

FIRST COMMUNITY BANCSHARES INC /NV/
Form 10-Q
November 08, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2013
Commission file number 000-19297

FIRST COMMUNITY BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of
incorporation)

55-0694814
(IRS Employer
Identification No.)

P.O. Box 989

Bluefield, Virginia
(Address of principal executive offices)

24605-0989
(Zip Code)
(276) 326-9000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

Class Common Stock, \$1.00 Par Value; 18,865,962 shares outstanding as of November 7, 2013

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FORM 10-Q

For the quarter ended September 30, 2013

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

| | September 30, 2013 | December 31, 2012 |
|--|-------------------------------|------------------------------|
| | (Unaudited) | |
| <i>(Amounts in thousands, except share and per share data)</i> | | |
| Assets | | |
| Cash and due from banks | \$ 47,982 | \$ 50,405 |
| Federal funds sold | 33,374 | 66,509 |
| Interest-bearing deposits in banks | 11,219 | 27,933 |
| Total cash and cash equivalents | 92,575 | 144,847 |
| Securities available-for-sale | 545,676 | 534,358 |
| Securities held-to-maturity | 567 | 816 |
| Loans held for sale | 825 | 6,672 |
| Loans held for investment, net of unearned income: | | |
| Covered under loss share agreements | 163,425 | 207,106 |
| Not covered under loss share agreements | 1,533,272 | 1,517,547 |
| Less allowance for loan losses | (24,665) | (25,770) |
| Loans held for investment, net | 1,672,032 | 1,698,883 |
| FDIC indemnification asset | 37,102 | 48,149 |
| Property, plant, and equipment, net | 63,526 | 64,868 |
| Other real estate owned: | | |
| Covered under loss share agreements | 7,381 | 3,255 |
| Not covered under loss share agreements | 5,450 | 5,749 |
| Interest receivable | 7,336 | 7,842 |
| Goodwill | 104,892 | 104,866 |
| Intangible assets | 2,976 | 3,522 |
| Other assets | 112,313 | 105,040 |
| Total assets | \$ 2,652,651 | \$ 2,728,867 |
| Liabilities | | |
| Deposits: | | |
| Noninterest-bearing | \$ 353,951 | \$ 343,352 |
| Interest-bearing | 1,642,614 | 1,686,823 |
| Total deposits | 1,996,565 | 2,030,175 |
| Interest, taxes, and other liabilities | 24,653 | 28,816 |
| Securities sold under agreements to repurchase | 114,647 | 136,118 |

| | | |
|---|---------------------|---------------------|
| FHLB borrowings | 150,000 | 161,558 |
| Other borrowings | 15,839 | 15,877 |
| Total liabilities | 2,301,704 | 2,372,544 |
| Stockholders equity | | |
| Preferred stock, undesignated par value; 1,000,000 shares authorized: Series A Noncumulative Convertible Preferred Stock, \$0.01 par value; 25,000 shares authorized; 15,471 and 17,421 shares outstanding at September 30, 2013, and December 31, 2012, respectively | 15,471 | 17,421 |
| Common stock, \$1 par value; 50,000,000 shares authorized; 20,477,877 and 20,343,327 shares issued at September 30, 2013, and December 31, 2012, respectively; 589,849 and 289,861 shares in treasury at September 30, 2013, and December 31, 2012, respectively | 20,478 | 20,343 |
| Additional paid-in capital | 215,671 | 213,829 |
| Retained earnings | 123,018 | 113,013 |
| Treasury stock, at cost | (10,946) | (6,458) |
| Accumulated other comprehensive loss | (12,745) | (1,825) |
| Total stockholders equity | 350,947 | 356,323 |
| Total liabilities and stockholders equity | \$ 2,652,651 | \$ 2,728,867 |

See Notes to Consolidated Financial Statements.

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FIRST COMMUNITY BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

| <i>(Amounts in thousands, except share and per share data)</i> | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---|---------------|--|---------------|
| | 2013 | 2012 | 2013 | 2012 |
| Interest income | | | | |
| Interest and fees on loans held for investment | \$ 23,439 | \$ 28,275 | \$ 72,547 | \$ 68,496 |
| Interest on securities taxable | 1,999 | 1,989 | 5,754 | 6,060 |
| Interest on securities nontaxable | 1,216 | 1,206 | 3,631 | 3,667 |
| Interest on deposits in banks | 42 | 66 | 180 | 177 |
| Total interest income | 26,696 | 31,536 | 82,112 | 78,400 |
| Interest expense | | | | |
| Interest on deposits | 2,147 | 2,603 | 6,792 | 7,368 |
| Interest on short-term borrowings | 517 | 675 | 1,686 | 1,859 |
| Interest on long-term borrowings | 1,706 | 1,799 | 5,084 | 5,253 |
| Total interest expense | 4,370 | 5,077 | 13,562 | 14,480 |
| Net interest income | 22,326 | 26,459 | 68,550 | 63,920 |
| Provision for loan losses | 2,333 | 1,916 | 6,680 | 4,458 |
| Net interest income after provision for loan losses | 19,993 | 24,543 | 61,870 | 59,462 |
| Noninterest income | | | | |
| Wealth management income | 863 | 1,005 | 2,680 | 2,839 |
| Service charges on deposit accounts | 3,582 | 3,895 | 10,065 | 10,237 |
| Other service charges and fees | 1,777 | 1,631 | 5,356 | 4,780 |
| Insurance commissions | 1,559 | 1,616 | 4,533 | 4,528 |
| Impairment losses on securities | | (942) | | (942) |
| Portion of losses recognized in other comprehensive income | | | | |
| Net impairment losses recognized in earnings | | (942) | | (942) |
| Net gain (loss) on sale of securities | (39) | 228 | 191 | 270 |
| FDIC indemnification asset (amortization) accretion | (1,089) | 131 | (4,290) | 131 |
| Other operating income | 1,458 | 3,599 | 4,285 | 5,654 |
| Total noninterest income | 8,111 | 11,163 | 22,820 | 27,497 |
| Noninterest expense | | | | |
| Salaries and employee benefits | 11,080 | 10,860 | 31,150 | 27,974 |
| Occupancy expense of bank premises | 1,700 | 1,754 | 5,350 | 4,934 |

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| | | | | |
|---|---------------|---------------|---------------|---------------|
| Furniture and equipment | 1,288 | 955 | 3,931 | 2,741 |
| Amortization of intangible assets | 183 | 191 | 545 | 613 |
| FDIC premiums and assessments | 460 | 611 | 1,401 | 1,223 |
| Merger related expense | | 645 | 56 | 4,227 |
| Other operating expense | 5,442 | 5,309 | 15,797 | 14,938 |
| Total noninterest expense | 20,153 | 20,325 | 58,230 | 56,650 |
| Income before income taxes | 7,951 | 15,381 | 26,460 | 30,309 |
| Income tax expense | 2,539 | 5,322 | 8,472 | 10,171 |
| Net income | 5,412 | 10,059 | 17,988 | 20,138 |
| Dividends on preferred stock | 261 | 220 | 772 | 786 |
| Net income available to common shareholders | \$ 5,151 | \$ 9,839 | \$ 17,216 | \$ 19,352 |
| Basic earnings per common share | \$ 0.26 | \$ 0.49 | \$ 0.86 | \$ 1.03 |
| Diluted earnings per common share | \$ 0.26 | \$ 0.47 | \$ 0.85 | \$ 1.00 |
| Cash dividends per common share | \$ 0.12 | \$ 0.11 | \$ 0.36 | \$ 0.32 |
| Weighted average basic shares outstanding | 20,008,861 | 20,013,264 | 20,013,095 | 18,812,516 |
| Weighted average diluted shares outstanding | 21,136,173 | 21,333,451 | 21,203,481 | 20,123,938 |

See Notes to Consolidated Financial Statements.

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FIRST COMMUNITY BANCSHARES, INC.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|--|-----------|------------------------------------|-----------|
| | 2013 | 2012 | 2013 | 2012 |
| <i>(Amounts in thousands, except share and per share data)</i> | | | | |
| Net income | \$ 5,412 | \$ 10,059 | \$ 17,988 | \$ 20,138 |
| Other comprehensive (loss) income, before tax | | | | |
| Available-for-sale securities: | | | | |
| Unrealized (losses) gains on securities available-for-sale with other-than-temporary impairment | (861) | 1,287 | (1,043) | 1,182 |
| Unrealized (losses) gains on securities available-for-sale without other-than-temporary impairment | (453) | 1,628 | (16,057) | 7,449 |
| Less: reclassification adjustment for losses (gains) realized in net income | 39 | (228) | (191) | (270) |
| Less: reclassification adjustment for credit related other-than-temporary impairments recognized in net income | | 942 | | 942 |
| Unrealized (losses) gains on available-for-sale securities in OCI | (1,275) | 3,629 | (17,291) | 9,303 |
| Benefit plans: | | | | |
| Net actuarial gains (losses) on pension and other postretirement benefit plans | 126 | 97 | (386) | 112 |
| Amortization of prior service cost, transition asset/obligation, and net actuarial losses included in net periodic benefit cost | 82 | 67 | 245 | 201 |
| Unrealized gains (losses) on benefit plans | 208 | 164 | (141) | 313 |
| Other comprehensive (loss) income, before tax | (1,067) | 3,793 | (17,432) | 9,616 |
| Income tax benefit (expense) related to items of OCI | 400 | (1,434) | 6,512 | (3,635) |
| Other comprehensive (loss) income, net of tax | (667) | 2,360 | (10,920) | 5,981 |
| Total comprehensive income | \$ 4,745 | \$ 12,419 | \$ 7,068 | \$ 26,119 |

See Notes to Consolidated Financial Statements.

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FIRST COMMUNITY BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY
(UNAUDITED)

| | Preferred Stock | Common Stock | Additional Paid-in Capital | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Income (Loss) | Total |
|--|--------------------|-----------------|----------------------------------|----------------------|-------------------|---|------------|
| <i>(Amounts in thousands, except share and per share data)</i> | | | | | | | |
| Balance January 1, 2012 | \$ 18,921 | \$ 18,083 | \$ 188,118 | \$ 93,656 | \$ (5,721) | \$ (7,328) | \$ 305,729 |
| Net income | | | | 20,138 | | | 20,138 |
| Other comprehensive income | | | | | | 5,982 | 5,982 |
| Common dividends declared \$0.32 per share | | | | (5,953) | | | (5,953) |
| Preferred dividends declared \$45.00 per share | | | | (786) | | | (786) |
| Preferred stock converted to common stock 69,000 shares | (1,000) | 69 | 931 | | | | |
| Equity-based compensation expense | | | 72 | | 17 | | 89 |
| Common stock options exercised 5,223 shares | | | (59) | | 128 | | 69 |
| Restricted stock awards 5,300 shares | | | (55) | | 130 | | 75 |
| Acquisition of Peoples Bank of Virginia 2,157,005 shares | | 2,157 | 24,313 | | | | 26,470 |
| Balance September 30, 2012 | \$ 17,921 | \$ 20,309 | \$ 213,320 | \$ 107,055 | \$ (5,446) | \$ (1,346) | \$ 351,813 |
| Balance January 1, 2013 | \$ 17,421 | \$ 20,343 | \$ 213,829 | \$ 113,013 | \$ (6,458) | \$ (1,825) | \$ 356,323 |
| Net income | | | | 17,988 | | | 17,988 |
| Other comprehensive loss | | | | | | (10,920) | (10,920) |
| Common dividends declared \$0.36 per share | | | | (7,211) | | | (7,211) |
| Preferred dividends declared \$45.00 per share | | | | (772) | | | (772) |
| Preferred stock converted to common stock 134,550 shares | (1,950) | 135 | 1,815 | | | | |
| Equity-based compensation expense | | | 213 | | | | 213 |
| Common stock options exercised 789 shares | | | (9) | | 16 | | 7 |
| | | | (177) | | 703 | | 526 |

Restricted stock awards

29,652 shares

Purchase of treasury shares

335,192 shares at \$15.52 per
share

(5,207)

(5,207)

Balance September 30, 2013 \$ 15,471 \$ 20,478 \$ 215,671 \$ 123,018 \$ (10,946) \$ (12,745) \$ 350,947

See Notes to Consolidated Financial Statements.

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| <i>(Amounts in thousands)</i> | Nine Months Ended September 30, | |
|---|--|-------------|
| | 2013 | 2012 |
| Operating activities | | |
| Net income | \$ 17,988 | \$ 20,138 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 6,680 | 4,458 |
| Depreciation and amortization of property, plant, and equipment | 3,730 | 2,832 |
| (Accretion of discounts) amortization of premiums on investments, net | 408 | 1,292 |
| Amortization (accretion) of FDIC receivable for loss share agreements | 4,290 | (131) |
| Amortization of intangible assets | 545 | 613 |
| Gain on sale of loans | (1,040) | (721) |
| Equity-based compensation expense | 213 | 89 |
| (Gain) loss on sale of property, plant, and equipment | (51) | 91 |
| Loss on sales of other real estate | 1,733 | 1,592 |
| Gain on sale of securities | (191) | (270) |
| Net impairment losses recognized in earnings | | 942 |
| Gain on prepayment of debt | (296) | |
| Deferred income tax expense | | 1,656 |
| Proceeds from sale of mortgage loans | 65,823 | 51,061 |
| Origination of mortgage loans | (58,936) | (48,966) |
| Increase in accrued interest receivable | (1,472) | 2,182 |
| (Increase) decrease in other operating activities | (10,835) | 11,012 |
| Net cash provided by operating activities | 28,589 | 47,870 |
| Investing activities | | |
| Proceeds from sale of securities available-for-sale | 104,240 | 78,092 |
| Proceeds from maturities, prepayments, and calls of securities available-for-sale | 67,650 | 66,318 |
| Proceeds from maturities, prepayments, and calls of securities held-to-maturity | 250 | 2,690 |
| Payments to acquire securities available-for-sale | (201,138) | (109,637) |
| Collections of loans | 10,892 | 38,748 |
| Proceeds from the redemption of FHLB stock, net | 1,184 | 1,757 |
| Net cash (paid) acquired in acquisitions | (201) | 152,774 |
| Proceeds from the FDIC | 13,573 | |
| Payments to acquire property, plant, and equipment | (2,460) | (4,088) |
| Proceeds from sale of property, plant, and equipment | 113 | 1,118 |
| Proceeds from sale of other real estate | 4,885 | 5,792 |
| Net cash (used in) provided by investing activities | (1,012) | 233,564 |
| Financing activities | | |

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| | | |
|--|-----------------|------------------|
| Net increase in noninterest-bearing deposits | 10,599 | 4,405 |
| Net decrease in interest-bearing deposits | (44,209) | (133,095) |
| Repayments of securities sold under agreements to repurchase | (21,471) | (2,386) |
| Repayments of long-term debt | (11,596) | (25,769) |
| Proceeds from stock options exercised | 7 | 144 |
| Payments for repurchase of treasury stock | (5,207) | |
| Excess tax benefit from share-based compensation | | 6 |
| Payments of common dividends | (7,211) | (5,953) |
| Payments of preferred dividends | (761) | (851) |
| Net cash used in financing activities | (79,849) | (163,499) |
| (Decrease) increase in cash and cash equivalents | (52,272) | 117,935 |
| Cash and cash equivalents at beginning of period | 144,847 | 47,294 |
| Cash and cash equivalents at end of period | \$ 92,575 | \$ 165,229 |
| Supplemental information noncash items | | |
| Transfer of loans to other real estate | \$ 13,631 | \$ 6,916 |
| Loans originated to finance other real estate | \$ 3,184 | \$ 1,324 |

See Notes to Consolidated Financial Statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. General

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

The condensed consolidated balance sheet as of December 31, 2012, has been derived from the audited consolidated financial statements included in the Company s 2012 Annual Report on Form 10-K (the 2012 Form 10-K), as filed with the Securities and Exchange Commission (the SEC) on March 15, 2013. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with GAAP have been omitted in accordance with standards for the preparation of interim consolidated financial statements. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s 2012 Form 10-K.

The Company operates in one business segment, Community Banking. The Community Banking segment consists of all operations, including commercial and consumer banking, lending activities, wealth management, and insurance services.

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, Financial and Supplementary Data, of the Company s 2012 Form 10-K and Note 1, General, of the Notes to Condensed Consolidated Financial Statements (Unaudited) in Part I, Item 1, Financial Statements, herein. Additional discussion of the Company s application of critical accounting estimates is included within Application of Critical Accounting Estimates in Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operations, herein.

Reclassifications and Corrections

The Company has made certain reclassifications of prior years amounts necessary to conform to the current year s presentation. These reclassifications had no effect on the Company s financial position, stockholders equity, or results of operations.

Recent Accounting Pronouncements

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

Table of Contents**Earnings per Common Share**

Basic earnings per common share is determined by dividing net income available to common shareholders by the weighted average common shares outstanding. Diluted earnings per common share is determined by dividing net income by the weighted average common shares outstanding, including diluted shares for stock options, warrants, contingently issuable shares, and convertible preferred shares. The calculation for basic and diluted earnings per common share follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---|-------------|--|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| <i>(Amounts in thousands, except share and per share data)</i> | | | | |
| Net income | \$ 5,412 | \$ 10,059 | \$ 17,988 | \$ 20,138 |
| Dividends on preferred stock | 261 | 220 | 772 | 786 |
| Net income available to common shareholders | \$ 5,151 | \$ 9,839 | \$ 17,216 | \$ 19,352 |
| Weighted average common shares outstanding, basic | 20,008,861 | 20,013,264 | 20,013,095 | 18,812,516 |
| Diluted shares for stock options and restricted stock | 35,850 | 19,138 | 31,671 | 7,384 |
| Weighted average convertible preferred shares | 1,091,462 | 1,301,049 | 1,158,715 | 1,304,038 |
| Weighted average common shares outstanding, diluted | 21,136,173 | 21,333,451 | 21,203,481 | 20,123,938 |
| Basic earnings per common share | \$ 0.26 | \$ 0.49 | \$ 0.86 | \$ 1.03 |
| Diluted earnings per common share | \$ 0.26 | \$ 0.47 | \$ 0.85 | \$ 1.00 |

The Company's Series A Noncumulative Convertible Preferred Stock (Series A Preferred Stock) carries a 6% dividend rate. Each share is convertible into 69 shares of the Company's Common Stock (Common Stock) at any time and mandatorily converts after five years. The Company may redeem the shares at face value after May 20, 2014. There were 15,471 shares of Series A Preferred Stock outstanding at September 30, 2013, 17,421 shares outstanding at December 31, 2012, and 17,921 shares outstanding at September 30, 2012.

The following outstanding options to purchase Common Stock were excluded from the calculation of diluted earnings per share because the exercise price was greater than the market value of the Common Stock, which would result in an antidilutive effect on diluted earnings per share:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---|-------------|--|-------------|
| | 2013 | 2012 | 2013 | 2012 |

| | | | | |
|---------------|---------|---------|---------|---------|
| Stock options | 339,008 | 338,536 | 339,008 | 450,966 |
|---------------|---------|---------|---------|---------|

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The amortized cost and estimated fair value of available-for-sale securities, including gross unrealized gains and losses, at September 30, 2013, and December 31, 2012, were as follows:

| | September 30, 2013 | | | | |
|---|---------------------------|-----------------------------|------------------------------|-----------------------|---------------------------------------|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value | OTTI in AOCI⁽¹⁾ |
| <i>(Amounts in thousands)</i> | | | | | |
| U.S. Treasury securities | \$ 9,701 | \$ | \$ (435) | \$ 9,266 | \$ |
| Municipal securities | 152,965 | 2,760 | (3,923) | 151,802 | |
| Single issue trust preferred securities | 55,750 | | (9,811) | 45,939 | |
| Corporate securities | 5,000 | | (67) | 4,933 | |
| Mortgage-backed securities: | | | | | |
| Agency | 321,486 | 3,416 | (6,637) | 318,265 | |
| Non-Agency Alt-A residential | 13,242 | | (3,219) | 10,023 | (3,219) |
| Total mortgage-backed securities | 334,728 | 3,416 | (9,856) | 328,288 | (3,219) |
| Equity securities | 5,315 | 187 | (54) | 5,448 | |
| Total | \$ 563,459 | \$ 6,363 | \$ (24,146) | \$ 545,676 | \$ (3,219) |

| | December 31, 2012 | | | | |
|---|---------------------------|-----------------------------|------------------------------|-----------------------|---|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value | OTTI in AOCI⁽¹⁾ |
| <i>(Amounts in thousands)</i> | | | | | |
| Municipal securities | \$ 151,119 | \$ 8,195 | \$ (97) | \$ 159,217 | \$ |
| Single issue trust preferred securities | 55,707 | | (11,061) | 44,646 | |
| Mortgage-backed securities: | | | | | |
| Agency | 310,323 | 6,023 | (449) | 315,897 | |
| Non-Agency Alt-A residential | 14,215 | | (3,148) | 11,067 | (3,148) |
| Total mortgage-backed securities | 324,538 | 6,023 | (3,597) | 326,964 | (3,148) |
| Equity securities | 3,446 | 190 | (105) | 3,531 | |
| Total | \$ 534,810 | \$ 14,408 | \$ (14,860) | \$ 534,358 | \$ (3,148) |

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

The amortized cost and estimated fair value of held-to-maturity securities, including gross unrealized gains and losses, at September 30, 2013, and December 31, 2012, were as follows:

| | September 30, 2013 | | | Fair Value |
|-------------------------------|---------------------------|-------------------------|--------------------------|-------------------|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | |
| <i>(Amounts in thousands)</i> | | | | |
| Municipal securities | \$ 567 | \$ 5 | \$ | \$ 572 |
| Total | \$ 567 | \$ 5 | \$ | \$ 572 |

| | December 31, 2012 | | | Fair Value |
|-------------------------------|--------------------------|-------------------------|--------------------------|-------------------|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | |
| <i>(Amounts in thousands)</i> | | | | |
| Municipal securities | \$ 816 | \$ 16 | \$ | \$ 832 |
| Total | \$ 816 | \$ 16 | \$ | \$ 832 |

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The amortized cost and estimated fair value of available-for-sale and held-to-maturity securities by contractual maturity at September 30, 2013, are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

| <i>(Amounts in thousands)</i> | Amortized | |
|---|-------------------|-------------------|
| | Cost | Fair Value |
| Available-for-sale securities | | |
| Due within one year | \$ 727 | \$ 735 |
| Due after one year but within five years | 17,725 | 18,101 |
| Due after five years but within ten years | 35,742 | 35,808 |
| Due after ten years | 169,222 | 157,296 |
| | 223,416 | 211,940 |
| Mortgage-backed securities | 334,728 | 328,288 |
| Equity securities | 5,315 | 5,448 |
| Total | \$ 563,459 | \$ 545,676 |
| Held-to-maturity securities | | |
| Due within one year | \$ | \$ |
| Due after one year but within five years | 567 | 572 |
| Due after five years but within ten years | | |
| Due after ten years | | |
| Total | \$ 567 | \$ 572 |

Available-for-sale securities in a continuous unrealized loss position for less than 12 months and for 12 months or longer at September 30, 2013, and December 31, 2012, were as follows:

| <i>(Amounts in thousands)</i> | Less than 12 Months | | September 30, 2013 | | Total | |
|---|----------------------------|--------------------------|---------------------------|--------------------------|-------------------|--------------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. Treasury securities | \$ 9,266 | \$ (435) | \$ | \$ | \$ 9,266 | \$ (435) |
| Municipal securities | 43,722 | (3,923) | | | 43,722 | (3,923) |
| Single issue trust preferred securities | | | 45,939 | (9,811) | 45,939 | (9,811) |
| Corporate securities | 4,933 | (67) | | | 4,933 | (67) |
| Mortgage-backed securities: | | | | | | |
| Agency | 147,950 | (5,869) | 16,006 | (768) | 163,956 | (6,637) |
| Non-Agency Alt-A residential | | | 10,023 | (3,219) | 10,023 | (3,219) |
| Total mortgage-backed securities | 147,950 | (5,869) | 26,029 | (3,987) | 173,979 | (9,856) |

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| | | | | | | |
|-------------------|------------|-------------|-----------|-------------|------------|-------------|
| Equity securities | 4,981 | (19) | 153 | (35) | 5,134 | (54) |
| Total | \$ 210,852 | \$ (10,313) | \$ 72,121 | \$ (13,833) | \$ 282,973 | \$ (24,146) |

| | December 31, 2012 | | | | | |
|---|---------------------|-------------------|---------------------|-------------------|------------|-------------------|
| | Less than 12 Months | | 12 Months or longer | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| <i>(Amounts in thousands)</i> | | | | | | |
| Municipal securities | \$ 6,436 | \$ (97) | \$ | \$ | \$ 6,436 | \$ (97) |
| Single issue trust preferred securities | | | 44,646 | (11,061) | 44,646 | (11,061) |
| Mortgage-backed securities: | | | | | | |
| Agency | 74,197 | (449) | 15 | | 74,212 | (449) |
| Non-Agency Alt-A residential | | | 11,066 | (3,148) | 11,066 | (3,148) |
| Total mortgage-backed securities | 74,197 | (449) | 11,081 | (3,148) | 85,278 | (3,597) |
| Equity securities | 3,106 | (25) | 108 | (80) | 3,214 | (105) |
| Total | \$ 83,739 | \$ (571) | \$ 55,835 | \$ (14,289) | \$ 139,574 | \$ (14,860) |

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There were no held-to-maturity securities in a continuous unrealized loss position at September 30, 2013, or December 31, 2012. At September 30, 2013, the combined depreciation in value of the 171 individual securities in an unrealized loss position was 4.43% of the combined reported value of the aggregate securities portfolio. At December 31, 2012, the combined depreciation in value of the 57 individual securities in an unrealized loss position was 2.78% of the combined reported value of the aggregate securities portfolio.

The following table details the Company's gross gains and gross losses realized from the sale of securities for the periods indicated:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---------------------------------------|-------------------------------------|--------|------------------------------------|--------|
| | 2013 | 2012 | 2013 | 2012 |
| <i>(Amounts in thousands)</i> | | | | |
| Gross realized gains | \$ | \$ 315 | \$ 307 | \$ 434 |
| Gross realized losses | | (39) | (116) | (164) |
| Net gain (loss) on sale of securities | \$ | (39) | \$ 191 | \$ 270 |

The carrying value of securities pledged to secure public deposits and for other purposes was \$279.88 million at September 30, 2013, and \$292.88 million at December 31, 2012.

The Company reviews its investment portfolio on a quarterly basis for indications of other-than-temporary impairment (OTTI). The analysis differs depending upon the type of investment security being analyzed. For debt securities, the Company has determined that it does not intend to sell securities that are impaired and has asserted that it is not more likely than not that the Company will have to sell impaired securities before recovery of the impairment occurs. This determination is based upon the Company's investment strategy for the particular type of debt security and its cash flow needs, liquidity position, capital adequacy, and interest rate risk position.

For nonbeneficial interest debt securities, the Company analyzes several qualitative factors such as the severity and duration of the impairment, adverse conditions within the issuing industry, prospects for the issuer, performance of the security, changes in rating by rating agencies, and other qualitative factors to determine if the impairment will be recovered. Nonbeneficial interest debt securities consist of U.S. Treasury securities, municipal securities, and single issue trust preferred securities. If it is determined that there is evidence that the impairment will not be recovered, the Company performs a present value calculation to determine the amount of impairment and records any credit-related OTTI through earnings and noncredit-related OTTI through other comprehensive income (OCI). During the three and nine months ended September 30, 2013 and 2012, the Company incurred no OTTI charges related to nonbeneficial interest debt securities. Temporary impairment on these securities is primarily related to changes in interest rates, certain disruptions in credit markets, destabilization in the Eurozone, and other current economic factors.

For beneficial interest debt securities, the Company reviews cash flow analyses on each applicable security to determine if an adverse change in cash flows expected to be collected has occurred. Beneficial interest debt securities consist of corporate securities and mortgage-backed securities (MBS). An adverse change in cash flows expected to be collected has occurred if the present value of cash flows previously projected is greater than the present value of cash flows projected at the current reporting date and less than the current book value. If an adverse change in cash flows is deemed to have occurred, then an OTTI has occurred. The Company then compares the present value of cash flows using the current yield for the current reporting period to the reference amount, or current net book value, to determine

the credit-related OTTI. The credit-related OTTI is then recorded through earnings and the noncredit-related OTTI is accounted for in OCI. During the three and nine months ended September 30, 2013, the Company incurred no credit-related OTTI charges associated with beneficial interest debt securities. During the three and nine months ended September 30, 2012, the Company incurred credit-related OTTI charges on beneficial interest debt securities of \$942 thousand. These charges were related to a non-Agency MBS. Temporary impairment on the Agency MBS is primarily related to changes in interest rates.

For the non-Agency Alt-A residential MBS, the Company uses a discounted cash flow model with the following assumptions: constant prepayment rate of 9.7%, a customized constant default rate scenario that assumes approximately 12% of the remaining underlying mortgages will default within three years, and a customized loss severity rate scenario that ramps the loss rate down from 66% to 15% over the course of approximately six years.

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The following table provides a cumulative roll forward of credit losses recognized in earnings for debt securities for which a portion of the OTTI is recognized in OCI:

| | Three Months Ended | | Nine Months Ended | |
|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | September 30, 2013 | September 30, 2012 | September 30, 2013 | September 30, 2012 |
| <i>(Amounts in thousands)</i> | | | | |
| Beginning balance ⁽¹⁾ | \$ 7,478 | \$ 6,536 | \$ 7,478 | \$ 6,536 |
| Additions for credit losses on securities not previously recognized | | | | |
| Additions for credit losses on securities previously recognized | | 942 | | 942 |
| Reduction for increases in cash flows | | | | |
| Reduction for securities management no longer intends to hold to recovery | | | | |
| Reduction for securities sold/realized losses | | | | |
| Ending balance | \$ 7,478 | \$ 7,478 | \$ 7,478 | \$ 7,478 |

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

For equity securities, the Company reviews for OTTI based upon the prospects of the underlying companies, analysts expectations, and certain other qualitative factors to determine if impairment is recoverable over a foreseeable period of time. During the three and nine months ended September 30, 2013 and 2012, the Company recognized no OTTI charges on equity securities.

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

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

| <i>(Amounts in thousands)</i> | September 30, 2013 | | December 31, 2012 | |
|--|---------------------------|----------------|--------------------------|----------------|
| | Amount | Percent | Amount | Percent |
| Covered loans | \$ 163,425 | 9.63% | \$ 207,106 | 12.01% |
| Non-covered loans | | | | |
| Commercial loans | | | | |
| Construction, development, and other land | 55,791 | 3.29% | 57,434 | 3.33% |
| Commercial and industrial | 95,972 | 5.66% | 88,738 | 5.15% |
| Multi-family residential | 56,079 | 3.31% | 65,694 | 3.81% |
| Single family non-owner occupied | 132,253 | 7.79% | 135,912 | 7.88% |
| Non-farm, non-residential | 455,247 | 26.83% | 448,810 | 26.02% |
| Agricultural | 2,274 | 0.13% | 1,709 | 0.10% |
| Farmland | 31,885 | 1.88% | 34,570 | 2.00% |
| Total commercial loans | 829,501 | 48.89% | 832,867 | 48.29% |
| Consumer real estate loans | | | | |
| Home equity lines | 109,611 | 6.46% | 111,081 | 6.44% |
| Single family owner occupied | 492,424 | 29.02% | 473,547 | 27.46% |
| Owner occupied construction | 25,349 | 1.50% | 16,223 | 0.94% |
| Total consumer real estate loans | 627,384 | 36.98% | 600,851 | 34.84% |
| Consumer and other loans | | | | |
| Consumer loans | 71,679 | 4.22% | 78,163 | 4.53% |
| Other | 4,708 | 0.28% | 5,666 | 0.33% |
| Total consumer and other loans | 76,387 | 4.50% | 83,829 | 4.86% |
| Total non-covered loans | 1,533,272 | 90.37% | 1,517,547 | 87.99% |
| Total loans held for investment, net of unearned income | \$ 1,696,697 | 100.00% | \$ 1,724,653 | 100.00% |
| Loans held for sale | \$ 825 | | \$ 6,672 | |

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| <i>(Amounts in thousands)</i> | September 30, 2013 | December 31, 2012 |
|---|---------------------------|--------------------------|
| Covered loans | | |
| Commercial loans | | |
| Construction, development, and other land | \$ 17,979 | \$ 26,595 |
| Commercial and industrial | 3,951 | 6,948 |
| Multi-family residential | 2,003 | 2,611 |
| Single family non-owner occupied | 8,142 | 11,428 |
| Non-farm, non-residential | 37,751 | 48,565 |
| Agricultural | 176 | 144 |
| Farmland | 1,014 | 1,091 |
| Total commercial loans | 71,016 | 97,382 |
| Consumer real estate loans | | |
| Home equity lines | 71,724 | 81,445 |
| Single family owner occupied | 19,253 | 22,961 |
| Owner occupied construction | 1,306 | 1,644 |
| Total consumer real estate loans | 92,283 | 106,050 |
| Consumer and other loans | | |
| Consumer loans | 126 | 3,674 |
| Total covered loans | \$ 163,425 | \$ 207,106 |

See Note 12, *Litigation, Commitments and Contingencies*, for information concerning the Company's off-balance sheet credit risk related to lending activities.

Acquired Impaired Loans

When the fair values of acquired loans are established, certain loans are identified as impaired. The Company has estimated cash flows to be collected on acquired impaired loans and discounted those cash flows at a market rate of interest. The outstanding principal balance of acquired impaired loans was \$139.46 million at September 30, 2013, \$198.34 million at December 31, 2012, and \$220.07 million at September 30, 2012. The following tables present the carrying balance of acquired impaired loans during the periods indicated:

| <i>(Amounts in thousands)</i> | Nine Months Ended September 30, 2013 | | | |
|-------------------------------|---|-----------------|--------------|--------------|
| | Peoples | Waccamaw | Other | Total |
| Balance, January 1 | \$ 26,907 | \$ 110,115 | \$ 2,340 | \$ 139,362 |
| Balance, September 30 | 11,961 | 76,457 | 2,015 | 90,433 |

| <i>(Amounts in thousands)</i> | Nine Months Ended September 30, 2012 | | | |
|-------------------------------|---|-----------------|--------------|--------------|
| | Peoples | Waccamaw | Other | Total |
| Balance, January 1 | \$ | \$ | \$ 2,886 | \$ 2,886 |
| Balance, September 30 | 30,898 | 115,125 | 2,314 | 148,337 |

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The following tables present changes in the accretable yield on acquired impaired loans during the periods indicated:

| | Nine Months Ended September 30, 2013 | | | |
|---|---|-----------------|--------------|--------------|
| | Peoples | Waccamaw | Other | Total |
| <i>(Amounts in thousands)</i> | | | | |
| Balance, January 1, 2013 | \$ 2,342 | \$ 21,886 | \$ 15 | \$ 24,243 |
| Additions | 148 | 189 | | 337 |
| Accretion | (1,315) | (4,558) | (108) | (5,981) |
| Transfers to accretable discount (exit events), net | 4,276 | (6,477) | 101 | (2,100) |
| Disposals | (1,417) | (2,127) | | (3,544) |
| Balance, September 30, 2013 | \$ 4,034 | \$ 8,913 | \$ 8 | \$ 12,955 |

| | Nine Months Ended September 30, 2012 | | | |
|---------------------------------------|---|-----------------|--------------|--------------|
| | Peoples | Waccamaw | Other | Total |
| <i>(Amounts in thousands)</i> | | | | |
| Balance, January 1, 2012 | \$ | \$ | \$ 919 | \$ 919 |
| Additions | 3,400 | 26,481 | | 29,881 |
| Accretion | (399) | (1,491) | (1,198) | (3,088) |
| Transfers to accretable discount, net | | | 139 | 139 |
| Disposals | 77 | 108 | 161 | 346 |
| Balance, September 30, 2012 | \$ 3,078 | \$ 25,098 | \$ 21 | \$ 28,197 |

Note 4. Allowance for Loan Losses and Credit Quality Indicators***Allowance for Loan Losses***

The allowance for loan losses is maintained at a level management deems sufficient to absorb probable loan losses inherent in the loan portfolio. The allowance is increased by charges to earnings in the form of provision for loan losses and recoveries of prior loan charge-offs, and decreased by loans charged off. The provision is calculated to bring the allowance to a level which, according to a systematic process of measurement, reflects the amount management estimates is needed to absorb probable losses within the portfolio. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company's control, including, among other things, the performance of the Company's loan portfolio, the economy, changes in interest rates, and the view of the regulatory authorities toward loan classifications. Purchased credit impaired loan pools are evaluated separately from the non-purchased credit impaired portfolio for impairment.

Management performs quarterly assessments to determine the appropriate level of the allowance for loan losses. Differences between actual loan loss experience and estimates are reflected through adjustments that are made by increasing or decreasing the allowance based upon current measurement criteria. Commercial, consumer real estate, and non-real estate consumer loan portfolios are evaluated separately for purposes of determining the allowance. The specific components of the allowance include allocations to individual commercial loans and credit relationships and allocations to the remaining nonhomogeneous and homogeneous pools of loans that have been deemed impaired.

Additionally, a loan that becomes adversely classified is removed from a group of loans with similar risk characteristics that are not classified to evaluate the removed loan collectively in a group of adversely classified loans with similar risk characteristics. Management's general reserve allocations are based on judgment of qualitative and quantitative factors about macro and micro economic conditions reflected within the portfolio of loans and the economy as a whole. Factors considered in this evaluation include, but are not necessarily limited to, probable losses from loan and other credit arrangements, general economic conditions, changes in credit concentrations or pledged collateral, historical loan loss experience, and trends in portfolio volume, maturities, composition, delinquencies, and nonaccruals. Historical loss rates for each risk grade of commercial loans are adjusted by environmental factors to estimate the amount of reserve needed by segment. While management has allocated the allowance for loan losses to various portfolio segments, the entire allowance is available for use against any type of loan loss deemed appropriate by management.

Purchased performing loans are recorded at fair value and include credit and interest rate marks associated with acquisition accounting adjustments, as accounted for under the contractual cash flow method of accounting. The fair value adjustment is accreted as an adjustment to yield over the estimated contractual lives of the loans. There is no allowance for loan losses established at the acquisition date for acquired performing loans. In accordance with GAAP, there was no carryover of previously established allowance for loan losses on acquired portfolios. A provision for loan losses is recorded for any credit deterioration in these acquired loans subsequent to the acquisition. The provision established for covered acquired impaired loans is offset by an adjustment to the FDIC loss share receivable to reflect the indemnified portion of the post-acquisition exposure.

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The following tables detail activity within the allowance for loan losses, by portfolio segment, for the dates indicated:

| | Three Months Ended September 30, | | | | 2012 | | | |
|---|----------------------------------|-------------|--------------------|-----------|------------|-------------|--------------------|-----------|
| | 2013 | | Consumer and Other | | 2012 | | Consumer and Other | |
| | Commercial | Real Estate | Other | Total | Commercial | Real Estate | Other | Total |
| <i>(Amounts in thousands)</i> | | | | | | | | |
| Allowance excluding acquired impaired | | | | | | | | |
| Beginning balance | \$ 15,873 | \$ 6,658 | \$ 583 | \$ 23,114 | \$ 18,249 | \$ 7,272 | \$ 642 | \$ 26,163 |
| Provision for loan losses charged to operations | 1,551 | (807) | 1,366 | 2,110 | 436 | 1,289 | 191 | 1,916 |
| Loans charged off | (1,503) | 1,035 | (1,487) | (1,955) | (1,184) | (1,126) | (303) | (2,613) |
| Recoveries credited to allowance | 136 | 30 | 187 | 353 | 198 | 63 | 100 | 361 |
| Net charge-offs | (1,367) | 1,065 | (1,300) | (1,602) | (986) | (1,063) | (203) | (2,252) |
| Ending balance | \$ 16,057 | \$ 6,916 | \$ 649 | \$ 23,622 | \$ 17,699 | \$ 7,498 | \$ 630 | \$ 25,827 |
| Acquired impaired allowance | | | | | | | | |
| Beginning balance | \$ 8 | \$ | \$ | \$ 8 | \$ 8 | \$ | \$ | \$ 8 |
| Acquired impaired provision | 158 | 877 | | 1,035 | | | | |
| Benefit attributable to FDIC indemnification asset | (242) | (570) | | (812) | | | | |
| Provision for loan losses charged to operations | (84) | 307 | | 223 | | | | |
| Provision for loan losses recorded through the FDIC indemnification asset | 242 | 570 | | 812 | | | | |
| Loans charged off | | | | | | | | |
| Recoveries credited to allowance | | | | | | | | |
| Net charge-offs | | | | | | | | |
| Ending balance | \$ 166 | \$ 877 | \$ | \$ 1,043 | \$ 8 | \$ | \$ | \$ 8 |
| Total allowance for loan losses | \$ 16,223 | \$ 7,793 | \$ 649 | \$ 24,665 | \$ 17,707 | \$ 7,498 | \$ 630 | \$ 25,835 |

Nine Months Ended September 30,

2013

2012

Consumer Consumer
and
andConsumer Consumer
and
and

Commercial Real Estate Other Total Commercial Real Estate Other Total

*(Amounts in thousands)***Allowance excluding
acquired impaired**

| | | | | | | | | |
|--|-----------|----------|---------|-----------|-----------|----------|--------|-----------|
| Beginning balance | \$ 17,259 | \$ 7,906 | \$ 597 | \$ 25,762 | \$ 17,551 | \$ 7,711 | \$ 742 | \$ 26,004 |
| Provision for loan losses charged to operations | 4,338 | 422 | 1,697 | 6,457 | 1,928 | 2,475 | 248 | 4,651 |
| Loans charged off | (5,732) | (1,643) | (2,345) | (9,720) | (2,353) | (2,802) | (632) | (5,787) |
| Recoveries credited to allowance | 192 | 231 | 700 | 1,123 | 573 | 114 | 272 | 959 |
| Net charge-offs | (5,540) | (1,412) | (1,645) | (8,597) | (1,780) | (2,688) | (360) | (4,828) |
| Ending balance | \$ 16,057 | \$ 6,916 | \$ 649 | \$ 23,622 | \$ 17,699 | \$ 7,498 | \$ 630 | \$ 25,827 |

**Acquired impaired
allowance**

| | | | | | | | | |
|--|-----------|----------|--------|-----------|-----------|----------|--------|-----------|
| Beginning balance | \$ 8 | \$ | \$ | \$ 8 | \$ 201 | \$ | \$ | \$ 201 |
| Acquired impaired provision | 158 | 877 | | 1,035 | (193) | | | (193) |
| Benefit attributable to FDIC indemnificaton asset | (242) | (570) | | (812) | | | | |
| Provision for loan losses charged to operations | (84) | 307 | | 223 | (193) | | | (193) |
| Provision for loan losses recorded through the FDIC indemnificaton asset | 242 | 570 | | 812 | | | | |
| Loans charged off | | | | | | | | |
| Recoveries credited to allowance | | | | | | | | |
| Net charge-offs | | | | | | | | |
| Ending balance | \$ 166 | \$ 877 | \$ | \$ 1,043 | \$ 8 | \$ | \$ | \$ 8 |
| Total allowance for loan losses | \$ 16,223 | \$ 7,793 | \$ 649 | \$ 24,665 | \$ 17,707 | \$ 7,498 | \$ 630 | \$ 25,835 |

Table of Contents***Credit Quality Indicators***

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 it is determined that it is probable that the Company will not collect all principal and interest amounts contractually due, the loan is generally deemed to be impaired.

The following tables present the Company's recorded investment in loans considered to be impaired, excluding purchased credit impaired loans, and related information on those loans for the periods indicated:

| | September 30, 2013 | | | December 31, 2012 | | |
|---|---------------------|--------------------------|-------------------|---------------------|--------------------------|-------------------|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Recorded Investment | Unpaid Principal Balance | Related Allowance |
| <i>(Amounts in thousands)</i> | | | | | | |
| Impaired loans with no related allowance: | | | | | | |
| Commercial loans | | | | | | |
| Construction, development, and other land | \$ 4,229 | \$ 6,376 | \$ | \$ 2,916 | \$ 2,916 | \$ |
| Commercial and industrial | | | | 284 | 284 | |
| Multi-family residential | | | | | | |
| Single family non-owner occupied | 289 | 317 | | 383 | 684 | |
| Non-farm, non-residential | 7,408 | 8,192 | | 5,282 | 5,362 | |
| Agricultural | | | | | | |
| Farmland | 659 | 668 | | | | |
| Consumer real estate loans | | | | | | |
| Home equity lines | 541 | 546 | | 276 | 277 | |
| Single family owner occupied | 2,448 | 2,751 | | 277 | 383 | |
| Owner occupied construction | | | | | | |
| Consumer and other loans | | | | | | |
| Consumer loans | | | | | | |
| Total impaired loans with no allowance | 15,574 | 18,850 | | 9,418 | 9,906 | |
| Impaired loans with a related allowance: | | | | | | |
| Commercial loans | | | | | | |
| Construction, development, and other land | 459 | 459 | 347 | | | |
| Commercial and industrial | 4,743 | 10,084 | 3,648 | 3,318 | 8,502 | 3,192 |
| Multi-family residential | | | | | | |
| Single family non-owner occupied | 313 | 365 | 38 | 2,411 | 2,460 | 996 |
| Non-farm, non-residential | 606 | 606 | 7 | 2,781 | 2,958 | 358 |
| Agricultural | | | | | | |
| Farmland | | | | | | |
| Consumer real estate loans | | | | | | |
| Home equity lines | 519 | 535 | 434 | 223 | 230 | 223 |
| Single family owner occupied | 4,930 | 5,092 | 782 | 4,673 | 4,903 | 806 |
| Owner occupied construction | | | | | | |
| Consumer and other loans | | | | | | |
| Consumer loans | | | | | | |

| | | | | | | |
|--|-----------|-----------|----------|-----------|-----------|----------|
| Total impaired loans with an allowance | 11,570 | 17,141 | 5,256 | 13,784 | 19,450 | 5,593 |
| Total impaired loans | \$ 27,144 | \$ 35,991 | \$ 5,256 | \$ 23,202 | \$ 29,356 | \$ 5,593 |

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| | For the Three Months Ended | | For the Nine Months Ended | |
|---|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| | September 30, 2013 | | September 30, 2013 | |
| | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| <i>(Amounts in thousands)</i> | | | | |
| Impaired loans with no related allowance: | | | | |
| Commercial loans | | | | |
| Construction, development, and other land | \$ 6,375 | \$ 40 | \$ 5,133 | \$ 591 |
| Commercial and industrial | | | 834 | 16 |
| Multi-family residential | | | 24 | 5 |
| Single family non-owner occupied | 317 | | 1,146 | 182 |
| Non-farm, non-residential | 8,194 | | 7,739 | 630 |
| Agricultural | | | | |
| Farmland | 667 | 3 | 372 | 18 |
| Consumer real estate loans | | | | |
| Home equity lines | 546 | | 518 | 66 |
| Single family owner occupied | 2,794 | | 2,069 | 145 |
| Owner occupied construction | | | 20 | 5 |
| Consumer and other loans | | | | |
| Consumer loans | | | 4 | |
| Total impaired loans with no allowance | 18,893 | 43 | 17,859 | 1,658 |
| Impaired loans with a related allowance: | | | | |
| Commercial loans | | | | |
| Construction, development, and other land | 463 | | 1,409 | 141 |
| Commercial and industrial | 5,328 | 11 | 4,009 | 11 |
| Multi-family residential | | | 126 | 7 |
| Single family non-owner occupied | 365 | | 1,064 | 8 |
| Non-farm, non-residential | 606 | | 1,791 | 52 |
| Agricultural | | | | |
| Farmland | | | | |
| Consumer real estate loans | | | | |
| Home equity lines | 535 | 9 | 329 | 14 |
| Single family owner occupied | 5,093 | 13 | 4,318 | 54 |
| Owner occupied construction | | | | |
| Consumer and other loans | | | | |
| Consumer loans | | | | |
| Total impaired loans with an allowance | 12,390 | 33 | 13,046 | 287 |
| Total impaired loans | \$ 31,283 | \$ 76 | \$ 30,905 | \$ 1,945 |

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| | For the Three Months Ended | | For the Nine Months Ended | |
|--|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| | September 30, 2012 | | September 30, 2012 | |
| | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| <i>(Amounts in thousands)</i> | | | | |
| Impaired loans with no related allowance: | | | | |
| Commercial loans | | | | |
| Construction, development, and other land | \$ 784 | \$ | \$ 1,296 | \$ |
| Commercial and industrial | 449 | 3 | 559 | 13 |
| Multi-family residential | 591 | | 1,146 | 4 |
| Single family non-owner occupied | 954 | 4 | 524 | 29 |
| Non-farm, non-residential | 1,584 | 41 | 2,872 | 65 |
| Agricultural | | | | |
| Farmland | 372 | | 508 | |
| Consumer real estate loans | | | | |
| Home equity lines | 321 | | 592 | 20 |
| Single family owner occupied | 4,456 | 38 | 5,727 | 113 |
| Owner occupied construction | | | 1 | |
| Consumer and other loans | | | | |
| Consumer loans | | | 26 | |
| Total impaired loans with no allowance | 9,511 | 86 | 13,251 | 244 |
| Impaired loans with a related allowance: | | | | |
| Commercial loans | | | | |
| Construction, development, and other land | 55 | | 55 | 1 |
| Commercial and industrial | 3,600 | | 3,662 | 163 |
| Multi-family residential | 193 | | 1,309 | |
| Single family non-owner occupied | 2,066 | | 619 | 57 |
| Non-farm, non-residential | 6,454 | 90 | 5,802 | 291 |
| Agricultural | | | | |
| Farmland | 372 | | 372 | |
| Consumer real estate loans | | | | |
| Home equity lines | 125 | | 83 | |
| Single family owner occupied | 3,355 | 15 | 4,827 | 66 |
| Owner occupied construction | | | | |
| Consumer and other loans | | | | |
| Consumer loans | | | | |
| Total impaired loans with an allowance | 16,220 | 105 | 16,729 | 578 |
| Total impaired loans | \$ 25,731 | \$ 191 | \$ 29,980 | \$ 822 |

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The following tables detail the Company's recorded investment in loans, excluding purchased credit impaired loans, related to each segment in the allowance for loan losses by portfolio segment and disaggregated on the basis of the Company's impairment methodology at September 30, 2013, and December 31, 2012.

| | September 30, 2013 | | | |
|---|---|---|--|---|
| | Non-acquired Loans Individually Evaluated for Impairment | Allowance for Loans Individually Evaluated | Loans Collectively Evaluated for Impairment | Allowance for Loans Collectively Evaluated |
| <i>(Amounts in thousands)</i> | | | | |
| Commercial loans | | | | |
| Construction, development, and other land | \$ 4,688 | \$ 347 | \$ 61,896 | \$ 1,476 |
| Commercial and industrial | 4,743 | 3,648 | 93,951 | 1,462 |
| Multi-family residential | | | 57,555 | 1,008 |
| Single family non-owner occupied | 602 | 38 | 133,191 | 3,363 |
| Non-farm, non-residential | 8,014 | 7 | 461,592 | 4,399 |
| Agricultural | | | 2,450 | 19 |
| Farmland | 659 | | 32,137 | 290 |
| Total commercial loans | 18,706 | 4,040 | 842,772 | 12,017 |
| Consumer real estate loans | | | | |
| Home equity lines | 1,060 | 434 | 135,868 | 1,267 |
| Single family owner occupied | 7,378 | 782 | 498,208 | 4,230 |
| Owner occupied construction | | | 25,813 | 203 |
| Total consumer real estate loans | 8,438 | 1,216 | 659,889 | 5,700 |
| Consumer and other loans | | | | |
| Consumer loans | | | 71,751 | 649 |
| Other | | | 4,708 | |
| Total consumer and other loans | | | 76,459 | 649 |
| Total loans | \$ 27,144 | \$ 5,256 | \$ 1,579,120 | \$ 18,366 |

| | December 31, 2012 | | | |
|---|---|---|--|---|
| | Non-acquired Loans Individually Evaluated for Impairment | Allowance for Loans Individually Evaluated | Loans Collectively Evaluated for Impairment | Allowance for Loans Collectively Evaluated |
| <i>(Amounts in thousands)</i> | | | | |
| Commercial loans | | | | |
| Construction, development, and other land | \$ 2,916 | \$ | \$ 55,369 | \$ 1,214 |
| Commercial and industrial | 3,602 | 3,192 | 88,811 | 1,159 |
| Multi-family residential | 378 | 18 | 67,278 | 1,612 |

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| | | | | |
|---|------------------|-----------------|---------------------|------------------|
| Single family non-owner occupied | 2,794 | 996 | 134,323 | 3,371 |
| Non-farm, non-residential | 8,063 | 358 | 451,240 | 4,901 |
| Agricultural | | | 1,852 | 22 |
| Farmland | | | 34,779 | 416 |
| Total commercial loans | 17,753 | 4,564 | 833,652 | 12,695 |
| Consumer real estate loans | | | | |
| Home equity lines | 499 | 223 | 141,684 | 1,351 |
| Single family owner occupied | 4,950 | 806 | 483,553 | 5,189 |
| Owner occupied construction | | | 16,768 | 337 |
| Total consumer real estate loans | 5,449 | 1,029 | 642,005 | 6,877 |
| Consumer and other loans | | | | |
| Consumer loans | | | 81,037 | 597 |
| Other | | | 5,666 | |
| Total consumer and other loans | | | 86,703 | 597 |
| Total loans | \$ 23,202 | \$ 5,593 | \$ 1,562,360 | \$ 20,169 |

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The Company aggregates purchased credit impaired loans into the following loan pools: Waccamaw commercial, Waccamaw lines of credit, Peoples commercial, Waccamaw serviced home equity lines, Waccamaw residential, Peoples residential, and Waccamaw consumer. During the quarterly cash flow analysis, four of the Company's seven purchased credit impaired loan pools were deemed impaired. The pools had a combined recorded investment of \$23.45 million, a current unpaid principal balance of \$36.30 million, and cumulative impairment of \$1.04 million at September 30, 2013. For the three months ended September 30, 2013, the Company had an average recorded investment of \$23.54 million and recognized interest income of \$721 thousand in connection with impaired loan pools. For the nine months ended September 30, 2013, the Company had an average recorded investment of \$15.80 million and recognized interest income of \$839 thousand in connection with impaired loan pools.

The following table details the Company's recorded investment in purchased credit impaired loans and the allowance for loan losses by loan pool at September 30, 2013, and December 31, 2012.

| | September 30, 2013 | | December 31, 2012 | |
|---|-----------------------------------|--|-----------------------------------|--|
| | Acquired Impaired Loans Evaluated | Allowance for Impaired Loans Evaluated | Acquired Impaired Loans Evaluated | Allowance for Impaired Loans Evaluated |
| <i>(Amounts in thousands)</i> | | | | |
| Commercial loans | | | | |
| Waccamaw commercial | \$ 22,299 | \$ | \$ 40,688 | \$ |
| Waccamaw lines of credit | 4,077 | 158 | 10,009 | |
| Peoples commercial | 9,331 | | 23,670 | |
| Other | 2,015 | 8 | 2,340 | 8 |
| Total commercial loans | 37,722 | 166 | 76,707 | 8 |
| Consumer real estate loans | | | | |
| Waccamaw serviced home equity lines | 44,407 | 443 | 50,343 | |
| Waccamaw residential | 5,631 | 270 | 8,974 | |
| Peoples residential | 2,630 | 164 | 3,237 | |
| Total consumer real estate loans | 52,668 | 877 | 62,554 | |
| Consumer and other loans | | | | |
| Waccamaw consumer | 43 | | 101 | |
| Total loans | \$ 90,433 | \$ 1,043 | \$ 139,362 | \$ 8 |

As part of the ongoing monitoring of the credit quality of the Company's loan portfolio, management tracks certain credit quality indicators including trends related to the risk rating of commercial loans, the level of classified commercial loans, net charge-offs, nonperforming loans, and general economic conditions. The Company's loan review function generally reviews all commercial loan relationships greater than \$3.0 million on an annual basis and at various times through the year. Smaller commercial and retail loans are sampled for review throughout the year by our internal loan review department. Through the loan review process, loans are identified for upgrade or downgrade in risk rating and changed to reflect current information as part of the process.

The Company utilizes a risk grading matrix to assign a risk grade to each of its loans. A description of the general characteristics of the risk grades is as follows:

Pass This grade includes loans to borrowers of acceptable credit quality and risk. The Company further differentiates within this grade based upon borrower characteristics which include: capital strength, earnings stability, liquidity leverage, and industry.

Special Mention This grade includes loans that require more than a normal degree of supervision and attention. These loans have all the characteristics of an adequate asset, but due to being adversely affected by economic or financial conditions have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan.

Substandard This grade includes loans that have well defined weaknesses which make payment default or principal exposure possible, but not yet certain. Such loans are apt to be dependent upon collateral liquidation, a secondary source of repayment, or an event outside of the normal course of business to meet the repayment terms.

Doubtful This grade includes loans that are placed on nonaccrual status. These loans have all the weaknesses inherent in a substandard loan with the added factor that the weaknesses are so severe that collection or liquidation in full, on the basis of current existing facts, conditions and values, is extremely unlikely, but because of certain specific pending factors, the amount of loss cannot yet be determined.

Loss This grade includes loans that are to be charged off or charged down when payment is acknowledged to be uncertain or when the timing or value of payments cannot be determined. Loss is not intended to imply that the asset has no recovery or salvage value, but simply that it is not practical or desirable to defer writing off all or some portion of the loan, even though partial recovery may be realized in the future.

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The following tables present the Company's investment in loans held for investment by internal credit grade indicator at September 30, 2013, and December 31, 2012. Purchased credit impaired loan pools have been disaggregated in the following tables for disclosure purposes. Non-covered special mention and substandard loans declined between December 31, 2012, and September 30, 2013, due primarily to loan work-out activity across the portfolio coupled with continued credit improvement in the Peoples' acquired loan portfolio.

| <i>(Amounts in thousands)</i> | September 30, 2013 | | | | | Total |
|---|---------------------------|----------------------------|--------------------|-----------------|-------------|---------------------|
| | Pass | Special Mention | Substandard | Doubtful | Loss | |
| Non-covered loans | | | | | | |
| Commercial loans | | | | | | |
| Construction, development, and other land | \$ 46,431 | \$ 1,371 | \$ 7,007 | \$ 982 | \$ | \$ 55,791 |
| Commercial and industrial | 87,129 | 1,338 | 3,550 | 3,955 | | 95,972 |
| Multi-family residential | 53,093 | 2,262 | 724 | | | 56,079 |
| Single family non-owner occupied | 118,079 | 4,455 | 9,579 | 140 | | 132,253 |
| Non-farm, non-residential | 417,892 | 15,729 | 21,253 | 373 | | 455,247 |
| Agricultural | 2,252 | 11 | 11 | | | 2,274 |
| Farmland | 26,974 | 1,695 | 3,216 | | | 31,885 |
| Consumer real estate loans | | | | | | |
| Home equity lines | 104,582 | 1,384 | 3,125 | 520 | | 109,611 |
| Single family owner occupied | 455,194 | 8,018 | 29,212 | | | 492,424 |
| Owner occupied construction | 25,349 | | | | | 25,349 |
| Consumer and other loans | | | | | | |
| Consumer loans | 70,313 | 898 | 465 | 3 | | 71,679 |
| Other | 4,696 | 2 | 10 | | | 4,708 |
| Total non-covered loans | \$ 1,411,984 | \$ 37,163 | \$ 78,152 | \$ 5,973 | \$ | \$ 1,533,272 |

| <i>(Amounts in thousands)</i> | September 30, 2013 | | | | | Total |
|---|---------------------------|----------------------------|--------------------|-----------------|-------------|--------------|
| | Pass | Special Mention | Substandard | Doubtful | Loss | |
| Covered loans | | | | | | |
| Commercial loans | | | | | | |
| Construction, development, and other land | \$ 10,183 | \$ 1,292 | \$ 6,423 | \$ 81 | \$ | \$ 17,979 |
| Commercial and industrial | 3,299 | 400 | 218 | 34 | | 3,951 |
| Multi-family residential | 1,476 | | 527 | | | 2,003 |
| Single family non-owner occupied | 4,471 | 1,645 | 2,007 | 19 | | 8,142 |
| Non-farm, non-residential | 15,536 | 4,835 | 17,340 | 40 | | 37,751 |
| Agricultural | 176 | | | | | 176 |
| Farmland | 676 | | 338 | | | 1,014 |
| Consumer real estate loans | | | | | | |
| Home equity lines | 15,378 | 10,690 | 45,632 | 24 | | 71,724 |
| Single family owner occupied | 12,489 | 82 | 6,560 | 122 | | 19,253 |
| Owner occupied construction | 203 | 19 | 1,084 | | | 1,306 |

| | | | | | | |
|--------------------------|-----------|-----------|-----------|--------|----|------------|
| Consumer and other loans | | | | | | |
| Consumer loans | 126 | | | | | 126 |
| Other | | | | | | |
| Total covered loans | \$ 64,013 | \$ 18,963 | \$ 80,129 | \$ 320 | \$ | \$ 163,425 |

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| | December 31, 2012 | | | | | |
|---|---------------------|--------------------|-------------------|-----------------|--------------|---------------------|
| <i>(Amounts in thousands)</i> | Pass | Special Mention | Substandard | Doubtful | Loss | Total |
| Non-covered loans | | | | | | |
| Commercial loans | | | | | | |
| Construction, development, and other land | | | | | | |
| | \$ 41,850 | \$ 1,497 | \$ 13,546 | \$ 541 | \$ | \$ 57,434 |
| Commercial and industrial | 77,573 | 2,506 | 4,821 | 3,838 | | 88,738 |
| Multi-family residential | 60,161 | 4,043 | 1,490 | | | 65,694 |
| Single family non-owner occupied | 112,562 | 5,938 | 16,092 | 1,320 | | 135,912 |
| Non-farm, non-residential | 399,907 | 15,975 | 32,808 | 120 | | 448,810 |
| Agricultural | 1,657 | 19 | 33 | | | 1,709 |
| Farmland | 28,887 | 2,262 | 3,421 | | | 34,570 |
| Consumer real estate loans | | | | | | |
| Home equity lines | | | | | | |
| | 104,750 | 2,739 | 3,592 | | | 111,081 |
| Single family owner occupied | 436,587 | 9,599 | 27,319 | | 42 | 473,547 |
| Owner occupied construction | 15,841 | 382 | | | | 16,223 |
| Consumer and other loans | | | | | | |
| Consumer loans | | | | | | |
| | 76,787 | 867 | 501 | 8 | | 78,163 |
| Other | 5,657 | 8 | 1 | | | 5,666 |
| Total non-covered loans | \$ 1,362,219 | \$ 45,835 | \$ 103,624 | \$ 5,827 | \$ 42 | \$ 1,517,547 |

| | December 31, 2012 | | | | | |
|---|-------------------|--------------------|-------------------|---------------|-----------|-------------------|
| <i>(Amounts in thousands)</i> | Pass | Special Mention | Substandard | Doubtful | Loss | Total |
| Covered loans | | | | | | |
| Commercial loans | | | | | | |
| Construction, development, and other land | | | | | | |
| | \$ 6,463 | \$ 2,120 | \$ 17,834 | \$ 178 | \$ | \$ 26,595 |
| Commercial and industrial | 6,225 | 445 | 197 | 81 | | 6,948 |
| Multi-family residential | 1,962 | | 649 | | | 2,611 |
| Single family non-owner occupied | 6,065 | 2,223 | 3,015 | 125 | | 11,428 |
| Non-farm, non-residential | 23,855 | 5,477 | 19,189 | 44 | | 48,565 |
| Agricultural | 143 | | 1 | | | 144 |
| Farmland | 935 | | 156 | | | 1,091 |
| Consumer real estate loans | | | | | | |
| Home equity lines | | | | | | |
| | 16,323 | 11,981 | 53,116 | 25 | | 81,445 |
| Single family owner occupied | 16,011 | 927 | 5,786 | 237 | | 22,961 |
| Owner occupied construction | 484 | | 1,160 | | | 1,644 |
| Consumer and other loans | | | | | | |
| Consumer loans | | | | | | |
| | 2,987 | 562 | 125 | | | 3,674 |
| Other | | | | | | |
| Total covered loans | \$ 81,453 | \$ 23,735 | \$ 101,228 | \$ 690 | \$ | \$ 207,106 |

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Nonaccrual loans, presented by loan class, consisted of the following at September 30, 2013, and December 31, 2012. Loans acquired with credit deterioration through business combinations, for which a discount exists, are generally not considered to be nonaccrual as a result of the accretion of the discount which is based on the expected cash flows of the loans.

| <i>(Amounts in thousands)</i> | September 30, 2013 | | | December 31, 2012 | | |
|---|---------------------------|-----------------|------------------|--------------------------|-----------------|------------------|
| | Non-covered | Covered | Total | Non-covered | Covered | Total |
| Commercial loans | | | | | | |
| Construction, development, and other land | \$ 5,065 | \$ 619 | \$ 5,684 | \$ 405 | \$ 1,990 | \$ 2,395 |
| Commercial and industrial | 5,058 | 103 | 5,161 | 3,912 | 35 | 3,947 |
| Multi-family residential | | | | 378 | | 378 |
| Single family non-owner occupied | 2,216 | 119 | 2,335 | 7,071 | 21 | 7,092 |
| Non-farm, non-residential | 5,268 | 318 | 5,586 | 5,938 | 951 | 6,889 |
| Agricultural | | | | 2 | | 2 |
| Farmland | 437 | 304 | 741 | | | |
| Consumer real estate loans | | | | | | |
| Home equity lines | 1,417 | 276 | 1,693 | 872 | 436 | 1,308 |
| Single family owner occupied | 6,706 | 1,599 | 8,305 | 5,219 | 831 | 6,050 |
| Owner occupied construction | | 241 | 241 | | 59 | 59 |
| Consumer and other loans | | | | | | |
| Consumer loans | 222 | | 222 | 126 | | 126 |
| Other | | | | | | |
| Total | 26,389 | 3,579 | 29,968 | 23,923 | 4,323 | 28,246 |
| Acquired impaired loans | 8 | | 8 | 8 | | 8 |
| Total nonaccrual loans | \$ 26,397 | \$ 3,579 | \$ 29,976 | \$ 23,931 | \$ 4,323 | \$ 28,254 |

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The following tables present the aging of past due loans, by loan class, at September 30, 2013, and December 31, 2012. Nonaccrual loans, excluding those 0 to 29 days past due, are included in the applicable delinquency category. There were no non-covered accruing loans contractually past due 90 days or more at September 30, 2013, and December 31, 2012. There were no covered accruing loans contractually past due 90 days or more at December 31, 2012, and \$82 thousand at September 30, 2013. Acquired loans that are past due continue to accrue interest through the accretable yield under the accretion method of accounting and therefore are not considered to be nonaccrual. Purchased credit impaired loan pools have been disaggregated in the following tables for disclosure purposes.

| | September 30, 2013 | | | | Current Loans | Total Loans |
|---|-----------------------------|--------------------------|-------------------------|----------------------|---------------------|---------------------|
| | 30 - 59 Days Past Due | 60 - 89 Days Past Due | 90+ Days Past Due | Total Past Due | | |
| <i>(Amounts in thousands)</i> | | | | | | |
| Non-covered loans | | | | | | |
| Commercial loans | | | | | | |
| Construction, development, and other land | | | | | | |
| | \$ 130 | \$ 156 | \$ 4,929 | \$ 5,215 | \$ 50,576 | \$ 55,791 |
| Commercial and industrial | 438 | 142 | 1,221 | 1,801 | 94,171 | 95,972 |
| Multi-family residential | 100 | | | 100 | 55,979 | 56,079 |
| Single family non-owner occupied | 959 | 268 | 1,129 | 2,356 | 129,897 | 132,253 |
| Non-farm, non-residential | 1,524 | 231 | 4,332 | 6,087 | 449,160 | 455,247 |
| Agricultural | | | | | 2,274 | 2,274 |
| Farmland | | | 437 | 437 | 31,448 | 31,885 |
| Consumer real estate loans | | | | | | |
| Home equity lines | | | | | | |
| | 433 | 101 | 847 | 1,381 | 108,230 | 109,611 |
| Single family owner occupied | 3,512 | 713 | 1,998 | 6,223 | 486,201 | 492,424 |
| Owner occupied construction | 79 | | | 79 | 25,270 | 25,349 |
| Consumer and other loans | | | | | | |
| Consumer loans | | | | | | |
| | 472 | 89 | 158 | 719 | 70,960 | 71,679 |
| Other | | | | | 4,708 | 4,708 |
| Total non-covered loans | \$ 7,647 | \$ 1,700 | \$ 15,051 | \$ 24,398 | \$ 1,508,874 | \$ 1,533,272 |

| | September 30, 2013 | | | | Current Loans | Total Loans |
|---|-----------------------------|-----------------------------|-------------------------|-------------------|------------------|----------------|
| | 30 - 59 Days Past Due | 60 - 89 Days Past Due | 90+ Days Past Due | Total Past Due | | |
| <i>(Amounts in thousands)</i> | | | | | | |
| Covered loans | | | | | | |
| Commercial loans | | | | | | |
| Construction, development, and other land | | | | | | |
| | \$ 34 | \$ 59 | \$ 159 | \$ 252 | \$ 17,727 | \$ 17,979 |
| Commercial and industrial | 30 | 58 | 37 | 125 | 3,826 | 3,951 |
| Multi-family residential | | | | | 2,003 | 2,003 |
| Single family non-owner occupied | 72 | | 119 | 191 | 7,951 | 8,142 |
| Non-farm, non-residential | 144 | | 267 | 411 | 37,340 | 37,751 |
| Agricultural | | | | | 176 | 176 |

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| | | | | | | |
|------------------------------|----------|--------|----------|----------|------------|------------|
| Farmland | | | 304 | 304 | 710 | 1,014 |
| Consumer real estate loans | | | | | | |
| Home equity lines | 400 | 10 | 165 | 575 | 71,149 | 71,724 |
| Single family owner occupied | 390 | | 1,352 | 1,742 | 17,511 | 19,253 |
| Owner occupied construction | 121 | 19 | 120 | 260 | 1,046 | 1,306 |
| Consumer and other loans | | | | | | |
| Consumer loans | | | | | 126 | 126 |
| Other | | | | | | |
| Total covered loans | \$ 1,191 | \$ 146 | \$ 2,523 | \$ 3,860 | \$ 159,565 | \$ 163,425 |

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| <i>(Amounts in thousands)</i> | December 31, 2012 | | | | | |
|---|-------------------|-----------------|------------------|------------------|---------------------|---------------------|
| | 30 - 59 Day | 60 - 89 Days | 90+ Days | Total | Current | Total |
| | Past Due | Past Due | Past Due | Past Due | Loans | Loans |
| Non-covered loans | | | | | | |
| Commercial loans | | | | | | |
| Construction, development, and other land | | | | | | |
| | \$ 344 | \$ | \$ 188 | \$ 532 | \$ 56,902 | \$ 57,434 |
| Commercial and industrial | 387 | 84 | 1,432 | 1,903 | 86,835 | 88,738 |
| Multi-family residential | 624 | | | 624 | 65,070 | 65,694 |
| Single family non-owner occupied | 1,841 | 1,348 | 3,715 | 6,904 | 129,008 | 135,912 |
| Non-farm, non-residential | 2,702 | 936 | 3,621 | 7,259 | 441,551 | 448,810 |
| Agricultural | | | | | 1,709 | 1,709 |
| Farmland | 216 | 196 | | 412 | 34,158 | 34,570 |
| Consumer real estate loans | | | | | | |
| Home equity lines | | | | | | |
| | 315 | 93 | 495 | 903 | 110,178 | 111,081 |
| Single family owner occupied | 6,564 | 1,176 | 1,644 | 9,384 | 464,163 | 473,547 |
| Owner occupied construction | 382 | | | 382 | 15,841 | 16,223 |
| Consumer and other loans | | | | | | |
| Consumer loans | | | | | | |
| | 715 | 73 | 47 | 835 | 77,328 | 78,163 |
| Other | | | | | | |
| | | | | | 5,666 | 5,666 |
| Total non-covered loans | \$ 14,090 | \$ 3,906 | \$ 11,142 | \$ 29,138 | \$ 1,488,409 | \$ 1,517,547 |

| <i>(Amounts in thousands)</i> | December 31, 2012 | | | | | |
|---|-------------------|---------------|-----------------|-----------------|-------------------|-------------------|
| | 30 - 59 Day | 60 - 89 Days | 90+ Days | Total | Current | Total |
| | Past Due | Past Due | Past Due | Past Due | Loans | Loans |
| Covered loans | | | | | | |
| Commercial loans | | | | | | |
| Construction, development, and other land | | | | | | |
| | \$ 252 | \$ 161 | \$ 1,121 | \$ 1,534 | \$ 25,061 | \$ 26,595 |
| Commercial and industrial | 45 | | | 45 | 6,903 | 6,948 |
| Multi-family residential | | | | | 2,611 | 2,611 |
| Single family non-owner occupied | 8 | | 21 | 29 | 11,399 | 11,428 |
| Non-farm, non-residential | 501 | | 927 | 1,428 | 47,137 | 48,565 |
| Agricultural | | | | | 144 | 144 |
| Farmland | 6 | | | 6 | 1,085 | 1,091 |
| Consumer real estate loans | | | | | | |
| Home equity lines | | | | | | |
| | 217 | 112 | 204 | 533 | 80,912 | 81,445 |
| Single family owner occupied | 413 | 135 | 475 | 1,023 | 21,938 | 22,961 |
| Owner occupied construction | | | 59 | 59 | 1,585 | 1,644 |
| Consumer and other loans | | | | | | |
| Consumer loans | | | | | | |
| | | | | | 3,674 | 3,674 |
| Other | | | | | | |
| Total covered loans | \$ 1,442 | \$ 408 | \$ 2,807 | \$ 4,657 | \$ 202,449 | \$ 207,106 |

The Company's troubled debt restructurings (TDRs) totaled \$11.92 million at September 30, 2013, and \$12.05 million at December 31, 2012, which are reported net of those on nonaccrual status of \$2.66 million and \$3.83 million, respectively. Accruing nonperforming TDRs amounted to \$2.23 million, or 18.69% of total accruing TDRs at September 30, 2013, and \$6.01 million, or 49.88% of total TDRs at December 31, 2012. The allowance for loan losses included reserves related to TDRs of \$1.69 million and \$1.87 million at September 30, 2013, and December 31, 2012, respectively. Interest income recognized on TDRs for the three and nine months ended September 30, 2013, totaled \$183 thousand and \$422 thousand, respectively. Interest income recognized on TDRs for the three and nine months ended September 30, 2012, totaled \$62 thousand and \$237 thousand, respectively. There were no covered loans recorded as TDRs at September 30, 2013. A loan acquired with credit deterioration through a business combination, for which a discount exists, is generally not considered a TDR as long as the loan remains in the loan pool.

When restructuring loans for borrowers experiencing financial difficulty, the Company may make concessions in interest rates, loan terms and/or amortization terms. All restructured loans to borrowers experiencing financial difficulty in excess of \$250 thousand are evaluated for a specific reserve based on either the collateral or net present value method, whichever is most applicable. Restructured loans under \$250 thousand are subject to the reserve calculation at the historical loss rate for classified loans. Certain TDRs are classified as nonperforming at the time of restructuring and are returned to performing status after six months of satisfactory payment performance; however, these loans remain identified as impaired until full payment or other satisfaction of the obligation occurs.

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The following tables detail loans modified as TDRs that were restructured during the three and nine months ended September 30, 2013 and 2012 by type of concession made and loan class. The post-modification recorded investment represents the loan balance immediately following modification.

| | Three Months Ended September 30, | | | | | |
|--|----------------------------------|--------------------------------------|---------------------------------------|-----------------|--------------------------------------|---------------------------------------|
| | 2013 | | 2012 | | | |
| (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 | | | | | | |
| Single family owner occupied | 1 | \$ 359 | \$ 326 | \$ | \$ | |
| Below market interest rate and extended payment term | | | | | | |
| Single family owner occupied | 2 | 642 | 600 | | | |
| Total | 3 | \$ 1,001 | \$ 926 | \$ | \$ | |

| | Nine Months Ended September 30, | | | | | | | |
|--|---------------------------------|--------------------------------------|---------------------------------------|-----------------|--------------------------------------|---------------------------------------|-----------------|---------------------------------------|
| | 2013 | | | | 2012 | | | |
| (Amounts in thousands) | Total Contracts | Pre-Modification Recorded Investment | Post-Modification Recorded Investment | Total Contracts | Pre-Modification Recorded Investment | Post-Modification Recorded Investment | Total Contracts | Post-Modification Recorded Investment |
| Below market interest rate | | | | | | | | |
| Single family owner occupied | 1 | \$ 359 | \$ 326 | \$ | \$ | | | |
| Extended payment term | | | | | | | | |
| Single family owner occupied | | | | 1 | \$ 351 | \$ 319 | | |
| Below market interest rate and extended payment term | | | | | | | | |
| Single family owner occupied | 2 | 642 | 600 | | | | | |
| Total | 3 | \$ 1,001 | \$ 926 | 1 | \$ 351 | \$ 319 | | |

The following tables detail loans modified as TDRs that were restructured within the previous 12 months for which there was a payment default during the three and nine months ended September 30, 2013 and 2012 by loan class.

| | Three Months Ended September 30, | | | |
|---------------------------|----------------------------------|---------------------|-----------------|---------------------|
| | 2013 | | 2012 | |
| (Amounts in thousands) | Total Contracts | Recorded Investment | Total Contracts | Recorded Investment |
| Non-farm, non-residential | 1 | \$ 978 | \$ | |
| Total | 1 | \$ 978 | \$ | |

| | Nine Months Ended September 30, | | | |
|-------------------------------|---------------------------------|------------------------|--------------------|------------------------|
| | 2013 | | 2012 | |
| | Total Contracts | Recorded Investment | Total Contracts | Recorded Investment |
| <i>(Amounts in thousands)</i> | | | | |
| Non-farm, non-residential | 1 | \$ 978 | | \$ |
| Total | 1 | \$ 978 | | \$ |

Note 5. FDIC Indemnification Asset

On June 8, 2012, the Company entered into a purchase and assumption agreement with loss share arrangements with the FDIC to purchase certain assets and assume substantially all of the customer deposits and certain liabilities of Waccamaw Bank. The FDIC indemnification asset is measured separately from the related covered asset, as it is not contractually embedded in the assets and is not transferable with the assets should the Company choose to dispose of them. Fair value was estimated at the acquisition date using projected cash flows related to the loss share agreements based on the expected reimbursements for losses and the applicable loss share percentages. Under the loss share agreements, the FDIC has agreed to cover 80% of most loan and foreclosed real estate losses. These expected reimbursements do not include reimbursable amounts related to future covered expenditures. These cash flows were discounted to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC. The Company will offset any recorded provision for loan losses related to acquired covered loans by recording an increase in the FDIC indemnification asset by the increase in expected cash flows, which is the result of a decrease in expected cash flows of acquired loans. An increase in cash flows on acquired loans results in a decrease in cash flows on the FDIC indemnification asset, which is recognized in the future as amortization through noninterest income over the shorter of the remaining life of the FDIC indemnification asset or the underlying loans. The Company incurs expenses related to the assets indemnified by the FDIC, and pursuant to the loss share agreements certain costs are reimbursable by the FDIC and are included in monthly and quarterly claims made by the Company. The estimates of reimbursements are netted against these covered expenses in the income statement.

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The following table presents changes in the receivable from the FDIC for the periods indicated:

| | 2013 | 2012 |
|--|-------------|-------------|
| <i>(Amounts in thousands)</i> | | |
| Beginning balance, January 1 | \$ 48,149 | \$ |
| FDIC loss share receivable recorded for Waccamaw | | 49,821 |
| Increase in estimated losses on covered loans | 812 | |
| Increase in estimated losses on covered OREO | 3,752 | 575 |
| Reimbursable expenses from the FDIC | 818 | 79 |
| Net (amortization) accretion | (4,290) | 131 |
| Reimbursements from the FDIC | (12,139) | |
| Ending balance, September 30 | \$ 37,102 | \$ 50,606 |

Note 6. Deposits

The following table summarizes interest-bearing deposits by type for the periods indicated:

| | September 30, 2013 | December 31, 2012 |
|----------------------------------|---------------------------|--------------------------|
| <i>(Amounts in thousands)</i> | | |
| Interest-bearing demand deposits | \$ 374,546 | \$ 353,321 |
| Money market deposits | 247,039 | 237,257 |
| Savings deposits | 280,848 | 263,019 |
| Individual retirement accounts | 120,674 | 126,658 |
| Certificates of deposit | 619,507 | 706,568 |
| Total | \$ 1,642,614 | \$ 1,686,823 |

Note 7. Borrowings

The following table summarizes borrowings by type for the periods indicated:

| | September 30, 2013 | December 31, 2012 |
|--|---------------------------|--------------------------|
| <i>(Amounts in thousands)</i> | | |
| Securities sold under agreements to repurchase | \$ 114,647 | \$ 136,118 |
| FHLB borrowings | 150,000 | 161,558 |
| Subordinated debt | 15,464 | 15,464 |
| Other debt | 375 | 413 |
| Total | \$ 280,486 | \$ 313,553 |

Securities sold under agreements to repurchase consisted of retail overnight and term repurchase agreements of \$64.65 million at September 30, 2013, and \$77.92 million at December 31, 2012, and wholesale repurchase agreements of \$50.00 million at September 30, 2013, and \$58.20 million at December 31, 2012. During the first quarter of 2013, the Company prepaid wholesale repurchase agreements totaling \$8.15 million that resulted in a \$79 thousand gain. The weighted average rate of wholesale repurchase agreements was 3.71% at September 30, 2013, and 3.34% at December 31, 2012. Securities sold under agreements to repurchase are collateralized with agency MBS and municipal securities.

FHLB borrowings included convertible and callable advances totaling \$150.00 million at September 30, 2013, and \$155.28 million at December 31, 2012, and fixed rate credit of \$6.27 million at December 31, 2012. During the first quarter of 2013, the Company prepaid FHLB borrowings totaling \$11.47 million that resulted in a \$217 thousand gain. The callable advances may be redeemed at quarterly intervals. These call options may substantially shorten the lives of these instruments. If these advances are called, the debt may be paid in full or converted to another FHLB credit product. Prepayment of the advances may result in substantial penalties based upon the differential between contractual note rates and current advance rates for similar maturities. The weighted average rate of FHLB borrowings was 4.12% at September 30, 2013, and 3.86% at December 31, 2012. Advances from the FHLB were secured by qualifying loans of \$1.10 billion at September 30, 2013, and \$998.14 million at December 31, 2012. At September 30, 2013, unused borrowing capacity with the FHLB totaled \$325.72 million.

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At September 30, 2013, the FHLB borrowings had approximate contractual maturities between three and eight years. The scheduled maturities of the advances are as follows:

| | Amount |
|-------------------------------|-------------------|
| <i>(Amounts in thousands)</i> | |
| 2013 | \$ |
| 2014 | |
| 2015 | |
| 2016 | |
| 2017 | 100,000 |
| 2018 and thereafter | 50,000 |
| | \$ 150,000 |

Also included in borrowings is \$15.46 million of junior subordinated debentures (the *Debentures*) issued by the Company in October 2003 to an unconsolidated trust subsidiary, FCBI Capital Trust (the *Trust*), with an interest rate of three-month LIBOR plus 2.95%. The Trust was able to purchase the Debentures through the issuance of trust preferred securities which had substantially identical terms as the Debentures. The Debentures mature on October 8, 2033, and are currently callable. The net proceeds from the offering were contributed as capital to the Bank to support further growth. The Company's obligations under the Debentures and other relevant Trust agreements, in aggregate, constitute a full and unconditional guarantee by the Company of the Trust's obligations.

Note 8. Defined Benefit Plans

The Company maintains a Supplemental Executive Retention Plan (the *SERP*) for key members of senior management. The following sets forth the components of the net periodic pension cost of the Company's domestic non-contributory, non-qualified defined SERP for the periods indicated:

| | Three Months Ended | | Nine Months Ended | |
|------------------------------------|---------------------------|---------------|--------------------------|---------------|
| | September 30, | | September 30, | |
| | 2013 | 2012 | 2013 | 2012 |
| <i>(Amounts in thousands)</i> | | | | |
| Service cost | \$ 33 | \$ 38 | \$ 101 | \$ 115 |
| Interest cost | 62 | 51 | 185 | 152 |
| Amortization of losses | 13 | 12 | 37 | 34 |
| Amortization of prior service cost | 46 | 33 | 140 | 100 |
| Net periodic cost | \$ 154 | \$ 134 | \$ 463 | \$ 401 |

The Company maintains a Directors' Supplemental Retirement Plan (the *Directors' Plan*) for its non-management directors. The following sets forth the components of the net periodic pension cost of the Company's domestic non-contributory, non-qualified Directors' Plan for the periods indicated:

| | Three Months Ended | | Nine Months Ended | |
|------------------------------------|---------------------------|-------------|--------------------------|-------------|
| | September 30, | | September 30, | |
| | 2013 | 2012 | 2013 | 2012 |
| <i>(Amounts in thousands)</i> | | | | |
| Service cost | \$ 7 | \$ 7 | \$ 20 | \$ 20 |
| Interest cost | 10 | 10 | 31 | 30 |
| Amortization of prior service cost | 22 | 22 | 67 | 67 |
| Net periodic cost | \$ 39 | \$ 39 | \$ 118 | \$ 117 |

Note 9. Derivative Instruments and Hedging Activities

The Company uses derivative instruments primarily to protect against the risk of adverse price or interest rate movements on the value of certain assets and liabilities and on future cash flows. These derivatives may consist of interest rate swaps, floors, caps, collars, futures, forward contracts, and written and purchased options. Derivative instruments represent contracts between parties that usually require little or no initial net investment and result in one party delivering cash or another asset to the other party based on a notional amount and an underlying asset as specified in the contract. Derivative assets and liabilities are recorded at fair value on the balance sheet.

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Like other financial instruments, derivatives contain an element of credit risk due to the possibility the Company may incur a loss if a counterparty fails to meet its contractual obligations. This risk is measured as the expected positive replacement value of contracts. All derivative contracts may be executed only with exchanges or counterparties approved by the Company's Asset/Liability Management Committee.

The primary derivative instrument the Company uses is interest rate lock commitments (IRLCs). Generally, this instrument helps the Company meet customer financing needs. Market risk represents the possibility that economic value or net interest income will be adversely affected by fluctuations in external factors such as interest rates, market-driven loan rates, prices, or other economic factors.

In the normal course of business, the Company sells originated mortgage loans into the secondary mortgage loan market. The Company enters into IRLCs to provide potential borrowers an interest rate guarantee. Once a mortgage loan is closed and funded, it is included within loans held for sale and awaits sale and delivery into the secondary market. From the loan closing date through the date of sale into the secondary market, the Company has exposure to interest rate movement resulting from the risk that interest rates will change from the rate quoted to the borrower. Due to these interest rate fluctuations, the Company's balance of mortgage loans held for sale is subject to changes in fair value. Typically, the fair value of these loans decline when interest rates increase and rise when interest rates decrease.

The following table presents the aggregate contractual or notional amounts of derivative financial instruments as of the dates indicated:

| <i>(Amounts in thousands)</i> | September 30, 2013 | December 31, 2012 | September 30, 2012 |
|--------------------------------------|--------------------|-------------------|--------------------|
| Derivatives not designated as hedges | | | |
| IRLCs | \$ 1,094 | \$ 14,841 | \$ 14,747 |

The following table presents the fair value of derivative financial instruments as of the dates indicated:

| <i>(Amounts in thousands)</i> | September 30, 2013 | | December 31, 2012 | | September 30, 2012 | |
|--------------------------------------|------------------------|------------|------------------------|------------|------------------------|------------|
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Asset derivatives | | | | | | |
| Derivatives not designated as hedges | | | | | | |
| IRLCs | Other assets | \$ 19 | Other assets | \$ 144 | Other assets | \$ 301 |
| Total | | \$ 19 | | \$ 144 | | \$ 301 |
| Liability derivatives | | | | | | |
| Derivatives not designated as hedges | | | | | | |
| IRLCs | Other liabilities | \$ 19 | Other liabilities | \$ 16 | Other liabilities | \$ 2 |
| Total | | \$ 19 | | \$ 16 | | \$ 2 |

Effect of Derivatives and Hedging Activities on the Income Statement. For the three and nine months ended September 30, 2013 and 2012, the Company determined there was no amount of ineffectiveness on cash flow hedges.

The following table details gains and losses recognized in income on derivatives for the dates indicated:

| <i>(Amounts in thousands)</i> | Income Statement Location | Three Months Ended | | Nine Months Ended | |
|--------------------------------------|--------------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | | September 30, 2013 | September 30, 2012 | September 30, 2013 | September 30, 2012 |
| Derivatives not designated as hedges | | | | | |
| IRLCs | Other income | \$ 307 | \$ 94 | \$ (128) | \$ 170 |
| Total | | \$ 307 | \$ 94 | \$ (128) | \$ 170 |

Note 10. Fair Value

Financial Instruments Measured at Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal, or most advantageous, market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact, and (iv) willing to transact.

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The fair value hierarchy is as follows:

- Level 1 Inputs Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

- Level 2 Inputs Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and provide a reasonable basis for fair value determination, such as interest rates, yield curves, volatilities, prepayment speeds, default rates, and credit risks, or inputs that are derived principally from observable market data.

- Level 3 Inputs Unobservable inputs for determining the fair values of assets or liabilities for which there is little, if any, market activity at the measurement date, using reasonable inputs and assumptions based on the best information at the time, to the extent that inputs are available without undue cost and effort. These inputs and assumptions may include model-derived inputs that are not corroborated by observable market data and an entity's own assumptions.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Company's assets and liabilities carried at fair value. In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon third party models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality, the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Securities Available-for-Sale. Securities classified as available-for-sale are reported at fair value utilizing Level 1, Level 2, and Level 3 inputs. Securities are classified as Level 1 within the valuation hierarchy when quoted prices are available in an active market. This includes securities whose value is based on quoted market prices in active markets for identical assets. The Company also uses Level 1 inputs for the valuation of equity securities traded in active markets.

Securities are classified as Level 2 within the valuation hierarchy when the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the bond's terms and conditions, among other things. Level 2 inputs are used to value U.S. government agency securities, single issue trust preferred securities, corporate securities, MBS, and certain equity securities that are not actively traded.

Securities are classified as Level 3 within the valuation hierarchy in certain cases when there is limited activity or less transparency to the valuation inputs. In the absence of observable or corroborated market data, internally developed estimates that incorporate market-based assumptions are used when such information is available.

Fair value models may be required when trading activity has declined significantly or does not exist, prices are not current or pricing variations are significant. The Company's fair value from third party models utilizes modeling software that uses market participant data and knowledge of the structures of each individual security to develop cash flows specific to each security. The fair values of the securities are determined by using the cash flows developed by the fair value model and applying appropriate market observable discount rates. The discount rates are developed by determining credit spreads above a benchmark rate, such as LIBOR, and adding premiums for illiquidity developed based on a comparison of initial issuance spread to LIBOR versus a financial sector curve for recently issued debt to LIBOR. Specific securities that have increased uncertainty regarding the receipt of cash flows are discounted at higher rates due to the addition of a deal specific credit premium based on assumptions about the performance of the underlying collateral. Finally, internal fair value model pricing and external pricing observations are combined by assigning weights to each pricing observation. Pricing is reviewed for reasonableness based on the direction of the specific markets and the general economic indicators.

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Other Assets and Associated Liabilities. Securities held for trading purposes are recorded at fair value and included in other assets on the consolidated balance sheets. Securities held for trading purposes include assets related to employee deferred compensation plans. The assets associated with these plans are generally invested in equities and classified as Level 1. Deferred compensation liabilities, also classified as Level 1, are carried at the fair value of the obligation to the employee, which corresponds to the fair value of the invested assets.

Derivatives. Derivatives are reported at fair value utilizing Level 2 inputs. The Company obtains dealer quotations based on observable data to value its derivatives.

Impaired Loans. Certain impaired loans are reported on a nonrecurring basis at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 3 inputs based on appraisals adjusted for customized discounting criteria.

The Company maintains an active and robust problem credit identification system. When a credit is identified as exhibiting characteristics of weakening, the Company will assess the credit for potential impairment. Examples of weakening include delinquency and deterioration of the borrower's capacity to repay as determined by the Company's regular credit review function. As part of the impairment review, the Company will evaluate the current collateral value. It is the Company's standard practice to obtain updated third party collateral valuations to assist management in measuring potential impairment of a credit and the amount of the impairment to be recorded.

Internal collateral valuations are generally performed within two to four weeks of the original identification of potential impairment and receipt of the third party valuation. The internal valuation is performed by comparing the original appraisal to current local real estate market conditions and experience and considers liquidation costs. The result of the internal valuation is compared to the outstanding loan balance, and, if warranted, a specific impairment reserve will be established at the completion of the internal evaluation.

A third party evaluation is typically received within thirty to forty-five days of the completion of the internal evaluation. Once received, the third party evaluation is reviewed for reasonableness. Once the evaluation is reviewed and accepted, discounts to fair market value are applied based upon such factors as the bank's historical liquidation experience of like collateral, and an estimated net realizable value is established. That estimated net realizable value is then compared to the outstanding loan balance to determine the amount of specific impairment reserve. The specific impairment reserve, if necessary, is adjusted to reflect the results of the updated evaluation. A specific impairment reserve is generally maintained on impaired loans during the time period while awaiting receipt of the third party evaluation as well as on impaired loans that continue to make some form of payment and liquidation is not imminent. Impaired loans not meeting the aforementioned criteria and that do not have a specific impairment reserve have usually been previously written down through a partial charge-off, to their net realizable value.

The Company's Special Assets staff assumes the management and monitoring of all loans determined to be impaired. While awaiting the completion of the third party appraisal, the Company generally begins to complete the tasks necessary to gain control of the collateral and prepare for liquidation, including, but not limited to engagement of counsel, inspection of collateral, and continued communication with the borrower, if appropriate. Special Assets staff also regularly reviews the relationship to identify any potential adverse developments during this time.

Generally, the only difference between current appraised value, adjusted for liquidation costs, and the carrying amount of the loan less the specific reserve is any downward adjustment to the appraised value that the Company determines appropriate. These differences generally consist of costs to sell the property, as well as a deflator for the devaluation of property seen when banks are the sellers, and the Company deemed these adjustments as fair value adjustments.

In the Company's experience, it rarely returns loans to performing status after they have been partially charged off. Generally, credits identified as impaired move quickly through the process towards ultimate resolution.

Other Real Estate Owned. The fair value of the Company's other real estate owned is determined on a nonrecurring basis using Level 3 inputs based on current and prior appraisals, estimates of costs to sell, and proprietary qualitative adjustments.

Goodwill. The fair value of the Company's goodwill is reported on a nonrecurring basis when it has been adjusted to fair value. The values of the Company's reporting units are determined using Level 3 inputs based on discounted cash flow and market multiple models.

Table of Contents**Recurring and Nonrecurring Fair Value**

The following tables summarize financial assets and financial liabilities measured at fair value on a recurring basis segregated by the level of the valuation inputs within the fair value hierarchy for the periods indicated:

| <i>(Amounts in thousands)</i> | September 30, 2013 | | | |
|--|---------------------------------|--|-------------------|----------------|
| | Total Fair Value | Fair Value Measurements Using | | |
| | | Level 1 | Level 2 | Level 3 |
| Available-for-sale securities: | | | | |
| U.S. Treasury securities | \$ 9,266 | \$ | \$ 9,266 | \$ |
| Municipal securities | 151,802 | | 151,802 | |
| Single issue trust preferred securities | 45,939 | | 45,939 | |
| Corporate securities | 4,933 | | 4,933 | |
| Agency MBS | 318,265 | | 318,265 | |
| Non-Agency Alt-A residential MBS | 10,023 | | 10,023 | |
| Equity securities | 5,448 | 449 | 4,999 | |
| Total available-for-sale securities | \$ 545,676 | \$ 449 | \$ 545,227 | \$ |
| Deferred compensation assets | \$ 3,990 | \$ 3,990 | \$ | \$ |
| Derivatives | | | | |
| Interest rate lock commitments | \$ 19 | \$ | \$ 19 | \$ |
| Deferred compensation liabilities | \$ 3,990 | \$ 3,990 | \$ | \$ |
| Derivative liabilities | | | | |
| Interest rate lock commitments | \$ 19 | \$ | \$ 19 | \$ |

| <i>(Amounts in thousands)</i> | December 31, 2012 | | | |
|--|---------------------------------|--|-------------------|----------------|
| | Total Fair Value | Fair Value Measurements Using | | |
| | | Level 1 | Level 2 | Level 3 |
| Available-for-sale securities: | | | | |
| Municipal securities | \$ 159,217 | \$ | \$ 159,217 | \$ |
| Single issue trust preferred securities | 44,646 | | 44,646 | |
| Agency MBS | 315,897 | | 315,897 | |
| Non-Agency Alt-A residential MBS | 11,067 | | 11,067 | |
| Equity securities | 3,531 | 3,511 | 20 | |
| Total available-for-sale securities | \$ 534,358 | \$ 3,511 | \$ 530,847 | \$ |

| | | | | |
|------------------------------|----------|----------|----|----|
| Deferred compensation assets | \$ 3,625 | \$ 3,625 | \$ | \$ |
|------------------------------|----------|----------|----|----|

Derivatives

| | | | | |
|--------------------------------|--------|----|--------|----|
| Interest rate lock commitments | \$ 144 | \$ | \$ 144 | \$ |
|--------------------------------|--------|----|--------|----|

| | | | | |
|-----------------------------------|----------|----------|----|----|
| Deferred compensation liabilities | \$ 3,625 | \$ 3,625 | \$ | \$ |
|-----------------------------------|----------|----------|----|----|

Derivative liabilities

| | | | | |
|--------------------------------|-------|----|-------|----|
| Interest rate lock commitments | \$ 16 | \$ | \$ 16 | \$ |
|--------------------------------|-------|----|-------|----|

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in certain circumstances such as evidence of impairment. The following tables summarize financial and nonfinancial assets measured at fair value on a nonrecurring basis segregated by the level of the valuation inputs within the fair value hierarchy that were held for the periods indicated.

| | September 30, 2013 | | | |
|---|-----------------------------|--|----------------|----------------|
| | Total Fair Value | Fair Value Measurements Using Level 1 | Level 2 | Level 3 |
| <i>(Amounts in thousands)</i> | | | | |
| Impaired loans not covered by loss share agreements | \$ 6,315 | | | \$ 6,315 |
| OREO not covered by loss share agreements | 4,740 | | | 4,740 |
| OREO covered by loss share agreements | 6,672 | | | 6,672 |

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There were no transfers between valuation levels for any asset during the three months ended September 30, 2013 or 2012. If valuation techniques are deemed necessary, the Company considers those transfers to occur at the end of the period when the assets are valued.

The following table presents quantitative information about financial and nonfinancial assets measured at fair value on a nonrecurring basis using Level 3 valuation inputs:

| | Fair Value at September 30, 2013 | Valuation Technique | Unobservable Input | Range (Weighted Average) |
|---|---|--------------------------------------|--------------------------------------|-------------------------------------|
| <i>(Amounts in thousands)</i> | | | | |
| Impaired loans | \$ 6,315 | Discounted appraisals ⁽¹⁾ | Appraisal adjustments ⁽²⁾ | 1% to 100% (18%) |
| OREO not covered by loss share agreements | 4,740 | Discounted appraisals ⁽¹⁾ | Appraisal adjustments ⁽²⁾ | 0% to 88% (34%) |
| OREO covered by loss share agreements | 6,672 | Discounted appraisals ⁽¹⁾ | Appraisal adjustments ⁽²⁾ | 0% to 63% (37%) |

(1) Fair value is generally based on appraisals of the underlying collateral.

(2) Appraisals may be adjusted by management for customized discounting criteria, estimated sales costs, and proprietary qualitative adjustments.

Fair Value of Financial Instruments

Information used to determine fair value is highly subjective and judgmental in nature; therefore, the results may not be precise. Subjective factors may include estimates of cash flows, risk characteristics, credit quality, and interest rates, all of which are subject to change. Since the fair value is estimated as of the balance sheet date, the amounts that will actually be realized or paid upon settlement or maturity on these various instruments could be significantly different. The following summary describes the methodologies and assumptions used by the Company to estimate the fair value of certain financial instruments:

Cash and Cash Equivalents: The carrying amount of cash and due from banks and federal funds sold/purchased is considered equal to the fair value as a result of the short-term nature of these instruments.

Investment Securities: The determination of the fair value of available-for-sale securities is described within Fair Value Measurements presented above. The determination of the fair value of held-to-maturity securities is based on quoted market prices or dealer quotes.

Loans Held for Sale: Loans held for sale are recorded at the lower of cost or estimated fair value. The determination of the fair value of loans held for sale is based on the market price of similar loans.

Loans Held for Investment: The determination of the fair value of loans held for investment is based on discounted future cash flows using current rates for similar loans.

FDIC Receivable under Loss Share Agreements: The determination of the fair value is based on discounted future cash flows using current discount rates.

Accrued Interest Receivable/Payable: The carrying amount of accrued interest receivable/payable is considered equal to the fair value as a result of the short-term nature of these instruments.

Derivative Financial Instruments: The determination of the fair value of derivative financial instruments is described within Fair Value Measurements presented above.

Deferred Compensation Instruments: The determination of the fair value of deferred compensation instruments is described within Fair Value Measurements presented above.

Deposits and Securities Sold Under Agreements to Repurchase: The fair value of deposits without a stated maturity, including demand, interest-bearing demand, and savings, is considered equal to the carrying amount which is the amount payable on demand at the reporting date. The fair value of deposits and repurchase agreements with fixed maturities and rates is estimated using discounted future cash flows that apply interest rates currently being offered on instruments with similar characteristics and maturities.

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FHLB and Other Indebtedness: The determination of the fair value of FHLB and other indebtedness is based on interest rates currently available to the Company for borrowings with similar characteristics and maturities. The determination of fair value for trust preferred obligations is based on credit spreads seen in the marketplace for similar issues.

Off-Balance Sheet Instruments: The value of off-balance sheet instruments, including commitments to extend credit, standby letters of credit, and financial guarantees, is considered equal to fair value. Due to the uncertainty involved in assessing the likelihood and timing of commitments being drawn upon, coupled with the lack of an established market and the wide diversity of fee structures, the Company does not believe it is meaningful to provide an estimate of fair value that differs from the given value of the commitment.

The following tables summarize the carrying amount and fair value of the Company's financial instruments for the dates indicated:

| <i>(Amounts in thousands)</i> | Carrying Amount | Fair Value | September 30, 2013 | | |
|--|--------------------|------------|-------------------------------|------------|-----------|
| | | | Fair Value Measurements Using | | |
| | | | Level 1 | Level 2 | Level 3 |
| Assets | | | | | |
| Cash and cash equivalents | \$ 92,575 | \$ 92,575 | \$ 92,575 | \$ | \$ |
| Available-for-sale securities | 545,676 | 545,676 | 5,430 | 540,246 | |
| Held-to-maturity securities | 567 | 572 | | 572 | |
| Loans held for sale | 825 | 857 | | 857 | |
| Loans held for investment less allowance | 1,672,032 | 1,651,746 | | | 1,651,746 |
| FDIC indemnification asset | 37,102 | 37,102 | | | 37,102 |
| Accrued interest receivable | 7,336 | 7,336 | | 7,336 | |
| Derivative financial assets | 19 | 19 | | 19 | |
| Deferred compensation assets | 3,990 | 3,990 | 3,990 | | |
| Liabilities | | | | | |
| Demand deposits | \$ 353,951 | \$ 353,951 | \$ | \$ 353,951 | \$ |
| Interest-bearing demand deposits | 374,546 | 374,546 | | 374,546 | |
| Savings deposits | 527,887 | 527,887 | | 527,887 | |
| Time deposits | 740,181 | 744,486 | | 744,486 | |
| Securities sold under agreements to repurchase | 114,647 | 117,732 | | 117,732 | |
| Accrued interest payable | 2,215 | 2,215 | | 2,215 | |
| FHLB and other indebtedness | 165,839 | 179,559 | | 179,559 | |
| Derivative financial liabilities | 19 | 19 | | 19 | |
| Deferred compensation liabilities | 3,990 | 3,990 | 3,990 | | |

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| <i>(Amounts in thousands)</i> | Carrying Amount | Fair Value | December 31, 2012 | | |
|--|--------------------|------------|-------------------------------|------------|-----------|
| | | | Fair Value Measurements Using | | |
| | | | Level 1 | Level 2 | Level 3 |
| Assets | | | | | |
| Cash and cash equivalents | \$ 144,847 | \$ 144,847 | \$ 144,847 | \$ | \$ |
| Available-for-sale securities | 534,358 | 534,358 | 3,511 | 530,847 | |
| Held-to-maturity securities | 816 | 832 | | 832 | |
| Loans held for sale | 6,672 | 6,774 | | 6,774 | |
| Loans held for investment less allowance | 1,698,883 | 1,702,128 | | | 1,702,128 |
| FDIC receivable under loss share agreements | 48,149 | 48,149 | | | 48,149 |
| Accrued interest receivable | 7,842 | 7,842 | | 7,842 | |
| Derivative financial assets | 144 | 144 | | 144 | |
| Deferred compensation assets | 3,625 | 3,625 | 3,625 | | |
| Liabilities | | | | | |
| Demand deposits | \$ 343,352 | \$ 343,352 | \$ | \$ 343,352 | \$ |
| Interest-bearing demand deposits | 353,321 | 353,321 | | 353,321 | |
| Savings deposits | 500,276 | 500,276 | | 500,276 | |
| Time deposits | 833,226 | 842,331 | | 842,331 | |
| Securities sold under agreements to repurchase | 136,118 | 142,417 | | 142,417 | |
| Accrued interest payable | 2,481 | 2,481 | | 2,481 | |
| FHLB and other indebtedness | 177,435 | 200,418 | | 200,418 | |
| Derivative financial liabilities | 16 | 16 | | 16 | |
| Deferred compensation liabilities | 3,625 | 3,625 | 3,625 | | |

Note 11. Accumulated Other Comprehensive Income

The following table presents the changes in the Company's accumulated other comprehensive income (AOCI), net of tax, by component for the periods indicated:

| <i>(Amounts in thousands)</i> | Unrealized Gains (Losses) on | | Defined Benefit | | |
|--|-------------------------------|----------|--------------------|---------|-------------|
| | Available-for-Sale Securities | | Pension Plan Items | Total | |
| Three months ended September 30, 2013 | | | | | |
| Beginning balance | \$ | (10,317) | \$ | (1,761) | \$ (12,078) |
| Other comprehensive (loss) gain before reclassifications | | (773) | | 79 | (694) |
| Amounts reclassified from AOCI | | (24) | | 51 | 27 |
| Net comprehensive loss | | (797) | | 130 | (667) |
| Ending balance | \$ | (11,114) | \$ | (1,631) | \$ (12,745) |
| Nine months ended September 30, 2013 | | | | | |
| Beginning balance | \$ | (283) | \$ | (1,542) | \$ (1,825) |
| Other comprehensive loss before reclassifications | | (10,951) | | (242) | (11,193) |

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| | | | | |
|--------------------------------|----|----------|------------|------------|
| Amounts reclassified from AOCI | | 120 | 153 | 273 |
| Net comprehensive loss | | (10,831) | (89) | (10,920) |
| Ending balance | \$ | (11,114) | \$ (1,631) | \$(12,745) |

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The following table presents reclassifications out of the Company's AOCI for the periods indicated:

| Details about AOCI Components <i>(Amounts in thousands)</i> | Amount Reclassified from AOCI | | Affected Line Item in the Statement Where Net Income is Presented |
|--|--|---|---|
| | Three Months Ended September 30, 2013 | Three Months Ended September 30, 2013 | |
| Available-for-sale securities | \$ (39) | \$ 191 | Net (loss) gain on sale of securities Net impairment losses recognized in earnings |
| | (39) | 191 | Total before tax |
| | (15) | 71 | Income tax (benefit) expense |
| | (24) | 120 | Total net of tax |
| Defined benefit pension plan items | | | |
| Amortization of prior service costs | 69 | 208 | See Note 1 below |
| Amortization of net losses | 13 | 37 | See Note 1 below |
| | 82 | 245 | Total before tax |
| | 31 | 92 | Income tax expense |
| | 51 | 153 | Total net of tax |
| Total reclassifications | \$ 27 | \$ 273 | Total net of tax |

Note 1: These items are included in the computation of net periodic pension cost. See Note 8, Defined Benefit Plans, for additional information.

Note 12. Litigation, Commitments and Contingencies*Litigation*

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

Commitments and Contingencies

The Company is a party to financial instruments with off balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby

letters of credit, and financial guarantees. These instruments involve, to varying degrees, elements of credit and interest rate risk beyond the amount recognized on the balance sheet. The contractual amounts of these instruments reflect the extent of involvement the Company has in particular classes of financial instruments. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, standby letters of credit, and financial guarantees is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case by case basis. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral may include accounts receivable, inventory, plant and equipment, and income producing commercial real estate. Commitments to extend credit, including availability on lines of credit, totaled \$209.00 million at September 30, 2013, and \$215.77 million at December 31, 2012. Additionally, the Company had gross notional amounts of outstanding commitments related to secondary market mortgage loans of \$1.09 million at September 30, 2013, and \$14.84 million at December 31, 2012.

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Standby letters of credit and financial guarantees are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. To the extent deemed necessary, collateral of varying types and amounts is held to secure customer performance under certain of those letters of credit outstanding. Standby letters of credit and financial guarantees totaled \$1.77 million at September 30, 2013, and \$6.81 million at December 31, 2012. The Company maintained a reserve for unfunded lending commitments of \$326 thousand at September 30, 2013, and December 31, 2012.

The Company has issued, through the Trust, \$15.0 million of trust preferred securities in a private placement. In connection with the issuance of the trust preferred securities, the Company has committed to irrevocably and unconditionally guarantee the following payments or distributions with respect to the trust preferred securities to the holders thereof to the extent that the Trust has not made such payments or distributions and has the funds therefore: (i) accrued and unpaid distributions, (ii) the redemption price, and (iii) upon a dissolution or termination of the Trust, the lesser of the liquidation amount and all accrued and unpaid distributions and the amount of assets of the Trust remaining available for distribution.

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Unless the context suggests otherwise, the terms First Community, Company, we, our, and us refer to First Community Bancshares, Inc. and its subsidiaries as a consolidated entity. The following Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to provide information that will enhance understanding of our Company's financial condition, changes in financial condition, and results of operations. This MD&A contains forward-looking statements and should be read in conjunction with our 2012 Annual Report on Form 10-K (the 2012 Form 10-K) and the other financial information included in this report.

Forward-Looking Statements

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

the strength of the United States 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 Board;

inflation, interest rate, market and monetary fluctuations;

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

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

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

the impact of the federal banking regulators' continued implementation of a number of programs to address capital and liquidity in the banking system; further, future and proposed rules, including those that are part of the Basel III process, which are expected to increase minimum acceptable levels of capital for the industry;

technological changes;

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

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

unanticipated regulatory or judicial proceedings;

changes in consumer spending and saving habits; and

our success at managing the risks involved in the foregoing.

We caution that the foregoing list of important factors is not all-inclusive. If one or more of the factors affecting these forward-looking statements proves incorrect, then our 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 filed with the SEC. Therefore, we caution you not to place undue reliance on our forward-looking information and statements. We do not intend to update any forward-looking statements, whether written or oral, to reflect change. All forward-looking statements attributable to our Company are expressly qualified by these cautionary statements. These factors and other risks and uncertainties are discussed in Part II, Item 1A, Risk Factors, herein and Part I, Item 1A, Risk Factors, of our 2012 Form 10-K.

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Company Overview

Our Company is a financial holding company headquartered in Bluefield, Virginia. We operate through our community bank subsidiary, First Community Bank (the Bank), which provides financial, trust, and investment advisory services to individuals and commercial customers through seventy-two locations in Virginia, West Virginia, North Carolina, South Carolina, and Tennessee. Our Company is also the parent company of Greenpoint Insurance Group, Inc. (Greenpoint), headquartered in High Point, North Carolina, a full-service insurance agency offering commercial and personal lines of insurance through seven locations in Virginia, West Virginia, and North Carolina. The Bank offers wealth management services and investment advice through its Trust Division and First Community Wealth Management, a registered investment advisory firm, with \$891 million in combined assets under management as of September 30, 2013. These assets are not assets of our Company, but are managed under various fee-based arrangements as fiduciary or agent. We reported total assets of \$2.65 billion as of September 30, 2013. Our Common Stock is traded on the NASDAQ Global Select Market under the symbol, FCBC.

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

Critical Accounting Estimates

We prepare our consolidated financial statements in accordance with U.S. generally accepted accounting principles (GAAP) and conform to general practices within the banking industry. Our financial position and results of operations require management to make judgments and estimates to develop the amounts reflected and disclosed in the consolidated financial statements. Different assumptions in the application of these estimates could result in material changes to our consolidated financial position and consolidated results of operations. Estimates, assumptions, and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Our accounting estimates are fundamental to understanding MD&A and the disclosures presented in the Notes to Condensed Consolidated Financial Statements and in MD&A provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Our critical accounting estimates are described in detail in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of our 2012 Form 10-K.

Dodd-Frank Wall Street Reform and Consumer Protection Act

On July 21, 2010, sweeping financial regulatory reform legislation entitled the Dodd-Frank Act was signed into law. The Dodd-Frank Act implements far-reaching changes across the financial regulatory landscape, including provisions that, among other things:

Centralizes responsibility for consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau (the CFPB), responsible for implementing, examining and enforcing compliance with federal consumer financial laws.

Requires financial holding companies, such as our Company, to be well capitalized and well managed as of July 21, 2011. Bank holding companies and banks must also be well capitalized and well managed to engage in interstate bank acquisitions.

Imposes comprehensive regulation of the over-the-counter derivatives market, which would include certain provisions that would effectively prohibit insured depository institutions from conducting certain derivatives businesses in the institutions themselves.

Implements corporate governance revisions, including with regard to executive compensation and proxy access by shareholders.

Makes permanent the \$250 thousand limit for federal deposit insurance.

Repeals the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts.

Amends the Electronic Fund Transfer Act to, among other things, give the Board of Governors of the Federal Reserve System (the Federal Reserve Board) the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over \$10 billion and enforces a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer.

Increases the authority of the Federal Reserve Board to examine bank holding companies, such as our Company, and their nonbank subsidiaries.

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Another section of the Dodd-Frank Act, the Mortgage Reform and Anti-Predatory Lending Act (the Mortgage Reform Act), contains new underwriting and servicing standards for the mortgage industry, as well as restrictions on compensation for mortgage originators. In addition, the Mortgage Reform Act grants broad discretionary regulatory authority to the CFPB to prohibit or condition terms, acts, or practices relating to residential mortgage loans that the CFPB finds abusive, unfair, deceptive, or predatory, as well as to take other actions that the CFPB finds are necessary or proper to ensure that responsible, affordable mortgage credit remains available to consumers. The Dodd-Frank Act also contains laws affecting the securitization of mortgages, and other assets, with requirements for risk retention by securitizers and requirements for regulating credit rating agencies. Many aspects of the Dodd-Frank Act continue to be subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on our Company, our customers, or the general financial industry. Provisions in the legislation that affect deposit insurance assessments, payment of interest on demand deposits, and interchange fees could increase costs associated with deposits, as well as place limitations on certain revenues those deposits may generate.

Results Of Operations

Overview

The following list includes highlights regarding our Company and operations during the third quarter and first nine months of 2013:

The Company repurchased 204,388 shares during the third quarter and 335,192 shares during the first nine months of 2013.

The non-covered loan portfolio increased \$15.73 million compared to year end 2012.

Specific reserves within the allowance for loan losses decreased \$329 thousand, or 5.88%, compared to year end 2012 as a result of resolution activity on non-performing loans.

Non-covered nonperforming loans as a percentage of total non-covered loans decreased 10 basis points to 1.87% compared with year end 2012.

Net Income

Net income decreased \$4.65 million, or 46.20%, to \$5.41 million for the third quarter of 2013 compared with \$10.06 million for the third quarter of 2012. Net income available to common shareholders decreased \$4.69 million, or 47.65%, to \$5.15 million for the third quarter of 2013 compared with \$9.84 million for the third quarter of 2012. The decrease was largely attributed to the reduction in loans outstanding, a decrease in loan interest accretion stemming from the Peoples Bank of Virginia (Peoples) and Waccamaw Bank (Waccamaw) acquisitions, an increase in FDIC indemnification asset amortization, a one-time contractual severance payment, and a \$2.39 million out-of-period adjustment recorded during the third quarter of 2012 to correct the overstatement of charge-offs and corresponding understatement of pre-tax income in prior years. Basic and diluted earnings per common share for the third quarter of 2013 were \$0.26 compared to basic and diluted earnings per common share for the third quarter of 2012 of \$0.49 and \$0.47, respectively.

Net income decreased \$2.15 million, or 10.68%, to \$17.99 million for the first nine months of 2013 compared with \$20.14 million for the first nine months of 2012. Net income available to common shareholders decreased \$2.14 million, or 11.04%, to \$17.22 million for the first nine months of 2013 compared with \$19.35 million for the first nine months of 2012. The decrease was largely attributed to an increase in FDIC indemnification asset amortization, a one-time contractual severance payment, and the out-of-period adjustment recorded during the third quarter of 2012. Basic and diluted earnings per common share for the first nine months of 2013 were \$0.86 and \$0.85, respectively, compared to basic and diluted earnings per common share for the first nine months of 2012 of \$1.03 and \$1.00, respectively.

Net Interest Income Quarterly Comparison (See Table I)

For purposes of this discussion, net interest income is presented on a tax equivalent basis to provide a comparison among all types of interest earning assets. The tax equivalent basis adjusts for the tax-favored status of income from certain loans and investments. Although this is a non-GAAP measure, management believes this measure is more widely used within the financial services industry and provides better comparability of net interest income arising from taxable and tax-exempt sources. The Company uses this measure to monitor net interest income performance and to manage its balance sheet composition.

Net interest income, the largest contributor to earnings, decreased \$4.13 million, or 15.62%, for the quarter ended September 30, 2013, compared with the same quarter of 2012. Tax equivalent net interest income decreased \$4.12 million, or 15.19%, for the third quarter of 2013 compared with the same quarter of 2012. The decrease in tax equivalent net interest income was primarily due to the reduction in balance and yield on average earning assets from the Peoples and Waccamaw acquisitions.

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Average earning assets decreased \$120.66 million and average interest-bearing liabilities decreased \$141.69 million for the quarter ended September 30, 2013, compared with the same quarter of 2012. The yield on average earning assets decreased 57 basis points for the third quarter of 2013 compared with the same quarter of 2012. The average rate paid on interest-bearing liabilities decreased 8 basis points for the quarter ended September 30, 2013, compared with the same quarter of 2012. Average balances and interest yield/rate changes for earning assets and interest-bearing liabilities resulted in a net interest rate spread that was 49 basis points lower for the third quarter of 2013 compared with the same quarter of 2012. Our net interest margin decreased 49 basis points for the quarter ended September 30, 2013, compared with the same quarter of 2012.

The tax equivalent yield on loans decreased 79 basis points for the quarter ended September 30, 2013, compared with the same quarter of 2012. Tax equivalent loan interest income decreased \$4.83 million, or 17.06%, for the third quarter of 2013 compared with the same quarter of 2012. Interest on loans includes accretion from the Peoples and Waccamaw acquisitions of \$3.47 million for the third quarter of 2013 compared to \$4.71 million for the same quarter of 2012, of which \$1.74 million and \$2.14 million, respectively, was actual cash received. Tax equivalent net interest margin, excluding non-cash loan interest accretion, decreased 37 basis points to 3.69% for the quarter ended September 30, 2013, compared with 4.06% for the same quarter of 2012. The tax equivalent yield on loans, excluding non-cash loan interest accretion, decreased 63 basis points to 5.09% for the quarter ended September 30, 2013, compared with 5.72% for the same quarter of 2012. We expect the purchase accounting interest accretion to continue to decline in future periods based on acquired portfolio attrition.

The tax equivalent yield on available-for-sale securities decreased 10 basis points for the quarter ended September 30, 2013, compared with the same quarter of 2012. This decrease was primarily due to the reinvestment of proceeds from sales, maturities, prepayments, and cash in lower yielding securities. The average balance of held-to-maturity securities continued to decline as securities were called or matured and were not replaced.

The tax equivalent yield on interest-bearing deposits with banks increased 8 basis points for the third quarter of 2013 compared with the same quarter of 2012. Interest-bearing deposits with banks are comprised primarily of excess liquidity kept at the Federal Reserve that bears overnight market rates.

The average balance of interest-bearing demand deposits increased \$27.25 million, or 8.13%, and the average rate paid on those deposits remained constant at 0.06% for the third quarter of 2013 compared with the same quarter of 2012. The average balance of savings deposits increased \$20.12 million, or 4.02%, and the average rate paid on those deposits decreased 3 basis points for the quarter ended September 30, 2013, compared with the same quarter of 2012. The average balance of time deposits decreased \$140.35 million, or 15.63%, and the average rate paid on those deposits decreased 4 basis points for the quarter ended September 30, 2013, compared with the same quarter of 2012. The average balance of noninterest-bearing demand deposits increased \$45.68 million, or 15.05%, for the third quarter of 2013 compared with the same quarter of 2012.

The average balance of retail repurchase agreements, including collateralized retail deposits and commercial treasury accounts, decreased \$23.10 million, or 26.11%, and the average rate paid on those funds decreased 33 basis points for the quarter ended September 30, 2013, compared with the same quarter of 2012. The average balance of wholesale repurchase agreements decreased \$8.12 million, or 14.08%, and the average rate paid on those funds increased 3 basis points for the quarter ended September 30, 2013, compared with the same quarter of 2012. The average balance of FHLB and other borrowings decreased \$17.41 million, or 9.50%, and the average rate paid on those funds increased 18 basis points for the quarter ended September 30, 2013, compared with the same quarter of 2012. The changes in the average balances and costs of wholesale repurchase agreements and FHLB advances were due to the payoff of borrowings acquired in the Waccamaw acquisition during the first quarter of 2013.

Net Interest Income Year-to-Date Comparison (See Table II)

Net interest income increased \$4.63 million, or 7.24%, for the nine months ended September 30, 2013, compared with the same period of 2012. Tax equivalent net interest income increased \$4.62 million, or 7.00%, for the first nine months of 2013 compared with the same period of 2012. The increase in tax equivalent net interest income was primarily due to the growth in average earning assets from the Peoples and Waccamaw acquisitions and reductions in the rates paid on interest-bearing deposits from the sustained low interest rate environment.

Average earning assets increased \$187.20 million and average interest-bearing liabilities increased \$149.19 million for the nine months ended September 30, 2013, compared with the same period of 2012. The yield on average earning assets decreased 19 basis points for the first nine months of 2013 compared with the same period of 2012. The average rate paid on interest-bearing liabilities decreased 14 basis points for the nine months ended September 30, 2013, compared with the same period of 2012. Average balances and interest yield/rate changes for earning assets and interest-bearing liabilities resulted in a net interest rate spread that was 5 basis points lower for the first nine months of 2013 compared with the same period of 2012. Our net interest margin decreased 6 basis points for the nine months ended September 30, 2013, compared with the same period of 2012.

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The tax equivalent yield on loans decreased 13 basis points for the nine months ended September 30, 2013, compared with the same period of 2012. Tax equivalent loan interest income increased \$4.06 million, or 5.92%, for the first nine months of 2013 compared with the same period of 2012. Interest on loans include accretion stemming from the Peoples and Waccamaw acquisitions of \$11.08 million for the first nine months of 2013 compared to \$4.71 million for the same period of 2012, of which \$5.23 million and \$2.14 million, respectively, was actual cash received. Tax equivalent net interest margin, excluding non-cash loan interest accretion, decreased 24 basis points to 3.73% for the nine months ended September 30, 2013, compared with 3.97% for the same period of 2012. The tax equivalent yield on loans, excluding non-cash loan interest accretion, decreased 37 basis to 5.26% for the nine months ended September 30, 2013, compared with 5.63% for the same period of 2012. The Company expects the purchase accounting interest accretion to decline in future periods based on acquired portfolio attrition.

The tax equivalent yield on available-for-sale securities decreased 34 basis points for the nine months ended September 30, 2013, compared with the same period of 2012. This decrease was primarily due to the reinvestment of proceeds from sales, maturities, prepayments, and cash in lower yielding securities. The average balance of held-to-maturity securities continued to decline as securities were called or matured and were not replaced.

The tax equivalent yield on interest-bearing deposits with banks decreased 4 basis points for the nine months ended September 30, 2013, compared with the same period of 2012. Interest-bearing deposits with banks are comprised primarily of excess liquidity kept at the Federal Reserve that bears overnight market rates.

The average balance of interest-bearing demand deposits increased \$54.38 million, or 17.83%, and the average rate paid on those deposits increased 1 basis point for the first nine months of 2013 compared with the same period of 2012. The average balance of savings deposits increased \$75.00 million, or 17.07%, and the average rate paid on those deposits remained constant at 0.12% for the nine months ended September 30, 2013, compared with the same period of 2012. The average balance of time deposits increased \$34.52 million, or 4.60%, and the average rate paid on those deposits decreased 17 basis points for the nine months ended September 30, 2013, compared with the same period of 2012. The average balance of noninterest-bearing demand deposits increased \$61.92 million, or 22.11%, for the first nine months of 2013 compared with the same period of 2012.

We reported no average balance of federal funds purchased for the first nine months of 2013, compared to \$654 thousand for the same period of 2012. The average balance of retail repurchase agreements, including collateralized retail deposits and commercial treasury accounts, decreased \$7.00 million, or 8.92%, and the average rate paid on those funds decreased 13 basis points for the nine months ended September 30, 2013, compared with the same period of 2012. The average balance of wholesale repurchase agreements decreased \$1.62 million, or 3.00%, and the average rate paid on those funds decreased 6 basis points for the nine months ended September 30, 2013, compared with the same period of 2012. The average balance of FHLB and other borrowings decreased \$5.44 million, or 3.11%, and the average rate paid on those funds remained constant at 4.04% for the nine months ended September 30, 2013, compared with the same period of 2012.

Table of Contents**Average Balance Sheets and Net Interest Income Analysis**

| Table I <i>(Amounts in thousands)</i> | Average Balance Sheets and Net Interest Income Analysis | | | | | |
|--|--|--------------------------------|--|------------------------|--------------------------------|---|
| | 2013 | | | 2012 | | |
| | Average Balance | Interest ⁽¹⁾ | Average Yield/ Rate⁽¹⁾ | Average Balance | Interest ⁽¹⁾ | Average Yield/ Rate ⁽¹⁾ |
| Assets | | | | | | |
| Earning assets | | | | | | |
| Loans ⁽²⁾ | \$ 1,694,243 | \$ 23,476 | 5.50% | \$ 1,790,489 | \$ 28,305 | 6.29% |
| Securities available-for-sale | 547,686 | 3,857 | 2.79% | 525,151 | 3,819 | 2.89% |
| Securities held-to-maturity | 597 | 12 | 7.97% | 2,975 | 26 | 3.48% |
| Interest-bearing deposits | 45,259 | 42 | 0.37% | 89,827 | 65 | 0.29% |
| Total earning assets | 2,287,785 | 27,387 | 4.75% | 2,408,442 | 32,215 | 5.32% |
| Other assets | 356,847 | | | 359,348 | | |
| Total assets | \$ 2,644,632 | | | \$ 2,767,790 | | |
| Liabilities | | | | | | |
| Interest-bearing deposits | | | | | | |
| Demand deposits | \$ 362,548 | \$ 58 | 0.06% | \$ 335,299 | \$ 49 | 0.06% |
| Savings deposits | 520,884 | 142 | 0.11% | 500,761 | 171 | 0.14% |
| Time deposits | 757,575 | 1,947 | 1.02% | 897,927 | 2,384 | 1.06% |
| Total interest-bearing deposits | 1,641,007 | 2,147 | 0.52% | 1,733,987 | 2,604 | 0.60% |
| Borrowings | | | | | | |
| Retail repurchase agreements | 65,382 | 34 | 0.21% | 88,484 | 120 | 0.54% |
| Wholesale repurchase agreements | 50,000 | 473 | 3.75% | 58,195 | 544 | 3.72% |
| FHLB advances and other borrowings | 165,868 | 1,716 | 4.10% | 183,279 | 1,808 | 3.92% |
| Total borrowings | 281,250 | 2,223 | 3.14% | 329,958 | 2,472 | 2.98% |
| Total interest-bearing liabilities | 1,922,257 | 4,370 | 0.90% | 2,063,945 | 5,076 | 0.98% |
| Noninterest-bearing demand deposits | 349,156 | | | 330,480 | | |
| Other liabilities | 20,226 | | | 25,728 | | |
| Total liabilities | 2,291,639 | | | 2,420,153 | | |
| Stockholders equity | 352,993 | | | 347,637 | | |
| Total liabilities and stockholders equity | \$ 2,644,632 | | | \$ 2,767,790 | | |

| | | |
|---|-----------|-----------|
| Net interest income, tax equivalent | \$ 23,017 | \$ 27,139 |
| Net interest rate spread ⁽³⁾ | 3.85% | 4.34% |
| Net interest margin ⁽⁴⁾ | 3.99% | 4.48% |

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

Table of Contents**Table II****Average Balance Sheets and Net Interest Income Analysis
Nine Months Ended September 30,**

| <i>(Amounts in thousands)</i> | 2013 | | | 2012 | | |
|---|--------------------|-------------------------|---------------------------------------|--------------------|-------------------------|---------------------------------------|
| | Average Balance | Interest ⁽¹⁾ | Average Yield/ Rate ⁽¹⁾ | Average Balance | Interest ⁽¹⁾ | Average Yield/ Rate ⁽¹⁾ |
| Assets | | | | | | |
| Earning assets | | | | | | |
| Loans ⁽²⁾ | \$ 1,697,533 | \$ 72,671 | 5.72% | \$ 1,566,550 | \$ 68,610 | 5.85% |
| Securities available-for-sale | 546,603 | 11,297 | 2.76% | 496,854 | 11,547 | 3.10% |
| Securities held-to-maturity | 700 | 43 | 8.21% | 3,228 | 155 | 6.41% |
| Interest-bearing deposits | 75,577 | 180 | 0.32% | 66,579 | 177 | 0.36% |
| Total earning assets | 2,320,413 | 84,191 | 4.85% | 2,133,211 | 80,489 | 5.04% |
| Other assets | 355,025 | | | 302,136 | | |
| Total assets | \$ 2,675,438 | | | \$ 2,435,347 | | |
| Liabilities | | | | | | |
| Interest-bearing deposits | | | | | | |
| Demand deposits | \$ 359,439 | \$ 173 | 0.06% | \$ 305,055 | \$ 123 | 0.05% |
| Savings deposits | 514,447 | 444 | 0.12% | 439,451 | 400 | 0.12% |
| Time deposits | 785,690 | 6,176 | 1.05% | 751,167 | 6,846 | 1.22% |
| Total interest-bearing deposits | 1,659,576 | 6,793 | 0.55% | 1,495,673 | 7,369 | 0.66% |
| Borrowings | | | | | | |
| Federal funds purchased | | | 0.00% | 654 | 2 | 0.00% |
| Retail repurchase agreements | 71,476 | 240 | 0.45% | 78,472 | 343 | 0.58% |
| Wholesale repurchase agreements | 52,521 | 1,416 | 3.60% | 54,145 | 1,482 | 3.66% |
| FHLB advances and other borrowings | 169,190 | 5,113 | 4.04% | 174,627 | 5,284 | 4.04% |
| Total borrowings | 293,187 | 6,769 | 3.09% | 307,898 | 7,111 | 3.08% |
| Total interest-bearing liabilities | 1,952,763 | 13,562 | 0.93% | 1,803,571 | 14,480 | 1.07% |
| Noninterest-bearing demand deposits | | | | | | |
| | 341,903 | | | 279,987 | | |
| Other liabilities | 20,882 | | | 24,241 | | |
| Total liabilities | 2,315,548 | | | 2,107,799 | | |
| Stockholders equity | 359,890 | | | 327,548 | | |
| Total liabilities and stockholders equity | \$ 2,675,438 | | | \$ 2,435,347 | | |
| Net interest income, tax equivalent | | \$ 70,629 | | | \$ 66,009 | |

| | | |
|---|-------|-------|
| Net interest rate spread ⁽³⁾ | 3.92% | 3.97% |
| Net interest margin ⁽⁴⁾ | 4.07% | 4.13% |

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

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The following table reconciles the differences between net interest income and net interest income on a tax equivalent basis for the period indicated:

| | Three Months Ended September 30, 2013 | | Nine Months Ended September 30, 2012 | |
|--|---------------------------------------|-----------|--------------------------------------|-----------|
| | 2013 | 2012 | 2013 | 2012 |
| <i>(Amounts in thousands)</i> | | | | |
| Net interest income, GAAP basis | \$ 22,326 | \$ 26,459 | \$ 68,550 | \$ 63,920 |
| Tax equivalent adjustment ⁽¹⁾ | 691 | 680 | 2,079 | 2,089 |
| Net interest income, tax equivalent | \$ 23,017 | \$ 27,139 | \$ 70,629 | \$ 66,009 |

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

The following table presents the impact on net interest income on a tax equivalent basis resulting from changes in (i) volume (change in the average volume times the prior year's average rate), (ii) rate (changes in the average rate times the prior year's average volume), and (iii) rate/volume (change in the average volume column times the change in average rate):

| <i>(Amounts in thousands)</i> | Three Months Ended September 30, 2013 Compared to 2012 | | | | Nine Months Ended September 30, 2013 Compared to 2012 | | | |
|--|--|------------|--------|------------|---|------------|----------|----------|
| | Dollar Increase (Decrease) due to | | | | Dollar Increase (Decrease) due to | | | |
| | Volume | Rate | Volume | Total | Volume | Rate | Volume | Total |
| Interest earned on: | | | | | | | | |
| Loans (FTE) | \$ (1,526) | \$ (3,573) | \$ 270 | \$ (4,829) | \$ 5,737 | \$ (1,483) | \$ (193) | \$ 4,061 |
| Securities available-for-sale (FTE) | 164 | (131) | 5 | 38 | 1,156 | (1,268) | (138) | (250) |
| Securities held-to-maturity (FTE) | (21) | 34 | (27) | (14) | (121) | 43 | (34) | (112) |
| Interest-bearing deposits with other banks | (32) | 18 | (9) | (23) | 24 | (18) | (3) | 3 |
| Total interest earning assets | (1,415) | (3,652) | 239 | (4,828) | 6,796 | (2,726) | (368) | 3,702 |
| Interest paid on: | | | | | | | | |
| Demand deposits | 4 | 5 | | 9 | 22 | 24 | 4 | 50 |
| Savings deposits | 7 | (35) | (1) | (29) | 68 | (20) | (4) | 44 |
| Time deposits | (374) | (83) | 20 | (437) | 315 | (935) | (50) | (670) |
| Federal funds purchased | | | | | | | (2) | (2) |
| Retail repurchase agreements | (31) | (74) | 19 | (86) | (31) | (79) | 7 | (103) |

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| | | | | | | | | |
|---|----------|------------|--------|------------|----------|------------|----------|----------|
| Wholesale repurchase agreements | (77) | 5 | 1 | (71) | (44) | (21) | (1) | (66) |
| FHLB advances and other borrowings | (172) | 83 | (3) | (92) | (164) | (2) | (5) | (171) |
| Total interest-bearing liabilities | (643) | (99) | 36 | (706) | 166 | (1,033) | (51) | (918) |
| Change in net interest income, tax equivalent | \$ (772) | \$ (3,553) | \$ 203 | \$ (4,122) | \$ 6,630 | \$ (1,693) | \$ (317) | \$ 4,620 |

Provision for Loan Losses

The provision for loan losses is determined by management as the amount to be added to the allowance for loan losses after net charge-offs have been deducted to bring the allowance to a level which, in management's best estimate, is necessary to absorb probable losses within the existing loan portfolio. The provision for loan losses charged to operations of \$2.33 million for the third quarter of 2013 was an increase of \$417 thousand compared with the same quarter of 2012. The provision for the third quarter of 2013 included an \$812 thousand offset to the FDIC indemnification asset, related to our acquisition of Waccamaw, to recognize the portion of losses that are expected to be reimbursed by the FDIC. We incurred net charge-offs of \$1.60 million for the quarter ended September 30, 2013, compared with \$2.25 million for the same quarter of 2012. Annualized net charge-offs as a percentage of average non-covered loans were 0.42% for the quarter ended September 30, 2013, compared with 0.57% for the same quarter of 2012. Non-covered loans exclude loans acquired in the Waccamaw transaction that are covered under the FDIC loss share agreements.

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The provision for loan losses charged to operations of \$6.68 million for the first nine months of 2013 was an increase of \$2.22 million compared with the same period of 2012. The provision for the first nine months of 2013 included an \$812 thousand offset to the FDIC indemnification asset to recognize the portion of losses that are expected to be reimbursed by the FDIC. We incurred net charge-offs of \$8.60 million for the nine months ended September 30, 2013, compared with \$4.83 million for the same period of 2012. The increase in charge-offs during the first nine months of 2013 was primarily due to four loan relationships, with the most significant being a \$2.10 million write down of a relationship within the construction, development, and other land loan class. The Company had previously identified this problem loan relationship and had established a \$1.80 million specific allocation that was utilized for the write down. Annualized net charge-offs as a percentage of average non-covered loans were 0.76% for the nine months ended September 30, 2013, compared with 0.46% for the same period of 2012.

Noninterest Income Quarterly Comparison

Noninterest income, which consists of all revenues not included in interest and fee income related to earning assets, decreased \$3.05 million, or 27.34%, for the quarter ended September 30, 2013, compared with the same quarter of 2012. The decrease was largely attributed to a \$2.39 million out-of-period adjustment recorded during the third quarter of 2012 to correct the overstatement of charge-offs and corresponding understatement of pre-tax income for the years ended December 31, 2009, 2010, and 2011. Exclusive of the impact from the sale of securities, indemnification asset amortization and accretion, net impairment losses, and out-of-period adjustment, noninterest income decreased \$112 thousand, or 1.20%, to \$9.24 million for the quarter ended September 30, 2013, compared with \$9.35 million for the same quarter of 2012.

Wealth management revenues, including fees and commissions for trust services and investment advisory services, decreased \$142 thousand, or 14.13%, for the quarter ended September 30, 2013, compared with the same quarter of 2012. Service charges on deposit accounts decreased \$313 thousand, or 8.04%, for the quarter ended September 30, 2013, compared with the same quarter of 2012. Other service charges, commissions, and fees increased \$146 thousand, or 8.95%, for the quarter ended September 30, 2013, compared with the same quarter of 2012. Insurance commissions decreased \$57 thousand, or 3.53%, for the quarter ended September 30, 2013, compared with the same quarter of 2012.

We incurred no impairment losses during the quarter ended September 30, 2013, compared to \$942 thousand recognized in the same quarter of 2012. We realized a net loss on sale of securities of \$39 thousand for the quarter ended September 30, 2013, which was a \$267 thousand decrease from a net gain of \$228 thousand in the same quarter of 2012. During the third quarter of 2013, amortization associated with the FDIC indemnification asset totaled \$1.09 million which was a \$1.22 million decrease from recorded accretion of \$131 thousand in the same quarter of 2012. Other operating income decreased \$2.14 million, or 59.49%, for the quarter ended September 30, 2013, compared with the same quarter of 2012. The decrease in other operating income was primarily due to the \$2.39 million out-of-period adjustment recorded during the third quarter of 2012. The decrease associated with the out-of-period adjustment was partially offset by a positive fair value mark of \$307 thousand on loans held for sale and the associated secondary market loan production pipeline for the third quarter of 2013 compared to \$94 thousand recorded for the third quarter of 2012 as a result of increases in the estimated value of the servicing release premium on loans sold.

Noninterest Income Year-to-Date Comparison

Noninterest income decreased \$4.68 million, or 17.01%, for the nine months ended September 30, 2013, compared with the same period of 2012. Exclusive of the impact from the sale of securities, prepaid borrowings, indemnification asset amortization and accretion, impairment losses, and out-of-period adjustment, noninterest income increased \$980

thousand, or 3.82%, to \$26.62 million for the nine months ended September 30, 2013, compared with \$25.64 million for the same period of 2012.

Wealth management revenues, including fees and commissions for trust services and investment advisory services, decreased \$159 thousand, or 5.60%, for the nine months ended September 30, 2013, compared with the same period of 2012. Service charges on deposit accounts decreased \$172 thousand, or 1.68%, for the nine months ended September 30, 2013, compared with the same period of 2012. Other service charges, commissions, and fees increased \$576 thousand, or 12.05%, for the nine months ended September 30, 2013, compared with the same period of 2012. Insurance commissions experienced a slight increase of \$5 thousand for the nine months ended September 30, 2013, compared with the same period of 2012.

We incurred no impairment losses during the nine months ended September 30, 2013, compared to \$942 thousand recognized in the same period of 2012. We realized a net gain on sale of securities of \$191 thousand for the nine months ended September 30, 2013, which was a \$79 thousand decrease from the same period of 2012. During the first nine months of 2013, amortization associated with the FDIC indemnification asset totaled \$4.29 million, which was a \$4.42 million decrease from recorded accretion of \$131 thousand in the same period of 2012. Other operating income decreased \$1.37 million, or 24.21%, for the nine months ended September 30, 2013, compared with the same period of 2012. The decrease in other operating income was primarily due to the \$2.39 million out-of-period adjustment recorded during the third quarter of 2012, which was partially offset by a \$296 thousand gain on the prepayment of borrowings and a \$260 thousand increase in Federal Reserve Bank and FHLB dividends.

Table of Contents***Noninterest Expense Quarterly Comparison***

Noninterest expense experienced a decrease of \$172 thousand for the third quarter of 2013 compared with the same quarter of 2012. Salaries and employee benefits increased \$220 thousand, or 2.03%, for the quarter ended September 30, 2013, compared with the same quarter of 2012, which included a one-time charge to accrue for contractual executive severance of \$1.07 million. Exclusive of the severance charge, salaries and employee benefits decreased \$852 thousand, or 7.85%, for the quarter ended September 30, 2013, compared with the same quarter of 2012. Salaries and employee benefits attributed to the Peoples and Waccamaw acquisitions totaled \$1.15 million during the third quarter of 2013, which represents a decrease of \$260 thousand compared with the same quarter of 2012. At September 30, 2013, we had 726 full-time equivalent employees compared to 758 at September 30, 2012. The Peoples and Waccamaw acquisitions resulted in the addition of 97 and 121 full-time equivalent employees for the periods ended September 30, 2013, and September 30, 2012, respectively.

Occupancy, furniture, and equipment expense increased \$279 thousand, or 10.30%, to \$2.99 million for the quarter ended September 30, 2013, compared with \$2.71 million for the same quarter of 2012 as a result of increased depreciation costs in connection with the Waccamaw acquisition, core operating system, and associated hardware. FDIC premiums and assessments decreased \$151 thousand, or 24.71%, for the quarter ended September 30, 2013, compared with the same quarter of 2012. In connection with the Peoples and Waccamaw acquisitions, we incurred no merger related costs during the quarter ended September 30, 2013, compared to \$645 thousand for the same quarter of 2012. Other operating expense increased \$133 thousand, or 2.51%, for the quarter ended September 30, 2013, compared with the same quarter of 2012. Included in other operating expense was a \$218 thousand decrease in expenses and net losses associated with other real estate owned (OREO) to \$272 thousand for the third quarter of 2013, compared with \$490 thousand for the same quarter of 2012.

Noninterest Expense Year-to-Date Comparison

Noninterest expense increased \$1.58 million, or 2.79%, for the first nine months of 2013 compared with the same period of 2012. Salaries and employee benefits increased \$3.18 million, or 11.35%, for the nine months ended September 30, 2013, compared with the same period of 2012. Exclusive of the one-time contractual severance charge, salaries and employee benefits increased \$2.10 million, or 7.52%, for the nine months ended September 30, 2013, compared with the same period of 2012. Salaries and employee benefits attributed to the Peoples and Waccamaw acquisitions totaled \$3.72 million during the nine months ended September 30, 2013, which represents an increase of \$1.82 million compared with the same period of 2012.

Occupancy, furniture, and equipment expense increased \$1.61 million or 20.93%, to \$9.28 million for the nine months ended September 30, 2013, compared with \$7.68 million for the same period of 2012 as a result of increased depreciation costs in connection with the Waccamaw acquisition, core operating system, and associated hardware. FDIC premiums and assessments increased \$178 thousand, or 14.55%, for the nine months ended September 30, 2013, compared with the same period of 2012. We incurred \$56 thousand in merger related costs for the nine months ended September 30, 2013, compared to \$4.23 million for the same period of 2012. Other operating expense increased \$859 thousand, or 5.75%, for the nine months ended September 30, 2013, compared with the same period of 2012. Included in other operating expense was a \$514 thousand decrease in expenses and net losses associated with other real estate owned to \$1.07 million for the first nine months of 2013, compared with \$1.58 million for the same period of 2012.

Income Tax Expense

Income tax as a percentage of pretax income may vary significantly from statutory rates due to permanent differences, which are items of income and expense excluded by law from the calculation of taxable income. Our most significant permanent differences include income on municipal securities, which are exempt from federal income tax; certain dividend payments, which are deductible; and increases in the cash surrender value of life insurance policies.

Consolidated income taxes were \$2.54 million for the third quarter of 2013 compared to \$5.32 million for the same quarter of 2012. The effective tax expense rates for the quarters ended September 30, 2013 and 2012 were 31.93% and 34.60%, respectively.

Consolidated income taxes were \$8.47 million for the first nine months of 2013 compared to \$10.17 million for the same period of 2012. The effective tax expense rates for the nine months ended September 30, 2013 and 2012 were 32.02% and 33.56%, respectively.

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Financial Condition

Total assets were \$2.65 billion as of September 30, 2013, a decrease of \$76.22 million, or 2.79%, compared with \$2.73 billion at December 31, 2012. Total liabilities were \$2.30 billion as of September 30, 2013, a decrease of \$70.84 million, or 2.99%, compared with \$2.37 billion at December 31, 2012. As of September 30, 2013, our book value per as-converted common share was \$16.75, a decrease of \$0.01, compared with December 31, 2012.

Investment Securities

Available-for-Sale Securities

Available-for-sale securities as of September 30, 2013, increased \$11.32 million, or 2.12%, compared with December 31, 2012. The market value of securities available-for-sale as a percentage of amortized cost was 96.84% at September 30, 2013, compared with 99.92% at December 31, 2012.

We recognized no other-than-temporary impairment (OTTI) charges in earnings related to nonbeneficial interest debt securities or equity securities during the three and nine months ended September 30, 2013 and 2012. We incurred no credit-related OTTI charges associated with beneficial interest debt securities during the three and nine months ended September 30, 2013, compared to \$942 thousand recognized during the three and nine months ended September 30, 2012. These charges were related to a non-Agency mortgage-backed security (MBS). Temporary impairment on the Agency MBS is primarily related to changes in interest rates. See Note 2, Investment Securities, of the Notes to Condensed Consolidated Financial Statements in Item 1, Financial Statements, herein for additional information.

Held-to-Maturity Securities

Held-to-maturity securities as of September 30, 2013, decreased \$249 thousand, or 30.51%, compared with December 31, 2012. The market value of securities held-to-maturity as a percentage of amortized cost was 100.88% at September 30, 2013, compared with 101.96% at December 31, 2012.

Loan Portfolio

Loans Held for Sale

Loans held for sale as of September 30, 2013, decreased \$5.85 million, or 87.63% compared with December 31, 2012. Loans held for sale consist of mortgage loans sold on a best efforts basis into the secondary loan market; accordingly, we do not retain the interest rate risk involved in these long-term commitments. The gross notional amount of outstanding commitments related to secondary market mortgage loans at September 30, 2013, was \$1.09 million for 8 loans compared to \$14.84 million for 88 loans at December 31, 2012.

Table of Contents*Loans Held for Investment*

Loans held for investment as of September 30, 2013, decreased \$27.96 million, or 1.62%, compared with December 31, 2012, and \$66.91 million, or 3.79%, compared with September 30, 2012. The decrease was due to runoff in the loan portfolio covered under the FDIC loss share agreements. The average loan to deposit ratio was 85.13% for the third quarter of 2013 compared to 85.71% for the fourth quarter of 2012, and 87.88% for the third quarter of 2012. The held for investment portfolio continues to be diversified among loan types and industry segments. The following table details the loan portfolio for the dates indicated:

| | September 30, 2013 | | December 31, 2012 | | September 30, 2012 | |
|---|--------------------|---------|-------------------|---------|--------------------|---------|
| | Amount | Percent | Amount | Percent | Amount | Percent |
| <i>(Amounts in thousands)</i> | | | | | | |
| Covered loans | \$ 163,425 | 9.63% | \$ 207,106 | 12.01% | \$ 221,977 | 12.59% |
| Non-covered loans | | | | | | |
| Commercial loans | | | | | | |
| Construction, development, and other land | 55,791 | 3.29% | 57,434 | 3.33% | 62,030 | 3.52% |
| Commercial and industrial | 95,972 | 5.66% | 88,738 | 5.15% | 97,422 | 5.52% |
| Multi-family residential | 56,079 | 3.31% | 65,694 | 3.81% | 75,756 | 4.30% |
| Single family non-owner occupied | 132,253 | 7.79% | 135,912 | 7.88% | 135,346 | 7.67% |
| Non-farm, non-residential | 455,247 | 26.83% | 448,810 | 26.02% | 449,359 | 25.48% |
| Agricultural | 2,274 | 0.13% | 1,709 | 0.10% | 1,474 | 0.08% |
| Farmland | 31,885 | 1.88% | 34,570 | 2.00% | 36,735 | 2.08% |
| Total commercial loans | 829,501 | 48.89% | 832,867 | 48.29% | 858,122 | 48.65% |
| Consumer real estate loans | | | | | | |
| Home equity lines | 109,611 | 6.46% | 111,081 | 6.44% | 111,877 | 6.34% |
| Single family owner occupied | 492,424 | 29.02% | 473,547 | 27.46% | 474,985 | 26.93% |
| Owner occupied construction | 25,349 | 1.50% | 16,223 | 0.94% | 15,076 | 0.86% |
| Total consumer real estate loans | 627,384 | 36.98% | 600,851 | 34.84% | 601,938 | 34.13% |
| Consumer and other loans | | | | | | |
| Consumer loans | 71,679 | 4.22% | 78,163 | 4.53% | 76,004 | 4.31% |
| Other | 4,708 | 0.28% | 5,666 | 0.33% | 5,569 | 0.32% |
| Total consumer and other loans | 76,387 | 4.50% | 83,829 | 4.86% | 81,573 | 4.63% |
| Total non-covered loans | 1,533,272 | 90.37% | 1,517,547 | 87.99% | 1,541,633 | 87.41% |
| Total loans held for investment | \$ 1,696,697 | 100.00% | \$ 1,724,653 | 100.00% | \$ 1,763,610 | 100.00% |
| Loans held for sale | \$ 825 | | \$ 6,672 | | \$ 4,446 | |

Allowance for Loan Losses

The allowance for loan losses is maintained at a level management deems sufficient to absorb probable loan losses inherent in the loan portfolio. The allowance is increased by charges to earnings in the form of provisions for loan losses and recoveries of prior loan charge-offs and decreased by loans charged off. The determination of the allowance requires management to make various assumptions and judgments. As a result, actual loan losses may differ materially from management's determination if actual conditions differ significantly from the assumptions utilized. The ultimate adequacy of the allowance for loan losses is dependent upon a variety of factors beyond our control including, among other things, the economy, changes in interest rates, and the view of regulatory authorities toward loan classifications. Management considers the allowance to be adequate based upon analysis of the portfolio as of September 30, 2013; however, no assurance can be made that additions to the allowance for loan losses will not be required in future periods.

Qualitative risk factors for the loan portfolio remain relatively high which reflect the elevated risk of loan losses due to high unemployment, effects of the recent recession, and devaluations of various categories of collateral. Significant stress continues in commercial and residential real estate markets, resulting in significant declines in real estate valuations. Decreases in real estate values adversely affect the value of property used as collateral for loans, including loans we originated. In addition, adverse changes in the economy, particularly continued high rates of unemployment, may have a negative effect on the ability of our borrowers to make timely loan payments. A further increase in loan delinquencies could adversely impact loan loss experience, causing potential increases in the provision and allowance for loan losses.

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Our allowance for loan losses totaled \$24.67 million at September 30, 2013, \$25.77 million at December 31, 2012, and \$25.84 million at September 30, 2012. The allowance, excluding the acquired impaired allowance, as a percentage of non-covered loans held for investment was 1.54% at September 30, 2013, 1.70% at December 31, 2012, and 1.68% at September 30, 2012. Specific reserves within the allowance declined between December 31, 2012, and September 30, 2013, as a result of resolution activity on non-performing loans. General reserves were higher for the quarter due primarily to growth in our legacy loan portfolio. The cash flow analysis performed for the third quarter of 2013 identified four of our seven purchased credit impaired loan pools as impaired with a cumulative impairment of \$1.04 million at September 30, 2013. The portfolio will continue to be monitored for deterioration in credit, which may result in the need to record an allowance for loan losses in a future period.

The following table details the allowance for loan loss activity and related information for the three and nine months ended September 30, 2013 and 2012.

| | Three Months Ended September 30, | | | 2012 | | |
|---|----------------------------------|----------------------|-----------|--------------------------|----------------------|-----------|
| | Non-acquired Impaired | Acquired Impaired | Total | Non-acquired Impaired | Acquired Impaired | Total |
| <i>(Amounts in thousands)</i> | | | | | | |
| Beginning balance | \$ 23,114 | \$ 8 | \$ 23,122 | \$ 26,163 | \$ 8 | \$ 26,171 |
| Provision for loan losses | 2,110 | 1,035 | 3,145 | 1,916 | | 1,916 |
| Benefit attributable to the FDIC indemnification asset | | (812) | (812) | | | |
| Provision for loan losses charged to operations | 2,110 | 223 | 2,333 | 1,916 | | 1,916 |
| Provision for loan losses recorded through the FDIC indemnification asset | | 812 | 812 | | | |
| Charge-offs | (1,955) | | (1,955) | (2,613) | | (2,613) |
| Recoveries | 353 | | 353 | 361 | | 361 |
| Net charge-offs | (1,602) | | (1,602) | (2,252) | | (2,252) |
| Ending balance | \$ 23,622 | \$ 1,043 | \$ 24,665 | \$ 25,827 | \$ 8 | \$ 25,835 |
| Non-covered loans | | | | | | |
| Annualized net charge-offs to average loans | 0.42% | | | 0.57% | | |
| Non-acquired allowance to total loans | 1.54% | | | 1.68% | | |

| | Nine Months Ended September 30, | | | 2012 | | |
|-------------------------------|---------------------------------|----------------------|-----------|--------------------------|----------------------|-----------|
| | Non-acquired Impaired | Acquired Impaired | Total | Non-acquired Impaired | Acquired Impaired | Total |
| <i>(Amounts in thousands)</i> | | | | | | |
| Beginning balance | \$ 25,762 | \$ 8 | \$ 25,770 | \$ 26,004 | \$ 201 | \$ 26,205 |

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| | | | | | | |
|---|-----------|----------|-----------|-----------|-------|-----------|
| Provision for loan losses | 6,457 | 1,035 | 7,492 | 4,651 | (193) | 4,458 |
| Benefit attributable to the FDIC indemnification asset | | (812) | (812) | | | |
| Provision for loan losses charged to operations | 6,457 | 223 | 6,680 | 4,651 | (193) | 4,458 |
| Provision for loan losses recorded through the FDIC indemnification asset | | 812 | 812 | | | |
| Charge-offs | (9,720) | | (9,720) | (5,787) | | (5,787) |
| Recoveries | 1,123 | | 1,123 | 959 | | 959 |
| Net charge-offs | (8,597) | | (8,597) | (4,828) | | (4,828) |
| Ending balance | \$ 23,622 | \$ 1,043 | \$ 24,665 | \$ 25,827 | \$ 8 | \$ 25,835 |
| Non-covered loans | | | | | | |
| Annualized net charge-offs to average loans | 0.76% | | | 0.46% | | |
| Non-acquired allowance to total loans | 1.54% | | | 1.68% | | |

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Nonperforming assets consist of loans accounted for on a nonaccrual basis, accruing loans contractually past due 90 days or more, unseasoned troubled debt restructurings (TDRs), and OREO. Loans acquired with credit deterioration through business combinations, for which a discount exists, are not considered to be nonaccrual as a result of the accretion of the discount based on the expected cash flow of the loans. The following table summarizes the components of nonperforming assets and presents additional detail for nonperforming and restructured loans for the periods indicated:

| <i>(Amounts in thousands)</i> | September 30, 2012 | | |
|---|---------------------------|------------------|------------------|
| | 2012 | 2011 | 2012 |
| Non-covered | | | |
| Nonaccrual loans | \$ 26,397 | \$ 23,931 | \$ 26,514 |
| Accruing loans past due 90 days or more | | | |
| TDRs ⁽¹⁾ | 2,228 | 6,009 | 121 |
| Total nonperforming loans | 28,625 | 29,940 | 26,635 |
| OREO not covered under FDIC loss share agreements | 5,450 | 5,749 | 5,957 |
| Total nonperforming assets | \$ 34,075 | \$ 35,689 | \$ 32,592 |
| Covered | | | |
| Nonaccrual loans | \$ 3,579 | \$ 4,323 | \$ 2,849 |
| Accruing loans past due 90 days or more | 82 | | |
| Total nonperforming loans | 3,661 | 4,323 | 2,849 |
| OREO covered under FDIC loss share agreements | 7,381 | 3,255 | 3,553 |
| Total nonperforming assets | \$ 11,042 | \$ 7,578 | \$ 6,402 |
| Total | | | |
| Nonaccrual loans | \$ 29,976 | \$ 28,254 | \$ 29,363 |
| Accruing loans past due 90 days or more | 82 | | |
| TDRs ⁽¹⁾ | 2,228 | 6,009 | 121 |
| Total nonperforming loans | 32,286 | 34,263 | 29,484 |
| OREO | 12,831 | 9,004 | 9,510 |
| Total nonperforming assets | \$ 45,117 | \$ 43,267 | \$ 38,994 |
| Performing TDRs ⁽²⁾ | \$ 9,697 | \$ 6,038 | \$ 6,742 |
| Total TDRs ⁽³⁾ | \$ 11,925 | 12,047 | \$ 6,863 |
| Non-covered ratios | | | |
| Nonperforming loans to total loans | 1.87% | 1.97% | 1.73% |
| Nonperforming assets to total assets | 1.37% | 1.42% | 1.28% |

| | | | |
|---|--------|--------|--------|
| Non-acquired allowance to nonperforming loans | 82.52% | 86.07% | 97.00% |
| Total ratios (includes covered assets) | | | |
| Nonperforming loans to total loans | 1.90% | 1.99% | 1.67% |
| Nonperforming assets to total assets | 1.70% | 1.59% | 1.41% |
| Allowance to nonperforming loans | 76.40% | 75.21% | 87.62% |

- (1) TDRs restructured within the past six months or nonperforming, excluding nonaccrual TDRs of \$1.04 million, \$3.04 million, and \$1.77 million at September 30, 2013, December 31, 2012, and September 30, 2012, respectively.
- (2) TDRs with six months or more of satisfactory payment performance, excluding nonaccrual TDRs of \$1.62 million, \$792 thousand, and \$407 thousand at September 30, 2013, December 31, 2012, and September 30, 2012, respectively.
- (3) Performing and nonperforming TDRs, excluding nonaccrual TDRs of \$2.66 million, \$3.83 million, and \$2.18 million at September 30, 2013, December 31, 2012, and September 30, 2012, respectively.

Non-covered loans exclude loans acquired in the Waccamaw transaction that are covered under the FDIC loss share agreements. Non-covered nonperforming assets totaled \$34.08 million at September 30, 2013, a \$1.61 million decrease from December 31, 2012, and a \$1.48 million increase over September 30, 2012. Non-covered nonperforming assets as a percentage of total non-covered assets were 1.37% at September 30, 2013, 1.42% at December 31, 2012, and 1.28% at September 30, 2012.

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Non-covered nonaccrual loans totaled \$26.40 million at September 30, 2013, \$23.93 million at December 31, 2012, and \$26.51 million at September 30, 2012. As of September 30, 2013, non-covered nonaccrual loans were largely attributed to the following loan classes: single family owner occupied (25.40%); non-farm, non-residential (19.96%); commercial and industrial (19.19%); and commercial construction (19.19%). Approximately \$3.58 million, or 11.94%, of non-covered nonaccrual loans were attributed to loans acquired in business combinations at September 30, 2013. Certain loans included in the nonaccrual category have been written down to the estimated realizable value or assigned specific reserves within the allowance for loan losses based upon management's estimate of loss at ultimate resolution.

When restructuring loans for borrowers experiencing financial difficulty, we generally make concessions in interest rates, loan terms, and/or amortization terms. Certain TDRs are classified as nonperforming at time of restructuring and are returned to performing status after six months of satisfactory payment performance; however, these loans remain identified as impaired until full payment or other satisfaction of the obligation occurs. Accruing TDRs totaled \$11.92 million at September 30, 2013, \$12.05 million at December 31, 2012, and \$6.86 million at September 30, 2012. Accruing nonperforming TDRs amounted to \$2.23 million, or 18.69%, of total accruing TDRs as of September 30, 2013, as compared to 49.88% of accruing TDRs at December 31, 2012, and 1.76% of accruing TDRs at September 30, 2012. The allowance for loan losses attributed to TDRs totaled \$1.69 million at September 30, 2013, \$1.87 million at December 31, 2012, and \$675 thousand at September 30, 2012.

Ongoing activity within the classification and categories of nonperforming loans include collections on delinquencies, foreclosures, loan restructurings, and movements into or out of the nonperforming classification as a result of changing economic conditions, borrower financial capacity, or resolution efforts. There were no non-covered and \$82 thousand covered accruing loans contractually past due 90 days or more as of September 30, 2013.

Non-covered OREO, which is carried at the lesser of estimated net realizable value or cost, totaled \$5.45 million as of September 30, 2013, a decrease of \$299 thousand, or 5.20%, compared with December 31, 2012. As of September 30, 2013, non-covered OREO consisted of 50 properties with an average holding period of 11 months. During the third quarter and first nine months of 2013, the net loss on OREO totaled \$264 thousand and \$606 thousand, respectively. Pursuant to FDIC loss share agreements, covered OREO is presented net of the related fair value discount. The following table details activity within OREO for the periods indicated:

| | Non-covered | Covered | Total |
|------------------------------------|-------------|----------|-----------|
| <i>(Amounts in thousands)</i> | | | |
| Beginning balance, January 1, 2013 | \$ 5,749 | \$ 3,255 | \$ 9,004 |
| Additions | 6,651 | 6,978 | 13,629 |
| Disposals | (6,106) | (1,827) | (7,933) |
| Valuation adjustments | (844) | (1,025) | (1,869) |
| Ending balance, September 30, 2013 | \$ 5,450 | \$ 7,381 | \$ 12,831 |

| | Non-covered | Covered | Total |
|------------------------------------|-------------|---------|----------|
| <i>(Amounts in thousands)</i> | | | |
| Beginning balance, January 1, 2012 | \$ 5,914 | \$ | \$ 5,914 |
| Acquired | | 5,388 | 5,388 |

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| | | | |
|------------------------------------|----------|----------|----------|
| Additions | 6,621 | 295 | 6,916 |
| Disposals | (5,593) | (1,479) | (7,072) |
| Valuation adjustments | (985) | (651) | (1,636) |
| Ending balance, September 30, 2012 | \$ 5,957 | \$ 3,553 | \$ 9,510 |

Non-covered delinquent loans, comprised of loans 30 days or more past due and nonaccrual loans, totaled \$34.46 million as of September 30, 2013, a decrease of \$4.54 million, or 11.64%, compared with December 31, 2012.

Non-covered delinquent loans as a percentage of total non-covered loans measured 2.25% at September 30, 2013, of which loans 30 to 89 days past due comprised 0.53% and nonaccrual loans comprised 1.72%. Non-covered nonperforming loans, comprised of nonaccrual loans, nonperforming TDRs, and unseasoned TDRs, as a percentage of total non-covered loans were 1.87% at September 30, 2013, 1.97% at December 31, 2012, and 1.73% at September 30, 2012.

Deposits

Total deposits as of September 30, 2013, decreased \$33.61 million, or 1.66%, compared with December 31, 2012.

Noninterest-bearing deposits and interest-bearing demand deposits as of September 30, 2013, increased \$10.60 million and \$21.23 million, respectively, compared with December 31, 2012. Savings deposits, which include money market accounts and savings accounts, as of September 30, 2013, increased \$27.61 million compared with December 31, 2012. Time deposits as of September 30, 2013, decreased \$93.05 million compared with December 31, 2012.

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Our borrowings consist primarily of securities sold under agreements to repurchase and FHLB advances. Short-term borrowings generally consist of overnight federal funds purchased and repurchase agreements. There were no federal funds purchased at September 30, 2013, or December 31, 2012. The balance of retail repurchase agreements decreased \$13.28 million, or 17.04%, as of September 30, 2013, compared with December 31, 2012. The balance of wholesale repurchase agreements decreased \$8.20 million, or 14.08%, and the weighted average rate increased 37 basis points to 3.71% as of September 30, 2013, compared with December 31, 2012. The balance of FHLB borrowings, including convertible and callable advances and fixed rate credit, decreased \$11.56 million, or 7.15%, and the weighted average rate increased 26 basis points to 4.12% as of September 30, 2013, compared with December 31, 2012. As of September 30, 2013, the FHLB borrowings had maturities between three and eight years. During the first quarter of 2013, the Company prepaid \$8.15 million of wholesale repurchase agreements and \$11.47 million of FHLB borrowings that resulted in gains totaling \$296 thousand.

Stockholders Equity

Total stockholders equity decreased \$5.38 million, or 1.51%, from \$356.32 million at December 31, 2012, to \$350.95 million at September 30, 2013. The change in stockholders equity during the first nine months of 2013 was primarily due to net income of \$17.99 million, an increase in accumulated other comprehensive loss of \$10.92 million, dividends declared on common and preferred stock of \$7.98 million, and treasury share purchases of \$5.21 million. The increase in accumulated other comprehensive loss was largely a function of declines in investment securities market values as a result of the increase in benchmark interest rates during the second and third quarters of 2013.

Risk-Based Capital

Risk-based capital guidelines promulgated by state and federal banking agencies weight balance sheet assets and off-balance sheet commitments based on inherent risks associated with the respective asset types. As of September 30, 2013, the Bank was deemed well capitalized under regulatory capital adequacy standards. Our Company's and the Bank's capital ratios are presented in the following table for the dates indicated.

| | September 30, 2013 | December 31, 2012 |
|--|---------------------------|--------------------------|
| Total risk-based capital ratio | | |
| First Community Bancshares, Inc. | 17.80% | 16.70% |
| First Community Bank | 16.33% | 15.23% |
| Tier 1 risk-based capital ratio | | |
| First Community Bancshares, Inc. | 16.55% | 15.44% |
| First Community Bank | 15.07% | 13.97% |
| Tier 1 leverage ratio | | |
| First Community Bancshares, Inc. | 10.55% | 9.96% |
| First Community Bank | 9.62% | 8.98% |

Liquidity and Capital Resources

We maintain a liquidity policy as a means to manage liquidity and the associated risk. The policy includes a Liquidity Contingency Plan (the "Liquidity Plan") that is designed as a tool for us to detect liquidity issues promptly to protect depositors, creditors and shareholders. The Liquidity Plan includes monitoring various internal and external indicators such as changes in core deposits and changes in market conditions. It provides for timely responses to a wide variety

of funding scenarios ranging from changes in loan demand to a decline in our quarterly earnings to a decline in the market price of our stock. The Liquidity Plan calls for specific responses designed to meet a wide range of liquidity needs based upon assessments on a recurring basis by our Company and Board of Directors.

As of September 30, 2013, we maintained liquidity in the form of unencumbered cash on hand and deposits with other financial institutions of \$92.58 million, unpledged available-for-sale securities of \$265.80 million, FHLB unused borrowing capacity of \$325.72 million, and federal funds lines availability of \$114.09 million. Cash on hand and deposits with other financial institutions, as well as the FHLB, are immediately available for satisfaction of deposit withdrawals, customer credit needs, and our operations. Available-for-sale securities represent a secondary level of liquidity available for conversion to liquid funds in the event of extraordinary needs. Our approved lines of credit with correspondent banks are available as backup liquidity sources.

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As a holding company, we do not conduct significant operations and our primary sources of liquidity are dividends upstreamed from the Bank and borrowings from outside sources. Banking regulations limit the amount of dividends that may be paid by the Bank. As of September 30, 2013, our liquid assets, including cash and investment securities, totaled \$21.74 million. Our cash reserves and investments provide adequate working capital to meet obligations and projected dividends to shareholders for the next twelve months. Additionally, we maintain a \$15.00 million unsecured, committed line of credit. There was no balance on the line as of September 30, 2013.

Off-Balance Sheet Risk

As of September 30, 2013, our off-balance sheet risk included \$209.00 million in commitments to extend credit and \$1.77 million in standby letters of credit and financial guarantees. Our exposure to credit loss in the event of nonperformance by other parties to financial instruments is represented by the contractual amount of those instruments.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

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

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

model is currently the best tool available to us and the industry for managing interest rate risk.

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

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The following table summarizes the impact of immediate and sustained rate shocks in the interest rate environment on net interest income. The model simulates plus 300 to minus 100 basis point changes from the base case rate simulation and illustrates the prospective effects of hypothetical interest rate changes over a twelve-month time period. This modeling technique, although useful, does not take into account all strategies that management might undertake in response to a sudden and sustained rate shock as depicted. Also, as market conditions vary from those assumed in the sensitivity analysis, actual results will also differ due to prepayment and refinancing levels likely deviating from those assumed, the varying impact of interest rate change caps or floors on adjustable rate assets, the potential effect of changing debt service levels on customers with adjustable rate loans, depositor early withdrawals and product preference changes, and other internal and external variables. As of September 30, 2013, the Federal Open Market Committee maintained a target range for federal funds of 0 to 25 basis points, rendering a complete downward shock of 200 basis points meaningless; accordingly, downward rate scenarios are limited to minus 100 basis points. In the downward rate shocks presented, benchmark interest rates are assumed at levels with floors near 0%.

| <i>(Amounts in thousands, except basis points)</i> | September 30, 2013 | | December 31, 2012 | |
|--|-----------------------|---------------------|---------------------|---------------------|
| | Change in | Percent Change | Change in | Percent Change |
| Increase (Decrease) in Interest Rates/Basis Points | Net Interest Income | Net Interest Income | Net Interest Income | Net Interest Income |
| 300 | \$ 8,150 | 10.4 | \$ 10,928 | 13.2 |
| 200 | 5,110 | 6.5 | 7,455 | 9.0 |
| 100 | 2,253 | 2.9 | 3,606 | 4.4 |
| (100) | 348 | 0.4 | (35) | |

During the next twelve months we have more assets than liabilities projected to reprice. As a result, projected net interest income will increase if and when benchmark rates increase. If benchmark interest rates decrease further than current levels, projected net interest income will remain roughly level.

Impact of Inflation and Changing Prices

The consolidated financial statements and notes thereto presented herein have been prepared in accordance with GAAP, which requires the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. The primary effect of inflation on our operations is reflected in increased operating costs. In management's opinion, interest rates have a greater impact on our consolidated performance than do the effects of general levels of inflation. Interest rates do not necessarily fluctuate in the same direction or to the same extent as the price of goods and services.

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

In connection with this report on Form 10-Q, we conducted an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of our disclosure controls and procedures pursuant to the Securities Exchange Act of 1934 (the Exchange Act) Rule 13a-15(b). Based upon that evaluation, the CEO and CFO concluded that, as of September 30, 2013, our disclosure controls and procedures were effective.

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

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

Table of Contents**Changes in Internal Control over Financial Reporting**

We assess the adequacy of our internal control over financial reporting quarterly and enhance our controls in response to internal control assessments and internal and external audit and regulatory recommendations. There were no changes in our internal control over financial reporting during the quarter ended September 30, 2013, that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION**ITEM 1. Legal Proceedings**

We are currently a defendant in various legal actions and asserted claims in the normal course of business. Although our Company and legal counsel are unable to assess the ultimate outcome of each of these matters with certainty, we are of the belief that the resolution of these actions should not have a material adverse effect on our financial position, results of operations, or cash flows.

ITEM 1A. Risk Factors

Refer to our 2012 Form 10-K for disclosures with respect to our risk factors which could materially affect our business, financial condition, or future results. The risks described in the 2012 Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also adversely affect our business, financial condition, or operating results. There have been no material changes from the risk factors previously disclosed in Part II, Item 1A, Risk Factors, of our 2013 Form 10-Q for the period ended June 30, 2013, and Part I, Item 1A, Risk Factors, of our 2012 Form 10-K.

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

(a) Not Applicable

(b) Not Applicable

(c) Issuer Purchases of Equity Securities

The following table provides information with respect to purchases made by or on behalf of our Company or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934) of our Company's Common Stock during the third quarter of 2013:

| | Total Number | Average | Total Number of | Maximum Number of Shares that May |
|--|---------------------|----------------|----------------------------|--|
|--|---------------------|----------------|----------------------------|--|

| | of Shares Purchased | Price Paid per Share | as Part of a Publicly Announced Plan | Yet be Purchased Under the Plan ⁽¹⁾ |
|----------------------|--------------------------------|-------------------------------------|---|---|
| July 1-31, 2013 | 1,750 | \$ 15.40 | 1,750 | 712,285 |
| August 1-31, 2013 | 76,000 | 15.59 | 76,000 | 636,285 |
| September 1-30, 2013 | 126,638 | 15.58 | 126,638 | 510,151 |
| Total | 204,388 | \$ 15.58 | 204,388 | |

- (1) At September 30, 2013, the Company's stock repurchase plan, as amended, authorized the purchase and retention of up to 1,100,000 shares. During October 2013, the Company's board of directors authorized the repurchase and retention of up to 3,000,000 outstanding common shares. The plan has no expiration date and currently is in effect. No determination has been made to terminate the plan or to cease making purchases. We held 589,849 shares in treasury as of September 30, 2013.

ITEM 3. Defaults Upon Senior Securities

Not Applicable

ITEM 4. Mine Safety Disclosures

Not Applicable

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None

ITEM 6. Exhibits

(a) Exhibits and index required

Exhibit

| No. | Exhibit |
|------------|---|
| 3(i) | Articles of Incorporation of First Community Bancshares, Inc., as amended (1) |
| 3(ii) | Amended and Restated Bylaws of First Community Bancshares, Inc. (2) |
| 4.1 | Specimen stock certificate of First Community Bancshares, Inc. (3) |
| 4.2 | Indenture Agreement dated September 25, 2003. (4) |
| 4.3 | Declaration of Trust of FCBI Capital Trust dated September 25, 2003, as amended and restated. (5) |
| 4.4 | Preferred Securities Guarantee Agreement dated September 25, 2003. (6) |
| 4.5 | Certificate of Designation of 6.00% Series A Noncumulative Convertible Preferred Stock. (7) |
| 10.1** | First Community Bancshares, Inc. 1999 Stock Option Agreement (8) and Plan. (9) |
| 10.1.1** | First Community Bancshares, Inc. 1999 Stock Option Plan, Amendment One. (10) |
| 10.2** | First Community Bancshares, Inc. 2001 Nonqualified Director Stock Option Plan. (11) |
| 10.3** | Employment Agreement between First Community Bancshares, Inc. and John M. Mendez dated December 16, 2008, as amended and restated (21) and Waiver Agreement. (29) |
| 10.4** | First Community Bancshares, Inc. and Affiliates Executive Retention Plan (12), Amendment #1 (13), and Amendment #2. (33) |
| 10.5** | First Community Bancshares, Inc. Split Dollar Plan and Agreement. (14) |
| 10.6** | First Community Bancshares, Inc. Supplemental Directors Retirement Plan, as amended and restated. (15) |
| 10.7** | First Community Bancshares, Inc. Wrap Plan, as amended and restated. (16) |
| 10.8** | Employment Agreement between First Community Bank and Marshall E. McCall dated March 1, 2012. (31) |
| 10.9** | Form of Indemnification Agreement between First Community Bancshares, Inc., its Directors, and Certain Executive Officers. (17) |
| 10.10** | Form of Indemnification Agreement between First Community Bank, its Directors, and Certain Executive Officers. (17) |
| 10.11** | First Community Bancshares, Inc. 2004 Omnibus Stock Option Plan (18) and Stock Award Agreement. (19) |

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| | |
|------------|--|
| 10.12** | First Community Bancshares, Inc. 2012 Omnibus Equity Compensation Plan (32) |
| 10.13** | First Community Bancshares, Inc. Directors Deferred Compensation Plan, as amended and restated. (20) |
| 10.14** | Employment Agreement between First Community Bancshares, Inc. and David D. Brown dated December 16, 2008. (22) |
| 10.15** | Employment Agreement between First Community Bancshares, Inc. and Robert L. Buzzo dated December 16, 2008, as amended and restated. (23) |
| 10.16** | Employment Agreement between First Community Bancshares, Inc. and E. Stephen Lilly dated December 16, 2008, as amended and restated. (24) |
| 10.17** | Employment Agreement between First Community Bank and Gary R. Mills dated December 16, 2008. (25) |
| 10.18** | Employment Agreement between First Community Bank and Martyn A. Pell dated December 16, 2008. (26) |
| 10.19** | Employment Agreement between First Community Bank and Robert L. Schumacher dated December 16, 2008. (27) |
| 10.20** | Employment Agreement between First Community Bank and Simpson O. Brown dated July 31, 2009. (28) |
| 10.21** | Employment Agreement between First Community Bank and Mark R. Evans dated July 31, 2009. (28) |
| 10.22** | Form of Restricted Stock Grant Agreement under First Community Bancshares, Inc. 2012 Omnibus Equity Compensation Plan. (34) |
| 10.23** | Separation Agreement and Release between First Community Bancshares, Inc. and John M. Mendez dated August 28, 2013. (35) |
| 11 | Statement Regarding Computation of Earnings per Share. (30) |
| 31.1* | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer. |
| 31.2* | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer. |
| 32* | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS*** | XBRL Instance Document # |
| 101.SCH*** | XBRL Taxonomy Extension Schema Document # |
| 101.CAL*** | XBRL Taxonomy Extension Calculation Linkbase Document # |
| 101.LAB*** | XBRL Taxonomy Extension Label Linkbase Document # |
| 101.PRE*** | XBRL Taxonomy Extension Presentation Linkbase Document # |
| 101.DEF*** | XBRL Taxonomy Extension Definition Linkbase Document # |

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In accordance with Rule 406T of SEC Regulation S-T, the XBRL related documents in Exhibit 101 to this Quarterly Report on Form 10-Q for the period ended September 30, 2013, are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these Sections.

* Incorporated herewith.

** Indicates a management contract or compensation plan.

*** Submitted electronically herewith.

Attached as Exhibit 101 to the Quarterly Report on Form 10-Q for the period ended September 30, 2013, of First Community Bancshares, Inc. are the following documents formatted in XBRL (eXtensive Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of September 30, 2013, (Unaudited), and December 31, 2012; (ii) Condensed Consolidated Statements of Income (Unaudited) for the three and nine months ended September 30, 2013 and 2012; (iii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2013 and 2012; (iv) Condensed Consolidated Statements of Stockholders Equity (Unaudited) for the nine months ended September 30, 2013 and 2012; (v) Condensed Consolidated Statements of Cash Flows (Unaudited) for the nine months ended September 30, 2013 and 2012; and (vi) Notes to Condensed Consolidated Financial Statements (Unaudited).

- (1) Incorporated by reference from Exhibit 3(i) of the Quarterly Report on Form 10-Q for the period ended June 30, 2010, filed on August 16, 2010.
- (2) Incorporated by reference from Exhibit 3.1 of the Current Report on Form 8-K dated September 24, 2013, filed on September 26, 2013.
- (3) Incorporated by reference from Exhibit 4.1 of the Annual Report on Form 10-K for the period ended December 31, 2002, filed on March 25, 2003, amended on March 31, 2003.
- (4) Incorporated by reference from Exhibit 4.2 of the Quarterly Report on Form 10-Q for the period ended September 30, 2003, filed on November 10, 2003.
- (5) Incorporated by reference from Exhibit 4.3 of the Quarterly Report on Form 10-Q for the period ended September 30, 2003, filed on November 10, 2003.
- (6) Incorporated by reference from Exhibit 4.4 of the Quarterly Report on Form 10-Q for the period ended September 30, 2003, filed on November 10, 2003.
- (7) Incorporated by reference from Exhibit 4.1 of the Current Report on Form 8-K dated May 20, 2011, filed on May 23, 2011.
- (8) Incorporated by reference from Exhibit 10.5 of the Quarterly Report on Form 10-Q for the period ended June 30, 2002, filed on August 14, 2002.
- (9) Incorporated by reference from Exhibit 10.1 of the Annual Report on Form 10-K for the period ended December 31, 1999, filed on March 30, 2000, amended on April 13, 2000.
- (10) Incorporated by reference from Exhibit 10.1.1 of the Quarterly Report on Form 10-Q for the period ended March 31, 2004, filed on May 7, 2004.
- (11) Incorporated by reference from Exhibit 10.4 of the Quarterly Report on Form 10-Q for the period ended June 30, 2002, filed on August 14, 2002.
- (12) Incorporated by reference from Exhibit 10.1 of the Current Report on Form 8-K dated December 30, 2008, filed on January 5, 2009.
- (13) Incorporated by reference from Exhibit 10.3 of the Current Report on Form 8-K dated December 16, 2010, filed on December 17, 2010.
- (14) Incorporated by reference from Exhibit 10.5 of the Annual Report on Form 10-K for the period ended December 31, 1999, filed on March 30, 2000, amended on April 13, 2000.

- (15) Incorporated by reference from Exhibit 10.1 of the Current Report on Form 8-K dated December 16, 2010, filed on December 17, 2010.
- (16) Incorporated by reference from Exhibit 99.1 of the Current Report on Form 8-K dated August 22, 2006, filed on August 23, 2006.
- (17) Form of indemnification agreement entered into by the Company and First Community Bank with their respective directors and certain officers of each including, for the Registrant and Bank: John M. Mendez, Robert L. Schumacher, Robert L. Buzzo, E. Stephen Lilly, David D. Brown, and Gary R. Mills. Incorporated by reference from Exhibits 10.10 and 10.11 of the Annual Report on Form 10-K for the period ended December 31, 2003, filed on March 15, 2004, amended on May 19, 2004.
- (18) Incorporated by reference from Annex B to the 2004 First Community Bancshares, Inc. Definitive Proxy Statement filed on March 15, 2004.

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

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

First Community Bancshares, Inc.

DATE: November 8, 2013

/s/ William P. Stafford, II
William P. Stafford, II

Chief Executive Officer

(Principal Executive Officer)

/s/ David D. Brown
David D. Brown

Chief Financial Officer

(Principal Accounting Officer)

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EXHIBIT INDEX

| Exhibit No. | Exhibit |
|--------------------|--|
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer. |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer. |
| 32 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |