
Section 1: 8-K (FORM 8-K)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **January 24, 2017**

FIRST COMMUNITY BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction
of incorporation)

000-19297

(Commission
File Number)

55-0694814

(IRS Employer
Identification No.)

**P.O. Box 989
Bluefield, Virginia**

(Address of principal executive offices)

24605-0989

(Zip Code)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-

Item 2.02 Results of Operations and Financial Condition.

On January 24, 2017, First Community Bancshares, Inc. (the “Company”) announced by press release its earnings for the fourth quarter and full year of 2016. A copy of the press release is attached hereto as Exhibit 99.1.

Item 8.01 Other Events.

On January 24, 2017, the Company announced by press release its quarterly cash dividend to common stockholders of sixteen cents (\$0.16) per common share, payable on February 17, 2017, to shareholders of record on February 3, 2017. A copy of the press release is attached hereto as Exhibit 99.1.

Item 9.01 Financial Statements and Exhibits.

(d) The following exhibit is included with this report:

| <u>Exhibit No.</u> | <u>Exhibit Description</u> |
|--------------------|--|
| 99.1 | Earnings and dividend press release dated January 24, 2017 |

Forward-Looking Statements

This Current Report on Form 8-K contains forward-looking statements. These forward-looking statements are based on current expectations that involve risks, uncertainties, and assumptions. Should one or more of these risks or uncertainties materialize or should underlying assumptions prove incorrect, actual results may differ materially. These risks include: changes in business or other market conditions; the timely development, production and acceptance of new products and services; the challenge of managing asset/liability levels; the management of credit risk and interest rate risk; the difficulty of keeping expense growth at modest levels while increasing revenues; and other risks detailed from time to time in the Company’s Securities and Exchange Commission reports, including but not limited to the Annual Report on Form 10-K for the most recent year ended. Pursuant to the Private Securities Litigation Reform Act of 1995, the Company does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made.

SIGNATURES

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

FIRST COMMUNITY BANCSHARES, INC.

Date: January 24, 2017

By: /s/ David D. Brown

David D. Brown
Chief Financial Officer

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Section 2: EX-99.1 (EXHIBIT 99.1)

Exhibit 99.1



NEWS RELEASE

FOR IMMEDIATE RELEASE:

January 24, 2017

FOR MORE INFORMATION, CONTACT:

David D. Brown
(276) 326-9000

First Community Bancshares, Inc. Announces Fourth Quarter and Full Year 2016 Results and Quarterly Dividend

Bluefield, Virginia – First Community Bancshares, Inc. (NASDAQ: FCBC) (www.fcbinc.com) (the “Company”) today reported its unaudited results of operations and other financial information for the quarter and year ended December 31, 2016. The Company reported net income available to common shareholders of \$6.40 million, or \$0.38 per diluted common share for the quarter ended December 31, 2016, which represents an 11.76% increase in per share diluted earnings compared to the same quarter of 2015. Net income available to common shareholders was \$25.13 million, or \$1.45 per diluted common share for the year ended December 31, 2016, which represents a 10.69% increase in per share diluted earnings over 2015.

The Company also announced today that the Board of Directors declared a quarterly cash dividend to common shareholders of sixteen cents (\$0.16) per common share, which represents an increase of 14.29% over the first quarter of 2016. The quarterly dividend is payable to common shareholders of record on February 3, 2017, and is expected to be paid on or about February 17, 2017. The current year marks the 32nd consecutive year of cash dividends paid to stockholders.

On October 1, 2016, the Company sold two North Carolina insurance offices operating under the trade name Greenpoint Insurance Group, Inc. and two Virginia offices operating under the trade name Carr & Hyde Insurance to Ascension Insurance Agency, Inc. The transaction does not impact the Company’s in-branch insurance offices operating as First Community Insurance Services, Inc. in West Virginia and Virginia.

On January 9, 2017, the Company redeemed all of its previously issued trust preferred securities totaling \$15.46 million. The callable trust preferred securities bore an interest rate of three-month LIBOR plus 2.95% with a maturity date of October 8, 2033.

Fourth Quarter 2016 Highlights

• **Income Statement**

- o Net income available to common shareholders increased \$256 thousand, or 4.16%, to \$6.40 million compared to the same quarter of 2015.
- o Diluted earnings per share increased \$0.04, or 11.76%, to \$0.38 compared to the same quarter of 2015.
- o Core, non-GAAP diluted earnings per common share increased \$0.02, or 5.88%, to \$0.36 compared to the same quarter of 2015.
- o Net interest margin increased 1 basis point to 3.99%, and normalized net interest margin increased 15 basis points to 3.83% compared to the same quarter of 2015.

- **Balance Sheet**

- o The non-covered loan portfolio increased \$172.45 million, or 10.62%, compared to December 31, 2015.
- o Book value per common share increased \$1.00 to \$19.95 compared to December 31, 2015.
- o The Company repurchased 29,518 common shares during the quarter resulting in 1,182,294 shares repurchased during the year. The Company has repurchased 2.55 million shares since January 1, 2014.
- o The Company and its subsidiary bank both significantly exceed regulatory “well capitalized” targets as of December 31, 2016.

- **Asset Quality**

- o Total nonperforming assets decreased \$5.51 million compared to December 31, 2015, largely due to a decrease in covered OREO.
- o Total non-covered nonperforming assets decreased \$1.72 million compared to December 31, 2015.
- o Non-covered delinquent loans, which are comprised of loans 30 days or more past due and nonaccrual loans, as a percentage of total non-covered loans improved 33 basis points to 1.39% as of December 31, 2016, from 1.72% as of December 31, 2015.

Non-GAAP Financial Measures

The Company prepares its financial statements in accordance with generally accepted accounting principles in the United States (“GAAP”). This press release also refers to certain non-GAAP financial measures that the Company believes provide investors with important information, when used in conjunction with results presented in accordance with GAAP, regarding its operational performance. The Company’s non-GAAP financial measures presented in this release include core earnings, the efficiency ratio, tangible book value per common share, average tangible common equity, and normalized net interest margin. Management believes that core earnings provide the Company and investors a valuable tool to evaluate the Company’s financial results. Management believes that the efficiency ratio provides important information about the Company’s operating expense control and efficiency of operations. Management also believes this ratio focuses attention on the core operating performance of the Company over time and is highly useful in comparing period-to-period operating performance of core business operations. The efficiency ratio used by the Company may not be comparable to efficiency ratios reported by other financial institutions. The reconciliations of these measures to GAAP measures are provided within this news release.

About First Community Bancshares, Inc.

First Community Bancshares, Inc., a financial holding company headquartered in Bluefield, Virginia, provides banking products and services through its wholly owned subsidiary First Community Bank. First Community Bank operated 45 branch banking locations in Virginia, West Virginia, North Carolina, and Tennessee as of December 31, 2016. First Community Bank provides insurance services through First Community Insurance Services and offers wealth management and investment advice through its Trust Division and First Community Wealth Management, which collectively managed \$846 million in combined assets as of December 31, 2016. The Company’s common stock is listed on the NASDAQ Global Select Market under the trading symbol, “FCBC”. The Company reported consolidated assets of \$2.39 billion as of December 31, 2016. Additional investor information is available on the Company’s website at www.fcbin.com.

This news release may include forward-looking statements. These forward-looking statements are based on current expectations that involve risks, uncertainties, and assumptions. Should one or more of these risks or uncertainties materialize or should underlying assumptions prove incorrect, actual results may differ materially. These risks include: changes in business or other market conditions; the timely development, production and acceptance of new products and services; the challenge of managing asset/liability levels; the management of credit risk and interest rate risk; the difficulty of keeping expense growth at modest levels while increasing revenues; and other risks detailed from time to time in the Company’s Securities and Exchange Commission reports including, but not limited to, the Annual Report on Form 10-K for the most recent fiscal year end. Pursuant to the Private Securities Litigation Reform Act of 1995, the Company does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made.

Financial Performance

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

| (Amounts in thousands, except share and per share data) | Three Months Ended | | | | | Year Ended | |
|---|--------------------|-----------------|-----------------|-----------------|-----------------|------------------|------------------|
| | December 31, | September 30, | June 30, | March 31, | December 31, | December 31, | |
| | 2016 | 2016 | 2016 | 2016 | 2015 | 2016 | 2015 |
| Interest income | | | | | | | |
| Interest and fees on loans | \$ 21,956 | \$ 21,952 | \$ 22,237 | \$ 21,573 | \$ 21,633 | \$ 87,718 | \$ 87,632 |
| Interest on securities | 1,362 | 1,643 | 1,891 | 1,957 | 2,023 | 6,853 | 8,203 |
| Interest on deposits in banks | 98 | 26 | 9 | 20 | 21 | 153 | 267 |
| Total interest income | 23,416 | 23,621 | 24,137 | 23,550 | 23,677 | 94,724 | 96,102 |
| Interest expense | | | | | | | |
| Interest on deposits | 1,145 | 1,133 | 1,087 | 1,114 | 1,202 | 4,479 | 5,878 |
| Interest on borrowings | 1,314 | 1,367 | 1,359 | 1,325 | 1,300 | 5,365 | 5,471 |
| Total interest expense | 2,459 | 2,500 | 2,446 | 2,439 | 2,502 | 9,844 | 11,349 |
| Net interest income | 20,957 | 21,121 | 21,691 | 21,111 | 21,175 | 84,880 | 84,753 |
| Provision for (recovery of) loan losses | 500 | (1,154) | 722 | 1,187 | 434 | 1,255 | 2,191 |
| Net interest income after provision (recovery) | 20,457 | 22,275 | 20,969 | 19,924 | 20,741 | 83,625 | 82,562 |
| Total noninterest income | 6,238 | 5,895 | 7,030 | 7,903 | 7,483 | 27,066 | 29,530 |
| Total noninterest expense | 16,653 | 18,557 | 18,722 | 18,814 | 19,083 | 72,746 | 76,171 |
| Income before income taxes | 10,042 | 9,613 | 9,277 | 9,013 | 9,141 | 37,945 | 35,921 |
| Income tax expense | 3,638 | 3,230 | 3,022 | 2,929 | 2,993 | 12,819 | 11,381 |
| Net income | 6,404 | 6,383 | 6,255 | 6,084 | 6,148 | 25,126 | 24,540 |
| Dividends on preferred stock | - | - | - | - | - | - | 105 |
| Net income available to common shareholders | \$ 6,404 | \$ 6,383 | \$ 6,255 | \$ 6,084 | \$ 6,148 | \$ 25,126 | \$ 24,435 |
| Earnings per common share | | | | | | | |
| Basic | \$ 0.38 | \$ 0.37 | \$ 0.36 | \$ 0.34 | \$ 0.34 | \$ 1.45 | \$ 1.32 |
| Diluted | 0.38 | 0.37 | 0.36 | 0.34 | 0.34 | 1.45 | 1.31 |
| Cash dividends per common share | 0.16 | 0.16 | 0.14 | 0.14 | 0.14 | 0.60 | 0.54 |
| Weighted average shares outstanding | | | | | | | |
| Basic | 16,891,010 | 17,031,074 | 17,414,320 | 17,859,197 | 18,193,824 | 17,319,689 | 18,531,039 |
| Diluted | 17,043,869 | 17,083,526 | 17,462,845 | 17,892,531 | 18,226,719 | 17,365,524 | 18,727,464 |
| Performance ratios | | | | | | | |
| Return on average assets | 1.05% | 1.03% | 1.02% | 0.99% | 0.99% | 1.02% | 0.97% |
| Return on average common equity | 7.49% | 7.58% | 7.47% | 7.15% | 7.05% | 7.42% | 7.08% |
| Return on average tangible common equity ⁽¹⁾ | 10.75% | 11.07% | 10.88% | 10.34% | 10.17% | 10.76% | 10.25% |

(1) A non-GAAP financial measure defined as average stockholders' equity less average goodwill, other intangibles, and preferred stock liquidation preference

RECONCILIATION OF GAAP NET INCOME TO CORE EARNINGS (Unaudited)

| (Amounts in thousands, except per share data) | Three Months Ended | | | | | Year Ended | |
|--|--------------------|-----------------|-----------------|-----------------|-----------------|------------------|------------------|
| | December 31, | September 30, | June 30, | March 31, | December 31, | December 31, | |
| | 2016 | 2016 | 2016 | 2016 | 2015 | 2016 | 2015 |
| Net income, GAAP | \$ 6,404 | \$ 6,383 | \$ 6,255 | \$ 6,084 | \$ 6,148 | \$ 25,126 | \$ 24,540 |
| Non-GAAP adjustments: | | | | | | | |
| Net gain on divestitures | (619) | (3,065) | - | - | - | (3,684) | - |
| Allowance reversal for sold loans | - | (1,354) | - | - | - | (1,354) | - |
| Merger, acquisition, and divestiture expense | 55 | 226 | 410 | 39 | - | 730 | 86 |
| Net (gain) loss on sale of securities | (388) | (25) | 79 | (1) | 7 | (335) | (144) |
| FHLB debt prepayment fees | - | - | - | - | - | - | 1,702 |
| Net impairment losses | - | 4,635 | 11 | - | - | 4,646 | - |
| Other non-core items | (48) | (264) | - | (240) | 31 | (552) | (1,004) |
| Total adjustments to core earnings | (1,000) | 153 | 500 | (202) | 38 | (549) | 640 |
| Tax effect | (708) | 56 | 184 | (74) | 14 | (542) | 660 |
| Core earnings, non-GAAP⁽¹⁾ | \$ 6,112 | \$ 6,480 | \$ 6,571 | \$ 5,956 | \$ 6,172 | \$ 25,119 | \$ 24,520 |
| Core diluted earnings per common share | \$ 0.36 | \$ 0.38 | \$ 0.38 | \$ 0.33 | \$ 0.34 | \$ 1.45 | \$ 1.31 |
| Performance ratios | | | | | | | |
| Core return on average assets | 1.01% | 1.05% | 1.07% | 0.97% | 0.99% | 1.02% | 0.97% |
| Core return on average common equity | 7.15% | 7.70% | 7.85% | 7.00% | 7.08% | 7.42% | 7.09% |
| Core return on average tangible common equity ⁽²⁾ | 10.26% | 11.24% | 11.43% | 10.12% | 10.21% | 10.75% | 10.25% |

(1) Excludes gains, losses, and impairment losses on securities; goodwill and intangible impairment; taxes; and other non-recurring income and expense items from net income

(2) A non-GAAP financial measure defined as average stockholders' equity less average goodwill, other intangibles, and preferred stock liquidation preference

Net Interest Income and Margin

AVERAGE BALANCE SHEETS AND NET INTEREST INCOME ANALYSIS (Unaudited)

| | Three Months Ended December 31, | | | | | |
|---|---------------------------------|-------------------------|---------------------------------------|--------------------|-------------------------|---------------------------------------|
| | 2016 | | | 2015 | | |
| (Amounts in thousands) | Average Balance | Interest ⁽¹⁾ | Average Yield/ Rate ⁽¹⁾ | Average Balance | Interest ⁽¹⁾ | Average Yield/ Rate ⁽¹⁾ |
| Assets | | | | | | |
| Earning assets | | | | | | |
| Loans ⁽²⁾ | \$ 1,846,848 | \$ 22,012 | 4.74% | \$ 1,694,569 | \$ 21,661 | 5.07% |
| Securities available for sale | 193,342 | 1,644 | 3.38% | 377,213 | 2,349 | 2.47% |
| Securities held to maturity | 67,254 | 182 | 1.08% | 72,568 | 194 | 1.06% |
| Interest-bearing deposits | 35,470 | 98 | 1.10% | 19,544 | 21 | 0.43% |
| Total earning assets | 2,142,914 | 23,936 | 4.44% | 2,163,894 | 24,225 | 4.44% |
| Other assets | 275,022 | | | 298,312 | | |
| Total assets | \$ 2,417,936 | | | \$ 2,462,206 | | |
| Liabilities and stockholders' equity | | | | | | |
| Interest-bearing deposits | | | | | | |
| Demand deposits | \$ 348,869 | \$ 73 | 0.08% | \$ 344,214 | \$ 47 | 0.05% |
| Savings deposits | 522,864 | 57 | 0.04% | 530,977 | 78 | 0.06% |
| Time deposits | 519,521 | 1,015 | 0.78% | 561,443 | 1,077 | 0.76% |
| Total interest-bearing deposits | 1,391,254 | 1,145 | 0.33% | 1,436,634 | 1,202 | 0.33% |
| Borrowings | | | | | | |
| Federal funds purchased | 82 | - | 0.00% | 2,114 | 2 | 0.38% |
| Retail repurchase agreements | 66,776 | 12 | 0.07% | 74,042 | 14 | 0.08% |
| Wholesale repurchase agreements | 48,913 | 464 | 3.77% | 50,000 | 474 | 3.76% |
| FHLB advances and other borrowings | 92,175 | 838 | 3.62% | 83,748 | 810 | 3.84% |
| Total borrowings | 207,946 | 1,314 | 2.51% | 209,904 | 1,300 | 2.46% |
| Total interest-bearing liabilities | 1,599,200 | 2,459 | 0.61% | 1,646,538 | 2,502 | 0.60% |
| Noninterest-bearing demand deposits | 454,161 | | | 466,623 | | |
| Other liabilities | 24,410 | | | 23,293 | | |
| Total liabilities | 2,077,771 | | | 2,136,454 | | |
| Stockholders' equity | 340,165 | | | 345,752 | | |
| Total liabilities and stockholders' equity | \$ 2,417,936 | | | \$ 2,482,206 | | |
| Net interest income, FTE | | \$ 21,477 | | | \$ 21,723 | |
| Net interest rate spread | | | 3.83% | | | 3.84% |
| Net interest margin | | | 3.99% | | | 3.98% |

(1) Fully taxable equivalent ("FTE") basis based on the federal statutory rate of 35%

(2) Nonaccrual loans are included in average balances; however, no related interest income is recorded during the period of nonaccrual.

AVERAGE BALANCE SHEETS AND NET INTEREST INCOME ANALYSIS (Unaudited)

| (Amounts in thousands) | Year Ended December 31, | | | | | |
|---|-------------------------|-------------------------|---------------------------------------|---------------------|-------------------------|---------------------------------------|
| | 2016 | | | 2015 | | |
| | Average Balance | Interest ⁽¹⁾ | Average Yield/ Rate ⁽¹⁾ | Average Balance | Interest ⁽¹⁾ | Average Yield/ Rate ⁽¹⁾ |
| Assets | | | | | | |
| Earning assets | | | | | | |
| Loans ⁽²⁾ | \$ 1,793,618 | \$ 87,848 | 4.90% | \$ 1,680,021 | \$ 87,768 | 5.22% |
| Securities available for sale | 287,332 | 8,047 | 2.80% | 363,359 | 9,575 | 2.64% |
| Securities held to maturity | 71,069 | 757 | 1.07% | 70,987 | 770 | 1.08% |
| Interest-bearing deposits | 18,864 | 153 | 0.81% | 98,639 | 267 | 0.27% |
| Total earning assets | 2,170,883 | 96,805 | 4.46% | 2,213,006 | 98,380 | 4.44% |
| Other assets | 284,575 | | | 307,928 | | |
| Total assets | <u>\$ 2,455,458</u> | | | <u>\$ 2,520,934</u> | | |
| Liabilities and stockholders' equity | | | | | | |
| Interest-bearing deposits | | | | | | |
| Demand deposits | \$ 342,169 | \$ 250 | 0.07% | \$ 343,036 | \$ 203 | 0.06% |
| Savings deposits | 531,050 | 248 | 0.05% | 532,221 | 367 | 0.07% |
| Time deposits | 525,162 | 3,981 | 0.76% | 631,654 | 5,308 | 0.84% |
| Total interest-bearing deposits | 1,398,381 | 4,479 | 0.32% | 1,506,911 | 5,878 | 0.39% |
| Borrowings | | | | | | |
| Federal funds purchased | 4,058 | 26 | 0.64% | 535 | 2 | 0.37% |
| Retail repurchase agreements | 68,701 | 49 | 0.07% | 71,262 | 68 | 0.10% |
| Wholesale repurchase agreements | 49,727 | 1,874 | 3.77% | 50,000 | 1,878 | 3.76% |
| FHLB advances and other borrowings | 116,602 | 3,416 | 2.93% | 89,400 | 3,523 | 3.94% |
| Total borrowings | 239,088 | 5,365 | 2.24% | 211,197 | 5,471 | 2.59% |
| Total interest-bearing liabilities | 1,637,469 | 9,844 | 0.60% | 1,718,108 | 11,349 | 0.66% |
| Noninterest-bearing demand deposits | 456,474 | | | 433,936 | | |
| Other liabilities | 23,040 | | | 20,691 | | |
| Total liabilities | 2,116,983 | | | 2,172,735 | | |
| Stockholders' equity | 338,475 | | | 348,199 | | |
| Total liabilities and stockholders' equity | <u>\$ 2,455,458</u> | | | <u>\$ 2,520,934</u> | | |
| Net interest income, FTE | | <u>\$ 86,961</u> | | | <u>\$ 87,031</u> | |
| Net interest rate spread | | | <u>3.86%</u> | | | <u>3.78%</u> |
| Net interest margin | | | <u>4.01%</u> | | | <u>3.93%</u> |

(1) Fully taxable equivalent ("FTE") basis based on the federal statutory rate of 35%

(2) Nonaccrual loans are included in average balances; however, no related interest income is recorded during the period of nonaccrual.

RECONCILIATION OF GAAP NET INTEREST MARGIN TO NON-GAAP NORMALIZED NET INTEREST MARGIN (Unaudited)

| <i>(Amounts in thousands)</i> | Three Months Ended December 31, | | | |
|---|--|--|-------------------------------|--|
| | 2016 | | 2015 | |
| | Interest⁽¹⁾ | Average Yield/ Rate⁽¹⁾ | Interest⁽¹⁾ | Average Yield/ Rate⁽¹⁾ |
| Earning assets | | | | |
| Loans ⁽²⁾ | \$ 22,012 | 4.74% | \$ 21,661 | 5.07% |
| Accretion income | 1,506 | | 2,493 | |
| Less: cash accretion income | 633 | | 824 | |
| Non-cash accretion income | 873 | | 1,669 | |
| Loans, normalized ⁽³⁾ | 21,139 | 4.55% | 19,992 | 4.68% |
| Other earning assets | 1,924 | 2.59% | 2,564 | 2.17% |
| Total earning assets | 23,063 | 4.28% | 22,556 | 4.13% |
| Total interest-bearing liabilities | 2,459 | 0.61% | 2,502 | 0.60% |
| Net interest income, FTE⁽³⁾ | \$ 20,604 | | \$ 20,054 | |
| Net interest rate spread, normalized⁽³⁾ | | 3.67% | | 3.53% |
| Net interest margin, normalized⁽³⁾ | | 3.83% | | 3.68% |

(1) FTE basis based on the federal statutory rate of 35%

(2) Nonaccrual loans are included in average balances; however, no related interest income is recorded during the period of nonaccrual.

(3) Normalized totals are non-GAAP financial measures that exclude non-cash loan interest accretion related to PCI loans.

| <i>(Amounts in thousands)</i> | Year Ended December 31, | | | |
|---|--------------------------------|--|-------------------------------|--|
| | 2016 | | 2015 | |
| | Interest⁽¹⁾ | Average Yield/ Rate⁽¹⁾ | Interest⁽¹⁾ | Average Yield/ Rate⁽¹⁾ |
| Earning assets | | | | |
| Loans ⁽²⁾ | \$ 87,848 | 4.90% | \$ 87,768 | 5.22% |
| Accretion income | 7,690 | | 11,258 | |
| Less: cash accretion income | 2,924 | | 4,149 | |
| Non-cash accretion income | 4,766 | | 7,109 | |
| Loans, normalized ⁽³⁾ | 83,082 | 4.63% | 80,659 | 4.80% |
| Other earning assets | 8,957 | 2.37% | 10,612 | 1.99% |
| Total earning assets | 92,039 | 4.24% | 91,271 | 4.12% |
| Total interest-bearing liabilities | 9,844 | 0.60% | 11,349 | 0.66% |
| Net interest income, FTE⁽³⁾ | \$ 82,195 | | \$ 79,922 | |
| Net interest rate spread, normalized⁽³⁾ | | 3.64% | | 3.46% |
| Net interest margin, normalized⁽³⁾ | | 3.79% | | 3.61% |

(1) FTE basis based on the federal statutory rate of 35%

(2) Nonaccrual loans are included in average balances; however, no related interest income is recorded during the period of nonaccrual.

(3) Normalized totals are non-GAAP financial measures that exclude non-cash loan interest accretion related to PCI loans.

Noninterest Income and Expense

CONDENSED QUARTERLY STATEMENTS OF INCOME (Unaudited)

| (Amounts in thousands) | Three Months Ended | | | | | Year Ended | |
|--|--------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | December 31, | September 30, | June 30, | March 31, | December 31, | December 31, | |
| | 2016 | 2016 | 2016 | 2016 | 2015 | 2016 | 2015 |
| Noninterest income | | | | | | | |
| Wealth management | \$ 681 | \$ 653 | \$ 810 | \$ 684 | \$ 744 | \$ 2,828 | \$ 2,975 |
| Service charges on deposits | 3,442 | 3,494 | 3,361 | 3,291 | 3,563 | 13,588 | 13,717 |
| Other service charges and fees | 2,014 | 2,024 | 2,054 | 2,010 | 2,058 | 8,102 | 8,045 |
| Insurance commissions | 59 | 1,592 | 1,600 | 2,191 | 1,563 | 5,442 | 6,899 |
| Net impairment losses recognized in earnings | - | (4,635) | (11) | - | - | (4,646) | - |
| Net gain (loss) on sale of securities | 388 | 25 | (79) | 1 | (7) | 335 | 144 |
| Net FDIC indemnification asset amortization | (1,618) | (1,369) | (1,328) | (1,159) | (1,200) | (5,474) | (6,379) |
| Net gain on divestitures | 619 | 3,065 | - | - | - | 3,684 | - |
| Other operating income | 653 | 1,046 | 623 | 885 | 762 | 3,207 | 4,129 |
| Total noninterest income | 6,238 | 5,895 | 7,030 | 7,903 | 7,483 | 27,066 | 29,530 |
| Noninterest expense | | | | | | | |
| Salaries and employee benefits | 9,411 | 9,828 | 10,198 | 10,475 | 10,268 | 39,912 | 39,625 |
| Occupancy expense | 1,158 | 1,249 | 1,359 | 1,531 | 1,413 | 5,297 | 5,817 |
| Furniture and equipment expense | 1,070 | 1,066 | 1,109 | 1,096 | 1,345 | 4,341 | 5,199 |
| Amortization of intangibles | 265 | 316 | 277 | 278 | 281 | 1,136 | 1,118 |
| FDIC premiums and assessments | 274 | 363 | 372 | 374 | 332 | 1,383 | 1,513 |
| FHLB debt prepayment fees | - | - | - | - | - | - | 1,702 |
| Merger, acquisition, and divestiture expense | 55 | 226 | 410 | 39 | - | 730 | 86 |
| Other operating expense | 4,420 | 5,509 | 4,997 | 5,021 | 5,444 | 19,947 | 21,111 |
| Total noninterest expense | 16,653 | 18,557 | 18,722 | 18,814 | 19,083 | 72,746 | 76,171 |

Efficiency Ratio

EFFICIENCY RATIO CALCULATION (Unaudited)

| (Amounts in thousands) | Three Months Ended | | | | | Year Ended | |
|--|--------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | December 31, | September 30, | June 30, | March 31, | December 31, | December 31, | |
| | 2016 | 2016 | 2016 | 2016 | 2015 | 2016 | 2015 |
| Noninterest expense, GAAP | \$ 16,653 | \$ 18,557 | \$ 18,722 | \$ 18,814 | \$ 19,083 | \$ 72,746 | \$ 76,171 |
| Non-GAAP adjustments | | | | | | | |
| Merger, acquisition, and divestiture expense | (55) | (226) | (410) | (39) | - | (730) | (86) |
| FHLB debt prepayment fees | - | - | - | - | - | - | (1,702) |
| OREO expense and net loss | (184) | (278) | (247) | (711) | (475) | (1,420) | (2,438) |
| Goodwill impairment | - | - | - | - | - | - | - |
| Other non-core items | 8 | (168) | (30) | (174) | (61) | (364) | (259) |
| Adjusted noninterest expense | 16,422 | 17,885 | 18,035 | 17,890 | 18,547 | 70,232 | 71,686 |
| Net interest income, GAAP | 20,957 | 21,121 | 21,691 | 21,111 | 21,175 | 84,880 | 84,753 |
| Noninterest income, GAAP | 6,238 | 5,895 | 7,030 | 7,903 | 7,483 | 27,066 | 29,530 |
| Non-GAAP adjustments | | | | | | | |
| Tax equivalency adjustment | 520 | 509 | 521 | 531 | 548 | 2,081 | 2,950 |
| Net impairment losses | - | 4,635 | 11 | - | - | 4,646 | - |
| Net (gain) loss on sale of securities | (388) | (25) | 79 | (1) | 7 | (335) | (144) |
| Net gain on divestitures | (619) | (3,065) | - | - | - | (3,684) | - |
| Other non-core items | (40) | (432) | (30) | (414) | (30) | (916) | (1,263) |
| Adjusted net interest and noninterest income | 26,668 | 28,638 | 29,302 | 29,130 | 29,183 | 113,738 | 115,826 |
| Non-GAAP efficiency ratio⁽¹⁾ | 61.58% | 62.45% | 61.55% | 61.41% | 63.55% | 61.75% | 61.89% |
| GAAP efficiency ratio | 61.24% | 68.69% | 65.19% | 64.84% | 66.59% | 64.98% | 66.65% |

(1) A non-GAAP financial measure computed by dividing adjusted noninterest expense by the sum of tax equivalent net interest income and adjusted noninterest income

Balance Sheet and Capital

CONDENSED CONSOLIDATED QUARTERLY BALANCE SHEETS (Unaudited)

| <i>(Amounts in thousands, except per share data)</i> | December 31, 2016 | September 30, 2016 | June 30, 2016 | March 31, 2016 | December 31, 2015 |
|--|----------------------|-----------------------|---------------------|---------------------|----------------------|
| Assets | | | | | |
| Total cash and cash equivalents | \$ 76,307 | \$ 65,929 | \$ 44,301 | \$ 39,587 | \$ 51,787 |
| Securities available for sale | 165,579 | 220,856 | 322,699 | 338,469 | 366,173 |
| Securities held to maturity | 47,133 | 72,182 | 72,239 | 72,485 | 72,541 |
| Loans held for investment, net of unearned income | | | | | |
| Non-covered | 1,795,954 | 1,774,547 | 1,733,398 | 1,685,891 | 1,623,506 |
| Covered | 56,994 | 61,837 | 68,585 | 76,538 | 83,035 |
| Less allowance for loan losses | (17,948) | (19,633) | (21,099) | (20,467) | (20,233) |
| Loans held for investment, net | 1,835,000 | 1,816,751 | 1,780,884 | 1,741,962 | 1,686,308 |
| FDIC indemnification asset | 12,173 | 14,332 | 16,431 | 18,787 | 20,844 |
| Premises and equipment, net | 50,085 | 50,564 | 50,199 | 50,799 | 52,756 |
| Other real estate owned, non-covered | 5,109 | 4,052 | 4,187 | 5,313 | 4,873 |
| Other real estate owned, covered | 276 | 2,437 | 2,017 | 2,279 | 4,034 |
| Interest receivable | 5,553 | 5,498 | 6,115 | 5,968 | 6,007 |
| Goodwill | 95,779 | 101,776 | 100,486 | 100,486 | 100,486 |
| Other intangible assets | 7,207 | 7,964 | 4,688 | 4,965 | 5,243 |
| Other assets | 86,197 | 87,932 | 91,082 | 89,187 | 91,224 |
| Total assets | <u>\$ 2,386,398</u> | <u>\$ 2,450,273</u> | <u>\$ 2,495,328</u> | <u>\$ 2,470,287</u> | <u>\$ 2,462,276</u> |
| Liabilities | | | | | |
| Deposits | | | | | |
| Noninterest-bearing | \$ 427,705 | \$ 473,509 | \$ 451,003 | \$ 453,336 | \$ 451,511 |
| Interest-bearing | 1,413,633 | 1,388,390 | 1,373,412 | 1,421,329 | 1,421,748 |
| Total deposits | 1,841,338 | 1,861,899 | 1,824,415 | 1,874,665 | 1,873,259 |
| Interest, taxes, and other liabilities | 27,290 | 26,599 | 25,553 | 24,576 | 26,630 |
| Federal funds purchased | - | - | 42,000 | 18,000 | - |
| Securities sold under agreements to repurchase | 98,005 | 118,532 | 113,392 | 134,661 | 138,614 |
| FHLB borrowings | 65,000 | 90,000 | 140,000 | 65,000 | 65,000 |
| Other borrowings | 15,708 | 15,707 | 15,756 | 15,756 | 15,756 |
| Total liabilities | 2,047,341 | 2,112,737 | 2,161,116 | 2,132,658 | 2,119,259 |
| Stockholders' equity | | | | | |
| Common stock | 21,382 | 21,382 | 21,382 | 21,382 | 21,382 |
| Additional paid-in capital | 228,142 | 227,884 | 227,791 | 227,725 | 227,692 |
| Retained earnings | 170,377 | 166,689 | 163,030 | 159,223 | 155,647 |
| Treasury stock, at cost | (78,833) | (78,789) | (74,974) | (64,968) | (56,457) |
| Accumulated other comprehensive (loss) income | (2,011) | 370 | (3,017) | (5,733) | (5,247) |
| Total stockholders' equity | 339,057 | 337,536 | 334,212 | 337,629 | 343,017 |
| Total liabilities and stockholders' equity | <u>\$ 2,386,398</u> | <u>\$ 2,450,273</u> | <u>\$ 2,495,328</u> | <u>\$ 2,470,287</u> | <u>\$ 2,462,276</u> |
| Shares outstanding at period-end | 16,994,208 | 16,988,972 | 17,155,322 | 17,631,011 | 18,098,141 |
| Book value per common share ⁽¹⁾ | \$ 19.95 | \$ 19.87 | \$ 19.48 | \$ 19.15 | \$ 18.95 |
| Tangible book value per common share ⁽²⁾ | 13.89 | 13.41 | 13.35 | 13.17 | 13.11 |

(1) Stockholders' equity divided by as-converted common shares outstanding

(2) A non-GAAP financial measure defined as stockholders' equity less goodwill and other intangibles, divided by as-converted common shares outstanding

Asset Quality

SELECTED CREDIT QUALITY INFORMATION (Unaudited)

| <i>(Amounts in thousands)</i> | December 31, 2016 | September 30, 2016 | June 30, 2016 | March 31, 2016 | December 31, 2015 |
|---|----------------------|-----------------------|------------------|-------------------|----------------------|
| Allowance for Loan Losses | | | | | |
| Beginning balance | \$ 19,633 | \$ 21,099 | \$ 20,467 | \$ 20,233 | \$ 20,127 |
| (Recovery of) provision for loan losses charged to operations | 500 | (1,154) | 722 | 1,187 | 434 |
| (Recovery of) provision for loan losses recorded through the FDIC indemnification asset | - | - | (10) | 9 | - |
| Charge-offs | (2,485) | (772) | (691) | (1,228) | (805) |
| Recoveries | 300 | 460 | 611 | 266 | 477 |
| Net charge-offs | (2,185) | (312) | (80) | (962) | (328) |
| Ending balance | <u>\$ 17,948</u> | <u>\$ 19,633</u> | <u>\$ 21,099</u> | <u>\$ 20,467</u> | <u>\$ 20,233</u> |
| Nonperforming Assets | | | | | |
| Non-covered nonperforming assets | | | | | |
| Nonaccrual loans | \$ 15,854 | \$ 17,487 | \$ 16,626 | \$ 16,196 | \$ 17,847 |
| Accruing loans past due 90 days or more | - | 62 | 64 | 243 | - |
| Troubled debt restructurings ("TDRs") ⁽¹⁾ | 114 | 115 | 115 | 158 | 73 |
| Total non-covered nonperforming loans | 15,968 | 17,664 | 16,805 | 16,597 | 17,920 |
| OREO | 5,109 | 4,052 | 4,187 | 5,313 | 4,873 |
| Total non-covered nonperforming assets | <u>\$ 21,077</u> | <u>\$ 21,716</u> | <u>\$ 20,992</u> | <u>\$ 21,910</u> | <u>\$ 22,793</u> |
| Covered nonperforming assets | | | | | |
| Nonaccrual loans | \$ 608 | \$ 688 | \$ 680 | \$ 1,955 | \$ 647 |
| Total covered nonperforming loans | 608 | 688 | 680 | 1,955 | 647 |
| OREO | 276 | 2,437 | 2,017 | 2,279 | 4,034 |
| Total covered nonperforming assets | <u>\$ 884</u> | <u>\$ 3,125</u> | <u>\$ 2,697</u> | <u>\$ 4,234</u> | <u>\$ 4,681</u> |
| Additional Information | | | | | |
| Performing TDRs ⁽²⁾ | \$ 12,838 | \$ 13,336 | \$ 13,562 | \$ 13,474 | \$ 13,889 |
| Total TDRs ⁽³⁾ | 12,952 | 13,451 | 13,677 | 13,632 | 13,962 |
| Non-covered ratios | | | | | |
| Nonperforming loans to total loans | 0.89% | 1.00% | 0.97% | 0.98% | 1.10% |
| Nonperforming assets to total assets | 0.90% | 0.91% | 0.87% | 0.92% | 0.96% |
| Non-PCI allowance to nonperforming loans | 112.32% | 111.08% | 125.48% | 123.17% | 112.61% |
| Non-PCI allowance to total loans | 1.00% | 1.11% | 1.22% | 1.21% | 1.24% |
| Annualized net charge-offs to average loans | 0.49% | 0.07% | 0.02% | 0.23% | 0.08% |
| Total ratios | | | | | |
| Nonperforming loans to total loans | 0.89% | 1.00% | 0.97% | 1.05% | 1.09% |
| Nonperforming assets to total assets | 0.92% | 1.01% | 0.95% | 1.06% | 1.12% |
| Allowance for loan losses to nonperforming loans | 108.28% | 106.98% | 120.67% | 110.32% | 108.97% |
| Allowance for loan losses to total loans | 0.97% | 1.07% | 1.17% | 1.16% | 1.19% |
| Annualized net charge-offs to average loans | 0.47% | 0.07% | 0.02% | 0.22% | 0.08% |

(1) Accruing TDRs restructured within the past six months or nonperforming

(2) Accruing TDRs with six months or more of satisfactory payment performance

(3) Accruing total TDRs