FIRST COMMUNITY BANCSHARES INC /NV/
Form 10-Q
August 03, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2016

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; 17,047,512 shares outstanding as of July 29, 2016

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FORM 10-Q

For the quarter ended June 30, 2016

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

FIRST COMMUNITY BANCSHARES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share and per share data)	**June 30, 2016** (Unaudited)	**December 31, 2015**
Assets		
Cash and due from banks	$ 41,615	$ 37,383
Federal funds sold	1,520	13,498
Interest-bearing deposits in banks	1,166	906
Total cash and cash equivalents	44,301	51,787
Securities available for sale	322,699	366,173
Securities held to maturity	72,239	72,541
Loans held for investment, net of unearned income		
Non-covered	1,733,398	1,623,506
Covered	68,585	83,035
Less allowance for loan losses	(21,099)	(20,233)
Loans held for investment, net	1,780,884	1,686,308
FDIC indemnification asset	16,431	20,844
Premises and equipment, net	50,199	52,756
Other real estate owned, non-covered	4,187	4,873
Other real estate owned, covered	2,017	4,034
Interest receivable	6,115	6,007
Goodwill	100,486	100,486
Other intangible assets	4,688	5,243
Other assets	91,082	91,224
Total assets	$ 2,495,328	$ 2,462,276
Liabilities		
Deposits		
Noninterest-bearing	$ 451,003	$ 451,511
Interest-bearing	1,373,412	1,421,748
Total deposits	1,824,415	1,873,259
Interest, taxes, and other liabilities	25,553	26,630
Federal funds purchased	42,000	
Securities sold under agreements to repurchase	113,392	138,614
FHLB borrowings	140,000	65,000

Other borrowings	15,756	15,756
Total liabilities	2,161,116	2,119,259
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; no shares outstanding at June 30, 2016, and December 31, 2015		
Common stock, $1 par value; 50,000,000 shares authorized; 21,381,779 shares issued at June 30, 2016, and December 31, 2015; 4,226,457 and 3,283,638 shares in treasury at June 30, 2016, and December 31, 2015, respectively	21,382	21,382
Additional paid-in capital	227,791	227,692
Retained earnings	163,030	155,647
Treasury stock, at cost	(74,974)	(56,457)
Accumulated other comprehensive loss	(3,017)	(5,247)
Total stockholders equity	334,212	343,017
Total liabilities and stockholders equity	$ 2,495,328	$ 2,462,276

See Notes to Consolidated Financial Statements.

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FIRST COMMUNITY BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(Amounts in thousands, except share and per share data)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Interest income				
Interest and fees on loans	$ 22,237	$ 21,826	$ 43,810	$ 43,740
Interest on securities taxable	972	1,070	1,991	2,105
Interest on securities tax-exempt	919	1,003	1,857	2,019
Interest on deposits in banks	9	80	29	213
Total interest income	24,137	23,979	47,687	48,077
Interest expense				
Interest on deposits	1,087	1,562	2,201	3,292
Interest on short-term borrowings	549	499	1,065	989
Interest on long-term debt	810	848	1,619	1,887
Total interest expense	2,446	2,909	4,885	6,168
Net interest income	21,691	21,070	42,802	41,909
Provision for loan losses	722	276	1,909	1,376
Net interest income after provision for loan losses	20,969	20,794	40,893	40,533
Noninterest income				
Wealth management	810	775	1,494	1,441
Service charges on deposits	3,361	3,507	6,652	6,410
Other service charges and fees	2,054	2,005	4,064	4,013
Insurance commissions	1,600	1,559	3,791	3,686
Impairment losses on securities	(11)		(11)	
Portion of loss recognized in other comprehensive income				
Net impairment losses recognized in earnings	(11)		(11)	
Net (loss) gain on sale of securities	(79)	213	(78)	190
Net FDIC indemnification asset amortization	(1,328)	(1,846)	(2,487)	(3,411)
Other operating income	623	1,924	1,508	2,644
Total noninterest income	7,030	8,137	14,933	14,973
Noninterest expense				
Salaries and employee benefits	10,198	9,693	20,673	19,386
Occupancy expense	1,359	1,427	2,890	2,961
Furniture and equipment expense	1,109	1,358	2,205	2,595
Amortization of intangibles	277	279	555	556
FDIC premiums and assessments	372	389	746	804
FHLB debt prepayment fees		1,702		1,702

Merger, acquisition, and divestiture expense		410				449		86
Other operating expense		4,997		5,441		10,018		9,979
Total noninterest expense		18,722		20,289		37,536		38,069
Income before income taxes		9,277		8,642		18,290		17,437
Income tax expense		3,022		2,467		5,951		5,304
Net income		6,255		6,175		12,339		12,133
Dividends on preferred stock								105
Net income available to common shareholders	$	6,255	$	6,175	$	12,339	$	12,028
Earnings per common share								
Basic	$	0.36	$	0.33	$	0.70	$	0.64
Diluted		0.36		0.33		0.70		0.64
Cash dividends per common share		0.14		0.13		0.28		0.26
Weighted average shares outstanding								
Basic		17,414,320		18,831,907		17,636,783		18,733,288
Diluted		17,462,845		18,860,284		17,675,128		19,095,408

See Notes to Consolidated Financial Statements.

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FIRST COMMUNITY BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(Amounts in thousands)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Net income	$ 6,255	$ 6,175	$ 12,339	$ 12,133
Other comprehensive income (loss), before tax				
Available-for-sale securities:				
Change in net unrealized gains (losses) on securities without other-than-temporary impairment	4,119	(2,440)	3,397	(823)
Reclassification adjustment for net losses (gains) recognized in net income	79	(213)	78	(190)
Reclassification adjustment for credit-related other-than-temporary impairment losses recognized in net income	11		11	
Net unrealized gains (losses) on available-for-sale securities	4,209	(2,653)	3,486	(1,013)
Employee benefit plans:				
Net actuarial (loss) gain	71	1	(54)	(97)
Reclassification adjustment for amortization of prior service cost and net actuarial loss recognized in net income	65	81	136	163
Net unrealized gains on employee benefit plans	136	82	82	66
Other comprehensive income (loss), before tax	4,345	(2,571)	3,568	(947)
Income tax (expense) benefit	(1,629)	964	(1,338)	354
Other comprehensive income (loss), net of tax	2,716	(1,607)	2,230	(593)
Total comprehensive income	$ 8,971	$ 4,568	$ 14,569	$ 11,540

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, 2015	$ 15,151	$ 20,500	$ 215,873	$ 141,206	$ (35,751)	$ (5,605)	$ 351,37
income				12,133			12,13
er comprehensive loss						(593)	(59
nmon dividends declared $0.26 per share				(4,856)			(4,8
ferred dividends declared $15.00 per share				(105)			(1
ferred stock converted to common stock 882,096 res	(12,784)	882	11,902				
emption of preferred stock 2,367 shares	(2,367)						(2,3
ity-based compensation expense			43				
nmon stock options exercised 3,000 shares			(10)		51		
tricted stock awards 21,590 shares			(192)		367		1
ance of treasury stock to 401(k) plan 12,968 shares					220		2
chase of treasury shares 684,407 shares at $16.78 per re					(11,497)		(11,4
ance June 30, 2015	$	$ 21,382	$ 227,616	$ 148,378	$ (46,610)	$ (6,198)	$ 344,5
ance January 1, 2016	$	$ 21,382	$ 227,692	$ 155,647	$ (56,457)	$ (5,247)	$ 343,0
income				12,339			12,3
er comprehensive income						2,230	2,2
nmon dividends declared $0.28 per share				(4,956)			(4,9
ity-based compensation expense			75				
nmon stock options exercised 11,572 shares			(23)		202		1
tricted stock awards 15,020 shares			24		260		28
ance of treasury stock to 401(k) plan 12,140 shares			23		212		2
chase of treasury shares 981,551 shares at $19.52 per re					(19,191)		(19,1
ance June 30, 2016	$	$ 21,382	$ 227,791	$ 163,030	$ (74,974)	$ (3,017)	$ 334,2

See Notes to Consolidated Financial Statements.

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FIRST COMMUNITY BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Amounts in thousands)	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Operating activities		
Net income	$ 12,339	$ 12,133
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,909	1,376
Depreciation and amortization of property, plant, and equipment	1,841	2,109
Amortization of premiums on investments, net	1,763	5,477
Amortization of FDIC indemnification asset, net	2,487	3,411
Amortization of intangible assets	555	556
Gain on sale of loans, net		(263)
Equity-based compensation expense	75	43
Restricted stock awards	284	175
Issuance of treasury stock to 401(k) plan	235	220
Loss on sale of property, plant, and equipment, net	340	18
Loss on sale of other real estate	1,278	659
Loss (gain) on sale of securities	78	(190)
Net impairment losses recognized in earnings	11	
FHLB debt prepayment fees		1,702
Proceeds from sale of mortgage loans		10,753
Originations of mortgage loans		(9,611)
(Increase) decrease in accrued interest receivable	(108)	196
Decrease in other operating activities	2,296	658
Net cash provided by operating activities	25,383	29,422
Investing activities		
Proceeds from sale of securities available for sale	26,479	266
Proceeds from maturities, prepayments, and calls of securities available for sale	19,838	13,105
Proceeds from maturities and calls of securities held to maturity	190	190
Payments to acquire securities available for sale	(1,174)	(69,712)
Payments to acquire securities held to maturity		(15,003)
(Originations of) proceeds from loans, net	(98,565)	17,355
(Payments for) proceeds from FHLB stock, net	(4,842)	1,279
Cash paid in mergers, acquisitions, and divestitures, net		(88)
Proceeds from the FDIC	2,573	1,805
Proceeds from sale of (payments to acquire) property, plant, and equipment, net	160	(530)
Proceeds from sale of other real estate	3,506	2,868
Net cash used in investing activities	(51,835)	(48,465)
Financing activities		
(Decrease) increase in noninterest-bearing deposits, net	(508)	6,709

Decrease in interest-bearing deposits, net	(48,336)	(87,247)
Increase in federal funds purchased	42,000	
(Repayments of) proceeds from securities sold under agreements to repurchase, net	(25,222)	416
Proceeds from (repayments of) FHLB and other borrowings, net	75,000	(27,000)
Redemption of preferred stock		(2,367)
Proceeds from stock options exercised	179	41
Excess tax benefit from equity-based compensation		5
Payments for repurchase of treasury stock	(19,191)	(11,497)
Payments of common dividends	(4,956)	(4,856)
Payments of preferred dividends		(219)
Net cash provided by (used in) financing activities	18,966	(126,015)
Net decrease in cash and cash equivalents	(7,486)	(145,058)
Cash and cash equivalents at beginning of period	51,787	237,660
Cash and cash equivalents at end of period	$ 44,301	$ 92,602
Supplemental transactions noncash items		
Transfer of loans to other real estate	$ 2,123	$ 3,411
Loans originated to finance other real estate	42	37
Supplemental disclosure cash flow information		
Cash paid for interest	4,926	6,404
Cash paid for income taxes	1,300	6,900

See Notes to Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Basis of Presentation

General

First Community Bancshares, Inc. (the Company) is a financial holding company headquartered in Bluefield, Virginia 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. The Bank operates 48 branches in 4 states under the trade names First Community Bank in Virginia, West Virginia, and North Carolina and People s Community Bank, a Division of First Community Bank, in Tennessee. The Company offers personal and commercial insurance products and services from 9 locations through its wholly owned subsidiary Greenpoint Insurance Group, Inc. (Greenpoint), which is headquartered in High Point, North Carolina. Greenpoint operates under the Greenpoint name and under the trade name First Community Insurance Services (FCIS) in North Carolina, Carr & Hyde Insurance and FCIS in Virginia, and FCIS in West Virginia. The Bank offers wealth management services and investment advice through its Trust Division and wholly-owned subsidiary First Community Wealth Management (FCWM). The Trust Division and FCWM managed $770 million in combined assets as of June 30, 2016. These assets are not assets of the Company, but are managed under various fee-based arrangements as fiduciary or agent. The Company reported consolidated assets of $2.50 billion as of June 30, 2016. The Company operates in one business segment, Community Banking, which consists of all operations, including commercial and consumer banking, lending activities, wealth management, and insurance services. Unless the context suggests otherwise, the term Company refers to First Community Bancshares, Inc. and its subsidiaries as a consolidated entity.

The Company prepared the accompanying unaudited condensed consolidated financial statements 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. The Company eliminated all significant intercompany balances and transactions in consolidation and, in management s option, made all adjustments, including normal recurring accruals, necessary for a fair presentation. Assets held in an agency or fiduciary capacity are not assets of the Company and are not included in the Company s consolidated balance sheets. 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, 2015, has been derived from the audited consolidated financial statements included in the Company s Annual Report on Form 10-K (the 2015 Form 10-K), as filed with the Securities and Exchange Commission (the SEC) on March 4, 2016. Certain information and footnote disclosures normally included in annual consolidated financial statements were 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 2015 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 2015 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.

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments The new guidance is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The new guidance requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization s portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 will be effective on January 1, 2020. We are currently evaluating the potential impact of ASU 2016-13 on our financial statements.

The Company does not expect other recent accounting standards issued by the FASB or other standards-setting bodies to have a material impact on the consolidated financial statements.

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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.

Note 2. Acquisitions and Divestitures

On July 15, 2016, the Company completed the previously announced branch exchange with First Bank, North Carolina, pursuant to which the Bank swapped a portion of its North Carolina branch network for First Bank s Virginia branch network. Under the agreements, the Bank acquired seven branches in Southwestern Virginia with deposits totaling approximately $134 million and exchanged six branches in the Winston-Salem and Mooresville areas of North Carolina with deposits totaling approximately $111 million. Additionally, the swap included approximately $154 million of loans. The branch exchange complements the Bank s 2014 acquisition of seven branches from Bank of America. The net impact of the branch exchange is immaterial to the Company s consolidated financial statements.

Note 3. Investment Securities

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

	June 30, 2016			
(Amounts in thousands)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
U.S. Agency securities	$ 29,938	$ 228	$ (57)	$ 30,109
Municipal securities	121,580	6,043	(8)	127,615
Single issue trust preferred securities	55,912		(9,246)	46,666
Corporate securities	65,116		(30)	65,086
Mortgage-backed Agency securities	52,829	407	(86)	53,150
Equity securities	55	18		73
Total securities available for sale	$ 325,430	$ 6,696	$ (9,427)	$ 322,699

	December 31, 2015			
(Amounts in thousands)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
U.S. Agency securities	$ 31,414	$ 39	$ (751)	$ 30,702
Municipal securities	124,880	4,155	(357)	128,678
Single issue trust preferred securities	55,882		(8,050)	47,832
Corporate securities	70,571		(238)	70,333
Certificates of deposit	5,000			5,000
Mortgage-backed Agency securities	84,576	155	(1,175)	83,556
Equity securities	66	6		72

Total securities available for sale	$ 372,389	$ 4,355	$ (10,571)	$ 366,173

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

	June 30, 2016			
(Amounts in thousands)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
U.S. Agency securities	$ 61,799	$ 420	$	$ 62,219
Corporate securities	10,440	147		10,587
Total securities held to maturity	$ 72,239	$ 567	$	$ 72,806

	December 31, 2015			
(Amounts in thousands)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
U.S. Agency securities	$ 61,863	$ 75	$ (106)	$ 61,832
Municipal securities	190	3		193
Corporate securities	10,488		(23)	10,465
Total securities held to maturity	$ 72,541	$ 78	$ (129)	$ 72,490

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 the date indicated. Actual maturities could differ from contractual maturities because issuers may have the right to call or prepay obligations with or without penalties.

	June 30, 2016	
(Amounts in thousands)	**Amortized Cost**	**Fair Value**
Available-for-sale securities		
Due within one year	$ 66,702	$ 66,684
Due after one year but within five years	3,118	3,189
Due after five years but within ten years	91,013	95,908
Due after ten years	111,713	103,695
	272,546	269,476
Mortgage-backed securities	52,829	53,150
Equity securities	55	73
Total securities available for sale	$ 325,430	$ 322,699
Held-to-maturity securities		
Due within one year	$ 46,890	$ 46,948
Due after one year but within five years	25,349	25,858

Due after five years but within ten years		
Due after ten years		
Total securities held to maturity	$ 72,239	$ 72,806

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

	June 30, 2016					
	Less than 12 Months		12 Months or Longer		Total	
(Amounts in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Agency securities	$	$	$ 11,527	$ (57)	$ 11,527	$ (57)
Municipal securities			767	(8)	767	(8)
Single issue trust preferred securities			46,666	(9,246)	46,666	(9,246)
Corporate securities	36,025	(13)	29,061	(17)	65,086	(30)
Mortgage-backed Agency securities	1,504	(4)	15,967	(82)	17,471	(86)
Total	$ 37,529	$ (17)	$ 103,988	$ (9,410)	$ 141,517	$ (9,427)

	December 31, 2015					
	Less than 12 Months		12 Months or Longer		Total	
(Amounts in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Agency securities	$ 4,441	$ (5)	$ 23,922	$ (746)	$ 28,363	$ (751)
Municipal securities	8,126	(48)	10,393	(309)	18,519	(357)
Single issue trust preferred securities			47,832	(8,050)	47,832	(8,050)
Corporate securities	70,333	(238)			70,333	(238)
Mortgage-backed Agency securities	27,050	(253)	37,291	(922)	64,341	(1,175)
Total	$ 109,950	$ (544)	$ 119,438	$ (10,027)	$ 229,388	$ (10,571)

There were no unrealized losses on held-to-maturity securities as of June 30, 2016. 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, 2015.

	December 31, 2015					
	Less than 12 Months		12 Months or Longer		Total	
(Amounts in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Agency securities	$ 43,723	$ (106)	$	$	$ 43,723	$ (106)
Corporate securities	6,851	(23)			6,851	(23)
Total	$ 50,574	$ (129)	$	$	$ 50,574	$ (129)

There were 38 individual securities in an unrealized loss position as of June 30, 2016, and their combined depreciation in value represented 2.39% of the investment securities portfolio. There were 107 individual securities in an unrealized loss position as of December 31, 2015, and their combined depreciation in value represented 2.44% of the investment securities portfolio.

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(Amounts in thousands)	**2016**	**2015**	**2016**	**2015**
Gross realized gains	$ 9	$ 251	$ 141	$ 266
Gross realized losses	(88)	(38)	(219)	(76)
Net (loss) gain on sale of securities	$ (79)	$ 213	$ (78)	$ 190

The carrying amount of securities pledged for various purposes totaled $179.58 million as of June 30, 2016, and $236.73 million as of December 31, 2015.

The Company reviews its investment portfolio quarterly for indications of other-than-temporary impairment (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 impairment s severity and duration, adverse conditions within the issuing industry, prospects for the issuer, security performance, 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 security s present value 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 other comprehensive income (OCI). Temporary impairment on these securities is primarily due to changes in benchmark interest rates, changes in pricing in the credit markets, destabilization in foreign markets, and other current economic factors. During the three and six months ended June 30, 2016 and 2015, the Company incurred no OTTI charges on debt securities not beneficially owned.

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 related to issuer, general market, or industry conditions to determine if the impairment will be recovered. If the Company deems the impairment other-than-temporary in nature, the security is written down to its current present value and the OTTI loss is charged to earnings. During the three and six months ended June 30, 2016, the Company incurred OTTI charges related to certain equity holdings of $11 thousand. During the three and six months ended June 30, 2015, the Company incurred no OTTI charges on equity holdings.

Note 4. Loans

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

	June 30, 2016		**December 31, 2015**	
(Amounts in thousands)	**Amount**	**Percent**	**Amount**	**Percent**
Non-covered loans held for investment				
Commercial loans				
Construction, development, and other land	$ 58,971	3.27%	$ 48,896	2.86%
Commercial and industrial	92,791	5.15%	88,903	5.21%
Multi-family residential	109,651	6.08%	95,026	5.57%
Single family non-owner occupied	153,308	8.51%	149,351	8.75%
Non-farm, non-residential	549,771	30.51%	485,460	28.45%
Agricultural	4,421	0.25%	2,911	0.17%
Farmland	27,515	1.53%	27,540	1.61%
Total commercial loans	996,428	55.30%	898,087	52.62%

Consumer real estate loans				
Home equity lines	106,517	5.91%	107,367	6.29%
Single family owner occupied	504,057	27.97%	495,209	29.02%
Owner occupied construction	43,186	2.40%	43,505	2.55%
Total consumer real estate loans	653,760	36.28%	646,081	37.86%
Consumer and other loans				
Consumer loans	75,703	4.20%	72,000	4.22%
Other	7,507	0.42%	7,338	0.43%
Total consumer and other loans	83,210	4.62%	79,338	4.65%
Total non-covered loans	1,733,398	96.20%	1,623,506	95.13%
Total covered loans	68,585	3.80%	83,035	4.87%
Total loans held for investment, net of unearned income	$ 1,801,983	100.00%	$ 1,706,541	100.00%

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Customer overdrafts reclassified as loans totaled $1.52 million as of June 30, 2016, and $1.24 million as of December 31, 2015. Deferred loan fees totaled $4.08 million as of June 30, 2016, and $3.78 million as of December 31, 2015. For information concerning off-balance sheet financing, see Note 14, Litigation, Commitments and Contingencies, to the Condensed Consolidated Financial Statements of this report.

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

(Amounts in thousands)	**June 30, 2016**	**December 31, 2015**
Commercial loans		
Construction, development, and other land	$ 5,487	$ 6,303
Commercial and industrial	973	1,170
Multi-family residential	74	640
Single family non-owner occupied	1,866	2,674
Non-farm, non-residential	9,570	14,065
Agricultural	26	34
Farmland	618	643
Total commercial loans	18,614	25,529
Consumer real estate loans		
Home equity lines	42,254	48,565
Single family owner occupied	7,432	8,595
Owner occupied construction	204	262
Total consumer real estate loans	49,890	57,422
Consumer and other loans		
Consumer loans	81	84
Total covered loans	$ 68,585	$ 83,035

The Company identifies certain purchased loans as impaired when fair values are established at acquisition and aggregates purchased credit impaired (PCI) loans into loan pools with common risk characteristics. The Company estimates cash flows to be collected on PCI loans and discounts those cash flows at a market rate of interest. The following table presents the carrying and contractual unpaid principal balance of PCI loans, by acquisition, as of the dates indicated:

	June 30, 2016		**December 31, 2015**	
(Amounts in thousands)	**Carrying Balance**	**Unpaid Principal Balance**	**Carrying Balance**	**Unpaid Principal Balance**
Peoples Bank of Virginia	$ 6,390	$ 10,496	$ 6,681	$ 11,249
Waccamaw Bank	28,965	53,698	34,707	63,151
Other acquired	1,200	1,243	1,254	1,297
Total PCI Loans	$ 36,555	$ 65,437	$ 42,642	$ 75,697

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

	Six Months Ended June 30, 2016		
(Amounts in thousands)	**Peoples**	**Waccamaw**	**Total**
Beginning balance	$ 3,589	$ 26,109	$ 29,698
Accretion	(719)	(3,186)	(3,905)
Reclassifications from nonaccretable difference	(194)	147	(47)
Removals, extensions, and other events, net	1,772	182	1,954
Ending balance	$ 4,448	$ 23,252	$ 27,700

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

Note 5. Credit Quality

The Company uses a risk grading matrix to assign a risk grade to each loan in its portfolio. Loan risk ratings may be upgraded or downgraded to reflect current information identified during the loan review process. 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. These loans will likely be dependent on collateral liquidation, secondary repayment sources, or events outside the normal course of business to meet repayment terms.

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 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 uncertain. This risk grade does not imply that the asset has no recovery or salvage value, but simply means that it is not practical or desirable to defer writing off, either all or a portion of, the loan balance even though partial recovery may be realized in the future.

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The following tables present the recorded investment of the loan portfolio, disaggregated by class and credit quality, as of the dates indicated. Losses on covered loans are generally reimbursable by the FDIC at the applicable loss share percentage, 80%; therefore, covered loans are disclosed separately.

	June 30, 2016					
(Amounts in thousands)	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Loss**	**Total**
Non-covered loans						
Commercial loans						
Construction, development, and other land	$ 57,254	$ 976	$ 741	$	$	$ 58,971
Commercial and industrial	87,974	3,575	1,242			92,791
Multi-family residential	100,210	8,593	848			109,651
Single family non-owner occupied	142,725	4,328	6,255			153,308
Non-farm, non-residential	523,062	16,241	9,601	867		549,771
Agricultural	4,373	48				4,421
Farmland	25,098	1,911	506			27,515
Consumer real estate loans						
Home equity lines	103,855	1,015	1,647			106,517
Single family owner occupied	477,588	6,232	19,725	512		504,057
Owner occupied construction	42,474		712			43,186
Consumer and other loans						
Consumer loans	75,475	42	186			75,703
Other	7,507					7,507
Total non-covered loans	1,647,595	42,961	41,463	1,379		1,733,398
Covered loans						
Commercial loans						
Construction, development, and other land	3,163	1,237	1,087			5,487
Commercial and industrial	954		19			973
Multi-family residential			74			74
Single family non-owner occupied	1,488	66	312			1,866
Non-farm, non-residential	7,612	697	1,261			9,570
Agricultural	26					26
Farmland	345		273			618
Consumer real estate loans						
Home equity lines	16,029	25,424	801			42,254
Single family owner occupied	4,132	1,910	1,390			7,432
Owner occupied construction	107		97			204
Consumer and other loans						
Consumer loans	81					81
Total covered loans	33,937	29,334	5,314			68,585
Total loans	$ 1,681,532	$ 72,295	$ 46,777	$ 1,379	$	$ 1,801,983

	December 31, 2015					
(Amounts in thousands)	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Non-covered loans						
Commercial loans						
Construction, development, and other land	$ 46,816	$ 974	$ 1,106	$	$	$ 48,896
Commercial and industrial	87,223	663	1,017			88,903
Multi-family residential	81,168	12,969	889			95,026
Single family non-owner occupied	139,680	3,976	5,695			149,351
Non-farm, non-residential	454,906	15,170	15,384			485,460
Agricultural	2,886	25				2,911
Farmland	25,855	1,427	258			27,540
Consumer real estate loans						
Home equity lines	104,897	1,083	1,387			107,367
Single family owner occupied	468,155	6,686	20,368			495,209
Owner occupied construction	42,783		722			43,505
Consumer and other loans						
Consumer loans	71,685	61	254			72,000
Other	7,338					7,338
Total non-covered loans	1,533,392	43,034	47,080			1,623,506
Covered loans						
Commercial loans						
Construction, development, and other land	3,908	1,261	1,134			6,303
Commercial and industrial	1,144	4	22			1,170
Multi-family residential	460		180			640
Single family non-owner occupied	1,808	457	409			2,674
Non-farm, non-residential	9,192	2,044	2,829			14,065
Agricultural	34					34
Farmland	364		279			643
Consumer real estate loans						
Home equity lines	17,893	29,823	849			48,565
Single family owner occupied	5,102	1,963	1,530			8,595
Owner occupied construction	112	51	99			262
Consumer and other loans						
Consumer loans	84					84
Total covered loans	40,101	35,603	7,331			83,035
Total loans	$ 1,573,493	$ 78,637	$ 54,411	$	$	$ 1,706,541

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 impaired.

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The following table presents the recorded investment, unpaid principal balance, and related allowance for loan losses for impaired loans, excluding PCI loans, as of the periods indicated:

	June 30, 2016			December 31, 2015		
(Amounts in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with no related allowance						
Commercial loans						
Single family non-owner occupied	$ 457	$ 457	$	$ 782	$ 783	$
Non-farm, non-residential	4,747	4,747		8,427	8,427	
Consumer real estate loans						
Single family owner occupied	724	766		1,975	2,067	
Owner occupied construction	343	353				
Total impaired loans with no allowance	6,271	6,323		11,184	11,277	
Impaired loans with a related allowance						
Commercial loans						
Single family non-owner occupied	678	680	108	619	623	124
Non-farm, non-residential	5,300	5,319	1,518	5,667	5,673	1,568
Consumer real estate loans						
Single family owner occupied	4,549	4,593	760	4,899	4,907	672
Owner occupied construction				349	355	7
Total impaired loans with an allowance	10,527	10,592	2,386	11,534	11,558	2,371
Total impaired loans	$ 16,798	$ 16,915	$ 2,386	$ 22,718	$ 22,835	$ 2,371

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2016		2015		2016		2015	
(Amounts in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance								
Commercial loans								
Single family non-owner occupied	$ 456	$ 7	$ 463	$ 7	$ 617	$ 15	$ 461	$ 16
Non-farm, non-residential	4,757	52	8,831	63	6,374	121	8,812	146
Consumer real estate loans								

Single family owner occupied	726		2,741	16	665		3,190	34
Owner occupied construction	343		352	5	171		176	5
Total impaired loans with no allowance	6,282	59	12,387	91	7,827	136	12,639	201
Impaired loans with a related allowance								
Commercial loans								
Single family non-owner occupied	677	6	684	10	517	13	523	17
Non-farm, non-residential	5,307	82	4,738	96	5,333	170	4,401	174
Consumer real estate loans								
Single family owner occupied	4,550	29	2,754	21	4,755	67	2,564	39
Owner occupied construction					173			
Total impaired loans with an allowance	10,534	117	8,176	127	10,778	250	7,488	230
Total impaired loans	$ 16,816	$ 176	$ 20,563	$ 218	$ 18,605	$ 386	$ 20,127	$ 431

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The following tables present information on impaired PCI loan pools as of the dates, and for the periods, indicated:

(Amounts in thousands, except impaired pools)	June 30, 2016	December 31, 2015
Unpaid principal balance	$ 1,120	$ 3,759
Recorded investment	1,122	2,834
Allowance for loan losses related to PCI loan pools	12	54
Impaired PCI loan pools	1	2

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in thousands)	2016	2015	2016	2015
Interest income recognized	$ 35	$ 87	$ 118	$ 177
Average recorded investment	2,666	3,462	2,728	3,677

The Company generally places a loan on nonaccrual status when it is 90 days or more past due. PCI loans are generally not classified as nonaccrual due to the accrual of interest income under the accretion method of accounting. The following table presents nonaccrual loans, by loan class, as of the dates indicated:

	June 30, 2016			December 31, 2015		
(Amounts in thousands)	Non-covered	Covered	Total	Non-covered	Covered	Total
Commercial loans						
Construction, development, and other land	$ 19	$ 20	$ 39	$ 39	$ 54	$ 93
Commercial and industrial	227	15	242		16	16
Multi-family residential	65		65	84		84
Single family non-owner occupied	1,172	27	1,199	1,850	29	1,879
Non-farm, non-residential	6,554	37	6,591	7,150	39	7,189
Farmland	141		141	234		234
Consumer real estate loans						
Home equity lines	853	383	1,236	825	413	1,238
Single family owner occupied	7,202	198	7,400	7,245	96	7,341
Owner occupied construction	343		343	349		349
Consumer and other loans						
Consumer loans	50		50	71		71
Total nonaccrual loans	$ 16,626	$ 680	$ 17,306	$ 17,847	$ 647	$ 18,494

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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. Loans acquired with credit deterioration, with a discount, continue to accrue interest based on expected cash flows; therefore, PCI loans are not generally considered nonaccrual. Non-covered accruing loans contractually past due 90 days or more totaled $64 thousand as of June 30, 2016. No non-covered accruing loans were contractually past due 90 days or more as of December 31, 2015.

	June 30, 2016					
(Amounts in thousands)	**30 - 59 Days Past Due**	**60 - 89 Days Past Due**	**90+ Days Past Due**	**Total Past Due**	**Current Loans**	**Total Loans**
Non-covered loans						
Commercial loans						
Construction, development, and other land	$ 39	$ 15	$	$ 54	$ 58,917	$ 58,971
Commercial and industrial	303	79	135	517	92,274	92,791
Multi-family residential	297		65	362	109,289	109,651
Single family non-owner occupied	460	202	996	1,658	151,650	153,308
Non-farm, non-residential	723	263	2,311	3,297	546,474	549,771
Agricultural					4,421	4,421
Farmland	92	69		161	27,354	27,515
Consumer real estate loans						
Home equity lines	380	186	706	1,272	105,245	106,517
Single family owner occupied	2,406	1,436	3,485	7,327	496,730	504,057
Owner occupied construction	556			556	42,630	43,186
Consumer and other loans						
Consumer loans	407	58	22	487	75,216	75,703
Other					7,507	7,507
Total non-covered loans	5,663	2,308	7,720	15,691	1,717,707	1,733,398
Covered loans						
Commercial loans						
Construction, development, and other land	46	41	20	107	5,380	5,487
Commercial and industrial					973	973
Multi-family residential					74	74
Single family non-owner occupied	27			27	1,839	1,866
Non-farm, non-residential					9,570	9,570
Agricultural					26	26
Farmland					618	618
Consumer real estate loans						
Home equity lines	116	69	210	395	41,859	42,254
Single family owner occupied	81	40	75	196	7,236	7,432
Owner occupied construction					204	204
Consumer and other loans						
Consumer loans					81	81

Total covered loans	270	150	305	725	67,860	68,585
Total loans	$ 5,933	$ 2,458	$ 8,025	$ 16,416	$ 1,785,567	$ 1,801,983

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(Amounts in thousands)	December 31, 2015 30 - 59 Days Past Due	60 - 89 Days Past Due	90+ Days Past Due	Total Past Due	Current Loans	Total Loans
Non-covered loans						
Commercial loans						
Construction, development, and other land	$	$	$ 39	$ 39	$ 48,857	$ 48,896
Commercial and industrial	281	66		347	88,556	88,903
Multi-family residential	302	76	84	462	94,564	95,026
Single family non-owner occupied	748	120	929	1,797	147,554	149,351
Non-farm, non-residential	347	676	4,940	5,963	479,497	485,460
Agricultural					2,911	2,911
Farmland	585	11	234	830	26,710	27,540
Consumer real estate loans						
Home equity lines	668	195	468	1,331	106,036	107,367
Single family owner occupied	6,122	1,943	3,191	11,256	483,953	495,209
Owner occupied construction					43,505	43,505
Consumer and other loans						
Consumer loans	278	71	23	372	71,628	72,000
Other					7,338	7,338
Total non-covered loans	9,331	3,158	9,908	22,397	1,601,109	1,623,506
Covered loans						
Commercial loans						
Construction, development, and other land	96		42	138	6,165	6,303
Commercial and industrial			16	16	1,154	1,170
Multi-family residential					640	640
Single family non-owner occupied	1,422			1,422	1,252	2,674
Non-farm, non-residential			39	39	14,026	14,065
Agricultural					34	34
Farmland					643	643
Consumer real estate loans						
Home equity lines	489	37	225	751	47,814	48,565
Single family owner occupied	274		42	316	8,279	8,595
Owner occupied construction					262	262
Consumer and other loans						
Consumer loans					84	84
Total covered loans	2,281	37	364	2,682	80,353	83,035
Total loans	$ 11,612	$ 3,195	$ 10,272	$ 25,079	$ 1,681,462	$ 1,706,541

The Company may make concessions in interest rates, loan terms and/or amortization terms when restructuring loans for borrowers experiencing financial difficulty. Restructured loans in excess of $250 thousand are evaluated for a specific reserve based on either the collateral or net present value method, whichever is most applicable. Restructured loans under $250 thousand are subject to the reserve calculation at the historical loss rate for classified loans. Certain troubled debt restructurings (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. PCI loans are generally not considered TDRs as long as the loans remain in the assigned loan pool. No covered loans were recorded as TDRs as of June 30, 2016, or December 31, 2015.

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

(Amounts in thousands)	June 30, 2016			December 31, 2015		
	Nonaccrual[(1)]	**Accrual**	**Total**	**Nonaccrual[(1)]**	**Accrual**	**Total**
Commercial loans						
Single family non-owner occupied	$ 39	$ 898	$ 937	$ 130	$ 820	$ 950
Non-farm, non-residential		4,205	4,205		4,600	4,600
Consumer real estate loans						
Home equity lines		162	162	127	43	170
Single family owner occupied	529	8,173	8,702	733	8,256	8,989
Owner occupied construction	343	239	582	349	243	592
Total TDRs	$ 911	$ 13,677	$ 14,588	$ 1,339	$ 13,962	$ 15,301
Allowance for loan losses related to TDRs			$ 544			$ 590

(1) Nonaccrual TDRs are included in total nonaccrual loans disclosed in the nonaccrual table above.

The following table presents interest income recognized on TDRs for the periods indicated:

(Amounts in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	**2015**	**2016**	**2015**
Interest income recognized	$ 75	$ 160	$ 153	$ 308

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

(Amounts in thousands)	Three Months Ended June 30,					
	2016			**2015**		
	Total Contracts	**Pre-modification Recorded Investment**	**Post-modification Recorded Investment**	**Total Contracts**	**Pre-modification Recorded Investment**	**Post-modification Recorded Investment**
Below market interest rate and extended payment term Single family owner occupied	1	$ 115	$ 115	1	$ 35	$ 35
Total	1	$ 115	$ 115	1	$ 35	$ 35

Six Months Ended June 30,

	2016									2015						
(Amounts in thousands)	**Total Contracts**	**Pre-modification Recorded Investment**		**Post-modification Recorded Investment**		**Total Contracts**	**Pre-modification Recorded Investment**		**Post-modification Recorded Investment**	
Below market interest rate and extended payment term Single family owner occupied	1	$	115	$	115	1	$	35	$	35
Total	1	$	115	$	115	1	$	35	$	35

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

	Three Months Ended June 30,			
	2016		2015	
(Amounts in thousands)	Total Contracts	Post-modification Recorded Investment	Total Contracts	Post-modification Recorded Investment
Consumer real estate loans				
Single family owner occupied		$	1	$ 163
Owner occupied construction			1	353
Total		$	2	$ 516

	Six Months Ended June 30,			
	2016		2015	
(Amounts in thousands)	Total Contracts	Post-modification Recorded Investment	Total Contracts	Post-modification Recorded Investment
Consumer real estate loans				
Single family owner occupied		$	1	$ 163
Owner occupied construction			1	353
Total		$	2	$ 516

The following table presents information for other real estate owned (OREO), which consists of properties acquired through foreclosure, as of the dates indicated:

(Amounts in thousands)	June 30, 2016	December 31, 2015
Non-covered OREO	$ 4,187	$ 4,873
Covered OREO	2,017	4,034
Total OREO	$ 6,204	$ 8,907
Non-covered OREO secured by residential real estate	$ 1,821	$ 2,677
Residential real estate loans in the foreclosure process[(1)]	2,743	2,727

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

Note 6. Allowance for Loan Losses

The allowance for loan losses is maintained at a level management deems adequate to absorb probable loan losses inherent in the loan portfolio. The allowance is increased by provisions charged to operations and reduced by net charge-offs. While management uses its best judgment and information available, the allowance s ultimate adequacy 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 consists of specific reserves on loans individually evaluated, including credit relationships, and general reserves on loans not individually evaluated, which 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. Loans acquired in business combinations that are deemed impaired at acquisition are grouped into pools and evaluated separately from the non-PCI portfolio. The PCI loan provision is 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 is available for use against any loan loss management deems appropriate, excluding reserves allocated to specific loans and PCI loan pools. Management believed the allowance was adequate to absorb probable loan losses inherent in the loan portfolio as of June 30, 2016.

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

	Three Months Ended June 30, 2016			
(Amounts in thousands)	**Commercial**	**Consumer Real Estate**	**Consumer and Other**	**Total Allowance**
Allowance, excluding PCI				
Beginning balance	$ 13,270	$ 6,470	$ 703	$ 20,443
Provision for loan losses charged to operations	219	237	268	724
Charge-offs	(191)	(238)	(262)	(691)
Recoveries	391	156	64	611
Net recoveries (charge-offs)	200	(82)	(198)	(80)
Ending balance	$ 13,689	$ 6,625	$ 773	$ 21,087
PCI allowance				
Beginning balance	$	$ 24	$	$ 24
Recovery of loan losses		(12)		(12)
Benefit attributable to the FDIC indemnification asset		10		10
Recovery of loan losses charged to operations		(2)		(2)
Recovery of loan losses recorded through the FDIC indemnification asset		(10)		(10)
Ending balance	$	$ 12	$	$ 12
Total allowance				
Beginning balance	$ 13,270	$ 6,494	$ 703	$ 20,467
Provision for loan losses	219	225	268	712
Benefit attributable to the FDIC indemnification asset		10		10
Provision for loan losses charged to operations	219	235	268	722
Recovery of loan losses recorded through the FDIC indemnification asset		(10)		(10)
Charge-offs	(191)	(238)	(262)	(691)
Recoveries	391	156	64	611
Net recoveries (charge-offs)	200	(82)	(198)	(80)
Ending balance	$ 13,689	$ 6,637	$ 773	$ 21,099

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	Three Months Ended June 30, 2015			
(Amounts in thousands)	Commercial	Consumer Real Estate	Consumer and Other	Total Allowance
Allowance, excluding PCI				
Beginning balance	$ 13,054	$ 6,446	$ 638	$ 20,138
Provision for loan losses charged to operations	98	(99)	277	276
Charge-offs	(280)	(90)	(303)	(673)
Recoveries	123	211	69	403
Net (charge-offs) recoveries	(157)	121	(234)	(270)
Ending balance	$ 12,995	$ 6,468	$ 681	$ 20,144
PCI allowance				
Beginning balance	$	$ 114	$	$ 114
(Recovery of) provision for loan losses				
Benefit attributable to the FDIC indemnification asset				
(Recovery of) provision for loan losses charged to operations				
(Recovery of) provision for loan losses recorded through the FDIC indemnification asset				
Ending balance	$	$ 114	$	$ 114
Total allowance				
Beginning balance	$ 13,054	$ 6,560	$ 638	$ 20,252
Provision for loan losses	98	(99)	277	276
Benefit attributable to the FDIC indemnification asset				
Provision for loan losses charged to operations	98	(99)	277	276
(Recovery of) provision for loan losses recorded through the FDIC indemnification asset				
Charge-offs	(280)	(90)	(303)	(673)
Recoveries	123	211	69	403
Net (charge-offs) recoveries	(157)	121	(234)	(270)
Ending balance	$ 12,995	$ 6,582	$ 681	$ 20,258

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	Six Months Ended June 30, 2016			
(Amounts in thousands)	Commercial	Consumer Real Estate	Consumer and Other	Total Allowance
Allowance, excluding PCI				
Beginning balance	$ 13,133	$ 6,356	$ 690	$ 20,179
Provision for loan losses charged to operations	526	1,011	413	1,950
Charge-offs	(475)	(928)	(516)	(1,919)
Recoveries	505	186	186	877
Net recoveries (charge-offs)	30	(742)	(330)	(1,042)
Ending balance	$ 13,689	$ 6,625	$ 773	$ 21,087
PCI allowance				
Beginning balance	$	$ 54	$	$ 54
Recovery of loan losses		(42)		(42)
Benefit attributable to the FDIC indemnification asset		1		1
Recovery of loan losses charged to operations		(41)		(41)
Recovery of loan losses recorded through the FDIC indemnification asset		(1)		(1)
Ending balance	$	$ 12	$	$ 12
Total allowance				
Beginning balance	$ 13,133	$ 6,410	$ 690	$ 20,233
Provision for loan losses	526	969	413	1,908
Benefit attributable to the FDIC indemnification asset		1		1
Provision for loan losses charged to operations	526	970	413	1,909
Recovery of loan losses recorded through the FDIC indemnification asset		(1)		(1)
Charge-offs	(475)	(928)	(516)	(1,919)
Recoveries	505	186	186	877
Net recoveries (charge-offs)	30	(742)	(330)	(1,042)
Ending balance	$ 13,689	$ 6,637	$ 773	$ 21,099

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	Six Months Ended June 30, 2015			
(Amounts in thousands)	**Commercial**	**Consumer Real Estate**	**Consumer and Other**	**Total Allowance**
Allowance, excluding PCI				
Beginning balance	$ 13,010	$ 6,489	$ 670	$ 20,169
Provision for loan losses charged to operations	748	116	502	1,366
Charge-offs	(961)	(492)	(798)	(2,251)
Recoveries	198	355	307	860
Net charge-offs	(763)	(137)	(491)	(1,391)
Ending balance	$ 12,995	$ 6,468	$ 681	$ 20,144
PCI allowance				
Beginning balance	$ 37	$ 21	$	$ 58
(Recovery of) provision for loan losses	(37)	93		56
Benefit attributable to the FDIC indemnification asset	29	(75)		(46)
(Recovery of) provision for loan losses charged to operations	(8)	18		10
(Recovery of) provision for loan losses recorded through the FDIC indemnification asset	(29)	75		46
Ending balance	$	$ 114	$	$ 114
Total allowance				
Beginning balance	$ 13,047	$ 6,510	$ 670	$ 20,227
Provision for loan losses	711	209	502	1,422
Benefit attributable to the FDIC indemnification asset	29	(75)		(46)
Provision for loan losses charged to operations	740	134	502	1,376
(Recovery of) provision for loan losses recorded through the FDIC indemnification asset	(29)	75		46
Charge-offs	(961)	(492)	(798)	(2,251)
Recoveries	198	355	307	860
Net charge-offs	(763)	(137)	(491)	(1,391)
Ending balance	$ 12,995	$ 6,582	$ 681	$ 20,258

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