

FIRST COMMUNITY BANCSHARES INC /NV/

Form 10-Q

November 06, 2015

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)**

**OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2015**

**Commission file number 000-19297**

**FIRST COMMUNITY BANCSHARES, INC.**

**(Exact name of registrant as specified in its charter)**

**Nevada**  
**(State or other jurisdiction of**  
**incorporation)**

**55-0694814**  
**(IRS Employer**  
**Identification No.)**

**P.O. Box 989**

**Bluefield, Virginia**  
**(Address of principal executive offices)**

**24605-0989**  
**(Zip Code)**

**(276) 326-9000**

**(Registrant's telephone number, including area code)**

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

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

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

Large accelerated filer  Accelerated filer

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

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

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

Class Common Stock, \$1.00 Par Value; 18,188,022 shares outstanding as of October 30, 2015

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FIRST COMMUNITY BANCSHARES, INC.

FORM 10-Q

For the quarter ended September 30, 2015

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

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

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Securities sold under agreements to repurchase	124,076	121,742
FHLB borrowings	65,000	90,000
Other borrowings	15,955	17,999
<b>Total liabilities</b>	<b>2,133,289</b>	<b>2,256,562</b>
<b>Stockholders equity</b>		
Preferred stock, undesignated par value; 1,000,000 shares authorized; Series A Noncumulative Convertible Preferred Stock, \$0.01 par value; 25,000 shares authorized; 0 and 15,151 shares outstanding at September 30, 2015, and December 31, 2014, respectively		15,151
Common stock, \$1 par value; 50,000,000 shares authorized; 21,381,779 and 20,499,683 shares issued at September 30, 2015, and December 31, 2014, respectively; 3,068,354 and 2,093,464 shares in treasury at September 30, 2015, and December 31, 2014, respectively	21,382	20,500
Additional paid-in capital	227,621	215,873
Retained earnings	152,046	141,206
Treasury stock, at cost	(52,484)	(35,751)
Accumulated other comprehensive loss	(3,738)	(5,605)
<b>Total stockholders equity</b>	<b>344,827</b>	<b>351,374</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 2,478,116</b>	<b>\$ 2,607,936</b>

*See Notes to Consolidated Financial Statements.*

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## FIRST COMMUNITY BANCSHARES, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

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

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

*See Notes to Consolidated Financial Statements.*

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## FIRST COMMUNITY BANCSHARES, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

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

See Notes to Consolidated Financial Statements.



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## FIRST COMMUNITY BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY  
(UNAUDITED)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
<i>(Amounts in thousands, except share and per share data)</i>							
Balance January 1, 2014	\$ 15,251	\$ 20,493	\$ 215,663	\$ 125,826	\$ (33,887)	\$ (14,740)	\$ 328,606
Net income				19,775			19,775
Other comprehensive income						8,292	8,292
Common dividends declared \$0.37 per share				(6,807)			(6,807)
Preferred dividends declared \$45.00 per share				(683)			(683)
Preferred stock converted to common stock 6,900 shares	(100)	7	93				
Equity-based compensation expense			175				175
Common stock options exercised 554 shares					9		9
Restricted stock awards 13,933 shares			(202)		238		36
Acquisition of treasury shares 132,773 shares at \$16.29 per share					(2,168)		(2,168)
Balance September 30, 2014	\$ 15,151	\$ 20,500	\$ 215,729	\$ 138,111	\$ (35,808)	\$ (6,448)	\$ 347,235
Balance January 1, 2015	\$ 15,151	\$ 20,500	\$ 215,873	\$ 141,206	\$ (35,751)	\$ (5,605)	\$ 351,374
Net income				18,392			18,392
Other comprehensive income						1,867	1,867
Common dividends declared \$0.40 per share				(7,447)			(7,447)
Preferred dividends declared \$15.00 per share				(105)			(105)
Preferred stock converted to common stock 882,096 shares	(12,784)	882	11,902				
Redemption of preferred stock 2,367 shares	(2,367)						(2,367)
Equity-based compensation expense			43				43
Common stock options exercised 3,000 shares			(10)		51		41
Restricted stock awards 22,561 shares			(192)		383		191
Transfer of treasury stock to 401(k) plan 18,275 shares			5		311		316
Acquisition of treasury shares 1,018,726 shares at \$17.13 per share					(17,478)		(17,478)
Balance September 30, 2015	\$	\$ 21,382	\$ 227,621	\$ 152,046	\$ (52,484)	\$ (3,738)	\$ 344,827

See Notes to Consolidated Financial Statements.



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## FIRST COMMUNITY BANCSHARES, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

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

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

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

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

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

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

***Significant Accounting Policies***

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

***Reclassifications and Corrections***

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

***Recent Accounting Pronouncements***

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

*Acquisitions and Divestitures*

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

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

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

**Earnings per Common Share**

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

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2014	
<i>(Amounts in thousands, except share and per share data)</i>				
Net income	\$ 6,259	\$ 7,043	\$ 18,392	\$ 19,775
Dividends on preferred stock		228	105	683
Net income available to common shareholders	\$ 6,259	\$ 6,815	\$ 18,287	\$ 19,092
Weighted average number of common shares outstanding, basic	18,470,348	18,402,764	18,644,679	18,407,173
Dilutive effect of potential common shares from:				
Stock options	26,804	17,375	24,938	18,027
Restricted stock	3,823	568	3,091	506
Convertible preferred stock		1,045,419	223,201	1,046,430
Weighted average number of common shares outstanding, diluted	18,500,975	19,466,126	18,895,909	19,472,136
Basic earnings per common share	\$ 0.34	\$ 0.37	\$ 0.98	\$ 1.04
Diluted earnings per common share	0.34	0.36	0.97	1.02
Antidilutive potential common shares:				
Stock options	130,382	255,244	130,382	255,244

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

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



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

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

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

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

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

Total	\$ 72,596	\$ 434	\$	\$ 73,030
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	<b>December 31, 2014</b>			
	<b>Amortized Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>
<i>(Amounts in thousands)</i>				
U.S. Agency securities	\$ 46,987	\$ 22	\$ (54)	\$ 46,955
Municipal securities	379	7		386
Corporate securities	10,582		(34)	10,548
Total	\$ 57,948	\$ 29	\$ (88)	\$ 57,889

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

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

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

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

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

## September 30, 2015

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

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

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

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

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

The Company reviews its investment portfolio quarterly for indications of OTTI. Debt securities not beneficially owned by the Company include securities issued from the U.S. Department of the Treasury ( Treasury ), municipal securities, single issue trust preferred securities, corporate securities, and certificates of deposit. For debt securities not beneficially owned, the Company analyzes factors such as the severity and duration of the impairment, adverse conditions within the issuing industry, prospects for the issuer, performance of the security, changes in rating by rating agencies, and other qualitative factors to determine if the impairment will be recovered. If the evaluation suggests that the impairment will not be recovered, the Company calculates the present value of the security to determine the amount of OTTI. The security is then written down to its current present value and the Company calculates and records the amount of the loss due to credit factors in earnings through noninterest income and the amount due to other factors in stockholders' equity through OCI. Temporary impairment on these securities is primarily related to changes in benchmark interest rates, changes in pricing in the credit markets, destabilization in the Eurozone, and

other current economic factors. During the three and nine months ended September 30, 2015 and 2014, the Company incurred no OTTI charges related to debt securities not beneficially owned.

Debt securities beneficially owned by the Company consist of mortgage-backed securities ( MBS ). For debt securities beneficially owned, the Company analyzes the cash flows for each applicable security to determine if an adverse change in cash flows expected to be collected has occurred. If the projected value of cash flows at the current reporting date is less than the present value previously projected, and less than the current book value, an adverse change has occurred. The Company then compares the current present value of cash flows to the current net book value to determine the credit-related portion of the OTTI. The credit-related OTTI is recorded in earnings through noninterest income and any remaining noncredit-related OTTI is recorded in stockholders' equity through OCI. During the three and nine months ended September 30, 2015, the Company incurred no credit-related OTTI charges related to debt securities beneficially owned. During the three months ended September 30, 2014, the Company incurred credit-related OTTI charges associated with debt securities beneficially owned of \$219 thousand. During the nine months ended September 30, 2014, the Company incurred credit-related OTTI charges associated with debt securities beneficially owned of \$705 thousand. These charges were associated with a non-Agency MBS that was sold in November 2014.

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The following table presents the activity for credit-related losses recognized in earnings on debt securities where a portion of an OTTI was recognized in OCI for the periods indicated:

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

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

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

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

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

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

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

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





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

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

***Purchased Credit Impaired Loans***

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

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

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

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

**Nine Months Ended September 30, 2015  
Peoples**