FIRST COMMUNITY BANCSHARES INC /NV/
Form 10-K
March 15, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012

Commission file number 000-19297

FIRST COMMUNITY BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Nevada	**55-0694814**
(State or other jurisdiction of incorporation)	**(I.R.S. Employer Identification No.)**
P.O. Box 989	
Bluefield, Virginia	**24605-0989**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (276) 326-9000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Common Stock, $1.00 par value	NASDAQ Global Select

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ¨ Yes x No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. ¨ Yes x No

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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. (Check one):

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant s most recently completed second fiscal quarter.

Approximately $196.39 million based on the closing sales price at June 30, 2012.

Indicate the number of shares outstanding of each of the registrant s classes of Common Stock, as of the latest practicable date.

Class Common Stock, $1.00 Par Value; 20,047,484 shares outstanding as of February 27, 2013.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the annual meeting of shareholders to be held on April 30, 2013, are incorporated by reference in Part III of this Form 10-K.

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PART I

ITEM 1. Business.

Corporate Overview

First Community Bancshares, Inc. (the Company) is a financial holding company incorporated in 1997 under the laws of the State of Nevada and founded in 1989. The Company serves as the holding company for First Community Bank (the Bank), which is a Virginia-chartered banking institution founded in 1874. The Company also owns Greenpoint Insurance Group, Inc. (Greenpoint), a full-service insurance agency. The Bank is the parent of First Community Wealth Management, a registered investment advisory firm that offers wealth management and investment advice. The Company is the Common Stockholder of FCBI Capital Trust, which was created in October 2003 to issue trust preferred securities to raise capital for the Company.

The Company s banking operations are expected to remain the principal business and major source of revenue for the Company. The Company also considers and evaluates options for growth and expansion of the existing subsidiary banking operations. During 2012, the Company completed the acquisitions of Peoples Bank of Virginia (Peoples) and Waccamaw Bank (Waccamaw). Additional information regarding recent acquisitions can be found in Note 2 Business Combinations and Branching Activity of the Notes to Consolidated Financial Statements in Item 8 herein. Although the Company is a corporate entity, legally separate and distinct from its affiliates, bank holding companies, such as the Company, are required to act as a source of financial strength for their subsidiary banks. The principal source of the Company s income is dividends from the Bank. Dividend payments by the Bank are determined in relation to earnings, asset growth, and capital position and are subject to certain restrictions by regulatory agencies as described more fully under Regulation and Supervision The Bank of this item.

The Company s principal executive offices are located at One Community Place, Bluefield, Virginia 24605 and its telephone number is (276) 326-9000.

Business Overview

Through its subsidiaries, the Company offers commercial and consumer banking services and products, as well as wealth management and insurance services. Those products and services include the following:

- demand deposit accounts, savings and money market accounts, certificates of deposit, and individual retirement arrangements,
- commercial, consumer, real estate mortgage loans, and lines of credit,
- various debit card and automated teller machine card services,
- corporate and personal trust services,
- investment management services, and
- life, health, and property and casualty insurance products.

The Company provides financial services and conducts banking operations within the states of Virginia, West Virginia, North Carolina, South Carolina, and Tennessee. The Company serves a diverse customer base consisting of individual consumers and a wide variety of industries, including, among others, manufacturing, mining, services, construction, retail, healthcare, military and transportation. The Company is not dependent upon any single industry or customer. The Company had total consolidated assets of $2.73 billion at December 31, 2012, and conducts its banking operations through 72 locations.

Operating Segment

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

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and insurance services. Prior to March 31, 2012, insurance services were reported as a separate operating segment. During the first quarter of 2012, management determined, in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 280-10-50, that the Insurance Services segment no longer met the quantitative requirements for disclosure due to the sale of certain agencies during the third quarter of 2011. The operations of the Insurance Services segment were reasonably similar to the Community Banking segment; therefore, the two segments have been aggregated for disclosure purposes in the consolidated financial statements. Prior periods have been restated to reflect the Company s one operating segment, Community Banking. The Company s consolidated operating revenues, consolidated income or loss from operations, and total assets are hereby incorporated by reference from Item 6 of this Annual Report on Form 10-K.

Competition

There is significant competition among banks in the Company s market areas. The Company also competes with other providers of financial services, such as thrifts, savings and loan associations, credit unions, consumer finance companies, securities firms, insurance companies, insurance agencies, commercial finance and leasing companies, full service brokerage firms, and discount brokerage firms. The Company faces substantial competition for deposits and loans throughout its market areas. The primary factors in competing for deposits are interest rates, personalized services, the quality and range of financial services, convenience of office locations, automated services and office hours. Competition for deposits comes primarily from other commercial banks, savings institutions, credit unions, mutual funds and other investment alternatives. The primary factors in competing for commercial and business loans are interest rates, loan origination fees, the quality and range of lending services and personalized service. Competition for origination of mortgage loans comes primarily from savings institutions, mortgage banking firms, mortgage brokers, other commercial banks and insurance companies. Factors which affect competition include the general and local economic conditions, current interest rate levels and volatility in the mortgage markets. Some of the Company s competitors have greater resources and, as such, may have higher lending limits and may offer other services that are not provided by the Company. Competition could intensify in the future as a result of industry consolidation, the increasing availability of products and services from non-banks, greater technological developments in the industry, and banking regulatory reform. See Management s Discussion and Analysis of Financial Condition and Results of Operations Executive Overview Competition in Item 7 herein.

Employees

The Company and its subsidiaries employed 760 full-time equivalent employees at December 31, 2012. Management considers employee relations to be excellent.

Regulation and Supervision

General

The supervision and regulation of the Company and its subsidiaries by applicable federal and state banking agencies is intended primarily for the protection of depositors, the Deposit Insurance Fund (DIF) of the Federal Deposit Insurance Corporation (FDIC), and the banking system as a whole, and not for the protection of stockholders or creditors. The banking agencies have broad enforcement power over bank holding companies and banks, including the power to impose substantial fines and other penalties for violations of laws and regulations.

The following description summarizes some of the laws to which the Company and the Bank are subject. References in the following description to applicable statutes and regulations are brief summaries of these statutes and regulations, do not purport to be complete, and are qualified in their entirety by reference to such statutes and regulations. A change in statutes, regulations or regulatory policies applicable to the Company and its subsidiaries could have a material effect on the business of the Company.

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Dodd-Frank Wall Street Reform and Consumer Protection Act

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

- Centralizes responsibility for consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau (the CFPB), responsible for implementing, examining and enforcing compliance with federal consumer financial laws.
- Requires financial holding companies, such as our Company, to be well capitalized and well managed as of July 21, 2011. Bank holding companies and banks must also be well capitalized and well managed to engage in interstate bank acquisitions.
- Imposes comprehensive regulation of the over-the-counter derivatives market, which would include certain provisions that would effectively prohibit insured depository institutions from conducting certain derivatives businesses in the institutions themselves.
- Implements corporate governance revisions, including with regard to executive compensation and proxy access by shareholders.
- Makes permanent the $250 thousand limit for federal deposit insurance.
- Repeals the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts.
- Amends the Electronic Fund Transfer Act to, among other things, give the Board of Governors of the Federal Reserve System (the Federal Reserve Board) the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over $10 billion and enforces a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer.
- Increases the authority of the Federal Reserve Board to examine bank holding companies, such as our Company, and their nonbank subsidiaries.

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

The Company

The Company is a financial holding company pursuant to the Gramm-Leach-Bliley Act (the GLB Act) and a bank holding company registered under the Bank Holding Company Act of 1956, as amended (the BHCA). Accordingly, the Company is subject to supervision, regulation and examination by the Federal Reserve Board. The BHCA, the GLB Act, and other federal laws subject financial and bank holding companies to particular restrictions on the types of activities in which they may engage and to a range of supervisory requirements and activities, including

regulatory enforcement actions for violations of laws and regulations. The BHCA generally

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provides for umbrella regulation of financial holding companies, such as the Company, by the Federal Reserve Board, and for functional regulation of banking activities by bank regulators, securities activities by securities regulators, and insurance activities by insurance regulators.

Regulatory Restrictions on Dividends; Source of Strength. It is the policy of the Federal Reserve Board that bank holding companies should pay cash dividends on common stock only from income available over the past year and only if prospective earnings retention is consistent with the organization s expected future needs and financial condition. The policy provides that bank holding companies should not maintain a level of cash dividends that undermines the bank holding company s ability to serve as a source of strength to its banking subsidiaries.

Under Federal Reserve Board policy, a bank holding company is expected to act as a source of financial strength to each of its banking subsidiaries and commit resources to their support. The Dodd-Frank Act codified this policy as a statutory requirement. Under this requirement, the Company is expected to commit resources to support the Bank, including at times when the Company may not be in a financial position to provide such resources. As discussed below, a bank holding company in certain circumstances could be required to guarantee the capital plan of an undercapitalized banking subsidiary.

Scope of Permissible Activities. Under the BHCA, bank holding companies generally may not acquire a direct or indirect interest in or control of more than 5% of the voting shares of any company that is not a bank or bank holding company or engage in activities other than those of banking, managing or controlling banks or furnishing services to or performing services for its subsidiaries, except that it may engage in, directly or indirectly, certain activities that the Federal Reserve Board determined to be closely related to banking or managing and controlling banks as to be a proper incident thereto.

Notwithstanding the foregoing, the GLB Act eliminated the barriers to affiliations among banks, securities firms, insurance companies and other financial service providers and permits bank holding companies to become financial holding companies and thereby affiliate with securities firms and insurance companies and engage in other activities that are financial in nature. The GLB Act defines financial in nature to include securities underwriting, dealing and market making; sponsoring mutual funds and investment companies; insurance underwriting and agency; merchant banking activities and activities that the Federal Reserve Board has determined to be closely related to banking. No regulatory approval is generally required for a financial holding company to acquire a company, other than a bank or savings association, engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the Federal Reserve Board.

Under the GLB Act, a bank holding company may become a financial holding company by filing a declaration with the Federal Reserve Board if each of its subsidiary banks is well capitalized under the Federal Deposit Insurance Corporation Improvement Act of 1991 prompt corrective action provisions, is well managed and has at least a satisfactory rating under the Community Reinvestment Act of 1977. The Company elected financial holding company status in December 2006. Beginning in July 2011, the Company s financial holding company status also depends upon it maintaining its status as well capitalized and well managed under applicable Federal Reserve Board regulations. If a financial holding company ceases to meet these requirements, the Federal Reserve Board may impose corrective capital and/or managerial requirements on the financial holding company and place limitations on its ability to conduct the broader financial activities permissible for financial holding companies. In addition, the Federal Reserve Board may require divestiture of the holding company s depository institutions if the deficiencies persist.

Anti-Tying Restrictions. Bank holding companies and their affiliates are prohibited from tying the provision of certain services, such as extensions of credit, to other services offered by a holding company or its affiliates.

Stock Repurchases. A bank holding company is required to give the Federal Reserve Board prior notice of any redemption or repurchase of its own equity securities, if the consideration to be paid, together with the consideration paid for any repurchases or redemptions in the preceding year, is equal to 10% or more of the

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company s consolidated net worth. The Federal Reserve Board may oppose the transaction if it believes that the transaction would constitute an unsafe or unsound practice or would violate any law or regulation.

Capital Adequacy Requirements. The Federal Reserve Board has promulgated capital adequacy guidelines for use in its examination and supervision of bank holding companies. If a bank holding company s capital falls below minimum required levels, then the bank holding company must implement a plan to increase its capital, and its ability to pay dividends, make acquisitions of new bank subsidiaries, or engage in certain other activities may be restricted or prohibited.

The Federal Reserve Board currently uses two types of capital adequacy guidelines for holding companies, a two-tiered risk-based capital guideline and a leverage capital ratio guideline. The two-tiered risk-based capital guideline assigns risk weightings to all assets and certain off-balance sheet items of the holding company s operations, and then establishes a minimum ratio of the holding company s Tier 1 capital to the aggregate dollar amount of risk-weighted assets (which amount is usually less than the aggregate dollar amount of such assets without risk weighting) and a minimum ratio of the holding company s total capital (Tier 1 capital plus Tier 2 capital, as adjusted) to the aggregate dollar amount of such risk-weighted assets. The leverage ratio guideline establishes a minimum ratio of the holding company s Tier 1 capital to its total tangible assets (total assets less goodwill and certain identifiable intangibles), without risk-weighting. As discussed below, the Bank is subject to similar capital requirements.

Under both guidelines, Tier 1 capital is defined to include: common shareholders equity (including retained earnings), qualifying noncumulative perpetual preferred stock and related surplus, qualifying cumulative perpetual preferred stock and related surplus, minority interests in the equity accounts of consolidated subsidiaries (limited to a maximum of 25% of Tier 1 capital), and certain trust preferred securities. The Dodd-Frank Act excludes trust preferred securities issued after May 19, 2010, from being included in Tier 1 capital, unless the issuing company is a bank holding company with less than $500 million in total assets. Trust preferred securities issued prior to that date will continue to count as Tier 1 capital for bank holding companies with less than $15 billion in total assets, such as the Company. Goodwill and most intangible assets are deducted from Tier 1 capital. For purposes of the total risk-based capital guidelines, Tier 2 capital (sometimes referred to as supplementary capital) is defined to include, subject to limitations: perpetual preferred stock not included in Tier 1 capital, intermediate-term preferred stock and any related surplus, certain hybrid capital instruments, perpetual debt and mandatory convertible debt securities, allowances for loan and lease losses, and intermediate-term subordinated debt instruments. The maximum amount of qualifying Tier 2 capital is 100% of qualifying Tier 1 capital. For purposes of the total capital guideline, total capital equals Tier 1 capital, plus qualifying Tier 2 capital, minus investments in unconsolidated subsidiaries, reciprocal holdings of bank holding company capital securities, and deferred tax assets and other deductions. The Federal Reserve Board s current capital adequacy guidelines require that a bank holding company maintain a Tier 1 risk-based capital ratio of at least 4.0% and a total risk-based capital ratio of at least 8.0%. At December 31, 2012, the Company s ratio of Tier 1 capital to total risk-weighted assets was 15.44% and its ratio of total capital to risk-weighted assets was 16.70%.

In addition to the risk-based capital guidelines, the Federal Reserve Board uses a leverage ratio as an additional tool to evaluate the capital adequacy of bank holding companies. The leverage ratio is a company s Tier 1 capital divided by its average total consolidated assets. Certain highly rated bank holding companies may maintain a minimum leverage ratio of 3.0%, but other bank holding companies are required to maintain a leverage ratio of 4.0% or more, depending on their overall condition. At December 31, 2012, the Company s leverage ratio was 9.96%.

The federal banking agencies risk-based and leverage ratios are minimum supervisory ratios generally applicable to banking organizations that meet certain specified criteria, assuming that they have the highest regulatory rating. Banking organizations not meeting these criteria are expected to operate with capital positions well above the minimum ratios. The federal bank regulatory agencies may set capital requirements for a particular banking organization that are higher than the minimum ratios when circumstances warrant. Federal

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Reserve Board guidelines also provide that banking organizations experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets.

The current risk-based capital guidelines that apply to the Company and the Bank are based on the 1988 capital accord of the International Basel Committee on Banking Supervision, a committee of central banks and bank supervisors, as implemented by the Federal Reserve Board. On June 7, 2012, the federal bank regulatory agencies issued a series of proposed rules that would revise their risk-based and leverage capital requirements and their method for calculating risk-weighted assets to make them consistent with the agreements that were reached by the Basel Committee on Banking Supervision in Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems (Basel III) and certain provisions of the Dodd-Frank Act. The proposed rules would apply to all depository institutions, top-tier bank holding companies with total consolidated assets of $500 million or more, and top-tier savings and loan holding companies (banking organizations). Among other things, the proposed rules establish a new common equity Tier 1 minimum capital requirement of 4.5% and a higher minimum Tier 1 capital requirement of 6.0% and assign higher risk weightings (150%) to exposures that are more than 90 days past due or are on nonaccrual status and certain commercial real estate facilities that finance the acquisition, development or construction of real property. Additionally, the U.S. implementation of Basel III contemplates that, for banking organizations with less than $15 billion in assets, the ability to treat trust preferred securities as Tier 1 capital would be phased out over a ten-year period. The proposed rules also required unrealized gains and losses on certain securities holdings to be included for purposes of calculating regulatory capital requirements. The proposed rules limit a banking organization s capital distributions and certain discretionary bonus payments if the banking organization does not hold a capital conservation buffer consisting of a specified amount of common equity Tier 1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements. The proposed rules indicated that the final rule would become effective on January 1, 2013, and the changes set forth in the final rules will be phased in from January 1, 2013 through January 1, 2019. However, the agencies have recently indicated that, due to the volume of public comments received, the final rule would not be in effect on January 1, 2013.

When fully phased in on January 1, 2019, Basel III requires banks to maintain the following new standards and introduces a new capital measure Common Equity Tier 1, or CET1 . Basel III increases the CET1 to risk-weighted assets to 4.5%, and introduces a capital conservation buffer of an additional 2.5% of common equity to risk-weighted assets, raising the target CET1 to risk-weighted assets ratio to 7%. It requires banks to maintain a minimum ratio of Tier 1 capital to risk weighted assets of at least 6.0%, plus the capital conservation buffer effectively resulting in a Tier 1 capital ratio of 8.5%. Basel III increases the minimum total capital ratio to 8.0% plus the capital conservation buffer, increasing the minimum total capital ratio to 10.5%. Basel III also introduces a non-risk adjusted Tier 1 leverage ratio of 3%, based on a measure of total exposure rather than total assets, and new liquidity standards.

Failure to meet statutorily mandated capital guidelines or more restrictive ratios separately established for a financial institution could subject the Bank or the Company to a variety of enforcement remedies, including issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on accepting or renewing brokered deposits, limitations on the rates of interest that the institution may pay on its deposits and other restrictions on its business. As described above, significant additional restrictions can be imposed on the Bank if it would fail to meet applicable capital requirements.

Acquisitions by Bank Holding Companies. The BHCA requires every bank holding company to obtain the prior approval of the Federal Reserve Board before it may acquire all or substantially all of the assets of any bank, or ownership or control of any voting shares of any bank, if after such acquisition it would own or control, directly or indirectly, more than 5% of the voting shares of such bank. In approving bank acquisitions by bank holding companies, the Federal Reserve Board is required to consider the financial and managerial resources and future prospects of the bank holding company and the banks concerned, the convenience and needs of the communities to be served, and various competitive factors.

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Incentive Compensation. In June 2010, the Federal Reserve Board, the OCC and the FDIC issued their final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk taking. The final guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, is based upon the key principles that a banking organization s incentive compensation arrangements should (i) provide incentives that do not encourage risk taking beyond the organization s ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization s board of directors. The Federal Reserve Board indicated that all banking organizations are to evaluate their incentive compensation arrangements and related risk management, controls, and corporate governance processes and immediately address deficiencies in these arrangements or processes that are inconsistent with safety and soundness.

The Federal Reserve Board will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Company, that are not large, complex banking organizations. These reviews will be tailored to each organization based on the scope and complexity of the organization s activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization s supervisory ratings, which can affect the organization s ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk management control or governance processes, pose a risk to the organization s safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

In February 2011, the Federal Reserve Board, the OCC and the FDIC approved a joint proposed rulemaking to implement Section 956 of the Dodd-Frank Act, which prohibits incentive-based compensation arrangements that encourage inappropriate risk taking by covered financial institutions and are deemed to be excessive, or that may lead to material losses.

The scope and content of the U.S. banking regulators policies on executive compensation are continuing to develop and are likely to continue evolving in the near future. It cannot be determined at this time whether compliance with such policies will adversely affect the Company s ability to hire, retain and motivate its key employees.

The Bank

The Bank is a Virginia state-chartered bank supervised and regulated by the Virginia Bureau of Financial Institutions (the Virginia Bureau) and as a member of the Federal Reserve, the Bank s primary federal regulator is the Federal Reserve Bank of Richmond (FRB), both of which are based in the Company s home state of Virginia. The regulations of these agencies govern most aspects of the Bank s business, including required reserves against deposits, loans, investments, mergers and acquisitions, borrowing, dividends and location and number of branch offices.

Restrictions on Transactions with Affiliates and Insiders. Transactions between the Bank and its non-banking subsidiaries and/or affiliates, including the Company, are subject to Section 23A of the Federal Reserve Act. In general, Section 23A imposes limits on the amount of such transactions, and also requires certain levels of collateral for loans to affiliated parties. It also limits the amount of advances to third parties which are collateralized by the securities or obligations of the Company or its subsidiaries.

Affiliate transactions are also subject to Section 23B of the Federal Reserve Act which generally requires that certain transactions between the Bank and its affiliates be on terms substantially the same, or at least as favorable to the Bank, as those prevailing at the time for comparable transactions with or involving other non-affiliated persons. The Federal Reserve Board has issued Regulation W which codifies prior regulations under Sections 23A and 23B of the Federal Reserve Act and interpretive guidance with respect to affiliate transactions.

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The Dodd-Frank Act generally enhances the restrictions on transactions with affiliates under Sections 23A and 23B of the Federal Reserve Act, including an expansion of the definition of covered transactions and an increase in the amount of time for which collateral requirements regarding covered credit transactions must be satisfied. Insider transaction limitations are expanded through the strengthening of loan restrictions to insiders and the expansion of the types of transactions subject to the various limits, including derivatives transactions, repurchase agreements, reverse repurchase agreements and securities lending or borrowing transactions. Restrictions are also placed on certain asset sales to and from an insider to an institution, including requirements that such sales be on market terms and, in certain circumstances, approved by the institution s board of directors.

The restrictions on loans to directors, executive officers, principal shareholders and their related interests contained in the Federal Reserve Act and Regulation O apply to all insured institutions and their subsidiaries and holding companies. These restrictions include limits on loans to one borrower and conditions that must be met before such a loan can be made. There is also an aggregate limitation on all loans to such persons. These loans cannot exceed the institution s total unimpaired capital and surplus, and the FDIC may determine that a lesser amount is appropriate.

Restrictions on Distribution of Subsidiary Bank Dividends and Assets. Dividends paid by the Bank have provided the Company s operating funds and for the foreseeable future it is anticipated that dividends paid by the Bank to the Company will continue to be the Company s primary source of operating funds.

Capital adequacy requirements applicable to insured depository institutions serve to limit the amount of dividends that may be paid by the Bank. Under federal law, the Bank cannot pay a dividend if, after paying the dividend, it will be classified as undercapitalized. Further, prior approval of the Federal Reserve Board is required if cash dividends declared in any given year exceed the total of the Bank s net profits for such year, plus its retained profits for the preceding two years. Virginia law also imposes restrictions on the ability of Virginia-chartered banks to pay dividends if such dividends would impair a bank s paid-in capital. The payment of dividends by the Bank may also be limited by other factors, such as requirements to maintain capital above regulatory guidelines. The Virginia Bureau and the Federal Reserve Board have the general authority to limit dividends paid by the Bank if such payments are deemed to constitute an unsafe and unsound practice.

Because the Company is a legal entity separate and distinct from its subsidiaries, its right to participate in the distribution of assets of any subsidiary upon the subsidiary s liquidation or reorganization will be subject to the prior claims of the subsidiary s creditors. In the event of liquidation or other resolution of an insured depository institution, such as the Bank, the claims of depositors and other general or subordinated creditors are entitled to a priority of payment over the claims of holders of any obligation of the institution to its shareholders, including any depository institution holding company or any shareholder or creditor thereof.

Examinations. Under the Federal Deposit Insurance Corporation Improvement Act, all insured institutions must undergo regular on-site examination by their appropriate banking agency and such agency may assess the institution for its costs of conducting the examination. As a state-chartered, Federal Reserve member bank, the Bank is subject to examination by the Virginia Bureau and FRB. These examinations review areas such as capital adequacy, reserves, loan portfolio quality and management, consumer and other compliance issues, investments, information systems, disaster recovery, and contingency planning and management practices.

Capital Adequacy Requirements. The various federal bank regulatory agencies, including the Federal Reserve Board, have adopted risk-based capital requirements for assessing the capital adequacy of banks and bank holding companies. The federal capital standards define capital and establish minimum capital requirements in relation to assets and off-balance sheet exposure, as adjusted for credit risk. The risk-based capital standards currently in effect are designed to make regulatory capital requirements more sensitive to differences in risk profile among bank holding companies and banks, to account for off-balance sheet exposure and to minimize disincentives for holding liquid assets. Assets and off-balance sheet items are assigned to broad risk categories, each with appropriate risk weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items.

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Pursuant to the Federal Reserve Board s risk-based capital requirements, state member banks are required to meet a minimum ratio of Tier 1 capital to total risk-weighted assets of 4.0% and a ratio of total capital to total risk-weighted assets of 8.0%. The capital categories have the same definitions for the Bank as for the Company. See Regulation and Supervision The Company Capital Adequacy Requirements for additional information on the capital requirements applicable to the Bank.

In addition to the risk-based capital requirements, the Federal Reserve Board has adopted regulations that supplement the risk-based guidelines to include a minimum leverage ratio of Tier 1 capital to quarterly average assets of 3.0%. The Federal Reserve Board has emphasized that the foregoing standards are supervisory minimums and that a banking organization will be permitted to maintain such minimum levels of capital only if it receives the highest rating under the regulatory rating system and the banking organization is not experiencing or anticipating significant growth. All other banking organizations are required to maintain a leverage ratio of at least 4.0% to 5.0% of Tier 1 capital. These rules further provide that banking organizations experiencing internal growth or making acquisitions will be expected to maintain capital positions substantially above the minimum supervisory levels and comparable to peer group averages, without significant reliance on intangible assets.

Corrective Measures for Capital Deficiencies. The federal banking regulators are required to take prompt corrective action with respect to capital-deficient institutions. Agency regulations define, for each capital category, the levels at which institutions are well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. A well capitalized institution has a to risk-based capital ratio of 10.0% or higher; a Tier 1 risk-based capital ratio of 6.0% or higher; a leverage ratio of 5.0% or higher; and is not subject to any written agreement, order or directive requiring it to maintain a specific capital level for any capital measure. An adequately capitalized institution has a total risk-based capital ratio of 8.0% or higher; a Tier 1 risk-based capital ratio of 4.0% or higher; a leverage ratio of 4.0% or higher (3.0% or higher if the bank was rated a composite 1 in its most recent examination report and is not experiencing significant growth); and does not meet the criteria for a well capitalized bank. An undercapitalized institution has a total risk-based capital ratio that is less than 8.0%; a Tier 1 risk-based capital ratio of less than 4.0% or a leverage ratio of less than 4.0%. A significantly undercapitalized institution has a total risk-based capital ratio of less than 6.0%; a Tier 1 risk-based capital ratio of less than 3.0% or a leverage ratio of less than 3.0%. A critically undercapitalized institution s tangible equity is equal to or less than 2.0% of average quarterly tangible assets. An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. A bank s capital category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank s overall financial condition or prospects for other purposes. The Bank was classified as well capitalized for purposes of the FDIC s prompt corrective action regulation as of December 31, 2012.

In addition to requiring undercapitalized institutions to submit a capital restoration plan, agency regulations contain broad restrictions on certain activities of undercapitalized institutions including asset growth, acquisitions, branch establishment and expansion into new lines of business. With certain exceptions, an insured depository institution is prohibited from making capital distributions, including dividends, and is prohibited from paying management fees to control persons if the institution would be undercapitalized after any such distribution or payment.

As an institution s capital decreases, the federal regulators enforcement powers become more severe. A significantly undercapitalized institution is subject to mandated capital raising activities, restrictions on interest rates paid and transactions with affiliates, removal of management and other restrictions. The FDIC has limited discretion in dealing with a critically undercapitalized institution and is generally required to appoint a receiver or conservator. Banks with risk-based capital and leverage ratios below the required minimums may also be subject to certain administrative actions, including the termination of deposit insurance upon notice and hearing, or a temporary suspension of insurance without a hearing in the event the institution has no tangible capital.

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Deposit Insurance Assessments. The Bank s deposits are insured up to applicable limits by the DIF of the FDIC and are subject to deposit insurance assessments to maintain the DIF. Currently the FDIC utilizes a risk-based assessment system to evaluate the risk of each financial institution based on three primary sources of information: (1) its supervisory rating, (2) its financial ratios, and (3) its long-term debt issuer rating, if the institution has one. The FDIC s initial base assessment schedule can be adjusted up or down, and premiums in effect from January 1, 2010, through March 31, 2011, ranged from 12 basis points in the lowest risk category to 45 basis points for banks in the highest risk category. Effective April 1, 2011, the FDIC set initial base assessment rates from 5 basis points in the lowest risk category to 35 basis points for banks in the higher risk category.

The Dodd-Frank Act requires the FDIC to increase the DIF s reserves against future losses, which will necessitate increased deposit insurance premiums that are to be borne primarily by institutions with assets of greater than $10 billion. In October 2010, the FDIC addressed plans to bolster the DIF by increasing the required reserve ratio for the industry to 1.35 percent (ratio of reserves to insured deposits) by September 30, 2020, as required by the Dodd-Frank Act. The FDIC also proposed to raise its industry target ratio of reserves to insured deposits to 2 percent, 65 basis points above the statutory minimum.

In February 2011, the FDIC adopted new rules that amend its current deposit insurance assessment regulations. The new rules implement a provision in the Dodd-Frank Act that changed the assessment base for deposit insurance premiums from one based on domestic deposits to one based on average consolidated total assets minus average tangible equity. The rules also changed the assessment rate schedules for insured depository institutions so that approximately the same amount of revenue would be collected under the new assessment base as would be collected under the current rate schedule and the schedules previously proposed by the FDIC in October 2010. In addition, the new rules revised the risk-based assessment system for large insured depository institutions (generally, institutions with at least $10 billion in total assets) and highly complex institutions by requiring that the FDIC use a scorecard method to calculate assessment rates for all such institutions. The Bank will not be deemed a highly complex institution for these purposes.

Under the Federal Deposit Insurance Act, as amended (the FDIA), the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

In addition to deposit insurance assessments by the DIF, all FDIC-insured depository institutions must pay an annual assessment to provide funds for the repayment of debt obligations of the Financing Corporation (FICO). The FICO is a government-sponsored entity that was formed to borrow the money necessary to carry out the closing and ultimate disposition of failed thrift institutions by the Resolution Trust Corporation. The FICO assessments are set quarterly. The Bank paid FICO assessments of $140 thousand for the year ended December 31, 2012, and $154 thousand for the year ended December 31, 2011. The Bank paid approximately $1.57 million during 2012 for FDIC deposit insurance premiums.

Safety and Soundness Standards. The FDIA requires the federal bank regulatory agencies to prescribe standards, by regulations or guidelines, relating to internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, stock valuation and compensation, fees and benefits, and such other operational and managerial standards as the agencies deem appropriate. Guidelines adopted by the federal bank regulatory agencies establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal stockholder. In addition, the agencies adopted regulations that authorize, but do not require, an agency to order an institution that has been given notice

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by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the prompt corrective action provisions of the FDIA. See Regulation and Supervision The Bank Corrective Measures for Capital Deficiencies for additional information. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties.

Enforcement Powers. The FDIC and the other federal banking agencies have broad enforcement powers, including the power to terminate deposit insurance, impose substantial fines and other civil and criminal penalties and appoint a conservator or receiver. Failure to comply with applicable laws, regulations and supervisory agreements could subject the Company or the Bank, as well as officers, directors and other institution-affiliated parties of these organizations, to administrative sanctions and potentially substantial civil money penalties. The appropriate federal banking agency may appoint the FDIC as conservator or receiver for a banking institution (or the FDIC may appoint itself, under certain circumstances) if any one or more of a number of circumstances exist, including, without limitation, the fact that the banking institution is undercapitalized and has no reasonable prospect of becoming adequately capitalized; fails to become adequately capitalized when required to do so; fails to submit a timely and acceptable capital restoration plan; or materially fails to implement an accepted capital restoration plan.

Consumer Laws and Regulations. In addition to the laws and regulations discussed herein, the Bank is also subject to certain consumer laws and regulations that are designed to protect consumers in transactions with banks. While the list set forth herein is not exhaustive, these laws and regulations include the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, and the Fair Housing Act, and various state counterparts. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits or making loans to such customers. The Bank must comply with the applicable provisions of these consumer protection laws and regulations as part of their ongoing customer relations.

In addition, federal law currently contains extensive customer privacy protection provisions. Under these provisions, a financial institution must provide to its customers, at the inception of the customer relationship and annually thereafter, the institution s policies and procedures regarding the handling of customers nonpublic personal financial information. These provisions also provide that, except for certain limited exceptions, a financial institution may not provide such personal information to unaffiliated third parties unless the institution discloses to the customer that such information may be so provided and the customer is given the opportunity to opt out of such disclosure.

The Dodd-Frank Act provided for the creation of the CFPB as an independent entity within the Federal Reserve Board. The CFPB has broad rulemaking, supervisory and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home-equity loans and credit cards. The CFPB s functions include investigating consumer complaints, rulemaking, supervising and examining banks consumer transactions, and enforcing rules related to consumer financial products and services. Banks with less than $10 billion in assets, such as the Bank, will continue to be examined for compliance with federal consumer financial laws by their primary federal banking agency.

USA PATRIOT Act of 2001. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (Patriot Act) was enacted in October 2001. The Patriot Act has broadened existing anti-money laundering legislation while imposing new compliance and due diligence obligations on banks and other financial institutions, with a particular focus on detecting and reporting money laundering transactions involving domestic or international customers. The U.S. Treasury Department has issued and will continue to issue regulations clarifying the Patriot Act s requirements. The Patriot Act requires all

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financial institutions, as defined, to establish certain anti-money laundering compliance and due diligence programs. Recently, the regulatory agencies have intensified their examination procedures in light of the Patriot Act s anti-money laundering and Bank Secrecy Act requirements. The Company believes that its controls and procedures were in compliance with the Patriot Act as of December 31, 2012.

Interstate Banking and Branching. The federal banking agencies are authorized to approve interstate bank merger transactions without regard to whether the transaction is prohibited by the law of any state, unless the home state of one of the banks has opted out of the interstate bank merger provisions of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the Riegle-Neal Act) or by adopting a law after the date of enactment of the Riegle-Neal Act and prior to June 1, 1997, that applies equally to all out-of-state banks and expressly prohibits merger transactions involving out-of-state banks. Interstate acquisitions of branches are permitted only if the law of the state in which the branch is located permits such acquisitions. Such interstate bank mergers and branch acquisitions are also subject to the nationwide and statewide insured deposit concentration limitations described in the Riegle-Neal Act.

Prior to the enactment of the Dodd-Frank Act, national and state-chartered banks were generally permitted to branch across state lines by merging with banks in other states if allowed by the applicable states laws. However, interstate branching is now permitted for all national and state-chartered banks as a result of the Dodd-Frank Act, provided that a state bank chartered by the state in which the branch is to be located would also be permitted to establish a branch, thus effectively giving out-of-state banks parity with in-state banks with respect to de novo branching.

Repurchase of Securities Issued in the Troubled Asset Relief Program Capital Purchase Program

On November 21, 2008, the Company issued and sold to the U.S. Department of the Treasury (Treasury) (i) 41,500 shares of the Company s Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the Preferred Shares) and (ii) a Warrant (the Warrant) to purchase 176,546 shares of the Company s Common Stock, par value $1.00 per share (the Common Stock), for an aggregate purchase price of $41.50 million in cash. On June 5, 2009, the Company completed a public offering of its Common Stock that resulted in the reduction of the shares of Common Stock underlying the Warrant from 176,546 shares to 88,273 shares. On July 8, 2009, the Company repurchased from the Treasury all of the Preferred Shares that it had issued to the Treasury in November 2008. On November 23, 2011, the Company repurchased the Warrant from the Treasury for $30,600. The purchase price represents the amount that the Company bid in a public auction for the Warrant that took place on November 17, 2011. The Warrant had a 10-year term and was immediately exercisable upon its issuance, with an initial per share exercise price of $35.26.

Series A Noncumulative Convertible Preferred Stock

On May 20, 2011, the Company completed a private placement of 18,921 shares of its 6.00% Series A Noncumulative Convertible Preferred Stock (the Series A Preferred Stock). The shares carry a 6.00% dividend rate and are noncumulative. Each share is convertible into 69 shares of the Company s Common Stock at any time and mandatorily converts after five years. The Company may redeem the shares at face value after the third anniversary. As of December 31, 2012, 17,421 shares of Series A Preferred Stock were outstanding.

Available Information

Under the Securities Exchange Act of 1934, as amended (the Exchange Act), the Company is required to file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the SEC). Any document the Company files with the SEC may be read and copied at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at (800) SEC-0330 for further information about the public reference room. The SEC maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

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The Company makes available, free of charge, on its website at www.fcbinc.com its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and all amendments thereto, as soon as reasonably practicable after the Company files such reports with, or furnishes them to, the SEC. Investors are encouraged to access these reports and the other information about the Company s business on its website. Information found on the Company s website is not part of this Annual Report on Form 10-K. The Company will also provide copies of its Annual Report on Form 10-K, free of charge, upon written request of the Investor Relations Department at the Company s main address, P.O. Box 989, Bluefield, VA 24605.

Also posted on the Company s website, and available in print upon written request of any shareholder to the Company s Investor Relations Department, are the charters of the standing committees of its Board of Directors, the Standards of Conduct governing the Company s directors, officers, and employees, and the Company s Insider Trading & Disclosure Policy.

Forward-Looking Statements

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

- the strength of the United States economy in general and the strength of the local economies in which we conduct operations;
- the effects of, and changes in, trade, monetary, and fiscal policies and laws, including interest rate policies of the Federal Reserve Board;
- inflation, interest rate, market and monetary fluctuations;
- our timely development of competitive new products and services and the acceptance of these products and services by new and existing customers;
- the willingness of customers to substitute competitors products and services for our products and services and vice versa;
- the impact of changes in financial services laws and regulations (including laws concerning taxes, banking, securities, and insurance) and the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act);
- the impact of the U.S. Treasury and federal banking regulators continued implementation of a number of programs to address capital and liquidity in the banking system; further, future and proposed rules, including those that are part of the Basel III process, which are expected to require banking institutions to increase levels of capital;
- technological changes;

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

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

unanticipated regulatory or judicial proceedings;

changes in consumer spending and saving habits; and

our success at managing the risks involved in the foregoing.

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

ITEM 1A. Risk Factors.

An investment in the Company s Common Stock is subject to risks inherent to the Company s business. The material risks and uncertainties that management believes affect the Company are described below. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this report. The risks and uncertainties described below are not the only ones facing the Company. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair the Company s business operations. This report is qualified in its entirety by these risk factors.

If any of the following risks actually occur, the Company s financial condition and results of operations could be materially and adversely affected. If this were to happen, the market price of the Company s Common Stock could decline significantly, and you could lose all or part of your investment.

Risks Related to the Company s Business

The current economic environment poses significant challenges for the Company and could adversely affect its financial condition and results of operations.

The U.S. economy was in recession from December 2007 through June 2009. Business activity across a wide range of industries and regions in the U. S. was greatly reduced. Although economic conditions have improved, certain sectors, such as real estate and manufacturing, remain weak and unemployment remains high. Continued declines in real estate values, home sales volumes, and financial stress on borrowers as a result of the uncertain economic environment could have an adverse effect on the Company s borrowers or its customers, which could adversely affect the Company s financial condition and results of operations. In addition, local governments and many businesses are still experiencing difficulty due to lower consumer spending and decreased liquidity in the credit markets. Deterioration in local economic conditions, particularly within the Company s geographic regions and markets, could drive losses beyond that which is provided for in its allowance for loan losses. The Company may also face the following risks in connection with these events:

- Economic conditions that negatively affect housing prices and the job market have resulted, and may continue to result, in deterioration in credit quality of the Company s loan portfolios, and such deterioration in credit quality has had, and could continue to have, a negative impact on the Company s business.

- Market developments may affect consumer confidence levels and may cause adverse changes in payment patterns, causing increases in delinquencies and default rates on loans and other credit facilities.

- The processes the Company uses to estimate allowance for loan losses and reserves may no longer be reliable because they rely on complex judgments that may no longer be capable of accurate estimation.

- The Company s ability to assess the creditworthiness of its customers may be impaired if the models and approaches it uses to select, manage, and underwrite its customers become less predictive of future charge-offs.

The Company expects to face increased regulation of its industry, and compliance with such regulation may increase its costs, limit its ability to pursue business opportunities, and increase compliance challenges.

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As the above conditions or similar ones continue to exist or worsen, the Company could experience continuing or increased adverse effects on its financial condition and results of operations.

The Company and its subsidiary business are subject to interest rate risk and variations in interest rates may negatively affect its financial performance.

The Company s earnings and cash flows are largely dependent upon its net interest income. Net interest income is the difference between interest income earned on interest-earning assets, such as loans and securities, and interest expense paid on interest-bearing liabilities, such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond the Company s control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Federal Reserve Board. Changes in monetary policy, including changes in interest rates, could influence not only the interest the Company receives on loans and securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect (i) the Company s ability to originate loans and obtain deposits, and (ii) the fair value of the Company s financial assets and liabilities. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, the Company s net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings.

The Bank s allowance for loan losses may not be adequate to cover actual losses.

Like all financial institutions, the Bank maintains an allowance for loan losses to provide for probable losses. The Bank s allowance for loan losses may not be adequate to cover actual loan losses and future provisions for loan losses could materially and adversely affect the Bank s operating results. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires the Bank to make significant estimates of current credit risks and future trends, all of which may undergo material changes. The Bank s allowance for loan losses is determined by analyzing historical loan losses, current trends in delinquencies and charge-offs, plans for problem loan resolution, changes in the size and composition of the loan portfolio, and industry information. Also included in management s estimates for loan losses are considerations with respect to the impact of economic events, the outcome of which are uncertain. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, which may be beyond the Bank s control, and these losses may exceed current estimates. Federal regulatory agencies, as an integral part of their examination process, review the Bank s loans and allowance for loan losses. Although the Company believes that the Bank s allowance for loan losses is adequate to provide for probable losses, there are no assurances that future increases in the allowance for loan losses will not be needed or that regulators will not require the Bank to increase its allowance. Either of these occurrences could materially and adversely affect the Company s earnings and profitability.

The Company has experienced increases in the levels of nonperforming assets in recent periods. The Company s total non-covered, nonperforming assets totaled $35.69 million at December 31, 2012, $31.0 million at December 31, 2011, and $29.65 million at December 31, 2010. The Company had $6.11 million of net loan charge-offs for the year ended December 31, 2012, compared to $9.32 million and $12.55 million in net loan charge-offs for the years ended December 31, 2011 and 2010, respectively. The Company s provision for loan losses was $5.68 million for the year ended December 31, 2012, $9.05 million for the year ended December 31, 2011, and $14.76 million for the year ended December 31, 2010. At December 31, 2012, the Company had no allowance for loan losses for covered loans. At December 31, 2012, the ratios of the Company s allowance for loan losses to non-covered, nonperforming loans and to total non-covered loans outstanding were 86.07% and 1.71%, respectively. Additional increases in the Company s nonperforming assets or loan charge-offs may require an increase to the allowance for loan losses, which would have an adverse effect upon the Company s future results of operations.

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The current economic environment poses uncertainties related to the real estate market and could adversely impact the Company s business.

The Company s business activities are conducted in Virginia, West Virginia, North Carolina, South Carolina, Tennessee and the surrounding regions. While the real estate market is beginning to improve slightly, there has been slowdown over the past several years resulting in falling home prices and increased foreclosures. A continued downturn in this regional real estate market could hurt the Company s business because its operations are concentrated within this geographic area and the vast majority of the Company s loans are secured by real estate. If there is a further decline in real estate values, the collateral for the Company s loans will provide less security. As a result, the Company s ability to recover on defaulted loans by selling the underlying real estate will be diminished, and it will be more likely to suffer losses on defaulted loans.

Additionally, further weakness in the secondary market for residential lending could have a material adverse impact on the Company s profitability. Slowdown in the secondary market for residential mortgage loans limits the market for and liquidity of most mortgage loans other than conforming Fannie Mae and Freddie Mac loans. The effects of ongoing mortgage market challenges, combined with ongoing correction in residential real estate market prices and reduced levels of home sales, could adversely affect the value of collateral securing mortgage loans, mortgage loan originations, and gains on sale of mortgage loans. Continued declines in real estate values and home sales volumes, and financial stress on borrowers as a result of job losses or other factors, could have further adverse effects on borrowers that result in higher delinquencies and greater charge-offs in future periods, which could materially and adversely affect the Company.

The Company s level of credit risk may increase due to its focus on commercial lending and the concentration on small businesses and middle market customers with significant vulnerability to economic conditions.

Commercial business and commercial real estate loans generally are considered riskier than single family residential loans because they have larger balances to a single borrower or group of related borrowers. Commercial business and commercial real estate loans involve risks because the borrowers ability to repay the loans typically depends primarily on the successful operation of the businesses or the properties securing the loans. Most of the Company s commercial business loans are made to small business or middle market customers who may have a significant vulnerability to economic conditions. Moreover, a portion of these loans have been made or acquired by the Company in recent years and the borrowers may not have experienced a complete business or economic cycle. At December 31, 2012, the Company s largest outstanding commercial business loan and largest outstanding commercial real estate loan amounted to $6.50 million and $7.11 million, respectively. At such date, the Company s commercial business loans amounted to $95.69 million, or 5.55% of the Company s total loan portfolio, and the Company s commercial real estate loans amounted to $750.53 million, or 43.52% of the Company s total loan portfolio.

In addition to commercial real estate and commercial business loans, the Company holds a portfolio of commercial construction loans. Construction loans generally have a higher risk of loss primarily due to the critical nature of the initial estimates of a property s value upon completion of construction compared with the estimated costs, including interest, of construction as well as other assumptions. If the estimates upon which construction loans are made prove to be inaccurate, the Company may be confronted with projects that, upon completion, have values which are below the loan amounts. While the Company is not aware of any specific, material impediments impacting any of its builder/developer borrowers at this time, there continues to be nationwide reports of significant problems which have adversely affected many property developers and builders as well as the institutions that have provided those loans. If significant numbers of the builder/developers to which the Company has extended construction loans experience the type of difficulties that are being reported, it could have adverse consequences upon future results of operations. At December 31, 2012, the Company s largest outstanding commercial construction loan amounted to $4.94 million. At such date, the Company s commercial construction loans amounted to $84.03 million, or 4.70% of the Company s total loan portfolio.

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The Bank may suffer losses in its loan portfolio despite its underwriting practices.

The Bank seeks to mitigate the risks inherent in the Bank s loan portfolio by adhering to specific underwriting practices. These practices include analysis of a borrower s prior credit history, financial statements, tax returns and cash flow projections, valuation of collateral based on reports of independent appraisers and verification of liquid assets. Although the Bank believes that its underwriting criteria are appropriate for the various kinds of loans it makes, the Bank may incur losses on loans that meet its underwriting criteria, and these losses may exceed the amounts set aside as reserves in the Bank s allowance for loan losses.

Changes in the fair value of the Company s securities may reduce its stockholders equity and net income.

At December 31, 2012, $534.36 million of the Company s securities were classified as available-for-sale. At such date, the aggregate unrealized losses on the Company s available-for-sale securities totaled $14.86 million. The Company increases or decreases stockholders equity by the amount of the change in the unrealized gain or loss (the difference between the estimated fair value and the amortized cost) of the Company s available-for-sale securities portfolio, net of the related tax effect, under the category of accumulated other comprehensive loss. Therefore, a decline in the estimated fair value of this portfolio will result in a decline in reported stockholders equity, as well as book value per common share and tangible book value per common share. This decrease will occur even though the securities are not sold. In the case of debt securities, if these securities are never sold and there are no credit impairments, the decrease will be recovered at the maturity of the securities. In the case of equity securities which have no stated maturity, the declines in fair value may or may not be recovered over time.

The Company conducts periodic reviews and evaluations of its entire securities portfolio to determine if the decline in the fair value of any security below its cost basis is other-than-temporary. Factors which the Company considered in its analysis of debt securities include, but are not limited to, intent to sell the securities, evidence available to determine if it is more likely than not that the Company will have to sell the securities before recovery of the amortized cost, and probable credit losses. Probable credit losses are evaluated based upon, but are not limited to: the present value of future cash flows, the severity and duration of the decline in fair value of the security below its amortized cost, the financial condition and near-term prospects of the issuer, whether the decline appears to be related to issuer conditions or general market or industry conditions, the payment structure of the security, failure of the security to make scheduled interest or principal payments, and changes to the rating of the security by rating agencies. The Company generally views changes in fair value for debt securities caused by changes in interest rates as temporary, which is consistent with the Company s experience. If the Company deems such decline to be other-than-temporary, the security is written down to a new cost basis and the resulting loss is charged to earnings as a component of noninterest income. For the year ended December 31, 2012, the Company recognized other-than-temporary impairment (OTTI) charges of $942 thousand on its debt securities portfolio.

Factors that the Company considers in its analysis of equity securities include, but are not limited to: intent to sell the security before recovery of the cost, 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 conditions or general market or industry conditions. For the year ended December 31, 2012, the Company recognized no OTTI charges on its equity securities portfolio.

The Company continues to monitor the fair value of its entire securities portfolio as part of its ongoing OTTI evaluation process. No assurance can be given that the Company will not need to recognize OTTI charges related to securities in the future.

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The enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 may have a material effect on the Company s operations.

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, which imposes significant regulatory and compliance changes. The key provisions of the Dodd-Frank Act that are anticipated to affect the Company s operations include:

changes to regulatory capital requirements;

creation of new government regulatory agencies, including the Consumer Financial Protection Bureau;

limitation on federal preemption;

changes in insured depository institution regulations and assessments; and

mortgage loan origination and risk retention.

Many of the requirements of the Dodd-Frank Act will be implemented over time and most will be subject to the rulemaking process at various regulatory agencies. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various regulatory agencies and through regulations, the full extent of the impact such requirements will have on the Company s operations is unclear. The changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, impose more stringent capital, liquidity and leverage requirements or otherwise adversely affect our business. These changes may also require the Company to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements. Failure to comply with the new requirements or with any future changes in laws or regulations may negatively impact our results of operations and financial condition.

The short-term and long-term impact of the changing regulatory capital requirements and anticipated new capital rules is uncertain.

On June 7, 2012, the Federal Reserve, FDIC and OCC approved proposed rules that would substantially amend the regulatory risk-based capital rules applicable to the Company and the Bank. The proposed rules implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. The proposed rules were subject to a public comment period that has expired and there is no date set for the adoption of final rules.

Various provisions of the Dodd-Frank Act increase the capital requirements of bank holding companies, such as the Company. The leverage and risk-based capital ratios of these entities may not be lower than the leverage and risk-based capital ratios for insured depository institutions. The proposed rules include new minimum risk-based capital and leverage ratios, which would be phased in during 2013 and 2014, and would refine the definition of what constitutes capital for purposes of calculating those ratios. The proposed new minimum capital level requirements applicable to the Company and the Bank under the proposals would be: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4% for all institutions. The proposed rules would also establish a capital conservation buffer of 2.5% above the new regulatory minimum capital ratios, and would result in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement would be phased in beginning in January 2016 at 0.625% of risk-weighted assets and would increase each year until fully implemented in January 2019. Moreover, the proposed reforms seek to eliminate trust preferred securities from Tier 1 capital over a ten-year period. An institution would be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations would establish a maximum percentage of eligible retained income that could be utilized for such actions. Additionally, the U.S. implementation of Basel III contemplates that, for banking organizations with less than $15 billion in assets, the ability to treat trust preferred securities as Tier 1 capital would be phased out over a ten-year period.

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While the proposed Basel III changes and other regulatory capital requirements will likely result in generally higher regulatory capital standards, it is difficult at this time to predict when or how any new standards will ultimately be applied to the Company and the Bank.

In addition, in the current economic and regulatory environment, regulators of banks and bank holding companies have become more likely to impose capital requirements on bank holding companies and banks that are more stringent than those required by applicable existing regulations.

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

The Company and its subsidiaries are subject to extensive regulation which could adversely affect them.

The Company and its subsidiaries operations are subject to extensive regulation and supervision by federal and state governmental authorities and are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of the Company s operations. Banking regulations governing the Company s operations are primarily intended to protect depositors funds, federal deposit insurance funds and the banking system as a whole, not stockholders. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect the Company in substantial and unpredictable ways. Such changes could subject the Company to additional costs, limit the types of financial services and products the Company may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on the Company s business, financial condition and results of operations. While the Company has policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur. These laws, rules and regulations, or any other laws, rules or regulations that may be adopted in the future, could make compliance more difficult or expensive, restrict the Company s ability to originate, broker or sell loans, further limit or restrict the amount of commissions, interest or other charges earned on loans originated or sold by the Bank and otherwise adversely affect the Company s business, financial condition or prospects.

The financial services industry is likely to face increased regulation and supervision as a result of the recent financial crisis. Such additional regulation and supervision may increase the Company s costs and limit its ability to pursue business opportunities. The affects of such recently enacted, and proposed, legislation and regulatory programs on the Company cannot reliably be determined at this time.

The Bank s ability to pay dividends is subject to regulatory limitations which, to the extent the Company requires such dividends in the future, may affect the Company s ability to pay its obligations and pay dividends.

The Company is a separate legal entity from the Bank and its subsidiaries and does not have significant operations of its own. The Company currently depends on the Bank s cash and liquidity as well as dividends from the Bank to pay the Company s operating expenses and dividends to its stockholders. No assurance can be made that in the future the Bank will have the capacity to pay the necessary dividends and that the Company will not require dividends from the Bank to satisfy the Company s obligations. The availability of dividends from the

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Bank is limited by various statutes and regulations. It is possible, depending upon the financial condition of the Bank and other factors, that the Federal Reserve Board or the Virginia Bureau, the Bank s primary regulators, could assert that payment of dividends or other payments by the Bank are an unsafe or unsound practice. In the event the Bank is unable to pay dividends sufficient to satisfy the Company s obligations or is otherwise unable to pay dividends to the Company, the Company may not be able to service its obligations as they become due, including payments required to be made to the FCBI Capital Trust, a business trust subsidiary of the Company, or pay dividends on the Company s Common Stock or Series A Preferred Stock. Consequently, the inability to receive dividends from the Bank could adversely affect the Company s financial condition, results of operations, cash flows and prospects.

The Company faces strong competition from other financial institutions, financial service companies, and other organizations offering services similar to those offered by the Company and its subsidiaries, which could hurt the Company s business.

The Company s business operations are centered primarily in Virginia, West Virginia, North Carolina, South Carolina, and Tennessee. Increased competition within these regions may result in reduced loan originations and deposits. Ultimately, the Company may not be able to compete successfully against current and future competitors. Many competitors offer the types of loans and banking services that the Bank offers. These competitors include other savings associations, national banks, regional banks, and other community banks. The Company also faces competition from other types of financial institutions, including finance companies, brokerage firms, insurance companies, credit unions, mortgage banks, and other financial intermediaries. In particular, the Bank s competitors include other state and national banks and major financial companies whose greater resources may afford them a marketplace advantage by enabling them to maintain numerous banking locations and mount extensive promotional and advertising campaigns.

Additionally, banks and other financial institutions with larger capitalization and financial intermediaries not subject to bank regulatory restrictions have larger lending limits and are thereby able to serve the credit needs of larger clients. These institutions, particularly to the extent they are more diversified than the Company, may be able to offer the same loan products and services that the Company offers at more competitive rates and prices. If the Company is unable to attract and retain banking clients, the Company may be unable to continue the Bank s loan and deposit growth and the Company s business, financial condition and prospects may be negatively affected.

Potential acquisitions may disrupt the Company s business and dilute stockholder value.

The Company may seek merger or acquisition partners that are culturally similar and have experienced management and possess either significant market presence or have potential for improved profitability through financial management, economies of scale or expanded services. Acquiring other banks, businesses, or branches involves various risks commonly associated with acquisitions, including, among other things:

Potential exposure to unknown or contingent liabilities of the target company.

Exposure to potential asset quality issues of the target company.

Difficulty, expense, and delays of integrating the operations and personnel of the target company.

Potential disruption to the Company s business.

Potential diversion of the Company s management s time and attention.

The possible loss of key employees and customers of the target company.

Difficulty in estimating the value of the target company.

Potential changes in banking or tax laws or regulations that may affect the target company.

Unexpected costs and delays.

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Risks that the acquired target company does not perform consistent with the Company s growth and profitability expectations.

Risks associated with entering new markets or product areas where the Company has limited experience.

Risks that growth will strain the Company s infrastructure, staff, internal controls and management, which may require additional personnel, time and expenditures.

Potential short-term decreases in profitability.

The Company regularly evaluates merger and acquisition opportunities and conducts due diligence activities related to possible transactions with other financial institutions and financial services companies. As a result, merger or acquisition discussions and, in some cases, negotiations may take place and future mergers or acquisitions involving the payment of cash or the issuance of debt or equity securities may occur at any time. Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some initial dilution of the Company s tangible book value and net income per common share may occur in connection with any future transaction. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on the Company s financial condition and results of operations.

The Company may fail to realize the anticipated benefits of the Peoples Bank of Virginia and Waccamaw Bank acquisitions.

The success of the Peoples and Waccamaw acquisitions will depend on, among other things, the Company s ability to realize anticipated cost savings, to combine the businesses of Peoples and Waccamaw into the Company in a manner that does not materially disrupt the existing customer relationships of Peoples and Waccamaw or result in decreased revenues resulting from any loss of customers, and permit growth opportunities to occur. If the Company is not able to successfully achieve these objectives, the anticipated benefits of the acquisitions may not be realized fully, or at all, or may take longer to realize than expected.

The Company may engage in FDIC-assisted transactions, which could present additional risks to its business.

The Company may have opportunities to acquire the assets and liabilities of failed banks in FDIC-assisted transactions, which present the risks of acquisitions discussed above, as well as some risks specific to these transactions. Because FDIC-assisted acquisitions provide for limited diligence and negotiation of terms, these transactions may require additional resources and time, including servicing acquired problem loans and costs related to integration of personnel and operating systems, and the establishment of processes to service acquired assets. Such transactions may also require the Company to raise additional capital, which may be dilutive to existing stockholders. If the Company is unable to manage these risks, FDIC-assisted acquisitions could have a material adverse effect on its business, financial condition and results of operations.

Reimbursements under loss share agreements are subject to compliance with certain requirements under the loss share agreements, FDIC oversight and interpretation, and contractual term limitations.

The FDIC-assisted acquisition of Waccamaw completed in June 2012 includes significant protection to the Company from the exposures to prospective losses on certain assets that are covered under loss share agreements with the FDIC. Loans covered under loss share agreements represent 13.21% of the Company s total loans held for investment as of June 30, 2012. Under these loss share agreements, the FDIC has agreed to cover 80% of most loan and foreclosed real estate losses. However, these loss share agreements impose certain obligations on the Company, including obligations to manage and service the loans in a prescribed manner and to report results and requests for reimbursement periodically. The obligations on the Company under the loss share agreements are extensive and failure to comply with any of the obligations could result in a specific asset or group of assets losing their loss share coverage. Requests for reimbursement are subject to FDIC review and may be delayed or disallowed for the Company s noncompliance with its obligations under the loss share agreements. In addition, the Company is subject to audits by the FDIC to ensure compliance with the loss share agreements.

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The loss share agreements are subject to interpretation by both the FDIC and the Company, and disagreements may arise regarding coverage of losses, expenses, and contingencies. Additionally, losses that are currently projected to occur during the loss share term may not occur until after the expiration of the applicable loss share agreement and those losses could have a material impact on results of operations in future periods. The Company s current estimates of losses include only those losses that it projects to occur during the loss share period and for which the Company believes it will receive reimbursement from the FDIC at the applicable reimbursement rate.

Attractive acquisition opportunities may not be available in the future.

The Company expects that other banking and financial companies, many of which have significantly greater resources, will compete with it to acquire financial services businesses. This competition could increase prices for potential acquisitions that the Company believes are attractive. Also, acquisitions are subject to various regulatory approvals. If the Company fails to receive the appropriate regulatory approvals, it will not be able to consummate an acquisition that it believes is in its best interests. Among other things, the Company s regulators consider the Company s capital, liquidity, profitability, regulatory compliance and levels of goodwill and intangibles when considering acquisition and expansion proposals. Any acquisition could be dilutive to the Company s earnings and stockholders equity per share of the Company s Common Stock and Series A Preferred Stock.

The Company s goodwill may be determined to be impaired.

As of December 31, 2012, the carrying amount of the Company s goodwill was $104.87 million. The Company tests goodwill for impairment on an annual basis, or more frequently if necessary. Quoted market prices in active markets are the best evidence of fair value and are to be used as the basis for measuring impairment, when available. Other acceptable valuation methods include present-value measurements based on multiples of earnings or revenues, or similar performance measures. If the Company determines that the carrying amount of its goodwill exceeds its implied fair value, the Company would be required to write down the value of the goodwill on its balance sheet. This, in turn, would result in a charge against earnings and, thus, a reduction in the Company s stockholders equity and certain related capital measures. During 2012, the Company recognized no goodwill impairment.

The Company may lose members of its management team and have difficulty attracting skilled personnel.

The Company s success depends, in large part, on its ability to attract and retain key people. Competition for the best people can be intense and the Company may not be able to hire such people or to retain them. The unexpected loss of services of key personnel of the Company could have a material adverse impact on its business because of their skills, knowledge of the Company s market, years of industry experience and the difficulty of promptly finding qualified replacement personnel. In addition, recent regulatory proposals and guidance relating to compensation may negatively impact the Company s ability to retain and attract skilled personnel.

An increase in FDIC deposit insurance premiums could adversely affect the Company s earnings.

Market developments have significantly depleted the DIF of the FDIC and reduced the ratio of reserves to insured deposits. As a result of recent economic conditions and the enactment of the Dodd-Frank Act, the FDIC revised its assessment rates which raised deposit premiums for certain insured depository institutions. If these increases are insufficient for the DIF to meet its funding requirements, further special assessments or increases in deposit insurance premiums may be required. The Company is generally unable to control the amount of premiums that it is required to pay for FDIC insurance. If there are additional bank or financial institution failures, the FDIC may increase the deposit insurance assessment rates. Any future assessments, increases or required prepayments in FDIC insurance premiums may materially adversely affect the Company s earnings and could have a material adverse effect on the value of its Common Stock.

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The Company may seek to raise additional capital in the future, and such capital may not be available on acceptable terms or at all.

The Company may seek to raise additional capital in the future to provide it with sufficient capital resources and liquidity to meet its commitments, business needs, and growth objectives, particularly if its asset quality or earnings were to deteriorate significantly. The Company s ability to raise additional capital will depend on, among other things, conditions in the capital markets at that time, which are outside of its control, and its financial performance. Economic conditions and the loss of confidence in financial institutions may increase the Company s cost of funding and limit access to certain customary sources of capital, including inter-bank borrowings, repurchase agreements and borrowings from the discount window of the FRB. Any occurrence that may limit the Company s access to the capital markets may adversely affect the Company s capital costs and its ability to raise capital and, in turn, its liquidity. Accordingly, the Company cannot provide any assurance that additional capital will be available on acceptable terms or at all. An inability to raise additional capital on acceptable terms could have a materially adverse effect on the Company s businesses, financial condition and results of operations.

Liquidity risk could impair the Company s ability to fund operations and jeopardize its financial condition.

Liquidity is essential to the Company s business. An inability to raise funds through deposits, borrowings, equity and debt offerings, and other sources could have a substantial negative effect on the Company s liquidity. The Company s access to funding sources in amounts adequate to finance its activities, or on terms attractive to the Company, could be impaired by factors that affect the Company specifically or the financial services industry in general. Factors that could detrimentally impact the Company s access to liquidity sources include a reduction in its credit ratings, if any, an increase in costs of capital in financial capital markets, a decrease in the level of its business activity due to a market downturn or adverse regulatory action against the Company, or a decrease in depositor or investor confidence. The Company s access to liquidity sources could also be impaired by factors that are not specific to it, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole.

The Company s controls and procedures may fail or be circumvented.

Management regularly reviews and updates the Company s internal controls over financial reporting, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the Company s controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Company s business, results of operations and financial condition.

The failure of other financial institutions could adversely affect the Company.

The Company s ability to engage in routine funding transactions could be adversely affected by future failures of financial institutions and the actions and commercial soundness of other financial institutions. Financial institutions are interrelated as a result of trading, clearing, counterparty and other relationships. The Company has exposure to different industries and counterparties and routinely executes transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, investment companies and other institutional clients. In certain of these transactions, the Company is required to post collateral to secure the obligations to the counterparties. In the event of a bankruptcy or insolvency proceeding involving one of such counterparties, the Company may experience delays in recovering the assets posted as collateral or may incur a loss to the extent that the counterparty was holding collateral in excess of the obligation to such counterparty.

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In addition, many of these transactions expose the Company to credit risk in the event of a default by the Company s counterparty or client. In addition, the credit risk may be exacerbated when the collateral held by the Company cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due to the Company. Any losses resulting from the Company s routine funding transactions may materially and adversely affect its financial condition and results of operations.

The Company is subject to environmental liability risk associated with lending activities.

A significant portion of the Company s loan portfolio is secured by real property. During the ordinary course of business, the Company may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, the Company may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require the Company to incur substantial expenses and may materially reduce the affected property s value or limit the Company s ability to use or sell the affected property. Although the Company has policies and procedures to perform an environmental review before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on the Company s financial condition and results of operations.

The Company s information systems may experience an interruption or breach in security.

The Company and the Bank rely heavily on communications and information systems to conduct its business. In addition, as part of its business, the Bank collects, processes and retains sensitive and confidential client and customer information. The Company s and the Bank s facilities and systems, and those of our third party service providers, may be vulnerable to security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming and/or human errors, or other similar events. Any failure, interruption or breach in security of these systems could result in failures or disruptions in the Company s and the Bank s customer relationship management, general ledger, deposit, loan and other systems. While the Company and the Bank have policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of their information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions or security breaches of the Company s and the Bank s information systems could damage their reputation, result in a loss of customer business, subject the Company and the Bank to regulatory scrutiny, or expose the Company and the Bank to civil litigation and possible financial liability, any of which could have a material adverse effect on the Company s financial condition and results of operations.

The Bank s business is dependent on technology, and an inability to invest in technological improvements may adversely affect the Bank s and the Company s results of operations and financial condition.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. The effective use of technology better serves customers, increases efficiency, and enables financial institutions to reduce costs. The Bank has made significant investments in data processing, management information systems and internet banking accessibility. The Bank s and the Company s future success will depend in part upon the Bank s ability to create additional efficiencies in its operations through the use of technology. Many of the Bank s competitors have greater resources to invest in technological improvements. There can be no assurance that the Bank s technological improvements will increase the Bank s operational efficiency or that the Bank will be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to its customers.

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Risks Associated with the Company s Common Stock

The Company s Common Stock price can be volatile.

Stock price volatility may make it more difficult for holders of the Company s Common Stock to resell when desired. The Company s Common Stock price can fluctuate significantly in response to a variety of factors including, among other things:

- Actual or anticipated variations in quarterly results of operations.
- Recommendations by securities analysts.
- Operating and stock price performance of other companies that investors deem comparable to the Company.
- News reports relating to trends, concerns and other issues in the financial services industry.
- Perceptions in the marketplace regarding the Company and/or its competitors.
- New technology used, or services offered, by competitors.
- Significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors.
- Failure to integrate acquisitions or realize anticipated benefits from acquisitions.
- Changes in government regulations.
- Geopolitical conditions such as acts or threats of terrorism or military conflicts.

General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause the Company s Common Stock price to decrease regardless of operating results.

The trading volume in the Company s Common Stock is less than that of other larger financial services companies.

Although the Company s Common Stock is listed for trading on the NASDAQ, the trading volume in its Common Stock is less than that of other, larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of the Company s Common Stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which the Company has no control. Given the lower trading volume of the Company s Common Stock, significant sales of the Company s Common Stock, or the expectation of these sales, could cause the Company s stock price to fall.

The Company may not continue to pay dividends on its Common Stock in the future.

The Company s Common Stockholders are only entitled to receive such dividends the Company s board of directors declares out of funds legally available for such payments. Although the Company has historically declared cash dividends on its Common Stock, it is not required to do so and may reduce or eliminate its Common Stock dividend in the future. This could adversely affect the market price of the Company s Common Stock. Also, the Company is a financial holding company and its ability to declare and pay dividends is dependent on certain federal regulatory considerations, including the guidelines of the Federal Reserve Board regarding capital adequacy and dividends.

An investment in the Company s Common Stock is not an insured deposit.

The Company s Common Stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in the Company s Common

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Stock is inherently risky for the reasons described in this Risk Factors section and elsewhere in this report and is subject to the same market forces that affect the price of common stock in any company. As a result, holders of the Company s Common Stock could lose some or all of their investment.

Certain banking laws may have an anti-takeover effect.

Provisions of federal banking laws, including regulatory approval requirements, could make it more difficult for a third party to acquire the Company, even if doing so would be perceived to be beneficial to the Company s shareholders. These provisions effectively inhibit a non-negotiated merger or other business combination, which, in turn, could adversely affect the market price of the Company s Common Stock.

The Company issued Series A Preferred Stock, which ranks senior to its Common Stock.

The Company issued 18,921 shares of Series A Preferred Stock in May 2011. The Series A Preferred Stock ranks senior to shares of the Company s Common Stock. As a result, the Company must make dividend payments on its Series A Preferred Stock before any dividends can be paid on the Company s Common Stock and, in the event of its bankruptcy, dissolution or liquidation, the holders of the Series A Preferred Stock must be satisfied before any distributions can be made on the Company s Common Stock. If the Company does not remain current in the payment of dividends on the Series A Preferred Stock, no dividends may be paid on its Common Stock. In addition, the dividends declared on the Series A Preferred Stock will reduce any net income available to holders of Common Stock and earnings per common share. As of December 31, 2012, 17,421 shares of Series A Preferred Stock were outstanding.

ITEM 1B. Unresolved Staff Comments.

The Company has no unresolved staff comments as of the filing date of this 2012 Annual Report on Form 10-K.

ITEM 2. Properties.

The Company s corporate headquarters are located in Bluefield, Virginia, where the Company owns and occupies approximately 36,000 square feet of office space. In addition to its corporate headquarters, the Company operated 71 banking centers, loan production, administrative, and other financial services offices through its community bank subsidiary, First Community Bank (the Bank), at December 31, 2012, of which 50 were owned and 21 were leased or located on leased land. The banking centers were located throughout Virginia, West Virginia, North Carolina, South Carolina, and Tennessee. The Company is also the parent company of Greenpoint Insurance Group, Inc. (Greenpoint), headquartered in High Point, North Carolina, a full-service insurance agency offering commercial and personal lines of insurance. Including its headquarters, Greenpoint operated 6 insurance offices at December 31, 2012, of which 1 was owned, 3 were leased, and 2 were located within the Company s banking centers. The insurance agency offices were located throughout North Carolina, West Virginia, and Virginia. There were no mortgages or liens against any property of the Company. A complete list of all branch and ATM locations can be found on the Company s website at www.fcbinc.com. Information contained on such website is not part of this Annual Report on Form 10-K. See Note 7 Premises and Equipment of the Notes to Consolidated Financial Statements in Item 8 herein.

ITEM 3. Legal Proceedings.

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

ITEM 4. Mine Safety Disclosures.

None.

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PART II

ITEM 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Common Stock Market Prices and Dividends

The number of Common Stockholders of record on February 27, 2013, was 2,942 and outstanding shares totaled 20,047,484. The number of Common Stockholders is measured by the number of record holders. The Company s Common Stock trades on the NASDAQ Global Select market under the symbol, FCBC.

The Company s ability to pay dividends on its Common Stock is principally dependent on the Bank s ability to pay dividends to the Company, which is subject to various regulatory restrictions and limitations. For information on the regulatory restrictions and limitations on the ability of the Company to pay dividends to its stockholders and on the Bank to pay dividends to the Company, see Business Regulation and Supervision The Company Regulatory Restrictions on Dividends; Source of Strength. and Business Regulation and Supervision The Bank Restrictions on Distribution of Subsidiary Bank Dividends and Assets in Item 1 herein. Cash dividends on Common Stock totaled $0.43 per share for 2012 and $0.40 per share in 2011. Total dividends paid on Common Stock for the years ended December 31, 2012 and 2011, totaled $8.16 million and $7.16 million, respectively. Total cash dividends paid on the Company s Series A Preferred Stock for the years ended December 31, 2012 and 2011, totaled $1.12 million and $558 thousand, respectively.

The following table sets forth the high and low stock prices and dividends paid per share on the Company s Common Stock during the periods indicated:

	2012		2011	
	High	Low	High	Low
Sales Price Per Share				
First quarter	$ 13.85	$ 11.86	$ 15.43	$ 12.23
Second quarter	14.43	11.85	15.21	12.94
Third quarter	15.84	13.91	14.60	9.40
Fourth quarter	16.22	14.25	13.02	9.48

	2012	2011
Cash Dividends Per Share		
First quarter	$ 0.10	$ 0.10
Second quarter	0.11	0.10
Third quarter	0.11	0.10
Fourth quarter	0.11	0.10
Total	$ 0.43	$ 0.40

Information regarding compensation plans under which the Company s equity securities are authorized for issuance are hereby incorporated by reference from Item 12 of this Annual Report on Form 10-K.

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Stock Repurchase Plan

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

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan	Maximum Number of Shares That May Yet be Purchased Under the Plan [1]
October 1-31, 2012		$		877,577
November 1-30, 2012	49,438	14.91	49,438	828,139
December 1-31, 2012	18,000	15.26	18,000	810,139
Total	67,438	$ 15.00	67,438	

(1) The Company s stock repurchase plan, as amended, authorized the purchase and retention of up to 1,100,000 shares. The plan has no expiration date and currently is in effect. No determination has been made to terminate the plan or to cease making purchases. The Company held 289,861 shares in treasury at December 31, 2012.

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Total Return Analysis

The following chart was compiled by SNL Financial LC, and compares cumulative total shareholder return of the Company s Common Stock for the five-year period ended December 31, 2012, with the cumulative total return of the S&P 500 Index, the NASDAQ Composite Index, and the Asset Size & Regional Peer Group. The Asset Size & Regional Peer Group consists of 50 bank holding companies that are traded on the NASDAQ, OTC Bulletin Board, and pink sheets with total assets between $1 billion and $5 billion and are located in the Southeast Region of the United States. The cumulative returns include reinvestment of dividends by the Company.

	Period Ending					
Index	**12/31/07**	**12/31/08**	**12/31/09**	**12/31/10**	**12/31/11**	**12/31/12**
First Community Bancshares, Inc.	100.00	113.25	40.09	51.17	44.13	58.25
S&P 500	100.00	63.00	79.68	91.68	93.61	108.59
NASDAQ Composite	100.00	60.02	87.24	103.08	102.26	120.42
Asset & Regional Peer Group[(1)]	100.00	94.41	69.79	74.83	66.93	76.91

(1) The Asset Size & Regional Peer Group consists of the following institutions: 1st United Bancorp, Inc., American National Bankshares, Inc., Ameris Bancorp, BancTrust Financial Group, Inc., Bank of the Ozarks, Inc., BNC Bancorp, Burke & Herbert Bank & Trust Company, Capital City Bank Group, Inc., Cardinal Financial Corporation, Carter Bank & Trust, CenterState Banks, Inc., City Holding Company, Colony Bankcorp, Inc., Eastern Virginia Bankshares, Inc., Fidelity Southern Corporation, First Bancorp, First Citizens Bancshares, Ins., First Farmers and Merchants Corporation, First Financial Holdings, Inc., First M&F Corporation, First Security Group, Inc., First Southern Bancorp, Inc., FNB United Corp., Great Florida Bank, Hamilton State Bancshares, Inc., Hampton Roads Bankshares, Inc., Home BancShares, Inc.,

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Middleburg Financial Corporation, Monarch Financial Holdings, Inc., National Bankshares, Inc., NewBridge Bancorp, Palmetto Bancshares, Inc., Park Sterling Corporation, Peoples Bancorp of North Carolina, Inc., Pinnacle Financial Partners, Inc., Premier Financial Bancorp, Inc., Renasant Corporation, SCBT Financial Corporation, Seacoast Banking Corporation of Florida, Simmons First National Corporation, Southeastern Bank Financial Corporation, Southern BancShares (N.C.), Inc., State Bank Financial Corporation, StellarOne Corporation, Summit Financial Group, Inc., TowneBank, Union First Market Bankshares Corporation, Virginia Commerce Bancorp, Inc., Wilson Bank Holding Company, and Yadkin Valley Financial Corporation. The returns of each of the foregoing institutions have been weighted according to their respective stock market capitalization at the beginning of each period for which a return is indicated.

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ITEM 6. Selected Financial Data.

The following consolidated selected financial data is derived from the Company s audited financial statements as of and for the five years ended December 31, 2012. The consolidated financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and related notes included in this Annual Report on Form 10-K. All of the Company s acquisitions during the five years ended December 31, 2012, were accounted for using the purchase method. Accordingly, the operating results of the acquired companies are included with the Company s results of operations since their respective dates of acquisition.

	At or for the year ended December 31,				
Five-Year Selected Financial Data	**2012**	**2011**	**2010**	**2009**	**2008**
(Amounts in thousands, except per share data)					
Balance Sheet Summary (at end of period)					
Securities	$ 535,174	$ 485,920	$ 484,701	$ 493,511	$ 529,393
Loans held for sale	6,672	5,820	4,694	11,576	1,024
Loans held for investment, net of unearned income	1,724,653	1,396,067	1,386,206	1,393,931	1,298,159
Allowance for loan losses	25,770	26,205	26,482	24,277	17,782
Total assets	2,728,867	2,164,789	2,244,238	2,273,283	2,132,187
Deposits	2,030,175	1,543,467	1,620,955	1,645,960	1,503,758
Borrowings	313,553	295,141	332,087	352,558	381,791
Total liabilities	2,372,544	1,859,060	1,974,360	2,021,016	1,912,972
Preferred stock	17,421	18,921			41,500
Total stockholders equity	356,323	305,729	269,878	252,267	219,215
Summary of Earnings					
Interest income	$ 109,656	$ 94,176	$ 103,582	$ 107,934	$ 110,765
Interest expense	19,600	22,147	29,725	38,682	44,930
Net interest income	90,056	72,029	73,857	69,252	65,835
Provision for loan losses	5,678	9,047	14,757	15,801	9,226
Net interest income after provision for loan losses	84,378	62,982	59,100	53,451	56,609
Noninterest income	36,710	35,534	40,508	(53,677)	2,374
Noninterest expense	78,383	68,915	69,943	66,624	60,516
Income (loss) before income taxes	42,705	29,601	29,665	(66,850)	(1,533)
Income tax expense (benefit)	14,128	9,573	7,818	(28,154)	(3,487)
Net income (loss)	28,577	20,028	21,847	(38,696)	1,954
Dividends on preferred stock	1,058	703		2,160	255
Net income (loss) available to common shareholders	27,519	19,325	21,847	(40,856)	1,699
Per Share Data					
Basic earnings (loss) per common share	$ 1.44	$ 1.08	$ 1.23	$ (2.75)	$ 0.15
Diluted earnings (loss) per common share	$ 1.40	$ 1.07	$ 1.23	$ (2.75)	$ 0.15
Cash dividends per common share	$ 0.43	$ 0.40	$ 0.40	$ 0.30	$ 1.12
Book value per common share at year-end[2]	$ 16.76	$ 15.96	$ 15.11	$ 14.20	$ 15.36
Selected Ratios					
Return on average assets	1.10%	0.88%	0.97%	-1.83%	0.08%
Return on average common equity	8.70%	6.81%	8.11%	-16.73%	0.86%
Average equity to average assets	13.34%	13.44%	11.91%	10.95%	9.86%
Dividend payout	29.89%	37.00%	32.52%	N/M[1]	N/M[1]
Total risk-based capital ratio	16.70%	18.15%	15.33%	13.81%	12.94%
Leverage ratio	9.96%	11.50%	9.44%	8.51%	9.70%

(1) N/M Not meaningful

(2) Book value per common share at year-end is defined as stockholders equity divided by as-converted common shares outstanding

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Executive Overview

First Community Bancshares, Inc. (the Company) is a financial holding company that, through its bank subsidiary, provides commercial banking services and has positioned itself as a regional community bank and a financial services alternative to larger banks which often provide less emphasis on personal relationships, and smaller community banks which lack the capital and resources to efficiently serve customer needs. The Company has focused its growth efforts on building financial partnerships and more enduring and complete relationships with businesses and individuals through a very personal and local approach to banking and financial services. The Company and its operations are guided by a strategic plan which includes growth through acquisitions and through office expansion in market areas including Virginia, West Virginia, North Carolina, South Carolina, and Tennessee. While the Company s mission remains that of a community bank, management believes that entry into new markets will accelerate the Company s growth rate by diversifying the demographics of its customer base and customer prospects and by generally increasing its sales and service network.

Economy

The local economies in which the Company operates are diverse and span a five-state region. The economies of West Virginia and Southwest Virginia have significant exposure to extractive industries, such as coal, timber and natural gas. The local economies in the central portion of North Carolina have suffered in recent years due to foreign competition in both furniture and textiles, as well as consolidation in the financial services industry. Despite these detractions, the economies in this region continue to benefit from national companies operating in the Triad and Central Piedmont area of North Carolina. The Eastern Virginia local economies have, in recent years, benefited from key corporate and government activities. The economy in Eastern Tennessee continues to benefit from the stability of higher education, healthcare services, and tourism. The local economies in the northeastern portion of South Carolina and the southeastern portion of North Carolina benefit from tourism and military activities.

Despite the stable and positive aspects of the regional economies the Company primarily operates in, these markets have experienced significant declines in residential development and construction which are consistent with national trends. These declines have led to contraction in residential land development and construction, which has historically been important components of the Company s lending activities. The economies of the Company s Southwest Virginia and West Virginia markets have remained stable compared with the national economy and unemployment levels were generally lower than the national average at December 31, 2012.

Competition

As the Company competes for increased market share and growth in both loans and deposits, it continues to encounter strong competition from many sources. Many of the markets targeted by the Company are also being entered by other banks in nearby and distant markets. The expansion of banks, credit unions, and other non-depository financial companies over recent years has intensified competitive pressures on core deposit generation and retention. Competitive forces impact the Company through pressure on interest yields, product fees, and loan structure and terms; however, the Company has countered these pressures with its relationship style of banking, competitive pricing, cost efficiencies, and a disciplined approach to loan underwriting.

Application of Critical Accounting Policies

The Company s consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP) and conform to general practices within the banking industry. The Company s financial position and results of operations are affected by management s application of accounting policies, including judgments made to arrive at the carrying value of assets and liabilities and amounts reported for revenues, expenses and related disclosures. Different assumptions in the application of these policies could result in material changes in the Company s consolidated financial position and consolidated results of operations.

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Estimates, assumptions, and judgments are necessary principally when assets and liabilities are required to be recorded at estimated fair value, when a decline in the value of an asset carried on the financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded based upon the probability of occurrence of a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by third party sources, when available. When third party information is not available, valuation adjustments are estimated by management primarily through the use of financial modeling techniques and appraisal estimates.

The Company s accounting policies are fundamental to understanding Management s Discussion and Analysis of Financial Condition and Results of Operation. The following is a summary of the Company s more subjective and complex critical accounting policies. In addition, the disclosures presented in the Notes to Consolidated Financial Statements and in Management s Discussion and Analysis of Financial Condition and Results of Operations provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has identified investment valuation, determination of the allowance for loan losses, accounting for acquisitions and intangible assets, and accounting for income taxes as the accounting areas that require the most subjective or complex judgments.

Investment Securities

Management performs an extensive review of the investment securities portfolio quarterly to determine the cause of declines in the fair value of each security within each segment of the portfolio. The Company uses inputs provided by an independent third party to determine the fair values of its investment securities portfolio. Inputs provided by the third party are reviewed and corroborated by management. Evaluations of the causes of the unrealized losses are performed to determine whether the impairment is temporary or other-than-temporary in nature. Considerations such as the Company s intent and ability to hold the securities, recoverability of the invested amounts over the Company s intended holding period, severity in pricing decline, credit rating, and receipt of amounts contractually due, among other factors, are applied in determining whether a security is other-than-temporarily impaired. If a decline in value is determined to be other-than-temporary, the value of the security is reduced and a corresponding charge to earnings is recognized.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level management deems sufficient to absorb probable losses inherent in the loan portfolio, and is based on management s evaluation of the risks in the loan portfolio and changes in the nature and volume of loan activity. The Company consistently applies a review process to periodically evaluate loans for changes in credit risk. This process serves as the primary means by which the Company evaluates the adequacy of the allowance for loan losses.

The Company determines the allowance for loan losses by making specific allocations to impaired loans that exhibit inherent weaknesses and various credit risk and by general allocations to commercial, residential real estate, and consumer loans by giving weight to risk ratings, historical loss trends and management s judgment concerning those trends, and other relevant factors. These factors may include, but are not limited to, actual versus estimated losses, regional and national economic conditions, business segment and portfolio concentrations, industry competition and consolidation, and the impact of government regulations. The foregoing analysis is performed by management to evaluate the portfolio and calculate an estimated valuation allowance through a quantitative and qualitative analysis that applies risk factors to those identified risk areas.

This risk management evaluation is applied at both the portfolio level and the individual loan level for commercial loans and credit relationships while the level of consumer and residential mortgage loan allowance is

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determined primarily on a total portfolio level based on a review of historical loss percentages and other qualitative factors including concentrations, industry specific factors and economic conditions. The commercial portfolio requires more specific analysis of individually significant loans and the borrower s underlying cash flow, business conditions, capacity for debt repayment and the valuation of secondary sources of payment, such as collateral. This analysis may result in specifically identified weaknesses and corresponding specific impairment allowances. While allocations are made to specific loans and classifications within the various categories of loans, the allowance for loan losses is available for all loan losses.

The use of various estimates and judgments in the Company s ongoing evaluation of the required level of allowance can significantly impact the Company s results of operations and financial condition and may result in either greater provisions against earnings to increase the allowance or reduced provisions based upon management s current view of the portfolio and economic conditions and the application of revised estimates and assumptions. Differences between actual loan loss experience and estimates are reflected through adjustments that are made by increasing or decreasing the loan loss provision based upon current measurement criteria.

Acquisitions and Intangible Assets

The Company may, from time to time, engage in business combinations with other companies. Purchase accounting requires the recording of underlying assets and liabilities of the entity acquired at their fair market value. Any excess of the purchase price of the business over the net assets acquired is recorded as goodwill. In instances where the price of the acquired business is less than the net assets acquired, a gain on purchase is recorded. Fair values are assigned based on quoted prices for similar assets, if readily available, or appraisal by qualified independent parties for relevant asset and liability categories. Financial assets and liabilities are typically valued using discount models which apply current discount rates to streams of cash flow. All of these valuation methods require the use of assumptions which can result in alternate valuations and varying levels of goodwill and amounts of bargain purchase gain and, in some cases, amortization expense or accretion income.

Management must also make estimates of useful or economic lives of certain acquired assets and liabilities. These lives are used in establishing amortization and accretion of some intangible assets and liabilities, such as the intangible associated with core deposits acquired in the acquisition of a commercial bank.

Goodwill is recorded as the excess of the purchase price, if any, over the fair value of the acquired net assets and is allocated to reporting units at acquisition. Goodwill is tested annually in the fourth quarter for possible impairment by comparing the fair value of each reporting unit to its book value, including goodwill (step 1). If the fair value of the reporting unit is greater than its book value, no goodwill impairment exists. However, if the book value of the reporting unit is greater than its determined fair value, goodwill impairment may exist and further testing is required to determine the amount, if any, of the actual impairment loss (step 2). The step 1 test utilizes a combination of two methods to determine the fair value of the reporting units. The Company maintains two reporting units, Community Banking and Insurance Services. For both reporting units, a discounted cash flow model is created projecting cash flows from operations of the business reporting unit, the results of which are weighted 70%. For the Community Banking reporting unit a market multiple model utilizes price to net income and price to tangible book value inputs for closed transactions and for certain common sized institutions and the results are weighted 30%. For the Insurance Services reporting unit the market multiple model primarily utilizes price to sales for closed transactions and certain similar industry public companies and the results are weighted 30%. The end results for both reporting units are then compared to the respective book values to consider if impairment is evident. To determine the overall reasonableness of the reporting unit computations, the combined computed fair value is then compared to the overall market capitalization of the consolidated Company to determine the level of implied control premium.

The discounted cash flow analysis uses estimates in the form of growth and attrition rates, anticipated rates of return, and discount rates. These estimates have a direct bearing on the results of the impairment testing and serve as the basis for management s conclusions as to potential impairment.

The results of the step 1 analysis performed during the fourth quarter of 2012 determined that no impairment was evident for either reporting unit.

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Income Taxes

The establishment of provisions for federal and state income taxes is a complex area of accounting which also involves the use of judgments and estimates in applying relevant tax statutes. The Company operates in multiple state tax jurisdictions and this requires the appropriate allocation of income and expense to each state based on a variety of apportionment or allocation bases. The Company is also subject to audit by federal and state tax authorities. Results of these audits may produce indicated liabilities which differ from Company estimates and provisions. The Company continually evaluates its exposure to possible tax assessments arising from audits and records its estimate of possible exposure based on current facts and circumstances.

Deferred tax assets and liabilities are recognized for the tax effects of differing carrying values of assets and liabilities for tax and financial statement purposes that will reverse in future periods. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. When uncertainty exists concerning the recoverability of a deferred tax asset, the carrying value of the asset may be reduced by a valuation allowance. The amount of any valuation allowance established is based upon an estimate of the deferred tax asset that is more likely than not to be recovered. Increases or decreases in the valuation allowance result in increases or decreases to the provision for income taxes.

Recent Acquisitions and Divestitures

On June 8, 2012, the Company entered into a purchase and assumption agreement with loss share arrangements with the Federal Deposit Insurance Corporation (FDIC) to purchase certain assets and assume substantially all of the customer deposits and certain liabilities of Waccamaw Bank (Waccamaw). Waccamaw, a full service community bank headquartered in Whiteville, North Carolina, operated sixteen branches throughout North and South Carolina. At acquisition, Waccamaw had total assets of approximately $500.64 million, loans of approximately $318.35 million, and deposits of approximately $414.13 million. As a result of the acquisition and the preliminary purchase price allocation, approximately $10.90 million was recorded as goodwill, which represents the excess of the value of the consideration transferred over the fair value of the net assets acquired including indentified intangibles. Under the Single-Family Shared-Loss Agreement and the Commercial Shared-Loss Agreement with the FDIC, the FDIC has agreed to cover 80% of most loan and foreclosed real estate losses. All assets acquired and liabilities assumed are recorded at estimated fair value on the date of acquisition. These fair value estimates are considered preliminary, and are subject to change for up to one year after the closing date of the acquisition as additional information relative to closing date fair values may become available. After the initial acquisition, the Company agreed to purchase four properties totalling $1.80 million from the FDIC.

On May 31, 2012, the Company completed the acquisition of Peoples Bank of Virginia (Peoples), based in Richmond, Virginia. Peoples, a full service community bank, operated four branches throughout the Richmond area. At acquisition, Peoples had total assets of approximately $275.76 million, loans of approximately $184.84 million, and deposits of approximately $232.75 million. Under the terms of the merger agreement, shares of Peoples were exchanged for $6.08 in cash and 1.07 shares of the Company s common stock, resulting in a purchase price of approximately $40.28 million. As a result of the acquisition and the preliminary purchase price allocation, approximately $10.21 million was recorded as goodwill, which represents the excess of the value of the consideration transferred over the fair market value of the net assets acquired including indentified intangibles. 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.

Greenpoint Insurance Group (Greenpoint), a wholly-owned subsidiary of the Company, has acquired seven insurance agencies and sold three since its acquisition by the Company in September 2007. During 2012, Greenpoint did not acquire or sell any insurance agencies; however, $366 thousand was received from earn-out payments related to agency sales in 2011. During 2011, Greenpoint received aggregate cash of $1.58 million from the sale of two insurance agencies. During 2010, Greenpoint paid aggregate cash consideration of $190 thousand in connection with the acquisition of one insurance agency.

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Results of Operations

2012 Compared To 2011

Net income increased $8.55 million, or 42.69%, to $28.58 million for the year ended December 31, 2012, compared with $20.03 million for the year ended December 31, 2011. Net income available to common shareholders increased $8.19 million, or 42.40%, to $27.52 million for the year ended December 31, 2012, compared with $19.33 million for the same period of 2011. Basic and diluted earnings per common share for year-end 2012 were $1.44 and $1.40, respectively, as compared to basic and diluted earnings per common share for year-end 2011 of $1.08 and $1.07, respectively. Return on average assets was 1.10% in 2012 compared to 0.88% in 2011. Return on average common equity was 8.70% in 2012 compared to 6.81% in 2011.

Net Interest Income

Net interest income, the largest contributor to earnings, increased $18.03 million, or 25.03%, for the year ended December 31, 2012, compared with the same period of 2011. Tax equivalent net interest income increased $17.82 million, or 23.76%, for the year ended December 31, 2012, compared with the same period of 2011. The increase in tax equivalent net interest income was primarily due to the increase in average earning assets from the Peoples and Waccamaw acquisitions and reductions in the rates paid on interest-bearing deposits resulting from the sustained low rate environment.

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

Average earning assets increased $257.70 million and average interest-bearing liabilities increased $190.79 million during 2012, as compared to the prior year. The yield on average earning assets increased 11 basis points to 5.12% during 2012 from 5.01% at year-end 2011. The rate on average interest-bearing liabilities decreased 27 basis points to 1.05% during 2012 from 1.32% at year-end 2011. Average balances and interest yield/rate changes for earning assets and interest-bearing liabilities resulted in a net interest rate spread that was 38 basis points higher for year-end 2012 compared with the same period of 2011. Our net interest margin increased 36 basis points for year-end 2012, compared with the same period of 2011.

The tax equivalent yield on loans increased 17 basis points for the year ended December 31, 2012, compared with the same period of 2011. Tax equivalent loan interest income increased $17.82 million, or 23.76%, for the year ended December 31, 2012, compared with the same period of 2011. The increase in interest income on loans was primarily due to the Peoples and Waccamaw acquisitions. The Company expects that the effects of the interest accretion will be significantly lessened in future periods.

The tax equivalent yield on available-for-sale securities decreased 61 basis points for the year ended December 31, 2012, compared with the same period of 2011. The decrease was largely due to the new investment and reinvestment of proceeds from sales, maturities, prepayments, and cash in lower yielding securities. The average balance of held-to-maturity securities continued to decline as securities were called or matured and were not replaced.

The tax equivalent yield on interest-bearing deposits with banks increased 8 basis points for the year ended December 31, 2012, compared with the same period of 2011. Interest-bearing deposits with banks are comprised primarily of excess liquidity kept at the Federal Reserve that bears overnight market rates.

The average balance of interest-bearing demand deposits increased $28.76 million, or 10.37%, and the average rate paid on those deposits decreased 10 basis points for the year ended December 31, 2012, compared with the

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same period of 2011. The average balance of savings deposits increased $61.17 million, or 14.91%, and the average rate paid on those deposits decreased 10 basis points for the year ended December 31, 2012, compared with the same period of 2011. The average balance of time deposits increased $93.90 million, or 13.75%, and the average rate paid on those deposits decreased 49 basis points for the year ended December 31, 2012, compared with the same period of 2011. The average balance of noninterest-bearing demand deposits increased $63.72 million, or 28.54%, for the year ended December 31, 2012, compared with the same period of 2011. These increased balances during the year ended December 31, 2012, were primarily due to the Peoples and Waccamaw acquisitions.

The average balance of federal funds purchased increased $413 thousand to $490 thousand for year-end 2012 compared to $77 thousand for the same period of 2011. The average balance of retail repurchase agreements, including collateralized retail deposits and commercial treasury accounts, decreased $4.96 million, or 5.93%, and the average rate paid on those funds decreased 8 basis points for the year ended December 31, 2012, compared with the same period of 2011. The decrease in the average balance of retail repurchase agreements was primarily due to lower balances in commercial treasury accounts in the slow economy, which were slightly offset by the Peoples and Waccamaw acquisitions. The average balance of wholesale repurchase agreements increased $5.16 million, or 10.33%, and the average rate paid on those funds decreased 10 basis points for the year ended December 31, 2012, compared with the same period of 2011. The average balance of FHLB advances and other borrowings increased $6.35 million, or 3.75%, and the average rate paid on those funds decreased 2 basis point for the year ended December 31, 2012, compared with the same period of 2011.

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Average Balance Sheets and Net Interest Income Analysis

(Amounts in thousands)	Average Balance	2012 Interest Income/ Expense [1]	Average Yield/Rate [1]	Average Balance	2011 Interest Income/ Expense [1]	Average Yield/ Rate [1]	Average Balance	2010 Interest Income/ Expense [1]	Average Yield/ Rate [1]
Earning assets									
Loans held for investment [2]	$ 1,611,557	$ 96,803	6.01%	$ 1,382,097	$ 80,742	5.84%	$ 1,400,061	$ 84,906	6.06%
Available-for-sale securities	502,416	15,170	3.02%	434,583	15,775	3.63%	492,703	21,313	4.33%
Held-to-maturity securities	2,622	171	6.52%	3,999	333	8.32%	6,299	533	8.46%
Interest-bearing deposits with banks	77,851	259	0.33%	116,063	285	0.25%	81,987	194	0.24%
Total earning assets	2,194,446	$ 112,403	5.12%	1,936,742	$ 97,135	5.01%	1,981,050	$ 106,946	5.40%
Other assets	316,485			258,897			282,005		
Total	$ 2,510,931			$ 2,195,639			$ 2,263,055		
Interest-bearing liabilities									
Demand deposits	$ 306,019	$ 185	0.06%	$ 277,263	$ 431	0.16%	$ 252,471	$ 980	0.39%
Savings deposits	471,406	556	0.12%	410,240	886	0.22%	421,184	2,751	0.65%
Time deposits	776,901	9,231	1.19%	682,997	11,471	1.68%	760,286	16,156	2.12%
Total interest-bearing deposits	1,554,326	9,972	0.64%	1,370,500	12,788	0.93%	1,433,941	19,887	1.39%
Federal funds purchased	490	2	0.41%	77		0.00%			
Retail repurchase agreements	78,608	449	0.57%	83,564	544	0.65%	97,531	992	1.02%
Wholesale repurchase agreements	55,163	2,023	3.67%	50,000	1,887	3.77%	50,000	1,872	3.74%
FHLB borrowings and other long-term debt	175,333	7,154	4.08%	168,988	6,928	4.10%	194,461	6,974	3.59%
Total borrowings	309,594	9,628	3.11%	302,629	9,359	3.09%	341,992	9,838	2.88%
Total interest-bearing liabilities	1,863,920	19,600	1.05%	1,673,129	22,147	1.32%	1,775,933	29,725	1.67%
Noninterest-bearing demand deposits	286,950			223,233			206,396		
Other liabilities	25,160			4,127			11,280		
Stockholders equity	334,901			295,150			269,446		
Total	$ 2,510,931			$ 2,195,639			$ 2,263,055		
Net interest income, tax-equivalent		$ 92,803			$ 74,988			$ 77,221	
Net interest rate spread [3]			4.07%			3.69%			3.73%
Net interest margin [4]			4.23%			3.87%			3.90%

(1) Fully taxable equivalent at the rate of 35% (FTE).
(2) Non-accrual loans are included in average balances outstanding but with no related interest income during the period of non-accrual.
(3) Represents the difference between the tax equivalent yield on earning assets and cost of funds.
(4) Represents tax-equivalent net interest income divided by average interest earning assets.

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Rate and Volume Analysis of Interest

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

	Twelve Months Ended December 31, 2012 Compared to 2011 Dollar Increase/(Decrease) due to				Twelve Months Ended December 31, 2011 Compared to 2010 Dollar Increase/(Decrease) due to			
(Amounts in thousands)	**Volume**	**Rate**	**Rate/ Volume**	**Total**	**Volume**	**Rate**	**Rate/ Volume**	**Total**
Interest Earned On:								
Loans (FTE)	$ 13,401	$ 2,349	$ 311	$ 16,061	$ (1,089)	$ (3,080)	$ 5	$ (4,164)
Securities available-for-sale (FTE)	2,462	(2,651)	(416)	(605)	(2,517)	(3,449)	428	(5,538)
Securities held-to-maturity (FTE)	(115)	(72)	25	(162)	(195)	(8)	3	(200)
Interest-bearing deposits with other banks	(95)	93	(24)	(26)	82	8	1	91
Total interest-earning assets	15,653	(281)	(104)	15,268	(3,719)	(6,529)	437	(9,811)
Interest Paid On:								
Demand deposits	46	(277)	(15)	(246)	97	(581)	(65)	(549)
Savings deposits	134	(410)	(54)	(330)	(71)	(1,811)	17	(1,865)
Time deposits	1,578	(3,347)	(471)	(2,240)	(1,639)	(3,345)	299	(4,685)
Federal funds purchased		0	2	2				
Retail repurchase agreements	(32)	(67)	4	(95)	(142)	(361)	55	(448)
Wholesale repurchase agreements	195	(50)	(9)	136		15	0	15
FHLB borrowings and other long-term debt	260	(34)	(0)	226	(914)	992	(124)	(46)
Total interest-bearing liabilities	2,181	(4,185)	(543)	(2,547)	(2,669)	(5,091)	182	(7,578)
Change in net interest income, tax-equivalent	$ 13,472	$ 3,904	$ 439	$ 17,815	$ (1,050)	$ (1,438)	$ 255	$ (2,233)

Provision for Loan Losses

The provision for loan losses is determined by management as the amount to be added to the allowance for loan losses after net charge-offs have been deducted to bring the allowance to a level which, in management s best estimate, is necessary to absorb probable losses within the existing loan portfolio. The provision for loan losses was reduced $3.37 million for the year ended December 31, 2012, compared with the same period of 2011, which was primarily due to a continued general downward trend in net non-covered charge-offs. There was no provision for loan losses recorded during the period related to the acquired loan portfolios. We incurred net charge-offs of $6.11 million for the year ended December 31, 2012, compared with $9.32 million for the same period of 2011. Net charge-offs as a percentage of average non-covered loans was 0.41% for the year ended December 31, 2012, compared with 0.67% for the same period of 2011. Non-covered loans exclude loans acquired in the Waccamaw transaction that are covered under the FDIC loss share agreements. See Financial Position Allowance for Loan Losses for additional information.

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Noninterest Income

Noninterest income increased $1.18 million, or 3.31%, for the year ended December 31, 2012, compared with the same period of 2011. Exclusive of the impact of OTTI charges, the gain on the sale of securities, and an out-of-period adjustment, noninterest income increased $2.22 million, or 6.82%, to $34.77 million for the year ended December 31, 2012, compared with $32.56 million for the same period of 2011.

Wealth management revenues increased $191 thousand, or 5.44%, for the year ended December 31, 2012, compared with the same period of 2011. Service charges on deposit accounts increased $825 thousand, or 6.23%, for the year ended December 31, 2012, compared with the same period of 2011, due to the Waccamaw acquisition. Other service charges, commissions, and fees increased $740 thousand, or 12.93%, for the year ended December 31, 2012, compared with the same period of 2011. Insurance commissions decreased $454 thousand, or 7.33%, for the year ended December 31, 2012, compared with the same period of 2011. Profit-sharing commissions from our carriers were lower in the first quarter of 2012 compared with the first quarter of 2011 as a result of higher loss experience on our customers policies. Further, commissions earned during the first nine months of 2011 include the agency offices sold as part of strategic realignment during the third quarter of 2011.

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

Other operating income increased $3.31 million, or 85.19%, for the year ended December 31, 2012, compared with the same period of 2011. Exclusive of the $2.39 million out-of-period adjustment, other operating income increased $917 thousand, or 23.59%, for the year ended December 31, 2012, compared with the same period of 2011. We incurred OTTI charges of $942 thousand for the year ended December 31, 2012, compared to $2.29 million for the same period of 2011, which were related to a non-Agency MBS. The net gain on sale of securities decreased $4.78 million, or 90.82%, for the year ended December 31, 2012, compared with the same period of 2011. See Note 3 Investment Securities of the Notes to Consolidated Financial Statements in Item 8 herein.

Noninterest Expense

Noninterest expense increased $9.47 million, or 13.74%, for the year ended December 31, 2012, compared with the same period of 2011. Salaries and employee benefits increased $4.54 million, or 13.31%, for the year ended December 31, 2012, compared with the same period of 2011. The Peoples and Waccamaw acquisitions completed during the second quarter of 2012 accounted for an increase in salaries and employee benefits of $3.80 million for year-end 2012. Incentive compensation costs increased $1.94 million and SERP expense increased $379 thousand, while medical insurance expenses decreased $1.56 million. The decrease in medical insurance expenses was due to lower claims. We also deferred $349 thousand less in direct loan origination costs during 2012 primarily due to lower origination volumes. At December 31, 2012, we had 760 full-time equivalent employees compared to 633 at December 31, 2011. Full-time equivalent employees are calculated using the number of hours worked. The Peoples and Waccamaw acquisitions resulted in the addition of 101 full-time equivalent employees for the period ended December 31, 2012. Greenpoint accounted for 46 full-time equivalent employees at year-end 2012 compared to 48 at year-end 2011. Total full-time equivalent employees at the Bank and its investment advisory firm totaled 714 at December 31, 2012, an increase of 129 full-time equivalent employees since December 31, 2011.

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Occupancy, furniture, and equipment expense increased $1.25 million, or 12.76%, to $11.02 million for the year ended December 31, 2012, compared with $9.77 million for the same period of 2011 primarily as a result of the Peoples and Waccamaw acquisitions. FDIC premiums and assessments decreased $372 thousand, or 18.75%, for the year ended December 31, 2012, compared with the same period of 2011 as a result of modifications in the FDIC s assessment methodology in 2011. We incurred $5.09 million in merger related costs for the year ended December 31, 2012, in connection with the Peoples and Waccamaw acquisitions. Other operating expense increased $885 thousand, or 4.36%, for the year ended December 31, 2012, compared with the same period of 2011. The increase in other operating expense was primarily attributable to our expanded branch network and associated costs with the Waccamaw acquisition in the areas of legal expense, consulting fees, and travel related expenses. Contributing to the increase in other operating expense were increases in other service fees, office supplies expense, legal expenses, and consulting fees of $559 thousand, $466 thousand, $449 thousand, and $348 thousand, respectively. These increases were partially offset by a decreases in advertising expenses of $262 thousand. These increases were also offset by a $1.19 million decrease in expenses and losses associated with other real estate owned (OREO) to $1.89 million for the year ended December 31, 2012, compared with $3.08 million for the year ended December 31, 2011.

We use an efficiency ratio that is a non-GAAP financial measure of operating expense control and efficiency of operations. Management believes this ratio better focuses attention on the core operating performance of the Company over time than does a GAAP-based ratio, and is highly useful in comparing period-to-period operating performance of the Company s core business operations. It is used by management as part of its assessment of its performance in managing noninterest expenses. However, this measure is supplemental and is not a substitute for an analysis of performance based on GAAP measures. Our efficiency may not be comparable to efficiency ratios reported by other financial institutions.

In general, our efficiency ratio is noninterest expenses as a percentage of net interest income plus noninterest income. Noninterest expenses used in the calculation exclude nonrecurring expenses. Income for the ratio is increased for the favorable effect of tax-exempt income (see Average Balance Sheets and Net Interest Income Analysis) and excludes securities gains and losses, which vary widely from period to period without appreciably affecting operating expenses; nonrecurring gains and losses; and OTTI charges. The measure is different from the GAAP-based efficiency ratio that is calculated using noninterest expense and income amounts as shown on the face of the Consolidated Statements of Income. Both types of efficiency ratio calculations are set forth and are reconciled in the table below.

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The (non-GAAP) efficiency ratios for continuing operations for 2012, 2011, and 2010 were 55.96%, 59.56%, and 60.29%, respectively. The following table details the components used in the calculation of the efficiency ratios:

(Amounts in thousands)	2012	2011	2010
GAAP-based efficiency ratio			
Noninterest expense	$ 78,383	$ 68,915	$ 69,943
Net interest income plus noninterest income	$ 126,766	$ 107,563	$ 114,365
GAAP-based efficiency ratio	61.83%	64.07%	61.16%
Non-GAAP efficiency ratio			
Noninterest expenses GAAP-based	$ 78,383	$ 68,915	$ 69,943
Less non-GAAP adjustments:			
Foreclosed property expense and net loss	(1,893)	(3,081)	(2,802)
Prepayment penalties on FHLB advances		(471)	
Merger related expenses	(5,093)		
Goodwill impairment		(1,239)	(1,039)
Other non-core, non-recurring expense items		(77)	(4)
Adjusted non-interest expenses	$ 71,397	$ 64,047	$ 66,098
Net interest income plus noninterest income GAAP-based	$ 126,766	$ 107,563	$ 114,365
Plus non-GAAP adjustment:			
Tax equivalency adjustment	2,747	2,959	3,364
Less non-GAAP adjustments:			
Net gains on sale of securities	(483)	(5,264)	(8,273)
Net impairment losses recognized in earnings	942	2,285	185
Prospective correction of prior period understatment	(2,395)		
Other non-core, non-recurring income items		(18)	
Adjusted net interest income plus noninterest income	$ 127,577	$ 107,525	$ 109,641
Non-GAAP efficiency ratio	55.96%	59.56%	60.29%

Income Tax Expense

Income tax as a percentage of pretax income may vary significantly from statutory rates due to permanent differences, which are items of income and expense excluded by law from the calculation of taxable income. Our most significant permanent differences include income on municipal securities, which are exempt from federal income tax; certain dividend payments, which are deductible; and increases in the cash surrender value of life insurance policies. Consolidated income taxes were $14.13 million for the year ended December 31, 2012, compared to $9.57 million for the same period of 2011. The effective tax expense rates for the years ended December 31, 2012 and 2011 were 33.08% and 32.34%, respectively. The increase in the effective tax rate is largely due to an increase in taxable revenues as a percent of net earnings and a decrease in the relative amounts of nontaxable revenues.

2011 Compared To 2010

Net income available to common shareholders for 2011 was $19.33 million, a decrease of $2.52 million from $21.85 million in 2010. Basic and diluted earnings per common share for 2011 were $1.08 and $1.07,

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respectively, as compared to basic and diluted earnings per common share of $1.23 in 2010. Return on average assets was 0.88% in 2011 compared to 0.97% in 2010. Return on average common equity was 6.81% in 2011 compared to 8.11% in 2010.

Net Interest Income

Net interest income was $72.03 million for 2011, as compared to $73.86 million for 2010, a decrease of $1.83 million, or 2.48%. Tax equivalent net interest income totaled $74.99 million for 2011, a decrease of $2.23 million, or 2.89%, from $77.22 million reported for 2010. The decrease in tax equivalent net interest income was primarily due to decreases in the balances of loans and securities coupled with lower rates of interest earned on those assets.

For purposes of the following discussion, comparison of net interest income is performed on a tax equivalent basis, which provides a common basis for comparing yields on earning assets exempt from federal income taxes to those assets which are fully taxable (see the table titled Average Balance Sheets and Net Interest Income Analysis).

Average earning assets decreased $44.31 million while average interest-bearing liabilities decreased $102.80 million during 2011, as compared to the prior year. The yield on average earning assets decreased 39 basis points to 5.01% for 2011 from 5.40% for 2010. Short-term market interest rates continued to remain low throughout 2011, as the Federal Reserve Board held the range of zero to 25 basis points as its target for federal funds. The prevailing low interest rate environment was the largest driver in the overall decrease in our yield on average earning assets.

Total cost of average interest-bearing liabilities decreased 35 basis points to 1.32% during 2011. Our time deposit portfolio experienced downward repricing during 2011, as many of the higher-rate certificates were redeemed or renewed at lower rates. The net result was a decrease of 4 basis points in the net interest rate spread, or the difference between interest income on earning assets and expense on interest-bearing liabilities, for 2011 compared to 2010. The net interest rate spread for 2011 was 3.69% compared to 3.73% for 2010. Net interest margin, or net interest income to average earning assets, of 3.87% for 2011 represents a decrease of 3 basis points from 3.90% in 2010.

Loan interest income decreased $4.16 million during 2011, as compared to 2010 as the average volume and the yield on loans decreased. During 2011, the yield on loans decreased 22 basis points to 5.84% while the average balance decreased $17.96 million, as compared to 2010. During 2011, the yield on available-for-sale securities decreased 70 basis points to 3.63% while the average balance decreased $58.12 million, as compared to 2010.

Average interest-bearing balances we maintained with third party banks increased $34.08 million during 2011 to $116.06 million, while the yield increased 1 basis point to 0.25% during the same period. Interest-bearing balances with third party banks are comprised largely of excess liquidity bearing overnight market rates.

The average balance of interest-bearing deposits decreased $63.44 million, or 4.42%, and the average rate paid on those deposits decreased 46 basis points to 0.93% during 2011 compared to the prior year. The average rate paid on interest-bearing demand deposits decreased 23 basis points, while the average rate paid on savings deposits, which include money market and savings accounts, decreased 43 basis points in 2011 compared to 2010. In 2011, average time deposits decreased $77.29 million, or 10.17%, and the average rate paid on those deposits decreased 44 basis points to 1.68%, as compared to 2010. The decrease can be attributed to rate sensitive customers not renewing investments at lower interest rates. The level of average noninterest-bearing demand deposits increased $16.84 million to $223.23 million in 2011 compared to the prior year.

The average balance of retail repurchase agreements, which consists of collateralized retail deposits and commercial treasury accounts, decreased $13.97 million in 2011 and the average rate paid on those funds decreased 37 basis points to 0.65% during the same period. The average balance of federal funds purchased

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totaled $77 thousand in 2011. The average balance of wholesale repurchase agreements remained unchanged at $50.0 million between 2011 and 2010, while the rate increased 3 basis points due to structure within those borrowings. The average balance of Federal Home Loan Bank (FHLB) advances and other borrowings decreased $25.47 million, or 13.10%, and the rate paid on those borrowings increased 51 basis points in 2011 compared to 2010. Other borrowings include our trust preferred issuance of $15.46 million, which is indexed to 3-month LIBOR. We prepaid $25.0 million of a $75.0 million FHLB convertible advance that carried a 4.0% interest rate during the first quarter of 2011. The advance was a structured borrowing where the interest rate floated with 3-month LIBOR, but changed to a 4.0% fixed cost in the first quarter of 2011.

Provision for Loan Losses

The provision for loan losses for 2011 was $9.05 million, a decrease of $5.71 million compared to 2010. The decrease in the loan loss provision is primarily attributed to decreasing net charge-offs during 2011; however, qualitative risk factors for the loan portfolio remained high, reflective of the elevated risk of inherent loan losses due to continued high unemployment, recessionary pressures, and devaluations of various categories of collateral. Net charge-offs for 2011 and 2010 were $9.32 million and $12.55 million, respectively. Net charge-offs, as a percentage of average loans, decreased to 0.67% for 2011 from 0.90% for 2010. See Financial Position Allowance for Loan Losses for additional information.

Noninterest Income

Noninterest income consists of all revenues that are not included in interest and fee income related to earning assets. Noninterest income for 2011, exclusive of the impact of OTTI charges and gains on the sale of securities, was $32.56 million compared to $32.42 million in 2010, an increase of $135 thousand, or 0.42%. See Financial Position Available-for-Sale Securities for information relating to our securities.

Wealth management income, which includes fees for trust services and commission and fee income generated for investment advisory services, decreased $318 thousand in 2011 to $3.51 million compared to 2010, as a result of a decrease in advisory service revenue. Service charges on deposit accounts increased $110 thousand in 2011 to $13.24 million compared to 2010, as a result of an increase in non-sufficient funds fee income. Other service charges, commissions and fees reflected an increase of $648 thousand in 2011 compared to 2010, primarily due to a continued increase in debit card interchange income as our customers increasingly chose card-based payment delivery systems.

Insurance commissions earned in 2011 were $6.20 million compared to $6.73 million in 2010, a decrease of $530 thousand, as a result of the sale of two agency offices and continued soft conditions impacting policy and premium levels. Revenue for the insurance subsidiary is derived primarily from commissions earned on the sale of property and casualty policies.

Other operating income for 2011 was $3.89 million, an increase of $225 thousand from 2010. The largest components of the increase in other operating income for 2011 were increased revenue from secondary market mortgage operations of $132 thousand, increased bank-owned life insurance income of $102 thousand, increased rental income of $92 thousand, and net gains recognized on the sale of insurance agency offices and accounts of $67 thousand.

During 2011we recognized net securities gains of $5.26 million, a decrease of $3.01 million from net securities gains of $8.27 million recognized in 2010.

Noninterest Expense

Total noninterest expense was $68.92 million for 2011, a decrease of $1.03 million from 2010. Salaries and benefits decreased $402 thousand in 2011 compared to 2010. At December 31, 2011, we had total full-time equivalent employees of 633 compared to 683 at December 31, 2010. Full-time equivalent employees are

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calculated using the number of hours worked. Greenpoint accounted for 48 full-time equivalent employees at year-end 2011 compared to 59 at year-end 2010. Total full-time equivalent employees at the Bank and its investment advisory firm totaled 585 at December 31, 2011, a decrease of 39 full-time equivalent employees since December 31, 2010. Medical insurance costs increased $517 thousand, or 17.38%, and 401(k) employer matching costs increased $217 thousand, or 19.34%. We also deferred $269 thousand less in direct loan origination costs than in 2010 primarily due to lower origination volumes.

Occupancy, furniture, and equipment expenses decreased $381 thousand in 2011 to $9.77 million, as compared to $10.15 million in 2010, due to branch closings and insurance agency sales.

FDIC premiums and assessments totaled $1.98 million in 2011, a decrease of $872 thousand compared to 2010. The decrease is attributed to modifications in the FDIC s assessment methodology in April 2011 that changed the assessment base for deposit insurance premiums from one based on domestic deposits to one based on average consolidated total assets minus average tangible equity.

Other operating expenses decreased $32 thousand in 2011 to $20.31 million, as compared to 2010. Contributing to the reduction in other operating expenses were decreases in professional accounting fees, service fees, and regulatory assessments of $553 thousand, $373 thousand, and $211 thousand, respectively. These decreases were partially offset by increases in interchange expenses, consulting fees, communications expenses, and legal fees of $267 thousand, $151 thousand, $148 thousand, and $107 thousand, respectively. Also included in other operating expenses was a $362 thousand increase in losses and other expenses related to foreclosed properties, which was $3.44 million in 2011 compared to $3.08 million in 2010. As of December 31, 2011, we recognized a goodwill impairment of $1.24 million in the insurance reporting unit. Despite strong operating performance and positive market experience in sales of our non-core agencies, market multiples and other valuation indicators remained depressed resulting in a lower valuation of the insurance reporting unit.

Income Tax Expense

Consolidated income taxes for 2011 were $9.57 million compared to income taxes of $7.82 million in 2010. For the years ended December 31, 2011 and 2010, the effective tax expense rates were 32.34% and 26.35%, respectively. The increase in the effective rate can be attributed to a reduction in the impact of both tax exempt income and state income taxes combined with a reduction in 2010 income tax expense necessary to reconcile our reported tax expense with the actual expense as presented in our 2009 tax return filed with the Internal Revenue Service and state taxation authorities.

Financial Position

Available-for-Sale Securities

Available-for-sale securities as of December 31, 2012, increased $51.93 million, or 10.76%, compared with December 31, 2011. The market value of securities available-for-sale as a percentage of amortized cost improved to 99.92% at December 31, 2012, compared with 98.13% at December 31, 2011, as a result of improved pricing on certain issues. At December 31, 2012, the average life and duration of the portfolio were 7.25 years and 6.14, respectively. Average life and duration at December 31, 2011, were 7.35 years and 6.02, respectively.

Available-for-sale and held-to-maturity securities are reviewed quarterly for possible OTTI. This review includes an analysis of the facts and circumstances of each individual investment such as the length of time the fair value has been below cost, timing and amount of contractual cash flows, the expectation for that security s performance, the creditworthiness of the issuer and our intent to hold the security to recovery or maturity. If a decline in value is determined to be other-than-temporary, the value of the security is reduced and a corresponding charge to earnings is recognized. In the instance of a debt security which is determined to be other-than-temporarily impaired, we determine the amount of the impairment due to credit and the amount due to other factors. The amount of impairment related to credit is recognized in the Consolidated Statements of Income and the remainder of the impairment is recognized in other comprehensive income.

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During the year ended December 31, 2012, we recognized OTTI charges in earnings of $942 thousand compared to $2.29 million recognized during the same period of 2011, which were related to a non-Agency Alt-A residential mortgage-backed security. We recognized no impairment charges on equity securities during 2012 or 2011. At December 31, 2012, our investment in single issue trust preferred securities was comprised of investments in five of the nation s largest bank holding companies.

The following table details amortized cost and fair value of available-for-sale securities at December 31, 2012, 2011, and 2010:

	2012		2011		2010	
(Amounts in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Government agency securities	$	$	$	$	$ 10,000	$ 9,832
States and political subdivisions	151,119	159,217	131,498	137,815	178,149	176,138
Trust preferred securities:						
Single issue	55,707	44,646	55,649	40,244	55,594	41,244
Pooled					23	264
Total trust preferred securites	55,707	44,646	55,649	40,244	55,617	41,508
Corporate FDIC insured securities			13,685	13,718	25,282	25,660
Mortgage-backed securities:						
Agency	310,323	315,897	274,384	280,102	209,281	215,013
Non-Agency Alt-A residential	14,215	11,067	15,980	10,030	19,181	11,277
Total mortgage-backed securities	324,538	326,964	290,364	290,132	228,462	226,290
Equity securities	3,446	3,531	419	521	495	636
Total	$ 534,810	$ 534,358	$ 491,615	$ 482,430	$ 498,005	$ 480,064

Held-to-Maturity Securities

Investment securities classified as held-to-maturity are comprised primarily of high grade municipal bonds. Held-to-maturity securities as of December 31, 2012, decreased $2.67 million, or 76.62%, compared with December 31, 2011. The market value of securities held-to-maturity as a percentage of amortized cost improved to 101.96% at December 31, 2012, compared with 101.20% at December 31, 2011.

The following table details amortized cost and fair value of held-to-maturity securities at December 31, 2012, 2011, and 2010:

	2012		2011		2010	
(Amounts in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
States and political subdivisions	$ 816	$ 832	$ 3,490	$ 3,532	$ 4,637	$ 4,704
Total	$ 816	$ 832	$ 3,490	$ 3,532	$ 4,637	$ 4,704

Loans Held for Sale

Loans held for sale as of December 31, 2012, increased $852 thousand, or 14.64% compared with December 31, 2011. Loans held for sale consist of mortgage loans sold on a best efforts basis into the secondary loan market; accordingly, we do not retain the interest rate risk involved in these commitments. The gross notional amount of outstanding commitments related to secondary market mortgage loans at December 31, 2012, was $14.84 million for 88 loans compared to $9.15 million for 53 loans at December 31, 2011.

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Loans Held for Investment

Loans held for investment as of December 31, 2012, increased $328.59 million, or 23.54%, compared with December 31, 2011. The increase was primarily due to the Peoples and Waccamaw acquisitions. Average loans held for investment as of December 31, 2012, increased $229.46 million, or 16.60%, compared with December 31, 2011. The average loan to deposit ratio was 87.52% for the year ended December 31, 2012, compared to 86.72% for the same period 2011. The held for investment loan portfolio continues to be well diversified among loan types and industry segments. The following table presents the various loan categories and changes in composition for the five years ended December 31, 2012:

	2012			2011	2010	2009	2008
(Amounts in thousands)	Non-covered	Covered	Total	Non-covered	Non-covered	Non-covered	Non-covered
Commercial loans							
Construction, development, and other land	$ 49,460	$ 34,569	$ 84,029	$ 61,768	$ 83,812	$ 102,867	$ 107,525
Commercial and industrial	88,714	6,972	95,686	91,939	94,123	95,115	83,632
Multi-family residential	65,694	2,611	68,305	77,050	67,824	65,603	46,754
Single family non-owner occupied	135,647	11,693	147,340	106,743	104,960	109,532	85,244
Non-farm, non-residential	445,889	51,486	497,375	336,005	351,904	343,975	315,547
Agricultural	1,709	144	1,853	1,374	1,342	1,251	1,402
Farmland	34,401	1,260	35,661	37,161	36,954	41,034	45,337
Total commercial loans	821,514	108,735	930,249	712,040	740,919	759,377	685,441
Consumer real estate loans							
Home equity lines	111,081	81,445	192,526	111,387	111,620	111,597	90,556
Single family owner occupied	472,951	23,557	496,508	473,067	444,197	436,238	426,773
Owner occupied construction	16,223	1,644	17,867	19,577	18,349	22,028	23,085
Total consumer real estate loans	600,255	106,646	706,901	604,031	574,166	569,863	540,414
Consumer and other loans							
Consumer loans	78,163	3,674	81,837	67,129	63,475	60,090	66,258
Other	5,666		5,666	12,867	7,646	4,601	6,046
Total consumer and other loans	83,829	3,674	87,503	79,996	71,121	64,691	72,304
Total loans held for investment	1,505,598	219,055	1,724,653	1,396,067	1,386,206	1,393,931	1,298,159
Less unearned income							1
	1,505,598	219,055	1,724,653	1,396,067	1,386,206	1,393,931	1,298,158
Less allowance for loan losses	25,770		25,770	26,205	26,482	24,277	17,782
Net loans held for investment	$ 1,479,828	$ 219,055	$ 1,698,883	$ 1,369,862	$ 1,359,724	$ 1,369,654	$ 1,280,376

We maintained no foreign loans in the periods presented. Our loans are made primarily in the five-state region in which we operate. We had no concentrations of loans to one borrower representing 10% or more of outstanding loans at December 31, 2012 or 2011.

At December 31, 2012, commercial loans comprised 53.94% of the total loan portfolio. Commercial and industrial loans include loans to small to mid-size industrial, commercial, and service companies that include, but

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are not limited to, mining-related companies, natural gas producers, automobile dealers, and retail and wholesale merchants. Commercial real estate projects represent a variety of sectors of the commercial real estate market, including single family and apartment lessors, commercial real estate lessors, and hotel/motel operators. Underwriting standards require that comprehensive reviews and independent evaluations be performed on credits exceeding predefined size limits on commercial loans. Updates to these loan reviews are done periodically or on an annual basis depending on the size of the loan relationship.

At December 31, 2012, consumer oriented real estate loans comprised 40.99% of the total loan portfolio. Residential real estate loans include loans to individuals within our market footprint for the acquisition or construction of owner occupied homes, as well as, home equity loans and lines of credit. Underwriting standards require that borrowers meet certain credit, income and collateral underwriting standards at origination.

The following table details the maturities and rate sensitivity of our non-covered loan portfolio at December 31, 2012:

	Remaining Maturities			
(Amounts in thousands)	**One Year and Less**	**Over One to Five Years**	**Over Five Years**	**Total**
Commercial loans				
Construction, development, and other land	$ 19,161	$ 23,114	$ 7,185	$ 49,460
Commercial and industrial	40,376	39,904	8,434	88,714
Multi-family residential	5,599	47,017	13,078	65,694
Single family non-owner occupied	32,400	90,660	12,587	135,647
Non-farm, non-residential	84,676	275,371	85,842	445,889
Agricultural	800	859	50	1,709
Farmland	5,042	20,840	8,519	34,401
Total commercial loans	188,054	497,765	135,695	821,514
Consumer real estate loans				
Home equity lines	8,245	34,779	68,057	111,081
Single family owner occupied	4,011	54,910	414,030	472,951
Owner occupied construction	6,679	558	8,986	16,223
Total consumer real estate loans	18,935	90,247	491,073	600,255
Consumer and other loans				
Consumer loans	26,527	45,257	6,379	78,163
Other	1,715	2,967	984	5,666
Total consumer and other loans	28,242	48,224	7,363	83,829
Total loans	$ 235,231	$ 636,236	$ 634,131	$ 1,505,598
Rate Sensitivity:				
Predetermined rate	$ 143,040	$ 523,709	$ 297,445	$ 964,194
Floating or adjustable rate	92,191	112,527	336,686	541,404
	$ 235,231	$ 636,236	$ 634,131	$ 1,505,598

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The following table details the maturities and rate sensitivity of our covered loan portfolio at December 31, 2012:

	Remaining Maturities			
(Amounts in thousands)	One Year and Less	Over One to Five Years	Over Five Years	Total
Commercial loans				
Construction, development, and other land	$ 18,909	$ 14,133	$ 1,527	$ 34,569
Commercial and industrial	2,424	3,350	1,198	6,972
Multi-family residential	228	58	2,325	2,611
Single family non-owner occupied	3,833	3,400	4,460	11,693
Non-farm, non-residential	18,103	21,079	12,304	51,486
Agricultural	28	116		144
Farmland	500	460	300	1,260
Total commercial loans	44,025	42,596	22,114	108,735
Consumer real estate loans				
Home equity lines	180	2,101	79,164	81,445
Single family owner occupied	7,283	8,334	7,940	23,557
Owner occupied construction	333	1,250	61	1,644
Total consumer real estate loans	7,796	11,685	87,165	106,646
Consumer and other loans				
Consumer loans	395	1,651	1,628	3,674
Other				
Total consumer and other loans	395	1,651	1,628	3,674
Total loans	$ 52,216	$ 55,932	$ 110,907	$ 219,055
Rate Sensitivity:				
Predetermined rate	$ 37,464	$ 40,076	$ 20,095	$ 97,635
Floating or adjustable rate	14,752	15,856	90,812	121,420
	$ 52,216	$ 55,932	$ 110,907	$ 219,055

The balance of construction loans with maturities of over five years includes construction to permanent loans which have not converted to principal and interest payments.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level management deems sufficient to absorb probable loan losses inherent in the loan portfolio. The allowance is increased by charges to earnings in the form of provisions for loan losses and recoveries of prior loan charge-offs and decreased by loans charged off. The determination of the allowance requires management to make various assumptions and judgments. As a result, actual loan losses may differ materially from management s determination if actual conditions differ significantly from the assumptions utilized. The ultimate adequacy of the allowance for loan losses is dependent upon a variety of factors beyond our control including, among other things, the economy, changes in interest rates, and the view of regulatory authorities toward loan classifications. Management considers the allowance to be adequate based upon analysis of the portfolio as of December 31, 2012; however, no assurance can be made that additions to the allowance for loan losses will not be required in future periods.

Qualitative risk factors for the loan portfolio remain relatively high which reflect the elevated risk of loan losses due to high unemployment, effects of the recent recession, and devaluations of various categories of collateral. Significant stress continues in commercial and residential real estate markets, resulting in significant declines in real estate valuations. Decreases in real estate values adversely affect the value of property

used as collateral for

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loans, including loans we originated. In addition, adverse changes in the economy, particularly continued high rates of unemployment, may have a negative effect on the ability of our borrowers to make timely loan payments. A further increase in loan delinquencies could adversely impact loan loss experience, causing potential increases in the provision and allowance for loan losses.

Our allowance for loan losses for non-covered loans was reduced $435 thousand to $25.77 million at December 31, 2012, compared to $26.21 million at December 31, 2011. The allowance for loan losses for non-covered loans as a percentage of non-covered loans held for investment was 1.71% at December 31, 2012, compared with 1.88% at December 31, 2011. The decrease between year-end 2012 and 2011 was largely due to the addition of Peoples loans at fair value with no corresponding allowance for loan losses. The portfolio will continue to be monitored for possible deterioration in credit, which may result in the need to record an allowance for loan losses in a future period. As a result of stable credit metrics and the general downward trend in net charge-offs over recent quarters, management deemed the reduced allowance and provision for loan losses as adequate and directionally consistent. Further, a trend of generally improving charge-off ratios reduced the quantitative estimate of probable losses in the allowance for loan loss methodology. There was no allowance for covered loans as of December 31, 2012. Additional information regarding the determination of the allowance for loan losses can be found in Note 1 Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements in Item 8 herein.

The following table summarizes the activity within our allowance for loan losses related to non-covered loans by loan type for the five years ended December 31, 2012:

(Amounts in thousands)	**2012**	**2011**	**2010**	**2009**	**2008**
Allowance for loan losses at beginning of period	$ 26,205	$ 26,482	$ 24,277	$ 17,782	$ 12,833
Acquisition balances					1,169
Charge-offs:					
Commercial loans					
Construction, development, and other land	286	1,908	2,711	1,541	2,079
Commercial and industrial	113	417	2,900	3,263	939
Multi-family residential	209	2,551	697		51
Single family non-owner occupied	2,502	1,812	1,665	550	320
Non-farm, non-residential	643	1,074	1,666	1,076	555
Agricultural			6	7	60
Farmland	61	219		50	
Consumer real estate loans					
Home equity lines	851	691	1,089	395	333
Single family owner occupied	1,842	1,615	1,594	1,349	972
Owner occupied construction	9	195	4	101	126
Consumer and other loans					
Consumer loans	403	448	514	1,043	952
Other	585	530	756	980	984
Total charge-offs	7,504	11,460	13,602	10,355	7,371

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	2012	2011	2010	2009	2008
Recoveries:					
Commercial loans					
Construction, development, and other land	17	817	37	21	5
Commercial and industrial	93	271	83	459	572
Multi-family residential	125	68	12		
Single family non-owner occupied	109	121	39	48	8
Non-farm, non-residential	280	148	144	106	763
Agricultural	1	1	32	4	1
Farmland	1		31		
Consumer real estate loans					
Home equity lines	76	155	12	1	
Single family owner occupied	213	63	52	62	113
Owner occupied construction		34	6	2	
Consumer and other					
Consumer loans	152	139	163	346	243
Other	324	319	439		220
Total recoveries	1,391	2,136	1,050	1,049	1,925
Net charge-offs	6,113	9,324	12,552	9,306	5,446
Provision charged to operations	5,678	9,047	14,757	15,801	9,226
Allowance for loan losses at end of period	$ 25,770	$ 26,205	$ 26,482	$ 24,277	$ 17,782
Ratio of net charge-offs to average loans outstanding	0.41%	0.67%	0.90%	0.70%	0.45%
Ratio of allowance for loan losses to total loans outstanding	1.71%	1.88%	1.91%	1.74%	1.37%

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The following table details the allocation of the allowance for loan losses and the percent of loans in each category to total loans for the five years ended December 31, 2012. There was no allowance for loan losses related to covered loans for any period presented.

	2012		2011		2010		2009		2008	
	Amount[1]	Percent[2]	Amount[1]	Percent[2]	Amount[1]	Percent[2]	Amount[1]	Percent[2]	Amount[1]	Percent[2]
(Amounts in thousands)										
Non-covered loans:										
Commercial loans										
Construction, development, and other land	$ 1,214	3%	$ 1,892	4%	$ 3,991	6%	$ 4,014	7%	$ 2,234	9%
Commercial and industrial	4,359	5%	3,716	7%	4,511	7%	5,096	7%	2,519	6%
Multi-family residential	1,630	4%	1,889	6%	1,081	5%	449	5%	117	4%
Single family non-owner occupied	4,367	8%	2,960	8%	3,212	8%	2,263	8%	1,959	6%
Non-farm, non-residential	5,259	26%	6,933	24%	2,846	25%	3,931	25%	3,154	24%
Agricultural	22	0%	19	0%	19	0%	42	0%	31	0%
Farmland	416	2%	343	3%	70	3%	75	3%	49	4%
Consumer real estate loans										
Home equity lines	1,574	6%	1,365	8%	2,138	8%	1,198	8%	749	7%
Single family owner occupied	5,995	27%	6,134	34%	6,657	32%	4,690	31%	4,060	33%
Owner occupied construction	337	1%	212	1%	193	1%	186	2%	431	2%
Consumer and other loans										
Consumer loans	597	5%	742	5%	1,764	5%	1,990	4%	2,029	5%
Other		0%		1%		1%		0%		0%
Unallocated							343		450	
Total Non-covered loans	25,770	87%	26,205	100%	26,482	100%	24,277	100%	17,782	100%
Covered loans		13%		0%		0%		0%		0%
Total	$ 25,770	100%	$ 26,205	100%	$ 26,482	100%	$ 24,277	100%	$ 17,782	100%

(1) The dollar amount of the allowance for loan losses allocated per loan class.
(2) The percentage of loans in each loan class to total loans.

Risk Elements

Nonperforming assets consist of loans accounted for on a nonaccrual basis, accruing loans contractually past due 90 days or more, unseasoned troubled debt restructurings (TDRs), and OREO. Loans acquired with credit deterioration through business combinations, for which a discount exists, are not considered to be nonaccrual as a result of the accretion of the discount based on the expected cash flow of the loans. The following table summarizes the components of nonperforming assets and presents additional detail for nonperforming and restructured loans for the five years ending December 31, 2012:

(Amounts in thousands)	2012	2011	2010	2009	2008
Non-covered loans					
Nonaccrual loans	$ 23,931	$ 24,487	$ 19,414	$ 17,527	$ 12,763
Accruing loans past due 90 days or more					
TDRs [1]	6,009	600	5,325	1,390	
Total nonperforming loans	29,940	25,087	24,739	18,917	12,763
OREO not covered under FDIC loss share agreement	5,749	5,914	4,910	4,578	1,326
Total nonperforming assets	$ 35,689	$ 31,001	$ 29,649	$ 23,495	$ 14,089

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(Amounts in thousands)	2012	2011	2010	2009	2008
Covered loans					
Nonaccrual loans	$ 4,323	$	$	$	$
Accruing loans past due 90 days or more					
Total nonperforming loans	4,323				
OREO covered under FDIC loss share agreement	3,255				
Total nonperforming assets	$ 7,578	$	$	$	$
Total loans					
Nonaccrual loans	$ 28,254	$ 24,487	$ 19,414	$ 17,527	$ 12,763
Accruing loans past due 90 days or more					
TDRs [1]	6,009	600	5,325	1,390	
Total nonperforming loans	34,263	25,087	24,739	18,917	12,763
OREO	9,004	5,914	4,910	4,578	1,326
Total nonperforming assets	$ 43,267	$ 31,001	$ 29,649	$ 23,495	$ 14,089
Performing TDRs [2]	$ 6,038	$ 8,854	$ 6,866	$ 2,175	$ 328
Total TDRs [3]	12,047	9,454	12,191	3,565	328
Gross interest income that would have been recorded under original terms of nonaccrual and restructured loans	2,955	1,154	1,341	698	458
Actual interest income during the period on nonaccrual and restructured loans	264	640	757	395	89
Non-covered loans					
Nonperforming loans to total loans	1.99%	1.80%	1.78%	1.36%	0.98%
Nonperforming assets to total assets	1.42%	1.43%	1.32%	1.03%	0.66%
Allowance for loan losses to nonperforming loans	86.07%	104.46%	107.05%	128.33%	139.32%
Allowance for loan losses to total loans	1.71%	1.88%	1.91%	1.74%	1.37%
Total loans (includes covered and noncovered assets)					
Nonperforming loans to total loans	1.99%	1.80%	1.78%	1.36%	0.98%
Nonperforming assets to total assets	1.59%	1.43%	1.32%	1.03%	0.66%
Allowance for loan losses to nonperforming loans	75.21%	104.46%	107.05%	128.33%	139.32%
Allowance for loan losses to total loans	1.49%	1.88%	1.91%	1.74%	1.37%

(1) TDRs restructured within the past six months, excluding nonaccrual TDRs of $3.04 million, $3.04 million, and $108 thousand for the three years ended December 31, 2012. There were no nonaccrual TDRs at December 31, 2009 or 2008.

(2) TDRs with six months or more of satisfactory payment performance, excluding nonaccrual TDRs of $792 thousand, $227 thousand, and $48 thousand for the three years ended December 31, 2012. There were no nonaccrual TDRs at December 31, 2009 or 2008.

(3) Performing and nonperforming TDRs, excluding nonaccrual TDRs of $3.83 million, $3.27 million, and $156 thousand for the three years ended December 31, 2012. There were no nonaccrual TDRs at December 31, 2009 or 2008.

Non-covered loans exclude loans acquired in the Waccamaw transaction that are covered under the FDIC loss share agreements. Non-covered nonperforming assets totaled $35.69 million at December 31, 2012, a $4.69 million increase over December 31, 2011. Non-covered nonperforming assets as a percentage of total non-covered assets were 1.42% at December 31, 2012, compared to 1.43% at December 31, 2011.

Non-covered nonaccrual loans totaled $23.93 million at December 31, 2012, compared to $24.49 million at December 31, 2011. As of December 31, 2012, non-covered nonaccrual loans were largely attributed to the

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following loan classes: single family non-owner occupied (29.55%); non-farm, non-residential (24.81%); single family owner occupied (21.81%); and commercial and industrial (16.38%). Approximately $4.43 million, or 18.52%, of non-covered nonaccrual loans were attributed to loans acquired in business combinations. Certain loans included in the nonaccrual category have been written down to the estimated realizable value or assigned specific reserves within the allowance for loan losses based upon management s estimate of loss at ultimate resolution.

When restructuring loans for borrowers experiencing financial difficulty, we generally make concessions in interest rates, loan terms and/or amortization terms. Certain TDRs are classified as nonperforming at time of restructuring and are returned to performing status after six months of satisfactory payment performance; however, these loans remain identified as impaired until full payment or other satisfaction of the obligation occurs. Accruing TDRs totaled $12.05 million at December 31, 2012, compared to $9.45 million at December 31, 2011. Accruing nonperforming TDRs amounted to $6.01 million, or 49.88%, of total accruing TDRs as of December 31, 2012, as compared to 6.35% of accruing TDRs at December 31, 2011. The allowance for loan losses attributed to TDRs totaled $1.87 million at December 31, 2012, compared to $1.14 million at December 31, 2011.

Ongoing activity within the classification and categories of nonperforming loans include collections on delinquencies, foreclosures, loan restructurings, and movements into or out of the nonperforming classification as a result of changing economic conditions, borrower financial capacity, or resolution efforts. There were no accruing loans contractually past due 90 days or more as of December 31, 2012.

Non-covered OREO, which is carried at the lesser of estimated net realizable value or cost, totaled $5.75 million as of December 31, 2012, a decrease of $165 thousand, or 2.79%, compared with December 31, 2011. As of December 31, 2012, non-covered OREO consisted of 45 properties with an average holding period of 11 months. During the year ended December 31, 2012, the net loss on OREO totaled $966 thousand. Covered OREO is pursuant to the FDIC Loss Share Agreements discussed in Note 2 Business Combinations and Branching Activity of the Notes to Consolidated Financial Statements in Item 8, herein, and is presented net of the related fair value discount. The following table details activity within OREO for the periods indicated:

(Amounts in thousands)	**Non-covered**	**Covered**	**Total**
Beginning balance, January 1, 2012	$ 5,914	$	$ 5,914
Acquired	125	5,388	5,513
Additions	7,767	1,190	8,957
Disposals	(6,933)	(2,565)	(9,498)
Valuation adjustments	(1,124)	(758)	(1,882)
Ending balance, December 31, 2012	$ 5,749	$ 3,255	$ 9,004

(Amounts in thousands)	**Total**
Beginning balance, January 1, 2011	$ 4,910
Additions	9,722
Disposals	(7,041)
Valuation adjustments	(1,677)
Ending balance, December 31, 2011	$ 5,914

Non-covered delinquent loans, comprised of loans 30 days or more past due and nonaccrual loans, totaled $39.0 million as of December 31, 2012, an increase of $2.34 million, or 6.39%, compared with December 31, 2011. The Peoples and Waccamaw acquisitions resulted in an addition of $1.04 million to non-covered delinquent

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loans at December 31, 2012. Non-covered delinquent loans as a percentage of total non-covered loans measured 2.59% at December 31, 2012, of which loans 30 to 89 days past due comprised 1.00% and nonaccrual loans comprised 1.59%. Non-covered nonperforming loans, comprised of nonaccrual loans, nonperforming TDRs, and unseasoned TDRs, as a percentage of total non-covered loans were 1.99% at December 31, 2012, compared to 1.80% at December 31, 2011.

We have considered all loans determined to be impaired in the evaluation of the adequacy of the allowance for loan losses at December 31, 2012. Our allowance for loan losses remained elevated during 2012 due to the continued weakness in the real estate market and the anemic economic conditions experienced during the year. As a result of the elevated levels of charge-offs and in light of the broader economy, we deemed it appropriate to maintain an elevated level of qualitative factors that adjust upward the historical loss rates in its allowance model.

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

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

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

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

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

Based on prior experience, the Bank does not generally return loans to performing status after the loans have been partially charged off. Credits identified as impaired move quickly through the process towards ultimate

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resolution of the problem credit except in cases involving bankruptcy and various state judicial processes which may extend the time for ultimate resolution.

Deposits

Total deposits as of December 31, 2012, increased $486.71 million, or 31.53%, compared with December 31, 2011. Noninterest-bearing deposits and interest-bearing demand deposits as of December 31, 2012, increased $103.08 million and $78.17 million, respectively, compared with December 31, 2011. Savings deposits, which include money market accounts and savings accounts, as of December 31, 2012, increased $105.57 million compared with December 31, 2011. Time deposits as of December 31, 2012, increased $199.89 million compared with December 31, 2011. Increases in deposit accounts were primarily due to the Peoples and Waccamaw acquisitions completed during the second quarter of 2012.

Average total deposits as of December 31, 2012, increased $247.54 million, or 15.53%, compared with December 31, 2011. Average noninterest-bearing deposits and average interest-bearing demand deposits as of December 31, 2012, increased $63.72 million and $28.76 million, respectively, compared with December 31, 2011. Average savings deposits, which include money market accounts and savings accounts, as of December 31, 2012, increased $61.17 million compared with December 31, 2011. Average time deposits as of December 31, 2012, increased $93.90 million compared with December 31, 2011. The average rate paid on interest-bearing deposits during 2012 decreased 29 basis points to 0.64% compared with 0.93% in 2011. Throughout 2012, we decreased higher-rate certificates of deposit in an effort to manage net revenues and net interest margin.

Borrowings

Our borrowings consist primarily of securities sold under agreements to repurchase and FHLB advances. Short-term borrowings consist of overnight federal funds purchased and repurchase agreements. There were no federal funds purchased at December 31, 2012, or December 31, 2011. Retail repurchase agreements decreased $1.29 million, or 1.62%, as of December 31, 2012, compared with December 31, 2011. The balance of wholesale repurchase agreements increased $8.20 million, or 16.39%, and the weighted average rate decreased 37 basis points to 3.34% as of December 31, 2012, compared with 3.71% at December 31, 2011. The underlying securities included in retail repurchase agreements remain under our control during the term of the agreements.

Short-term borrowings include overnight federal funds purchased and commercial customer repurchase agreements. Balances and weighted average rates paid on short-term borrowings used in daily operations are summarized as follows:

	2012		2011		2010	
(Amounts in thousands)	**Amount**	**Rate**	**Amount**	**Rate**	**Amount**	**Rate**
At year-end	$ 77,922	0.52%	$ 79,208	0.52%	$ 90,894	0.77%
Average during the year	78,608	0.57%	83,641	0.65%	97,531	1.02%
Maximum month-end balance	88,908		96,925		108,643	

The balance of FHLB borrowings, including convertible and callable advances and fixed rate credit, increased $11.56 million to $161.56 million and the weighted average rate decreased 26 basis points to 3.86% as of December 31, 2012, compared with December 31, 2011. As of December 31, 2012, the FHLB advances had maturities between nine months and nine years.

Also included in other indebtedness is $15.46 million of junior subordinated debentures issued by the Company in October 2003 through FCBI Capital Trust, an unconsolidated trust subsidiary, with an interest rate of three-month LIBOR plus 2.95%. The debentures mature in October 2033 and are currently callable at the option of the Company.

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Stockholders Equity

Total stockholders equity increased $50.59 million, or 16.55%, from $305.73 million at December 31, 2011, to $356.32 million at December 31, 2012. During the second quarter we issued 2,157,005 shares of Common Stock for approximately $26.47 million in connection with the Peoples acquisition. The change in stockholders equity during the year ended December 31, 2012, was also due to net income of $28.58 million, dividends declared on common and preferred stock of $9.22 million, and an increase in accumulated other comprehensive income of $5.50 million.

Risk-Based Capital

Risk-based capital guidelines promulgated by state and federal banking agencies weight balance sheet assets and off-balance sheet commitments based on inherent risks associated with the respective asset types. As of December 31, 2012, the Bank was deemed well capitalized under regulatory capital adequacy standards. Our Company s and the Bank s capital ratios are presented in the following table for the dates indicated. Our regulatory capital ratios declined as a result of the addition of assets acquired from Peoples and Waccamaw.

	December 31, 2012	December 31, 2011
Total risk-based capital ratio		
First Community Bancshares, Inc.	16.70%	18.15%
First Community Bank	15.23%	16.12%
Tier 1 risk-based capital ratio		
First Community Bancshares, Inc.	15.44%	16.89%
First Community Bank	13.97%	14.86%
Tier 1 leverage ratio		
First Community Bancshares, Inc.	9.96%	11.50%
First Community Bank	8.98%	10.08%

See Note 15 Regulatory Capital Requirements and Restrictions in the Notes to Consolidated Financial Statements in Item 8 herein.

Liquidity and Capital Resources

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

As of December 31, 2012, we maintained total liquidity of $770.42 million comprised of the following: unencumbered cash on hand and deposits with other financial institutions of $144.85 million, unpledged available-for-sale securities of $241.48 million, held-to-maturity securities due within one year of $250 thousand, unused FHLB credit availability of $269.33 million, and federal funds lines availability of $114.51 million. Cash on hand and deposits with other financial institutions, as well as FHLB availability, are immediately available for satisfaction of deposit withdrawals, customer credit needs, and our operations. Available-for-sale securities represent a secondary level of liquidity available for conversion to liquid funds in the event of extraordinary needs. Our approved lines of credit with correspondent banks are available as backup liquidity sources.

As a holding company, we do not conduct significant operations and our primary sources of liquidity are dividends upstreamed from the Bank and borrowings from outside sources. See Note 15 Regulatory Capital

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Requirements and Restrictions of the Notes to Consolidated Financial Statements in Item 8 herein regarding such dividends. Banking regulations limit the amount of dividends that may be paid by the Bank. As of December 31, 2012, our liquid assets, including cash and investment securities, totaled $23.53 million. Our cash reserves and investments, as well as management fee arrangements, provide adequate working capital to meet obligations and projected dividends to shareholders for the next twelve months. Additionally, we maintain a $15.0 million unsecured, committed line of credit. There was no balance on the line as of December 31, 2012.

As of December 31, 2012, approved loan commitments outstanding amounted to $215.77 million and time deposits scheduled to mature in one year or less totaled $525.58 million. Management believes that we have adequate resources to fund outstanding commitments and could either adjust rates on certificates of deposit in order to retain or attract deposits in changing interest rate environments or replace such deposits with advances from the FHLB or other funds providers if it proved to be cost effective to do so.

The following table presents contractual cash obligations as of December 31, 2012:

	Total Payments Due by Period				
(Amounts in thousands)	**Total**	**Less than One year**	**One to Three Years**	**Three to Five Years**	**More than Five Years**
Deposits without a stated maturity [1]	$ 1,196,949	$ 1,196,949	$	$	$
Overnight security repurchase agreements	67,433	67,433			
Certificates of deposit [2][3]	849,267	525,579	238,289	85,348	51
Term security repurchase agreements	78,119	12,347	4,683	35,172	25,917
FHLB advances [2][3]	195,531	17,550	12,360	9,588	156,033
Trust preferred indebtedness	26,640	585	1,170	1,170	23,715
Leases	3,899	1,224	1,079	429	1,167
Total	$ 2,417,838	$ 1,821,667	$ 257,581	$ 131,707	$ 206,883

(1) Excludes interest.
(2) Includes interest on both fixed and variable rate obligations. The interest associated with variable rate obligations is based upon interest rates in effect at December 31, 2012. The interest to be paid on variable rate obligations is affected by changes in market interest rates, which materially affect the contractual obligation amounts to be paid.
(3) Excludes carrying value adjustments such as unamortized premiums or discounts.

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Off-Balance Sheet Arrangements

The following table presents detailed information regarding our off-balance sheet arrangements at December 31, 2012:

		Amount of Commitment Expiration Per Period			
(Amounts in thousands)	**Total**	**Less than One Year [1]**	**One to Three Years**	**Three to Five Years**	**More than Five Years**
Commitments to extend credit					
Commercial loans					
Construction, development, and other land	$ 12,799	$ 3,735	$ 2,096	$ 2,212	$ 4,756
Commercial and industrial	43,133	36,350	6,470	150	163
Multi-family residential	1,092	587	138	32	335
Single family non-owner occupied	2,262	1,914	19	185	144
Non-farm, non-residential	17,701	7,746	1,559	5,915	2,481
Agricultural	383	333	50		
Farmland	1,659	787	872		
Consumer real estate loans					
Home equity lines	114,633	9,122	15,295	15,998	74,218
Single family owner occupied	705	257	105	24	319
Owner occupied construction	8,595	4,953	2	525	3,115
Consumer and other loans					
Consumer loans	12,451	6,405	472	377	5,197
Other	357	141		216	
Total unused commitments	$ 215,770	$ 72,330	$ 27,078	$ 25,634	$ 90,728
Financial letters of credit	$ 290	$ 280	$	$	$ 10
Performance letters of credit	6,517	6,129	280	14	94
Total letters of credit	$ 6,807	$ 6,409	$ 280	$ 14	$ 104

(1) Lines of credit with no stated maturity date are included in commitments for less than one year.

Wealth Management Services

As part of our community banking services we offer trust management, estate administration, and investment advisory services through the Bank s wholly-owned subsidiary, First Community Wealth Management (FCWM), which reported assets under management of $876 million and $873 million at December 31, 2012 and 2011, respectively. These assets are not assets of our Company, but are managed under various fee-based arrangements as fiduciary or agent. FCWM manages inter vivos trusts and trusts under will, develops and administers employee benefit plans and individual retirement plans, and manages and settles estates. Fiduciary fees for these services are charged on a schedule related to the size, nature and complexity of the account. Revenues consist primarily of commissions on assets under management and investment advisory fees.

Insurance Services

We offer insurance services through our subsidiary, Greenpoint, which provides commercial and personal lines of insurance. Revenues are primarily derived from commissions paid by issuing companies on the sale of policies. Commission revenue was $5.74 million for 2012 compared to $6.20 million for 2011. The decrease in commission revenue reflects the sale of two agency offices during 2011 and soft economic conditions impacting policy and premium levels.

ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk.

The Company s profitability is dependent to a large extent upon its net interest income, which is the difference between its interest income on interest-earning assets, such as loans and securities, and its interest expense on

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interest-bearing liabilities, such as deposits and borrowings. The Company, like other financial institutions, is subject to interest rate risk to the degree that interest-earning assets reprice differently than interest-bearing liabilities. The Company manages its mix of assets and liabilities with the goals of limiting its exposure to interest rate risk, ensuring adequate liquidity, and coordinating its sources and uses of funds while maintaining an acceptable level of net interest income given the current interest rate environment.

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

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

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

The following table summarizes the impact of immediate and sustained rate shocks in the interest rate environment on net interest income. The model simulates plus 300 to minus 100 basis point changes from the base case rate simulation and illustrates the prospective effects of hypothetical interest rate changes over a twelve-month time period. This modeling technique, although useful, does not take into account all strategies that management might undertake in response to a sudden and sustained rate shock as depicted. Also, as market conditions vary from those assumed in the sensitivity analysis, actual results will also differ due to prepayment and refinancing levels likely deviating from those assumed, the varying impact of interest rate change caps or floors on adjustable rate assets, the potential effect of changing debt service levels on customers with adjustable rate loans, depositor early withdrawals and product preference changes, and other internal and external variables. As of September 30, 2012, the Federal Open Market Committee maintained a target range for federal funds of 0 to 25 basis points, rendering a complete downward shock of 200 basis points meaningless; accordingly,

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downward rate scenarios are limited to minus 100 basis points. In the downward rate shocks presented, benchmark interest rates are assumed at levels with floors near 0%.

(Amounts in thousands)	December 31, 2012		December 31, 2011	
Increase (Decrease) in Interest Rates (Basis Points)	**Change in Net Interest Income**	**Percent Change**	**Change in Net Interest Income**	**Percent Change**
300	$ 10,928	13.2	$ 8,881	13.0
200	7,455	9.0	6,124	9.0
100	3,606	4.4	3,355	4.9
(100)	(35)	(0.0)	(826)	(1.2)

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

Impact of Inflation and Changing Prices

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

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FIRST COMMUNITY BANCSHARES, INC.

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share and per share data)	December 31, 2012	2011
Assets		
Cash and due from banks	$ 50,405	$ 34,578
Federal funds sold	66,509	1,909
Interest-bearing balances with banks	27,933	10,807
Total cash and cash equivalents	144,847	47,294
Securities available-for-sale	534,358	482,430
Securities held-to-maturity	816	3,490
Loans held for sale	6,672	5,820
Loans held for investment, net of unearned income:		
Covered under loss share agreements	219,055	
Not covered under loss share agreements	1,505,598	1,396,067
Less allowance for loan losses	(25,770)	(26,205)
Loans held for investment, net	1,698,883	1,369,862
FDIC receivable under loss share agreements	48,073	
Property, plant, and equipment, net	64,868	54,721
Other real estate owned:		
Covered under loss share agreements	3,255	
Not covered under loss share agreements	5,749	5,914
Interest receivable	7,842	6,193
Goodwill	104,866	83,056
Other intangible assets	3,522	4,326
Other assets	105,116	101,683
Total assets	$ 2,728,867	$ 2,164,789
Liabilities		
Deposits:		
Noninterest-bearing	$ 343,352	$ 240,268
Interest-bearing	1,686,823	1,303,199
Total deposits	2,030,175	1,543,467
Interest, taxes, and other liabilities	28,816	20,452
Securities sold under agreements to repurchase	136,118	129,208
FHLB advances	161,558	150,000
Other borrowings	15,877	15,933
Total liabilities	2,372,544	1,859,060
Stockholders Equity		
Preferred stock, par value undesignated; 1,000,000 shares authorized; no shares issued or outstanding at December 31, 2012 or December 31, 2011		
Series A preferred stock, $0.01 par value; 25,000 shares authorized; 17,421 shares issued at December 31, 2012, and 18,921 shares issued at December 31, 2011	17,421	18,921
Common stock, $1 par value; 50,000,000 shares authorized; 20,343,327 shares issued and 20,053,406 shares outstanding at December 31, 2012; 18,082,822 shares issued and 17,849,376 shares outstanding at December	20,343	18,083

31, 2011		
Additional paid-in capital	213,829	188,118
Retained earnings	113,013	93,656
Treasury stock, at cost	(6,458)	(5,721)
Accumulated other comprehensive loss	(1,825)	(7,328)
Total stockholders equity	356,323	305,729
Total liabilities and stockholders equity	$ 2,728,867	$ 2,164,789

See Notes to Consolidated Financial Statements.

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FIRST COMMUNITY BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands, except share and per share data)	Years Ended December 31, 2012	2011	2010
Interest Income			
Interest and fees on loans held for investment	$ 96,684	$ 80,580	$ 84,741
Interest on securities taxable	7,830	8,117	12,704
Interest on securities nontaxable	4,883	5,194	5,943
Interest on deposits in banks	259	285	194
Total interest income	109,656	94,176	103,582
Interest Expense			
Interest on deposits	9,972	12,788	19,887
Interest on short-term borrowings	2,515	2,475	2,883
Interest on long-term debt	7,113	6,884	6,955
Total interest expense	19,600	22,147	29,725
Net interest income	90,056	72,029	73,857
Provision for loan losses	5,678	9,047	14,757
Net interest income after provision for loan losses	84,378	62,982	59,100
Noninterest Income			
Wealth management income	3,701	3,510	3,828
Service charges on deposit accounts	14,063	13,238	13,128
Other service charges and fees	6,462	5,722	5,074
Insurance commissions	5,743	6,197	6,727
Impairment losses on securities	(942)	(2,285)	(185)
Portion of losses recognized in other comprehensive income			
Net impairment losses recognized in earnings	(942)	(2,285)	(185)
Net gains on sale of securities	483	5,264	8,273
Other operating income	7,200	3,888	3,663
Total noninterest income	36,710	35,534	40,508
Noninterest Expense			
Salaries and employee benefits	38,667	34,126	34,528
Occupancy expense of bank premises	6,872	6,280	6,438
Furniture and equipment expense	4,145	3,490	3,713
Amortization of intangible assets	804	1,020	1,032
FDIC premiums and assessments	1,612	1,984	2,856
FHLB debt prepayment fees		471	
Merger related expenses	5,093		
Goodwill impairment		1,239	1,039
Other operating expense	21,190	20,305	20,337
Total noninterest expense	78,383	68,915	69,943

Income before income taxes	42,705	29,601	29,665
Income tax expense	14,128	9,573	7,818
Net income	28,577	20,028	21,847
Dividends on preferred stock	1,058	703	
Net income available to common shareholders	$ 27,519	$ 19,325	$ 21,847
Basic earnings per common share	$ 1.44	$ 1.08	$ 1.23
Diluted earnings per common share	$ 1.40	$ 1.07	$ 1.23
Cash dividends per common share	$ 0.43	$ 0.40	$ 0.40
Weighted average basic shares outstanding	19,127,065	17,877,421	17,802,009
Weighted average diluted shares outstanding	20,481,398	18,691,081	17,822,944

See Notes to Consolidated Financial Statements.

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FIRST COMMUNITY BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands, except share and per share data)	Years Ended December 31, 2012	2011	2010
Net income	$ 28,577	$ 20,028	$ 21,847
Other comprehensive income, before tax			
Available-for-sale securities:			
Unrealized gains (losses) on securities available-for-sale with other-than-temporary impairment	1,036	(1,247)	194
Unrealized gains on securities available-for-sale without other-than-temporary impairment	7,280	12,948	8,419
Less: reclassification adjustment for gains realized in net income	(483)	(5,264)	(8,273)
Less: reclassification adjustment for credit related other-than-temporary impairments recognized in net income	942	2,285	185
Unrealized gains on available-for-sale securities in OCI	8,775	8,722	525
Benefit plans:			
Net actuarial losses on pension and other postretirement benefit plans	(195)	(1,230)	(379)
Amortization of prior service cost, transition asset/obligation, and net actuarial losses included in net periodic benefit cost	268	223	106
Unrealized gains (losses) on benefit plans	73	(1,007)	(273)
Derivative securities:			
Unrealized gains on derivative securities		30	2,078
Other comprehensive income, before tax	8,848	7,745	2,330
Income tax expense related to items of other comprehensive income	(3,345)	(2,883)	(868)
Other comprehensive income, net of tax	5,503	4,862	1,462
Total comprehensive income	$ 34,080	$ 24,890	$ 23,309

See Notes to Consolidated Financial Statements.

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FIRST COMMUNITY BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)	Years Ended December 31, 2012	2011	2010
Operating activities			
Net income	$ 28,577	$ 20,028	$ 21,847
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	5,678	9,047	14,757
Depreciation and amortization of property, plant, and equipment	4,034	3,982	4,091
Accretion of discounts and amortization of premiums on investments	2,329	1,611	1,112
Accretion of FDIC receivable for loss share agreements	458		
Amortization of intangible assets	804	1,020	1,032
Goodwill impairment loss		1,239	1,039
Gain on sale of loans	(1,065)	(713)	(835)
Equity-based compensation expense	132	98	58
Gain (loss) on sale of property, plant, and equipment	82	(157)	66
Loss on sale of other real estate	1,869	2,367	1,928
Gain on sale of securities	(483)	(5,264)	(8,273)
Net impairment losses recognized in earnings	942	2,285	185
Losses on payments of FHLB debt prepayment fees		471	
Deferred income tax (benefit) expense	(896)	2,362	13,008
Excess tax benefit from share-based compensation	(6)	(5)	(9)
Proceeds from sale of mortgage loans	67,502	45,466	57,479
Origination of mortgage loans	(67,289)	(45,879)	(49,762)
Decrease in accrued interest receivable	2,356	1,482	935
Decrease (increase) in other operating activities	14,589	14,568	(581)
Net cash provided by operating activities	59,613	54,008	58,077
Investing activities			
Proceeds from sale of securities available-for-sale	155,600	192,847	170,540
Proceeds from maturities, prepayments, and calls of securities available-for-sale	105,830	49,193	90,633
Proceeds from maturities, prepayments, and calls of securities held-to-maturity	2,690	1,299	2,825
Payments to acquire securities available-for-sale	(245,344)	(234,818)	(248,101)
Collections (originations) of loans, net	75,091	(28,696)	(12,112)
Proceeds from the redemption of FHLB stock, net of purchases	2,101	1,417	1,459
Net cash acquired in acquisitions	152,283	835	(882)
Payments to acquire property, plant, and equipment	(8,008)	(3,065)	(3,743)
Proceeds from sale of property, plant, and equipment	1,151	598	163
Proceeds from sale of other real estate	8,106	6,200	5,025
Net cash provided by (used in) investing activities	249,500	(14,190)	5,807
Financing activities			
Net increase (decrease) in noninterest-bearing deposits	12,657	35,117	(3,093)
Net decrease in interest-bearing deposits	(175,132)	(112,605)	(21,912)
Repayments of securities sold under agreements to repurchase	(13,172)	(11,686)	(12,740)
Repayments of long-term debt	(25,769)	(25,260)	(8,208)
Proceeds from issuance of preferred stock		18,802	
Proceeds from stock options exercised	144	32	29
Payments for repurchase of treasury stock	(1,012)	(904)	
Payments for repurchase of warrants		(30)	
Payments of FHLB debt prepayment fees		(471)	
Excess tax benefit from share-based compensation	6	5	9
Payments of common dividends	(8,162)	(7,155)	(7,121)
Payments of preferred dividends	(1,120)	(558)	
Net cash used in financing activities	(211,560)	(104,713)	(53,036)

Net increase (decrease) in cash and cash equivalents	97,553	(64,895)	10,848
Cash and cash equivalents at beginning of year	47,294	112,189	101,341
Cash and cash equivalents at end of year	$ 144,847	$ 47,294	$ 112,189
Supplemental information noncash items			
Transfer of other real estate	$ 9,083	$ 9,722	$ 6,793
Loans originated to finance other real estate	$ 1,405	$ 151	$

See Note 1 for detail of income taxes and interest paid and Note 2 for detail of net cash acquired in acquisitions.

See Notes to Consolidated Financial Statements.

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FIRST COMMUNITY BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(Amounts in thousands, except share and per share data)	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance January 1, 2010	$	$ 18,083	$ 190,967	$ 66,760	$ (9,891)	$ (13,652)	$ 252,267
Net income				21,847			21,847
Other comprehensive income						1,462	1,462
Common dividends declared $0.40 per share				(7,121)			(7,121)
Equity-based compensation expense			33		25		58
Common stock options exercised 2,631 shares			(53)		82		29
Contribution of treasury stock to 401(k) plan 74,926 shares			(1,289)		2,333		1,044
Acquisition of Greenpoint Insurance Group 22,814 shares			(419)		711		292
Balance December 31, 2010	$	$ 18,083	$ 189,239	$ 81,486	$ (6,740)	$ (12,190)	$ 269,878
Net income	$	$	$	$ 20,028	$	$	$ 20,028
Other comprehensive income						4,862	4,862
Common dividends declared $0.40 per share				(7,155)			(7,155)
Preferred dividends declared $37.15 per share				(703)			(703)
Issuance of preferred stock 18,921 shares	18,921		(119)				18,802
Repurchase of common stock warrants			(30)				(30)
Equity-based compensation expense			68		30		98
Common stock options exercised 2,969 shares			(60)		92		32
Contribution of treasury stock to 401(k) plan 60,632 shares			(980)		1,801		821
Purchase of treasury shares 81,510 shares at $10.88 per share					(904)		(904)
Balance December 31, 2011	$ 18,921	$ 18,083	$ 188,118	$ 93,656	$ (5,721)	$ (7,328)	$ 305,729
Net income	$	$	$	$ 28,577	$	$	$ 28,577
Other comprehensive income						5,503	5,503
Common dividends declared $0.43 per share				(8,162)			(8,162)
Preferred dividends declared $60.00 per share				(1,058)			(1,058)
Preferred stock converted to common stock 103,500 shares	(1,500)	103	1,397				
Equity-based compensation expense			115		17		132
Common stock options exercised 5,223 shares			(114)		258		144
Purchase of treasury shares 67,438 shares at $15.00 per share					(1,012)		(1,012)
Acquisition of Peoples Bank of Virginia 2,157,005 shares		2,157	24,313				26,470
Balance December 31, 2012	$ 17,421	$ 20,343	$ 213,829	$ 113,013	$ (6,458)	$ (1,825)	$ 356,323

See Notes to Consolidated Financial Statements.

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The accounting and reporting policies of First Community Bancshares, Inc. and subsidiaries (First Community or the Company) conform to accounting principles generally accepted in the United States (U.S. GAAP) and to predominant practices within the banking industry. In preparing financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ from those estimates. Assets held in an agency or fiduciary capacity are not assets of the Company and are not included in the accompanying consolidated balance sheets.

Principles of Consolidation

The consolidated financial statements of First Community include the accounts of all wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The Company operates in one business segment, Community Banking. The Community Banking segment consists of all operations, including commercial and consumer banking, lending activities, wealth management, and insurance services. Prior to March 31, 2012, insurance services were reported as a separate operating segment. During the first quarter of 2012, management determined, in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 280-10-50, that the Insurance Services segment no longer met the quantitative requirements for disclosure due to the sale of certain agencies during the third quarter of 2011. The operations of the Insurance Services segment were reasonably similar to the Community Banking segment; therefore, the two segments have been aggregated for disclosure purposes in the condensed consolidated financial statements. Prior periods have been restated to reflect the Company s one operating segment, Community Banking.

Use of Estimates

In preparing consolidated financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Financial statement items requiring the significant use of estimates and assumptions include, but are not limited to, fair values of investment securities, fair value adjustment of acquired businesses and the establishment of the allowance for loan losses. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash and due from banks, time deposits with other banks, federal funds sold, and interest-bearing balances on deposit with the Federal Home Loan Bank (FHLB) that are available for immediate withdrawal. Interest and income taxes paid were as follows:

(Amounts in thousands)	2012	2011	2010
Interest	$ 19,656	$ 22,857	$ 30,609
Income Taxes	10,388	8,500	5,300

Pursuant to agreements with the Federal Reserve Bank of Richmond (FRB), the Company maintains a cash balance of $250 thousand in lieu of charges for check clearing and other services.

Investment Securities

Securities to be held for indefinite periods of time, including securities that management intends to use as part of its asset/liability management strategy and that may be sold in response to changes in interest rates, changes in

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

prepayment risk, or other similar factors, are classified as available-for-sale and are recorded at estimated fair value. Unrealized appreciation or depreciation in fair value above or below amortized cost is included in stockholders equity, net of income taxes, under the category of accumulated other comprehensive loss. Premiums and discounts are amortized or accreted to income over the life of the security. Gain or loss on sale is based on the specific identification method.

Investments in debt securities that management has determined it does not intend to sell and has asserted that it is not more likely than not that it will have to sell, are deemed to be held to maturity, and are carried at amortized cost. Premiums and discounts are amortized to expense and accreted to income over the lives of the securities. Gain or loss on the call or maturity of investment securities, if any, is recorded based on the specific identification method.

The Company performs an extensive review of the investment securities portfolio quarterly to determine the cause of declines in the fair value of each security within each segment of the portfolio. The Company uses inputs provided by an independent third party to determine the fair values of its investment securities portfolio. Inputs provided by the third party are reviewed by management. Evaluations of the causes of the unrealized losses are performed to determine whether the impairment is temporary or other-than-temporary in nature. Considerations such as whether the Company determines it has the intent to sell the security or whether it is more likely than not it will be required to sell the security, recoverability of the invested amounts over the Company s intended holding period, severity in pricing decline and receipt of amounts contractually due, for example, are applied in determining whether a security is other-than-temporarily impaired. If a decline in value is determined to be other-than-temporary, the value of the security is reduced and a corresponding charge to earnings is recognized. In the instance of a debt security which is determined to be other-than-temporarily impaired, the Company determines the amount of the impairment due to credit and the amount due to other factors. The amount of impairment related to credit is recognized in the Consolidated Statements of Income and the remainder of the impairment is recognized in other comprehensive income.

Loans Held for Sale

Loans held for sale primarily consist of one-to-four family residential loans originated for sale in the secondary market and are carried at the lower of cost or estimated fair value determined on an aggregate basis. The long-term, fixed rate loans are sold to investors on a best efforts basis such that the Company does not absorb the interest rate risk involved in the loans. The fair value of loans held for sale is determined by reference to quoted prices for loans with similar coupon rates and terms.

The Company enters into interest rate lock commitments (IRLCs) with customers on mortgage loans with the intent to sell the loans in the secondary market. The derivatives arising from the IRLCs are recorded at fair value in other assets and liabilities and changes in that fair value are included in other income. The fair value of the IRLC derivatives are determined by reference to quoted prices for loans with similar coupon rates and terms. Gains and losses on the sale of those loans are included in other income.

Loans Held for Investment

Loans held for investment are carried at the principal amount outstanding less any write-downs which may be necessary to reduce individual loans to net realizable value. Individually significant loans are evaluated for impairment when evidence of impairment exists. Impairment allowances are recorded through specific additions to the allowance for loan losses. Loans are considered past due when principal or interest becomes contractually delinquent by 30 days or more. Consumer loans are charged off against the allowance for loan losses when the loan becomes 120 days past due (180 days if secured by residential real estate). All other loans are charged off

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

against the allowance for loan losses after collection attempts have been exhausted, which generally is within 120 days. Recoveries of loans charged off are credited to the allowance for loan losses in the period received.

Business Combinations and Acquired Loans

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

Acquired credit impaired loans are accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality, found in FASB ASC Topic 310-30, Receivables Loans and Debt Securities Acquired with Deteriorated Credit Quality, formerly American Institute of Certified Public Accountants Statement of Position 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer, and initially measured at fair value, which includes estimated future credit losses expected to be incurred over the life of the loans. Loans exhibit evidence of credit deterioration when it is probable at the date of acquisition that the Company will not collect all contractually required principal and interest payments. Evidence of credit quality deterioration, as of the purchase date, may include measures such as nonaccrual status, credit scores, declines in collateral value, current loan to value percentages, and days past due. The Company considers expected prepayments and estimates the amount and timing of expected principal, interest, and other cash flows for each loan or pool of loans meeting the criteria above, and determines the excess of the loan s scheduled contractual principal and contractual interest payments over all cash flows expected at acquisition as an amount that should not be accreted (nonaccretable difference). The remaining amount, representing the excess of the loan s or pool s cash flows expected to be collected over the amount deemed paid for the loan or pool of loans, is accreted into interest income over the remaining life of the loan or pool (accretable yield). The Company records a discount on these loans at acquisition to record them at their realizable cash flows. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the nonaccretable difference which is included in the carrying amount of the loans. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses. Subsequent increases in cash flows result in a reversal of the provision for loan losses to the extent of prior charges, or a reversal of the nonaccretable difference with a positive impact on interest income prospectively. Further, any excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized in interest income over the remaining life of the loan when there is a reasonable expectation about the amount and timing of such cash flows.

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

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Federal Deposit Insurance Corporation Indemnification Asset

The Federal Deposit Insurance Corporation (the FDIC) indemnification asset is measured separately from the related covered asset as it is not contractually embedded in the assets and is not transferable should the assets be sold. Acquisition date fair value was estimated using projected cash flows related to the loss share agreements based on the expected reimbursements for losses using the applicable loss share percentages and the estimated true-up payment at the expiration of the loss share agreements, if applicable. These cash flows were discounted to reflect the estimated timing of the receipt of the loss share reimbursements from the FDIC and any applicable true-up payment owed to the FDIC for transactions that include claw-back provisions. Discount rates were determined based on the market rate for a similar term security at the time of the acquisition adjusted for additional risk premiums.

The FDIC receivable is reviewed and updated prospectively as loss estimates related to covered loans and other real estate owned (OREO) change, and as reimbursements are received or expected to be received from the FDIC. Post-acquisition adjustments to the FDIC receivable resulting from improvements or deterioration in estimated cash flows are charged or credited to noninterest income prospectively. Adjustments to the FDIC receivable resulting from post-acquisition changes in estimated cash flows are based on the reimbursement provision of the applicable loss share agreement with the FDIC. The loss share agreements establish reimbursement rates for losses incurred within certain tranches. Post-acquisition adjustments represent the net change in loss estimates related to covered loans and OREO as a result of changes in expected cash flows and the allowance for loan losses related to covered loans. For loans covered by loss share agreements, subsequent decreases in the amount expected to be collected from the borrower or collateral liquidation result in a provision for loan losses, an increase in the allowance for loan losses, and a proportional adjustment to the receivable from the FDIC for the estimated amount to be reimbursed. Subsequent increases in the amount expected to be collected from the borrower or collateral liquidation result in the reversal of any previously recorded provision for loan losses and related allowance for loan losses and related adjustments to the receivable from the FDIC, or prospective adjustment to the accretable yield and the related receivable from the FDIC if no provision for loan losses had been recorded previously. Collection and other servicing costs related to loans covered under FDIC loss share agreements are charged to noninterest expense as incurred. A receivable from the FDIC is then recorded for the estimated amount of such expenses that are expected to be reimbursed and results in a decrease to noninterest expense. The estimated amount of such reimbursements is determined by several factors including the existence of loan participation agreements with other financial institutions, the presence of partial guarantees from the Small Business Administration and whether a reimbursable loss has been recorded on the loan for which collection and servicing costs have been incurred. Future adjustments to the receivable from the FDIC may be necessary as additional information becomes available related to the amount of previously recorded collection and servicing costs that will actually be reimbursed by the FDIC and the probable timing of such reimbursements.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level management deems sufficient to absorb probable losses inherent in the portfolio, and is based on management s evaluation of the risks in the loan portfolio and changes in the nature and volume of loan activity. The Company consistently applies a review process to periodically evaluate loans for changes in credit risk. This process serves as the primary means by which the Company evaluates the adequacy of the allowance for loan losses.

The Company determines the allowance for loan losses by making specific allocations to impaired loans that exhibit inherent weaknesses and various credit risk and general allocations to commercial loans, consumer residential real estate, and consumer loans by giving weight to risk ratings, historical loss trends and

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

management s judgment concerning those trends, and other relevant factors. The general allocations are determined through a methodology that utilizes a rolling five year average loss history that is adjusted for current qualitative or environmental factors that management deems likely to cause estimated credit losses as of the evaluation date to differ from the historical loss experience. The foregoing analysis is performed by management to evaluate the portfolio and calculate an estimated valuation allowance through a quantitative and qualitative analysis that applies risk factors to those identified risk areas.

This risk management evaluation is applied at both the portfolio level for non-impaired loans and the individual loan level for impaired commercial loans while the level of consumer and residential mortgage loan allowance is determined primarily on a total portfolio level based on a review of historical loss percentages and other qualitative factors including concentrations, industry specific factors and economic conditions. The commercial portfolio requires more specific analysis of individually significant loans and the borrower s underlying cash flow, business conditions, capacity for debt repayment and the valuation of secondary sources of payment, such as collateral. This analysis may result in specifically identified weaknesses and corresponding specific impairment allowances. While allocations are made to specific loans and classifications within the various categories of loans, the allowance for loan losses is available for all loan losses.

Although management uses available information to estimate losses on loans, because of uncertainties associated with local, regional, and national economic conditions, collateral values, and future cash flows on impaired loans, and subjection of the allowance model to the review of regulatory authorities, it is reasonably possible that a material change could occur in the allowance for loan losses in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Long-term Investments

Certain long-term equity investments representing less than 20% ownership are accounted for under the cost method, are carried at cost, and are included in other assets. At December 31, 2012 and 2011, these equity investments totaled $1.63 million and $574 thousand, respectively. These investments in operating companies represent required long-term investments in insurance, investment, and service company affiliates or consortiums which serve as vehicles for the delivery of various support services. In accordance with the cost method, dividends received are recorded as current period revenues and there is no recognition of the Company s proportionate share of net operating income or loss. The Company has determined that fair value measurement is not practical, and further, nothing has come to the attention of the Company that would indicate impairment of any of these investments.

As a condition to membership in the Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) systems, the Company is required to subscribe to a minimum level of stock in the FHLB of Atlanta (FHLBA) and FRB of Richmond (FRB Richmond). The Company feels the FHLBA ownership position provides access to relatively inexpensive wholesale and overnight funding. FHLBA and FRB Richmond stock are reported as long-term investments in Other assets on the Company s Consolidated Balance Sheets. At December 31, 2012 and 2011, the Company owned $11.30 million and $10.82 million, respectively, of FHLBA stock. The Company s policy is to review the stock for impairment at each reporting period. During the years ended December 31, 2012 and 2011, the FHLBA paid quarterly dividends and repurchased excess activity-based stock. Based on the Company s review and publicly available information concerning the FHLBA, it believes that as of December 31, 2012, its FHLBA stock was not impaired. At December 31, 2012 and 2011, the Company owned $5.57 and $4.78 million, respectively, of FRB Richmond stock.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation and amortization are computed on the straight-line method over estimated useful lives. Useful lives range from 5 to 10 years for furniture, fixtures, and equipment; three to five years for software, hardware, and data handling equipment; and 10 to 40 years for buildings and building improvements. Land improvements are amortized over a period of 20 years, and leasehold improvements are amortized over the lesser of the useful life or the term of the lease plus the first optional renewal period, when renewal is reasonably assured. Maintenance and repairs are charged to current operations while improvements that extend the economic useful life of the underlying asset are capitalized. Disposition gains and losses are reflected in current operations.

The Company leases various properties within its branch network. Leases generally have initial terms of up to 20 years and most contain options to renew with reasonable increases in rent. All leases are accounted for as operating leases.

Other Real Estate Owned

Other real estate owned and acquired through foreclosure is stated at the lower of cost or fair value less estimated costs to sell. Loan losses arising from the acquisition of such properties are charged against the allowance for loan losses. Expenses incurred in connection with operating the properties, subsequent write-downs and gains or losses upon sale are included in other noninterest expense.

Goodwill and Other Intangible Assets

The excess of the cost of an acquired company over the fair value of the net assets and identified intangibles acquired is recorded as goodwill. The net carrying amount of goodwill was $104.87 million and $83.06 million at December 31, 2012 and 2011, respectively. A portion of the purchase price in certain transactions has been allocated to values associated with the future earnings potential of acquired deposits and is amortized over the estimated lives of the deposits that range from one to six years while the weighted average remaining life of these core deposits is 5.0 years. As of December 31, 2012 and 2011, the balance of core deposit intangibles was $1.70 million and $2.20 million, respectively, net of corresponding accumulated amortization of $6.24 million and $5.74 million, respectively. As of December 31, 2012 and 2011, the balance of all intangibles was $3.52 million and $4.33 million, respectively, net of corresponding accumulated amortization of $8.59 million and $7.41 million, respectively. The annual amortization expense for all intangible assets for 2013 and the succeeding four years is $728 thousand, $706 thousand, $706 thousand, $600 thousand, and $327 thousand, respectively. The acquisitions of Peoples and Waccamaw resulted in the addition of $10.21 million and $10.90 million, respectively, in goodwill for the period ended December 31, 2012.

Goodwill is tested annually in the fourth quarter for possible impairment by comparing the fair value of each reporting unit to its book value, including goodwill (step 1). If the fair value of the reporting unit is greater than its book value, no goodwill impairment exists. However, if the book value of the reporting unit is greater than its determined fair value, goodwill impairment may exist and further testing is required to determine the amount, if any, of the actual impairment loss (step 2). The step 1 test utilizes a combination of two methods to determine the fair value of the reporting units. The Company maintains two reporting units, Community Banking and Insurance Services. For both reporting units, a discounted cash flow model is created projecting cash flows from operations of the business reporting unit, the results of which are weighted 70%. For the Community Banking reporting unit a market multiple model utilizes price to net income and price to tangible book value inputs for closed transactions and for certain common sized institutions and the results are weighted 30%. For the Insurance Services reporting unit the market multiple model primarily utilizes price to sales for closed transactions and

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

certain similar industry public companies and the results are weighted 30%. The end results for both reporting units are then compared to the respective book values to consider if impairment is evident. To determine the overall reasonableness of the reporting unit computations, the combined computed fair value is then compared to the overall market capitalization of the consolidated Company to determine the level of implied control premium. The analysis performed for 2012 indicated no impairment at either reporting unit while the analysis performed for 2011 indicated an impairment of goodwill at the Insurance Services reporting unit of $1.24 million.

The progression of the Company s goodwill and intangible assets for continuing operations for the three years ended December 31, 2012, is detailed in the following table:

(Amounts in thousands)	Goodwill	Other Intangible Assets
Balance at December 31, 2009	$ 84,648	$ 6,413
Acquisitions and dispositions, net	1,305	344
Amortization		(1,032)
Impairment	(1,039)	
Balance at December 31, 2010	$ 84,914	$ 5,725
Acquisitions and dispositions, net	(619)	(379)
Amortization		(1,020)
Impairment	(1,239)	
Balance at December 31, 2011	$ 83,056	$ 4,326
Acquisitions and dispositions, net	21,810	
Amortization		(804)
Balance at December 31, 2012	$ 104,866	$ 3,522

Other Assets

In addition to FHLB stock and FRB stock, other assets included $46.24 million and $44.39 million in the cash surrender value of life insurance policies owned by the Company at December 31, 2012 and 2011, respectively, and $23.79 million and $18.88 million in net deferred tax assets at December 31, 2012 and 2011, respectively.

In connection with bank-owned life insurance, the Company entered into Life Insurance Endorsement Method Split Dollar Agreements with certain of the individuals whose lives are insured. Under these agreements, the Company shares 80% of the death benefits (after recovery of cash surrender value) with the designated beneficiaries of the plan participants under life insurance contracts. The Company, as owner of the policies, retains a 20% interest in life proceeds in excess of its 100% interest in the cash surrender value of the policies. Split dollar agreements totaled $873 thousand at December 31, 2012 and 2011. Expenses associated with split dollar agreements totaled $77 thousand for the year ended 2012. The Company recorded income of $316 thousand on split dollar agreements for the year ended 2011 as a result of revised projections that indicated lower expenses than previously accrued. Expenses associated with split dollar agreements totaled $72 thousand for the year ended 2010.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are generally accounted for as collateralized financing transactions. Securities, generally U.S. government and federal agency securities, pledged as collateral under these arrangements cannot be sold or repledged by the secured party. The fair value of the collateral provided to a third party is continually monitored, and additional collateral is provided as appropriate.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Loan Interest Income Recognition

Accrual of interest on loans is generally based on the daily amount of principal outstanding. Loans are considered past due when either principal or interest payments are delinquent by 30 or more days. It is the Company s policy to discontinue the accrual of interest, if warranted, on loans based on the payment status and evaluation of the related collateral and the financial strength of the borrower. The accrual of interest income is normally discontinued when a loan becomes 90 days past due as to principal or interest. Management may elect to continue the accrual of interest when the loan is well secured and in process of collection. When interest accruals are discontinued, interest accrued and not collected in the current year is reversed from income and interest accrued and not collected from prior years is charged to the allowance for loan losses. Interest income realized on impaired loans is recognized upon receipt if the impaired loan is on a non-accrual basis. Accrual of interest on non-accrual loans may be resumed if the loan is brought current and follows a period of sustained performance, including six months of regular principal and interest payments. Accrual of interest on impaired loans is generally continued unless the loan becomes delinquent 90 days or more.

Loan Fee Income

Loan origination and underwriting fees are reduced by direct costs associated with loan processing, including salaries, review of legal documents and obtainment of appraisals. Net origination fees and costs are deferred and amortized over the life of the related loan. Loan commitment fees are deferred and amortized over the related commitment period. Net deferred loan fees were $2.36 million and $1.69 million at December 31, 2012 and 2011, respectively

Advertising Expenses

Advertising costs are generally expensed as incurred. Amounts recognized for the three years ended December 31, 2012, are detailed in Note 16 Other Operating Income and Expense of the Notes to Consolidated Financial Statements in Item 8 herein.

Equity-Based Compensation

The cost of employee services received in exchange for equity instruments including options and restricted stock awards generally are measured at fair value at the grant date. The effect of option shares on earnings per share relates to the dilutive effect of the underlying options outstanding. To the extent the granted exercise share price is less than the current market price, or in the money, there is an economic incentive for the options to be exercised and an increase in the dilutive effect on earnings per share.

Income Taxes

Income tax expense is comprised of federal and state current and deferred income taxes on pre-tax earnings of the Company. Income taxes as a percentage of pre-tax income may vary significantly from statutory rates due to items of income and expense which are excluded, by law, from the calculation of taxable income. These items are commonly referred to as permanent differences. The most significant permanent differences for the Company include income on municipal securities which are exempt from federal income tax, income on bank-owned life insurance, and tax credits generated by investments in low income housing and rehabilitation of historic structures.

The Company includes interest and penalties related to income tax liabilities in income tax expense. The Company and its subsidiaries tax filings for the years ended December 31, 2008 through 2011 are currently open to audit under statutes of limitation by the Internal Revenue Service and various state tax departments.

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Earnings per Common Share

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

(Amounts in thousands, except share and per share data)	2012	2011	2010
Net income	$ 28,577	$ 20,028	$ 21,847
Dividends on preferred stock	1,058	703	
Net income available to common shareholders	$ 27,519	$ 19,325	$ 21,847
Weighted average common shares outstanding, basic	19,127,065	17,877,421	17,802,009
Diluted shares for stock options	68,485	5,293	12,463
Contingently issuable shares			8,472
Convertible preferred shares	1,285,848	808,367	
Weighted average common shares outstanding, diluted	20,481,398	18,691,081	17,822,944
Basic earnings per common share	$ 1.44	$ 1.08	$ 1.23
Diluted earnings per common share	$ 1.40	$ 1.07	$ 1.23

The Company s Series A Noncumulative Convertible Preferred Stock (Series A Preferred Stock) carries a 6% dividend rate. Each share is convertible into 69 shares of the Company s Common Stock (Common Stock) at any time and mandatorily converts after five years. The Company may redeem the shares at face value after May 20, 2014. There were 17,421 shares of Series A Preferred Stock outstanding at December 31, 2012, and 18,921 shares outstanding at December 30, 2011.

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

	2012	2011	2010
Options	425,709	395,633	395,285
Warrants			88,273

Variable Interest Entities

The Company maintains ownership positions in various entities which it deems variable interest entities (VIE s). These VIE s include certain tax credit limited partnerships and other limited liability companies which provide aviation services, insurance brokerage, title insurance, and other financial and related services. Based on the Company s analysis, it is a non-primary beneficiary; accordingly, these entities do not meet the

criteria for consolidation. The carrying value of VIE s was $3.04 million and $1.70 million at December 31, 2012

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

and 2011, respectively. The Company s maximum possible loss exposure was $3.04 million and $1.70 million at December 31, 2012 and 2011, respectively. Management does not believe net losses, if any, resulting from its ownership in these entities will be material.

Derivative Instruments

The Company enters into derivative transactions principally 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. In addition, certain contracts and commitments are defined as derivatives under generally accepted accounting principles.

All derivative instruments are carried at fair value on the balance sheet. Special hedge accounting provisions are provided, which permit the change in the fair value of the hedged item related to the risk being hedged to be recognized in earnings in the same period and in the same income statement line as the change in the fair value of the derivative.

Derivative instruments designated in a hedge relationship to mitigate exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivative instruments designated in a hedge relationship to mitigate exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking each hedged transaction.

Reclassifications

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

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

Accounting Standards Updates

In February 2013, the FASB issued Accounting Standard Update (ASU) 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income. An entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

period. For other amounts not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about these amounts. This update is effective prospectively for interim and annual periods beginning on or after December 15, 2012. The Company is evaluating the impact the guidance is expected to have on the Company s financial statements.

In October 2012, the FASB issued ASU 2012-06, Business Combinations (Topic 805) Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution (a consensus of the FASB Emerging Issues Task Force), to address the diversity in practice about how to subsequently measure an indemnification asset recognized as a result of a government-assisted acquisition of a financial institution. The amendments in ASU 2012-06 require a reporting entity to subsequently account for a change in the measurement of the indemnification asset on the same basis as the change in the assets subject to indemnification. ASU 2012-06 further requires that any amortization of changes in value be limited to the lesser of the term of the indemnification agreement and the remaining life of the indemnified assets. The amendments in ASU 2012-06 are effective prospectively for fiscal years beginning on or after December 15, 2012, and early adoption is permitted. The Company is evaluating the impact the guidance is expected to have on the Company s financial statements.

In September 2011, FASB issued ASU 2011-08, Testing Goodwill for Impairment, which simplifies how an entity tests goodwill for impairment. The guidance permits an entity to first assess qualitative factors to determine whether it is necessary to perform additional impairment testing. The Company adopted the provisions of the guidance during the first quarter of 2012. The adoption of the guidance had no impact on the Company s financial statements in 2012; however, the Company may consider the qualitative factors in future periods.

In June 2011, FASB issued ASU 2011-05, Presentation of Comprehensive Income, which revises the manner in which entities present comprehensive income in their financial statements. The new guidance removed the presentation options in ASC 220 and requires entities to report components of comprehensive income in either a continuous statement of comprehensive income or two separate, but consecutive, statements. The guidance does not change the items that must be reported in other comprehensive income (OCI). The Company adopted the provisions of the guidance during the first quarter of 2012 to present two separate, but consecutive, statements. The adoption of the guidance resulted in the inclusion of a separate statement, Consolidated Statements of Comprehensive Income, immediately proceeding the Consolidated Statements of Income as presented above.

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in the U.S. GAAP and IFRS, which provides largely identical guidance about fair value measurement and disclosure requirements for International Financial Reporting Standards (IFRS) and GAAP. The new standards do not extend the use of fair value but rather provide guidance about how fair value should be determined where it already is required or permitted under IFRS or GAAP. For GAAP, most of the changes are clarifications of existing guidance or wording changes to align with IFRS. The Company adopted the provisions of the guidance during the first quarter of 2012. The adoption of the guidance had no significant impact on the Company s financial statements other than increased disclosure. See Note 17 Fair Value herein for additional disclosures.

In April 2011, FASB issued ASU 2011-03, Reconsideration of Effective Control for Repurchase Agreements, which simplifies the accounting for financial assets transferred under repurchase agreements and similar arrangements by eliminating the transferor s ability criteria from the assessment of effective control over those assets, as well as the related implementation guidance. The Company adopted the provisions of the guidance during the first quarter of 2012. The adoption of the guidance had no impact on the Company s financial statements.

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2. Business Combinations and Branching Activity

The Company accounts for business combinations under FASB ASC Topic 805, Business Combinations, which requires the use of the acquisition method of accounting. In accordance with the acquisition method of accounting, all identifiable assets acquired, including loans, are recorded at fair value. Fair values are subject to refinement for up to one year after the closing date of the acquisition as additional information regarding the closing date fair values becomes available. In accordance with FASB ASC Topic 310-30, the Company aggregated purchase credit impaired loans that have common risk characteristics into pools within the following loan categories: construction and development, commercial and industrial, commercial real estate, consumer, home equity lines of credit, residential real estate st lien, residential real estate nd lien, and lines of credit.

Peoples Bank of Virginia

On May 31, 2012, the Company completed the acquisition of Peoples Bank of Virginia (Peoples), a commercial bank headquartered in Richmond, Virginia. At acquisition, Peoples had total assets of $275.76 million, total loans of $184.84 million, total deposits of $232.75 million, and common equity of $42.27 million. The transaction was accounted for under the purchase method of accounting and accordingly, assets acquired, liabilities assumed, and consideration exchanged were recorded at estimated fair value on the acquisition date. The acquisition expands the Company s existing presence in the Richmond, Virginia market by four branches and affords the opportunity to realize certain operating cost savings.

Peoples shareholders received $6.08 in cash and 1.07 shares of Common Stock for each share of Peoples common stock resulting in a purchase price of approximately $40.28 million, which includes Common Stock valued at $26.47 million and total cash consideration of $12.26 million. In connection with the transaction, the Company issued 2,157,005 shares of Common Stock with an estimated fair value of $12.27 per share. The preliminary purchase price has been allocated to the identifiable tangible and intangible assets resulting in an addition to goodwill of $10.21 million. Because the consideration paid was greater than the net fair value of the assets acquired and liabilities assumed, the Company recorded goodwill as part of the acquisition. The Company does not expect any goodwill recorded in connection with the acquisition to be deductible for tax purposes.

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

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(Amounts in thousands, except share data)	
Consideration	
Cash consideration	$ 12,259
Common stock 2,157,005 shares	26,469
Cash in lieu of fractional shares	2
Stock option consideration	1,547
Fair value of consideration paid	$ 40,277
Identifiable assets	
Cash and cash equivalents	$ 81,834
Securities	2,917
Loans	166,471
Property, plant, and equipment	3,432
Other assets	10,295
Identifiable assets	$ 264,949
Identifiable liabilities	
Total deposits	234,146
Other liabilities	741
Identifiable liabilities	234,887
Identifiable net assets acquired	30,062
Goodwill recorded for acquisition	$ 10,215

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

	May 31, 2012		
	Purchased Performing	**Purchased Impaired**	**Total**
(Amounts in thousands)			
Commercial loans			
Construction, development, and other land	$ 9,641	$ 9,426	$ 19,067
Commercial and industrial	17,583	2,418	20,001
Multi-family residential	2,111	3,152	5,263
Non-farm, non-residential	75,399	12,193	87,592
Total commercial loans	104,734	27,189	131,923
Consumer real estate loans			

Home equity lines	7,637	336	7,973
Single family owner occupied	18,767	5,078	23,845
Total consumer real estate loans	26,404	5,414	31,818
Consumer and other loans			
Consumer loans	2,730		2,730
Loans acquired at fair value	$ 133,868	$ 32,603	$ 166,471

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

The Company s operating results for the year ended December 31, 2012, include the impact of the Peoples acquisition since May 31, 2012. The following table presents proforma information as if the acquisition had occurred on January 1, 2011. Proforma adjustments totaling $1.32 million included $1.49 million related to loan interest income, $547 thousand related to the reduction of time deposit interest expense, and $713 thousand related to income tax expense. The information presented does not necessarily reflect the results of operation that would have occurred had the acquisition been completed at the beginning of each fiscal period, nor does it indicate future consolidated results. The Company incurred merger related expenses related to the Peoples acquisition of $3.33 million during the year ended December 31, 2012.

(Amounts in thousands)	Actual Since Acquisition through December 31, 2012	Proforma Year Ended December 31, 2012	2011
Total revenues	$ 6,906	$ 151,201	$ 144,170
Net income	2,635	28,263	22,743

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Waccamaw Bank

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

Pursuant to the Agreement, the Bank received a discount of $15.0 million on the assets acquired and did not pay the FDIC a premium to assume all customer deposits. Most of the loans and foreclosed real estate purchased are covered by loss share agreements between the FDIC and the Bank. Under the loss share agreements, the FDIC will cover 80% of loan and foreclosed real estate losses and certain collection costs. Gains and recoveries on covered assets will offset losses, or be paid to the FDIC, at the applicable loss share percentage at the time of recovery. The loss share agreement applicable to single family assets, including loans and OREO, provides for FDIC loss sharing and Bank reimbursement to the FDIC for ten years. The loss share agreement applicable to commercial assets, including loans and OREO, provides for FDIC loss sharing for five years and Bank reimbursement of recoveries to the FDIC for eight years. As of the date of acquisition, we calculated the amount of such reimbursements that we expect to receive from the FDIC using the present value of anticipated cash flows from the loss share agreements based on the adjustments estimated for each pool of loans and the estimated losses on foreclosed assets. In accordance with FASB ASC Topic 805, the FDIC indemnification asset was initially recorded at its fair value, and is measured separately from the loan assets and foreclosed assets because the loss share agreements are not contractually embedded in them or transferable with them in the event of disposal. The balance of the FDIC indemnification asset increases and decreases as the expected and actual cash flows from the covered assets fluctuate, as loans are paid off or impaired and as loans and foreclosed assets are sold. There are no contractual interest rates on this contractual receivable from the FDIC; however, a discount was recorded against the initial balance of the FDIC indemnification asset in conjunction with the fair value measurement as this receivable will be collected over the term of the loss share agreements. This discount will be accreted to non-interest income over future periods.

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

Goodwill of $10.90 million was recorded as part of the acquisition of Waccamaw. The amount of the goodwill was equal to the amount by which the fair value of liabilities assumed exceeded the fair value of assets acquired, and resulted from the discount bid on the assets acquired and the impact of the FDIC loss share agreements. The Company incurred merger related expenses related to the Waccamaw acquisition of $1.76 million during the year ended December 31, 2012.

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(Amounts in thousands)	Balances Acquired from FDIC	Fair Value and Purchase Adjustments	Recorded Investment
Assets			
Cash and due from banks [1]	$ 44,809	$	$ 44,809
Interest-bearing deposits in banks	40,140		40,140
Total cash and cash equivalents	84,949		84,949
Securities available-for-sale	60,002		60,002
Loans held for investment, net of unearned income	318,348	(65,498)	252,850
FDIC receivable under loss share agreements		49,755	49,755
Property, plant, and equipment, net	4,102		4,102
Other real estate owned	9,347	(3,959)	5,388
Interest receivable	1,363		1,363
Other assets	5,264	(194)	5,070
Total assets	$ 483,375	$ (19,896)	$ 463,479
Liabilities			
Deposits:			
Noninterest-bearing	$ 47,892	$	$ 47,892
Interest-bearing	366,233	912	367,145
Total deposits	414,125	912	415,037
Securities sold under agreements to repurchase	17,042	3,040	20,082
FHLB advances	35,000	2,271	37,271
Other borrowings	345	1,646	1,991
Total Liabilities	$ 466,512	$ 7,869	$ 474,381
Net assets acquired over (under) liabilities assumed	$ 16,863	$ (27,765)	$ (10,902)
Excess of net assets acquired over liabilities assumed	$ 16,863		
Aggregate fair value and purchase adjustments		$ (27,765)	
Goodwill on acquisition			$ 10,902

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

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(Amounts in thousands)	June 8, 2012 Purchased Performing	June 8, 2012 Purchased Impaired	Total
Commercial loans			
Construction, development, and other land	$ 19,690	$ 7,314	$ 27,004
Commercial and industrial	9,027	1,817	10,844
Multi-family residential	2,462	926	3,388
Non-farm, non-residential	45,768	24,440	70,208
Agricultural	321	2	323
Farmland	1,522	1,045	2,567
Total commercial loans	78,790	35,544	114,334
Consumer real estate loans			
Home equity lines	21,439	68,081	89,520
Single family owner occupied	25,509	13,026	38,535
Total consumer real estate loans	46,948	81,107	128,055
Consumer and other loans			
Consumer loans	9,540	921	10,461
Loans acquired at fair value	$ 135,278	$ 117,572	$ 252,850

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

(Amounts in thousands)	June 8, 2012
Contractually required principal payments receivable	$ 151,883
Fair value of adjustment for credit, interest rate, and liquidity	(16,605)
Fair value of performing loans receivable	$ 135,278

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

(Amounts in thousands)	June 8, 2012
Contractually required payments receivable	$ 211,042
Nonaccretable difference	(66,989)

Cash flows expected to be collected	144,053
Accretable difference	(26,481)
Fair value of acquired impaired loans	$ 117,572

Greenpoint

Greenpoint has acquired seven insurance agencies and sold three since its acquisition by the Company in 2007. During 2012, Greenpoint did not acquire or sell any insurance agencies; however, $366 thousand was received from earn-out payments related to agency sales in 2011. During 2011, Greenpoint received aggregate cash of

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

$1.58 million from the sale of two insurance agencies. During 2010, Greenpoint paid aggregate cash consideration of $190 thousand in connection with the acquisition of one insurance agency. For acquisitions that occurred prior to 2009, terms call for issuing further cash consideration of $1.31 million if certain operating targets are met. If those targets are met, the value of the consideration ultimately paid will be added to the costs of the acquisitions. Acquisitions that occurred prior to 2012 added $692 thousand, $680 thousand, and $1.17 million of goodwill and intangibles to the Company s balance sheet in 2012, 2011, and 2010, respectively. As of December 31, 2012, the acquisition of Greenpoint, and subsequent agency acquisitions and sales, have added $9.82 million of goodwill and intangibles to the Company s balance sheet, net of corresponding amortization of $1.96 million.

Net Cash Paid (Received) for Acquisitions

The following table summarizes the net cash provided by or used in acquisitions and divestitures during the three years ended December 31, 2012. Net cash paid (received) for acquisitions include transactions that occurred during the current and prior years.

(Amounts in thousands)	2012	2011	2010
Fair value of investments acquired	$ 62,919	$	$
Fair value of loans acquired	419,320		
Fair value of premises and equipment acquired	7,535		
Fair value of other assets	255,924		
Fair value of deposits assumed	(649,184)		
Fair value of other liabilities assumed	(60,085)		
Purchase price in excess of net assets acquired	21,810	680	1,650
Total purchase price	58,239	680	1,650
Less non-cash purchase price	26,469		768
Less cash acquired	184,053		
Net cash (received) paid for acquisition	$ (152,283)	$ 680	$ 882
Book value of assets sold	$	$ (1,678)	$
Book value of liabilities sold		170	
Sales price in excess of net liabilities assumed		(67)	
Total sales price		(1,575)	
Add cash on hand sold			
Less amount due remaining on books		60	
Net cash paid (received) for divestiture	$	$ (1,515)	$

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3. Investment Securities

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

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

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

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

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The amortized cost, fair value, and weighted-average yield of available-for-sale securities by contractual maturity at December 31, 2012, are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Amounts in thousands)	States and Political Subdivisions	Corporate Notes	Total	Tax Equivalent Purchase Yield [1]
Available-for-Sale				
Amortized cost maturity:				
Within one year	$ 111	$	$ 111	5.53%
After one year through five years	19,813		19,813	5.53%
After five years through ten years	18,888		18,888	5.62%
After ten years	112,307	55,707	168,014	4.46%
Amortized cost	$ 151,119	$ 55,707	206,826	
Mortgage-backed securities			324,538	2.50%
Equity securities			3,446	0.47%
Total amortized cost			$ 534,810	
Tax equivalent purchase yield	5.24%	3.12%	4.67%	
Average contractual maturity (in years)	10.81	14.86	11.90	
Fair value maturity:				
Within one year	$ 113	$	$ 113	
After one year through five years	20,523		20,523	
After five years through ten years	19,864		19,864	
After ten years	118,717	44,646	163,363	
Fair value	$ 159,217	$ 44,646	203,863	
Mortgage-backed securities			326,964	
Equity securities			3,531	
Total fair value			$ 534,358	

(1) Fully taxable equivalent at the rate of 35%.

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

December 31, 2012

(Amounts in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Municipal securities	$ 816	$ 16	$	$ 832
Total	$ 816	$ 16	$	$ 832

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The amortized cost, fair value, and weighted-average yield of securities by contractual maturity at December 31, 2012, are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Amounts in thousands)	States and Political Subdivisions	Tax Equivalent Purchase Yield [1]
Held-to-Maturity		
Amortized cost maturity:		
Within one year	$ 250	7.99%
After one year through five years	566	8.13%
After five years through ten years		0.00%
After ten years		0.00%
Total amortized cost	$ 816	
Tax equivalent purchase yield	8.09%	
Average contractual maturity (in years)	1.73	
Fair value maturity:		
Within one year	$ 253	
After one year through five years	579	
After five years through ten years		
After ten years		
Total fair value	$ 832	

(1) Fully taxable equivalent at the rate of 35%.

The carrying value of securities pledged to secure public deposits and for other purposes was $292.88 million at December 31, 2012, and $288.80 million at December 31, 2011.

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

	2012	2011	2010

(Amounts in thousands)			
Gross realized gains	$ 723	$ 6,963	$ 8,969
Gross realized losses	(240)	(1,699)	(696)
Net gain on sale of securities	$ 483	$ 5,264	$ 8,273

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables reflect available-for-sale securities in a continuous unrealized loss position for less than 12 months and for 12 months or longer at December 31, 2012 and 2011. There were no held-to-maturity securities in a continuous unrealized loss position at December 31, 2012 or 2011. There were 12 securities in a continuous unrealized loss position for 12 or more months for which the Company does not intend to sell and has determined that it is more likely than not going to be required to sell at December 31, 2012, until the security matures or recovers in value.

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

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

At December 31, 2012, the combined depreciation in value of the 57 individual securities in an unrealized loss position was 2.78% of the combined reported value of the aggregate securities portfolio. At December 31, 2011, the combined depreciation in value of the 28 individual securities in an unrealized loss position was 4.51% of the combined reported value of the aggregate securities portfolio.

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

For nonbeneficial interest debt securities, the Company analyzes several qualitative factors such as the severity and duration of the impairment, adverse conditions within the issuing industry, prospects for the issuer, performance of the security, changes in rating by rating agencies, and other qualitative factors to determine if the

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

impairment will be recovered. Nonbeneficial interest debt securities consist of U.S. treasury securities, municipal securities, and single issue trust preferred securities. If it is determined that there is evidence that the impairment will not be recovered, the Company performs a present value calculation to determine the amount of impairment and records any credit-related OTTI through earnings and noncredit-related OTTI through OCI. During the years ended December 31, 2012 and 2011, the Company incurred no OTTI charges related to nonbeneficial interest debt securities. Temporary impairment on these securities is primarily related to changes in interest rates, certain disruptions in the credit markets, destabilization in the Eurozone, and other current economic factors. At December 31, 2012, the Company s investment in single issue trust preferred securities is comprised of investments in five of the nation s largest bank holding companies.

For beneficial interest debt securities, the Company reviews cash flow analyses on each applicable security to determine if an adverse change in cash flows expected to be collected has occurred. Beneficial interest debt securities consist of corporate FDIC insured securities and mortgage-backed securities (MBS). An adverse change in cash flows expected to be collected has occurred if the present value of cash flows previously projected is greater than the present value of cash flows projected at the current reporting date and less than the current book value. If an adverse change in cash flows is deemed to have occurred, then an OTTI has occurred. The Company then compares the present value of cash flows using the current yield for the current reporting period to the reference amount, or current net book value, to determine the credit-related OTTI. The credit-related OTTI is then recorded through earnings and the noncredit-related OTTI is accounted for in OCI. During the years ended December 31, 2012 and 2011, the Company incurred credit-related OTTI charges related to beneficial interest debt securities of $942 thousand and $2.29 million, respectively. These charges were related to a non-Agency MBS.

For the non-Agency Alt-A residential MBS, the Company uses a discounted cash flow model with the following assumptions: voluntary constant prepayment rate of 5%, a customized constant default rate scenario that assumes approximately 21% of the remaining underlying mortgages will default within three years, and a customized loss severity rate scenario that ramps the loss rate down from 72% to 15% over the course of approximately seven years.

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

(Amounts in thousands)	December 31, 2012	December 31, 2011
Beginning balance [1]	$ 6,536	$ 4,251
Additions for credit losses on securities not previously recognized		
Additions for credit losses on securities previously recognized	942	2,285
Reduction for increases in cash flows		
Reduction for securities management no longer intends to hold to recovery		
Reduction for securities sold/realized losses		
Ending balance	$ 7,478	$ 6,536

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

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For equity securities, the Company reviews for OTTI based upon the prospects of the underlying companies, analysts expectations, and certain other qualitative factors to determine if impairment is recoverable over a foreseeable period of time. During 2012 and 2011, the Company recognized no OTTI charges on equity securities.

Note 4. Loans

Loan Portfolio

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

	December 31, 2012	December 31, 2011
(Amounts in thousands)		
Covered loans	$ 219,055	$
Non-covered loans		
Commercial loans		
Construction, development, and other land	49,460	61,768
Commercial and industrial	88,714	91,939
Multi-family residential	65,694	77,050
Single family non-owner occupied	135,647	106,743
Non-farm, non-residential	445,889	336,005
Agricultural	1,709	1,374
Farmland	34,401	37,161
Total commercial loans	821,514	712,040
Consumer real estate loans		
Home equity lines	111,081	111,387
Single family owner occupied	472,951	473,067
Owner occupied construction	16,223	19,577
Total consumer real estate loans	600,255	604,031
Consumer and other loans		
Consumer loans	78,163	67,129
Other	5,666	12,867
Total consumer and other loans	83,829	79,996
Total non-covered loans	1,505,598	1,396,067
Total loans held for investment, net of unearned income	$ 1,724,653	$ 1,396,067
Loans held for sale	$ 6,672	$ 5,820

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Covered loans held for investment consisted of the following at December 31, 2012:

(Amounts in thousands)	**December 31, 2012**
Covered loans	
Commercial loans	
Construction, development, and other land	$ 34,569
Commercial and industrial	6,972
Multi-family residential	2,611
Single family non-owner occupied	11,693
Non-farm, non-residential	51,486
Agricultural	144
Farmland	1,260
Total commercial loans	108,735
Consumer real estate loans	
Home equity lines	81,445
Single family owner occupied	23,557
Owner occupied construction	1,644
Total consumer real estate loans	106,646
Consumer and other loans	
Consumer loans	3,674
Total covered loans	$ 219,055

Acquired Impaired Loans

Acquired credit impaired loans are accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality, found in FASB ASC Topic 310-30, Receivables Loans and Debt Securities Acquired with Deteriorated Credit Quality, formerly American Institute of Certified Public Accountants Statement of Position 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer, and initially measured at fair value, which includes estimated future credit losses expected to be incurred over the life of the loans. Loans exhibit evidence of credit deterioration when it is probable at the date of acquisition that the Company will not collect all contractually required principal and interest payments. Evidence of credit quality deterioration, as of the purchase date, may include measures such as nonaccrual status, credit scores, declines in collateral value, current loan to value percentages, and days past due. The Company considers expected prepayments and estimates the amount and timing of expected principal, interest, and other cash flows for each loan or pool of loans meeting the criteria above, and determines the excess of the loan s scheduled contractual principal and contractual interest payments over all cash flows expected at acquisition as an amount that should not be accreted (nonaccretable difference). The remaining amount, representing the excess of the loan s or pool s cash flows expected to be collected over the amount deemed paid for the loan or pool of loans, is accreted into interest income over the remaining life of the loan or pool (accretable yield). The Company records a discount on these loans at acquisition to record them at their realizable cash flows. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the nonaccretable difference which is included in the carrying amount of the loans. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses. Subsequent increases in cash flows result in a reversal of the provision for loan losses to the extent of prior charges, or a reversal of the nonaccretable difference with a positive impact on interest income prospectively. Further, any excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized in interest income over the remaining life of the loan when there is a reasonable expectation about the amount and timing of such cash flows.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Purchased performing loans are recorded at fair value and include credit and interest rate marks associated with acquisition accounting adjustments, as accounted for under the contractual cash flow method of accounting. The fair value adjustment is accreted as an adjustment to yield over the estimated contractual lives of the loans. There is no allowance for loan losses established at the acquisition date for acquired performing loans. A provision for loan losses is recorded for any credit deterioration in these loans subsequent to the acquisition. Additional information regarding the carrying amount of acquired loans at the acquisition date can be found in Note 2 Business Combinations and Branching Activity herein.

When the fair values of acquired loans are established, certain loans are identified as impaired. The Company has estimated the cash flows to be collected on the acquired impaired loans and discounted those cash flows at a market rate of interest. The following tables present the carrying balance of acquired impaired loans during the periods indicated.

	Year Ended December 31, 2012			
	Peoples	Waccamaw	Other	Total
(Amounts in thousands)				
Balance, January 1	$	$	$ 2,886	$ 2,886
Impaired loans acquired	32,603	117,572		150,175
Balance, December 31	$ 26,907	$ 112,093	$ 2,340	$ 141,340

	Year Ended December 31, 2011
(Amounts in thousands)	
Balance, January 1	$ 3,221
Balance, December 31	$ 2,886

The outstanding principal balance of acquired impaired loans was $198.34 million at December 31, 2012, and $7.71 million at December 31, 2011.

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

	Year Ended December 31, 2012			
	Peoples	Waccamaw	Other	Total
(Amounts in thousands)				
Balance, January 1	$	$	$ 919	$ 919
Additions	3,400	26,481		29,881
Accretion	(856)	(3,315)	(1,089)	(5,260)
Reclassifications from nonaccretable difference			185	185
Disposals	(202)	(1,280)		(1,482)
Balance, December 31	$ 2,342	$ 21,886	$ 15	$ 24,243

	Year Ended December 31, 2011

(Amounts in thousands)		
Balance, January 1	$	944
Accretion		(174)
Reclassifications from nonaccretable difference		149
Disposals		
Balance, December 31	$	919

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Off-Balance Sheet Financial Instruments

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

Commitments to extend credit are agreements to lend to a customer as long as there is not a violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer s creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management s credit evaluation of the counterparties. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income producing commercial properties.

Standby letters of credit and written financial guarantees are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. To the extent deemed necessary, collateral of varying types and amounts is held to secure customer performance under certain of those letters of credit outstanding.

Financial instruments whose contract amounts represent credit risk are commitments to extend credit (including availability of lines of credit) of $215.77 million and standby letters of credit and financial guarantees written of $6.81 million at December 31, 2012. Additionally, the Company had gross notional amounts of outstanding commitments to lend related to secondary market mortgage loans of $14.84 million at December 31, 2012.

Related Party Loans

In the normal course of business, the Company s subsidiary bank has made loans to directors and executive officers of the Company, its subsidiaries, and to affiliates of such directors and officers (collectively referred to as related parties). All loans and commitments made to such officers and directors and to companies in which they are officers, or have significant ownership interest, have been made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons not related to the Company. The aggregate dollar amount of loans to related parties totaled $16.62 million and $18.41 million at December 31, 2012 and 2011, respectively. During 2012, $2.58 million in new loans and increases were made and repayments on such loans to related parties totaled $1.58 million. Changes in the composition of the Company s subsidiary board members and executive officers resulted in a decrease in loans to related parties of $2.79 million for the year ended 2012.

Overdrafts

Customer overdrafts totaling $1.55 million at December 31, 2012, and $1.48 million at December 31, 2011, were reclassified as loans.

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5. Allowance for Loan Losses and Credit Quality

Allowance for Loan Losses

The allowance for loan losses is maintained at a level management deems sufficient to absorb probable loan losses inherent in the loan portfolio. The allowance is increased by charges to earnings in the form of provision for loan losses and recoveries of prior loan charge-offs, and decreased by loans charged off. The provision is calculated to bring the allowance to a level which, according to a systematic process of measurement, reflects the amount management estimates is needed to absorb probable losses within the portfolio. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company s control, including, among other things, the performance of the Company s loan portfolio, the economy, changes in interest rates, and the view of the regulatory authorities toward loan classifications. Purchased credit impaired loan pools are evaluated separately from the non-purchased credit impaired portfolio for impairment. See Note 2 Business Combinations and Branching Activity herein for additional information.

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

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

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(Amounts in thousands)	Commercial	Consumer Real Estate	Consumer and Other	Total
Beginning balance, January 1, 2010	$ 13,607	$ 8,337	$ 2,333	$ 24,277
Provision for loan losses	6,552	8,106	99	14,757
Loans charged off	(7,980)	(4,352)	(1,270)	(13,602)
Recoveries credited to allowance	339	109	602	1,050
Net charge-offs	(7,641)	(4,243)	(668)	(12,552)
Ending balance, December 31, 2010	$ 12,518	$ 12,200	$ 1,764	$ 26,482
Beginning balance, January 1, 2011	$ 12,300	$ 12,641	$ 1,541	$ 26,482
Provision for loan losses	12,007	(2,681)	(279)	9,047
Loans charged off	(7,981)	(2,501)	(978)	(11,460)
Recoveries credited to allowance	1,426	252	458	2,136
Net charge-offs	(6,555)	(2,249)	(520)	(9,324)
Ending balance, December 31, 2011	$ 17,752	$ 7,711	$ 742	$ 26,205
Beginning balance, January 1, 2012	$ 17,752	$ 7,711	$ 742	$ 26,205
Provision for loan losses	2,703	2,608	367	5,678
Loans charged off	(3,814)	(2,702)	(988)	(7,504)
Recoveries credited to allowance	626	289	476	1,391
Net charge-offs	(3,188)	(2,413)	(512)	(6,113)
Ending balance, December 31, 2012	$ 17,267	$ 7,906	$ 597	$ 25,770

The negative provision in the consumer real estate and consumer and other segments in 2011 was the result of the refinement in the allowance for loan losses methodology during 2011 to further segment single family real estate into non-owner (commercial) and owner occupied (consumer real estate).

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company identifies loans for potential impairment through a variety of means including, but not limited to, ongoing loan review, renewal processes, delinquency data, market communications, and public information. If it is determined that it is probable that the Company will not collect all principal and interest amounts contractually due, the loan is generally deemed to be impaired. The following tables present the Company s recorded investment in non-purchased loans considered to be impaired and related information on those impaired loans for the periods indicated:

	December 31, 2012				
(Amounts in thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Recorded Investment**	**Interest Income Recognized**
Impaired loans with no related allowance:					
Commercial loans					
Construction, development, and other land	$ 2,916	$ 2,916	$	$ 935	$ 3
Commercial and industrial	284	284		320	17
Multi-family residential				517	4
Single family non-owner occupied	383	684		1,101	56
Non-farm, non-residential	5,282	5,362		2,619	102
Agricultural					
Farmland				93	
Consumer real estate loans					
Home equity lines	276	277		370	28
Single family owner occupied	277	383		4,441	113
Owner occupied construction					
Consumer and other loans					
Consumer loans				1	
Total impaired loans with no related allowance	9,418	9,906		10,397	323
Impaired loans with a related allowance:					
Commercial loans					
Construction, development, and other land				69	1
Commercial and industrial	3,318	8,502	3,192	4,510	948
Multi-family residential	378	397	18	143	3
Single family non-owner occupied	2,411	2,460	996	2,484	80
Non-farm, non-residential	2,781	2,958	358	5,820	317
Agricultural					
Farmland				93	
Consumer real estate loans					
Home equity lines	223	230	223	150	1
Single family owner occupied	4,673	4,903	806	3,511	103
Owner occupied construction					
Consumer and other loans					
Consumer loans					
Total impaired loans with a related allowance	13,784	19,450	5,593	16,780	1,453
Total impaired loans	$ 23,202	$ 29,356	$ 5,593	$ 27,177	$ 1,776

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	December 31, 2011				
(Amounts in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance:					
Commercial loans					
Construction, development, and other land	$ 661	$ 661	$	$ 1,341	$
Commercial and industrial	114	127		2,251	4
Multi-family residential	278	278		1,177	24
Single family non-owner occupied	1,206	1,244		1,659	39
Non-farm, non-residential	1,616	1,647		2,059	25
Agricultural					
Farmland	258	258		167	
Consumer real estate loans					
Home equity lines	368	378		476	15
Single family owner occupied	2,428	2,508		1,825	43
Owner occupied construction				60	3
Consumer and other loans					
Consumer loans	6	6		23	2
Total impaired loans with no allowance	6,935	7,107		11,038	155
Impaired loans with a related allowance:					
Commercial loans					
Construction, development, and other land	112	112	4	248	9
Commercial and industrial	4,031	4,069	2,048	2,358	21
Multi-family residential				470	
Single family non-owner occupied	2,232	2,232	124	2,323	107
Non-farm, non-residential	5,317	5,480	1,819	4,112	191
Agricultural					
Farmland				83	
Consumer real estate loans					
Home equity lines				108	
Single family owner occupied	5,529	5,612	1,203	5,794	164
Owner occupied construction					
Consumer and other loans					
Consumer loans					
Total impaired loans with a related allowance	17,221	17,505	5,198	15,496	492
Total impaired loans	$ 24,156	$ 24,612	$ 5,198	$ 26,534	$ 647

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

The Company aggregates purchase credit impaired loans with common risk characteristics into the following loan pools: construction and development, commercial and industrial, commercial real estate, consumer, home

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

equity lines of credit, residential real estate 1st lien, residential real estate 2nd lien, and lines of credit. However, these loan pools are disaggregated in the following tables for disclosure purposes.

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

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

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

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

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

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

The following tables present the Company s investment in loans held for investment by internal credit grade indicator at December 31, 2012 and 2011. There were no covered loans at December 31, 2011.

	December 31, 2012					
(Amounts in thousands)	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Loss**	**Total**
Non-covered loans						
Commercial loans						
Construction, development, and other land	$ 33,876	$ 1,497	$ 13,546	$ 541	$	$ 49,460
Commercial and industrial	77,549	2,506	4,821	3,838		88,714
Multi-family residential	60,161	4,043	1,490			65,694
Single family non-owner occupied	112,297	5,938	16,092	1,320		135,647
Non-farm, non-residential	396,986	15,975	32,808	120		445,889
Agricultural	1,657	19	33			1,709
Farmland	28,718	2,262	3,421			34,401

Consumer real estate loans						
Home equity lines	104,750	2,739	3,592			111,081
Single family owner occupied	435,991	9,599	27,319		42	472,951
Owner occupied construction	15,841	382				16,223
Consumer and other loans						
Consumer loans	76,787	867	501	8		78,163
Other	5,657	8	1			5,666
Total non-covered loans	$ 1,350,270	$ 45,835	$ 103,624	$ 5,827	$ 42	$ 1,505,598

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	December 31, 2012					
(Amounts in thousands)	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Covered loans						
Commercial loans						
Construction, development, and other land	$ 14,437	$ 2,120	$ 17,834	$ 178	$	$ 34,569
Commercial and industrial	6,249	445	197	81		6,972
Multi-family residential	1,962		649			2,611
Single family non-owner occupied	6,330	2,223	3,015	125		11,693
Non-farm, non-residential	26,776	5,477	19,189	44		51,486
Agricultural	143		1			144
Farmland	1,104		156			1,260
Consumer real estate loans						
Home equity lines	16,323	11,981	53,116	25		81,445
Single family owner occupied	16,607	927	5,786	237		23,557
Owner occupied construction	484		1,160			1,644
Consumer and other loans						
Consumer loans	2,987	562	125			3,674
Other						
Total covered loans	$ 93,402	$ 23,735	$ 101,228	$ 690	$	$ 219,055

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

The Peoples and Waccamaw acquisitions added approximately $12.69 million to special mention, $29.82 million to substandard, and $1.37 million to doubtful risk graded non-covered loans. Exclusive of these acquisitions, special mention, doubtful, and loss risk graded non-covered loans increased approximately $2.42 million, $1.61 million, and $42 thousand, respectively, for the year ended December 31, 2012, while substandard risk graded non-covered loans decreased $1.41 million.

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables detail the Company s recorded investment in loans related to each segment in the allowance for loan losses by portfolio segment and disaggregated on the basis of the Company s impairment methodology at December 31, 2012 and 2011:

	December 31, 2012					
(Amounts in thousands)	Non-acquired Loans Individually Evaluated for Impairment	Allowance for Loans Individually Evaluated	Loans Collectively Evaluated for Impairment	Allowance for Loans Collectively Evaluated	Acquired Impaired Loans Evaluated for Impairment	Allowance for Acquired Impaired Loans Evaluated
Commercial loans						
Construction, development, and other land	$ 2,916	$	$ 54,579	$ 1,214	$ 25,744	$
Commercial and industrial	3,602	3,192	88,540	1,159	3,544	8
Multi-family residential	378	18	67,278	1,612	649	
Single family non-owner occupied	2,794	858	134,323	3,509	10,223	
Non-farm, non-residential	8,063	358	450,172	4,901	38,072	
Agricultural			1,852	22	1	
Farmland			34,779	416	882	
Total commercial loans	17,753	4,426	831,523	12,833	79,115	8
Consumer real estate loans						
Home equity lines	499	223	141,684	1,351	50,343	
Single family owner occupied	4,950	944	483,223	5,051	8,005	
Owner occupied construction			16,768	337	1,099	
Total consumer real estate loans	5,449	1,167	641,675	6,739	59,447	
Consumer and other loans						
Consumer loans			81,037	597	800	
Other			5,666			
Total consumer and other loans			86,703	597	800	
Total loans	$ 23,202	$ 5,593	$ 1,559,901	$ 20,169	$ 139,362	$ 8

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	December 31, 2011					
(Amounts in thousands)	Non-acquired Loans Individually Evaluated for Impairment	Allowance for Loans Individually Evaluated	Loans Collectively Evaluated for Impairment	Allowance for Loans Collectively Evaluated	Acquired Impaired Loans Evaluated for Impairment	Allowance for Acquired Impaired Loans Evaluated
Commercial loans						
Construction, development, and other land	$ 773	$ 4	$ 60,846	$ 1,888	$ 149	$
Commercial and industrial	3,738	1,847	87,563	1,668	638	201
Multi-family residential	278		76,772	1,889		
Single family non-owner occupied	3,438	124	102,063	2,836	1,242	
Non-farm, non-residential	6,933	1,819	328,610	5,114	462	
Agricultural			1,374	19		
Farmland	258		36,903	343		
Total commercial loans	15,418	3,794	694,131	13,757	2,491	201
Consumer real estate loans						
Home equity lines	368		111,019	1,365		
Single family owner occupied	7,957	1,203	464,715	4,931	395	
Owner occupied construction			19,577	212		
Total consumer real estate loans	8,325	1,203	595,311	6,508	395	
Consumer and other loans						
Consumer loans	6		67,123	742		
Other			12,867			
Total consumer and other loans	6		79,990	742		
Total loans	$ 23,749	$ 4,997	$ 1,369,432	$ 21,007	$ 2,886	$ 201

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Non-accrual and Past Due Loans

Nonaccrual loans, presented by loan class, consisted of the following at December 31, 2012 and 2011. Loans acquired with credit deterioration through business combinations, for which a discount exists, are generally not considered to be nonaccrual as a result of the accretion of the discount which is based on the expected cash flows of the loans.

	December 31, 2012			December 31, 2011
(Amounts in thousands)	**Non-covered**	**Covered**	**Total**	**Non-covered**
Commercial loans				
Construction, development, and other land	$ 405	$ 1,990	$ 2,395	$ 793
Commercial and industrial	3,912	35	3,947	3,905
Multi-family residential	378		378	341
Single family non-owner occupied	7,071	21	7,092	1,639
Non-farm, non-residential	5,938	951	6,889	8,063
Agricultural	2		2	
Farmland				271
Consumer real estate loans				
Home equity lines	872	436	1,308	516
Single family owner occupied	5,219	831	6,050	8,255
Owner occupied construction		59	59	1
Consumer and other loans				
Consumer loans	126		126	52
Other				
Total	23,923	4,323	28,246	23,836
Acquired impaired loans	8		8	651
Total nonaccrual loans	$ 23,931	$ 4,323	$ 28,254	$ 24,487

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables present the aging of past due loans, by loan class, at December 31, 2012 and 2011. Nonaccrual loans, excluding those 0 to 29 days past due, are included in the applicable delinquency category. There were no accruing loans contractually past due 90 days or more at December 31, 2012 or 2011. Acquired loans that are past due continue to accrue interest through the accretable yield under the accretion method of accounting and therefore are not considered to be nonaccrual.

	December 31, 2012					
(Amounts in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	90+ Days Past Due	Total Past Due	Current Loans	Total Loans
Non-covered loans						
Commercial loans						
Construction, development, and other land	$ 344	$	$ 188	$ 532	$ 48,928	$ 49,460
Commercial and industrial	387	84	1,432	1,903	86,811	88,714
Multi-family residential	624			624	65,070	65,694
Single family non-owner occupied	1,841	1,348	3,715	6,904	128,743	135,647
Non-farm, non-residential	2,702	936	3,621	7,259	438,630	445,889
Agricultural					1,709	1,709
Farmland	216	196		412	33,989	34,401
Consumer real estate loans						
Home equity lines	315	93	495	903	110,178	111,081
Single family owner occupied	6,564	1,176	1,644	9,384	463,567	472,951
Owner occupied construction	382			382	15,841	16,223
Consumer and other loans						
Consumer loans	715	73	47	835	77,328	78,163
Other					5,666	5,666
Total non-covered loans	$ 14,090	$ 3,906	$ 11,142	$ 29,138	$ 1,476,460	$ 1,505,598

	December 31, 2012					
(Amounts in thousands)	30 -59 Days Past Due	60 - 89 Days Past Due	90+ Days Past Due	Total Past Due	Current Loans	Total Loans
Covered loans						
Commercial loans						
Construction, development, and other land	$ 252	$ 161	$ 1,121	$ 1,534	$ 33,035	$ 34,569
Commercial and industrial	45			45	6,927	6,972
Multi-family residential					2,611	2,611
Single family non-owner occupied	8		21	29	11,664	11,693
Non-farm, non-residential	501		927	1,428	50,058	51,486
Agricultural					144	144
Farmland	6			6	1,254	1,260
Consumer real estate loans						
Home equity lines	217	112	204	533	80,912	81,445
Single family owner occupied	413	135	475	1,023	22,534	23,557
Owner occupied construction			59	59	1,585	1,644
Consumer and other loans						
Consumer loans					3,674	3,674

Other						
Total covered loans	$ 1,442	$ 408	$ 2,807	$ 4,657	$ 214,398	$ 219,055

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Troubled Debt Restructurings

The Company s troubled debt restructurings (TDRs) totaled $12.05 million at December 31, 2012, and $9.45 million at December 31, 2011, which are reported net of those on nonaccrual status of $3.83 million and $3.27 million, respectively. Accruing nonperforming TDRs amounted to $6.01 million, or 49.88% of total accruing TDRs at December 31, 2012, and $600 thousand, or 6.35% of total TDRs at December 31, 2011. The allowance for loan losses included reserves related to TDRs of $1.87 million and $1.14 million at December 31, 2012 and 2011, respectively. Interest income recognized on TDRs for the years ended December 31, 2012 and 2011 totaled $736 thousand and $561 thousand, respectively. There were no covered loans recorded as TDRs at December 31, 2012 or 2011. Loans acquired with credit deterioration through business combinations, for which a discount exists, are generally not considered a TDR as long as the loan remains in the loan pool.

When restructuring loans for borrowers experiencing financial difficulty, the Company generally makes concessions in interest rates, loan terms and/or amortization terms. All restructured loans to borrowers experiencing financial difficulty in excess of $250 thousand are evaluated for a specific reserve based on either the collateral or net present value method, whichever is most applicable. Restructured loans under $250 thousand are subject to the reserve calculation at the historical loss rate for classified loans. Certain TDRs are classified as nonperforming at time of restructuring and are returned to performing status after six months of satisfactory payment performance; however, these loans remain identified as impaired until full payment or other satisfaction of the obligation occurs.

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables present information for loans modified as TDRs that were restructured during the years ended December 31, 2012 and 2011 by type of concession made and loan class. The post-modification recorded investment represents the loan balance immediately following modification.

	Years Ended December 31,					
	2012			2011		
(Amounts in thousands)	Total Contracts	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Total Contracts	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Below market interest rate						
Non-farm, non-residential		$	$	1	$ 373	$ 373
Single family owner occupied				2	159	159
Total				3	532	532
Extended payment term						
Commercial and industrial						
Non-farm, non-residential	1	1,119		1	126	126
Single family owner occupied	1	351	319	1	267	267
Total	2	1,470	319	2	393	393
Below market interest rate and extended payment term						
Non-farm, non-residential	2	5,822	5,822	1	107	107
Single family owner occupied				4	759	736
Total	2	5,822	5,822	5	866	843
Total	4	$ 7,292	$ 6,141	10	$ 1,791	$ 1,768

There were no payment defaults on loans modified as TDRs during the year ended December 31, 2012 that were restructured within the previous 12 months. The following table presents loans modified as TDRs within the previous 12 months for which there was a payment default during the year ended December 31, 2011:

	December 31, 2011		
(Amounts in thousands)	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Non-farm, non-residential	1	$ 38	$ 38
Total loan concessions	1	$ 38	$ 38

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6. FDIC Loss Share Agreements Receivable

On June 8, 2012, the Company entered into a purchase and assumption agreement with loss share arrangements with the FDIC to purchase certain assets and assume substantially all of the customer deposits and certain liabilities of Waccamaw Bank. Under the loss share agreements, the FDIC has agreed to cover 80% of most loan and foreclosed real estate losses. The following table presents changes in the receivable from the FDIC for the year ended December 31, 2012:

(Amounts in thousands)	
Beginning balance, January 1, 2012	$
FDIC loss share receivable recorded in Waccamaw acquisition	49,755
Increase in expected losses on loans	
Additional losses on OREO	(409)
Reimbursable expenses	(1,731)
Amortization of discounts and premiums, net	458
Reimbursements from the FDIC	
Ending balance, December 31, 2012	$ 48,073

Note 7. Premises and Equipment

Premises and equipment were comprised of the following at December 31, 2012 and 2011:

(Amounts in thousands)	2012	2011
Land	$ 19,366	$ 18,753
Bank premises	56,789	51,669
Equipment	36,775	32,525
	112,930	102,947
Less: accumulated depreciation and amortization	48,062	48,226
Total	$ 64,868	$ 54,721

Total depreciation and amortization expense for the three years ended December 31, 2012, was $4.03 million, $3.98 million, and $4.09 million, respectively.

The Company enters into land and building leases for the operation of banking and loan production offices, operations centers and for the operation of automated teller machines. All such leases qualify as operating leases. Following is a schedule by year of future minimum lease payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2012:

	Amount

(Amounts in thousands)	
2013	$ 1,224
2014	687
2015	392
2016	268
2017	161
Later years	1,167
Total	$ 3,899

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Total lease expense for the three years ended December 31, 2012, was $1.26 million, $1.17 million, and $1.20 million, respectively. Certain portions of the above listed leases have been sublet to third parties for properties not currently being used by the Company. The impact of the future lease payments to be received on the non-cancelable subleases is as follows:

(Amounts in thousands)	Amount
2013	$ 244
2014	
2015	
2016	
2017	
Later years	
Total	$ 244

Related Party Leases

Included in total lease expense were leases with related parties totaling $171 thousand and $164 thousand at December 31, 2012 and 2011, respectively.

Note 8. Deposits

The following is a summary of interest-bearing deposits by type at December 31, 2012 and 2011:

(Amounts in thousands)	2012	2011
Interest-bearing demand deposits	$ 353,321	$ 275,156
Money market accounts	237,257	167,379
Savings deposits	263,019	227,328
Certificates of deposit	706,568	528,735
Individual retirement accounts	126,658	104,601
Total	$ 1,686,823	$ 1,303,199

At December 31, 2012, the scheduled maturities of time deposits were as follows:

(Amounts in thousands)	Amount
2013	$ 518,392
2014	101,982
2015	128,560
2016	47,634

2017 and thereafter	36,658
	$ 833,226

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Time deposits of $100 thousand or more were $398.48 million and $289.61 million at December 31, 2012 and 2011, respectively. At December 31, 2012, the scheduled maturities of certificates of deposit of $100 thousand or more were as follows:

(Amounts in thousands)	Amount
Three months or less	$ 78,252
Over three to six months	80,815
Over six to twelve months	81,273
Over twelve months	158,141
Total	$ 398,481

Related Party Deposits

Included in total deposits were deposits by related parties of $2.59 million and $3.84 million at December 31, 2012 and 2011, respectively. During 2012, $311 thousand in new deposits and increases were made while decreases on such deposits to officers and directors totaled $1.56 million. Changes in the composition of the Company s subsidiary board members and executive officers resulted in decreases of $166 thousand.

Note 9. Borrowings

The following schedule details borrowings at December 31, 2012 and 2011:

(Amounts in thousands)	2012	2011
Securities sold under agreements to repurchase	$ 136,118	$ 129,208
FHLB advances	161,558	150,000
Subordinated debt	15,464	15,464
Other debt	413	469
Total	$ 313,553	$ 295,141

Securities sold under agreements to repurchase consisted of retail overnight and term repurchase agreements of $77.92 million at December 31, 2012, and $79.21 million at December 31, 2011, and wholesale repurchase agreements of $58.20 million at December 31, 2012, and $50.0 million at December 31, 2011. The weighted average rate of wholesale repurchase agreements was 3.34% at December 31, 2012, and 3.65% at December 31, 2011. The wholesale repurchase agreements had a weighted average maturity of 5.06 years at December 31, 2012. Securities sold under agreements to repurchase are collateralized with agency MBS. As part of the Waccamaw acquisition, the Company acquired $20.04 million in wholesale repurchase agreements of which $11.84 million was paid off during 2012.

FHLB borrowings included convertible and callable advances totaling $155.28 million at December 31, 2012, and $150.0 million at December 31, 2011, and fixed rate credit of $6.27 million at December 31, 2012. The callable advances may be redeemed at quarterly intervals after various lockout periods. These call options may substantially shorten the lives of these instruments. If these advances are called, the debt may be paid in full or converted to another FHLB credit product. Prepayment of the advances may result in substantial penalties based upon the differential between contractual note rates and current advance rates for similar maturities. The weighted average rate of FHLB borrowings was 3.86% at December 31, 2012, and 4.12% at December 31, 2011. The FHLB borrowings had a weighted average maturity of 5.23 years at

December 31, 2012. Advances from the FHLB were secured by qualifying loans of $998.14 million at December 31, 2012, and $693.33 million at

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2011. At December 31, 2012, unused borrowing capacity with the FHLB totaled $269.33 million. As part of the Waccamaw acquisition, the Company acquired $37.27 million in FHLB borrowings of which $25.71 million was paid off during 2012.

At December 31, 2012, FHLB borrowings had approximate contractual maturities between nine months and nine years. The scheduled maturities of the advances are as follows:

(Amounts in thousands)	Amount
2013	$ 11,558
2014	
2015	
2016	
2017	100,000
2018 and thereafter	50,000
	$ 161,558

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

Despite the fact that the accounts of the Trust are not included in the Company s consolidated financial statements, the trust preferred securities issued by the Trust are included in the Tier 1 capital of the Company for regulatory capital purposes. Federal Reserve Board rules limit the aggregate amount of restricted core capital elements (which includes trust preferred securities, among other things) that may be included in the Tier 1 capital of most bank holding companies to 25% of all core capital elements, including restricted core capital elements, net of goodwill less any associated deferred tax liability. The current quantitative limits do not preclude the Company from including the $15.46 million in trust preferred securities outstanding in Tier 1 capital as of December 31, 2012.

Note 10. Income Taxes

The components of income tax expense from continuing operations consist of the following:

(Amounts in thousands)	2012	2011	2010
Current tax expense (benefit)			
Federal	$ 13,733	$ 7,101	$ (5,268)
State	1,291	110	78
	15,024	7,211	(5,190)
Deferred tax (benefit) expense			
Federal	(1,501)	1,650	12,397
State	605	712	611

	(896)	2,362	13,008
Total income tax expense	$ 14,128	$ 9,573	$ 7,818

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deferred income taxes related to continuing operations reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting versus tax purposes. The following table details the tax effects of significant items comprising the Company s net deferred tax assets as of December 31, 2012 and 2011:

(Amounts in thousands)	2012	2011
Deferred tax assets:		
Allowance for loan losses	$ 9,857	$ 10,023
Unrealized losses on available-for-sale securities	169	3,444
Impairment losses on securities	8,023	7,349
Deferred compensation assets	4,235	3,692
Alternative minimum tax credit	1,849	2,038
Other deferred tax assets	2,763	3,293
Total deferred tax assets	$ 26,896	$ 29,839
Deferred tax liabilities:		
Intangible assets	$ (2,138)	$ 5,953
Odd days interest deferral	2,028	1,734
Fixed assets	2,158	2,398
Other	1,054	873
Total deferred tax liabilities	3,102	10,958
Net deferred tax assets	$ 23,794	$ 18,881

Income taxes as a percentage of pre-tax income may vary significantly from statutory rates due to items of income and expense which are excluded, by law, from the calculation of taxable income, as well as the utilization of available tax credits. Municipal bond income represents the most significant permanent tax difference.

The reconciliation of the statutory federal tax rate and the effective tax rate from continuing operations for the three years ended December 31, 2012, are as follows:

	2012	2011	2010
Tax at statutory rate	35.00%	35.00%	35.00%
(Reduction) increase resulting from:			
Tax-exempt interest income	(4.16)	(6.40)	(6.79)
State income taxes, net of federal benefit	2.35	2.78	2.32
Other, net	(0.11)	0.96	(4.18)
Effective tax rate	33.08%	32.34%	26.35%

Note 11. Employee Benefits
Employee Stock Ownership and Savings Plan

The Company maintains an Employee Stock Ownership and Savings Plan (KSOP). Coverage under the plan is provided to all employees meeting minimum eligibility requirements.

Employer Stock Fund. Annual contributions to the stock portion of the plan were made through 2006 at the discretion of the Board of Directors, and allocated to plan participants on the basis of relative compensation. The plan was frozen to future contributions for periods after 2006. Substantially all plan assets are invested in

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Common Stock of the Company. The Company reports the contributions to the plan as a component of salaries and benefits. All contributions made after 2006 have been made to the employee savings feature of the plan. Accordingly, there were no contributions to the Employer Stock Fund in 2012, 2011, or 2010. The Employer Stock Fund held 561,551, 588,656, and 583,256 shares of the Company s Common Stock at December 31, 2012, 2011, and 2010, respectively.

Employee Savings Plan. The Company provides a 401(k) savings feature within the KSOP that is available to substantially all employees meeting minimum eligibility requirements. Under the 401(k) feature, the Company makes matching contributions to employee deferrals at levels determined by the board on an annual basis. The cost of the Company s 100% matching contributions to qualified deferrals under the 401(k) savings component of the KSOP was $1.27 million, $1.34 million, and $1.12 million in 2012, 2011, and 2010, respectively. In 2012, the Company made its matching contribution in cash and Common Stock. In 2011 and 2010 the Company made its matching contribution in Common Stock.

Employee Welfare Plan

The Company provides various medical, dental, vision, life, accidental death and dismemberment, and long-term disability insurance benefits to all full-time employees who elect coverage under this program. The health plan is managed by a third party administrator. Monthly employer and employee contributions are made to a tax-exempt employer benefits trust against which the third party administrator processes and pays claims. Stop-loss insurance coverage limits the Company s risk of loss to $85 thousand and $3.89 million for individual and aggregate claims, respectively. Total Company expenses under the health plan were $2.25 million, $3.49 million, and $2.98 million in 2012, 2011, and 2010, respectively.

Deferred Compensation Plan

The Company has deferred compensation agreements with certain current and former officers providing for benefit payments over various periods commencing at retirement or death. The liability as of year-end 2012 and 2011 was $459 thousand and $463 thousand, respectively. The annual expenses associated with these agreements were $60 thousand in 2012, 2011, and 2010. The obligation is based upon the present value of the expected payments and estimated life expectancies of the individuals.

Supplemental Executive Retention Plan

The Company maintains a Supplemental Executive Retention Plan (the SERP) for key members of senior management. The SERP provides for a defined benefit at normal retirement age targeted at 35% of projected final base salary. Benefits under the SERP become payable at age 62. The associated benefit accrued as of year-end 2012 and 2011 was $5.62 million and $5.11 million, respectively, while the associated expense incurred in connection with the Executive Retention Plan was $535 thousand, $519 thousand, and $424 thousand for 2012, 2011, and 2010, respectively.

Projected benefit payments for the SERP are expected to be paid as follows:

(Amounts in thousands)	**Amount**
2013	$ 214
2014	214
2015	214
2016	214
2017	345
2018 through 2022	1,924

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following sets forth the components of the net periodic pension cost of the Company s domestic non-contributory, non-qualified defined SERP for years ended December 31, 2012 and 2011:

	2102	2011
(Amounts in thousands)		
Service cost	$ 153	$ 161
Interest cost	203	224
Amortization of losses (gains)	45	
Amortization of prior service cost	134	134
Net periodic cost	$ 535	$ 519

The discount rates assumed as of December 31, 2012, were lowered from 4.40% to 4.20%. The SERP is an unfunded plan, and as such there are no plan assets. At December 31, 2012, the actuarial benefit plan obligation was $5.62 million.

Directors Supplemental Retirement Plan

The Company maintains a Directors Supplemental Retirement Plan (the Directors Plan) for its non-management directors. The Directors Plan provides for a benefit upon retirement from service on the Board. The Directors Plan was amended in December 2010 to substitute a defined benefit in lieu of the previous indexed benefit. Effective January 1, 2011, the Directors Plan provides for a defined benefit at normal retirement age targeted at 100% of the highest consecutive three years average compensation. Benefits under the Directors Plan become payable at age 70. The associated benefit accrued as of year-end 2012 and 2011 was $981 thousand and $943 thousand, respectively, while the associated expense incurred in connection with the Directors Plan was $156 thousand, $162 thousand, and $259 thousand for 2012, 2011, and 2010, respectively.

Projected benefit payments for the Directors Plan are expected to be paid as follows:

	Amount
(Amounts in thousands)	
2013	$ 83
2014	81
2015	80
2016	79
2017	111
2018 through 2022	544

The following sets forth the components of the net periodic pension cost of the Company s domestic non-contributory, non-qualified Directors Plan for years ended December 31, 2012 and 2011:

	2102	2011
(Amounts in thousands)		
Service cost	$ 27	$ 29
Interest cost	39	43
Amortization of prior service cost	90	90

Net periodic cost	$ 156	$ 162

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The discount rates assumed as of December 31, 2012, were lowered from 4.40% to 4.20%. The Directors Plan is an unfunded plan, and as such there are no plan assets. At December 31, 2012, the actuarial benefit plan obligation was $981 thousand.

Note 12. Equity-Based Compensation
Stock Options

The Company maintains share-based compensation plans to promote the long-term success of the Company by encouraging officers, employees, directors and individuals performing services for the Company to focus on critical long-range objectives.

At the 2012 Annual Meeting, the Company s shareholders approved the 2012 Omnibus Equity Compensation Plan (2012 Plan) which made available up to 600,000 shares for potential grants of incentive stock options, non-qualified stock options, performance awards, restricted stock, restricted stock units, stock appreciation rights, bonus stock, and stock awards. The options granted pursuant to the 2012 Plan shall state the period of time within which the grant may be exercised, not to exceed more than ten years from the date granted. The Company s Compensation and Retirement Committee shall determine the vesting period for each grant; however, if no vesting period is specified the vesting shall occur in 25% increments on the first four anniversaries of the grant date.

At the 2004 Annual Meeting, the Company s shareholders ratified approval of the 2004 Omnibus Stock Option Plan (2004 Plan) which made available up to 200,000 shares for potential grants of incentive stock options, non-qualified stock options, restricted stock awards or performance awards. Non-qualified and incentive stock options, as well as restricted and unrestricted stock may continue to be awarded under the 2004 Plan. Vesting under the 2004 Plan is generally over a three-year period.

In 2001, the Company instituted a plan to grant stock options to non-employee directors (the Directors Option Plan). The options granted pursuant to the Directors Option Plan expire at the earlier of ten years from the date of grant or two years after the optionee ceases to serve as a director of the Company. Options not exercised within the appropriate time shall expire and be deemed cancelled. Options under the Directors Option Plan were granted in the form of non-statutory stock options with the aggregate number of shares of Common Stock available for grant under the Directors Option Plan set at 108,900 shares (adjusted for the 10% stock dividends paid in 2002 and 2003).

In 1999, the Company instituted the 1999 Stock Option Plan (the 1999 Plan). Options under the 1999 Plan were granted in the form of non-statutory stock options with the aggregate number of shares of Common Stock available for grant under the Plan set at 332,750 (adjusted for 10% stock dividends paid in 2002 and 2003). The options granted under the 1999 Plan represent the rights to acquire the option shares with deemed grant dates of January 1st for each year beginning with the initial year granted and the following four anniversaries. All stock options granted pursuant to the 1999 Plan vest ratably on the first through the seventh anniversary dates of the deemed grant date. The option price of each stock option is equal to the fair market value (as defined by the 1999 Plan) of the Company s Common Stock on the date of each deemed grant during the five-year grant period. Vested stock options granted pursuant to the 1999 Plan are exercisable during employment and for a period of five years after the date of the grantee s retirement, provided retirement occurs at or after age 62. If employment is terminated other than by early retirement, disability, or death, vested options must be exercised within 90 days after the effective date of termination. Any option not exercised within such period will be deemed cancelled.

The Company also has options from various option plans other than described above (the Prior Plans); however, no common shares of the Company are available for grants under the Prior Plans. Awards outstanding under the Prior Plans will remain in effect in accordance with their respective terms.

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The cash flows from the tax benefits resulting from tax deductions in excess of the compensation expense recognized for those options and restricted stock (excess tax benefits) are classified as financing cash inflows. During the three years ended December 31, 2012, the Company recognized excess tax benefits totaling $6 thousand, $5 thousand, and $9 thousand, respectively.

During the three years ended December 31, 2012, the Company recognized pre-tax compensation expense related to total equity-based compensation of $132 thousand, $98 thousand, and $58 thousand, respectively. The Company recognizes equity-based compensation on a straight line pro-rata basis, so that the percentage of the total expense recognized for an award is never less than the percentage of the award that has vested.

As of December 31, 2012, there was $140 thousand in unrecognized compensation cost related to unvested stock options. That cost is expected to be recognized over a weighted average period of 0.97 years. The actual compensation cost recognized will differ from this estimate due to a number of items, including new awards granted and changes in estimated forfeitures.

The following table summarizes the Company s stock option activity and related information for the year ended December 31, 2012:

(Amounts in thousands, except share and per share data)	Option Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2012	479,443	$ 20.78		
Granted				
Exercised	5,223	11.97		
Forfeited	2,340	21.85		
Outstanding at December 31, 2012	471,880	$ 20.87	6.2	$ 432
Exercisable at December 31, 2012	391,013	$ 22.69	5.7	$ 147

The fair value of options was estimated at the date of grant using the Black-Scholes-Merton option pricing model and certain assumptions. Expected volatility is based on the weekly historical volatility of the Company s stock price over the expected term of the option. Expected dividend yield is based on the ratio of the most recent dividend rate paid per share of the Company s Common Stock to recent trading price of the Company s Common Stock. The expected term is generally calculated using the shortcut method. The risk-free interest rate is based on the U.S. Treasury yield curve at the time of grant for the period equal to the expected term of the option.

The fair values of grants made during the three years ended December 31, 2012, were estimated using the following weighted average assumptions:

	2012	2011	2010
Volatility		27.96%	
Expected dividend yield		3.24%	
Expected term (in years)		6.18	
Risk-free rate		1.50%	

There were no options granted during the years ended December 31, 2012 or 2010. The weighted average grant-date fair value of options granted was $2.56 during the year ended December 31, 2011. The aggregate intrinsic value of options exercised was $16 thousand for the year ended December 31, 2012, $13 thousand for the year ended December 31, 2011, and $23 thousand for the year ended December 31, 2010.

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock Awards

The 2004 Plan permits the granting of restricted and unrestricted shares of the Company s Common Stock either alone, in addition to, or in tandem with other awards made by the Company. Stock grants are generally measured at fair value on the date of grant based on the number of shares granted and the quoted price of the Company s Common Stock. Such value is recognized as expense over the corresponding service period. Compensation costs related to these types of awards are consistently reported for all periods presented.

The following table summarizes the changes in the Company s nonvested shares of the Company s Common Stock for the year ended December 31, 2012:

	Shares	Weighted Average Grant-Date Fair Value
Nonvested at January 1, 2012	6,350	$ 13.67
Granted	18,400	12.39
Vested	5,800	12.89
Forfeited		
Nonvested at December 31, 2012	18,950	$ 12.67

As of December 31, 2012, there was $179 thousand in unrecognized compensation cost related to unvested stock awards. That cost is expected to be recognized over a weighted average period of 1.29 years. The actual compensation cost recognized will differ from this estimate due to a number of items, including new awards granted and changes in estimated forfeitures.

Note 13. Litigation, Commitments and Contingencies

Litigation

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

Commitments and Contingencies

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash

requirements. The Company

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

evaluates each customer s creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management s credit evaluation of the counterparty. Collateral may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties. Commitments to extend credit, including availability on lines of credit, totaled $215.77 million at December 31, 2012, and $194.27 million at December 31, 2011. Additionally, the Company had gross notional amounts of outstanding commitments related to secondary market mortgage loans of $14.84 million at December 31, 2012, and $9.15 million at December 31, 2011.

Standby letters of credit and financial guarantees are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. To the extent deemed necessary, collateral of varying types and amounts is held to secure customer performance under certain of those letters of credit outstanding. Standby letters of credit and financial guarantees totaled $6.81 million at December 31, 2012, and $2.90 million at December 31, 2011. The Company maintained a reserve for unfunded lending commitments of $326 thousand at December 31, 2012, and $329 thousand at December 31, 2011.

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

Note 14. Derivative Instruments and Hedging Activities

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

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

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

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

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held for sale is subject to changes in fair value. Typically, the fair value of these loans declines when interest rates increase and rise when interest rates decrease.

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

(Amounts in thousands)	December 31, 2012	December 31, 2011
Derivatives not designated as hedges IRLC s	$ 14,841	$ 9,155

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

	December 31, 2012		December 31, 2011	
(Amounts in thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Asset derivatives				
Derivatives not designated as hedges				
IRLCs	Other assets	$ 144	Other assets	$ 135
Total		$ 144		$ 135
Liability derivatives				
Derivatives not designated as hedges				
IRLCs	Other liabilities	$ 16	Other liabilities	$ 6
Total		$ 16		$ 6

Effect of Derivatives and Hedging Activities on the Income Statement. For the years ended December 31, 2012 and 2011, the Company determined there was no amount of ineffectiveness on cash flow hedges. The following table details gains recognized in income on derivatives for the dates indicated:

	Income Statement	December 31,	
(Amounts in thousands)	Location	2012	2011
Derivatives not designated as hedges			
IRLCs	Other income	$	$ 160
Total		$	$ 160

Counterparty Credit Risk. Like other financial instruments, derivatives contain an element of credit risk. Credit risk is 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. All derivative contracts may be executed only with exchanges or counterparties approved by the Company s Asset/Liability Management Committee.

Note 15. Regulatory Capital Requirements and Restrictions

The Company and the Bank are subject to various regulatory capital requirements administered by state and federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company s financial statements. Under the capital adequacy guidelines and the regulatory framework for prompt corrective action, which applies only to the Bank, the Bank must meet specific capital guidelines that involve quantitative measures of the entity s assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank s capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios for total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined).

To be categorized as well capitalized, the Bank must maintain minimum total capital to risk-weighted assets, Tier 1 capital to risk-weighted assets, and Tier 1 capital to average assets (leverage) ratios established by banking regulators. At December 31, 2012, the Company and the Bank met all capital adequacy requirements to which they are subject. At December 31, 2012 and 2011, the most recent notifications from regulators categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since those notifications that management believes have changed the institution s category.

The following tables present the Company s and the Bank s capital ratios at December 31, 2012 and 2011:

	December 31, 2012					
	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
(Amounts in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital to Risk-Weighted Assets						
First Community Bancshares, Inc.	$ 282,729	16.70%	$ 135,441	8.00%	N/A	N/A
First Community Bank	255,219	15.23%	134,087	8.00%	$ 167,609	10.00%
Tier 1 Capital to Risk-Weighted Assets						
First Community Bancshares, Inc.	261,467	15.44%	67,720	4.00%	N/A	N/A
First Community Bank	234,226	13.97%	67,043	4.00%	100,565	6.00%
Tier 1 Capital to Average Assets (Leverage)						
First Community Bancshares, Inc.	261,467	9.96%	104,974	4.00%	N/A	N/A
First Community Bank	234,226	8.98%	104,304	4.00%	130,381	5.00%

	December 31, 2011					
	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
(Amounts in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital to Risk-Weighted Assets						
First Community Bancshares, Inc.	$ 257,836	18.15%	$ 113,626	8.00%	N/A	N/A
First Community Bank	226,508	16.12%	112,411	8.00%	$ 140,514	10.00%
Tier 1 Capital to Risk-Weighted Assets						
First Community Bancshares, Inc.	239,928	16.89%	56,813	4.00%	N/A	N/A
First Community Bank	208,833	14.86%	56,206	4.00%	84,308	6.00%
Tier 1 Capital to Average Assets (Leverage)						
First Community Bancshares, Inc.	239,928	11.50%	83,474	4.00%	N/A	N/A
First Community Bank	208,833	10.08%	82,909	4.00%	103,637	5.00%

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The primary source of funds for dividends paid by the Company is dividends received from the Bank. Dividends paid by the Bank are subject to restrictions by banking regulations. Approval by regulatory authorities is required if the effect of dividends declared would cause the regulatory capital of the Bank to fall below specified minimum levels. Approval is also required if dividends declared exceed the net profits for that year combined with the retained net profits for the preceding two years.

The Bank issues mortgages insured by the US Department of Housing and Urban Development (HUD) as a HUD-approved Title II Supervised Mortgagee. A Title II Supervised Mortgagee must maintain an adjusted net worth equal to a minimum of $1 million. Possible penalties related to noncompliance with this minimum net worth requirement includes the revocation of the Bank s license to issue HUD insured mortgages, which may have a material adverse effect on the Bank s financial condition and results of operations. As of December 31, 2012 and 2011, the Bank s adjusted net worth was $205.54 million and $176.63 million, respectively, which exceeds the required minimum net worth requirements.

Note 16. Other Operating Income and Expense

Other operating income and expense include certain costs, the total of which exceeds one percent of combined interest income and noninterest income, that are presented in the following table for the years indicated:

(Amounts in thousands)	**2012**	**2011**	**2010**
Other operating income			
Miscellaneous income	$ 2,459	$ 236	$ 261
Other operating expense			
Service fees	3,736	2,941	3,315
Professional fees	1,912	1,554	1,999
Office supplies	1,688	1,222	1,369
Telephone and data communications	1,548	1,616	1,468
ATM processing expenses	1,483	1,515	1,248
Advertising and public relations	1,421	1,683	1,584

Miscellaneous income for the year ended December 31, 2012, included the $2.39 million out-of-period adjustment to correct the understatement of pre-tax income from 2007 to 2011.

Related Party Fees

Included in other operating expense are legal fees paid to related parties totaling $63 thousand, $80 thousand, and $208 thousand in 2012, 2011, and 2010, respectively.

Note 17. Fair Value

Financial Instruments Measured at Fair Value

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

The fair value hierarchy is as follows:

Level 1 Inputs	Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

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

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

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

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

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

Fair value models may be required when trading activity has declined significantly or does not exist, prices are not current or pricing variations are significant. The Company s fair value from third party models utilizes modeling software that uses market participant data and knowledge of the structures of each individual security to develop cash flows specific to each security. The fair values of the securities are determined by using the cash

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flows developed by the fair value model and applying appropriate market observable discount rates. The discount rates are developed by determining credit spreads above a benchmark rate, such as LIBOR, and adding premiums for illiquidity developed based on a comparison of initial issuance spread to LIBOR versus a financial sector curve for recently issued debt to LIBOR. Specific securities that have increased uncertainty regarding the receipt of cash flows are discounted at higher rates due to the addition of a deal specific credit premium based on assumptions about the performance of the underlying collateral. Finally, internal fair value model pricing and external pricing observations are combined by assigning weights to each pricing observation. Pricing is reviewed for reasonableness based on the direction of the specific markets and the general economic indicators.

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

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

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

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

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

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

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

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

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

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

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

Recurring and Nonrecurring Fair Value

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

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

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

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

		December 31, 2012 Fair Value Measurements Using		
	Total Fair Value	Level 1	Level 2	Level 3
(Amounts in thousands)				
Impaired loans not covered by loss share agreements	$ 8,192			$ 8,192
OREO not covered by loss share agreements	5,704			5,704
OREO covered by loss share agreements	3,255			3,255

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

The fair value of goodwill on a nonrecurring basis at December 31, 2011, consisted of the carrying value of the insurance reporting unit after impairment charges of $1.24 million. There were no impairment charges to goodwill during 2012.

There were no transfers between valuation levels for any asset during the years ended December 31, 2012 or 2011. If valuation techniques are deemed necessary, the Company considers those transfers to occur at the end of the period when the assets are valued.

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

(Amounts in thousands)	Fair Value at December 31, 2012	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired loans	$ 8,192	Discounted appraisals (1)	Appraisal adjustments (2)	2% to 100% (41%)
OREO not covered by loss share agreements	5,704	Discounted appraisals (1)	Appraisal adjustments (2)	0% to 100% (34%)
OREO covered by loss share agreements	3,255	Discounted appraisals (1)	Appraisal adjustments (2)	43%

(1) Fair value is generally based on appraisals of the underlying collateral.
(2) Appraisals may be adjusted by management for customized discounting criteria, estimated sales costs, and proprietary qualitative adjustments.

Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

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

Deposits and Securities Sold Under Agreements to Repurchase: The fair value of deposits without a stated maturity, including demand, interest-bearing demand, and savings, is considered equal to the carrying amount

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which is the amount payable on demand at the reporting date. The fair value of deposits and repurchase agreements with fixed maturities and rates is estimated using discounted future cash flows that apply interest rates currently being offered on instruments with similar characteristics and maturities.

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

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

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

	December 31, 2012				
	Carrying		Fair Value Measurements Using		
(Amounts in thousands)	Amount	Fair Value	Level 1	Level 2	Level 3
Assets					
Cash and cash equivalents	$ 144,847	$ 144,847	$ 144,847	$	$
Available-for-sale securities	534,358	534,358		534,358	
Held-to-maturity securities	816	832		832	
Loans held for sale	6,672	6,774		6,774	
Loans held for investment less allowance	1,698,883	1,702,128			1,702,128
FDIC receivable under loss share agreements	48,073	48,073			48,073
Accrued interest receivable	7,842	7,842		7,842	
Derivative financial assets	144	144		144	
Deferred compensation assets	3,625	3,625	3,625		
Liabilities					
Demand deposits	$ 343,352	$ 343,352	$	$ 343,352	$
Interest-bearing demand deposits	353,321	353,321		353,321	
Savings deposits	500,276	500,276		500,276	
Time deposits	833,226	842,331		842,331	
Securities sold under agreements to repurchase	136,118	142,417		142,417	
Accrued interest payable	2,481	2,481		2,481	
FHLB and other indebtedness	177,435	200,418		200,418	
Derivative financial liabilities	16	16		16	
Deferred compensation liabilities	3,625	3,625	3,625		

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

Note 18. Accumulated Other Comprehensive Income

The components of the Company s accumulated other comprehensive loss, net of income taxes, for each of the years ended December 31, 2012, 2011, and 2010, were as follows:

(Amounts in thousands)	**Unrealized Loss on Securities**	**Unrealized Loss on Cash Flow Hedge Derivative**	**Benefit Plan Liability**	**Accumulated Other Comprehensive Loss**
December 31, 2012	$ (283)	$	$ (1,542)	$ (1,825)
December 31, 2011	$ (5,741)	$	$ (1,587)	$ (7,328)
December 31, 2010	$ (11,213)	$ (20)	$ (957)	$ (12,190)

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Note 19. Parent Company Financial Information

The following tables present condensed financial information for the parent company, First Community Bancshares, Inc. for the periods indicated:

Condensed Balance Sheets *(Amounts in thousands)*	**December 31, 2012**	**2011**
Assets		
Cash and due from banks	$ 12,476	$ 17,694
Securities available-for-sale	11,053	7,657
Investment in subsidiary	343,911	291,547
Other assets	4,541	5,014
Total assets	$ 371,981	$ 321,912
Liabilities		
Other borrowings	$ 194	$ 719
Subordinated debt	15,464	15,464
Total liabilities	15,658	16,183
Stockholders Equity		
Preferred stock	17,421	18,921
Common stock	20,343	18,083
Additional paid-in capital	213,829	188,118
Retained earnings	111,627	92,173
Treasury stock	(6,458)	(5,721)
Accumulated other comprehensive loss	(439)	(5,845)
Total stockholders equity	356,323	305,729
Total liabilities and stockholders equity	$ 371,981	$ 321,912

Condensed Statements of Operations *(Amounts in thousands)*	**Years Ended December 31, 2012**	**2011**	**2010**
Cash dividends received from subsidiary bank	$ 8,105	$	$
Other income	445	2,227	2,134
Operating expense	(1,318)	(1,796)	(1,556)
Income tax expense	(55)	(150)	(223)
Equity in undistributed earnings of subsidiary	21,400	19,747	21,492
Net income	28,577	20,028	21,847
Dividends on preferred stock	1,058	703	

Net income available to common shareholders	$ 27,519	$ 19,325	$ 21,847

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Statements of Cash Flows *(Amounts in thousands)*	**Years Ended December 31, 2012**	**2011**	**2010**
Operating activities			
Net income	$ 28,577	$ 20,028	$ 21,847
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiary	(21,400)	(19,747)	(21,492)
(Gain) loss on sale of securities	(49)	(139)	1
Decrease (increase) in other assets	123	(1,529)	238
Increase (decrease) in other liabilities	588	(5,748)	6,715
(Increase) decrease in other operating activities	(58)	776	(82)
Net cash provided by (used in) operating activities	7,781	(6,359)	7,227
Investing activities			
Proceeds from sales of securities available-for-sale	2,151	2,636	535
Payments to acquire securities available-for-sale	(5,137)	(6)	
Investment in subsidiary		(570)	(7,500)
Net cash (used in) provided by investing activities	(2,986)	2,060	(6,965)
Financing activities			
Proceeds from issuance of preferred stock		18,802	
Proceeds from stock options exercised	144	32	29
Payments for repurchase of treasury stock	(1,012)	(904)	
Payments for repurchase of warrants		(30)	
Payments of common dividends	(8,162)	(7,155)	(7,121)
Payments of preferred dividends	(1,120)	(558)	
Proceeds from other financing activities	137	100	1,110
Net cash (used in) provided by financing activities	(10,013)	10,287	(5,982)
Net (decrease) increase in cash and cash equivalents	(5,218)	5,988	(5,720)
Cash and cash equivalents at beginning of year	17,694	11,706	17,426
Cash and cash equivalents at end of year	$ 12,476	$ 17,694	$ 11,706

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 20. Supplemental Financial Data (Unaudited)

The following tables present quarterly earnings for the years ended December 31, 2012 and 2011:

	Quarter Ended			
2012	**March 31**	**June 30**	**Sept 30**	**Dec 31**
(Amounts in thousands, except per share data)				
Interest income	$ 22,682	$ 24,182	$ 31,536	$ 31,256
Interest expense	4,705	4,698	5,077	5,120
Net interest income	17,977	19,484	26,459	26,136
Provision for loan losses	922	1,620	1,916	1,220
Net interest income after provision for loan losses	17,055	17,864	24,543	24,916
Other income	7,940	8,352	10,935	9,000
Net gain (loss) on sale of securities	51	(9)	228	213
Other expenses	16,193	20,132	20,325	21,733
Income before income taxes	8,853	6,075	15,381	12,396
Income tax	2,852	1,997	5,322	3,957
Net income	6,001	4,078	10,059	8,439
Dividends on preferred stock	283	283	220	272
Net income available to common shareholders	$ 5,718	$ 3,795	$ 9,839	$ 8,167
Per share:				
Basic earnings	$ 0.32	$ 0.20	$ 0.49	$ 0.41
Diluted earnings	$ 0.31	$ 0.20	$ 0.47	$ 0.39
Dividends	$ 0.10	$ 0.11	$ 0.11	$ 0.11
Weighted average basic shares outstanding	17,849	18,562	20,013	20,064
Weighted average diluted shares outstanding	19,190	19,909	21,476	21,379

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FIRST COMMUNITY BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Quarter Ended			
2011	**March 31**	**June 30**	**Sept 30**	**Dec 31**
(Amounts in thousands, except per share data)				
Interest income	$ 24,590	$ 23,335	$ 23,050	$ 23,201
Interest expense	6,315	5,581	5,316	4,935
Net interest income	18,275	17,754	17,734	18,266
Provision for loan losses	1,612	3,079	1,920	2,436
Net interest income after provision for loan losses	16,663	14,675	15,814	15,830
Other income	7,663	8,139	7,888	6,580
Net securities gains	1,836	3,224	178	26
Other expenses	18,063	17,738	16,060	17,054
Income before income taxes	8,099	8,300	7,820	5,382
Income tax	2,348	2,572	2,502	2,151
Net income	5,751	5,728	5,318	3,231
Dividends on preferred stock		131	286	286
Net income available to common shareholders	$ 5,751	$ 5,597	$ 5,032	$ 2,945
Per share:				
Basic earnings	$ 0.32	$ 0.31	$ 0.28	$ 0.16
Diluted earnings	$ 0.32	$ 0.31	$ 0.28	$ 0.17
Dividends	$ 0.10	$ 0.10	$ 0.10	$ 0.10
Weighted average basic shares outstanding	17,868	17,896	17,897	17,849
Weighted average diluted shares outstanding	17,887	18,534	19,206	19,159

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- Report of Independent Registered Public Accounting Firm -

To the Audit Committee of the Board of Directors and the Stockholders

First Community Bancshares, Inc.

We have audited the accompanying consolidated balance sheets of First Community Bancshares, Inc. and its Subsidiaries (the Company) as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income, changes in stockholders equity and cash flows for each of the years in the three-year period ended December 31, 2012. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Community Bancshares, Inc. and its Subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 15, 2013, expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ Dixon Hughes Goodman LLP

Charlotte, North Carolina

March 15, 2013

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- Management s Assessment of Internal Control over Financial Reporting -

First Community Bancshares, Inc. (the Company) is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements included in this Annual Report on Form 10-K. The consolidated financial statements and notes included in this Annual Report on Form 10-K have been prepared in conformity with U.S. generally accepted accounting principles and necessarily include some amounts that are based on management s best estimates and judgments.

We, as management of the Company, are responsible for establishing and maintaining effective internal control over financial reporting that is designed to produce reliable financial statements in conformity with U.S. generally accepted accounting principles. The system of internal control over financial reporting as it relates to the financial statements is evaluated for effectiveness by management and tested for reliability. Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden and misstatements due to error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to financial statement preparation.

Management conducted an assessment of the effectiveness of the Company s internal control over financial reporting based on the framework in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that its system of internal control over financial reporting was effective as of December 31, 2012.

Dixon Hughes Goodman LLP, independent registered public accounting firm, has issued an attestation report on the effectiveness of the Company s internal control over financial reporting as of December 31, 2012. The Report of Independent Registered Public Accounting Firm, which expresses an unqualified opinion on the effectiveness of the Company s internal control over financial reporting as of December 31, 2012, appears hereafter in Item 8 of this Annual Report on Form 10-K.

Dated this 15th day of March, 2013.

/s/ John M. Mendez	/s/ David D. Brown
John M. Mendez President and Chief Executive Officer	David D. Brown Chief Financial Officer

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- Report of Independent Registered Public Accounting Firm -

To the Audit Committee of the Board of Directors and the Stockholders

First Community Bancshares, Inc.

We have audited First Community Bancshares, Inc. and Subsidiaries (the Company) internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Assessment of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, First Community Bancshares, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of First Community Bancshares, Inc. as of and for the year ended December 31, 2012, and our report, dated March 15, 2013, expressed an unqualified opinion on those consolidated financial statements.

/s/ Dixon Hughes Goodman LLP

Charlotte, North Carolina

March 15, 2013

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ITEM 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.
None.

ITEM 9A. Controls and Procedures.
Evaluation of Disclosure Controls and Procedures

In connection with this Annual Report on Form 10-K, under the direction of the Company s CEO and CFO, the Company has evaluated the disclosure controls and procedures currently in effect. Based upon that evaluation, the CEO and CFO concluded that, as of December 31, 2012, the Company s disclosure controls and procedures were effective.

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

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

The Company assesses the adequacy of its internal control over financial reporting quarterly and enhances its controls in response to internal control assessments and internal and external audit and regulatory recommendations. There were no changes in the Company s internal control over financial reporting during the quarter ended December 31, 2012, that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

The Company s Management s Report on Internal Control Over Financial Reporting and the Report of Independent Registered Public Accounting Firm on Management s Assessment of Internal Control Over Financial Reporting are each hereby incorporated by reference from Item 8 of this Annual Report on Form 10-K.

ITEM 9B. Other Information.
None.

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PART III

ITEM 10. Directors, Executive Officers and Corporate Governance.

The required information concerning directors and executive officers has been omitted in accordance with General Instruction G. Such information regarding directors and executive officers will be set forth under the headings of Proposal 1: Election of Directors, Continuing Incumbent Directors, Non-Director Executive Officers, Nominees for the Class of 2016, and Corporate Governance of the Proxy Statement relating to the 2013 Annual Meeting of Stockholders (the 2013 Annual Meeting) to be held on April 30, 2013, and is incorporated herein by reference.

Information relating to compliance with Section 16(a) of the Exchange Act has been omitted in accordance with General Instruction G. Such information will be set forth under the heading of Section 16(a) Beneficial Ownership Reporting Compliance of the Proxy Statement relating to the 2013 Annual Meeting and is incorporated herein by reference.

The Company has adopted Standards of Conduct that apply to its principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions, as well as all employees and directors of the Company. A copy of the Company s Standards of Conduct is available on the Company s website at www.fcbinc.com. There have been no waivers of the standards of conduct related to any of the above officers.

Information relating to the Audit Committee and the Audit Committee Financial Expert has been omitted in accordance with General Instruction G. Such information regarding the Audit Committee and the Audit Committee Financial Expert will be set forth under the heading Board Committees of the Proxy Statement relating to the 2013 Annual Meeting and is incorporated herein by reference.

Since the last annual report on Form 10-K, filed on March 2, 2012, the Company has not made any material changes to the procedures by which stockholders may recommend nominees to the Company s board of directors.

BOARD OF DIRECTORS, FIRST COMMUNITY BANCSHARES, INC.

W. C. Blankenship, Jr.

Agent, State Farm Insurance

Franklin P. Hall

Businessman; Chairman, Hall & Hall Family Law Firm; Former Commissioner, Virginia Department of Alcoholic Beverage Control; Former Chairman, The CommonWealth Bank; Former Minority Leader, Virginia House of Delegates; Commissioner, Richmond Redevelopment & Housing Authority

Richard S. Johnson

Chairman, President, and CEO, The Wilton Companies; Chairman, Economic Development Authority of the City of Richmond; Trustee, University of Richmond

John M. Mendez

President and Chief Executive Officer, First Community Bancshares, Inc.; Chief Executive Officer, First Community Bank

Robert E. Perkinson, Jr.

Past Vice President-Operations, MAPCO Coal, Inc. Virginia Region

William P. Stafford

President, Princeton Machinery Service, Inc.

William P. Stafford, II

I. Norris Kantor

Of Counsel, Katz, Kantor, Stonestreet & Buckner, Attorneys at Law; Board of Governors, Bluefield State College

Attorney at Law, Brewster, Morhous, Cameron, Caruth, Moore, Kersey & Stafford, PLLC

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EXECUTIVE OFFICERS, FIRST COMMUNITY BANCSHARES, INC.

John M. Mendez
President and Chief Executive Officer

E. Stephen Lilly
Chief Operating Officer

David D. Brown
Chief Financial Officer

Robert L. Buzzo
Vice President and Secretary

Robert L. Schumacher
General Counsel

BOARD OF DIRECTORS, FIRST COMMUNITY BANK

James H. Atkinson, Jr.

Retired Chief Executive Officer, Peoples Bank of Virginia

W. C. Blankenship, Jr.

Agent, State Farm Insurance

Juanita G. Bryan

Homemaker

Robert L. Buzzo

Vice President and Secretary, First Community Bancshares, Inc.; President, First Community Bank

C. William Davis

Attorney at Law, Richardson & Davis

Samuel L. Elmore

Senior Vice President Commercial Lending for Raleigh County, W.Va. Market, First Community Bank

Richard S. Johnson

Chairman, President, and CEO, The Wilton Companies; Chairman, Economic Development Authority of the City of Richmond; Trustee, University of Richmond

I. Norris Kantor

Of Counsel, Katz, Kantor, Stonestreet & Buckner, Attorneys at Law; Board of Governors, Bluefield State College

John M. Mendez

President and Chief Executive Officer, First Community Bancshares, Inc.; Chief Executive Officer, First Community Bank

Robert E. Perkinson, Jr.

Past Vice President-Operations, MAPCO Coal, Inc. Virginia Region

William P. Stafford

President, Princeton Machinery Service, Inc.

William P. Stafford, II

Attorney at Law, Brewster, Morhous, Cameron, Caruth, Moore, Kersey & Stafford, PLLC

T. Vernon Foster

President of J. La Verne Print Communications; Past Director, TriStone Community Bank; Executive Director: MBA Programs, Career Management & Public Relations, University of Louisville, College of Business

Frank C. Tinder

President, Tinder Enterprises, Inc. and Tinco Leasing Corporation; Realtor, Premier Realty

Franklin P. Hall

Businessman; Chairman, Hall & Hall Family Law Firm; Former Commissioner, Virginia Department of Alcoholic Beverage Control; Former Chairman, The CommonWealth Bank; Former Minority Leader, Virginia House of Delegates; Commissioner, Richmond Redevelopment & Housing Authority

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ITEM 11. Executive Compensation.

The information called for by Item 11 has been omitted in accordance with General Instruction G. Such information will be set forth under the headings of Compensation Discussion and Analysis and Board Committees of the Proxy Statement relating to the 2013 Annual Meeting and is incorporated herein by reference.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The required information concerning security ownership of certain beneficial owners and management has been omitted in accordance with General Instruction G. Such information appears under the heading of Information on Stock Ownership of the Proxy Statement relating to the 2013 Annual Meeting and is incorporated herein by reference.

Equity Compensation Plan Information

Information regarding compensation plans under which the Company s equity securities are authorized for issuance as of December 31, 2012, is included in the following table.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	106,224	$ 16.38	600,000
Equity compensation plans not approved by security holders	390,156	$ 20.78	49,841
Total	496,380		649,841

For additional information regarding equity compensation plans, see Note 12 Equity-Based Compensation of the Notes to Consolidated Financial Statements in Item 8 herein.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence.

The information called for by Item 13 has been omitted in accordance with General Instruction G. Such information will be set forth under the headings of Related Person Transactions and Corporate Governance of the Proxy Statement relating to the 2013 Annual Meeting and is incorporated herein by reference.

ITEM 14. Principal Accounting Fees and Services.

The information called for by Item 14 has been omitted in accordance with General Instruction G. Such information will be set forth under the heading of Independent Registered Public Accounting Firm of the Proxy Statement relating to the 2013 Annual Meeting and is incorporated herein by reference.

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PART IV

ITEM 15. Exhibits, Financial Statement Schedules.

(a) *Documents Filed as a Part of this Report*

(1) The following financial statements are incorporated by reference from Item 8 herein:

Consolidated Balance Sheets as of December 31, 2012 and 2011.

Consolidated Statements of Operations for the Years Ended December 31, 2012, 2011 and 2010.

Consolidated Statements of Cash Flows for the Years Ended December 31, 2012, 2011 and 2010.

Consolidated Statement of Changes in Stockholders Equity for the Years Ended December 31, 2012, 2011 and 2010.

Notes to Consolidated Financial Statements.

Report of Independent Registered Public Accounting Firm.

(2) All schedules for which provision is made in the applicable accounting regulation of the SEC are omitted because they are not applicable or the required information is included in the consolidated financial statements or related notes thereto.

(b) *Exhibits*

Exhibit

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

10.4**	First Community Bancshares, Inc. and Affiliates Executive Retention Plan (12), Amendment #1 (13), and Amendment #2 (33).
10.5**	First Community Bancshares, Inc. Split Dollar Plan and Agreement. (14)
10.6**	First Community Bancshares, Inc. Supplemental Directors Retirement Plan, as amended and restated. (15)
10.7**	First Community Bancshares, Inc. Wrap Plan, as amended and restated. (16)
10.8**	Employment Agreement between First Community Bank and Marshall E. McCall dated March 1, 2012. (31)
10.9**	Form of Indemnification Agreement between First Community Bancshares, Inc., its Directors, and Certain Executive Officers. (17)

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Exhibit No.	Exhibit
10.10**	Form of Indemnification Agreement between First Community Bank, its Directors, and Certain Executive Officers. (17)
10.12**	First Community Bancshares, Inc. 2004 Omnibus Stock Option Plan (18) and Stock Award Agreement. (19)
10.13**	First Community Bancshares, Inc. 2012 Omnibus Equity Compensation Plan (32)
10.14**	First Community Bancshares, Inc. Directors Deferred Compensation Plan, as amended and restated. (20)
10.19**	Employment Agreement between First Community Bancshares, Inc. and David D. Brown dated December 16, 2008. (22)
10.20**	Employment Agreement between First Community Bancshares, Inc. and Robert L. Buzzo dated December 16, 2008, as amended and restated. (23)
10.21**	Employment Agreement between First Community Bancshares, Inc. and E. Stephen Lilly dated December 16, 2008, as amended and restated. (24)
10.22**	Employment Agreement between First Community Bank and Gary R. Mills dated December 16, 2008. (25)
10.23**	Employment Agreement between First Community Bank and Martyn A. Pell dated December 16, 2008. (26)
10.24**	Employment Agreement between First Community Bank and Robert L. Schumacher dated December 16, 2008. (27)
10.25**	Employment Agreement between First Community Bank and Simpson O. Brown dated July 31, 2009. (28)
10.26**	Employment Agreement between First Community Bank and Mark R. Evans dated July 31, 2009. (28)
11	Statement Regarding Computation of Earnings per Share. (30)
12*	Statement Regarding Computation of Ratios.
21*	Subsidiaries of the Registrant.
23.1*	Consent of Independent Registered Public Accounting Firm.
31.1*	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2*	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
32*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS***	XBRL Instance Document #
101.SCH***	XBRL Taxonomy Extension Schema Document #
101.CAL***	XBRL Taxonomy Extension Calculation Linkbase Document #
101.LAB***	XBRL Taxonomy Extension Label Linkbase Document #
101.PRE***	XBRL Taxonomy Extension Presentation Linkbase Document #
101.DEF***	XBRL Taxonomy Extension Definition Linkbase Document #

In accordance with Rule 406T of SEC Regulation S-T, the XBRL related documents in Exhibit 101 to this Annual Report on Form 10-K for the year ended December 31, 2012, are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended,

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are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these Sections.

* Incorporated herewith.
** Indicates a management contract or compensation plan.
*** Submitted electronically herewith.
\# Attached as Exhibit 101 to the Annual Report on Form 10-K for the year ended December 31, 2012, of First Community Bancshares, Inc. are the following documents formatted in XBRL (eXtensive Business Reporting Language): (i) Consolidated Balance Sheets as of December 31, 2012, and December 31, 2011; (ii) Consolidated Statements of Income for the years ended December 31, 2012, 2011, and 2010; (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2012, 2011, and 2010; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011, and 2010; (v) Consolidated Statements of Stockholders Equity for the years ended December 31, 2012, 2011, and 2010;and (vi) Notes to the Consolidated Financial Statements.

(1) Incorporated by reference from Exhibit 3(i) of the Quarterly Report on Form 10-Q for the period ended June 30, 2010, filed on August 16, 2010.
(2) Incorporated by reference from Exhibit 3.1 of the Current Report on Form 8-K dated and filed on August 28, 2012.
(3) Incorporated by reference from Exhibit 4.1 of the Annual Report on Form 10-K for the period ended December 31, 2002, filed on March 25, 2003, amended on March 31, 2003.
(4) Incorporated by reference from Exhibit 4.2 of the Quarterly Report on Form 10-Q for the period ended September 30, 2003, filed on November 10, 2003.
(5) Incorporated by reference from Exhibit 4.3 of the Quarterly Report on Form 10-Q for the period ended September 30, 2003, filed on November 10, 2003.
(6) Incorporated by reference from Exhibit 4.4 of the Quarterly Report on Form 10-Q for the period ended September 30, 2003, filed on November 10, 2003.
(7) Incorporated by reference from Exhibit 4.1 of the Current Report on Form 8-K dated May 20, 2011, filed on May 23, 2011.
(8) Incorporated by reference from Exhibit 10.5 of the Quarterly Report on Form 10-Q for the period ended June 30, 2002, filed on August 14, 2002.
(9) Incorporated by reference from Exhibit 10.1 of the Annual Report on Form 10-K for the period ended December 31, 1999, filed on March 30, 2000, amended on April 13, 2000.
(10) Incorporated by reference from Exhibit 10.1.1 of the Quarterly Report on Form 10-Q for the period ended March 31, 2004, filed on May 7, 2004.
(11) Incorporated by reference from Exhibit 10.4 of the Quarterly Report on Form 10-Q for the period ended June 30, 2002, filed on August 14, 2002.
(12) Incorporated by reference from Exhibit 10.1 of the Current Report on Form 8-K dated December 30, 2008, filed on January 5, 2009.
(13) Incorporated by reference from Exhibit 10.3 of the Current Report on Form 8-K dated December 16, 2010, filed on December 17, 2010.
(14) Incorporated by reference from Exhibit 10.5 of the Annual Report on Form 10-K for the period ended December 31, 1999, filed on March 30, 2000, amended on April 13, 2000.
(15) Incorporated by reference from Exhibit 10.1 of the Current Report on Form 8-K dated December 16, 2010, filed on December 17, 2010.
(16) Incorporated by reference from Exhibit 99.1 of the Current Report on Form 8-K dated August 22, 2006, filed on August 23, 2006.
(17) Form of indemnification agreement entered into by the Company and First Community Bank with their respective directors and certain officers of each including, for the Registrant and Bank: John M. Mendez, Robert L. Schumacher, Robert L. Buzzo, E. Stephen Lilly, David D. Brown, and Gary R. Mills. Incorporated by reference from the Annual Report on Form 10-K for the period ended December 31, 2003, filed on March 15, 2004, amended on May 19, 2004.

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(18) Incorporated by reference from the 2004 First Community Bancshares, Inc. Definitive Proxy Statement filed on March 15, 2004.
(19) Incorporated by reference from Exhibit 10.13 of the Quarterly Report on Form 10-Q for the period ended June 30, 2004, filed on August 6, 2004.
(20) Incorporated by reference from Exhibit 99.2 of the Current Report on Form 8-K dated August 22, 2006, filed on August 23, 2006.
(21) Incorporated by reference from Exhibit 10.1 of the Current Report on Form 8-K dated and filed on December 16, 2008.
(22) Incorporated by reference from Exhibit 10.2 of the Current Report on Form 8-K dated and filed on December 16, 2008.
(23) Incorporated by reference from Exhibit 10.1 of the Current Report on Form 8-K dated and filed on July 6, 2009.
(24) Incorporated by reference from Exhibit 10.2 of the Current Report on Form 8-K dated and filed on July 6, 2009.
(25) Incorporated by reference from Exhibit 10.3 of the Current Report on Form 8-K dated and filed on July 6, 2009.
(26) Incorporated by reference from Exhibit 10.4 of the Current Report on Form 8-K dated and filed on July 6, 2009.
(27) Incorporated by reference from Exhibit 10.5 of the Current Report on Form 8-K dated and filed on July 6, 2009.
(28) Incorporated by reference from Exhibit 2.1 of the Current Report on Form 8-K dated April 2, 2009, filed on April 3, 2009.
(29) Incorporated by reference from Exhibit 10.2 of the Current Report on Form 8-K dated December 16, 2010, filed on December 17, 2010.
(30) Incorporated by reference from Note 1 of the Notes to Consolidated Financial Statements included herein.
(31) Incorporated by reference from Exhibit 2.1 of the Current Report on Form 8-K dated and filed on March 1, 2012.
(32) Incorporated by reference from the 2012 First Community Bancshares, Inc. Definitive Proxy Statement filed on March 7, 2012.
(33) Incorporated by reference from Exhibit 10.1 of the Current Report on Form 8-K dated February 21, 2013, filed on February 25, 2013.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 15th day of March, 2013.

First Community Bancshares, Inc.

(Registrant)

By: /s/ John M. Mendez	By: /s/ David D. Brown
John M. Mendez President and Chief Executive Officer	David D. Brown Chief Financial Officer
(Principal Executive Officer)	(Principal Financial Officer and Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ John M. Mendez John M. Mendez	Director, President and Chief Executive Officer	March 15, 2013
/s/ David D. Brown David D. Brown	Chief Financial Officer	March 15, 2013
/s/ W.C. Blankenship, Jr. W.C. Blankenship, Jr.	Director	March 15, 2013
/s/ Franklin P. Hall Franklin P. Hall	Director	March 15, 2013
/s/ Richard S. Johnson Richard S. Johnson	Director	March 15, 2013
/s/ Robert E. Perkinson, Jr. Robert E. Perkinson, Jr.	Director	March 15, 2013
/s/ William P. Stafford William P. Stafford	Director	March 15, 2013
/s/ William P. Stafford, II William P. Stafford, II	Chairman of the Board of Directors	March 15, 2013