaired recovery	(69)	(482)		(551)
Benefit attributable to FDIC indemnificaton asset	55	396		451
Recovery of loan losses charged to operations	(14)	(86)		(100)
Recovery of loan losses recorded through the FDIC indemnificaton asset	(55)	(396)		(451)
Ending balance	\$ 8	\$ 196	\$	\$ 204

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

<i>(Amounts in thousands)</i>	September 30, 2014			
	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	\$	\$	\$ 52,809	\$ 1,189
Commercial and industrial	1,258		89,680	1,064
Multi-family residential	5,567	500	95,666	1,786
Single family non-owner occupied	637	46	144,344	3,299
Non-farm, non-residential	9,850	623	493,317	4,910
Agricultural			2,300	18
Farmland			32,667	236
Total commercial loans	17,312	1,169	910,783	12,502

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Consumer real estate loans				
Home equity lines			136,429	1,346
Single family owner occupied	5,161	504	503,846	4,503
Owner occupied construction			45,212	304
Total consumer real estate loans	5,161	504	685,487	6,153
Consumer and other loans				
Consumer loans			71,336	627
Other			7,308	
Total consumer and other loans			78,644	627
Total loans, excluding PCI loans	\$ 22,473	\$ 1,673	\$ 1,674,914	\$ 19,282

Table of Contents

<i>(Amounts in thousands)</i>	December 31, 2013			
	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	\$	\$	\$ 46,404	\$ 1,141
Commercial and industrial	5,189	3,794	92,612	1,421
Multi-family residential			71,669	1,211
Single family non-owner occupied	664	47	136,567	3,502
Non-farm, non-residential	5,952	114	483,126	4,536
Agricultural			2,488	23
Farmland	351		33,136	301
Total commercial loans	12,156	3,955	866,002	12,135
Consumer real estate loans				
Home equity lines	472	52	136,896	1,309
Single family owner occupied	6,850	735	502,229	4,295
Owner occupied construction			29,090	206
Total consumer real estate loans	7,322	787	668,215	5,810
Consumer and other loans				
Consumer loans			71,389	635
Other			3,926	
Total consumer and other loans			75,315	635
Total loans, excluding PCI loans	\$ 19,478	\$ 4,742	\$ 1,609,532	\$ 18,580

The Company aggregates PCI loans into the following loan pools: Waccamaw commercial, Waccamaw lines of credit, Peoples commercial, Waccamaw serviced home equity lines, Waccamaw residential, Peoples residential, and Waccamaw consumer. The following table presents the Company's allowance for loan losses and recorded investment in PCI loans, by loan pool, as of the dates indicated:

<i>(Amounts in thousands)</i>	September 30, 2014		December 31, 2013	
	Loan Pools	Allowance for Loan Pools With Impairment	Loan Pools	Allowance for Loan Pools With Impairment
Commercial loans				
Waccamaw commercial	\$ 13,695	\$	\$ 19,851	\$
Waccamaw lines of credit	820		2,594	69
Peoples commercial	6,224		7,862	
Other	1,393	8	1,931	8
Total commercial loans	22,132	8	32,238	77

Consumer real estate loans				
Waccamaw serviced home equity lines	39,206		43,608	277
Waccamaw residential	2,853		4,497	217
Peoples residential	1,208	196	1,334	184
Total consumer real estate loans	43,267	196	49,439	678
Consumer and other loans				
Waccamaw consumer	6		34	
Total loans	\$ 65,405	\$ 204	\$ 81,711	\$ 755

Table of Contents**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:

<i>(Amounts in thousands)</i>	Three Months Ended September 30, 2014		Three Months Ended September 30, 2013	
	2014	2013	2014	2013
Beginning balance	\$ 30,908	\$ 40,389	\$ 34,691	\$ 48,149
(Decrease) increase in estimated losses on covered loans	(110)	812	(451)	812
Increase in estimated losses on covered OREO	674	3,654	1,233	3,752
Reimbursable expenses from the FDIC	88	327	375	818
Net amortization	(1,096)	(1,089)	(3,166)	(4,290)
Reimbursements from the FDIC	(719)	(6,991)	(2,937)	(12,139)
Ending balance	\$ 29,745	\$ 37,102	\$ 29,745	\$ 37,102

Note 7. Deposits

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

<i>(Amounts in thousands)</i>	September 30, 2014	December 31, 2013
Noninterest-bearing demand deposits	\$ 397,523	\$ 339,680
Interest-bearing deposits:		
Interest-bearing demand deposits	347,589	361,821
Money market accounts	226,156	237,845
Savings deposits	293,746	286,165
Certificates of deposit	551,089	606,178
Individual retirement accounts	116,172	119,053
Total interest-bearing deposits	1,534,752	1,611,062
Total deposits	\$ 1,932,275	\$ 1,950,742

Note 8. Borrowings

The following table presents the composition of borrowings as of the dates indicated:

<i>(Amounts in thousands)</i>	September 30, 2014	December 31, 2013
Federal funds purchased	\$	\$ 16,000
Securities sold under agreements to repurchase:		
Retail	64,439	68,308
Wholesale	50,000	50,000
Total securities sold under agreements to repurchase	114,439	118,308
FHLB borrowings	115,000	150,000
Subordinated debt	15,464	15,464
Other debt	583	624
Total borrowings	\$ 245,486	\$ 300,396

Short-term borrowings consist of federal funds purchased and retail repurchase agreements, which are typically collateralized with agency MBS. The weighted average rate of federal funds purchased was 0.36% as of December 31, 2013. The weighted average rate of retail repurchase agreements was 0.13% as of September 30, 2014, and 0.38% as of December 31, 2013.

Table of Contents

Long-term borrowings consist of wholesale repurchase agreements; FHLB borrowings, including convertible and callable advances; and other obligations. The weighted average contractual rate of wholesale repurchase agreements was 3.71% as of September 30, 2014, and December 31, 2013. The weighted average contractual rate of FHLB borrowings was 4.09% as of September 30, 2014, and 4.12% December 31, 2013. During the third quarter of 2014, the Company prepaid \$35 million of a \$50 million FHLB convertible advance that matures in May 2017 and bears an interest rate of 4.21%. The following schedule presents the contractual maturities of wholesale repurchase agreements and FHLB borrowings, by year, as of September 30, 2014:

<i>(Amounts in thousands)</i>	Wholesale Repurchase		Total
	Agreements	FHLB Borrowings	
2014	\$	\$	\$
2015			
2016	25,000		25,000
2017		65,000	65,000
2018			
2019 and thereafter	25,000	50,000	75,000
	\$ 50,000	\$ 115,000	\$ 165,000

Weighted average maturity (in years)

3.33

4.19

FHLB callable advances may be redeemed by the FHLB at quarterly intervals after various lockout periods that 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. FHLB advances were secured by qualifying loans that totaled \$1.18 billion as of September 30, 2014, and \$1.13 billion as of December 31, 2013. Unused borrowing capacity with the FHLB was \$395.44 million as of September 30, 2014.

Subordinated debt consists of junior subordinated debentures (Debentures) of \$15.46 million that were issued by the Company in October 2003 to FCBI Capital Trust (the Trust). The Debentures had an interest rate of three-month 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. 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 (the 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, 2014, and December 31, 2013.

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, 2014, the Company's derivative instruments consisted of 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.

Table of Contents

IRLCs and forward sale loan commitments. In the normal course of business, the Company enters into interest rate lock commitments (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 London InterBank Offered Rate (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 fifteen-year, \$4.34 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 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, 2014.

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

<i>(Amounts in thousands)</i>	September 30, 2014	December 31, 2013	September 30, 2013
	Notional or Contractual Amount	Notional or Contractual Amount	Notional or Contractual Amount
Derivatives designated as hedges:			
Interest rate swaps	\$ 7,819	\$ 3,453	\$
Derivatives not designated as hedges:			
IRLCs	2,948	3,677	1,094
Forward sale loan commitments	4,094	4,560	
Total derivatives not designated as hedges	7,042	8,237	1,094

Total derivatives	\$	14,861	\$	11,690	\$	1,094
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The following table presents the fair values of the Company's derivative instruments as of the dates indicated:

<i>(Amounts in thousands)</i>	September 30, 2014		December 31, 2013		September 30, 2013	
	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Derivatives designated as hedges:						
Interest rate swaps	\$	\$ 189	\$ 43	\$	\$	\$
Derivatives not designated as hedges:						
IRLCs		7		41	19	19
Forward sale loan commitments	7		41			
Total derivatives not designated as hedges	7	7	41	41	19	19
Total derivatives	\$ 7	\$ 196	\$ 84	\$ 41	\$ 19	\$ 19

Table of Contents

The following table presents the effect of the Company's derivative and hedging activity, if applicable, on the statement of income in the periods indicated:

<i>(Amounts in thousands)</i>	Income Statement Location	Three Months Ended		Nine Months Ended	
		September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Derivatives designated as hedges:					
Interest rate swaps	Other income	\$	\$	\$	\$
Derivatives not designated as hedges:					
IRLCs	Other income		307		(128)
Forward sale loan commitments	Other income				
Total derivatives not designated as hedges			307		(128)
Total derivatives		\$	\$ 307	\$	\$ (128)

Note 10. Employee Benefit Plans

The Company maintains the Supplemental Executive Retention Plan (the 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:

<i>(Amounts in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Service cost	\$ 26	\$ 33	\$ 79	\$ 101
Interest cost	73	62	218	185
Amortization of losses		13		37
Amortization of prior service cost	47	46	140	140
Net periodic cost	\$ 146	\$ 154	\$ 437	\$ 463

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:

<i>(Amounts in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Service cost	\$ 6	\$ 7	\$ 17	\$ 20
Interest cost	12	10	35	31
Amortization of prior service cost	18	22	54	67
Net periodic cost	\$ 36	\$ 39	\$ 106	\$ 118

Table of Contents**Note 11. Accumulated Other Comprehensive Income**

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

<i>(Amounts in thousands)</i>	Unrealized Gains (Losses) on			Total
	Available-for-Sale Securities	Employee Benefit Plan		
Three months ended September 30, 2013				
Beginning balance	\$ (10,317)	\$ (1,761)		\$ (12,078)
Other comprehensive (loss) gain before reclassifications	(773)	181		(592)
Reclassified from AOCI	(24)	(51)		(75)
Net comprehensive (loss) gain	(797)	130		(667)
Ending balance	\$ (11,114)	\$ (1,631)		\$ (12,745)
Three months ended September 30, 2014				
Beginning balance	\$ (5,736)	\$ (1,001)		\$ (6,737)
Other comprehensive gain before reclassifications	186	81		267
Reclassified from AOCI	63	(41)		22
Net comprehensive gain	249	40		289
Ending balance	\$ (5,487)	\$ (961)		\$ (6,448)

<i>(Amounts in thousands)</i>	Unrealized Gains (Losses) on			Total
	Available-for-Sale Securities	Employee Benefit Plan		
Nine months ended September 30, 2013				
Beginning balance	\$ (283)	\$ (1,542)		\$ (1,825)
Other comprehensive (loss) gain before reclassifications	(10,951)	64		(10,887)
Reclassified from AOCI	120	(153)		(33)
Net comprehensive loss	(10,831)	(89)		(10,920)
Ending balance	\$ (11,114)	\$ (1,631)		\$ (12,745)

**Nine months ended September 30,
2014**

Beginning balance	\$	(13,640)	\$	(1,100)	\$ (14,740)
Other comprehensive gain before reclassifications		8,422		261	8,683
Reclassified from AOCI		(269)		(122)	(391)
Net comprehensive gain		8,153		139	8,292
Ending balance	\$	(5,487)	\$	(961)	\$ (6,448)

Table of Contents

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

<i>(Amounts in thousands)</i>	Three Months Ended		Nine Months Ended		Income Statement Line Item Affected
	September 30, 2014	2013	September 30, 2014	2013	
Available-for-sale securities					
Gains (losses) realized in net income	\$ 320	\$ (39)	\$ 306	\$ 191	Net gain (loss) on sale of securities
Credit-related OTTI recognized in net income	(219)		(737)		Net impairment losses recognized in earnings
	101	(39)	(431)	191	Income before income taxes
Income tax effect	38	(15)	(162)	71	Income tax expense
	63	(24)	(269)	120	Net income
Employee benefit plans					
Amortization of prior service cost	(66)	(69)	(195)	(208)	(1)
Amortization of losses		(13)		(37)	(1)
	(66)	(82)	(195)	(245)	Income before income taxes
Income tax effect	(25)	(31)	(73)	(92)	Income tax expense
	(41)	(51)	(122)	(153)	Net income
Reclassified from AOCI, net of tax	\$ 22	\$ (75)	\$ (391)	\$ (33)	Net income

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

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 pursuant to the valuation hierarchy, is presented in the following discussion. The fair value hierarchy prioritizes 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 may 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.

Table of Contents

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 appropriate 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 regarding 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.

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.

Table of Contents

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:

<i>(Amounts in thousands)</i>	September 30, 2014			
	Total Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Available-for-sale securities:				
U.S. Treasury securities	\$ 9,478	\$	\$ 9,478	\$
Municipal securities	141,062		141,062	
Single issue trust preferred securities	48,682		48,682	
Corporate securities	5,048		5,048	
Agency MBS	137,519		137,519	
Non-Agency Alt-A residential MBS	9,662		9,662	
Equity securities	242	224	18	
Total available-for-sale securities	\$ 351,693	\$ 224	\$ 351,469	\$
Fair value loans	\$ 7,849	\$	\$ 7,849	\$
Deferred compensation assets	\$ 3,266	\$ 3,266	\$	\$
Derivative assets				
Forward sale loan commitments	\$ 7	\$	\$ 7	\$
Total derivative assets	\$ 7	\$	\$ 7	\$
Deferred compensation liabilities	\$ 3,266	\$ 3,266	\$	\$
Derivative liabilities				
Interest rate swaps	\$ 189	\$	\$ 189	\$
IRLCs	7		7	
Total derivative liabilities	\$ 196	\$	\$ 196	\$

<i>(Amounts in thousands)</i>	December 31, 2013			
	Total Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Available-for-sale securities:				
U.S. Treasury securities	\$ 9,013	\$	\$ 9,013	\$
Municipal securities	144,280		144,280	
Single issue trust preferred securities	46,234		46,234	
Corporate securities	4,871		4,871	

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Agency MBS	300,386		300,386	
Non-Agency Alt-A residential MBS	9,789		9,789	
Equity securities	5,247	251	4,996	
Total available-for-sale securities	\$ 519,820	\$ 251	\$ 519,569	\$
Deferred compensation assets	\$ 4,200	\$ 4,200	\$	\$
Derivatives assets				
Interest rate swaps	\$ 43	\$	\$ 43	\$
Forward sale loan commitments	41		41	
Total derivative assets	\$ 84	\$	\$ 84	\$
Deferred compensation liabilities	\$ 4,200	\$ 4,200	\$	\$
Derivative liabilities				
IRLCs	\$ 41	\$	\$ 41	\$
Total derivative liabilities	\$ 41	\$	\$ 41	\$

There were no changes in valuation techniques during the nine months ended September 30, 2014 or 2013. 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 in to or out of Level 3 of the fair value hierarchy during the three months ended September 30, 2014 or 2013.

Table of Contents*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 assist management in identifying potential credit impairment and determining 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, if appropriate. 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 and a deflator for the devaluation of property when banks are the sellers. Impaired loans that do not meet the aforementioned 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, which 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, 2014		
	Total Fair Value	Fair Value Measurements Using Level 1	Level 2 Level 3
<i>(Amounts in thousands)</i>			
Impaired loans not covered by loss share agreements	\$ 12,692		\$ 12,692
OREO, not covered by loss share agreements	4,183		4,183
OREO, covered by loss share agreements	5,997		5,997

	December 31, 2013			
	Total Fair Value	Fair Value Measurements Using Level 1	Level 2	Level 3
<i>(Amounts in thousands)</i>				
Impaired loans not covered by loss share agreements	\$ 8,935			\$ 8,935
OREO, not covered by loss share agreements	7,180			7,180
OREO, covered by loss share agreements	6,433			6,433

Table of Contents*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	Unobservable	Range (Weighted Average)	
	Technique	Input	September 30, 2014	December 31, 2013
Impaired loans	Discounted appraisals (1)	Appraisal adjustments (2)	2% to 34% (21%)	6% to 100% (47%)
OREO, not covered	Discounted appraisals (1)	Appraisal adjustments (2)	10% to 58% (33%)	0% to 65% (34%)
OREO, covered	Discounted appraisals (1)	Appraisal adjustments (2)	10% to 52% (44%)	4% to 70% (41%)

(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 currently available in the market for instruments with similar characteristics and maturities.

FHLB and Other Indebtedness. FHLB and other indebtedness is reported at fair value using discounted future cash flows that apply interest rates currently 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. 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, the Company believes it is not feasible or practicable to accurately disclose the fair values of off-balance sheet instruments. 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.

Table of Contents

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:

<i>(Amounts in thousands)</i>	Carrying Amount	Fair Value	September 30, 2014		
			Fair Value Measurements Using		
			Level 1	Level 2	Level 3
Assets					
Cash and cash equivalents	\$ 105,922	\$ 105,922	\$ 105,922	\$	\$
Available-for-sale securities	351,693	351,693	224	351,469	
Held-to-maturity securities	31,029	30,903		30,903	
Loans held for sale	1,150	1,150		1,150	
Loans held for investment less allowance	1,741,633	1,778,672		7,849	1,770,823
FDIC indemnification asset	29,745	19,459			19,459
Accrued interest receivable	6,346	6,346		6,346	
Derivative financial assets	7	7		7	
Deferred compensation assets	3,266	3,266	3,266		
Liabilities					
Demand deposits	\$ 397,523	\$ 397,523	\$	\$ 397,523	\$
Interest-bearing demand deposits	347,589	347,589		347,589	
Savings deposits	519,902	519,902		519,902	
Time deposits	667,261	668,014		668,014	
Securities sold under agreements to repurchase	114,439	116,055		116,055	
Accrued interest payable	1,889	1,889		1,889	
FHLB and other indebtedness	131,047	140,270		140,270	
Derivative financial liabilities	196	196		196	
Deferred compensation liabilities	3,266	3,266	3,266		

<i>(Amounts in thousands)</i>	Carrying Amount	Fair Value	December 31, 2013		
			Fair Value Measurements Using		
			Level 1	Level 2	Level 3
Assets					
Cash and cash equivalents	\$ 56,567	\$ 56,567	\$ 56,567	\$	\$
Available-for-sale securities	519,820	519,820	251	519,569	
Held-to-maturity securities	568	579		579	
Loans held for sale	883	883		883	
Loans held for investment less allowance	1,686,644	1,655,430			1,655,430
FDIC indemnification asset	34,691	34,691			34,691
Accrued interest receivable	7,521	7,521		7,521	
Derivative financial assets	84	84		84	
Deferred compensation assets	4,200	4,200	4,200		
Liabilities					
Demand deposits	\$ 339,680	\$ 339,680	\$	\$ 339,680	\$
Interest-bearing demand deposits	361,821	361,821		361,821	
Savings deposits	524,010	524,010		524,010	

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Time deposits	725,231	728,999	728,999
Securities sold under agreements to repurchase	118,308	121,320	121,320
Accrued interest payable	2,169	2,169	2,169
FHLB and other indebtedness	166,088	178,031	178,031
Derivative financial liabilities	41	41	41
Deferred compensation liabilities	4,200	4,200	4,200

Table of Contents**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, 2014	December 31, 2013
<i>(Amounts in thousands)</i>		
Commitments to extend credit	\$ 223,710	\$ 216,179
Commitments related to secondary market mortgage loans	2,948	3,677
Standby letters of credit and financial guarantees	3,378	4,193

Total off-balance sheet risk	\$	230,036	\$	224,049
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Reserve for unfunded commitments	\$	326	\$	326
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The Company issued \$15.46 million of trust preferred securities in a private placement through the Trust. In connection with the issuance, the Company has committed to irrevocably and unconditionally guarantee the following payments or distributions, with respect to the trust preferred securities to the holders thereof to the extent that the Trust has not made such payments or distributions and has the funds therefore: (i) accrued and unpaid distributions, (ii) the redemption price, and (iii) 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.

Table of Contents

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 2013 Annual Report on Form 10-K (the 2013 Form 10-K).

Cautionary Statement Regarding Forward-Looking Statements

We may make forward-looking statements in filings with the Securities and Exchange Commission (the SEC), including this Annual Report on Form 10-K and the Exhibits hereto, 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. Such statements are subject to significant risks, uncertainties, and change based on various factors, many of which are beyond our control. The words may, could, should, would, believe, anticipate, estimate, expect, intend, plan, and other similar expressions are intended to 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 concerning 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 all-inclusive. 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 Annual Report on Form 10-K 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 2013 Form 10-K.

Table of Contents

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-nine banking locations under the name First Community Bank in West Virginia, Virginia, and North Carolina and under the trade name Peoples Community Bank, a Division of First Community Bank, in Tennessee and South Carolina. 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 \$700 million as of September 30, 2014. 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 \$2.55 billion as of September 30, 2014. 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 2013 Form 10-K.

Performance Overview

Highlights of our results of operations for the quarter and nine months ended September 30, 2014, and financial condition as of September 30, 2014, include the following:

Diluted earnings per common share of \$0.36 for the third quarter of 2014 represents an increase of 38.46% over \$0.26 reported for the third quarter of 2013. Diluted earnings per common share of \$1.02 for the nine months ended September 30, 2014, represents an increase of 20.00% over \$0.85 reported for the nine months ended September 30, 2013.

The non-covered loan portfolio increased \$77.14 million compared to year-end 2013 and \$102.91 million compared to the third quarter of 2013. This marks the sixth consecutive quarter non-covered loan growth has exceeded covered loan declines.

Non-covered delinquent loans as a percentage of total non-covered loans experienced a significant decrease of 97 basis points, or 43.11%, to 1.28% compared to the third quarter of 2013. The decrease is attributed to significant declines in non-covered nonaccrual loans. This marks the sixth consecutive quarter the percentage of non-covered delinquent loans to total non-covered loans has improved.

The Company experienced positive resolution of a sizeable credit during the third quarter, which resulted in the significant recovery of loan loss provision. Additionally, net charge-offs of \$203 thousand were a decrease of \$825 thousand, or 80.25%, from \$1.03 million for the second quarter of 2014 and \$1.40 million, or 87.33%, from \$1.60 million for the third quarter of 2013.

The Company significantly exceeds regulatory well capitalized targets as of September 30, 2014, with a total risk-based capital ratio of 16.76%, a Tier 1 risk-based capital ratio of 15.51%, and a Tier 1 leverage ratio of 10.70%.

During the third quarter of 2014, the Company prepaid \$35 million of a \$50 million FHLB convertible advance.

Table of Contents

During the third quarter of 2014, the Company announced the pending sale of 13 branches, 10 in the southeastern, coastal region of North Carolina and 3 in South Carolina, with deposits of approximately \$230 million and loans of approximately \$59 million. The transaction is expected to close during the fourth quarter of 2014.

On October 24, 2014, the Company completed the purchase of seven branches in southwestern Virginia and central North Carolina from Bank of America, with deposits of approximately \$318 million.

Results of Operations**Net Income**

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

	Three Months Ended		Nine Months Ended		Three Months Ended		Nine Months Ended	
	September 30,		September 30,		Increase		Increase	
<i>Amounts in thousands, except per share data</i>	2014	2013	2014	2013	(Decrease)%	Change	(Decrease)%	Change
Net income	\$ 7,043	\$ 5,412	\$ 19,775	\$ 17,988	\$ 1,631	30.14%	\$ 1,787	9.93%
Net income available to common shareholders	6,815	5,151	19,092	17,216	1,664	32.30%	1,876	10.90%
Basic earnings per common share	0.37	0.26	1.04	0.86	0.11	42.31%	0.18	20.93%
Diluted earnings per common share	0.36	0.26	1.02	0.85	0.10	38.46%	0.17	20.00%
Return on average assets	1.06%	0.77%	0.99%	0.86%	0.29%	37.47%	0.13%	15.46%
Return on average common equity	8.15%	6.06%	7.86%	6.71%	2.09%	34.42%	1.15%	17.20%

Three Month Comparison. Net income increased in the third quarter of 2014 compared to the same quarter of the prior year primarily due to a \$4.77 million decrease in the provision for loan losses, offset by a \$3.05 million FHLB debt prepayment fee.

Nine Month Comparison. Net income increased in the first nine months of 2014 compared to the same period of the prior year primarily due to a \$6.05 million decrease in the provision for loan losses, a \$1.26 million decrease in salaries and employee benefits, and a \$1.12 million decrease in the net amortization related to the FDIC indemnification asset, offset by a \$3.05 million FHLB debt prepayment fee, a \$2.44 million decrease in net interest income, and a \$1.26 million decrease in other operating income.

Net Interest Income

Net interest income, our largest contributor to earnings, comprised 74.17% of total net interest and noninterest income in the third quarter of 2014 compared to 73.35% in the same quarter of 2013. Net interest income comprised 74.60% of total net interest and noninterest income in the first nine months of 2014 compared to 75.02% in the same period of 2013. For the following discussion, net interest income is presented on a tax equivalent basis to provide a comparison among all types of interest earning assets. The tax equivalent basis adjusts for the tax-favored status of income from certain loans and investments. Although non-GAAP, management believes this financial measure is more widely used in the financial services industry and provides better comparability of net interest income arising from taxable and tax-exempt sources. We use this non-GAAP financial measure to monitor net interest income performance and manage the composition of our balance sheet.

Table of Contents

The following tables present our average consolidated balance sheets in the periods indicated:

<i>(Amounts in thousands)</i>	Three Months Ended September 30,					
	2014			2013		
	Average Balance	Interest⁽¹⁾	Average Yield/ Rate⁽¹⁾	Average Balance	Interest⁽¹⁾	Average Yield/ Rate⁽¹⁾
Assets						
Earning assets						
Loans ⁽²⁾	\$ 1,766,769	\$ 23,460	5.27%	\$ 1,694,243	\$ 23,476	5.50%
Securities available-for-sale	376,778	2,811	2.96%	547,686	3,857	2.79%
Securities held-to-maturity	24,189	73	1.20%	597	12	7.97%
Interest-bearing deposits	45,826	40	0.35%	45,259	42	0.37%
Total earning assets	2,213,562	26,384	4.73%	2,287,785	27,387	4.75%
Other assets	331,771			356,847		
Total assets	\$ 2,545,333			\$ 2,644,632		
Liabilities						
Interest-bearing deposits						
Demand deposits	\$ 349,013	\$ 49	0.06%	\$ 362,548	\$ 58	0.06%
Savings deposits	521,334	121	0.09%	520,884	142	0.11%
Time deposits	675,454	1,612	0.95%	757,575	1,947	1.02%
Total interest-bearing deposits	1,545,801	1,782	0.46%	1,641,007	2,147	0.52%
Borrowings						
Federal funds purchased	69		0.00%			
Retail repurchase agreements	69,565	23	0.13%	65,382	34	0.21%
Wholesale repurchase agreements	50,000	474	3.76%	50,000	473	3.75%
FHLB advances and other borrowings	142,115	1,457	4.07%	165,868	1,716	4.10%
Total borrowings	261,749	1,954	2.96%	281,250	2,223	3.14%
Total interest-bearing liabilities	1,807,550	3,736	0.82%	1,922,257	4,370	0.90%
Noninterest-bearing demand deposits						
	371,877			349,156		
Other liabilities	18,888			20,226		
Total liabilities	2,198,315			2,291,639		
Stockholders equity	347,018			352,993		
Total liabilities and stockholders equity	\$ 2,545,333			\$ 2,644,632		

Net interest income, tax equivalent	\$ 22,648	\$ 23,017
Net interest rate spread ⁽³⁾	3.91%	3.85%
Net interest margin ⁽⁴⁾	4.06%	3.99%

- (1) Fully taxable equivalent at the rate of 35% (FTE). The FTE basis adjusts for the tax benefits of income on certain tax exempt loans and investments using the federal statutory rate of 35% for each period presented. The Company believes this measure to be the preferred industry measurement of net interest income and provides relevant comparison between taxable and nontaxable amounts.
- (2) Nonaccrual loans are included in average balances outstanding but with no related interest income during the period of nonaccrual.
- (3) Represents the difference between the yield on earning assets and cost of funds.
- (4) Represents tax equivalent net interest income divided by average earning assets.

Table of Contents

<i>(Amounts in thousands)</i>	Nine Months Ended September 30,					
	2014			2013		
	Average Balance	Interest ⁽¹⁾	Average Yield/Rate ⁽¹⁾	Average Balance	Interest ⁽¹⁾	Average Yield/Rate ⁽¹⁾
Assets						
Earning assets						
Loans ⁽²⁾	\$ 1,744,422	\$ 69,818	5.35%	\$ 1,697,533	\$ 72,671	5.72%
Securities available-for-sale	434,462	9,808	3.02%	546,603	11,297	2.76%
Securities held-to-maturity	12,858	127	1.32%	700	43	8.21%
Interest-bearing deposits	40,587	117	0.39%	75,577	180	0.32%
Total earning assets	2,232,329	79,870	4.78%	2,320,413	84,191	4.85%
Other assets	337,298			355,025		
Total assets	\$ 2,569,627			\$ 2,675,438		
Liabilities						
Interest-bearing deposits						
Demand deposits	\$ 363,780	\$ 154	0.06%	\$ 359,439	\$ 173	0.06%
Savings deposits	525,269	387	0.10%	514,447	444	0.12%
Time deposits	695,585	4,964	0.95%	785,690	6,176	1.05%
Total interest-bearing deposits	1,584,634	5,505	0.46%	1,659,576	6,793	0.55%
Borrowings						
Federal funds purchased	1,192	3	0.34%			
Retail repurchase agreements	73,669	74	0.13%	71,476	240	0.45%
Wholesale repurchase agreements	50,000	1,405	3.76%	52,521	1,416	3.60%
FHLB advances and other borrowings	158,009	4,832	4.09%	169,190	5,113	4.04%
Total borrowings	282,870	6,314	2.98%	293,187	6,769	3.09%
Total interest-bearing liabilities	1,867,504	11,819	0.85%	1,952,763	13,562	0.93%
Noninterest-bearing demand deposits						
	343,568			341,903		
Other liabilities	18,758			20,882		
Total liabilities	2,229,830			2,315,548		
Stockholders equity	339,797			359,890		
Total liabilities and stockholders equity	\$ 2,569,627			\$ 2,675,438		
Net interest income, tax equivalent		\$ 68,051			\$ 70,629	

Net interest rate spread ⁽³⁾	3.93%	3.92%
Net interest margin ⁽⁴⁾	4.08%	4.07%

- (1) Fully taxable equivalent at the rate of 35% (FTE). The FTE basis adjusts for the tax benefits of income on certain tax exempt loans and investments using the federal statutory rate of 35% for each period presented. The Company believes this measure to be the preferred industry measurement of net interest income and provides relevant comparison between taxable and nontaxable amounts.
- (2) Nonaccrual loans are included in average balances outstanding but with no related interest income during the period of nonaccrual.
- (3) Represents the difference between the yield on earning assets and cost of funds.
- (4) Represents tax equivalent net interest income divided by average earning assets.

Table of Contents

The following table presents the impact on tax equivalent net interest income resulting from changes in volume, the average volume times the prior year's average rate; rate, the average rate times the prior year's average volume; and rate/volume, the average volume column times the change in average rate, in the periods indicated:

<i>(Amounts in thousands)</i>	Three Months Ended September 30, 2014 Compared to 2013				Nine Months Ended September 30, 2014 Compared to 2013			
	Dollar Increase (Decrease) due to Rate/ Volume				Dollar Increase (Decrease) due to Rate/ Volume			
	Volume	Rate	Volume	Total	Volume	Rate	Volume	Total
Interest earned on:								
Loans (FTE)	\$ 2,982	\$ (979)	\$ (2,019)	\$ (16)	\$ 2,007	\$ (4,730)	\$ (130)	\$ (2,853)
Securities available-for-sale (FTE)	(3,572)	229	2,297	(1,046)	(2,318)	1,043	(214)	(1,489)
Securities held-to-maturity (FTE)	1,407	(10)	(1,336)	61	747	(36)	(627)	84
Interest-bearing deposits with other banks	2	(2)	(2)	(2)	(83)	38	(18)	(63)
Total interest earning assets	819	(762)	(1,060)	(1,003)	353	(3,685)	(989)	(4,321)
Interest paid on:								
Demand deposits	(6)	(7)	4	(9)	2	(21)		(19)
Savings deposits		(21)		(21)	9	(65)	(1)	(57)
Time deposits	(626)	(139)	430	(335)	(708)	(569)	65	(1,212)
Federal funds purchased			0	0			3	3
Retail repurchase agreements	6	(12)	(5)	(11)	7	(168)	(5)	(166)
Wholesale repurchase agreements		1		1	(68)	60	(3)	(11)
FHLB advances and other borrowings	(729)	(15)	485	(259)	(338)	61	(4)	(281)
Total interest-bearing liabilities	(1,355)	(193)	914	(634)	(1,096)	(702)	55	(1,743)
Change in net interest income, tax equivalent	\$ 2,174	\$ (569)	\$ (1,974)	\$ (369)	\$ 1,449	\$ (2,983)	\$ (1,044)	\$ (2,578)

The following table reconciles the differences between net interest income under GAAP and net interest income on a tax equivalent basis in the periods indicated:

<i>(Amounts in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net interest income, GAAP basis	\$ 22,015	\$ 22,326	\$ 66,108	\$ 68,550
Tax equivalent adjustment ⁽¹⁾	633	691	1,943	2,079

Net interest income, tax equivalent	\$ 22,648	\$ 23,017	\$ 68,051	\$ 70,629
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- (1) Fully taxable equivalent at the rate of 35% (FTE). The FTE basis adjusts for the tax benefits of income on certain tax exempt loans and investments using the federal statutory rate of 35% for each period presented. The Company believes this measure to be the preferred industry measurement of net interest income and provides relevant comparison between taxable and nontaxable amounts.

Table of Contents

Interest and yield on loans include accretion income from the Peoples and Waccamaw acquired loan portfolios. We expect the purchase accounting interest accretion to continue to decline in future periods due to acquired portfolio attrition. The following table presents net interest margin and related average balance sheet information excluding the impact of purchase accounting accretion in the periods indicated:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2014		2013		2014		2013	
	Average Yield/		Average Yield/		Average Yield/		Average Yield/	
(Amounts in thousands)	Interest ⁽¹⁾	Rate ⁽¹⁾	Interest ⁽¹⁾	Rate ⁽¹⁾	Interest ⁽¹⁾	Rate ⁽¹⁾	Interest ⁽¹⁾	Rate ⁽¹⁾
Earning assets								
Loans ⁽²⁾	\$ 23,460	5.27%	\$ 23,476	5.50%	\$ 69,818	5.35%	\$ 72,671	5.72%
Accretion income	2,813		3,472		8,724		11,077	
Less: cash accretion income	1,367		1,737		3,214		5,227	
Non-cash accretion income	1,446		1,735		5,510		5,850	
Loans, excluding non-cash accretion	22,014	4.94%	21,741	5.09%	64,308	4.93%	66,821	5.26%
Other earning assets	2,924	2.60%	3,911	2.61%	10,052	2.75%	11,520	2.47%
Total earning assets	24,938	4.47%	25,652	4.45%	74,360	4.46%	78,341	4.51%
Total interest-bearing liabilities	3,736	0.82%	4,370	0.90%	11,819	0.85%	13,562	0.93%
Net interest income, tax equivalent	\$ 21,202		\$ 21,282		\$ 62,541		\$ 64,779	
Net interest rate spread ⁽³⁾ , less non-cash accretion		3.65%		3.55%		3.61%		3.59%
Net interest margin ⁽⁴⁾ , less non-cash accretion		3.80%		3.69%		3.75%		3.73%

(1) Fully taxable equivalent at the rate of 35% (FTE). The FTE basis adjusts for the tax benefits of income on certain tax exempt loans and investments using the federal statutory rate of 35% for each period presented. The Company believes this measure to be the preferred industry measurement of net interest income and provides relevant comparison between taxable and nontaxable amounts.

(2) Nonaccrual loans are included in average balances outstanding but with no related interest income during the period of nonaccrual.

(3) Represents the difference between the yield on earning assets and cost of funds.

(4) Represents tax equivalent net interest income divided by average earning assets.

Three Month Comparison. Net interest income under GAAP decreased \$311 thousand, or 1.39%, and tax equivalent net interest income decreased \$369 thousand, or 1.60%, in the third quarter of 2014 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 6 basis point increase in the net interest rate spread and a 7 basis point increase in the net interest margin.

Loan interest accretion stemming from the Peoples and Waccamaw acquisitions totaled \$2.81 million in the third quarter of 2014, of which \$1.37 million was received in cash, compared to \$3.47 million in the same quarter of the prior year, of which \$1.74 million was received in cash. Excluding non-cash accretion income, the yield on loans decreased 15 basis points, compared to a decrease of 23 basis points under GAAP. Excluding non-cash accretion income, the net interest margin increased 11 basis points compared to an increase of 7 basis points under GAAP. We expect the effect of accretion income on acquired loans to continue to be lessened in future periods.

Average earning assets decreased \$74.22 million, or 3.24%, in the third quarter of 2014 compared to the same quarter of the prior year primarily due to the decrease in securities available for sale, which was offset by the increase in the noncovered loan portfolio. Interest-bearing deposits with banks, which are primarily comprised of excess liquidity kept at the Federal Reserve Bank (FRB) of Richmond, bear overnight market rates. The yield on earning assets decreased 2 basis points, which was largely due to a 23 basis point decrease in the yield on loans, a result of the continued low rate environment.

As of September 30, 2014, 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 \$114.71 million, or 5.97%, in the third quarter of 2014 compared to the same quarter of the prior year, primarily due to the prepayment of FHLB advances and the decline in average time deposit balances. During the third quarter of 2014, we prepaid \$35 million of a \$50 million FHLB convertible advance that matures in May 2017 and bears an interest rate of 4.21%. The yield on interest-bearing liabilities decreased 8 basis points, which was largely due to a 6 basis point decrease in the rate on interest-bearing deposits and a 17 basis point decrease in the rate on borrowings. Average interest-bearing deposits decreased \$95.21 million, or 5.80%, which was driven by an \$82.12 million, or 10.84%, decrease in average time deposits and a \$13.54 million, or 3.73%, decrease in interest-bearing demand deposits, partially offset by an increase in average savings deposits, which include money market and savings accounts, of \$450 thousand, or 0.09%. Average borrowings decreased \$19.50 million, or 6.93%, which was driven by a \$23.75 million, or 14.32%, decrease in FHLB and other borrowings, partially offset by an increase in average retail repurchase agreements of \$4.18 million, or 6.40%.

Table of Contents

Nine Month Comparison. Net interest income under GAAP decreased \$2.44 million, or 3.56%, and tax equivalent net interest income decreased \$2.58 million, or 3.65%, in the first nine months of 2014 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 1 basis point increase in both the net interest rate spread and the net interest margin.

Loan interest accretion stemming from the Peoples and Waccamaw acquisitions totaled \$8.72 million in the first nine months of 2014, of which \$3.21 million was received in cash, compared to \$11.08 million in the same period of the prior year, of which \$5.23 million was received in cash. Excluding non-cash accretion income, the yield on loans decreased 33 basis points compared to a decrease of 37 basis points under GAAP. Excluding non-cash accretion income, the net interest margin increased 2 basis points compared to an increase of 1 basis point under GAAP.

Average earning assets decreased \$88.08 million, or 3.80%, in the first nine months of 2014 compared to the same period of the prior year primarily due to a decrease in securities available for sale, which was offset by the increase in the noncovered loan portfolio. The yield on earning assets decreased 7 basis points, which was largely due to a 37 basis point decrease in the yield on loans. During the first nine months of 2014, we purchased short-term bonds in the held-to-maturity category to provide for the funding necessary to extinguish certain wholesale borrowings as they come due.

Average interest-bearing liabilities decreased \$85.26 million, or 4.37%, in the first nine months of 2014 compared to the same period of the prior year, primarily due to declines in average time deposit balances. The yield on interest-bearing liabilities decreased 8 basis points, which was largely due to an 8 basis point decrease in the rate on interest-bearing deposits and 10 basis point decrease in the rate on borrowings. Average interest-bearing deposits decreased \$74.94 million, or 4.52%, which was driven by a \$90.11 million, or 11.47%, decrease in average time deposits, partially offset by increases in average interest-bearing demand deposits of \$4.34 million, or 1.21%, and average savings deposits, which include money market and savings accounts, of \$10.82 million, or 2.10%. Average borrowings decreased \$10.32 million, or 3.52%, largely due to an \$11.18 million, or 6.61%, decrease in FHLB and other borrowings.

Provision for Loan Losses

Three Month Comparison. The provision for loan losses is the amount added to the allowance for loan losses after net charge-offs have been deducted in order to bring the allowance to a level management determines necessary to absorb probable losses in the existing loan portfolio. A net recovery of \$2.44 million was attributed to the provision for loan losses previously charged to operations in the third quarter of 2014, a decrease of \$4.77 million, compared to a net provision of \$2.33 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, as well as a decrease in specific reserves on loans identified as impaired during the quarter, lower average loss rates, significantly lower charge-offs, and lower classified asset levels. A recovery of \$214 thousand was attributed to the provision for purchased credit impaired (PCI) loans in the third quarter of 2014 due to better than expected performance in the Waccamaw PCI loan portfolio, of which \$110 thousand was recorded through the FDIC indemnification asset to reflect the indemnified portion of the post-acquisition exposure and \$104 thousand was applied to operations. The provision for PCI loans in the third quarter of 2013 totaled \$1.04 million, of which \$812 was recorded through the FDIC indemnification asset and \$223 thousand was applied to operations. See Allowance for Loan Losses in the Financial Condition section below.

Nine Month Comparison. The provision charged to operations of \$633 thousand was reduced by \$6.05 million in the first nine months of 2014 compared to the same period of the prior year due to the release of specific reserves on a problem credit that experienced favorable resolution during the third quarter of 2014, as well as a decrease in specific

reserves on loans identified as impaired during the period, lower average loss rates, significantly lower charge-offs, and lower classified asset levels. A recovery of \$551 thousand was attributed to the provision for PCI loans in the first nine months of 2014 due to better than expected performance in the Waccamaw PCI loan portfolio, of which \$451 thousand was recorded through the FDIC indemnification asset to reflect the indemnified portion of the post-acquisition exposure and \$100 thousand was applied to operations. The provision for PCI loans in the first nine months of 2013 totaled \$1.04 million, of which \$812 thousand was recorded through the FDIC indemnification asset and \$223 thousand was applied to operations. There was no provision attributed to PCI loans prior to the third quarter of 2013. See Allowance for Loan Losses in the Financial Condition section below.

Noninterest Income

Noninterest income consists of all revenues not included in interest and fee income related to earning assets. Noninterest income comprised 25.83% of total net interest and noninterest income in the third quarter of 2014 compared to 26.65% in the same quarter of the prior year. Noninterest income comprised 25.40% of total net interest and noninterest income in the first nine months of 2014 compared to 24.98% in the same period of the prior year.

Table of Contents

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

	Three Months Ended		Nine Months Ended		Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013	Increase (Decrease)	% Change	Increase (Decrease)	% Change
<i>(Amounts in thousands)</i>								
Wealth management	\$ 670	\$ 863	\$ 2,396	\$ 2,680	\$ (193)	-22.36%	\$ (284)	-10.60%
Service charges on deposit accounts	3,606	3,582	10,099	10,065	24	0.67%	34	0.34%
Other service charges and fees	1,852	1,777	5,473	5,356	75	4.22%	117	2.18%
Insurance commissions	1,695	1,559	5,113	4,533	136	8.72%	580	12.80%
Net impairment loss	(219)		(737)		(219)		(737)	
Net gain (loss) on sale of securities	320	(39)	306	191	359	-920.51%	115	60.21%
Net FDIC indemnification asset amortization	(1,096)	(1,089)	(3,166)	(4,290)	(7)	0.64%	1,124	-26.20%
Other operating income	839	1,458	3,021	4,285	(619)	-42.46%	(1,264)	-29.50%
Noninterest income	\$ 7,667	\$ 8,111	\$ 22,505	\$ 22,820	\$ (444)	-5.47%	\$ (315)	-1.38%

Three Month Comparison. Noninterest income decreased \$444 thousand, or 5.47%, in the third quarter of 2014 compared to the same quarter of the prior year. Wealth management revenues, which include fees and commissions for trust and investment advisory services, decreased as a result of a decrease in FCWM income. Service charges on deposit accounts and other charges and fees increased primarily from an increase in interchange fee income and credit card income. Insurance commissions increased largely due to a general increase in premium commissions. In the third quarter of 2014, we incurred OTTI charges of \$219 thousand related to a non-Agency mortgage-backed security (MBS) and realized a net gain of \$320 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 amortization related to the FDIC indemnification asset of \$1.10 million as a result of improved loss estimates in the covered Waccamaw loan portfolio. Other operating income decreased primarily due to a \$510 thousand decrease in secondary market income and a \$107 thousand decrease in income from bank owned life insurance policies.

Excluding the impact from OTTI charges, the sale of securities, and the net amortization on the FDIC indemnification asset, noninterest income decreased \$577 thousand, or 6.25%, to \$8.66 million in the third quarter of 2014, compared with \$9.24 million in the same quarter of the prior year.

Nine Month Comparison. Noninterest income decreased \$315 thousand, or 1.38%, in the first nine months of 2014 compared to the same period of the prior year. Wealth management revenues decreased as a result of the recognition of estate settlement fees and decrease in FCWM income. Service charges on deposit accounts and other charges and fees increased primarily from an increase in monthly service charges on demand deposit accounts and credit card income, offset by a decrease in nonsufficient fee income. Insurance commissions increased largely due to increased levels of contingent profit-sharing commissions and a general increase in premium commissions. In the first nine months of 2014, we incurred OTTI charges of \$737 thousand related to a non-Agency MBS and certain equity holdings and realized a net gain of \$306 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 amortization related to the FDIC indemnification asset of \$3.17 million as a result of improved loss estimates in the covered Waccamaw loan portfolio. Other operating income decreased primarily due to a \$504 thousand decrease in secondary market income, a \$378 thousand decrease from a loyalty incentive received from a third-party vendor in 2013, and a \$296 thousand decrease in gains recognized from debt prepayments in 2013.

Excluding the impact from OTTI charges, the sale of securities, the net amortization on the FDIC indemnification asset, a nonrecurring life insurance benefit, and the net gain on debt prepayments, noninterest income decreased \$1.06 million, or 3.97%, to \$25.57 million in the first nine months of 2014, compared with \$26.62 million in the same period of the prior year.

Table of Contents*Noninterest Expense*

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

<i>(Amounts in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended Increase		Nine Months Ended Increase	
	2014	2013	2014	2013	(Decrease)%	Change	(Decrease)%	Change
Salaries and employee benefits	\$ 9,924	\$ 11,080	\$ 29,872	\$ 31,150	\$ (1,156)	-10.43%	\$ (1,278)	-4.10%
Occupancy of bank premises	1,469	1,700	4,825	5,350	(231)	-13.59%	(525)	-9.81%
Furniture and equipment	1,212	1,288	3,611	3,931	(76)	-5.90%	(320)	-8.14%
Amortization of intangible assets	179	183	532	545	(4)	-2.19%	(13)	-2.39%
FDIC premiums and assessments	419	460	1,311	1,401	(41)	-8.91%	(90)	-6.42%
FHLB debt prepayment	3,047		3,047		3,047		3,047	
Merger, acquisition, and divestiture	285		285	57	285		228	400.00%
Other operating expense	4,934	5,442	15,329	15,796	(508)	-9.33%	(467)	-2.96%
Total noninterest expense	\$ 21,469	\$ 20,153	\$ 58,812	\$ 58,230	\$ 1,316	6.53%	\$ 582	1.00%

Three Month Comparison. Noninterest expense increased \$1.32 million, or 6.53%, in the third quarter of 2014 compared to the same quarter of the prior year. Salaries and employee benefits decreased primarily from a one-time charge to accrue for contractual executive severance of \$1.07 million in the same quarter of the prior year. Exclusive of the severance charge, salaries and employee benefits decreased \$85 thousand, or 0.85%, for the quarter ended September 30, 2014, compared with the same quarter of 2013. Full-time equivalent employees, calculated using the number of hours worked, decreased to 691 as of September 30, 2014, from 726 as of September 30, 2013. The reduction in full-time equivalent employees was primarily seen throughout our North Carolina branches. Occupancy, furniture, and equipment expense decreased \$307 thousand, or 10.27%, in the third quarter of 2014, which was primarily due to branch closures between the periods. In the third quarter of 2014, we prepaid \$35 million of a \$50 million FHLB convertible advance that matures in May 2017 and bears an interest rate of 4.21%, which resulted in a prepayment penalty of \$3.05 million. Acquisition and divestiture expense totaled \$285 thousand in the third quarter of 2014, which was related to the pending seven branch acquisitions from Bank of America and thirteen branch sales to CresCom Bank. The decrease in other operating expense included a \$282 thousand decrease in problem loan expense, a \$252 thousand decrease in marketing expense, and a \$175 thousand decrease in legal expense. The decrease was offset by an increase in other service fees of \$155 thousand and an increase in the net loss on sales and expenses related to OREO of \$307 thousand to \$579 thousand in the third quarter of 2014 compared to \$273 thousand in the same quarter of the prior year.

Nine Month Comparison. Noninterest expense experienced an increase of \$582 thousand, or 1.00%, in the first nine months of 2014 compared to the same period of the prior year. Salaries and employee benefits decreased primarily from a one-time charge to accrue for contractual executive severance of \$1.07 million in the same quarter of the prior year. Exclusive of the severance charge, salaries and employee benefits decreased \$207 thousand, or 0.69%, for the nine months ended September 30, 2014, compared with the same period of 2013. Occupancy, furniture, and equipment expense decreased \$845 thousand, or 9.10%, in the first nine months of 2014, which was primarily due to branch closures between the periods. In the first nine months of 2014, we incurred a FHLB debt prepayment penalty of \$3.05 million. Acquisition and divestiture expense totaled \$285 thousand in the first nine months of 2014 related to the pending branch acquisitions and divestitures. The decrease in other operating expense included a \$587 thousand decrease in marketing expenses and a \$335 thousand decrease in legal expenses, offset by an increase in the net loss on sales and expenses related to OREO of \$623 thousand to \$1.69 million in the first nine months of 2014 compared to \$1.07 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 increased \$1.07 million, or 42.14%, and the effective rate increased 197 basis points to 33.89% in the third quarter of 2014 compared to the same quarter of the prior year. Income tax expense increased \$921 thousand, or 10.87%, and the effective rate increased 19 basis points to 32.21% in the first nine months of 2014 compared to the same period of the prior year. Increases in the effective tax rates were largely due to an increase in taxable revenues as a percent of net earnings and a decrease in the relative amounts of nontaxable revenues.

Table of Contents***Financial Condition***

Total assets were \$2.55 billion as of September 30, 2014, a decrease of \$52.39 million, or 2.01%, compared with \$2.60 billion as of December 31, 2013. Total liabilities were \$2.20 billion as of September 30, 2014, a decrease of \$71.02 million, or 3.12%, compared with \$2.27 billion as of December 31, 2013. Our book value per as-converted common share was \$17.85 as of September 30, 2014, an increase of 106 basis points, compared with \$16.79 as of December 31, 2013.

Investment Securities

Available-for-sale securities as of September 30, 2014, decreased \$168.13 million, or 32.34%, compared to December 31, 2013. The market value of securities available-for-sale as a percentage of amortized cost was 97.56% as of September 30, 2014, compared to 95.97% as of December 31, 2013.

Held-to-maturity securities as of September 30, 2014, increased \$30.46 million to \$31.03 million compared to \$568 thousand as of December 31, 2013, due to the purchase of 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 99.59% as of September 30, 2014, compared with 101.94% as of December 31, 2013.

We recognized credit-related OTTI charges in earnings associated with debt securities beneficially owned of \$219 thousand for the three months ended September 30, 2014, and no charges for the three months ended September 30, 2013. We recognized credit-related OTTI charges in earnings associated with debt securities beneficially owned of \$705 thousand for the nine months ended September 30, 2014, and no charges for the nine months ended September 30, 2013. These charges were related to a non-Agency MBS. Temporary impairment on the non-Agency MBS is primarily related to changes in interest rates. We recognized no OTTI charges in earnings associated with equity securities for the three months ended September 30, 2014, or the three months ended September 30, 2013. We recognized OTTI charges in earnings associated with certain equity securities of \$32 thousand for the nine months ended September 30, 2014, and no charges for the nine months ended September 30, 2013. 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, 2014, increased \$267 thousand, or 30.24%, compared to December 31, 2013. 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 related to secondary market mortgage loans as of September 30, 2014, was \$2.95 million for 20 loans compared to \$3.68 million for 19 loans as of December 31, 2013.

Loans Held for Investment

Loans held for investment as of September 30, 2014, increased \$52.07 million, or 3.04%, compared to December 31, 2013. The increase was primarily due to continued growth in commercial real estate originations in the Carolinas and southern West Virginia. The non-covered loan portfolio increased \$77.14 million, or 4.95%, compared to December 31, 2013. The average loan to deposit ratio was 92.13% for the three months ended September 30, 2014, compared to 85.13% for the same period of 2013, and 90.47% for the nine months ended September 30, 2014, compared to 84.81% for the same period of 2013. 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. See Note 3, Loans, to the Condensed Consolidated Financial Statements in Item 1 of this report.

Table of Contents

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

<i>(Amounts in thousands)</i>	September 30, 2014		December 31, 2013		September 30, 2013	
	Amount	Percent	Amount	Percent	Amount	Percent
Non-covered loans held for investment						
Commercial loans						
Construction, development, and other land	\$ 42,775	2.43%	\$ 35,255	2.06%	\$ 55,791	3.29%
Commercial and industrial	88,709	5.03%	95,455	5.58%	95,972	5.66%
Multi-family residential	99,812	5.66%	70,197	4.10%	56,079	3.31%
Single family non-owner occupied	143,904	8.16%	135,559	7.92%	132,253	7.79%
Non-farm, non-residential	491,933	27.91%	475,911	27.82%	455,247	26.83%
Agricultural	2,149	0.12%	2,324	0.14%	2,274	0.13%
Farmland	31,938	1.81%	32,614	1.91%	31,885	1.88%
Total commercial loans	901,220	51.12%	847,315	49.53%	829,501	48.89%
Consumer real estate loans						
Home equity lines	112,863	6.40%	111,770	6.53%	109,611	6.46%
Single family owner occupied	498,523	28.28%	496,012	28.99%	492,424	29.02%
Owner occupied construction	45,015	2.56%	28,703	1.68%	25,349	1.50%
Total consumer real estate loans	656,401	37.24%	636,485	37.20%	627,384	36.98%
Consumer and other loans						
Consumer loans	71,252	4.04%	71,313	4.17%	71,679	4.22%
Other	7,308	0.42%	3,926	0.23%	4,708	0.28%
Total consumer and other loans	78,560	4.46%	75,239	4.40%	76,387	4.50%
Non-covered loans held for investment	1,636,181	92.82%	1,559,039	91.13%	1,533,272	90.37%
Covered loans	126,611	7.18%	151,682	8.87%	163,425	9.63%
Less unearned income						
Total loans held for investment	1,762,792	100.00%	1,710,721	100.00%	1,696,697	100.00%
Allowance for loan losses	21,159		24,077		24,665	
Total loans held for investment, less allowance	1,741,633		1,686,644		1,672,032	
Loans held for sale	\$ 1,150		\$ 883		\$ 825	

Table of Contents*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 5, 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:

<i>(Amounts in thousands)</i>	September 30, 2014			December 31, 2013			September 30, 2013		
Non-covered nonperforming									
Nonaccrual loans	\$	11,480	\$	19,161	\$	26,397			
Accruing loans past due 90 days or more									
TDRs ⁽¹⁾		3,450		1,311		2,228			
Total nonperforming loans		14,930		20,472		28,625			
Non-covered OREO		5,612		7,318		5,450			
Total nonperforming assets	\$	20,542	\$	27,790	\$	34,075			
Covered nonperforming									
Nonaccrual loans	\$	1,131	\$	3,353	\$	3,579			
Accruing loans past due 90 days or more				86		82			
Total nonperforming loans		1,131		3,439		3,661			
Covered OREO		7,620		7,541		7,381			
Total nonperforming assets	\$	8,751	\$	10,980	\$	11,042			
Total nonperforming									
Nonaccrual loans	\$	12,611	\$	22,514	\$	29,976			
Accruing loans past due 90 days or more				86		82			
TDRs ⁽¹⁾		3,450		1,311		2,228			
Total nonperforming loans		16,061		23,911		32,286			
OREO		13,232		14,859		12,831			
Total nonperforming assets	\$	29,293	\$	38,770	\$	45,117			
Additional Information									
Performing TDRs ⁽²⁾	\$	11,701	\$	10,900	\$	9,697			
Total TDRs ⁽³⁾		15,151		12,211		11,925			
Non-covered ratios									
Nonperforming loans to total loans		0.91%		1.31%		1.87%			
Nonperforming assets to total assets		0.85%		1.14%		1.37%			
Non-PCI allowance to nonperforming loans		140.35%		113.92%		82.52%			

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Non-PCI allowance to total loans	1.28%	1.50%	1.54%
Total ratios			
Nonperforming loans to total loans	0.91%	1.40%	1.90%
Nonperforming assets to total assets	1.15%	1.49%	1.70%
Allowance for loan losses to nonperforming loans	131.74%	100.69%	76.40%
Allowance for loan losses to total loans	1.20%	1.41%	1.45%

- (1) TDRs not performing or restructured within the past six months, excludes nonaccrual TDRs of \$306 thousand, \$734 thousand, and \$1.04 million for the periods ended September 30, 2014, December 31, 2013, and September 30, 2013, respectively.
 - (2) TDRs with six months or more of satisfactory payment performance, excludes nonaccrual TDRs of \$179 thousand, \$1.47 million, and \$1.62 million for the periods ended September 30, 2014, December 31, 2013, and September 30, 2013, respectively.
 - (3) Performing and nonperforming TDRs, excludes nonaccrual TDRs of \$485 thousand, \$2.20 million, and \$2.66 million for the periods ended September 30, 2014, December 31, 2013, and September 30, 2013, respectively.
- Non-covered nonperforming assets totaled \$20.54 million as of September 30, 2014, a \$7.25 million, or 26.08%, decrease from December 31, 2013, and a \$13.53 million, or 39.72%, decrease from September 30, 2013. Non-covered nonperforming assets as a percentage of total non-covered assets were 0.85% as of September 30, 2014, 1.14% as of December 31, 2013, and 1.37% as of September 30, 2013.

Table of Contents

Non-covered nonaccrual loans totaled \$11.48 million as of September 30, 2014, \$19.16 million as of December 31, 2013, and \$26.40 million as of September 30, 2013. As of September 30, 2014, non-covered nonaccrual loans were largely attributed to the following loan classes: single family owner occupied (47.88%); commercial and industrial (20.52%); and non-farm, non-residential (20.36%). As of September 30, 2014, approximately \$1.48 million, or 12.90%, 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 the estimated realizable value or assigned specific reserves within 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 totaled \$15.15 million as of September 30, 2014, \$12.21 million as of December 31, 2013, and \$11.93 million as of September 30, 2013. Nonperforming accruing TDRs totaled \$3.45 million, or 22.77%, of total accruing TDRs as of September 30, 2014, as compared to 10.74% of accruing TDRs as of December 31, 2013, and 18.68% of accruing TDRs as of September 30, 2013. The allowance for loan losses attributed to TDRs totaled \$653 thousand as of September 30, 2014, \$1.84 million as of December 31, 2013, and \$1.69 million as of September 30, 2013.

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. There were no covered accruing loans contractually past due 90 days or as of September 30, 2014, compared to \$86 thousand as of December 31, 2013, and \$82 thousand as of September 30, 2013.

Non-covered OREO, which is carried at the lesser of estimated net realizable value or cost, totaled \$5.61 million as of September 30, 2014, a decrease of \$1.71 million, or 23.31%, compared with December 31, 2013. As of September 30, 2014, non-covered OREO consisted of 55 properties with an average holding period of 8 months. The net loss on the sale of OREO totaled \$422 thousand in the third quarter of 2014 compared to \$264 thousand in the same quarter of the prior year. The net loss on the sale of OREO totaled \$1.20 million in the first nine months of 2014 compared to \$606 thousand in the same period of the prior year. Pursuant to FDIC loss share agreements, covered OREO is presented net of the related fair value discount. The following tables detail activity within OREO for the periods indicated:

<i>(Amounts in thousands)</i>	Non-covered	Covered	Total
Beginning balance, January 1, 2013	\$ 5,749	\$ 3,255	\$ 9,004
Additions	6,651	6,978	13,629
Disposals	(6,106)	(1,827)	(7,933)
Valuation adjustments	(844)	(1,025)	(1,869)
Ending balance, September 30, 2013	\$ 5,450	\$ 7,381	\$ 12,831
Beginning balance, January 1, 2014	\$ 7,318	\$ 7,541	\$ 14,859
Additions	3,111	6,509	9,620
Disposals	(4,016)	(4,839)	(8,855)
Valuation adjustments	(801)	(1,591)	(2,392)

Ending balance, September 30, 2014	\$	5,612	\$	7,620	\$	13,232
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Non-covered delinquent loans, comprised of loans 30 days or more past due and nonaccrual loans, totaled \$20.94 million as of September 30, 2014, a decrease of \$9.92 million, or 32.14%, compared with December 31, 2013, and a decrease of \$13.52 million, or 39.23%, compared with September 30, 2013. Non-covered delinquent loans as a percentage of total non-covered loans measured 1.28% as of September 30, 2014, which is attributed to loans 30 to 89 days past due of 0.58% and nonaccrual loans of 0.70%. Non-covered nonperforming loans, comprised of nonaccrual loans, nonperforming TDRs, and unseasoned TDRs, as a percentage of total non-covered loans were 0.91% as of September 30, 2014, 1.31% at December 31, 2013, and 1.87% at September 30, 2013.

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.

Table of Contents

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 6, *Allowance for Loan Losses*, to the Condensed Consolidated Financial Statements in Item 1 of this report.

Our allowance for loan losses totaled \$21.16 million as of September 30, 2014, \$24.08 million as of December 31, 2013, and \$24.67 million as of September 30, 2013. During the third quarter of 2014, we released \$3.2 million of specific reserves as a result of a favorable resolution of litigation related to a large, commercial non-performing credit. The allowance attributed to non-PCI loans as a percentage of non-covered loans held for investment was 1.28% as of September 30, 2014, 1.50% at December 31, 2013, and 1.54% at September 30, 2013. The cash flow analysis performed for the third quarter of 2014 identified one of our seven PCI loan pools as impaired with a cumulative impairment of \$196 thousand as of September 30, 2014. The portfolio will continue to be monitored for deterioration in credit, which may result in the need to increase the allowance for loan losses in a future period.

Our qualitative risk factors continue to reflect a reduced risk of loan losses due to improvements in unemployment trends, general economic conditions, and asset quality metrics. As of September 30, 2014, 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. Net charge-offs decreased \$1.40 million, or 87.33%, in the third quarter of 2014 compared to the same quarter of the prior year and decreased \$5.50 million, or 63.94%, in the first nine months of 2014 compared to the same period of the prior year.

The following table presents activity in our allowance for loan losses for the periods indicated:

	Three Months Ended September 30,					
	2014			2013		
	Non-acquired Impaired	Acquired Impaired	Total	Non-acquired Impaired	Acquired Impaired	Total
<i>(Amounts in thousands)</i>						
Beginning balance	\$ 23,493	\$ 418	\$ 23,911	\$ 23,114	\$ 8	\$ 23,122
(Recovery of) provision for loan losses	(2,335)	(214)	(2,549)	2,110	1,035	3,145
Benefit attributable to the FDIC indemnification asset		110	110		(812)	(812)
(Recovery of) provision for loan losses charged to operations	(2,335)	(104)	(2,439)	2,110	223	2,333
(Recovery of) provision for loan losses recorded through the FDIC indemnification asset		(110)	(110)		812	812
Charge-offs	(1,118)		(1,118)	(3,022)		(3,022)
Recoveries	915		915	1,420		1,420

Net charge-offs	(203)		(203)	(1,602)		(1,602)
Ending balance	\$ 20,955	\$ 204	\$ 21,159	\$ 23,622	\$ 1,043	\$ 24,665

Table of Contents

<i>(Amounts in thousands)</i>	Nine Months Ended September 30,					
	2014			2013		
	Non-acquired Impaired	Acquired Impaired	Total	Non-acquired Impaired	Acquired Impaired	Total
Beginning balance	\$ 23,322	\$ 755	\$ 24,077	\$ 25,762	\$ 8	\$ 25,770
Provision for (recovery of) loan losses	733	(551)	182	6,457	1,035	7,492
Benefit attributable to the FDIC indemnification asset		451	451		(812)	(812)
Provision for (recovery of) loan losses charged to operations	733	(100)	633	6,457	223	6,680
(Recovery of) provision for loan losses recorded through the FDIC indemnification asset		(451)	(451)		812	812
Charge-offs	(5,119)		(5,119)	(11,511)		(11,511)
Recoveries	2,019		2,019	2,914		2,914
Net charge-offs	(3,100)		(3,100)	(8,597)		(8,597)
Ending balance	\$ 20,955	\$ 204	\$ 21,159	\$ 23,622	\$ 1,043	\$ 24,665

Deposits

Total deposits as of September 30, 2014, decreased \$18.47 million, or 0.95%, compared to December 31, 2013. Noninterest-bearing deposits increased \$57.84 million as of September 30, 2014, compared to December 31, 2013. Interest-bearing deposits decreased \$14.23 million; savings deposits, which include money market and savings accounts, decreased \$4.11 million; and time deposits decreased \$57.97 million as of September 30, 2014, compared to December 31, 2013.

Borrowings

Total borrowings as of September 30, 2014, decreased \$54.91 million, or 18.28%, compared to December 31, 2013. Short-term borrowings consist of federal funds purchased and retail repurchase agreements. No federal funds were purchased as of September 30, 2014, compared to \$16.00 million as of December 31, 2013. The balance of retail repurchase agreements decreased \$3.87 million, or 5.66%, as of September 30, 2014, compared to December 31, 2013. 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, 2014, compared to December 31, 2013. As of September 30, 2014, wholesale repurchase agreements had contractual maturities between two and five years. The balance of FHLB borrowings decreased \$35.00 million, or 23.33%, and the weighted average rate decreased 3 basis points to 4.09% as of September 30, 2014, compared to December 31, 2013. As of September 30, 2014, FHLB borrowings had contractual maturities between two and seven years. During the third quarter of 2014, we prepaid \$35 million of a \$50 million FHLB convertible advance that matures in May 2017 and bears an interest rate of 4.21%, which resulted in a prepayment penalty of \$3.05 million.

Stockholders Equity

Total stockholders' equity increased \$18.63 million, or 5.67%, from \$328.61 million as of December 31, 2013, to \$347.24 million as of September 30, 2014. The change in stockholders' equity was largely impacted by net income of \$19.78 million, dividends declared on our common and Series A Noncumulative Convertible Preferred Stock of \$7.49 million, repurchases of 132,773 shares of our common stock totaling \$2.15 million, and other comprehensive income (OCI) of \$8.29 million. OCI was driven by unrealized gains on available-for-sale securities.

Liquidity and Capital Resources

We maintain a liquidity risk management policy and contingency funding policy (the Liquidity Plan) that is designed to detect potential liquidity issues in order 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 is responsible for reviewing liquidity risk exposure and policies related to liquidity management and ensuring that systems and internal controls are consistent with liquidity policies and provide accurate reports regarding liquidity needs, sources, and compliance.

As of September 30, 2014, we maintained liquidity in the form of unencumbered cash on hand and deposits with other financial institutions of \$105.92 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 \$395.44 million, and unpledged available-for-sale securities of \$91.24 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. 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.

Table of Contents

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, 2014, the Company's liquid assets consisted of cash and investment securities totaling \$30.05 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, 2014, there was no outstanding balance on the line.

Capital Resources

Risk-based capital guidelines, promulgated 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. As of September 30, 2014, and December 31, 2013, the Company and the Bank were deemed well capitalized under regulatory capital adequacy standards. The following table presents our capital ratios as of the dates indicated:

	September 30, 2014	December 31, 2013
Total risk-based capital ratio		
First Community Bancshares, Inc.	16.76%	16.44%
First Community Bank	14.77%	14.55%
Tier 1 risk-based capital ratio		
First Community Bancshares, Inc.	15.51%	15.19%
First Community Bank	13.52%	13.30%
Tier 1 leverage ratio		
First Community Bancshares, Inc.	10.70%	9.95%
First Community Bank	9.27%	8.63%

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 the Company's off-balance sheet financial instruments as of the dates indicated:

<i>(Amounts in thousands)</i>	September 30, 2014	December 31, 2013
Commitments to extend credit	\$ 223,710	\$ 216,179
Commitments related to secondary market mortgage loans	2,948	3,677
Standby letters of credit and financial guarantees	3,378	4,193
Total off-balance sheet risk	\$ 230,036	\$ 224,049
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 terms of 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 financial institutions is generally not as significant as the effect on businesses with large investments in property, plant, and inventory. The U.S. inflation rate continues to be relatively stable, and management believes that any changes in inflation will not have a material impact on our financial performance.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our profitability is dependent to a large extent 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.

Our primary component of operational revenue, net interest income, is subject to variation as a result of changes in interest rate environments in conjunction with 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 the underlying rates on the assets and liabilities the institution holds change at different levels or in varying degrees. Yield curve risk is the risk of adverse consequences as a result of unequal changes in the spread between two or more rates for different maturities for the same instrument. Lastly, option risk is due to 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. The results of these simulations indicate the existence and severity of interest rate risk in each of those rate environments based upon the current balance sheet position, assumptions as to changes in the volume and mix of interest-earning assets and interest-paying liabilities and our estimate of yields to be attained in those future rate environments and rates that will be paid on various 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 timing, magnitude, and frequency of interest rate changes, as well as changes in market conditions and our strategies. However, the earnings simulation model is currently the best tool available to us and the industry for managing interest rate risk.

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 according to predefined policy guidelines. The most recent simulation indicates that current exposure to interest rate risk is within our defined policy limits.

Table of Contents

The following table summarizes the impact of immediate and sustained rate shocks in the interest rate environment on net interest income. The model simulates plus 300 to minus 100 basis point changes from the base case rate simulation and illustrates the prospective effects of hypothetical interest rate changes over a twelve-month time 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. Also, as market conditions vary from those assumed in the sensitivity analysis, actual results will also 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, 2014, 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; accordingly, downward rate scenarios are limited to minus 100 basis points. In the downward rate shocks presented, benchmark interest rates are assumed at levels with floors near 0%.

<i>(Amounts in thousands, except basis points)</i> Increase (Decrease) in Interest Rates in	September 30, 2014		December 31, 2013	
	Change in	Percent Change	Change in	Percent Change
Basis Points	Net Interest Income	Net Interest Income	Net Interest Income	Net Interest Income
300	\$ 552	0.6	\$ 2,649	3.1
200	151	0.2	1,517	1.8
100	(168)	(0.2)	454	0.5
(100)	827	1.0	497	0.6

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 pursuant to the Securities Exchange Act of 1934 (the Exchange Act) Rule 13a-15(b). Based upon that evaluation, the CEO and CFO concluded that, as of September 30, 2014, 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 time 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, 2014, that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**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 2013 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 2013 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 that Part of a Publicly Announced Plan	Total Number of Shares Maximum Number of Shares that May Yet be Purchased Under the Plan ⁽¹⁾
July 1-31, 2014	1,273	\$ 15.56	1,273	902,736
August 1-31, 2014				902,736
September 1-30, 2014				903,236

Total	1,273	\$	15.56	1,273
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- (1) Our stock repurchase plan, as amended, authorizes the purchase and retention of up to 3,000,000 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 2,096,764 shares in treasury as of September 30, 2014.

ITEM 3. Defaults Upon Senior Securities

None

ITEM 4. Mine Safety Disclosures

None

ITEM 5. Other Information

None

Table of Contents**ITEM 6. Exhibits**

(a) Exhibits and index required

Exhibit

No.	Exhibit
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)
4.5	Certificate of Designation of 6.00% Series A Noncumulative Convertible Preferred Stock. (7)
10.1**	First Community Bancshares, Inc. 1999 Stock Option Agreement (8) and Plan. (9)
10.1.1**	First Community Bancshares, Inc. 1999 Stock Option Plan, Amendment One. (10)
10.2**	First Community Bancshares, Inc. 2001 Nonqualified Director Stock Option Plan. (11)
10.3**	Employment Agreement between First Community Bancshares, Inc. and John M. Mendez dated December 16, 2008, as amended and restated (21) and Waiver Agreement. (29)
10.4**	First Community Bancshares, Inc. and Affiliates Executive Retention Plan (12), Amendment #1 (13), and Amendment #2. (32)
10.5**	First Community Bancshares, Inc. Split Dollar Plan and Agreement. (14)
10.6**	First Community Bancshares, Inc. Supplemental Directors Retirement Plan, as amended and restated. (15)
10.7**	First Community Bancshares, Inc. Wrap Plan, as amended and restated. (16)
10.9**	Form of Indemnification Agreement between First Community Bancshares, Inc., its Directors, and Certain Executive Officers. (17)
10.10**	Form of Indemnification Agreement between First Community Bank, its Directors, and Certain Executive Officers. (17)
10.11**	First Community Bancshares, Inc. 2004 Omnibus Stock Option Plan (18) and Stock Award Agreement. (19)
10.12**	First Community Bancshares, Inc. 2012 Omnibus Equity Compensation Plan (31)
10.13**	First Community Bancshares, Inc. Directors Deferred Compensation Plan, as amended and restated. (20)
10.14**	Employment Agreement between First Community Bancshares, Inc. and David D. Brown dated December 16, 2008. (22)

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- 10.15** Employment Agreement between First Community Bancshares, Inc. and Robert L. Buzzo dated December 16, 2008, as amended and restated. (23)
- 10.16** Employment Agreement between First Community Bancshares, Inc. and E. Stephen Lilly dated December 16, 2008, as amended and restated. (24)
- 10.17** Employment Agreement between First Community Bank and Gary R. Mills dated December 16, 2008. (25)
- 10.18** Employment Agreement between First Community Bank and Martyn A. Pell dated December 16, 2008. (26)
- 10.19** Employment Agreement between First Community Bank and Robert L. Schumacher dated December 16, 2008. (27)
- 10.21** Employment Agreement between First Community Bank and Mark R. Evans dated July 31, 2009. (28)
- 10.22** Form of Restricted Stock Grant Agreement under First Community Bancshares, Inc. 2012 Omnibus Equity Compensation Plan. (33)
- 10.23** Separation Agreement and Release between First Community Bancshares, Inc. and John M. Mendez dated August 28, 2013. (34)
- 10.24 Purchase and Assumption Agreement between Bank of America, National Association and First Community Bank. (35)
- 10.25 Purchase and Assumption Agreement between First Community Bank and CresCom Bank. (36)
- 11 Statement Regarding Computation of Earnings per Share. (30)
- 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, 2014, (Unaudited), and December 31, 2013; (ii) Condensed Consolidated Statements of Income (Unaudited) for the three and nine months ended September 30, 2014 and 2013; (iii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2014 and 2013; (iv) Condensed Consolidated Statements of Stockholders Equity (Unaudited) for the nine months ended September 30, 2014 and 2013; (v) Condensed Consolidated Statements of Cash Flows (Unaudited) for the nine months ended September 30, 2014 and 2013; and (vi) Notes to Condensed Consolidated Financial Statements (Unaudited).

Table of Contents

- * 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 4.1 of the Current Report on Form 8-K dated May 20, 2011, filed on May 23, 2011.
- (8) 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.
- (9) 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.
- (10) 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.
- (11) 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.
- (12) Incorporated by reference from Exhibit 10.1 of the Current Report on Form 8-K dated December 30, 2008, filed on January 5, 2009.
- (13) Incorporated by reference from Exhibit 10.3 of the Current Report on Form 8-K dated December 16, 2010, filed on December 17, 2010.
- (14) 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.
- (15) Incorporated by reference from Exhibit 10.1 of the Current Report on Form 8-K dated December 16, 2010, filed on December 17, 2010.
- (16) Incorporated by reference from Exhibit 99.1 of the Current Report on Form 8-K dated August 22, 2006, filed on August 23, 2006.
- (17) 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.
- (18) Incorporated by reference from Annex B to the 2004 First Community Bancshares, Inc. Definitive Proxy Statement filed on March 15, 2004.
- (19) 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.
- (20) Incorporated by reference from Exhibit 99.2 of the Current Report on Form 8-K dated August 22, 2006, filed on August 23, 2006.
- (21) Incorporated by reference from Exhibit 10.1 of the Current Report on Form 8-K dated and filed on December 16, 2008.
- (22)

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Incorporated by reference from Exhibit 10.2 of the Current Report on Form 8-K dated and filed on December 16, 2008.

- (23) Incorporated by reference from Exhibit 10.1 of the Current Report on Form 8-K dated and filed on July 6, 2009.
- (24) Incorporated by reference from Exhibit 10.2 of the Current Report on Form 8-K dated and filed on July 6, 2009.
- (25) Incorporated by reference from Exhibit 10.3 of the Current Report on Form 8-K dated and filed on July 6, 2009.
- (26) Incorporated by reference from Exhibit 10.4 of the Current Report on Form 8-K dated and filed on July 6, 2009.
- (27) Incorporated by reference from Exhibit 10.5 of the Current Report on Form 8-K dated and filed on July 6, 2009.
- (28) Incorporated by reference from Exhibit 2.1 of the Current Report on Form 8-K dated April 2, 2009, filed on April 3, 2009.
- (29) Incorporated by reference from Exhibit 10.2 of the Current Report on Form 8-K dated December 16, 2010, filed on December 17, 2010.
- (30) Incorporated by reference from Note 1 of the Notes to Condensed Consolidated Financial Statements included herein.
- (31) Incorporated by reference from the 2012 First Community Bancshares, Inc. Definitive Proxy Statement filed on March 7, 2012.

Table of Contents

- (32) Incorporated by reference from Exhibit 10.1 of the Current Report on Form 8-K dated February 21, 2013, filed on February 25, 2013.
- (33) Incorporated by reference from Exhibit 99.1 of the Current Report on Form 8-K dated and filed May 28, 2013.
- (34) 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.
- (35) 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.
- (36) Incorporated by reference from Exhibit 99.1 of the Current Report on Form 8-K dated August 6, 2014, filed on August 7, 2014.

Table of Contents

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 7th day of November, 2014.

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)

Table of Contents

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, 2014, (Unaudited), and December 31, 2013; (ii) Condensed Consolidated Statements of Income (Unaudited) for the three and nine months ended September 30, 2014 and 2013; (iii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2014 and 2013; (iv) Condensed Consolidated Statements of Stockholders Equity (Unaudited) for the nine months ended September 30, 2014 and 2013; (v) Condensed Consolidated Statements of Cash Flows (Unaudited) for the nine months ended September 30, 2014 and 2013; and (vi) Notes to Condensed Consolidated Financial Statements (Unaudited).