FIRST COMMUNITY BANCSHARES INC /NV/
Form 10-Q
November 06, 2015
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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

# FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)**

**OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2015**

**Commission file number 000-19297**

**FIRST COMMUNITY BANCSHARES, INC.**

**(Exact name of registrant as specified in its charter)**

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

**P.O. Box 989**

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

**(276) 326-9000**

**(Registrant s telephone number, including area code)**

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

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

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

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

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

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

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

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FIRST COMMUNITY BANCSHARES, INC.

FORM 10-Q

For the quarter ended September 30, 2015

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## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

### FIRST COMMUNITY BANCSHARES, INC.

### CONDENSED CONSOLIDATED BALANCE SHEETS

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

| | | |
|---|---|---|
| Securities sold under agreements to repurchase | 124,076 | 121,742 |
| FHLB borrowings | 65,000 | 90,000 |
| Other borrowings | 15,955 | 17,999 |
| Total liabilities | 2,133,289 | 2,256,562 |
| **Stockholders equity** | | |
| Preferred stock, undesignated par value; 1,000,000 shares authorized; Series A Noncumulative Convertible Preferred Stock, $0.01 par value; 25,000 shares authorized; 0 and 15,151 shares outstanding at September 30, 2015, and December 31, 2014, respectively | | 15,151 |
| Common stock, $1 par value; 50,000,000 shares authorized; 21,381,779 and 20,499,683 shares issued at September 30, 2015, and December 31, 2014, respectively; 3,068,354 and 2,093,464 shares in treasury at September 30, 2015, and December 31, 2014, respectively | 21,382 | 20,500 |
| Additional paid-in capital | 227,621 | 215,873 |
| Retained earnings | 152,046 | 141,206 |
| Treasury stock, at cost | (52,484) | (35,751) |
| Accumulated other comprehensive loss | (3,738) | (5,605) |
| Total stockholders equity | 344,827 | 351,374 |
| Total liabilities and stockholders equity | $ 2,478,116 | $ 2,607,936 |

*See Notes to Consolidated Financial Statements.*

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**FIRST COMMUNITY BANCSHARES, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

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

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

*See Notes to Consolidated Financial Statements.*

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**FIRST COMMUNITY BANCSHARES, INC.**

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

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

*See Notes to Consolidated Financial Statements.*

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**FIRST COMMUNITY BANCSHARES, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (UNAUDITED)**

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

*See Notes to Consolidated Financial Statements.*

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**FIRST COMMUNITY BANCSHARES, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

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

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

*See Notes to Consolidated Financial Statements.*

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# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## Note 1. General

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

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

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

### *Significant Accounting Policies*

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

### *Reclassifications and Corrections*

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

### *Recent Accounting Pronouncements*

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

***Acquisitions and Divestitures***

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

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

***Earnings per Common Share***

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

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

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

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

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**Note 2. Investment Securities**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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## Note 3. Loans

### *Loan Portfolio*

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

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

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

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

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

***Purchased Credit Impaired Loans***

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

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

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

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

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

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

**Note 4. Credit Quality**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

| | Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | |
| *(Amounts in thousands)* | Total Contracts | Pre-Modification Recorded Investment | Post-Modification Recorded Investment | Total Contracts | Pre-Modification Recorded Investment | Post-Modification Recorded Investment |
| Below market interest rate | | | | | | |
| Single family owner occupied | | $ | $ | 3 | $ 1,715 | $ 1,715 |
| Extended payment term | | | | | | |
| Single family non-owner occupied | | | | 1 | 468 | 468 |
| Below market interest rate and extended payment term | | | | | | |
| Single family owner occupied | 4 | 307 | 307 | 2 | 84 | 84 |
| Total | 4 | $ 307 | $ 307 | 6 | $ 2,267 | $ 2,267 |

| | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | |
| *(Amounts in thousands)* | Total Contracts | Pre-Modification Recorded Investment | Post-Modification Recorded Investment | Total Contracts | Pre-Modification Recorded Investment | Post-Modification Recorded Investment |
| Below market interest rate | | | | | | |
| Single family owner occupied | | $ | $ | 4 | $ 1,850 | $ 1,850 |

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

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

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

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

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

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

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

**Note 5. Allowance for Loan Losses**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

| | Nine Months Ended September 30, 2014 | | | |
|---|---|---|---|---|
| | Commercial | Consumer Real Estate | Consumer and Other | Total |
| *(Amounts in thousands)* | | | | |
| Beginning balance | $ 77 | $ 678 | $ | $ 755 |
| Recovery of PCI loan losses | (69) | (482 | | |