FIRST COMMUNITY BANCSHARES INC /NV/
Form 10-Q
August 09, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarter ended June 30, 2011
Commission file number 000-19297
FIRST COMMUNITY BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.
Class Common Stock, $1.00 Par Value; 17,917,824 shares outstanding as of August 5, 2011

FIRST COMMUNITY BANCSHARES, INC.
FORM 10-Q
For the quarter ended June 30, 2011
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ITEM 1. Financial Statements

FIRST COMMUNITY BANCSHARES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)	June 30, 2011 (Unaudited)	December 31, 2010
Assets		
Cash and due from banks	$ 31,451	$ 28,816
Federal funds sold	162,629	81,526
Interest-bearing balances with banks	36,539	1,847
Total cash and cash equivalents	230,619	112,189
Securities available-for-sale	349,976	480,064
Securities held-to-maturity	4,106	4,637
Loans held for sale	920	4,694
Loans held for investment, net of unearned income	1,373,944	1,386,206
Less allowance for loan losses	26,482	26,482
Net loans held for investment	1,347,462	1,359,724
Premises and equipment, net	55,808	56,244
Other real estate owned	5,585	4,910
Interest receivable	6,202	7,675
Goodwill	85,132	84,914
Other intangible assets	5,205	5,725
Other assets	115,385	123,462
Total assets	$ 2,206,400	$ 2,244,238
Liabilities		
Deposits:		
Noninterest-bearing	$ 219,488	$ 205,151
Interest-bearing	1,360,188	1,415,804
Total deposits	1,579,676	1,620,955
Interest, taxes and other liabilities	20,563	21,318
Securities sold under agreements to repurchase	137,778	140,894
FHLB borrowings	150,000	175,000
Other indebtedness	16,179	16,193
Total liabilities	1,904,196	1,974,360
Stockholders Equity		
Preferred stock, par value undesignated; 1,000,000 shares authorized; no shares issued or outstanding at June 30, 2011, or December 31, 2010	18,921	

Series A preferred stock, $0.01 par value; 25,000 shares authorized; 18,921 shares issued at June 30, 2011, and no shares issued at December 31, 2010		
Common stock, $1 par value; 50,000,000 shares authorized; 18,082,822 shares issued at June 30, 2011, and 18,082,822 issued at December 31, 2010, and 164,998 and 216,487 shares in treasury, respectively	18,083	18,083
Additional paid-in capital	188,278	189,239
Retained earnings	89,257	81,486
Treasury stock, at cost	(5,137)	(6,740)
Accumulated other comprehensive loss	(7,198)	(12,190)
Total stockholders equity	302,204	269,878
Total liabilities and stockholders equity	$ 2,206,400	$ 2,244,238

See Notes to Consolidated Financial Statements.

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FIRST COMMUNITY BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(Dollars In Thousands, Except Share and Per Share Data)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Interest Income				
Interest and fees on loans held for investment	$ 20,094	$ 20,997	$ 40,549	$ 42,351
Interest on securities taxable	1,850	3,730	4,383	7,516
Interest on securities nontaxable	1,291	1,394	2,824	2,820
Interest on deposits in banks	100	34	169	80
Total interest income	23,335	26,155	47,925	52,767
Interest Expense				
Interest on deposits	3,273	5,106	7,153	10,608
Interest on borrowings	2,308	2,507	4,743	4,998
Total interest expense	5,581	7,613	11,896	15,606
Net interest income	17,754	18,542	36,029	37,161
Provision for loan losses	3,079	3,596	4,691	7,261
Net interest income after provision for loan losses	14,675	14,946	31,338	29,900
Noninterest Income				
Wealth management income	930	1,012	1,824	1,897
Service charges on deposit accounts	3,353	3,347	6,384	6,339
Other service charges and fees	1,461	1,250	2,867	2,531
Insurance commissions	1,561	1,389	3,504	3,590
Total impairment losses on securities		(185)	(527)	(185)
Portion of loss recognized in other comprehensive income				
Net impairment losses recognized in earnings		(185)	(527)	(185)
Net gains on sale of securities	3,224	1,201	5,060	1,451
Other operating income	834	890	1,750	1,859
Total noninterest income	11,363	8,904	20,862	17,482
Noninterest Expense				
Salaries and employee benefits	8,685	8,487	17,814	16,456
Occupancy expense of bank premises	1,568	1,570	3,215	3,279
Furniture and equipment expense	909	918	1,824	1,822
Amortization of intangible assets	261	253	520	509
FDIC premiums and assessments	414	710	1,292	1,411
Prepayment penalties on FHLB advances			471	
Other operating expense	5,901	4,660	10,665	9,193
Total noninterest expense	17,738	16,598	35,801	32,670

Income before income taxes	8,300	7,252	16,399	14,712
Income tax expense	2,572	2,121	4,920	4,303
Net income	5,728	5,131	11,479	10,409
Dividends on preferred stock	131		131	
Net income available to common shareholders	$ 5,597	$ 5,131	$ 11,348	$ 10,409
Basic earnings per common share	$ 0.31	$ 0.29	$ 0.63	$ 0.59
Diluted earnings per common share	$ 0.31	$ 0.29	$ 0.63	$ 0.59
Cash dividends per common share	$ 0.10	$ 0.10	$ 0.20	$ 0.20
Weighted average basic shares outstanding	17,895,904	17,787,325	17,882,006	17,776,500
Weighted average diluted shares outstanding	18,534,489	17,805,393	18,200,184	17,792,535

See Notes to Consolidated Financial Statements.

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FIRST COMMUNITY BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Six Months Ended June 30,	
(Dollars In Thousands)	**2011**	**2010**
Operating activities:		
Net income	$ 11,479	$ 10,409
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	4,691	7,261
Depreciation and amortization of premises and equipment	2,034	2,036
Intangible amortization	520	509
Net investment amortization and accretion	162	7
Net loss on the sale of property, plant, and equipment	42	56
Net gain on the sale of securities	(5,060)	(1,425)
Mortgage loans originated for sale	(19,704)	(17,365)
Proceeds from sales of mortgage loans	23,884	27,157
Gain on sales of loans	(406)	(357)
Equity-based compensation expense	21	36
Deferred income tax expense (benefit)	2,618	(147)
Decrease in interest receivable	1,473	751
FHLB debt prepayment fees	471	
Net impairment losses recognized in earnings	527	185
Other operating activities, net	1,638	10,116
Net cash provided by operating activities	24,390	39,229
Investing activities:		
Proceeds from sales of securities available-for-sale	182,167	71,708
Proceeds from maturities and calls of securities available-for-sale	19,317	38,488
Proceeds from maturities and calls of securities held-to-maturity	535	998
Purchase of securities available-for-sale	(59,334)	(113,690)
Proceeds from (originations of) loans and leases	6,822	(15,098)
Proceeds from the redemption of FHLB stock	736	
Purchase of property, plant, and equipment	(1,799)	(1,552)
Proceeds from sales of property, plant, and equipment	175	86
Net cash provided by (used in) investing activities	148,619	(19,060)
Financing activities:		
Net increase (decrease) in noninterest-bearing deposits	14,337	(2,513)
Net decrease in interest-bearing deposits	(55,616)	(30,028)
Net decrease in FHLB and other borrowings	(25,014)	(3,059)
FHLB debt prepayment fees	(471)	
Net decrease in securities sold under agreement to repurchase	(3,116)	(5,862)
Proceeds from the exercise of stock options	32	30
Net proceeds from the issuance of preferred stock	18,841	

Excess tax benefit from stock-based compensation	5	9
Common dividends paid	(3,577)	(3,556)
Net cash used in financing activities	(54,579)	(44,979)
Increase (decrease) in cash and cash equivalents	118,430	(24,810)
Cash and cash equivalents at beginning of period	112,189	101,341
Cash and cash equivalents at end of period	$ 230,619	$ 76,531
Supplemental information noncash items	$ 5,065	$ 5,075
Transfer of loans to other real estate		

See Notes to Consolidated Financial Statements.

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FIRST COMMUNITY BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY
(Unaudited)

(Dollars in Thousands)	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
Comprehensive income:							
Net income				10,409			10,409
Other comprehensive income see note 9						8,205	8,205
Comprehensive income				10,409		8,205	18,614
Common dividends declared and paid				(3,556)			(3,556)
Issuance of vested shares			(25)		25		
Equity-based compensation expense			36				36
Retirement plan contribution 38,560 shares issued			(667)		1,201		534
Option exercises 2,631 shares			(52)		82		30
Balance June 30, 2010	$	$ 18,083	$ 190,259	$ 73,613	$ (8,583)	$ (5,447)	$ 267,925
Balance January 1, 2011	$	$ 18,083	$ 189,239	$ 81,486	$ (6,740)	$ (12,190)	$ 269,878
Comprehensive income:							
Net income				11,479			11,479
Other comprehensive income see note 9						4,992	4,992
Comprehensive income				11,479		4,992	16,471
Common dividends declared and paid				(3,577)			(3,577)
Preferred dividends declared				(131)			(131)
Issuance of preferred stock	18,921		(80)				18,841
Issuance of vested shares			(22)		22		
Equity-based compensation expense			13		8		21
			(812)		1,481		669

Retirement plan contribution 47,570 shares issued							
Option exercises 2,969 shares			(60)		92		32
Balance June 30, 2011	$ 18,921	$ 18,083	$ 188,278	$ 89,257	$ (5,137)	$ (7,198)	$ 302,204

See Notes to Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. General

Unaudited Consolidated Financial Statements

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

The consolidated balance sheet as of December 31, 2010, has been derived from the audited consolidated financial statements included in the Company s 2010 Annual Report on Form 10-K (the 2010 Form 10-K). Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with GAAP have been omitted in accordance with standards for the preparation of interim consolidated financial statements. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s 2010 Form 10-K.

A more complete and detailed description of First Community s significant accounting policies is included within Note 1 of Item 8, Financial Statements and Supplementary Data in the Company s 2010 Form 10-K. Further discussion of the Company s application of critical accounting policies is included within the Application of Critical Accounting Policies section of Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operations, included herein.

The Company operates within two business segments-community banking and insurance services. Insurance services are comprised of agencies that sell property and casualty and life and health insurance policies and arrangements. All other operations, including commercial and consumer banking, lending activities, and wealth management are included within the banking segment.

Earnings Per Share

Basic earnings per share are determined by dividing net income available to common shareholders by the weighted average number of shares outstanding. Diluted earnings per share are determined by dividing net income by the weighted average shares outstanding, which includes the dilutive effect of stock options, warrants, contingently issuable shares, and convertible preferred shares. Basic and diluted net income per common share calculations follow:

	For the Three Months ended June 30,		For the Six Months ended June 30,	
(In Thousands, Except Share and Per Share Data)	**2011**	**2010**	**2011**	**2010**
Net income	$ 5,728	$ 5,131	$ 11,479	$ 10,409
Dividends on preferred stock	131		131	
Net income available to common shareholders	$ 5,597	$ 5,131	$ 11,348	$ 10,409
Weighted average shares outstanding	17,895,904	17,787,325	17,882,006	17,776,500
Diluted shares for stock options	27,497	6,487	6,706	4,454
Contingently issuable shares	8,527	11,581	8,527	11,581
Convertible preferred shares	602,561		302,945	
Weighted average dilutive shares outstanding	18,534,489	17,805,393	18,200,184	17,792,535
Basic earnings per share	$ 0.31	$ 0.29	$ 0.63	$ 0.59
Diluted earnings per share	$ 0.31	$ 0.29	$ 0.63	$ 0.59

For the three- and six-month periods ended June 30, 2011, options and warrants to purchase 457,045 and 480,396 shares, respectively, of common stock were outstanding but were not included in the computation of diluted earnings per common

share because they would have an anti-dilutive effect. Likewise, options and warrants to purchase 576,962 and 699,156 shares, respectively, of common stock were excluded from the three- and six-month periods ended June 30, 2010, computation of diluted earnings per common share because their effect would be anti-dilutive.

Series A Preferred Stock

On May 20, 2011, the Company completed a private placement of 18,921 shares of its Series A Preferred Stock. The shares carry a 6% dividend rate and are non-cumulative. Each share is convertible into 69 shares of the Company s common stock at any time and mandatorily convert after five years. The Company may redeem the shares at face value after the third anniversary.

Recent Accounting Pronouncements

Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) Topic 310, Receivables. New authoritative accounting guidance under ASC Topic 310 amends prior guidance to provide financial statement users with greater transparency about an entity s allowance for credit losses and the credit quality of its financing receivables by providing additional information to assist financial statement users in assessing an entity s credit risk exposures and evaluating the adequacy of its allowance for credit losses. The Company adopted the provisions of the new authoritative accounting guidance under ASC Topic 310 during the fourth quarter of 2010. Other than the additional disclosures, the adoption of the new guidance had no significant impact on the Company s financial statements.

In April 2011, FASB issued Accounting Standard Update (ASU) 2011-02 A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring, which clarifies when creditors should classify loan modifications as troubled debt restructurings. The guidance is effective for interim and annual periods beginning on or after June 15, 2011, and is applied retrospectively to restructurings at the beginning of the year of adoption. The guidance on measuring the impairment of a receivable restructured in a troubled restructuring is effective on a prospective basis. The Company is currently assessing the impact on its financial statements.

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 guidance is effective for interim and annual periods beginning on or after December 15, 2011, and is applied on a prospective basis. The Company is currently assessing the impact on its financial statements.

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requires in the U.S. GAAP and IFRSs, which was issued primarily to provide largely identical guidance about fair value measurement and disclosure requirements for International Financial Reporting Standards (IFRS) and U.S. 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 U.S. GAAP. For U.S. GAAP, most of the changes are clarifications of existing guidance or wording changes to align with IFRS. Public companies are required to apply the standard prospectively for interim and annual periods beginning after December 15, 2011. The Company is currently assessing the impact on its financial statements.

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 removes the presentation options in ASC 22 and requires entities to report components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. ASU 2011-05 does not change the items that must be reported in other comprehensive income. The amendments of ASU 2011-05 are effective for fiscal years and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. The Company is currently assessing the impact on its financial statements.

Conversion to State Charter

Effective with the close of business June 28, 2011, the Company s wholly-owned banking subsidiary, First Community Bank, converted its charter from a national association to a Virginia state-chartered banking institution. First Community Bank will continue operating under the name First Community Bank. The charter conversion does not affect insurance coverage of First Community Bank s deposits, which are insured by the Federal Deposit Insurance

Corporation (FDIC) to the maximum amounts permitted by law, and does not affect the financial services or products provided by First Community Bank. As a Virginia state-chartered bank, First Community Bank is supervised and regulated by the Virginia Bureau of Financial Institutions and its primary federal regulator is the Federal Reserve Bank of Richmond, both of which are based in the Company s home state of Virginia. As a financial holding company, the Company will continue to be supervised and regulated by the Board of Governors of the Federal Reserve System.

Note 2. Mergers, Acquisitions, and Branching Activity

In July 2010, GreenPoint Insurance Group, Inc. (GreenPoint), the Company s wholly-owned insurance subsidiary, acquired Murphy Insurance Agency, based in Princeton, West Virginia, issuing cash consideration of approximately $190 thousand. Acquisition terms call for additional cash consideration if certain operating performance targets are met. The Company has recorded the fair value of the expected additional cash consideration as $477 thousand in long-term debt. If those targets are not met, the value of the consideration ultimately paid will decrease the liability and will be recognized as a gain in the period in which the targets are not met. Goodwill and other intangibles associated with the acquisition total approximately $667 thousand.

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Note 3. Investment Securities
As of June 30, 2011, and December 31, 2010, the amortized cost and estimated fair value of available-for-sale securities were as follows:

	June 30, 2011				
(In Thousands)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**	**OTTI in AOCI***
States and political subdivisions	$ 124,579	$ 2,653	$ (452)	$ 126,780	$
Single issue trust preferred securities	55,618		(9,021)	46,597	
Corporate FDIC insured	13,830		(28)	13,802	
Mortgage-backed securities:					
Agency	147,304	3,748	(126)	150,926	
Non-Agency Alt-A residential	18,191		(6,935)	11,256	(6,935)
Total mortgage-backed securities	165,495	3,748	(7,061)	162,182	(6,935)
Equity securities	440	218	(43)	615	
Total	$ 359,962	$ 6,619	$ (16,605)	$ 349,976	$ (6,935)

	December 31, 2010				
(In Thousands)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**	**OTTI in AOCI***
U.S. Government agency securities	$ 10,000	$	$ (168)	$ 9,832	$
States and political subdivisions	178,149	2,649	(4,660)	176,138	
Trust preferred securities:					
Single issue	55,594		(14,350)	41,244	
Pooled	23	241		264	
Total trust preferred securities	55,617	241	(14,350)	41,508	
Corporate FDIC insured	25,282	378		25,660	
Mortgage-backed securities:					
Agency	209,281	7,039	(1,307)	215,013	
Non-Agency Alt-A residential	19,181		(7,904)	11,277	(7,904)
Total mortgage-backed securities	228,462	7,039	(9,211)	226,290	(7,904)
Equity securities	495	206	(65)	636	
Total	$ 498,005	$ 10,513	$ (28,454)	$ 480,064	$ (7,904)

* Other-than-temporary impairment in accumulated other comprehensive income.

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As of June 30, 2011, and December 31, 2010, the amortized cost and estimated fair value of held-to-maturity securities were as follows:

	June 30, 2011			
(In Thousands)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
States and political subdivisions	$ 4,106	$ 51	$	$ 4,157
Total	$ 4,106	$ 51	$	$ 4,157

	December 31, 2010			
(In Thousands)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
States and political subdivisions	$ 4,637	$ 67	$	$ 4,704
Total	$ 4,637	$ 67	$	$ 4,704

The amortized cost and estimated fair value of available-for-sale securities by contractual maturity at June 30, 2011, 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.

(In Thousands)	**Amortized Cost**	**Fair Value**
Due within one year	$ 116	$ 118
Due after one year but within five years	27,147	27,545
Due after five years but within ten years	24,073	25,072
Due after ten years	142,691	134,444
	194,027	187,179
Mortgage-backed securities	165,495	162,182
Equity securities	440	615
Total	$ 359,962	$ 349,976

The amortized cost and estimated fair value of held-to-maturity securities by contractual maturity at June 30, 2011, 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.

(In Thousands)	**Amortized Cost**	**Fair Value**
Due within one year	$ 1,426	$ 1,441
Due after one year but within five years	2,310	2,340
Due after five years but within ten years	370	376
Due after ten years		
Total	$ 4,106	$ 4,157

The carrying value of securities pledged to secure public deposits as required by law and for other purposes was $246.86 million and $302.67 million at June 30, 2011, and December 31, 2010, respectively.

During the three months ended June 30, 2011, gross gains on the sale of securities were $4.33 million while gross losses were $1.10 million. During the six months ended June 30, 2011, gross gains on the sale of securities were $6.68 million while gross losses were $1.62 million. During the three months ended June 30, 2010, gross gains on the sale of securities were $1.23 million while gross losses were $26 thousand. During the six months ended June 30, 2010, gross gains on the sale of securities were $1.49 million while gross losses were $34 thousand.

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The following tables reflect those investments, both available-for-sale and held-to-maturity, in a continuous unrealized loss position for less than 12 months and for 12 months or longer at June 30, 2011, and December 31, 2010.

	June 30, 2011					
	Less than 12 Months		12 Months or longer		Total	
(In Thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
States and political subdivisions	$ 27,090	$ (452)	$	$	$ 27,090	$ (452)
Single issue trust preferred securities			46,597	(9,021)	46,597	(9,021)
FDIC-backed securities	13,802	(28)			13,802	(28)
Mortgage-backed securities:						
Agency	29,319	(119)	4,924	(7)	34,243	(126)
Alt-A residential			11,256	(6,935)	11,256	(6,935)
Total mortgage-backed securities	29,319	(119)	16,180	(6,942)	45,499	(7,061)
Equity securities	127	(23)	116	(20)	243	(43)
Total	$ 70,338	$ (622)	$ 62,893	$ (15,983)	$ 133,231	$ (16,605)

	December 31, 2010					
	Less than 12 Months		12 Months or longer		Total	
(In Thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agency securities	$ 9,832	$ (168)	$	$	$ 9,832	$ (168)
States and political subdivisions	80,420	(4,660)			80,420	(4,660)
Single issue trust preferred securities			41,244	(14,350)	41,244	(14,350)
Mortgage-backed securities:						
Agency	71,613	(1,307)	18		71,631	(1,307)
Alt-A residential			11,277	(7,904)	11,277	(7,904)
Total mortgage-backed securities	71,613	(1,307)	11,295	(7,904)	82,908	(9,211)
Equity securities	155	(55)	93	(10)	248	(65)
Total	$ 162,020	$ (6,190)	$ 52,632	$ (22,264)	$ 214,652	$ (28,454)

At June 30, 2011, the combined depreciation in value of the 90 individual securities in an unrealized loss position was approximately 4.74% of the combined reported value of the aggregate securities portfolio. At December 31, 2010, the combined depreciation in value of the 214 individual securities in an unrealized loss position was approximately 5.93% 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 security and its cash flow needs, liquidity position, capital adequacy and interest rate risk position.

For non-beneficial interest debt securities, the Company analyzes several qualitative factors such as the severity and duration of the impairment, adverse conditions within the issuing industry, prospects for the issuer, performance of the security, changes in rating by rating agencies and other qualitative factors to determine if the impairment will be recovered. Non-beneficial interest debt securities consist of U. S. government agency securities, states and political subdivisions, 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 credit related impairment and records any credit related OTTI through earnings and the non-credit related OTTI through other comprehensive income (OCI). During the three- and six-month periods ended June 30, 2011, the Company incurred no OTTI charges related to non-beneficial interest debt securities. The temporary impairment on these securities is primarily related to changes in interest rates, certain disruptions in the credit markets, and other current economic factors.

For beneficial interest debt securities, the Company reviews cash flow analyses on each applicable security to determine if an adverse change in cash flows expected to be collected has occurred. Beneficial interest debt securities consist of mortgage-backed securities and pooled trust preferred securities. 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 non-credit related OTTI is accounted for in OCI.

During the three-month period ended June 30, 2011, the Company incurred no credit-related OTTI charges related to beneficial interest debt securities. During the six-month period ended June 30, 2011, the Company incurred credit-related OTTI charges related to beneficial interest debt securities of $527 thousand. These charges were related to a non-Agency mortgage-backed security (MBS). During the three- and six-month periods ended June 30, 2010, the Company incurred credit-related OTTI charges on beneficial interest debt securities of $134 thousand. These charges were related to two pooled trust preferred security holdings and brought the carrying value of those securities to zero.

For the non-Agency, Alt-A residential MBS, the Company models cash flows using the following assumptions: voluntary constant prepayment speed of 5, a customized constant default rate scenario that assumes approximately 22% of the remaining underlying mortgages will default, and a loss severity of 60.

The table below 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:

(In Thousands)	**For the Three Months Ended June 30, 2011**	**For the Six Months Ended June 30, 2011**
Estimated credit losses, beginning balance (1)	$ 4,778	$ 4,251
Additions for credit losses on securities not previously OTTI		
Additions for credit losses on securities previously OTTI		527
Reduction for increases in cash flows		
Reduction for securities management no longer intends to hold to recovery		
Reduction for realized losses		
Estimated credit losses, ending balance	$ 4,778	$ 4,778

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

For equity securities, the Company reviews for OTTI based upon the prospects of the underlying companies, analysts expectations, and certain other qualitative factors to determine if impairment is recoverable over a foreseeable period of time. During the three- and six-month periods ended June 30, 2011, the Company did not recognize any OTTI charges on equity securities. For the three- and six-month periods ended June 30, 2010, the Company recognized OTTI charges on certain of its equity securities of $51 thousand.

As a condition to membership in the Federal Home Loan Bank (FHLB) system, the Company is required to subscribe to a minimum level of stock in the FHLB of Atlanta (FHLBA). The Company believes this ownership position provides access to relatively inexpensive wholesale and overnight funding. The Company accounts for FHLBA and Federal Reserve Bank stock as a long-term investment in other assets. At June 30, 2011, and December 31, 2010, the Company owned approximately $11.50 million and $12.24 million, respectively, in FHLBA stock, which is classified as other assets. The Company s policy is to review for impairment of such assets at the end of each reporting period.

Based on the Company s review of publicly available information about the FHLBA and its own internal analysis, the Company believes that its FHLBA stock was not impaired as of June 30, 2011.

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Note 4. Loans

Loans, net of unearned income, consist of the following:

	June 30, 2011		December 31, 2010	
(Dollars in Thousands)	**Amount**	**Percent**	**Amount**	**Percent**
Commercial loans				
Construction commercial	$ 34,966	2.55%	$ 42,694	3.08%
Land development	4,694	0.34%	16,650	1.20%
Other land loans	23,354	1.70%	24,468	1.77%
Commercial and industrial	92,891	6.76%	94,123	6.79%
Multi-family residential	78,163	5.69%	67,824	4.89%
Non-farm, non-residential	333,475	24.27%	351,904	25.39%
Agricultural	1,677	0.12%	1,342	0.10%
Farmland	37,227	2.71%	36,954	2.67%
Total commercial loans	606,447	44.14%	635,959	45.89%
Consumer real estate loans				
Home equity lines	111,995	8.15%	111,620	8.05%
Single family residential mortgage	560,527	40.80%	549,157	39.61%
Owner-occupied construction	18,062	1.31%	18,349	1.32%
Total consumer real estate loans	690,584	50.26%	679,126	48.98%
Consumer and other loans				
Consumer loans	64,692	4.71%	63,475	4.58%
Other	12,221	0.89%	7,646	0.55%
Total consumer and other loans	76,913	5.60%	71,121	5.13%
Total loans	$ 1,373,944	100.00%	$ 1,386,206	100.00%
Loans held for sale	$ 920		$ 4,694	

Acquired, Impaired Loans

Loans acquired in a business combination are recorded at estimated fair value on their purchase date. Under applicable accounting standards, it is not appropriate to carryover a valuation for the allowance for loan losses at the time of acquisition when the acquired loans have evidence of credit deterioration. Evidence of credit quality deterioration as of the purchase date may include measures such as credit scores, decline in collateral value, past due and non-accrual status. For acquired, impaired loans 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. Acquired performing loans are recorded at fair value, including a credit component. The fair value adjustment is accreted as an adjustment to yield over the estimated 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 acquisition.

The following table presents information regarding acquired, impaired loans for the three- and six-month periods ended June 30, 2011 and 2010. The Company has estimated the cash flows to be collected on the loans and discounted those cash flows at a market rate of interest.

	Acquired, Impaired Loans					
	2011			2010		
	TriStone	Other	Total	TriStone	Other	Total
(In thousands)						
Balance, January 1	$ 2,814	$ 407	$ 3,221	$ 3,838	$ 4,196	$ 8,034
Principal payments received	(173)		(173)	(961)	(224)	(1,185)
Accretion	13		13	30		30
Other	60		60	426		426
Charge-offs				(499)		(499)
Balance, June 30	$ 2,714	$ 407	$ 3,121	$ 2,834	$ 3,972	$ 6,806
Balance, March 31	$ 2,884	$ 407	$ 3,291	$ 3,323	$ 3,972	$ 7,295
Principal payments received	(138)		(138)	(94)		(94)
Accretion	6		6	15		15
Other	(38)		(38)	10		10
Charge-offs				(420)		(420)
Balance, June 30	$ 2,714	$ 407	$ 3,121	$ 2,834	$ 3,972	$ 6,806

The remaining balance of the accretable difference at June 30, 2011, and December 31, 2010, was $931 thousand and $944 thousand, respectively

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 $210.53 million and standby letters of credit and financial guarantees written of $2.93 million at June 30, 2011. Additionally, the Company had gross notional amounts of outstanding commitments to lend related to secondary market mortgage loans of $3.50 million at June 30, 2011.

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Note 5. Allowance for Loan Losses and Credit Quality

The allowance for loan losses is maintained at a level that the Company believes is 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.

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 either 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 credits and allocations to the remaining non-homogeneous and homogeneous pools of loans that have been deemed impaired. Management s general reserve allocations are based on judgment of qualitative and quantitative factors about both 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 non-accruals. The allowance methodology was recently enhanced to further segment the commercial loan portfolio by risk grade. Historical loss rates for each risk grade of commercial loans are adjusted by environmental factors to estimate the amount of reserve needed by segment. While management has allocated the allowance for loan losses to various portfolio segments, the entire allowance is available for use against any type of loan loss deemed appropriate by management.

The following tables detail the Company s allowance for loan loss activity, by portfolio segment, for the three- and six-month periods ended June 30, 2011 and 2010.

	For the Three Months Ended June 30, 2011			
(In Thousands)	**Commercial**	**Consumer Real Estate**	**Consumer and Other**	**Total**
Allowance for credit losses:				
Beginning balance	$ 12,300	$ 12,641	$ 1,541	$ 26,482
Provision for loan losses	2,504	408	167	3,079
Loans charged off	(2,727)	(457)	(272)	(3,456)
Recoveries credited to allowance	223	49	105	377
Net charge-offs	(2,504)	(408)	(167)	(3,079)
Ending balance	$ 12,300	$ 12,641	$ 1,541	$ 26,482

	For the Three Months Ended June 30, 2010			
(In Thousands)	**Commercial**	**Consumer Real Estate**	**Consumer and Other**	**Total**
Allowance for credit losses:				
Beginning balance	$ 14,043	$ 8,417	$ 2,048	$ 24,508
Provision for loan losses	1,989	1,304	303	3,596

Loans charged off	(2,503)	(588)	(282)	(3,373)
Recoveries credited to allowance	120	24	136	280
Net charge-offs	(2,383)	(564)	(146)	(3,093)
Ending balance	$ 13,649	$ 9,157	$ 2,205	$ 25,011

	For the Six Months Ended June 30, 2011			
(In Thousands)	Commercial	Consumer Real Estate	Consumer and Other	Total
Allowance for credit losses:				
Beginning balance	$ 12,300	$ 12,641	$ 1,541	$ 26,482
Provision for loan losses	2,865	1,621	205	4,691
Loans charged off	(3,167)	(1,829)	(487)	(5,483)
Recoveries credited to allowance	302	208	282	792
Net charge-offs	(2,865)	(1,621)	(205)	(4,691)
Ending balance	$ 12,300	$ 12,641	$ 1,541	$ 26,482

	For the Six Months Ended June 30, 2010			
(In Thousands)	Commercial	Consumer Real Estate	Consumer and Other	Total
Allowance for credit losses:				
Beginning balance	$ 13,802	$ 8,457	$ 2,018	$ 24,277
Provision for loan losses	4,082	2,582	597	7,261
Loans charged off	(4,582)	(1,918)	(605)	(7,105)
Recoveries credited to allowance	347	36	195	578
Net charge-offs	(4,235)	(1,882)	(410)	(6,527)
Ending balance	$ 13,649	$ 9,157	$ 2,205	$ 25,011

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

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The following table presents the Company s recorded investment in loans considered to be impaired and related information on those impaired loans for the period ended June 30, 2011, and December 31, 2010. Data for December 31, 2010, has been modified from the presentation in previous periods to match the current period presentation.

	June 30, 2011						
				Quarter-to-Date		Year-to-Date	
(Amounts in Thousands)	Recorded Investment	Related Allowance	Unpaid Principal Balance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Loans without a related allowance							
Construction commercial	$ 758	$	$ 770	$ 888	$ 3	$ 953	$ 3
Land development	185		185	916		916	
Other land loans	1,083		1,083	1,588	1	2,517	1
Commercial and industrial	3,908		3,930	3,937	4	4,363	4
Multi-family residential	1,422		1,433	1,539	2	1,545	15
Non-farm, non-residential	2,503		2,615	2,684	30	3,072	30
Farmland							
Home equity lines	1,293		1,331	1,318	14	1,398	20
Single family residential mortgage	8,666		8,875	9,034	98	9,639	132
Owner-occupied construction	259		264	332	3	333	4
Consumer loans	53		57	58	2	60	2
	$ 20,130	$	$ 20,543	$ 22,294	$ 156	$ 24,796	$ 211
Loans with a related allowance							
Construction commercial	$ 268	$ 25	$ 268	$ 269	$	$ 269	$
Land development							
Other land loans	112	4	112	113	2	113	3
Commercial and industrial	612	340	637	641	8	651	8
Multi-family residential	788	310	788	780		786	
Non-farm, non-residential	3,129	883	3,129	3,048	8	3,052	11
Farmland	334	60	334	333		333	
Home equity lines							
Single family residential mortgage	8,230	1,317	8,298	8,247	83	8,342	146
Owner-occupied construction							
Consumer loans							
	$ 13,473	$ 2,939	$ 13,566	$ 13,431	$ 101	$ 13,546	$ 168

	December 31, 2010				
(Amounts in Thousands)	Recorded Investment	Related Allowance	Unpaid Principal Balance	Year-to-Date Average Recorded Investment	Year-to-Date Interest Income Recognized
Loans without a related allowance					
Construction commercial	$ 285	$	$ 732	$ 730	$ 3
Land development	50		144	143	2
Other land loans	323		742	152	13
Commercial and industrial	3,518		5,384	6,237	10
Multi-family residential	2,526		2,673	2,680	105
Non-farm, non-residential	3,824		4,985	4,658	53
Home equity lines	1,302		1,595	1,605	38
Single family residential mortgage	7,992		10,882	9,093	330
Owner-occupied construction	6		6	6	
Consumer loans	98		102	11	5
	$ 19,924	$	$ 27,245	$ 25,315	$ 559
Loans with a related allowance					
Construction commercial	$	$	$	$	$
Land development	113	5	113	114	7
Other land loans					
Commercial and industrial					
Multi-family residential	723	257	759	768	21
Non-farm, non-residential	1,070	158	1,140	1,151	26
Home equity lines	95	34	98	98	2
Single family residential mortgage	8,801	1,870	7,548	8,913	310
Owner-occupied construction					
Consumer loans					
	$ 10,802	$ 2,324	$ 9,658	$ 11,044	$ 366

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, non-performing loans and general economic conditions. The Company s loan review function generally reviews all commercial loan relationships greater than $2.00 million on an annual basis and at various times through the year. Smaller commercial and retail loans are sampled for review throughout the year by our internal loan review department. Through the loan review process, loans are identified for upgrade or downgrade in risk rating and changed to reflect current information as part of the process.

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

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

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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 affected in the future.

The following tables present the Company s investment in loans by internal credit grade indicator at June 30, 2011, and December 31, 2010.

	June 30, 2011					
(Amounts in Thousands)	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Loss**	**Total**
Construction commercial	$ 33,028	$ 518	$ 1,420	$	$	$ 34,966
Land development	4,255	254	185			4,694
Other land loans	16,103	5,924	1,327			23,354
Commercial and industrial	87,151	443	4,560	737		92,891
Multi-family residential	73,360	1,235	3,568			78,163
Non-farm, non-residential	304,944	7,245	20,814	472		333,475
Agricultural	1,654		23			1,677
Farmland	34,700	1,636	891			37,227
Home equity lines	106,964	1,979	3,052			111,995
Single family residential mortgage	511,574	11,146	37,807			560,527
Owner-occupied construction	17,272	132	658			18,062
Consumer loans	64,013	115	564			64,692
Other	12,206	3	12			12,221
Total loans	$ 1,267,224	$ 30,630	$ 74,881	$ 1,209	$	$ 1,373,944

	December 31, 2010					
(Amounts in Thousands)	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Loss**	**Total**
Construction commercial	$ 40,497	$ 663	$ 1,534	$	$	$ 42,694
Land development	14,458	1,226	966			16,650
Other land loans	16,723	6,138	1,607			24,468
Commercial and industrial	87,156	1,756	5,211			94,123
Multi-family residential	61,059	2,553	4,212			67,824
Non-farm, non-residential	316,026	18,942	16,936			351,904
Agricultural	1,318		24			1,342
Farmland	33,042	2,569	1,343			36,954
Home equity lines	106,803	1,923	2,894			111,620
Single family residential mortgage	498,830	15,224	34,449	654		549,157
Owner-occupied construction	17,389	789	171			18,349
Consumer loans	62,676	306	493			63,475
Other	7,635	11				7,646
Total loans	$ 1,263,612	$ 52,100	$ 69,840	$ 654	$	$ 1,386,206

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The following tables detail the Company s recorded investment in loans related to each segment in the allowance for loan losses by portfolio segment and disaggregated on the basis of the Company s impairment methodology at June 30, 2011, and December 31, 2010.

	June 30, 2011					
(Amounts in Thousands)	**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 commercial	$ 1,026	$ 25	$ 33,940	$ 821	$	$
Land development	185		4,509	224		
Other land loans	1,195	4	21,734	584	425	
Commercial and industrial	4,520	340	87,752	1,849	619	
Multi-family residential	2,210	310	75,953	1,773		
Non-farm, non-residential	5,632	883	327,399	5,055	444	
Agricultural			1,677	23		
Farmland	334	60	36,893	380		
Total commercial loans	15,102	1,622	589,857	10,709	1,488	
Consumer real estate loans						
Home equity lines	1,293		110,702	2,029		
Single family residential mortgage	16,896	1,317	541,998	8,943	1,633	
Owner-occupied construction	259		17,803	276		
Total consumer real estate loans	18,448	1,317	670,503	11,248	1,633	
Consumer and other loans						
Consumer loans	53		64,639	1,586		
Other			12,221			
Total consumer and other loans	53		76,860	1,586		
Total loans	$ 33,603	$ 2,939	$ 1,337,220	$ 23,543	$ 3,121	$

December 31, 2010

Acquired,

(Amounts in Thousands)	**Loans Individually Evaluated for Impairment**	**Allowance for Loans Individually Evaluated**	**Loans Collectively Evaluated for Impairment**	**Allowance for Loans Collectively Evaluated**	**Impaired Loans Evaluated for Impairment**	**Allowance for Acquired, Impaired Loans Evaluated**
Commercial loans						
Construction commercial	$ 285	$	$ 42,409	$ 1,472	$	$
Land development	50	5	16,600	1,767		
Other land loans	436		23,520	747	512	
Commercial and industrial	3,518		90,084	4,511	521	
Multi-family residential	3,249	257	64,575	824		
Non-farm, non-residential	4,894	158	346,586	2,688	424	
Agricultural			1,342	19		
Farmland			36,954	70		
Total commercial loans	12,432	420	622,070	12,098	1,457	
Consumer real estate loans						
Home equity lines	1,397	34	110,223	2,104		
Single family residential mortgage	16,793	1,870	530,600	7,999	1,764	
Owner-occupied construction	6		18,343	193		
Total consumer real estate loans	18,196	1,904	659,166	10,296	1,764	
Consumer and other loans						
Consumer loans	98		63,377	1,764		
Other			7,646			
Total consumer and other loans	98		71,023	1,764		
Total loans	$ 30,726	$ 2,324	$ 1,352,259	$ 24,158	$ 3,221	$

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Non-accrual and Past Due Loans

Non-accrual loans, presented by loan class, consisted of the following at June 30, 2011, and December 31, 2010:

(Amounts in Thousands)	**June 30, 2011**	**December 31, 2010**
Construction commercial	$ 1,026	$ 285
Land development	185	50
Other land loans	807	321
Commercial and industrial	4,113	3,518
Multi-family residential	2,210	2,463
Non-farm, non-residential	5,304	4,670
Farmland	334	
Home equity lines	900	868
Single family residential mortgage	6,163	6,364
Owner-occupied construction	259	6
Consumer loans	53	99
Total	21,354	18,644
Acquired, impaired loans	683	770
Total non-accrual loans	$ 22,037	$ 19,414

The following tables present the aging of the recorded investment in past due loans, by loan class, as of June 30, 2011, and December 31, 2010. There were no loans past due 90 days and still accruing interest at June 30, 2011 or December 31, 2010. Non-accrual loans, excluding those 0 to 29 days past due, are included in the applicable delinquency category.

	June 30, 2011					
(Amounts in Thousands)	**30 - 59 Days**	**60-89 Days**	**90+ Days**	**Total Past Due**	**Current Loans**	**Total Loans**
Construction commercial	$ 139	$ 281	$ 348	$ 768	$ 34,198	$ 34,966
Land development					4,694	4,694
Other land loans			359	359	22,995	23,354
Commercial and industrial	117		4,505	4,622	88,269	92,891
Multi-family residential	395		1,626	2,021	76,142	78,163
Non-farm, non-residential	2,178	868	2,381	5,427	328,048	333,475
Agricultural	25			25	1,652	1,677
Farmland	567			567	36,660	37,227
Home equity lines	165	362	900	1,427	110,568	111,995
Single family residential mortgage	3,040	668	4,246	7,954	552,573	560,527
Owner-occupied construction	120		51	171	17,891	18,062
Consumer loans	188		53	241	64,451	64,692
Other		1		1	12,220	12,221
Total loans	$ 6,934	$ 2,180	$ 14,469	$ 23,583	$ 1,350,361	$ 1,373,944

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	December 31, 2010					
(Amounts in Thousands)	30 - 59 Days	60-89 Days	90+ Days	Total Past Due	Current Loans	Total Loans
Construction commercial	$ 531	$	$ 122	$ 653	$ 42,041	$ 42,694
Land development			50	50	16,600	16,650
Other land loans			684	684	23,784	24,468
Commercial and industrial	3,648	121	356	4,125	89,998	94,123
Multi-family residential	956		1,793	2,749	65,075	67,824
Non-farm, non-residential	3,251	2,056	3,249	8,556	343,348	351,904
Agricultural	19			19	1,323	1,342
Farmland	110			110	36,844	36,954
Home equity lines	682	250	608	1,540	110,080	111,620
Single family residential mortgage	10,287	1,741	4,213	16,241	532,916	549,157
Owner-occupied construction	855	326	6	1,187	17,162	18,349
Consumer loans	433	47	31	511	62,964	63,475
Other					7,646	7,646
Total loans	$ 20,772	$ 4,541	$ 11,112	$ 36,425	$ 1,349,781	$ 1,386,206

Note 6. Deposits

The following is a summary of interest-bearing deposits by type as of June 30, 2011, and December 31, 2010.

(In Thousands)	June 30, 2011	December 31, 2010
Interest-bearing demand deposits	$ 271,622	$ 262,420
Savings and money market deposits	405,409	426,547
Certificates of deposit and individual retirement accounts	683,157	726,837
Total	$ 1,360,188	$ 1,415,804

Note 7. Borrowings

The following schedule details the Company s indebtedness at June 30, 2011, and December 31, 2010.

(In Thousands)	June 30, 2011	December 31, 2010
Securities sold under agreements to repurchase	$ 137,778	$ 140,894
FHLB borrowings	150,000	175,000
Subordinated debt	15,464	15,464
Other long-term debt	715	729
Total	$ 303,957	$ 332,087

Securities sold under agreements to repurchase consist of $87.78 million and $90.89 million of retail overnight and term repurchase agreements at June 30, 2011, and December 31, 2010, respectively, and $50.00 million of wholesale repurchase agreements at both June 30, 2011, and December 31, 2010.

The Company had a derivative interest rate swap instrument where it received LIBOR-based variable interest payments and paid fixed interest payments that expired in January 2011. The instrument effectively fixed $50.00 million of FHLB borrowings at 4.34% for a period of five years. For a more detailed discussion of activities regarding derivatives, please see Note 13 to the Consolidated Financial Statements.

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FHLB borrowings included $150.00 million in convertible and callable advances at June 30, 2011, and $175.00 million at December 31, 2010. During the first quarter of 2011, the Company prepaid a $25.00 million FHLB advance. The weighted average interest rate of all the advances was 4.12% at June 30, 2011, and 2.39% at December 31, 2010.

At June 30, 2011, the FHLB advances have approximate contractual maturities between five and ten years. The scheduled maturities of the advances are as follows:

(In Thousands)	**Amount**
2011	$
2012	
2013	
2014	
2015	
2016 and thereafter	150,000
Total	$ 150,000

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. At June 30, 2011, advances from the FHLB were secured by qualifying loans of $310.71 million.

Also included in other indebtedness 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 Company has committed to irrevocably and unconditionally guarantee the following payments or distributions with respect to the preferred securities to the holders thereof to the extent that the Trust has not made such payments or distributions: (i) accrued and unpaid distributions, (ii) the redemption price, and (iii) upon a dissolution or termination of the Trust, the lesser of the liquidation amount and all accrued and unpaid distributions and the amount of assets of the Trust remaining available for distribution, in each case to the extent the Trust has funds available.

In addition to investment securities, at June 30, 2011, wholesale repurchase agreements were collateralized by $35.77 million of interest-bearing balances with banks.

Note 8. Net Periodic Benefit Cost-Defined Benefit Plans

The following sets forth the components of the net periodic benefit cost of the Company s domestic non-contributory, non-qualified defined executive retention plan for the three- and six-month periods ended June 30, 2011 and 2010.

	For the Three Months Ended June 30,		**For the Six Months Ended June 30,**	
(In Thousands)	**2011**	**2010**	**2011**	**2010**
Service cost	$ 73	$ 53	$ 146	$ 106
Interest cost	56	47	111	94
Net periodic cost	$ 129	$ 100	$ 257	$ 200

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The following sets forth the components of the net periodic benefit cost of the Company s domestic non-contributory, non-qualified directors retirement plan, which was effective as of January 1, 2011, for the three- and six-month periods ended June 30, 2011.

(In Thousands)	For the Three Months Ended June 30, 2011	For the Six Months Ended June 30, 2011
Service cost	$ 29	$ 58
Interest cost	11	22
Net periodic cost	$ 40	$ 80

Note 9. Comprehensive Income

The components of the Company s comprehensive income, net of deferred income taxes, for the three- and six-month periods ended June 30, 2011 and 2010, are as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(In Thousands)	2011	2010	2011	2010
Net income	$ 5,728	$ 5,131	$ 11,479	$ 10,409
Other comprehensive income				
Unrealized (loss) gain on securities available-for-sale with other-than-temporary impairment	(964)	(164)	(21)	3
Unrealized gain on securities available-for-sale without other-than-temporary impairment	6,357	5,435	12,479	13,319
Reclassification adjustment for gains realized in net income	(2,574)	(1,201)	(5,060)	(1,451)
Reclassification adjustment for credit related other-than-temporary impairments recognized in earnings		185	527	185
Unrealized gain on derivative contract		596	30	1,020
Income tax effect	(1,050)	(1,807)	(2,963)	(4,871)
Total other comprehensive income	1,769	3,044	4,992	8,205
Comprehensive income	$ 7,497	$ 8,175	$ 16,471	$ 18,614

Note 10. Commitments and Contingencies

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

Note 11. Segment Information

The Company operates within two business segments, Community Banking and Insurance Services. The Community Banking segment includes both commercial and consumer lending and deposit services. This segment provides customers with such products as commercial loans, real estate loans, business financing, and consumer loans. This segment also provides customers with a range of deposit products including demand deposit accounts, savings accounts, and certificates of deposit. In addition, the Community Banking segment provides wealth management services to a broad range of customers. The Insurance Services segment is a full-service insurance agency providing

commercial and personal lines of insurance.

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The following table sets forth information about the reportable operating segments and reconciliation of this information to the consolidated financial statements at and for the three-and six-month periods ended June 30, 2011 and 2010.

	For the Three Months Ended June 30, 2011			
	Community Banking	**Insurance Services**	**Parent/ Elimination**	**Total**
(In Thousands)				
Net interest income (expense)	$ 17,864	$ (31)	$ (79)	$ 17,754
Provision for loan losses	3,079			3,079
Noninterest income (loss)	9,920	1,584	(141)	11,363
Noninterest expense (income)	16,357	1,542	(161)	17,738
Income before income taxes	8,348	11	(59)	8,300
Provision for income taxes	2,587	4	(19)	2,572
Net income (loss)	5,761	7	(40)	5,728
Preferred dividend			131	131
Net income to common shareholders	$ 5,761	$ 7	$ (171)	$ 5,597
End of period goodwill and other intangibles	$ 78,339	$ 11,998	$	$ 90,337
End of period assets	$ 2,184,336	$ 12,836	$ 9,228	$ 2,206,400

	For the Six Months Ended June 30, 2011			
	Community Banking	**Insurance Services**	**Parent/ Elimination**	**Total**
(In Thousands)				
Net interest income (expense)	$ 36,210	$ (69)	$ (112)	$ 36,029
Provision for loan losses	4,691			4,691
Noninterest income (loss)	17,724	3,550	(412)	20,862
Noninterest expense (income)	33,293	3,067	(559)	35,801
Income before income taxes	15,950	414	35	16,399
Provision for income taxes	4,738	163	19	4,920
Net income (loss)	11,212	251	16	11,479
Preferred dividend			131	131
Net income to common shareholders	$ 11,212	$ 251	$ (115)	$ 11,348
End of period goodwill and other intangibles	$ 78,339	$ 11,998	$	$ 90,337
End of period assets	$ 2,184,336	$ 12,836	$ 9,228	$ 2,206,400

	For the Three Months Ended June 30, 2010			
	Community Banking	**Insurance Services**	**Parent/ Elimination**	**Total**
(In Thousands)				
Net interest income (expense)	$ 18,581	$ (24)	$ (15)	$ 18,542
Provision for loan losses	3,596			3,596
Noninterest income	7,431	1,408	65	8,904
Noninterest expense (income)	15,362	1,402	(166)	16,598
Income before income taxes	7,054	(18)	216	7,252
Provision for income taxes	2,014	(19)	126	2,121
Net income	$ 5,040	$ 1	$ 90	$ 5,131
End of period goodwill and other intangibles	$ 79,057	$ 11,700	$	$ 90,757
End of period assets	$ 2,227,198	$ 12,163	$ 7,485	$ 2,246,846

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	For the Six Months Ended June 30, 2010			
(In Thousands)	Community Banking	Insurance Services	Parent/ Elimination	Total
Net interest income (expense)	$ 37,259	$ (57)	$ (41)	$ 37,161
Provision for loan losses	7,261			7,261
Noninterest income (loss)	14,040	3,627	(185)	17,482
Noninterest expense (income)	30,383	2,881	(594)	32,670
Iincome before income taxes	13,655	689	368	14,712
Provision for income taxes	3,883	272	148	4,303
Net income	$ 9,772	$ 417	$ 220	$ 10,409
End of period goodwill and other intangibles	$ 79,057	$ 11,700	$	$ 90,757
End of period assets	$ 2,227,198	$ 12,163	$ 7,485	$ 2,246,846

Note 12. 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.

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, such as interest rates, volatilities, prepayment speeds, and credit risks, or inputs that are derived principally from or corroborated by market data by correlation or other means.

Level 3 Inputs — Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity s own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

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 and Level 2 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. Agency securities, mortgage-backed securities, municipal securities, single issue trust preferred securities, pooled trust preferred securities, and certain equity securities that are not actively traded.

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 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 with consideration of 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 by Special Assets staff and/or Credit Appraisal staff 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 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.

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 by bank sellers. The Company considers these factors in 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 using current and prior appraisals, estimates of costs to sell, and proprietary qualitative adjustments. Accordingly, other real estate owned is stated at a Level 3 fair value.

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The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of June 30, 2011, and December 31, 2010, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	June 30, 2011 Fair Value Measurements Using			
(In Thousands)	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Available-for-sale securities:				
Agency mortgage-backed securities	$	$ 150,926	$	$ 150,926
Non-Agency Alt-A residential MBS		11,256		11,256
Municipal securities		126,780		126,780
FDIC-backed securities		13,802		13,802
Single issue trust preferred securities		46,597		46,597
Equity securities	595	20		615
Total available-for-sale securities	$ 595	$ 349,381	$	$ 349,976
Deferred compensation assets	$ 3,188	$	$	$ 3,188
Derivative assets				
Interest rate lock commitments		39		39
Total derivative assets	$	$ 39	$	$ 39
Deferred compensation liabilities	$ 3,188	$	$	$ 3,188
Derivative liabilities				
Interest rate lock commitments		7		7
Total derivative liabilities	$	$ 7	$	$ 7

	December 31, 2010 Fair Value Measurements Using			
(In Thousands)	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Available-for-sale securities:				
Agency securities	$	$ 9,832	$	$ 9,832
Agency mortgage-backed securities		215,013		215,013
Non-Agency Alt-A residential MBS		11,277		11,277
Municipal securities		176,138		176,138
FDIC-backed securities		25,660		25,660
Single issue trust preferred securities		41,244		41,244
Pooled trust preferred securities		264		264
Equity securities	616	20		636

Total available-for-sale securities	$ 616	$ 479,448	$	$ 480,064
Deferred compensation assets	$ 3,192	$	$	$ 3,192
Derivative assets				
Interest rate lock commitments		28		28
Total derivative assets	$	$ 28	$	$ 28
Deferred compensation liabilities	$ 3,192	$	$	$ 3,192
Derivative liabilities				
Interest rate swap		31		31
Interest rate lock commitments		59		59
Total derivative liabilities	$	$ 90	$	$ 90

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Certain financial and non-financial assets are measured at fair value on a nonrecurring basis; thus, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances, such as, when there is evidence of impairment. Items subject to nonrecurring fair value adjustments at June 30, 2011, and December 31, 2010, are as follows:

	June 30, 2011			
	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	Fair Value
(In Thousands)				
Impaired loans	$	$	$ 6,580	$ 6,580
Restructured loans			7,600	7,600
Other real estate owned			5,585	5,585

	December 31, 2010			
	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	Fair Value
(In Thousands)				
Impaired loans	$	$	$ 10,906	$ 10,906
Restructured loans			5,771	5,771
Other real estate owned			4,910	4,910

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Fair Value of Financial Instruments

Fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practical to estimate the value is based upon the characteristics of the instruments and relevant market information. Financial instruments include cash, evidence of ownership in an entity, or contracts that convey or impose on an entity that contractual right or obligation to either receive or deliver cash for another financial instrument. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price if one exists.

	June 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(In Thousands)				
Assets				
Cash and cash equivalents	$ 230,619	$ 230,619	$ 112,189	$ 112,189
Investment securities	354,082	354,133	484,701	484,768
Loans held for sale	920	924	4,694	4,700
Loans held for investment, less allowance	1,347,462	1,371,895	1,359,724	1,370,173
Accrued interest receivable	6,202	6,202	7,675	7,675
Bank owned life insurance	43,607	43,607	42,241	42,241
Derivative financial assets	39	39	28	28
Deferred compensation assets	3,188	3,188	3,192	3,192
Liabilities				
Demand deposits	$ 219,488	$ 219,488	$ 205,151	$ 205,151
Interest-bearing demand deposits	271,622	271,622	262,420	262,420
Savings deposits	405,409	405,409	426,547	426,547
Time deposits	683,157	692,867	726,837	735,332
Securities sold under agreements to repurchase	137,778	144,173	140,894	161,100
Accrued interest payable	2,872	2,872	3,264	3,264
FHLB and other indebtedness	166,179	177,903	191,193	203,539
Derivative financial liabilities	7	7	90	90
Deferred compensation liabilities	3,188	3,188	3,192	3,192

The following summary presents the methodologies and assumptions used to estimate the fair value of the Company s financial instruments presented below. The information used to determine fair value is highly subjective and judgmental in nature and, therefore, the results may not be precise. Subjective factors include, among other things, 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.

Cash and Cash Equivalents: The book values of cash and due from banks and federal funds sold and purchased are considered to be equal to fair value as a result of the short-term nature of these items.

Investment Securities and Deferred Compensation Assets and Liabilities: Fair values are determined in the same manner as described above.

Loans: The estimated fair value of loans held for investment is measured based upon discounted future cash flows using current rates for similar loans. Loans held for sale are recorded at lower of cost or estimated fair value. The fair value of loans held for sale is determined based upon the market sales price of similar loans.

Accrued Interest Receivable and Payable: The book value is considered to be equal to the fair value due to the short-term nature of the instrument.

Bank-owned Life Insurance: The fair value is determined by stated contract values.

Derivative Financial Instruments: The estimated fair value of derivative financial instruments is based upon the current market price for similar instruments.

Deposits and Securities Sold Under Agreements to Repurchase: Deposits without a stated maturity, including demand, interest-bearing demand, and savings accounts, are reported at their carrying value. No value has been assigned to the franchise value of these deposits. For other types of deposits and repurchase agreements with fixed maturities and rates, fair value has been estimated by discounting future cash flows based on interest rates currently being offered on instruments with similar characteristics and maturities.

FHLB and Other Indebtedness: Fair value has been estimated based on interest rates currently available to the Company for borrowings with similar characteristics and maturities. The fair value for trust preferred obligations has been estimated based on credit spreads seen in the marketplace for like issues.

Commitments to Extend Credit, Standby Letters of Credit, and Financial Guarantees: The amount of off-balance sheet commitments to extend credit, standby letters of credit, and financial guarantees is considered equal to fair value. Because of the uncertainty involved in attempting to assess 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.

Note 13. Derivatives and Hedging Activities

The Company, through its mortgage banking and risk management operations, is party to various derivative instruments that are used for asset and liability management and customers financing needs. Derivative assets and liabilities are recorded at fair value on the balance sheet.

The primary derivatives that the Company uses are interest rate swaps and interest rate lock commitments (IRLC s). Generally, these instruments help the Company manage exposure to market risk and meet customer financing needs. Market risk represents the possibility that economic value or net interest income will be adversely affected by fluctuations in external factors, such as interest rates, market-driven loan rates and prices or other economic factors.

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

(In Thousands)	June 30, 2011	December 31, 2010	June 30, 2010
Interest rate swap	$	$ 50,000	$ 50,000
IRLC s	3,500	7,566	6,823

As of June 30, 2011, December 31, 2010, and June 30, 2010, the fair values of the Company s derivatives were as follows:

	Asset Derivatives					
	June 30, 2011		December 31, 2010		June 30, 2010	
(In Thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedges						
IRLC s	Other assets	$ 39	Other assets	$ 28	Other assets	$ 52
Total		$ 39		$ 28		$ 52

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	Liability Derivatives					
	June 30, 2011		December 31, 2010		June 30, 2010	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
(In Thousands)						
Derivatives designated as hedges						
Interest rate swap	Other liabilities	$	Other liabilities	$ 31	Other liabilities	$ 1,093
Total		$		$ 31		$ 1,093
Derivatives not designated as hedges						
IRLC s	Other liabilities	$ 7	Other liabilities	$ 59	Other liabilities	$ 22
Total		$ 7		$ 59		$ 22