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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2015

Commission file number 000-19297

FIRST COMMUNITY BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Nevada	**55-0694814**
(State or other jurisdiction of incorporation)	**(IRS Employer Identification No.)**

P.O. Box 989

Bluefield, Virginia	**24605-0989**
(Address of principal executive offices)	**(Zip Code)**

(276) 326-9000

(Registrant s telephone number, including area code)

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

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

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

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

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

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

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FIRST COMMUNITY BANCSHARES, INC.

FORM 10-Q

For the quarter ended September 30, 2015

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

FIRST COMMUNITY BANCSHARES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

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

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

See Notes to Consolidated Financial Statements.

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FIRST COMMUNITY BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

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

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

See Notes to Consolidated Financial Statements.

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FIRST COMMUNITY BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

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

See Notes to Consolidated Financial Statements.

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FIRST COMMUNITY BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (UNAUDITED)

ounts in thousands, except share and per share data)	**Preferred Stock**	**Common Stock**	**Additional Paid-in Capital**	**Retained Earnings**	**Treasury Stock**	**Accumulated Other Comprehensive Income (Loss)**	**Tota**
nce January 1, 2014	$ 15,251	$ 20,493	$ 215,663	$ 125,826	$ (33,887)	$ (14,740)	$ 328,6
income				19,775			19,7
r comprehensive income						8,292	8,2
mon dividends declared $0.37 per share				(6,807)			(6,8
erred dividends declared $45.00 per share				(683)			(6
erred stock converted to common stock 6,900 shares	(100)	7	93				
ty-based compensation expense			175				1
mon stock options exercised 554 shares					9		
ricted stock awards 13,933 shares			(202)		238		
hase of treasury shares 132,773 shares at $16.29 per e					(2,168)		(2,1
nce September 30, 2014	$ 15,151	$ 20,500	$ 215,729	$ 138,111	$ (35,808)	$ (6,448)	$ 347,2
nce January 1, 2015	$ 15,151	$ 20,500	$ 215,873	$ 141,206	$ (35,751)	$ (5,605)	$ 351,3
income				18,392			18,3
r comprehensive income						1,867	1,8
mon dividends declared $0.40 per share				(7,447)			(7,4
erred dividends declared $15.00 per share				(105)			(1
erred stock converted to common stock 882,096 es	(12,784)	882	11,902				
emption of preferred stock 2,367 shares	(2,367)						(2,3
ty-based compensation expense			43				
mon stock options exercised 3,000 shares			(10)		51		
ricted stock awards 22,561 shares			(192)		383		1
ance of treasury stock to 401(k) plan 18,275 shares			5		311		3
hase of treasury shares 1,018,726 shares at $17.13 per e					(17,478)		(17,4
nce September 30, 2015	$	$ 21,382	$ 227,621	$ 152,046	$ (52,484)	$ (3,738)	$ 344,8

See Notes to Consolidated Financial Statements.

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FIRST COMMUNITY BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

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

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

See Notes to Consolidated Financial Statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. General

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

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

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

Significant Accounting Policies

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

Reclassifications and Corrections

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

Recent Accounting Pronouncements

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

Acquisitions and Divestitures

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

On October 24, 2014, the Company completed the acquisition of seven branches from Bank of America, National Association. At acquisition, the branches had total deposits of $318.88 million. The Company assumed the deposits for a premium of $5.79 million. No loans were included in the purchase. Additionally, the Company purchased the real estate or assumed the leases associated with the branches. The Company recorded goodwill of $1.37 million in connection with the acquisition. These fair value estimates are considered preliminary, and are subject to change for up to one year after the closing date of the acquisition as additional information relative to closing date fair values may become available. The acquisition expanded the Company s presence by six branches in Southwestern Virginia and one branch in Central North Carolina.

Earnings per Common Share

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

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

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

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

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Note 2. Investment Securities

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

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

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

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

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

Total	$ 72,596	$ 434	$	$ 73,030

	December 31, 2014			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
(Amounts in thousands)				
U.S. Agency securities	$ 46,987	$ 22	$ (54)	$ 46,955
Municipal securities	379	7		386
Corporate securities	10,582		(34)	10,548
Total	$ 57,948	$ 29	$ (88)	$ 57,889

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

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

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

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

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

	September 30, 2015					
	Less than 12 Months		12 Months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(Amounts in thousands)						
U.S. Agency securities	$	$	$ 24,670	$ (577)	$ 24,670	$ (577)
Municipal securities	13,702	(172)	10,222	(483)	23,924	(655)
Single issue trust preferred securities			49,434	(6,433)	49,434	(6,433)
Corporate securities	62,257	(144)			62,257	(144)
Mortgage-backed Agency securities	14,367	(99)	39,126	(635)	53,493	(734)
Total	$ 90,326	$ (415)	$ 123,452	$ (8,128)	$ 213,778	$ (8,543)

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

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

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

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

The Company reviews its investment portfolio quarterly for indications of OTTI. Debt securities not beneficially owned by the Company include securities issued from the U.S. Department of the Treasury (Treasury), municipal securities, single issue trust preferred securities, corporate securities, and certificates of deposit. For debt securities not beneficially owned, the Company analyzes factors such as the severity and duration of the impairment, adverse conditions within the issuing industry, prospects for the issuer, performance of the security, changes in rating by rating agencies, and other qualitative factors to determine if the impairment will be recovered. If the evaluation suggests that the impairment will not be recovered, the Company calculates the present value of the security to determine the amount of OTTI. The security is then written down to its current present value and the Company calculates and records the amount of the loss due to credit factors in earnings through noninterest income and the amount due to other factors in stockholders equity through OCI. Temporary impairment on these securities is primarily related to changes in benchmark interest rates, changes in pricing in the credit markets, destabilization in the Eurozone, and other current economic factors. During the three and nine months ended September 30, 2015 and 2014, the Company incurred no OTTI charges related to debt securities not beneficially owned.

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

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

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

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

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

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

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Note 3. Loans

Loan Portfolio

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

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

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

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

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

Purchased Credit Impaired Loans

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

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

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

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

	Nine Months Ended September 30, 2015			
	Peoples	Waccamaw	Other	Total
(Amounts in thousands)				
Beginning balance	$ 4,745	$ 19,048	$	$ 23,793
Additions		2		2
Accretion	(1,906)	(5,069)		(6,975)
Reclassifications from nonaccretable difference	583	3,225		3,808
Removals, extensions, and other events	(27)	5,203		5,176
Ending balance	$ 3,395	$ 22,409	$	$ 25,804

	Nine Months Ended September 30, 2014			
	Peoples	Waccamaw	Other	Total
(Amounts in thousands)				
Beginning balance	$ 5,294	$ 10,338	$ 8	$ 15,640
Additions	98	24		122
Accretion	(1,601)	(4,540)	(29)	(6,170)
Reclassifications from nonaccretable difference	1,205	13,968	29	15,202
Removals, extensions, and other events	(521)	(1,445)		(1,966)
Ending balance	$ 4,475	$ 18,345	$ 8	$ 22,828

Note 4. Credit Quality

The Company identifies loans for potential impairment through a variety of means, including, but not limited to, ongoing loan review, renewal processes, delinquency data, market communications, and public information. If the Company determines that it is probable all principal and interest amounts contractually due will not be collected, the loan is generally deemed to be impaired. The following table presents the recorded investment and related information for loans considered to be impaired, excluding PCI loans, as of the periods indicated:

	September 30, 2015			December 31, 2014		
(Amounts in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with no related allowance:						
Commercial loans						
Single family non-owner occupied	$ 783	$ 785	$	$ 466	$ 466	$
Non-farm, non-residential	8,772	9,159		5,705	6,049	
Consumer real estate loans						
Single family owner occupied	1,334	1,404		3,397	3,494	

Owner occupied construction						
Total impaired loans with no allowance	10,889	11,348		9,568	10,009	
Impaired loans with a related allowance:						
Commercial loans						
Single family non-owner occupied	621	624	117	367	367	45
Non-farm, non-residential	5,359	5,374	1,711	3,772	3,772	1,000
Consumer real estate loans						
Single family owner occupied	4,798	4,817	760	2,341	2,512	437
Owner occupied construction	353	356	53			
Total impaired loans with an allowance	11,131	11,171	2,641	6,480	6,651	1,482
Total impaired loans	$ 22,020	$ 22,519	$ 2,641	$ 16,048	$ 16,660	$ 1,482

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The following tables present the average recorded investment and interest income recognized on impaired loans, excluding PCI loans, in the periods indicated:

	Three Months Ended September 30,			
	2015		2014	
(Amounts in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance:				
Commercial loans				
Commercial and industrial	$	$	$ 1,258	$
Single family non-owner occupied	792	27	321	7
Non-farm, non-residential	8,878	72	5,971	
Farmland				
Consumer real estate loans				
Single family owner occupied	1,353		2,880	10
Owner occupied construction				
Total impaired loans with no allowance	11,023	99	10,430	17
Impaired loans with a related allowance:				
Commercial loans				
Multi-family residential			5,568	1
Single family non-owner occupied	629		369	1
Non-farm, non-residential	5,417	15	4,386	6
Consumer real estate loans				
Single family owner occupied	4,847	13	2,528	8
Owner occupied construction	357	1		
Total impaired loans with an allowance	11,250	29	12,851	16
Total impaired loans	$ 22,273	$ 128	$ 23,281	$ 33

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	Nine Months Ended September 30,			
	2015		2014	
(Amounts in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance:				
Commercial loans				
Commercial and industrial	$	$	$ 614	$ 17
Single family non-owner occupied	571	28	247	8
Non-farm, non-residential	8,834	295	6,089	89
Farmland			241	11
Consumer real estate loans				
Home equity lines			88	2
Single family owner occupied	2,578	100	2,179	61
Owner occupied construction	117			
Total impaired loans with no allowance	12,100	423	9,458	188
Impaired loans with a related allowance:				
Commercial loans				
Commercial and industrial			2,932	47
Multi-family residential			5,586	23
Single family non-owner occupied	558	22	370	2
Non-farm, non-residential	4,740	51	4,404	31
Consumer real estate loans				
Home equity lines			76	1
Single family owner occupied	3,325	26	3,216	42
Owner occupied construction	119	1		
Total impaired loans with an allowance	8,742	100	16,584	146
Total impaired loans	$ 20,842	$ 523	$ 26,042	$ 334

The Company determined that two of the six open PCI loan pools were impaired as of September 30, 2015, compared to two of seven impaired pools as of December 31, 2014. The following tables present additional information related to the impaired loan pools as of the dates, and in the periods, indicated:

(Amounts in thousands)	September 30, 2015	December 31, 2014
Recorded investment	$ 3,015	$ 14,607
Unpaid principal balance	3,978	31,169
Allowance for loan losses	20	58

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014

(Amounts in thousands)				
Interest income recognized	$ 96	$ 82	$ 273	$ 2,154
Average recorded investment	3,045	1,416	3,464	35,063

As part of the ongoing monitoring of the Company s loan portfolio, management tracks certain credit quality indicators that include: trends related to the risk rating of commercial loans, the level of classified commercial loans, net charge-offs, nonperforming loans, and general economic conditions. The Company s loan review function generally analyzes all commercial loan relationships greater than $4.0 million annually and at various times during the year. Smaller commercial and retail loans are sampled for review during the year. Loan risk ratings may be upgraded or downgraded to reflect current information identified during the loan review process.

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The Company uses a risk grading matrix to assign a risk grade to each loan in its portfolio. The general characteristics of each risk grade are as follows:

Pass This grade is assigned to loans with acceptable credit quality and risk. The Company further segments this grade based on borrower characteristics that include capital strength, earnings stability, liquidity leverage, and industry conditions.

Special Mention This grade is assigned to loans that require an above average degree of supervision and attention. These loans have the characteristics of an asset with acceptable credit quality and risk; however, adverse economic or financial conditions exist that create potential weaknesses deserving of management s close attention. If potential weaknesses are not corrected, the prospect of repayment may worsen.

Substandard This grade is assigned to loans that have well defined weaknesses that may make payment default, or principal exposure, possible. In order to meet repayment terms, these loans will likely be dependent on collateral liquidation, secondary repayment sources, or events outside the normal course of business.

Doubtful This grade is assigned to loans on nonaccrual status. These loans have the weaknesses inherent in substandard loans; however, the weaknesses are so severe that collection or liquidation in full is extremely unlikely based on current facts, conditions, and values. Due to certain specific pending factors, the amount of loss cannot yet be determined.

Loss This grade is assigned to loans that will be charged off or charged down when payments, including the timing and value of payments, are determined to be uncertain. This risk grade does not imply that the asset has no recovery or salvage value, but simply means that it is not practical or desirable to defer writing off, either all or a portion of, the loan balance even though partial recovery may be realized in the future.

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Losses on covered loans are generally reimbursable by the FDIC at the applicable loss share percentage, 80%; therefore, covered loans are disclosed separately in the following credit quality discussion. PCI loan pools are disaggregated and included in their applicable loan class in the following discussion. PCI loans are generally not classified as nonaccrual or nonperforming due to the accrual of interest income under the accretion method of accounting. The following tables present loans held for investment, by internal credit risk grade, as of the periods indicated:

	September 30, 2015					
(Amounts in thousands)	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Loss**	**Total**
Non-covered loans						
Commercial loans						
Construction, development, and other land	$ 43,843	$ 684	$ 1,403	$	$	$ 45,930
Commercial and industrial	83,525	555	1,239			85,319
Multi-family residential	79,400	13,044	912			93,356
Single family non-owner occupied	135,722	3,502	5,501			144,725
Non-farm, non-residential	451,724	8,836	18,737			479,297
Agricultural	2,386	25	3			2,414
Farmland	25,229	1,248	658			27,135
Consumer real estate loans						
Home equity lines	105,104	1,224	1,327			107,655
Single family owner occupied	464,709	6,865	20,583			492,157
Owner occupied construction	39,413		728			40,141
Consumer and other loans						
Consumer loans	74,832	64	188			75,084
Other	7,058					7,058
Total non-covered loans	1,512,945	36,047	51,279			1,600,271
Covered loans						
Commercial loans						
Construction, development, and other land	4,189	2,138	1,246			7,573
Commercial and industrial	1,285	16	25			1,326
Multi-family residential	492		207			699
Single family non-owner occupied	1,838	576	485			2,899
Non-farm, non-residential	10,223	1,884	3,605			15,712
Agricultural	35					35
Farmland	373		283			656
Consumer real estate loans						
Home equity lines	18,508	31,835	862			51,205
Single family owner occupied	6,123	1,693	1,920			9,736
Owner occupied construction	115	63	100			278
Consumer and other loans						
Consumer loans	84					84
Other						
Total covered loans	43,265	38,205	8,733			90,203

Total loans	$ 1,556,210	$ 74,252	$ 60,012	$	$ $ 1,690,474

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	December 31, 2014					
(Amounts in thousands)	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Loss**	**Total**
Non-covered loans						
Commercial loans						
Construction, development, and other land	$ 38,858	$ 1,384	$ 1,029	$	$	$ 41,271
Commercial and industrial	81,196	616	1,287			83,099
Multi-family residential	89,503	7,007	970			97,480
Single family non-owner occupied	126,155	3,333	5,683			135,171
Non-farm, non-residential	441,385	13,028	19,493			473,906
Agricultural	1,589		10			1,599
Farmland	26,876	1,432	1,209			29,517
Consumer real estate loans						
Home equity lines	107,688	1,606	1,663			110,957
Single family owner occupied	454,833	8,884	21,758			485,475
Owner occupied construction	32,551		248			32,799
Consumer and other loans						
Consumer loans	68,592	520	235			69,347
Other	6,555					6,555
Total non-covered loans	1,475,781	37,810	53,585			1,567,176
Covered loans						
Commercial loans						
Construction, development, and other land	7,598	3,227	2,275			13,100
Commercial and industrial	2,528	82	52			2,662
Multi-family residential	1,400		184			1,584
Single family non-owner occupied	2,703	2,059	1,156			5,918
Non-farm, non-residential	12,672	4,341	8,304			25,317
Agricultural	43					43
Farmland	420		296			716
Consumer real estate loans						
Home equity lines	21,295	38,296	800			60,391
Single family owner occupied	7,094	2,040	2,834			11,968
Owner occupied construction	84	264	105			453
Consumer and other loans						
Consumer loans	88					88
Other						
Total covered loans	55,925	50,309	16,006			122,240
Total loans	$ 1,531,706	$ 88,119	$ 69,591	$	$	$ 1,689,416

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

	September 30, 2015			December 31, 2014		
(Amounts in thousands)	**Non-covered**	**Covered**	**Total**	**Non-covered**	**Covered**	**Total**
Commercial loans						
Construction, development, and other land	$ 99	$ 68	$ 167	$	$ 18	$ 18
Commercial and industrial	72	16	88	123	34	157
Multi-family residential	72		72	245		245
Single family non-owner occupied	1,763		1,763	601	77	678
Non-farm, non-residential	6,872	39	6,911	2,334	1,317	3,651
Agricultural				4		4
Farmland	151		151			
Consumer real estate loans						
Home equity lines	544	453	997	792	204	996
Single family owner occupied	7,097	239	7,336	6,389	682	7,071
Owner occupied construction	353		353		106	106
Consumer and other loans						
Consumer loans	77		77	68		68
Total nonaccrual loans	$ 17,100	$ 815	$ 17,915	$ 10,556	$ 2,438	$ 12,994

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The following tables present the aging of past due loans, by loan class, as of the dates indicated. Nonaccrual loans 30 days or more past due are included in the applicable delinquency category. There were no non-covered or covered accruing loans contractually past due 90 days or more as of September 30, 2015, or as of December 31, 2014.

	September 30, 2015					
(Amounts in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	90+ Days Past Due	Total Past Due	Current Loans	Total Loans
Non-covered loans						
Commercial loans						
Construction, development, and other land	$ 42	$ 11	$ 99	$ 152	$ 45,778	$ 45,930
Commercial and industrial	55		55	110	85,209	85,319
Multi-family residential	72	77		149	93,207	93,356
Single family non-owner occupied	241	441	1,134	1,816	142,909	144,725
Non-farm, non-residential	800	42	5,473	6,315	472,982	479,297
Agricultural					2,414	2,414
Farmland	71	69	151	291	26,844	27,135
Consumer real estate loans						
Home equity lines	320	24	458	802	106,853	107,655
Single family owner occupied	2,802	1,743	3,209	7,754	484,403	492,157
Owner occupied construction					40,141	40,141
Consumer and other loans						
Consumer loans	435	42	25	502	74,582	75,084
Other					7,058	7,058
Total non-covered loans	4,838	2,449	10,604	17,891	1,582,380	1,600,271
Covered loans						
Commercial loans						
Construction, development, and other land	93	2	42	137	7,436	7,573
Commercial and industrial		9	16	25	1,301	1,326
Multi-family residential					699	699
Single family non-owner occupied		3		3	2,896	2,899
Non-farm, non-residential	15	108	39	162	15,550	15,712
Agricultural					35	35
Farmland					656	656
Consumer real estate loans						
Home equity lines	454	106	8	568	50,637	51,205
Single family owner occupied		93	14	107	9,629	9,736
Owner occupied construction	186	20		206	72	278
Consumer and other loans						
Consumer loans					84	84
Other						
Total covered loans	748	341	119	1,208	88,995	90,203
Total loans	$ 5,586	$ 2,790	$ 10,723	$ 19,099	$ 1,671,375	$ 1,690,474

	December 31, 2014					
(Amounts in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	90+ Days Past Due	Total Past Due	Current Loans	Total Loans
Non-covered loans						
Commercial loans						
Construction, development, and other land	$ 39	$ 46	$	$ 85	$ 41,186	$ 41,271
Commercial and industrial	285	6	103	394	82,705	83,099
Multi-family residential	81	110		191	97,289	97,480
Single family non-owner occupied	914	513	425	1,852	133,319	135,171
Non-farm, non-residential	1,075	783	1,984	3,842	470,064	473,906
Agricultural			4	4	1,595	1,599
Farmland	89			89	29,428	29,517
Consumer real estate loans						
Home equity lines	492	103	571	1,166	109,791	110,957
Single family owner occupied	5,436	1,931	4,564	11,931	473,544	485,475
Owner occupied construction					32,799	32,799
Consumer and other loans						
Consumer loans	544	84	26	654	68,693	69,347
Other					6,555	6,555
Total non-covered loans	8,955	3,576	7,677	20,208	1,546,968	1,567,176
Covered loans						
Commercial loans						
Construction, development, and other land	120	17		137	12,963	13,100
Commercial and industrial	84	12	34	130	2,532	2,662
Multi-family residential					1,584	1,584
Single family non-owner occupied	122		77	199	5,719	5,918
Non-farm, non-residential	124	140	1,258	1,522	23,795	25,317
Agricultural					43	43
Farmland	3			3	713	716
Consumer real estate loans						
Home equity lines	858	318	168	1,344	59,047	60,391
Single family owner occupied	134	34	415	583	11,385	11,968
Owner occupied construction					453	453
Consumer and other loans						
Consumer loans					88	88
Other						
Total covered loans	1,445	521	1,952	3,918	118,322	122,240
Total loans	$ 10,400	$ 4,097	$ 9,629	$ 24,126	$ 1,665,290	$ 1,689,416

The Company may make concessions in interest rates, loan terms, and/or amortization terms when restructuring loans for borrowers experiencing financial difficulty. Restructured loans in excess of $250 thousand are evaluated for a specific reserve based on either the collateral or net present value method, whichever is most applicable. Specific reserves in the allowance for loan losses attributed to troubled debt restructurings (TDRs) totaled $641 thousand as of September 30, 2015, and $475 thousand as of December 31, 2014. Restructured loans under $250 thousand are subject to the reserve calculation at the historical loss rate for classified loans. Certain TDRs are classified as nonperforming at the time of restructuring and are returned to performing status after six months of satisfactory payment performance; however, these loans remain identified as impaired until full payment or other satisfaction of the obligation occurs. The following table presents interest income related to TDRs in the periods, indicated:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2015	**2014**	**2015**	**2014**
(Amounts in thousands)				
Interest income recognized	$ 148	$ 188	$ 456	$ 466

Loans acquired with credit deterioration, with a discount, are generally not considered TDRs as long as the loans remain in the assigned loan pool. There were no covered loans recorded as TDRs as of September 30, 2015, or December 31, 2014.

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

	September 30, 2015			December 31, 2014		
(Amounts in thousands)	Nonaccrual (1)	Accruing	Total	Nonaccrual (1)	Accruing	Total
Commercial loans						
Single family non-owner occupied	$ 132	$ 824	$ 956	$	$ 1,088	$ 1,088
Non-farm, non-residential		4,632	4,632	83	4,743	4,826
Consumer real estate loans						
Home equity lines		44	44		47	47
Single family owner occupied	338	8,296	8,634	471	8,412	8,883
Owner occupied construction	353	243	596		244	244
Total TDRs	$ 823	$ 14,039	$ 14,862	$ 554	$ 14,534	$ 15,088

(1) TDRs on nonaccrual status are included in the total nonaccrual loan balance disclosed in the table above.

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

	Three Months Ended September 30,					
	2015			2014		
(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		$	$	3	$ 1,715	$ 1,715
Extended payment term						
Single family non-owner occupied				1	468	468
Below market interest rate and extended payment term						
Single family owner occupied	4	307	307	2	84	84
Total	4	$ 307	$ 307	6	$ 2,267	$ 2,267

	Nine Months Ended September 30,					
	2015			2014		
(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		$	$	4	$ 1,850	$ 1,850

Owner occupied construction				1	245	245
Total				5	2,095	2,095
Extended payment term						
Single family non-owner occupied				1	468	468
Non-farm, non-residential				1	303	303
Total				2	771	771
Below market interest rate and extended payment term						
Single family owner occupied	5	342	342	5	487	487
Total	5	$ 342	$ 342	12	$ 3,353	$ 3,353

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

	Three Months Ended September 30,					
	2015			2014		
(Amounts in thousands)	Total Contracts	Pre-Modification Recorded Investment		Total Contracts	Pre-Modification Recorded Investment	
Commercial loans						
Single family non-owner occupied	1	$	78		$	
Consumer real estate loans						
Single family owner occupied				2		312
Owner occupied construction						
Total	1	$	78	2	$	312

	Nine Months Ended September 30,					
	2015			2014		
(Amounts in thousands)	Total Contracts	Pre-Modification Recorded Investment		Total Contracts	Pre-Modification Recorded Investment	
Commercial loans						
Single family non-owner occupied	1	$	78		$	
Consumer real estate loans						
Single family owner occupied				2		312
Owner occupied construction	1		353			
Total	2	$	431	2	$	312

Other real estate owned (OREO) consists of properties acquired through foreclosure. The following table presents information related to OREO as of the dates indicated:

(Amounts in thousands)	September 30, 2015		December 31, 2014	
Non-covered OREO	$	5,088	$	6,638
Covered OREO		4,079		6,324
Total OREO	$	9,167	$	12,962
Non-covered OREO secured by residential real estate	$	2,280	$	6,155
Residential real estate loans in the foreclosure process[(1)]		3,138		4,561

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

Note 5. Allowance for Loan Losses

The allowance for loan losses is maintained at a level management deems adequate to absorb probable loan losses inherent in the loan portfolio. The allowance is increased by provisions charged to operations and reduced by net charge-offs. While management uses its best judgment and information available, the ultimate adequacy of the allowance is dependent on a variety of factors that may be beyond the Company s control: the performance of the Company s loan portfolio, the economy, changes in interest rates, the view of regulatory authorities towards loan classifications, and other factors. These uncertainties may result in a material change to the allowance for loan losses in the near term; however, the amount of the change cannot reasonably be estimated.

The Company s allowance is comprised of specific reserves related to loans individually evaluated, including credit relationships, and general reserves related to loans not individually evaluated that are segmented into groups with similar risk characteristics, based on an internal risk grading matrix. General reserve allocations are based on management s judgments of qualitative and quantitative factors about macro and micro economic conditions reflected within the loan portfolio and the economy. For loans acquired in a business combination, loans identified as credit impaired at the acquisition date are grouped into pools and evaluated separately from the non-PCI portfolio. The Company aggregates PCI loans into the following pools: Waccamaw commercial, Waccamaw lines of credit, Waccamaw serviced home equity lines, Waccamaw residential, Waccamaw consumer, Peoples commercial, and Peoples residential. The Company closed the Waccamaw consumer loan pool during the first quarter of 2015 due to an insignificant remaining balance. Provisions calculated for PCI loans are offset by an adjustment to the FDIC indemnification asset to reflect the indemnified portion, 80%, of the post-acquisition exposure.

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While allocations are made to various portfolio segments, the allowance for loan losses, excluding reserves allocated to specific loans and PCI loan pools, is available for use against any loan loss management deems appropriate. As of September 30, 2015, management believed the allowance was adequate to absorb probable loan losses inherent in the loan portfolio.

The following tables present the aggregate activity in the allowance for loan losses in the periods indicated:

	Three Months Ended September 30, 2015		
(Amounts in thousands)	Allowance Excluding PCI Loans	Allowance for PCI Loans	Total Allowance
Beginning balance	$ 20,144	$ 114	$ 20,258
Provision for (recovery of) loan losses	400	(94)	306
Benefit attributable to the FDIC indemnification asset		75	75
Provision for (recovery of) loan losses charged to operations	400	(19)	381
Recovery of loan losses recorded through the FDIC indemnification asset		(75)	(75)
Charge-offs	(689)		(689)
Recoveries	252		252
Net charge-offs	(437)		(437)
Ending balance	$ 20,107	$ 20	$ 20,127

	Three Months Ended September 30, 2014		
(Amounts in thousands)	Allowance Excluding PCI Loans	Allowance for PCI Loans	Total Allowance
Beginning balance	$ 23,493	$ 418	$ 23,911
Recovery of loan losses	(2,335)	(214)	(2,549)
Benefit attributable to the FDIC indemnification asset		110	110
Recovery of loan losses charged to operations	(2,335)	(104)	(2,439)
Recovery of loan losses recorded through the FDIC indemnification asset		(110)	(110)

Charge-offs	(1,118)				(1,118)
Recoveries	915				915
Net charge-offs	(203)				(203)
Ending balance	$ 20,955	$	204	$	21,159

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	Nine Months Ended September 30, 2015		
	Allowance Excluding PCI Loans	Allowance for PCI Loans	Total Allowance
(Amounts in thousands)			
Beginning balance	$ 20,169	$ 58	$ 20,227
Provision for (recovery of) loan losses	1,766	(38)	1,728
Benefit attributable to the FDIC indemnification asset		29	29
Provision for (recovery of) loan losses charged to operations	1,766	(9)	1,757
Recovery of loan losses recorded through the FDIC indemnification asset		(29)	(29)
Charge-offs	(2,940)		(2,940)
Recoveries	1,112		1,112
Net charge-offs	(1,828)		(1,828)
Ending balance	$ 20,107	$ 20	$ 20,127

	Nine Months Ended September 30, 2014		
	Allowance Excluding PCI Loans	Allowance for PCI Loans	Total Allowance
(Amounts in thousands)			
Beginning balance	$ 23,322	$ 755	$ 24,077
Provision for (recovery of) loan losses	733	(551)	182
Benefit attributable to the FDIC indemnification asset		451	451
Provision for (recovery of) loan losses charged to operations	733	(100)	633
Recovery of loan losses recorded through the FDIC indemnification asset		(451)	(451)
Charge-offs	(5,119)		(5,119)
Recoveries	2,019		2,019
Net charge-offs	(3,100)		(3,100)
Ending balance	$ 20,955	$ 204	$ 21,159

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

	Three Months Ended September 30, 2015			
(Amounts in thousands)	Commercial	Consumer Real Estate	Consumer and Other	Total
Beginning balance	$ 12,995	$ 6,468	$ 681	$ 20,144
Provision for (recovery of) loan losses charged to operations	6	20	374	400
Loans charged off	(150)	(130)	(409)	(689)
Recoveries credited to allowance	102	86	64	252
Net charge-offs	(48)	(44)	(345)	(437)
Ending balance	$ 12,953	$ 6,444	$ 710	$ 20,107

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	Three Months Ended September 30, 2014			
(Amounts in thousands)	Commercial	Consumer Real Estate	Consumer and Other	Total
Beginning balance	$ 16,747	$ 6,123	$ 623	$ 23,493
(Recovery of) provision for loan losses charged to operations	(3,131)	561	235	(2,335)
Loans charged off	(558)	(219)	(341)	(1,118)
Recoveries credited to allowance	613	192	110	915
Net recoveries (charge-offs)	55	(27)	(231)	(203)
Ending balance	$ 13,671	$ 6,657	$ 627	$ 20,955

	Nine Months Ended September 30, 2015			
(Amounts in thousands)	Commercial	Consumer Real Estate	Consumer and Other	Total
Beginning balance	$ 13,010	$ 6,489	$ 670	$ 20,169
Provision for loan losses charged to operations	754	136	876	1,766
Loans charged off	(1,111)	(622)	(1,207)	(2,940)
Recoveries credited to allowance	300	441	371	1,112
Net charge-offs	(811)	(181)	(836)	(1,828)
Ending balance	$ 12,953	$ 6,444	$ 710	$ 20,107

	Nine Months Ended September 30, 2014			
(Amounts in thousands)	Commercial	Consumer Real Estate	Consumer and Other	Total
Beginning balance	$ 16,090	$ 6,597	$ 635	$ 23,322
(Recovery of) provision for loan losses charged to operations	(478)	592	619	733
Loans charged off	(2,839)	(1,184)	(1,096)	(5,119)
Recoveries credited to allowance	898	652	469	2,019
Net charge-offs	(1,941)	(532)	(627)	(3,100)
Ending balance	$ 13,671	$ 6,657	$ 627	$ 20,955

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

	Three Months Ended September 30, 2015			
	Commercial	Consumer Real Estate	Consumer and Other	Total
(Amounts in thousands)				
Beginning balance	$	$ 114	$	$ 114
Recovery of PCI loan losses		(94)		(94)
Benefit attributable to FDIC indemnification asset		75		75
Recovery of loan losses charged to operations		(19)		(19)
Recovery of loan losses recorded through the FDIC indemnification asset		(75)		(75)
Ending balance	$	$ 20	$	$ 20

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(Amounts in thousands)	Three Months Ended September 30, 2014 Commercial	Consumer Real Estate	Consumer and Other	Total
Beginning balance	$ 16	$ 402	$	$ 418
Recovery of PCI loan losses	(8)	(206)		(214)
Benefit attributable to FDIC indemnification asset		110		110
Recovery of loan losses charged to operations	(8)	(96)		(104)
Recovery of loan losses recorded through the FDIC indemnification asset		(110)		(110)
Ending balance	$ 8	$ 196	$	$ 204

(Amounts in thousands)	Nine Months Ended September 30, 2015 Commercial	Consumer Real Estate	Consumer and Other	Total
Beginning balance	$ 37	$ 21	$	$ 58
Recovery of PCI loan losses	(37)	(1)		(38)
Benefit (provision) attributable to FDIC indemnification asset	30	(1)		29
Recovery of loan losses charged to operations	(7)	(2)		(9)
(Recovery of) provision for loan losses recorded through the FDIC indemnification asset	(30)	1		(29)
Ending balance	$	$ 20	$	$ 20

(Amounts in thousands)	Nine Months Ended September 30, 2014 Commercial	Consumer Real Estate	Consumer and Other	Total
Beginning balance	$ 77	$ 678	$	$ 755
Recovery of PCI loan losses	(69)	(482)		(551)
Benefit attributable to FDIC indemnification asset	55	396		451
Recovery of loan losses charged to operations	(14)	(86)		(100)
Recovery of loan losses recorded through the FDIC indemnification asset	(55)	(396)		(451)
Ending balance	$ 8	$ 196	$	$ 204

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

	September 30, 2015			
(Amounts in thousands)	Loans Individually Evaluated for Impairment	Allowance for Loans Individually Evaluated	Loans Collectively Evaluated for Impairment	Allowance for Loans Collectively Evaluated
Commercial loans				
Construction, development, and other land	$	$	$ 51,526	$ 1,087
Commercial and industrial			86,339	516
Multi-family residential			93,848	1,532
Single family non-owner occupied	1,404	117	142,509	3,076
Non-farm, non-residential	14,131	1,711	473,456	4,702
Agricultural			2,449	18
Farmland			27,791	194
Total commercial loans	15,535	1,828	877,918	11,125
Consumer real estate loans				
Home equity lines			127,599	1,162
Single family owner occupied	6,132	760	494,515	4,205
Owner occupied construction	353	53	39,957	264
Total consumer real estate loans	6,485	813	662,071	5,631
Consumer and other loans				
Consumer loans			75,168	710
Other			7,058	
Total consumer and other loans			82,226	710
Total loans, excluding PCI loans	$ 22,020	$ 2,641	$ 1,622,215	$ 17,466

	December 31, 2014			
(Amounts in thousands)	Loans Individually Evaluated for Impairment	Allowance for Loans Individually Evaluated	Loans Collectively Evaluated for Impairment	Allowance for Loans Collectively Evaluated
Commercial loans				
Construction, development, and other land	$	$	$ 51,608	$ 1,151
Commercial and industrial			85,353	690
Multi-family residential			98,880	1,917
Single family non-owner occupied	833	45	135,223	3,183

Non-farm, non-residential	9,477	1,000	475,353	4,805
Agricultural			1,642	13
Farmland			30,233	206
Total commercial loans	10,310	1,045	878,292	11,965
Consumer real estate loans				
Home equity lines			134,006	1,330
Single family owner occupied	5,738	437	489,820	4,498
Owner occupied construction			32,983	224
Total consumer real estate loans	5,738	437	656,809	6,052
Consumer and other loans				
Consumer loans			69,429	670
Other			6,555	
Total consumer and other loans			75,984	670
Total loans, excluding PCI loans	$ 16,048	$ 1,482	$ 1,611,085	$ 18,687

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The following table presents the Company s allowance for loan losses related to PCI loans and recorded investment in PCI loans, by loan pool, as of the dates indicated:

	September 30, 2015		December 31, 2014	
(Amounts in thousands)	Loan Pools	Allowance for Loan Pools With Impairment	Loan Pools	Allowance for Loan Pools With Impairment
Commercial loans				
Waccamaw commercial	$ 5,580	$	$ 13,392	$ 37
Waccamaw lines of credit			461	
Peoples commercial	5,102		5,875	
Other	1,281		1,358	
Total commercial loans	11,963		21,086	37
Consumer real estate loans				
Waccamaw serviced home equity lines	31,261		37,342	
Waccamaw residential	1,840	1	2,638	
Peoples residential	1,175	19	1,215	21
Total consumer real estate loans	34,276	20	41,195	21
Consumer and other loans				
Waccamaw consumer[(1)]			2	
Total loans	$ 46,239	$ 20	$ 62,283	$ 58

(1) Closed during the first quarter of 2015.

Note 6. FDIC Indemnification Asset

The Company entered into loss share agreements with the FDIC in 2012 in connection with the FDIC-assisted acquisition of Waccamaw. Under the loss share agreements, the FDIC agreed to cover 80% of most loan and foreclosed real estate losses. Certain expenses incurred in relation to these covered assets are reimbursable by the FDIC. Estimated reimbursements are netted against the expense on covered assets in the Company s consolidated statements of income. The following table presents activity in the FDIC indemnification asset in the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
(Amounts in thousands)				
Beginning balance	$ 23,653	$ 30,908	$ 27,900	$ 34,691
Decrease in estimated losses on covered loans	(75)	(110)	(29)	(451)
	801	674	1,359	1,233

Increase in estimated losses on covered OREO				
Reimbursable expenses from the FDIC	44	88	409	375
Net amortization	(1,768)	(1,096)	(5,179)	(3,166)
Reimbursements from the FDIC	(606)	(719)	(2,411)	(2,937)
Ending balance	$ 22,049	$ 29,745	$ 22,049	$ 29,745

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Note 7. Deposits

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

(Amounts in thousands)	September 30, 2015	December 31, 2014
Noninterest-bearing demand deposits	$ 442,021	$ 417,729
Interest-bearing deposits:		
Interest-bearing demand deposits	343,303	353,874
Money market accounts	216,567	225,196
Savings deposits	310,060	300,282
Certificates of deposit	452,836	557,352
Individual retirement accounts	138,115	146,326
Total interest-bearing deposits	1,460,881	1,583,030
Total deposits	$ 1,902,902	$ 2,000,759

Note 8. Borrowings

Short-term borrowings generally consist of federal funds purchased and retail repurchase agreements, which are typically collateralized with agency MBS. Long-term borrowings consist of wholesale repurchase agreements; FHLB borrowings, including convertible and callable advances; and other obligations. The following table presents the composition of borrowings as of the dates indicated:

	September 30, 2015		December 31, 2014	
(Amounts in thousands)	Balance	Weighted Average Rate(1)	Balance	Weighted Average Rate(1)
Federal funds purchased	$		$	0.34%
Securities sold under agreements to repurchase:				
Retail	74,076	0.10%	71,742	0.13%
Wholesale	50,000	3.71%	50,000	3.71%
Total securities sold under agreements to repurchase	124,076		121,742	
FHLB borrowings	65,000	4.04%	90,000	4.07%
Subordinated debt	15,464		15,464	
Other debt	491		2,535	
Total borrowings	$ 205,031		$ 229,741	

(1) Weighted average contractual rate

The following schedule presents the remaining contractual maturities of repurchase agreements, by type of collateral pledged, as of September 30, 2015:

(Amounts in thousands)	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater Than 90 Days	Total
U.S. Agency securities	$ 57,535	$	$	$	$ 57,535
Municipal securities				546	546
Mortgage-backed Agency securities	15,042	202	170	50,581	65,995
Total	$ 72,577	$ 202	$ 170	$ 51,127	$ 124,076

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The following schedule presents the contractual maturities of wholesale repurchase agreements and FHLB borrowings, by year, as of September 30, 2015:

(Amounts in thousands)	Wholesale Repurchase Agreements	FHLB Borrowings	Total
2015	$	$	$
2016	25,000		25,000
2017		15,000	15,000
2018			
2019	25,000		25,000
2020 and thereafter		50,000	50,000
	$ 50,000	$ 65,000	$ 115,000
Weighted average maturity (in years)	2.33	4.42	3.51

The FHLB may redeem callable advances at quarterly intervals after various lockout periods, which could substantially shorten the lives of the advances. If called, the advance may be paid in full or converted into another FHLB credit product. Prepayment of an advance may result in substantial penalties based on the differential between the contractual note and current advance rate for similar maturities. The Company prepaid $25 million of a FHLB convertible advance bearing an interest rate of 4.15% that was scheduled to mature in 2017 during the second quarter of 2015. The prepayment penalty associated with the $25 million FHLB debt repayment totaled $1.70 million.

The Company is required to pledge qualifying collateral to secure FHLB advances and letters of credit. As of September 30, 2015, the Company provided for FHLB letters of credit to collateralize public unit deposits totaling $6.19 million. FHLB borrowings were secured by qualifying loans that totaled $874.93 million as September 30, 2015, and $980.63 million as of December 31, 2014. Unused borrowing capacity with the FHLB, net of FHLB letters of credit, totaled $422.42 million as of September 30, 2015.

Subordinated debt consists of Company-issued junior subordinated debentures (Debentures). The Company-issued Debentures totaling $15.46 million to the Trust in October 2003 with an interest rate of three-month London InterBank Offered Rate (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 quarterly. Net proceeds from the offering were contributed as capital to the Bank to support further growth. The Company s obligations under the Debentures and other relevant Trust agreements, in aggregate, constitute a full and unconditional guarantee by the Company of the Trust s obligations. The preferred securities issued by the Trust are not included in the Company s consolidated balance sheets; however, these securities qualify as Tier 1 capital for regulatory purposes, subject to guidelines issued by the Board of Governors of the Federal Reserve System (Federal Reserve). The Federal Reserve s quantitative limits did not prevent the Company from including all $15.46 million in trust preferred securities outstanding in Tier 1 capital as of September 30, 2015, and December 31, 2014.

The Company maintains a $15.00 million unsecured, committed line of credit with an unrelated financial institution that carries an interest rate of one-month LIBOR plus 2.00% and matures in April 2016. As of September 30, 2015, there was no outstanding balance on the line compared to an outstanding balance of $2.00 million as of December 31, 2014.

Note 9. Derivative Instruments and Hedging Activities

The Company primarily uses derivative instruments to protect against the risk of adverse price or interest rate movements on the value of certain assets and liabilities and on future cash flows. Derivative instruments represent contracts between parties that usually require little or no initial net investment and result in one party delivering cash or another asset to the other party based on a notional amount and an underlying asset as specified in the contract. These derivative instruments may consist of interest rate swaps, floors, caps, collars, futures, forward contracts, and written and purchased options. Derivative instruments are subject to counterparty credit risk due to the possibility that the Company will incur a loss because a counterparty, which may be a bank, a broker-dealer or a customer, fails to meet its contractual obligations. This risk is measured as the expected positive replacement value of contracts. Derivative contracts may be executed only with exchanges or counterparties approved by the Company s Asset/Liability Management Committee.

As of September 30, 2015, the Company s derivative instruments consisted of interest rate lock commitments (IRLCs), forward sale loan commitments, and interest rate swaps. Generally, derivative instruments help the Company manage exposure to market risk and meet customer financing needs. Market risk represents the possibility that economic value or net interest income will be adversely affected by fluctuations in external factors such as interest rates, market-driven loan rates, prices, or other economic factors.

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IRLCs and forward sale loan commitments. In the normal course of business, the Company enters into IRLCs with customers on mortgage loans intended to be sold in the secondary market and commitments to sell those originated mortgage loans. The Company enters into IRLCs to provide potential borrowers an interest rate guarantee. Once a mortgage loan is closed and funded, it is included within loans held for sale and awaits sale and delivery into the secondary market. From the date we issue the commitment through the date of sale into the secondary market, the Company has exposure to interest rate movement resulting from the risk that interest rates will change from the rate quoted to the borrower. Due to these interest rate fluctuations, the Company s balance of mortgage loans held for sale is subject to changes in fair value. Typically, the fair value of these loans declines when interest rates rise and increase when interest rates decline. The fair values of the Company s IRLCs and forward sale loan commitments are recorded at fair value as a component of other assets and other liabilities in the consolidated balance sheets. These derivatives do not qualify as hedging instruments; therefore, changes in fair value are recorded in earnings.

Interest rate swaps. The Company uses interest rate swap contracts to modify its exposure to interest rate risk caused by changes in the LIBOR curve in relation to certain designated fixed rate loans. These instruments are used to convert these fixed rate loans to an effective floating rate. If the LIBOR rate falls below the loan s stated fixed rate for a given period, the Company will owe the floating rate payer the notional amount times the difference between LIBOR and the stated fixed rate. If LIBOR is above the stated rate for a given period, the Company will receive payments based on the notional amount times the difference between LIBOR and the stated fixed rate. The Company s interest rate swaps qualify as fair value hedging instruments; therefore, changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings in the same period.

The Company entered into a fourteen-year, $1.20 million notional interest rate swap agreement in March 2015, a fifteen-year, $4.37 million notional interest rate swap agreement in February 2014, and a ten-year, $3.50 million notional interest rate swap agreement in October 2013. The loan hedged by the October 2013 swap paid off in 2014 and the swap was terminated. The swap agreements, which are accounted for as fair value hedges, and the loans hedged by the agreements are recorded at fair value. The fair value hedges were effective as of September 30, 2015.

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

(Amounts in thousands)	September 30, 2015 Notional or Contractual Amount	December 31, 2014 Notional or Contractual Amount	September 30, 2014 Notional or Contractual Amount
Derivatives designated as hedges:			
Interest rate swaps	$ 5,479	$ 4,363	$ 7,819
Derivatives not designated as hedges:			
IRLCs	4,925	1,391	2,948
Forward sale loan commitments	5,448	3,183	4,094
Total derivatives not designated as hedges	10,373	4,574	7,042
Total derivatives	$ 15,852	$ 8,937	$ 14,861

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

	September 30, 2015		December 31, 2014		September 30, 2014	
(Amounts in thousands)	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Derivatives designated as hedges:						
Interest rate swaps	$	$ 318	$	$ 209	$	$ 189
Derivatives not designated as hedges:						
IRLCs	27		5			7
Forward sale loan commitments		27		5	7	
Total derivities not designated as hedges	27	27	5	5	7	7
Total derivaties	$ 27	$ 345	$ 5	$ 214	$ 7	$ 196

The Company s derivative and hedging activity had no effect on the Company s consolidated statements of income for the three and nine months ended September 30, 2015 or September 30, 2014.

Note 10. Employee Benefit Plans

The Company maintains the Supplemental Executive Retention Plan (SERP) for key members of senior management. The following table presents the components of the SERP s net periodic pension cost in the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in thousands)	2015	2014	2015	2014
Service cost	$ 33	$ 26	$ 100	$ 79
Interest cost	71	73	211	218
Amortization of losses	2		5	
Amortization of prior service cost	46	47	140	140
Net periodic cost	$ 152	$ 146	$ 456	$ 437

The Company maintains the Directors Supplemental Retirement Plan (the Directors Plan) for non-management directors. The following table presents the components of the Directors Plan s net periodic pension cost in the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in thousands)	2015	2014	2015	2014
Service cost	$ 12	$ 6	$ 35	$ 17
Interest cost	13	12	40	35

Amortization of losses	15		45	
Amortization of prior service cost	18	18	54	54
Net periodic cost	$ 58	$ 36	$ 174	$ 106

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Note 11. Accumulated Other Comprehensive Income

The following tables present the activity in accumulated other comprehensive income (AOCI), net of tax, by component for the periods indicated:

	Three Months Ended September 30,					
	2015			2014		
	Unrealized Gains (Losses) on Available-for-Sale Securities	Employee Benefit Plan	Total	Unrealized Gains (Losses) on Available-for-Sale Securities	Employee Benefit Plan	Total
(Amounts in thousands)						
Beginning balance	$ (4,899)	$ (1,299)	$ (6,198)	$ (5,736)	$ (1,001)	$ (6,737)
Other comprehensive gain before reclassifications	2,433	102	2,535	186	81	267
Reclassified from AOCI	(24)	(51)	(75)	63	(41)	22
Net comprehensive gain	2,409	51	2,460	249	40	289
Ending balance	$ (2,490)	$ (1,248)	$ (3,738)	$ (5,487)	$ (961)	$ (6,448)

	Nine Months Ended September 30,					
	2015			2014		
	Unrealized Gains (Losses) on Available-for-Sale Securities	Employee Benefit Plan	Total	Unrealized Gains (Losses) on Available-for-Sale Securities	Employee Benefit Plan	Total
(Amounts in thousands)						
Beginning balance	$ (4,266)	$ (1,339)	$ (5,605)	$ (13,640)	$ (1,100)	$ (14,740)
Other comprehensive gain before reclassifications	1,682	244	1,926	8,422	261	8,683
Reclassified from AOCI	94	(153)	(59)	(269)	(122)	(391)
Net comprehensive gain	1,776	91	1,867	8,153	139	8,292
Ending balance	$ (2,490)	$ (1,248)	$ (3,738)	$ (5,487)	$ (961)	$ (6,448)

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

	Three Months Ended September 30,		Nine Months Ended September 30,		Income Statement Line Item Affected
(Amounts in thousands)	2015	2014	2015	2014	
Available-for-sale securities					

(Losses) gains realized in net income	$ (39)	$ 320	$ 151	$ 306	Net gain (loss) on sale of securities
Credit-related OTTI recognized in net income		(219)		(737)	Net impairment losses recognized in earnings
	(39)	101	151	(431)	Income before income taxes
Income tax effect	(15)	38	57	(162)	Income tax expense
	(24)	63	94	(269)	Net income
Employee benefit plans					
Amortization of prior service cost	(65)	(66)	(195)	(195)	(1)
Amortization of losses	(17)		(50)		(1)
	(82)	(66)	(245)	(195)	Income before income taxes
Income tax effect	(31)	(25)	(92)	(73)	Income tax expense
	(51)	(41)	(153)	(122)	Net income
Reclassified from AOCI, net of tax	$ (75)	$ 22	$ (59)	$ (391)	Net income

(1) Amortization is included in net periodic pension cost. See Note 10, Employee Benefit Plans.

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Note 12. Fair Value

Financial Instruments Measured at Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments under the valuation hierarchy, is presented in the following discussion. The fair value hierarchy ranks the inputs used in measuring fair value as follows:

Level 1 Observable, unadjusted quoted prices in active markets

Level 2 Inputs other than quoted prices included in Level 1 that are directly or indirectly observable for the asset or liability

Level 3 Unobservable inputs with little or no market activity that require the Company to use reasonable inputs and assumptions

The Company uses fair value measurements to record adjustments to certain financial assets and liabilities on a recurring basis. Additionally, the Company may be required to record certain assets at fair value on a nonrecurring basis in specific circumstances, such as evidence of impairment. Methodologies used to determine fair value might be highly subjective and judgmental in nature, such as cash flow estimates, risk characteristics, credit quality measurements, and interest rates; therefore, valuations may not be precise. Since fair values are estimated as of a specific date, the amounts actually realized or paid on the settlement or maturity of these instruments may be significantly different from estimates. See Summary of Significant Accounting Policies in Note 1, General, to the Condensed Consolidated Financial Statements of this report.

Assets and Liabilities Reported at Fair Value on a Recurring Basis

Available-for-Sale Securities. Securities available for sale are reported at fair value on a recurring basis. The fair value of Level 1 securities is based on quoted market prices in active markets, if available. The Company also uses Level 1 inputs to value equity securities that are traded in active markets. If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are primarily derived from or corroborated by observable market data. Level 2 securities use fair value measurements from independent pricing services obtained by the Company. These fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and bond terms and conditions. The Company s Level 2 securities include U.S. Treasury securities, single issue trust preferred securities, corporate securities, MBS, and certain equity securities that are not actively traded. Securities are based on Level 3 inputs when there is limited activity or less transparency to the valuation inputs. In the absence of observable or corroborated market data, internally developed estimates that incorporate market-based assumptions are used when such information is available.

Fair value models may be required when trading activity has declined significantly or does not exist, prices are not current, or pricing variations are significant. For Level 3 securities, the Company obtains the cash flow of specific securities from third parties that use modeling software to determine cash flows based on market participant data and knowledge of the structures of each individual security. The fair values of Level 3 securities are determined by applying proper market observable discount rates to the cash flow derived from third-party models. Discount rates are developed by determining credit spreads above a benchmark rate, such as LIBOR, and adding premiums for illiquidity, which are based on a comparison of initial issuance spread to LIBOR versus a financial sector curve for recently issued debt to LIBOR. Securities with increased uncertainty about 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.

Loans Held for Investment. Loans held for investment are reported at fair value using discounted future cash flows that apply current interest rates for loans with similar terms and borrower credit quality. Loans related to fair value hedges are recorded at fair value on a recurring basis.

Deferred Compensation Assets and Liabilities. Securities held for trading purposes are recorded at fair value on a recurring basis and included in other assets in the consolidated balance sheets. These securities include assets related to employee deferred compensation plans, which are generally invested in Level 1 equity securities. The liability associated with these deferred compensation plans is carried at the fair value of the obligation to the employee, which corresponds to the fair value of the invested assets.

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Derivative Assets and Liabilities. Derivatives are recorded at fair value on a recurring basis. The Company obtains dealer quotes, Level 2 inputs, based on observable data to value derivatives.

The following tables summarize financial assets and liabilities recorded at fair value on a recurring basis, segregated by the level of valuation inputs in the fair value hierarchy, as of the dates indicated:

	September 30, 2015			
		Fair Value Measurements Using		
(Amounts in thousands)	Total Fair Value	Level 1	Level 2	Level 3
Available-for-sale securities:				
U.S. Agency securities	$ 31,676	$	$ 31,676	$
Municipal securities	131,088		131,088	
Single issue trust preferred securities	49,434		49,434	
Corporate securities	70,654		70,654	
Certificates of deposit	5,000		5,000	
Agency MBS	94,125		94,125	
Equity securities	235	217	18	
Total available-for-sale securities	$ 382,212	$ 217	$ 381,995	$
Fair value loans	$ 4,887	$	$ 4,887	$
Deferred compensation assets	$ 3,425	$ 3,425	$	$
Derivative assets				
Forward sale loan commitments	$ 27	$	$ 27	$
Total derivative assets	$ 27	$	$ 27	$
Deferred compensation liabilities	$ 3,425	$ 3,425	$	$
Derivative liabilities				
Interest rate swaps	$ 318	$	$ 318	$
IRLCs	27		27	
Total derivative liabilities	$ 345	$	$ 345	$

	December 31, 2014			
		Fair Value Measurements Using		
(Amounts in thousands)	Total Fair Value	Level 1	Level 2	Level 3
Available-for-sale securities:				

U.S. Agency securities	$ 33,598	$	$ 33,598	$
Municipal securities	138,915		138,915	
Single issue trust preferred securities	46,137		46,137	
Corporate securities	5,109		5,109	
Agency MBS	102,119		102,119	
Equity securities	239	221	18	
Total available-for-sale securities	$ 326,117	$ 221		