FIRST COMMUNITY BANCSHARES INC /NV/
Form 10-Q
May 09, 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 March 31, 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; 18,392,020 shares outstanding as of May 1, 2014

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FORM 10-Q

For the quarter ended March 31, 2014

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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)	**March 31, 2014** (Unaudited)	**December 31, 2013**
Assets		
Cash and due from banks	$ 45,879	$ 43,598
Federal funds sold	22,352	1,817
Interest-bearing deposits in banks	10,771	11,152
Total cash and cash equivalents	79,002	56,567
Securities available for sale	483,864	519,820
Securities held to maturity	8,161	568
Loans held for sale	1,743	883
Loans held for investment, net of unearned income:		
Covered under loss share agreements	143,170	151,682
Not covered under loss share agreements	1,588,694	1,559,039
Less allowance for loan losses	(23,798)	(24,077)
Loans held for investment, net	1,708,066	1,686,644
FDIC indemnification asset	32,510	34,691
Premises and equipment, net	60,043	61,116
Other real estate owned:		
Covered under loss share agreements	8,705	7,541
Not covered under loss share agreements	5,923	7,318
Interest receivable	6,259	7,521
Goodwill	105,455	105,455
Other intangible assets	2,691	2,866
Other assets	107,924	111,524
Total assets	$ 2,610,346	$ 2,602,514
Liabilities		
Deposits:		
Noninterest-bearing	$ 353,137	$ 339,680
Interest-bearing	1,621,552	1,611,062
Total deposits	1,974,689	1,950,742
Interest, taxes, and other liabilities	23,323	22,770
Federal funds purchased		16,000

Securities sold under agreements to repurchase	112,337	118,308
FHLB borrowings	150,000	150,000
Other borrowings	16,087	16,088
Total Liabilities	2,276,436	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 March 31, 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 March 31, 2014, and December 31, 2013, respectively; 2,107,663 and 1,978,478 shares in treasury at March 31, 2014, and December 31, 2013, respectively	20,500	20,493
Additional paid-in capital	215,827	215,663
Retained earnings	129,115	125,826
Treasury stock, at cost	(35,996)	(33,887)
Accumulated other comprehensive loss	(10,687)	(14,740)
Total stockholders equity	333,910	328,606
Total Liabilities and Stockholders Equity	$ 2,610,346	$ 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 March 31, 2014	2013
Interest income		
Interest and fees on loans held for investment	$ 22,834	$ 24,844
Interest on securities taxable	2,097	1,886
Interest on securities nontaxable	1,122	1,208
Interest on deposits in banks	30	66
Total interest income	26,083	28,004
Interest expense		
Interest on deposits	1,888	2,362
Interest on short-term borrowings	502	590
Interest on long-term debt	1,668	1,690
Total interest expense	4,058	4,642
Net interest income	22,025	23,362
Provision for loan losses	1,793	1,142
Net interest income after provision for loan losses	20,232	22,220
Noninterest income		
Wealth management	1,008	846
Service charges on deposit accounts	3,070	3,168
Other service charges and fees	1,771	1,786
Insurance commissions	1,964	1,666
Impairment losses on securities	(264)	
Portion of losses recognized in other comprehensive income		
Net impairment losses recognized in earnings	(264)	
Net gain on sale of securities	45	117
Net FDIC indemnification asset amortization	(1,134)	(1,539)
Other operating income	774	1,817
Total noninterest income	7,234	7,861
Noninterest expense		
Salaries and employee benefits	9,905	10,110
Occupancy expense of bank premises	1,778	1,855
Furniture and equipment	1,194	1,343
Amortization of intangible assets	175	179
FDIC premiums and assessments	434	472
Merger related expense		49

Other operating expense	5,694	5,536
Total noninterest expense	19,180	19,544
Income before income taxes	8,286	10,537
Income tax expense	2,561	3,396
Net income	5,725	7,141
Dividends on preferred stock	228	258
Net income available to common shareholders	$ 5,497	$ 6,883
Basic earnings per common share	$ 0.30	$ 0.34
Diluted earnings per common share	0.29	0.34
Cash dividends per common share	0.12	0.12
Weighted average basic shares outstanding	18,423,123	20,032,694
Weighted average diluted shares outstanding	19,506,647	21,258,490

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 March 31, 2014**	**2013**
Comprehensive Income		
Net income	$ 5,725	$ 7,141
Other comprehensive income (loss), before tax:		
Available-for-sale securities:		
Unrealized gains (losses) on securities available for sale with other-than-temporary impairment	482	(197)
Unrealized gains (losses) on securities available for sale without other-than-temporary impairment	5,706	(1,121)
Less: reclassification adjustment for gains realized in net income	(45)	(117)
Less: reclassification adjustment for credit related other-than-temporary impairments recognized in net income	264	
Unrealized gains (losses) on available-for-sale securities	6,407	(1,435)
Employee benefit plans:		
Net actuarial gain (loss) on pension and other postretirement benefit plans	29	(300)
Net prior service cost attributed to plan amendments		(94)
Less: reclassification adjustment for amortization of prior service cost and net actuarial loss included in net periodic benefit cost	65	81
Unrealized gains (losses) on employee benefit plans	94	(313)
Other comprehensive income (loss), before tax	6,501	(1,748)
Income tax (expense) benefit	(2,448)	653
Other comprehensive income (loss), net of tax	4,053	(1,095)
Total comprehensive income	$ 9,778	$ 6,046

See Notes to Consolidated Financial Statements.

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FIRST COMMUNITY BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (UNAUDITED)

ounts in thousands, except share and per share data)	**Preferred Stock**	**Common Stock**	**Additional Paid-in Capital**	**Retained Earnings**	**Treasury Stock**	**Accumulated Other Comprehensive Income (Loss)**	**Total**
ance January 1, 2013	$ 17,421	$ 20,343	$ 213,829	$ 113,013	$ (6,458)	$ (1,825)	$ 356,3
income				7,141			7,1
er comprehensive loss						(1,095)	(1,0
nmon dividends declared $0.12 per share				(2,407)			(2,4
erred dividends declared $15.00 per share				(258)			(2
ity-based compensation expense			32				
nmon stock options exercised 800 shares			(6)		18		
chase of treasury shares 69,054 shares at $15.55 per e					(1,077)		(1,0
ance March 31, 2013	$ 17,421	$ 20,343	$ 213,855	$ 117,489	$ (7,517)	$ (2,920)	$ 358,6
ance January 1, 2014	$ 15,251	$ 20,493	$ 215,663	$ 125,826	$ (33,887)	$ (14,740)	$ 328,6
income				5,725			5,7
er comprehensive income						4,053	4,0
nmon dividends declared $0.12 per share				(2,208)			(2,2
erred dividends declared $15.00 per share				(228)			(2
erred stock converted to common stock 6,900 shares	(100)	7	93				
ity-based compensation expense			73				
nmon stock options exercised 554 shares					9		
tricted stock awards 1,761 shares			(2)		30		
chase of treasury shares 131,500 shares at $16.30 per e					(2,148)		(2,1
ance March 31, 2014	$ 15,151	$ 20,500	$ 215,827	$ 129,115	$ (35,996)	$ (10,687)	$ 333,9

See Notes to Consolidated Financial Statements.

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FIRST COMMUNITY BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended March 31,	
(Amounts in thousands)	**2014**	**2013**
Operating activities		
Net income	$ 5,725	$ 7,141
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,793	1,142
Depreciation and amortization of property, plant, and equipment	1,105	1,227
Amortization (accretion) of premiums on investments, net	1,104	(330)
Amortization of FDIC indemnification asset, net	1,134	1,539
Amortization of intangible assets	175	179
Gain on sale of loans	(153)	(454)
Equity-based compensation expense	73	32
Gain on sale of property, plant, and equipment	(4)	(48)
Loss on sales of other real estate	1,292	613
Gain on sale of securities	(45)	(117)
Net impairment losses recognized in earnings	264	
FHLB debt prepayment fees		(296)
Proceeds from sale of mortgage loans	5,264	28,226
Origination of mortgage loans	(5,971)	(23,894)
Decrease (increase) in accrued interest receivable	1,262	(324)
Decrease (increase) in other operating activities	12	(9,112)
Net cash provided by operating activities	13,030	5,524
Investing activities		
Proceeds from sale of securities available for sale	24,204	75,506
Proceeds from maturities, prepayments, and calls of securities available for sale	18,785	19,757
Payments to acquire securities available for sale	(2,082)	(99,532)
Payments to acquire securities held to maturity	(7,594)	
(Originations) collections of loans, net	(25,705)	31,277
Proceeds from the redemption of FHLB stock, net	1,649	1,184
Proceeds from the FDIC	1,143	1,141
Payments to acquire property, plant, and equipment	(204)	(1,219)
Proceeds from sale of property, plant, and equipment	176	96
Proceeds from sale of other real estate	1,632	1,041
Net cash provided by investing activities	12,004	29,251
Financing activities		
Net increase in noninterest-bearing deposits	13,457	12,566
Net increase in interest-bearing deposits	10,490	4,756
Net decrease in federal funds purchased	(16,000)	
Repayments of securities sold under agreements to repurchase	(5,971)	(14,612)

Repayments of long-term debt	(1)	(11,558)
Proceeds from stock options exercised	9	12
Excess tax benefit from equity-based compensation	1	
Payments for repurchase of treasury stock	(2,148)	(1,077)
Payments of common dividends	(2,208)	(2,407)
Payments of preferred dividends	(228)	(261)
Net cash used in financing activities	(2,599)	(12,581)
Net increase in cash and cash equivalents	22,435	22,194
Cash and cash equivalents at beginning of period	56,567	144,847
Cash and cash equivalents at end of period	$ 79,002	$ 167,041
Supplemental transactions noncash items		
Transfer of loans to other real estate	$ 2,693	$ 6,865
Loans originated to finance other real estate		2,864

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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 March 31, 2014, our operations were conducted through 74 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

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

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.

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

(Amounts in thousands, except share and per share data)	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Net income	$ 5,725	$ 7,141
Dividends on preferred stock	228	258
Net income available to common shareholders	$ 5,497	$ 6,883
Weighted average number of common shares outstanding, basic	18,423,123	20,032,694
Dilutive effect of potential common shares from:		
Stock options	22,636	17,101
Restricted stock	730	6,646
Convertible preferred stock	1,048,486	1,202,049
Contingently issuable shares	11,672	
Weighted average number of common shares outstanding, diluted	19,506,647	21,258,490
Basic earnings per common share	$ 0.30	$ 0.34
Diluted earnings per common share	0.29	0.34
Antidilutive potential common shares:		
Stock options	245,030	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 and mandatorily converts after five years. The Company may redeem the shares at face value after May 20, 2014. The number of Series A Preferred Stock outstanding was 15,151 shares as of March 31, 2014, 15,251 shares as of December 31, 2013, and 17,421 shares as of March 31, 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:

	March 31, 2014				
(Amounts in thousands)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**	**OTTI in AOCI(1)**
U.S. Treasury securities	$ 9,715	$	$ (451)	$ 9,264	$
Municipal securities	144,438	3,075	(2,641)	144,872	
Single issue trust preferred securities	55,778		(9,649)	46,129	
Corporate securities	5,000			5,000	
Mortgage-backed securities:					
Agency	271,524	2,332	(6,567)	267,289	
Non-Agency Alt-A residential	12,110		(1,838)	10,272	(1,838)
Total mortgage-backed securities	283,634	2,332	(8,405)	277,561	(1,838)
Equity securities	733	318	(13)	1,038	
Total	$ 499,298	$ 5,725	$ (21,159)	$ 483,864	$ (1,838)

	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:

	March 31, 2014			
(Amounts in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Agency securities	$ 4,464	$	$ (16)	$ 4,448
Municipal securities	568	4		572
Corporate securities	3,129		(1)	3,128
Total	$ 8,161	$ 4	$ (17)	$ 8,148

	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 March 31, 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	$ 2,030	$ 2,041
Due after one year but within five years	11,245	11,522
Due after five years but within ten years	42,252	42,497
Due after ten years	159,404	149,205
	214,931	205,265
Mortgage-backed securities	283,634	277,561
Equity securities	733	1,038
Total	$ 499,298	$ 483,864
Held-to-maturity securities		
Due within one year	$	$
Due after one year but within five years	8,161	8,148
Due after five years but within ten years		
Due after ten years		
Total	$ 8,161	$ 8,148

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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:

	March 31, 2014					
	Less than 12 Months		12 Months or longer		Total	
(Amounts in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities	$ 9,264	$ (451)	$	$	$ 9,264	$ (451)
Municipal securities	29,944	(1,629)	8,840	(1,012)	38,784	(2,641)
Single issue trust preferred securities			46,129	(9,649)	46,129	(9,649)
Mortgage-backed securities:						
Agency	98,271	(2,707)	69,063	(3,860)	167,334	(6,567)
Non-Agency Alt-A residential			10,272	(1,838)	10,272	(1,838)
Total mortgage-backed securities	98,271	(2,707)	79,335	(5,698)	177,606	(8,405)
Equity securities	143	(13)			143	(13)
Total	$ 137,622	$ (4,800)	$ 134,304	$ (16,359)	$ 271,926	$ (21,159)

	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.

	March 31, 2014	
	12 Months or longer	Total

	Less than 12 Months					
(Amounts in thousands)	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Agency securities	$ 4,448	$ (16)	$	$	$ 4,448	$ (16)
Corporate securities	3,128	(1)			3,128	(1)
Total	$ 7,576	$ (17)	$	$	$ 7,576	$ (17)

As of March 31, 2014, there were 149 individual securities in an unrealized loss position, and their combined depreciation in value represented 4.30% 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 gain from the sale of securities in the periods indicated:

	Three Months Ended March 31,	
(Amounts in thousands)	**2014**	**2013**
Gross realized gains	$ 223	$ 155
Gross realized losses	(178)	(38)
Net gain on sale of securities	$ 45	$ 117

The carrying value of securities pledged to secure public deposits and for other purposes was $284.59 million as of March 31, 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 months ended March 31, 2014, and March 31, 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 March 31, 2014, the Company incurred credit-related OTTI charges related to debt securities beneficially owned of $232 thousand. These charges were related to a non-Agency MBS. During the three months ended March 31, 2013, the Company incurred no credit-related OTTI charges.

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 15% 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 51% to 10% over the course of approximately 33 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 March 31,	
(Amounts in thousands)	**2014**	**2013**
Beginning balance[1]	$ 7,798	$ 7,478
Additions for credit losses on securities previously recognized	232	
Ending balance	$ 8,030	$ 7,478

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

For equity securities, the Company considers its intent to hold or sell the security before recovery, the severity and duration of the decline in fair value of the security below its cost, the financial condition and near-term prospects of the issuer, and whether the decline appears to be related to issuer, general market, or industry conditions to determine if the impairment will be recovered. If the Company deems the impairment other-than-temporary in nature, the security is written down to its current present value and the OTTI loss is charged to earnings. During the three months ended March 31, 2014, the Company incurred OTTI charges related to certain equity holdings of $32 thousand. During the three months ended March 31, 2013, the

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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:

	March 31, 2014		December 31, 2013	
(Amounts in thousands)	**Amount**	**Percent**	**Amount**	**Percent**
Non-covered loans held for investment				
Commercial loans				
Construction, development, and other land	$ 45,661	2.64%	$ 35,255	2.06%
Commercial and industrial	94,403	5.45%	95,455	5.58%
Multi-family residential	75,594	4.36%	70,197	4.10%
Single family non-owner occupied	137,969	7.97%	135,559	7.92%
Non-farm, non-residential	484,361	27.97%	475,911	27.82%
Agricultural	2,093	0.12%	2,324	0.14%
Farmland	32,410	1.87%	32,614	1.91%
Total commercial loans	872,491	50.38%	847,315	49.53%
Consumer real estate loans				
Home equity lines	113,137	6.53%	111,770	6.53%
Single family owner occupied	492,627	28.45%	496,012	28.99%
Owner occupied construction	34,360	1.98%	28,703	1.68%
Total consumer real estate loans	640,124	36.96%	636,485	37.20%
Consumer and other loans				
Consumer loans	72,111	4.16%	71,313	4.17%
Other	3,968	0.23%	3,926	0.23%
Total consumer and other loans	76,079	4.39%	75,239	4.40%
Total non-covered loans	1,588,694	91.73%	1,559,039	91.13%
Total covered loans	143,170	8.27%	151,682	8.87%
Total loans held for investment, net of unearned income	$ 1,731,864	100.00%	$ 1,710,721	100.00%
Loans held for sale	$ 1,743		$ 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)	March 31, 2014	December 31, 2013
Covered loans		
Commercial loans		
Construction, development, and other land	$ 15,956	$ 15,865
Commercial and industrial	3,062	3,325
Multi-family residential	1,903	1,933
Single family non-owner occupied	6,794	7,449
Non-farm, non-residential	31,458	34,646
Agricultural	162	164
Farmland	817	873
Total commercial loans	60,152	64,255
Consumer real estate loans		
Home equity lines	66,895	69,206
Single family owner occupied	15,287	16,919
Owner occupied construction	727	1,184
Total consumer real estate loans	82,909	87,309
Consumer and other loans		
Consumer loans	109	118
Total covered loans	$ 143,170	$ 151,682

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

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, March 31, 2013	21,715	96,537	2,364	120,616
Unpaid principal balance, March 31, 2013	28,821	134,158	5,892	168,871

Carrying balance, January 1, 2014	$ 9,196	$ 70,584	$ 1,931	$ 81,711
Carrying balance, March 31, 2014	9,196	65,780	1,918	76,894
Unpaid principal balance, March 31, 2014	16,825	99,582	5,385	121,792

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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**
Balance, January 1, 2013	$ 2,342	$ 21,886	$ 15	$ 24,243
Additions	7	66		73
Accretion	(376)	(1,385)	(51)	(1,812)
Reclassifications from (to) nonaccretable difference	2,302	(12,482)	46	(10,134)
Disposals	(537)	(585)		(1,122)
Balance, March 31, 2013	$ 3,738	$ 7,500	$ 10	$ 11,248
Balance, January 1, 2014	$ 5,294	$ 10,338	$ 8	$ 15,640
Additions	1	7		8
Accretion	(563)	(1,563)	(11)	(2,137)
Reclassifications from nonaccretable difference	337	8,977	11	9,325
Disposals	(112)	(167)		(279)
Balance, March 31, 2014	$ 4,957	$ 17,592	$ 8	$ 22,557

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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:

	March 31, 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	$ 292	$ 292	$	$ 292	$ 292	$
Multi-family residential						
Single family non-owner occupied	420	420		289	317	
Non-farm, non-residential	5,559	5,903		5,352	5,682	
Farmland	351	363		351	363	
Consumer real estate loans						
Home equity lines	254	264		257	264	
Single family owner occupied	1,690	2,101		2,006	2,414	
Total impaired loans with no allowance	8,566	9,343		8,547	9,332	
Impaired loans with a related allowance:						
Commercial loans						
Commercial and industrial	4,943	5,319	3,504	4,897	10,244	3,794
Multi-family residential	5,601	5,601	500			
Single family non-owner occupied	364	371	38	375	375	47
Non-farm, non-residential	4,458	4,459	377	600	600	114
Farmland						
Consumer real estate loans						
Home equity lines	208	229	171	215	230	52
Single family owner occupied	4,377	4,578	692	4,844	5,035	735
Total impaired loans with an allowance	19,951	20,557	5,282	10,931	16,484	4,742
Total impaired loans	$ 28,517	$ 29,900	$ 5,282	$ 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			
	March 31, 2014		March 31, 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	$	$	$ 2,195	$ 43
Commercial and industrial	292	12	599	11
Multi-family residential			35	2
Single family non-owner occupied	420	1	841	79
Non-farm, non-residential	5,918	36	5,955	212
Farmland	363	11	88	9
Consumer real estate loans				
Home equity lines	265	2	298	25
Single family owner occupied	2,101	51	547	70
Total impaired loans with no allowance	9,359	113	10,558	451
Impaired loans with a related allowance:				
Commercial loans				
Construction, development, and other land			2,670	117
Commercial and industrial	5,157	47	3,217	
Multi-family residential	5,603	22	376	7
Single family non-owner occupied	372	1	1,728	3
Non-farm, non-residential	4,399	25	2,756	26
Farmland				
Consumer real estate loans				
Home equity lines	229	1	222	3
Single family owner occupied	4,580	34	4,485	37
Total impaired loans with an allowance	20,340	130	15,454	193
Total impaired loans	$ 29,699	$ 243	$ 26,012	$ 644

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The Company determined that 3 of the 7 PCI loan pools were impaired as of March 31, 2014, compared to 4 impaired pools as of December 31, 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)	**March 31, 2014**	**December 31, 2013**
Recorded investment	$ 47,382	$ 52,033
Unpaid principal balance	62,325	69,320
Allowance for loan losses	485	747

	Three Months Ended March 31,	
(Amounts in thousands)	**2014**	**2013**
Interest income recognized	$ 782	$ 84
Average recorded investment	49,276	20,233

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 $3.0 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:

	March 31, 2014					
(Amounts in thousands)	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Loss**	**Total**
Non-covered loans						
Commercial loans						
Construction, development, and other land	$ 41,707	$ 1,138	$ 2,664	$ 152	$	$ 45,661
Commercial and industrial	86,139	953	3,371	3,940		94,403
Multi-family residential	67,083	2,095	6,416			75,594
Single family non-owner occupied	123,772	4,021	9,812	364		137,969
Non-farm, non-residential	446,848	18,478	19,035			484,361
Agricultural	2,077	7	9			2,093
Farmland	29,277	1,307	1,826			32,410
Consumer real estate loans						
Home equity lines	109,135	1,390	2,404	208		113,137
Single family owner occupied	454,285	10,179	27,999	164		492,627
Owner occupied construction	33,495	422	443			34,360
Consumer and other loans						
Consumer loans	70,929	794	386	2		72,111
Other	3,968					3,968
Total non-covered loans	1,468,715	40,784	74,365	4,830		1,588,694
Covered loans						
Commercial loans						
Construction, development, and other land	9,607	1,465	4,837	47		15,956
Commercial and industrial	2,474	468	119	1		3,062
Multi-family residential	1,458		445			1,903
Single family non-owner occupied	3,832	1,474	1,478	10		6,794
Non-farm, non-residential	11,352	6,606	13,483	17		31,458
Agricultural	162					162
Farmland	512		305			817
Consumer real estate loans						
Home equity lines	64,707	1,147	1,039	2		66,895
Single family owner occupied	10,117	201	4,969			15,287
Owner occupied construction	88	235	404			727
Consumer and other loans						
Consumer loans	109					109
Other						
Total covered loans	104,418	11,596	27,079	77		143,170
Total loans	$ 1,573,133	$ 52,380	$ 101,444	$ 4,907	$	$ 1,731,864

	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 covered loan portfolio with special mention and classified loans declining $2.75 million, or 6.63%, as of March 31, 2014, compared to December 31, 2013.

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

	March 31, 2014			December 31, 2013		
(Amounts in thousands)	**Non-covered**	**Covered**	**Total**	**Non-covered**	**Covered**	**Total**
Commercial loans						
Construction, development, and other land	$ 816	$ 127	$ 943	$ 1,187	$ 761	$ 1,948
Commercial and industrial	5,357	75	5,432	5,341	92	5,433
Multi-family residential	115		115			
Single family non-owner occupied	2,407	114	2,521	1,966	222	2,188
Non-farm, non-residential	2,972		2,972	2,685		2,685
Farmland	432		432	441	301	742
Consumer real estate loans						
Home equity lines	774	246	1,020	765	232	997
Single family owner occupied	7,890	582	8,472	6,567	1,555	8,122
Owner occupied construction		117	117		190	190
Consumer and other loans						
Consumer loans	138		138	201		201
Total	20,901	1,261	22,162	19,153	3,353	22,506
Purchased impaired loans	8		8	8		8
Total nonaccrual loans	$ 20,909	$ 1,261	$ 22,170	$ 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 March 31, 2014, or December 31, 2013. Accruing loans contractually past due 90 days or more totaled $109 thousand as of March 31, 2014, and $86 thousand as of December 31, 2013 which were attributed to covered home equity lines.

	March 31, 2014					
(Amounts in thousands)	**30 - 59 Days Past Due**	**60 - 89 Days Past Due**	**90+ Days Past Due**	**Total Past Due**	**Current Loans**	**Total Loans**
Non-covered loans						
Commercial loans						
Construction, development, and other land	$ 111	$ 113	$ 217	$ 441	$ 45,220	$ 45,661
Commercial and industrial	59		2,576	2,635	91,768	94,403
Multi-family residential	85		115	200	75,394	75,594
Single family non-owner occupied	432	254	1,527	2,213	135,756	137,969
Non-farm, non-residential	1,216	203	2,325	3,744	480,617	484,361
Agricultural	8			8	2,085	2,093
Farmland			432	432	31,978	32,410
Consumer real estate loans						
Home equity lines	479	80	191	750	112,387	113,137
Single family owner occupied	4,771	2,951	3,390	11,112	481,515	492,627
Owner occupied construction					34,360	34,360
Consumer and other loans						
Consumer loans	509	76	29	614	71,497	72,111
Other					3,968	3,968
Total non-covered loans	7,670	3,677	10,802	22,149	1,566,545	1,588,694
Covered loans						
Commercial loans						
Construction, development, and other land	178	10	74	262	15,694	15,956
Commercial and industrial			35	35	3,027	3,062
Multi-family residential					1,903	1,903
Single family non-owner occupied			114	114	6,680	6,794
Non-farm, non-residential	195	354		549	30,909	31,458
Agricultural					162	162
Farmland					817	817
Consumer real estate loans						
Home equity lines	353	1	187	541	66,354	66,895
Single family owner occupied	148	58	434	640	14,647	15,287
Owner occupied construction			117	117	610	727
Consumer and other loans						
Consumer loans					109	109
Other						

Total covered loans	874	423	961	2,258	140,912	143,170
Total loans	$ 8,544	$ 4,100	$ 11,763	$ 24,407	$ 1,707,457	$ 1,731,864

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	December 31, 2013					
(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	$ 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 $1.83 million as of March 31, 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 $149 thousand for the three months ended March 31, 2014, and $240 thousand for the three months ended March 31, 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 March 31, 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:

	March 31, 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	364		364	375		375
Non-farm, non-residential	124	5,742	5,866	128	5,490	5,618
Consumer real estate loans						
Home equity lines		50	50	159	51	210
Single family owner occupied	532	6,930	7,462	423	6,670	7,093
Owner occupied construction		246	246			
Total TDRs	$ 2,135	$ 12,968	$ 15,103	$ 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 table presents loans modified as TDRs, by type of concession made and loan class, that were restructured during the periods indicated. The post-modification recorded investment represents the loan balance immediately following modification.

	Three Months Ended March 31,					
	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	2	266	266			
Total	5	$ 948	$ 948		$	$

There were no payment defaults on loans modified as TDRs, that were restructured within the previous 12 months, for the three months ended March 31, 2014 or 2013.

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 charges 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 March 31, 2014, management believed the allowance was adequate to absorb probable loan losses inherent in the loan portfolio.

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The following table presents 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
Balance, January 1, 2013	$ 25,762	$ 8	$ 25,770
Provision for loan losses	1,142		1,142
Benefit attributable to the FDIC indemnification asset			
Provision for loan losses charged to operations	1,142		1,142
Provision for loan losses recorded through the FDIC indemnification asset			
Charge-offs	(2,759)		(2,759)
Recoveries	697		697
Net charge-offs	(2,062)		(2,062)
Balance, March 31, 2013	$ 24,842	$ 8	$ 24,850
Balance, January 1, 2014	$ 23,322	$ 755	$ 24,077
Provision for loan losses	1,852	(262)	1,590
Benefit attributable to the FDIC indemnification asset		203	203
Provision for loan losses charged to operations	1,852	(59)	1,793
Provision for loan losses recorded through the FDIC indemnification asset		(203)	(203)
Charge-offs	(2,216)		(2,216)
Recoveries	347		347
Net charge-offs	(1,869)		(1,869)
Balance, March 31, 2014	$ 23,305	$ 493	$ 23,798

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

(Amounts in thousands)	Commercial	Consumer Real Estate	Consumer and Other	Total
Balance, January 1, 2013	$ 17,259	$ 7,906	$ 597	$ 25,762

Provision for loan losses charged to operations		483		480		179	1,142
Loans charged off		(783)		(1,396)		(580)	(2,759)
Recoveries credited to allowance		283		13		401	697
Net charge-offs		(500)		(1,383)		(179)	(2,062)
Balance, March 31, 2013	$	17,242	$	7,003	$	597	$ 24,842
Balance, January 1, 2014	$	16,090	$	6,597	$	635	$ 23,322
Provision for loan losses charged to operations		1,218		485		149	1,852
Loans charged off		(1,051)		(710)		(455)	(2,216)
Recoveries credited to allowance		82		21		244	347
Net charge-offs		(969)		(689)		(211)	(1,869)
Balance, March 31, 2014	$	16,339	$	6,393	$	573	$ 23,305

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The following table presents 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
Balance, January 1, 2013	$ 8	$	$	$ 8
Purchased impaired provision				
Benefit attributable to FDIC indemnificaton asset				
Provision for loan losses charged to operations				
Provision for loan losses recorded through the FDIC indemnificaton asset				
Balance, March 31, 2013	$ 8	$	$	$ 8
Balance, January 1, 2014	$ 77	$ 678	$	$ 755
Purchased impaired provision	(69)	(193)		(262)
Benefit attributable to FDIC indemnificaton asset	55	148		203
Provision for loan losses charged to operations	(14)	(45)		(59)
Provision for loan losses recorded through the FDIC indemnificaton asset	(55)	(148)		(203)
Balance, March 31, 2014	$ 8	$ 485	$	$ 493

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:

	March 31, 2014			
(Amounts in thousands)	Loans Individually Evaluated for Impairment	Allowance for Loans Individually Evaluated	Loans Collectively Evaluated for Impairment	Allowance for Loans Collectively Evaluated
Commercial loans				
Construction, development, and other land	$	$	$ 56,996	$ 1,293
Commercial and industrial	5,235	3,504	91,317	1,312
Multi-family residential	5,601	500	71,451	1,216
Single family non-owner occupied	784	38	138,357	3,431
Non-farm, non-residential	10,017	377	486,594	4,411
Agricultural			2,255	19
Farmland	351		32,876	238

Total commercial loans	21,988	4,419	879,846	11,920
Consumer real estate loans				
Home equity lines	462	171	137,869	1,289
Single family owner occupied	6,067	692	498,010	4,029
Owner occupied construction			34,565	212
Total consumer real estate loans	6,529	863	670,444	5,530
Consumer and other loans				
Consumer loans			72,195	573
Other			3,968	
Total consumer and other loans			76,163	573
Total loans, excluding PCI loans	$ 28,517	$ 5,282	$ 1,626,453	$ 18,023

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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:

	March 31, 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	$ 17,755	$	$ 19,851	$
Waccamaw lines of credit	1,950		2,594	69
Peoples commercial	7,875		7,862	
Other	1,918	8	1,931	8
Total commercial loans	29,498	8	32,238	77
Consumer real estate loans				

Waccamaw serviced home equity lines	41,701		277	43,608		277
Waccamaw residential	4,359		33	4,497		217
Peoples residential	1,321		175	1,334		184
Total consumer real estate loans	47,381		485	49,439		678
Consumer and other loans						
Waccamaw consumer	15			34		
Total loans	$ 76,894	$	493	$ 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 March 31,	
(Amounts in thousands)	**2014**	**2013**
Beginning balance	$ 34,691	$ 48,149
Decrease in estimated losses on covered loans	(203)	
Increase in estimated losses on covered OREO	149	1,338
Reimbursable expenses from the FDIC	150	341
Net amortization	(1,134)	(1,539)
Reimbursements from the FDIC	(1,143)	(4,368)
Ending balance	$ 32,510	$ 43,921

Note 7. Deposits

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

(Amounts in thousands)	**March 31, 2014**	**December 31, 2013**
Noninterest-bearing demand deposits	$ 353,137	$ 339,680
Interest-bearing deposits:		
Interest-bearing demand deposits	382,752	361,821
Money market accounts	236,914	237,845
Savings deposits	294,183	286,165
Certificates of deposit	589,469	606,178
Individual retirement accounts	118,234	119,053
Total interest-bearing deposits	1,621,552	1,611,062
Total deposits	$ 1,974,689	$ 1,950,742

Note 8. Borrowings

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

(Amounts in thousands)	**March 31, 2014**	**December 31, 2013**
Federal funds purchased	$	$ 16,000

Securities sold under agreements to repurchase:		
Retail	62,337	68,308
Wholesale	50,000	50,000
Total securities sold under agreements to repurchase	112,337	118,308
FHLB borrowings	150,000	150,000
Subordinated debt	15,464	15,464
Other debt	623	624
Total borrowings	$ 278,424	$ 300,396

Short-term borrowings consist of federal funds purchased and retail repurchase agreements, which are typically collateralized with agency MBSs. The weighted average rate of federal funds purchased was 0.34% as of March 31, 2014, and 0.36% as of December 31, 2013. The weighted average rate of retail repurchase agreements was 0.16% as of March 31, 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 March 31, 2014, and December 31, 2013. As of March 31, 2014, the weighted average contractual maturity of wholesale repurchase agreements was 3.83 years. The weighted average contractual rate of FHLB borrowings was 4.12% as of March 31, 2014, and December 31, 2013. As of March 31, 2014, the weighted average contractual maturity of FHLB borrowings was 4.32 years. The following schedule presents contractual maturities of FHLB borrowings, by year, as of March 31, 2014:

(Amounts in thousands)	
2014	$
2015	
2016	
2017	100,000
2018	
2019 and thereafter	50,000
	$ 150,000

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 $1.16 billion as of March 31, 2014, and $1.13 billion as of December 31, 2013. Unused borrowing capacity with the FHLB was $362.35 million as of March 31, 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 March 31, 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 March 31, 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.

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 increase and rise when interest rates decrease. 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.

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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 March 31, 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)	**March 31, 2014 Notional or Contractual Amount**	**December 31, 2013 Notional or Contractual Amount**	**March 31, 2013 Notional or Contractual Amount**
Derivatives designated as hedges:			
Interest rate swaps	$ 7,872	$ 3,453	$
Derivatives not designated as hedges:			
IRLCs	2,039	3,677	14,097
Forward sale loan commitments	3,782	4,560	
Total derivatives not designated as hedges	5,821	8,237	14,097
Total derivatives	$ 13,693	$ 11,690	$ 14,097

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

	March 31, 2014		**December 31, 2013**		**March 31, 2013**	
(Amounts in thousands)	**Derivative Assets**	**Derivative Liabilities**	**Derivative Assets**	**Derivative Liabilities**	**Derivative Assets**	**Derivative Liabilities**
Derivatives designated as hedges:						
Interest rate swaps	$	$ 59	$ 43	$	$	$
Derivatives not designated as hedges:						
IRLCs		7		41	142	10
Forward sale loan commitments	7		41			

Total derivities not designated as hedges	7		7	41		41	142		10
Total derivaties	$ 7	$	66	$ 84	$	41	$ 142	$	10

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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 March 31, 2014**	**2013**
Derivatives designated as hedges:			
Interest rate swaps	Other income	$	$
Derivatives not designated as hedges:			
IRLCs	Other income		4
Forward sale loan commitments	Other income		
Total derivatives not designated as hedges			4
Total derivatives		$	$ 4

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 March 31, 2014**	**2013**
Service cost	$ 26	$ 34
Interest cost	73	61
Amortization of losses		12
Amortization of prior service cost	47	47
Net periodic cost	$ 146	$ 154

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 March 31, 2014**	**2013**
Service cost	$ 5	$ 7
Interest cost	12	10
Amortization of gains (losses)		
Amortization of prior service cost	18	22

Net periodic cost	$ 35	$ 39

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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 March 31, 2013			
Beginning balance	$ (283)	$ (1,542)	$ (1,825)
Other comprehensive loss before reclassifications	(972)	(145)	(1,117)
Reclassified from AOCI	73	(51)	22
Net comprehensive loss	(899)	(196)	(1,095)
Ending balance	$ (1,182)	$ (1,738)	$ (2,920)
Three months ended March 31, 2014			
Beginning balance	$ (13,640)	$ (1,100)	$ (14,740)
Other comprehensive gain before reclassifications	4,132	98	4,230
Reclassified from AOCI	(137)	(40)	(177)
Net comprehensive gain	3,995	58	4,053
Ending balance	$ (9,645)	$ (1,042)	$ (10,687)

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

(Amounts in thousands)	Three Months Ended March 31, 2014	2013	Income Statement Line Item Affected
Available-for-sale securities			
Gains realized in net income	$ 45	$ 117	Net gain on sale of securities
Credit-related OTTI recognized in net income	(264)		Net impairment losses recognized in earnings
	(219)	117	Income before taxes
Income tax effect	(82)	44	Income tax expense (benefit)

		(137)		73	Net income
Employee benefit plans					
Amortization of prior service cost		(65)		(69)	(1)
Amortization of losses				(12)	(1)
		(65)		(81)	Income before taxes
Income tax effect		(25)		(30)	Income tax expense (benefit)
		(40)		(51)	Net income
Reclassified from AOCI, net of tax	$	(177)	$	23	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

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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.

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.

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:

	March 31, 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	$ 9,264	$	$ 9,264	$
Municipal securities	144,872		144,872	
Single issue trust preferred securities	46,129		46,129	
Corporate securities	5,000		5,000	
Agency MBS	267,289		267,289	
Non-Agency Alt-A residential MBS	10,272		10,272	
Equity securities	1,038	1,020	18	
Total available-for-sale securities	$ 483,864	$ 1,020	$ 482,844	$
Deferred compensation assets	$ 3,712	$ 3,712	$	$
Derivatives				
Forward sale loan commitments	$ 7	$	$ 7	$
Total derivative assets	$ 7	$	$ 7	$
Deferred compensation liabilities	$ 3,712	$ 3,712	$	$
Derivative liabilities				
Interest rate swaps	$ 59	$	$ 59	$
IRLCs	7		7	
Total derivative liabilities	$ 66	$	$ 66	$

	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				
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	$

There were no changes in valuation techniques during the three months ended March 31, 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 March 31, 2014 or 2013.

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.

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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:

	March 31, 2014			
	Total	Fair Value Measurements Using		
(Amounts in thousands)	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Impaired loans not covered by loss share agreements	$ 13,838			$ 13,838
OREO, not covered by loss share agreements	2,188			2,188
OREO, covered by loss share agreements	2,144			2,144

	December 31, 2013			
	Total	Fair Value Measurements Using		
(Amounts in thousands)	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
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) March 31, 2014	Range (Weighted Average) December 31, 2013
Impaired loans	Discounted appraisals (1)	Appraisal adjustments (2)	4% to 100% (14%)	6% to 100% (47%)
OREO, not covered	Discounted appraisals (1)	Appraisal adjustments (2)	30% to 74% (33%)	0% to 65% (34%)
OREO, covered	Discounted appraisals (1)	Appraisal adjustments (2)	17% to 43% (43%)	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.

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.

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:

			March 31, 2014		
	Carrying		Fair Value Measurements Using		
(Amounts in thousands)	Amount	Fair Value	Level 1	Level 2	Level 3
Assets					
Cash and cash equivalents	$ 79,002	$ 79,002	$ 79,002	$	$
Available-for-sale securities	483,864	483,864	1,020	482,844	
Held-to-maturity securities	8,161	8,148		8,148	
Loans held for sale	1,743	1,747		1,747	
Loans held for investment less allowance	1,708,066	1,737,995			1,737,995
FDIC indemnification asset	32,510	32,510			32,510
Accrued interest receivable	6,259	6,259		6,259	
Derivative financial assets	7	7		7	
Deferred compensation assets	3,712	3,712	3,712		
Liabilities					
Demand deposits	$ 353,137	$ 353,137	$	$ 353,137	$
Interest-bearing demand deposits	382,752	382,752		382,752	
Savings deposits	531,096	531,096		531,096	
Time deposits	707,704	710,872		710,872	
Securities sold under agreements to repurchase	112,337	115,091		115,091	
Accrued interest payable	2,119	2,119		2,119	
FHLB and other indebtedness	166,087	177,437		177,437	
Derivative financial liabilities	66	66		66	
Deferred compensation liabilities	3,712	3,712	3,712		

			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)	**March 31, 2014**	**December 31, 2013**
Commitments to extend credit	$ 226,031	$ 216,179
Commitments related to secondary market mortgage loans	2,039	3,677
Standby letters of credit and financial guarantees	4,233	4,193

Total off-balance sheet risk	$	232,303	$	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.

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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.

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Company Overview

First Community Bancshares, Inc. (the Company) is a financial holding company, headquartered in Bluefield, Virginia, that provides commercial banking services through its wholly-owned subsidiary First Community Bank (the Bank). The Bank operates sixty-eight 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 $697 million as of March 31, 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 $2.61 billion as of March 31, 2014. Our Common Stock is traded on the NASDAQ Global Select Market under the symbol, FCBC.

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

Critical Accounting Estimates

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

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Performance Overview

Highlights of our results of operations for the quarter ended March 31, 2014, and financial condition as of March 31, 2014, include the following:

The non-covered loan portfolio increased $29.66 million compared to year-end 2013 and $94.46 million compared to the first quarter of 2013. The increase from March 31, 2013, is primarily attributed to new commercial real estate volume in Southern West Virginia and Central North Carolina. This marks the fourth consecutive quarter non-covered loan growth has exceeded covered loan declines.

Annualized growth in the non-covered loan portfolio was 7.71% during the quarter.

Non-covered delinquent loans as a percentage of total non-covered loans experienced a significant decrease of 104 basis points, or 36.78%, to 1.79% compared to the first quarter of 2013. The decrease is attributed to declines in both past due and nonaccrual loans.

The Company repurchased 131,500 shares during the quarter.

The Company significantly exceeds regulatory well capitalized targets as of March 31, 2014, with a total risk-based capital ratio of 16.24%, a Tier 1 risk-based capital ratio of 14.98%, and a Tier 1 leverage ratio of 10.13%.

Results of Operations

Net Income

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

	Three Months Ended March 31,		Three Months Ended	
(Amounts in thousands, except per share data)	**2014**	**2013**	**Increase (Decrease)**	**% Change**
Net income	$ 5,725	$ 7,141	$ (1,416)	-19.83%
Net income available to common shareholders	5,497	6,883	(1,386)	-20.14%
Basic earnings per common share	0.30	0.34	(0.04)	-11.76%
Diluted earings per common share	0.29	0.34	(0.05)	-14.71%
Return on average assets	0.86%	1.03%	-0.17%	-16.50%
Return on average common equity	7.02%	8.11%	-1.09%	-13.44%

Three Month Comparison. Net income decreased in the first quarter of 2014 compared to the same quarter of the prior year primarily due to the decrease in interest earned on loans as the average loan yield decreased 52 basis points, or 8.63% in the first quarter of 2014 compared to the same quarter of the prior year.

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Net Interest Income

Net interest income, our largest contributor to earnings, comprised 75.28% of total net interest and noninterest income in the first quarter of 2014 compared to 74.82% in the same quarter 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. The following table presents our average consolidated balance sheets in the periods indicated:

	Three Months Ended March 31,					
	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)	$ 1,717,908	$ 22,893	5.40%	$ 1,706,296	$ 24,888	5.92%
Securities available-for-sale	499,851	3,808	3.09%	544,681	3,728	2.78%
Securities held-to-maturity	1,367	15	4.45%	816	17	8.45%
Interest-bearing deposits	26,395	30	0.46%	98,893	66	0.27%
Total earning assets	2,245,521	26,746	4.83%	2,350,686	28,699	4.95%
Other assets	346,019			352,343		
Total assets	$ 2,591,540			$ 2,703,029		
Liabilities						
Interest-bearing deposits						
Demand deposits	$ 370,021	$ 54	0.06%	$ 353,677	$ 56	0.06%
Savings deposits	530,031	137	0.10%	505,917	155	0.12%
Time deposits	714,402	1,697	0.96%	816,060	2,151	1.07%
Total interest-bearing deposits	1,614,454	1,888	0.47%	1,675,654	2,362	0.57%
Borrowings						
Federal funds purchased	3,547	3	0.34%			
Retail repurchase agreements	67,356	26	0.16%	75,751	105	0.56%
Wholesale repurchase agreements	50,000	463	3.76%	57,645	475	3.34%
FHLB advances and other borrowings	166,087	1,678	4.10%	175,937	1,700	3.92%
Total borrowings	286,990	2,170	3.07%	309,333	2,280	2.99%
Total interest-bearing liabilities	1,901,444	4,058	0.87%	1,984,987	4,642	0.95%
	336,573			332,186		

Noninterest-bearing demand deposits						
Other liabilities	20,918			24,307		
Total liabilities	2,258,935			2,341,480		
Stockholders equity	332,605			361,549		
Total liabilities and stockholders equity	$ 2,591,540			$ 2,703,029		
Net interest income, tax equivalent		$ 22,688			$ 24,057	
Net interest rate spread(3)			3.96%			4.00%
Net interest margin(4)			4.10%			4.15%

(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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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 March 31, 2014 Compared to 2013 Dollar Increase (Decrease) due to			
(Amounts in thousands)	**Volume**	**Rate**	**Rate/ Volume**	**Total**
Interest earned on:				
Loans (FTE)	$ 169	$ (2,150)	$ (14)	$ (1,995)
Securities available-for-sale (FTE)	(307)	422	(35)	80
Securities held-to-maturity (FTE)	11	(8)	(5)	(2)
Interest-bearing deposits with other banks	(48)	46	(34)	(36)
Total interest earning assets	(175)	(1,690)	(88)	(1,953)
Interest paid on:				
Demand deposits	3	(4)	(1)	(2)
Savings deposits	7	(24)	(1)	(18)
Time deposits	(268)	(213)	27	(454)
Federal funds purchased			3	3
Retail repurchase agreements	(12)	(76)	9	(79)
Wholesale repurchase agreements	(63)	59	(8)	(12)
FHLB advances and other borrowings	(95)	78	(5)	(22)
Total interest-bearing liabilities	(428)	(180)	24	(584)
Change in net interest income, tax equivalent	$ 253	$ (1,510)	$ (112)	$ (1,369)

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 March 31,	
(Amounts in thousands)	**2014**	**2013**
Net interest income, GAAP basis	$ 22,025	$ 23,362
Tax equivalent adjustment[(1)]	663	695
Net interest income, tax equivalent	$ 22,688	$ 24,057

(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 March 31,			
	2014		2013	
(Amounts in thousands)	**Interest(1)**	**Average Yield/ Rate(1)**	**Interest(1)**	**Average Yield/ Rate(1)**
Earning assets				
Loans(2)	$ 22,893	5.40%	$ 24,888	5.92%
Accretion income	3,122		3,842	
Less: cash accretion income	600		1,782	
Non-cash accretion income	2,522		2,060	
Loans, excluding non-cash accretion	20,371	4.81%	22,828	5.43%
Other earning assets	3,853	2.96%	3,811	2.40%
Total earning assets	24,224	4.38%	26,639	4.60%
Total interest-bearing liabilities	4,058	0.87%	4,642	0.95%
Net interest income, tax equivalent	$ 20,166		$ 21,997	
Net interest rate spread(3), less non-cash accretion		3.51%		3.65%
Net interest margin(4), less non-cash accretion		3.64%		3.80%

(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 $1.34 million, or 5.72%, and tax equivalent net interest income decreased $1.37 million, or 5.69%, in the first 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 4 basis point decrease in the net interest rate spread and a 5 basis point decrease in the net interest margin.

Loan interest accretion stemming from the Peoples and Waccamaw acquisitions totaled $3.12 million in the first quarter of 2014, of which $600 thousand was received in cash, and $3.84 million in the same quarter of the prior year, of which $1.78 million was received in cash. Excluding non-cash accretion income, the yield on loans decreased 62 basis points, which compares to a decrease of 52 basis points under GAAP. Excluding non-cash accretion income, the net interest margin decreased 16 basis points, which compares to a decrease of 5 basis points under GAAP. We expect the effect of accretion income on acquired loans to continue to be lessened in future periods.

Average earning assets decreased $105.17 million, or 4.47%, in the first quarter of 2014 compared to the same quarter of the prior year primarily due to decreases in interest-bearing deposits with banks, which are primarily comprised of excess liquidity kept at the Federal Reserve Bank (FRB) of Richmond bearing overnight market rates, and securities available for sale. The yield on earning assets decreased 12 basis points, which was largely due to a 52 basis point decrease in the yield on loans, a result of the continued low rate environment, and a 400 basis point decrease in the yield on held-to-maturity securities, due to new investments in lower yielding securities. During the first quarter 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.

As of March 31, 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 $83.54 million, or 4.21%, in the first 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 8 basis points, which was largely due to a 10 basis point decrease in the rate on interest-bearing deposits. Average interest-bearing deposits decreased $61.20 million, or 3.65% which was driven by a $101.66 million, or 12.46%, decrease in average time deposits, partially offset by increases in average interest-bearing demand deposits of $16.34 million, or 4.62%, and average savings deposits, which include money market and savings accounts, of $24.11 million, or 4.77%. Average borrowings decreased $22.34 million, or 7.22%, largely due to the prepayment of certain borrowings acquired from Waccamaw totaling $19.62 million during the first quarter of 2013.

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Provision for Loan Losses

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 increased by $651 thousand in the first quarter of 2014 compared to the same quarter of the prior year due to an increase in specific reserves on loans identified as impaired during the quarter and growth in the non-covered loan portfolio. A net recovery of $262 thousand was attributed to the provision for purchased credit impaired (PCI) loans in the first quarter of 2014 due to better than expected performance in the Waccamaw PCI loan portfolio, of which $59 thousand was credited to operations and $203 thousand was recorded through the FDIC indemnification asset to reflect the indemnified portion of the post-acquisition exposure. 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 24.72% of total net interest and noninterest income in the first quarter of 2014 compared to 25.18% in the same quarter of the prior year. The following table presents the components of, and changes in, noninterest income in the periods indicated:

	Three Months Ended March 31,		Three Months Ended	
(Amounts in thousands)	**2014**	**2013**	**Increase (Decrease)**	**% Change**
Wealth management	$ 1,008	$ 846	$ 162	19.15%
Service charges on deposit accounts	3,070	3,168	(98)	-3.09%
Other service charges and fees	1,771	1,786	(15)	-0.84%
Insurance commissions	1,964	1,666	298	17.89%
Net impairment loss	(264)		(264)	0.00%
Net gain on sale of securities	45	117	(72)	-61.54%
Net FDIC indemnification asset amortization	(1,134)	(1,539)	405	-26.32%
Other operating income	774	1,817	(1,043)	-57.40%
Noninterest income	$ 7,234	$ 7,861	$ (627)	-7.98%

Three Month Comparison. Noninterest income decreased $627 thousand, or 7.98%, in the first 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, increased as a result of the recognition of estate settlement fees. Service charges on deposit accounts and other charges and fees decreased primarily from a reduction in non-sufficient funds and interchange fee income. Insurance commissions increased largely due to increased levels of contingent profit-sharing commissions and a general increase in premium commissions. In the first quarter of 2014, we incurred OTTI charges of $264 thousand related to a non-Agency mortgage-backed security (MBS) and certain equity holdings and realized a net gain of $45 thousand on the sale of securities. See Note 2, Investment Securities, to the Condensed Consolidated Financial Statements in Item 1 of this report. We recorded net amortization related to the FDIC indemnification asset of $1.13 million as a result of improved loss estimates in the covered Waccamaw loan portfolio. Other operating income decreased primarily due to a $301 thousand decrease in secondary market income, a $296 thousand decrease in income from bank owned life insurance policies, and a $392 thousand decrease in gains recognized in 2013 from debt prepayments.

Excluding the impact from OTTI charges, the sale of securities, and the net amortization on the FDIC indemnification asset, noninterest income decreased $696 thousand, or 7.50%, to $8.59 million in the first quarter of 2014, compared with $9.28 million in the same quarter 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 March 31, 2014	2013	Increase (Decrease)	Three Months Ended % Change
Salaries and employee benefits	$ 9,905	$ 10,110	$ (205)	-2.03%
Occupancy of bank premises	1,778	1,855	(77)	-4.15%
Furniture and equipment	1,194	1,343	(149)	-11.09%
Amortization of intangible assets	175	179	(4)	-2.23%
FDIC premiums and assessments	434	472	(38)	-8.05%
Merger related expense		49	(49)	-100.00%
Other operating expense	5,694	5,536	158	2.85%
Total noninterest expense	$ 19,180	$ 19,544	$ (364)	-1.86%

Three Month Comparison. Noninterest expense decreased $364 thousand, or 1.86%, in the first 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 706 as of March 31, 2014, from 746 as of March 31, 2013. The reduction in full-time equivalent employees was seen throughout our corporate and branch network. Occupancy, furniture, and equipment expense decreased $226 thousand, or 7.07%, in the first quarter of 2014, which included a $76 thousand decrease in property taxes and a $71 thousand decrease in depreciation costs. The increase in other operating expense included a net loss on sales and expenses on OREO of $857 thousand in the first quarter of 2014 compared to $625 thousand in the same period of the prior year 2012, as well as an increase in ATM processing expense of $171 thousand.

Income Tax Expense

Income tax as a percentage of pretax income may vary significantly from statutory rates due to permanent differences, which are items of income and expense excluded by law from the calculation of taxable income. Our most significant permanent differences generally include interest income on municipal securities and increases in the cash surrender value of officers   life insurance policies, which are both exempt from federal income tax. Income tax expense decreased $835 thousand, or 24.59%, and the effective rate decreased 132 basis points to 30.91% in the first quarter of 2014 compared to the same quarter of the prior year. The decrease in the effective tax rate was largely due to a decrease in taxable revenues as a percent of net earnings.

Financial Condition

Total assets were $2.61 billion as of March 31, 2014, an increase of $7.83 million, or 0.30%, compared with $2.60 billion as of December 31, 2013. Total liabilities were $2.28 billion as of March 31, 2014, an increase of $2.53 million, or 0.11%, compared with $2.27 billion as of December 31, 2013. Our book value per as-converted common share was $17.18 as of March 31, 2014, an increase of $0.39, compared to December 31, 2013.

Investment Securities

Available-for-sale securities as of March 31, 2014, decreased $35.96 million, or 6.92%, compared to December 31, 2013. The market value of securities available-for-sale as a percentage of amortized cost was 96.91% as of March 31, 2014, compared to 95.97% as of December 31, 2013.

Held-to-maturity securities as of March 31, 2014, increased $7.59 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 99.84% as of March 31, 2014, compared with 101.94% as of December 31, 2013.

We recognized credit-related OTTI charges in earnings associated with debt securities beneficially owned of $232 thousand for the three months ended March 31, 2014, and no charges for the three months ended March 31, 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 OTTI charges in earnings associated with certain equity securities of $32 thousand for the three months ended March 31, 2014, and no charges for the three months ended March 31, 2013. See Note 2, Investment Securities, to the Condensed Consolidated Financial Statements in Item 1 of this report.

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Loans Held for Sale

Loans held for sale as of March 31, 2014, increased $860 thousand, or 97.40%, 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 March 31, 2014, was $2.04 million for 10 loans compared to $3.68 million for 19 loans as of December 31, 2013.

Loans Held for Investment

Loans held for investment as of March 31, 2014, increased $21.14 million, or 1.24%, 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 $29.66 million, or 1.90%, compared to December 31, 2013. The average loan to deposit ratio was 88.05% for the three months ended March 31, 2014, compared to 84.98% 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.

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

	March 31, 2014		December 31, 2013		March 31, 2013	
(Amounts in thousands)	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
Non-covered loans held for investment						
Commercial loans						
Construction, development, and other land	$ 45,661	2.64%	$ 35,255	2.06%	$ 55,220	3.27%
Commercial and industrial	94,403	5.45%	95,455	5.58%	91,666	5.43%
Multi-family residential	75,594	4.36%	70,197	4.10%	63,929	3.78%
Single family non-owner occupied	137,969	7.97%	135,559	7.92%	136,334	8.07%
Non-farm, non-residential	484,361	27.97%	475,911	27.82%	440,226	26.06%
Agricultural	2,093	0.12%	2,324	0.14%	2,117	0.12%
Farmland	32,410	1.87%	32,614	1.91%	33,930	2.01%
Total commercial loans	872,491	50.38%	847,315	49.53%	823,422	48.74%
Consumer real estate loans						
Home equity lines	113,137	6.53%	111,770	6.53%	108,385	6.42%
Single family owner occupied	492,627	28.45%	496,012	28.99%	470,437	27.85%
Owner occupied construction	34,360	1.98%	28,703	1.68%	19,760	1.17%
Total consumer real estate loans	640,124	36.96%	636,485	37.20%	598,582	35.44%
Consumer and other loans						
Consumer loans	72,111	4.16%	71,313	4.17%	68,625	4.06%

Other	3,968	0.23%	3,926	0.23%	3,603	0.21%
Total consumer and other loans	76,079	4.39%	75,239	4.40%	72,228	4.27%
Non-covered loans held for investment	1,588,694	91.73%	1,559,039	91.13%	1,494,232	88.45%
Covered loans	143,170	8.27%	151,682	8.87%	195,060	11.55%
Less unearned income						
Total loans held for investment	1,731,864	100.00%	1,710,721	100.00%	1,689,292	100.00%
Allowance for loan losses	23,798		24,077		24,850	
Total loans held for investment, less allowance	1,708,066		1,686,644		1,664,442	
Loans held for sale	$ 1,743		$ 883		$ 2,794	

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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 generally not 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)	**March 31, 2014**	**December 31, 2013**	**March 31, 2013**
Non-covered nonperforming			
Nonaccrual loans	$ 20,909	$ 19,161	$ 30,076
Accruing loans past due 90 days or more			
TDRs[1]	1,775	1,311	1,596
Total nonperforming loans	22,684	20,472	31,672
Non-covered OREO	5,923	7,318	4,439
Total nonperforming assets	$ 28,607	$ 27,790	$ 36,111
Covered nonperforming			
Nonaccrual loans	$ 1,261	$ 3,353	$ 4,567
Accruing loans past due 90 days or more	109	86	
Total nonperforming loans	1,370	3,439	4,567
Covered OREO	8,705	7,541	6,911
Total nonperforming assets	$ 10,075	$ 10,980	$ 11,478
Total nonperforming			
Nonaccrual loans	$ 22,170	$ 22,514	$ 34,643
Accruing loans past due 90 days or more	109	86	
TDRs[1]	1,775	1,311	1,596
Total nonperforming loans	24,054	23,911	36,239
OREO	14,628	14,859	11,350
Total nonperforming assets	$ 38,682	$ 38,770	$ 47,589
Additional Information			
Performing TDRs[2]	$ 11,193	$ 10,900	$ 10,272

Total TDRs[3]	12,968	12,211	11,868
Non-covered ratios			
Nonperforming loans to total loans	1.43%	1.31%	2.12%
Nonperforming assets to total assets	1.16%	1.14%	1.43%
Non-PCI allowance to nonperforming loans	102.74%	113.92%	78.46%
Non-PCI allowance to total loans	1.47%	1.50%	1.66%
Total ratios			
Nonperforming loans to total loans	1.39%	1.40%	2.15%
Nonperforming assets to total assets	1.48%	1.49%	1.75%
Allowance for loan losses to nonperforming loans	98.94%	100.69%	68.57%
Allowance for loan losses to total loans	1.37%	1.41%	1.47%

(1) TDRs restructured within the past six months, excludes nonaccrual TDRs of $722 thousand, $734 thousand, and $675 thousand for the periods ended March 31, 2014, December 31, 2013, and March 31, 2013, respectively.

(2) TDRs with six months or more of satisfactory payment performance, excludes nonaccrual TDRs of $1.41 million, $1.47 million, and $1.67 million for the periods ended March 31, 2014, December 31, 2013, and March 31, 2013, respectively.

(3) Perfoming and nonperforming TDRs, excludes nonaccrual TDRs of $2.13 million, $2.20 million, and $2.34 million for the periods ended March 31, 2014, December 31, 2013, and March 31, 2013, respectively.

Non-covered nonperforming assets totaled $28.61 million as of March 31, 2014, an $817 thousand increase over December 31, 2013, and a $7.50 million decrease from March 31, 2013. Non-covered nonperforming assets as a percentage of total non-covered assets were 1.16% as of March 31, 2014, 1.14% as of December 31, 2013, and 1.43% as of March 31, 2013.

Non-covered nonaccrual loans totaled $20.91 million as of March 31, 2014, $19.16 million as of December 31, 2013, and $30.08 million as of March 31, 2013. As of March 31, 2014, non-covered nonaccrual loans were largely attributed to the following loan classes: single family owner occupied (37.74%); commercial and industrial (25.66%); non-farm, non-residential (14.22%); and single family nonowner occupied (11.51%). As of March 31, 2014, approximately $2.65 million, or 12.67%, 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 $12.97 million as of March 31, 2014, $12.21 million as of December 31, 2013, and $11.87 million as of March 31, 2013. Nonperforming accruing TDRs totaled $1.78 million, or 13.69%, of total accruing TDRs as of March 31, 2014, as compared to 10.74% of accruing TDRs as of December 31, 2013, and 13.45% of accruing TDRs as of March 31, 2013. The allowance for loan losses attributed to TDRs totaled $1.83 million as of March 31, 2014, $1.84 million as of December 31, 2013, and $1.65 million as of March 31, 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 March 31, 2014, compared to $86 thousand as of December 31, 2013, and none as of March 31, 2013.

Non-covered OREO, which is carried at the lesser of estimated net realizable value or cost, totaled $5.92 million as of March 31, 2014, a decrease of $1.40 million, or 19.06%, compared with December 31, 2013. As of March 31, 2014, non-covered OREO consisted of 55 properties with an average holding period of 8 months. The net loss on the sale of OREO totaled $714 thousand in the first quarter of 2014 and $400 thousand in the same quarter 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	2,451	4,414	6,865
Disposals	(3,378)	(534)	(3,912)
Valuation adjustments	(383)	(224)	(607)
Ending balance, March 31, 2013	$ 4,439	$ 6,911	$ 11,350

Beginning balance, January 1, 2014	$ 7,318	$ 7,541	$ 14,859
Additions	533	2,160	2,693
Disposals	(1,469)	(382)	(1,851)
Valuation adjustments	(459)	(614)	(1,073)
Ending balance, March 31, 2014	$ 5,923	$ 8,705	$ 14,628

Non-covered delinquent loans, comprised of loans 30 days or more past due and nonaccrual loans, totaled $28.41 million as of March 31, 2014, a decrease of $2.46 million, or 7.96%, compared with December 31, 2013. Non-covered delinquent loans as a percentage of total non-covered loans measured 1.79% as of March 31, 2014, which is attributed to loans 30 to 89 days past due of 0.47% and nonaccrual loans of 1.32%. Non-covered nonperforming loans, comprised of nonaccrual loans, nonperforming TDRs, and unseasoned TDRs, as a percentage of total non-covered loans were 1.43% as of March 31, 2014, 1.31% at December 31, 2013, and 2.12% at March 31, 2013.

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Allowance for Loan Losses

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

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

Our allowance for loan losses, excluding PCI loans, as a percentage of non-covered loans declined during the first quarter of 2014. Our qualitative risk factors reflected a reduced risk of loan losses due to improvements in unemployment trends, general economic conditions, and asset quality metrics. As of March 31, 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 $193 thousand, or 9.36%, in the first quarter of 2014 compared to the same quarter of the prior year.

Our allowance for loan losses totaled $23.80 million as of March 31, 2014, $24.08 million as of December 31, 2013, and $24.85 million as of March 31, 2013. The allowance attributed to non-PCI loans as a percentage of non-covered loans held for investment was 1.47% as of March 31, 2014, 1.50% at December 31, 2013, and 1.66% at March 31, 2013. The cash flow analysis performed for the first quarter of 2014 identified three of our seven PCI loan pools as impaired with a cumulative impairment of $485 thousand at March 31, 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.

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

	Three Months Ended March 31,					
	2014			2013		
(Amounts in thousands)	**Non-acquired Impaired**	**Acquired Impaired**	**Total**	**Non-acquired Impaired**	**Acquired Impaired**	**Total**
Beginning balance	$ 23,322	$ 755	$ 24,077	$ 25,762	$ 8	$ 25,770
Provision for loan losses	1,852	(262)	1,590	1,142		1,142
Benefit attributable to the FDIC indemnification asset		203	203			

Provision for loan losses charged to operations	1,852	(59)	1,793	1,142		1,142
Provision for loan losses recorded through the FDIC indemnification asset		(203)	(203)			
Charge-offs	(2,216)		(2,216)	(2,759)		(2,759)
Recoveries	347		347	697		697
Net charge-offs	(1,869)		(1,869)	(2,062)		(2,062)
Ending balance	$ 23,305	$ 493	$ 23,798	$ 24,842	$ 8	$ 24,850

Deposits

Total deposits as of March 31, 2014, increased $23.95 million, or 1.23%, compared to December 31, 2013. Noninterest-bearing deposits increased $13.46 million, interest-bearing deposits increased $20.93 million, and savings deposits, which include money market and savings accounts, increased $7.09 million as of March 31, 2014, compared to December 31, 2013. Time deposits decreased $17.53 million as of March 31, 2014, compared to December 31, 2013.

Borrowings

Total borrowings as of March 31, 2014, decreased $21.97 million, or 7.31%, compared to December 31, 2013. Short-term borrowings consist of federal funds purchased and retail repurchase agreements. No federal funds were purchased as of March 31, 2014, compared to $16.00 million as of December 31, 2013. The balance of retail repurchase agreements decreased $5.97 million, or 5.05%, as of March 31, 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 March 31, 2014, compared to December 31, 2013. As of March 31, 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 March 31, 2014, compared to December 31, 2013. As of March 31, 2014, FHLB borrowings had contractual maturities between three and seven years.

Stockholders Equity

Total stockholders equity increased $5.30 million, or 1.61%, from $328.61 million as of December 31, 2013, to $333.91 million as of March 31, 2014. The change in stockholders equity was impacted by net income of $5.73 million, dividends declared on our common and Series A Noncumulative Convertible Preferred Stock of $2.44 million, repurchases of 131,500 shares of our common stock totaling $2.15 million, and other comprehensive income (OCI) of $4.05 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 March 31, 2014, we maintained liquidity in the form of unencumbered cash on hand and deposits with other financial institutions of $79.00 million, availability on federal funds lines with correspondent banks of $105.00 million, credit available from the FRB s discount window of $9.09 million, unused borrowing capacity with the FHLB of $362.35 million, and unpledged available-for-sale securities of $199.27 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.

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 March 31, 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 March 31, 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 March 31, 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:

	March 31, 2014	**December 31, 2013**
Total risk-based capital ratio		
First Community Bancshares, Inc.	16.24%	16.44%
First Community Bank	14.38%	14.55%
Tier 1 risk-based capital ratio		
First Community Bancshares, Inc.	14.98%	15.19%
First Community Bank	13.12%	13.30%
Tier 1 leverage ratio		
First Community Bancshares, Inc.	10.13%	9.95%
First Community Bank	8.81%	8.63%

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Off-Balance Sheet Arrangements

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

(Amounts in thousands)	**March 31, 2014**	**December 31, 2013**
Commitments to extend credit	$ 226,031	$ 216,179
Commitments related to secondary market mortgage loans	2,039	3,677
Standby letters of credit and financial guarantees	4,233	4,193
Total off-balance sheet risk	$ 232,303	$ 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 rela