

FIRST COMMUNITY BANCSHARES INC /NV/

Form 10-Q

May 08, 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 March 31, 2015**

**Commission file number 000-19297**

**FIRST COMMUNITY BANCSHARES, INC.**

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

**Nevada**  
**(State or other jurisdiction**

**of incorporation)**

**55-0694814**  
**(IRS Employer**

**Identification No.)**

**P.O. Box 989**

**Bluefield, Virginia**  
(Address of principal executive offices)

**(276) 326-9000**

**24605-0989**  
**(Zip Code)**

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer	Accelerated filer	Non-accelerated filer	Small business filer	Non-accelerated filer, smaller reporting company	Emerging growth company
Yes	Yes	Yes	Yes	Yes	Yes

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

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

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

Class Common Stock, \$1.00 Par Value; 18,960,573 shares outstanding as of May 1, 2015

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FIRST COMMUNITY BANCSHARES, INC.

FORM 10-Q

For the quarter ended March 31, 2015

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

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
<i>(Amounts in thousands, except share and per share data)</i>	<i>(Unaudited)</i>	
<b>Assets</b>		
Cash and due from banks	\$ 36,222	\$ 39,450
Federal funds sold	169,422	196,873
Interest-bearing deposits in banks	1,380	1,337
Total cash and cash equivalents	207,024	237,660
Securities available for sale	351,454	326,117
Securities held to maturity	72,897	57,948
Loans held for sale	1,174	1,792
Loans held for investment, net of unearned income:		
Covered under loss share agreements	112,724	122,240
Not covered under loss share agreements	1,558,310	1,567,176
Less allowance for loan losses	(20,252)	(20,227)
Loans held for investment, net	1,650,782	1,669,189
FDIC indemnification asset	26,053	27,900
Premises and equipment, net	54,955	55,844
Other real estate owned:		
Covered under loss share agreements	5,834	6,324
Not covered under loss share agreements	7,032	6,638
Interest receivable	6,188	6,315
Goodwill	100,810	100,722
Other intangible assets	6,144	6,421
Other assets	95,497	105,066
Total assets	\$ 2,585,844	\$ 2,607,936
<b>Liabilities</b>		
Deposits:		
Noninterest-bearing	\$ 433,422	\$ 417,729
Interest-bearing	1,557,767	1,583,030
Total deposits	1,991,189	2,000,759
Interest, taxes, and other liabilities	24,203	26,062

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Securities sold under agreements to repurchase	116,302	121,742
FHLB borrowings	90,000	90,000
Other borrowings	15,999	17,999
<b>Total liabilities</b>	<b>2,237,693</b>	<b>2,256,562</b>
<b>Stockholders' equity</b>		
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 March 31, 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 March 31, 2015, and December 31, 2014, respectively; 2,416,505 and 2,093,464 shares in treasury at March 31, 2015, and December 31, 2014, respectively	21,382	20,500
Additional paid-in capital	227,782	215,873
Retained earnings	144,656	141,206
Treasury stock, at cost	(41,078)	(35,751)
Accumulated other comprehensive loss	(4,591)	(5,605)
<b>Total stockholders' equity</b>	<b>348,151</b>	<b>351,374</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 2,585,844</b>	<b>\$ 2,607,936</b>

*See Notes to Consolidated Financial Statements.*

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

	<b>Three Months Ended March 31,</b>	
<i>(Amounts in thousands, except share and per share data)</i>	<b>2015</b>	<b>2014</b>
<b>Interest income</b>		
Interest and fees on loans held for investment	\$ 21,914	\$ 22,834
Interest on securities taxable	1,035	2,097
Interest on securities nontaxable	1,016	1,122
Interest on deposits in banks	133	30
Total interest income	24,098	26,083
<b>Interest expense</b>		
Interest on deposits	1,730	1,888
Interest on short-term borrowings	490	502
Interest on long-term debt	1,039	1,668
Total interest expense	3,259	4,058
Net interest income	20,839	22,025
Provision for loan losses	1,100	1,793
Net interest income after provision for loan losses	19,739	20,232
<b>Noninterest income</b>		
Wealth management	666	1,008
Service charges on deposit accounts	2,903	3,070
Other service charges and fees	2,008	1,771
Insurance commissions	2,127	1,964
Impairment losses on securities		(264)
Portion of losses recognized in other comprehensive income		
Net impairment losses recognized in earnings		(264)
Net (loss) gain on sale of securities	(23)	45
Net FDIC indemnification asset amortization	(1,565)	(1,134)
Other operating income	720	774
Total noninterest income	6,836	7,234
<b>Noninterest expense</b>		
Salaries and employee benefits	9,693	9,905
Occupancy expense of bank premises	1,534	1,778
Furniture and equipment	1,237	1,194
Amortization of intangible assets	277	175
FDIC premiums and assessments	415	434
Merger, acquisition, and divestiture expense	86	

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Other operating expense	4,538	5,694
Total noninterest expense	17,780	19,180
Income before income taxes	8,795	8,286
Income tax expense	2,837	2,561
Net income	5,958	5,725
Dividends on preferred stock	105	228
Net income available to common shareholders	\$ 5,853	\$ 5,497
Basic earnings per common share	\$ 0.31	\$ 0.30
Diluted earnings per common share	0.31	0.29
Cash dividends per common share	0.13	0.12
Weighted average basic shares outstanding	18,633,574	18,423,123
Weighted average diluted shares outstanding	19,344,443	19,506,647

*See Notes to Consolidated Financial Statements.*

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	<b>Three Months Ended March 31,</b>	
<i>(Amounts in thousands, except share and per share data)</i>	<b>2015</b>	<b>2014</b>
<b>Comprehensive Income</b>		
Net income	\$ 5,958	\$ 5,725
Other comprehensive income, before tax:		
Available-for-sale securities:		
Unrealized gains on securities available for sale with other-than-temporary impairment		482
Unrealized gains on securities available for sale without other-than-temporary impairment	1,617	5,706
Less: reclassification adjustment for losses (gains) realized in net income	23	(45)
Less: reclassification adjustment for credit related other-than-temporary impairments recognized in net income		264
Unrealized gains on available-for-sale securities	1,640	6,407
Employee benefit plans:		
Net actuarial (loss) gain on pension and other postretirement benefit plans	(98)	29
Less: reclassification adjustment for amortization of prior service cost and net actuarial loss included in net periodic benefit cost	82	65
Unrealized (losses) gains on employee benefit plans	(16)	94
Other comprehensive income (loss), before tax	1,624	6,501
Income tax expense	(610)	(2,448)
Other comprehensive income, net of tax	1,014	4,053
<b>Total comprehensive income</b>	<b>\$ 6,972</b>	<b>\$ 9,778</b>

*See Notes to Consolidated Financial Statements.*



**Table of Contents****FIRST COMMUNITY BANCSHARES, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
(UNAUDITED)**

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
<i>(Amounts in thousands, except share and per share data)</i>							
Balance January 1, 2014	\$ 15,251	\$ 20,493	\$ 215,663	\$ 125,826	\$ (33,887)	\$ (14,740)	\$ 328,606
Net income				5,725			5,725
Other comprehensive income						4,053	4,053
Common dividends declared \$0.12 per share				(2,208)			(2,208)
Preferred dividends declared \$15.00 per share				(228)			(228)
Preferred stock converted to common stock 6,900 shares	(100)	7	93				
Equity-based compensation expense			73				73
Common stock options exercised 554 shares					9		9
Restricted stock awards 1,761 shares			(2)		30		28
Purchase of treasury shares 131,500 shares at \$16.30 per share					(2,148)		(2,148)
Balance March 31, 2014	\$ 15,151	\$ 20,500	\$ 215,827	\$ 129,115	\$ (35,996)	\$ (10,687)	\$ 333,910
Balance January 1, 2015	\$ 15,151	\$ 20,500	\$ 215,873	\$ 141,206	\$ (35,751)	\$ (5,605)	\$ 351,374
Net income				5,958			5,958
Other comprehensive income						1,014	1,014
Common dividends declared \$0.13 per share				(2,403)			(2,403)
Preferred dividends declared \$15.00 per share				(105)			(105)
Preferred stock converted to common stock 882,096 shares	(12,784)	882	11,902				
Redemption of preferred stock 2,367 shares	(2,367)						(2,367)
Equity-based compensation expense			20				20

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Common stock options exercised	3,000 shares	(10)	51	41			
Restricted stock awards	6,594 shares	(1)	112	111			
Issuance of treasury stock to 401(k) plan	6,599 shares	(2)	112	110			
Purchase of treasury shares	339,234 shares at \$16.47 per share		(5,602)	(5,602)			
Balance March 31, 2015	\$	\$ 21,382	\$ 227,782	\$ 144,656	\$ (41,078)	\$ (4,591)	\$ 348,151

See Notes to Consolidated Financial Statements.

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

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
<i>(Amounts in thousands)</i>		
<b>Operating activities</b>		
Net income	\$ 5,958	\$ 5,725
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,100	1,793
Depreciation and amortization of property, plant, and equipment	1,056	1,105
Amortization of premiums on investments, net	185	1,104
Amortization of FDIC indemnification asset, net	1,565	1,134
Amortization of intangible assets	277	175
Gain on sale of loans	(106)	(153)
Equity-based compensation expense	20	73
Restricted stock awards	111	28
Issuance of treasury stock to 401(k) plan	110	
Gain on sale of property, plant, and equipment		(4)
Loss on sale of other real estate	232	1,292
Loss (gain) on sale of securities	23	(45)
Net impairment losses recognized in earnings		264
Proceeds from sale of mortgage loans	2,950	5,264
Origination of mortgage loans	(2,226)	(5,971)
Decrease in accrued interest receivable	127	1,262
Decrease (increase) in other operating activities	6,750	(16)
Net cash provided by operating activities	18,132	13,030
<b>Investing activities</b>		
Proceeds from sale of securities available for sale	15	24,204
Proceeds from maturities, prepayments, and calls of securities available for sale	7,481	18,785
Payments to acquire securities available for sale	(31,384)	(2,082)
Payments to acquire securities held to maturity	(15,003)	(7,594)
Collections (originations) of loans, net	16,138	(25,705)
Proceeds from the redemption of FHLB stock, net	216	1,649
Net cash paid in mergers, acquisitions, and divestitures	(88)	
Proceeds from the FDIC	688	1,143
Payments to acquire property, plant, and equipment	(264)	(204)
Proceeds from sale of property, plant, and equipment	1	176
Proceeds from sale of other real estate	987	1,632
Net cash (used in) provided by investing activities	(21,213)	12,004
<b>Financing activities</b>		
Net increase in noninterest-bearing deposits	15,693	13,457
Net (decrease) increase in interest-bearing deposits	(25,263)	10,490

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Net decrease in federal funds purchased		(16,000)
Repayments of securities sold under agreements to repurchase	(5,440)	(5,971)
Repayments of other borrowings	(2,000)	(1)
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	(5,602)	(2,148)
Payments of common dividends	(2,403)	(2,208)
Payments of preferred dividends	(219)	(228)
Net cash used in financing activities	(27,555)	(2,599)
Net (decrease) increase in cash and cash equivalents	(30,636)	22,435
Cash and cash equivalents at beginning of period	237,660	56,567
Cash and cash equivalents at end of period	\$ 207,024	\$ 79,002
<b>Supplemental transactions    noncash items</b>		
Transfer of loans to other real estate	\$ 1,154	\$ 2,693
Loans originated to finance other real estate	31	
<i>See Notes to Consolidated Financial Statements.</i>		

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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 March 31, 2015, our operations were conducted through 63 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***

In February 2015, the Financial Accounting Standards Board ( **FASB** ) issued Accounting Standards Update ( **ASU** ) 2015-2, **Consolidation (Topic 810): Amendments to the Consolidation Analysis**, which (1) modifies the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities; (2) eliminates the

presumption that a general partner should consolidate a limited partnership; (3) affects the consolidation analysis of reporting entities involved with VIEs that have fee arrangements and related party relationships and (4) provides a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. Upon adoption, ASU 2015-2 provides for transition through either a full retrospective approach or a modified retrospective approach, which requires restatement as of the beginning of the fiscal year of adoption through a cumulative-effect adjustment to retained earnings. ASU 2015-2 is effective for annual reporting periods beginning after December 15, 2015, and interim periods within those annual periods with early adoption permitted. The Company is evaluating the impact the guidance is expected to have on the Company's financial statements.

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In January 2014, FASB issued ASU 2014-04, *Receivables - Troubled Debt Restructurings by Creditors* (Subtopic 310-40): *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. The ASU clarifies when an in-substance repossession or foreclosure occurs and a creditor is considered to have received physical possession of real estate property collateralizing a consumer mortgage loan. Specifically, the new ASU requires a creditor to reclassify a collateralized consumer mortgage loan to real estate property upon obtaining legal title to the real estate collateral, or the borrower voluntarily conveying all interest in the real estate property to the lender to satisfy the loan through a deed in lieu of foreclosure or similar legal agreement. Additional disclosures are required detailing the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgages collateralized by real estate property that are in the process of foreclosure. The new guidance is effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2014. The adoption of this guidance did not have a material impact on the Company's financial statements, but resulted in additional disclosures. See Note 4, *Credit Quality*, to the Condensed Consolidated Financial Statements of this report.

***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 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  
March 31,**

	2015	2014
<i>(Amounts in thousands, except share and per share data)</i>		
Net income	\$ 5,958	\$ 5,725
Dividends on preferred stock	105	228
Net income available to common shareholders	\$ 5,853	\$ 5,497
Weighted average number of common shares outstanding, basic	18,633,574	18,423,123
Dilutive effect of potential common shares from:		
Stock options	21,159	22,636
Restricted stock	1,256	730
Convertible preferred stock	677,043	1,048,486
Contingently issuable shares	11,411	11,672
Weighted average number of common shares outstanding, diluted	19,344,443	19,506,647
Basic earnings per common share	\$ 0.31	\$ 0.30
Diluted earnings per common share	0.31	0.29
Antidilutive potential common shares:		
Stock options	136,382	245,030



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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 March 31, 2015, compared to 15,151 shares as of December 31, 2014 and March 31, 2014.

**Note 2. Investment Securities**

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

	<b>March 31, 2015</b>			
	<b>Amortized Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>
<i>(Amounts in thousands)</i>				
U.S. Agency securities	\$ 33,934	\$ 39	\$ (731)	\$ 33,242
Municipal securities	131,448	4,782	(582)	135,648
Single issue trust preferred securities	55,837		(8,749)	47,088
Corporate securities	31,370	214	(49)	31,535
Certificates of deposit	5,000			5,000
Mortgage-backed Agency securities	98,829	618	(727)	98,720
Equity securities	222	6	(7)	221
Total	\$ 356,640	\$ 5,659	\$ (10,845)	\$ 351,454

	<b>December 31, 2014</b>			
	<b>Amortized Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>
<i>(Amounts in thousands)</i>				
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

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

	<b>March 31, 2015</b>			
	<b>Amortized Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>
<i>(Amounts in thousands)</i>				
U.S. Agency securities	\$ 61,959	\$ 300	\$ (4)	\$ 62,255
Municipal securities	379	2		381
Corporate securities	10,559	92		10,651
Total	\$ 72,897	\$ 394	\$ (4)	\$ 73,287

	<b>December 31, 2014</b>			
	<b>Amortized Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>
<i>(Amounts in thousands)</i>				
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

The following table presents the amortized cost and fair value of available-for-sale securities and held-to-maturity securities, by contractual maturity, as of March 31, 2015. Actual maturities could differ from contractual maturities because issuers may have the right to call or prepay obligations with or without penalties.

<i>(Amounts in thousands)</i>	<b>Amortized Cost</b>	<b>Fair Value</b>
<b>Available-for-sale securities</b>		
Due within one year	\$ 1,136	\$ 1,143
Due after one year but within five years	31,823	31,908
Due after five years but within ten years	64,193	67,014
Due after ten years	155,437	147,448
	252,589	247,513
Mortgage-backed securities	98,829	98,720
Certificates of deposit	5,000	5,000
Equity securities	222	221
Total	\$ 356,640	\$ 351,454

<b>Held-to-maturity securities</b>		
Due within one year	\$ 190	\$ 191
Due after one year but within five years	72,707	73,096
Due after five years but within ten years		
Due after ten years		
Total	\$ 72,897	\$ 73,287

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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:

	<b>March 31, 2015</b>					
	<b>Less than 12 Months</b>		<b>12 Months or longer</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
<i>(Amounts in thousands)</i>						
U.S. Agency securities	\$	\$	\$ 26,048	\$ (731)	\$ 26,048	\$ (731)
Municipal securities	13,115	(132)	10,493	(450)	23,608	(582)
Single issue trust preferred securities	10,760	(2,183)	36,328	(6,566)	47,088	(8,749)
Corporate securities	26,321	(49)			26,321	(49)
Mortgage-backed Agency securities	1,297	(4)	42,051	(723)	43,348	(727)
Equity securities			149	(7)	149	(7)
<b>Total</b>	<b>\$ 51,493</b>	<b>\$ (2,368)</b>	<b>\$ 115,069</b>	<b>\$ (8,477)</b>	<b>\$ 166,562</b>	<b>\$ (10,845)</b>

	<b>December 31, 2014</b>					
	<b>Less than 12 Months</b>		<b>12 Months or longer</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
<i>(Amounts in thousands)</i>						
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)
<b>Total</b>	<b>\$ 4,040</b>	<b>\$ (17)</b>	<b>\$ 146,382</b>	<b>\$ (12,240)</b>	<b>\$ 150,422</b>	<b>\$ (12,257)</b>

The following tables present 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 the dates indicated.

	<b>March 31, 2015</b>					
	<b>Less than 12 Months</b>		<b>12 Months or longer</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
<i>(Amounts in thousands)</i>						
U.S. Agency securities	\$ 3,754	\$ (4)	\$	\$	\$ 3,754	\$ (4)
<b>Total</b>	<b>\$ 3,754</b>	<b>\$ (4)</b>	<b>\$</b>	<b>\$</b>	<b>\$ 3,754</b>	<b>\$ (4)</b>

	December 31, 2014					
	Less than 12 Months		12 Months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>(Amounts in thousands)</i>						
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 March 31, 2015, there were 92 individual securities in an unrealized loss position, and their combined depreciation in value represented 2.56% 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.

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The following table presents the components of the Company's net loss or gain from the sale of securities in the periods indicated:

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2015</b>	<b>2014</b>
<i>(Amounts in thousands)</i>		
Gross realized gains	\$ 15	\$ 223
Gross realized losses	(38)	(178)
Net (loss) gain on sale of securities	\$ (23)	\$ 45

The carrying value of securities as security for various purposes was \$261.07 million as of March 31, 2015, and \$268.78 million as of December 31, 2014.

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, and single issue trust preferred securities. 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 interest rates, certain disruptions in the credit markets, destabilization in the Eurozone, and other current economic factors. During the three months ended March 31, 2015, and March 31, 2014, the Company incurred no OTTI charges related to debt securities not beneficially owned.

Debt securities beneficially owned by the Company consist of corporate securities, certificates of deposit, and mortgage-backed securities ( MBSs ). 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 months ended March 31, 2015, the Company incurred no credit-related OTTI charges related to debt securities beneficially owned. During the three months ended March 31, 2014, the Company incurred credit-related OTTI charges related to debt securities beneficially owned of \$232 thousand that were associated with a non-Agency MBS that was sold in November 2014.

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:

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2015</b>	<b>2014</b>
<i>(Amounts in thousands)</i>		
Beginning balance <sup>(1)</sup>	\$	\$ 7,798
Additions for credit losses on securities previously recognized		232
Ending balance	\$	\$ 8,030

(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 months ended March 31, 2015, the Company incurred no OTTI charges related to equity holdings. During the three months ended March 31, 2014, the Company incurred OTTI charges related to certain equity holdings of \$32 thousand.

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

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

<i>(Amounts in thousands)</i>	<b>March 31, 2015</b>		<b>December 31, 2014</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Non-covered loans held for investment				
Commercial loans				
Construction, development, and other land	\$ 39,628	2.37%	\$ 41,271	2.44%
Commercial and industrial	78,482	4.70%	83,099	4.92%
Multi-family residential	97,295	5.82%	97,480	5.77%
Single family non-owner occupied	137,436	8.22%	135,171	8.00%
Non-farm, non-residential	463,035	27.71%	473,906	28.05%
Agricultural	1,671	0.10%	1,599	0.09%
Farmland	28,644	1.71%	29,517	1.75%
Total commercial loans	846,191	50.63%	862,043	51.02%
Consumer real estate loans				
Home equity lines	109,158	6.53%	110,957	6.57%
Single family owner occupied	491,317	29.40%	485,475	28.74%
Owner occupied construction	35,324	2.12%	32,799	1.94%
Total consumer real estate loans	635,799	38.05%	629,231	37.25%
Consumer and other loans				
Consumer loans	69,084	4.13%	69,347	4.10%
Other	7,236	0.44%	6,555	0.39%
Total consumer and other loans	76,320	4.57%	75,902	4.49%
Total non-covered loans	1,558,310	93.25%	1,567,176	92.76%
Total covered loans	112,724	6.75%	122,240	7.24%
Total loans held for investment, net of unearned income	\$ 1,671,034	100.00%	\$ 1,689,416	100.00%
Loans held for sale	\$ 1,174		\$ 1,792	



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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:

<i>(Amounts in thousands)</i>	<b>March 31, 2015</b>	<b>December 31, 2014</b>
Covered loans		
Commercial loans		
Construction, development, and other land	\$ 10,410	\$ 13,100
Commercial and industrial	2,371	2,662
Multi-family residential	678	1,584
Single family non-owner occupied	4,846	5,918
Non-farm, non-residential	24,672	25,317
Agricultural	42	43
Farmland	697	716
Total commercial loans	43,716	49,340
Consumer real estate loans		
Home equity lines	57,415	60,391
Single family owner occupied	10,994	11,968
Owner occupied construction	512	453
Total consumer real estate loans	68,921	72,812
Consumer and other loans		
Consumer loans	87	88
Total covered loans	\$ 112,724	\$ 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:

<i>(Amounts in thousands)</i>	<b>Peoples</b>	<b>Waccamaw</b>	<b>Other</b>	<b>Total</b>
Carrying balance, January 1, 2014	\$ 9,196	\$ 70,584	\$ 1,931	\$ 81,711
Carrying balance, December 31, 2014	7,090	53,835	1,358	62,283
Unpaid principal balance, December 31, 2014	13,669	86,641	1,401	101,711

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Carrying balance, January 1, 2015	\$ 7,090	\$ 53,835	\$ 1,358	\$ 62,283
Carrying balance, March 31, 2015	6,954	51,649	1,332	59,935
Unpaid principal balance, March 31, 2015	12,353	83,559	1,375	97,287

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

	Peoples	Waccamaw	Other	Total
<i>(Amounts in thousands)</i>				
<b>Three months ended March 31, 2014</b>				
Balance, January 1, 2014	\$ 5,294	\$ 10,338	\$ 8	\$ 15,640
Additions	1	7		8
Accretion	(563)	(1,563)	(11)	(2,137)
Reclassifications from nonaccretable difference	337	8,977	11	9,325
Removal events	(112)	(167)		(279)
Ending balance	\$ 4,957	\$ 17,592	\$ 8	\$ 22,557
<b>Three months ended March 31, 2015</b>				
Beginning balance	\$ 4,745	\$ 19,048	\$	\$ 23,793
Additions		2		2
Accretion	(630)	(1,602)		(2,232)
Reclassifications from nonaccretable difference	1,106	2,445		3,551
Removal events	(735)	(439)		(1,174)
Ending balance	\$ 4,486	\$ 19,454	\$	\$ 23,940

Deferred loan fees totaled \$3.50 million as of March 31, 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.

**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:

	March 31, 2015			December 31, 2014		
	Unpaid			Unpaid		
<i>(Amounts in thousands)</i>	Recorded Investment	Principal Balance	Related Allowance	Recorded Investment	Principal Balance	Related Allowance
Impaired loans with no related allowance:						
Commercial loans						
Single family non-owner occupied	\$ 464	\$ 464	\$	\$ 466	\$ 466	\$
Non-farm, non-residential	8,878	9,243		5,705	6,049	
Consumer real estate loans						

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Single family owner occupied	3,658	3,964		3,397	3,494	
Total impaired loans with no allowance	13,000	13,671		9,568	10,009	
Impaired loans with a related allowance:						
Commercial loans						
Single family non-owner occupied	364	364	40	367	367	45
Non-farm, non-residential	4,002	4,013	1,198	3,772	3,772	1,000
Consumer real estate loans						
Single family owner occupied	2,402	2,404	517	2,341	2,512	437
Total impaired loans with an allowance	6,768	6,781	1,755	6,480	6,651	1,482
Total impaired loans	\$ 19,768	\$ 20,452	\$ 1,755	\$ 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:

	For the Three Months Ended			
	March 31, 2015		March 31, 2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
<i>(Amounts in thousands)</i>				
Impaired loans with no related allowance:				
Commercial loans				
Commercial and industrial	\$	\$	\$ 292	\$ 12
Single family non-owner occupied	459	1	420	1
Non-farm, non-residential	8,792	163	5,918	36
Farmland			363	11
Consumer real estate loans				
Home equity lines			265	2
Single family owner occupied	3,640	100	2,101	51
Total impaired loans with no allowance	12,891	264	9,359	113
Impaired loans with a related allowance:				
Commercial loans				
Commercial and industrial			5,157	47
Multi-family residential			5,603	22
Single family non-owner occupied	361	2	372	1
Non-farm, non-residential	4,064	19	4,399	25
Consumer real estate loans				
Home equity lines			229	1
Single family owner occupied	2,374	10	4,580	34
Total impaired loans with an allowance	6,799	31	20,340	130
Total impaired loans	\$ 19,690	\$ 295	\$ 29,699	\$ 243

The Company determined that two of the six open PCI loan pools were impaired as of March 31, 2015, compared to two of seven impaired pools as of December 31, 2014, and three of seven impaired pools as of March 31, 2014. The following tables present balance and interest income related to the impaired loan pools as of the dates, and in the periods, indicated:

	March 31, 2015	December 31, 2014
<i>(Amounts in thousands)</i>		
Recorded investment	\$ 3,640	\$ 14,607
Unpaid principal balance	4,733	31,169
Allowance for loan losses	114	58

**Three Months Ended March 31,**  
**2015**                      **2014**

*(Amounts in thousands)*

Interest income recognized	\$ 90	\$ 782
Average recorded investment	3,895	49,276

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.

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.

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The following tables present loans held for investment, by internal credit risk grade, as of the periods indicated:

<i>(Amounts in thousands)</i>	<b>March 31, 2015</b>					<b>Total</b>
	<b>Pass</b>	<b>Special Mention</b>	<b>Substandard</b>	<b>Doubtful</b>	<b>Loss</b>	
<b>Non-covered loans</b>						
<b>Commercial loans</b>						
Construction, development, and other land	\$ 37,686	\$ 381	\$ 1,561	\$	\$	\$ 39,628
Commercial and industrial	76,535	592	1,355			78,482
Multi-family residential	89,366	6,977	952			97,295
Single family non-owner occupied	128,425	3,853	5,158			137,436
Non-farm, non-residential	433,629	11,988	17,418			463,035
Agricultural	1,666		5			1,671
Farmland	26,652	1,361	631			28,644
<b>Consumer real estate loans</b>						
Home equity lines	105,913	1,531	1,714			109,158
Single family owner occupied	461,699	7,463	22,155			491,317
Owner occupied construction	35,077		247			35,324
<b>Consumer and other loans</b>						
Consumer loans	68,348	467	269			69,084
Other	7,236					7,236
<b>Total non-covered loans</b>	<b>1,472,232</b>	<b>34,613</b>	<b>51,465</b>			<b>1,558,310</b>
<b>Covered loans</b>						
<b>Commercial loans</b>						
Construction, development, and other land	5,756	2,920	1,734			10,410
Commercial and industrial	2,272	82	17			2,371
Multi-family residential	490		188			678
Single family non-owner occupied	2,390	1,290	1,166			4,846
Non-farm, non-residential	12,476	4,153	8,043			24,672
Agricultural	42					42
Farmland	405		292			697
<b>Consumer real estate loans</b>						
Home equity lines	20,385	36,143	887			57,415
Single family owner occupied	6,769	1,739	2,486			10,994
Owner occupied construction	190	219	103			512
<b>Consumer and other loans</b>						
Consumer loans	87					87
<b>Other</b>						
<b>Total covered loans</b>	<b>51,262</b>	<b>46,546</b>	<b>14,916</b>			<b>112,724</b>
<b>Total loans</b>	<b>\$ 1,523,494</b>	<b>\$ 81,159</b>	<b>\$ 66,381</b>	<b>\$</b>	<b>\$</b>	<b>\$ 1,671,034</b>





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<i>(Amounts in thousands)</i>	December 31, 2014					Total
	Pass	Special Mention	Substandard	Doubtful	Loss	
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:

<i>(Amounts in thousands)</i>	March 31, 2015			December 31, 2014		
	Non-covered	Covered	Total	Non-covered	Covered	Total
<b>Commercial loans</b>						
Construction, development, and other land	\$	\$ 39	\$ 39	\$	\$ 18	\$ 18
Commercial and industrial	124		124	123	34	157
Multi-family residential	346		346	245		245
Single family non-owner occupied	557	77	634	601	77	678
Non-farm, non-residential	6,064	1,560	7,624	2,334	1,317	3,651
Agricultural				4		4
Farmland	57		57			
<b>Consumer real estate loans</b>						
Home equity lines	794	493	1,287	792	204	996
Single family owner occupied	7,311	508	7,819	6,389	682	7,071
Owner occupied construction		103	103		106	106
<b>Consumer and other loans</b>						
Consumer loans	134		134	68		68
<b>Total nonaccrual loans</b>	<b>\$ 15,387</b>	<b>\$ 2,780</b>	<b>\$ 18,167</b>	<b>\$ 10,556</b>	<b>\$ 2,438</b>	<b>\$ 12,994</b>

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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 accruing loans contractually past due 90 days or more as of March 31, 2015, and no non-covered or covered accruing loans contractually past due 90 days or more as of December 31, 2014. Covered accruing loans contractually past due 90 days or more totaled \$60 thousand as of March 31, 2015.

	March 31, 2015					
	30 - 59 Days Past Due	60 - 89 Days Past Due	90+ Days Past Due	Total Past Due	Current Loans	Total Loans
(Amounts in thousands)						
Non-covered loans						
Commercial loans						
Construction, development, and other land	\$ 21	\$	\$	\$ 21	\$ 39,607	\$ 39,628
Commercial and industrial	278	192	105	575	77,907	78,482
Multi-family residential	283		109	392	96,903	97,295
Single family non-owner occupied	1,204	302	368	1,874	135,562	137,436
Non-farm, non-residential	1,200	3,830	2,289	7,319	455,716	463,035
Agricultural	5			5	1,666	1,671
Farmland	6		57	63	28,581	28,644
Consumer real estate loans						
Home equity lines	784	28	524	1,336	107,822	109,158
Single family owner occupied	4,960	1,259	3,818	10,037	481,280	491,317
Owner occupied construction		353		353	34,971	35,324
Consumer and other loans						
Consumer loans	379	85	39	503	68,581	69,084
Other					7,236	7,236
Total non-covered loans	9,120	6,049	7,309	22,478	1,535,832	1,558,310
Covered loans						
Commercial loans						
Construction, development, and other land	43	18	5	66	10,344	10,410
Commercial and industrial	179	95		274	2,097	2,371
Multi-family residential					678	678
Single family non-owner occupied	10		77	87	4,759	4,846
Non-farm, non-residential	46	45	1,488	1,579	23,093	24,672
Agricultural					42	42
Farmland	111			111	586	697
Consumer real estate loans						
Home equity lines	317	279	177	773	56,642	57,415
Single family owner occupied	178	33	241	452	10,542	10,994
Owner occupied construction					512	512
Consumer and other loans						
Consumer loans					87	87
Other						

Total covered loans	884	470	1,988	3,342	109,382	112,724
Total loans	\$ 10,004	\$ 6,519	\$ 9,297	\$ 25,820	\$ 1,645,214	\$ 1,671,034

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	December 31, 2014					
	30 - 59 Days Past Due	60 - 89 Days Past Due	90+ Days Past Due	Total Past Due	Current Loans	Total Loans
<i>(Amounts in thousands)</i>						
Non-covered loans						
Commercial loans						
Construction, development, and other land	\$ 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. All restructured loans to borrowers experiencing financial difficulty in excess of \$250 thousand are evaluated for a specific reserve based on either the collateral or net present value method,

whichever is most applicable. Specific reserves in the allowance for loan losses attributed to troubled debt restructurings ( TDRs ) totaled \$482 thousand as of March 31, 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 Company recognized interest income on TDRs of \$148 thousand for the three months ended March 31, 2015, and \$149 thousand for the three months ended March 31, 2014.

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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 March 31, 2015, or December 31, 2014. The following table presents loans modified as TDRs, by loan class, segregated by accrual status, as of the dates indicated:

<i>(Amounts in thousands)</i>	March 31, 2015			December 31, 2014		
	Nonaccrual <sup>(1)</sup>	Accruing	Total	Nonaccrual <sup>(1)</sup>	Accruing	Total
Commercial loans						
Single family non-owner occupied	\$	\$ 829	\$ 829	\$	\$ 1,088	\$ 1,088
Non-farm, non-residential	83	4,704	4,787	83	4,743	4,826
Consumer real estate loans						
Home equity lines		46	46		47	47
Single family owner occupied	623	8,199	8,822	471	8,412	8,883
Owner occupied construction		247	247		244	244
Total TDRs	\$ 706	\$ 14,025	\$ 14,731	\$ 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 table presents 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.

<i>(Amounts in thousands)</i>	Three Months Ended March 31, 2015			2014		
	Pre-Modification Total Recorded Contract	Post-Modification Recorded Investment	Pre-Modification Total Recorded Contract	Post-Modification Recorded Investment	Pre-Modification Total Recorded Contract	Post-Modification Recorded Investment
Below market interest rate						
Single family owner occupied	\$	\$	\$	\$		
Owner occupied construction			1	245		245
Total			1	245		245
Extended payment term						
Single family non-owner occupied			1	303		303
Non-farm, non-residential			1	134		134
Total			2	437		437
Below market interest rate and extended payment term						
Single family owner occupied			2	266		266
Total	\$	\$	5	\$ 948	\$	\$ 948



There were no payment defaults during the three-month periods ended March 31, 2015 or March 31, 2014, related to loans modified as TDRs within the previous 12 months.

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

	March 31, 2015	December 31, 2014
<i>(Amounts in thousands)</i>		
Non-covered OREO	\$ 7,032	\$ 6,638
Covered OREO	5,834	6,324
<b>Total OREO</b>	<b>12,866</b>	<b>12,962</b>
OREO secured by residential real estate	\$ 4,562	\$ 6,155
Residential real estate loans in the foreclosure process <sup>(1)</sup>	5,007	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.

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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. 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 March 31, 2015, management believed the allowance was adequate to absorb probable loan losses inherent in the loan portfolio.

The following table presents the aggregate activity in the allowance for loan losses in the periods indicated:

	Allowance Excluding PCI Loans	Allowance for PCI Loans	Total Allowance
<i>(Amounts in thousands)</i>			
<b>Three months ended March 31, 2014</b>			
Beginning balance	\$ 23,322	\$ 755	\$ 24,077
Provision for (recovery of) loan losses	1,852	(262)	1,590
Benefit attributable to the FDIC indemnification asset		203	203
Provision for (recovery of) loan losses charged to operations	1,852	(59)	1,793
Recovery of loan losses recorded through the FDIC indemnification asset		(203)	(203)
Charge-offs	(2,216)		(2,216)
Recoveries	347		347
Net charge-offs	(1,869)		(1,869)
Ending balance	\$ 23,305	\$ 493	\$ 23,798
<b>Three months ended March 31, 2015</b>			
Beginning balance	\$ 20,169	\$ 58	\$ 20,227
Provision for loan losses	1,090	56	1,146
Benefit attributable to the FDIC indemnification asset		(46)	(46)
Provision for loan losses charged to operations	1,090	10	1,100
		46	46

Provision for loan losses recorded through  
the FDIC indemnification asset

Charge-offs	(1,578)	(1,578)
Recoveries	457	457
Net charge-offs	(1,121)	(1,121)
Ending balance	\$ 20,138	\$ 114 \$ 20,252

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

	<b>Commercial</b>	<b>Consumer Real Estate</b>	<b>Consumer and Other</b>	<b>Total</b>
<i>(Amounts in thousands)</i>				
<b>Three months ended March 31, 2014</b>				
Beginning balance	\$ 16,090	\$ 6,597	\$ 635	\$ 23,322
Provision for loan losses charged to operations	1,218	485	149	1,852
Loans charged off	(1,051)	(710)	(455)	(2,216)
Recoveries credited to allowance	82	21	244	347
Net charge-offs	(969)	(689)	(211)	(1,869)
Ending balance	\$ 16,339	\$ 6,393	\$ 573	\$ 23,305
<b>Three months ended March 31, 2015</b>				
Beginning balance	\$ 13,010	\$ 6,489	\$ 670	\$ 20,169
Provision for loan losses charged to operations	650	215	225	1,090
Loans charged off	(681)	(402)	(495)	(1,578)
Recoveries credited to allowance	75	144	238	457
Net chargeoffs	(606)	(258)	(257)	(1,121)
Ending balance	\$ 13,054	\$ 6,446	\$ 638	\$ 20,138

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

	<b>Commercial</b>	<b>Consumer Real Estate</b>	<b>Consumer and Other</b>	<b>Total</b>
<i>(Amounts in thousands)</i>				
<b>Three months ended March 31, 2014</b>				
Beginning balance	\$ 77	\$ 678	\$	\$ 755
Purchased impaired recovery	(69)	(193)		(262)
Benefit attributable to FDIC indemnification asset	55	148		203
Recovery of loan losses charged to operations	(14)	(45)		(59)
Recovery of loan losses recorded through the FDIC indemnification asset	(55)	(148)		(203)
Ending balance	\$ 8	\$ 485	\$	\$ 493

**Three months ended March 31, 2015**

Beginning balance	\$	37	\$	21	\$	\$	58
Purchased impaired (recovery) provision		(37)		93			56
Benefit attributable to FDIC indemnification asset		29		(75)			(46)
(Recovery of) provision for loan losses charged to operations		(8)		18			10
(Recovery of) provision for loan losses recorded through the FDIC indemnification asset		(29)		75			46
Ending balance	\$		\$	114	\$	\$	114

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

	March 31, 2015			
	Loans Individually Evaluated for Impairment	Allowance for Loans Individually Evaluated	Loans Collectively Evaluated for Impairment	Allowance for Loans Collectively Evaluated
<i>(Amounts in thousands)</i>				
Commercial loans				
Construction, development, and other land	\$	\$	\$ 47,281	\$ 1,253
Commercial and industrial			80,480	541
Multi-family residential			97,803	1,772
Single family non-owner occupied	828	40	136,621	3,103
Non-farm, non-residential	12,881	1,198	460,597	4,949
Agricultural			1,713	13
Farmland			29,341	185
Total commercial loans	13,709	1,238	853,836	11,816
Consumer real estate loans				
Home equity lines			131,002	1,290
Single family owner occupied	6,060	517	494,584	4,404
Owner occupied construction			35,503	235
Total consumer real estate loans	6,060	517	661,089	5,929
Consumer and other loans				
Consumer loans			69,169	638
Other			7,236	
Total consumer and other loans			76,405	638
Total loans, excluding PCI loans	\$ 19,769	\$ 1,755	\$ 1,591,330	\$ 18,383

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

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



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

<i>(Amounts in thousands)</i>	<b>March 31, 2015</b>		<b>December 31, 2014</b>	
	<b>Loan Pools</b>	<b>Allowance for Loan Pools With Impairment</b>	<b>Loan Pools</b>	<b>Allowance for Loan Pools With Impairment</b>
<b>Commercial loans</b>				
Waccamaw commercial	\$ 13,210	\$	\$ 13,392	\$ 37
Waccamaw lines of credit	429		461	
Peoples commercial	5,753		5,875	
Other	1,332		1,358	
<b>Total commercial loans</b>	<b>20,724</b>		<b>21,086</b>	<b>37</b>
<b>Consumer real estate loans</b>				
Waccamaw serviced home equity lines	35,571		37,342	
Waccamaw residential	2,439	94	2,638	
Peoples residential	1,201	20	1,215	21
<b>Total consumer real estate loans</b>	<b>39,211</b>	<b>114</b>	<b>41,195</b>	<b>21</b>
<b>Consumer and other loans</b>				
Waccamaw consumer			2	
<b>Total loans</b>	<b>\$ 59,935</b>	<b>\$ 114</b>	<b>\$ 62,283</b>	<b>\$ 58</b>

**Note 6. FDIC Indemnification Asset**

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

<i>(Amounts in thousands)</i>	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Beginning balance	\$ 27,900	\$ 34,691
Increase (decrease) in estimated losses on covered loans	46	(203)
Increase in estimated losses on covered OREO	69	149
Reimbursable expenses from the FDIC	291	150
Net amortization	(1,565)	(1,134)
Reimbursements from the FDIC	(688)	(1,143)

Ending balance	\$	26,053	\$	32,510
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The following table presents the components of deposits as of the dates indicated:

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
<i>(Amounts in thousands)</i>		
Noninterest-bearing demand deposits	\$ 433,422	\$ 417,729
Interest-bearing deposits:		
Interest-bearing demand deposits	341,300	353,874
Money market accounts	220,304	225,196
Savings deposits	313,285	300,282
Certificates of deposit	538,272	557,352
Individual retirement accounts	144,606	146,326
Total interest-bearing deposits	1,557,767	1,583,030
Total deposits	\$ 1,991,189	\$ 2,000,759

**Note 8. Borrowings**

The following table presents the composition of borrowings as of the dates indicated:

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
<i>(Amounts in thousands)</i>		
Securities sold under agreements to repurchase:		
Retail	\$ 66,302	\$ 71,742
Wholesale	50,000	50,000
Total securities sold under agreements to repurchase	116,302	121,742
FHLB borrowings	90,000	90,000
Subordinated debt	15,464	15,464
Other debt	535	2,535
Total borrowings	\$ 222,301	\$ 229,741

Short-term borrowings generally consist of federal funds purchased and retail repurchase agreements, which are typically collateralized with agency MBS. There were no federal funds purchased as of March 31, 2015, or December 31, 2014. The weighted average rate of federal funds purchased was 0.34% as of December 31, 2014. The weighted average rate of retail repurchase agreements was 0.12% as of March 31, 2015, and 0.13% as of December 31, 2014.

Long-term borrowings consist of wholesale repurchase agreements; FHLB borrowings, including convertible and callable advances; and other obligations. The weighted average contractual rate of wholesale repurchase agreements was 3.71% as of March 31, 2015, and December 31, 2014. The weighted average contractual rate of FHLB borrowings was 4.07% as of March 31, 2015, and December 31, 2014. The following schedule presents the contractual maturities of wholesale repurchase agreements and FHLB borrowings, by year, as of March 31, 2015:

	Wholesale Repurchase Agreements	FHLB Borrowings	Total
<i>(Amounts in thousands)</i>			
2015	\$	\$	\$
2016	25,000		25,000
2017		40,000	40,000
2018			
2019	25,000		25,000
2020 and thereafter		50,000	50,000
	\$ 50,000	\$ 90,000	\$ 140,000
Weighted average maturity (in years)	2.83	4.14	3.67

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The FHLB may redeem callable advances at quarterly intervals after various lockout periods, which could substantially shorten the lives of the advances. If called, the advance may be paid in full or converted into another FHLB credit product. Prepayment of an advance may result in substantial penalties based on the differential between the contractual note and current advance rate for similar maturities.

The Company is required to pledge qualifying collateral to secure FHLB advances and letters of credit. As of March 31, 2015, the Company provided for two FHLB letters of credit to collateralize public unit deposits totaling \$6.18 million. FHLB borrowings were secured by qualifying loans that totaled \$991 thousand as of March 31, 2015, and \$981 thousand as of December 31, 2014. Unused borrowing capacity with the FHLB, net of FHLB letters of credit, totaled \$420.81 million as of March 31, 2015.

Subordinated debt consists of Company-issued junior subordinated debentures ( Debentures ). The Company-issued Debentures totaling \$15.46 million to the Trust in October 2003 with an interest rate of three-month London InterBank Offered Rate ( LIBOR ) plus 2.95%. The Trust was able to purchase the Debentures through the issuance of trust preferred securities, which had substantially identical terms as the Debentures. The Debentures mature on October 8, 2033, and are currently callable quarterly. Net proceeds from the offering were contributed as capital to the Bank to support further growth. The Company's obligations under the Debentures and other relevant Trust agreements, in aggregate, constitute a full and unconditional guarantee by the Company of the Trust's obligations. The preferred securities issued by the Trust are not included in the Company's consolidated balance sheets; however, these securities qualify as Tier 1 capital for regulatory purposes, subject to guidelines issued by the Board of Governors of the Federal Reserve System ( Federal Reserve ). The Federal Reserve's quantitative limits did not prevent the Company from including all \$15.46 million in trust preferred securities outstanding in Tier 1 capital as of March 31, 2015, and December 31, 2014.

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

## **Note 9. Derivative Instruments and Hedging Activities**

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

As of March 31, 2015, the Company's derivative instruments consisted of IRLCs, forward sale loan commitments, and interest rate swaps. Generally, derivative instruments help the Company manage exposure to market risk and meet customer financing needs. Market risk represents the possibility that economic value or net interest income will be adversely affected by fluctuations in external factors such as interest rates, market-driven loan rates, prices, or other economic factors.

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

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

The Company entered into a fourteen-year, \$1.20 million notional interest rate swap agreement in March 2015, a fifteen-year, \$4.37 million notional interest rate swap agreement in February 2014, and a ten-year, \$3.50 million notional interest rate swap agreement in October 2013. The loan hedged by the October 2013 swap paid off in 2014. The swap agreements, which are accounted for as fair value hedges, and the loans hedged by the agreements are recorded at fair value. The fair value hedges were effective as of March 31, 2015.

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

	March 31, 2015	December 31, 2014	March 31, 2014
(Amounts in thousands)	Notional or Contractual Amount	Notional or Contractual Amount	Notional or Contractual Amount
Derivatives designated as hedges:			
Interest rate swaps	\$ 5,604	\$ 4,363	\$ 7,872
Derivatives not designated as hedges:			
IRLCs	4,777	1,391	2,039
Forward sale loan commitments	5,951	3,183	3,782
Total derivatives not designated as hedges	10,728	4,574	5,821
Total derivatives	\$ 16,332	\$ 8,937	\$ 13,693

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

	March 31, 2015		December 31, 2014		March 31, 2014	
(Amounts in thousands)	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Derivatives designated as hedges:						
Interest rate swaps	\$	\$ 318	\$	\$ 209	\$	\$ 59
Derivatives not designated as hedges:						

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IRLCs	21		5			7
Forward sale loan commitments		21		5	7	
Total derivatives not designated as hedges	21	21	5	5	7	7
Total derivatives	\$ 21	\$ 339	\$ 5	\$ 214	\$ 7	\$ 66

The Company's derivative and hedging activity had no effect on the statement of income for the three months ended March 31, 2015 or 2014.



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

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
<i>(Amounts in thousands)</i>		
Service cost	\$ 33	\$ 26
Interest cost	70	73
Amortization of losses	2	
Amortization of prior service cost	47	47
Net periodic cost	\$ 152	\$ 146

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

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
<i>(Amounts in thousands)</i>		
Service cost	\$ 12	\$ 5
Interest cost	13	12
Amortization of losses	15	
Amortization of prior service cost	18	18
Net periodic cost	\$ 58	\$ 35

**Note 11. Accumulated Other Comprehensive Income**

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

	<b>Unrealized Gains (Losses) on</b>		
	<b>Available-for-Sale Securities</b>	<b>Employee Benefit Plan</b>	<b>Total</b>
<i>(Amounts in thousands)</i>			
<b>Three months ended March 31, 2014</b>			
Beginning balance	\$ (13,640)	\$ (1,100)	\$ (14,740)
Other comprehensive (loss) gain before reclassifications	4,132	98	4,230
Reclassified from AOCI	(137)	(40)	(177)

Net comprehensive gain		3,995		58	4,053
Ending balance	\$	(9,645)	\$	(1,042)	\$ (10,687)
<b>Three months ended March 31, 2015</b>					
Beginning balance	\$	(4,266)	\$	(1,339)	\$ (5,605)
Other comprehensive gain before reclassifications		1,039		40	1,079
Reclassified from AOCI		(14)		(51)	(65)
Net comprehensive gain (loss)		1,025		(11)	1,014
Ending balance	\$	(3,241)	\$	(1,350)	\$ (4,591)

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

<i>(Amounts in thousands)</i>	<b>Three Months Ended</b>		<b>Income Statement Line Item Affected</b>
	<b>March 31, 2015</b>	<b>2014</b>	
Available-for-sale securities			
(Losses) gains realized in net income	\$ (23)	\$ 45	Net (loss) gain on sale of securities
Credit-related OTTI recognized in net income		(264)	Net impairment losses recognized in earnings
	(23)	(219)	Income before income taxes
Income tax effect	(9)	(82)	Income tax expense
	(14)	(137)	Net income
Employee benefit plans			
Amortization of prior service cost	(65)	(65)	(1)
Amortization of losses	(17)		(1)
	(82)	(65)	Income before income taxes
Income tax effect	(31)	(25)	Income tax expense
	(51)	(40)	Net income
Reclassified from AOCI, net of tax	\$ (65)	\$(177)	Net income