FIRST COMMUNITY BANCSHARES INC /NV/
Form 10-Q
November 14, 2012
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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 September 30, 2012

Commission file number 000-19297

FIRST COMMUNITY BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Nevada	**55-0694814**
(State or other jurisdiction of	**(IRS Employer**

incorporation)	**Identification No.)**
P.O. Box 989	
Bluefield, Virginia	**24605-0989**
(Address of principal executive offices)	**(Zip Code)**

(276) 326-9000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ 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). þ 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	þ
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 þ 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; 20,086,404 shares outstanding as of November 13, 2012

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FIRST COMMUNITY BANCSHARES, INC.

FORM 10-Q

For the quarter ended September 30, 2012

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

FIRST COMMUNITY BANCSHARES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share and per share data)	**September 30, 2012 (Unaudited)**	**December 31, 2011**
Assets		
Cash and due from banks	$ 44,865	$ 34,578
Federal funds sold	93,005	1,909
Interest-bearing deposits in banks	27,359	10,807
Total cash and cash equivalents	165,229	47,294
Securities available-for-sale	517,161	482,430
Securities held-to-maturity	816	3,490
Loans held for sale	4,446	5,820
Loans held for investment, net of unearned income:		
Covered under loss share agreements	221,977	
Not covered under loss share agreements	1,541,633	1,396,067
Less allowance for loan losses	25,835	26,205
Loans held for investment, net	1,737,775	1,369,862
FDIC receivable under loss share agreements	49,477	
Property, plant, and equipment, net	62,191	54,721
Other real estate owned:		
Covered under loss share agreements	3,553	
Not covered under loss share agreements	5,957	5,914
Interest receivable	6,038	6,193
Goodwill	104,022	83,056
Intangible assets	3,713	4,326
Other assets	109,272	101,683
Total assets	$ 2,769,650	$ 2,164,789
Liabilities		
Deposits:		
Noninterest-bearing	$ 335,100	$ 240,268
Interest-bearing	1,728,860	1,303,199
Total deposits	2,063,960	1,543,467
Interest, taxes, and other liabilities	29,538	20,452
Securities sold under agreements to repurchase	146,904	129,208
FHLB advances	161,558	150,000
Other borrowings	15,877	15,933
Total liabilities	2,417,837	1,859,060

Stockholders equity

Preferred stock, undesignated par value; 1,000,000 shares authorized: Series A Noncumulative Convertible Preferred Stock, $0.01 par value; 25,000 shares authorized; 17,921 shares outstanding at September 30, 2012, and 18,921 outstanding at December 31, 2011	17,921	18,921
Common stock, $1 par value; 50,000,000 shares authorized; 20,308,827 and 18,082,822 shares issued at September 30, 2012, and December 31, 2011, respectively; 222,423 and 233,446 shares in treasury at September 30, 2012, and December 31, 2011, respectively	20,309	18,083
Additional paid-in capital	213,320	188,118
Retained earnings	107,055	93,656
Treasury stock, at cost	(5,446)	(5,721)
Accumulated other comprehensive loss	(1,346)	(7,328)
Total stockholders equity	351,813	305,729
Total liabilities and stockholders equity	$ 2,769,650	$ 2,164,789

See Notes to Consolidated Financial Statements.

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FIRST COMMUNITY BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(Amounts in thousands, except share and per share data)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Interest income				
Interest and fees on loans held for investment	$ 28,275	$ 20,084	$ 68,496	$ 60,633
Interest on securities taxable	1,980	1,711	6,060	6,094
Interest on securities nontaxable	1,215	1,180	3,667	4,004
Interest on deposits in banks	66	75	177	244
Total interest income	31,536	23,050	78,400	70,975
Interest expense				
Interest on deposits	2,603	2,998	7,368	10,151
Interest on short-term borrowings	675	577	1,859	1,849
Interest on long-term borrowings	1,799	1,741	5,253	5,212
Total interest expense	5,077	5,316	14,480	17,212
Net interest income	26,459	17,734	63,920	53,763
Provision for loan losses	1,916	1,920	4,458	6,611
Net interest income after provision for loan losses	24,543	15,814	59,462	47,152
Noninterest income				
Wealth management income	1,005	868	2,839	2,692
Service charges on deposit accounts	3,895	3,404	10,237	9,788
Other service charges and fees	1,631	1,426	4,780	4,293
Insurance commissions	1,616	1,523	4,528	5,027
Impairment losses on securities	(942)	(210)	(942)	(737)
Portion of losses recognized in other comprehensive income				
Net impairment losses recognized in earnings	(942)	(210)	(942)	(737)
Net gain on sale of securities	228	178	270	5,238
Other operating income	3,730	877	5,785	2,627
Total noninterest income	11,163	8,066	27,497	28,928
Noninterest expense				
Salaries and employee benefits	10,860	8,409	27,974	26,223
Occupancy expense of bank premises	1,754	1,476	4,934	4,691
Furniture and equipment	955	862	2,741	2,686
Amortization of intangible assets	191	250	613	770
FDIC premiums and assessments	611	348	1,223	1,640
FHLB debt prepayment fees				471
Merger related expense	645		4,227	
Other operating expense	5,309	4,715	14,938	15,380
Total noninterest expense	20,325	16,060	56,650	51,861

Income before income taxes	15,381	7,820	30,309	24,219
Income tax expense	5,322	2,502	10,171	7,422
Net income	10,059	5,318	20,138	16,797
Dividends on preferred stock	220	286	786	417
Net income available to common shareholders	$ 9,839	$ 5,032	$ 19,352	$ 16,380
Basic earnings per common share	$ 0.49	$ 0.28	$ 1.03	$ 0.92
Diluted earnings per common share	$ 0.47	$ 0.28	$ 1.00	$ 0.91
Cash dividends per common share	$ 0.11	$ 0.10	$ 0.32	$ 0.30
Weighted average basic shares outstanding	20,013,264	17,896,534	18,812,516	17,886,902
Weighted average diluted shares outstanding	21,476,497	19,205,634	20,159,386	18,533,364

See Notes to Consolidated Financial Statements.

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FIRST COMMUNITY BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(Amounts in thousands, except share and per share data)	**Three Months Ended September 30, 2012**	**2011**	**Nine Months Ended September 30, 2012**	**2011**
Net income	$ 10,059	$ 5,318	$ 20,138	$ 16,797
Other comprehensive income, before tax				
Available-for-sale securities:				
Unrealized gains (losses) on securities available-for-sale with other-than-temporary impairment	1,287	(657)	1,182	(678)
Unrealized gains (losses) on securities available-for-sale without other-than-temporary impairment	1,628	(611)	7,450	11,868
Less: reclassification adjustment for gains realized in net income	(228)	(178)	(270)	(5,238)
Less: reclassification adjustment for credit related other-than-temporary impairments recognized in net income	942	210	942	737
Unrealized gains on available-for-sale securities in OCI	3,629	(1,236)	9,304	6,689
Reclassification adjustment for amortization in net prior service cost	164		314	
Derivative securities:				
Unrealized gains on derivative securities				30
Other comprehensive income (loss), before tax	3,793	(1,236)	9,617	6,719
Income tax expense related to items of other comprehensive income	(1,434)	460	(3,635)	(2,503)
Other comprehensive income, net of tax	2,359	(776)	5,982	4,216
Total comprehensive income	$ 12,418	$ 4,542	$ 26,120	$ 21,013

See Notes to Consolidated Financial Statements.

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FIRST COMMUNITY BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (Unaudited)

(Amounts in thousands, except share and per share data)	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance January 1, 2011	$	$ 18,083	$ 189,239	$ 81,486	$ (6,740)	$ (12,190)	$ 269,878
Net income				16,797			16,797
Other comprehensive income						4,216	4,216
Common dividends declared $0.30 per share				(5,368)			(5,368)
Preferred dividends declared $14.50 per share				(417)			(417)
Issuance of preferred stock 18,921 shares	18,921		(119)				18,802
Equity-based compensation expense			(5)		30		25
Common stock options exercised 2,969 shares			(60)		92		32
Issuance of treasury stock to 401(k) plan 47,570 shares			(812)		1,481		669
Purchase of treasury shares 48,310 shares at $10.58 per share					(514)		(514)
Balance September 30, 2011	$ 18,921	$ 18,083	$ 188,243	$ 92,498	$ (5,651)	$ (7,974)	$ 304,120
Balance January 1, 2012	$ 18,921	$ 18,083	$ 188,118	$ 93,656	$ (5,721)	$ (7,328)	$ 305,729
Net income				20,138			20,138
Other comprehensive income						5,982	5,982
Common dividends declared $0.32 per share				(5,953)			(5,953)
Preferred dividends declared $45.00 per share				(786)			(786)
Preferred stock converted to common stock 69,000 shares	(1,000)	69	931				
Equity-based compensation expense			72		17		89
Common stock options exercised 6,523 shares			(114)		258		144
Acquisition of Peoples Bank of Virginia 2,157,005 shares		2,157	24,313				26,470
Balance September 30, 2012	$ 17,921	$ 20,309	$ 213,320	$ 107,055	$ (5,446)	$ (1,346)	$ 351,813

See Notes to Consolidated Financial Statements.

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FIRST COMMUNITY BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Amounts in thousands)	Nine Months Ended September 30, 2012	2011
Operating activities		
Net income	$ 20,138	$ 16,797
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	4,458	6,611
Depreciation and amortization of property, plant, and equipment	2,832	3,030
Accretion of discounts and amortization of premiums on investments	1,292	1,047
Amortization of intangible assets	613	770
Gain on sale of loans	(721)	(531)
Equity-based compensation expense	89	25
Gain (loss) on sale of property, plant, and equipment	91	(212)
Losses on sales of other real estate	1,592	2,074
Gain on sale of securities	(270)	(5,238)
Net impairment losses recognized in earnings	942	737
Losses on payments of FHLB debt prepayment fees		471
Deferred income tax expense	1,656	2,618
Proceeds from sale of mortgage loans	51,061	31,132
Origination of mortgage loans	(48,966)	(29,482)
Decrease in accrued interest receivable	2,182	1,411
Decrease in other operating activities	10,816	5,041
Net cash provided by operating activities	47,805	36,301
Investing activities		
Proceeds from sale of securities available-for-sale	78,092	191,397
Proceeds from maturities, prepayments, and calls of securities available-for-sale	66,318	29,624
Proceeds from maturities, prepayments, and calls of securities held-to-maturity	2,690	1,300
Payments to acquire securities available-for-sale	(109,637)	(180,501)
Origination of loans	38,748	(2,587)
Proceeds from the redemption of FHLB stock, net of purchases	1,757	1,098
Net cash acquired in acquisitions	152,774	1,586
Payments to acquire property, plant, and equipment	(4,088)	(2,169)
Proceeds from sale of property, plant, and equipment	1,118	565
Proceeds from sale of other real estate	5,792	4,405
Net cash provided by investing activities	233,564	44,718
Financing activities		
Net increase in noninterest-bearing deposits	4,405	28,532
Net decrease in interest-bearing deposits	(133,095)	(58,996)
Repayments of securities sold under agreements to repurchase	(2,386)	(1,384)
Repayments of long-term debt	(25,769)	(25,252)
Proceeds from issuance of preferred stock		18,802
Proceeds from stock options exercised	144	32
Payments for repurchase of treasury stock		(514)
Payments of FHLB debt prepayment fees		(471)
Excess tax benefit from share-based compensation	6	5
Payments of common dividends	(5,953)	(5,368)
Payments of preferred dividends	(851)	(274)

Net cash used in financing activities	(163,499)	(44,888)
Increase in cash and cash equivalents	117,870	36,131
Cash and cash equivalents at beginning of period	47,294	112,189
Cash and cash equivalents at end of period	$ 165,164	$ 148,320
Supplemental information noncash items		
Transfer of other real estate	$ 6,916	$ 7,511
Loans originated to finance other real estate	$ 1,324	$

See Notes to Consolidated Financial Statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The condensed consolidated balance sheet as of December 31, 2011, has been derived from the audited consolidated financial statements included in the Company s 2011 Annual Report on Form 10-K (the 2011 Form 10-K), as filed with the Securities and Exchange Commission (the SEC) on March 2, 2012. 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 2011 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 Condensed Consolidated Financial Statements in Part II, Item 8, Financial and Supplementary Data, of the Company s 2011 Form 10-K and Note 1, General, of the Notes to Consolidated Financial Statements in Part I, Item 1, Financial Statements, of the Company s Quarterly Report on Form 10-Q for the period ended March 31, 2012. 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

During the third quarter of 2012, the Company discovered certain overstatements of loan charge-offs reported in prior periods beginning in 2007 which resulted from not recognizing the impact of interest payments that had been applied to principal for loans that were on non-accrual status. The error was discovered during the Company s core system conversion completed during the third quarter of 2012. The overstatements of charge-offs resulted in an overstatement of provision for loan losses and corresponding understatement of pre-tax income that totaled $321 thousand, $639 thousand, and $938 thousand for the years-ended December 31, 2009, 2010, and 2011, respectively. The total periodic charge-off overstatements from 2007 to year-end 2011 approximated $2.39 million. Management analyzed the error to determine if any of the prior years were materially misstated and determined that they were not. Management also determined that correcting the error in the current year would not materially misstate this year s results. The Company recorded the correction to the prior period understatements in the quarter ended September 30, 2012, through an increase to other income in the amount of $2.39 million.

Recent Accounting Pronouncements

In August 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2012-03, Technical Amendments and Corrections to SEC Sections, to codify various amendments and corrections included in SEC Staff Accounting Bulletin 114, SEC Release 33-9250, and ASU 2010-22, Accounting for Various Topics: Technical Corrections to SEC Paragraphs. The amendments and corrections included in ASU 2012-03 are effective upon issuance. The guidance had no impact on the Company s financial statements.

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Note 2. Earnings Per Common Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in thousands, except share and per share data)	**2012**	**2011**	**2012**	**2011**
Net income	$ 10,059	$ 5,318	$ 20,138	$ 16,797
Dividends on preferred stock	220	286	786	417
Net income available to common shareholders	$ 9,839	$ 5,032	$ 19,352	$ 16,380
Weighted average common shares outstanding, basic	20,013,264	17,896,534	18,812,516	17,886,902
Diluted shares for stock options	162,184	3,551	42,832	5,643
Convertible preferred shares	1,301,049	1,305,549	1,304,038	640,819
Weighted average common shares outstanding, diluted	21,476,497	19,205,634	20,159,386	18,533,364
Basic earnings per common share	$ 0.49	$ 0.28	$ 1.03	$ 0.92
Diluted earnings per common share	$ 0.47	$ 0.28	$ 1.00	$ 0.91

The Company s Series A Noncumulative Convertible Preferred Stock (Series A Preferred Stock) carry 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 17,921 shares of Series A Preferred Stock outstanding at September 30, 2012 and 18,921 shares outstanding at September 30, 2011.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
Options and warrants	338,536	480,045	450,966	480,221

Note 3. Business Combinations

The Company accounts for business combinations under FASB Accounting Standard Codification (ASC) Topic 805, Business Combinations , which requires the use of the acquisition method of accounting. In accordance with the acquisition method of accounting, all identifiable assets acquired, including loans, are recorded at fair value. No allowance is recorded on the acquisition date for acquired loans because the fair values of the loans incorporate assumptions regarding credit risk. Acquired loans are recorded at fair value in accordance with the fair value methodology prescribed in FASB ASC Topic 820, Fair Value Measurements and Disclosures , exclusive of the loss share agreements with the Federal Deposit Insurance Corporation (FDIC). The fair value estimates associated with the loans include expected prepayments and the amount and timing of expected principal, interest, and other cash flows. Fair values are subject to refinement for up to one year after the closing date of the acquisition as additional information regarding the closing date fair values becomes available.

Acquired credit impaired loans are accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality, found in FASB ASC Topic 310-30, Receivables Loans and Debt Securities Acquired with Deteriorated Credit Quality , formerly American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer , and initially measured at fair value, which includes estimated future credit losses expected to be incurred over the life of the loans. Loans exhibit evidence of credit deterioration when it is probable at the date of acquisition that the Company will not collect all contractually required principal and interest payments. Evidence of credit quality deterioration, as of the purchase date, may include measures such as nonaccrual status, credit scores, declines in collateral value, current loan to value percentages, and days past due. The

Company considers expected prepayments and estimates the amount and timing of expected principal, interest, and other cash flows for each loan or pool of loans meeting the criteria above, and determines the excess of the loan s scheduled contractual principal and contractual interest payments over all cash flows expected at acquisition as an amount that should not be accreted (nonaccretable difference). The remaining amount, representing the excess of the loan s or pool s cash flows expected to be collected over the amount deemed paid for the loan or pool of loans, is accreted into interest income over the remaining life of the loan or pool (accretable yield). The Company records a discount on these loans at acquisition to record them at their realizable cash flows. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the nonaccretable difference which is included in the carrying amount of the loans. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses. Subsequent increases in cash flows result in a reversal of the provision for loan losses to the extent of prior charges, or a reversal of the nonaccretable difference with a positive impact on interest income prospectively. Further, any excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized in interest income over the remaining life of the loan when there is a reasonable expectation about the amount and timing of such cash flows. In accordance with FASB ASC Topic 310-30, the Company aggregated purchase credit impaired loans that have common risk characteristics into pools within the following loan categories: 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.

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.

Peoples Bank of Virginia

On May 31, 2012, the Company completed the acquisition of Peoples Bank of Virginia (Peoples), a commercial bank headquartered in Richmond, Virginia. At acquisition, Peoples had total assets of $276.88 million, total loans of $184.84 million, total deposits of $232.75 million, and common equity of $43.38 million. The transaction was accounted for under the purchase method of accounting and accordingly, assets acquired, liabilities assumed, and consideration exchanged were recorded at estimated fair value on the acquisition date. The acquisition expands the Company s existing presence in the Richmond, Virginia market by four branches and affords the opportunity to realize certain operating cost savings.

Peoples shareholders received $6.08 in cash and 1.07 shares of Common Stock for each share of Peoples common stock resulting in a purchase price of approximately $40.28 million, which includes Common Stock valued at $26.47 million and total cash consideration of $12.26 million. In connection with the transaction, the Company issued 2,157,005 shares of Common Stock with an estimated fair value of $12.27 per share. The preliminary purchase price has been allocated to the identifiable tangible and intangible assets resulting in an addition to goodwill of $9.10 million. Because the consideration paid was greater than the net fair value of the assets acquired and liabilities assumed, the Company recorded goodwill as part of the acquisition. The Company does not expect any goodwill recorded in connection with the acquisition to be deductible for tax purposes.

The Company estimated the fair value of assets acquired and liabilities assumed using expected cash flows discounted at appropriate rates of interest. The estimated fair values, including identifiable intangible assets, are preliminary and subject to refinement for up to one year after the closing date of the acquisition.

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The consideration transferred and the net assets acquired in connection with the Peoples acquisition are presented as of the acquisition date:

(Amounts in thousands, except share data)	
Consideration	
Cash consideration	$ 12,259
Common stock 2,157,005 shares	26,469
Cash in lieu of fractional shares	2
Stock option consideration	1,547
Fair value of consideration paid	$ 40,277
Identifiable assets	
Cash and cash equivalents	$ 81,834
Securities	2,917
Loans	166,471
Property, plant, and equipment	3,432
Other assets	11,407
Identifiable assets	266,061
Identifiable liabilities	
Total deposits	234,146
Other liabilities	741
Identifiable liabilities	234,887
Identifiable net assets acquired	31,174
Goodwill recorded for acquisition	$ 9,103

The following table presents the carrying amount of acquired loans at May 31, 2012, which consist of loans with no credit deterioration, or performing loans, and loans with credit deterioration, or impaired loans.

		May 31, 2012	
(Amounts in thousands)	**Purchased Performing**	**Purchased Impaired**	**Total**
Commercial loans			
Construction, development, and other land	$ 9,641	$ 9,426	$ 19,067
Commercial and industrial	17,583	2,418	20,001
Multi-family residential	2,111	3,152	5,263
Non-farm, non-residential	75,399	12,193	87,592
Total commercial loans	104,734	27,189	131,923
Consumer real estate loans			
Home equity lines	7,637	336	7,973
Single family owner occupied	18,767	5,078	23,845
Total consumer real estate loans	26,404	5,414	31,818
Consumer and other loans			
Consumer loans	2,730		2,730
Loans held for investment, net of unearned income	$ 133,868	$ 32,603	$ 166,471

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The following table presents the acquired performing loans receivable at the acquisition date. The amounts include principal only and do not reflect accrued interest as of the date of the acquisition or beyond:

(Amounts in thousands)	**May 31, 2012**
Contractually required principal payments receivable	$ 139,275
Fair value of adjustment for credit, interest rate, and liquidity	(5,407)
Fair value of performing loans receivable	$ 133,868

The following table presents the acquired impaired loans receivable at acquisition. The Company has not noted any further deterioration in the acquired impaired loan portfolio.

(Amounts in thousands)	**May 31, 2012**
Contractually required payments receivable	$ 48,826
Nonaccretable difference	(12,823)
Cash flows expected to be collected	36,003
Accretable difference	(3,400)
Fair value of acquired impaired loans	$ 32,603

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The Company s operating results for the three and nine months ended September 30, 2012, include the impact of the Peoples acquisition since May 31, 2012. The following table presents unaudited proforma information as if the acquisition had occurred on January 1, 2011. The information presented does not necessarily reflect the results of operation that would have occurred had the acquisition been completed at the beginning of each fiscal period, nor does it indicate future consolidated results. For the three and nine months ended September 30, 2012, the Company incurred merger related expenses related to the Peoples acquisition of $163 thousand and $3.15 million, respectively.

	For the Nine Months Ended September 30, 2012			
(Amounts in thousands)	**First Community**	**Peoples**	**Proforma Adjustments**	**Proforma Combined**
Interest income	$ 74,343	$ 8,191	$ 1,663	$ 84,197
Interest expense	14,192	1,867	(371)	15,688
Net interest income	60,151	6,324	2,034	68,509
Provision for loan losses	4,458	100		4,558
Net interest income after provision for loan losses	55,693	6,224	2,034	63,951
Noninterest income	27,459	383		27,842
Noninterest expense (1)	55,625	3,946	0	59,571
Income (loss) before taxes	27,527	2,661	2,034	32,222
Income tax expense (benefit)	9,868		303	10,171
Net income (loss)	17,659	2,661	1,731	22,051
Dividends on preferred stock	786			786
Net income (loss) available to common shareholders	$ 16,873	$ 2,661	$ 1,731	$ 21,265

	For the Nine Months Ended September 30, 2011			
	First Community	**Peoples**	**Proforma Adjustments**	**Proforma Combined**
Interest income	$ 70,975	$ 9,506	$ 1,663	$ 82,144
Interest expense	17,212	2,700	(371)	19,541
Net interest income	53,763	6,806	2,034	62,603
Provision for loan losses	6,611	1,125		7,736
Net interest income after provision for loan losses	47,152	5,681	2,034	54,867
Noninterest income	28,928	339		29,267
Noninterest expense (1)	51,861	3,733	0	55,594
Income (loss) before taxes	24,219	2,287	2,034	28,540
Income tax expense (benefit)	7,422	770	303	8,495
Net income (loss)	16,797	1,517	1,731	20,045
Dividends on preferred stock	417			417
Net income (loss) available to common shareholders	$ 16,380	$ 1,517	$ 1,731	$ 19,628

Waccamaw Bank

On June 8, 2012, the Company s wholly-owned subsidiary, First Community Bank (the Bank), entered into a Purchase and Assumption Agreement (the Agreement) with loss share arrangements with the FDIC to purchase certain assets and assume substantially all of the deposits and certain liabilities of Waccamaw Bank (Waccamaw), a full service community bank, headquartered in Whiteville, North Carolina. Waccamaw operated sixteen branches throughout North Carolina and South Carolina.

Pursuant to the Agreement, the Bank received a discount of $15.00 million on the assets acquired and did not pay the FDIC a premium to assume all customer deposits. Most of the loans and foreclosed real estate purchased are covered by loss share agreements between the FDIC and the Bank. Under the loss share agreements, the FDIC will cover 80% of loan and foreclosed real estate losses and certain collection costs. Gains and recoveries on covered assets will offset losses, or be paid to the FDIC, at the applicable loss share percentage at the time of recovery. The loss sharing agreement applicable to single family assets, both loans and OREO, provides for FDIC loss sharing and Bank reimbursement to the FDIC for ten years. The

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loss share agreement applicable to commercial assets, both loans and OREO, provides for FDIC loss sharing for five years and Bank reimbursement of recoveries to the FDIC for eight years. As of the date of acquisition, we calculated the amount of such reimbursements that we expect to receive from the FDIC using the present value of anticipated cash flows from the loss sharing based on the adjustments estimated for each pool of loans and the estimated losses on foreclosed assets. In accordance with FASB ASC Topic 805, the FDIC indemnification asset was initially recorded at its fair value, and is measured separately from the loan assets and foreclosed assets because the loss sharing agreements are not contractually embedded in them or transferable with them in the event of disposal. The balance of the FDIC indemnification asset increases and decreases as the expected and actual cash flows from the covered assets fluctuate, as loans are paid off or impaired and as loans and foreclosed assets are sold. There are no contractual interest rates on this contractual receivable from the FDIC; however, a discount was recorded against the initial balance of the FDIC indemnification asset in conjunction with the fair value measurement as this receivable will be collected over the term of the loss sharing agreement. This discount will be accreted to non-interest income over future periods.

The Bank did not immediately acquire all the real estate, furniture, and equipment of Waccamaw as a part of the purchase agreement. The bank purchased two properties at acquisition and committed to purchase two properties during the 30-day option extended from the FDIC.

The purchase accounting adjustments and the loss sharing arrangement with the FDIC significantly impact the effects of the acquired entity on the ongoing operations of the Company. Additionally, disclosure of pro forma financial information is made more difficult by the nature of Waccamaw s operations prior to the date of the combination. Accordingly, no pro forma financial information has been presented.

Goodwill of $11.66 million was recorded as part of the acquisition of Waccamaw. The amount of the goodwill was equal to the amount by which the fair value of liabilities assumed exceeded the fair value of assets acquired, and resulted from the discount bid on the assets acquired and the impact of the FDIC loss share agreements. For the three and nine months ended September 30, 2012, the Company incurred merger related expenses related to the Waccamaw acquisition of $482 thousand and $1.08 million, respectively.

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The following table presents the assets acquired and liabilities assumed as of June 8, 2012, as recorded by Waccamaw on the acquisition date and as adjusted for purchase accounting adjustments:

(Amounts in thousands)	Balances Acquired from FDIC	Fair Value and Purchase Adjustments	Recorded Investment
Assets			
Cash and due from banks [1]	$ 44,809	$	$ 44,809
Interest-bearing deposits in banks	40,140		40,140
Total cash and cash equivalents	84,949		84,949
Securities available-for-sale	59,816		59,816
Loans held for investment, net of unearned income	318,317	(67,686)	250,631
FDIC receivable under loss share agreements		49,755	49,755
Property, plant, and equipment, net	4,102		4,102
Other real estate owned	9,347	(3,959)	5,388
Interest receivable	1,363		1,363
Other assets	5,264	(194)	5,070
Total assets	$ 483,158	$ (22,084)	$ 461,074
Liabilities			
Deposits:			
Noninterest-bearing	$ 47,892	$	$ 47,892
Interest-bearing	366,233	912	367,145
Total deposits	414,125	912	415,037
Securities sold under agreements to repurchase	17,042	3,040	20,082
FHLB advances	35,000	2,271	37,271
Other borrowings	345		345
Total liabilities	$ 466,512	$ 6,223	$ 472,735
Net assets acquired over (under) liabilities assumed	$ 16,646	$ (28,307)	$ (11,661)
Excess of net assets acquired over liabilities assumed	$ 16,646		
Aggregate fair value and purchase adjustments		$ (28,307)	
Goodwill on acquisition			$ 11,661

(1) Includes $17.27 million transferred to the FDIC in connection with the acquisition.

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The following table presents the carrying amount of acquired loans at June 8, 2012, which consist of loans with no credit deterioration, or performing loans, and loans with credit deterioration, or impaired loans.

(Amounts in thousands)	June 8, 2012 Purchased Performing	Purchased Impaired	Total
Commercial loans			
Construction, development, and other land	$ 19,690	$ 6,524	$ 26,214
Commercial and industrial	9,027	1,817	10,844
Multi-family residential	2,462	926	3,388
Non-farm, non-residential	45,737	23,372	69,109
Agricultural	321	2	323
Farmland	1,522	1,045	2,567
Total commercial loans	78,759	33,686	112,445
Consumer real estate loans			
Home equity lines	21,439	68,081	89,520
Single family owner occupied	25,509	12,696	38,205
Total consumer real estate loans	46,948	80,777	127,725
Consumer and other loans			
Consumer loans	9,540	921	10,461
Loans held for investment, net of unearned income	$ 135,247	$ 115,384	$ 250,631

The following table presents the acquired performing loans receivable at the acquisition date. The amounts include principal only and do not reflect accrued interest as of the date of the acquisition or beyond:

(Amounts in thousands)	June 8, 2012
Contractually required principal payments receivable	$ 151,852
Fair value of adjustment for credit, interest rate, and liquidity	(16,605)
Fair value of performing loans receivable	$ 135,247

The following table presents the acquired impaired loans receivable at acquisition. The Company has not noted any further deterioration in the acquired impaired loan portfolio.

(Amounts in thousands)	June 8, 2012
Contractually required payments receivable	$ 211,042
Nonaccretable difference	(69,177)
Cash flows expected to be collected	141,865
Accretable difference	(26,481)
Fair value of acquired impaired loans	$ 115,384

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Note 4. Investment Securities

The amortized cost and estimated fair value of available-for-sale securities, including gross unrealized gains and losses, at September 30, 2012, and December 31, 2011, were as follows:

	September 30, 2012				
(Amounts in thousands)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**	**OTTI in AOCI[1]**
Municipal securities	$ 147,134	$ 8,801	$ (7)	$ 155,928	$
Single issue trust preferred securities	55,692		(13,095)	42,597	
Corporate FDIC insured securities	13,467	12		13,479	
Mortgage-backed securities:					
Agency	281,009	7,394	(120)	288,283	
Non-Agency Alt-A residential	14,230		(3,018)	11,212	(3,018)
Total mortgage-backed securities	295,239	7,394	(3,138)	299,495	(3,018)
Equity securities	5,556	218	(112)	5,662	
Total	$ 517,088	$ 16,425	$ (16,352)	$ 517,161	$ (3,018)

	December 31, 2011				
(Amounts in thousands)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**	**OTTI in AOCI[1]**
Municipal securities	$ 131,498	$ 6,317	$	$ 137,815	$
Single issue trust preferred securities	55,649		(15,405)	40,244	
Corporate FDIC insured securities	13,685	33		13,718	
Mortgage-backed securities:					
Agency	274,384	6,003	(285)	280,102	
Non-Agency Alt-A residential	15,980		(5,950)	10,030	(5,950)
Total mortgage-backed securities	290,364	6,003	(6,235)	290,132	(5,950)
Equity securities	419	206	(104)	521	
Total	$ 491,615	$ 12,559	$ (21,744)	$ 482,430	$ (5,950)

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

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The amortized cost and estimated fair value of held-to-maturity securities, including gross unrealized gains and losses, at September 30, 2012, and December 31, 2011, were as follows:

	September 30, 2012			
(Amounts in thousands)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
Municipal securities	$ 816	$ 9	$	$ 825
Total	$ 816	$ 9	$	$ 825

	December 31, 2011			
(Amounts in thousands)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
Municipal securities	$ 3,490	$ 42	$	$ 3,532
Total	$ 3,490	$ 42	$	$ 3,532

The amortized cost and estimated fair value of available-for-sale and held-to-maturity securities by contractual maturity at September 30, 2012, 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.

(Amounts in thousands)	**Amortized Cost**	**Fair Value**
Available-for-sale securities		
Due within one year	$ 14,567	$ 14,580
Due after one year but within five years	16,957	17,592
Due after five years but within ten years	19,505	20,561
Due after ten years	165,264	159,271
	216,293	212,004
Mortgage-backed securities	295,239	299,495
Equity securities	5,556	5,662
Total	$ 517,088	$ 517,161
Held-to-maturity securities		
Due within one year	$ 60	$ 61
Due after one year but within five years	756	764
Due after five years but within ten years		
Due after ten years		
Total	$ 816	$ 825

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Available-for-sale securities in a continuous unrealized loss position for less than 12 months and for 12 months or longer at September 30, 2012, and December 31, 2011 were as follows:

	September 30, 2012					
	Less than 12 Months		12 Months or longer		Total	
(Amounts in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Municipal securities	$ 1,824	$ (7)	$	$	$ 1,824	$ (7)
Single issue trust preferred securities			42,598	(13,095)	42,598	(13,095)
Mortgage-backed securities:						
Agency	22,444	(120)	16		22,460	(120)
Non-Agency Alt-A residential			11,212	(3,018)	11,212	(3,018)
Total mortgage-backed securities	22,444	(120)	11,228	(3,018)	33,672	(3,138)
Equity securities	5,114	(22)	98	(90)	5,212	(112)
Total	$ 29,382	$ (149)	$ 53,924	$ (16,203)	$ 83,306	$ (16,352)

	December 31, 2011					
	Less than 12 Months		12 Months or longer		Total	
(Amounts in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Municipal securities	$	$	$ 40,244	$ (15,405)	$ 40,244	$ (15,405)
Mortgage-backed securities:						
Agency	52,300	(285)			52,300	(285)
Non-Agency Alt-A residential			10,030	(5,950)	10,030	(5,950)
Total mortgage-backed securities	52,300	(285)	10,030	(5,950)	62,330	(6,235)
Equity securities			188	(104)	188	(104)
Total	$ 52,300	$ (285)	$ 50,462	$ (21,459)	$ 102,762	$ (21,744)

There were no held-to-maturity securities in a continuous unrealized loss position at September 30, 2012, or December 31, 2011. The carrying value of securities pledged to secure public deposits and for other purposes was $303.62 million at September 30, 2012, and $288.80 million at December 31, 2011.

The following table details the Company s gross gains and gross losses realized from the sale of securities for the three and nine months ended September 30, 2012 and 2011.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in thousands)	2012	2011	2012	2011
Gross realized gains	$ 315	$ 208	$ 434	$ 6,889
Gross realized losses	(87)	(30)	(164)	(1,651)
Net (loss) gain on sale of securities	$ 228	$ 178	$ 270	$ 5,238

At September 30, 2012, the combined depreciation in value of the 25 individual securities in an unrealized loss position was 3.16% of the combined reported value of the aggregate securities portfolio. At December 31, 2011, the combined depreciation in value of 28 individual securities in an unrealized loss position was 4.51% of the combined reported value of the aggregate securities portfolio.

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

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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 nine months ended September 30, 2012 and September 30, 2011, 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 nine months ended September 30, 2012, the Company incurred credit-related OTTI charges on beneficial interest debt securities of $942 thousand. During the three and nine months ended September 30, 2011, the Company incurred credit-related OTTI charges on beneficial interest debt securities of $210 thousand and $737 thousand, respectively. These charges were related to a non-Agency MBS.

For the non-Agency Alt-A residential MBS, the Company uses a discounted cash flow model with the following assumptions: voluntary constant prepayment rate of 5%, a customized constant default rate scenario that assumes approximately 21% of the remaining underlying mortgages will default within three years, and a customized loss severity rate scenario that ramps the loss rate down from 75% to 15% over the course of seven years.

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 September 30,		Nine Months Ended September 30,	
(Amounts in thousands)	**2012**	**2011**	**2012**	**2011**
Beginning balance [(1)]	$ 6,536	$ 4,778	$ 6,536	$ 4,251
Additions for credit losses on securities not previously recognized				
Additions for credit losses on securities previously recognized	942	210	942	737
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	$ 4,988	$ 7,478	$ 4,988

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

For equity securities, the Company reviews for OTTI based upon the prospects of the underlying companies, analysts expectations, and certain other qualitative factors to determine if impairment is recoverable over a foreseeable period of time. During the three and nine months ended September 30, 2012 and 2011, 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 September 30, 2012, and December 31, 2011, the Company owned $11.53 million and $10.82 million, respectively, of FHLBA stock. The Company s policy is to review the stock for impairment at each reporting period. During the first nine months of 2012, the FHLBA paid quarterly dividends and repurchased excess

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activity-based stock. Based on the Company s review and publicly available information concerning the FHLBA, it believes that as of September 30, 2012, its FHLBA stock was not impaired. At September 30, 2012, and December 31, 2011, the Company owned $5.69 and $4.78 million, respectively, of FRB Richmond stock.

Note 5. Loans

Loan Portfolio

Loans, net of unearned income, consisted of the following at September 30, 2012, and December 31, 2011:

	September 30, 2012		December 31, 2011	
(Amounts in thousands)	Amount	Percent	Amount	Percent
Covered loans	$ 221,977	12.59%	$	0.00%
Non-covered loans				
Commercial loans				
Construction, development, and other land	62,030	3.52%	61,768	4.42%
Commercial and industrial	97,422	5.52%	91,939	6.58%
Multi-family residential	75,756	4.30%	77,050	5.52%
Single family non-owner occupied	135,346	7.67%	106,743	7.65%
Non-farm, non-residential	449,359	25.48%	336,005	24.07%
Agricultural	1,474	0.08%	1,374	0.10%
Farmland	36,735	2.08%	37,161	2.66%
Total commercial loans	858,122	48.65%	712,040	51.00%
Consumer real estate loans				
Home equity lines	111,877	6.34%	111,387	7.98%
Single family owner occupied	474,985	26.93%	473,067	33.89%
Owner occupied construction	15,076	0.86%	19,577	1.40%
Total consumer real estate loans	601,938	34.13%	604,031	43.27%
Consumer and other loans				
Consumer loans	76,004	4.31%	67,129	4.81%
Other	5,569	0.32%	12,867	0.92%
Total consumer and other loans	81,573	4.63%	79,996	5.73%
Total non-covered loans	1,541,633	87.41%	1,396,067	100.00%
Total loans held for investment, net of unearned income	$ 1,763,610	100.00%	$ 1,396,067	100.00%
Loans held for sale	$ 4,446		$ 5,820	

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Covered loans held for investment consisted of the following at September 30, 2012.

(Amounts in thousands)	**September 30, 2012**
Covered loans	
Commercial loans	
Construction, development, and other land	$ 28,885
Commercial and industrial	6,976
Multi-family residential	3,559
Non-farm, non-residential	50,723
Agricultural	308
Farmland	1,334
Total commercial loans	91,785
Consumer real estate loans	
Home equity lines	87,358
Single family owner occupied	36,459
Owner occupied construction	1,982
Total consumer real estate loans	125,799
Consumer and other loans	
Consumer loans	4,393
Total covered loans	$ 221,977

See Note 11, Commitments and Contingencies, for information concerning the Company s off-balance sheet credit risk related to lending activities.

Acquired Impaired Loans

When the fair value 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 following tables present changes in the carrying balance of acquired impaired loans and activity within those loans during the periods indicated.

	Nine Months Ended September 30, 2012			
(Amounts in thousands)	**Peoples**	**Waccamaw**	**Other**	**Total**
Balance, January 1	$	$	$ 2,886	$ 2,886
Balance, September 30	$ 30,898	$ 115,125	$ 2,314	$ 148,337

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(Amounts in thousands)	Nine Months Ended September 30, 2011
Balance, January 1	$ 3,221
Balance, September 30	$ 2,865

The outstanding balance of acquired impaired loans was $220.07 million at September 30, 2012, $7.71 million at December 31, 2011, and $7.75 million at September 30, 2011.

The following tables present changes in the accretable yield during the periods indicated:

	Nine Months Ended September 30, 2012			
(Amounts in thousands)	Peoples	Waccamaw	Other	Total
Balance, January 1	$	$	$ 919	$ 919
Additions	3,400	26,481		29,881
Accretion	(399)	(1,491)	(1,198)	(3,088)
Reclassifications from nonaccretable difference			139	139
Disposals	77	108	161	346
Balance, September 30	$ 3,078	$ 25,098	$ 21	$ 28,197

(Amounts in thousands)	Nine Months Ended September 30, 2011
Balance, January 1	$ 944
Accretion	(13)
Reclassifications from nonaccretable difference	
Disposals	
Balance, September 30	$ 931

Note 6. 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. See Note 3, Business Combinations, for additional information.

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

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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. The Company enhanced the allowance for loan losses during the third quarter of 2012 by combining three previously reported commercial loan classes, Construction commercial , Land development , and Other land , into one segment, Construction, development, and other land . Management determined that qualitative and quantitative factors for the respective loan classes were significantly similar and do not warrant separate segmentation.

The following tables detail activity within the allowance for loan losses, by portfolio segment, for the three and nine months ended September 30, 2012 and 2011.

	Three Months Ended September 30, 2012				**Three Months Ended September 30, 2011**			
(Amounts in thousands)	**Commercial**	**Consumer Real Estate**	**Consumer and Other**	**Total**	**Commercial**	**Consumer Real Estate**	**Consumer and Other**	**Total**
Beginning balance	$ 18,257	$ 7,272	$ 642	$ 26,171	$ 12,300	$ 12,641	$ 1,541	$ 26,482
Provision for loan losses	436	1,289	191	1,916	7,393	(4,811)	(662)	1,920
Loans charged off	(1,184)	(1,126)	(303)	(2,613)	(2,157)	(712)	(193)	(3,062)
Recoveries credited to allowance	198	63	100	361	968	15	84	1,067
Net charge-offs	(986)	(1,063)	(203)	(2,252)	(1,189)	(697)	(109)	(1,995)
Ending balance	$ 17,707	$ 7,498	$ 630	$ 25,835	$ 18,504	$ 7,133	$ 770	$ 26,407

	Nine Months Ended September 30, 2012				**Nine Months Ended September 30, 2011**			
(Amounts in thousands)	**Commercial**	**Consumer Real Estate**	**Consumer and Other**	**Total**	**Commercial**	**Consumer Real Estate**	**Consumer and Other**	**Total**
Beginning balance	$ 17,752	$ 7,711	$ 742	$ 26,205	$ 12,300	$ 12,641	$ 1,541	$ 26,482
Provision for loan losses	1,735	2,475	248	4,458	10,258	(3,190)	(457)	6,611
Loans charged off	(2,353)	(2,802)	(632)	(5,787)	(5,324)	(2,541)	(680)	(8,545)
Recoveries credited to allowance	573	114	272	959	1,270	223	366	1,859
Net charge-offs	(1,780)	(2,688)	(360)	(4,828)	(4,054)	(2,318)	(314)	(6,686)
Ending balance	$ 17,707	$ 7,498	$ 630	$ 25,835	$ 18,504	$ 7,133	$ 770	$ 26,407

Credit Quality Indicators

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

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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:

	September 30, 2012			December 31, 2011		
(Amounts in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with no related allowance:						
Commercial loans						
Construction, development, and other land	$ 1,556	$ 2,306	$	$ 661	$ 661	$
Commercial and industrial	836	836		114	127	
Multi-family residential	365	365		278	278	
Single family non-owner occupied				1,206	1,244	
Non-farm, non-residential	2,351	2,405		1,616	1,647	
Agricultural						
Farmland				258	258	
Consumer real estate loans						
Home equity lines	276	277		368	378	
Single family owner occupied	1,706	1,875		2,428	2,508	
Owner occupied construction						
Consumer and other loans						
Consumer loans				6	6	
Total impaired loans with no allowance	7,090	8,064		6,935	7,107	
Impaired loans with a related allowance:						
Commercial loans						
Construction, development, and other land				112	112	4
Commercial and industrial	3,293	8,273	3,293	4,031	4,069	2,048
Multi-family residential	386	398	26			
Single family non-owner occupied	1,237	1,290	661	2,232	2,232	124
Non-farm, non-residential	6,287	6,743	1,256	5,317	5,480	1,819
Agricultural						
Farmland	744	744	159			
Consumer real estate loans						
Home equity lines						
Single family owner occupied	4,124	4,228	931	5,529	5,612	1,203
Owner occupied construction						
Consumer and other loans						
Consumer loans						
Total impaired loans with an allowance	16,071	21,676	6,326	17,221	17,505	5,198
Total impaired loans	$ 23,161	$ 29,740	$ 6,326	$ 24,156	$ 24,612	$ 5,198

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

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(Amounts in thousands)	For the Three Months Ended September 30, 2011 Average Recorded Investment	For the Three Months Ended September 30, 2011 Interest Income Recognized	For the Nine Months Ended September 30, 2011 Average Recorded Investment	For the Nine Months Ended September 30, 2011 Interest Income Recognized
Impaired loans with no related allowance:				
Commercial loans				
Construction, development, and other land	$ 83	$	$ 1,538	$ 1
Commercial and industrial	221	4	2,791	4
Multi-family residential	962	10	1,370	24
Single family non-owner occupied	2,481	10	1,673	29
Non-farm, non-residential	1,059	6	1,894	16
Agricultural				
Farmland	333		112	
Consumer real estate loans				
Home equity lines	398	4	470	12
Single family owner occupied	1,617	21	1,374	26
Owner occupied construction			80	3
Consumer and other loans				
Consumer loans	66	1	25	1
Total impaired loans with no allowance	7,220	56	11,327	116
Impaired loans with a related allowance:				
Commercial loans				
Construction, development, and other land	381	4	293	7
Commercial and industrial	4,066	8	1,802	16
Multi-family residential	591		627	
Single family non-owner occupied	2,258	27	2,345	81
Non-farm, non-residential	6,430	98	3,709	109
Agricultural				
Farmland			111	
Consumer real estate loans				
Home equity lines	335		145	
Single family owner occupied	6,064	49	5,847	141
Owner occupied construction				
Consumer and other loans				
Consumer loans				
Total impaired loans with an allowance	20,125	186	14,879	354
Total impaired loans	$ 27,345	$ 242	$ 26,206	$ 470

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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 September 30, 2012, and December 31, 2011.

	September 30, 2012					
(Amounts in thousands)	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
Commercial loans						
Construction, development, and other land	$ 1,556	$	$ 70,081	$ 1,230	$ 19,278	$
Commercial and industrial	4,121	3,285	96,367	1,339	3,910	8
Multi-family residential	386	26	74,669	1,739	4,260	
Single family non-owner occupied	1,602	661	129,658	2,907	4,086	
Non-farm, non-residential	8,638	1,256	457,891	4,966	33,553	
Agricultural			1,780	19	2	
Farmland	744	159	36,270	327	1,055	
Total commercial loans	17,047	5,387	866,716	12,527	66,144	8
Consumer real estate loans						
Home equity lines	276		132,626	1,325	66,333	
Single family owner occupied	5,830	931	491,877	4,781	13,737	
Owner occupied construction			15,846	246	1,212	
Total consumer real estate loans	6,106	931	640,349	6,352	81,282	
Consumer and other loans						
Consumer loans			79,486	630	911	
Other			5,569			
Total consumer and other loans			85,055	630	911	
Total loans	$ 23,153	$ 6,318	$ 1,592,120	$ 19,509	$ 148,337	$ 8

	December 31, 2011					
(Amounts in thousands)	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
Commercial loans						
Construction, development, and other land	$ 773	$ 4	$ 60,846	$ 1,888	$ 149	$
Commercial and industrial	3,738	1,847	87,563	1,668	638	201
Multi-family residential	278		76,772	1,889		
Single family non-owner occupied	3,438	124	102,063	2,836	1,242	
Non-farm, non-residential	6,933	1,819	328,610	5,114	462	
Agricultural			1,374	19		
Farmland	258		36,903	343		
Total commercial loans	15,418	3,794	694,131	13,757	2,491	201
Consumer real estate loans						
Home equity lines	368		111,019	1,365		
Single family owner occupied	7,957	1,203	464,715	4,931	395	
Owner occupied construction			19,577	212		

Total consumer real estate loans	8,325	1,203	595,311	6,508	395	
Consumer and other loans						
Consumer loans	6		67,123	742		
Other			12,867			
Total consumer and other loans	6		79,990	742		
Total loans	$ 23,749	$ 4,997	$ 1,369,432	$ 21,007	$ 2,886	$ 201

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 $2.00 million on an annual basis and at various times through the year. Smaller commercial and retail loans are sampled for review throughout the year by our internal loan review department. Through the loan review process, loans are identified for upgrade or downgrade in risk rating and changed to reflect current information as part of the process.

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

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

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

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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 September 30, 2012, and December 31, 2011. There were no covered loans at December 31, 2011.

	September 30, 2012					
(Amounts in thousands)	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Loss**	**Total**
Non-covered loans						
Commercial loans						
Construction, development, and other land	$ 46,390	$ 4,441	$ 11,107	$ 93	$	$ 62,031
Commercial and industrial	86,312	2,087	3,911	5,112		97,422
Multi-family residential	67,188	3,863	4,705			75,756
Single family non-owner occupied	112,704	5,969	15,624	1,049		135,346
Non-farm, non-residential	397,614	19,221	32,077	447		449,359
Agricultural	1,430	7	37			1,474
Farmland	32,803	1,980	1,952			36,735
Consumer real estate loans						
Home equity lines	106,133	1,798	3,947			111,878
Single family owner occupied	437,158	9,360	28,466			474,984
Owner occupied construction	15,076					15,076
Consumer and other loans						
Consumer loans	74,661	794	539	9		76,003
Other	5,538	13	18			5,569
Total non-covered loans	$ 1,383,007	$ 49,533	$ 102,383	$ 6,710	$	$ 1,541,633

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	September 30, 2012					
(Amounts in thousands)	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Covered loans						
Commercial loans						
Construction, development, and other land	$ 12,470	$ 5,966	$ 10,354	$ 95	$	$ 28,885
Commercial and industrial	3,802	1,300	(15)	1,889		6,976
Multi-family residential	2,423		1,136			3,559
Single family non-owner occupied						
Non-farm, non-residential	27,100	7,899	15,646	78		50,723
Agricultural	306		2			308
Farmland	(134)	1,225	243			1,334
Consumer real estate loans						
Home equity lines	85,232	1,281	820	25		87,358
Single family owner occupied	24,218	4,392	7,485	364		36,459
Owner occupied construction	709	284	989			1,982
Consumer and other loans						
Consumer loans	3,454	629	236	74		4,393
Other						
Total covered loans	$ 159,580	$ 22,976	$ 36,896	$ 2,525	$	$ 221,977

	December 31, 2011					
(Amounts in thousands)	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Commercial loans						
Construction, development, and other land	$ 54,162	$ 5,644	$ 1,962	$	$	$ 61,768
Commercial and industrial	86,288	568	2,679	2,404		91,939
Multi-family residential	74,486	965	1,599			77,050
Single family non-owner occupied	93,444	1,346	11,953			106,743
Non-farm, non-residential	303,071	9,635	22,855	444		336,005
Agricultural	1,327	7	40			1,374
Farmland	35,568	1,055	538			37,161
Consumer real estate loans						
Home equity lines	105,535	2,237	3,615			111,387
Single family owner occupied	435,001	8,936	29,130			473,067
Owner occupied construction	19,190	128	259			19,577
Consumer and other loans						
Consumer loans	66,357	198	574			67,129
Other	12,857	1	9			12,867
Total loans	$ 1,287,286	$ 30,720	$ 75,213	$ 2,848	$	$ 1,396,067

Nonaccrual loans, presented by loan class, consisted of the following at September 30, 2012, and December 31, 2011. Loans acquired 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)	September 30, 2012	December 31, 2011
Commercial loans		
Construction, development, and other land	$ 480	$ 793
Commercial and industrial	3,469	3,905
Multi-family residential	469	341
Single family non-owner occupied	655	1,639
Non-farm, non-residential	9,397	8,063
Agricultural	4	
Farmland	744	271
Consumer real estate loans		
Home equity lines	817	516
Single family owner occupied	10,371	8,255
Owner occupied construction		1
Consumer and other loans		
Consumer loans	86	52
Other	14	
Total	26,506	23,836
Acquired impaired loans	8	651
Total nonaccrual loans	$ 26,514	$ 24,487

The following tables present the aging of past due loans, by loan class, at September 30, 2012, and December 31, 2011. 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 September 30, 2012, or December 31, 2011. 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.

	September 30, 2012					
(Amounts in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	90+ Days Past Due	Total Past Due	Current Loans	Total Loans
Non-covered loans						
Commercial loans						
Construction, development, and other land	$ 134	$ 6	$ 480	$ 620	$ 61,410	$ 62,030
Commercial and industrial	464	346	3,477	4,287	93,135	97,422
Multi-family residential	152		386	538	75,218	75,756
Single family non-owner occupied	882	310	4,106	5,298	130,048	135,346
Non-farm, non-residential	3,016	1,278	9,074	13,368	435,991	449,359
Agricultural		19	3	22	1,452	1,474
Farmland	173			173	36,562	36,735
Consumer real estate loans						
Home equity lines	613	239	587	1,439	110,438	111,877
Single family owner occupied	4,502	1,334	5,366	11,202	463,783	474,985
Owner occupied construction			139	139	14,937	15,076
Consumer and other loans						
Consumer loans	694	55	99	848	75,156	76,004
Other					5,569	5,569
Total non-covered loans	$ 10,630	$ 3,587	$ 23,717	$ 37,934	$ 1,503,699	$ 1,541,633

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	September 30, 2012					
(Amounts in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	90+ Days Past Due	Total Past Due	Current Loans	Total Loans
Covered loans						
Commercial loans						
Construction, development, and other land	$ 905	$ 386	$ 602	$ 1,893	$ 26,992	$ 28,885
Commercial and industrial	80	30		110	6,866	6,976
Multi-family residential					3,559	3,559
Single family non-owner occupied						
Non-farm, non-residential	137	731	357	1,225	49,498	50,723
Agricultural	10			10	298	308
Farmland					1,334	1,334
Consumer real estate loans						
Home equity lines	241	49	417	707	86,651	87,358
Single family owner occupied	580	78	299	957	35,502	36,459
Owner occupied construction			61	61	1,921	1,982
Consumer and other loans						
Consumer loans					4,393	4,393
Other						
Total covered loans	$ 1,953	$ 1,274	$ 1,736	$ 4,963	$ 217,014	$ 221,977

	December 31, 2011					
(Amounts in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	90+ Days Past Due	Total Past Due	Current Loans	Total Loans
Commercial loans						
Construction, development, and other land	$ 253	$	$ 987	$ 1,240	$ 60,528	$ 61,768
Commercial and industrial	150	30	3,568	3,748	88,191	91,939
Multi-family residential	667		342	1,009	76,041	77,050
Single family non-owner occupied	1,222	414	1,020	2,656	104,087	106,743
Non-farm, non-residential	837	860	2,180	3,877	332,128	336,005
Agricultural		7		7	1,367	1,374
Farmland	152		258	410	36,751	37,161
Consumer real estate loans						
Home equity lines	642	222	235	1,099	110,288	111,387
Single family owner occupied	5,230	1,993	5,333	12,556	460,511	473,067
Owner occupied construction		29		29	19,548	19,577
Consumer and other loans						
Consumer loans	198	71	12	281	66,848	67,129
Other					12,867	12,867
Total loans	$ 9,351	$ 3,626	$ 13,935	$ 26,912	$ 1,369,155	$ 1,396,067

The Company s troubled debt restructurings (TDRs) totaled $6.86 million at September 30, 2012, and $9.45 million at December 31, 2011, which are reported net of those on nonaccrual status of $2.18 million and $3.27 million, respectively. Accruing nonperforming TDRs amounted to $121 thousand, or 1.76% of total accruing TDRs at September 30, 2012, and $600 thousand, or 6.35% of total TDRs at December 31, 2011. The allowance for loan losses included reserves related to TDRs of $675 thousand and $1.14 million at September 30, 2012, and December 31, 2011, respectively. Interest income recognized on TDRs for the three and nine months ended September 30, 2012, totaled $62 thousand and $237 thousand, respectively. Interest income recognized on TDRs for the three and nine months ended September 30, 2011, totaled $79 thousand and $428 thousand, respectively. There were no covered loans recorded as TDRs at September 30, 2012.

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 specific reserve based on the net present value method. 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 tables present information for loans modified as TDRs, excluding those on nonaccrual status, that were restructured during the three and nine months ended September 30, 2012 and 2011 by type of concession made and loan class. The post-modification recorded investment represents the loan balance immediately following modification.

	Three Months Ended September 30,					
	2012			2011		
(Amounts in thousands)	Total Contracts	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Total Contracts	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Below market interest rate Single family owner occupied		$	$	1	$ 72	$ 72
Total		$	$	1	$ 72	$ 72

	Nine Months Ended September 30,					
	2012			2011		
(Amounts in thousands)	Total Contracts	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Total Contracts	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Below market interest rate						
Non-farm, non-residential		$	$	2	$ 480	$ 480
Single family owner occupied				4	798	775
Total				6	1,278	1,255
Extended payment term						
Single family owner occupied	1	351	318			
Total	1	351	318			
Total	1	$ 351	$ 318	6	$ 1,278	$ 1,255

There were no payment defaults on loans modified as TDRs during the three and nine months ended September 30, 2012 or 2011 that were restructured within the previous 12 months.

Note 7. FDIC Loss Share Agreements Receivable

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. Under the loss share agreements, the FDIC has agreed to cover 80% of most loan and foreclosed real estate losses. The following table presents changes in the receivable from the FDIC for the nine months ended September 30, 2012:

(Amounts in thousands)	
Beginning balance, January 1, 2012	$
FDIC loss share receivable recorded in Waccamaw acquisition	49,755
Increase in expected losses on loans	
Additional losses on OREO	(475)
Reimbursable expenses	
Amortization of discounts and premiums, net	197
Reimbursements from the FDIC	
Ending balance, September 30, 2012	$ 49,477

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Note 8. Deposits

The following table summarizes interest-bearing deposits by type at September 30, 2012, and December 31, 2011:

(Amounts in thousands)	**September 30, 2012**	**December 31, 2011**
Interest-bearing demand deposits	$ 360,053	$ 275,156
Money market deposits	238,006	167,379
Savings deposits	258,743	227,328
Individual retirement accounts	128,255	104,601
Certificates of deposit	743,803	528,735
Total	$ 1,728,860	$ 1,303,199

Note 9. Borrowings

The following table summarizes borrowings at September 30, 2012, and December 31, 2011:

(Amounts in thousands)	**September 30, 2012**	**December 31, 2011**
Securities sold under agreements to repurchase	$ 146,904	$ 129,208
FHLB advances	161,558	150,000
Subordinated debt	15,464	15,464
Other debt	413	469
Total	$ 324,339	$ 295,141

Securities sold under agreements to repurchase consisted of retail overnight and term repurchase agreements of $88.71 million at September 30, 2012, and $79.21 million at December 31, 2011, and wholesale repurchase agreements of $58.20 million at September 30, 2012, and $50.00 million at December 31, 2011. The weighted average contractual rate of wholesale repurchase agreements was 3.37% at September 30, 2012, and 3.65% at December 31, 2011. Securities sold under agreements to repurchase are collateralized with agency MBS.

FHLB borrowings included convertible and callable advances totaling $155.28 million at September 30, 2012, and $150.00 million at December 31, 2011, and fixed rate credit of $6.27 million at September 30, 2012. The callable advances may be redeemed at quarterly intervals after various lockout periods. 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 advances was 3.86% at September 30, 2012, and 4.12% at December 31, 2011. Advances from the FHLB were secured by qualifying loans of $1.04 billion at September 30, 2012, and $693.33 million at December 31, 2011. At September 30, 2012, unused borrowing capacity with the FHLB totaled $283.90 million.

At September 30, 2012, the FHLB borrowings had approximate contractual maturities between eleven months and nine years. The scheduled maturities of the advances are as follows:

(Amounts in thousands)	**Amount**
2012	$
2013	11,558
2014	
2015	

2016	
2017 and thereafter	150,000
Total	$ 161,558

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In October 2003, the Company issued $15.46 million of junior subordinated debentures (the Debentures) 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 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 10. Defined Benefit Plans Net Periodic Benefit Cost

The Company maintains the Supplemental Executive Retention Plan (SERP) for key members of senior management. The following table sets forth the components of net periodic benefit cost recognized for the domestic, noncontributory, nonqualified defined SERP for the dates indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in thousands)	**2012**	**2011**	**2012**	**2011**
Service cost	$ 38	$ 41	$ 115	$ 121
Interest cost	51	57	152	168
Amortization of gains (losses)	12		34	
Amortization of prior service cost	33	34	100	100
Net periodic cost	$ 134	$ 131	$ 401	$ 388

The Company maintains the Directors Supplemental Retirement Plan (Directors Plan) for nonmanagement directors. The following table sets forth the components of net periodic benefit cost recognized for the domestic, noncontributory, nonqualified Directors Plan for the dates indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in thousands)	**2012**	**2011**	**2012**	**2011**
Service cost	$ 7	$ 7	$ 20	$ 21
Interest cost	10	11	30	33
Amortization of prior service cost	22	22	67	66
Net periodic cost	$ 39	$ 40	$ 117	$ 120

Note 11. 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 $190.07 million at September 30, 2012, and $194.27 million at December 31, 2011. Additionally, the Company had gross notional amounts of outstanding commitments related to secondary market mortgage loans of $14.75 million at September 30, 2012, and $9.15 million at December 31, 2011.

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

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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 $4.86 million at September 30, 2012, and $2.90 million at December 31, 2011. The Company maintained a reserve for unfunded lending commitments of $326 thousand at September 30, 2012, and $329 thousand at December 31, 2011.

The Company has issued, through the Trust, $15.00 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.

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.

Note 12. Fair Value

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. 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 before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal, or most advantageous, market that are independent, knowledgeable, and able and willing to enter into a transaction.

The fair value hierarchy categorizes the inputs to valuation techniques as follows:

Level 1 Inputs	Observable inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity can 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 inputs 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, and implied volatilities, and credit spreads, or inputs that are derived principally from observable market data.
Level 3 Inputs	Unobservable inputs used to measure fair value for the asset or liability for which there is little, if any, market activity at the measurement date. These inputs are developed using the best information available at the time to the extent that inputs are available without undue cost and effort. These inputs and assumptions may include an entity s own assumptions and model-derived inputs that are not corroborated by observable market data.

The Company s fair value valuation techniques 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. If quoted market prices are not available, fair value is based upon third party models that primarily use observable market-based parameters as input. Valuation adjustments, including amounts to reflect counterparty credit quality, the Company s creditworthiness, and unobservable parameters, may be made to ensure that financial instruments are recorded at fair value. 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 value. 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 could result in a different estimate of fair value at the reporting date.

Securities Available-for-Sale: Securities classified as available-for-sale are recorded at fair value on a recurring basis utilizing Level 1, Level 2, and Level 3 inputs. Securities are classified as Level 1 when quoted prices are available in an active market.

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Level 1 inputs are used to value securities whose value is based on quoted market prices in active markets for identical assets, including U.S. Treasury securities. The Company also uses Level 1 inputs for the valuation of equity securities traded in active markets.

Securities are classified as Level 2 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 inputs. Level 2 inputs are used to value U.S. agency securities, states and political subdivisions, single issue trust preferred securities, corporate FDIC insured securities, MBS, and certain equity securities that are not actively traded.

Securities are classified as Level 3 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, when available, are used. There were no securities classified as Level 3 at September 30, 2012, or December 31, 2011.

Fair value models may be required when trading activity has declined significantly or does not exist, or when prices are not current or pricing variations are significant. The Company s third party fair value model utilizes modeling software that incorporates market participant data and knowledge of the structure 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 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. The following summary describes the valuation techniques used by the Company to measure certain assets and liabilities recorded at fair value:

Other Assets and Associated Liabilities: Securities held for trading purposes are reported in other assets on the consolidated balance sheets and recorded at fair value on a recurring basis utilizing Level 1 inputs. Securities held for trading purposes include assets and liabilities related to employee deferred compensation plans. The assets associated with these plans are generally invested in equities and the liabilities are carried at the fair value of the obligation to the employee, which corresponds to the fair value of the invested assets.

Derivative Instruments: Derivatives are recorded at fair value on a recurring basis utilizing Level 2 inputs. The Company obtains dealer quotes based on observable market data to value derivatives. See Note 12, Derivative Instruments and Hedging Activities, for additional information.

Impaired Loans: Certain impaired loans, including restructured loans, are recorded at fair value on a nonrecurring basis using Level 3 inputs when repayment is expected solely from the sale of the underlying collateral. Collateral values are based on appraisals and adjusted for customized discounting criteria. 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 (OREO): OREO is recorded at fair value on a nonrecurring basis using Level 3 inputs. Real estate values are based on current and prior appraisals, estimated sales costs, and proprietary qualitative adjustments.

Goodwill: Goodwill is recorded at fair value on a nonrecurring basis using Level 3 inputs. When the book value of a reporting unit exceeds its determined fair value, goodwill impairment exists and the reporting unit is adjusted to fair value. Fair value is determined using discounted cash flow and market multiple models.

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Recurring and Nonrecurring Fair Value

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

		September 30, 2012		
	Total	Fair Value Measurements Using		
(Amounts in thousands)	Fair Value	Level 1	Level 2	Level 3
Available-for-sale securities:				
Municipal securities	$ 155,928	$	$ 155,928	$
Single issue trust preferred securities	42,597		42,597	
Corporate FDIC insured securities	13,479		13,479	
Agency MBS	288,283		288,283	
Non-Agency Alt-A residential MBS	11,212		11,212	
Equity securities	5,662	5,642	20	
Total available-for-sale securities	$ 517,161	$ 5,642	$ 511,519	$
Deferred compensation assets	$ 3,536	$ 3,536	$	$
Derivatives				
Interest rate lock commitments	$ 301	$	$ 301	$
Deferred compensation liabilities	$ 3,536	$ 3,536	$	$
Derivative liabilities				
Interest rate lock commitments	$ 2	$	$ 2	$

		December 31, 2011		
	Total	Fair Value Measurements Using		
(Amounts in thousands)	Fair Value	Level 1	Level 2	Level 3
Available-for-sale securities:				
Municipal securities	$ 137,815	$	$ 137,815	$
Single issue trust preferred securities	40,244		40,244	
Corporate FDIC insured securities	13,718		13,718	
Agency MBS	280,102		280,102	
Non-Agency Alt-A residential MBS	10,030		10,030	
Equity securities	521	501	20	
Total available-for-sale securities	$ 482,430	$ 501	$ 481,929	$
Deferred compensation assets	$ 3,210	$ 3,210	$	$
Derivative assets				
Interest rate lock commitments	$ 135	$	$ 135	$
Deferred compensation liabilities	$ 3,210	$ 3,210	$	$
Derivative liabilities				
Interest rate lock commitments	$ 6	$	$ 6	$

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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.

		September 30, 2012		
	Total	Fair Value Measurements Using		
(Amounts in thousands)	Fair Value	Level 1	Level 2	Level 3
Impaired loans not covered by loss share agreements	$ 6,900			$ 6,900
OREO not covered by loss share agreements	5,728			5,728

		December 31, 2011		
	Total	Fair Value Measurements Using		
(Amounts in thousands)	Fair Value	Level 1	Level 2	Level 3
Impaired loans	$ 12,022	$	$	$ 12,022
OREO	5,914			5,914
Goodwill insurance agencies	9,405			9,405

There were no transfers between valuation levels for any asset during the three and nine months ended September 30, 2012 or 2011. 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:

(Amounts in thousands)	Fair Value at September 30, 2012	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired loans	$ 6,900	Discounted appraisals (1)	Appraisal adjustments (2)	5% to 100% (38%)
OREO	5,728	Discounted appraisals (1)	Appraisal adjustments (2)	0% to 73% (32%)

(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.

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:

	September 30, 2012				
	Carrying		Fair Value Measurements Using		
(Amounts in thousands)	Amount	Fair Value	Level 1	Level 2	Level 3
Assets					
Cash and cash equivalents	$ 165,229	$ 165,229	$ 165,229	$	$
Available-for-sale securities	517,161	517,161	5,642	511,519	
Held-to-maturity securities	816	825		825	
Loans held for sale	4,446	4,540		4,540	
Loans held for investment less allowance					
Covered under loss share agreements	221,977	221,977			221,977
Not covered under loss share agreements	1,541,633	1,551,116			1,551,116
FDIC receivable under loss share agreements	49,477	49,477			49,477
Accrued interest receivable	6,038	6,038		6,038	
Derivative financial assets	301	301		301	
Deferred compensation assets	3,536	3,536	3,536		
Liabilities					
Demand deposits	$ 335,100	$ 335,100	$	$ 335,100	$
Interest-bearing demand deposits	360,053	360,053		360,053	
Savings deposits	496,749	496,749		496,749	
Time deposits	872,058	882,943		882,943	
Securities sold under agreements to repurchase	146,904	155,062		155,062	
Accrued interest payable	2,548	2,548		2,548	
FHLB and other indebtedness	177,435	202,739		202,739	
Derivative financial liabilities	2	2		2	
Deferred compensation liabilities	3,536	3,536	3,536		

	December 31, 2011	
	Carrying	
(Amounts in thousands)	Amount	Fair Value
Assets		
Cash and cash equivalents	$ 47,294	$ 47,294
Investment securities	485,920	485,962
Loans held for sale	5,820	5,877
Loans held for investment less allowance	1,369,862	1,386,419
Accrued interest receivable	6,193	6,193
Derivative financial assets	135	135
Deferred compensation assets	3,210	3,210
Liabilities		
Demand deposits	$ 240,268	$ 240,268
Interest-bearing demand deposits	275,156	275,156
Savings deposits	394,707	394,707
Time deposits	633,336	641,604
Securities sold under agreements to repurchase	129,208	136,359
Accrued interest payable	2,554	2,554
FHLB and other indebtedness	165,933	183,722
Derivative financial liabilities	6	6
Deferred compensation liabilities	3,210	3,210

Note 13. Derivative Instruments and Hedging Activities

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

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

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

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

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

(Amounts in thousands)	**September 30, 2012**	**December 31, 2011**	**September 30, 2011**
Derivatives not designated as hedges			
IRLCs	$ 14,747	$ 9,155	$ 10,421

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

	September 30, 2012		**December 31, 2011**		**September 30, 2011**	
(Amounts in thousands)	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Asset derivatives						
Derivatives not designated as hedges						
IRLCs	Other assets	$ 301	Other assets	$ 135	Other assets	$ 122
Total		$ 301		$ 135		$ 122
Liability derivatives						
Derivatives not designated as hedges						
IRLCs	Other liabilities	$ 2	Other liabilities	$ 6	Other liabilities	$ 9
Total		$ 2		$ 6		$ 9

For the quarters ended September 30, 2012 and 2011, the Company determined there was no amount of ineffectiveness on cash flow hedges. The following table details gains recognized in income on derivatives for the dates indicated:

		Three Months Ended September 30,		**Nine Months Ended September 30,**	
(Amounts in thousands)	**Income Statement Location**	**2012**	**2011**	**2012**	**2011**
Derivatives not designated as hedges					
IRLCs	Other income	$ 94	$ 81	$ 170	$ 144

Total	$ 94	$ 81	$ 170	$ 144

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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 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 2011 Annual Report on Form 10-K (the 2011 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 Quarterly Report on Form 10-Q 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 expression 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 U.S. Treasury and 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 require banking institutions to increase levels of capital; technological changes;

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

the growth and profitability of 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, Part I, Item 1A, Risk Factors, of our 2011 Form 10-K, and Part II, Item 1A, Risk Factors, of our Current Report on Form 10-Q for the period ended June 30, 2012 (Second Quarter 2012 Form 10-Q).

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-four locations in Virginia, West Virginia, North Carolina, South Carolina, and Tennessee. Our Company is also the parent company of Greenpoint Insurance Group, Inc. (Greenpoint), headquartered in High Point, North Carolina, a full-service insurance agency offering commercial and personal lines of insurance through six locations in Virginia, West Virginia, and North Carolina. The Bank is the parent of First Community Wealth Management, a

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registered investment advisory firm that offers wealth management and investment advice with $884 million in aggregate assets under management as of September 30, 2012. 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 $2.77 billion as of September 30, 2012. Our Common Stock is traded on the NASDAQ Global Select Market under the symbol, FCBC.

We fund our lending activities primarily through the retail deposit operations of our branch banking network. Retail and wholesale repurchase agreements and borrowings from the Federal Home Loan Bank (FHLB) provide additional funding as needed. 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 United States agencies, municipals, and certain corporate notes and debt instruments. We also maintain overnight interest-bearing balances with the Federal Reserve and other correspondent banks. The difference between interest earned on assets and interest paid on liabilities is our primary source of earnings. Our net interest income is supplemented by fees for services, commissions on sales, and various deposit service charges.

Critical Accounting Estimates

We prepare our consolidated financial statements in accordance with U.S. generally accepted accounting principles (GAAP) and conform to general practices within the banking industry. Our financial position and results of operations require management to make judgments and estimates to develop the amounts reflected and disclosed in the consolidated financial statements. Different assumptions in the application of these estimates could result in material changes to our consolidated financial position and consolidated results of operations. Estimates, assumptions, and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Our accounting estimates are fundamental to understanding MD&A and the disclosures presented in the Notes to 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 2011 Form 10-K.

Dodd-Frank Wall Street Reform and Consumer Protection Act

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

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

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

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

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

- Makes permanent the $250 thousand limit for federal deposit insurance and provides unlimited federal deposit insurance until January 1, 2013, for noninterest-bearing demand transaction accounts at all insured depository institutions.

- 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.

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,

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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.

Recent Business Combinations

On June 8, 2012, the Company entered into a purchase and assumption agreement with loss share arrangements with the Federal Deposit Insurance Corporation (the FDIC) to purchase certain assets and assume substantially all of the customer deposits and certain liabilities of Waccamaw Bank (Waccamaw). Waccamaw, a full service community bank headquartered in Whiteville, North Carolina, operated sixteen branches throughout North and South Carolina. At acquisition, Waccamaw had total assets of approximately $500.43 million, loans of approximately $318.32 million, and deposits of approximately $414.13 million. As a result of the acquisition and the preliminary purchase price allocation, approximately $11.66 million was recorded as goodwill, which represents the excess fair market value of the net assets acquired and indentified intangibles over the purchase price. Under the Single-Family Shared-Loss Agreement and the Commercial Shared-Loss Agreement with the FDIC, the FDIC has agreed to cover 80% of most loan and foreclosed real estate losses. All assets acquired and liabilities assumed are recorded at estimated fair value on the date of acquisition. These fair value estimates are considered preliminary, and are subject to change for up to one year after the closing date of the acquisition as additional information relative to closing date fair values may become available.

On May 31, 2012, the Company completed the acquisition of Peoples Bank of Virginia (Peoples), based in Richmond, Virginia. Peoples, a full service community bank, operated four branches throughout the Richmond area. At acquisition, Peoples had total assets of approximately $276.88 million, loans of approximately $184.84 million, and deposits of approximately $232.75 million. Under the terms of the merger agreement, shares of Peoples were exchanged for $6.08 in cash and 1.07 shares of the Company s common stock, resulting in a purchase price of approximately $40.28 million. As a result of the acquisition and the preliminary purchase price allocation, approximately $9.10 million was recorded as goodwill, which represents the excess fair market value of the net assets acquired and indentified intangibles over the purchase price. These fair value estimates are considered preliminary, and are subject to change for up to one year after the closing date of the acquisition as additional information relative to closing date fair values may become available.

Results Of Operations

Overview

The following list includes significant developments regarding our Company and operations during the third quarter and first nine months of 2012:

- We completed the acquisition of Peoples on May 31, 2012, and the FDIC-assisted acquisition of Waccamaw on June 8, 2012.

- Tax equivalent net interest margin increased 71 basis points during the quarter and 28 basis points during the first nine months of 2012 compared with the same periods of 2011.

- Net interest income increased $8.73 million, or 49.20%, compared with the third quarter of 2011 and $10.16 million, or 18.89%, compared with the first nine months of 2011.

Net Income

Net income increased $4.74 million, or 89.15%, to $10.06 million for the third quarter of 2012 compared with $5.32 million for the third quarter of 2011. Net income available to common shareholders increased $4.81 million, or 95.53%, to $9.84 million for the third quarter of 2012 compared with $5.03 million for the third quarter of 2011. The increase was largely attributed to the substantial increase in earning assets as a result of the Peoples and Waccamaw acquisitions. Also impacting the third quarter of 2012 was a $2.39 million out-of-period adjustment of historical charge-offs, offset by increases in the net impairment loss recognized on earnings and merger related expenses. Diluted earnings per common share totaled $0.47 for the third quarter of 2012 compared to 0.28 for the third quarter of 2011.

Net income increased $3.34 million, or 19.89%, to $20.14 million for first nine months of 2012 compared with $16.80 million for the first nine months of 2011. Net income available to common shareholders increased $2.97 million, or 18.14%, to $19.35 million for the first nine months of 2012 compared with $16.38 million for the first nine months of 2011. The

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increase was largely attributed to the substantial increase in earning assets as a result of the Peoples and Waccamaw acquisitions, a $2.39 million out-of-period adjustment of historical charge-offs, decreases in the interest paid on deposit accounts, and a reduction to the provision for loan losses, offset by merger related expenses. Diluted earnings per common share totaled $1.00 for the first nine months of 2012 compared to $0.91 for the first nine months of 2011.

During the third quarter of 2012, the Company discovered certain overstatements of loan charge-offs reported in prior periods beginning in 2007 which resulted from not recognizing the impact of interest payments that had been applied to principal for loans that were on non-accrual status. The overstatements of charge-offs resulted in an overstatement of provision for loan losses and corresponding understatement of pre-tax income that totaled $321 thousand, $639 thousand, and $938 thousand for the years ended December 31, 2009, 2010, and 2011, respectively. The total periodic charge-off overstatements from 2007 to year-end 2011 approximated $2.39 million. Management analyzed the error to determine if any of the prior years were materially misstated and determined that they were not. Management also determined that correcting the error in the current year would not materially misstate this year s results. The Company recorded the correction to the prior period understatements in the quarter ended September 30, 2012, through an increase to other income in the amount of $2.39 million.

Net Interest Income Quarterly Comparison (See Table I)

Net interest income, the largest contributor to earnings, increased $8.73 million, or 49.20%, for the quarter ended September 30, 2012, compared with the same quarter of 2011. 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. Tax equivalent net interest income increased $8.73 million, or 47.41%, for the quarter ended September 30, 2012, compared with the same quarter of 2011. The increase in tax equivalent net interest income was primarily due to the increase in average earning assets from the Peoples and Waccamaw acquisitions and reductions in the rates paid on interest-bearing deposits resulting from the sustained low rate environment.

Average earning assets increased $471.72 million and average interest-bearing liabilities increased $405.26 million for the quarter ended September 30, 2012, compared with the same quarter of 2011. The yield on average earning assets increased 46 basis points for the quarter ended September 30, 2012, compared with the same quarter of 2011. The average rate paid on interest-bearing liabilities decreased 29 basis points for the quarter ended September 30, 2012, compared with the same quarter of 2011. Average balances and interest yield/rate changes for earning assets and interest-bearing liabilities resulted in a net interest rate spread that was 75 basis points higher for the third quarter of 2012 compared with the third quarter of 2011. Our net interest margin increased 71 basis points for the quarter ended September 30, 2012, compared with the same quarter of 2011.

The tax equivalent yield on loans increased 50 basis points for the quarter ended September 30, 2012, compared with the same quarter of 2011. Tax equivalent loan interest income increased $8.18 million, or 40.64%, for the quarter ended September 30, 2012, compared with the same quarter of 2011. The increase in interest income on loans was primarily due to the Peoples and Waccamaw acquisitions.

The tax equivalent yield on available-for-sale securities decreased 42 basis points for the quarter ended September 30, 2012, compared with the same quarter of 2011. The decrease was largely due to the sale of higher yielding securities and reinvestment of proceeds from sales, maturities, prepayments, and cash in lower yielding securities. The average balance of held-to-maturity securities continued to decline as securities were called or matured and were not replaced.

The tax equivalent yield on interest-bearing deposits with banks increased 8 basis points for the third quarter of 2012 compared with the third quarter of 2011. 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 $55.58 million, or 19.87%, and the average rate paid on those deposits decreased 5 basis points for the third quarter of 2012 compared with the third quarter of 2011. The average balance of savings deposits increased $97.07 million, or 24.05%, and the average rate paid on those deposits decreased 3 basis points for the quarter ended September 30, 2012, compared with the same quarter of 2011. The average balance of time deposits increased $223.40 million, or 33.12%, and the average rate paid on those deposits decreased 56 basis points for the quarter ended September 30, 2012, compared with the same quarter of 2011. The average balance of noninterest-bearing demand deposits increased $78.94 million, or 35.15%, for the third quarter of 2012 compared with the third quarter of 2011.

There were no federal funds purchased on average for the third quarters of 2012 and 2011. The average balance of retail repurchase agreements, including collateralized retail deposits and commercial treasury accounts, increased $3.67 million, or 4.33%, and the average rate paid on those funds decreased 5 basis points for the quarter ended September 30, 2012, compared with the same quarter of 2011. The increase in the average balance of retail repurchase agreements was primarily due to a full quarter s effect on the balance sheet of the Peoples and Waccamaw acquisitions. The average balance of wholesale repurchase agreements increased $8.20 million, or 16.39%, and the average rate paid on those funds decreased 4 basis points for the quarter ended September 30, 2012, compared with the same quarter of 2011. The average balance of FHLB advances and other borrowings increased $17.34 million, or 10.45%, and the average rate paid on those funds decreased 19 basis points for the quarter ended September 30, 2012, compared with the same quarter of 2011. The change in the average balances and costs of wholesale repurchase agreements and FHLB advances are due to the Peoples and Waccamaw acquisitions.

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

Net interest income increased $10.16 million, or 18.89%, for the nine months ended September 30, 2012, compared with the same period of 2011. Tax equivalent net interest income increased $9.97 million, or 17.79%, for the nine months ended September 30, 2012, compared with the same period of 2011. The increase in tax equivalent net interest income was primarily due to the increase in average earning assets from the Peoples and Waccamaw acquisitions and reductions in the rates paid on interest-bearing deposits resulting from the sustained low rate environment.

Average earning assets increased $188.73 million and average interest-bearing liabilities increased $111.02 million for the nine months ended September 30, 2012, compared with the same period of 2011. The yield on average earning assets remained constant at 5.04% for the nine months ended September 30, 2012, compared with the same period of 2011. The average rate paid on interest-bearing liabilities decreased 29 basis points for the nine months ended September 30, 2012, compared with the same period of 2011. Average balances and interest yield/rate changes for earning assets and interest-bearing liabilities resulted in a net interest rate spread that was 29 basis points higher for the first nine months of 2012 compared with the first nine months of 2011. Our net interest margin increased 28 basis points for the nine months ended September 30, 2012, compared with the same period of 2011.

The tax equivalent yield on loans decreased 4 basis points for the nine months ended September 30, 2012, compared with the same period of 2011. Tax equivalent loan interest income increased $7.86 million, or 12.93%, for the nine months ended September 30, 2012, compared with the same period of 2011. The increase in interest income on loans was primarily due to the Peoples and Waccamaw acquisitions.

The tax equivalent yield on available-for-sale securities decreased 71 basis points for the nine months ended September 30, 2012, compared with the same period of 2011. The decrease was largely due to the sale of higher yielding securities in the prior year and reinvestment of proceeds from sales, maturities, prepayments, and cash in lower yielding securities. The average balance of held-to-maturity securities continued to decline as securities were called or matured and were not replaced.

The tax equivalent yield on interest-bearing deposits with banks increased 13 basis points for the first nine months of 2012 compared with the first nine months of 2011. Interest-bearing deposits with banks are comprised primarily of excess liquidity kept at the Federal Reserve that bears overnight market rates.

The average balance of interest-bearing demand deposits increased $27.95 million, or 10.08%, and the average rate paid on those deposits decreased 14 basis points for the first nine months of 2012 compared with the first nine months of 2011. The average balance of savings deposits increased $24.25 million, or 5.84%, and the average rate paid on those deposits decreased 13 basis points for the nine months ended September 30, 2012, compared with the same period of 2011. The average balance of time deposits increased $56.02 million, or 8.06%, and the average rate paid on those deposits decreased 51 basis points for the nine months ended September 30, 2012, compared with the same period of 2011. The average balance of noninterest-bearing demand deposits increased $61.33 million, or 28.05%, for the first nine months of 2012 compared with the first nine months of 2011. These increased balances during the nine months ended September 30, 2012, were due to the Peoples and Waccamaw acquisitions.

The average balance of federal funds purchased increased $654 thousand for the first nine months of 2012 compared to no federal funds purchased on average for the first nine months of 2011. The average balance of retail repurchase agreements, including collateralized retail deposits and commercial treasury accounts, decreased $6.59 million, or 7.75%, and the average rate paid on those funds decreased 11 basis points for the nine months ended September 30, 2012, compared with the same period of 2011. The decrease in the average balance of retail repurchase agreements was primarily due to lower balances in commercial treasury accounts in the slow economy, which were slightly offset by the Peoples and Waccamaw acquisitions. The average balance of wholesale repurchase agreements increased $4.15 million, or 8.29%, and the average rate paid on those funds decreased 11 basis points for the nine months ended September 30, 2012, compared with the same period of 2011. The average balance of FHLB advances and other borrowings increased $4.59 million, or 2.70%, and the average rate paid on those funds decreased 6 basis points for the nine months ended September 30, 2012, compared with the same period of 2011.

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Table I

	Average Balance Sheets and Net Interest Income Analysis Three Months Ended September 30, 2012			2011		
(Amounts in thousands)	Average Balance	Interest [1]	Average Yield/ Rate [1]	Average Balance	Interest [1]	Average Yield/ Rate [1]
Assets						
Earning assets						
Loans [2]	$ 1,790,489	$ 28,305	6.29%	$ 1,379,144	$ 20,124	5.79%
Securities available-for-sale	525,151	3,819	2.89%	413,538	3,447	3.31%
Securities held-to-maturity	2,975	26	3.48%	3,753	78	8.25%
Interest-bearing deposits	89,827	65	0.29%	140,285	75	0.21%
Total earning assets	2,408,442	32,215	5.32%	1,936,720	23,724	4.86%
Other assets	359,348			254,425		
Total assets	$ 2,767,790			$ 2,191,145		
Liabilities						
Interest-bearing deposits						
Demand deposits	$ 335,299	$ 49	0.06%	$ 279,722	$ 80	0.11%
Savings deposits	500,761	171	0.14%	403,688	171	0.17%
Time deposits	897,927	2,384	1.06%	674,528	2,747	1.62%
Total interest-bearing deposits	1,733,987	2,604	0.60%	1,357,938	2,998	0.88%
Borrowings						
Retail repurchase agreements	88,484	120	0.54%	84,813	126	0.59%
Wholesale repurchase agreements	58,195	544	3.72%	50,000	474	3.76%
FHLB advances and other borrowings	183,279	1,808	3.92%	165,938	1,718	4.11%
Total borrowings	329,958	2,472	2.98%	300,751	2,318	3.06%
Total interest-bearing liabilities	2,063,945	5,076	0.98%	1,658,689	5,316	1.27%
Noninterest-bearing demand deposits	330,480			224,543		
Other liabilities	25,728			1,389		
Total liabilities	2,420,153			1,884,621		
Stockholders equity	347,637			306,524		
Total liabilities and stockholders equity	$ 2,767,790			$ 2,191,145		
Net interest income, tax equivalent		$ 27,139			$ 18,408	
Net interest rate spread [3]			4.34%			3.59%
Net interest margin [4]			4.48%			3.77%

(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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Table II

(Amounts in thousands)	2012 Average Balance	2012 Interest (1)	2012 Average Yield/ Rate (1)	2011 Average Balance	2011 Interest (1)	2011 Average Yield/ Rate (1)
	Average Balance Sheets and Net Interest Income Analysis Nine Months Ended September 30,					
Assets						
Earning assets						
Loans (2)	$ 1,566,550	$ 68,610	5.85%	$ 1,378,540	$ 60,755	5.89%
Securities available-for-sale	496,854	11,547	3.10%	420,544	11,991	3.81%
Securities held-to-maturity	3,228	155	6.41%	4,203	263	8.37%
Interest-bearing deposits	66,579	177	0.36%	141,198	244	0.23%
Total earning assets	2,133,211	80,489	5.04%	1,944,485	73,253	5.04%
Other assets	302,136			260,413		
Total assets	$ 2,435,347			$ 2,204,898		
Liabilities						
Interest-bearing deposits						
Demand deposits	$ 305,055	$ 123	0.05%	$ 277,109	$ 404	0.19%
Savings deposits	439,451	400	0.12%	415,197	769	0.25%
Time deposits	751,167	6,846	1.22%	695,150	8,978	1.73%
Total interest-bearing deposits	1,495,673	7,369	0.66%	1,387,456	10,151	0.98%
Borrowings						
Federal funds purchased	654	2	0.41%			0.00%
Retail repurchase agreements	78,472	343	0.58%	85,064	440	0.69%
Wholesale repurchase agreements	54,145	1,482	3.66%	50,000	1,409	3.77%
FHLB advances and other borrowings	174,627	5,284	4.04%	170,034	5,212	4.10%
Total borrowings	307,898	7,111	3.08%	305,098	7,061	3.09%
Total interest-bearing liabilities	1,803,571	14,480	1.07%	1,692,554	17,212	1.36%
Noninterest-bearing demand deposits	279,987			218,659		
Other liabilities	24,241			2,454		
Total liabilities	2,107,799			1,913,667		
Stockholders equity	327,548			291,231		
Total liabilities and stockholders equity	$ 2,435,347			$ 2,204,898		
Net interest income, tax equivalent		$ 66,009			$ 56,041	
Net interest rate spread (3)			3.97%			3.68%
Net interest margin (4)			4.13%			3.85%

(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 September 30, 2012 Compared to 2011 Dollar Increase (Decrease) due to				Nine Months Ended September 30, 2012 Compared to 2011 Dollar Increase (Decrease) due to			
(Amounts in thousands)	**Volume**	**Rate**	**Rate/ Volume**	**Total**	**Volume**	**Rate**	**Rate/ Volume**	**Total**
Interest earned on:								
Loans (FTE)	$ 5,986	$ 1,733	$ 462	$ 8,181	$ 8,286	$ (435)	$ 4	$ 7,855
Securities available-for-sale (FTE)	928	(430)	$ (126)	372	2,176	(2,229)	(391)	(444)
Securities held-to-maturity (FTE)	(16)	(45)	$ 9	(52)	(61)	(61)	14	(108)
Interest-bearing deposits with other banks	(27)	27	$ (10)	(10)	(129)	131	(69)	(67)
Total interest earning assets	6,871	1,285	335	8,491	10,272	(2,594)	(442)	7,236
Interest paid on:								
Demand deposits	16	(39)	(8)	(31)	41	(292)	(30)	(281)
Savings deposits	41	(33)	(8)		45	(392)	(22)	(369)
Time deposits	907	(949)	(321)	(363)	723	(2,651)	(204)	(2,132)
Federal funds purchased							2	2
Retail repurchase agreements	5	(11)		(6)	(34)	(68)	5	(97)
Wholesale repurchase agreements	77	(5)	(2)	70	117	(42)	(2)	73
FHLB advances and other borrowings	179	(76)	(13)	90	141	(72)	3	72
Total interest-bearing liabilities	1,225	(1,113)	(352)	(240)	1,033	(3,517)	(248)	(2,732)
Change in net interest income, tax equivalent	$ 5,646	$ 2,398	$ 687	$ 8,731	$ 9,239	923	(194)	9,968

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 was reduced $4 thousand for the third quarter of 2012 compared with the third quarter of 2011, which was primarily due to a continued general downward trend in net charge-offs. There was no provision for loan losses recorded during the period related to the acquired loan portfolios. We incurred net charge-offs of $2.25 million for the quarter ended September 30, 2012, compared with $2.00 million for the same quarter of 2011. Annualized net charge-offs as a percentage of average non-covered loans was 0.57% for the quarter ended September 30, 2012, compared with 0.57% for the same quarter of 2011.

The provision for loan losses was reduced $2.15 million for first nine months of 2012 compared with the first nine months of 2011, which was primarily due to a continued general downward trend in net charge-offs. We incurred net charge-offs of $4.83 million for the nine months ended September 30, 2012, compared with $6.69 million for the same period of 2011. Annualized net charge-offs as a percentage of average non-covered loans was 0.46% for the nine months ended September 30, 2012, compared with 0.65% for the same period of 2011.

Noninterest Income

Noninterest income, consisting of all revenues not included in interest and fee income related to earning assets, increased $3.10 million, or 38.40%, for the quarter ended September 30, 2012, compared with the same quarter of 2011. Exclusive of the impact of other-than-temporary impairment (OTTI) charges, the gain on the sale of securities, and the $2.39 million out-of-period adjustment, noninterest income increased $1.38 million, or 17.09%, to $9.48 million for the quarter ended September 30, 2012, compared with $8.10 million for the same quarter of 2011.

Wealth management revenues, including fees and commissions for trust services and investment advisory services, increased $137 thousand, or 15.78%, for the quarter ended September 30, 2012, compared with the same quarter of 2011. Service charges on deposit accounts increased $491 thousand, or 14.42%, for the quarter ended September 30, 2012, compared with the same quarter of 2011, due to the Waccamaw acquisition. Other service charges, commissions, and fees increased $205 thousand, or 14.38%, for the quarter ended September 30, 2012, compared with the same quarter of 2011. Insurance commissions increased $93 thousand, or 6.11%, for the quarter ended September 30, 2012, compared with the same quarter of 2011.

Other operating income increased $2.85 million, for the quarter ended September 30, 2012, compared with the same quarter of 2011. The increase was primarily due to the $2.39 million out-of-period adjustment. We incurred OTTI charges of $942 thousand for the quarter ended September 30, 2012, compared to $210 thousand for the quarter ended September 30, 2011, which were related to a non-Agency mortgage-backed security (MBS). We incurred a net gain on sale of securities of $228 thousand for the quarter ended September 30, 2012, which was a $50 thousand increase from the net gain on sale of securities of $178 thousand for the same quarter of 2011. See Note 4, Investment Securities, of the Notes to Condensed Consolidated Financial Statements in Item 1, Financial Statements, herein for additional information.

Noninterest income decreased $1.43 million, or 4.95%, for the nine months ended September 30, 2012, compared with the same period of 2011. Exclusive of the impact of OTTI charges, the gain on the sale of securities, and out-of-period adjustment, noninterest income increased $1.35 million, or 5.51%, to $25.77 million for the nine months ended September 30, 2012, compared with $24.43 million for the same period of 2011.

Wealth management revenues increased $147 thousand, or 5.46%, for the nine months ended September 30, 2012, compared with the same period of 2011. Service charges on deposit accounts increased $449 thousand, or 4.59%, for the nine months ended September 30, 2012, compared with the same period of 2011, due to the Waccamaw acquisition. Other service charges, commissions, and fees increased $487 thousand, or 11.34%, for the nine months ended September 30, 2012, compared with the same period of 2011. Insurance commissions decreased $499 thousand, or 9.93%, for the nine months ended September 30, 2012, compared with the same period of 2011. Profit-sharing commissions from our carriers were lower in the first quarter of 2012 compared with the first quarter of 2011 as a result of higher loss experience on our customers policies. Further, the commissions earned for the first nine months of 2011 include the agency offices sold as part of strategic realignment during the third quarter of 2011.

Other operating income increased $3.16 million for the nine months ended September 30, 2012, compared with the same period of 2011. The increase was primarily due to the $2.39 million out-of-period adjustment. We incurred OTTI charges of $942 thousand for the nine months ended September 30, 2012, compared to $737 thousand for the same period of 2011, which were related to a non-Agency MBS. The net gain on sale of securities decreased $4.97 million, or 94.85%, for the nine months ended September 30, 2012, compared with the same period of 2011. See Note 4, Investment Securities, of the Notes to Condensed Consolidated Financial Statements in Item 1, Financial Statements, herein for additional information.

Noninterest Expense

Noninterest expense increased $4.27 million, or 26.56%, for the third quarter of 2012 compared with the third quarter of 2011. Salaries and employee benefits increased $2.45 million, or 29.15%, for the quarter ended September 30, 2012, compared with the same quarter of 2011. The Peoples and Waccamaw acquisitions completed during the second quarter of 2012 accounted for an increase in salaries and employee benefits of $923 thousand during the third quarter of 2012. At September 30, 2012, we had 758 full-time equivalent employees compared to 628 at September 30, 2011. The Peoples and Waccamaw acquisitions resulted in the addition of 121 full-time equivalent employees for the period ended September 30, 2012. Occupancy, furniture, and equipment expense increased $371 thousand, or 15.87%, to $2.71 million for the quarter ended September 30, 2012, compared with $2.34 million for the same quarter of 2011 as a result of the Peoples and Waccamaw acquisitions.

FDIC premiums and assessments increased $263 thousand, or 75.57%, for the quarter ended September 30, 2012, compared with the same quarter of 2011. We incurred $645 thousand in merger related costs for the quarter ended September 30, 2012, in connection with the Peoples and Waccamaw acquisitions. Other operating expense increased $594 thousand, or 12.60%, for the quarter ended September 30, 2012, compared with the same quarter of 2011. The increase in other operating expense was primarily attributable to our enlarged branch network and associated costs with the Waccamaw acquisition in the areas of legal expense, consulting fees, and travel related expenses. These increases were offset by a $137 thousand decrease in expenses and losses associated with other real estate owned (OREO) to $490 thousand for the third quarter of 2012, compared with $627 thousand for the third quarter of 2011.

Noninterest expense increased $4.79 million, or 9.23%, for the first nine months of 2012 compared with the first nine months of 2011. Salaries and employee benefits increased $1.75 million, or 6.68%, for the nine months ended September 30, 2012, compared with the same period of 2011. The Peoples and Waccamaw acquisitions accounted for an increase in salaries and employee benefits of $1.41 million during the first nine months of 2012. Occupancy, furniture, and equipment expense increased $298 thousand, or 4.04%, to $7.68 million for the nine months ended September 30, 2012, compared with $7.38 million for the same period of 2011.

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FDIC premiums and assessments decreased $417 thousand, or 25.43%, for the nine months ended September 30, 2012, compared with the same period of 2011, which was primarily due to the FDIC s change in assessment methodology for deposit insurance during 2011. We incurred $4.23 million in merger related costs for the nine months ended September 30, 2012, in connection with the Peoples and Waccamaw acquisitions. Other operating expense decreased $442 thousand, or 2.87%, for the nine months ended September 30, 2012, compared with the same period of 2011. The decrease in other operating expense was primarily due to a $1.05 million decrease in expenses and losses associated with OREO to $1.58 million for the first nine months of 2012, compared with $2.63 million for the first nine months of 2011. Also contributing to the change in other operating expense between the first nine months of 2012 compared with 2011 were increases in legal expenses of $572 thousand and travel related expenses of $459 thousand.

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 $5.32 million for the third quarter of 2012 compared to $2.50 million for the third quarter of 2011. The effective tax expense rates for the quarters ended September 30, 2012 and 2011 were 34.60% and 31.99%, respectively.

Consolidated income taxes were $10.17 million for the first nine months of 2012 compared to $7.42 million for the first nine months of 2011. The effective tax expense rates for the nine months ended September 30, 2012 and 2011 were 33.56% and 30.65%, respectively. The increases in the effective tax rates are largely due to an increase in taxable revenues as a percent of net earnings and decrease in the relative amounts of nontaxable revenues.

Financial Condition

Total assets were $2.77 billion as of September 30, 2012, an increase of $604.86 million, or 27.94%, compared with $2.16 billion at December 31, 2011. Total liabilities were $2.42 billion as of September 30, 2012, an increase of $558.78 million, or 30.06%, compared with $1.86 billion at December 31, 2011. Asset and liability increases were primarily due to the Peoples and Waccamaw acquisitions completed during the second quarter of 2012. As of September 30, 2012, our book value per as-converted common share was $16.50, an increase of $0.54, compared with December 31, 2011.

Investment Securities

Available-for-Sale Securities

Available-for-sale securities as of September 30, 2012, increased $34.73 million, or 7.20%, compared with December 31, 2011. The market value of securities available-for-sale as a percentage of amortized cost improved to 101.01% at September 30, 2012, compared with 98.13% at December 31, 2011, as a result of improved pricing on certain issues.

During the third quarter of 2012, we recognized OTTI charges in earnings of $942 thousand compared to $210 thousand recognized during the third quarter of 2011, which were related to a non-Agency MBS. During the first nine months of 2012, we recognized OTTI charges in earnings of $942 thousand compared to $737 thousand recognized during the first nine months of 2011, which were related to a non-Agency MBS. We incurred no OTTI charges on equity securities during the three and nine months ended September 30, 2012, and 2011. See Note 4, Investment Securities, of the Notes to Condensed Consolidated Financial Statements in Item 1, Financial Statements, herein for additional information.

Held-to-Maturity Securities

Held-to-maturity securities as of September 30, 2012, decreased $2.67 million, or 76.62%, compared with December 31, 2011. The market value of securities held-to-maturity as a percentage of amortized cost was 101.10% at September 30, 2012, compared with 101.20% at December 31, 2011.

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Loan Portfolio

Loans Held for Sale

Loans held for sale as of September 30, 2012, decreased $1.37 million, or 23.61% compared with December 31, 2011. 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 commitments. The gross notional amount of outstanding commitments related to secondary market mortgage loans at September 30, 2012, was $14.75 million for 99 loans compared to $9.15 million for 53 loans at December 31, 2011.

Loans Held for Investment

Loans held for investment as of September 30, 2012, increased $367.54 million, or 26.33%, compared with December 31, 2011, and $388.95 million, or 28.29%, compared with September 30, 2011. The increase during the first nine months of 2012 was primarily due to the Peoples and Waccamaw acquisitions. The average loan to deposit ratio was 87.88% for the third quarter of 2012 compared to 89.45% the fourth quarter of 2011, and 87.15% for the third quarter of 2011. The held for investment portfolio continues to be diversified among loan types and industry segments. The following table details the loan portfolio for the dates indicated:

	September 30, 2012		December 31, 2011		September 30, 2011	
(Amounts in thousands)	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
Covered loans	$ 221,977	12.59%	$	0.00%	$	0.00%
Non-covered loans						
Commercial loans						
Construction, development, and other land	62,030	3.52%	61,768	4.42%	58,584	4.26%
Commercial and industrial	97,422	5.52%	91,939	6.58%	92,894	6.76%
Multi-family residential	75,756	4.30%	77,050	5.52%	107,879	7.85%
Single family non-owner occupied	135,346	7.67%	106,743	7.65%	82,939	6.03%
Non-farm, non-residential	449,359	25.48%	336,005	24.07%	325,830	23.70%
Agricultural	1,474	0.08%	1,374	0.10%	1,570	0.12%
Farmland	36,735	2.08%	37,161	2.66%	36,605	2.66%
Total commercial loans	858,122	48.65%	712,040	51.00%	706,301	51.38%
Consumer real estate loans						
Home equity lines	111,877	6.34%	111,387	7.98%	109,444	7.96%
Single family owner occupied	474,985	26.93%	473,067	33.89%	461,104	33.54%
Owner occupied construction	15,076	0.86%	19,577	1.40%	19,279	1.40%
Total consumer real estate loans	601,938	34.13%	604,031	43.27%	589,827	42.90%
Consumer and other loans						
Consumer loans	76,004	4.31%	67,129	4.81%	67,020	4.88%
Other	5,569	0.32%	12,867	0.92%	11,508	0.84%
Total consumer and other loans	81,573	4.63%	79,996	5.73%	78,528	5.72%
Total non-covered loans	1,541,633	87.41%	1,396,067	100.00%	1,374,656	100.00%
Total loans held for investment	$ 1,763,610	100.00%	$ 1,396,067	100.00%	$ 1,374,656	100.00%
Loans held for sale	$ 4,446		$ 5,820		$ 3,575	

Allowance for Loan Losses

The allowance for loan losses is maintained at a level management deems sufficient to absorb probable loan losses inherent in the loan portfolio. The allowance is increased by charges to earnings in the form of provisions for loan losses and recoveries of prior loan charge-offs and decreased by loans charged off. The determination of the allowance requires management to make various assumptions and judgments. As a result, actual loan losses may differ materially from management s determination if actual conditions differ significantly from the assumptions utilized. The ultimate adequacy of the allowance for loan losses is dependent upon a variety of factors beyond our control including, among other things, the economy, changes in interest rates, and the view of regulatory authorities toward loan classifications. Management considers the allowance to be adequate based upon analysis of the portfolio as of September 30, 2012; 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 for non-covered loans totaled $25.84 million at September 30, 2012, $26.21 million at December 31, 2011, and $26.41 million at September 30, 2011. The allowance for loan losses for non-covered loans as a percentage of non-covered loans held for investment was 1.67% at September 30, 2012, 1.88% at December 31, 2011, and 1.92% at September 30, 2011. The decrease between September 30, 2012, and December 31, 2011, was largely due to the addition of Peoples loans at fair value with no corresponding allowance for loan losses. 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. As a result of stable credit metrics and the general downward trend in net charge-offs over recent quarters, management deemed the reduced allowance and provision for loan losses as adequate and directionally consistent. Further, a trend of generally improving charge-off ratios reduced the quantitative estimate of probable losses in the allowance for loan loss methodology. There was no allowance for covered loans as of September 30, 2012.

The following table details the allowance for loan loss activity for non-covered loans and related information for the three and nine months ended September 30, 2012 and 2011.

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(Amounts in thousands)	**2012**	**2011**	**2012**	**2011**
Beginning balance	$ 26,171	$ 26,482	$ 26,205	$ 26,482
Provision for loan losses	1,916	1,920	4,458	6,611
Charge-offs	(2,613)	(3,062)	(5,787)	(8,545)
Recoveries	361	1,067	959	1,859
Net charge-offs	(2,252)	(1,995)	(4,828)	(6,686)
Ending balance	$ 25,835	$ 26,407	$ 25,835	$ 26,407
Non-covered loans				
Annualized net charge-offs to average loans	0.57%	0.57%	0.46%	0.65%
Allowance for loan losses to total loans	1.68%	1.92%	1.68%	1.92%

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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 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)	**September 30, 2012**	**December 31, 2011**	**September 30, 2011**
Non-covered loans			
Nonaccrual loans	$ 26,514	$ 24,487	$ 22,877
Accruing loans past due 90 days or more			
TDRs [1]	121	600	964
Total nonperforming loans	26,635	25,087	23,841
OREO not covered under FDIC loss share agreements	5,957	5,914	5,942
Total nonperforming assets	$ 32,592	$ 31,001	$ 29,783
Covered loans			
Nonaccrual loans	$ 2,849	$	$
Accruing loans past due 90 days or more			
Total nonperforming loans	2,849		
OREO covered under FDIC loss share agreements	3,553		
Total nonperforming assets	$ 6,402	$	$
Total loans			
Nonaccrual loans	$ 29,363	$ 24,487	$ 22,877
Accruing loans past due 90 days or more			
TDRs [1]	121	600	964
Total nonperforming loans	29,484	25,087	23,841
OREO	9,510	5,914	5,942
Total nonperforming assets	$ 38,994	$ 31,001	$ 29,783
Performing TDRs [2]	$ 6,742	$ 8,854	$ 11,235
Total TDRs [3]	$ 6,863	$ 9,454	$ 12,198
Non-covered loans			
Nonperforming loans to total loans	1.73%	1.80%	1.73%
Nonperforming assets to total assets	1.28%	1.43%	1.34%
Allowance for loan losses to nonperforming loans	97.00%	104.46%	110.76%
Total loans (includes covered assets)			
Nonperforming loans to total loans	1.67%	1.80%	1.73%
Nonperforming assets to total assets	1.41%	1.43%	1.34%
Allowance for loan losses to nonperforming loans	87.62%	104.46%	110.76%

(1) TDRs restructured within the past six months, excluding nonaccrual TDRs of $1.77 million, $3.04 million, and $98 thousand at September 30, 2012, December 31, 2012, and September 30, 2011, respectively.

(2)

TDRs with six months or more of satisfactory payment performance, excluding nonaccrual TDRs of $407 thousand, $227 thousand, and $33 thousand at September 30, 2012, December 31, 2011, and September 30, 2011, respectively.

(3) Perfoming and nonperforming TDRs, excluding nonaccrual TDRs of $2.18 million, $3.27 million, and $130 thousand at September 30, 2012, December 31, 2012, and September 30, 2011, respectively.

Non-covered nonperforming assets totaled $32.59 million at September 30, 2012, a $1.59 million increase over December 31, 2011, and a $2.81 million increase over September 30, 2011. Non-covered nonperforming assets as a percentage of total non-covered assets were 1.28% at September 30, 2012, 1.43% at December 31, 2011, and 1.34% at September 30, 2011.

Non-covered nonaccrual loans totaled $26.51 million at September 30, 2012, $24.49 million at December 31, 2011, and $22.88 million at September 30, 2011. As of September 30, 2012, non-covered nonaccrual loans were largely attributed to the following loan classes: single family owner occupied (39.12%); non-farm, non-residential (35.44%);

and commercial and industrial (13.11%). Approximately $1.61 million, or 6.09%, of non-covered nonaccrual loans are attributed to loans acquired in business combinations. 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, the Company generally makes 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 $6.86 million at September 30, 2012, $9.45 million at December 31, 2011, and $12.20 million at September 30, 2011. Accruing nonperforming TDRs amounted to $121 thousand, or 1.76%, of total accruing TDRs as of September 30, 2012, as compared to 6.35% of accruing TDRs at December 31, 2011, and 7.90% of accruing TDRs at September 30, 2011. The allowance for loan losses attributed to TDRs totaled $675 thousand at September 30, 2012, $1.14 million at December 31, 2011, and $959 thousand at September 30, 2011.

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 September 30, 2012. Non-covered OREO, which is carried at the lesser of estimated net realizable value or cost, totaled $5.96 million as of September 30, 2012, a slight increase of $43 thousand, or 0.73%, compared with December 31, 2011. The following table details activity within OREO for the periods indicated:

(Amounts in thousands)	**Non-covered**	**Covered**	**Total**
Beginning balance, January 1, 2012	$ 5,914	$	$ 5,914
Acquired		5,388	5,388
Additions	6,621	295	6,916
Disposals	(5,593)	(1,479)	(7,072)
Valuation adjustments	(985)	(651)	(1,636)
Ending balance, September 30, 2012	$ 5,957	$ 3,553	$ 9,510

(Amounts in thousands)	**September 30, 2011**
Beginning balance, January 1, 2011	$ 4,910
Additions	7,511
Disposals	(5,184)
Valuation adjustments	(1,295)
Ending balance, September 30, 2011	$ 5,942

Covered OREO is pursuant to the FDIC Loss Share Agreements discussed in Note 3, Business Combinations, of the Notes to Condensed Consolidated Financial Statements in Item 1, Financial Statements, herein, and is presented net of the related fair value discount. As of September 30, 2012, non-covered OREO consisted of 45 properties with an average holding period of 8 months. During the third quarter of 2012 the net gain on OREO totaled $38 thousand and during the first nine months of 2012 the net loss on OREO totaled $805 thousand.

Non-covered delinquent loans, comprised of loans 30 days or more past due and nonaccrual loans, totaled $38.85 million as of September 30, 2012, an increase of $2.19 million, or 5.97%, compared with December 31, 2011. The Peoples and Waccamaw acquisitions resulted in an addition of $664 thousand to non-covered delinquent loans at September 30, 2012. Non-covered delinquent loans as a percentage of total non-covered loans measured 2.52% at September 30, 2012, of which loans 30 to 89 days past due comprised 0.80% and nonaccrual loans comprised 1.72%. Non-covered nonperforming loans, comprised of nonaccrual loans, nonperforming TDRs, and unseasoned TDRs, as a percentage of total non-covered loans were 1.71% at September 30, 2012, 1.80% at December 31, 2011, and 1.73% at September 30, 2011.

Deposits

Total deposits as of September 30, 2012, increased $520.49 million, or 33.72%, compared with December 31, 2011. Noninterest-bearing deposits and interest-bearing demand deposits as of September 30, 2012, increased $94.83 million and

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$84.91 million, respectively, compared with December 31, 2011. Savings deposits, which include money market accounts and savings accounts, as of September 30, 2012, increased $102.03 million compared with December 31, 2011. Time deposits as of September 30, 2012, increased $238.72 million compared with December 31, 2011. Increases in deposit accounts were primarily due to the Peoples and Waccamaw acquisitions completed during the second quarter of 2012.

Borrowings

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 September 30, 2012, or December 31, 2011. Retail repurchase agreements increased $9.50 million, or 11.99%, as of September 30, 2012, compared with December 31, 2011. The balance of wholesale repurchase agreements increased $8.20 million, or 16.39%, and the weighted average rate decreased 28 basis points as of September 30, 2012, compared with December 31, 2012. The balance of FHLB advances, including convertible and callable borrowings and fixed rate credit, increased $11.97 million and the weighted average rate decreased 26 basis points as of September 30, 2012, compared with December 31, 2011. As of September 30, 2012, the FHLB advances had maturities between eleven months and nine years.

Stockholders Equity

Total stockholders equity was $351.81 million as of September 30, 2012, an increase of $46.08 million, or 15.07%, compared with $305.73 million at December 31, 2011. During the second quarter we issued 2,157,005 shares of Common Stock for approximately $26.47 million in connection with the Peoples acquisition. The change in stockholders equity during the first nine months of 2012 was also due to net income of $20.14 million, dividends declared on common and preferred stock of $6.74 million, and an increase in accumulated other comprehensive income of $5.98 million.

Risk-Based Capital

Risk-based capital guidelines promulgated by state and federal banking agencies weight balance sheet assets and off-balance sheet commitments based on inherent risks associated with the respective asset types. As of September 30, 2012, 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. Our regulatory capital ratios declined as a result of the addition of assets acquired from Peoples and Waccamaw.

	September 30, 2012	December 31, 2011
Total risk-based capital ratio		
First Community Bancshares, Inc.	16.18%	18.15%
First Community Bank	14.59%	16.12%
Tier 1 risk-based capital ratio		
First Community Bancshares, Inc.	14.93%	16.89%
First Community Bank	13.39%	14.86%
Tier 1 leverage ratio		
First Community Bancshares, Inc.	9.74%	11.50%
First Community Bank	8.67%	10.08%

Liquidity and Capital Resources

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

As of September 30, 2012, we maintained liquidity in the form of unencumbered cash on hand and deposits with other financial institutions of $165.23 million, unpledged available-for-sale securities of $213.54 million, FHLB credit availability of $444.90 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.

As a holding company, we do not conduct significant operations and our primary sources of liquidity are dividends upstreamed from the Bank and borrowings from outside sources. Banking regulations limit the amount of dividends that may be paid by the Bank. As of September 30, 2012, our liquid assets, including cash and investment securities, totaled $23.17 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 September 30, 2012.

Off-Balance Sheet Risk

As of September 30, 2012, our off-balance sheet risk included $190.07 million in commitments to extend credit and $4.86 million in standby letters of credit and financial guarantees. Our exposure to credit loss in the event of nonperformance by other parties to financial instruments is represented by the contractual amount of those instruments.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

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

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

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

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The following table summarizes the impact of immediate and sustained rate shocks in the interest rate environment on net interest income. The model simulates plus 300 to minus 100 basis point changes from the base case rate simulation and illustrates the prospective effects of hypothetical interest rate changes over a twelve-month time period. This modeling technique, although useful, does not take into account all strategies that management might undertake in response to a sudden and sustained rate shock as depicted. Also, as market conditions vary from those assumed in the sensitivity analysis, actual results will also differ due to prepayment and refinancing levels likely deviating from those assumed, the varying impact of interest rate change caps or floors on adjustable rate assets, the potential effect of changing debt service levels on customers with adjustable rate loans, depositor early withdrawals and product preference changes, and other internal and external variables. As of September 30, 2012, 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%.

(Amounts in thousands, except basis points)	**September 30, 2012**		**December 31, 2011**	
Increase (Decrease) in Interest Rates/Basis Points	**Change in Net Interest Income**	**Percent Change**	**Change in Net Interest Income**	**Percent Change**
300	$ 8,267	9.1	$ 8,881	13.0
200	4,962	5.5	6,124	9.0
100	1,732	1.9	3,355	4.9
(100)	(579)	(0.6)	(826)	(1.2)

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

Impact of Inflation and Changing Prices

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

In connection with this report on Form 10-Q, we conducted an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of our disclosure controls and procedures pursuant to the Securities Exchange Act of 1934 (the Exchange Act) Rule 13a-15(b). Based upon that evaluation, the CEO and CFO concluded that, as of September 30, 2012, our disclosure controls and procedures were effective.

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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.

Changes in Internal Control over Financial Reporting

We assess the adequacy of our internal control over financial reporting quarterly and enhance our controls in response to internal control assessments and internal and external audit and regulatory recommendations. There were no changes in our internal control over financial reporting during the quarter ended September 30, 2012, 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

Please refer to our 2011 Form 10-K and Second Quarter 2012 Form 10-Q, for disclosures with respect to our risk factors which could materially affect our business, financial condition, or future results. The risks described in the 2011 Form 10-K and Second Quarter 2012 Form 10-Q are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also adversely affect our business, financial condition, or operating results. There have been no material changes from the risk factors previously disclosed in Part I, Item 1A, Risk Factors, of our 2011 Form 10-K and Part II, Item 1A, Risk Factors, of our Second Quarter 2012 Form 10-Q.

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

(a) Not Applicable

(b) Not Applicable

(c) Issuer Purchases of Equity Securities

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The following table provides information with respect to purchases made by or on behalf of our Company or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934) of our Company s Common Stock during the third quarter of 2012:

	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)
July 1-31, 2012		$		868,354
August 1-31, 2012				877,577
September 1-30, 2012				877,577
Total		$		

(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 222,423 shares in treasury as of September 30, 2012.

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)
10.4**	First Community Bancshares, Inc. and Affiliates Executive Retention Plan (12) and Amendment #1. (13)
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)
10.14**	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 September 30, 2012, are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these Sections.

* Incorporated herewith.
** Indicates a management contract or compensation plan.
*** Submitted electronically herewith.
\# Attached as Exhibit 101 to the Quarterly Report on Form 10-Q for the period ended September 30, 2012, of First Community Bancshares, Inc. are the following documents formatted in XBRL (eXtensive Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of September 30, 2012 (Unaudited), and December 31, 2011; (ii) Condensed Consolidated Statements of Income (Unaudited) for the three and nine months ended September 30, 2012 and 2011; (iii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2012 and 2011; (iv) Condensed Consolidated Statements of Stockholders Equity (Unaudited) for the nine months ended September 30, 2012 and 2011; (v) Condensed Consolidated Statements of Cash Flows (Unaudited) for the nine months ended September 30, 2012 and 2011; and (vi) Notes to the Unaudited Condensed Consolidated Financial Statements.
(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.
(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.

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(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 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 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 2 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.

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SIGNATURES

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

First Community Bancshares, Inc.

DATE: November 14, 2012

/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

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