FIRST COMMUNITY BANCSHARES INC /NV/
Form 10-Q
August 07, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2015

Commission file number 000-19297

FIRST COMMUNITY BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

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

P.O. Box 989

Bluefield, Virginia **24605-0989**
(Address of principal executive offices) **(Zip Code)**

(276) 326-9000

(Registrant s telephone number, including area code)

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

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

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

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

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

Class Common Stock, $1.00 Par Value; 18,530,076 shares outstanding as of July 31, 2015

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FORM 10-Q

For the quarter ended June 30, 2015

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

FIRST COMMUNITY BANCSHARES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share and per share data)	**June 30, 2015** (Unaudited)	**December 31, 2014**
Assets		
Cash and due from banks	$ 38,200	$ 39,450
Federal funds sold	53,023	196,873
Interest-bearing deposits in banks	1,379	1,337
Total cash and cash equivalents	92,602	237,660
Securities available for sale	376,191	326,117
Securities held to maturity	72,652	57,948
Loans held for sale	913	1,792
Loans held for investment, net of unearned income:		
Covered under loss share agreements	102,634	122,240
Not covered under loss share agreements	1,564,655	1,567,176
Less allowance for loan losses	(20,258)	(20,227)
Loans held for investment, net	1,647,031	1,669,189
FDIC indemnification asset	23,653	27,900
Premises and equipment, net	54,112	55,844
Other real estate owned:		
Covered under loss share agreements	5,382	6,324
Not covered under loss share agreements	7,434	6,638
Interest receivable	6,119	6,315
Goodwill	100,810	100,722
Other intangible assets	5,865	6,421
Other assets	99,034	105,066
Total assets	$ 2,491,798	$ 2,607,936
Liabilities		
Deposits:		
Noninterest-bearing	$ 424,438	$ 417,729
Interest-bearing	1,495,783	1,583,030
Total deposits	1,920,221	2,000,759

Interest, taxes, and other liabilities	23,852	26,062
Securities sold under agreements to repurchase	122,158	121,742
FHLB borrowings	65,000	90,000
Other borrowings	15,999	17,999
Total liabilities	2,147,230	2,256,562
Stockholders equity		
Preferred stock, undesignated par value; 1,000,000 shares authorized: Series A Noncumulative Convertible Preferred Stock, $0.01 par value; 25,000 shares authorized; 0 and 15,151 shares outstanding at June 30, 2015, and December 31, 2014, respectively		15,151
Common stock, $1 par value; 50,000,000 shares authorized; 21,381,779 and 20,499,683 shares issued at June 30, 2015, and December 31, 2014, respectively; 2,739,813 and 2,093,464 shares in treasury at June 30, 2015, and December 31, 2014, respectively	21,382	20,500
Additional paid-in capital	227,616	215,873
Retained earnings	148,378	141,206
Treasury stock, at cost	(46,610)	(35,751)
Accumulated other comprehensive loss	(6,198)	(5,605)
Total stockholders equity	344,568	351,374
Total liabilities and stockholders equity	$ 2,491,798	$ 2,607,936

See Notes to Consolidated Financial Statements.

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FIRST COMMUNITY BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(Amounts in thousands, except share and per share data)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Interest income				
Interest and fees on loans held for investment	$ 21,826	$ 23,410	$ 43,740	$ 46,244
Interest on securities taxable	1,070	1,537	2,105	3,634
Interest on securities nontaxable	1,003	1,099	2,019	2,221
Interest on deposits in banks	80	47	213	77
Total interest income	23,979	26,093	48,077	52,176
Interest expense				
Interest on deposits	1,562	1,835	3,292	3,723
Interest on short-term borrowings	499	483	989	985
Interest on long-term debt	848	1,707	1,887	3,375
Total interest expense	2,909	4,025	6,168	8,083
Net interest income	21,070	22,068	41,909	44,093
Provision for loan losses	276	1,279	1,376	3,072
Net interest income after provision for loan losses	20,794	20,789	40,533	41,021
Noninterest income				
Wealth management	775	718	1,441	1,726
Service charges on deposit accounts	3,507	3,423	6,410	6,493
Other service charges and fees	2,005	1,850	4,013	3,621
Insurance commissions	1,559	1,454	3,686	3,418
Impairment losses on securities		(254)		(518)
Portion of losses recognized in other comprehensive income				
Net impairment losses recognized in earnings		(254)		(518)
Net gain (loss) on sale of securities	213	(59)	190	(14)
Net FDIC indemnification asset amortization	(1,846)	(936)	(3,411)	(2,070)
Other operating income	1,924	1,408	2,644	2,182
Total noninterest income	8,137	7,604	14,973	14,838
Noninterest expense				
Salaries and employee benefits	9,693	10,043	19,386	19,948
Occupancy expense of bank premises	1,427	1,578	2,961	3,356
Furniture and equipment	1,358	1,205	2,595	2,399

Amortization of intangible assets	279	178	556	353
FDIC premiums and assessments	389	458	804	892
FHLB debt prepayment fees	1,702		1,702	
Merger, acquisition, and divestiture expense			86	
Other operating expense	5,441	4,701	9,979	10,395
Total noninterest expense	20,289	18,163	38,069	37,343
Income before income taxes	8,642	10,230	17,437	18,516
Income tax expense	2,467	3,223	5,304	5,784
Net income	6,175	7,007	12,133	12,732
Dividends on preferred stock		227	105	455
Net income available to common shareholders	$ 6,175	$ 6,780	$ 12,028	$ 12,277
Basic earnings per common share	$ 0.33	$ 0.37	$ 0.64	$ 0.67
Diluted earnings per common share	0.33	0.36	0.64	0.65
Cash dividends per common share	0.13	0.12	0.26	0.24
Weighted average basic shares outstanding	18,831,742	18,395,996	18,733,288	18,409,414
Weighted average diluted shares outstanding	18,860,119	19,457,237	19,095,408	19,475,333

See Notes to Consolidated Financial Statements.

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FIRST COMMUNITY BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(Amounts in thousands, except share and per share data)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Comprehensive Income				
Net income	$ 6,175	$ 7,007	$ 12,133	$ 12,732
Other comprehensive (loss) income, before tax:				
Available-for-sale securities:				
Unrealized (losses) gains on securities available for sale with other-than-temporary impairment		(264)		218
Unrealized (losses) gains on securities available for sale without other-than-temporary impairment	(2,440)	6,221	(823)	11,927
Less: reclassification adjustment for (gains) losses realized in net income	(213)	59	(190)	14
Less: reclassification adjustment for credit-related other-than-temporary impairments recognized in net income		254		518
Unrealized (losses) gains on available-for-sale securities	(2,653)	6,270	(1,013)	12,677
Employee benefit plans:				
Net actuarial gain (loss) on pension and other postretirement benefit plans	1	2	(97)	31
Less: reclassification adjustment for amortization of prior service cost and net actuarial loss included in net periodic benefit cost	81	64	163	129
Unrealized gains on employee benefit plans	82	66	66	160
Other comprehensive (loss) income, before tax	(2,571)	6,336	(947)	12,837
Income tax benefit (expense)	964	(2,386)	354	(4,834)
Other comprehensive (loss) income, net of tax	(1,607)	3,950	(593)	8,003
Total comprehensive income	$ 4,568	$ 10,957	$ 11,540	$ 20,735

See Notes to Consolidated Financial Statements.

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FIRST COMMUNITY BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY
(UNAUDITED)

(Amounts in thousands, except share and per share data)	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance January 1, 2014	$ 15,251	$ 20,493	$ 215,663	$ 125,826	$ (33,887)	$ (14,740)	$ 328,606
Net income				12,732			12,732
Other comprehensive income						8,003	8,003
Common dividends declared $0.24 per share				(4,415)			(4,415)
Preferred dividends declared $30.00 per share				(455)			(455)
Preferred stock converted to common stock 6,900 shares	(100)	7	93				
Equity-based compensation expense			115				115
Common stock options exercised 554 shares					9		9
Restricted stock awards 13,433 shares			(201)		229		28
Purchase of treasury shares 131,500 shares at $16.30 per share					(2,148)		(2,148)
Balance June 30, 2014	$ 15,151	$ 20,500	$ 215,670	$ 133,688	$ (35,797)	$ (6,737)	$ 342,475
Balance January 1, 2015	$ 15,151	$ 20,500	$ 215,873	$ 141,206	$ (35,751)	$ (5,605)	$ 351,374
Net income				12,133			12,133
Other comprehensive loss						(593)	(593)
Common dividends declared $0.26 per share				(4,856)			(4,856)
Preferred dividends declared $15.00 per share				(105)			(105)
Preferred stock converted to common stock 882,096 shares	(12,784)	882	11,902				
Redemption of preferred stock 2,367 shares	(2,367)						(2,367)
			43				43

Equity-based compensation expense							
Common stock options exercised 3,000 shares			(10)		51		41
Restricted stock awards 21,590 shares			(192)		367		175
Issuance of treasury stock to 401(k) plan 12,968 shares					220		220
Purchase of treasury shares 684,407 shares at $16.78 per share					(11,497)		(11,497)
Balance June 30, 2015	$	$ 21,382	$ 227,616	$ 148,378	$ (46,610)	$ (6,198)	$ 344,568

See Notes to Consolidated Financial Statements.

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FIRST COMMUNITY BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Amounts in thousands)	Six Months Ended June 30, 2015	2014
Operating activities		
Net income	$ 12,133	$ 12,732
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,376	3,072
Depreciation and amortization of property, plant, and equipment	2,109	2,193
Amortization of premiums on investments, net	5,477	2,899
Amortization of FDIC indemnification asset, net	3,411	2,070
Amortization of intangible assets	556	353
Gain on sale of loans	(263)	(351)
Equity-based compensation expense	43	115
Restricted stock awards	175	28
Issuance of treasury stock to 401(k) plan	220	
Loss (gain) on sale of property, plant, and equipment	18	(79)
Loss on sale of other real estate	659	1,539
(Gain) loss on sale of securities	(190)	14
Net impairment losses recognized in earnings		518
Proceeds from sale of mortgage loans	10,753	16,585
Origination of mortgage loans	(9,611)	(15,810)
Decrease in accrued interest receivable	196	1,315
Decrease (increase) in other operating activities	2,360	(1,061)
Net cash provided by operating activities	29,422	26,132
Investing activities		
Proceeds from sale of securities available for sale	266	101,799
Proceeds from maturities, prepayments, and calls of securities available for sale	13,105	30,696
Proceeds from maturities and calls of securities held to maturity	190	190
Payments to acquire securities available for sale	(69,712)	(2,102)
Payments to acquire securities held to maturity	(15,003)	(19,035)
Collections (originations) of loans, net	17,355	(58,551)
Proceeds from the redemption of FHLB stock, net	1,279	1,649
Net cash paid in mergers, acquisitions, and divestitures	(88)	(202)
Proceeds from the FDIC	1,805	2,218
Payments to acquire property, plant, and equipment	(537)	(866)
Proceeds from sale of property, plant, and equipment	7	1,318
Proceeds from sale of other real estate	2,868	5,764
Net cash (used in) provided by investing activities	(48,465)	62,878
Financing activities		
Net increase in noninterest-bearing deposits	6,709	18,191

Net decrease in interest-bearing deposits	(87,247)	(45,829)
Net decrease in federal funds purchased		(16,000)
Securities sold under agreements to repurchase, net	416	1,851
Repayments of FHLB and other borrowings	(27,000)	(1)
Redemption of preferred stock	(2,367)	
Proceeds from stock options exercised	41	9
Excess tax benefit from equity-based compensation	5	1
Payments for repurchase of treasury stock	(11,497)	(2,148)
Payments of common dividends	(4,856)	(4,415)
Payments of preferred dividends	(219)	(455)
Net cash used in financing activities	(126,015)	(48,796)
Net (decrease) increase in cash and cash equivalents	(145,058)	40,214
Cash and cash equivalents at beginning of period	237,660	56,567
Cash and cash equivalents at end of period	$ 92,602	$ 96,781
Supplemental transactions noncash items		
Transfer of loans to other real estate	$ 3,412	$ 7,189
Loans originated to finance other real estate	37	238

See Notes to Consolidated Financial Statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. General

First Community Bancshares, Inc. is a financial holding company that provides banking products and services to individuals and commercial customers through its wholly-owned subsidiary, First Community Bank (the Bank), a Virginia-chartered banking institution, and personal and commercial insurance products and services through its wholly-owned subsidiary Greenpoint Insurance Group, Inc. (Greenpoint). The Bank offers wealth management services and investment advice through its Trust Division and wholly-owned subsidiary First Community Wealth Management (FCWM), a registered investment advisory firm. Unless the context suggests otherwise, the use of the term Company refers to First Community Bancshares, Inc. (the Company) and its subsidiaries as a consolidated entity. The Company operates in one business segment, Community Banking, which consists of commercial and consumer banking, lending activities, wealth management, and insurance services. The Company s executive office is located at One Community Place, Bluefield, Virginia. As of June 30, 2015, our operations were conducted through 62 locations in 4 states: Virginia, West Virginia, North Carolina, and Tennessee.

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

The condensed consolidated balance sheet as of December 31, 2014, has been derived from the audited consolidated financial statements included in the Company s Annual Report on Form 10-K (the 2014 Form 10-K), as filed with the Securities and Exchange Commission (the SEC) on March 3, 2015. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with GAAP have been omitted in accordance with standards for the preparation of interim consolidated financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company s 2014 Form 10-K.

Significant Accounting Policies

A complete and detailed description of the Company s significant accounting policies is included in Note 1, Summary of Significant Accounting Policies, of the Notes to Consolidated Financial Statements in Part II, Item 8 of the Company s 2014 Form 10-K. A discussion of the Company s application of critical accounting estimates is included in Critical Accounting Estimates in Item 2 of this report.

Reclassifications and Corrections

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

Recent Accounting Pronouncements

In June 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2014-11, Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The new guidance aligns the

accounting for repurchase-to-maturity transactions and repurchase agreements executed as repurchase financings with the accounting for other typical repurchase agreements. Going forward, these transactions would all be accounted for as secured borrowings. The guidance eliminates sale accounting for repurchase-to-maturity transactions and supersedes the guidance under which a transfer of a financial asset and a contemporaneous repurchase financing could be accounted for on a combined basis as a forward agreement, which has resulted in outcomes referred to as off-balance-sheet accounting. Additional disclosures are required for transactions economically similar to repurchase agreements in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets throughout the term of the transaction. The guidance also requires expanded disclosures, effective for the current reporting period of June 30, 2015, about the nature of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. As of June 30, 2015, all of the Company s repurchase agreements were typical in nature and are accounted for as secured borrowings. The adoption of this guidance did not have a material impact on the Company s financial statements, but did result in additional disclosures. See Note 8, Borrowings, to the Condensed Consolidated Financial Statements of this report.

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Acquisitions and Divestitures

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

On October 24, 2014, the Company completed the acquisition of seven branches from Bank of America, National Association. At acquisition, the branches had total deposits of $318.88 million. The Company assumed the deposits for a premium of $5.79 million. No loans were included in the purchase. Additionally, the Company purchased the real estate or assumed the leases associated with the branches. The Company recorded goodwill of $1.37 million in connection with the acquisition. These fair value estimates are considered preliminary, and are subject to change for up to one year after the closing date of the acquisition as additional information relative to closing date fair values may become available. The acquisition expanded the Company s presence by six branches in Southwestern Virginia and one branch in Central North Carolina.

Earnings per Common Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in thousands, except share and per share data)	**2015**	**2014**	**2015**	**2014**
Net income	$ 6,175	$ 7,007	$ 12,133	$ 12,732
Dividends on preferred stock		227	105	455
Net income available to common shareholders	$ 6,175	$ 6,780	$ 12,028	$ 12,277
Weighted average number of common shares outstanding, basic	18,831,742	18,395,996	18,733,288	18,409,414

Dilutive effect of potential common shares from:				
Stock options	24,389	15,577	22,914	18,467
Restricted stock	3,988	245	2,555	508
Convertible preferred stock		1,045,419	336,651	1,046,944
Weighted average number of common shares outstanding, diluted	18,860,119	19,457,237	19,095,408	19,475,333
Basic earnings per common share	$ 0.33	$ 0.37	$ 0.64	$ 0.67
Diluted earnings per common share	0.33	0.36	0.64	0.65
Antidilutive potential common shares:				
Stock options	136,382	253,082	136,382	253,082

During the first quarter of 2015, the Company notified holders of its 6% Series A Noncumulative Convertible Preferred Stock (Series A Preferred Stock) of its intent to redeem all of the outstanding shares. Prior to redemption, holders converted 12,784 shares of Series A Preferred Stock with each share convertible into 69 shares of the Company s common stock. The Company redeemed the remaining 2,367 shares for $2.37 million along with accrued and unpaid dividends of $9 thousand. As a result of the redemption, there were no shares of Series A Preferred Stock outstanding as of June 30, 2015, compared to 15,151 shares as of December 31, 2014 and June 30, 2014.

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Note 2. Investment Securities

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

	June 30, 2015			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
(Amounts in thousands)				
U.S. Agency securities	$ 33,082	$ 26	$ (981)	$ 32,127
Municipal securities	131,139	3,340	(1,480)	132,999
Single issue trust preferred securities	55,852		(7,507)	48,345
Corporate securities	60,832	12	(136)	60,708
Certificates of deposit	5,000			5,000
Mortgage-backed Agency securities	97,902	329	(1,438)	96,793
Equity securities	222	6	(9)	219
Total	$ 384,029	$ 3,713	$ (11,551)	$ 376,191

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

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

	June 30, 2015			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
(Amounts in thousands)				
U.S. Agency securities	$ 61,928	$ 217	$ (3)	$ 62,142
Municipal securities	189	4		193
Corporate securities	10,535	18	(9)	10,544

Total	$ 72,652	$ 239	$ (12)	$ 72,879

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

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

(Amounts in thousands)	Amortized Cost	Fair Value
Available-for-sale securities		
Due within one year	$ 6,154	$ 6,148
Due after one year but within five years	61,263	61,253
Due after five years but within ten years	66,872	68,976
Due after ten years	146,616	137,802
	280,905	274,179
Mortgage-backed securities	97,902	96,793
Certificates of deposit	5,000	5,000
Equity securities	222	219
Total	$ 384,029	$ 376,191
Held-to-maturity securities		
Due within one year	$ 190	$ 194
Due after one year but within five years	72,462	72,685
Due after five years but within ten years		
Due after ten years		
Total	$ 72,652	$ 72,879

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
(Amounts in thousands)				
Gross realized gains	$ 251	$ 1,288	$ 266	$ 1,511
Gross realized losses	(38)	(1,347)	(76)	(1,525)
Net gain (loss) on sale of securities	$ 213	$ (59)	$ 190	$ (14)

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:

	June 30, 2015					
	Less than 12 Months		12 Months or longer		Total	
(Amounts in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Agency securities	$ 3,041	$ (14)	$ 25,102	$ (967)	$ 28,143	$ (981)
Municipal securities	20,138	(660)	10,120	(820)	30,258	(1,480)
Single issue trust preferred securities			48,344	(7,507)	48,344	(7,507)
Corporate securities	55,581	(136)			55,581	(136)
Mortgage-backed Agency securities	28,497	(199)	40,246	(1,239)	68,743	(1,438)
Equity securities			146	(9)	146	(9)
Total	$ 107,257	$ (1,009)	$ 123,958	$ (10,542)	$ 231,215	$ (11,551)

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

The following tables present 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.

	June 30, 2015					
	Less than 12 Months		12 Months or longer		Total	
(Amounts in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Agency securities	$ 3,754	$ (3)	$	$	$ 3,754	$ (3)
Corporate securities	3,642	(9)			3,642	(9)
Total	$ 7,396	$ (12)	$	$	$ 7,396	$ (12)

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

As of June 30, 2015, there were 131 securities in an unrealized loss position, and their combined depreciation in value represented 2.58% of the investment securities portfolio. As of December 31, 2014, there were 97 individual securities in an unrealized loss position, and their combined depreciation in value represented 3.21% of the investment securities portfolio.

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

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Debt securities beneficially owned by the Company consist of corporate securities, certificates of deposit, and mortgage-backed securities (MBSs). For debt securities beneficially owned, the Company analyzes the cash flows for each applicable security to determine if an adverse change in cash flows expected to be collected has occurred. If the projected value of cash flows at the current reporting date is less than the present value previously projected, and less than the current book value, an adverse change has occurred. The Company then compares the current present value of cash flows to the current net book value to determine the credit-related portion of the OTTI. The credit-related OTTI is recorded in earnings through noninterest income and any remaining noncredit-related OTTI is recorded in stockholders equity through OCI. During the three and six months ended June 30, 2015, the Company incurred no credit-related OTTI charges related to debt securities beneficially owned. During the three months ended June 30, 2014, the Company incurred credit-related OTTI charges related to debt securities beneficially owned of $254 thousand. During the six months ended June 30, 2014, the Company incurred credit-related OTTI charges related to debt securities beneficially owned of $486 thousand. These charges were associated with a non-Agency MBS that was sold in November 2014. The following table presents the activity for credit-related losses recognized in earnings on debt securities where a portion of an OTTI was recognized in OCI for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
(Amounts in thousands)				
Beginning balance[1]	$	$ 8,030	$	$ 7,798
Additions for credit losses on securities previously recognized		254		486
Ending balance	$	$ 8,284	$	$ 8,284

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

For equity securities, the Company considers its intent to hold or sell the security before recovery, the severity and duration of the decline in fair value of the security below its cost, the financial condition and near-term prospects of the issuer, and whether the decline appears to be related to issuer, general market, or industry conditions to determine if the impairment will be recovered. If the Company deems the impairment other-than-temporary in nature, the security is written down to its current present value and the OTTI loss is charged to earnings. During the three and six months ended June 30, 2015, the Company incurred no OTTI charges related to equity holdings. During the three months ended June 30, 2014, the Company incurred no OTTI charges related to equity holdings. During the six months ended June 30, 2014, the Company incurred OTTI charges related to certain equity holdings of $32 thousand.

The carrying amount of securities pledged for various purposes totaled $244.96 million as of June 30, 2015, and $268.78 million as of December 31, 2014.

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Note 3. Loans

Loan Portfolio

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

	June 30, 2015		December 31, 2014	
(Amounts in thousands)	**Amount**	**Percent**	**Amount**	**Percent**
Non-covered loans held for investment				
Commercial loans				
Construction, development, and other land	$ 39,854	2.39%	$ 41,271	2.44%
Commercial and industrial	82,121	4.93%	83,099	4.92%
Multi-family residential	96,235	5.77%	97,480	5.77%
Single family non-owner occupied	144,639	8.67%	135,171	8.00%
Non-farm, non-residential	458,325	27.49%	473,906	28.05%
Agricultural	1,863	0.11%	1,599	0.09%
Farmland	27,945	1.68%	29,517	1.75%
Total commercial loans	850,982	51.04%	862,043	51.02%
Consumer real estate loans				
Home equity lines	107,961	6.48%	110,957	6.57%
Single family owner occupied	488,712	29.31%	485,475	28.74%
Owner occupied construction	37,434	2.24%	32,799	1.94%
Total consumer real estate loans	634,107	38.03%	629,231	37.25%
Consumer and other loans				
Consumer loans	72,094	4.32%	69,347	4.10%
Other	7,472	0.45%	6,555	0.39%
Total consumer and other loans	79,566	4.77%	75,902	4.49%
Total non-covered loans	1,564,655	93.84%	1,567,176	92.76%
Total covered loans	102,634	6.16%	122,240	7.24%
Total loans held for investment, net of unearned income	$ 1,667,289	100.00%	$ 1,689,416	100.00%
Loans held for sale	$ 913		$ 1,792	

Deferred loan fees totaled $3.68 million as of June 30, 2015, and $3.39 million as of December 31, 2014. For information concerning unfunded loan commitments, see Note 13, Litigation, Commitments and Contingencies, to the Condensed Consolidated Financial Statements of this report.

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

(Amounts in thousands)	**June 30, 2015**	**December 31, 2014**
Covered loans		
Commercial loans		
Construction, development, and other land	$ 9,000	$ 13,100
Commercial and industrial	1,449	2,662
Multi-family residential	848	1,584
Single family non-owner occupied	4,138	5,918
Non-farm, non-residential	21,404	25,317
Agricultural	35	43
Farmland	671	716
Total commercial loans	37,545	49,340
Consumer real estate loans		
Home equity lines	54,565	60,391
Single family owner occupied	10,253	11,968
Owner occupied construction	186	453
Total consumer real estate loans	65,004	72,812
Consumer and other loans		
Consumer loans	85	88
Total covered loans	$ 102,634	$ 122,240

Purchased Credit Impaired Loans

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

	June 30, 2015		**December 31, 2014**	
(Amounts in thousands)	**Carrying Balance**	**Unpaid Principal Balance**	**Carrying Balance**	**Unpaid Principal Balance**
PCI Loans, by acquisition				
Peoples Bank of Virginia	$ 6,048	$ 11,991	$ 7,090	$ 13,669
Waccamaw Bank	47,710	75,560	53,835	86,641

Other acquired	1,307	1,350	1,358	1,401
Total PCI Loans	$ 55,065	$ 88,901	$ 62,283	$ 101,711

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

	Six Months Ended June 30, 2015			
	Peoples	Waccamaw	Other	Total
(Amounts in thousands)				
Beginning balance	$ 4,745	$ 19,048	$	$ 23,793
Additions		2		2
Accretion	(1,169)	(2,860)		(4,029)
Reclassifications from nonaccretable difference	1,106	2,445		3,551
Removal events	(735)	(807)		(1,542)
Ending balance	$ 3,947	$ 17,828	$	$ 21,775

	Six Months Ended June 30, 2014			
	Peoples	Waccamaw	Other	Total
(Amounts in thousands)				
Beginning balance	$ 5,294	$ 10,338	$ 8	$ 15,640
Additions	70	20		90
Accretion	(1,096)	(3,019)	(23)	(4,138)
Reclassifications from nonaccretable difference	513	11,603	23	12,139
Removal events	(467)	(1,046)		(1,513)
Ending balance	$ 4,314	$ 17,896	$ 8	$ 22,218

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:

	June 30, 2015			December 31, 2014		
(Amounts in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with no related allowance:						
Commercial loans						
Single family non-owner occupied	$ 463	$ 463	$	$ 466	$ 466	$
Non-farm, non-residential	8,831	9,211		5,705	6,049	

Consumer real estate loans						
Single family owner occupied	2,733	2,808		3,397	3,494	
Owner occupied construction	356	357				
Total impaired loans with no allowance	12,383	12,839		9,568	10,009	
Impaired loans with a related allowance:						
Commercial loans						
Single family non-owner occupied	686	686	41	367	367	45
Non-farm, non-residential	5,396	5,411	1,657	3,772	3,772	1,000
Consumer real estate loans						
Single family owner occupied	3,044	3,046	543	2,341	2,512	437
Total impaired loans with an allowance	9,126	9,143	2,241	6,480	6,651	1,482
Total impaired loans	$ 21,509	$ 21,982	$ 2,241	$ 16,048	$ 16,660	$ 1,482

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

	Three Months Ended June 30,			
	2015		2014	
(Amounts in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance:				
Commercial loans				
Commercial and industrial	$	$	$ 293	$ 17
Single family non-owner occupied	463			
Non-farm, non-residential	8,831	60	6,379	89
Farmland			360	11
Consumer real estate loans				
Home equity lines				
Single family owner occupied	2,741		1,556	42
Owner occupied construction	352			
Total impaired loans with no allowance	12,387	60	8,588	159
Impaired loans with a related allowance:				
Commercial loans				
Commercial and industrial			3,640	3
Multi-family residential			5,586	21
Single family non-owner occupied	684	20	369	1
Non-farm, non-residential	4,738	17	4,427	25
Consumer real estate loans				
Home equity lines				
Single family owner occupied	2,754	3	2,541	10
Total impaired loans with an allowance	8,176	40	16,563	60
Total impaired loans	$ 20,563	$ 100	$ 25,151	$ 219

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	Six Months Ended June 30,			
	2015		2014	
(Amounts in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance:				
Commercial loans				
Commercial and industrial	$	$	$ 293	$ 29
Single family non-owner occupied	461	1	210	1
Non-farm, non-residential	8,812	223	6,149	125
Farmland			362	22
Consumer real estate loans				
Home equity lines			133	2
Single family owner occupied	3,190	100	1,829	93
Owner occupied construction	176			
Total impaired loans with no allowance	12,639	324	8,976	272
Impaired loans with a related allowance:				
Commercial loans				
Commercial and industrial			4,399	50
Multi-family residential			5,595	43
Single family non-owner occupied	523	22	371	2
Non-farm, non-residential	4,401	36	4,413	50
Consumer real estate loans				
Home equity lines			115	1
Single family owner occupied	2,564	13	3,561	44
Total impaired loans with an allowance	7,488	71	18,454	190
Total impaired loans	$ 20,127	$ 395	$ 27,430	$ 462

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

	June 30, 2015	December 31, 2014
(Amounts in thousands)		
Recorded investment	$ 3,125	$ 14,607
Unpaid principal balance	4,077	31,169
Allowance for loan losses	114	58

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
(Amounts in thousands)				

Interest income recognized	$ 87	$ 1,290	$ 177	$ 2,072
Average recorded investment	3,462	55,024	3,677	52,166

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

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

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

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

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

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

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

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

	June 30, 2015					
(Amounts in thousands)	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Loss**	**Total**
Non-covered loans						
Commercial loans						
Construction, development, and other land	$ 37,659	$ 463	$ 1,732	$	$	$ 39,854
Commercial and industrial	80,195	536	1,390			82,121
Multi-family residential	88,256	6,946	1,033			96,235
Single family non-owner occupied	135,530	3,696	5,413			144,639
Non-farm, non-residential	429,895	9,203	19,227			458,325
Agricultural	1,859		4			1,863
Farmland	25,974	1,347	624			27,945
Consumer real estate loans						
Home equity lines	105,153	1,371	1,437			107,961
Single family owner occupied	460,973	6,634	21,105			488,712
Owner occupied construction	36,833		601			37,434
Consumer and other loans						
Consumer loans	71,799	90	205			72,094
Other	7,472					7,472
Total non-covered loans	1,481,598	30,286	52,771			1,564,655
Covered loans						
Commercial loans						
Construction, development, and other land	5,303	2,220	1,477			9,000
Commercial and industrial	1,396	22	31			1,449
Multi-family residential	500		348			848
Single family non-owner occupied	2,175	1,040	923			4,138
Non-farm, non-residential	11,450	2,582	7,372			21,404
Agricultural	35					35
Farmland	384		287			671
Consumer real estate loans						
Home equity lines	19,423	34,276	866			54,565
Single family owner occupied	6,497	1,714	2,042			10,253
Owner occupied construction		85	101			186
Consumer and other loans						
Consumer loans	85					85
Other						
Total covered loans	47,248	41,939	13,447			102,634

Total loans	$ 1,528,846	$ 72,225	$ 66,218	$	$	$ 1,667,289

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

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

	June 30, 2015			December 31, 2014		
(Amounts in thousands)	**Non-covered**	**Covered**	**Total**	**Non-covered**	**Covered**	**Total**
Commercial loans						
Construction, development, and other land	$	$ 69	$ 69	$	$ 18	$ 18
Commercial and industrial	113	17	130	123	34	157
Multi-family residential	182		182	245		245
Single family non-owner occupied	1,328	77	1,405	601	77	678
Non-farm, non-residential	6,804	124	6,928	2,334	1,317	3,651
Agricultural				4		4
Farmland	57		57			
Consumer real estate loans						
Home equity lines	423	459	882	792	204	996
Single family owner occupied	6,583	316	6,899	6,389	682	7,071
Owner occupied construction	356		356		106	106
Consumer and other loans						
Consumer loans	90		90	68		68
Total nonaccrual loans	$ 15,936	$ 1,062	$ 16,998	$ 10,556	$ 2,438	$ 12,994

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

	June 30, 2015					
(Amounts in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	90+ Days Past Due	Total Past Due	Current Loans	Total Loans
Non-covered loans						
Commercial loans						
Construction, development, and other land	$ 139	$ 56	$	$ 195	$ 39,659	$ 39,854
Commercial and industrial	30	36	95	161	81,960	82,121
Multi-family residential	78		182	260	95,975	96,235
Single family non-owner occupied	708	687	818	2,213	142,426	144,639
Non-farm, non-residential	1,246	59	5,818	7,123	451,202	458,325
Agricultural	4			4	1,859	1,863
Farmland	174		57	231	27,714	27,945
Consumer real estate loans						
Home equity lines	74	116	346	536	107,425	107,961
Single family owner occupied	2,760	1,489	3,473	7,722	480,990	488,712
Owner occupied construction					37,434	37,434
Consumer and other loans						
Consumer loans	170	42	38	250	71,844	72,094
Other					7,472	7,472
Total non-covered loans	5,383	2,485	10,827	18,695	1,545,960	1,564,655
Covered loans						
Commercial loans						
Construction, development, and other land	94		42	136	8,864	9,000
Commercial and industrial		31		31	1,418	1,449
Multi-family residential					848	848
Single family non-owner occupied	10	4	77	91	4,047	4,138
Non-farm, non-residential	258	39	85	382	21,022	21,404
Agricultural					35	35
Farmland					671	671
Consumer real estate loans						
Home equity lines	327	127	96	550	54,015	54,565
Single family owner occupied	26	85	78	189	10,064	10,253
Owner occupied construction					186	186
Consumer and other loans						
Consumer loans					85	85
Other						

Total covered loans	715	286	378	1,379	101,255	102,634
Total loans	$ 6,098	$ 2,771	$ 11,205	$ 20,074	$ 1,647,215	$ 1,667,289

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

The Company may make concessions in interest rates, loan terms, and/or amortization terms when restructuring loans for borrowers experiencing financial difficulty. Restructured loans in excess of $250 thousand are evaluated for a specific reserve based on either the collateral or net present value method, whichever is most applicable. Specific

reserves in the allowance for loan losses attributed to troubled debt restructurings (TDRs) totaled $478 thousand as of June 30, 2015, and $475 thousand as of December 31, 2014. Restructured loans under $250 thousand are subject to the reserve calculation at the historical loss rate for classified loans. Certain TDRs are classified as nonperforming at the time of restructuring and are returned to performing status after six months of satisfactory payment performance; however, these loans remain identified as impaired until full payment or other satisfaction of the obligation occurs. The following table presents interest income related to TDRs in the periods, indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	**2014**	**2015**	**2014**
(Amounts in thousands)				
Interest income recognized	$ 160	$ 129	$ 308	$ 278

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 June 30, 2015, or December 31, 2014.

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

	June 30, 2015			December 31, 2014		
(Amounts in thousands)	Nonaccrual[1]	Accruing	Total	Nonaccrual[1]	Accruing	Total
Commercial loans						
Single family non-owner occupied	$	$ 826	$ 826	$	$ 1,088	$ 1,088
Non-farm, non-residential		4,670	4,670	83	4,743	4,826
Consumer real estate loans						
Home equity lines		45	45		47	47
Single family owner occupied	312	8,055	8,367	471	8,412	8,883
Owner occupied construction	356	245	601		244	244
Total TDRs	$ 668	$ 13,841	$ 14,509	$ 554	$ 14,534	$ 15,088

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

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

	Three Months Ended June 30,					
	2015			2014		
(Amounts in thousands)	Total Contracts	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Total Contracts	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Below market interest rate and extended payment term						
Single family owner occupied	1	$ 35	$ 35	1	$ 137	$ 137
Total	1	$ 35	$ 35	1	$ 137	$ 137

	Six Months Ended June 30,					
	2015			2014		
(Amounts in thousands)	Total Contracts	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Total Contracts	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Below market interest rate						
Owner occupied construction		$	$	1	$ 245	$ 245
Total				1	245	245

Extended payment term						
Single family non-owner occupied				1	303	303
Non-farm, non-residential				1	134	134
Total				2	437	437
Below market interest rate and extended payment term						
Single family owner occupied	1	35	35	3	403	403
Total	1 $	35 $	35	6 $	1,085 $	1,085

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

	Three Months Ended June 30,			
	2015		2014	
(Amounts in thousands)	Total Contracts	Pre-Modification Recorded Investment	Total Contracts	Pre-Modification Recorded Investment
Commercial loans				
Non-farm, non-residential		$	1	$ 510
Consumer real estate loans				
Single family owner occupied	1	163	1	135
Owner occupied construction	1	353		
Total	2	$ 516	2	$ 645

	Six Months Ended June 30,			
	2015		2014	
(Amounts in thousands)	Total Contracts	Pre-Modification Recorded Investment	Total Contracts	Pre-Modification Recorded Investment
Commercial loans				
Non-farm, non-residential		$	1	$ 510
Consumer real estate loans				
Single family owner occupied	1	163	1	135
Owner occupied construction	1	353		
Total	2	$ 516	2	$ 645

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

(Amounts in thousands)	June 30, 2015	December 31, 2014
Non-covered OREO	$ 7,434	$ 6,638
Covered OREO	5,382	6,324
Total OREO	$ 12,816	$ 12,962
Non-covered OREO secured by residential real estate	$ 3,533	$ 6,155
Residential real estate loans in the foreclosure process[(1)]	2,731	4,561

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

Note 5. Allowance for Loan Losses

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

The Company s allowance is comprised of specific reserves related to loans individually evaluated, including credit relationships, and general reserves related to loans not individually evaluated that are segmented into groups with similar risk characteristics, based on an internal risk grading matrix. General reserve allocations are based on management s judgments of qualitative and quantitative factors about macro and micro economic conditions reflected within the loan portfolio and the economy. For loans acquired in a business combination, loans identified as credit impaired at the acquisition date are grouped into pools and evaluated separately from the non-PCI portfolio. The Company aggregates PCI loans into the following pools: Waccamaw commercial, Waccamaw lines of credit, Waccamaw serviced home equity lines, Waccamaw residential, Waccamaw consumer, Peoples commercial, and Peoples residential. The Company closed the Waccamaw consumer loan pool during the first quarter of 2015 due to an insignificant remaining balance. Provisions calculated for PCI loans are offset by an adjustment to the FDIC indemnification asset to reflect the indemnified portion, 80%, of the post-acquisition exposure. 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 June 30, 2015, management believed the allowance was adequate to absorb probable loan losses inherent in the loan portfolio.

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

	Three Months Ended June 30, 2015		
	Allowance Excluding PCI Loans	Allowance for PCI Loans	Total Allowance
(Amounts in thousands)			
Beginning balance	$ 20,138	$ 114	$ 20,252
Provision for loan losses	276		276
Benefit attributable to the FDIC indemnification asset			
Provision for (recovery of) loan losses charged to operations	276		276
Provision for loan losses recorded through the FDIC indemnification asset			
Charge-offs	(673)		(673)
Recoveries	403		403
Net charge-offs	(270)		(270)
Ending balance	$ 20,144	$ 114	$ 20,258

	Three Months Ended June 30, 2014		
	Allowance Excluding PCI Loans	Allowance for PCI Loans	Total Allowance
(Amounts in thousands)			
Beginning balance	$ 23,305	$ 493	$ 23,798
Provision for (recovery of) loan losses	1,216	(75)	1,141
Benefit attributable to the FDIC indemnification asset		138	138
Provision for loan losses charged to operations	1,216	63	1,279
Recovery of loan losses recorded through the FDIC indemnification asset		(138)	(138)
Charge-offs	(1,785)		(1,785)
Recoveries	757		757
Net charge-offs	(1,028)		(1,028)
Ending balance	$ 23,493	$ 418	$ 23,911

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	Six Months Ended June 30, 2015		
	Allowance Excluding PCI Loans	Allowance for PCI Loans	Total Allowance
(Amounts in thousands)			
Beginning balance	$ 20,169	$ 58	$ 20,227
Provision for loan losses	1,366	56	1,422
Benefit attributable to the FDIC indemnification asset		(46)	(46)
Provision for loan losses charged to operations	1,366	10	1,376
Provision for loan losses recorded through the FDIC indemnification asset		46	46
Charge-offs	(2,251)		(2,251)
Recoveries	860		860
Net charge-offs	(1,391)		(1,391)
Ending balance	$ 20,144	$ 114	$ 20,258

	Six Months Ended June 30, 2014		
	Allowance Excluding PCI Loans	Allowance for PCI Loans	Total Allowance
(Amounts in thousands)			
Beginning balance	$ 23,322	$ 755	$ 24,077
Provision for (recovery of) loan losses	3,068	(337)	2,731
Benefit attributable to the FDIC indemnification asset		341	341
Provision for loan losses charged to operations	3,068	4	3,072
Recovery of loan losses recorded through the FDIC indemnification asset		(341)	(341)
Charge-offs	(4,001)		(4,001)
Recoveries	1,104		1,104
Net charge-offs	(2,897)		(2,897)
Ending balance	$ 23,493	$ 418	$ 23,911

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

	Three Months Ended June 30, 2015			
(Amounts in thousands)	**Commercial**	**Consumer Real Estate**	**Consumer and Other**	**Total**
Beginning balance	$ 13,054	$ 6,446	$ 638	$ 20,138
Provision for (recovery of) loan losses charged to operations	98	(99)	277	276
Loans charged off	(280)	(90)	(303)	(673)
Recoveries credited to allowance	123	211	69	403
Net chargeoffs	(157)	121	(234)	(270)
Ending balance	$ 12,995	$ 6,468	$ 681	$ 20,144

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	Three Months Ended June 30, 2014			
	Commercial	Consumer Real Estate	Consumer and Other	Total
(Amounts in thousands)				
Beginning balance	$ 16,339	$ 6,393	$ 573	$ 23,305
Provision for (recovery of) loan losses charged to operations	1,436	(454)	234	1,216
Loans charged off	(1,231)	(255)	(299)	(1,785)
Recoveries credited to allowance	203	439	115	757
Net (charge-offs) recoveries	(1,028)	184	(184)	(1,028)
Ending balance	$ 16,747	$ 6,123	$ 623	$ 23,493

	Six Months Ended June 30, 2015			
	Commercial	Consumer Real Estate	Consumer and Other	Total
(Amounts in thousands)				
Beginning balance	$ 13,010	$ 6,489	$ 670	$ 20,169
Provision for loan losses charged to operations	748	116	502	1,366
Loans charged off	(961)	(492)	(798)	(2,251)
Recoveries credited to allowance	198	355	307	860
Net chargeoffs	(763)	(137)	(491)	(1,391)
Ending balance	$ 12,995	$ 6,468	$ 681	$ 20,144

	Six Months Ended June 30, 2014			
	Commercial	Consumer Real Estate	Consumer and Other	Total
(Amounts in thousands)				
Beginning balance	$ 16,090	$ 6,597	$ 635	$ 23,322
Provision for loan losses charged to operations	2,653	31	384	3,068
Loans charged off	(2,281)	(965)	(755)	(4,001)
Recoveries credited to allowance	285	460	359	1,104
Net charge-offs	(1,996)	(505)	(396)	(2,897)
Ending balance	$ 16,747	$ 6,123	$ 623	$ 23,493

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

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

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	Three Months Ended June 30, 2014			
	Commercial	Consumer Real Estate	Consumer and Other	Total
Beginning balance	$ 8	$ 485	$	$ 493
Provision for (recovery of) PCI loan losses	8	(83)		(75)
Benefit attributable to FDIC indemnification asset		138		138
Provision for loan losses charged to operations	8	55		63
Recovery of loan losses recorded through the FDIC indemnification asset		(138)		(138)
Ending balance	$ 16	$ 402	$	$ 418

	Six Months Ended June 30, 2015			
(Amounts in thousands)	Commercial	Consumer Real Estate	Consumer and Other	Total
Beginning balance	$ 37	$ 21	$	$ 58
(Recovery of) provision for PCI loan losses	(37)	93		56
Benefit (provision) attributable to FDIC indemnification asset	29	(75)		(46)
(Recovery of) provision for loan losses charged to operations	(8)	18		10
(Recovery of) provision for loan losses recorded through the FDIC indemnification asset	(29)	75		46
Ending balance	$	$ 114	$	$ 114

	Six Months Ended June 30, 2014			
	Commercial	Consumer Real Estate	Consumer and Other	Total
Beginning balance	$ 77	$ 678	$	$ 755
Recovery of PCI loan losses	(61)	(276)		(337)
Benefit attributable to FDIC indemnification asset	55	286		341
Recovery of loan losses charged to operations	(6)	10		4
Recovery of loan losses recorded through the FDIC indemnification asset	(55)	(286)		(341)
Ending balance	$ 16	$ 402	$	$ 418

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

	June 30, 2015			
(Amounts in thousands)	Loans Individually Evaluated for Impairment	Allowance for Loans Individually Evaluated	Loans Collectively Evaluated for Impairment	Allowance for Loans Collectively Evaluated
Commercial loans				
Construction, development, and other land	$	$	$ 46,459	$ 957
Commercial and industrial			83,086	495
Multi-family residential			96,735	1,621
Single family non-owner occupied	1,149	41	143,023	3,253
Non-farm, non-residential	14,227	1,657	453,276	4,774
Agricultural			1,898	14
Farmland			28,616	182
Total commercial loans	15,376	1,698	853,093	11,296
Consumer real estate loans				
Home equity lines			128,823	1,288
Single family owner occupied	5,777	543	491,897	4,390
Owner occupied construction	356		37,252	247
Total consumer real estate loans	6,133	543	657,972	5,925
Consumer and other loans				
Consumer loans			72,178	681
Other			7,472	
Total consumer and other loans			79,650	681
Total loans, excluding PCI loans	$ 21,509	$ 2,241	$ 1,590,715	$ 17,902

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

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

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

	June 30, 2015		December 31, 2014	
(Amounts in thousands)	**Loan Pools**	**Allowance for Loan Pools With Impairment**	**Loan Pools**	**Allowance for Loan Pools With Impairment**
Commercial loans				
Waccamaw commercial	$ 11,873	$	$ 13,392	$ 37
Waccamaw lines of credit	201		461	
Peoples commercial	4,856		5,875	
Other	1,307		1,358	
Total commercial loans	18,237		21,086	37
Consumer real estate loans				
Waccamaw serviced home equity lines	33,703		37,342	
Waccamaw residential	1,933	94	2,638	
Peoples residential	1,192	20	1,215	21
Total consumer real estate loans	36,828	114	41,195	21
Consumer and other loans				
Waccamaw consumer[(1)]			2	
Total loans	$ 55,065	$ 114	$ 62,283	$ 58

(1) Closed during the first quarter of 2015.

Note 6. FDIC Indemnification Asset

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	**2014**	**2015**	**2014**
(Amounts in thousands)				
Beginning balance	$ 26,053	$ 32,510	$ 27,900	$ 34,691
(Decrease) increase in estimated losses on covered loans		(138)	46	(341)

Increase in estimated losses on covered OREO	489	410	558	559
Reimbursable expenses from the FDIC	74	137	365	287
Net amortization	(1,846)	(936)	(3,411)	(2,070)
Reimbursements from the FDIC	(1,117)	(1,075)	(1,805)	(2,218)
Ending balance	$ 23,653	$ 30,908	$ 23,653	$ 30,908

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Note 7. Deposits

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

	June 30, 2015	December 31, 2014
(Amounts in thousands)		
Noninterest-bearing demand deposits	$ 424,438	$ 417,729
Interest-bearing deposits:		
Interest-bearing demand deposits	329,583	353,874
Money market accounts	214,735	225,196
Savings deposits	313,268	300,282
Certificates of deposit	497,463	557,352
Individual retirement accounts	140,734	146,326
Total interest-bearing deposits	1,495,783	1,583,030
Total deposits	$ 1,920,221	$ 2,000,759

Note 8. Borrowings

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

	June 30, 2015		December 31, 2014	
	Balance	Weighted Average Rate[(1)]	Balance	Weighted Average Rate[(1)]
(Amounts in thousands)				
Federal funds purchased	$	0.00%	$	0.34%
Securities sold under agreements to repurchase:				
Retail	72,158	0.11%	71,742	0.13%
Wholesale	50,000	3.71%	50,000	3.71%
Total securities sold under agreements to repurchase	122,158		121,742	
FHLB borrowings	65,000	4.04%	90,000	4.07%
Subordinated debt	15,464		15,464	
Other debt	535		2,535	
Total borrowings	$ 203,157		$ 229,741	

(1) Weighted average contractual rate

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

	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater Than 90 Days	Total
(Amounts in thousands)					
U.S. Agency securities	$ 53,724	$	$	$	$ 53,724
Municipal securities				547	547
Mortgage-backed Agency securities	16,951	34	9	50,893	67,887
Total	$ 70,675	$ 34	$ 9	$ 51,440	$ 122,158

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

(Amounts in thousands)	Wholesale Repurchase Agreements	FHLB Borrowings	Total
2015	$	$	$
2016	25,000		25,000
2017		15,000	15,000
2018			
2019	25,000		25,000
2020 and thereafter		50,000	50,000
	$ 50,000	$ 65,000	$ 115,000
Weighted average maturity (in years)	2.58	4.68	3.41

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

The Company is required to pledge qualifying collateral to secure FHLB advances and letters of credit. As of June 30, 2015, the Company provided for two FHLB letters of credit to collateralize public unit deposits totaling $6.19 million. FHLB borrowings were secured by qualifying loans that totaled $971.00 million as June 30, 2015, and $980.63 million as of December 31, 2014. Unused borrowing capacity with the FHLB, net of FHLB letters of credit, totaled $441.37 million as of June 30, 2015.

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

The Company maintains a $15.00 million unsecured, committed line of credit with an unrelated financial institution that carries an interest rate of one-month LIBOR plus 2.00% and matures in April 2016. As of June 30, 2015, there

was no outstanding balance on the line compared to an outstanding balance of $2.00 million as of December 31, 2014.

Note 9. Derivative Instruments and Hedging Activities

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

As of June 30, 2015, 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.

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

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

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

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

(Amounts in thousands)	June 30, 2015 Notional or Contractual Amount	December 31, 2014 Notional or Contractual Amount	June 30, 2014 Notional or Contractual Amount
Derivatives designated as hedges:			
Interest rate swaps	$ 5,412	$ 4,363	$ 7,920
Derivatives not designated as hedges:			
IRLCs	4,425	1,391	2,664
Forward sale loan commitments	5,346	3,183	3,123
Total derivatives not designated as hedges	9,771	4,574	5,787
Total derivatives	$ 15,183	$ 8,937	$ 13,707

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

(Amounts in thousands)	June 30, 2015 Derivative Assets	June 30, 2015 Derivative Liabilities	December 31, 2014 Derivative Assets	December 31, 2014 Derivative Liabilities	June 30, 2014 Derivative Assets	June 30, 2014 Derivative Liabilities
Derivatives designated as hedges:						
Interest rate swaps	$	$ 172	$	$ 209	$	$ 200
Derivatives not designated as hedges:						
IRLCs		20	5			31
Forward sale loan commitments	20			5	31	
Total derivities not designated as hedges	20	20	5	5	31	31
Total derivaties	$ 20	$ 192	$ 5	$ 214	$ 31	$ 231

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

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Note 10. Employee Benefit Plans

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
(Amounts in thousands)				
Service cost	$ 34	$ 27	$ 67	$ 53
Interest cost	70	72	140	145
Amortization of losses	1		3	
Amortization of prior service cost	47	46	94	93
Net periodic cost	$ 152	$ 145	$ 304	$ 291

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
(Amounts in thousands)				
Service cost	$ 11	$ 6	$ 23	$ 11
Interest cost	14	11	27	23
Amortization of losses	15		30	
Amortization of prior service cost	18	18	36	36
Net periodic cost	$ 58	$ 35	$ 116	$ 70

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:

	Three Months Ended June 30,					
	2015			2014		
	Unrealized Gains (Losses) on Available-for-Sale Securities	Employee Benefit Plan	Total	Unrealized Gains (Losses) on Available-for-Sale Securities	Employee Benefit Plan	Total
(Amounts in thousands)						

Beginning balance	$ (3,241)	$ (1,350)	$ (4,591)	$ (9,645)	$ (1,042)	$ (10,687)
Other comprehensive (loss) gain before reclassifications	(1,791)	102	(1,689)	4,104	81	4,185
Reclassified from AOCI	133	(51)	82	(195)	(40)	(235)
Net comprehensive (loss) gain	(1,658)	51	(1,607)	3,909	41	3,950
Ending balance	$ (4,899)	$ (1,299)	$ (6,198)	$ (5,736)	$ (1,001)	$ (6,737)

	Six Months Ended June 30,					
	2015			2014		
	Unrealized Gains (Losses) on Available-for-Sale Securities	Employee Benefit Plan	Total	Unrealized Gains (Losses) on Available-for-Sale Securities	Employee Benefit Plan	Total
(Amounts in thousands)						
Beginning balance	$ (4,266)	$ (1,339)	$ (5,605)	$ (13,640)	$ (1,100)	$ (14,740)
Other comprehensive (loss) gain before reclassifications	(752)	142	(610)	8,236	179	8,415
Reclassified from AOCI	119	(102)	17	(332)	(80)	(412)
Net comprehensive (loss) gain	(633)	40	(593)	7,904	99	8,003
Ending balance	$ (4,899)	$ (1,299)	$ (6,198)	$ (5,736)	$ (1,001)	$ (6,737)

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

(Amounts in thousands)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014	Income Statement Line Item Affected
Available-for-sale securities					
Gains (losses) realized in net income	$ 213	$ (59)	$ 190	$ (14)	Net gain (loss) on sale of securities
Credit-related OTTI recognized in net income		(254)		(518)	Net impairment losses recognized in earnings
	213	(313)	190	(532)	Income before income taxes
Income tax effect	80	(118)	71	(200)	Income tax expense
	133	(195)	119	(332)	Net income
Employee benefit plans					
Amortization of prior service cost	(65)	(64)	(130)	(129)	(1)
Amortization of losses	(16)		(33)		(1)
	(81)	(64)	(163)	(129)	Income before income taxes
Income tax effect	(30)	(24)	(61)	(49)	Income tax expense
	(51)	(40)	(102)	(80)	Net income
Reclassified from AOCI, net of tax	$ 82	$ (235)	$ 17	$ (412)	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 under the valuation hierarchy, is presented in the following discussion. The fair value hierarchy ranks the inputs used in measuring fair value as follows:

Level 1 Observable, unadjusted quoted prices in active markets

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

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

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

Assets and Liabilities Reported at Fair Value on a Recurring Basis

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

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

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

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

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

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

	June 30, 2015 Fair Value Measurements Using			
(Amounts in thousands)	Total Fair Value	Level 1	Level 2	Level 3
Available-for-sale securities:				
U.S. Agency securities	$ 32,127	$	$ 32,127	$
Municipal securities	132,999		132,999	
Single issue trust preferred securities	48,345		48,345	
Corporate securities	60,708		60,708	
Certificates of deposit	5,000		5,000	
Agency MBS	96,793		96,793	
Equity securities	219	201	18	
Total available-for-sale securities	$ 376,191	$ 201	$ 375,990	$
Fair value loans	$ 5,099	$	$ 5,099	$

Deferred compensation assets	$ 3,539	$ 3,539	$	$
Derivative assets				
Forward sale loan commitments	$ 20	$	$ 20	$
Total derivative assets	$ 40	$	$ 40	$
Deferred compensation liabilities	$ 3,539	$ 3,539	$	$
Derivative liabilities				
Interest rate swaps	$ 172	$	$ 172	$
IRLCs	20		20	
Total derivative liabilities	$ 212	$	$ 212	$

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	December 31, 2014			
		Fair Value Measurements Using		
(Amounts in thousands)	Total Fair Value	Level 1	Level 2	Level 3
Available-for-sale securities:				
U.S. Agency securities	$ 33,598	$	$ 33,598	$
Municipal securities	138,915		138,915	
Single issue trust preferred securities	46,137		46,137	
Corporate securities	5,109		5,109	
Agency MBS	102,119		102,119	
Equity securities	239	221	18	
Total available-for-sale securities	$ 326,117	$ 221	$ 325,896	$
Fair value loans	$ 3,406	$	$ 3,406	$
Deferred compensation assets	$ 3,380	$ 3,380	$	$
Derivative assets				
IRLCs	$ 5	$	$ 5	$
Total derivative assets	$ 5	$	$ 5	$
Deferred compensation liabilities	$ 3,380	$ 3,380	$	$
Derivative liabilities				
Interest rate swaps	$ 209	$	$ 209	$
Forward sale loan commitments	5		5	
Total derivative liabilities	$ 214	$	$ 214	$

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

Assets Measured at Fair Value on a Nonrecurring Basis

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

The Company maintains an active and robust problem credit identification system. The impairment review includes obtaining third-party collateral valuations to help management identify potential credit impairment and determine the amount of impairment to record. The Company s Special Assets staff assumes the management and monitoring of all loans determined to be impaired. Internal collateral valuations are generally performed within two to four weeks of identifying the initial potential impairment. The internal valuation compares the original appraisal to current local real

estate market conditions and considers experience and expected liquidation costs. A third-party valuation is typically received within thirty to forty-five days of completing the internal valuation. When a third-party valuation is received, it is reviewed for reasonableness. Once the valuation is reviewed and accepted, discounts are applied to fair market value, based on, but not limited to, our historical liquidation experience for like collateral, resulting in an estimated net realizable value. The estimated net realizable value is compared to the outstanding loan balance to determine the appropriate amount of specific impairment reserve.

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

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

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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:

	June 30, 2015			
	Total Fair Value	Fair Value Measurements Using Level 1	Level 2	Level 3
(Amounts in thousands)				
Impaired loans not covered by loss share agreements	$ 9,126			$ 9,126
OREO, not covered by loss share agreements	3,312			3,312
OREO, covered by loss share agreements	2,410			2,410

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

Quantitative Information about Level 3 Fair Value Measurements

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

	Valuation Technique	Unobservable Input	Range (Weighted Average) June 30, 2015	Range (Weighted Average) December 31, 2014
Impaired loans	Discounted appraisals [1]	Appraisal adjustments [2]	0% to 66% (25%)	1% to 33% (22%)
OREO, not covered	Discounted appraisals [1]	Appraisal adjustments [2]	10% to 60% (21%)	10% to 47% (26%)
OREO, covered	Discounted appraisals [1]	Appraisal adjustments [2]	11% to 46% (41%)	10% to 52% (44%)

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

Fair Value of Financial Instruments

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

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

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

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

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

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

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

FHLB and Other Borrowings. FHLB and other borrowings are reported at fair value using discounted future cash flows that apply interest rates available to the Company for borrowings with similar characteristics and maturities. Trust preferred obligations are reported at fair value using current credit spreads in the market for similar issues.

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

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:

	June 30, 2015				
	Carrying		Fair Value Measurements Using		
(Amounts in thousands)	Amount	Fair Value	Level 1	Level 2	Level 3
Assets					
Cash and cash equivalents	$ 92,602	$ 92,602	$ 92,602	$	$
Available-for-sale securities	376,191	376,191	201	375,990	
Held-to-maturity securities	72,652	72,879		72,879	
Loans held for sale	913	930		930	
Loans held for investment less allowance	1,647,031	1,684,342		5,271	1,679,071
FDIC indemnification asset	23,653	13,597			13,597
Accrued interest receivable	6,119	6,119		6,119	
Derivative financial assets	20	20		20	
Deferred compensation assets	3,539	3,539	3,539		
Liabilities					
Demand deposits	$ 424,438	$ 424,438	$	$ 424,438	$
Interest-bearing demand deposits	329,583	329,583		329,583	
Savings deposits	528,003	528,003		528,003	
Time deposits	638,197	637,691		637,691	
	122,158	123,073		123,073	

Securities sold under agreements to repurchase				
Accrued interest payable	1,431	1,431		1,431
FHLB and other borrowings	80,999	87,371		87,371
Derivative financial liabilities	192	192		192
Deferred compensation liabilities	3,539	3,539	3,539	

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	December 31, 2014				
	Carrying		Fair Value Measurements Using		
(Amounts in thousands)	Amount	Fair Value	Level 1	Level 2	Level 3
Assets					
Cash and cash equivalents	$ 237,660	$ 237,660	$ 237,660	$	$
Available-for-sale securities	326,117	326,117	221	325,896	
Held-to-maturity securities	57,948	57,889		57,889	
Loans held for sale	1,792	1,790		1,790	
Loans held for investment less allowance	1,669,189	1,738,553		3,406	1,735,147
FDIC indemnification asset	27,900	18,040			18,040
Accrued interest receivable	6,315	6,315		6,315	
Derivative financial assets	5	5		5	
Deferred compensation assets	3,380	3,380	3,380		
Liabilities					
Demand deposits	$ 417,729	$ 417,729	$	$ 417,729	$
Interest-bearing demand deposits	353,874	353,874		353,874	
Savings deposits	525,478	525,478		525,478	
Time deposits	703,678	704,590		704,590	
Securities sold under agreements to repurchase	121,742	123,114		123,114	
Accrued interest payable	1,668	1,668		1,668	
FHLB and other borrowings	107,999	116,599		116,599	
Derivative financial liabilities	214	214		214	
Deferred compensation liabilities	3,380	3,380	3,380		

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.

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

	June 30, 2015	December 31, 2014
(Amounts in thousands)		
Commitments to extend credit	$ 213,408	$ 236,471
Commitments related to secondary market mortgage loans	4,425	1,391
Standby letters of credit and financial guarantees	3,064	3,581
Total off-balance sheet risk	$ 220,897	$ 241,443
Reserve for unfunded commitments	$ 326	$ 326

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

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

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

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

Cautionary Statement Regarding Forward-Looking Statements

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

- the strength of the U.S. economy in general and the strength of the local economies in which we conduct operations;
- the effects of, and changes in, trade, monetary, and fiscal policies and laws, including interest rate policies of the Federal Reserve System;
- inflation, interest rate, market and monetary fluctuations;
- our timely development of competitive new products and services and the acceptance of these products and services by new and existing customers;
- the willingness of customers to substitute competitors products and services for our products and services and vice versa;
- the impact of changes in financial services laws and regulations, including laws about taxes, banking, securities, and insurance, and the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act;

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

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

technological changes;

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

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

unanticipated regulatory or judicial proceedings;

changes in consumer spending and saving habits; and

our success at managing the risks involved in the foregoing.

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

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Company Overview

First Community Bancshares, Inc. (the Company) is a financial holding company, headquartered in Bluefield, Virginia, that provides commercial banking services through its wholly-owned subsidiary First Community Bank (the Bank). The Bank operates fifty-two banking locations under the name First Community Bank in West Virginia, Virginia, and North Carolina and under the trade name People s Community Bank, a Division of First Community Bank, in Tennessee. The Bank offers wealth management and investment advice through its wholly-owned subsidiary First Community Wealth Management (FCWM) and the Bank s Trust Division, which reported combined assets under management of $717 million as of June 30, 2015. These assets are not our assets, but are managed under various fee-based arrangements as fiduciary or agent. The Company provides insurance services through its wholly-owned subsidiary Greenpoint Insurance Group, Inc. (Greenpoint), headquartered in High Point, North Carolina, which operates eleven locations under the Greenpoint name and under the trade names First Community Insurance Services (FCIS) and Carolina Insurers Associates in North Carolina, Carr & Hyde Insurance and FCIS in Virginia, and FCIS in West Virginia. We reported total assets of $2.49 billion as of June 30, 2015. Our common stock is traded on the NASDAQ Global Select Market under the symbol, FCBC.

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

Critical Accounting Estimates

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

Performance Overview

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

The Company prepaid an additional $25 million in Federal Home Loan Bank convertible advances during the second quarter. The prepayment was in keeping with the Company s strategic goal of reducing high cost wholesale debt.

The Company repurchased 345,173 common shares during the second quarter, bringing total repurchased shares to 684,407 during the first half of 2015.

Asset quality metrics continue to be favorable as non-covered nonaccrual loans decreased $1.53 million, or 8.75% in the second quarter of 2015 compared to the same quarter of the prior year.

Net charge-offs decreased $758 thousand, or 73.74%, and the ratio of annualized net charge-offs to average non-covered loans improved 19 basis points to 0.07% for the second quarter of 2015 compared to the same quarter of 2014.

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

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Results of Operations

Net Income

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

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended		Six Months Ended	
(Amounts in thousands, except per share data)	2015	2014	2015	2014	Increase (Decrease)	% Change	Increase (Decrease)	% Change
Net income	$ 6,175	$ 7,007	$ 12,133	$ 12,732	$ (832)	-11.87%	$ (599)	-4.70%
Net income available to common shareholders	6,175	6,780	12,028	12,277	(605)	-8.92%	(249)	-2.03%
Basic earnings per common share	0.33	0.37	0.64	0.67	(0.04)	-10.81%	(0.03)	-4.48%
Diluted earnings per common share	0.33	0.36	0.64	0.65	(0.03)	-8.33%	(0.01)	-1.54%
Return on average assets	0.98%	1.06%	0.94%	0.96%	-0.08%	-7.55%	-0.02%	-2.08%
Return on average common equity	7.11%	8.38%	6.92%	7.71%	-1.27%	-15.16%	-0.79%	-10.25%

Three-Month Comparison. Net income decreased in the second quarter of 2015 compared to the same quarter of the prior year primarily due to a $998 thousand decrease in net interest income and $2.13 million increase in noninterest expense, offset by a $1.00 million decrease in the provision for loan losses, $533 thousand increase in noninterest income, and $756 thousand decrease in income tax.

Six-Month Comparison. Net income decreased in the first six months of 2015 compared to the same period of the prior year primarily due to a $2.18 million decrease in net interest income and $726 thousand increase in noninterest expense, offset by a $1.70 million decrease in the provision for loan losses, $135 thousand increase in noninterest income, and $480 thousand decrease in income tax.

Net Interest Income

Net interest income, our largest contributor to earnings, comprised 72.14% of total net interest and noninterest income in the second quarter of 2015 compared to 74.37% in the same quarter of 2014. Net interest income comprised 73.68% of total net interest and noninterest income in the first six months of 2015 compared to 74.82% in the same period of 2014.

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

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

	Three Months Ended June 30,					
	2015			2014		
(Amounts in thousands)	Average Balance	Interest[1]	Average Yield/ Rate[1]	Average Balance	Interest[1]	Average Yield/ Rate[1]
Assets						
Earning assets						
Loans[2]	$ 1,671,476	$ 21,862	5.25%	$ 1,748,048	$ 23,467	5.38%
Securities available-for-sale	362,366	2,418	2.68%	428,111	3,239	3.03%
Securities held-to-maturity	72,742	196	1.08%	12,767	39	1.23%
Interest-bearing deposits	120,025	80	0.27%	49,325	47	0.38%
Total earning assets	2,226,609	24,556	4.42%	2,238,251	26,792	4.80%
Other assets	311,437			334,279		
Total assets	$ 2,538,046			$ 2,572,530		
Liabilities						
Interest-bearing deposits						
Demand deposits	$ 340,517	$ 51	0.06%	$ 372,536	$ 52	0.06%
Savings deposits	538,717	101	0.08%	524,539	128	0.10%
Time deposits	655,243	1,410	0.86%	697,326	1,655	0.95%
Total interest-bearing deposits	1,534,477	1,562	0.41%	1,594,401	1,835	0.46%
Borrowings						
Retail repurchase agreements	70,328	17	0.10%	61,458	24	0.16%
Wholesale repurchase agreements	50,000	468	3.75%	50,000	468	3.75%
FHLB advances and other borrowings	86,592	862	3.99%	166,087	1,698	4.10%
Total borrowings	206,920	1,347	2.61%	277,545	2,190	3.16%
Total interest-bearing liabilities	1,741,397	2,909	0.67%	1,871,946	4,025	0.86%
Noninterest-bearing demand deposits	428,442			344,485		
Other liabilities	20,072			16,490		
Total liabilities	2,189,911			2,232,921		
Stockholders equity	348,135			339,609		
	$ 2,538,046			$ 2,572,530		

Total liabilities and stockholders equity		
Net interest income, FTE	$ 21,647	$ 22,767
Net interest rate spread	3.75%	3.94%
Net interest margin	3.90%	4.08%

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

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	Six Months Ended June 30,					
	2015			2014		
(Amounts in thousands)	Average Balance	Interest[1]	Average Yield/ Rate[1]	Average Balance	Interest[1]	Average Yield/ Rate[1]
Assets						
Earning assets						
Loans[2]	$ 1,674,778	$ 43,816	5.28%	$ 1,733,061	$ 46,359	5.39%
Securities available-for-sale	346,792	4,831	2.81%	463,783	7,047	3.06%
Securities held-to-maturity	69,351	382	1.11%	7,098	54	1.53%
Interest-bearing deposits	164,201	213	0.26%	37,924	77	0.41%
Total earning assets	2,255,122	49,242	4.40%	2,241,866	53,537	4.82%
Other assets	315,126			340,117		
Total assets	$ 2,570,248			$ 2,581,983		
Liabilities						
Interest-bearing deposits						
Demand deposits	$ 346,099	$ 104	0.06%	$ 371,286	$ 106	0.06%
Savings deposits	532,740	206	0.08%	527,270	265	0.10%
Time deposits	676,519	2,982	0.89%	705,817	3,352	0.96%
Total interest-bearing deposits	1,555,358	3,292	0.43%	1,604,373	3,723	0.47%
Borrowings						
Federal funds purchased				1,763	3	0.34%
Retail repurchase agreements	69,097	38	0.11%	64,391	51	0.16%
Wholesale repurchase agreements	50,000	931	3.75%	50,000	931	3.75%
FHLB advances and other borrowings	96,551	1,907	3.98%	166,087	3,375	4.10%
Total borrowings	215,648	2,876	2.69%	282,241	4,360	3.12%
Total interest-bearing liabilities	1,771,006	6,168	0.70%	1,886,614	8,083	0.87%
Noninterest-bearing demand deposits	427,881			340,550		
Other liabilities	20,696			18,692		
Total liabilities	2,219,583			2,245,856		
Stockholders equity	350,665			336,127		
Total liabilities and stockholders equity	$ 2,570,248			$ 2,581,983		
Net interest income, FTE		$ 43,074			$ 45,454	

Net interest rate spread	3.70%	3.95%
Net interest margin	3.85%	4.09%

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

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

	Three Months Ended June 30, 2015 Compared to 2014 Dollar Increase (Decrease) due to				Six Months Ended June 30, 2015 Compared to 2014 Dollar Increase (Decrease) due to			
(Amounts in thousands)	**Volume**	**Rate**	**Rate/ Volume**	**Total**	**Volume**	**Rate**	**Rate/ Volume**	**Total**
Interest earned on:								
Loans[1]	$ (1,028)	$ (603)	$ 26	$ (1,605)	$ (1,559)	$ (1,018)	$ 34	$ (2,543)
Securities available-for-sale[1]	(497)	(382)	58	(821)	(1,778)	(586)	148	(2,216)
Securities held-to-maturity[1]	183	(5)	(21)	157	474	(15)	(131)	328
Interest-bearing deposits with other banks	67	(14)	(20)	33	256	(28)	(92)	136
Total interest earning assets	(1,275)	(1,004)	43	(2,236)	(2,607)	(1,647)	(41)	(4,295)
Interest paid on:								
Demand deposits	(4)	4	(1)	(1)	(7)	6	(1)	(2)
Savings deposits	3	(30)		(27)	3	(61)	(1)	(59)
Time deposits	(100)	(154)	9	(245)	(139)	(241)	10	(370)
Federal funds purchased					(3)			(3)
Retail repurchase agreements	3	(9)	(1)	(7)	4	(16)	(1)	(13)
Wholesale repurchase agreements								
FHLB advances and other borrowings	(813)	(45)	22	(836)	(1,413)	(95)	40	(1,468)
Total interest-bearing liabilities	(911)	(234)	29	(1,116)	(1,555)	(407)	47	(1,915)
Change in net interest income[1]	$ (364)	$ (770)	$ 14	$ (1,120)	$ (1,052)	$ (1,240)	$ (88)	$ (2,380)

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in thousands)	**2015**	**2014**	**2015**	**2014**

Net interest income, GAAP	$ 21,070	$ 22,068	$ 41,909	$ 44,093
FTE adjustment[1]	577	699	1,165	1,361
Net interest income, FTE[1]	$ 21,647	$ 22,767	$ 43,074	$ 45,454

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

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

	Three Months Ended June 30,			
	2015		2014	
(Amounts in thousands)	Interest[1]	Average Yield/ Rate[1]	Interest[1]	Average Yield/ Rate[1]
Earning assets				
Loans[2]	$ 21,863	5.25%	$ 23,467	5.38%
Accretion income	2,416		2,789	
Less: cash accretion income	1,134		1,247	
Non-cash accretion income	1,282		1,542	
Loans, excluding non-cash accretion	20,581	4.94%	21,925	5.03%
Other earning assets	2,693	1.95%	3,325	2.72%
Total earning assets	23,274	4.19%	25,250	4.52%
Total interest-bearing liabilities	2,909	0.67%	4,025	0.86%
Net interest income, tax equivalent	$ 20,365		$ 21,225	
Net interest rate spread, less non-cash accretion		3.52%		3.66%
Net interest margin, less non-cash accretion		3.67%		3.80%

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

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

	Six Months Ended June 30,			
	2015		2014	
(Amounts in thousands)	Interest[1]	Average Yield/ Rate[1]	Interest[1]	Average Yield/ Rate[1]
Earning assets				
Loans[2]	$ 43,816	5.28%	$ 46,359	5.39%
Accretion income	5,255		5,912	
Less: cash accretion income	2,230		1,848	
Non-cash accretion income	3,025		4,064	

Loans, excluding non-cash accretion	40,791	4.91%	42,295	4.92%
Other earning assets	5,425	1.89%	7,178	2.84%
Total earning assets	46,216	4.13%	49,473	4.45%
Total interest-bearing liabilities	6,167	0.70%	8,083	0.86%
Net interest income, tax equivalent	$ 40,049		$ 41,390	
Net interest rate spread, less non-cash accretion		3.43%		3.59%
Net interest margin, less non-cash accretion		3.58%		3.73%

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

Three-Month Comparison. Net interest income under GAAP decreased $998 thousand or 4.52%, and net interest income on a FTE basis decreased $1.12 million, or 4.92%, in the second quarter of 2015 compared to the same quarter of the prior year. Changes in the average balances of and yields/rates on earning assets and interest-bearing liabilities resulted in a 19 basis point decrease in the net interest rate spread and an 18 basis point decrease in the net interest margin.

Loan interest accretion totaled $2.42 million in the second quarter of 2015, of which $1.13 million was received in cash, compared to $2.79 million in the same quarter of the prior year, of which $1.25 million was received in cash. Excluding non-cash accretion income, the yield on loans decreased 9 basis points, compared to a decrease of 13 basis points under GAAP. Excluding non-cash accretion income, the net interest margin decreased 13 basis points compared to a decrease of 18 basis points under GAAP. We expect the purchase accounting interest accretion to continue to decline in future periods due to acquired portfolio attrition.

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Average earning assets decreased $11.64 million, or 0.52%, in the second quarter of 2015 compared to the same quarter of the prior year primarily due to decreases in the average covered loan portfolio and securities available for sale. The yield on earning assets decreased 38 basis points, which was largely due to a decrease in the average balance and yield of available-for-sale securities. Interest-bearing deposits with banks are primarily comprised of excess liquidity kept at the FRB of Richmond bearing overnight market rates.

As of June 30, 2015, interest-bearing liabilities included interest-bearing deposits; retail repurchase agreements, consisting of collateralized retail deposits and commercial treasury accounts; wholesale repurchase agreements; FHLB advances; and other borrowings. Average interest-bearing liabilities decreased $130.55 million, or 6.97%, in the second quarter of 2015 compared to the same quarter of the prior year, primarily due to the prepayment of FHLB advances and the decline in average interest-bearing demand and time deposit balances. We prepaid $25 million of a FHLB convertible advance with an interest rate of 4.15% during the second quarter of 2015. The yield on interest-bearing liabilities decreased 19 basis points, which was largely due to a 55 basis point decrease in the rate on borrowings. Average interest-bearing deposits decreased $59.92 million, or 3.76%, which was driven by a $42.08 million, or 6.03%, decrease in average time deposits and a $32.02 million, or 8.59%, decrease in interest-bearing demand deposits offset by a $14.18 million, or 2.70%, increase in savings deposits, which include money market and savings accounts. Average borrowings decreased $70.63 million, or 25.45%, which was driven by a $79.50 million, or 47.86%, decrease in FHLB and other borrowings.

Six-Month Comparison. Net interest income under GAAP decreased $2.18 million, or 4.95%, and FTE net interest income decreased $2.38 million, or 5.24%, in the first six months of 2015 compared to the same period of the prior year. Changes in the average balances of and yields/rates on earning assets and interest-bearing liabilities resulted in a 25 basis point decrease in the net interest rate spread and a 24 basis point decrease in the net interest margin.

Loan interest accretion totaled $5.26 million in the first six months of 2015, of which $2.23 million was received in cash, compared to $5.91 million in the same period of the prior year, of which $1.85 million was received in cash. Excluding non-cash accretion income, the yield on loans decreased 1 basis point, compared to a decrease of 11 basis points under GAAP. Excluding non-cash accretion income, the net interest margin decreased 15 basis points compared to a decrease of 24 basis points under GAAP. We expect the purchase accounting interest accretion to continue to decline in future periods due to acquired portfolio attrition.

Average earning assets increased $13.26 million, or 0.59%, in the first six months of 2015 compared to the same period of the prior year primarily due to increases in interest-bearing deposits held with other financial institutions and securities held to maturity. The yield on earning assets decreased 42 basis points, which was largely due to a decrease in the average balance and yield of available-for-sale securities and loans. During the first six months of 2015, we continued purchasing low-yield, short-term bonds in the held-to-maturity category to provide for the funding necessary to extinguish certain wholesale borrowings as they come due. Interest-bearing deposits with banks are primarily comprised of excess liquidity kept at the FRB of Richmond bearing overnight market rates.

Average interest-bearing liabilities decreased $115.61 million, or 6.13%, in the first six months of 2015 compared to the same period of the prior year, primarily due to the prepayment of FHLB advances and the decline in average interest-bearing demand and time deposit balances. The yield on interest-bearing liabilities decreased 17 basis points, which was largely due to a 43 basis point decrease in the rate on borrowings. Average interest-bearing deposits decreased $49.02 million, or 3.06%, which was driven by a $29.30 million, or 4.15%, decrease in average time deposits and a $25.19 million, or 6.78%, decrease in interest-bearing demand deposits offset by a $5.47 million, or 1.04%, increase in savings deposits, which include money market and savings accounts. Average borrowings decreased $66.59 million, or 23.59%, which was driven by a $69.54 million, or 41.87%, decrease in FHLB and other borrowings.

Provision for Loan Losses

Three-Month Comparison. The provision for loan losses is added to the allowance for loan losses after net charge-offs have been deducted to bring the allowance to a level management determines necessary to absorb probable losses in the existing loan portfolio. The provision charged to operations decreased $1.00 million to $276 thousand in the second quarter of 2015 compared to the same quarter of the prior year. The decrease was due to significantly lower charge offs in recent quarters and lower average historical loss rates. The PCI loan portfolio recognized no provision in the second quarter of 2015.

Six-Month Comparison. The provision charged to operations decreased $1.70 million to $1.38 million in the first six months of 2015 compared to the same period of the prior year. The decrease was due to significantly lower charge offs in recent quarters and lower average historical loss rates. The PCI loan portfolio recognized a provision of $56 thousand in the first six months of 2015, resulting in a $46 thousand provision recorded through the FDIC indemnification asset to reflect the indemnified portion of the post-acquisition exposure and a $10 thousand provision charged to operations. See Allowance for Loan Losses in the Financial Condition section below.

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Noninterest Income

Noninterest income consists of all revenues not included in interest and fee income related to earning assets. Noninterest income comprised 27.86% of total net interest and noninterest income in the second quarter of 2015 compared to 25.63% in the same quarter of the prior year. Noninterest income comprised 26.32% of total net interest and noninterest income in the first six months of 2015 compared to 25.18% in the same period of the prior year. The following table presents the components of, and changes in, noninterest income in the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended		Six Months Ended	
	2015	2014	2015	2014	Increase (Decrease)	% Change	Increase (Decrease)	% Change
(Amounts in thousands)								
Wealth management	$ 775	$ 718	$ 1,441	$ 1,726	$ 57	7.94%	$ (285)	-16.51%
Service charges on deposit accounts	3,507	3,423	6,410	6,493	84	2.45%	(83)	-1.28%
Other service charges and fees	2,005	1,850	4,013	3,621	155	8.38%	392	10.83%
Insurance commissions	1,559	1,454	3,686	3,418	105	7.22%	268	7.84%
Net impairment loss		(254)		(518)	254	-100.00%	518	-100.00%
Net gain (loss) on sale of securities	213	(59)	190	(14)	272	-461.02%	204	-1457.14%
Net FDIC indemnification asset amortization	(1,846)	(936)	(3,411)	(2,070)	(910)	97.22%	(1,341)	64.78%
Other operating income	1,924	1,408	2,644	2,182	516	36.65%	462	21.17%
Noninterest income	$ 8,137	$ 7,604	$ 14,973	$ 14,838	$ 533	7.01%	$ 135	0.91%

Three-Month Comparison. Noninterest income increased $533 thousand, or 7.01%, in the second quarter of 2015 compared to the same quarter of the prior year. Wealth management revenues, which include fees and commissions for trust and investment advisory services, increased as a result of an increase in FCWM income. Service charges on deposit accounts and other charges and fees increased primarily from an increase in monthly service charges on checking accounts and debit card income, offset by a decrease in insufficient fee income. Insurance commissions increased largely due to an increase in contingency profit-sharing revenue income. In the second quarter of 2015, we realized a net gain of $213 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 $1.85 million as a result of improved loss estimates and payoffs in the covered Waccamaw loan portfolio. Other operating income increased primarily due to a $1.14 million after tax death benefit from the maturity of a bank-owned life insurance policy offset by a $536 thousand bank owned life insurance benefit recognized in the same quarter of the prior year.

Excluding the impact from OTTI charges, the sale of securities, the net amortization on the FDIC indemnification asset, and death benefits from bank owned life insurance policies, noninterest income increased $310 thousand, or 3.73%, to $8.63 million in the second quarter of 2015, compared with $8.32 million in the same quarter of the prior year.

Six-Month Comparison. Noninterest income increased $135 thousand, or 0.91%, in the first six months of 2015 compared to the same period of the prior year. Wealth management revenues, which include fees and commissions for trust and investment advisory services, decreased as a result of higher estate settlement fees earned in the same period of the prior year. Service charges on deposit accounts and other charges and fees increased primarily from an increase in monthly service charges on checking accounts and debit card income, offset by a decrease in insufficient fee income. Insurance commissions increased largely due to an increase in contingency profit-sharing revenue income. In the first six months of 2015, we realized a net gain of $190 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 $3.41 million as a result of improved loss estimates and payoffs in the covered Waccamaw loan portfolio. Other operating income increased primarily due to activity related to bank-owned life insurance policies.

Excluding the impact from OTTI charges, the sale of securities, the net amortization on the FDIC indemnification asset, and death benefits from bank owned life insurance policies, noninterest income decreased $1.19 million, or 8.05%, to $13.64 million in the first six months of 2015, compared with $14.83 million in the same period of the prior year.

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Noninterest Expense

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

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended		Six Months Ended	
(Amounts in thousands)	2015	2014	2015	2014	Increase (Decrease)	% Change	Increase (Decrease)	% Change
Salaries and employee benefits	$ 9,693	$ 10,043	$ 19,386	$ 19,948	$ (350)	-3.49%	$ (562)	-2.82%
Occupancy of bank premises	1,427	1,578	2,961	3,356	(151)	-9.57%	(395)	-11.77%
Furniture and equipment	1,358	1,205	2,595	2,399	153	12.70%	196	8.17%
Amortization of intangible assets	279	178	556	353	101	56.74%	203	57.51%
FDIC premiums and assessments	389	458	804	892	(69)	-15.07%	(88)	-9.87%
FHLB debt prepayment	1,702		1,702		1,702		1,702	
Merger, acquisition, and divestiture			86				86	
Other operating expense	5,441	4,701	9,979	10,395	740	15.74%	(416)	-4.00%
Total noninterest expense	$ 20,289	$ 18,163	$ 38,069	$ 37,343	$ 2,126	11.71%	$ 726	1.94%

Three-Month Comparison. Noninterest expense increased $2.13 million, or 11.71%, in the second quarter of 2015 compared to the same quarter of the prior year. Full-time equivalent employees, calculated using the number of hours worked, decreased to 677 as of June 30, 2015, from 707 as of June 30, 2014. The reduction in full-time equivalent employees was primarily due to net branch divestiture activity that occurred during the fourth quarter of 2014. Occupancy, furniture, and equipment expense remained relatively stable in the second quarter of 2015 compared to the same quarter of the prior year. We prepaid $25 million of a FHLB convertible advance with a May 2017 maturity and 4.15% interest rate during the second quarter of 2015, which resulted in a prepayment penalty of $1.70 million. The increase in other operating expense included a $213 thousand branch property write-down and an increase in the net loss on sales and expenses related to OREO of $161 thousand to $415 thousand in the second quarter of 2015 compared to $254 thousand in the same quarter of the prior year.

Six-Month Comparison. Noninterest expense increased $726 thousand, or 1.94%, in the first six months of 2015 compared to the same period of the prior year. Occupancy, furniture, and equipment expense decreased $199 thousand, or 3.46%, in the first six months of 2015, which was primarily due to the branch divestiture activity that occurred during the fourth quarter of 2014. Acquisition and divestiture expense totaled $86 thousand in the first six months of 2015, which was related to branch acquisition and divestiture activity that occurred in the fourth quarter of 2014. We prepaid $25 million of a FHLB convertible advance with a May 2017 maturity and 4.15% interest rate during the second quarter of 2015, which resulted in a prepayment penalty of $1.70 million. The decrease in other operating expense included a $528 thousand decrease in legal expense and a $157 thousand decrease in problem loan expense offset by a $213 thousand branch property write-down. Other operating expenses also included a decrease in

the net loss on sales and expenses related to OREO of $369 thousand to $743 thousand in the first six months of 2015 compared to $1.11 million in the same period of the prior year.

Income Tax Expense

Income tax as a percentage of pretax income may vary significantly from statutory rates due to permanent differences, which are items of income and expense excluded by law from the calculation of taxable income. Our most significant permanent differences generally include interest income on municipal securities and increases in the cash surrender value of officers life insurance policies, which are both exempt from federal income tax. Income tax expense decreased $756 thousand, or 23.46%, and the effective rate decreased 296 basis points to 28.55% in the second quarter of 2015 compared to the same quarter of the prior year. The decrease in the effective tax rate was largely due to the tax exempt nature of the death benefit received. Income tax expense decreased $480 thousand, or 8.30%, and the effective rate decreased 83 basis points to 30.41% in the first six months of 2015 compared to the same period of the prior year. The decrease in the effective tax rate was largely due to the tax exempt nature of the death benefit received.

Financial Condition

Total assets were $2.49 billion as of June 30, 2015, a decrease of $116.14 million, or 4.45%, compared with $2.61 billion as of December 31, 2014. Total liabilities were $2.15 billion as of June 30, 2015, a decrease of $109.33 million, or 4.85%, compared with $2.26 billion as of December 31, 2014. Our book value per common share was $18.48 as of June 30, 2015, an increase of $0.42, or 2.33%, compared with $18.06 as of December 31, 2014.

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Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2015, decreased $143.85 million, or 73.07%, compared to December 31, 2014. The decrease was primarily due to the deployment of liquidity to redeem our convertible preferred shares, repurchase common stock, purchase investment securities to provide the funding necessary to extinguish certain borrowings as they come due, and establish a short-term investment portfolio.

Investment Securities

Available-for-sale securities as of June 30, 2015, increased $50.07 million, or 15.35%, compared to December 31, 2014. The market value of securities available for sale as a percentage of amortized cost was 97.96% as of June 30, 2015, compared to 97.95% as of December 31, 2014. Held-to-maturity securities as of June 30, 2015, increased $14.70 million, or 25.37%, compared to December 31, 2014, due to the purchase of low-yield, short-term bonds to provide funding to extinguish certain wholesale borrowings when due. Investment securities classified as held to maturity are comprised primarily of U.S. Agency securities and high grade municipal bonds. The market value of securities held to maturity as a percentage of amortized cost was 100.31% as of June 30, 2015, compared with 99.90% as of December 31, 2014.

Investment securities are reviewed quarterly for possible OTTI. We recognized no credit-related OTTI charges in earnings associated with debt securities beneficially owned for the three months ended June 30, 2015, compared to $254 thousand for the same period of 2014. We recongnized no credit-related OTTI charges in earnings associated with debt securities beneficially owned for the six months ended June 30, 2015, compared to $486 thousand for the same period of 2014. These charges were related to a non-Agency mortgage-backed security that was sold in November 2014. We recognized no OTTI charges in earnings associated with equity securities for the three months ended June 30, 2015 or June 30, 2014. We recognized no OTTI charges in earnings associated with equity securities for the six months ended June 30, 2015, compared to $32 thousand for the six months ended June 30, 2014. See Note 2, Investment Securities, to the Condensed Consolidated Financial Statements in Item 1 of this report.

Loans Held for Sale

Loans held for sale as of June 30, 2015, decreased $879 thousand, or 49.05%, compared to June 30, 2014. Loans held for sale consist of mortgage loans sold on a best efforts basis into the secondary loan market; accordingly, we do not retain the interest rate risk involved in these long-term commitments. The gross notional amount of outstanding commitments to originate mortgage loans in the secondary market totaled $4.43 million for 31 commitments as of June 30, 2015, and $1.39 million for 9 commitments as of December 31, 2014.

Loans Held for Investment

Our loans held for investment are grouped into three segments (commercial loans, consumer real estate loans, and consumer and other loans) with each segment divided into various classes. Covered loans are defined as loans acquired in FDIC-assisted transactions that are covered by loss share agreements. Loans held for investment as of June 30, 2015, decreased $22.13 million, or 1.31%, compared to December 31, 2014. The non-covered loan portfolio decreased $2.52 million, or 0.16%, compared to December 31, 2014. The decrease was primarily due to several large payoffs in the Eastern Virginia Region coupled with moderate loan growth across the remainder of the portfolio. The covered loan portfolio as of June 30, 2015, decreased $19.61 million, or 16.04%, compared to December 31, 2014, due to continued runoff in the covered Waccamaw portfolio. The average loan to deposit ratio was 84.45% for the six months ended June 30, 2015, compared to 89.11% for the same period of 2014. See Note 3, Loans, to the Condensed Consolidated Financial Statements in Item 1 of this report.

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

	June 30, 2015		December 31, 2014		June 30, 2014	
(Amounts in thousands)	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
Non-covered loans held for investment						
Commercial loans						
Construction, development, and other land	$ 39,854	2.39%	$ 41,271	2.44%	$ 44,653	2.54%
Commercial and industrial	82,121	4.93%	83,099	4.92%	94,359	5.36%
Multi-family residential	96,235	5.77%	97,480	5.77%	88,456	5.02%
Single family non-owner occupied	144,639	8.67%	135,171	8.00%	141,376	8.04%
Non-farm, non-residential	458,325	27.49%	473,906	28.05%	498,096	28.31%
Agricultural	1,863	0.11%	1,599	0.09%	2,443	0.14%
Farmland	27,945	1.68%	29,517	1.75%	32,396	1.84%
Total commercial loans	850,982	51.04%	862,043	51.02%	901,779	51.25%
Consumer real estate loans						
Home equity lines	107,961	6.48%	110,957	6.57%	112,621	6.40%
Single family owner occupied	488,712	29.31%	485,475	28.74%	490,626	27.89%
Owner occupied construction	37,434	2.24%	32,799	1.94%	40,212	2.29%
Total consumer real estate loans	634,107	38.03%	629,231	37.25%	643,459	36.58%
Consumer and other loans						
Consumer loans	72,094	4.32%	69,347	4.10%	74,100	4.21%
Other	7,472	0.45%	6,555	0.39%	7,369	0.42%
Total consumer and other loans	79,566	4.77%	75,902	4.49%	81,469	4.63%
Non-covered loans held for investment	1,564,655	93.84%	1,567,176	92.76%	1,626,707	92.46%
Covered loans	102,634	6.16%	122,240	7.24%	132,717	7.54%
Total loans held for investment	1,667,289	100.00%	1,689,416	100.00%	1,759,424	100.00%
Allowance for loan losses	20,258		20,227		23,911	
Total loans held for investment, less allowance	$ 1,647,031		$ 1,669,189		$ 1,735,513	
Loans held for sale	$ 913		$ 1,792		$ 459	

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

(Amounts in thousands)	**June 30, 2015**	**December 31, 2014**	**June 30, 2014**
Covered loans held for investment			
Commercial loans			
Construction, development, and other land	$ 9,000	$ 13,100	$ 15,043
Commercial and industrial	1,449	2,662	2,855
Multi-family residential	848	1,584	1,662
Single family non-owner occupied	4,138	5,918	6,443
Non-farm, non-residential	21,404	25,317	27,478
Agricultural	35	43	153
Farmland	671	716	803
Total commercial loans	37,545	49,340	54,437
Consumer real estate loans			
Home equity lines	54,565	60,391	64,260
Single family owner occupied	10,253	11,968	13,534
Owner occupied construction	186	453	385
Total consumer real estate loans	65,004	72,812	78,179
Consumer and other loans			
Consumer loans	85	88	101
Covered loans held for investment	$ 102,634	$ 122,240	$ 132,717

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Risk Elements

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

(Amounts in thousands)	June 30, 2015	December 31, 2014	June 30, 2014
Non-covered nonperforming			
Nonaccrual loans	$ 15,936	$ 10,556	$ 17,464
Accruing loans past due 90 days or more			
TDRs[1]		2,726	1,877
Total nonperforming loans	15,936	13,282	19,341
Non-covered OREO	7,434	6,638	5,693
Total nonperforming assets	$ 23,370	$ 19,920	$ 25,034
Covered nonperforming			
Nonaccrual loans	$ 1,062	$ 2,438	$ 955
Accruing loans past due 90 days or more			109
Total nonperforming loans	1,062	2,438	1,064
Covered OREO	5,382	6,324	8,814
Total nonperforming assets	$ 6,444	$ 8,762	$ 9,878
Total nonperforming			
Nonaccrual loans	$ 16,998	$ 12,994	$ 18,419
Accruing loans past due 90 days or more			109
TDRs[1]		2,726	1,877
Total nonperforming loans	16,998	15,720	20,405
OREO	12,816	12,962	14,507
Total nonperforming assets	$ 29,814	$ 28,682	$ 34,912
Additional Information			

Performing TDRs[2]	$ 13,841	$ 11,808	$ 11,029
Total TDRs[3]	13,841	14,534	12,906
Non-covered ratios			
Nonperforming loans to total loans	1.02%	0.85%	1.19%
Nonperforming assets to total assets	0.98%	0.80%	1.03%
Non-PCI allowance to nonperforming loans	126.41%	151.85%	121.47%
Non-PCI allowance to total loans	1.29%	1.29%	1.44%
Total ratios			
Nonperforming loans to total loans	1.02%	0.93%	1.16%
Nonperforming assets to total assets	1.20%	1.10%	1.36%
Allowance for loan losses to nonperforming loans	119.18%	128.67%	117.18%
Allowance for loan losses to total loans	1.22%	1.20%	1.36%

(1) TDRs not performing or restructured within the past six months, excludes nonaccrual TDRs of $356 thousand, $306 thousand and $675 thousand for the periods ended June 30, 2015, December 31, 2014, and June 30, 2014, respectively.

(2) TDRs with six months or more of satisfactory payment performance, excludes nonaccrual TDRs of $312 thousand, $248 thousand, and $1.49 million for the periods ended June 30, 2015, December 31, 2014, and June 30, 2014, respectively.

(3) Perfoming and nonperforming TDRs, excludes nonaccrual TDRs of $668 thousand, $554 thousand, and $2.17 million for the periods ended June 30, 2015, December 31, 2014, and June 30, 2014, respectively.

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Non-covered nonperforming assets as of June 30, 2015, increased $3.45 million, or 17.32%, from December 31, 2014, and decreased $1.66 million, or 6.65%, from June 30, 2014. Non-covered nonperforming assets as a percentage of total non-covered assets were 0.98% as of June 30, 2015, 0.80% as of December 31, 2014, and 1.03% as of June 30, 2014.

Non-covered nonaccrual loans as of June 30, 2015, increased $5.38 million, or 50.97%, from December 31, 2014, and decreased $1.53 million, or 8.75%, from June 30, 2014. As of June 30, 2015, non-covered nonaccrual loans were largely attributed to the following loan classes: non-farm, non-residential (42.70%) and single family owner occupied (41.31%) . As of June 30, 2015, approximately $196 thousand, or 1.23%, of non-covered nonaccrual loans were attributed to performing loans acquired in business combinations. Certain loans included in the nonaccrual category have been written down to estimated realizable value or assigned specific reserves in the allowance for loan losses based upon management s estimate of loss at ultimate resolution.

When restructuring loans for borrowers experiencing financial difficulty, we generally make concessions in interest rates, loan terms, and/or amortization terms. Certain TDRs are classified as nonperforming at time of restructuring and are returned to performing status after six months of satisfactory payment performance; however, these loans remain identified as impaired until full payment or other satisfaction of the obligation occurs. Accruing TDRs as of June 30, 2015, decreased $693 thousand, or 4.77%, from December 31, 2014, and increased $935 thousand, or 7.24%, from June 30, 2014. There were no nonperforming accruing TDRs as of June 30, 2015, compared to $2.73 million, or 18.76% of total accruing TDRs, as of December 31, 2014, and $1.88 million, or 14.54% of total accruing TDRs, as of June 30, 2014. The allowance for loan losses attributed to TDRs totaled $478 thousand as of June 30, 2015, $475 thousand as of December 31, 2014, and $1.77 million as of June 30, 2014.

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 non-covered accruing loans contractually past due 90 days or more as of June 30, 2015, December 31, 2014, or June 30, 2014. There were no covered accruing loans contractually past due 90 days or more as of June 30, 2015, or December 31, 2014. Covered accruing loans contractually past due 90 days or more totaled $109 thousand as of June 30, 2014.

Non-covered delinquent loans, comprised of loans 30 days or more past due and nonaccrual loans, totaled $21.76 million as of June 30, 2015, a decrease of $219 thousand, or 1.00%, compared with December 31, 2014, and a decrease of $5.36 million, or 19.76%, compared with June 30, 2014. Non-covered delinquent loans as a percentage of total non-covered loans measured 1.39% as of June 30, 2015, which is attributed to loans 30 to 89 days past due of 0.37% and nonaccrual loans of 1.02%. Non-covered nonperforming loans, comprised of nonaccrual loans and nonperforming and unseasoned TDRs, as a percentage of total non-covered loans were 1.02% as of June 30, 2015, 0.85% at December 31, 2014, and 1.19% at June 30, 2014.

Non-covered OREO, which is carried at the lesser of estimated net realizable value or cost, increased $796 thousand, or 11.99%, as of June 30, 2015, compared with December 31, 2014, and increased $1.74 million, or 30.58%, as of June 30, 2014. As of June 30, 2015, non-covered OREO consisted of 68 properties with an average holding period of 9 months. The net loss on the sale of OREO totaled $242 thousand in the second quarter of 2015 compared to $68 thousand in the same quarter of the prior year. The net loss on the sale of OREO totaled $418 thousand in the first six months of 2015 compared to $782 thousand in the same period of the prior year. The following table details activity within OREO for the periods indicated:

	Six Months Ended June 30,					
	2015			2014		
	Non-covered	Covered	Total	Non-covered	Covered	Total
(Amounts in thousands)						
Beginning balance	$ 6,638	$ 6,324	$ 12,962	$ 7,318	$ 7,541	$ 14,859
Additions	2,139	1,272	3,411	533	2,160	2,693
Disposals	(1,157)	(1,625)	(2,782)	(1,469)	(382)	(1,851)
Valuation adjustments	(186)	(589)	(775)	(459)	(614)	(1,073)
Ending balance	$ 7,434	$ 5,382	$ 12,816	$ 5,923	$ 8,705	$ 14,628

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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.

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

Our allowance for loan losses as of June 30, 2015, increased $31 thousand, or 0.15%, compared with December 31, 2014, and decreased $3.65 million, or 15.28%, compared with June 30, 2014. The allowance attributed to the non-PCI loan portfolio as a percentage of non-covered loans held for investment was 1.29% as of June 30, 2015, 1.29% at December 31, 2014, and 1.44% at June 30, 2014. The cash flow analysis identified two of our six open PCI loan pools as impaired as of June 30, 2015, compared to two of seven PCI loan pools at December 31, 2014, and four of seven loan pools at June 30, 2014. The allowance attributed to the PCI loan portfolio totaled $114 thousand as of June 30, 2015, $58 thousand as of December 31, 2014, and $418 thousand as of June 30, 2014. During the second quarter of 2015, no provision was recorded through the FDIC indemnification asset to reflect the indemnified portion of the post-acquisition exposure, compared to $46 thousand during the first six months of 2015. As of June 30, 2015, management considered the allowance to be adequate based upon analysis of the portfolio; however, no assurance can be made that additions to the allowance will not be required in future periods.

Our qualitative risk factors continue to reflect a reduced risk of loan losses due to improvements in general economic conditions and asset quality metrics offset by an increased risk of loan losses due to credit concentrations. Net charge-offs decreased $758 thousand, or 73.74%, in the second quarter of 2015 compared to the same quarter of the prior year and decreased $1.51 million, or 51.98%, in the first six months of 2015 compared to the same period of the prior year. The portfolio continues to be monitored for deterioration in credit, which may result in the need to increase the allowance for loan losses in future periods.

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

	Three Months Ended June 30,					
	2015			2014		
	Non-PCI Portfolio	PCI Portfolio	Total	Non-PCI Portfolio	PCI Portfolio	Total

(Amounts in thousands)						
Beginning balance	$ 20,138	$ 114	$ 20,252	$ 23,305	$ 493	$ 23,798
Provision for (recovery of) loan losses	276		276	1,216	(75)	1,141
Benefit attributable to the FDIC indemnification asset					138	138
Provision for loan losses charged to operations	276		276	1,216	63	1,279
Provision for (recovery of) loan losses recorded through the FDIC indemnification asset					(138)	(138)
Charge-offs	(673)		(673)	(1,785)		(1,785)
Recoveries	403		403	757		757
Net charge-offs	(270)		(270)	(1,028)		(1,028)
Ending balance	$ 20,144	$ 114	$ 20,258	$ 23,493	$ 418	$ 23,911

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	Six Months Ended June 30,					
	2015			2014		
(Amounts in thousands)	Non-PCI Portfolio	PCI Portfolio	Total	Non-PCI Portfolio	PCI Portfolio	Total
Beginning balance	$ 20,169	$ 58	$ 20,227	$ 23,322	$ 755	$ 24,077
Provision for (recovery of) loan losses	1,366	56	1,422	3,068	(337)	2,731
Benefit attributable to the FDIC indemnification asset		(46)	(46)		341	341
Provision for (recovery of) loan losses charged to operations	1,366	10	1,376	3,068	4	3,072
Provision for (recovery of) loan losses recorded through the FDIC indemnification asset		46	46		(341)	(341)
Charge-offs	(2,251)		(2,251)	(4,001)		(4,001)
Recoveries	860		860	1,104		1,104
Net charge-offs	(1,391)		(1,391)	(2,897)		(2,897)
Ending balance	$ 20,144	$ 114	$ 20,258	$ 23,493	$ 418	$ 23,911

Deposits

Total deposits as of June 30, 2015, decreased $80.54 million, or 4.03%, compared to December 31, 2014. Interest-bearing deposits decreased $24.29 million and time deposits decreased $65.48 million as of June 30, 2015, compared to December 31, 2014. Noninterest-bearing deposits increased $6.71 million and savings deposits, which include money market and savings accounts, increased $2.53 million as of June 30, 2015, compared to December 31, 2014.

Borrowings

Total borrowings as of June 30, 2015, decreased $26.58 million, or 11.57%, compared to December 31, 2014. Short-term borrowings consist of retail repurchase agreements. The balance of retail repurchase agreements increased $416 thousand, or 0.58%, as of June 30, 2015, compared to December 31, 2014. Securities underlying retail repurchase agreements remain under our control during the terms of the agreements. Long-term borrowings consist of wholesale repurchase agreements; FHLB borrowings, including convertible and callable advances; and other obligations. The balance and weighted average rate of wholesale repurchase agreements remained constant at $50.00 million and 3.71%, respectively, as of June 30, 2015, compared to December 31, 2014. As of June 30, 2015, wholesale repurchase agreements had contractual maturities between one and four years. The balance of FHLB borrowings decreased $25.00 million, or 27.78%, as of June 30, 2015, compared to December 31, 2014, and the weighted average rate decreased 3 basis points to 4.04%. We prepaid $25 million of a FHLB convertible advance with a May 2017 maturity and 4.21% interest rate during the second quarter of 2015, which resulted in a prepayment penalty of $1.70 million. As of June 30, 2015, FHLB borrowings had contractual maturities between one and six years. Included in other borrowings is $15.46 million of junior subordinated debentures (Debentures) that were issued

by the Company in October 2003 through the Trust with an interest rate of three-month London InterBank Offered Rate (LIBOR) plus 2.95%. The Debentures mature in October 2033 and are currently callable at the option of the Company. The Company maintains a $15.00 million unsecured, committed line of credit with an unrelated financial institution that carries an interest rate of one-month LIBOR plus 2.00% and matures in April 2016. As of June 30, 2015, there was no outstanding balance on the line compared to an outstanding balance of $2.00 million as of December 31, 2014.

Stockholders Equity

Total stockholders equity decreased $6.81 million, or 1.94%, from $351.37 million as of December 31, 2014, to $344.57 million as of June 30, 2015. The change in stockholders equity was primarily due to the repurchase of 684,407 shares of our common stock and the redemption of 2,367 shares of Series A Preferred Stock.

Liquidity and Capital Resources

Liquidity is a measure of our ability to raise sufficient cash, or convert assets to cash, to meet our financial obligations. We maintain a liquidity risk management policy and contingency funding policy (Liquidity Plan) that is designed to detect potential liquidity issues to protect depositors, creditors, and shareholders. The Liquidity Plan includes various internal and external indicators that are reviewed on a recurring basis by our Asset/Liability Management Committee (ALCO) and the Board of Directors. ALCO reviews liquidity risk exposure and policies related to liquidity management, ensures that systems and internal controls are consistent with liquidity policies, and provides accurate reports about liquidity needs, sources, and compliance.

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As of June 30, 2015, we maintained liquidity in the form of unencumbered cash on hand and deposits with other financial institutions of $92.60 million, availability on federal funds lines with correspondent banks of $105.00 million, credit available from the Federal Reserve Bank discount window of $9.08 million, unused borrowing capacity with the FHLB of $441.37 million, and unpledged available-for-sale securities of $131.23 million. Cash on hand and deposits with other financial institutions, as well as lines of credit extended from correspondent banks and the FHLB, are immediately available to satisfy deposit withdrawals, customer credit needs, and our operations. Unused borrowing capacity with the FHLB is reported net of letters of credit held to secure public unit deposits. As of June 30, 2015, we provided letters of credit to public depositors with the FHLB totaling $6.19 million. Available-for-sale securities represent a secondary source of liquidity upon conversion to a liquid asset. Our approved lines of credit with correspondent banks are available as backup liquidity sources.

As a holding company, the Company does not conduct significant operations. The Company s primary sources of liquidity are dividends received from the Bank and borrowings. Dividends paid by the Bank are subject to certain regulatory limitations. As of June 30, 2015, the Company s liquid assets consisted of cash and investment securities totaling $19.96 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 June 30, 2015, there was no outstanding balance on the line.

Capital Adequacy Requirements

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

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

6.0% Tier 1 capital to risk-weighted assets

8.0% Total capital to risk-weighted assets

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

	June 30, 2015	December 31, 2014
Common equity Tier 1 ratio		
First Community Bancshares, Inc.	15.13%	NA
First Community Bank	13.98%	NA
Tier 1 risk-based capital ratio		
First Community Bancshares, Inc.	15.33%	16.43%

First Community Bank	13.98%	14.48%
Total risk-based capital ratio		
First Community Bancshares, Inc.	16.58%	17.68%
First Community Bank	15.24%	15.73%
Tier 1 leverage ratio		
First Community Bancshares, Inc.	10.37%	10.12%
First Community Bank	9.41%	8.87%

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

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.

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

	June 30, 2015	December 31, 2014
(Amounts in thousands)		
Commitments to extend credit	$ 213,408	$ 236,471
Commitments related to secondary market mortgage loans	4,425	1,391
Standby letters of credit and financial guarantees	3,064	3,581
Total off-balance sheet risk	$ 220,897	$ 241,443
Reserve for unfunded commitments	$ 326	$ 326

Impact of Inflation and Changing Prices

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

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

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

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

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

	June 30, 2015		December 31, 2014	
(Amounts in thousands, except basis points)				
Increase (Decrease) in Interest Rates in Basis Points	**Change in Net Interest Income**	**Percent Change**	**Change in Net Interest Income**	**Percent Change**
300	$ (1,186)	-1.4%	$ 3,619	4.2%
200	(806)	-0.9%	2,183	2.5%
100	(611)	-0.7%	871	1.0%
(100)	(1,715)	-2.0%	290	0.3%

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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

Management, including the CEO and CFO, does not expect that our disclosure controls and internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our Company have been detected. These inherent limitations include the realities that

judgments in decision making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, collusion of two or more people, or management s override of the controls.

Changes in Internal Control over Financial Reporting

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

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.

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ITEM 1A. Risk Factors

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

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

(a) Not Applicable

(b) Not Applicable

(c) Issuer Purchases of Equity Securities

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

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan	Maximum Number of Shares that May Yet be Purchased Under the Plan[(1)]
April 1-30, 2015	6,058	$ 16.93	6,058	579,930
May 1-31, 2015	216,861	16.69	216,861	374,701
June 1-30, 2015	122,254	17.79	122,254	259,687
Total	345,173	$ 17.08	345,173	

(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 2,740,313 shares in treasury as of June 30, 2015.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

None.

ITEM 5. Other Information

None.

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ITEM 6. Exhibits

(a) Exhibits and index required

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

	First Community Bancshares, Inc. Directors Deferred Compensation Plan, as amended and restated. (19)
10.14**	Employment Agreement between First Community Bancshares, Inc. and David D. Brown dated April 16, 2015. (21)
10.16**	Employment Agreement between First Community Bancshares, Inc. and E. Stephen Lilly dated April 16, 2015. (22)
10.17**	Employment Agreement between First Community Bancshares, Inc. and Gary R. Mills dated April 16, 2015. (23)
10.18**	Employment Agreement between First Community Bancshares, Inc. and Martyn A. Pell dated April 16, 2015. (24)
10.19**	Employment Agreement between First Community Bank and Robert L. Schumacher dated April 16, 2015. (25)
10.20**	Employment Agreement between First Community Bancshares, Inc. and William P. Stafford, II dated April 16, 2015. (35)
10.21**	Employment Agreement between First Community Bank and Mark R. Evans dated July 31, 2009. (26)
10.22**	Form of Restricted Stock Grant Agreement under First Community Bancshares, Inc. 2012 Omnibus Equity Compensation Plan. (31)
10.23**	Separation Agreement and Release between First Community Bancshares, Inc. and John M. Mendez dated August 28, 2013. (32)
11	Statement Regarding Computation of Earnings per Share. (28)
31.1*	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2*	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
32*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101***	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Condensed Consolidated Balance Sheets as of June 30, 2015, (Unaudited), and December 31, 2014; (ii) Condensed Consolidated Statements of Income (Unaudited) for the three and six months ended June 30, 2015 and 2014; (iii) Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2015 and 2014; (iv) Condensed Consolidated Statements of Stockholders Equity (Unaudited) for the six months ended June 30, 2015 and 2014; (v) Condensed Consolidated Statements of Cash Flows (Unaudited) for the six months ended June 30, 2015 and 2014; and (vi) Notes to Condensed Consolidated Financial Statements (Unaudited).

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

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

(25) Incorporated by reference from the Current Report on Form 8-K dated and filed on April 16, 2015.
(26) Incorporated by reference from Exhibit 2.1 of the Current Report on Form 8-K dated April 2, 2009, filed on April 3, 2009.
(27) Incorporated by reference from Exhibit 10.2 of the Current Report on Form 8-K dated December 16, 2010, filed on December 17, 2010.
(28) Incorporated by reference from Note 1 of the Notes to Condensed Consolidated Financial Statements included herein.
(29) Incorporated by reference from the 2012 First Community Bancshares, Inc. Definitive Proxy Statement filed on March 7, 2012.
(30) Incorporated by reference from Exhibit 10.1 of the Current Report on Form 8-K dated February 21, 2013, filed on February 25, 2013.
(31) Incorporated by reference from Exhibit 99.1 of the Current Report on Form 8-K dated and filed May 28, 2013.
(32) Incorporated by reference from Exhibit 99.1 of the Current Report on Form 8-K/A dated August 12, 2013, filed on September 3, 2013.
(33) Incorporated by reference from Exhibit 99.1 of the Current Report on Form 8-K dated August 6, 2014, filed on August 7, 2014.
(34) Incorporated by reference from Exhibit 99.3 of the Current Report on Form 8-K/A dated June 9, 2014, filed on June 10, 2014.
(35) Incorporated by reference from Exhibit 10.1 of the Current Report on Form 8-K dated and filed on April 16, 2015.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 7th day of August, 2015.

First Community Bancshares, Inc.

(Registrant)

/s/ William P. Stafford, II

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

/s/ David D. Brown

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

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EXHIBIT INDEX

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