FIRST COMMUNITY BANCSHARES INC /NV/
Form 10-Q
August 08, 2014
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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, 2014**

**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; 18,402,419 shares outstanding as of August 1, 2014

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FIRST COMMUNITY BANCSHARES, INC.

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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, 2014** (Unaudited) | **December 31, 2013** |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | $ 47,869 | $ 43,598 |
| Federal funds sold | 38,142 | 1,817 |
| Interest-bearing deposits in banks | 10,770 | 11,152 |
| Total cash and cash equivalents | 96,781 | 56,567 |
| Securities available for sale | 398,425 | 519,820 |
| Securities held to maturity | 19,398 | 568 |
| Loans held for sale | 459 | 883 |
| Loans held for investment, net of unearned income: | | |
| Covered under loss share agreements | 132,717 | 151,682 |
| Not covered under loss share agreements | 1,626,707 | 1,559,039 |
| Less allowance for loan losses | (23,911) | (24,077) |
| Loans held for investment, net | 1,735,513 | 1,686,644 |
| FDIC indemnification asset | 30,908 | 34,691 |
| Premises and equipment, net | 59,145 | 61,116 |
| Other real estate owned: | | |
| Covered under loss share agreements | 8,814 | 7,541 |
| Not covered under loss share agreements | 5,693 | 7,318 |
| Interest receivable | 6,206 | 7,521 |
| Goodwill | 105,657 | 105,455 |
| Other intangible assets | 2,512 | 2,866 |
| Other assets | 105,890 | 111,524 |
| Total assets | $ 2,575,401 | $ 2,602,514 |
| **Liabilities** | | |
| Deposits: | | |
| Noninterest-bearing | $ 357,871 | $ 339,680 |
| Interest-bearing | 1,565,233 | 1,611,062 |
| Total deposits | 1,923,104 | 1,950,742 |
| Interest, taxes, and other liabilities | 23,576 | 22,770 |

| | | |
|---|---|---|
| Federal funds purchased | | 16,000 |
| Securities sold under agreements to repurchase | 120,159 | 118,308 |
| FHLB borrowings | 150,000 | 150,000 |
| Other borrowings | 16,087 | 16,088 |
| Total liabilities | 2,232,926 | 2,273,908 |
| **Stockholders equity** | | |
| Preferred stock, undesignated par value; 1,000,000 shares authorized: Series A Noncumulative Convertible Preferred Stock, $0.01 par value; 25,000 shares authorized; 15,151 and 15,251 shares outstanding at June 30, 2014, and December 31, 2013, respectively | 15,151 | 15,251 |
| Common stock, $1 par value; 50,000,000 shares authorized; 20,499,683 and 20,493,057 shares issued at June 30, 2014, and December 31, 2013, respectively; 2,095,991 and 1,978,478 shares in treasury at June 30, 2014, and December 31, 2013, respectively | 20,500 | 20,493 |
| Additional paid-in capital | 215,670 | 215,663 |
| Retained earnings | 133,688 | 125,826 |
| Treasury stock, at cost | (35,797) | (33,887) |
| Accumulated other comprehensive loss | (6,737) | (14,740) |
| Total stockholders equity | 342,475 | 328,606 |
| Total liabilities and stockholders equity | $ 2,575,401 | $ 2,602,514 |

*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, 2014** | **Three Months Ended June 30, 2013** | **Six Months Ended June 30, 2014** | **Six Months Ended June 30, 2013** |
|---|---|---|---|---|
| **Interest income** | | | | |
| Interest and fees on loans held for investment | $ 23,410 | $ 24,264 | $ 46,244 | $ 49,108 |
| Interest on securities taxable | 1,537 | 1,869 | 3,634 | 3,755 |
| Interest on securities nontaxable | 1,099 | 1,207 | 2,221 | 2,415 |
| Interest on deposits in banks | 47 | 72 | 77 | 138 |
| Total interest income | 26,093 | 27,412 | 52,176 | 55,416 |
| **Interest expense** | | | | |
| Interest on deposits | 1,835 | 2,283 | 3,723 | 4,645 |
| Interest on short-term borrowings | 483 | 579 | 985 | 1,169 |
| Interest on long-term debt | 1,707 | 1,688 | 3,375 | 3,378 |
| Total interest expense | 4,025 | 4,550 | 8,083 | 9,192 |
| Net interest income | 22,068 | 22,862 | 44,093 | 46,224 |
| Provision for loan losses | 1,279 | 3,205 | 3,072 | 4,347 |
| Net interest income after provision for loan losses | 20,789 | 19,657 | 41,021 | 41,877 |
| **Noninterest income** | | | | |
| Wealth management | 718 | 971 | 1,726 | 1,817 |
| Service charges on deposit accounts | 3,423 | 3,315 | 6,493 | 6,483 |
| Other service charges and fees | 1,850 | 1,793 | 3,621 | 3,579 |
| Insurance commissions | 1,454 | 1,308 | 3,418 | 2,974 |
| Impairment losses on securities | (254) | | (518) | |
| Portion of losses recognized in other comprehensive income | | | | |
| Net impairment losses recognized in earnings | (254) | | (518) | |
| Net (loss) gain on sale of securities | (59) | 113 | (14) | 230 |
| Net FDIC indemnification asset amortization | (936) | (1,662) | (2,070) | (3,201) |
| Other operating income | 1,408 | 1,010 | 2,182 | 2,827 |
| Total noninterest income | 7,604 | 6,848 | 14,838 | 14,709 |
| **Noninterest expense** | | | | |
| Salaries and employee benefits | 10,043 | 9,960 | 19,948 | 20,070 |
| Occupancy expense of bank premises | 1,578 | 1,795 | 3,356 | 3,650 |
| Furniture and equipment | 1,205 | 1,300 | 2,399 | 2,643 |

| | | | | |
|---|---|---|---|---|
| Amortization of intangible assets | 178 | 183 | 353 | 362 |
| FDIC premiums and assessments | 458 | 469 | 892 | 941 |
| Merger related expense | | 8 | | 57 |
| Other operating expense | 4,701 | 4,818 | 10,395 | 10,354 |
| Total noninterest expense | 18,163 | 18,533 | 37,343 | 38,077 |
| Income before income taxes | 10,230 | 7,972 | 18,516 | 18,509 |
| Income tax expense | 3,223 | 2,537 | 5,784 | 5,933 |
| Net income | 7,007 | 5,435 | 12,732 | 12,576 |
| Dividends on preferred stock | 227 | 253 | 455 | 511 |
| Net income available to common shareholders | $ 6,780 | $ 5,182 | $ 12,277 | $ 12,065 |
| Basic earnings per common share | $ 0.37 | $ 0.26 | $ 0.67 | $ 0.60 |
| Diluted earnings per common share | 0.36 | 0.26 | 0.65 | 0.59 |
| Cash dividends per common share | 0.12 | 0.12 | 0.24 | 0.24 |
| Weighted average basic shares outstanding | 18,395,996 | 19,997,991 | 18,409,414 | 20,015,247 |
| Weighted average diluted shares outstanding | 19,457,237 | 21,205,078 | 19,475,333 | 21,231,615 |

*See Notes to Consolidated Financial Statements.*

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**FIRST COMMUNITY BANCSHARES, INC.**

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

| *(Amounts in thousands, except share and per share data)* | **Three Months Ended June 30, 2014** | **Three Months Ended June 30, 2013** | **Six Months Ended June 30, 2014** | **Six Months Ended June 30, 2013** |
|---|---|---|---|---|
| **Comprehensive Income** | | | | |
| Net income | $ 7,007 | $ 5,435 | $ 12,732 | $ 12,576 |
| Other comprehensive income (loss), before tax: | | | | |
| Available-for-sale securities: | | | | |
| Unrealized (losses) gains on securities available for sale with other-than-temporary impairment | (264) | 15 | 218 | (182) |
| Unrealized gains (losses) on securities available for sale without other-than-temporary impairment | 6,221 | (14,483) | 11,927 | (15,604) |
| Less: reclassification adjustment for losses (gains) realized in net income | 59 | (113) | 14 | (230) |
| Less: reclassification adjustment for credit related other-than-temporary impairments recognized in net income | 254 | | 518 | |
| Unrealized gains (losses) on available-for-sale securities | 6,270 | (14,581) | 12,677 | (16,016) |
| Employee benefit plans: | | | | |
| Net actuarial gain (loss) on pension and other postretirement benefit plans | 2 | (24) | 31 | (324) |
| Net prior service cost attributed to plan amendments | | (94) | | (188) |
| Less: reclassification adjustment for amortization of prior service cost and net actuarial loss included in net periodic benefit cost | 64 | 82 | 129 | 163 |
| Unrealized gains (losses) on employee benefit plans | 66 | (36) | 160 | (349) |
| Other comprehensive income (loss), before tax | 6,336 | (14,617) | 12,837 | (16,365) |
| Income tax (expense) benefit | (2,386) | 5,459 | (4,834) | 6,112 |
| Other comprehensive income (loss), net of tax | 3,950 | (9,158) | 8,003 | (10,253) |
| Total comprehensive income | $ 10,957 | $ (3,723) | $ 20,735 | $ 2,323 |

*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, 2013 | $ 17,421 | $ 20,343 | $ 213,829 | $ 113,013 | $ (6,458) | $ (1,825) | $ 356,323 |
| Net income | | | | 12,576 | | | 12,576 |
| Other comprehensive loss | | | | | | (10,253) | (10,253) |
| Common dividends declared $0.24 per share | | | | (4,805) | | | (4,805) |
| Preferred dividends declared $30.00 per share | | | | (511) | | | (511) |
| Preferred stock converted to common stock 103,500 shares | (1,500) | 104 | 1,396 | | | | |
| Equity-based compensation expense | | | 98 | | | | 98 |
| Common stock options exercised 789 shares | | | (9) | | 16 | | 7 |
| Restricted stock awards 34,113 shares | | | (175) | | 703 | | 528 |
| Purchase of treasury shares 130,804 shares at $15.43 per share | | | | | (2,024) | | (2,024) |
| Balance June 30, 2013 | $ 15,921 | $ 20,447 | $ 215,139 | $ 120,273 | $ (7,763) | $ (12,078) | $ 351,939 |
| 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 |

*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, 2014** | **2013** |
|---|---|---|
| **Operating activities** | | |
| Net income | $ 12,732 | $ 12,576 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 3,072 | 4,347 |
| Depreciation and amortization of property, plant, and equipment | 2,193 | 2,474 |
| Amortization (accretion) of premiums on investments, net | 2,899 | (258) |
| Amortization of FDIC indemnification asset, net | 2,070 | 3,201 |
| Amortization of intangible assets | 353 | 362 |
| Gain on sale of loans | (351) | (346) |
| Equity-based compensation expense | 115 | 98 |
| Gain on sale of property, plant, and equipment | (79) | (51) |
| Loss on sale of other real estate | 1,539 | 971 |
| Loss (gain) on sale of securities | 14 | (230) |
| Net impairment losses recognized in earnings | 518 | |
| Gain on prepayment of debt | | (296) |
| Proceeds from sale of mortgage loans | 16,585 | 43,905 |
| Origination of mortgage loans | (15,810) | (41,508) |
| Decrease (increase) in accrued interest receivable | 1,315 | (168) |
| Increase in other operating activities | (1,033) | (10,596) |
| Net cash provided by operating activities | 26,132 | 14,481 |
| **Investing activities** | | |
| Proceeds from sale of securities available for sale | 101,799 | 104,279 |
| Proceeds from maturities, prepayments, and calls of securities available for sale | 30,696 | 45,033 |
| Proceeds from maturities and calls of securities held to maturity | 190 | 190 |
| Payments to acquire securities available for sale | (2,102) | (180,928) |
| Payments to acquire securities held to maturity | (19,035) | |
| (Originations) collections of loans, net | (58,551) | 21,826 |
| Proceeds from the redemption of FHLB stock, net | 1,649 | 1,184 |
| Net cash paid in acquisitions | (202) | (201) |
| Proceeds from the FDIC | 2,218 | 5,148 |
| Payments to acquire property, plant, and equipment | (866) | (1,753) |
| Proceeds from sale of property, plant, and equipment | 1,318 | 113 |
| Proceeds from sale of other real estate | 5,764 | 3,195 |
| Net cash provided by (used in) investing activities | 62,878 | (1,914) |
| **Financing activities** | | |
| Net increase in noninterest-bearing deposits | 18,191 | 6,620 |
| Net decrease in interest-bearing deposits | (45,829) | (48,099) |

| | | |
|---|---|---|
| Net decrease in federal funds purchased | (16,000) | |
| Proceeds from (repayments of) securities sold under agreements to repurchase | 1,851 | (14,914) |
| Repayments of long-term debt | (1) | (11,558) |
| Proceeds from stock options exercised | 9 | 7 |
| Excess tax benefit from equity-based compensation | 1 | |
| Payments for repurchase of treasury stock | (2,148) | (2,024) |
| Payments of common dividends | (4,415) | (4,805) |
| Payments of preferred dividends | (455) | (522) |
| Net cash used in financing activities | (48,796) | (75,295) |
| Net increase (decrease) in cash and cash equivalents | 40,214 | (62,728) |
| Cash and cash equivalents at beginning of period | 56,567 | 144,847 |
| Cash and cash equivalents at end of period | $ 96,781 | $ 82,119 |
| **Supplemental transactions noncash items** | | |
| Transfer of loans to other real estate | $ 7,189 | $ 9,324 |
| Loans originated to finance other real estate | 238 | 3,011 |

*See Notes to Consolidated Financial Statements.*

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

### Note 1. General

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

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

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, 2014, our operations were conducted through 69 locations in 5 states: Virginia, West Virginia, North Carolina, South Carolina, and Tennessee.

***Significant Accounting Policies***

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

***Reclassifications and Corrections***

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

***Recent Accounting Pronouncements***

In June 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2014-12,  Compensation  Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period,  which requires that a performance target that affects vesting and that could be achieved after the requisite service period should be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718 as it relates to awards with performance conditions that affect vesting to account for such awards. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. This update is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Earlier adoption is permitted. The Company is evaluating the impact the guidance is expected to have on the Company s financial statements.

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***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)* | **2014** | **2013** | **2014** | **2013** |
| Net income | $ 7,007 | $ 5,435 | $ 12,732 | $ 12,576 |
| Dividends on preferred stock | 227 | 253 | 455 | 511 |
| Net income available to common shareholders | $ 6,780 | $ 5,182 | $ 12,277 | $ 12,065 |
| Weighted average number of common shares outstanding, basic | 18,395,996 | 19,997,991 | 18,409,414 | 20,015,247 |
| Dilutive effect of potential common shares from: | | | | |
| Stock options | 15,577 | 15,952 | 18,467 | 16,512 |
| Restricted stock | 245 | 7,284 | 508 | 6,956 |
| Convertible preferred stock | 1,045,419 | 1,183,851 | 1,046,944 | 1,192,900 |
| Weighted average number of common shares outstanding, diluted | 19,457,237 | 21,205,078 | 19,475,333 | 21,231,615 |
| Basic earnings per common share | $ 0.37 | $ 0.26 | $ 0.67 | $ 0.60 |
| Diluted earnings per common share | 0.36 | 0.26 | 0.65 | 0.59 |
| Antidilutive potential common shares: | | | | |
| Stock options | 253,082 | 337,693 | 253,082 | 337,693 |

The Company s Series A Noncumulative Convertible Preferred Stock ( Series A Preferred Stock ) carries a 6% dividend rate. Each share of the Series A Preferred Stock is convertible into 69 shares of the Company s common stock at any time. The Company may redeem the shares at face value and the shares mandatorily convert on May 20, 2016. The Series A Preferred Stock outstanding totaled 15,151 shares as of June 30, 2014, 15,251 shares as of December 31, 2013, and 15,921 shares as of June 30, 2013.

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**Note 2. Investment Securities**

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

| | June 30, 2014 | | | | |
|---|---|---|---|---|---|
| *(Amounts in thousands)* | **Amortized Cost** | **Unrealized Gains** | **Unrealized Losses** | **Fair Value** | **OTTI in AOCI[(1)]** |
| U.S. Treasury securities | $ 9,722 | $ | $ (250) | $ 9,472 | $ |
| Municipal securities | 141,820 | 4,059 | (1,744) | 144,135 | |
| Single issue trust preferred securities | 55,792 | | (7,482) | 48,310 | |
| Corporate securities | 5,000 | 58 | | 5,058 | |
| Mortgage-backed securities: | | | | | |
| Agency | 182,775 | 1,053 | (3,438) | 180,390 | |
| Non-Agency Alt-A residential | 11,741 | | (1,733) | 10,008 | (1,733) |
| Total mortgage-backed securities | 194,516 | 1,053 | (5,171) | 190,398 | (1,733) |
| Equity securities | 752 | 302 | (2) | 1,052 | |
| Total | $ 407,602 | $ 5,472 | $ (14,649) | $ 398,425 | $ (1,733) |

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

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

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

| | June 30, 2014 | | | |
|---|---|---|---|---|
| *(Amounts in thousands)* | **Amortized Cost** | **Unrealized Gains** | **Unrealized Losses** | **Fair Value** |
| U.S. Agency securities | $ 15,894 | $ 1 | $ (15) | $ 15,880 |
| Municipal securities | 378 | 7 | | 385 |
| Corporate securities | 3,126 | 12 | | 3,138 |
| Total | $ 19,398 | $ 20 | $ (15) | $ 19,403 |

| | December 31, 2013 | | | |
|---|---|---|---|---|
| *(Amounts in thousands)* | **Amortized Cost** | **Unrealized Gains** | **Unrealized Losses** | **Fair Value** |
| Municipal securities | $ 568 | $ 11 | $ | $ 579 |
| Total | $ 568 | $ 11 | $ | $ 579 |

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The following table presents the amortized cost and fair value of available-for-sale securities and held-to-maturity securities, by contractual maturity, as of June 30, 2014. 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 | $ 1,689 | $ 1,697 |
| Due after one year but within five years | 9,397 | 9,640 |
| Due after five years but within ten years | 45,138 | 46,079 |
| Due after ten years | 156,110 | 149,559 |
| | 212,334 | 206,975 |
| Mortgage-backed securities | 194,516 | 190,398 |
| Equity securities | 752 | 1,052 |
| Total | $ 407,602 | $ 398,425 |
| **Held-to-maturity securities** | | |
| Due within one year | $ 190 | $ 192 |
| Due after one year but within five years | 19,208 | 19,211 |
| Due after five years but within ten years | | |
| Due after ten years | | |
| Total | $ 19,398 | $ 19,403 |

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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, 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. Treasury securities | $ | $ | $ 9,472 | $ (250) | $ 9,472 | $ (250) |
| Municipal securities | 915 | (3) | 29,615 | (1,741) | 30,530 | (1,744) |
| Single issue trust preferred securities | | | 48,310 | (7,482) | 48,310 | (7,482) |
| Mortgage-backed securities: | | | | | | |
| Agency | 180 | (5) | 97,950 | (3,433) | 98,130 | (3,438) |
| Non-Agency Alt-A residential | | | 10,008 | (1,733) | 10,008 | (1,733) |
| Total mortgage-backed securities | 180 | (5) | 107,958 | (5,166) | 108,138 | (5,171) |
| Equity securities | 154 | (2) | | | 154 | (2) |
| Total | $ 1,249 | $ (10) | $ 195,355 | $ (14,639) | $ 196,604 | $ (14,649) |

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

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

| | June 30, 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 | $ 15,209 | $ (15) | $ | $ | $ 15,209 | $ (15) |
| Total | $ 15,209 | $ (15) | $ | $ | $ 15,209 | $ (15) |

As of June 30, 2014, there were 113 individual securities in an unrealized loss position, and their combined depreciation in value represented 3.51% of the investment securities portfolio. As of December 31, 2013, there were 219 individual securities in an unrealized loss position, and their combined depreciation in value represented 5.06% of the available-for-sale securities portfolio.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(Amounts in thousands)* | **2014** | **2013** | **2014** | **2013** |
| Gross realized gains | $ 1,288 | $ 152 | $ 1,511 | $ 307 |
| Gross realized losses | (1,347) | (39) | (1,525) | (77) |
| Net (loss) gain on sale of securities | $ (59) | $ 113 | $ (14) | $ 230 |

The carrying value of securities pledged to secure public deposits and for other purposes was $268.00 million as of June 30, 2014, and $284.77 million as of December 31, 2013.

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

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

The Company uses a discounted cash flow model for the non-Agency Alt-A residential MBS with the following assumptions: constant voluntary prepayment rate of 2.5%, a customized constant default rate scenario that assumes approximately 14% of the remaining underlying mortgages will default over the life of the security, and a customized loss severity rate scenario that ramps the loss rate down from 48% to 10% over the course of approximately 30 months. The following table presents the activity for credit-related losses recognized in earnings on debt securities where a portion of an OTTI was recognized in OCI for the periods indicated:

| | **Three Months Ended June 30,** | | **Six Months Ended June 30,** | |
|---|---|---|---|---|
| *(Amounts in thousands)* | **2014** | **2013** | **2014** | **2013** |
| Beginning balance[1] | $ 8,030 | $ 7,478 | $ 7,798 | $ 7,478 |
| Additions for credit losses on securities previously recognized | 254 | | 486 | |
| Ending balance | $ 8,284 | $ 7,478 | $ 8,284 | $ 7,478 |

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

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

**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, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| *(Amounts in thousands)* | Amount | Percent | Amount | Percent |
| Non-covered loans held for investment | | | | |
| Commercial loans | | | | |
| Construction, development, and other land | $ 44,653 | 2.54% | $ 35,255 | 2.06% |
| Commercial and industrial | 94,359 | 5.36% | 95,455 | 5.58% |
| Multi-family residential | 88,456 | 5.02% | 70,197 | 4.10% |
| Single family non-owner occupied | 141,376 | 8.04% | 135,559 | 7.92% |
| Non-farm, non-residential | 498,096 | 28.31% | 475,911 | 27.82% |
| Agricultural | 2,443 | 0.14% | 2,324 | 0.14% |
| Farmland | 32,396 | 1.84% | 32,614 | 1.91% |
| Total commercial loans | 901,779 | 51.25% | 847,315 | 49.53% |
| Consumer real estate loans | | | | |
| Home equity lines | 112,621 | 6.40% | 111,770 | 6.53% |
| Single family owner occupied | 490,626 | 27.89% | 496,012 | 28.99% |
| Owner occupied construction | 40,212 | 2.29% | 28,703 | 1.68% |
| Total consumer real estate loans | 643,459 | 36.58% | 636,485 | 37.20% |
| Consumer and other loans | | | | |
| Consumer loans | 74,100 | 4.21% | 71,313 | 4.17% |
| Other | 7,369 | 0.42% | 3,926 | 0.23% |
| Total consumer and other loans | 81,469 | 4.63% | 75,239 | 4.40% |
| Total non-covered loans | 1,626,707 | 92.46% | 1,559,039 | 91.13% |
| Total covered loans | 132,717 | 7.54% | 151,682 | 8.87% |

| | | | | |
|---|---|---|---|---|
| Total loans held for investment, net of unearned income | $ 1,759,424 | 100.00% | $ 1,710,721 | 100.00% |
| Loans held for sale | $ 459 | | $ 883 | |

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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, 2014** | **December 31, 2013** |
|---|---|---|
| Covered loans | | |
| Commercial loans | | |
| Construction, development, and other land | $ 15,043 | $ 15,865 |
| Commercial and industrial | 2,855 | 3,325 |
| Multi-family residential | 1,662 | 1,933 |
| Single family non-owner occupied | 6,443 | 7,449 |
| Non-farm, non-residential | 27,478 | 34,646 |
| Agricultural | 153 | 164 |
| Farmland | 803 | 873 |
| Total commercial loans | 54,437 | 64,255 |
| Consumer real estate loans | | |
| Home equity lines | 64,260 | 69,206 |
| Single family owner occupied | 13,534 | 16,919 |
| Owner occupied construction | 385 | 1,184 |
| Total consumer real estate loans | 78,179 | 87,309 |
| Consumer and other loans | | |
| Consumer loans | 101 | 118 |
| Total covered loans | $ 132,717 | $ 151,682 |

***Purchased Credit Impaired Loans***

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

| *(Amounts in thousands)* | **Peoples** | **Waccamaw** | **Other** | **Total** |
|---|---|---|---|---|
| Carrying balance, January 1, 2013 | $ 26,907 | $ 112,093 | $ 2,340 | $ 141,340 |
| Carrying balance, June 30, 2013 | 17,484 | 90,105 | 2,088 | 109,677 |
| Unpaid principal balance, June 30, 2013 | 24,882 | 124,568 | 5,591 | 155,041 |
| Carrying balance, January 1, 2014 | $ 9,196 | $ 70,584 | $ 1,931 | $ 81,711 |
| Carrying balance, June 30, 2014 | 7,862 | 59,062 | 1,903 | 68,827 |
| Unpaid principal balance, June 30, 2014 | 15,216 | 92,368 | 5,339 | 112,923 |

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

| *(Amounts in thousands)* | **Peoples** | **Waccamaw** | **Other** | **Total** |
|---|---|---|---|---|
| **Six months ended June 30, 2013** | | | | |
| Beginning balance | $ 2,342 | $ 21,886 | $ 15 | $ 24,243 |
| Additions | 148 | 178 | | 326 |
| Accretion | (846) | (2,900) | (99) | (3,845) |
| Reclassifications from (to) nonaccretable difference | 4,695 | (9,104) | 92 | (4,317) |
| Removal events | (1,203) | (1,581) | | (2,784) |
| Ending balance | $ 5,136 | $ 8,479 | $ 8 | $ 13,623 |
| **Six months ended June 30, 2014** | | | | |
| 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 |

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

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**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 tables present the recorded investment and related information for loans considered to be impaired, excluding PCI loans, as of the periods indicated:

| | June 30, 2014 | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|
| *(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 | | | | | | |
| Commercial and industrial | $ 297 | $ 297 | $ | $ 292 | $ 292 | $ |
| Single family non-owner occupied | | | | 289 | 317 | |
| Non-farm, non-residential | 6,027 | 6,377 | | 5,352 | 5,682 | |
| Farmland | 345 | 360 | | 351 | 363 | |
| Consumer real estate loans | | | | | | |
| Home equity lines | | | | 257 | 264 | |
| Single family owner occupied | 1,337 | 1,560 | | 2,006 | 2,414 | |
| Total impaired loans with no allowance | 8,006 | 8,594 | | 8,547 | 9,332 | |
| Impaired loans with a related allowance: | | | | | | |
| Commercial loans | | | | | | |
| Commercial and industrial | 3,617 | 3,804 | 3,137 | 4,897 | 10,244 | 3,794 |
| Multi-family residential | 5,585 | 5,585 | 500 | | | |
| Single family non-owner occupied | 369 | 369 | 30 | 375 | 375 | 47 |
| Non-farm, non-residential | 4,426 | 4,426 | 667 | 600 | 600 | 114 |
| Consumer real estate loans | | | | | | |
| Single family owner occupied | 2,386 | 2,539 | 517 | 4,844 | 5,035 | 735 |
| Total impaired loans with an allowance | 16,383 | 16,723 | 4,851 | 10,931 | 16,484 | 4,742 |
| Total impaired loans | $ 24,389 | $ 25,317 | $ 4,851 | $ 19,478 | $ 25,816 | $ 4,742 |

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

| | For the Three Months Ended | | | |
|---|---|---|---|---|
| | June 30, 2014 | | June 30, 2013 | |
| *(Amounts in thousands)* | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| Impaired loans with no related allowance: | | | | |
| Commercial loans | | | | |
| Construction, development, and other land | $ | $ | $ 6,828 | $ 211 |
| Commercial and industrial | 293 | 17 | 1,903 | |
| Multi-family residential | | | 37 | 1 |
| Single family non-owner occupied | | | 2,281 | 14 |
| Non-farm, non-residential | 6,379 | 89 | 9,068 | 84 |
| Farmland | 360 | 11 | 361 | |
| Consumer real estate loans | | | | |
| Home equity lines | | | 708 | |
| Single family owner occupied | 1,556 | 42 | 2,867 | |
| Owner occupied construction | | | 61 | 5 |
| Consumer and other loans | | | | |
| Consumer loans | | | 12 | |
| Total impaired loans with no allowance | 8,588 | 159 | 24,126 | 315 |
| Impaired loans with a related allowance: | | | | |
| Commercial loans | | | | |
| Construction, development, and other land | | | 1,095 | |
| Commercial and industrial | 3,640 | 3 | 3,592 | |
| Multi-family residential | 5,586 | 21 | | |
| Single family non-owner occupied | 369 | 1 | 1,098 | |
| Non-farm, non-residential | 4,427 | 25 | 2,011 | |
| Consumer real estate loans | | | | |
| Home equity lines | | | 230 | |
| Single family owner occupied | 2,541 | 10 | 3,377 | 4 |
| Total impaired loans with an allowance | 16,563 | 60 | 11,403 | 4 |
| Total impaired loans | $ 25,151 | $ 219 | $ 35,529 | $ 319 |

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| | For the Six Months Ended | | | |
|---|---|---|---|---|
| | June 30, 2014 | | June 30, 2013 | |
| *(Amounts in thousands)* | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| Impaired loans with no related allowance: | | | | |
| Commercial loans | | | | |
| Construction, development, and other land | $ | $ | $ 4,511 | $ 254 |
| Commercial and industrial | 293 | 29 | 1,251 | 11 |
| Multi-family residential | | | 36 | 3 |
| Single family non-owner occupied | 210 | 1 | 1,561 | 93 |
| Non-farm, non-residential | 6,149 | 125 | 7,512 | 296 |
| Farmland | 362 | 22 | 225 | 9 |
| Consumer real estate loans | | | | |
| Home equity lines | 133 | 2 | 503 | 25 |
| Single family owner occupied | 1,829 | 93 | 1,707 | 70 |
| Owner occupied construction | | | 31 | 5 |
| Consumer and other loans | | | | |
| Consumer loans | | | 6 | |
| Total impaired loans with no allowance | 8,976 | 272 | 17,343 | 766 |
| Impaired loans with a related allowance: | | | | |
| Commercial loans | | | | |
| Construction, development, and other land | | | 1,882 | 117 |
| Commercial and industrial | 4,399 | 50 | 3,350 | |
| Multi-family residential | 5,595 | 43 | 188 | 7 |
| Single family non-owner occupied | 371 | 2 | 1,413 | 3 |
| Non-farm, non-residential | 4,413 | 50 | 2,383 | 26 |
| Consumer real estate loans | | | | |
| Home equity lines | 115 | 1 | 226 | 3 |
| Single family owner occupied | 3,561 | 44 | 3,931 | 41 |
| Total impaired loans with an allowance | 18,454 | 190 | 13,373 | 197 |
| Total impaired loans | $ 27,430 | $ 462 | $ 30,716 | $ 963 |

The Company determined that 4 of the 7 PCI loan pools were impaired as of June 30, 2014, compared to 4 impaired pools as of December 31, 2013, and 1 impaired pool as of June 30, 2013. The following tables present balance and interest income related to the impaired loan pools as of the dates, and in the periods, indicated:

| *(Amounts in thousands)* | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Recorded investment | $ 51,582 | $ 52,033 |
| Unpaid principal balance | 72,901 | 69,320 |
| Allowance for loan losses | 410 | 747 |

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| *(Amounts in thousands)* | | | | |
| Interest income recognized | $ 1,290 | $ 34 | $ 2,072 | $ 118 |
| Average recorded investment | 55,024 | 3,588 | 52,166 | 11,865 |

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As part of the ongoing monitoring of the Company s loan portfolio, management tracks certain credit quality indicators that include: trends related to the risk rating of commercial loans, the level of classified commercial loans, net charge-offs, nonperforming loans, and general economic conditions. The Company s loan review function generally analyzes all commercial loan relationships greater than $4.0 million on an annual basis and at various times during the year. In addition, smaller commercial and retail loans are sampled for review during the year. Loan risk ratings may be upgraded or downgraded to reflect current information identified during the loan review process. The Company uses a risk grading matrix to assign a risk grade to each loan in its portfolio. The general characteristics of each risk grade are as follows:

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

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

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

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

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

Losses on covered loans are generally reimbursable by the FDIC at the applicable loss share percentage, 80%; therefore, covered loans are disclosed separately in the following credit quality discussion. PCI loan pools are disaggregated and included in their applicable loan class in the following discussion. In addition, PCI loans are generally not classified as nonaccrual or nonperforming due to the accrual of interest income under the accretion method of accounting.

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

| | June 30, 2014 | | | | | |
|---|---|---|---|---|---|---|
| *(Amounts in thousands)* | Pass | Special Mention | Substandard | Doubtful | Loss | Total |
| Non-covered loans | | | | | | |
| Commercial loans | | | | | | |
| Construction, development, and other land | $ 41,440 | $ 1,066 | $ 2,147 | $ | $ | $ 44,653 |
| Commercial and industrial | 87,752 | 1,114 | 2,983 | 2,510 | | 94,359 |
| Multi-family residential | 80,561 | 1,478 | 6,417 | | | 88,456 |
| Single family non-owner occupied | 129,390 | 4,784 | 7,202 | | | 141,376 |
| Non-farm, non-residential | 463,388 | 16,972 | 17,736 | | | 498,096 |
| Agricultural | 2,435 | | 8 | | | 2,443 |
| Farmland | 29,876 | 1,139 | 1,381 | | | 32,396 |
| Consumer real estate loans | | | | | | |
| Home equity lines | 108,936 | 2,127 | 1,558 | | | 112,621 |
| Single family owner occupied | 455,953 | 12,664 | 21,929 | 80 | | 490,626 |
| Owner occupied construction | 39,319 | 455 | 438 | | | 40,212 |
| Consumer and other loans | | | | | | |
| Consumer loans | 72,991 | 873 | 236 | | | 74,100 |
| Other | 7,369 | | | | | 7,369 |
| Total non-covered loans | 1,519,410 | 42,672 | 62,035 | 2,590 | | 1,626,707 |
| Covered loans | | | | | | |
| Commercial loans | | | | | | |
| Construction, development, and other land | 8,730 | 1,725 | 4,588 | | | 15,043 |
| Commercial and industrial | 2,700 | 82 | 73 | | | 2,855 |
| Multi-family residential | 1,442 | | 220 | | | 1,662 |
| Single family non-owner occupied | 2,907 | 2,142 | 1,394 | | | 6,443 |
| Non-farm, non-residential | 12,549 | 5,433 | 9,496 | | | 27,478 |
| Agricultural | 153 | | | | | 153 |
| Farmland | 501 | | 302 | | | 803 |
| Consumer real estate loans | | | | | | |
| Home equity lines | 62,088 | 1,154 | 1,018 | | | 64,260 |
| Single family owner occupied | 8,852 | 230 | 4,452 | | | 13,534 |
| Owner occupied construction | 56 | | 329 | | | 385 |
| Consumer and other loans | | | | | | |
| Consumer loans | 101 | | | | | 101 |
| Other | | | | | | |
| Total covered loans | 100,079 | 10,766 | 21,872 | | | 132,717 |
| Total loans | $ 1,619,489 | $ 53,438 | $ 83,907 | $ 2,590 | $ | $ 1,759,424 |

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| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| *(Amounts in thousands)* | Pass | Special Mention | Substandard | Doubtful | Loss | Total |
| Non-covered loans | | | | | | |
| Commercial loans | | | | | | |
| Construction, development, and other land | $ 30,719 | $ 1,094 | $ 3,139 | $ 303 | $ | $ 35,255 |
| Commercial and industrial | 87,589 | 1,056 | 2,919 | 3,891 | | 95,455 |
| Multi-family residential | 67,257 | 2,237 | 703 | | | 70,197 |
| Single family non-owner occupied | 121,367 | 4,501 | 9,316 | 375 | | 135,559 |
| Non-farm, non-residential | 440,334 | 21,046 | 14,500 | 31 | | 475,911 |
| Agricultural | 2,306 | 8 | 10 | | | 2,324 |
| Farmland | 27,421 | 1,721 | 3,472 | | | 32,614 |
| Consumer real estate loans | | | | | | |
| Home equity lines | 107,411 | 1,355 | 2,789 | 215 | | 111,770 |
| Single family owner occupied | 460,166 | 8,170 | 27,507 | 169 | | 496,012 |
| Owner occupied construction | 28,242 | 261 | 200 | | | 28,703 |
| Consumer and other loans | | | | | | |
| Consumer loans | 69,973 | 864 | 472 | | 4 | 71,313 |
| Other | 3,918 | | 8 | | | 3,926 |
| Total non-covered loans | 1,446,703 | 42,313 | 65,035 | 4,984 | 4 | 1,559,039 |
| Covered loans | | | | | | |
| Commercial loans | | | | | | |
| Construction, development, and other land | 9,722 | 1,378 | 4,714 | 51 | | 15,865 |
| Commercial and industrial | 2,865 | 247 | 189 | 24 | | 3,325 |
| Multi-family residential | 1,472 | | 461 | | | 1,933 |
| Single family non-owner occupied | 4,362 | 1,519 | 1,552 | 16 | | 7,449 |
| Non-farm, non-residential | 13,077 | 4,630 | 16,901 | 38 | | 34,646 |
| Agricultural | 164 | | | | | 164 |
| Farmland | 572 | | 301 | | | 873 |
| Consumer real estate loans | | | | | | |
| Home equity lines | 66,797 | 1,138 | 1,269 | 2 | | 69,206 |
| Single family owner occupied | 10,832 | 148 | 5,939 | | | 16,919 |
| Owner occupied construction | 198 | | 986 | | | 1,184 |
| Consumer and other loans | | | | | | |
| Consumer loans | 118 | | | | | 118 |
| Other | | | | | | |
| Total covered loans | 110,179 | 9,060 | 32,312 | 131 | | 151,682 |
| Total loans | $ 1,556,882 | $ 51,373 | $ 97,347 | $ 5,115 | $ 4 | $ 1,710,721 |

Credit quality continued to improve in the non-covered and covered loan portfolios as non-covered classified loans declined $5.40 million, or 7.71%, and covered classified loans declined $10.44 million, or 32.31%, as of June 30, 2014, compared to December 31, 2013.

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

| | June 30, 2014 | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|
| *(Amounts in thousands)* | **Non-covered** | **Covered** | **Total** | **Non-covered** | **Covered** | **Total** |
| Commercial loans | | | | | | |
| Construction, development, and other land | $ 346 | $ 160 | $ 506 | $ 1,187 | $ 761 | $ 1,948 |
| Commercial and industrial | 5,022 | | 5,022 | 5,341 | 92 | 5,433 |
| Multi-family residential | 197 | | 197 | | | |
| Single family non-owner occupied | 1,071 | 114 | 1,185 | 1,966 | 222 | 2,188 |
| Non-farm, non-residential | 2,951 | 73 | 3,024 | 2,685 | | 2,685 |
| Farmland | 510 | | 510 | 441 | 301 | 742 |
| Consumer real estate loans | | | | | | |
| Home equity lines | 328 | 70 | 398 | 765 | 232 | 997 |
| Single family owner occupied | 6,955 | 423 | 7,378 | 6,567 | 1,555 | 8,122 |
| Owner occupied construction | | 115 | 115 | | 190 | 190 |
| Consumer and other loans | | | | | | |
| Consumer loans | 76 | | 76 | 201 | | 201 |
| Total | 17,456 | 955 | 18,411 | 19,153 | 3,353 | 22,506 |
| Purchased impaired loans | 8 | | 8 | 8 | | 8 |
| Total nonaccrual loans | $ 17,464 | $ 955 | $ 18,419 | $ 19,161 | $ 3,353 | $ 22,514 |

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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 accruing loans contractually past due 90 days or more as of June 30, 2014, or December 31, 2013. Accruing loans contractually past due 90 days or more totaled $109 thousand as of June 30, 2014, and $86 thousand as of December 31, 2013 which were attributed to covered home equity lines.

| | June 30, 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 | $ 23 | $ 80 | $ 266 | $ 369 | $ 44,284 | $ 44,653 |
| Commercial and industrial | 221 | | 2,463 | 2,684 | 91,675 | 94,359 |
| Multi-family residential | 174 | | 114 | 288 | 88,168 | 88,456 |
| Single family non-owner occupied | 869 | 71 | 933 | 1,873 | 139,503 | 141,376 |
| Non-farm, non-residential | 1,444 | 218 | 2,276 | 3,938 | 494,158 | 498,096 |
| Agricultural | | | | | 2,443 | 2,443 |
| Farmland | 708 | 142 | | 850 | 31,546 | 32,396 |
| Consumer real estate loans | | | | | | |
| Home equity lines | 399 | 41 | 267 | 707 | 111,914 | 112,621 |
| Single family owner occupied | 4,569 | 2,223 | 3,245 | 10,037 | 480,589 | 490,626 |
| Owner occupied construction | | | | | 40,212 | 40,212 |
| Consumer and other loans | | | | | | |
| Consumer loans | 231 | 33 | 30 | 294 | 73,806 | 74,100 |
| Other | | | | | 7,369 | 7,369 |
| Total non-covered loans | 8,638 | 2,808 | 9,594 | 21,040 | 1,605,667 | 1,626,707 |
| Covered loans | | | | | | |
| Commercial loans | | | | | | |
| Construction, development, and other land | 207 | 69 | 142 | 418 | 14,625 | 15,043 |
| Commercial and industrial | 19 | | | 19 | 2,836 | 2,855 |
| Multi-family residential | | | | | 1,662 | 1,662 |
| Single family non-owner occupied | | | 114 | 114 | 6,329 | 6,443 |
| Non-farm, non-residential | 117 | | 73 | 190 | 27,288 | 27,478 |
| Agricultural | | | | | 153 | 153 |
| Farmland | | | | | 803 | 803 |
| Consumer real estate loans | | | | | | |
| Home equity lines | 162 | 78 | 150 | 390 | 63,870 | 64,260 |
| Single family owner occupied | 235 | 306 | 282 | 823 | 12,711 | 13,534 |
| Owner occupied construction | | | 115 | 115 | 270 | 385 |
| Consumer and other loans | | | | | | |
| Consumer loans | | | | | 101 | 101 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Other | | | | | | |
| Total covered loans | 740 | 453 | 876 | 2,069 | 130,648 | 132,717 |
| Total loans | $ 9,378 | $ 3,261 | $ 10,470 | $ 23,109 | $ 1,736,315 | $ 1,759,424 |

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| (Amounts in thousands) | December 31, 2013 30 - 59 Days Past Due | 60 - 89 Days Past Due | 90+ Days Past Due | Total Past Due | Current Loans | Total Loans |
|---|---|---|---|---|---|---|
| Non-covered loans | | | | | | |
| Commercial loans | | | | | | |
| Construction, development, and other land | $ 118 | $ 10 | $ 532 | $ 660 | $ 34,595 | $ 35,255 |
| Commercial and industrial | 93 | 39 | 2,631 | 2,763 | 92,692 | 95,455 |
| Multi-family residential | 115 | | | 115 | 70,082 | 70,197 |
| Single family non-owner occupied | 611 | 554 | 1,203 | 2,368 | 133,191 | 135,559 |
| Non-farm, non-residential | 1,014 | 318 | 1,770 | 3,102 | 472,809 | 475,911 |
| Agricultural | | | | | 2,324 | 2,324 |
| Farmland | 245 | | | 245 | 32,369 | 32,614 |
| Consumer real estate loans | | | | | | |
| Home equity lines | 289 | 317 | 442 | 1,048 | 110,722 | 111,770 |
| Single family owner occupied | 7,428 | 1,228 | 145 | 8,801 | 487,211 | 496,012 |
| Owner occupied construction | 205 | | 2,284 | 2,489 | 26,214 | 28,703 |
| Consumer and other loans | | | | | | |
| Consumer loans | 811 | 86 | 105 | 1,002 | 70,311 | 71,313 |
| Other | | | | | 3,926 | 3,926 |
| Total non-covered loans | 10,929 | 2,552 | 9,112 | 22,593 | 1,536,446 | 1,559,039 |
| Covered loans | | | | | | |
| Commercial loans | | | | | | |
| Construction, development, and other land | 479 | | 453 | 932 | 14,933 | 15,865 |
| Commercial and industrial | 5 | 44 | 92 | 141 | 3,184 | 3,325 |
| Multi-family residential | | | | | 1,933 | 1,933 |
| Single family non-owner occupied | | | 184 | 184 | 7,265 | 7,449 |
| Non-farm, non-residential | 209 | | | 209 | 34,437 | 34,646 |
| Agricultural | | | | | 164 | 164 |
| Farmland | | | 301 | 301 | 572 | 873 |
| Consumer real estate loans | | | | | | |
| Home equity lines | 488 | 86 | 163 | 737 | 68,469 | 69,206 |
| Single family owner occupied | 197 | 120 | 1,466 | 1,783 | 15,136 | 16,919 |
| Owner occupied construction | | | 190 | 190 | 994 | 1,184 |
| Consumer and other loans | | | | | | |
| Consumer loans | | | | | 118 | 118 |
| Other | | | | | | |
| Total covered loans | 1,378 | 250 | 2,849 | 4,477 | 147,205 | 151,682 |
| Total loans | $ 12,307 | $ 2,802 | $ 11,961 | $ 27,070 | $ 1,683,651 | $ 1,710,721 |

The Company may make concessions in interest rates, loan terms and/or amortization terms when restructuring loans for borrowers experiencing financial difficulty. All restructured loans to borrowers experiencing financial difficulty in excess of $250 thousand are evaluated for a specific reserve based on either the collateral or net present value method, whichever is most applicable. Specific reserves in the allowance for loan losses attributed to TDRs totaled $1.77 million as of June 30, 2014, and $1.84 million as of December 31, 2013. Restructured loans under $250 thousand are subject to the reserve calculation at the historical loss rate for classified loans. Certain TDRs are classified as nonperforming at the time of restructuring and are returned to performing status after six months of satisfactory payment performance; however, these loans remain identified as impaired until full payment or other satisfaction of the obligation occurs. The Company recognized interest income on TDRs of $129 thousand for the three months ended June 30, 2014, and $68 thousand for the three months ended June 30, 2013. The Company recognized interest income on TDRs of $278 thousand for the six months ended June 30, 2014, and $217 thousand for the six months ended June 30, 2013.

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

| | June 30, 2014 | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|
| *(Amounts in thousands)* | **Nonaccrual[(1)]** | **Accruing** | **Total** | **Nonaccrual[(1)]** | **Accruing** | **Total** |
| Commercial loans | | | | | | |
| Commercial and industrial | $ 1,115 | $ | $ 1,115 | $ 1,115 | $ | $ 1,115 |
| Single family non-owner occupied | 369 | | 369 | 375 | | 375 |
| Non-farm, non-residential | 206 | 5,613 | 5,819 | 128 | 5,490 | 5,618 |
| Consumer real estate loans | | | | | | |
| Home equity lines | | 49 | 49 | 159 | 51 | 210 |
| Single family owner occupied | 475 | 6,998 | 7,473 | 423 | 6,670 | 7,093 |
| Owner occupied construction | | 246 | 246 | | | |
| Total TDRs | $ 2,165 | $ 12,906 | $ 15,071 | $ 2,200 | $ 12,211 | $ 14,411 |

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

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

| | Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | |
| *(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 | | $ | $ | | $ | $ |
| Extended payment term | | | | | | |
| Non-farm, non-residential | | | | | | |
| Single family owner occupied | | | | | | |
| Total | | | | | | |
| Below market interest rate and extended payment term | | | | | | |
| Single family owner occupied | 1 | 137 | 137 | | | |
| Total | 1 | $ 137 | $ 137 | | $ | $ |

| | Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | |
| *(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 | | $ | $ |
| Extended payment term | | | | | | |
| Non-farm, non-residential | 1 | 303 | 303 | | | |
| Single family owner occupied | 1 | 134 | 134 | | | |
| Total | 2 | 437 | 437 | | | |
| Below market interest rate and extended payment term | | | | | | |
| Single family owner occupied | 3 | 403 | 403 | | | |
| Total | 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, | | | |
|---|---|---|---|---|
| | 2014 | | 2013 | |
| *(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 | 135 | | |
| Total | 2 | $ 645 | | $ |

| | Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2014 | | 2013 | |
| *(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 | 135 | | |
| Total | 2 | $ 645 | | $ |

**Note 5. Allowance for Loan Losses**

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

The Company s allowance is comprised of specific reserves related to loans individually evaluated, including credit relationships, and general reserves related to loans not individually evaluated that are segmented into groups with similar risk characteristics, based on an internal risk grading matrix. General reserve allocations are based on management s judgments of qualitative and quantitative factors about macro and micro economic conditions reflected within the loan portfolio and the economy. For loans acquired in a business combination, loans identified as credit impaired at the acquisition date are grouped into pools and evaluated separately from the non-PCI portfolio. The Company has aggregated PCI loans into the following pools: Waccamaw commercial, Waccamaw lines of credit, Peoples commercial, Waccamaw serviced home equity lines, Waccamaw residential, Peoples residential, and Waccamaw consumer. Provisions calculated for PCI loans are offset by an adjustment to the FDIC indemnification asset to reflect the indemnified portion, 80%, of the post-acquisition exposure. While allocations are made to various portfolio segments, the allowance for loan losses, excluding reserves allocated to specific loans and PCI loan pools, is available for use against any loan loss management deems appropriate. As of June 30, 2014, 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:

| *(Amounts in thousands)* | Allowance Excluding PCI Loans | Allowance for PCI Loans | Total Allowance |
|---|---|---|---|
| **Three months ended June 30, 2013** | | | |
| Beginning balance | $ 24,842 | $ 8 | $ 24,850 |
| Provision for loan losses | 3,205 | | 3,205 |
| Benefit attributable to the FDIC indemnification asset | | | |
| Provision for loan losses charged to operations | 3,205 | | 3,205 |
| Provision for loan losses recorded through the FDIC indemnification asset | | | |
| Charge-offs | (5,535) | | (5,535) |
| Recoveries | 602 | | 602 |
| Net charge-offs | (4,933) | | (4,933) |
| Ending balance | $ 23,114 | $ 8 | $ 23,122 |
| **Three months ended June 30, 2014** | | | |
| Beginning balance | $ 23,305 | $ 493 | $ 23,798 |
| Provision for 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 |
| Provision for 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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| (Amounts in thousands) | Allowance Excluding PCI Loans | Allowance for PCI Loans | Total Allowance |
|---|---|---|---|
| **Six months ended June 30, 2013** | | | |
| Beginning balance | $ 25,762 | $ 8 | $ 25,770 |
| Provision for loan losses | 4,347 | | 4,347 |
| Benefit attributable to the FDIC indemnification asset | | | |
| Provision for loan losses charged to operations | 4,347 | | 4,347 |
| Provision for loan losses recorded through the FDIC indemnification asset | | | |
| Charge-offs | (8,294) | | (8,294) |
| Recoveries | 1,299 | | 1,299 |
| Net charge-offs | (6,995) | | (6,995) |
| Ending balance | $ 23,114 | $ 8 | $ 23,122 |
| **Six months ended June 30, 2014** | | | |
| Beginning balance | $ 23,322 | $ 755 | $ 24,077 |
| Provision for 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 |
| Provision for 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 tables present the components of the activity in the allowance for loan losses, excluding PCI loans, by loan segment, in the periods indicated:

| (Amounts in thousands) | Commercial | Consumer Real Estate | Consumer and Other | Total |
|---|---|---|---|---|
| **Three months ended June 30, 2013** | | | | |

| | | | | |
|---|---|---|---|---|
| Beginning balance | $ 17,242 | $ 7,003 | $ 597 | $ 24,842 |
| Provision for loan losses charged to operations | 2,304 | 749 | 152 | 3,205 |
| Loans charged off | (3,885) | (1,347) | (303) | (5,535) |
| Recoveries credited to allowance | 212 | 253 | 137 | 602 |
| Net charge-offs | (3,673) | (1,094) | (166) | (4,933) |
| Ending balance | $ 15,873 | $ 6,658 | $ 583 | $ 23,114 |
| **Three months ended June 30, 2014** | | | | |
| Beginning balance | $ 16,339 | $ 6,393 | $ 573 | $ 23,305 |
| Provision for 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 | (1,028) | 184 | (184) | (1,028) |
| Ending balance | $ 16,747 | $ 6,123 | $ 623 | $ 23,493 |

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| (Amounts in thousands) | Commercial | Consumer Real Estate | Consumer and Other | Total |
|---|---|---|---|---|
| **Six months ended June 30, 2013** | | | | |
| Beginning balance | $ 17,259 | $ 7,906 | $ 597 | $ 25,762 |
| Provision for loan losses charged to operations | 2,787 | 1,229 | 331 | 4,347 |
| Loans charged off | (4,668) | (2,743) | (883) | (8,294) |
| Recoveries credited to allowance | 495 | 266 | 538 | 1,299 |
| Net charge-offs | (4,173) | (2,477) | (345) | (6,995) |
| Ending balance | $ 15,873 | $ 6,658 | $ 583 | $ 23,114 |
| **Six months ended June 30, 2014** | | | | |
| 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:

| (Amounts in thousands) | Commercial | Consumer Real Estate | Consumer and Other | Total |
|---|---|---|---|---|
| **Three months ended June 30, 2013** | | | | |
| Beginning balance | $ 8 | $ | $ | $ 8 |
| Purchased impaired provision | | | | |
| Benefit attributable to FDIC indemnification asset | | | | |
| Provision for loan losses charged to operations | | | | |
| Provision for loan losses recorded through the FDIC indemnification asset | | | | |
| Ending balance | $ 8 | $ | $ | $ 8 |
| **Three months ended June 30, 2014** | | | | |
| Beginning balance | $ 8 | $ 485 | $ | $ 493 |
| Purchased impaired provision | 8 | (83) | | (75) |
| Benefit attributable to FDIC indemnification asset | | 138 | | 138 |

| | | | | |
|---|---|---|---|---|
| Provision for loan losses charged to operations | 8 | 55 | | 63 |
| Provision for loan losses recorded through the FDIC indemnification asset | | (138) | | (138) |
| Ending balance | $ 16 | $ 402 | $ | $ 418 |

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| (Amounts in thousands) | Commercial | Consumer Real Estate | Consumer and Other | Total |
|---|---|---|---|---|
| **Six months ended June 30, 2013** | | | | |
| Beginning balance | $ 8 | $ | $ | $ 8 |
| Purchased impaired provision | | | | |
| Benefit attributable to FDIC indemnification asset | | | | |
| Provision for loan losses charged to operations | | | | |
| Provision for loan losses recorded through the FDIC indemnification asset | | | | |
| Ending balance | $ 8 | $ | $ | $ 8 |
| **Six months ended June 30, 2014** | | | | |
| Beginning balance | $ 77 | $ 678 | $ | $ 755 |
| Purchased impaired provision | (61) | (276) | | (337) |
| Benefit attributable to FDIC indemnification asset | 55 | 286 | | 341 |
| Provision for loan losses charged to operations | (6) | 10 | | 4 |
| Provision for loan losses recorded through the FDIC indemnification asset | (55) | (286) | | (341) |
| Ending balance | $ 16 | $ 402 | $ | $ 418 |

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

| | June 30, 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 | $ | $ | $ 56,208 | $ 1,279 |
| Commercial and industrial | 3,914 | 3,137 | 92,695 | 1,311 |
| Multi-family residential | 5,585 | 500 | 84,313 | 1,429 |
| Single family non-owner occupied | 369 | 30 | 142,091 | 3,292 |
| Non-farm, non-residential | 10,453 | 667 | 499,461 | 4,850 |
| Agricultural | | | 2,596 | 22 |
| Farmland | 345 | | 32,854 | 230 |
| Total commercial loans | 20,666 | 4,334 | 910,218 | 12,413 |
| Consumer real estate loans | | | | |
| Home equity lines | | | 136,739 | 1,258 |

| | | | | |
|---|---|---|---|---|
| Single family owner occupied | 3,723 | 517 | 497,285 | 4,098 |
| Owner occupied construction | | | 40,412 | 250 |
| Total consumer real estate loans | 3,723 | 517 | 674,436 | 5,606 |
| Consumer and other loans | | | | |
| Consumer loans | | | 74,185 | 623 |
| Other | | | 7,369 | |
| Total consumer and other loans | | | 81,554 | 623 |
| Total loans, excluding PCI loans | $ 24,389 | $ 4,851 | $ 1,666,208 | $ 18,642 |

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

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

| | June 30, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| *(Amounts in thousands)* | **Loan Pools** | **Allowance for Loan Pools With Impairment** | **Loan Pools** | **Allowance for Loan Pools With Impairment** |
| Commercial loans | | | | |
| Waccamaw commercial | $ 14,460 | $ | $ 19,851 | $ |
| Waccamaw lines of credit | 870 | | 2,594 | 69 |
| Peoples commercial | 6,621 | 8 | 7,862 | |
| Other | 1,903 | 8 | 1,931 | 8 |
| Total commercial loans | 23,854 | 16 | 32,238 | 77 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Consumer real estate loans | | | | | | |
| Waccamaw serviced home equity lines | 40,142 | | 81 | 43,608 | | 277 |
| Waccamaw residential | 3,578 | | 56 | 4,497 | | 217 |
| Peoples residential | 1,241 | | 265 | 1,334 | | 184 |
| Total consumer real estate loans | 44,961 | | 402 | 49,439 | | 678 |
| Consumer and other loans Waccamaw consumer | 12 | | | 34 | | |
| Total loans | $ 68,827 | $ | 418 | $ 81,711 | $ | 755 |

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**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, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| *(Amounts in thousands)* | | | | |
| Beginning balance | $ 32,510 | $ 43,921 | $ 34,691 | $ 48,149 |
| Decrease in estimated losses on covered loans | (138) | | (341) | |
| Increase (decrease) in estimated losses on covered OREO | 410 | (1,240) | 559 | 98 |
| Reimbursable expenses from the FDIC | 137 | 150 | 287 | 491 |
| Net amortization | (936) | (1,662) | (2,070) | (3,201) |
| Reimbursements from the FDIC | (1,075) | (780) | (2,218) | (5,148) |
| Ending balance | $ 30,908 | $ 40,389 | $ 30,908 | $ 40,389 |

**Note 7. Deposits**

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

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| *(Amounts in thousands)* | | |
| Noninterest-bearing demand deposits | $ 357,871 | $ 339,680 |
| Interest-bearing deposits: | | |
| Interest-bearing demand deposits | 362,318 | 361,821 |
| Money market accounts | 224,420 | 237,845 |
| Savings deposits | 293,346 | 286,165 |
| Certificates of deposit | 568,284 | 606,178 |
| Individual retirement accounts | 116,865 | 119,053 |
| Total interest-bearing deposits | 1,565,233 | 1,611,062 |
| Total deposits | $ 1,923,104 | $ 1,950,742 |

**Note 8. Borrowings**

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

| *(Amounts in thousands)* | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Federal funds purchased | $ | $ 16,000 |
| Securities sold under agreements to repurchase: | | |
| Retail | 70,159 | 68,308 |
| Wholesale | 50,000 | 50,000 |
| Total securities sold under agreements to repurchase | 120,159 | 118,308 |
| FHLB borrowings | 150,000 | 150,000 |
| Subordinated debt | 15,464 | 15,464 |
| Other debt | 623 | 624 |
| Total borrowings | $ 286,246 | $ 300,396 |

Short-term borrowings consist of federal funds purchased and retail repurchase agreements, which are typically collateralized with agency MBS. The weighted average rate of federal funds purchased was 0.34% as of June 30, 2014, and 0.36% as of December 31, 2013. The weighted average rate of retail repurchase agreements was 0.16% as of June 30, 2014, and 0.38% as of December 31, 2013.

Long-term borrowings consist of wholesale repurchase agreements; FHLB borrowings, including convertible and callable advances; and other obligations. The weighted average contractual rate of wholesale repurchase agreements was 3.71% as of June 30, 2014, and December 31, 2013. As of June 30, 2014, the weighted average contractual maturity of wholesale repurchase agreements was 3.58 years. The weighted average contractual rate of FHLB borrowings was 4.12% as of June 30, 2014, and December 31, 2013. As of June 30, 2014, the weighted average contractual maturity of FHLB borrowings was 4.07 years. The following schedule presents the contractual maturities of wholesale repurchase agreements and FHLB borrowings, by year, as of June 30, 2014:

| | Wholesale Repurchase Agreements | FHLB Borrowings | Total |
|---|---|---|---|
| *(Amounts in thousands)* | | | |
| 2014 | $ | $ | $ |
| 2015 | | | |
| 2016 | 25,000 | | 25,000 |
| 2017 | | 100,000 | 100,000 |
| 2018 | | | |
| 2019 and thereafter | 25,000 | 50,000 | 75,000 |
| | $ 50,000 | $ 150,000 | $ 200,000 |

FHLB callable advances may be redeemed by the FHLB at quarterly intervals after various lockout periods that could substantially shorten the lives of the advances. If called, the advance may be paid in full or converted into another FHLB credit product. Prepayment of an advance may result in substantial penalties based on the differential between the contractual note and current advance rate for similar maturities. FHLB advances were secured by qualifying loans that totaled $1.15 billion as of June 30, 2014, and $1.13 billion as of December 31, 2013. Unused borrowing capacity with the FHLB was $367.58 million as of June 30, 2014.

Subordinated debt consists of junior subordinated debentures ( Debentures ) of $15.46 million that were issued by the Company in October 2003 to the Trust. The Debentures had an interest rate of three-month LIBOR plus 2.95%. The Trust was able to purchase the Debentures through the issuance of trust preferred securities, which had substantially identical terms as the Debentures. The Debentures mature on October 8, 2033 and are currently callable. Net proceeds from the offering were contributed as capital to the Bank to support further growth. The Company s obligations under the Debentures and other relevant Trust agreements, in aggregate, constitute a full and unconditional guarantee by the Company of the Trust s obligations. The preferred securities issued by the Trust are not included in the Company s consolidated balance sheets; however, these securities qualify as Tier 1 capital for regulatory purposes, subject to guidelines issued by the Board of Governors of the Federal Reserve System (the Federal Reserve ). The Federal Reserve s quantitative limits did not prevent the Company from including all $15.46 million in trust preferred securities outstanding in Tier 1 capital as of June 30, 2014, and December 31, 2013.

**Note 9. Derivative Instruments and Hedging Activities**

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

As of June 30, 2014, the Company s derivative instruments consisted of IRLCs, forward sale loan commitments, and interest rate swaps. Generally, derivative instruments help the Company manage exposure to market risk and meet customer financing needs. Market risk represents the possibility that economic value or net interest income will be adversely affected by fluctuations in external factors such as interest rates, market-driven loan rates, prices, or other economic factors.

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

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

The Company entered into a fifteen-year, $4.34 million notional interest rate swap agreement in February 2014 and a ten-year, $3.50 million notional interest rate swap agreement in October 2013. The swap agreements, which are accounted for as fair value hedges, and the loans hedged by the agreements are recorded at fair value. The fair value hedges were effective as of June 30, 2014.

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, 2014**<br>**Notional or Contractual Amount** | **December 31, 2013**<br>**Notional or Contractual Amount** | **June 30, 2013**<br>**Notional or Contractual Amount** |
|---|---|---|---|
| Derivatives designated as hedges: | | | |
| Interest rate swaps | $ 7,920 | $ 3,453 | $ |
| Derivatives not designated as hedges: | | | |
| IRLCs | 2,664 | 3,677 | 9,072 |
| Forward sale loan commitments | 3,123 | 4,560 | |
| Total derivatives not designated as hedges | 5,787 | 8,237 | 9,072 |
| Total derivatives | $ 13,707 | $ 11,690 | $ 9,072 |

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

| | June 30, 2014 | | December 31, 2013 | | June 30, 2013 | |
|---|---|---|---|---|---|---|
| *(Amounts in thousands)* | Derivative Assets | Derivative Liabilities | Derivative Assets | Derivative Liabilities | Derivative Assets | Derivative Liabilities |
| Derivatives designated as hedges: | | | | | | |
| Interest rate swaps | $ | $ 200 | $ 43 | $ | $ | $ |
| Derivatives not designated as hedges: | | | | | | |
| IRLCs | | 31 | | 41 | 17 | 163 |
| Forward sale loan commitments | 31 | | 41 | | | |
| Total derivatives not designated as hedges | 31 | 31 | 41 | 41 | 17 | 163 |
| Total derivatives | $ 31 | $ 231 | $ 84 | $ 41 | $ 17 | $ 163 |

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

| *(Amounts in thousands)* | Income Statement Location | Three Months Ended June 30, 2014 | Three Months Ended June 30, 2013 | Six Months Ended June 30, 2014 | Six Months Ended June 30, 2013 |
|---|---|---|---|---|---|
| Derivatives designated as hedges: | | | | | |
| Interest rate swaps | Other income | $ | $ | $ | $ |
| Derivatives not designated as hedges: | | | | | |
| IRLCs | Other income | | (439) | | (435) |
| Forward sale loan commitments | Other income | | | | |
| Total derivatives not designated as hedges | | | (439) | | (435) |
| Total derivatives | | $ | $ (439) | $ | $ (435) |

**Note 10. Employee Benefit Plans**

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

| *(Amounts in thousands)* | Three Months Ended June 30, 2014 | Three Months Ended June 30, 2013 | Six Months Ended June 30, 2014 | Six Months Ended June 30, 2013 |
|---|---|---|---|---|
| Service cost | $ 27 | $ 34 | $ 53 | $ 68 |
| Interest cost | 72 | 62 | 145 | 123 |
| Amortization of losses | | 12 | | 24 |
| Amortization of prior service cost | 46 | 47 | 93 | 94 |
| Net periodic cost | $ 145 | $ 155 | $ 291 | $ 309 |

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:

| *(Amounts in thousands)* | Three Months Ended June 30, 2014 | Three Months Ended June 30, 2013 | Six Months Ended June 30, 2014 | Six Months Ended June 30, 2013 |
|---|---|---|---|---|
| Service cost | $ 6 | $ 6 | $ 11 | $ 13 |
| Interest cost | 11 | 11 | 23 | 21 |
| Amortization of prior service cost | 18 | 23 | 36 | 45 |

| | | | | |
|---|---|---|---|---|
| Net periodic cost | $ 35 | $ 40 | $ 70 | $ 79 |

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**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:

| *(Amounts in thousands)* | Unrealized Gains (Losses) on Available-for-Sale Securities | Employee Benefit Plan | Total |
|---|---|---|---|
| **Three months ended June 30, 2013** | | | |
| Beginning balance | $ (1,182) | $ (1,738) | $ (2,920) |
| Other comprehensive (loss) gain before reclassifications | (9,206) | 28 | (9,178) |
| Reclassified from AOCI | 71 | (51) | 20 |
| Net comprehensive loss | (9,135) | (23) | (9,158) |
| Ending balance | $ (10,317) | $ (1,761) | $ (12,078) |
| **Three months ended June 30, 2014** | | | |
| Beginning balance | $ (9,645) | $ (1,042) | $ (10,687) |
| Other comprehensive gain before reclassifications | 4,104 | 81 | 4,185 |
| Reclassified from AOCI | (195) | (40) | (235) |
| Net comprehensive gain | 3,909 | 41 | 3,950 |
| Ending balance | $ (5,736) | $ (1,001) | $ (6,737) |

| *(Amounts in thousands)* | Unrealized Gains (Losses) on Available-for-Sale Securities | Employee Benefit Plan | Total |
|---|---|---|---|
| **Six months ended June 30, 2013** | | | |
| Beginning balance | $ (283) | $ (1,542) | $ (1,825) |
| Other comprehensive loss before reclassifications | (10,178) | (117) | (10,295) |
| Reclassified from AOCI | 144 | (102) | 42 |
| Net comprehensive loss | (10,034) | (219) | (10,253) |
| Ending balance | $ (10,317) | $ (1,761) | $ (12,078) |
| **Six months ended June 30, 2014** | | | |
| Beginning balance | $ (13,640) | $ (1,100) | $ (14,740) |
| Other comprehensive gain before reclassifications | 8,236 | 179 | 8,415 |

| | | | |
|---|---|---|---|
| Reclassified from AOCI | (332) | (80) | (412) |
| Net comprehensive gain | 7,904 | 99 | 8,003 |
| Ending balance | $ (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, 2014 | Three Months Ended June 30, 2013 | Six Months Ended June 30, 2014 | Six Months Ended June 30, 2013 | Income Statement Line Item Affected |
|---|---|---|---|---|---|
| Available-for-sale securities | | | | | |
| (Losses) gains realized in net income | $ (59) | $ 113 | $ (14) | $ 230 | Net (loss) gain on sale of securities |
| Credit-related OTTI recognized in net income | (254) | | (518) | | Net impairment losses recognized in earnings |
| | (313) | 113 | (532) | 230 | Income before taxes |
| Income tax effect | (118) | 42 | (200) | 86 | Income tax expense (benefit) |
| | (195) | 71 | (332) | 144 | Net income |
| Employee benefit plans | | | | | |
| Amortization of prior service cost | (64) | (70) | (129) | (139) | (1) |
| Amortization of losses | | (12) | | (24) | (1) |
| | (64) | (82) | (129) | (163) | Income before taxes |
| Income tax effect | (24) | (31) | (49) | (61) | Income tax expense (benefit) |
| | (40) | (51) | (80) | (102) | Net income |
| Reclassified from AOCI, net of tax | $ (235) | $ 20 | $ (412) | $ 42 | Net income |

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

**Note 12. Fair Value**

***Financial Instruments Measured at Fair Value***

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

Level 1 Observable, unadjusted quoted prices in active markets

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

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

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

*Assets and Liabilities Reported at Fair Value on a Recurring Basis*

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

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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 appropriate market observable discount rates to the cash flow derived from third-party models. Discount rates are developed by determining credit spreads above a benchmark rate, such as LIBOR, and adding premiums for illiquidity, which are based on a comparison of initial issuance spread to LIBOR versus a financial sector curve for recently issued debt to LIBOR. Securities with increased uncertainty regarding the receipt of cash flows are discounted at higher rates due to the addition of a deal specific credit premium based on assumptions about the performance of the underlying collateral. Finally, internal fair value model pricing and external pricing observations are combined by assigning weights to each pricing observation. Pricing is reviewed for reasonableness based on the direction of the specific markets and the general economic indicators.

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

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

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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, 2014 | | | |
|---|---|---|---|---|
| | Total | Fair Value Measurements Using | | |
| *(Amounts in thousands)* | **Fair Value** | **Level 1** | **Level 2** | **Level 3** |
| Available-for-sale securities: | | | | |
| U.S. Treasury securities | $ 9,472 | $ | $ 9,472 | $ |
| Municipal securities | 144,135 | | 144,135 | |
| Single issue trust preferred securities | 48,310 | | 48,310 | |
| Corporate securities | 5,058 | | 5,058 | |
| Agency MBS | 180,390 | | 180,390 | |
| Non-Agency Alt-A residential MBS | 10,008 | | 10,008 | |
| Equity securities | 1,052 | 1,034 | 18 | |
| Total available-for-sale securities | $ 398,425 | $ 1,034 | $ 397,391 | $ |
| Fair value loans | $ 7,928 | $ | $ 7,928 | $ |
| Deferred compensation assets | $ 3,317 | $ 3,317 | $ | $ |
| Derivative assets | | | | |
| Forward sale loan commitments | $ 31 | $ | $ 31 | $ |
| Total derivative assets | $ 31 | $ | $ 31 | $ |
| Deferred compensation liabilities | $ 3,317 | $ 3,317 | $ | $ |
| Derivative liabilities | | | | |
| Interest rate swaps | $ 200 | $ | $ 200 | $ |
| IRLCs | 31 | | 31 | |
| Total derivative liabilities | $ 231 | $ | $ 231 | $ |

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

| | | | | |
|---|---|---|---|---|
| Corporate securities | 4,871 | | 4,871 | |
| Agency MBS | 300,386 | | 300,386 | |
| Non-Agency Alt-A residential MBS | 9,789 | | 9,789 | |
| Equity securities | 5,247 | 251 | 4,996 | |
| Total available-for-sale securities | $ 519,820 | $ 251 | $ 519,569 | $ |
| Deferred compensation assets | $ 4,200 | $ 4,200 | $ | $ |
| Derivatives assets | | | | |
| Interest rate swaps | $ 43 | $ | $ 43 | $ |
| Forward sale loan commitments | 41 | | 41 | |
| Total derivative assets | $ 84 | $ | $ 84 | $ |
| Deferred compensation liabilities | $ 4,200 | $ 4,200 | $ | $ |
| Derivative liabilities | | | | |
| IRLCs | $ 41 | $ | $ 41 | $ |
| Total derivative liabilities | $ 41 | $ | $ 41 | $ |

There were no changes in valuation techniques during the six months ended June 30, 2014 or 2013. If the Company determines that a valuation technique change is necessary, the change is assumed to have occurred at the end of the respective reporting period. In addition, there were no transfers in to or out of Level 3 of the fair value hierarchy during the three months ended June 30, 2014 or 2013.

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*Assets Measured at Fair Value on a Nonrecurring Basis*

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

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

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

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

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

| | | June 30, 2014 | | |
|---|---|---|---|---|
| | | Fair Value Measurements Using | | |
| | **Total Fair Value** | **Level 1** | **Level 2** | **Level 3** |
| *(Amounts in thousands)* | | | | |
| Impaired loans not covered by loss share agreements | $ 14,681 | | | $ 14,681 |
| OREO, not covered by loss share agreements | 4,126 | | | 4,126 |

| | | | | |
|---|---|---|---|---|
| OREO, covered by loss share agreements | 5,874 | | | 5,874 |

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

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*Quantitative Information about Level 3 Fair Value Measurements*

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

| | Valuation Technique | Unobservable Input | Range (Weighted Average) June 30, 2014 | December 31, 2013 |
|---|---|---|---|---|
| Impaired loans | Discounted appraisals (1) | Appraisal adjustments (2) | 3% to 100% (25%) | 6% to 100% (47%) |
| OREO, not covered | Discounted appraisals (1) | Appraisal adjustments (2) | 4% to 50% (32%) | 0% to 65% (34%) |
| OREO, covered | Discounted appraisals (1) | Appraisal adjustments (2) | 10% to 43% (42%) | 4% to 70% (41%) |

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

*Fair Value of Financial Instruments*

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

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

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

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

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

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

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

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

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

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

| | | | June 30, 2014 | | |
|---|---|---|---|---|---|
| | Carrying | | Fair Value Measurements Using | | |
| *(Amounts in thousands)* | Amount | Fair Value | Level 1 | Level 2 | Level 3 |
| **Assets** | | | | | |
| Cash and cash equivalents | $ 96,781 | $ 96,781 | $ 96,781 | $ | $ |
| Available-for-sale securities | 398,425 | 398,425 | 1,034 | 397,391 | |
| Held-to-maturity securities | 19,398 | 19,403 | | 19,403 | |
| Loans held for sale | 459 | 459 | | 459 | |
| Loans held for investment less allowance | 1,735,513 | 1,737,069 | | 7,928 | 1,729,141 |
| FDIC indemnification asset | 30,908 | 20,654 | | | 20,654 |
| Accrued interest receivable | 6,206 | 6,206 | | 6,206 | |
| Derivative financial assets | 31 | 31 | | 31 | |
| Deferred compensation assets | 3,317 | 3,317 | 3,317 | | |
| **Liabilities** | | | | | |
| Demand deposits | $ 357,871 | $ 357,871 | $ | $ 357,871 | $ |
| Interest-bearing demand deposits | 362,318 | 362,318 | | 362,318 | |
| Savings deposits | 517,766 | 517,766 | | 517,766 | |
| Time deposits | 685,149 | 687,957 | | 687,957 | |
| Securities sold under agreements to repurchase | 120,159 | 122,639 | | 122,639 | |
| Accrued interest payable | 2,121 | 2,121 | | 2,121 | |
| FHLB and other indebtedness | 166,087 | 177,247 | | 177,247 | |
| Derivative financial liabilities | 231 | 231 | | 231 | |
| Deferred compensation liabilities | 3,317 | 3,317 | 3,317 | | |

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

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

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## Note 13. Litigation, Commitments and Contingencies

***Litigation***

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

***Commitments and Contingencies***

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

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

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

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

| *(Amounts in thousands)* | **June 30, 2014** | **December 31, 2013** |
|---|---|---|
| Commitments to extend credit | $ 220,749 | $ 216,179 |
| Commitments related to secondary market mortgage loans | 2,664 | 3,677 |
| Standby letters of credit and financial guarantees | 4,017 | 4,193 |

| | | | | |
|---|---|---|---|---|
| Total off-balance sheet risk | $ | 227,430 | $ | 224,049 |
| Reserve for unfunded commitments | $ | 326 | $ | 326 |

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

**Note 14. Subsequent Events**

On August 6, 2014, the Company entered into a Purchase and Assumption Agreement with CresCom Bank, Charleston, South Carolina, in which First Community Bank is selling a total of 13 branches to CresCom. Ten of the branches being sold are located in the southeastern, coastal region of North Carolina and the other three are in South Carolina. The 13 branches currently have deposit totals of approximately $230 million and loan totals of approximately $59 million. The loans being sold are not subject to the Company s loss share agreement with the FDIC in connection with its purchase and assumption of Waccamaw Bank. Subject to regulatory approval and the satisfaction of customary closing conditions, the transaction is expected to close in the fourth quarter of 2014.

On July 30, 2014, the Company prepaid $35 million of a $50 million FHLB convertible advance due in May 2017. The advance bears an interest rate of 4.21% and the prepayment resulted in a pre-tax penalty of approximately $3.05 million.

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

**Cautionary Statement Regarding Forward-Looking Statements**

We may make forward-looking statements in filings with the Securities and Exchange Commission (the SEC ), including this Annual Report on Form 10-K and the Exhibits hereto, filings incorporated by reference, reports to our shareholders, and other communications that we make in good faith pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements represent our beliefs, plans, objectives, goals, guidelines, expectations, anticipations, estimates, and intentions. Such statements are subject to significant risks, uncertainties, and change based on various factors, many of which are beyond our control. The words may, could, should, would, believe, anticipate, estimate, expect, intend, plan, and other similar ex intended to identify forward-looking statements. The following factors, among others, could cause our financial performance to differ materially from that expressed in such forward-looking statements:

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

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

inflation, interest rate, market and monetary fluctuations;

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

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

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

the impact of the U.S. Department of the Treasury and federal banking regulators continued implementation of programs to address capital and liquidity in the banking system; further, future and proposed rules, including those that are part of the process outlined in the International Basel Committee on Banking Supervision s Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems, which are expected to require banking institutions to increase levels of capital;

technological changes;

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

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

unanticipated regulatory or judicial proceedings;

changes in consumer spending and saving habits; and

our success at managing the risks involved in the foregoing.

We caution that the foregoing list of important factors is not all-inclusive. If one or more of the factors affecting these forward-looking statements proves incorrect, our actual results, performance, or achievements could differ materially from those expressed in, or implied by, forward-looking statements contained in this Annual Report on Form 10-K and other reports we filed with the SEC. Therefore, we caution you not to place undue reliance on our forward-looking information and statements. We do not intend to update any forward-looking statements, whether written or oral, to reflect changes. All forward-looking statements attributable to our Company are expressly qualified by these cautionary statements. See Part II, Item 1A, Risk Factors, of this report and Part I, Item 1A, Risk Factors, of our 2013 Form 10-K.

**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 sixty-three locations under the name First Community Bank in West Virginia, Virginia, and North Carolina and under the trade name Peoples Community Bank, a Division of First Community Bank, in Tennessee and South Carolina. The Bank offers wealth management and investment advice through its wholly-owned subsidiary First Community Wealth Management ( FCWM ) and the Bank s Trust Division, which reported combined assets under management of $709 million as of June 30, 2014. These assets are not our assets, but are managed under various fee-based arrangements as fiduciary or agent. The Company provides insurance services through its wholly-owned subsidiary Greenpoint Insurance Group, Inc. ( Greenpoint ), headquartered in High Point, North Carolina, which operates nine 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 $2.58 billion as of June 30, 2014. Our Common Stock is traded on the NASDAQ Global Select Market under the symbol, FCBC.

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

**Critical Accounting Estimates**

We prepare our consolidated financial statements in accordance with generally accepted accounting principles ( GAAP ) in the United States and conform to general practices within the banking industry. Our financial position and results of operations require management to make judgments and estimates to develop the amounts reflected and disclosed in the consolidated financial statements. Different assumptions in the application of these estimates could result in material changes to our consolidated financial position and consolidated results of operations. Estimates, assumptions, and judgments are based on historical experience and other factors including expectations of future events believed to be reasonable under the circumstances that are periodically evaluated. These estimates are generally necessary when assets and liabilities are required to be recorded at estimated fair value, a decline in the value of an asset carried on the financial statements at fair value warrants an impairment write-down or establishment of a valuation reserve, or an asset or liability needs to be recorded based upon the probability of occurrence of a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. Fair values and information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or, when available, are provided by third-party sources. When third-party information is not available, valuation adjustments are estimated by management primarily through the use of financial modeling techniques and appraisal estimates. Our accounting policies are fundamental in understanding MD&A and the disclosures presented in the notes to consolidated statements. Our critical accounting estimates are described in detail in the Critical Accounting Estimates section in Part II, Item 7 of our 2013 Form 10-K.

**Performance Overview**

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

- Diluted earnings per common share of $0.36 for the second quarter of 2014 represents an increase of 38.46% over $0.26 reported for the second quarter of 2013. Diluted earnings per common share of $0.65 for the six months ended June 30, 2014, represents an increase of 10.17% over $0.59 reported for the six months ended June 30, 2013.

- The Company recently announced an 8% increase in the quarterly cash dividend to common shareholders.

- The non-covered loan portfolio increased $67.67 million compared to year-end 2013 and $119.27 million compared to the second quarter of 2013. This marks the fifth consecutive quarter non-covered loan growth has exceeded covered loan declines.

Annualized growth in the non-covered loan portfolio was 9.60% during the quarter.

Non-covered delinquent loans as a percentage of total non-covered loans experienced a significant decrease of 86 basis points, or 33.99%, to 1.67% compared to the second quarter of 2013. The decrease is attributed to an $11.66 million, or 40.04%, decrease in non-covered nonaccrual loans.

Net charge-offs of $1.03 million were a decrease of 45.00% from $1.87 million in first quarter 2014 and 79.16% from $4.93 million in second quarter 2013.

The Company significantly exceeds regulatory well capitalized targets as of June 30, 2014, with a total risk-based capital ratio of 16.46%, a Tier 1 risk-based capital ratio of 15.20%, and a Tier 1 leverage ratio of 10.39%.

The Company announced the pending acquisition of seven branches, six in southwest Virginia and one in central North Carolina, with deposits of approximately $440 million.

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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)* | **2014** | **2013** | **2014** | **2013** | **Increase (Decrease)** | **% Change** | **Increase (Decrease)** | **% Change** |
| Net income | $ 7,007 | $ 5,435 | $ 12,732 | $ 12,576 | $ 1,572 | 28.92% | $ 156 | 1.24% |
| Net income available to common shareholders | 6,780 | 5,182 | 12,277 | 12,065 | 1,598 | 30.84% | 212 | 1.76% |
| Basic earnings per common share | 0.37 | 0.26 | 0.67 | 0.60 | 0.11 | 42.31% | 0.07 | 11.67% |
| Diluted earnings per common share | 0.36 | 0.26 | 0.65 | 0.59 | 0.10 | 38.46% | 0.06 | 10.17% |
| Return on average assets | 1.06% | 0.78% | 0.96% | 0.90% | 0.28% | 36.27% | 0.05% | 6.06% |
| Return on average common equity | 8.38% | 5.97% | 7.71% | 7.03% | 2.41% | 40.35% | 0.68% | 9.73% |

*Three Month Comparison.* Net income increased in the second quarter of 2014 compared to the same quarter of the prior year primarily due to a $1.93 million decrease in the provision for loan losses and $726 thousand decrease in the net amortization related to the FDIC indemnification asset in the second quarter of 2014 compared to the same quarter of the prior year, offset by a $794 thousand decrease in net interest income.

*Six Month Comparison.* Net income increased in the first six months of 2014 compared to the same period of the prior year primarily due to a $1.31 million decrease in the net amortization related to the FDIC indemnification asset in the first six months of 2014 compared to the same period of the prior year, offset by a $3.24 million decrease in net interest income.

*Net Interest Income*

Net interest income, our largest contributor to earnings, comprised 74.37% of total net interest and noninterest income in the second quarter of 2014 compared to 76.95% in the same quarter of 2013. Net interest income comprised 74.82% of total net interest and noninterest income in the first six months of 2014 compared to 75.86% in the same period of 2013. For the following discussion, net interest income is presented on a tax equivalent basis to provide a comparison among all types of interest earning assets. The tax equivalent basis adjusts for the tax-favored status of income from certain loans and investments. Although non-GAAP, management believes this financial measure is more widely used in the financial services industry and provides better comparability of net interest income arising from taxable and tax-exempt sources. We use this non-GAAP financial measure to monitor net interest income performance and manage the composition of our balance sheet.

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

| | Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | |
| *(Amounts in thousands)* | **Average Balance** | **Interest[(1)]** | **Average Yield/ Rate[(1)]** | **Average Balance** | **Interest[(1)]** | **Average Yield/ Rate[(1)]** |
| Assets | | | | | | |
| Earning assets | | | | | | |
| Loans[(2)] | $ 1,748,048 | $ 23,467 | 5.38% | $ 1,692,248 | $ 24,308 | 5.76% |
| Securities available-for-sale | 428,111 | 3,239 | 3.03% | 547,411 | 3,712 | 2.72% |
| Securities held-to-maturity | 12,767 | 39 | 1.23% | 690 | 14 | 8.14% |
| Interest-bearing deposits | 49,325 | 47 | 0.38% | 83,168 | 71 | 0.34% |
| Total earning assets | 2,238,251 | 26,792 | 4.80% | 2,323,517 | 28,105 | 4.85% |
| Other assets | 334,279 | | | 355,778 | | |
| Total assets | $ 2,572,530 | | | $ 2,679,295 | | |
| Liabilities | | | | | | |
| Interest-bearing deposits | | | | | | |
| Demand deposits | $ 372,536 | $ 52 | 0.06% | $ 361,993 | $ 59 | 0.07% |
| Savings deposits | 524,539 | 128 | 0.10% | 516,375 | 148 | 0.11% |
| Time deposits | 697,326 | 1,655 | 0.95% | 784,078 | 2,077 | 1.06% |
| Total interest-bearing deposits | 1,594,401 | 1,835 | 0.46% | 1,662,446 | 2,284 | 0.55% |
| Borrowings | | | | | | |
| Federal funds purchased | | | | 4 | | |
| Retail repurchase agreements | 61,458 | 24 | 0.16% | 73,408 | 100 | 0.55% |
| Wholesale repurchase agreements | 50,000 | 468 | 3.75% | 50,000 | 468 | 3.75% |
| FHLB advances and other borrowings | 166,087 | 1,698 | 4.10% | 165,877 | 1,698 | 4.11% |
| Total borrowings | 277,545 | 2,190 | 3.16% | 289,289 | 2,266 | 3.14% |
| Total interest-bearing liabilities | 1,871,946 | 4,025 | 0.86% | 1,951,735 | 4,550 | 0.93% |
| Noninterest-bearing demand deposits | 344,485 | | | 344,180 | | |
| Other liabilities | 16,490 | | | 18,163 | | |
| Total liabilities | 2,232,921 | | | 2,314,078 | | |
| Stockholders equity | 339,609 | | | 365,217 | | |
| Total liabilities and stockholders equity | $ 2,572,530 | | | $ 2,679,295 | | |
| Net interest income, tax equivalent | | $ 22,767 | | | $ 23,555 | |

| | | |
|---|---|---|
| Net interest rate spread[3] | 3.94% | 3.92% |
| Net interest margin[4] | 4.08% | 4.07% |

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

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| | Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | |
| *(Amounts in thousands)* | **Average Balance** | **Interest(1)** | **Average Yield/ Rate(1)** | **Average Balance** | **Interest(1)** | **Average Yield/ Rate(1)** |
| Assets | | | | | | |
| Earning assets | | | | | | |
| Loans(2) | $ 1,733,061 | $ 46,359 | 5.39% | $ 1,699,196 | $ 49,196 | 5.84% |
| Securities available-for-sale | 463,783 | 7,047 | 3.06% | 546,053 | 7,440 | 2.75% |
| Securities held-to-maturity | 7,098 | 54 | 1.53% | 753 | 30 | 8.03% |
| Interest-bearing deposits | 37,924 | 77 | 0.41% | 90,987 | 138 | 0.31% |
| Total earning assets | 2,241,866 | 53,537 | 4.82% | 2,336,989 | 56,804 | 4.90% |
| Other assets | 340,117 | | | 354,107 | | |
| Total assets | $ 2,581,983 | | | $ 2,691,096 | | |
| Liabilities | | | | | | |
| Interest-bearing deposits | | | | | | |
| Demand deposits | $ 371,286 | $ 106 | 0.06% | $ 357,878 | $ 115 | 0.06% |
| Savings deposits | 527,270 | 265 | 0.10% | 511,175 | 302 | 0.12% |
| Time deposits | 705,817 | 3,352 | 0.96% | 799,980 | 4,229 | 1.07% |
| Total interest-bearing deposits | 1,604,373 | 3,723 | 0.47% | 1,669,033 | 4,646 | 0.56% |
| Borrowings | | | | | | |
| Federal funds purchased | 1,763 | 3 | 0.34% | 2 | | |
| Retail repurchase agreements | 64,391 | 51 | 0.16% | 74,573 | 206 | 0.56% |
| Wholesale repurchase agreements | 50,000 | 931 | 3.75% | 53,802 | 943 | 3.53% |
| FHLB advances and other borrowings | 166,087 | 3,375 | 4.10% | 170,879 | 3,397 | 4.01% |
| Total borrowings | 282,241 | 4,360 | 3.12% | 299,256 | 4,546 | 3.06% |
| Total interest-bearing liabilities | 1,886,614 | 8,083 | 0.87% | 1,968,289 | 9,192 | 0.94% |
| Noninterest-bearing demand deposits | 340,550 | | | 338,216 | | |
| Other liabilities | 18,692 | | | 21,218 | | |
| Total liabilities | 2,245,856 | | | 2,327,723 | | |
| Stockholders equity | 336,127 | | | 363,393 | | |
| Total liabilities and stockholders equity | $ 2,581,983 | | | $ 2,691,116 | | |
| Net interest income, tax equivalent | | $ 45,454 | | | $ 47,612 | |
| Net interest rate spread(3) | | | 3.95% | | | 3.96% |
| Net interest margin(4) | | | 4.09% | | | 4.11% |

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

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

| | Three Months Ended June 30, 2014 Compared to 2013 Dollar Increase (Decrease) due to | | | | Six Months Ended June 30, 2014 Compared to 2013 Dollar Increase (Decrease) due to | | | |
|---|---|---|---|---|---|---|---|---|
| *(Amounts in thousands)* | **Volume** | **Rate** | **Rate/ Volume** | **Total** | **Volume** | **Rate** | **Rate/ Volume** | **Total** |
| Interest earned on: | | | | | | | | |
| Loans (FTE) | $ 1,594 | $ (1,590) | $ (845) | $ (841) | $ 980 | $ (3,743) | $ (74) | $ (2,837) |
| Securities available-for-sale (FTE) | (1,609) | 430 | 706 | (473) | (1,121) | 857 | (129) | (393) |
| Securities held-to-maturity (FTE) | 487 | (12) | (450) | 25 | 253 | (24) | (205) | 24 |
| Interest-bearing deposits with other banks | (57) | 8 | 25 | (24) | (80) | 47 | (28) | (61) |
| Total interest earning assets | 415 | (1,164) | (564) | (1,313) | 32 | (2,863) | (436) | (3,267) |
| Interest paid on: | | | | | | | | |
| Demand deposits | 3 | (8) | (2) | (7) | 4 | (13) | | (9) |
| Savings deposits | 5 | (22) | (3) | (20) | 10 | (45) | (2) | (37) |
| Time deposits | (457) | (216) | 251 | (422) | (498) | (430) | 51 | (877) |
| Federal funds purchased | | | | | | | 3 | 3 |
| Retail repurchase agreements | (32) | (71) | 27 | (76) | (28) | (147) | 20 | (155) |
| Wholesale repurchase agreements | | | | | (67) | 59 | (4) | (12) |
| FHLB advances and other borrowings | 4 | (2) | (2) | | (95) | 75 | (2) | (22) |
| Total interest-bearing liabilities | (477) | (319) | 271 | (525) | (674) | (501) | 66 | (1,109) |
| Change in net interest income, tax equivalent | $ 892 | $ (845) | $ (835) | $ (788) | $ 706 | $ (2,362) | $ (502) | $ (2,158) |

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(Amounts in thousands)* | **2014** | **2013** | **2014** | **2013** |
| Net interest income, GAAP basis | $ 22,068 | $ 22,862 | $ 44,093 | $ 46,224 |
| Tax equivalent adjustment[1] | 699 | 693 | 1,361 | 1,388 |

| | | | | |
|---|---|---|---|---|
| Net interest income, tax equivalent | $ 22,767 | $ 23,555 | $ 45,454 | $ 47,612 |

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

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

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | | 2013 | | 2014 | | 2013 | |
| *(Amounts in thousands)* | Interest(1) | Average Yield/ Rate(1) | Interest(1) | Average Yield/ Rate(1) | Interest(1) | Average Yield/ Rate(1) | Interest(1) | Average Yield/ Rate(1) |
| Earning assets | | | | | | | | |
| Loans(2) | $ 23,467 | 5.38% | $ 24,308 | 5.76% | $ 46,359 | 5.39% | $ 49,196 | 5.84% |
| Accretion income | 2,789 | | 3,763 | | 5,912 | | 7,605 | |
| Less: cash accretion income | 1,247 | | 1,708 | | 1,848 | | 3,490 | |
| Non-cash accretion income | 1,542 | | 2,055 | | 4,064 | | 4,115 | |
| Loans, excluding non-cash accretion | 21,925 | 5.03% | 22,253 | 5.27% | 42,295 | 4.92% | 45,081 | 5.35% |
| Other earning assets | 3,325 | 2.72% | 3,797 | 2.41% | 7,178 | 2.84% | 7,608 | 2.41% |
| Total earning assets | 25,250 | 4.52% | 26,050 | 4.50% | 49,473 | 4.45% | 52,689 | 4.54% |
| Total interest-bearing liabilities | 4,025 | 0.86% | 4,550 | 0.93% | 8,083 | 0.86% | 9,192 | 0.94% |
| Net interest income, tax equivalent | $ 21,225 | | $ 21,500 | | $ 41,390 | | $ 43,497 | |
| Net interest rate spread(3), less non-cash accretion | | 3.66% | | 3.57% | | 3.59% | | 3.60% |
| Net interest margin(4), less non-cash accretion | | 3.80% | | 3.71% | | 3.73% | | 3.75% |

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

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

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

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

*Three Month Comparison*. Net interest income under GAAP decreased $794 thousand, or 3.47%, and tax equivalent net interest income decreased $788 thousand, or 3.35%, in the second quarter of 2014 compared to the same quarter of the prior year. Changes in the average balances of and yields/rates on earning assets and interest-bearing liabilities resulted in a 2 basis point increase in the net interest rate spread and a 1 basis point increase in the net interest margin.

Loan interest accretion stemming from the Peoples and Waccamaw acquisitions totaled $2.79 million in the second quarter of 2014, of which $1.25 million was received in cash, and $3.76 million in the same quarter of the prior year, of which $1.71 million was received in cash. Excluding non-cash accretion income, the yield on loans decreased 24 basis points, compared to a decrease of 38 basis points under GAAP. Excluding non-cash accretion income, the net interest margin increased 9 basis points compared to an increase of 1 basis point under GAAP. We expect the effect of accretion income on acquired loans to continue to be lessened in future periods.

Average earning assets decreased $85.27 million, or 3.67%, in the second quarter of 2014 compared to the same quarter of the prior year primarily due to the decrease in securities available for sale. Interest-bearing deposits with banks, which are primarily comprised of excess liquidity kept at the Federal Reserve Bank ( FRB ) of Richmond bear overnight market rates. The yield on earning assets decreased 5 basis points, which was largely due to a 38 basis point decrease in the yield on loans, a result of the continued low rate environment.

As of June 30, 2014, interest-bearing liabilities included interest-bearing deposits; retail repurchase agreements, consisting of collateralized retail deposits and commercial treasury accounts; wholesale repurchase agreements; Federal Home Loan Bank ( FHLB ) advances; and other borrowings. Average interest-bearing liabilities decreased $79.79 million, or 4.09%, in the second quarter of 2014 compared to the same quarter of the prior year, primarily due to declines in average time deposit balances. The yield on interest-bearing liabilities decreased 7 basis points, which was largely due to a 9 basis point decrease in the rate on interest-bearing deposits. Average interest-bearing deposits decreased $68.05 million, or 4.09% which was driven by a $86.75 million, or 11.06%, decrease in average time deposits, partially offset by increases in average interest-bearing demand deposits of $10.54 million, or 2.91%, and average savings deposits, which include money market and savings accounts, of $8.16 million, or 1.58%. Average borrowings decreased $11.74 million, or 4.06%.

*Six Month Comparison*. Net interest income under GAAP decreased $2.13 million, or 4.61%, and tax equivalent net interest income decreased $2.16 million, or 4.53%, in the first six months of 2014 compared to the same period of the prior year. Changes in the average balances of and yields/rates on earning assets and interest-bearing liabilities resulted in a 1 basis point decrease in the net interest rate spread and a 2 basis point decrease in the net interest margin.

Loan interest accretion stemming from the Peoples and Waccamaw acquisitions totaled $5.91 million in the first six months of 2014, of which $1.85 million was received in cash, and $7.61 million in the same period of the prior year, of which $3.49 million was received in cash. Excluding non-cash accretion income, the yield on loans decreased 43 basis points compared to a decrease of 45 basis points under GAAP. Excluding non-cash accretion income, the net interest margin decreased 2 basis points which was the same decrease under GAAP.

Average earning assets decreased $95.12 million, or 4.07%, in the first six months of 2014 compared to the same period of the prior year primarily due to a decrease in securities available for sale. The yield on earning assets decreased 8 basis points, which was largely due to a 45 basis point decrease in the yield on loans. During the first six months of 2014, we purchased medium-term bonds in the held-to-maturity category to provide for the funding necessary to extinguish certain wholesale borrowings as they come due.

Average interest-bearing liabilities decreased $81.68 million, or 4.15%, in the first six months of 2014 compared to the same period of the prior year, primarily due to declines in average time deposit balances. The yield on interest-bearing liabilities decreased 7 basis points, which was largely due to a 9 basis point decrease in the rate on interest-bearing deposits. Average interest-bearing deposits decreased $64.66 million, or 3.87% which was driven by a $94.16 million, or 11.77%, decrease in average time deposits, partially offset by increases in average interest-bearing demand deposits of $13.41 million, or 3.75%, and average savings deposits, which include money market and savings accounts, of $16.10 million, or 3.15%. Average borrowings decreased $17.02 million, or 5.69%, largely due to the prepayment of certain borrowings acquired from Waccamaw totaling $19.62 million during the first quarter of 2013.

*Provision for Loan Losses*

*Three Month Comparison.* The provision for loan losses is the amount added to the allowance for loan losses after net charge-offs have been deducted in order to bring the allowance to a level management determines necessary to absorb probable losses in the existing loan portfolio. The provision charged to operations was reduced by $1.93 million in the second quarter of 2014 compared to the same quarter of the prior year due to a decrease in specific reserves on loans identified as impaired during the quarter, lower average loss rates, significantly lower charge-offs, and lower classified asset levels. A net recovery of $75 thousand was attributed to the provision for purchased credit impaired ( PCI ) loans in the second quarter of 2014 due to better than expected performance in the Waccamaw PCI loan portfolio, of which $138 thousand was recorded through the FDIC indemnification asset to reflect the indemnified portion of the post-acquisition exposure and $63 thousand was applied to operations. There was no provision attributed to PCI loans prior to the second quarter of 2013. See Allowance for Loan Losses in the Financial Condition section below.

*Six Month Comparison.* The provision charged to operations was reduced by $1.28 million in the first six months of 2014 compared to the same period of the prior year due to a decrease in specific reserves on loans identified as impaired during the period, lower average loss rates, significantly lower charge-offs, and lower classified asset levels. A net recovery of $337 thousand was attributed to the provision for purchased credit impaired ( PCI ) loans in the first six months of 2014 due to better than expected performance in the Waccamaw PCI loan portfolio, of which $341 thousand was recorded through the FDIC indemnification asset to reflect the indemnified portion of the post-acquisition exposure and $4 thousand was applied to operations. There was no provision attributed to PCI loans prior to the second quarter of 2013. See Allowance for Loan Losses in the Financial Condition section below.

*Noninterest Income*

Noninterest income consists of all revenues not included in interest and fee income related to earning assets. Noninterest income comprised 25.63% of total net interest and noninterest income in the second quarter of 2014 compared to 23.05% in the same quarter of the prior year. Noninterest income comprised 25.18% of total net interest and noninterest income in the first six months of 2014 compared to 24.14% in the same period of the prior year. The following table presents the components of, and changes in, noninterest income in the periods indicated:

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| | Three Months Ended June 30, | | Six Months Ended June 30, | | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | Increase (Decrease) | % Change | Increase (Decrease) | % Change |
| *(Amounts in thousands)* | | | | | | | | |
| Wealth management | $ 718 | $ 971 | $ 1,726 | $ 1,817 | $ (253) | -26.06% | $ (91) | -5.01% |
| Service charges on deposit accounts | 3,423 | 3,315 | 6,493 | 6,483 | 108 | 3.26% | 10 | 0.15% |
| Other service charges and fees | 1,850 | 1,793 | 3,621 | 3,579 | 57 | 3.18% | 42 | 1.17% |
| Insurance commissions | 1,454 | 1,308 | 3,418 | 2,974 | 146 | 11.16% | 444 | 14.93% |
| Net impairment loss | (254) | | (518) | | (254) | | (518) | |
| Net (loss) gain on sale of securities | (59) | 113 | (14) | 230 | (172) | -152.21% | (244) | -106.09% |
| Net FDIC indemnification asset amortization | (936) | (1,662) | (2,070) | (3,201) | 726 | -43.68% | 1,131 | -35.33% |
| Other operating income | 1,408 | 1,010 | 2,182 | 2,827 | 398 | 39.41% | (645) | -22.82% |
| Noninterest income | $ 7,604 | $ 6,848 | $ 14,838 | $ 14,709 | $ 756 | 11.04% | $ 129 | 0.88% |

*Three Month Comparison*. Noninterest income increased $756 thousand, or 11.04%, in the second quarter of 2014 compared to the same quarter of the prior year. Wealth management revenues, which include fees and commissions for trust and investment advisory services, decreased as a result of a decrease in FCWM income. Service charges on deposit accounts and other charges and fees increased primarily from an increase in non-sufficient funds income, interchange fee income, and credit card income. Insurance commissions increased largely due to a general increase in premium commissions. In the second quarter of 2014, we incurred OTTI charges of $254 thousand related to a non-Agency mortgage-backed security ( MBS ) and realized a net loss of $59 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 $936 thousand as a result of improved loss estimates in the covered Waccamaw loan portfolio. Other operating income increased primarily due to a $556 thousand increase in income from bank owned life insurance policies, of which $536 thousand was related to a death benefit received in a life insurance settlement, and a $306 thousand increase in secondary market income.

Excluding the impact from OTTI charges, the sale of securities, the net amortization on the FDIC indemnification asset, and the nonrecurring life insurance benefit, noninterest income decreased $80 thousand, or 0.95%, to $8.32 million in the second quarter of 2014, compared with $8.40 million in the same quarter of the prior year.

*Six Month Comparison*. Noninterest income increased $129 thousand, or 0.88%, in the first six months of 2014 compared to the same period of the prior year. Wealth management revenues decreased as a result of the recognition of estate settlement fees and decrease in FCWM income. Service charges on deposit accounts and other charges and fees remained relatively constant between the periods. Insurance commissions increased largely due to increased levels of contingent profit-sharing commissions and a general increase in premium commissions. In the first six months of 2014, we incurred OTTI charges of $518 thousand related to a non-Agency MBS and certain equity holdings and realized a net loss of $14 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 $2.07 million as a result of improved loss estimates in the covered Waccamaw loan portfolio. Other operating income decreased primarily due to a $296 thousand decrease in gains recognized in 2013 from debt prepayments.

Excluding the impact from OTTI charges, the sale of securities, the net amortization on the FDIC indemnification asset, and the nonrecurring life insurance benefit, noninterest income decreased $480 thousand, or 2.76%, to $16.90 million in the first six months of 2014, compared with $17.38 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:

| (Amounts in thousands) | Three Months Ended June 30, 2014 | Three Months Ended June 30, 2013 | Six Months Ended June 30, 2014 | Six Months Ended June 30, 2013 | Three Months Ended Increase (Decrease) | Three Months Ended % Change | Six Months Ended Increase (Decrease) | Six Months Ended % Change |
|---|---|---|---|---|---|---|---|---|
| Salaries and employee benefits | $ 10,043 | $ 9,960 | $ 19,948 | $ 20,070 | $ 83 | 0.83% | $ (122) | -0.61% |
| Occupancy of bank premises | 1,578 | 1,795 | 3,356 | 3,650 | (217) | -12.09% | (294) | -8.05% |
| Furniture and equipment | 1,205 | 1,300 | 2,399 | 2,643 | (95) | -7.31% | (244) | -9.23% |
| Amortization of intangible assets | 178 | 183 | 353 | 362 | (5) | -2.73% | (9) | -2.49% |
| FDIC premiums and assessments | 458 | 469 | 892 | 941 | (11) | -2.35% | (49) | -5.21% |
| Merger related expense | | 8 | | 57 | (8) | -100.00% | (57) | -100.00% |
| Other operating expense | 4,701 | 4,818 | 10,395 | 10,354 | (117) | -2.43% | 41 | 0.40% |
| Total noninterest expense | $ 18,163 | $ 18,533 | $ 37,343 | $ 38,077 | $ (370) | -2.00% | $ (734) | -1.93% |

*Three Month Comparison*. Noninterest expense decreased $370 thousand, or 2.00%, in the second quarter of 2014 compared to the same quarter of the prior year. Full-time equivalent employees, calculated using the number of hours worked, decreased to 707 as of June 30, 2014, from 737 as of June 30, 2013. The reduction in full-time equivalent employees was seen in our North Carolina branches and corporate network. Occupancy, furniture, and equipment expense decreased $312 thousand, or 10.08%, in the second quarter of 2014, which was primarily due to branch closures between the periods. The decrease in other operating expense included a $239 thousand decrease in legal expenses and a $185 thousand decrease in marketing expenses, offset by a greater net loss on sales and expenses on OREO of $254 thousand in the second quarter of 2014 compared to $170 thousand in the same quarter of the prior year and an increase in ATM processing expense of $103 thousand.

*Six Month Comparison*. Noninterest expense decreased $734 thousand, or 1.93%, in the first six months of 2014 compared to the same period of the prior year. Occupancy, furniture, and equipment expense decreased $538 thousand, or 8.55%, in the first six months of 2014, which was primarily due to branch closures between the periods. The increase in other operating expense included a net loss on sales and expenses on OREO of $1.11 million in the first six months of 2014 compared to $795 thousand in the same period of the prior year and an increase in ATM processing expense of $274 thousand, offset by a $335 thousand decrease in marketing expenses and a $159 thousand decrease in legal expenses.

*Income Tax Expense*

Income tax as a percentage of pretax income may vary significantly from statutory rates due to permanent differences, which are items of income and expense excluded by law from the calculation of taxable income. Our most significant permanent differences generally include interest income on municipal securities and increases in the cash surrender value of officers life insurance policies, which are both exempt from federal income tax. Income tax expense increased $686 thousand, or 27.04%, and the effective rate decreased 31 basis points to 31.51% in the second quarter of 2014 compared to the same quarter of the prior year. Income tax expense decreased $149 thousand, or 2.51%, and the effective rate decreased 81 basis points to 31.24% in the first six months of 2014 compared to the same period of the prior year. The decrease in the effective tax rate was largely due to a decrease in taxable revenues as a percent of net earnings.

***Financial Condition***

Total assets were $2.58 billion as of June 30, 2014, a decrease of $27.11 million, or 1.04%, compared with $2.60 billion as of December 31, 2013. Total liabilities were $2.23 billion as of June 30, 2014, a decrease of $40.98 million, or 1.80%, compared with $2.27 billion as of December 31, 2013. Our book value per as-converted common share was $17.61 as of June 30, 2014, an increase of $0.82, compared to December 31, 2013.

*Investment Securities*

Available-for-sale securities as of June 30, 2014, decreased $121.40 million, or 23.35%, compared to December 31, 2013. The market value of securities available-for-sale as a percentage of amortized cost was 97.75% as of June 30, 2014, compared to 95.97% as of December 31, 2013.

Held-to-maturity securities as of June 30, 2014, increased $18.83 million to $19.40 million compared to $568 thousand as of December 31, 2013, due to the purchase of medium-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 100.00% as of June 30, 2014, compared with 101.94% as of December 31, 2013.

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We recognized credit-related OTTI charges in earnings associated with debt securities beneficially owned of $254 thousand for the three months ended June 30, 2014, and no charges for the three months ended June 30, 2013. We recognized credit-related OTTI charges in earnings associated with debt securities beneficially owned of $486 thousand for the six months ended June 30, 2014, and no charges for the six months ended June 30, 2013. These charges were related to a non-Agency MBS. Temporary impairment on the non-Agency MBS is primarily related to changes in interest rates. We recognized no OTTI charges in earnings associated with equity securities for the three months ended June 30, 2014, or the three months ended June 30, 2013. We recognized OTTI charges in earnings associated with certain equity securities of $32 thousand for the six months ended June 30, 2014, and no charges for the six months ended June 30, 2013. See Note 2, Investment Securities, to the Condensed Consolidated Financial Statements in Item 1 of this report.

*Loans Held for Sale*

Loans held for sale as of June 30, 2014, decreased $424 thousand, or 48.02%, compared to December 31, 2013. Loans held for sale consist of mortgage loans sold on a best efforts basis into the secondary loan market; accordingly, we do not retain the interest rate risk involved in these long-term commitments. The gross notional amount of outstanding commitments related to secondary market mortgage loans as of June 30, 2014, was $2.66 million for 17 loans compared to $3.68 million for 19 loans as of December 31, 2013.

*Loans Held for Investment*

Loans held for investment as of June 30, 2014, increased $48.70 million, or 2.85%, compared to December 31, 2013. The increase was primarily due to increased draw activity related to existing construction loans coupled with continued growth in commercial real estate originations. The non-covered loan portfolio increased $67.67 million, or 4.34%, compared to December 31, 2013. The average loan to deposit ratio was 90.16% for the three months ended June 30, 2014, compared to 84.33% for the same period of 2013, and 89.11% for the six months ended June 30, 2014, compared to 84.65% for the same period of 2013. Our loans held for investment are grouped into three segments (commercial loans, consumer real estate loans, and consumer and other loans) with each segment divided into various classes. Covered loans are defined as loans acquired in FDIC-assisted transactions that are covered by loss share agreements. See Note 3, Loans, to the Condensed Consolidated Financial Statements in Item 1 of this report.

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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, 2014 | | December 31, 2013 | | June 30, 2013 | |
|---|---|---|---|---|---|---|
| *(Amounts in thousands)* | **Amount** | **Percent** | **Amount** | **Percent** | **Amount** | **Percent** |
| Non-covered loans held for investment | | | | | | |
| Commercial loans | | | | | | |
| Construction, development, and other land | $ 44,653 | 2.54% | $ 35,255 | 2.06% | $ 52,198 | 3.09% |
| Commercial and industrial | 94,359 | 5.36% | 95,455 | 5.58% | 92,448 | 5.47% |
| Multi-family residential | 88,456 | 5.02% | 70,197 | 4.10% | 59,536 | 3.52% |
| Single family non-owner occupied | 141,376 | 8.04% | 135,559 | 7.92% | 134,207 | 7.93% |
| Non-farm, non-residential | 498,096 | 28.31% | 475,911 | 27.82% | 455,244 | 26.91% |
| Agricultural | 2,443 | 0.14% | 2,324 | 0.14% | 2,393 | 0.14% |
| Farmland | 32,396 | 1.84% | 32,614 | 1.91% | 34,354 | 2.03% |
| Total commercial loans | 901,779 | 51.25% | 847,315 | 49.53% | 830,380 | 49.09% |
| Consumer real estate loans | | | | | | |
| Home equity lines | 112,621 | 6.40% | 111,770 | 6.53% | 109,820 | 6.49% |
| Single family owner occupied | 490,626 | 27.89% | 496,012 | 28.99% | 473,212 | 27.98% |
| Owner occupied construction | 40,212 | 2.29% | 28,703 | 1.68% | 21,276 | 1.26% |
| Total consumer real estate loans | 643,459 | 36.58% | 636,485 | 37.20% | 604,308 | 35.73% |
| Consumer and other loans | | | | | | |
| Consumer loans | 74,100 | 4.21% | 71,313 | 4.17% | 69,002 | 4.08% |
| Other | 7,369 | 0.42% | 3,926 | 0.23% | 3,752 | 0.22% |
| Total consumer and other loans | 81,469 | 4.63% | 75,239 | 4.40% | 72,754 | 4.30% |
| Non-covered loans held for investment | 1,626,707 | 92.46% | 1,559,039 | 91.13% | 1,507,442 | 89.12% |
| Covered loans | 132,717 | 7.54% | 151,682 | 8.87% | 184,076 | 10.88% |
| Less unearned income | | | | | | |
| Total loans held for investment | 1,759,424 | 100.00% | 1,710,721 | 100.00% | 1,691,518 | 100.00% |
| Allowance for loan losses | 23,911 | | 24,077 | | 23,122 | |
| Total loans held for investment, less allowance | 1,735,513 | | 1,686,644 | | 1,668,396 | |
| Loans held for sale | $ 459 | | $ 883 | | $ 4,621 | |

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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 5, Credit Quality, to the Condensed Consolidated Financial Statements in Item 1 of this report.

The following table summarizes the components of nonperforming assets and presents additional details for nonperforming and restructured loans as of the periods indicated:

| *(Amounts in thousands)* | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|---|---|---|---|
| **Non-covered nonperforming** | | | |
| Nonaccrual loans | $ 17,464 | $ 19,161 | $ 29,125 |
| Accruing loans past due 90 days or more | | | |
| TDRs[(1)] | 1,877 | 1,311 | 276 |
| Total nonperforming loans | 19,341 | 20,472 | 29,401 |
| Non-covered OREO | 5,693 | 7,318 | 4,743 |
| Total nonperforming assets | $ 25,034 | $ 27,790 | $ 34,144 |
| **Covered nonperforming** | | | |
| Nonaccrual loans | $ 955 | $ 3,353 | $ 3,889 |
| Accruing loans past due 90 days or more | 109 | 86 | |
| Total nonperforming loans | 1,064 | 3,439 | 3,889 |
| Covered OREO | 8,814 | 7,541 | 6,407 |
| Total nonperforming assets | $ 9,878 | $ 10,980 | $ 10,296 |
| **Total nonperforming** | | | |
| Nonaccrual loans | $ 18,419 | $ 22,514 | $ 33,014 |
| Accruing loans past due 90 days or more | 109 | 86 | |
| TDRs[(1)] | 1,877 | 1,311 | 276 |
| Total nonperforming loans | 20,405 | 23,911 | 33,290 |
| OREO | 14,507 | 14,859 | 11,150 |
| Total nonperforming assets | $ 34,912 | $ 38,770 | $ 44,440 |
| **Additional Information** | | | |

| | | | |
|---|---|---|---|
| Performing TDRs(2) | $ 11,029 | $ 10,900 | $ 10,927 |
| Total TDRs(3) | 12,906 | 12,211 | 11,203 |
| **Non-covered ratios** | | | |
| Nonperforming loans to total loans | 1.19% | 1.31% | 1.95% |
| Nonperforming assets to total assets | 1.03% | 1.14% | 1.39% |
| Non-PCI allowance to nonperforming loans | 121.47% | 113.92% | 78.64% |
| Non-PCI allowance to total loans | 1.44% | 1.50% | 1.53% |
| **Total ratios** | | | |
| Nonperforming loans to total loans | 1.16% | 1.40% | 1.97% |
| Nonperforming assets to total assets | 1.36% | 1.49% | 1.68% |
| Allowance for loan losses to nonperforming loans | 117.18% | 100.69% | 69.46% |
| Allowance for loan losses to total loans | 1.36% | 1.41% | 1.37% |

(1) TDRs restructured within the past six months, excludes nonaccrual TDRs of $675 thousand, $734 thousand, and $1.25 million for the periods ended June 30, 2014, December 31, 2013, and June 30, 2013, respectively.

(2) TDRs with six months or more of satisfactory payment performance, excludes nonaccrual TDRs of $1.49 million, $1.47 million, and $1.52 million for the periods ended June 30, 2014, December 31, 2013, and June 30, 2013, respectively.

(3) Performing and nonperforming TDRs, excludes nonaccrual TDRs of $2.17 million, $2.20 million, and $2.77 million for the periods ended June 30, 2014, December 31, 2013, and June 30, 2013, respectively.

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Non-covered nonperforming assets totaled $25.03 million as of June 30, 2014, a $2.76 million decrease from December 31, 2013, and a $9.11 million decrease from June 30, 2013. Non-covered nonperforming assets as a percentage of total non-covered assets were 1.03% as of June 30, 2014, 1.14% as of December 31, 2013, and 1.39% as of June 30, 2013.

Non-covered nonaccrual loans totaled $17.46 million as of June 30, 2014, $19.16 million as of December 31, 2013, and $29.13 million as of June 30, 2013. As of June 30, 2014, non-covered nonaccrual loans were largely attributed to the following loan classes: single family owner occupied (39.83%); commercial and industrial (28.80%); and non-farm, non-residential (16.90%). As of June 30, 2014, approximately $1.95 million, or 11.18%, of non-covered nonaccrual loans were attributed to performing loans acquired in business combinations. Certain loans included in the nonaccrual category have been written down to the estimated realizable value or assigned specific reserves within the allowance for loan losses based upon management s estimate of loss at ultimate resolution.

When restructuring loans for borrowers experiencing financial difficulty, we generally make concessions in interest rates, loan terms, and/or amortization terms. Certain TDRs are classified as nonperforming at time of restructuring and are returned to performing status after six months of satisfactory payment performance; however, these loans remain identified as impaired until full payment or other satisfaction of the obligation occurs.

Accruing TDRs totaled $12.91 million as of June 30, 2014, $12.21 million as of December 31, 2013, and $11.20 million as of June 30, 2013. Nonperforming accruing TDRs totaled $1.88 million, or 14.54%, of total accruing TDRs as of June 30, 2014, as compared to 10.74% of accruing TDRs as of December 31, 2013, and 2.46% of accruing TDRs as of June 30, 2013. The allowance for loan losses attributed to TDRs totaled $1.77 million as of June 30, 2014, $1.84 million as of December 31, 2013, and $2.00 million as of June 30, 2013.

Ongoing activity in the classification and categories of nonperforming loans include collections on delinquencies, foreclosures, loan restructurings, and movements into or out of the nonperforming classification as a result of changing economic conditions, borrower financial capacity, or resolution efforts. Covered accruing loans contractually past due 90 days or more totaled $109 thousand as of June 30, 2014, compared to $86 thousand as of December 31, 2013, and none as of June 30, 2013.

Non-covered OREO, which is carried at the lesser of estimated net realizable value or cost, totaled $5.69 million as of June 30, 2014, a decrease of $1.63 million, or 22.21%, compared with December 31, 2013. As of June 30, 2014, non-covered OREO consisted of 56 properties with an average holding period of 7 months. The net loss on the sale of OREO totaled $68 thousand in the second quarter of 2014 compared to a net gain of $58 thousand in the same quarter of the prior year and a net loss of $782 thousand in the first six months of 2014 compared to $342 thousand in the same period of the prior year. Pursuant to FDIC loss share agreements, covered OREO is presented net of the related fair value discount. The following tables detail activity within OREO for the periods indicated:

| *(Amounts in thousands)* | Non-covered | Covered | Total |
|---|---|---|---|
| Beginning balance, January 1, 2013 | $ 5,749 | $ 3,255 | $ 9,004 |
| Additions | 4,515 | 4,808 | 9,323 |
| Disposals | (4,839) | (1,257) | (6,096) |
| Valuation adjustments | (682) | (399) | (1,081) |
| Ending balance, June 30, 2013 | $ 4,743 | $ 6,407 | $ 11,150 |

| | | | |
|---|---|---|---|
| Beginning balance, January 1, 2014 | $ 7,318 | $ 7,541 | $ 14,859 |
| Additions | 1,557 | 5,632 | 7,189 |
| Disposals | (2,605) | (3,478) | (6,083) |
| Valuation adjustments | (577) | (881) | (1,458) |
| Ending balance, June 30, 2014 | $ 5,693 | $ 8,814 | $ 14,507 |

Non-covered delinquent loans, comprised of loans 30 days or more past due and nonaccrual loans, totaled $27.12 million as of June 30, 2014, a decrease of $3.74 million, or 12.13%, compared with December 31, 2013. Non-covered delinquent loans as a percentage of total non-covered loans measured 1.67% as of June 30, 2014, which is attributed to loans 30 to 89 days past due of 0.59% and nonaccrual loans of 1.07%. Non-covered nonperforming loans, comprised of nonaccrual loans, nonperforming TDRs, and unseasoned TDRs, as a percentage of total non-covered loans were 1.19% as of June 30, 2014, 1.31% at December 31, 2013, and 1.95% at June 30, 2013.

*Allowance for Loan Losses*

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

Management performs quarterly assessments to determine the appropriate level of the allowance for loan losses. The allowance for loan losses includes specific allocations to significant individual loans and credit relationships and general reserves to the remaining loans that have been deemed impaired. Loans not specifically identified are grouped into pools based on similar risk characteristics. Management s general reserve allocations are based on judgments of qualitative and quantitative factors about macro and micro economic conditions reflected in the loan portfolio and the economy. For loans acquired in business combinations, a provision is recorded for any credit deterioration after the acquisition. Loans identified with credit impairment at acquisition are grouped into pools and evaluated separately from the non-PCI portfolio. The provision calculated for PCI loans is offset by an adjustment to the FDIC indemnification asset to reflect the indemnified portion of the post-acquisition exposure. See Critical Accounting Estimates above, as well as Significant Accounting Policies in Note 1, General, and Note 6, Allowance for Loan Losses, to the Condensed Consolidated Financial Statements in Item 1 of this report.

Our allowance for loan losses totaled $23.91 million as of June 30, 2014, $24.08 million as of December 31, 2013, and $23.12 million as of June 30, 2013. The allowance attributed to non-PCI loans as a percentage of non-covered loans held for investment was 1.44% as of June 30, 2014, 1.50% at December 31, 2013, and 1.53% at June 30, 2013. The cash flow analysis performed for the second quarter of 2014 identified four of our seven PCI loan pools as impaired with a cumulative impairment of $410 thousand at June 30, 2014. The portfolio will continue to be monitored for deterioration in credit, which may result in the need to record an allowance for loan losses in a future period.

Our qualitative risk factors continue to reflect a reduced risk of loan losses due to improvements in unemployment trends, general economic conditions, and asset quality metrics. As of June 30, 2014, management considered the allowance to be adequate based upon analysis of the portfolio; however, no assurance can be made that additions to the allowance will not be required in future periods. Net charge-offs decreased $3.91 million, or 79.16%, in the second quarter of 2014 compared to the same quarter of the prior year and decreased $4.10 million, or 58.58%, in the first six months of 2014 compared to the same period of the prior year.

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

| | Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | |
| *(Amounts in thousands)* | Non-acquired Impaired | Acquired Impaired | Total | Non-acquired Impaired | Acquired Impaired | Total |
| Beginning balance | $ 23,305 | $ 493 | $ 23,798 | $ 24,842 | $ 8 | $ 24,850 |
| Provision for loan losses | 1,216 | (75) | 1,141 | 3,205 | | 3,205 |
| Benefit attributable to the FDIC indemnification asset | | 138 | 138 | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Provision for loan losses charged to operations | 1,216 | 63 | 1,279 | 3,205 | | 3,205 |
| Provision for loan losses recorded through the FDIC indemnification asset | | (138) | (138) | | | |
| Charge-offs | (1,785) | | (1,785) | (5,535) | | (5,535) |
| Recoveries | 757 | | 757 | 602 | | 602 |
| Net charge-offs | (1,028) | | (1,028) | (4,933) | | (4,933) |
| Ending balance | $ 23,493 | $ 418 | $ 23,911 | $ 23,114 | $ 8 | $ 23,122 |

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| | Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | |
| | Non-acquired Impaired | Acquired Impaired | Total | Non-acquired Impaired | Acquired Impaired | Total |
| *(Amounts in thousands)* | | | | | | |
| Beginning balance | $ 23,322 | $ 755 | $ 24,077 | $ 25,762 | $ 8 | $ 25,770 |
| Provision for loan losses | 3,068 | (337) | 2,731 | 4,347 | | 4,347 |
| Benefit attributable to the FDIC indemnification asset | | 341 | 341 | | | |
| Provision for loan losses charged to operations | 3,068 | 4 | 3,072 | 4,347 | | 4,347 |
| Provision for loan losses recorded through the FDIC indemnification asset | | (341) | (341) | | | |
| Charge-offs | (4,001) | | (4,001) | (8,294) | | (8,294) |
| Recoveries | 1,104 | | 1,104 | 1,299 | | 1,299 |
| Net charge-offs | (2,897) | | (2,897) | (6,995) | | (6,995) |
| Ending balance | $ 23,493 | $ 418 | $ 23,911 | $ 23,114 | $ 8 | $ 23,122 |

*Deposits*

Total deposits as of June 30, 2014, decreased $27.64 million, or 1.42%, compared to December 31, 2013. Noninterest-bearing deposits increased $18.19 million and interest-bearing deposits increased $497 thousand as of June 30, 2014, compared to December 31, 2013. Savings deposits, which include money market and savings accounts, decreased $6.24 million and time deposits decreased $40.08 million as of June 30, 2014, compared to December 31, 2013.

*Borrowings*

Total borrowings as of June 30, 2014, decreased $14.15 million, or 4.71%, compared to December 31, 2013. Short-term borrowings consist of federal funds purchased and retail repurchase agreements. No federal funds were purchased as of June 30, 2014, compared to $16.00 million as of December 31, 2013. The balance of retail repurchase agreements increased $1.85 million, or 2.71%, as of June 30, 2014, compared to December 31, 2013. Long-term borrowings consist of wholesale repurchase agreements; FHLB borrowings, including convertible and callable advances; and other obligations. The balance and weighted average rate of wholesale repurchase agreements remained constant at $50.00 million and 3.71%, respectively, as of June 30, 2014, compared to December 31, 2013. As of June 30, 2014, wholesale repurchase agreements had contractual maturities between two and five years. The balance and weighted average rate of FHLB borrowings remained unchanged at $150.00 million and 4.12%, respectively, as of June 30, 2014, compared to December 31, 2013. As of June 30, 2014, FHLB borrowings had contractual maturities between two and seven years. Subsequent to June 30, 2014, we prepaid $35.00 million of FHLB borrowings.

*Stockholders Equity*

Total stockholders equity increased $13.87 million, or 4.22%, from $328.61 million as of December 31, 2013, to $342.48 million as of June 30, 2014. The change in stockholders equity was impacted by net income of $12.73 million, dividends declared on our common and Series A Noncumulative Convertible Preferred Stock of $4.87

million, repurchases of 131,500 shares of our common stock totaling $2.15 million, and other comprehensive income ( OCI ) of $8.00 million. OCI was driven by unrealized gains on available-for-sale securities.

*Liquidity and Capital Resources*

We maintain a liquidity risk management policy and contingency funding policy (the Liquidity Plan ) that is designed to detect potential liquidity issues in order to protect depositors, creditors, and shareholders. The Liquidity Plan includes various internal and external indicators that are reviewed on a recurring basis by our Asset/Liability Management Committee ( ALCO ) and the Board of Directors. ALCO is responsible for reviewing liquidity risk exposure and policies related to liquidity management and ensuring that systems and internal controls are consistent with liquidity policies and provide accurate reports regarding liquidity needs, sources, and compliance.

As of June 30, 2014, we maintained liquidity in the form of unencumbered cash on hand and deposits with other financial institutions of $96.78 million, availability on federal funds lines with correspondent banks of $105.00 million, credit available from the Federal Reserve Board s discount window of $9.09 million, unused borrowing capacity with the FHLB of $367.58 million, and unpledged available-for-sale securities of $130.43 million. Cash on hand and deposits with other financial institutions, as well as lines of credit extended from correspondent banks and the FHLB, are immediately available to satisfy deposit withdrawals, customer credit needs, and our operations. Available-for-sale securities represent a secondary source of liquidity upon conversion to a liquid asset. Our approved lines of credit with correspondent banks are available as backup liquidity sources.

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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, 2014, the Company s liquid assets consisted of cash and investment securities totaling $24.21 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, 2014, there was no outstanding balance on the line.

*Capital Resources*

Risk-based capital guidelines, promulgated by state and federal banking agencies, include balance sheet assets and off-balance sheet arrangements weighted by the risks inherent in the specific asset type. As of June 30, 2014, and December 31, 2013, the Company and the Bank were deemed well capitalized under regulatory capital adequacy standards. The following table presents our capital ratios as of the dates indicated:

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Total risk-based capital ratio | | |
| First Community Bancshares, Inc. | 16.46% | 16.44% |
| First Community Bank | 14.55% | 14.55% |
| Tier 1 risk-based capital ratio | | |
| First Community Bancshares, Inc. | 15.20% | 15.19% |
| First Community Bank | 13.29% | 13.30% |
| Tier 1 leverage ratio | | |
| First Community Bancshares, Inc. | 10.39% | 9.95% |
| First Community Bank | 9.03% | 8.63% |

*Off-Balance Sheet Arrangements*

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

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| *(Amounts in thousands)* | | |
| Commitments to extend credit | $ 220,749 | $ 216,179 |
| Commitments related to secondary market mortgage loans | 2,664 | 3,677 |
| Standby letters of credit and financial guarantees | 4,017 | 4,193 |
| Total off-balance sheet risk | $ 227,430 | $ 224,049 |
| Reserve for unfunded commitments | $ 326 | $ 326 |

*Impact of Inflation and Changing Prices*

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

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## Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

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

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

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

The following table summarizes the impact of immediate and sustained rate shocks in the interest rate environment on net interest income. The model simulates plus 300 to minus 100 basis point changes from the base case rate simulation and illustrates the prospective effects of hypothetical interest rate changes over a twelve-month time period. This modeling technique, although useful, does not take into account all strategies that management might undertake in response to a sudden and sustained rate shock as depicted. Also, as market conditions vary from those assumed in the sensitivity analysis, actual results will also differ due to prepayment and refinancing levels likely deviating from those assumed, the varying impact of interest rate change caps or floors on adjustable rate assets, the potential effect of changing debt service levels on customers with adjustable rate loans, depositor early withdrawals and product preference changes, and other internal and external variables. As of June 30, 2014, the Federal Open Market Committee maintained a target range for federal funds of 0 to 25 basis points, rendering a complete downward shock of 200 basis points meaningless; accordingly, downward rate scenarios are limited to minus 100 basis points. In the downward rate shocks presented, benchmark interest rates are assumed at levels with floors near 0%.

| *(Amounts in thousands, except basis points)* | **June 30, 2014** | | **December 31, 2013** | |
|---|---|---|---|---|
| **Increase (Decrease) in Interest Rates in Basis Points** | **Change in Net Interest Income** | **Percent Change** | **Change in Net Interest Income** | **Percent Change** |
| 300 | $ 1,022 | 1.2 | $ 2,649 | 3.1 |
| 200 | 526 | 0.6 | 1,517 | 1.8 |
| 100 | 94 | 0.1 | 454 | 0.5 |
| (100) | 583 | 0.7 | 497 | 0.6 |

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

In connection with this report, we conducted an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ), of the effectiveness of our disclosure controls and procedures pursuant to the Securities Exchange Act of 1934 (the Exchange Act ) Rule 13a-15(b). Based upon that evaluation, the CEO and CFO concluded that, as of June 30, 2014, our disclosure controls and procedures were effective.

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

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

**Changes in Internal Control over Financial Reporting**

We assess the adequacy of our internal control over financial reporting quarterly and enhance our controls in response to internal control assessments and internal and external audit and regulatory recommendations. There were no changes in our internal control over financial reporting during the quarter ended June 30, 2014, that materially affected, or is 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.

**ITEM 1A. Risk Factors**
A description of the Company s risk factors is included in Part I, Item 1A, Risk Factors, of our 2013 Form 10-K. Our risk factors discuss potential events, trends, or other circumstances that could adversely affect our business, financial condition, results of operations, cash flows, liquidity, access to capital resources, and, consequently, cause the market

value of our common stock to decline. These risks could cause our future results to differ materially from historical results and expectations of future financial performance. There may be risks and uncertainties that we have not identified or that we have deemed immaterial that could adversely affect our business; therefore, our risk factors are not intended to be an exhaustive list of all risks we face. There have been no material changes from the risk factors previously disclosed in our 2013 Form 10-K.

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

(a) Not Applicable

(b) Not Applicable

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(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, 2014 | | $ | | 892,337 |
| May 1-31, 2014 | | | | 904,009 |
| June 1-30, 2014 | | | | 904,009 |
| Total | | $ | | |

(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 2,095,991 shares in treasury as of June 30, 2014.

**ITEM 3. Defaults Upon Senior Securities**

None

**ITEM 4. Mine Safety Disclosures**

None

**ITEM 5. Other Information**

None

**ITEM 6. Exhibits**

(a) Exhibits and index required

| Exhibit No. | Exhibit |
|---|---|

| | |
|---|---|
| 3.1 | Articles of Incorporation of First Community Bancshares, Inc., as amended (1) |
| 3.2 | Amended and Restated Bylaws of First Community Bancshares, Inc. (2) |
| 4.1 | Specimen stock certificate of First Community Bancshares, Inc. (3) |
| 4.2 | Indenture Agreement dated September 25, 2003. (4) |
| 4.3 | Declaration of Trust of FCBI Capital Trust dated September 25, 2003, as amended and restated. (5) |
| 4.4 | Preferred Securities Guarantee Agreement dated September 25, 2003. (6) |
| 4.5 | Certificate of Designation of 6.00% Series A Noncumulative Convertible Preferred Stock. (7) |
| 10.1** | First Community Bancshares, Inc. 1999 Stock Option Agreement (8) and Plan. (9) |
| 10.1.1** | First Community Bancshares, Inc. 1999 Stock Option Plan, Amendment One. (10) |
| 10.2** | First Community Bancshares, Inc. 2001 Nonqualified Director Stock Option Plan. (11) |
| 10.3** | Employment Agreement between First Community Bancshares, Inc. and John M. Mendez dated December 16, 2008, as amended and restated (21) and Waiver Agreement. (29) |
| 10.4** | First Community Bancshares, Inc. and Affiliates Executive Retention Plan (12), Amendment #1 (13), and Amendment #2. (32) |
| 10.5** | First Community Bancshares, Inc. Split Dollar Plan and Agreement. (14) |
| 10.6** | First Community Bancshares, Inc. Supplemental Directors Retirement Plan, as amended and restated. (15) |
| 10.7** | First Community Bancshares, Inc. Wrap Plan, as amended and restated. (16) |
| 10.9** | Form of Indemnification Agreement between First Community Bancshares, Inc., its Directors, and Certain Executive Officers. (17) |
| 10.10** | Form of Indemnification Agreement between First Community Bank, its Directors, and Certain Executive Officers. (17) |
| 10.11** | First Community Bancshares, Inc. 2004 Omnibus Stock Option Plan (18) and Stock Award Agreement. (19) |
| 10.12** | First Community Bancshares, Inc. 2012 Omnibus Equity Compensation Plan (31) |

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| | |
|---|---|
| 10.13** | First Community Bancshares, Inc. Directors Deferred Compensation Plan, as amended and restated. (20) |
| 10.14** | Employment Agreement between First Community Bancshares, Inc. and David D. Brown dated December 16, 2008. (22) |
| 10.15** | Employment Agreement between First Community Bancshares, Inc. and Robert L. Buzzo dated December 16, 2008, as amended and restated. (23) |
| 10.16** | Employment Agreement between First Community Bancshares, Inc. and E. Stephen Lilly dated December 16, 2008, as amended and restated. (24) |
| 10.17** | Employment Agreement between First Community Bank and Gary R. Mills dated December 16, 2008. (25) |
| 10.18** | Employment Agreement between First Community Bank and Martyn A. Pell dated December 16, 2008. (26) |
| 10.19** | Employment Agreement between First Community Bank and Robert L. Schumacher dated December 16, 2008. (27) |
| 10.21** | Employment Agreement between First Community Bank and Mark R. Evans dated July 31, 2009. (28) |
| 10.22** | Form of Restricted Stock Grant Agreement under First Community Bancshares, Inc. 2012 Omnibus Equity Compensation Plan. (33) |
| 10.23** | Separation Agreement and Release between First Community Bancshares, Inc. and John M. Mendez dated August 28, 2013. (34) |
| 10.24 | Purchase and Assumption Agreement between Bank of America, National Association and First Community Bank. (35) |
| 10.25 | Purchase and Assumption Agreement between First Community Bank and CresCom Bank. (36) |
| 11 | Statement Regarding Computation of Earnings per Share. (30) |
| 31.1* | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32* | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101*** | Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Condensed Consolidated Balance Sheets as of June 30, 2014, (Unaudited), and December 31, 2013; (ii) Condensed Consolidated Statements of Income (Unaudited) for the three and six months ended June 30, 2014 and 2013; (iii) Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2014 and 2013; (iv) Condensed Consolidated Statements of Stockholders Equity (Unaudited) for the six months ended June 30, 2014 and 2013; (v) Condensed Consolidated Statements of Cash Flows (Unaudited) for the six months ended June 30, 2014 and 2013; and (vi) Notes to Condensed Consolidated Financial Statements (Unaudited). |

* Incorporated herewith.
** Indicates a management contract or compensation plan.
*** Submitted electronically herewith.
(1) Incorporated by reference from Exhibit 3(i) of the Quarterly Report on Form 10-Q for the period ended June 30, 2010, filed on August 16, 2010.
(2) Incorporated by reference from Exhibit 3.1 of the Current Report on Form 8-K dated September 24, 2013, filed on September 26, 2013.
(3) Incorporated by reference from Exhibit 4.1 of the Annual Report on Form 10-K for the period ended December 31, 2002, filed on March 25, 2003, amended on March 31, 2003.
(4)

Incorporated by reference from Exhibit 4.2 of the Quarterly Report on Form 10-Q for the period ended September 30, 2003, filed on November 10, 2003.

(5) Incorporated by reference from Exhibit 4.3 of the Quarterly Report on Form 10-Q for the period ended September 30, 2003, filed on November 10, 2003.

(6) Incorporated by reference from Exhibit 4.4 of the Quarterly Report on Form 10-Q for the period ended September 30, 2003, filed on November 10, 2003.

(7) Incorporated by reference from Exhibit 4.1 of the Current Report on Form 8-K dated May 20, 2011, filed on May 23, 2011.

(8) Incorporated by reference from Exhibit 10.5 of the Quarterly Report on Form 10-Q for the period ended June 30, 2002, filed on August 14, 2002.

(9) Incorporated by reference from Exhibit 10.1 of the Annual Report on Form 10-K for the period ended December 31, 1999, filed on March 30, 2000, amended on April 13, 2000.

(10) Incorporated by reference from Exhibit 10.1.1 of the Quarterly Report on Form 10-Q for the period ended March 31, 2004, filed on May 7, 2004.

(11) Incorporated by reference from Exhibit 10.4 of the Quarterly Report on Form 10-Q for the period ended June 30, 2002, filed on August 14, 2002.

(12) Incorporated by reference from Exhibit 10.1 of the Current Report on Form 8-K dated December 30, 2008, filed on January 5, 2009.

(13) Incorporated by reference from Exhibit 10.3 of the Current Report on Form 8-K dated December 16, 2010, filed on December 17, 2010.

(14) Incorporated by reference from Exhibit 10.5 of the Annual Report on Form 10-K for the period ended December 31, 1999, filed on March 30, 2000, amended on April 13, 2000.
(15) Incorporated by reference from Exhibit 10.1 of the Current Report on Form 8-K dated December 16, 2010, filed on December 17, 2010.
(16) Incorporated by reference from Exhibit 99.1 of the Current Report on Form 8-K dated August 22, 2006, filed on August 23, 2006.
(17) Incorporated by reference from Exhibit 10.1 and Exhibit 10.2 of the Current Report on Form 8-K dated February 25, 2014, filed on March 3, 2014.
(18) Incorporated by reference from Annex B to the 2004 First Community Bancshares, Inc. Definitive Proxy Statement filed on March 15, 2004.
(19) Incorporated by reference from Exhibit 10.13 of the Quarterly Report on Form 10-Q for the period ended June 30, 2004, filed on August 6, 2004.
(20) Incorporated by reference from Exhibit 99.2 of the Current Report on Form 8-K dated August 22, 2006, filed on August 23, 2006.
(21) Incorporated by reference from Exhibit 10.1 of the Current Report on Form 8-K dated and filed on December 16, 2008.
(22) Incorporated by reference from Exhibit 10.2 of the Current Report on Form 8-K dated and filed on December 16, 2008.
(23) Incorporated by reference from Exhibit 10.1 of the Current Report on Form 8-K dated and filed on July 6, 2009.
(24) Incorporated by reference from Exhibit 10.2 of the Current Report on Form 8-K dated and filed on July 6, 2009.
(25) Incorporated by reference from Exhibit 10.3 of the Current Report on Form 8-K dated and filed on July 6, 2009.
(26) Incorporated by reference from Exhibit 10.4 of the Current Report on Form 8-K dated and filed on July 6, 2009.
(27) Incorporated by reference from Exhibit 10.5 of the Current Report on Form 8-K dated and filed on July 6, 2009.
(28) Incorporated by reference from Exhibit 2.1 of the Current Report on Form 8-K dated April 2, 2009, filed on April 3, 2009.
(29) Incorporated by reference from Exhibit 10.2 of the Current Report on Form 8-K dated December 16, 2010, filed on December 17, 2010.
(30) Incorporated by reference from Note 1 of the Notes to Condensed Consolidated Financial Statements included herein.
(31) Incorporated by reference from the 2012 First Community Bancshares, Inc. Definitive Proxy Statement filed on March 7, 2012.
(32) Incorporated by reference from Exhibit 10.1 of the Current Report on Form 8-K dated February 21, 2013, filed on February 25, 2013.
(33) Incorporated by reference from Exhibit 99.1 of the Current Report on Form 8-K dated and filed May 28, 2013.
(34) Incorporated by reference from Exhibit 99.1 of the Current Report on Form 8-K/A dated August 12, 2013, filed on September 3, 2013.
(35) Incorporated by reference from Exhibit 99.3 of the Current Report on Form 8-K/A dated June 9, 2014, filed on June 10, 2014.
(36) Incorporated by reference from Exhibit 99.1 of the Current Report on Form 8-K dated August 6, 2014, filed on August 7, 2014.

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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 8th day of August, 2014.

First Community Bancshares, Inc.

(Registrant)

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

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

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