

FIRST COMMUNITY BANCSHARES INC /NV/

Form 10-Q

August 09, 2013

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarter ended June 30, 2013

Commission file number 000-19297

FIRST COMMUNITY BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction)

55-0694814
(IRS Employer)

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of incorporation)

Identification No.)

P.O. Box 989

Bluefield, Virginia

(Address of principal executive offices)

24605-0989

(Zip Code)

(276) 326-9000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer ☐ Accelerated filer ☒

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

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

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

Class Common Stock, \$1.00 Par Value; 20,051,612 shares outstanding as of August 2, 2013

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FIRST COMMUNITY BANCSHARES, INC.

FORM 10-Q

For the quarter ended June 30, 2013

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

	June 30, 2013	December 31, 2012
	(Unaudited)	
<i>(Amounts in thousands, except share and per share data)</i>		
Assets		
Cash and due from banks	\$ 44,307	\$ 50,405
Federal funds sold	22,876	66,509
Interest-bearing deposits in banks	14,936	27,933
Total cash and cash equivalents	82,119	144,847
Securities available-for-sale	550,158	534,358
Securities held-to-maturity	627	816
Loans held for sale	4,621	6,672
Loans held for investment, net of unearned income:		
Covered under loss share agreements	184,076	207,106
Not covered under loss share agreements	1,507,422	1,517,547
Less allowance for loan losses	(23,122)	(25,770)
Loans held for investment, net	1,668,376	1,698,883
FDIC indemnification asset	40,389	48,149
Property, plant, and equipment, net	64,085	64,868
Other real estate owned:		
Covered under loss share agreements	6,407	3,255
Not covered under loss share agreements	4,743	5,749
Interest receivable	8,010	7,842
Goodwill	104,892	104,866
Intangible assets	3,159	3,522
Other assets	113,149	105,040
Total assets	\$ 2,650,735	\$ 2,728,867
Liabilities		
Deposits:		
Noninterest-bearing	\$ 349,972	\$ 343,352
Interest-bearing	1,638,724	1,686,823
Total deposits	1,988,696	2,030,175
Interest, taxes, and other liabilities	23,019	28,816
Securities sold under agreements to repurchase	121,204	136,118
FHLB borrowings	150,000	161,558
Other borrowings	15,877	15,877
Total liabilities	2,298,796	2,372,544

Stockholders' equity

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Preferred stock, undesignated par value; 1,000,000 shares authorized: Series A Noncumulative Convertible Preferred Stock, \$0.01 par value; 25,000 shares authorized; 15,921 and 17,421 shares outstanding at June 30, 2013, and December 31, 2012, respectively	15,921	17,421
Common stock, \$1 par value; 50,000,000 shares authorized; 20,446,827 and 20,343,327 shares issued at June 30, 2013, and December 31, 2012, respectively; 385,965 and 289,861 shares in treasury at June 30, 2013, and December 31, 2012, respectively	20,447	20,343
Additional paid-in capital	215,139	213,829
Retained earnings	120,273	113,013
Treasury stock, at cost	(7,763)	(6,458)
Accumulated other comprehensive loss	(12,078)	(1,825)
Total stockholders' equity	351,939	356,323
 Total liabilities and stockholders' equity	 \$ 2,650,735	 \$ 2,728,867

See Notes to Consolidated Financial Statements.

Table of Contents**FIRST COMMUNITY BANCSHARES, INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<i>(Amounts in thousands, except share and per share data)</i>				
Interest income				
Interest and fees on loans held for investment	\$ 24,264	\$ 20,853	\$ 49,108	\$ 40,221
Interest on securities taxable	1,869	1,992	3,755	4,071
Interest on securities nontaxable	1,207	1,265	2,415	2,461
Interest on deposits in banks	72	72	138	111
Total interest income	27,412	24,182	55,416	46,864
Interest expense				
Interest on deposits	2,283	2,360	4,645	4,765
Interest on short-term borrowings	579	589	1,169	1,184
Interest on long-term borrowings	1,688	1,749	3,378	3,454
Total interest expense	4,550	4,698	9,192	9,403
Net interest income	22,862	19,484	46,224	37,461
Provision for loan losses	3,205	1,620	4,347	2,542
Net interest income after provision for loan losses	19,657	17,864	41,877	34,919
Noninterest income				
Wealth management income	971	940	1,817	1,834
Service charges on deposit accounts	3,315	3,329	6,483	6,342
Other service charges and fees	1,793	1,564	3,579	3,149
Insurance commissions	1,308	1,336	2,974	2,912
Net gain (loss) on sale of securities	113	(9)	230	42
FDIC indemnification asset amortization	(1,662)		(3,201)	
Other operating income	1,010	1,183	2,827	2,055
Total noninterest income	6,848	8,343	14,709	16,334
Noninterest expense				
Salaries and employee benefits	9,960	8,892	20,070	17,114
Occupancy expense of bank premises	1,795	1,654	3,650	3,180
Furniture and equipment	1,300	975	2,643	1,786
Amortization of intangible assets	183	189	362	422
FDIC premiums and assessments	469	290	941	612
Merger related expense	8	3,419	57	3,582
Other operating expense	4,818	4,713	10,354	9,629
Total noninterest expense	18,533	20,132	38,077	36,325
Income before income taxes	7,972	6,075	18,509	14,928
Income tax expense	2,537	1,997	5,933	4,849
Net income	5,435	4,078	12,576	10,079

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Dividends on preferred stock	253	283	511	566
Net income available to common shareholders	\$ 5,182	\$ 3,795	\$ 12,065	\$ 9,513
Basic earnings per common share	\$ 0.26	\$ 0.20	\$ 0.60	\$ 0.52
Diluted earnings per common share	\$ 0.25	\$ 0.20	\$ 0.59	\$ 0.52
Cash dividends per common share	\$ 0.12	\$ 0.11	\$ 0.24	\$ 0.21
Weighted average basic shares outstanding	19,997,991	18,561,714	20,015,247	18,205,545
Weighted average diluted shares outstanding	21,340,521	19,909,242	21,367,146	19,549,582
<i>See Notes to Consolidated Financial Statements.</i>				

Table of Contents**FIRST COMMUNITY BANCSHARES, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<i>(Amounts in thousands, except share and per share data)</i>				
Net income	\$ 5,435	\$ 4,078	\$ 12,576	\$ 10,079
Other comprehensive (loss) income, before tax				
Available-for-sale securities:				
Unrealized gains (losses) on securities available-for-sale with other-than-temporary impairment	15	(314)	(182)	(105)
Unrealized (losses) gains on securities available-for-sale without other-than-temporary impairment	(14,483)	5,326	(15,604)	5,821
Less: reclassification adjustment for (gains) losses realized in net income	(113)	9	(230)	(42)
Unrealized (losses) gains on available-for-sale securities in OCI	(14,581)	5,021	(16,016)	5,674
Benefit plans:				
Net actuarial (losses) gains on pension and other postretirement benefit plans	(118)	37	(512)	15
Amortization of prior service cost, transition asset/obligation, and net actuarial losses included in net periodic benefit cost	82	69	163	134
Unrealized (losses) gains on benefit plans	(36)	106	(349)	149
Other comprehensive (loss) income, before tax	(14,617)	5,127	(16,365)	5,823
Income tax benefit (expense) related to items of OCI	5,459	(1,938)	6,112	(2,201)
Other comprehensive (loss) income, net of tax	(9,158)	3,189	(10,253)	3,622
Total comprehensive (loss) income	\$ (3,723)	\$ 7,267	\$ 2,323	\$ 13,701

See Notes to Consolidated Financial Statements.

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	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
<i>(Amounts in thousands, except share and per share data)</i>							
Balance January 1, 2012	\$ 18,921	\$ 18,083	\$ 188,118	\$ 93,656	\$ (5,721)	\$ (7,328)	\$ 305,729
Net income				10,079			10,079
Other comprehensive income						3,622	3,622
Common dividends declared \$0.21 per share				(3,751)			(3,751)
Preferred dividends declared \$30.00 per share				(566)			(566)
Equity-based compensation expense			94		17		111
Restricted stock awards 1,300 shares			(15)		32		17
Acquisition of Peoples Bank of Virginia 2,157,005 shares		2,157	24,313				26,470
Balance June 30, 2012	\$ 18,921	\$ 20,240	\$ 212,510	\$ 99,418	\$ (5,672)	\$ (3,706)	\$ 341,711
Balance January 1, 2013	\$ 17,421	\$ 20,343	\$ 213,829	\$ 113,013	\$ (6,458)	\$ (1,825)	\$ 356,323
Net income				12,576			12,576
Other comprehensive loss						(10,253)	(10,253)
Common dividends declared \$0.24 per share				(4,805)			(4,805)
Preferred dividends declared \$30.00 per share				(511)			(511)
Preferred stock converted to common stock 103,500 shares	(1,500)	104	1,396				
Equity-based compensation expense			98				98
Common stock options exercised 789 shares			(9)		16		7
Restricted stock awards 29,148 shares			(175)		703		528
Purchase of treasury shares 130,804 shares at \$15.43 per share					(2,024)		(2,024)
Balance June 30, 2013	\$ 15,921	\$ 20,447	\$ 215,139	\$ 120,273	\$ (7,763)	\$ (12,078)	\$ 351,939

See Notes to Consolidated Financial Statements.

Table of Contents**FIRST COMMUNITY BANCSHARES, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

	Six Months Ended June 30,	
	2013	2012
<i>(Amounts in thousands)</i>		
Operating activities		
Net income	\$ 12,576	\$ 10,079
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	4,347	2,542
Depreciation and amortization of property, plant, and equipment	2,474	1,887
(Accretion of discounts) amortization of premiums on investments, net	(258)	964
Amortization of FDIC receivable for loss share agreements	3,201	
Amortization of intangible assets	362	422
Gain on sale of loans	(346)	(475)
Equity-based compensation expense	626	111
(Gain) loss on sale of property, plant, and equipment	(51)	54
Loss on sales of other real estate	971	825
Gain on sale of securities	(230)	(42)
Gain on prepayment of debt	(296)	
Proceeds from sale of mortgage loans	43,905	34,658
Origination of mortgage loans	(41,508)	(29,542)
Increase in accrued interest receivable	(168)	(176)
(Increase) decrease in other operating activities	(11,124)	6,919
Net cash provided by operating activities	14,481	28,226
Investing activities		
Proceeds from sale of securities available-for-sale	104,279	20,649
Proceeds from maturities, prepayments, and calls of securities available-for-sale	45,033	43,019
Proceeds from maturities, prepayments, and calls of securities held-to-maturity	190	2,210
Payments to acquire securities available-for-sale	(180,928)	(40,801)
Collections of loans	21,826	3,517
Proceeds from the redemption of FHLB stock, net	1,184	504
Net cash (paid) acquired in acquisitions	(201)	152,774
Proceeds from the FDIC	5,148	
Payments to acquire property, plant, and equipment	(1,753)	(1,500)
Proceeds from sale of property, plant, and equipment	113	887
Proceeds from sale of other real estate	3,195	2,685
Net cash (used in) provided by investing activities	(1,914)	183,944
Financing activities		
Net increase in noninterest-bearing deposits	6,620	10,191
Net decrease in interest-bearing deposits	(48,099)	(97,634)
Repayments of securities sold under agreements to repurchase	(14,914)	(923)
Repayments of long-term debt	(11,558)	(10,633)
Proceeds from stock options exercised	7	17
Payments for repurchase of treasury stock	(2,024)	
Payments of common dividends	(4,805)	(3,751)
Payments of preferred dividends	(522)	(566)

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Net cash used in financing activities	(75,295)	(103,299)
(Decrease) increase in cash and cash equivalents	(62,728)	108,871
Cash and cash equivalents at beginning of period	144,847	47,294
Cash and cash equivalents at end of period	\$ 82,119	\$ 156,165

Supplemental information noncash items

Transfer of loans to other real estate	\$ 9,324	\$ 3,311
Loans originated to finance other real estate	\$ 3,011	\$ 840

See Notes to Consolidated Financial Statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. General

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

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

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

Significant Accounting Policies

A complete and detailed description of the Company's significant accounting policies is included in Note 1, Summary of Significant Accounting Policies, of the Notes to Consolidated Financial Statements in Part II, Item 8, Financial and Supplementary Data, of the Company's 2012 Form 10-K and Note 1, General, of the Notes to Condensed Consolidated Financial Statements (Unaudited) in Part I, Item 1, Financial Statements, of the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2013. Additional discussion of the Company's application of critical accounting estimates is included within Application of Critical Accounting Estimates in Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, herein.

Reclassifications and Corrections

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

Recent Accounting Pronouncements

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<i>(Amounts in thousands, except share and per share data)</i>				
Net income	\$ 5,435	\$ 4,078	\$ 12,576	\$ 10,079
Dividends on preferred stock	253	283	511	566
Net income available to common shareholders	\$ 5,182	\$ 3,795	\$ 12,065	\$ 9,513
Weighted average common shares outstanding, basic	19,997,991	18,561,714	20,015,247	18,205,545
Diluted shares for stock options and restricted stock	158,679	41,979	158,999	38,488
Weighted average convertible preferred shares	1,183,851	1,305,549	1,192,900	1,305,549
Weighted average common shares outstanding, diluted	21,340,521	19,909,242	21,367,146	19,549,582
Basic earnings per common share	\$ 0.26	\$ 0.20	\$ 0.60	\$ 0.52
Diluted earnings per common share	\$ 0.25	\$ 0.20	\$ 0.59	\$ 0.52

The Company's Series A Noncumulative Convertible Preferred Stock (Series A Preferred Stock) carries a 6% dividend rate. Each share is convertible into 69 shares of the Company's Common Stock (Common Stock) at any time and mandatorily converts after five years. The Company may redeem the shares at face value after May 20, 2014. There were 15,921 shares of Series A Preferred Stock outstanding at June 30, 2013, 17,421 shares outstanding at December 31, 2012, and 18,921 shares outstanding at June 30, 2012.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Stock options	337,693	451,915	337,693	451,915

Table of Contents**Note 2. Investment Securities**

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

	June 30, 2013				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	OTTI in AOCI ⁽¹⁾
<i>(Amounts in thousands)</i>					
U.S. Treasury securities	\$ 9,694	\$	\$ (280)	\$ 9,414	\$
Municipal securities	153,022	2,910	(3,951)	151,981	
Single issue trust preferred securities	55,735		(9,553)	46,182	
Mortgage-backed securities:					
Agency	329,209	3,431	(6,374)	326,266	
Non-Agency Alt-A residential	13,689		(2,805)	10,884	(2,805)
Total mortgage-backed securities	342,898	3,431	(9,179)	337,150	(2,805)
Equity securities	5,315	189	(73)	5,431	
Total	\$ 566,664	\$ 6,530	\$ (23,036)	\$ 550,158	\$ (2,805)

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

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

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

	June 30, 2013			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
<i>(Amounts in thousands)</i>				
Municipal securities	\$ 627	\$ 12	\$	\$ 639
Total	\$ 627	\$ 12	\$	\$ 639

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

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

<i>(Amounts in thousands)</i>	Amortized Cost	Fair Value
Available-for-sale securities		
Due within one year	\$ 727	\$ 739
Due after one year but within five years	18,187	18,635
Due after five years but within ten years	30,835	31,180
Due after ten years	168,702	157,023
	218,451	207,577
Mortgage-backed securities	342,898	337,150
Equity securities	5,315	5,431
Total	\$ 566,664	\$ 550,158
Held-to-maturity securities		
Due within one year	\$	\$
Due after one year but within five years	627	639
Due after five years but within ten years		
Due after ten years		
Total	\$ 627	\$ 639

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

	Less than 12 Months		June 30, 2013 12 Months or longer		Total	
<i>(Amounts in thousands)</i>	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities	\$ 9,414	\$ (280)	\$	\$	\$ 9,414	\$ (280)
Municipal securities	44,274	(3,951)			44,274	(3,951)
Single issue trust preferred securities			46,182	(9,553)	46,182	(9,553)
Mortgage-backed securities:						
Agency	179,683	(6,297)	1,695	(77)	181,378	(6,374)
Non-Agency Alt-A residential			10,884	(2,805)	10,884	(2,805)
Total mortgage-backed securities	179,683	(6,297)	12,579	(2,882)	192,262	(9,179)
Equity securities	4,983	(17)	133	(56)	5,116	(73)
Total	\$ 238,354	\$ (10,545)	\$ 58,894	\$ (12,491)	\$ 297,248	\$ (23,036)

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

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There were no held-to-maturity securities in a continuous unrealized loss position at June 30, 2013, or December 31, 2012. At June 30, 2013, the combined depreciation in value of the 174 individual securities in an unrealized loss position was 4.19% of the combined reported value of the aggregate securities portfolio. At December 31, 2012, the combined depreciation in value of the 57 individual securities in an unrealized loss position was 2.78% of the combined reported value of the aggregate securities portfolio.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<i>(Amounts in thousands)</i>				
Gross realized gains	\$ 152	\$ 30	\$ 307	\$ 119
Gross realized losses	(39)	(39)	(77)	(77)
Net gain (loss) on sale of securities	\$ 113	\$ (9)	\$ 230	\$ 42

The carrying value of securities pledged to secure public deposits and for other purposes was \$274.99 million at June 30, 2013, and \$292.88 million at December 31, 2012.

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

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

For beneficial interest debt securities, the Company reviews cash flow analyses on each applicable security to determine if an adverse change in cash flows expected to be collected has occurred. Beneficial interest debt securities consist of corporate FDIC insured securities and mortgage-backed securities (MBS). An adverse change in cash flows expected to be collected has occurred if the present value of cash flows previously projected is greater than the present value of cash flows projected at the current reporting date and less than the current book value. If an adverse change in cash flows is deemed to have occurred, then an OTTI has occurred. The Company then compares the present value of cash flows using the current yield for the current reporting period to the reference amount, or current net book value, to determine the credit-related OTTI. The credit-related OTTI is then recorded through earnings and the noncredit-related OTTI is accounted for in OCI. During the three and six months ended June 30, 2013 and 2012, the Company incurred no credit-related OTTI charges associated with beneficial interest debt securities. Temporary impairment on the Agency MBS is primarily related to changes in interest rate.

For the non-Agency Alt-A residential MBS, the Company uses a discounted cash flow model with the following assumptions: constant prepayment rate of 9.7%, a customized constant default rate scenario that assumes approximately 19% of the remaining underlying mortgages will default within three years, and a customized loss severity rate scenario that ramps the loss rate down from 69% to 15% over the course of approximately seven years.

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

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

(1) The beginning balance includes credit related losses included in OTTI charges recognized on debt securities in prior periods. For equity securities, the Company reviews for OTTI based upon the prospects of the underlying companies, analysts' expectations, and certain other qualitative factors to determine if impairment is recoverable over a foreseeable period of time. During the three and six months ended June 30, 2013 and 2012, the Company recognized no OTTI charges on equity securities.

As a condition to membership in the Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) systems, the Company is required to subscribe to a minimum level of stock in the FHLB of Atlanta (FHLBA) and FRB of Richmond (FRB Richmond). The Company feels the FHLBA ownership position provides access to relatively inexpensive wholesale and overnight funding. FHLBA and FRB Richmond stock are reported as long-term investments in Other assets on the Company's Condensed Consolidated Balance Sheets. At June 30, 2013, and December 31, 2012, the Company owned \$10.00 million and \$11.30 million, respectively, of FHLBA stock. The Company's policy is to review the stock for impairment at each reporting period. Based on the Company's review and publicly available information concerning the FHLBA, it believes that as of June 30, 2013, its FHLBA stock was not impaired. At June 30, 2013, and December 31, 2012, the Company owned \$5.58 million of FRB Richmond stock.

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

The Company's loan portfolio is grouped into three segments (commercial loans, consumer real estate loans, and consumer and other loans) and each segment is divided further into various classes. Loans, net of unearned income, consisted of the following at June 30, 2013, and December 31, 2012:

<i>(Amounts in thousands)</i>	June 30, 2013		December 31, 2012	
	Amount	Percent	Amount	Percent
Covered loans	\$ 184,076	10.88%	\$ 207,106	12.01%
Non-covered loans				
Commercial loans				
Construction, development, and other land	52,198	3.09%	57,434	3.33%
Commercial and industrial	92,448	5.47%	88,738	5.15%
Multi-family residential	59,536	3.52%	65,694	3.81%
Single family non-owner occupied	134,207	7.93%	135,912	7.88%
Non-farm, non-residential	455,224	26.91%	448,810	26.02%
Agricultural	2,393	0.14%	1,709	0.10%
Farmland	34,354	2.03%	34,570	2.00%
Total commercial loans	830,360	49.09%	832,867	48.29%
Consumer real estate loans				
Home equity lines	109,820	6.49%	111,081	6.44%
Single family owner occupied	473,212	27.98%	473,547	27.46%
Owner occupied construction	21,276	1.26%	16,223	0.94%
Total consumer real estate loans	604,308	35.73%	600,851	34.84%
Consumer and other loans				
Consumer loans	69,002	4.08%	78,163	4.53%
Other	3,752	0.22%	5,666	0.33%
Total consumer and other loans	72,754	4.30%	83,829	4.86%
Total non-covered loans	1,507,422	89.12%	1,517,547	87.99%
Total loans held for investment, net of unearned income	\$ 1,691,498	100.00%	\$ 1,724,653	100.00%
Loans held for sale	\$ 4,621		\$ 6,672	

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Covered loans held for investment consisted of the following at June 30, 2013, and December 31, 2012:

<i>(Amounts in thousands)</i>	June 30, 2013	December 31, 2012
Covered loans		
Commercial loans		
Construction, development, and other land	\$ 23,067	\$ 26,595
Commercial and industrial	4,412	6,948
Multi-family residential	2,434	2,611
Single family non-owner occupied	9,750	11,428
Non-farm, non-residential	41,200	48,565
Agricultural	31	144
Farmland	1,234	1,091
Total commercial loans	82,128	97,382
Consumer real estate loans		
Home equity lines	77,132	81,445
Single family owner occupied	20,467	22,961
Owner occupied construction	1,638	1,644
Total consumer real estate loans	99,237	106,050
Consumer and other loans		
Consumer loans	2,711	3,674
Total covered loans	\$ 184,076	\$ 207,106

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

Acquired Impaired Loans

When the fair values of acquired loans are established, certain loans are identified as impaired. The Company has estimated the cash flows to be collected on the acquired impaired loans and discounted those cash flows at a market rate of interest. The outstanding principal balance of acquired impaired loans was \$155.04 million at June 30, 2013, \$198.34 million at December 31, 2012, and \$215.16 million at June 30, 2012. The following tables present the carrying balance of acquired impaired loans during the periods indicated:

<i>(Amounts in thousands)</i>	Six Months Ended June 30, 2013			Total
	Peoples	Waccamaw	Other	
Balance, January 1	\$ 26,907	\$ 110,115	\$ 2,340	\$ 139,362
Balance, June 30	17,484	90,105	2,088	109,677

<i>(Amounts in thousands)</i>	Six Months Ended June 30, 2012			Total
	Peoples	Waccamaw	Other	
Balance, January 1	\$	\$	\$ 2,886	\$ 2,886
Balance, June 30	33,454	112,498	2,293	148,245

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

	Peoples	Six Months Ended June 30, 2013		Total
		Waccamaw	Other	
<i>(Amounts in thousands)</i>				
Balance, January 1, 2013	\$ 2,342	\$ 21,886	\$ 15	\$ 24,243
Additions	148	178		326
Accretion	(846)	(2,900)	(99)	(3,845)
Transfers to accretable discount (exit events), net	4,695	(9,104)	92	(4,317)
Disposals	(1,203)	(1,581)		(2,784)
Balance, June 30, 2013	\$ 5,136	\$ 8,479	\$ 8	\$ 13,623

	Peoples	Six Months Ended June 30, 2012		Total
		Waccamaw	Other	
<i>(Amounts in thousands)</i>				
Balance, January 1, 2012	\$	\$	\$ 919	\$ 919
Additions	3,400	26,481		29,881
Accretion	(139)	(513)	(1,146)	(1,798)
Transfers to accretable discount, net			92	92
Disposals			161	161
Balance, June 30, 2012	\$ 3,261	\$ 25,968	\$ 26	\$ 29,255

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

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

Management performs quarterly assessments to determine the appropriate level of allowance for loan losses. Differences between actual loan loss experience and estimates are reflected through adjustments that are made by increasing or decreasing the allowance based upon current measurement criteria. Commercial, consumer real estate, and non-real estate consumer loan portfolios are evaluated separately for purposes of determining the allowance. The specific components of the allowance include allocations to individual commercial loans and credit relationships and allocations to the remaining nonhomogeneous and homogeneous pools of loans that have been deemed impaired. Additionally, a loan that becomes adversely classified or graded is removed from a group of loans with similar risk characteristics that are not classified or graded to evaluate the removed loan collectively in a group of adversely classified or graded loans with similar risk characteristics. Management's general reserve allocations are based on judgment of qualitative and quantitative factors about macro and micro economic conditions reflected within the portfolio of loans and the economy as a whole. Factors considered in this evaluation include, but are not necessarily limited to, probable losses from loan and other credit arrangements, general economic conditions, changes in credit concentrations or pledged collateral, historical loan loss experience, and trends in portfolio volume, maturities, composition, delinquencies, and nonaccruals. Historical loss rates for each risk grade of commercial loans are adjusted by environmental factors to estimate the amount of reserve needed by segment. While management has allocated the allowance for loan losses to various portfolio segments, the entire allowance is available for use against any type of loan loss deemed appropriate by management.

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

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

	Three Months Ended June 30,				2012			
	Commercial	Consumer Real Estate	Consumer and Other	Total	Commercial	Consumer Real Estate	Consumer and Other	Total
<i>(Amounts in thousands)</i>								
Beginning balance	\$ 17,250	\$ 7,003	\$ 597	\$ 24,850	\$ 17,865	\$ 7,259	\$ 676	\$ 25,800
Provision for loan losses	2,304	749	152	3,205	950	623	47	1,620
Loans charged off	(3,446)	(1,282)	(278)	(5,006)	(836)	(619)	(157)	(1,612)
Recoveries credited to allowance	(227)	188	112	73	278	9	76	363
Net charge-offs	(3,673)	(1,094)	(166)	(4,933)	(558)	(610)	(81)	(1,249)
Ending balance	\$ 15,881	\$ 6,658	\$ 583	\$ 23,122	\$ 18,257	\$ 7,272	\$ 642	\$ 26,171

	Six Months Ended June 30,				2012			
	Commercial	Consumer Real Estate	Consumer and Other	Total	Commercial	Consumer Real Estate	Consumer and Other	Total
<i>(Amounts in thousands)</i>								
Beginning balance	\$ 17,267	\$ 7,906	\$ 597	\$ 25,770	\$ 17,752	\$ 7,711	\$ 742	\$ 26,205
Provision for loan losses	2,787	1,229	331	4,347	1,216	1,237	89	2,542
Loans charged off	(4,229)	(2,678)	(858)	(7,765)	(1,086)	(1,727)	(361)	(3,174)
Recoveries credited to allowance	56	201	513	770	375	51	172	598
Net charge-offs	(4,173)	(2,477)	(345)	(6,995)	(711)	(1,676)	(189)	(2,576)
Ending balance	\$ 15,881	\$ 6,658	\$ 583	\$ 23,122	\$ 18,257	\$ 7,272	\$ 642	\$ 26,171

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The Company identifies loans for potential impairment through a variety of means including, but not limited to, ongoing loan review, renewal processes, delinquency data, market communications, and public information. If it is determined that it is probable that the Company will not collect all principal and interest amounts contractually due, the loan is generally deemed to be impaired.

During the quarterly cash flow analysis, one of the Company's seven purchased credit impaired loan pools was deemed impaired. The pool had a recorded investment of \$3.57 million, current unpaid principal balance of \$4.14 million, and cumulative impairment of \$177 thousand at June 30, 2013. For the three months ended June 30, 2013, the Company had an average recorded investment of \$3.59 million and recognized interest income of \$34 thousand in connection with the impaired loan pool. For the six months ended June 30, 2013, the Company had an average recorded investment of \$11.86 million and recognized interest income of \$117 thousand in connection with impaired loan pools. These amounts are not included in the tables below. The following tables present the Company's recorded investment in non-purchased loans considered to be impaired and related information on those impaired loans for the periods indicated:

	June 30, 2013			December 31, 2012		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
<i>(Amounts in thousands)</i>						
Impaired loans with no related allowance:						
Commercial loans						
Construction, development, and other land	\$ 4,347	\$ 6,832	\$	\$ 2,916	\$ 2,916	\$
Commercial and industrial	1,844	1,897		284	284	
Multi-family residential	20	37				
Single family non-owner occupied	1,016	2,292		383	684	
Non-farm, non-residential	8,127	9,062		5,282	5,362	
Agricultural						
Farmland	361	361				
Consumer real estate loans						
Home equity lines	659	687		276	277	
Single family owner occupied	2,213	2,834		277	383	
Owner occupied construction	50	61				
Consumer and other loans						
Consumer loans	8	12				
Total impaired loans with no allowance	18,645	24,075		9,418	9,906	
Impaired loans with a related allowance:						
Commercial loans						
Construction, development, and other land	1,094	1,094	164			
Commercial and industrial	3,592	8,732	3,293	3,318	8,502	3,192
Multi-family residential				378	397	18
Single family non-owner occupied	1,024	1,097	179	2,411	2,460	996
Non-farm, non-residential	1,863	2,009	392	2,781	2,958	358
Agricultural						
Farmland						
Consumer real estate loans						
Home equity lines	217	230	222	223	230	223
Single family owner occupied	3,228	3,374	593	4,673	4,903	806
Owner occupied construction						
Consumer and other loans						
Consumer loans						
Total impaired loans with an allowance	11,018	16,536	4,843	13,784	19,450	5,593
Total impaired loans	\$ 29,663	\$ 40,611	\$ 4,843	\$ 23,202	\$ 29,356	\$ 5,593

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	For the Three Months Ended June 30, 2013		For the Six Months Ended June 30, 2013	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
<i>(Amounts in thousands)</i>				
Impaired loans with no related allowance:				
Commercial loans				
Construction, development, and other land	\$ 6,828	\$ 211	\$ 4,511	\$ 297
Commercial and industrial	1,903		1,251	16
Multi-family residential	37	1	36	5
Single family non-owner occupied	2,281	14	1,561	172
Non-farm, non-residential	9,068	84	7,512	508
Agricultural				
Farmland	361		225	12
Consumer real estate loans				
Home equity lines	708		503	49
Single family owner occupied	2,867		1,707	110
Owner occupied construction	61	5	31	5
Consumer and other loans				
Consumer loans	12		6	
Total impaired loans with no allowance	24,126	315	17,343	1,174
Impaired loans with a related allowance:				
Commercial loans				
Construction, development, and other land	1,095		1,882	133
Commercial and industrial	3,592		3,350	
Multi-family residential			188	7
Single family non-owner occupied	1,098		1,413	6
Non-farm, non-residential	2,011		2,383	40
Agricultural				
Farmland				
Consumer real estate loans				
Home equity lines	230		226	4
Single family owner occupied	3,377	4	3,931	26
Owner occupied construction				
Consumer and other loans				
Consumer loans				
Total impaired loans with an allowance	11,403	4	13,373	216
Total impaired loans	\$ 35,529	\$ 319	\$ 30,716	\$ 1,390

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	For the Three Months Ended June 30, 2012		For the Six Months Ended June 30, 2012	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
<i>(Amounts in thousands)</i>				
Impaired loans with no related allowance:				
Commercial loans				
Construction, development, and other land	\$ 11	\$	\$ 30	\$
Commercial and industrial	67	5	77	5
Multi-family residential	879	4	1,196	4
Single family non-owner occupied	1,405	8	1,813	17
Non-farm, non-residential	886	7	1,119	17
Agricultural				
Farmland				
Consumer real estate loans				
Home equity lines	378	8	503	14
Single family owner occupied	5,842	27	7,155	48
Owner occupied construction				
Consumer and other loans				
Consumer loans				
Total impaired loans with no allowance	9,468	59	11,893	105
Impaired loans with a related allowance:				
Commercial loans				
Construction, development, and other land	111		111	1
Commercial and industrial	3,922	72	3,973	72
Multi-family residential				
Single family non-owner occupied	2,888	11	2,910	42
Non-farm, non-residential	6,683	145	6,952	236
Agricultural				
Farmland				
Consumer real estate loans				
Home equity lines	250		250	
Single family owner occupied	2,581	28	2,697	53
Owner occupied construction				
Consumer and other loans				
Consumer loans				
Total impaired loans with an allowance	16,435	256	16,893	404
Total impaired loans	\$ 25,903	\$ 315	\$ 28,786	\$ 509

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

	June 30, 2013					
	Non-acquired Loans Individually Evaluated for Impairment	Allowance for Loans Individually Evaluated	Loans Collectively Evaluated for Impairment	Allowance for Loans Collectively Evaluated	Acquired Impaired Loans Evaluated for Impairment	Allowance for Acquired Impaired Loans Evaluated
<i>(Amounts in thousands)</i>						
Commercial loans						
Construction, development, and other land	\$ 5,441	\$ 164	\$ 57,788	\$ 1,483	\$ 12,036	\$
Commercial and industrial	5,428	3,285	89,627	1,343	1,805	8
Multi-family residential	20		61,330	1,086	620	
Single family non-owner occupied	2,040	179	133,829	3,353	8,088	
Non-farm, non-residential	9,990	392	456,938	4,242	29,496	
Agricultural			2,424	27		
Farmland	361		34,366	319	861	
Total commercial loans	23,280	4,020	836,302	11,853	52,906	8
Consumer real estate loans						
Home equity lines	876	222	137,651	1,346	48,425	
Single family owner occupied	5,441	593	481,714	4,317	6,524	
Owner occupied construction	50		21,760	180	1,104	
Total consumer real estate loans	6,367	815	641,125	5,843	56,053	
Consumer and other loans						
Consumer loans	8		70,987	583	718	
Other			3,752			
Total consumer and other loans	8		74,739	583	718	
Total loans	\$ 29,655	\$ 4,835	\$ 1,552,166	\$ 18,279	\$ 109,677	\$ 8

	December 31, 2012					
	Non-acquired Loans Individually Evaluated for Impairment	Allowance for Loans Individually Evaluated	Loans Collectively Evaluated for Impairment	Allowance for Loans Collectively Evaluated	Acquired Impaired Loans Evaluated for Impairment	Allowance for Acquired Impaired Loans Evaluated
<i>(Amounts in thousands)</i>						
Commercial loans						
Construction, development, and other land	\$ 2,916	\$	\$ 55,369	\$ 1,214	\$ 25,744	\$
Commercial and industrial	3,602	3,192	88,540	1,159	3,544	8
Multi-family residential	378	18	67,278	1,612	649	
Single family non-owner occupied	2,794	858	134,323	3,509	10,223	
Non-farm, non-residential	8,063	358	451,240	4,901	38,072	
Agricultural			1,852	22	1	
Farmland			34,779	416	882	
Total commercial loans	17,753	4,426	833,381	12,833	79,115	8
Consumer real estate loans						
Home equity lines	499	223	139,706	1,351	50,343	
Single family owner occupied	4,950	944	483,553	5,051	8,005	

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Owner occupied construction			16,768	337	1,099		
Total consumer real estate loans	5,449	1,167	640,027	6,739	59,447		
Consumer and other loans							
Consumer loans			81,037	597	800		
Other			5,666				
Total consumer and other loans			86,703	597	800		
Total loans	\$ 23,202	\$ 5,593	\$ 1,560,111	\$ 20,169	\$ 139,362	\$ 8	

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

The Company aggregates purchased credit impaired loans with common risk characteristics into the following loan pools: construction and development, commercial and industrial, commercial real estate, consumer, home equity lines of credit, residential real estate 1st lien, residential real estate 2nd lien, and lines of credit. However, these loan pools are disaggregated in the following tables for disclosure purposes.

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

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

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

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

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

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

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

(Amounts in thousands)	June 30, 2013					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Non-covered loans						
Commercial loans						
Construction, development, and other land	\$ 40,067	\$ 1,916	\$ 9,302	\$ 913	\$	\$ 52,198
Commercial and industrial	82,560	1,888	4,370	3,630		92,448
Multi-family residential	54,602	4,118	816			59,536
Single family non-owner occupied	117,582	5,024	10,722	879		134,207
Non-farm, non-residential	420,792	11,864	22,449	119		455,224
Agricultural	2,367	14	12			2,393
Farmland	28,806	1,584	3,964			34,354
Consumer real estate loans						
Home equity lines	103,983	2,027	3,592	218		109,820
Single family owner occupied	436,893	8,798	27,521			473,212
Owner occupied construction	21,276					21,276
Consumer and other loans						
Consumer loans	67,721	896	381	4		69,002
Other	3,739	1	12			3,752

Total non-covered loans	\$ 1,380,388	\$ 38,130	\$ 83,141	\$ 5,763	\$ 1,507,422
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	June 30, 2013					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
<i>(Amounts in thousands)</i>						
Covered loans						
Commercial loans						
Construction, development, and other land	\$ 12,194	\$ 1,388	\$ 9,357	\$ 128	\$	\$ 23,067
Commercial and industrial	3,619	418	350	25		4,412
Multi-family residential	1,814		620			2,434
Single family non-owner occupied	4,806	93	4,837	14		9,750
Non-farm, non-residential	17,692	2,605	20,547	356		41,200
Agricultural	31					31
Farmland	828	309	97			1,234
Consumer real estate loans						
Home equity lines	16,502	11,162	49,443	25		77,132
Single family owner occupied	14,314	175	5,795	183		20,467
Owner occupied construction	380		1,258			1,638
Consumer and other loans						
Consumer loans	2,067		644			2,711
Other						
Total covered loans	\$ 74,247	\$ 16,150	\$ 92,948	\$ 731	\$	\$ 184,076

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

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

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

(Amounts in thousands)	June 30, 2013			December 31, 2012		
	Non-covered	Covered	Total	Non-covered	Covered	Total
Commercial loans						
Construction, development, and other land	\$ 5,240	\$ 1,402	\$ 6,642	\$ 405	\$ 1,990	\$ 2,395
Commercial and industrial	5,453	72	5,525	3,912	35	3,947
Multi-family residential	20		20	378		378
Single family non-owner occupied	3,378	26	3,404	7,071	21	7,092
Non-farm, non-residential	7,039	665	7,704	5,938	951	6,889
Agricultural				2		2
Farmland	444		444			
Consumer real estate loans						
Home equity lines	1,305	543	1,848	872	436	1,308
Single family owner occupied	6,160	1,011	7,171	5,219	831	6,050
Owner occupied construction		170	170		59	59
Consumer and other loans						
Consumer loans	86		86	126		126
Other						
Total	29,125	3,889	33,014	23,923	4,323	28,246
Acquired impaired loans				8		8
Total nonaccrual loans	\$ 29,125	\$ 3,889	\$ 33,014	\$ 23,931	\$ 4,323	\$ 28,254

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The following tables present the aging of past due loans, by loan class, at June 30, 2013, and December 31, 2012. Nonaccrual loans, excluding those 0 to 29 days past due, are included in the applicable delinquency category. There were no accruing loans contractually past due 90 days or more at June 30, 2013, and December 31, 2012. Acquired loans that are past due continue to accrue interest through the accretable yield under the accretion method of accounting and therefore are not considered to be nonaccrual.

	June 30, 2013					
	30 - 59 Days Past Due	60 - 89 Days Past Due	90+ Days Past Due	Total Past Due	Current Loans	Total Loans
<i>(Amounts in thousands)</i>						
Non-covered loans						
Commercial loans						
Construction, development, and other land	\$ 322	\$ 194	\$ 4,964	\$ 5,480	\$ 46,718	\$ 52,198
Commercial and industrial	228	37	1,280	1,545	90,903	92,448
Multi-family residential			20	20	59,516	59,536
Single family non-owner occupied	631	679	1,306	2,616	131,591	134,207
Non-farm, non-residential	1,115	914	4,648	6,677	448,547	455,224
Agricultural	11			11	2,382	2,393
Farmland	511	83		594	33,760	34,354
Consumer real estate loans						
Home equity lines	631	39	942	1,612	108,208	109,820
Single family owner occupied	4,129	468	1,768	6,365	466,847	473,212
Owner occupied construction					21,276	21,276
Consumer and other loans						
Consumer loans	390	30	54	474	68,528	69,002
Other	3			3	3,749	3,752
Total non-covered loans	\$ 7,971	\$ 2,444	\$ 14,982	\$ 25,397	\$ 1,482,025	\$ 1,507,422

	June 30, 2013					
	30 - 59 Days Past Due	60 - 89 Days Past Due	90+ Days Past Due	Total Past Due	Current Loans	Total Loans
<i>(Amounts in thousands)</i>						
Covered loans						
Commercial loans						
Construction, development, and other land	\$ 101	\$	\$ 700	\$ 801	\$ 22,266	\$ 23,067
Commercial and industrial	116	21		137	4,275	4,412
Multi-family residential					2,434	2,434
Single family non-owner occupied		93	26	119	9,631	9,750
Non-farm, non-residential			627	627	40,573	41,200
Agricultural					31	31
Farmland		309		309	925	1,234
Consumer real estate loans						
Home equity lines	85	9	162	256	76,876	77,132
Single family owner occupied	884	81	455	1,420	19,047	20,467
Owner occupied construction			170	170	1,468	1,638
Consumer and other loans						
Consumer loans	333			333	2,378	2,711
Other						
Total covered loans	\$ 1,519	\$ 513	\$ 2,140	\$ 4,172	\$ 179,904	\$ 184,076

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

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

The Company's troubled debt restructurings (TDRs) totaled \$11.20 million at June 30, 2013, and \$12.05 million at December 31, 2012, which are reported net of those on nonaccrual status of \$2.77 million and \$3.83 million, respectively. Accruing nonperforming TDRs amounted to \$276 thousand, or 2.46% of total accruing TDRs at June 30, 2013, and \$6.01 million, or 49.88% of total TDRs at December 31, 2012. The allowance for loan losses included reserves related to TDRs of \$2.00 million and \$1.87 million at June 30, 2013, and December 31, 2012, respectively. Interest income recognized on TDRs for the three and six months ended June 30, 2013, totaled \$132 thousand and \$238 thousand, respectively. Interest income recognized on TDRs for the three and six months ended June 30, 2012, totaled \$81 thousand and \$175 thousand, respectively. There were no covered loans recorded as TDRs at June 30, 2013. A loan acquired with credit deterioration through a business combination, for which a discount exists, is generally not considered a TDR as long as the loan remains in the loan pool.

When restructuring loans for borrowers experiencing financial difficulty, the Company generally makes concessions in interest rates, loan terms and/or amortization terms. All restructured loans to borrowers experiencing financial difficulty in excess of \$250 thousand are evaluated for a

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specific reserve based on either the collateral or net present value method, whichever is most applicable. Restructured loans under \$250 thousand are subject to the reserve calculation at the historical loss rate for classified loans. Certain TDRs are classified as nonperforming at time of restructuring and are returned to performing status after six months of satisfactory payment performance; however, these loans remain identified as impaired until full payment or other satisfaction of the obligation occurs.

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The following table presents information for loans modified as TDRs that were restructured during the three and six months ended June 30, 2013 and 2012 by type of concession made and loan class. The post-modification recorded investment represents the loan balance immediately following modification.

(Amounts in thousands)	Three Months Ended June 30,					
	2013			2012		
	Total Contract	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Total Contract	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Extended payment term						
Single family owner occupied				1	\$ 351	\$ 319
Total	\$	\$	1	\$	351	\$ 319

(Amounts in thousands)	Six Months Ended June 30,					
	2013			2012		
	Total Contract	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Total Contract	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Extended payment term						
Single family owner occupied				1	\$ 351	\$ 319
Total	\$	\$	1	\$	351	\$ 319

There were no payment defaults on loans modified as TDRs during the three and six months ended June 30, 2013 or 2012 that were restructured within the previous 12 months.

Note 5. FDIC Indemnification Asset

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

(Amounts in thousands)	2013	2012
Beginning balance, January 1	\$ 48,149	\$
FDIC loss share receivable recorded in Waccamaw acquisition		49,155
Increase in expected losses on loans		
Additional losses on OREO	98	

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Reimbursable expenses	491	
Amortization due to increase in expected cash flows on covered loans	(3,201)	
Reimbursements from the FDIC	(5,148)	
Ending balance, June 30	\$ 40,389	\$ 49,155

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

	June 30, 2013	December 31, 2012
<i>(Amounts in thousands)</i>		
Interest-bearing demand deposits	\$ 354,862	\$ 353,321
Money market deposits	236,102	237,257
Savings deposits	277,679	263,019
Individual retirement accounts	122,752	126,658
Certificates of deposit	647,329	706,568
Total	\$ 1,638,724	\$ 1,686,823

Note 7. Borrowings

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

	June 30, 2013	December 31, 2012
<i>(Amounts in thousands)</i>		
Securities sold under agreements to repurchase	\$ 121,204	\$ 136,118
FHLB borrowings	150,000	161,558
Subordinated debt	15,464	15,464
Other debt	413	413
Total	\$ 287,081	\$ 313,553

Securities sold under agreements to repurchase consisted of retail overnight and term repurchase agreements of \$71.20 million at June 30, 2013, and \$77.92 million at December 31, 2012, and wholesale repurchase agreements of \$50.00 million at June 30, 2013, and \$58.20 million at December 31, 2012. During the first quarter of 2013, the Company prepaid wholesale repurchase agreements totaling \$8.15 million that resulted in a \$79 thousand gain. The weighted average rate of wholesale repurchase agreements was 3.71% at June 30, 2013, and 3.34% at December 31, 2012. Securities sold under agreements to repurchase are collateralized with agency MBS and municipal securities.

FHLB borrowings included convertible and callable advances totaling \$150.00 million at June 30, 2013, and \$155.28 million at December 31, 2012, and fixed rate credit of \$6.27 million at December 31, 2012. During the first quarter of 2013, the Company prepaid FHLB borrowings totaling \$11.47 million that resulted in a \$217 thousand gain. The callable advances may be redeemed at quarterly intervals. These call options may substantially shorten the lives of these instruments. If these advances are called, the debt may be paid in full or converted to another FHLB credit product. Prepayment of the advances may result in substantial penalties based upon the differential between contractual note rates and current advance rates for similar maturities. The weighted average rate of FHLB borrowings was 4.12% at June 30, 2013, and 3.86% at December 31, 2012. Advances from the FHLB were secured by qualifying loans of \$1.04 billion at June 30, 2013, and \$998.14 million at December 31, 2012. At June 30, 2013, unused borrowing capacity with the FHLB totaled \$294.83 million.

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

	Amount
<i>(Amounts in thousands)</i>	
2013	\$
2014	

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2015	
2016	
2017	100,000
2018 and thereafter	50,000
	\$ 150,000

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

Note 8. Defined Benefit Plans

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<i>(Amounts in thousands)</i>				
Service cost	\$ 34	\$ 38	\$ 68	\$ 77
Interest cost	62	50	123	101
Amortization of losses	12	11	24	22
Amortization of prior service cost	47	33	94	67
Net periodic cost	\$ 155	\$ 132	\$ 309	\$ 267

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<i>(Amounts in thousands)</i>				
Service cost	\$ 6	\$ 6	\$ 13	\$ 13
Interest cost	11	10	21	20
Amortization of prior service cost	23	23	45	45
Net periodic cost	\$ 40	\$ 39	\$ 79	\$ 78

Note 9. Derivative Instruments and Hedging Activities

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

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

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

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

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

	June 30, 2013	December 31, 2012	June 30, 2012
<i>(Amounts in thousands)</i>			
Derivatives not designated as hedges			
IRLCs	\$ 9,072	\$ 14,841	\$ 16,604

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

	June 30, 2013		December 31, 2012		June 30, 2012	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<i>(Amounts in thousands)</i>						
Asset derivatives						
Derivatives not designated as hedges						
IRLCs	Other assets	\$ 17	Other assets	\$ 144	Other assets	\$ 206
Total		\$ 17		\$ 144		\$ 206
Liability derivatives						
Derivatives not designated as hedges						
IRLCs	Other liabilities	\$ 163	Other liabilities	\$ 16	Other liabilities	\$ 2
Total		\$ 163		\$ 16		\$ 2

Effect of Derivatives and Hedging Activities on the Income Statement. For the three and six months ended June 30, 2013 and 2012, the Company determined there was no amount of ineffectiveness on cash flow hedges. The following table details gains and losses recognized in income on derivatives for the dates indicated:

	Income Statement Location	Three Months Ended June 30,		Six Months Ended June 30,	
		2013	2012	2013	2012
<i>(Amounts in thousands)</i>					
Derivatives not designated as hedges					
IRLCs	Other income	\$ (439)	\$ 161	\$ (435)	\$ 76
Total		\$ (439)	\$ 161	\$ (435)	\$ 76

Note 10. Fair Value***Financial Instruments Measured at Fair Value***

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

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The fair value hierarchy is as follows:

- | | |
|----------------|--|
| Level 1 Inputs | Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. |
| Level 2 Inputs | Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and provide a reasonable basis for fair value determination, such as interest rates, yield curves, volatilities, prepayment speeds, default rates, and credit risks, or inputs that are derived principally from observable market data. |
| Level 3 Inputs | Unobservable inputs for determining the fair values of assets or liabilities for which there is little, if any, market activity at the measurement date, using reasonable inputs and assumptions based on the best information at the time, to the extent that inputs are available without undue cost and effort. These inputs and assumptions may include model-derived inputs that are not corroborated by observable market data and an entity's own assumptions. |

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

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

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

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

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

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

1, are carried at the fair value of the obligation to the employee, which corresponds to the fair value of the invested assets.

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

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

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

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

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

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

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

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

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

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

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

	Total Fair Value	June 30, 2013 Fair Value Measurements Using		
		Level 1	Level 2	Level 3
<i>(Amounts in thousands)</i>				
Available-for-sale securities:				
U.S. Treasury securities	\$ 9,414	\$	\$ 9,414	\$
Municipal securities	151,981		151,981	
Single issue trust preferred securities	46,182		46,182	
Agency MBS	326,266		326,266	
Non-Agency Alt-A residential MBS	10,884		10,884	
Equity securities	5,431	5,413	18	
 Total available-for-sale securities	 \$ 550,158	 \$ 5,413	 \$ 544,745	 \$
 Deferred compensation assets	 \$ 3,861	 \$ 3,861	 \$	 \$
 Derivatives				
Interest rate lock commitments	\$ 17	\$	\$ 17	\$
 Deferred compensation liabilities	 \$ 3,861	 \$ 3,861	 \$	 \$
 Derivative liabilities				
Interest rate lock commitments	\$ 163	\$	\$ 163	\$

	Total Fair Value	December 31, 2012 Fair Value Measurements Using		
(Amounts in thousands)		Level 1	Level 2	Level 3
Available-for-sale securities:				
Municipal securities	\$ 159,217	\$	\$ 159,217	\$
Single issue trust preferred securities	44,646		44,646	
Agency MBS	315,897		315,897	
Non-Agency Alt-A residential MBS	11,067		11,067	
Equity securities	3,531	3,511	20	
Total available-for-sale securities	\$ 534,358	\$ 3,511	\$ 530,847	\$
Deferred compensation assets	\$ 3,625	\$ 3,625	\$	\$
Derivatives				
Interest rate lock commitments	\$ 144	\$	\$ 144	\$
Deferred compensation liabilities	\$ 3,625	\$ 3,625	\$	\$
Derivative liabilities				
Interest rate lock commitments	\$ 16	\$	\$ 16	\$

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

		June 30, 2013		
	Total	Fair Value Measurements Using		
	Fair Value	Level 1	Level 2	Level 3
<i>(Amounts in thousands)</i>				
Impaired loans not covered by loss share agreements	\$ 6,176			\$ 6,176
OREO not covered by loss share agreements	3,941			3,941
OREO covered by loss share agreements	4,423			4,423

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

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

		Valuation	Unobservable	
	Fair Value at June 30, 2013	Technique	Input	Range (Weighted Average)
(Amounts in thousands)				
Impaired loans	\$ 6,176	Discounted appraisals ⁽¹⁾	Appraisal adjustments ⁽²⁾	1% to 102% (18%)
OREO not covered by loss share agreements	3,941	Discounted appraisals ⁽¹⁾	Appraisal adjustments ⁽²⁾	0% to 75% (34%)
OREO covered by loss share agreements	4,423	Discounted appraisals ⁽¹⁾	Appraisal adjustments ⁽²⁾	1% to 70% (31%)

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

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

Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

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

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

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

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

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

(Amounts in thousands)	Carrying Amount	Fair Value	June 30, 2013		
			Fair Value Measurements Using		
			Level 1	Level 2	Level 3
Assets					
Cash and cash equivalents	\$ 82,119	\$ 82,119	\$ 82,119	\$	\$
Available-for-sale securities	550,158	550,158	5,413	544,745	
Held-to-maturity securities	627	639		639	
Loans held for sale	4,621	4,640		4,640	
Loans held for investment less allowance	1,668,376	1,658,347			1,658,347
FDIC indemnification asset	40,389	40,389			40,389
Accrued interest receivable	8,010	8,010		8,010	
Derivative financial assets	17	17		17	
Deferred compensation assets	3,861	3,861	3,861		
Liabilities					
Demand deposits	\$ 349,972	\$ 349,972	\$	\$ 349,972	\$
Interest-bearing demand deposits	354,862	354,862		354,862	
Savings deposits	513,781	513,781		513,781	
Time deposits	770,081	775,067		775,067	
Securities sold under agreements to repurchase	121,204	124,427		124,427	
Accrued interest payable	2,308	2,308		2,308	
FHLB and other indebtedness	165,877	179,299		179,299	
Derivative financial liabilities	163	163		163	
Deferred compensation liabilities	3,861	3,861	3,861		

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

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

	Unrealized Gains (Losses) on Available-for-Sale Securities	Defined Benefit Pension Plan Items	Total
<i>(Amounts in thousands)</i>			
Three months ended June 30, 2013			
Beginning balance, April 1	\$ (1,181)	\$ (1,739)	\$ (2,920)
Other comprehensive loss before reclassifications	(9,207)	(73)	(9,280)
Amounts reclassified from AOCI	71	51	122
Net comprehensive loss	(9,136)	(22)	(9,158)
Ending balance, June 30	\$ (10,317)	\$ (1,761)	\$ (12,078)
Six months ended June 30, 2013			
Beginning balance, January 1	\$ (283)	\$ (1,542)	\$ (1,825)
Other comprehensive loss before reclassifications	(10,178)	(321)	(10,499)
Amounts reclassified from AOCI	144	102	246
Net comprehensive loss	(10,034)	(219)	(10,253)
Ending balance, June 30	\$ (10,317)	\$ (1,761)	\$ (12,078)

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

Details about AOCI Components	Amount Reclassified from AOCI		Affected Line Item in the Statement Where Net Income is Presented
	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013	
(Amounts in thousands)			
Available-for-sale securities			
	\$ 113	\$ 230	Net gains on sale of securities
			Net impairment losses recognized in earnings
	113	230	Total before tax
	42	86	Income tax expense
	71	144	Total net of tax
Defined benefit pension plan items			
Amortization of prior service costs	70	139	See Note 1 below
Amortization of net losses	12	24	See Note 1 below
	82	163	Total before tax
	31	61	Income tax expense

	51	102	Total net of tax
Total reclassifications	\$ 122	\$ 246	Total net of tax

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

Note 12. Litigation, Commitments and Contingencies

Litigation

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

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Commitments and Contingencies

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case by case basis. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral may include accounts receivable, inventory, property, plant and equipment, and income producing commercial properties. Commitments to extend credit, including availability on lines of credit, totaled \$200.65 million at June 30, 2013, and \$215.77 million at December 31, 2012. Additionally, the Company had gross notional amounts of outstanding commitments related to secondary market mortgage loans of \$9.07 million at June 30, 2013, and \$14.84 million at December 31, 2012.

Standby letters of credit and financial guarantees are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. To the extent deemed necessary, collateral of varying types and amounts is held to secure customer performance under certain of those letters of credit outstanding. Standby letters of credit and financial guarantees totaled \$4.74 million at June 30, 2013, and \$6.81 million at December 31, 2012. The Company maintained a reserve for unfunded lending commitments of \$326 thousand at June 30, 2013, and December 31, 2012.

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

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

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

Forward-Looking Statements

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

the strength of the United States economy in general and the strength of the local economies in which we conduct operations;

the effects of, and changes in, trade, monetary, and fiscal policies and laws, including interest rate policies of the Federal Reserve Board;

inflation, interest rate, market and monetary fluctuations;

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

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

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

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

technological changes;

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

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

unanticipated regulatory or judicial proceedings;

changes in consumer spending and saving habits; and

our success at managing the risks involved in the foregoing.

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

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Company Overview

Our Company is a financial holding company headquartered in Bluefield, Virginia. We operate through our community bank subsidiary, First Community Bank (the **Bank**), which provides financial, trust, and investment advisory services to individuals and commercial customers through seventy-two locations in Virginia, West Virginia, North Carolina, South Carolina, and Tennessee. Our Company is also the parent company of Greenpoint Insurance Group, Inc. (the **Greenpoint**), headquartered in High Point, North Carolina, a full-service insurance agency offering commercial and personal lines of insurance through seven locations in Virginia, West Virginia, and North Carolina. The Bank offers wealth management and investment advice through its Trust and Financial Services Division and First Community Wealth Management, a registered investment advisory firm, with \$900 million in aggregate assets under management as of June 30, 2013. These assets are not assets of our Company, but are managed under various fee-based arrangements as fiduciary or agent. We reported total assets of \$2.65 billion as of June 30, 2013. Our Common Stock is traded on the NASDAQ Global Select Market under the symbol, **FCBC**.

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

Critical Accounting Estimates

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

Dodd-Frank Wall Street Reform and Consumer Protection Act

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

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

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

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

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

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

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

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

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

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

Results Of Operations

Overview

The following list includes significant developments regarding our Company and operations during the second quarter and first six months of 2013:

Net income available to common shareholders increased \$1.39 million and \$2.55 million for the quarter and six months ended June 30, 2013, compared with the same periods of the prior year.

Net interest income increased of \$3.38 million and \$8.76 million for the quarter and six months ended June 30, 2013, compared with the same periods of the prior year.

Diluted earnings per common share increased \$0.05 to \$0.25 for the second quarter of 2013 and \$0.07 to \$0.59 for the six months ended June 30, 2013, compares with the same periods of the prior year.

The tax equivalent net interest margin increased 14 basis points to 4.07% for the second quarter of 2013 and 19 basis points to 4.11% for the six months ended June 30, 2013, compared with the same periods of the prior year.

Net Income

Net income increased \$1.36 million, or 33.28%, to \$5.44 million for the second quarter of 2013 compared with \$4.08 million for the second quarter of 2012. Net income available to common shareholders increased \$1.39 million, or 36.55%, to \$5.18 million for the second quarter of 2013 compared with \$3.80 million for the second quarter of 2012. The increase was largely attributed to growth in earning assets as a result of the Peoples and Waccamaw acquisitions. Basic and diluted earnings per common share for the second quarter of 2013 were \$0.26 and \$0.25, respectively, compared to basic and diluted earnings per common share for the second quarter of 2012 of \$0.20.

Net income increased \$2.50 million, or 24.77%, to \$12.58 million for the first six months of 2013 compared with \$10.08 million for the first six months of 2012. Net income available to common shareholders increased \$2.55 million, or 26.83%, to \$12.07 million for the first six months of 2013 compared with \$9.51 million for the first six months of 2012. The increase was largely attributed to growth in earning assets as a result of the Peoples and Waccamaw acquisitions. Basic and diluted earnings per common share for the first six months of 2013 were \$0.60 and \$0.59, respectively, compared to basic and diluted earnings per common share for the first six months of 2012 of \$0.52.

Net Interest Income Quarterly Comparison (See Table I)

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

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Net interest income, the largest contributor to earnings, increased \$3.38 million, or 17.34%, for the quarter ended June 30, 2013, compared with the same quarter of 2012. Tax equivalent net interest income increased \$3.35 million, or 16.57%, for the second quarter of 2013 compared with the same quarter of 2012. The increase in tax equivalent net interest income was primarily due to growth in average earning assets from the Peoples and Waccamaw acquisitions and reductions in the rates paid on interest-bearing deposits from the sustained low interest rate environment.

Average earning assets increased \$253.72 million and average interest-bearing liabilities increased \$210.71 million for the quarter ended June 30, 2013, compared with the same quarter of 2012. The yield on average earning assets increased 1 basis point for the second quarter of 2013 compared with the same quarter of 2012. The average rate paid on interest-bearing liabilities decreased 16 basis points for the quarter ended June 30, 2013, compared with the same quarter of 2012. Average balances and interest yield/rate changes for earning assets and interest-bearing liabilities resulted in a net interest rate spread that was 17 basis points higher for the second quarter of 2013 compared with the same quarter of 2012. Our net interest margin increased 14 basis points for the quarter ended June 30, 2013, compared with the same quarter of 2012.

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The tax equivalent yield on loans increased 20 basis points for the quarter ended June 30, 2013, compared with the same quarter of 2012. Tax equivalent loan interest income increased \$3.41 million, or 16.32%, for the second quarter of 2013 compared with the same quarter of 2012. Interest on loans for the second quarter of 2013 includes accretion of \$3.76 million related to the Peoples and Waccamaw acquisitions. The Company expects the purchase accounting interest accretion to decline in future periods based on acquired portfolio attrition.

The tax equivalent yield on available-for-sale securities decreased 48 basis points for the quarter ended June 30, 2013, compared with the same quarter of 2012. This decrease was primarily due to the reinvestment of proceeds from sales, maturities, prepayments, and cash in lower yielding securities. The average balance of held-to-maturity securities continued to decline as securities were called or matured and were not replaced.

The tax equivalent yield on interest-bearing deposits with banks decreased 9 basis points for the second quarter of 2013 compared with the same quarter of 2012. Interest-bearing deposits with banks are comprised primarily of excess liquidity kept at the Federal Reserve that bears overnight market rates.

The average balance of interest-bearing demand deposits increased \$65.35 million, or 22.03%, and the average rate paid on those deposits increased 1 basis point for the second quarter of 2013 compared with the same quarter of 2012. The average balance of savings deposits increased \$95.04 million, or 22.56%, and the average rate paid on those deposits remained constant at 11 basis points for the quarter ended June 30, 2013, compared with the same quarter of 2012. The average balance of time deposits increased \$64.51 million, or 8.96%, and the average rate paid on those deposits decreased 17 basis points for the quarter ended June 30, 2013, compared with the same quarter of 2012. The average balance of noninterest-bearing demand deposits increased \$74.12 million, or 27.44%, for the second quarter of 2013 compared with the same quarter of 2012.

The average balance of federal funds purchased totaled \$4 thousand for the second quarter of 2013, compared to no federal funds purchased for the same quarter of 2012. The average balance of retail repurchase agreements, including collateralized retail deposits and commercial treasury accounts, decreased \$1.24 million, or 1.67%, and the average rate paid on those funds decreased 4 basis points for the quarter ended June 30, 2013, compared with the same quarter of 2012. The average balance of wholesale repurchase agreements decreased \$4.19 million, or 7.74%, and the average rate paid on those funds increased 27 basis points for the quarter ended June 30, 2013, compared with the same quarter of 2012. The average balance of FHLB and other borrowings decreased \$8.75 million, or 5.01%, and the average rate paid on those funds increased 6 basis points for the quarter ended June 30, 2013, compared with the same quarter of 2012. The changes in the average balances and costs of wholesale repurchase agreements and FHLB advances were primarily due to borrowings acquired from the Waccamaw acquisition being paid off during the first quarter of 2013.

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

Net interest income increased \$8.76 million, or 23.39%, for the six months ended June 30, 2013, compared with the same period of 2012. Tax equivalent net interest income increased \$8.75 million, or 22.50%, for the first six months of 2013 compared with the same period of 2012. The increase in tax equivalent net interest income was primarily due to growth in average earning assets from the Peoples and Waccamaw acquisitions and reductions in the rates paid on interest-bearing deposits from the sustained low interest rate environment.

Average earning assets increased \$342.91 million and average interest-bearing liabilities increased \$296.32 million for the six months ended June 30, 2013, compared with the same period of 2012. The yield on average earning assets increased 3 basis points for the first six months of 2013 compared with the same period of 2012. The average rate paid on interest-bearing liabilities decreased 19 basis points for the six months ended June 30, 2013, compared with the same period of 2012. Average balances and interest yield/rate changes for earning assets and interest-bearing liabilities resulted in a net interest rate spread that was 22 basis points higher for the first six months of 2013 compared with the same period of 2012. Our net interest margin increased 19 basis points for the six months ended June 30, 2013, compared with the same period of 2012.

The tax equivalent yield on loans increased 26 basis points for the six months ended June 30, 2013, compared with the same period of 2012. Tax equivalent loan interest income increased \$8.89 million, or 22.06%, for the first six months of 2013 compared with the same period of 2012. Interest on loans for the first six months of 2013 includes accretion of \$7.61 million related to the Peoples and Waccamaw acquisitions.

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The tax equivalent yield on available-for-sale securities decreased 47 basis points for the six months ended June 30, 2013, compared with the same period of 2012. This decrease was primarily due to the reinvestment of proceeds from sales, maturities, prepayments, and cash in lower yielding securities. The average balance of held-to-maturity securities continued to decline as securities were called or matured and were not replaced.

The tax equivalent yield on interest-bearing deposits with banks decreased 10 basis points for the six months ended June 30, 2013, compared with the same period of 2012. Interest-bearing deposits with banks are comprised primarily of excess liquidity kept at the Federal Reserve that bears overnight market rates.

The average balance of interest-bearing demand deposits increased \$68.09 million, or 23.50%, and the average rate paid on those deposits increased 1 basis point for the first six months of 2013 compared with the same period of 2012. The average balance of savings deposits increased \$102.72 million, or 25.15%, and the average rate paid on those deposits increased 1 basis point for the six months ended June 30, 2013, compared with the same period of 2012. The average balance of time deposits increased \$123.00 million, or 18.17%, and the average rate paid on those deposits decreased 26 basis points for the six months ended June 30, 2013, compared with the same period of 2012. The average balance of noninterest-bearing demand deposits increased \$83.75 million, or 32.91%, for the first six months of 2013 compared with the same period of 2012.

The average balance of retail repurchase agreements, including collateralized retail deposits and commercial treasury accounts, increased \$1.16 million, or 1.58%, and the average rate paid on those funds decreased 5 basis points for the six months ended June 30, 2013, compared with the same period of 2012. The average balance of wholesale repurchase agreements increased \$1.71 million, or 3.27%, and the average rate paid on those funds decreased 9 basis points for the six months ended June 30, 2013, compared with the same period of 2012. The average balance of FHLB and other borrowings increased \$627 thousand, or 0.37%, and the average rate paid on those funds decreased 9 basis points for the six months ended June 30, 2013, compared with the same period of 2012.

Table of Contents**Table I****Average Balance Sheets and Net Interest Income Analysis
Three Months Ended June 30,**

<i>(Amounts in thousands)</i>	Average Balance	2013 Interest (1)	Average Yield/ Rate (1)	Average Balance	2012 Interest (1)	Average Yield/ Rate (1)
Assets						
Earning assets						
Loans ⁽²⁾	\$ 1,692,248	\$ 24,308	5.76%	\$ 1,512,451	\$ 20,897	5.56%
Securities available-for-sale	547,411	3,712	2.72%	486,742	3,872	3.20%
Securities held-to-maturity	690	14	8.14%	3,477	63	7.29%
Interest-bearing deposits	83,168	71	0.34%	67,129	72	0.43%
Total earning assets	2,323,517	28,105	4.85%	2,069,799	24,904	4.84%
Other assets	355,778			290,768		
Total assets	\$ 2,679,295			\$ 2,360,567		
Liabilities						
Interest-bearing deposits						
Demand deposits	\$ 361,993	\$ 59	0.07%	\$ 296,647	\$ 43	0.06%
Savings deposits	516,375	148	0.11%	421,331	119	0.11%
Time deposits	784,078	2,077	1.06%	719,570	2,198	1.23%
Total interest-bearing deposits	1,662,446	2,284	0.55%	1,437,548	2,360	0.66%
Borrowings						
Federal funds purchased	4		0.00%			
Retail repurchase agreements	73,408	100	0.55%	74,651	110	0.59%
Wholesale repurchase agreements	50,000	468	3.75%	54,194	469	3.48%
FHLB advances and other borrowings	165,877	1,698	4.11%	174,629	1,759	4.05%
Total borrowings	289,289	2,266	3.14%	303,474	2,338	3.10%
Total interest-bearing liabilities	1,951,735	4,550	0.93%	1,741,022	4,698	1.09%
Noninterest-bearing demand deposits	344,180			270,065		
Other liabilities	18,163			25,486		
Total liabilities	2,314,078			2,036,573		
Stockholders' equity	365,217			323,994		
Total liabilities and stockholders' equity	\$ 2,679,295			\$ 2,360,567		
Net interest income, tax equivalent		\$ 23,555			\$ 20,206	
Net interest rate spread ⁽³⁾			3.92%			3.75%
Net interest margin ⁽⁴⁾			4.07%			3.93%

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

(2) Nonaccrual loans are included in average balances outstanding but with no related interest income during the period of nonaccrual.

- (3) Represents the difference between the yield on earning assets and cost of funds.
- (4) Represents tax equivalent net interest income divided by average earning assets.

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

<i>(Amounts in thousands)</i>	Average Balance	2013 Interest (1)	Average Yield/ Rate (1)	Average Balance	2012 Interest (1)	Average Yield/ Rate (1)
Assets						
Earning assets						
Loans ⁽²⁾	\$ 1,699,196	\$ 49,196	5.84%	\$ 1,453,348	\$ 40,304	5.58%
Securities available-for-sale	546,053	7,440	2.75%	482,550	7,729	3.22%
Securities held-to-maturity	753	30	8.03%	3,357	125	7.49%
Interest-bearing deposits	90,987	138	0.31%	54,827	111	0.41%
Total earning assets	2,336,989	56,804	4.90%	1,994,082	48,269	4.87%
Other assets	354,107			273,203		
Total assets	\$ 2,691,096			\$ 2,267,285		
Liabilities						
Interest-bearing deposits						
Demand deposits	\$ 357,858	\$ 115	0.06%	\$ 289,767	\$ 74	0.05%
Savings deposits	511,175	302	0.12%	408,459	229	0.11%
Time deposits	799,980	4,229	1.07%	676,980	4,462	1.33%
Total interest-bearing deposits	1,669,013	4,646	0.56%	1,375,206	4,765	0.70%
Borrowings						
Federal funds purchased	2		0.00%	985	2	0.00%
Retail repurchase agreements	74,573	206	0.56%	73,411	224	0.61%
Wholesale repurchase agreements	53,802	943	3.53%	52,097	938	3.62%
FHLB advances and other borrowings	170,879	3,397	4.01%	170,252	3,474	4.10%
Total borrowings	299,256	4,546	3.06%	296,745	4,638	3.14%
Total interest-bearing liabilities	1,968,269	9,192	0.94%	1,671,951	9,403	1.13%
Noninterest-bearing demand deposits	338,216			254,464		
Other liabilities	21,218			23,476		
Total liabilities	2,327,703			1,949,891		
Stockholders' equity	363,393			317,394		
Total liabilities and stockholders' equity	\$ 2,691,096			\$ 2,267,285		
Net interest income, tax equivalent		\$ 47,612			\$ 38,866	
Net interest rate spread ⁽³⁾			3.96%			3.74%
Net interest margin ⁽⁴⁾			4.11%			3.92%

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

(2) Nonaccrual loans are included in average balances outstanding but with no related interest income during the period of nonaccrual.

- (3) Represents the difference between the yield on earning assets and cost of funds.
- (4) Represents tax equivalent net interest income divided by average earning assets.

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The following table summarizes the changes in tax equivalent interest earned and paid detailing the amounts attributable to (i) changes in volume (change in the average volume times the prior year's average rate), (ii) changes in rate (changes in the average rate times the prior year's average volume), and (iii) changes in rate/volume (change in the average volume column times the change in average rate):

	Three Months Ended June 30, 2013 Compared to 2012 Dollar Increase (Decrease) due to				Six Months Ended June 30, 2013 Compared to 2012 Dollar Increase (Decrease) due to			
	Volume	Rate	Rate/ Volume	Total	Volume	Rate	Rate/ Volume	Total
<i>(Amounts in thousands)</i>								
Interest earned on:								
Loans (FTE)	\$ 2,491	\$ 771	\$ 149	\$ 3,411	\$ 6,818	\$ 1,886	\$ 188	\$ 8,892
Securities available-for-sale (FTE)	484	(582)	(62)	(160)	1,017	(1,133)	(173)	(289)
Securities held-to-maturity (FTE)	(50)	7	(6)	(49)	(97)	9	(7)	(95)
Interest-bearing deposits with other banks	17	(15)	(3)	(1)	74	(28)	(19)	27
Total interest earning assets	2,942	181	78	3,201	7,812	734	(11)	8,535
Interest paid on:								
Demand deposits	9	5	2	16	17	20	4	41
Savings deposits	27	1	1	29	58	13	2	73
Time deposits	198	(298)	(21)	(121)	811	(871)	(173)	(233)
Federal funds purchased							(2)	(2)
Retail repurchase agreements	(1)	(9)		(10)	4	(21)	(1)	(18)
Wholesale repurchase agreements	(36)	37	(2)	(1)	31	(23)	(3)	5
FHLB advances and other borrowings	(89)	24	4	(61)	13	(80)	(10)	(77)
Total interest-bearing liabilities	108	(240)	(16)	(148)	934	(962)	(183)	(211)
Change in net interest income, tax equivalent	\$ 2,834	\$ 421	\$ 94	\$ 3,349	\$ 6,878	1,696	172	8,746

Provision for Loan Losses

The provision for loan losses is determined by management as the amount to be added to the allowance for loan losses after net charge-offs have been deducted to bring the allowance to a level which, in management's best estimate, is necessary to absorb probable losses within the existing loan portfolio. The provision for loan losses of \$3.21 million for the second quarter of 2013 was an increase of \$1.59 million compared with the same quarter of 2012. We incurred net charge-offs of \$4.93 million for the quarter ended June 30, 2013, compared with \$1.25 million for the same quarter of 2012. The increase in charge-offs during the second quarter of 2013 was primarily due to four loan relationships with the most significant being a \$2.10 million write down of a relationship within the construction, development, and other land loan class. The Company had previously identified this problem relationship and had established a \$1.80 million specific allocation that was utilized for the write down. Annualized net charge-offs as a percentage of average non-covered loans were 1.31% for the quarter ended June 30, 2013, compared with 0.38% for the same quarter of 2012. Non-covered loans exclude loans acquired in the Waccamaw transaction that are covered under the FDIC loss share agreements.

The provision for loan losses of \$4.35 million for the first six months of 2013 was an increase of \$1.81 million compared with the same period of 2012. We incurred net charge-offs of \$7.00 million for the six months ended June 30, 2013, compared with \$2.58 million for the same period of 2012. Annualized net charge-offs as a percentage of average non-covered loans were 0.95% for the six months ended June 30, 2013, compared with 0.38% for the same period of 2012.

Noninterest Income Quarterly Comparison

Noninterest income, which consists of all revenues not included in interest and fee income related to earning assets, decreased \$1.50 million, or 17.92%, for the quarter ended June 30, 2013, compared with the same quarter of 2012. Exclusive of the impact of gains and losses on the sale of securities and indemnification asset amortization, noninterest income increased \$45 thousand to \$8.40 million for the quarter ended June 30,

2013, compared with \$8.35 million for the same quarter of 2012.

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Wealth management revenues, including fees and commissions for trust services and investment advisory services, increased \$31 thousand, or 3.30%, for the quarter ended June 30, 2013, compared with the same quarter of 2012. Service charges on deposit accounts decreased \$14 thousand for the quarter ended June 30, 2013, compared with the same quarter of 2012. Other service charges, commissions, and fees increased \$229 thousand, or 14.64%, for the quarter ended June 30, 2013, compared with the same quarter of 2012. Insurance commissions decreased \$28 thousand, or 2.10%, for the quarter ended June 30, 2013, compared with the same quarter of 2012.

We realized a net gain on sale of securities of \$113 thousand for the quarter ended June 30, 2013, which was a \$122 thousand increase from a net loss of \$9 thousand in the same quarter of 2012. During the second quarter of 2013, amortization associated with the FDIC indemnification asset totaled \$1.66 million. Other operating income decreased \$173 thousand, or 14.62%, for the quarter ended June 30, 2013, compared with the same quarter of 2012. Other operating income included a negative fair value mark of \$439 thousand on loans held for sale and the associated secondary market loan production pipeline for the second quarter of 2013 compared to a positive mark of \$161 thousand recorded for the second quarter of 2012.

Noninterest Income Year-to-Date Comparison

Noninterest income decreased \$1.63 million, or 9.95%, for the six months ended June 30, 2013, compared with the same period of 2012. Exclusive of the impact of gains on the sale of securities, prepaid borrowings, and indemnification asset amortization, noninterest income increased \$1.09 million, or 6.70%, to \$17.38 million for the six months ended June 30, 2013, compared with \$16.29 million for the same period of 2012.

Wealth management revenues, including fees and commissions for trust services and investment advisory services, decreased \$17 thousand for the six months ended June 30, 2013, compared with the same period of 2012. Service charges on deposit accounts increased \$141 thousand, or 2.22%, for the six months ended June 30, 2013, compared with the same period of 2012. Other service charges, commissions, and fees increased \$430 thousand, or 13.66%, for the six months ended June 30, 2013, compared with the same period of 2012. Insurance commissions increased \$62 thousand, or 2.13%, for the six months ended June 30, 2013, compared with the same period of 2012.

We realized a net gain on sale of securities of \$230 thousand for the six months ended June 30, 2013, which was a \$188 thousand increase from the same period of 2012. During the first six months of 2013, amortization associated with the FDIC indemnification asset totaled \$3.20 million. Other operating income increased \$772 thousand, or 37.57%, for the six months ended June 30, 2013, compared with the same period of 2012. The increase was primarily due to a \$296 thousand gain on the prepayment of borrowings and \$120 thousand received for insurance agencies earn-out payments. Other operating income included a negative fair value mark of \$435 thousand on loans held for sale and the associated secondary market loan production pipeline for the six months ended June 30, 2013, compared to a positive mark of \$76 thousand recorded for the same period of 2012.

Noninterest Expense Quarterly Comparison

Noninterest expense decreased \$1.60 million, or 7.94%, for the second quarter of 2013 compared with the same quarter of 2012. Salaries and employee benefits increased \$1.07 million, or 12.01%, for the quarter ended June 30, 2013, compared with the same quarter of 2012. Salaries and employee benefits attributed to the Peoples and Waccamaw acquisitions completed during the second quarter of 2012 totaled \$1.32 million during the second quarter of 2013, which represents an increase of \$831 thousand for the quarter ended June 30, 2013, compared with the same quarter of 2012. At June 30, 2013, we had 737 full-time equivalent employees compared to 771 at June 30, 2012. The Peoples and Waccamaw acquisitions resulted in the addition of 97 and 129 full-time equivalent employees for the periods ended June 30, 2013, and June 30, 2012, respectively.

Occupancy, furniture, and equipment expense increased \$466 thousand, or 17.73%, to \$3.10 million for the quarter ended June 30, 2013, compared with \$2.63 million for the same quarter of 2012 as a result of our expanded branch network in connection with the Peoples and Waccamaw acquisitions. FDIC premiums and assessments increased \$179 thousand, or 61.72%, for the quarter ended June 30, 2013, compared with the same quarter of 2012. In connection with the Peoples and Waccamaw acquisitions, we incurred \$8 thousand in merger related costs for the quarter ended June 30, 2013, compared to \$3.42 million for the same quarter of 2013. Other operating expense increased \$105 thousand, or 2.23%, for the quarter ended June 30, 2013, compared with the same quarter of 2012. The increase in other operating expense was primarily due to our expanded branch network. These increases were offset by a \$100 thousand decrease in expenses and net losses associated with other real estate owned (OREO) to \$170 thousand for the second quarter of 2013, compared with \$270 thousand for the same quarter of 2012.

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Noninterest Expense Year-to-Date Comparison

Noninterest expense increased \$1.75 million, or 4.82%, for the first six months of 2013 compared with the same period of 2012. Salaries and employee benefits increased \$2.96 million, or 17.27%, for the six months ended June 30, 2013, compared with the same period of 2012. Salaries and employee benefits attributed to the Peoples and Waccamaw acquisitions totaled \$2.57 million during the six months ended June 30, 2013, which represents an increase of \$2.08 million for the six months ended June 30, 2013, compared with the same period of 2012.

Occupancy, furniture, and equipment expense increased \$1.33 million or 26.72%, to \$6.29 million for the six months ended June 30, 2013, compared with \$4.97 million for the same period of 2012 as a result of our expanded branch network in connection with the Peoples and Waccamaw acquisitions. FDIC premiums and assessments increased \$329 thousand, or 53.76%, for the six months ended June 30, 2013, compared with the same period of 2012. In connection with the Peoples and Waccamaw acquisitions, we incurred \$57 thousand in merger related costs for the six months ended June 30, 2013, compared to \$3.58 million for the same period of 2012. Other operating expense increased \$725 thousand, or 7.53%, for the six months ended June 30, 2013, compared with the same period of 2012. The increase in other operating expense was primarily due to our expanded branch network. These increases were offset by a \$296 thousand decrease in expenses and net losses associated with other real estate owned (OREO) to \$795 thousand for the first six months of 2013, compared with \$1.09 million for the same period of 2012.

Income Tax Expense

Income tax as a percentage of pretax income may vary significantly from statutory rates due to permanent differences, which are items of income and expense excluded by law from the calculation of taxable income. Our most significant permanent differences include income on municipal securities, which are exempt from federal income tax; certain dividend payments, which are deductible; and increases in the cash surrender value of life insurance policies. Consolidated income taxes were \$2.54 million for the second quarter of 2013 compared to \$2.00 million for the same quarter of 2012. The effective tax expense rates for the quarters ended June 30, 2013 and 2012 were 31.82% and 32.87%, respectively.

Consolidated income taxes were \$5.93 million for the first six months of 2013 compared to \$4.85 million for the same period of 2012. The effective tax expense rates for the six months ended June 30, 2013 and 2012 were 32.05% and 32.48%, respectively.

Financial Condition

Total assets were \$2.65 billion as of June 30, 2013, a decrease of \$78.13 million, or 2.86%, compared with \$2.73 billion at December 31, 2012. Total liabilities were \$2.30 billion as of June 30, 2013, a decrease of \$73.45 million, or 3.11%, compared with \$2.37 billion at December 31, 2012. As of June 30, 2013, our book value per as-converted common share was \$16.63, a decrease of \$0.13, compared with December 31, 2012.

Investment Securities

Available-for-Sale Securities

Available-for-sale securities as of June 30, 2013, increased \$15.80 million, or 2.96%, compared with December 31, 2012. The market value of securities available-for-sale as a percentage of amortized cost was 97.09% at June 30, 2013, compared with 99.92% at December 31, 2012.

We recognized no other-than-temporary impairment (OTTI) charges in earnings related to nonbeneficial interest debt securities or beneficial interest debt securities during the three and six months ended June 30, 2013 and 2012. We incurred no OTTI charges on equity securities during the three and six months ended June 30, 2013 and 2012. See Note 2, Investment Securities, of the Notes to Condensed Consolidated Financial Statements in Item 1, Financial Statements, herein for additional information.

Held-to-Maturity Securities

Held-to-maturity securities as of June 30, 2013, decreased \$189 thousand, or 23.16%, compared with December 31, 2012. The market value of securities held-to-maturity as a percentage of amortized cost was 101.91% at June 30, 2013, compared with 101.96% at December 31, 2012.

Table of Contents**Loan Portfolio***Loans Held for Sale*

Loans held for sale as of June 30, 2013, decreased \$2.05 million, or 30.74% compared with December 31, 2012. Loans held for sale consist of mortgage loans sold on a best efforts basis into the secondary loan market; accordingly, we do not retain the interest rate risk involved in these long-term commitments. The gross notional amount of outstanding commitments related to secondary market mortgage loans at June 30, 2013, was \$9.07 million for 51 loans compared to \$14.84 million for 88 loans at December 31, 2012. The Company recorded a negative fair value mark on loans held for sale and the associated secondary market mortgage loan pipeline during the second quarter of 2013 as a result of higher benchmark and mortgage interest rates reported at the end of the quarter.

Loans Held for Investment

Loans held for investment as of June 30, 2013, decreased \$33.16 million, or 1.92%, compared with December 31, 2012, and \$115.59 million, or 6.40%, compared with June 30, 2012. The decrease was primarily due to runoff in the loan portfolio covered under the FDIC loss share agreements. The average loan to deposit ratio was 84.33% for the second quarter of 2013 compared to 85.71% for the fourth quarter of 2012, and 88.57% for the second quarter of 2012. The held for investment portfolio continues to be diversified among loan types and industry segments. The following table details the loan portfolio for the dates indicated:

	June 30, 2013		December 31, 2012		June 30, 2012	
	Amount	Percent	Amount	Percent	Amount	Percent
<i>(Amounts in thousands)</i>						
Covered loans	\$ 184,076	10.88%	\$ 207,106	12.01%	\$ 238,777	13.21%
Non-covered loans						
Commercial loans						
Construction, development, and other land	52,198	3.09%	57,434	3.33%	53,997	2.99%
Commercial and industrial	92,448	5.47%	88,738	5.15%	99,364	5.50%
Multi-family residential	59,536	3.52%	65,694	3.81%	86,040	4.76%
Single family non-owner occupied	134,207	7.93%	135,912	7.88%	140,684	7.79%
Non-farm, non-residential	455,224	26.91%	448,810	26.02%	453,820	25.12%
Agricultural	2,393	0.14%	1,709	0.10%	1,643	0.09%
Farmland	34,354	2.03%	34,570	2.00%	38,423	2.13%
Total commercial loans	830,360	49.09%	832,867	48.29%	873,971	48.38%
Consumer real estate loans						
Home equity lines	109,820	6.49%	111,081	6.44%	115,843	6.41%
Single family owner occupied	473,212	27.98%	473,547	27.46%	466,450	25.81%
Owner occupied construction	21,276	1.26%	16,223	0.94%	30,417	1.68%
Total consumer real estate loans	604,308	35.73%	600,851	34.84%	612,710	33.90%
Consumer and other loans						
Consumer loans	69,002	4.08%	78,163	4.53%	75,781	4.19%
Other	3,752	0.22%	5,666	0.33%	5,850	0.32%
Total consumer and other loans	72,754	4.30%	83,829	4.86%	81,631	4.51%
Total non-covered loans	1,507,422	89.12%	1,517,547	87.99%	1,568,312	86.79%
Total loans held for investment	\$ 1,691,498	100.00%	\$ 1,724,653	100.00%	\$ 1,807,089	100.00%
Loans held for sale	\$ 4,621		\$ 6,672		\$ 1,179	

Allowance for Loan Losses

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

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

Our allowance for loan losses totaled \$23.12 million at June 30, 2013, \$25.77 million at December 31, 2012, and \$26.17 million at June 30, 2012. The allowance for loan losses as a percentage of non-covered loans held for investment was 1.53% at June 30, 2013, 1.70% at December 31, 2012, and 1.67% at June 30, 2012. Specific reserves within the allowance declined between December 31, 2012, and June 30, 2013, due, in part, to a \$1.80 million specific allocation on a loan in the construction, development, and other land loan class utilized for a \$2.10 million write down taken on the loan. No additional reserve has been made for this loan and no additional loss is expected. General reserves were flat for the quarter due to downward qualitative factor adjustments related to improving regional economic conditions and enhanced retail credit policies. The cash flow analysis performed for the second quarter of 2013 identified one of the Company's seven purchased credit impaired loan pools as impaired with an impairment of \$367 thousand at June 30, 2013. The portfolio will continue to be monitored for deterioration in credit, which may result in the need to record an allowance for loan losses in a future period.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<i>(Amounts in thousands)</i>				
Beginning balance	\$ 24,850	\$ 25,800	\$ 25,770	\$ 26,205
Provision for loan losses	3,205	1,620	4,347	2,542
Charge-offs	(5,006)	(1,612)	(7,765)	(3,174)
Recoveries	73	363	770	598
Net charge-offs	(4,933)	(1,249)	(6,995)	(2,576)
Ending balance	\$ 23,122	\$ 26,171	\$ 23,122	\$ 26,171
Non-covered loans				
Annualized net charge-offs to average loans	1.31%	0.38%	0.95%	0.38%
Allowance for loan losses to total loans	1.53%	1.67%	1.53%	1.67%

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Risk Elements

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

(Amounts in thousands)	June 30, 2013	December 31, 2012	June 30, 2012
Non-covered loans			
Nonaccrual loans	\$ 29,125	\$ 23,931	\$ 27,947
Accruing loans past due 90 days or more			
TDRs ⁽¹⁾	276	6,009	469
Total nonperforming loans	29,401	29,940	28,416
OREO not covered under FDIC loss share agreements	4,743	5,749	4,938
Total nonperforming assets	\$ 34,144	\$ 35,689	\$ 33,354
Covered loans			
Nonaccrual loans	\$ 3,889	\$ 4,323	\$
Accruing loans past due 90 days or more			
Total nonperforming loans	3,889	4,323	
OREO covered under FDIC loss share agreements	6,407	3,255	5,325
Total nonperforming assets	\$ 10,296	\$ 7,578	\$ 5,325
Total loans			
Nonaccrual loans	\$ 33,014	\$ 28,254	\$ 27,947
Accruing loans past due 90 days or more			
TDRs ⁽¹⁾	276	6,009	469
Total nonperforming loans	33,290	34,263	28,416
OREO	11,150	9,004	10,263
Total nonperforming assets	\$ 44,440	\$ 43,267	\$ 38,679
Performing TDRs ⁽²⁾	\$ 10,927	\$ 6,038	\$ 6,995
Total TDRs ⁽³⁾	\$ 11,203	12,047	\$ 7,464
Non-covered loans			
Nonperforming loans to total loans	1.95%	1.97%	1.81%
Nonperforming assets to total assets	1.39%	1.42%	1.30%
Allowance for loan losses to nonperforming loans	78.64%	86.07%	92.10%
Total loans (includes covered assets)			
Nonperforming loans to total loans	1.97%	1.99%	1.57%
Nonperforming assets to total assets	1.68%	1.59%	1.38%
Allowance for loan losses to nonperforming loans	69.46%	75.21%	92.10%

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- (1) TDRs restructured within the past six months or nonperforming, excluding nonaccrual TDRs of \$1.25 million, \$3.04 million, and \$4.76 million at June 30, 2013, December 31, 2012, and June 30, 2012, respectively.
- (2) TDRs with six months or more of satisfactory payment performance, excluding nonaccrual TDRs of \$1.52 million, \$792 thousand, and \$20 thousand at June 30, 2013, December 31, 2012, and June 30, 2012, respectively.
- (3) Performing and nonperforming TDRs, excluding nonaccrual TDRs of \$2.77 million, \$3.83 million, and \$4.78 million at June 30, 2013, December 31, 2012, and June 30, 2012, respectively.

Non-covered loans exclude loans acquired in the Waccamaw transaction that are covered under the FDIC loss share agreements. The increase in non-covered nonaccrual loans between December 31, 2012, and June 30, 2013, can primarily be attributed to two loans in the construction, development, and other land loan class totaling \$4.25 million and one loan in the non-farm, non-residential loan class secured by a retail shopping center that totaled \$1.25 million. Non-covered nonperforming assets totaled \$34.14 million at June 30, 2013, a \$1.55 million decrease from December 31, 2012, and a \$790 thousand increase over June 30, 2012. Non-covered nonperforming assets as a percentage of total non-covered assets were 1.39% at June 30, 2013, 1.42% at December 31, 2012, and 1.30% at June 30, 2012.

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Non-covered nonaccrual loans totaled \$29.13 million at June 30, 2013, \$23.93 million at December 31, 2012, and \$27.95 million at June 30, 2012. As of June 30, 2013, non-covered nonaccrual loans were largely attributed to the following loan classes: non-farm, non-residential (24.17%); single family owner occupied (21.15%); commercial and industrial (18.72%); and commercial construction (17.99%). Approximately \$5.44 million, or 18.68%, of non-covered nonaccrual loans were attributed to loans acquired in business combinations at June 30, 2013. Certain loans included in the nonaccrual category have been written down to the estimated realizable value or assigned specific reserves within the allowance for loan losses based upon management's estimate of loss at ultimate resolution.

When restructuring loans for borrowers experiencing financial difficulty, we generally make concessions in interest rates, loan terms, and/or amortization terms. Certain TDRs are classified as nonperforming at time of restructuring and are returned to performing status after six months of satisfactory payment performance; however, these loans remain identified as impaired until full payment or other satisfaction of the obligation occurs. Accruing TDRs totaled \$11.20 million at June 30, 2013, \$12.05 million at December 31, 2012, and \$7.46 million at June 30, 2012. Accruing nonperforming TDRs amounted to \$276 thousand, or 2.46%, of total accruing TDRs as of June 30, 2013, as compared to 49.88% of accruing TDRs at December 31, 2012, and 6.28% of accruing TDRs at June 30, 2012. The allowance for loan losses attributed to TDRs totaled \$2.00 million at June 30, 2013, \$1.87 million at December 31, 2012, and \$675 thousand at June 30, 2012.

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

Non-covered OREO, which is carried at the lesser of estimated net realizable value or cost, totaled \$4.74 million as of June 30, 2013, a decrease of \$1.01 million, or 17.50%, compared with December 31, 2012. As of June 30, 2013, non-covered OREO consisted of 53 properties with an average holding period of 10 months. During the second quarter of 2013 the net gain on OREO totaled \$58 thousand, while the net loss on OREO totaled \$342 thousand for the first six months of 2013. Covered OREO is pursuant to the FDIC Loss Share Agreements and is presented net of the related fair value discount. The following table details activity within OREO for the periods indicated:

	Non-covered	Covered	Total
<i>(Amounts in thousands)</i>			
Beginning balance, January 1, 2013	\$ 5,749	\$ 3,255	\$ 9,004
Acquired			
Additions	4,515	4,808	9,323
Disposals	(4,839)	(1,257)	(6,096)
Valuation adjustments	(682)	(399)	(1,081)
Ending balance, June 30, 2013	\$ 4,743	\$ 6,407	\$ 11,150

	Non-covered	Covered	Total
<i>(Amounts in thousands)</i>			
Beginning balance, January 1, 2012	\$ 5,914	\$ 5,914	\$ 5,914
Acquired		5,388	5,388
Additions	3,311		3,311
Disposals	(3,593)		(3,593)
Valuation adjustments	(694)	(63)	(757)
Ending balance, June 30, 2012	\$ 4,938	\$ 5,325	\$ 10,263

Non-covered delinquent loans, comprised of loans 30 days or more past due and nonaccrual loans, totaled \$38.12 million as of June 30, 2013, a decrease of \$880 thousand, or 2.26%, compared with December 31, 2012. Non-covered delinquent loans as a percentage of total non-covered loans measured 2.53% at June 30, 2013, of which loans 30 to 89 days past due comprised 0.60% and nonaccrual loans comprised 1.93%. Non-covered nonperforming loans, comprised of nonaccrual loans, nonperforming TDRs, and unseasoned TDRs, as a percentage of total non-covered loans were 1.95% at June 30, 2013, 1.97% at December 31, 2012, and 1.81% at June 30, 2012.

Deposits

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Total deposits as of June 30, 2013, decreased \$41.48 million, or 2.04%, compared with December 31, 2012. Noninterest-bearing deposits and interest-bearing demand deposits as of June 30, 2013, increased \$6.62 million and \$1.54 million, respectively, compared with December 31, 2012. Savings deposits, which include money market accounts and savings accounts, as of June 30, 2013, increased \$13.51 million compared with December 31, 2012. Time deposits as of June 30, 2013, decreased \$63.15 million compared with December 31, 2012.

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Our borrowings consist primarily of securities sold under agreements to repurchase and FHLB advances. Short-term borrowings consist of overnight federal funds purchased and repurchase agreements. There were no federal funds purchased at June 30, 2013, or December 31, 2012. The balance of retail repurchase agreements decreased \$6.72 million, or 8.62%, as of June 30, 2013, compared with December 31, 2012. The balance of wholesale repurchase agreements decreased \$8.20 million, or 14.08%, and the weighted average rate increased 37 basis points to 3.71% as of June 30, 2013, compared with December 31, 2012. The balance of FHLB borrowings, including convertible and callable advances and fixed rate credit, decreased \$11.56 million, or 7.15%, and the weighted average rate increased 26 basis points to 4.12% as of June 30, 2013, compared with December 31, 2012. As of June 30, 2013, the FHLB borrowings had maturities between three and eight years. During the first quarter of 2013, the Company prepaid \$8.15 million of wholesale repurchase agreements and \$11.47 million of FHLB borrowings that resulted in gains totaling \$296 thousand.

Stockholders' Equity

Total stockholders' equity decreased \$4.38 million, or 1.23%, from \$356.32 million at December 31, 2012, to \$351.94 million at June 30, 2013. The change in stockholders' equity during the first six months of 2013 was primarily due to net income of \$12.58 million, an increase in accumulated other comprehensive loss of \$10.25 million, dividends declared on common and preferred stock of \$5.32 million, and treasury share purchases of \$2.02 million. The increase in accumulated other comprehensive loss was largely a function of declines in investment securities' market values as a result of the increase in benchmark interest rates at the end of the second quarter of 2013.

Risk-Based Capital

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

	June 30, 2013	December 31, 2012
Total risk-based capital ratio		
First Community Bancshares, Inc.	17.71%	16.70%
First Community Bank	16.13%	15.23%
Tier 1 risk-based capital ratio		
First Community Bancshares, Inc.	16.45%	15.44%
First Community Bank	14.88%	13.97%
Tier 1 leverage ratio		
First Community Bancshares, Inc.	10.49%	9.96%
First Community Bank	9.48%	8.98%

Liquidity and Capital Resources

We maintain a liquidity policy as a means to manage liquidity and the associated risk. The policy includes a Liquidity Contingency Plan (the Liquidity Plan) that is designed as a tool for us to detect liquidity issues promptly to protect depositors, creditors and shareholders. The Liquidity Plan includes monitoring various internal and external indicators such as changes in core deposits and changes in market conditions. It provides for timely responses to a wide variety of funding scenarios ranging from changes in loan demand to a decline in our quarterly earnings to a decline in the market price of our stock. The Liquidity Plan calls for specific responses designed to meet a wide range of liquidity needs based upon assessments on a recurring basis by our Company and Board of Directors.

As of June 30, 2013, we maintained liquidity in the form of unencumbered cash on hand and deposits with other financial institutions of \$82.12 million, unpledged available-for-sale securities of \$275.17 million, FHLB unused borrowing capacity of \$294.83 million, and federal funds lines availability of \$114.51 million. Cash on hand and deposits with other financial institutions, as well as the FHLB, are immediately available for satisfaction of deposit withdrawals, customer credit needs, and our operations. Available-for-sale securities represent a secondary level of liquidity available for conversion to liquid funds in the event of extraordinary needs. Our approved lines of credit with correspondent banks are available as backup liquidity sources.

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As a holding company, we do not conduct significant operations and our primary sources of liquidity are dividends upstreamed from the Bank and borrowings from outside sources. Banking regulations limit the amount of dividends that may be paid by the Bank. As of June 30, 2013, our liquid assets, including cash and investment securities, totaled \$23.87 million. Our cash reserves and investments, as well as management fee arrangements, provide adequate working capital to meet obligations and projected dividends to shareholders for the next twelve months. Additionally, we maintain a \$15.00 million unsecured, committed line of credit. There was no balance on the line as of June 30, 2013.

Off-Balance Sheet Risk

As of June 30, 2013, our off-balance sheet risk included \$200.65 million in commitments to extend credit and \$4.74 million in standby letters of credit and financial guarantees. Our exposure to credit loss in the event of nonperformance by other parties to financial instruments is represented by the contractual amount of those instruments.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

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

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

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

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

	June 30, 2013		December 31, 2012	
	Change in Net Interest Income	Percent Change	Change in Net Interest Income	Percent Change
<i>(Amounts in thousands, except basis points)</i>				
Increase (Decrease) in Interest Rates/Basis Points				
300	\$ 8,253	10.4	\$ 10,928	13.2
200	5,158	6.5	7,455	9.0
100	2,391	3.0	3,606	4.4
(100)	711	0.9	(35)	

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

Impact of Inflation and Changing Prices

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

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

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

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

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

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Changes in Internal Control over Financial Reporting

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

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

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

ITEM 1A. Risk Factors

Refer to our 2012 Form 10-K for disclosures with respect to our risk factors which could materially affect our business, financial condition, or future results. The risks described in the 2012 Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also adversely affect our business, financial condition, or operating results. The following risk factor is the only material change to the risk factors previously disclosed in Part I, Item 1A, Risk Factors, of our 2012 Form 10-K.

The Company and the Bank will be subject to higher regulatory capital requirements and failure to comply with these standards may impact dividend payments and equity repurchases.

On July 2, 2013, the Federal Reserve approved a final rule that substantially amends the regulatory risk-based capital rules applicable to the Company and the Bank. The rules implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act (the Basel III Capital Rules). The new rules are effective for the Company and the Bank on January 1, 2015 (subject to a phase-in period).

The Basel III Capital Rules, among other things, (i) introduce a new capital measure called Common Equity Tier 1 (CET1), (ii) specify that Tier 1 capital consist of CET1 and Additional Tier 1 capital instruments meeting specified requirements, (iii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expand the scope of the deductions/adjustments from capital as compared to existing regulations.

Under the Basel III Capital Rules, the initial minimum capital ratios as of January 1, 2015 will be as follows:

4.5% CET1 to risk-weighted assets.

6.0% Tier 1 capital to risk-weighted assets (increased from 4.0%).

8.0% Total capital to risk-weighted assets.

In addition to the minimum capital ratios, the Basel III Capital Rules require that the Company and Bank maintain a capital conservation buffer consisting of CET1 capital in an amount equal to 2.5% of risk-weighted assets to avoid restrictions on their ability to make capital distributions and to pay certain discretionary bonus payments to executive officers. Accordingly, the capital conservation buffer effectively increases the above ratios to 7.0%, 8.5% and 10.5%, respectively.

The Basel III changes will result in generally higher minimum capital ratios that require the Company and the Bank to maintain capital buffers above minimum requirements to avoid restrictions on capital distributions and executive bonus payments. In addition, the application of more stringent capital requirements could, among other things, result in lower returns on invested capital, require the raising of additional capital and

result in additional regulatory actions if the Company were to be unable to comply with such requirements. Furthermore, the imposition of liquidity requirements in connection with the implementation of Basel III could result in our having to lengthen the term of our funding, restructure our business models, and/or increase our holdings of liquid assets. Implementation of changes to asset risk weightings for risk based capital calculations, items included or deducted in calculating regulatory capital and/or additional capital conservation buffers could result in management modifying its business strategy and could limit the Company's ability to make distributions, including paying dividends.

Table of Contents**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

(a) Not Applicable

(b) Not Applicable

(c) Issuer Purchases of Equity Securities

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

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan	Maximum Number of Shares that May Yet be Purchased Under the Plan (1)
April 1-30, 2013		\$		741,885
May 1-31, 2013	28,000	15.41	28,000	747,785
June 1-30, 2013	33,750	15.28	33,750	714,035
Total	61,750	\$ 15.34	61,750	

(1) Our Company's stock repurchase plan, as amended, authorizes the purchase and retention of up to 1,100,000 shares. The plan has no expiration date and currently is in effect. No determination has been made to terminate the plan or to cease making purchases. We held 385,965 shares in treasury as of June 30, 2013.

ITEM 3. Defaults Upon Senior Securities

Not Applicable

ITEM 4. Mine Safety Disclosures

Not Applicable

ITEM 5. Other Information

None

ITEM 6. Exhibits

(a) Exhibits and index required

Exhibit

No.	Exhibit
3(i)	Articles of Incorporation of First Community Bancshares, Inc., as amended (1)
3(ii)	Amended and Restated Bylaws of First Community Bancshares, Inc. (2)
4.1	Specimen stock certificate of First Community Bancshares, Inc. (3)
4.2	Indenture Agreement dated September 25, 2003. (4)
4.3	Declaration of Trust of FCBI Capital Trust dated September 25, 2003, as amended and restated. (5)
4.4	Preferred Securities Guarantee Agreement dated September 25, 2003. (6)
4.5	Certificate of Designation of 6.00% Series A Noncumulative Convertible Preferred Stock. (7)
10.1**	First Community Bancshares, Inc. 1999 Stock Option Agreement (8) and Plan. (9)
10.1.1**	First Community Bancshares, Inc. 1999 Stock Option Plan, Amendment One. (10)
10.2**	First Community Bancshares, Inc. 2001 Nonqualified Director Stock Option Plan. (11)
10.3**	Employment Agreement between First Community Bancshares, Inc. and John M. Mendez dated December 16, 2008, as amended and restated (21) and Waiver Agreement. (29)

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10.4**	First Community Bancshares, Inc. and Affiliates Executive Retention Plan (12), Amendment #1 (13), and Amendment #2 (33).
10.5**	First Community Bancshares, Inc. Split Dollar Plan and Agreement. (14)
10.6**	First Community Bancshares, Inc. Supplemental Directors Retirement Plan, as amended and restated. (15)
10.7**	First Community Bancshares, Inc. Wrap Plan, as amended and restated. (16)
10.8**	Employment Agreement between First Community Bank and Marshall E. McCall dated March 1, 2012. (31)
10.9**	Form of Indemnification Agreement between First Community Bancshares, Inc., its Directors, and Certain Executive Officers. (17)
10.10**	Form of Indemnification Agreement between First Community Bank, its Directors, and Certain Executive Officers. (17)
10.12**	First Community Bancshares, Inc. 2004 Omnibus Stock Option Plan (18) and Stock Award Agreement. (19)
10.13**	First Community Bancshares, Inc. 2012 Omnibus Equity Compensation Plan (32)
10.14**	First Community Bancshares, Inc. Directors Deferred Compensation Plan, as amended and restated. (20)
10.19**	Employment Agreement between First Community Bancshares, Inc. and David D. Brown dated December 16, 2008. (22)
10.20**	Employment Agreement between First Community Bancshares, Inc. and Robert L. Buzzo dated December 16, 2008, as amended and restated. (23)
10.21**	Employment Agreement between First Community Bancshares, Inc. and E. Stephen Lilly dated December 16, 2008, as amended and restated. (24)
10.22**	Employment Agreement between First Community Bank and Gary R. Mills dated December 16, 2008. (25)
10.23**	Employment Agreement between First Community Bank and Martyn A. Pell dated December 16, 2008. (26)
10.24**	Employment Agreement between First Community Bank and Robert L. Schumacher dated December 16, 2008. (27)
10.25**	Employment Agreement between First Community Bank and Simpson O. Brown dated July 31, 2009. (28)
10.26**	Employment Agreement between First Community Bank and Mark R. Evans dated July 31, 2009. (28)
11	Statement Regarding Computation of Earnings per Share. (30)
31.1*	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2*	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
32*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS***	XBRL Instance Document #
101.SCH***	XBRL Taxonomy Extension Schema Document #
101.CAL***	XBRL Taxonomy Extension Calculation Linkbase Document #
101.LAB***	XBRL Taxonomy Extension Label Linkbase Document #
101.PRE***	XBRL Taxonomy Extension Presentation Linkbase Document #
101.DEF***	XBRL Taxonomy Extension Definition Linkbase Document #

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

* Incorporated herewith.

** Indicates a management contract or compensation plan.

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*** Submitted electronically herewith.

- # Attached as Exhibit 101 to the Quarterly Report on Form 10-Q for the period ended June 30, 2013, of First Community Bancshares, Inc. are the following documents formatted in XBRL (eXtensive Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of June 30, 2013, (Unaudited), and December 31, 2012; (ii) Condensed Consolidated Statements of Income (Unaudited) for the three and six months ended June 30, 2013 and 2012; (iii) Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2013 and 2012; (iv) Condensed Consolidated Statements of Stockholders' Equity (Unaudited) for the six months ended June 30, 2013 and 2012; (v) Condensed Consolidated Statements of Cash Flows (Unaudited) for the six months ended June 30, 2013 and 2012; and (vi) Notes to Condensed Consolidated Financial Statements (Unaudited).
- (1) Incorporated by reference from Exhibit 3(i) of the Quarterly Report on Form 10-Q for the period ended June 30, 2010, filed on August 16, 2010.
 - (2) Incorporated by reference from Exhibit 3.1 of the Current Report on Form 8-K dated and filed on August 28, 2012.
 - (3) Incorporated by reference from Exhibit 4.1 of the Annual Report on Form 10-K for the period ended December 31, 2002, filed on March 25, 2003, amended on March 31, 2003.

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- (4) Incorporated by reference from Exhibit 4.2 of the Quarterly Report on Form 10-Q for the period ended September 30, 2003, filed on November 10, 2003.
- (5) Incorporated by reference from Exhibit 4.3 of the Quarterly Report on Form 10-Q for the period ended September 30, 2003, filed on November 10, 2003.
- (6) Incorporated by reference from Exhibit 4.4 of the Quarterly Report on Form 10-Q for the period ended September 30, 2003, filed on November 10, 2003.
- (7) Incorporated by reference from Exhibit 4.1 of the Current Report on Form 8-K dated May 20, 2011, filed on May 23, 2011.
- (8) Incorporated by reference from Exhibit 10.5 of the Quarterly Report on Form 10-Q for the period ended June 30, 2002, filed on August 14, 2002.
- (9) Incorporated by reference from Exhibit 10.1 of the Annual Report on Form 10-K for the period ended December 31, 1999, filed on March 30, 2000, amended on April 13, 2000.
- (10) Incorporated by reference from Exhibit 10.1.1 of the Quarterly Report on Form 10-Q for the period ended March 31, 2004, filed on May 7, 2004.
- (11) Incorporated by reference from Exhibit 10.4 of the Quarterly Report on Form 10-Q for the period ended June 30, 2002, filed on August 14, 2002.
- (12) Incorporated by reference from Exhibit 10.1 of the Current Report on Form 8-K dated December 30, 2008, filed on January 5, 2009.
- (13) Incorporated by reference from Exhibit 10.3 of the Current Report on Form 8-K dated December 16, 2010, filed on December 17, 2010.
- (14) Incorporated by reference from Exhibit 10.5 of the Annual Report on Form 10-K for the period ended December 31, 1999, filed on March 30, 2000, amended on April 13, 2000.
- (15) Incorporated by reference from Exhibit 10.1 of the Current Report on Form 8-K dated December 16, 2010, filed on December 17, 2010.
- (16) Incorporated by reference from Exhibit 99.1 of the Current Report on Form 8-K dated August 22, 2006, filed on August 23, 2006.
- (17) Form of indemnification agreement entered into by the Company and First Community Bank with their respective directors and certain officers of each including, for the Registrant and Bank: John M. Mendez, Robert L. Schumacher, Robert L. Buzzo, E. Stephen Lilly, David D. Brown, and Gary R. Mills. Incorporated by reference from Exhibits 10.10 and 10.11 of the Annual Report on Form 10-K for the period ended December 31, 2003, filed on March 15, 2004, amended on May 19, 2004.
- (18) Incorporated by reference from Annex B to the 2004 First Community Bancshares, Inc. Definitive Proxy Statement filed on March 15, 2004.
- (19) Incorporated by reference from Exhibit 10.13 of the Quarterly Report on Form 10-Q for the period ended June 30, 2004, filed on August 6, 2004.
- (20) Incorporated by reference from Exhibit 99.2 of the Current Report on Form 8-K dated August 22, 2006, filed on August 23, 2006.
- (21) Incorporated by reference from Exhibit 10.1 of the Current Report on Form 8-K dated and filed on December 16, 2008.
- (22) Incorporated by reference from Exhibit 10.2 of the Current Report on Form 8-K dated and filed on December 16, 2008.
- (23) Incorporated by reference from Exhibit 10.1 of the Current Report on Form 8-K dated and filed on July 6, 2009.
- (24) Incorporated by reference from Exhibit 10.2 of the Current Report on Form 8-K dated and filed on July 6, 2009.
- (25) Incorporated by reference from Exhibit 10.3 of the Current Report on Form 8-K dated and filed on July 6, 2009.
- (26) Incorporated by reference from Exhibit 10.4 of the Current Report on Form 8-K dated and filed on July 6, 2009.
- (27) Incorporated by reference from Exhibit 10.5 of the Current Report on Form 8-K dated and filed on July 6, 2009.
- (28) Incorporated by reference from Exhibit 2.1 of the Current Report on Form 8-K dated April 2, 2009, filed on April 3, 2009.
- (29) Incorporated by reference from Exhibit 10.2 of the Current Report on Form 8-K dated December 16, 2010, filed on December 17, 2010.
- (30) Incorporated by reference from Note 1 of the Notes to Condensed Consolidated Financial Statements included herein.
- (31) Incorporated by reference from Exhibit 2.1 of the Current Report on Form 8-K dated and filed on March 1, 2012.
- (32) Incorporated by reference from the 2012 First Community Bancshares, Inc. Definitive Proxy Statement filed on March 7, 2012.
- (33) Incorporated by reference from Exhibit 10.1 of the Current Report on Form 8-K dated February 21, 2013, filed on February 25, 2013.

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SIGNATURES

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

First Community Bancshares, Inc.

DATE: August 9, 2013

/s/ John M. Mendez

John M. Mendez
President & Chief Executive Officer (Principal Executive Officer)

/s/ David D. Brown

David D. Brown
Chief Financial Officer (Principal Accounting Officer)

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EXHIBIT INDEX

Exhibit No.	Exhibit
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