FIRST COMMUNITY BANCSHARES INC /NV/
Form 10-Q
November 03, 2017

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, 2017**
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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 or organization)	(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.
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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of October 27, 2017, there were 16,987,339 shares outstanding of the registrant's Common Stock, $1.00 par value.

Table of Contents

FIRST COMMUNITY BANCSHARES, INC.
FORM 10-Q
INDEX

Table of Contents

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

- the strength of the U.S. economy in general and the strength of the local economies in which we conduct operations;
- the effects of, and changes in, trade, monetary, and fiscal policies and laws, including interest rate policies of the Federal Reserve System;
- inflation, interest rate, market and monetary fluctuations;
- timely development of competitive new products and services and the acceptance of these products and services by new and existing customers;
- the willingness of customers to substitute competitors' products and services for the Company's products and services and vice versa;
- the impact of changes in financial services laws and regulations, including laws about taxes, banking, securities, and insurance, and the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act;
- the impact of the U.S. Department of the Treasury and federal banking regulators' continued implementation of programs to address capital and liquidity in the banking system;
- further, future, and proposed rules, including those that are part of the process outlined in the Basel Committee on Banking Supervision's "Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems," which require banking institutions to increase levels of capital;
- technological changes;
- the effect of acquisitions, including, without limitation, the failure to achieve the expected revenue growth and/or expense savings from such acquisitions;
- the growth and profitability of noninterest, or fee, income being less than expected;
- unanticipated regulatory or judicial proceedings;
- changes in consumer spending and saving habits; and
- the Company's success at managing the risks mentioned above.

This list of important factors is not exclusive. If one or more of the factors affecting these forward-looking statements proves incorrect, actual results, performance, or achievements could differ materially from those expressed in, or implied by, forward-looking statements contained in this Quarterly Report on Form 10-Q and other reports we file with the Securities and Exchange Commission. Therefore, the Company cautions you not to place undue reliance on forward-looking information and statements. The Company does not intend to update any forward-looking statements, whether written or oral, to reflect changes. These cautionary statements expressly qualify all forward-looking statements that apply to the Company including the risk factors presented in Part II, Item 1A, "Risk Factors," of this report and Part I, Item 1A, "Risk Factors," of the Company's Annual Report on Form 10-K for the year ended December

31, 2016.

Table of Contents

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)	**September 30, 2017** (Unaudited)	**December 31, 2016[1]**
Assets		
Cash and due from banks	$37,050	$36,645
Federal funds sold	67,124	38,717
Interest-bearing deposits in banks	945	945
Total cash and cash equivalents	105,119	76,307
Securities available for sale	174,424	165,579
Securities held to maturity	25,182	47,133
Loans held for investment, net of unearned income		
Non-covered	1,806,434	1,795,954
Covered	31,287	56,994
Less: allowance for loan losses	(19,206)	(17,948)
Loans held for investment, net	1,818,515	1,835,000
FDIC indemnification asset	7,465	12,173
Premises and equipment, net	48,949	50,085
Other real estate owned, non-covered	3,543	5,109
Other real estate owned, covered	54	276
Interest receivable	5,156	5,553
Goodwill	95,779	95,779
Other intangible assets	6,417	7,207
Other assets	84,177	86,197
Total assets	$2,374,780	$2,386,398
Liabilities		
Deposits		
Noninterest-bearing	$452,940	$427,705
Interest-bearing	1,410,880	1,413,633
Total deposits	1,863,820	1,841,338
Securities sold under agreements to repurchase	83,783	98,005
FHLB borrowings	50,000	65,000

Other borrowings	-	15,708
Interest, taxes, and other liabilities	24,540	27,290
Total liabilities	2,022,143	2,047,341
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; none outstanding	-	-
Common stock, $1 par value; 50,000,000 shares authorized; 21,381,779 shares issued at September 30, 2017, and December 31, 2016; 4,395,277 and 4,387,571 shares in treasury at September 30, 2017, and December 31, 2016, respectively	21,382	21,382
Additional paid-in capital	228,510	228,142
Retained earnings	182,145	170,377
Treasury stock, at cost	(79,333)	(78,833)
Accumulated other comprehensive loss	(67)	(2,011)
Total stockholders' equity	352,637	339,057
Total liabilities and stockholders' equity	$2,374,780	$2,386,398

(1) Derived from audited financial statements

See Notes to Consolidated Financial Statements.

4

Table of Contents

FIRST COMMUNITY BANCSHARES, INC. CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in thousands, except share and per share data)	**2017**	**2016**	**2017**	**2016**
Interest income				
Interest and fees on loans	$22,694	$21,952	$67,435	$65,762
Interest on securities -- taxable	341	738	1,157	2,729
Interest on securities -- tax-exempt	739	905	2,299	2,762
Interest on deposits in banks	275	26	655	55
Total interest income	24,049	23,621	71,546	71,308
Interest expense				
Interest on deposits	1,275	1,133	3,674	3,334
Interest on short-term borrowings	213	548	634	1,613
Interest on long-term debt	511	819	1,753	2,438
Total interest expense	1,999	2,500	6,061	7,385
Net interest income	22,050	21,121	65,485	63,923
Provision for (recovery of) loan losses	730	(1,154)	2,156	755
Net interest income after provision for loan losses	21,320	22,275	63,329	63,168
Noninterest income				
Wealth management	758	653	2,339	2,147
Service charges on deposits	3,605	3,494	10,078	10,146
Other service charges and fees	2,141	2,024	6,387	6,088
Insurance commissions	306	1,592	1,004	5,383
Impairment losses on securities	-	(4,635)	-	(4,646)
Portion of loss recognized in other comprehensive income	-	-	-	-
Net impairment losses recognized in earnings	-	(4,635)	-	(4,646)
Net loss on sale of securities	-	25	(657)	(53)
Net FDIC indemnification asset amortization	(268)	(1,369)	(3,186)	(3,856)
Net gain on divestitures	-	3,065	-	3,065
Other operating income	593	1,046	2,336	2,554
Total noninterest income	7,135	5,895	18,301	20,828
Noninterest expense				
Salaries and employee benefits	9,137	9,828	27,178	30,501
Occupancy expense	1,082	1,249	3,671	4,139
Furniture and equipment expense	1,133	1,066	3,311	3,271
Amortization of intangibles	266	316	790	871
FDIC premiums and assessments	227	363	698	1,109
Merger, acquisition, and divestiture expense	-	226	-	675

Other operating expense	5,064	5,509	15,802	15,527
Total noninterest expense	16,909	18,557	51,450	56,093
Income before income taxes	11,546	9,613	30,180	27,903
Income tax expense	3,894	3,230	9,908	9,181
Net income	7,652	6,383	20,272	18,722
Dividends on preferred stock	-	-	-	-
Net income available to common shareholders	$7,652	$6,383	$20,272	$18,722
Earnings per common share				
Basic	$0.45	$0.37	$1.19	$1.07
Diluted	0.45	0.37	1.19	1.07
Cash dividends per common share	0.18	0.16	0.50	0.44
Weighted average shares outstanding				
Basic	17,005,654	17,031,074	17,005,350	17,433,406
Diluted	17,082,729	17,083,526	17,076,958	17,475,211

See Notes to Consolidated Financial Statements.

Table of Contents

FIRST COMMUNITY BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
(Amounts in thousands)				
Net income	$7,652	$6,383	$20,272	$18,722
Other comprehensive income, before tax				
Available-for-sale securities:				
Change in net unrealized (losses) gains on securities without other-than-temporary impairment	(169)	744	2,127	4,141
Reclassification adjustment for net losses recognized in net income	-	(25)	657	53
Reclassification adjustment for other-than-temporary impairment losses recognized in net income	-	4,635	-	4,646
Net unrealized (losses) gains on available-for-sale securities	(169)	5,354	2,784	8,840
Employee benefit plans:				
Net actuarial (loss) gain	(1)	(2)	133	(56)
Reclassification adjustment for amortization of prior service cost and net actuarial loss recognized in net income	65	69	194	205
Net unrealized gains on employee benefit plans	64	67	327	149
Other comprehensive (loss) income, before tax	(105)	5,421	3,111	8,989
Income tax (benefit) expense	(39)	2,034	1,167	3,372
Other comprehensive (loss) income, net of tax	(66)	3,387	1,944	5,617
Total comprehensive income	$7,586	$9,770	$22,216	$24,339

See Notes to Consolidated Financial Statements.

Table of Contents

FIRST COMMUNITY BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(UNAUDITED)

(Amounts in thousands, except share and per share data)	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance January 1, 2016	$ -	$ 21,382	$ 227,692	$ 155,647	$ (56,457)	$ (5,247)	$ 343,017
Net income	-	-	-	18,722	-	-	18,722
Other comprehensive income	-	-	-	-	-	5,617	5,617
Common dividends declared -- $0.44 per share	-	-	-	(7,680)	-	-	(7,680)
Equity-based compensation expense	-	-	144	-	-	-	144
Common stock options exercised -- 11,730 shares	-	-	(23)	-	205	-	182
Restricted stock awards -- 15,587 shares	-	-	26	-	270	-	296
Issuance of treasury stock to 401(k) plan -- 16,290 shares	-	-	45	-	287	-	332
Purchase of treasury shares -- 1,152,776 shares at $20.00 per share	-	-	-	-	(23,094)	-	(23,094)
Balance September 30, 2016	$ -	$ 21,382	$ 227,884	$ 166,689	$ (78,789)	$ 370	$ 337,536
Balance January 1, 2017	$ -	$ 21,382	$ 228,142	$ 170,377	$ (78,833)	$ (2,011)	$ 339,057
Net income	-	-	-	20,272	-	-	20,272
Other comprehensive income	-	-	-	-	-	1,944	1,944
Common dividends declared -- $0.50 per share	-	-	-	(8,504)	-	-	(8,504)
Equity-based compensation expense	-	-	290	-	-	-	290
Common stock options exercised -- 8,036 shares	-	-	6	-	145	-	151
Restricted stock awards -- 21,542 shares	-	-	(40)	-	387	-	347

Issuance of treasury stock to 401(k) plan -- 12,834 shares	-	-	112	-	231	-	343
Purchase of treasury shares -- 50,118 shares at $25.16 per share	-	-	-	-	(1,263)	-	(1,263)
Balance September 30, 2017	$ -	$ 21,382	$ 228,510	$ 182,145	$ (79,333)	$ (67)	$ 352,637

See Notes to Consolidated Financial Statements.

Table of Contents

FIRST COMMUNITY BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Amounts in thousands)	**Nine Months Ended September 30, 2017**	**2016**
Operating activities		
Net income	$20,272	$18,722
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	2,156	755
Depreciation and amortization of property, plant, and equipment	2,688	2,707
Amortization of premiums on investments, net	63	2,758
Amortization of FDIC indemnification asset, net	3,186	3,856
Amortization of intangible assets	790	871
Accretion on acquired loans	(4,257)	(3,893)
Gain on divestiture, net	-	(3,065)
Equity-based compensation expense	290	144
Restricted stock awards	347	296
Issuance of treasury stock to 401(k) plan	343	332
Loss on sale of property, plant, and equipment, net	13	271
Loss on sale of other real estate	940	1,487
Loss on sale of securities	657	53
Net impairment losses recognized in earnings	-	4,646
Decrease in accrued interest receivable	397	509
(Increase) decrease in other operating activities	(2,008)	4,341
Net cash provided by operating activities	25,877	34,790
Investing activities		
Proceeds from sale of securities available for sale	12,273	70,530
Proceeds from maturities, prepayments, and calls of securities available for sale	18,022	77,395
Proceeds from maturities and calls of securities held to maturity	21,840	190
Payments to acquire securities available for sale	(36,966)	(1,174)
Proceeds from (originations of) loans, net	17,304	(138,984)
Proceeds from (payments for) FHLB stock, net	694	(933)
Cash proceeds from mergers, acquisitions, and divestitures, net	-	24,816
Proceeds from the FDIC	1,701	3,639
Payments to acquire property, plant, and equipment, net	(1,999)	(448)
Proceeds from sale of other real estate	2,130	4,541
Net cash provided by investing activities	34,999	39,572
Financing activities		
Increase in noninterest-bearing deposits, net	25,235	28,322

Decrease in interest-bearing deposits, net	(2,753)	(62,819)
Repayments of securities sold under agreements to repurchase, net	(14,222)	(20,082)
(Repayments of) proceeds from FHLB and other borrowings, net	(30,708)	24,951
Proceeds from stock options exercised	151	182
Payments for repurchase of treasury stock	(1,263)	(23,094)
Payments of common dividends	(8,504)	(7,680)
Net cash used in financing activities	(32,064)	(60,220)
Net increase in cash and cash equivalents	28,812	14,142
Cash and cash equivalents at beginning of period	76,307	51,787
Cash and cash equivalents at end of period	$105,119	$65,929
Supplemental disclosure -- cash flow information		
Cash paid for interest	$6,257	$7,394
Cash paid for income taxes	12,942	6,488
Supplemental transactions -- noncash items		
Transfer of loans to other real estate	1,282	3,652
Loans originated to finance other real estate	-	42

See Notes to Consolidated Financial Statements.

8

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Basis of Presentation

General

First Community Bancshares, Inc. (the “Company”), a financial holding company, was founded in 1989 and incorporated under the laws of Nevada in 1997. The Company’s principal executive office is located at One Community Place, Bluefield, Virginia. The Company provides banking products and services to individual and commercial customers through its wholly owned subsidiary First Community Bank (the “Bank”), a Virginia-chartered banking institution founded in 1874. The Bank operates as First Community Bank in Virginia, West Virginia, and North Carolina and People’s Community Bank, a Division of First Community Bank, in Tennessee. The Bank provides insurance services through its wholly owned subsidiary First Community Insurance Services (“FCIS”) and offers wealth management and investment advice through its Trust Division and wholly owned subsidiary First Community Wealth Management (“FCWM”). Unless the context suggests otherwise, the terms “First Community,” “Company,” “we,” “our,” and “ refer to First Community Bancshares, Inc. and its subsidiaries as a consolidated entity.

Principles of Consolidation

The Company’s accounting and reporting policies conform with U.S. generally accepted accounting principles (“GAAP”) and prevailing practices in the banking industry. The consolidated financial statements include all accounts of the Company and its wholly owned subsidiaries and eliminate all intercompany balances and transactions. 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. Operating results for interim periods are not necessarily indicative of results that may be expected for other interim periods or for the full year. In management’s opinion, the accompanying unaudited interim condensed consolidated financial statements contain all necessary adjustments, including normal recurring accruals, and disclosures for a fair presentation.

The condensed consolidated balance sheet as of December 31, 2016, has been derived from the audited consolidated financial statements. These unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016 (the “2016 Form 10-K”), as filed with the Securities and Exchange Commission (the “SEC”) on March 3, 2017.

Reclassifications

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.

Use of Estimates

Preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that require the most subjective or complex judgments relate to fair value measurements, investment securities, the allowance for loan losses, the Federal Deposit Insurance Corporation ("FDIC") indemnification asset, goodwill and other intangible assets, and income taxes. A discussion of the Company's application of critical accounting estimates is included in "Critical Accounting Estimates" in Item 2 of this report.

Significant Accounting Policies

A complete and detailed description of the Company's significant accounting policies is included in Note 1, "Basis of Presentation and Significant Accounting Policies," of the Notes to Consolidated Financial Statements in Part II, Item 8 of the Company's 2016 Form 10-K.

Recent Accounting Standards

Standards Adopted

In January 2017, the FASB issued Accounting Standards Update ("ASU") 2017-04, "Intangibles – Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment." This ASU removes the requirement to perform a hypothetical purchase price allocation to measure goodwill impairment. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The update should be applied prospectively. The Company early adopted ASU 2017-04 in the first quarter of 2017. The adoption of the standard did not have an effect on the Company's financial statements.

Table of Contents

In January 2017, the FASB issued ASU 2017-03, “Accounting Changes and Error Corrections (Topic 250) and Investments – Equity Method and Joint Ventures (Topic 323): Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings.” This ASU requires registrants to disclose the effect that recently issued accounting standards will have on their financial statements when adopted in a future period. In cases where a registrant cannot reasonably estimate the impact of the adoption, additional qualitative disclosures should be considered to assist the reader in assessing the significance of the standard's impact on its financial statements. The Company adopted ASU 2017-03 in the first quarter of 2017. The adoption of the standard resulted in enhanced disclosures regarding the impact that recently issued accounting standards adopted in a future period will have on the Company’s financial statements and disclosures. See “Standards Not Yet Adopted” below.

In March 2016, the FASB issued ASU 2016-09, “Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.” This ASU simplifies several aspects of the accounting for share-based payment award transactions including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The guidance eliminates additional paid-in capital pools for equity-based awards and requires that the related income tax effects of awards be recognized in the income statement. The guidance also allows an employer to repurchase more of an employee’s shares for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. The Company adopted ASU 2016-09 in the first quarter of 2017 on a prospective basis and elected to account for forfeitures of share-based awards as they occur. Excess tax benefits on share-based awards in the statements of cash flows in prior periods have not been adjusted. The adoption of the standard did not have a material effect on the Company’s financial statements.

Standards Not Yet Adopted

In August 2017, the FASB issued ASU 2017-12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities.” This ASU intends to improve the financial reporting of hedging relationships to better portray the economic results of an entity’s risk management activities in its financial statements and simplify the application of hedge accounting guidance. ASU 2017-12 will be effective for the Company for fiscal years beginning after December 15, 2018. The Company expects to adopt ASU 2017-12 in the first quarter of 2019. The Company is evaluating the impact of the standard and does not expect the guidance to have a material effect on its financial statements.

In May 2017, the FASB issued ASU 2017-09, “Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting.” This ASU clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. ASU 2017-09 will be effective for the Company for fiscal years beginning after December 15, 2017. The Company expects to adopt ASU 2017-09 in the first quarter of 2018. The Company is evaluating the impact of the standard and does not expect the guidance to have a material effect on its financial statements.

In March 2017, the FASB issued ASU 2017-08, “Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Securities.” This ASU amends the amortization period for certain purchased callable debt securities held at a premium. ASU 2017-08 will be effective for the Company for fiscal years beginning after December 15, 2018. The Company expects to adopt ASU 2017-08 in the first quarter of 2019. The Company is evaluating the impact of the standard and does not expect the guidance to have a material effect on its financial statements.

In March 2017, the FASB issued ASU 2017-07, “Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.” This ASU intends to improve the presentation of net periodic pension cost and net periodic postretirement benefit costs in the income statement and to narrow the amounts eligible for capitalization in assets. ASU 2017-07 will be effective for the Company for fiscal years beginning after December 15, 2017. The Company expects to adopt ASU 2017-07 in the first quarter of 2018. The Company is evaluating the impact of the standard and does not expect the guidance to have a material effect on its financial statements.

In November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash.” This ASU requires that a statement of cash flows explains the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 will be effective for the Company for fiscal years beginning after December 15, 2017. The Company expects to adopt ASU 2016-18 in the first quarter of 2018. The Company is evaluating the impact of the standard and does not expect the guidance to have a material effect on its financial statements.

Table of Contents

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.” This ASU makes eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 will be effective for the Company for fiscal years beginning after December 15, 2017, with early adoption permitted. The update should be applied on a retrospective basis, if practicable. The Company expects to adopt ASU 2016-15 in the first quarter of 2018. The Company is evaluating the impact of the standard and does not expect the guidance to have a material effect on its financial statements.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” This ASU intends to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. This ASU 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, the update 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 for the Company for fiscal years beginning after December 15, 2019, with early adoption permitted for fiscal years beginning after December 15, 2018. The Company expects to adopt ASU 2016-13 in the first quarter of 2020 and recognize a cumulative adjustment to retained earnings as of the beginning of the year of adoption. The Company is evaluating the impact of the standard.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842).” This ASU increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and requiring more disclosures related to leasing transactions. ASU 2016-02 will be effective for the Company for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company expects to adopt ASU 2016-02 in the first quarter of 2019. The Company leases certain banking offices under lease agreements it classifies as operating leases. The Company is evaluating the impact of the standard and expects an increase in assets and liabilities; however, the Company does not expect the guidance to have a material effect on its financial statements.

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.” This ASU significantly revises an entity’s accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. The new guidance also amends certain disclosure requirements associated with the fair value of financial instruments. ASU 2016-01 will be effective for the Company for fiscal years beginning after December 15, 2017, with early adoption permitted for the instrument-specific credit risk provision. The Company expects to adopt ASU 2016-01 in the first quarter of 2018. The Company is evaluating the impact of the standard and does not expect to recognize a significant cumulative effect adjustment to retained earnings at the beginning of the year of adoption or expect the guidance to have a material effect on its financial statements. The cumulative-effect adjustment will be dependent on the composition and fair value of the Company’s equity securities portfolio at the adoption date.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers.” This ASU’s core principle is that an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under existing guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In August 2015, the FASB issued ASU 2015-14, “Revenue from Contracts with Customers” deferring the effective date of ASU 2014-09 for the Company until fiscal years beginning after December 15, 2017, with early adoption permitted for fiscal years beginning after December 15, 2016. Additional revenue related standards to be adopted concurrently with ASU 2014-09 include ASU 2017-10, ASU 2017-05, ASU 2016-20, ASU 2016-12, ASU 2016-10, and ASU 2016-08. The Company expects to adopt ASU 2014-09, and related updates, in the first quarter of 2018 and recognize a cumulative adjustment to retained earnings as of the beginning of the year of adoption, if necessary. The Company’s primary source of revenue is interest income, which is excluded from the scope of this guidance; however, the Company is evaluating the impact of the standard on other income, which includes fees for services, commissions on sales, and various deposit service charges. The Company does not expect the guidance to have a material effect on its 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.

Table of Contents

Note 2. Investment Securities

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

	September 30, 2017			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
(Amounts in thousands)				
U.S. Treasury securities	$36,973	$ -	$ (9)	$36,964
U.S. Agency securities	1,254	21	-	1,275
Municipal securities	102,347	2,648	(88)	104,907
Single issue trust preferred securities	9,363	-	(401)	8,962
Mortgage-backed Agency securities	22,518	72	(347)	22,243
Equity securities	55	18	-	73
Total securities available for sale	$172,510	$ 2,759	$ (845)	$174,424

	December 31, 2016			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
(Amounts in thousands)				
U.S. Agency securities	$1,342	$ 3	$ -	$1,345
Municipal securities	111,659	2,258	(586)	113,331
Single issue trust preferred securities	22,104	-	(2,165)	19,939
Mortgage-backed Agency securities	31,290	66	(465)	30,891
Equity securities	55	18	-	73
Total securities available for sale	$166,450	$ 2,345	$ (3,216)	$165,579

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

	September 30, 2017			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
(Amounts in thousands)				
U.S. Agency securities	$17,949	$ 31	$ -	$17,980
Corporate securities	7,233	13	-	7,246
Total securities held to maturity	$25,182	$ 44	$ -	$25,226

	December 31, 2016			
	Amortized Cost	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
(Amounts in thousands)				
U.S. Agency securities	$36,741	$ 124	$ -	$36,865
Corporate securities	10,392	11	(2)	10,401
Total securities held to maturity	$47,133	$ 135	$ (2)	$47,266

12

Table of Contents

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.

	September 30, 2017	
(Amounts in thousands)	**Amortized Cost**	**Fair Value**
Available-for-sale securities		
Due within one year	$37,288	$37,279
Due after one year but within five years	5,617	5,734
Due after five years but within ten years	96,693	98,602
Due after ten years	10,339	10,493
	149,937	152,108
Mortgage-backed securities	22,518	22,243
Equity securities	55	73
Total securities available for sale	$172,510	$174,424
Held-to-maturity securities		
Due within one year	$-	$-
Due after one year but within five years	25,182	25,226
Due after five years but within ten years	-	-
Due after ten years	-	-
Total securities held to maturity	$25,182	$25,226

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, 2017					
	Less than 12 Months		**12 Months or Longer**		**Total**	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
(Amounts in thousands)						
U.S. Treasury securities	$36,963	$ (9)	$-	$ -	$36,963	$ (9)
Municipal securities	9,421	(52)	1,427	(36)	10,848	(88)
Single issue trust preferred securities	-	-	8,962	(401)	8,962	(401)
Mortgage-backed Agency securities	7,898	(59)	8,281	(288)	16,179	(347)
Total	$54,282	$ (120)	$18,670	$ (725)	$72,952	$ (845)

December 31, 2016

Less than 12 Months **Total**

			12 Months or Longer			
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(Amounts in thousands)						
Municipal securities	$24,252	$ (527)	$715	$ (59)	$24,967	$ (586)
Single issue trust preferred securities	-	-	19,939	(2,165)	19,939	(2,165)
Mortgage-backed Agency securities	12,834	(166)	11,851	(299)	24,685	(465)
Total	$37,086	$ (693)	$32,505	$ (2,523)	$69,591	$ (3,216)

Table of Contents

There were no unrealized losses for held-to-maturity securities as of September 30, 2017. The following table presents the fair values and unrealized losses for held-to-maturity securities in a continuous unrealized loss position for less than 12 months and for 12 months or longer as of the date indicated:

	December 31, 2016					
	Less than 12 Months		**12 Months or Longer**		**Total**	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
(Amounts in thousands)						
Corporate securities	$3,533	$ (2)	$ -	$ -	$3,533	$ (2)
Total	$3,533	$ (2)	$ -	$ -	$3,533	$ (2)

There were 45 individual securities in an unrealized loss position as of September 30, 2017, and their combined depreciation in value represented 0.42% of the investment securities portfolio. There were 82 individual securities in an unrealized loss position as of December 31, 2016, and their combined depreciation in value represented 1.51% of the investment securities portfolio.

The Company reviews its investment portfolio quarterly for indications of other-than-temporary impairment (“OTTI”). The initial indicator of OTTI for both debt and equity securities is a decline in fair value below book value and the severity and duration of the decline. For debt securities, the credit-related OTTI is recognized as a charge to noninterest income and the noncredit-related OTTI is recognized in other comprehensive income (“OCI”). During the three and nine months ended September 30, 2017, the Company incurred no OTTI charges on debt securities. During the three and nine months ended September 30, 2016, the Company incurred OTTI charges on debt securities owned of $4.64 million related to the Company’s change in intent to hold certain securities to recovery. The intent was changed to sell specific trust preferred securities in the Company’s investment portfolio primarily to reduce credit concentrations with two issuers. Temporary impairment on debt securities is primarily related to changes in benchmark interest rates, changes in pricing in the credit markets, and other current economic factors. For equity securities, the OTTI is recognized as a charge to noninterest income. During the three and nine months ended September 30, 2017, the Company incurred no OTTI charges related to equity securities. During the three months ended September 30, 2016, the Company incurred no OTTI charges related to equity holdings. During the nine months ended September 30, 2016, the Company incurred OTTI charges related to certain equity holdings of $11 thousand.

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

	Three Months	**Nine Months Ended**

	Ended September 30, 2017	2016	September 30, 2017	2016
(Amounts in thousands)				
Gross realized gains	$ -	$ 203	$ -	$ 344
Gross realized losses	-	(178)	(657)	(397)
Net gain (loss) on sale of securities	$ -	$ 25	$ (657)	$ (53)

The carrying amount of securities pledged for various purposes totaled $99.69 million as of September 30, 2017, and $139.75 million as of December 31, 2016.

Note 3. 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. Customer overdrafts reclassified as loans totaled $1.45 million as of September 30, 2017, and $1.41 million as of December 31, 2016. Deferred loan fees totaled $4.48 million as of September 30, 2017, and $5.34 million as of December 31, 2016. For information about off-balance sheet financing, see Note 14, "Litigation, Commitments, and Contingencies," to the Condensed Consolidated Financial Statements of this report.

Table of Contents

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

	September 30, 2017		December 31, 2016	
(Amounts in thousands)	**Amount**	**Percent**	**Amount**	**Percent**
Non-covered loans held for investment				
Commercial loans				
Construction, development, and other land	$72,952	3.97 %	$56,948	3.07 %
Commercial and industrial	90,184	4.91 %	92,204	4.98 %
Multi-family residential	125,997	6.86 %	134,228	7.24 %
Single family non-owner occupied	143,213	7.79 %	142,965	7.72 %
Non-farm, non-residential	613,380	33.38 %	598,674	32.31 %
Agricultural	6,096	0.33 %	6,003	0.32 %
Farmland	27,897	1.52 %	31,729	1.71 %
Total commercial loans	1,079,719	58.76 %	1,062,751	57.35 %
Consumer real estate loans				
Home equity lines	102,888	5.60 %	106,361	5.74 %
Single family owner occupied	501,242	27.27 %	500,891	27.03 %
Owner occupied construction	47,034	2.56 %	44,535	2.41 %
Total consumer real estate loans	651,164	35.43 %	651,787	35.18 %
Consumer and other loans				
Consumer loans	70,695	3.85 %	77,445	4.18 %
Other	4,856	0.26 %	3,971	0.21 %
Total consumer and other loans	75,551	4.11 %	81,416	4.39 %
Total non-covered loans	1,806,434	98.30 %	1,795,954	96.92 %
Total covered loans	31,287	1.70 %	56,994	3.08 %
Total loans held for investment, net of unearned income	$1,837,721	100.00 %	$1,852,948	100.00 %

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

	September 30, 2017	**December 31, 2016**
(Amounts in thousands)		
Covered loans		
Commercial loans		
Construction, development, and other land	$ 40	$ 4,570
Commercial and industrial	-	895
Multi-family residential	-	8
Single family non-owner occupied	292	962
Non-farm, non-residential	10	7,512
Agricultural	-	25
Farmland	-	397
Total commercial loans	342	14,369

Consumer real estate loans		
Home equity lines	26,850	35,817
Single family owner occupied	4,095	6,729
Total consumer real estate loans	30,945	42,546
Consumer and other loans		
Consumer loans	-	79
Total covered loans	$ 31,287	$ 56,994

The Company identifies certain purchased loans as impaired when fair values are established at acquisition and groups those 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.

Table of Contents

The following table presents the recorded investment and contractual unpaid principal balance of PCI loans, by acquisition, as of the dates indicated:

	September 30, 2017		December 31, 2016	
(Amounts in thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Recorded Investment**	**Unpaid Principal Balance**
PCI Loans, by acquisition				
Peoples	$5,179	$ 8,328	$5,576	$ 9,397
Waccamaw	14,903	34,420	21,758	45,030
Other acquired	1,011	1,037	1,095	1,121
Total PCI Loans	$21,093	$ 43,785	$28,429	$ 55,548

The following table presents the changes in the accretable yield on PCI loans, by acquisition, during the periods indicated:

	Peoples	**Waccamaw**	**Total**
(Amounts in thousands)			
Balance January 1, 2016	$3,589	$ 26,109	$29,698
Accretion	(982)	(4,408)	(5,390)
Reclassifications from nonaccretable difference[1]	231	848	1,079
Other changes, net	1,774	4	1,778
Balance September 30, 2016	$4,612	$ 22,553	$27,165
Balance January 1, 2017	$4,392	$ 21,834	$26,226
Accretion	(969)	(4,690)	(5,659)
Reclassifications from nonaccretable difference[1]	782	2,525	3,307
Other changes, net	(375)	(311)	(686)
Balance September 30, 2017	$3,830	$ 19,358	$23,188

(1) Represents changes attributable to expected loss assumptions

Note 4. 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 that 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.

Table of Contents

The following tables present the recorded investment of the loan portfolio, by loan 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.

	September 30, 2017					
(Amounts in thousands)	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Loss**	**Total**
Non-covered loans						
Commercial loans						
Construction, development, and other land	$69,257	$2,791	$ 904	$ -	$ -	$72,952
Commercial and industrial	85,368	1,844	2,972	-	-	90,184
Multi-family residential	119,399	5,882	716	-	-	125,997
Single family non-owner occupied	132,000	6,839	4,374	-	-	143,213
Non-farm, non-residential	593,809	11,126	8,243	202	-	613,380
Agricultural	5,743	235	118	-	-	6,096
Farmland	25,097	153	2,647	-	-	27,897
Consumer real estate loans						
Home equity lines	100,375	850	1,663	-	-	102,888
Single family owner occupied	471,378	5,705	24,159	-	-	501,242
Owner occupied construction	46,802	-	232	-	-	47,034
Consumer and other loans						
Consumer loans	70,459	27	209	-	-	70,695
Other	4,856	-	-	-	-	4,856
Total non-covered loans	1,724,543	35,452	46,237	202	-	1,806,434
Covered loans						
Commercial loans						
Construction, development, and other land	-	39	1	-	-	40
Single family non-owner occupied	271	-	21	-	-	292
Non-farm, non-residential	-	-	10			