

FIRST COMMUNITY BANCSHARES INC /NV/  
Form 10-Q  
May 04, 2018

Table of Contents

**UNITED STATES  
SECURITIES AND EXCHANGE  
COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

**QUARTERLY REPORT  
PURSUANT TO SECTION 13 OR  
15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

For the quarterly period ended **March  
31, 2018**  
or

**TRANSITION REPORT  
PURSUANT TO SECTION 13 OR  
15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

Commission file number: **000-19297**

**FIRST  
COMMUNITY  
BANCSHARES,  
INC.**

(Exact name of  
registrant as  
specified in its  
charter)

|               |                   |
|---------------|-------------------|
| <b>Nevada</b> | <b>55-0694814</b> |
| (State        |                   |
| or            |                   |
| other         | (IRS              |
| jurisdiction  | Employer          |
| of            | Identification    |
| incorporation | No.)              |
| or            |                   |
| organization) |                   |

|             |                   |
|-------------|-------------------|
| <b>P.O.</b> | <b>24605-0989</b> |
| <b>Box</b>  |                   |
| <b>989</b>  |                   |

**Bluefield,  
Virginia**

(Address

of

principal

(Zip Code)

executive

offices)

**(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.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated Accelerated  
filer filer

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of April 27, 2018, there were 16,770,373 shares outstanding of the registrant's Common Stock, \$1.00 par value.

---

Table of Contents

**FIRST COMMUNITY BANCSHARES, INC.  
FORM 10-Q  
INDEX**

**PART I. FINANCIAL INFORMATION**

**Page**

|         |                                                                                                                                            |    |
|---------|--------------------------------------------------------------------------------------------------------------------------------------------|----|
| Item 1. | <u>Financial Statements</u>                                                                                                                |    |
|         | <u>Condensed Consolidated Balance Sheets as of March 31, 2018 (Unaudited) and December 31, 2017</u>                                        | 4  |
|         | <u>Condensed Consolidated Statements of Income for the Three Months Ended March 31, 2018 and 2017 (Unaudited)</u>                          | 5  |
|         | <u>Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2018 and 2017 (Unaudited)</u>            | 6  |
|         | <u>Condensed Consolidated Statements of Changes in Stockholders' Equity for the Three Months Ended March 31, 2018 and 2017 (Unaudited)</u> | 7  |
|         | <u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2018 and 2017 (Unaudited)</u>                      | 8  |
|         | <u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>                                                                    | 9  |
| Item 2. | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                                               | 38 |
| Item 3. | <u>Quantitative and Qualitative Disclosures About Market Risk</u>                                                                          | 52 |
| Item 4. | <u>Controls and Procedures</u>                                                                                                             | 52 |

**PART II. OTHER INFORMATION**

|          |                                                                    |    |
|----------|--------------------------------------------------------------------|----|
| Item 1.  | <u>Legal Proceedings</u>                                           | 53 |
| Item 1A. | <u>Risk Factors</u>                                                | 53 |
| Item 2.  | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 53 |
| Item 3.  | <u>Defaults Upon Senior Securities</u>                             | 54 |
| Item 4.  | <u>Mine Safety Disclosures</u>                                     | 54 |
| Item 5.  | <u>Other Information</u>                                           | 54 |
| Item 6.  | <u>Exhibits</u>                                                    | 55 |
|          | <u>Signatures</u>                                                  | 56 |

Table of Contents

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

Forward-looking statements in filings with the Securities and Exchange Commission, including this Quarterly Report on Form 10-Q and the accompanying Exhibits, filings incorporated by reference, reports to shareholders, and other communications that represent the Company's beliefs, plans, objectives, goals, guidelines, expectations, anticipations, estimates, and intentions are made in good faith pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict. The words "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan," and other similar expressions identify forward-looking statements. The following factors, among others, could cause financial performance to differ materially from that expressed in such forward-looking statements:

- the strength of the U.S. economy in general and the strength of the local economies in which we conduct operations;
- the effects of, and changes in, trade, monetary, and fiscal policies and laws, including interest rate policies of the Federal Reserve System;
- inflation, interest rate, market and monetary fluctuations;
- timely development of competitive new products and services and the acceptance of these products and services by new and existing customers;
- the willingness of customers to substitute competitors' products and services for the Company's products and services and vice versa;
- the impact of changes in financial services laws and regulations, including laws about taxes, banking, securities, and insurance, and the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act;
- the impact of the U.S. Department of the Treasury and federal banking regulators' continued implementation of programs to address capital and liquidity in the banking system;
- further, future, and proposed rules, including those that are part of the process outlined in the Basel Committee on Banking Supervision's "Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems," which require banking institutions to increase levels of capital;
- technological changes;
- the effect of acquisitions, including, without limitation, the failure to achieve the expected revenue growth and/or expense savings from such acquisitions;
- the growth and profitability of noninterest, or fee, income being less than expected;
- unanticipated regulatory or judicial proceedings;
- changes in consumer spending and saving habits; and
- the Company's success at managing the risks mentioned above.

This list of important factors is not exclusive. If one or more of the factors affecting these forward-looking statements proves incorrect, actual results, performance, or achievements could differ materially from those expressed in, or implied by, forward-looking statements contained in this Quarterly Report on Form 10-Q and other reports we file with the Securities and Exchange Commission. Therefore, the Company cautions you not to place undue reliance on forward-looking information and statements. The Company does not intend to update any forward-looking statements, whether written or oral, to reflect changes. These cautionary statements expressly qualify all forward-looking statements that apply to the Company including the risk factors presented in Part II, Item 1A, "Risk Factors," of this

report and Part I, Item 1A, “Risk Factors,” of the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

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

|                                                         | March 31,<br>2018 | December<br>31,<br>2017 <sup>(1)</sup> |
|---------------------------------------------------------|-------------------|----------------------------------------|
| (Amounts in thousands, except share and per share data) | (Unaudited)       |                                        |
| <b>Assets</b>                                           |                   |                                        |
| Cash and due from banks                                 | \$ 32,612         | \$ 37,115                              |
| Federal funds sold                                      | 171,583           | 119,891                                |
| Interest-bearing deposits in banks                      | 945               | 945                                    |
| Total cash and cash equivalents                         | 205,140           | 157,951                                |
| Debt securities available for sale                      | 164,137           | 165,525                                |
| Debt securities held to maturity                        | 25,115            | 25,149                                 |
| Loans held for investment, net of unearned income       |                   |                                        |
| Non-covered                                             | 1,767,703         | 1,789,236                              |
| Covered                                                 | 25,406            | 27,948                                 |
| Allowance for loan losses                               | (19,500 )         | (19,276 )                              |
| Loans held for investment, net                          | 1,773,609         | 1,797,908                              |
| FDIC indemnification asset                              | 6,884             | 7,161                                  |
| Premises and equipment, net                             | 46,415            | 48,126                                 |
| Other real estate owned, non-covered                    | 4,620             | 2,409                                  |
| Other real estate owned, covered                        | 70                | 105                                    |
| Interest receivable                                     | 5,155             | 5,778                                  |
| Goodwill                                                | 95,779            | 95,779                                 |
| Other intangible assets                                 | 5,891             | 6,151                                  |
| Other assets                                            | 95,492            | 76,418                                 |
| Total assets                                            | \$ 2,428,307      | \$ 2,388,460                           |
| <b>Liabilities</b>                                      |                   |                                        |
| Deposits                                                |                   |                                        |
| Noninterest-bearing                                     | \$ 460,478        | \$ 454,143                             |
| Interest-bearing                                        | 1,520,141         | 1,475,748                              |
| Total deposits                                          | 1,980,619         | 1,929,891                              |
| Securities sold under agreements to repurchase          | 29,115            | 30,086                                 |
| FHLB borrowings                                         | 50,000            | 50,000                                 |
| Interest, taxes, and other liabilities                  | 26,536            | 27,769                                 |
| Total liabilities                                       | 2,086,270         | 2,037,746                              |

**Stockholders' equity**

|                                                                                                                                                                                                                                 |             |             |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-------------|
| Preferred stock, undesignated par value; 1,000,000 shares authorized; Series A Noncumulative Convertible Preferred Stock, \$0.01 par value; 25,000 shares authorized; none outstanding                                          | -           | -           |
| Common stock, \$1 par value; 50,000,000 shares authorized; 21,381,779 shares issued at March 31, 2018, and December 31, 2017; 4,534,327 and 4,383,553 shares in treasury at March 31, 2018, and December 31, 2017, respectively | 21,382      | 21,382      |
| Additional paid-in capital                                                                                                                                                                                                      | 228,774     | 228,750     |
| Retained earnings                                                                                                                                                                                                               | 178,227     | 180,543     |
| Treasury stock, at cost                                                                                                                                                                                                         | (83,865 )   | (79,121 )   |
| Accumulated other comprehensive loss                                                                                                                                                                                            | (2,481 )    | (840 )      |
| Total stockholders' equity                                                                                                                                                                                                      | 342,037     | 350,714     |
| Total liabilities and stockholders' equity                                                                                                                                                                                      | \$2,428,307 | \$2,388,460 |

(1) Derived from audited financial statements

*See Notes to Condensed Consolidated Financial Statements.*

Table of Contents

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

|                                                                | <b>Three Months Ended</b> |             |
|----------------------------------------------------------------|---------------------------|-------------|
|                                                                | <b>March 31,</b>          |             |
| <i>(Amounts in thousands, except share and per share data)</i> | <b>2018</b>               | <b>2017</b> |
| <b>Interest income</b>                                         |                           |             |
| Interest and fees on loans                                     | \$22,755                  | \$21,827    |
| Interest on securities -- taxable                              | 389                       | 409         |
| Interest on securities -- tax-exempt                           | 715                       | 797         |
| Interest on deposits in banks                                  | 471                       | 159         |
| Total interest income                                          | 24,330                    | 23,192      |
| <b>Interest expense</b>                                        |                           |             |
| Interest on deposits                                           | 1,251                     | 1,166       |
| Interest on short-term borrowings                              | 200                       | 210         |
| Interest on long-term debt                                     | 500                       | 675         |
| Total interest expense                                         | 1,951                     | 2,051       |
| <b>Net interest income</b>                                     | 22,379                    | 21,141      |
| Provision for loan losses                                      | 495                       | 492         |
| <b>Net interest income after provision for loan losses</b>     | 21,884                    | 20,649      |
| <b>Noninterest income</b>                                      |                           |             |
| Wealth management                                              | 794                       | 790         |
| Service charges on deposits                                    | 3,468                     | 3,113       |
| Other service charges and fees                                 | 1,635                     | 1,502       |
| Insurance commissions                                          | 329                       | 373         |
| Net FDIC indemnification asset amortization                    | (382)                     | (1,332)     |
| Other operating income                                         | 602                       | 669         |
| Total noninterest income                                       | 6,446                     | 5,115       |
| <b>Noninterest expense</b>                                     |                           |             |
| Salaries and employee benefits                                 | 9,441                     | 8,748       |
| Occupancy expense                                              | 1,250                     | 1,248       |
| Furniture and equipment expense                                | 1,046                     | 1,091       |
| Service fees                                                   | 828                       | 845         |
| Advertising and public relations                               | 522                       | 605         |
| Professional fees                                              | 307                       | 822         |
| Amortization of intangibles                                    | 261                       | 261         |
| FDIC premiums and assessments                                  | 211                       | 244         |
| Other operating expense                                        | 3,028                     | 2,643       |
| Total noninterest expense                                      | 16,894                    | 16,507      |
| Income before income taxes                                     | 11,436                    | 9,257       |
| Income tax expense                                             | 2,568                     | 3,055       |
| <b>Net income</b>                                              | 8,868                     | 6,202       |
| <br>Earnings per common share                                  |                           |             |
| Basic                                                          | \$0.52                    | \$0.36      |
| Diluted                                                        | 0.52                      | 0.36        |

Edgar Filing: FIRST COMMUNITY BANCSHARES INC /NV/ - Form 10-Q

|                                     |            |            |
|-------------------------------------|------------|------------|
| Cash dividends per common share     | 0.66       | 0.16       |
| Weighted average shares outstanding |            |            |
| Basic                               | 16,955,758 | 16,998,125 |
| Diluted                             | 17,047,638 | 17,072,174 |

*See Notes to Condensed Consolidated Financial Statements.*

Table of Contents

**FIRST COMMUNITY BANCSHARES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**

|                                                                                                                    | <b>Three Months<br/>Ended<br/>March 31,<br/>2018      2017</b> |                |
|--------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|----------------|
| <i>(Amounts in thousands)</i>                                                                                      |                                                                |                |
| <b>Net income</b>                                                                                                  | \$8,868                                                        | \$6,202        |
| <b>Other comprehensive income, before tax</b>                                                                      |                                                                |                |
| Available-for-sale securities:                                                                                     |                                                                |                |
| Change in net unrealized (losses) gains on securities without other-than-temporary impairment                      | (2,147)                                                        | 651            |
| Net unrealized (losses) gains on available-for-sale securities                                                     | (2,147)                                                        | 651            |
| Employee benefit plans:                                                                                            |                                                                |                |
| Net actuarial (loss) gain                                                                                          | (1    )                                                        | 133            |
| Reclassification adjustment for amortization of prior service cost and net actuarial loss recognized in net income | 71                                                             | 64             |
| Net unrealized gains on employee benefit plans                                                                     | 70                                                             | 197            |
| <b>Other comprehensive (loss) income, before tax</b>                                                               | (2,077)                                                        | 848            |
| Income tax (benefit) expense                                                                                       | (436    )                                                      | 318            |
| <b>Other comprehensive (loss) income, net of tax</b>                                                               | (1,641)                                                        | 530            |
| <b>Total comprehensive income</b>                                                                                  | <b>\$7,227</b>                                                 | <b>\$6,732</b> |

*See Notes to Condensed Consolidated Financial Statements.*

Table of Contents

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

|                                                                       | Preferred<br>Stock | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Treasury<br>Stock | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Total      |
|-----------------------------------------------------------------------|--------------------|-----------------|----------------------------------|----------------------|-------------------|-----------------------------------------------------------|------------|
| <i>(Amounts in thousands,<br/>except share and per share data)</i>    |                    |                 |                                  |                      |                   |                                                           |            |
| Balance January 1, 2017                                               | \$ -               | \$ 21,382       | \$ 228,142                       | \$ 170,377           | \$(78,833 )       | \$ (2,011 )                                               | \$ 339,057 |
| Net income                                                            | -                  | -               | -                                | 6,202                | -                 | -                                                         | 6,202      |
| Other comprehensive income                                            | -                  | -               | -                                | -                    | -                 | 530                                                       | 530        |
| Common dividends declared --<br>\$0.16 per share                      | -                  | -               | -                                | (2,719 )             | -                 | -                                                         | (2,719 )   |
| Equity-based compensation<br>expense                                  | -                  | -               | (5 )                             | -                    | 342               | -                                                         | 337        |
| Common stock options exercised<br>-- 1,500 shares                     | -                  | -               | (8 )                             | -                    | 27                | -                                                         | 19         |
| Issuance of treasury stock to<br>401(k) plan -- 5,243 shares          | -                  | -               | 47                               | -                    | 95                | -                                                         | 142        |
| Purchase of treasury shares --<br>6,800 shares at \$24.07 per share   | -                  | -               | -                                | -                    | (164 )            | -                                                         | (164 )     |
| Balance March 31, 2017                                                | \$ -               | \$ 21,382       | \$ 228,176                       | \$ 173,860           | \$(78,533 )       | \$ (1,481 )                                               | \$ 343,404 |
| Balance January 1, 2018                                               | \$ -               | \$ 21,382       | \$ 228,750                       | \$ 180,543           | \$(79,121 )       | \$ (840 )                                                 | \$ 350,714 |
| Net income                                                            | -                  | -               | -                                | 8,868                | -                 | -                                                         | 8,868      |
| Other comprehensive income                                            | -                  | -               | -                                | -                    | -                 | (1,641 )                                                  | (1,641 )   |
| Common dividends declared --<br>\$0.66 per share                      | -                  | -               | -                                | (11,184 )            | -                 | -                                                         | (11,184 )  |
| Equity-based compensation<br>expense                                  | -                  | -               | (16 )                            | -                    | 547               | -                                                         | 531        |
| Common stock options exercised<br>-- 1,697 shares                     | -                  | -               | (9 )                             | -                    | 31                | -                                                         | 22         |
| Issuance of treasury stock to<br>401(k) plan -- 4,943 shares          | -                  | -               | 49                               | -                    | 91                | -                                                         | 140        |
| Purchase of treasury shares --<br>187,300 shares at \$28.90 per share | -                  | -               | -                                | -                    | (5,413 )          | -                                                         | (5,413 )   |

|                        |    |   |          |           |           |            |    |         |   |           |
|------------------------|----|---|----------|-----------|-----------|------------|----|---------|---|-----------|
| Balance March 31, 2018 | \$ | - | \$21,382 | \$228,774 | \$178,227 | \$(83,865) | \$ | (2,481) | ) | \$342,037 |
|------------------------|----|---|----------|-----------|-----------|------------|----|---------|---|-----------|

*See Notes to Condensed Consolidated Financial Statements.*

7

---

Table of Contents

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

|                                                                                   | <b>Three Months<br/>Ended<br/>March 31,</b> |             |
|-----------------------------------------------------------------------------------|---------------------------------------------|-------------|
|                                                                                   | <b>2018</b>                                 | <b>2017</b> |
| <i>(Amounts in thousands)</i>                                                     |                                             |             |
| <b>Operating activities</b>                                                       |                                             |             |
| Net income                                                                        | \$8,868                                     | \$6,202     |
| Adjustments to reconcile net income to net cash provided by operating activities  |                                             |             |
| Provision for loan losses                                                         | 495                                         | 492         |
| Depreciation and amortization of property, plant, and equipment                   | 806                                         | 874         |
| Amortization of premiums on investments, net                                      | 112                                         | 83          |
| Amortization of FDIC indemnification asset, net                                   | 382                                         | 1,332       |
| Amortization of intangible assets                                                 | 261                                         | 261         |
| Accretion on acquired loans                                                       | (1,845 )                                    | (1,134 )    |
| Equity-based compensation expense                                                 | 531                                         | 337         |
| Issuance of treasury stock to 401(k) plan                                         | 140                                         | 142         |
| Loss on sale of premises and equipment, net                                       | 7                                           | 3           |
| Loss on sale of other real estate owned                                           | 103                                         | 233         |
| Decrease in accrued interest receivable                                           | 623                                         | 494         |
| Decrease in other operating activities                                            | 350                                         | 1,369       |
| Net cash provided by operating activities                                         | 10,833                                      | 10,688      |
| <b>Investing activities</b>                                                       |                                             |             |
| Proceeds from maturities, prepayments, and calls of securities available for sale | 2,552                                       | 7,503       |
| Payments to acquire securities available for sale                                 | (23,387 )                                   | -           |
| Proceeds from loans, net                                                          | 22,862                                      | 17,945      |
| Proceeds from bank owned life insurance                                           | 171                                         | -           |
| Proceeds from FHLB stock, net                                                     | 3                                           | 57          |
| Proceeds from the FDIC                                                            | 111                                         | 818         |
| Proceeds from premises and equipment                                              | 475                                         | 39          |
| Payments to acquire premises and equipment                                        | (121 )                                      | (888 )      |
| Proceeds from sale of other real estate owned                                     | 508                                         | 806         |
| Net cash provided by investing activities                                         | 3,174                                       | 26,280      |
| <b>Financing activities</b>                                                       |                                             |             |
| Increase in noninterest-bearing deposits, net                                     | 6,335                                       | 39,972      |
| Increase in interest-bearing deposits, net                                        | 44,393                                      | 25,284      |
| Repayments of securities sold under agreements to repurchase, net                 | (971 )                                      | (7,352 )    |
| Repayments of FHLB and other borrowings, net                                      | -                                           | (15,464 )   |

Edgar Filing: FIRST COMMUNITY BANCSHARES INC /NV/ - Form 10-Q

|                                                  |           |           |
|--------------------------------------------------|-----------|-----------|
| Proceeds from stock options exercised            | 22        | 19        |
| Payments for repurchase of treasury stock        | (5,413 )  | (164 )    |
| Payments of common dividends                     | (11,184 ) | (2,719 )  |
| Net cash provided by financing activities        | 33,182    | 39,576    |
| Net increase in cash and cash equivalents        | 47,189    | 76,544    |
| Cash and cash equivalents at beginning of period | 157,951   | 76,307    |
| Cash and cash equivalents at end of period       | \$205,140 | \$152,851 |

**Supplemental disclosure -- cash flow information**

|                            |         |         |
|----------------------------|---------|---------|
| Cash paid for interest     | \$1,983 | \$2,200 |
| Cash paid for income taxes | -       | -       |

**Supplemental transactions -- noncash items**

|                                                             |          |     |
|-------------------------------------------------------------|----------|-----|
| Transfer of loans to other real estate owned                | 2,787    | 372 |
| (Increase) decrease in accumulated other comprehensive loss | (1,641 ) | 530 |
| Security settlements in process                             | 20,000   | -   |

*See Notes to Condensed Consolidated Financial Statements.*

Table of Contents

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**Note 1. Basis of Presentation**

***General***

First Community Bancshares, Inc. (the “Company”), a financial holding company, was founded in 1989 and incorporated under the laws of Nevada in 1997. The Company’s principal executive office is located at One Community Place, Bluefield, Virginia. The Company provides banking products and services to individual and commercial customers through its wholly owned subsidiary First Community Bank (the “Bank”), a Virginia-chartered banking institution founded in 1874. The Bank operates as First Community Bank in Virginia, West Virginia, and North Carolina and People’s Community Bank, a Division of First Community Bank, in Tennessee. The Bank provides insurance services through its wholly owned subsidiary First Community Insurance Services (“FCIS”) and offers wealth management and investment advice through its Trust Division and wholly owned subsidiary First Community Wealth Management (“FCWM”). Unless the context suggests otherwise, the terms “First Community,” “Company,” “we,” “our,” and “us” refer to First Community Bancshares, Inc. and its subsidiaries as a consolidated entity.

***Principles of Consolidation***

The Company’s accounting and reporting policies conform with U.S. generally accepted accounting principles (“GAAP”) and prevailing practices in the banking industry. The consolidated financial statements include all accounts of the Company and its wholly owned subsidiaries and eliminate all intercompany balances and transactions. The Company operates in one business segment, Community Banking, which consists of all operations, including commercial and consumer banking, lending activities, wealth management, and insurance services. Operating results for interim periods are not necessarily indicative of results that may be expected for other interim periods or for the full year. In management’s opinion, the accompanying unaudited interim condensed consolidated financial statements contain all necessary adjustments, including normal recurring accruals, and disclosures for a fair presentation.

These unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 (the “2017 Form 10-K”), as filed with the Securities and Exchange Commission (the “SEC”) on March 5, 2018. The condensed consolidated balance sheet as of December 31, 2017, has been derived from the audited consolidated financial statements.

### ***Reclassifications***

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

### ***Use of Estimates***

Preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that require the most subjective or complex judgments relate to fair value measurements, investment securities, the allowance for loan losses, goodwill and other intangible assets, and income taxes. A discussion of the Company's application of critical accounting estimates is included in "Critical Accounting Estimates" in Item 2 of this report.

### ***Significant Accounting Policies***

The following detailed description of the Company's significant accounting policies are in addition to those included in Note 1, "Basis of Presentation and Significant Accounting Policies," of the Notes to Consolidated Financial Statements in Part II, Item 8 of the Company's 2017 Form 10-K.

### ***Revenue Recognition***

Accounting Standards Codification Topic 606 ("ASC 606"), "Revenue from Contracts with Customers," establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the Company's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

The great majority of the Company's revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as loans, letters of credit, and derivatives and investment securities, as these activities are subject to other GAAP discussed elsewhere within our disclosures. Descriptions of the Company's revenue-generating activities that are within the scope of ASC 606, which are discussed below, are presented in the Company's consolidated statements of income as components of noninterest income.



Table of Contents

*Wealth management.* Wealth management income represents monthly fees due from wealth management customers as consideration for managing the customers' assets. Wealth management and trust services include custody of assets, investment management, escrow services, fees for trust services and similar fiduciary activities. Revenue is recognized when the performance obligation is completed each month, which is generally the time that payment is received. Income also includes fees received from a third party broker-dealer as part of a revenue-sharing agreement for fees earned from customers that are referred to the third party. These fees are paid to the Company by the third party on a quarterly basis and recognized ratably throughout the quarter as the performance obligation is satisfied.

*Service charges on deposits and other service charges and fees.* Service charges on deposits and other service charges and fees represent general service fees for account maintenance and activity and transaction-based fees that consist of transaction-based revenue, time-based revenue (service period), item-based revenue, or some other individual attribute-based revenue. Revenue is recognized when the performance obligation is completed, which is generally monthly for account maintenance services or when a transaction has been completed. Payment for such performance obligations is generally received at the time the performance obligations are satisfied. Other service charges and fees include interchange income from debit and credit card transaction fees. In accordance with the adoption of ASC 606, the Company reclassified interchange expense, which was previously a component of noninterest expense, to net against interchange income. Interchange income totaled \$1.76 million and interchange expense totaled \$650 thousand for the three month ended March 31, 2018, resulting in net interchange income of \$1.11 million. Interchange income totaled \$1.60 million and interchange expense totaled \$576 thousand for the three months ended March 31, 2017, resulting in net interchange income of \$1.03 million.

*Other operating income.* Other operating income consists primarily of dividends received and income on life insurance contracts, which are not subject to the requirements of ASC 606.

***Recent Accounting Standards***

*Standards Adopted in 2018*

In May 2017, the FASB issued ASU 2017-09, "Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting." This ASU clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. ASU 2017-09 will be effective for the Company for fiscal years beginning after December 15, 2017. The Company adopted ASU 2017-09 in the first quarter of 2018. The adoption of the standard did not have a material effect on the Company's financial statements.

In March 2017, the FASB issued ASU 2017-08, "Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Securities." This ASU amends the amortization period for certain purchased callable debt securities. ASU 2017-08 will be effective for the Company for fiscal years beginning after December 15, 2018. The Company early adopted ASU 2017-08 in the first quarter of 2018. The adoption of the standard did not have a material effect on the Company's financial statements since securities held at a premium are already amortized to the earliest call date.

In March 2017, the FASB issued ASU 2017-07, "Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." This ASU intends to improve the presentation of net periodic pension cost and net periodic postretirement benefit costs in the income statement and to narrow the amounts eligible for capitalization in assets. ASU 2017-07 will be effective for the Company for fiscal years beginning after December 15, 2017. The Company adopted ASU 2017-07 in the first quarter of 2018. The adoption of the standard did not have a material effect on the Company's financial statements. In accordance with the standard, the Company reclassified the non-service components of the net periodic benefit costs from salaries and employee benefits to other expense on a retrospective basis.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash." This ASU requires that a statement of cash flows explains the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 will be effective for the Company for fiscal years beginning after December 15, 2017. The Company adopted ASU 2016-18 in the first quarter of 2018. The adoption of the standard did not have a material effect on the Company's financial statements.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments." This ASU makes eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 will be effective for the Company for fiscal years beginning after December 15, 2017, with early adoption permitted. The update should be applied on a retrospective basis, if practicable. The Company adopted ASU 2016-15 in the first quarter of 2018. The adoption of the standard did not have a material effect on the Company's financial statements. In accordance with the standard, the Company reclassified proceeds from bank owned life insurance from operating activities to investing activities on a retrospective basis.

## Table of Contents

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.” This ASU significantly revises how entities account and disclose financial assets and liabilities. The guidance (1) requires most equity investments to be measured at fair value with changes in fair value recognized in net income; (2) simplifies the impairment assessment of equity investments without a readily determinable fair value; (3) eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost on the balance sheet; (4) requires public business entities to use exit price notion, rather than entry prices, when measuring fair value of financial instruments for disclosure purposes; (5) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial assets on the balance sheet or the accompanying notes to the financial statements; (6) requires separate presentation in other comprehensive income of the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; and (7) states that a valuation allowance on deferred tax assets related to available-for-sale securities should be evaluated in combination with other deferred tax assets. In February 2018, the FASB issued ASU 2018-03, which included technical corrections and improvements to clarify the guidance in ASU 2016-01. ASU 2016-01 will be effective for the Company for fiscal years beginning after December 15, 2017, with early adoption permitted for the instrument-specific credit risk provision. The Company adopted ASU 2016-01 in the first quarter of 2018. The adoption of the standard did not have a material effect on the Company’s financial statements. In accordance with the prospective application of the standard, the Company measured the fair value of loans using an exit price notion as of March 31, 2018. For additional information, see Note 13, “Fair Value” to the Condensed Consolidated Financial Statements of this report.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606).” This ASU’s core principle is that an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under existing guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In August 2015, the FASB issued ASU 2015-14, “Revenue from Contracts with Customers” deferring the effective date of ASU 2014-09 for the Company until fiscal years beginning after December 15, 2017, with early adoption permitted for fiscal years beginning after December 15, 2016. The Company adopted Topic 606, and related updates, in the first quarter of 2018 using the modified retrospective method. The Company’s primary source of revenue is interest income, which is excluded from the scope of this guidance; however, the Company evaluated the impact on other income; which includes fees for services, commissions on sales, and various deposit service charges; revenue contracts; and disclosures and determined that no cumulative-effect adjustment to retained earnings was necessary. The adoption of the standard did not have a material effect on the Company’s financial statements.

### *Standards Not Yet Adopted*

In August 2017, the FASB issued ASU 2017-12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities.” This ASU intends to improve the financial reporting of hedging relationships to better portray the economic results of an entity’s risk management activities in its financial statements and simplify the

application of hedge accounting guidance. ASU 2017-12 will be effective for the Company for fiscal years beginning after December 15, 2018. The Company expects to adopt ASU 2017-12 in the first quarter of 2019. The Company is evaluating the impact of the standard and does not expect the guidance to have a material effect on its financial statements.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." This ASU intends to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. This ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, the update amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 will be effective for the Company for fiscal years beginning after December 15, 2019, with early adoption permitted for fiscal years beginning after December 15, 2018. The Company expects to adopt ASU 2016-13 in the first quarter of 2020 and recognize a cumulative adjustment to retained earnings as of the beginning of the year of adoption. The Company is evaluating the impact of the standard.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." This ASU increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and requiring more disclosures related to leasing transactions. ASU 2016-02 will be effective for the Company for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company expects to adopt ASU 2016-02 in the first quarter of 2019. The Company leases certain banking offices under lease agreements it classifies as operating leases. The Company is evaluating the impact of the standard and expects an increase in assets and liabilities and an impact on capital; however, the Company does not expect the guidance to have a material effect on its financial statements or resulting operations.

Table of Contents

The Company does not expect other recent accounting standards issued by the FASB or other standards-setting bodies to have a material impact on the consolidated financial statements.

**Note 2. Debt Securities**

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

|                                          | <b>March 31, 2018</b>     |                             |                              |                       |
|------------------------------------------|---------------------------|-----------------------------|------------------------------|-----------------------|
|                                          | <b>Amortized<br/>Cost</b> | <b>Unrealized<br/>Gains</b> | <b>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> |
| <i>(Amounts in thousands)</i>            |                           |                             |                              |                       |
| U.S. Agency securities                   | \$ 11,223                 | \$ 11                       | \$ (10                       | ) \$ 11,224           |
| U.S. Treasury securities                 | 19,947                    | -                           | (5                           | ) 19,942              |
| Municipal securities                     | 100,082                   | 1,152                       | (895                         | ) 100,339             |
| Single issue trust preferred securities  | 9,370                     | -                           | (379                         | ) 8,991               |
| Mortgage-backed Agency securities        | 24,427                    | 41                          | (827                         | ) 23,641              |
| Total debt securities available for sale | \$ 165,049                | \$ 1,204                    | \$ (2,116                    | ) \$ 164,137          |

|                                          | <b>December 31, 2017</b>  |                             |                              |                       |
|------------------------------------------|---------------------------|-----------------------------|------------------------------|-----------------------|
|                                          | <b>Amortized<br/>Cost</b> | <b>Unrealized<br/>Gains</b> | <b>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> |
| <i>(Amounts in thousands)</i>            |                           |                             |                              |                       |
| U.S. Agency securities                   | \$ 11,289                 | \$ 17                       | \$ (10                       | ) \$ 11,296           |
| U.S. Treasury securities                 | 19,987                    | -                           | (16                          | ) 19,971              |
| Municipal securities                     | 101,552                   | 2,203                       | (107                         | ) 103,648             |
| Single issue trust preferred securities  | 9,367                     | -                           | (483                         | ) 8,884               |
| Mortgage-backed Agency securities        | 22,095                    | 46                          | (415                         | ) 21,726              |
| Total debt securities available for sale | \$ 164,290                | \$ 2,266                    | \$ (1,031                    | ) \$ 165,525          |

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

|                               | <b>March 31, 2018</b>     |                             |                              |                       |
|-------------------------------|---------------------------|-----------------------------|------------------------------|-----------------------|
|                               | <b>Amortized<br/>Cost</b> | <b>Unrealized<br/>Gains</b> | <b>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> |
| <i>(Amounts in thousands)</i> |                           |                             |                              |                       |

|                                        |          |    |   |         |   |          |
|----------------------------------------|----------|----|---|---------|---|----------|
| U.S. Agency securities                 | \$17,925 | \$ | - | \$ (87  | ) | \$17,838 |
| Corporate securities                   | 7,190    |    | - | (41     | ) | 7,149    |
| Total debt securities held to maturity | \$25,115 | \$ | - | \$ (128 | ) | \$24,987 |

|                                        | <b>December 31, 2017</b> |                   |                   |              |            |
|----------------------------------------|--------------------------|-------------------|-------------------|--------------|------------|
|                                        | <b>Amortized</b>         | <b>Unrealized</b> | <b>Unrealized</b> | <b>Fair</b>  |            |
|                                        | <b>Cost</b>              | <b>Gains</b>      | <b>Losses</b>     | <b>Value</b> |            |
| <i>(Amounts in thousands)</i>          |                          |                   |                   |              |            |
| U.S. Agency securities                 | \$17,937                 | \$                | -                 | \$ (49       | ) \$17,888 |
| Corporate securities                   | 7,212                    |                   | -                 | (16          | ) 7,196    |
| Total debt securities held to maturity | \$25,149                 | \$                | -                 | \$ (65       | ) \$25,084 |

Table of Contents

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

| <i>(Amounts in thousands)</i>             | <b>March 31, 2018</b> |                   |
|-------------------------------------------|-----------------------|-------------------|
|                                           | <b>Amortized Cost</b> | <b>Fair Value</b> |
| <b>Available-for-sale debt securities</b> |                       |                   |
| Due within one year                       | \$29,974              | \$29,959          |
| Due after one year but within five years  | 7,563                 | 7,646             |
| Due after five years but within ten years | 99,038                | 98,852            |
| Due after ten years                       | 4,047                 | 4,039             |
|                                           | 140,622               | 140,496           |
| Mortgage-backed securities                | 24,427                | 23,641            |
| Total debt securities available for sale  | \$165,049             | \$164,137         |
| <b>Held-to-maturity debt securities</b>   |                       |                   |
| Due within one year                       | \$-                   | \$-               |
| Due after one year but within five years  | 25,115                | 24,987            |
| Due after five years but within ten years | -                     | -                 |
| Due after ten years                       | -                     | -                 |
| Total debt securities held to maturity    | \$25,115              | \$24,987          |

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

| <i>(Amounts in thousands)</i>           | <b>March 31, 2018</b>      |                          |                            |                          |                   |                          |
|-----------------------------------------|----------------------------|--------------------------|----------------------------|--------------------------|-------------------|--------------------------|
|                                         | <b>Less than 12 Months</b> |                          | <b>12 Months or Longer</b> |                          | <b>Total</b>      |                          |
|                                         | <b>Fair Value</b>          | <b>Unrealized Losses</b> | <b>Fair Value</b>          | <b>Unrealized Losses</b> | <b>Fair Value</b> | <b>Unrealized Losses</b> |
| U.S. Agency securities                  | \$10,018                   | \$ (10 )                 | \$-                        | \$ -                     | \$10,018          | \$ (10 )                 |
| U.S. Treasury securities                | 19,942                     | (5 )                     | -                          | -                        | 19,942            | (5 )                     |
| Municipal securities                    | 28,497                     | (795 )                   | 1,575                      | (100 )                   | 30,072            | (895 )                   |
| Single issue trust preferred securities | -                          | -                        | 8,991                      | (379 )                   | 8,991             | (379 )                   |
| Mortgage-backed Agency securities       | 8,019                      | (154 )                   | 13,050                     | (673 )                   | 21,069            | (827 )                   |
| Total                                   | \$66,476                   | \$ (964 )                | \$23,616                   | \$ (1,152 )              | \$90,092          | \$ (2,116 )              |

|                            |              |
|----------------------------|--------------|
| <b>December 31, 2017</b>   |              |
| <b>Less than 12 Months</b> | <b>Total</b> |

|                                         | <b>12 Months or<br/>Longer</b> |                              |  |                       |                              |                       |
|-----------------------------------------|--------------------------------|------------------------------|--|-----------------------|------------------------------|-----------------------|
|                                         | <b>Fair<br/>Value</b>          | <b>Unrealized<br/>Losses</b> |  | <b>Fair<br/>Value</b> | <b>Unrealized<br/>Losses</b> |                       |
| <i>(Amounts in thousands)</i>           |                                |                              |  |                       |                              |                       |
| U.S. Agency securities                  | \$ 10,054                      | \$ (10 )                     |  | \$ -                  | \$ -                         | \$ 10,054 \$ (10 )    |
| U.S. Treasury securities                | 19,972                         | (16 )                        |  | -                     | -                            | 19,972 (16 )          |
| Municipal securities                    | 8,047                          | (55 )                        |  | 2,314                 | (52 )                        | 10,361 (107 )         |
| Single issue trust preferred securities | -                              | -                            |  | 8,884                 | (483 )                       | 8,884 (483 )          |
| Mortgage-backed Agency securities       | 4,276                          | (25 )                        |  | 14,069                | (390 )                       | 18,345 (415 )         |
| Total                                   | \$ 42,349                      | \$ (106 )                    |  | \$ 25,267             | \$ (925 )                    | \$ 67,616 \$ (1,031 ) |

Table of Contents

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

**March 31, 2018**

|                               | <b>Less than 12 Months</b> |                          | <b>12 Months or Longer</b> |                          | <b>Total</b>      |                          |
|-------------------------------|----------------------------|--------------------------|----------------------------|--------------------------|-------------------|--------------------------|
|                               | <b>Fair Value</b>          | <b>Unrealized Losses</b> | <b>Fair Value</b>          | <b>Unrealized Losses</b> | <b>Fair Value</b> | <b>Unrealized Losses</b> |
| <i>(Amounts in thousands)</i> |                            |                          |                            |                          |                   |                          |
| U.S. Agency securities        | \$17,838                   | \$ (87 )                 | \$ -                       | \$ -                     | \$17,838          | \$ (87 )                 |
| Corporate securities          | 7,149                      | (41 )                    | -                          | -                        | 7,149             | (41 )                    |
| Total                         | \$24,987                   | \$ (128 )                | \$ -                       | \$ -                     | \$24,987          | \$ (128 )                |

**December 31, 2017**

|                               | <b>Less than 12 Months</b> |                          | <b>12 Months or Longer</b> |                          | <b>Total</b>      |                          |
|-------------------------------|----------------------------|--------------------------|----------------------------|--------------------------|-------------------|--------------------------|
|                               | <b>Fair Value</b>          | <b>Unrealized Losses</b> | <b>Fair Value</b>          | <b>Unrealized Losses</b> | <b>Fair Value</b> | <b>Unrealized Losses</b> |
| <i>(Amounts in thousands)</i> |                            |                          |                            |                          |                   |                          |
| U.S. Agency securities        | \$17,888                   | \$ (49 )                 | \$ -                       | \$ -                     | \$17,888          | \$ (49 )                 |
| Corporate securities          | 7,196                      | (16 )                    | -                          | -                        | 7,196             | (16 )                    |
| Total                         | \$25,084                   | \$ (65 )                 | \$ -                       | \$ -                     | \$25,084          | \$ (65 )                 |

There were 105 individual securities in an unrealized loss position as of March 31, 2018, and their combined depreciation in value represented 1.14% of the debt securities portfolio. There were 45 individual securities in an unrealized loss position as of December 31, 2017, and their combined depreciation in value represented 0.57% of the debt securities portfolio.

The Company reviews its investment portfolio quarterly for indications of other-than-temporary impairment (“OTTI”). The initial indicator of OTTI for debt securities is a decline in fair value below book value and the severity and duration of the decline. The credit-related OTTI is recognized as a charge to noninterest income and the noncredit-related OTTI is recognized in other comprehensive income (“OCI”). During the three months ended March 31, 2018 and 2017, the Company incurred no OTTI charges on debt securities. Temporary impairment on debt securities is primarily related to changes in benchmark interest rates, changes in pricing in the credit markets, and other current economic factors.

There were no gross realized gains or losses from the sale of available-for-sale debt securities for the three months ended March 31, 2018 or 2017. The carrying amount of securities pledged for various purposes totaled \$41.39 million as of March 31, 2018, and \$51.34 million as of December 31, 2017.

**Note 3. Loans**

The Company groups loans held for investment into three segments (commercial loans, consumer real estate loans, and consumer and other loans) with each segment divided into various classes. Covered loans are those loans acquired in Federal Deposit Insurance Corporation ("FDIC") assisted transactions that are covered by loss share agreements. Customer overdrafts reclassified as loans totaled \$1.44 million as of March 31, 2018, and \$1.71 million as of December 31, 2017. Deferred loan fees, net of loan costs, totaled \$4.39 million as of March 31, 2018, and \$4.44 million as of December 31, 2017. For information about off-balance sheet financing, see Note 14, "Litigation, Commitments, and Contingencies," to the Condensed Consolidated Financial Statements of this report.

Table of Contents

The following table presents loans, net of unearned income, with the non-covered portfolio by loan class, as of the dates indicated:

| <i>(Amounts in thousands)</i>                           | <b>March 31, 2018</b> |                | <b>December 31, 2017</b> |                |
|---------------------------------------------------------|-----------------------|----------------|--------------------------|----------------|
|                                                         | <b>Amount</b>         | <b>Percent</b> | <b>Amount</b>            | <b>Percent</b> |
| Non-covered loans held for investment                   |                       |                |                          |                |
| Commercial loans                                        |                       |                |                          |                |
| Construction, development, and other land               | \$52,264              | 2.92 %         | \$60,017                 | 3.30 %         |
| Commercial and industrial                               | 90,361                | 5.04 %         | 92,188                   | 5.07 %         |
| Multi-family residential                                | 120,656               | 6.73 %         | 125,202                  | 6.89 %         |
| Single family non-owner occupied                        | 142,227               | 7.93 %         | 141,670                  | 7.80 %         |
| Non-farm, non-residential                               | 618,872               | 34.51 %        | 616,633                  | 33.93 %        |
| Agricultural                                            | 9,350                 | 0.52 %         | 7,035                    | 0.39 %         |
| Farmland                                                | 23,567                | 1.31 %         | 25,649                   | 1.41 %         |
| Total commercial loans                                  | 1,057,297             | 58.96 %        | 1,068,394                | 58.79 %        |
| Consumer real estate loans                              |                       |                |                          |                |
| Home equity lines                                       | 101,476               | 5.66 %         | 103,205                  | 5.68 %         |
| Single family owner occupied                            | 506,368               | 28.24 %        | 502,686                  | 27.66 %        |
| Owner occupied construction                             | 29,518                | 1.65 %         | 39,178                   | 2.16 %         |
| Total consumer real estate loans                        | 637,362               | 35.55 %        | 645,069                  | 35.50 %        |
| Consumer and other loans                                |                       |                |                          |                |
| Consumer loans                                          | 68,534                | 3.82 %         | 70,772                   | 3.89 %         |
| Other                                                   | 4,510                 | 0.25 %         | 5,001                    | 0.28 %         |
| Total consumer and other loans                          | 73,044                | 4.07 %         | 75,773                   | 4.17 %         |
| Total non-covered loans                                 | 1,767,703             | 98.58 %        | 1,789,236                | 98.46 %        |
| Total covered loans                                     | 25,406                | 1.42 %         | 27,948                   | 1.54 %         |
| Total loans held for investment, net of unearned income | \$1,793,109           | 100.00 %       | \$1,817,184              | 100.00 %       |

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

|                                           | <b>March<br/>31,<br/>2018</b> | <b>December<br/>31, 2017</b> |
|-------------------------------------------|-------------------------------|------------------------------|
| <i>(Amounts in thousands)</i>             |                               |                              |
| Covered loans                             |                               |                              |
| Commercial loans                          |                               |                              |
| Construction, development, and other land | \$37                          | \$39                         |
| Single family non-owner occupied          | 277                           | 284                          |
| Non-farm, non-residential                 | 9                             | 9                            |
| Total commercial loans                    | 323                           | 332                          |
| Consumer real estate loans                |                               |                              |
| Home equity lines                         | 21,438                        | 23,720                       |
| Single family owner occupied              | 3,645                         | 3,896                        |

|                                  |          |           |
|----------------------------------|----------|-----------|
| Total consumer real estate loans | 25,083   | 27,616    |
| Total covered loans              | \$25,406 | \$ 27,948 |

The Company identifies certain purchased loans as impaired when fair values are established at acquisition and groups those purchased credit impaired (“PCI”) loans into loan pools with common risk characteristics. The Company estimates cash flows to be collected on PCI loans and discounts those cash flows at a market rate of interest.

Table of Contents

The following table presents the recorded investment and contractual unpaid principal balance of PCI loans, by acquisition, as of the dates indicated:

| <i>(Amounts in thousands)</i> | <b>March 31, 2018</b>      |                                 | <b>December 31, 2017</b>   |                                 |
|-------------------------------|----------------------------|---------------------------------|----------------------------|---------------------------------|
|                               | <b>Recorded Investment</b> | <b>Unpaid Principal Balance</b> | <b>Recorded Investment</b> | <b>Unpaid Principal Balance</b> |
| PCI Loans, by acquisition     |                            |                                 |                            |                                 |
| Peoples                       | \$5,338                    | \$ 7,901                        | \$5,278                    | \$ 8,111                        |
| Waccamaw                      | 11,240                     | 28,923                          | 12,176                     | 31,335                          |
| Other acquired                | 953                        | 979                             | 986                        | 1,012                           |
| Total PCI Loans               | \$17,531                   | \$ 37,803                       | \$18,440                   | \$ 40,458                       |

The following table presents the changes in the accretable yield on PCI loans, by acquisition, during the periods indicated:

| <i>(Amounts in thousands)</i>                                  | <b>Peoples</b> | <b>Waccamaw</b> | <b>Total</b> |
|----------------------------------------------------------------|----------------|-----------------|--------------|
| Balance January 1, 2017                                        | \$ 4,392       | \$ 21,834       | \$26,226     |
| Accretion                                                      | (295 )         | (1,270 )        | (1,565 )     |
| Reclassifications from nonaccretable difference <sup>(1)</sup> | 578            | 1,301           | 1,879        |
| Other changes, net                                             | (107 )         | (175 )          | (282 )       |
| Balance March 31, 2017                                         | \$4,568        | \$ 21,690       | \$26,258     |
| Balance January 1, 2018                                        | \$ 3,388       | \$ 19,465       | \$22,853     |
| Accretion                                                      | (364 )         | (1,845 )        | (2,209 )     |
| Reclassifications from nonaccretable difference <sup>(1)</sup> | (29 )          | 601             | 572          |
| Other changes, net                                             | 132            | (261 )          | (129 )       |
| Balance March 31, 2018                                         | \$ 3,127       | \$ 17,960       | \$21,087     |

(1) Represents changes attributable to expected loss assumptions

**Note 4. Credit Quality**

The Company uses a risk grading matrix to assign a risk grade to each loan in its portfolio. Loan risk ratings may be upgraded or downgraded to reflect current information identified during the loan review process. The general characteristics of each risk grade are as follows:

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

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

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

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

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

Table of Contents

The following tables present the recorded investment of the loan portfolio, by loan class and credit quality, as of the dates indicated. Losses on covered loans are generally reimbursable by the FDIC at the applicable loss share percentage, 80%; therefore, covered loans are disclosed separately.

|                                           | <b>March 31, 2018</b> |                            |                    |                 |             |              |
|-------------------------------------------|-----------------------|----------------------------|--------------------|-----------------|-------------|--------------|
|                                           | <b>Pass</b>           | <b>Special<br/>Mention</b> | <b>Substandard</b> | <b>Doubtful</b> | <b>Loss</b> | <b>Total</b> |
| <i>(Amounts in thousands)</i>             |                       |                            |                    |                 |             |              |
| Non-covered loans                         |                       |                            |                    |                 |             |              |
| Commercial loans                          |                       |                            |                    |                 |             |              |
| Construction, development, and other land | \$50,157              | \$951                      | \$ 1,156           | \$ -            | \$ -        | \$52,264     |
| Commercial and industrial                 | 86,653                | 3,373                      | 335                | -               | -           | 90,361       |
| Multi-family residential                  | 117,038               | 2,583                      | 1,035              | -               | -           | 120,656      |
| Single family non-owner occupied          | 131,129               | 6,903                      | 4,195              | -               | -           | 142,227      |
| Non-farm, non-residential                 | 596,704               | 11,750                     | 10,245             | 173             | -           | 618,872      |
| Agricultural                              | 8,865                 | 198                        | 287                | -               | -           | 9,350        |
| Farmland                                  | 20,885                | 205                        | 2,477              | -               | -           | 23,567       |
| Consumer real estate loans                |                       |                            |                    |                 |             |              |
| Home equity lines                         | 99,123                | 601                        | 1,752              | -               | -           | 101,476      |
| Single family owner occupied              | 475,892               | 5,088                      | 25,388             | -               | -           | 506,368      |
| Owner occupied construction               | 29,213                | -                          | 305                | -               | -           | 29,518       |
| Consumer and other loans                  |                       |                            |                    |                 |             |              |
| Consumer loans                            | 68,353                | 6                          | 175                | -               | -           | 68,534       |
| Other                                     | 4,510                 | -                          | -                  | -               | -           | 4,510        |
| Total non-covered loans                   | 1,688,522             | 31,658                     | 47,350             | 173             | -           | 1,767,703    |
| Covered loans                             |                       |                            |                    |                 |             |              |
| Commercial loans                          |                       |                            |                    |                 |             |              |
| Construction, development, and other land | -                     | 37                         | -                  | -               | -           | 37           |
| Single family non-owner occupied          | 259                   | -                          | 18                 | -               | -           | 277          |
| Non-farm, non-residential                 | -                     | -                          | 9                  | -               | -           | 9            |
| Consumer real estate loans                |                       |                            |                    |                 |             |              |
| Home equity lines                         | 10,789                | 9,714                      | 935                | -               | -           | 21,438       |
| Single family owner occupied              | 2,856                 | 387                        | 402                | -               | -           | 3,645        |
| Total covered loans                       | 13,904                | 10,138                     | 1,364              | -               | -           | 25,406       |
| Total loans                               | \$1,702,426           | \$41,796                   | \$ 48,714          | \$ 173          | \$ -        | \$1,793,109  |

Table of Contents

|                                           | <b>December 31, 2017</b> |                            |                    |                 |             |              |
|-------------------------------------------|--------------------------|----------------------------|--------------------|-----------------|-------------|--------------|
|                                           | <b>Pass</b>              | <b>Special<br/>Mention</b> | <b>Substandard</b> | <b>Doubtful</b> | <b>Loss</b> | <b>Total</b> |
| <i>(Amounts in thousands)</i>             |                          |                            |                    |                 |             |              |
| Non-covered loans                         |                          |                            |                    |                 |             |              |
| Commercial loans                          |                          |                            |                    |                 |             |              |
| Construction, development, and other land | \$57,768                 | \$ 1,367                   | \$ 882             | \$ -            | \$ -        | \$60,017     |
| Commercial and industrial                 | 87,181                   | 3,721                      | 1,286              | -               | -           | 92,188       |
| Multi-family residential                  | 118,509                  | 5,663                      | 1,030              | -               | -           | 125,202      |
| Single family non-owner occupied          | 130,689                  | 7,271                      | 3,710              | -               | -           | 141,670      |
| Non-farm, non-residential                 | 596,616                  | 12,493                     | 7,351              | 173             | -           | 616,633      |
| Agricultural                              | 6,639                    | 294                        | 102                | -               | -           | 7,035        |
| Farmland                                  | 22,875                   | 210                        | 2,564              | -               | -           | 25,649       |
| Consumer real estate loans                |                          |                            |                    |                 |             |              |
| Home equity lines                         | 100,833                  | 618                        | 1,754              | -               | -           | 103,205      |
| Single family owner occupied              | 471,382                  | 5,480                      | 25,824             | -               | -           | 502,686      |
| Owner occupied construction               | 38,947                   | -                          | 231                | -               | -           | 39,178       |
| Consumer and other loans                  |                          |                            |                    |                 |             |              |
| Consumer loans                            | 70,448                   | 13                         | 311                | -               | -           | 70,772       |
| Other                                     | 5,001                    | -                          | -                  | -               | -           | 5,001        |
| Total non-covered loans                   | 1,706,888                | 37,130                     | 45,045             | 173             | -           | 1,789,236    |
| Covered loans                             |                          |                            |                    |                 |             |              |
| Commercial loans                          |                          |                            |                    |                 |             |              |
| Construction, development, and other land | 1                        | 38                         | -                  | -               | -           | 39           |
| Single family non-owner occupied          | 265                      | -                          | 19                 | -               | -           | 284          |
| Non-farm, non-residential                 | -                        | -                          | 9                  | -               | -           | 9            |
| Consumer real estate loans                |                          |                            |                    |                 |             |              |
| Home equity lines                         | 11,338                   | 11,685                     | 697                | -               | -           | 23,720       |
| Single family owner occupied              | 2,996                    | 411                        | 489                | -               | -           | 3,896        |
| Total covered loans                       | 14,600                   | 12,134                     | 1,214              | -               | -           | 27,948       |
| Total loans                               | \$1,721,488              | \$49,264                   | \$ 46,259          | \$ 173          | \$ -        | \$1,817,184  |

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

Table of Contents

The following table presents the recorded investment, unpaid principal balance, and related allowance for loan losses for impaired loans, excluding PCI loans, as of the dates indicated:

|                                           | March 31, 2018 |           |           | December 31, 2017 |           |           |
|-------------------------------------------|----------------|-----------|-----------|-------------------|-----------|-----------|
|                                           | Unpaid         |           |           | Unpaid            |           |           |
|                                           | Recorded       | Principal | Related   | Recorded          | Principal | Related   |
| (Amounts in thousands)                    | Investment     | Balance   | Allowance | Investment        | Balance   | Allowance |
| Impaired loans with no related allowance  |                |           |           |                   |           |           |
| Commercial loans                          |                |           |           |                   |           |           |
| Construction, development, and other land | \$976          | \$ 1,160  | \$ -      | \$727             | \$ 988    | \$ -      |
| Commercial and industrial                 | 152            | 930       | -         | 315               | 1,142     | -         |
| Multi-family residential                  | 663            | 1,172     | -         | 499               | 1,010     | -         |
| Single family non-owner occupied          | 2,406          | 3,642     | -         | 2,042             | 3,521     | -         |
| Non-farm, non-residential                 | 5,714          | 8,338     | -         | 3,022             | 5,955     | -         |
| Agricultural                              | 287            | 293       | -         | 102               | 107       | -         |
| Farmland                                  | 897            | 959       | -         | 395               | 414       | -         |
| Consumer real estate loans                |                |           |           |                   |           |           |
| Home equity lines                         | 1,743          | 1,928     | -         | 1,621             | 1,770     | -         |
| Single family owner occupied              | 15,191         | 17,558    | -         | 16,633            | 18,964    | -         |
| Owner occupied construction               | 230            | 230       | -         | 231               | 231       | -         |
| Consumer and other loans                  |                |           |           |                   |           |           |
| Consumer loans                            | 75             | 77        | -         | 141               | 144       | -         |
| Total impaired loans with no allowance    | 28,334         | 36,287    | -         | 25,728            | 34,246    | -         |
| Impaired loans with a related allowance   |                |           |           |                   |           |           |
| Commercial loans                          |                |           |           |                   |           |           |
| Construction, development, and other land | -              | -         | -         | -                 | -         | -         |
| Commercial and industrial                 | -              | -         | -         | 343               | 343       | 270       |
| Single family non-owner occupied          | 444            | 444       | 60        | 446               | 446       | 62        |
| Non-farm, non-residential                 | 1,378          | 1,378     | 591       | 262               | 263       | 15        |
| Farmland                                  | 410            | 418       | 105       | 936               | 974       | 233       |
| Consumer real estate loans                |                |           |           |                   |           |           |
| Home equity lines                         | 73             | 73        | 73        | -                 | -         | -         |
| Single family owner occupied              | 5,543          | 5,543     | 2,065     | 5,586             | 5,606     | 1,978     |
| Total impaired loans with an allowance    | 7,848          | 7,856     | 2,894     | 7,573             | 7,632     | 2,558     |
| Total impaired loans <sup>(1)</sup>       | \$36,182       | \$ 44,143 | \$ 2,894  | \$33,301          | \$ 41,878 | \$ 2,558  |

(1) Includes  
loans  
totaling  
\$25.06  
million as  
of March  
31, 2018,  
and \$20.13  
million as

of  
December  
31, 2017,  
that do not  
meet the  
Company's  
evaluation  
threshold  
for  
individual  
impairment  
and are  
therefore  
collectively  
evaluated  
for  
impairment

Table of Contents

The following table presents the average recorded investment and interest income recognized on impaired loans, excluding PCI loans, for the periods indicated:

|                                                | <b>Three Months Ended March 31,</b> |           |                              |           |
|------------------------------------------------|-------------------------------------|-----------|------------------------------|-----------|
|                                                | <b>2018</b>                         |           | <b>2017</b>                  |           |
|                                                | <b>Interest Average</b>             |           | <b>Interest Average</b>      |           |
| <i>(Amounts in thousands)</i>                  | <b>Income Recorded</b>              |           | <b>Income Recorded</b>       |           |
|                                                | <b>Recognized Investment</b>        |           | <b>Recognized Investment</b> |           |
| Impaired loans with no related allowance:      |                                     |           |                              |           |
| Commercial loans                               |                                     |           |                              |           |
| Construction, development, and other land      | \$ 13                               | \$ 1,116  | \$ -                         | \$ 11     |
| Commercial and industrial                      | 1                                   | 585       | 2                            | 330       |
| Multi-family residential                       | 10                                  | 799       | -                            | 356       |
| Single family non-owner occupied               | 23                                  | 2,960     | 43                           | 3,326     |
| Non-farm, non-residential                      | 39                                  | 7,109     | 4                            | 2,725     |
| Agricultural                                   | -                                   | 283       | -                            | 126       |
| Farmland                                       | 9                                   | 438       | -                            | 1,006     |
| Consumer real estate loans                     |                                     |           |                              |           |
| Home equity lines                              | 7                                   | 1,806     | 15                           | 1,042     |
| Single family owner occupied                   | 107                                 | 15,586    | 87                           | 12,203    |
| Owner occupied construction                    | 3                                   | 227       | 3                            | 233       |
| Consumer and other loans                       |                                     |           |                              |           |
| Consumer loans                                 | 1                                   | 76        | -                            | 50        |
| Total impaired loans with no related allowance | 213                                 | 30,985    | 154                          | 21,408    |
| Impaired loans with a related allowance:       |                                     |           |                              |           |
| Commercial loans                               |                                     |           |                              |           |
| Construction, development, and other land      | -                                   | -         | -                            | 428       |
| Commercial and industrial                      | -                                   | -         | 15                           | 312       |
| Single family non-owner occupied               | 7                                   | 439       | 8                            | 343       |
| Non-farm, non-residential                      | -                                   | 166       | 10                           | 1,154     |
| Farmland                                       | -                                   | 404       | -                            | -         |
| Consumer real estate loans                     |                                     |           |                              |           |
| Home equity lines                              | -                                   | 72        | -                            | 417       |
| Single family owner occupied                   | 32                                  | 5,474     | 35                           | 6,373     |
| Owner occupied construction                    | -                                   | -         | -                            | -         |
| Total impaired loans with a related allowance  | 39                                  | 6,555     | 68                           | 9,027     |
| Total impaired loans                           | \$252                               | \$ 37,540 | \$222                        | \$ 30,435 |

There were no impaired PCI loan pools as of March 31, 2018, or December 31, 2017. The following table provides information on impaired PCI loan pools for the dates indicated:

**Three  
Months  
Ended  
March 31,  
2018**

*(Amounts in thousands)*

|                             |     |       |
|-----------------------------|-----|-------|
| Interest income recognized  | \$- | \$10  |
| Average recorded investment | -   | 1,075 |

Table of Contents

The Company generally places a loan on nonaccrual status when it is 90 days or more past due. PCI loans are generally not classified as nonaccrual due to the accrual of interest income under the accretion method of accounting. The following table presents nonaccrual loans, by loan class, as of the dates indicated:

| <i>(Amounts in thousands)</i>             | <b>March 31, 2018</b> |                |              | <b>December 31, 2017</b> |                |              |
|-------------------------------------------|-----------------------|----------------|--------------|--------------------------|----------------|--------------|
|                                           | <b>Non-covered</b>    | <b>Covered</b> | <b>Total</b> | <b>Non-covered</b>       | <b>Covered</b> | <b>Total</b> |
| Commercial loans                          |                       |                |              |                          |                |              |
| Construction, development, and other land | \$ 382                | \$ -           | \$ 382       | \$ -                     | \$ -           | \$ -         |
| Commercial and industrial                 | 124                   | -              | 124          | 211                      | -              | 211          |
| Multi-family residential                  | 663                   | -              | 663          | 498                      | -              | 498          |
| Single family non-owner occupied          | 974                   | 18             | 992          | 851                      | 19             | 870          |
| Non-farm, non-residential                 | 4,839                 | -              | 4,839        | 2,448                    | -              | 2,448        |
| Agricultural                              | 287                   | -              | 287          | 102                      | -              | 102          |
| Farmland                                  | 785                   | -              | 785          | 805                      | -              | 805          |
| Consumer real estate loans                |                       |                |              |                          |                |              |
| Home equity lines                         | 826                   | 563            | 1,389        | 882                      | 306            | 1,188        |
| Single family owner occupied              | 12,741                | 15             | 12,756       | 13,108                   | 17             | 13,125       |
| Owner occupied construction               | -                     | -              | -            | -                        | -              | -            |
| Consumer and other loans                  |                       |                |              |                          |                |              |
| Consumer loans                            | 29                    | -              | 29           | 92                       | -              | 92           |
| Total nonaccrual loans                    | \$ 21,650             | \$ 596         | \$ 22,246    | \$ 18,997                | \$ 342         | \$ 19,339    |

Table of Contents

The following tables present the aging of past due loans, by loan class, as of the dates indicated. Nonaccrual loans 30 days or more past due are included in the applicable delinquency category. Loans acquired with credit deterioration, with a discount, continue to accrue interest based on expected cash flows; therefore, PCI loans are not generally considered nonaccrual. Non-covered accruing loans contractually past due 90 days or more totaled \$27 thousand as of March 31, 2018, and \$1 thousand as of December 31, 2017.

|                                           | March 31, 2018                 |                                |                            |                          |                      |                    |
|-------------------------------------------|--------------------------------|--------------------------------|----------------------------|--------------------------|----------------------|--------------------|
|                                           | 30 - 59<br>Days<br>Past<br>Due | 60 - 89<br>Days<br>Past<br>Due | 90+<br>Days<br>Past<br>Due | Total<br><br>Past<br>Due | Current<br><br>Loans | Total<br><br>Loans |
| (Amounts in thousands)                    |                                |                                |                            |                          |                      |                    |
| Non-covered loans                         |                                |                                |                            |                          |                      |                    |
| Commercial loans                          |                                |                                |                            |                          |                      |                    |
| Construction, development, and other land | \$7                            | \$11                           | \$382                      | \$400                    | \$51,864             | \$52,264           |
| Commercial and industrial                 | 55                             | 77                             | 43                         | 175                      | 90,186               | 90,361             |
| Multi-family residential                  | -                              | 240                            | 360                        | 600                      | 120,056              | 120,656            |
| Single family non-owner occupied          | 753                            | 440                            | 323                        | 1,516                    | 140,711              | 142,227            |
| Non-farm, non-residential                 | 1,243                          | 243                            | 4,282                      | 5,768                    | 613,104              | 618,872            |
| Agricultural                              | 229                            | -                              | 185                        | 414                      | 8,936                | 9,350              |
| Farmland                                  | 965                            | -                              | 410                        | 1,375                    | 22,192               | 23,567             |
| Consumer real estate loans                |                                |                                |                            |                          |                      |                    |
| Home equity lines                         | 653                            | 42                             | 412                        | 1,107                    | 100,369              | 101,476            |
| Single family owner occupied              | 3,580                          | 3,037                          | 7,084                      | 13,701                   | 492,667              | 506,368            |
| Owner occupied construction               | 96                             | 64                             | -                          | 160                      | 29,358               | 29,518             |
| Consumer and other loans                  |                                |                                |                            |                          |                      |                    |
| Consumer loans                            | 426                            | 53                             | -                          | 479                      | 68,055               | 68,534             |
| Other                                     | -                              | -                              | -                          | -                        | 4,510                | 4,510              |
| Total non-covered loans                   | 8,007                          | 4,207                          | 13,481                     | 25,695                   | 1,742,008            | 1,767,703          |
| Covered loans                             |                                |                                |                            |                          |                      |                    |
| Commercial loans                          |                                |                                |                            |                          |                      |                    |
| Construction, development, and other land | -                              | -                              | -                          | -                        | 37                   | 37                 |
| Single family non-owner occupied          | 18                             | -                              | -                          | 18                       | 259                  | 277                |
| Non-farm, non-residential                 | -                              | -                              | -                          | -                        | 9                    | 9                  |
| Consumer real estate loans                |                                |                                |                            |                          |                      |                    |
| Home equity lines                         | 540                            | 5                              | 302                        | 847                      | 20,591               | 21,438             |
| Single family owner occupied              | 65                             | -                              | -                          | 65                       | 3,580                | 3,645              |
| Total covered loans                       | 623                            | 5                              | 302                        | 930                      | 24,476               | 25,406             |
| Total loans                               | \$8,630                        | \$4,212                        | \$13,783                   | \$26,625                 | \$1,766,484          | \$1,793,109        |

Table of Contents

|                                           | December 31, 2017 |         |          |          |             |             |
|-------------------------------------------|-------------------|---------|----------|----------|-------------|-------------|
|                                           | 30 - 59           | 60 - 89 | 90+      | Total    | Current     | Total       |
|                                           | Days              | Days    | Days     |          |             |             |
|                                           | Past              | Past    | Past     | Past     | Loans       | Loans       |
|                                           | Due               | Due     | Due      | Due      |             |             |
| <i>(Amounts in thousands)</i>             |                   |         |          |          |             |             |
| Non-covered loans                         |                   |         |          |          |             |             |
| Commercial loans                          |                   |         |          |          |             |             |
| Construction, development, and other land | \$20              | \$365   | \$-      | \$385    | \$59,632    | \$60,017    |
| Commercial and industrial                 | 232               | 40      | 142      | 414      | 91,774      | 92,188      |
| Multi-family residential                  | 544               | -       | 185      | 729      | 124,473     | 125,202     |
| Single family non-owner occupied          | 223               | 302     | 331      | 856      | 140,814     | 141,670     |
| Non-farm, non-residential                 | 2,433             | 383     | 1,536    | 4,352    | 612,281     | 616,633     |
| Agricultural                              | 123               | -       | -        | 123      | 6,912       | 7,035       |
| Farmland                                  | 113               | -       | 692      | 805      | 24,844      | 25,649      |
| Consumer real estate loans                |                   |         |          |          |             |             |
| Home equity lines                         | 226               | 198     | 485      | 909      | 102,296     | 103,205     |
| Single family owner occupied              | 6,959             | 2,418   | 8,186    | 17,563   | 485,123     | 502,686     |
| Owner occupied construction               | 326               | 79      | -        | 405      | 38,773      | 39,178      |
| Consumer and other loans                  |                   |         |          |          |             |             |
| Consumer loans                            | 439               | 97      | 17       | 553      | 70,219      | 70,772      |
| Other                                     | -                 | -       | -        | -        | 5,001       | 5,001       |
| Total non-covered loans                   | 11,638            | 3,882   | 11,574   | 27,094   | 1,762,142   | 1,789,236   |
| Covered loans                             |                   |         |          |          |             |             |
| Commercial loans                          |                   |         |          |          |             |             |
| Construction, development, and other land | -                 | -       | -        | -        | 39          | 39          |
| Single family non-owner occupied          | -                 | -       | -        | -        | 284         | 284         |
| Non-farm, non-residential                 | -                 | -       | -        | -        | 9           | 9           |
| Consumer real estate loans                |                   |         |          |          |             |             |
| Home equity lines                         | 402               | -       | 173      | 575      | 23,145      | 23,720      |
| Single family owner occupied              | 70                | -       | -        | 70       | 3,826       | 3,896       |
| Total covered loans                       | 472               | -       | 173      | 645      | 27,303      | 27,948      |
| Total loans                               | \$12,110          | \$3,882 | \$11,747 | \$27,739 | \$1,789,445 | \$1,817,184 |

The Company may make concessions in interest rates, loan terms and/or amortization terms when restructuring loans for borrowers experiencing financial difficulty. Restructured loans in excess of \$250 thousand are evaluated for a specific reserve based on either the collateral or net present value method, whichever is most applicable. Restructured loans under \$250 thousand are subject to the reserve calculation at the historical loss rate for classified loans. Certain TDRs are classified as nonperforming at the time of restructuring and are returned to performing status after six months of satisfactory payment performance; however, these loans remain identified as impaired until full payment or other satisfaction of the obligation occurs. PCI loans are generally not considered TDRs as long as the loans remain in the assigned loan pool. No covered loans were recorded as TDRs as of March 31, 2018, or December 31, 2017.

Table of Contents

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

| <i>(Amounts in thousands)</i>             | <b>March 31, 2018</b> |                 |              | <b>December 31, 2017</b> |                 |              |
|-------------------------------------------|-----------------------|-----------------|--------------|--------------------------|-----------------|--------------|
|                                           | <b>Nonaccrual</b>     | <b>Accruing</b> | <b>Total</b> | <b>Nonaccrual</b>        | <b>Accruing</b> | <b>Total</b> |
| Commercial loans                          |                       |                 |              |                          |                 |              |
| Single family non-owner occupied          | \$348                 | \$ 521          | \$869        | \$364                    | \$ 528          | \$892        |
| Non-farm, non-residential                 | -                     | 291             | 291          | -                        | 295             | 295          |
| Consumer real estate loans                |                       |                 |              |                          |                 |              |
| Home equity lines                         | -                     | 138             | 138          | -                        | 145             | 145          |
| Single family owner occupied              | 1,658                 | 6,081           | 7,739        | 1,565                    | 6,496           | 8,061        |
| Owner occupied construction               | -                     | 230             | 230          | -                        | 233             | 233          |
| Consumer and other loans                  |                       |                 |              |                          |                 |              |
| Consumer loans                            | -                     | 36              | 36           | -                        | 37              | 37           |
| Total TDRs                                | \$2,006               | \$ 7,297        | \$9,303      | \$1,929                  | \$ 7,734        | \$9,663      |
| Allowance for loan losses related to TDRs |                       |                 | \$648        |                          |                 | \$642        |

(1) Nonaccrual TDRs are included in total nonaccrual loans disclosed in the nonaccrual table above.

The following table presents interest income recognized on TDRs for the periods indicated:

|                               | <b>Three<br/>Months<br/>Ended<br/>March 31,<br/>2018 2017</b> |       |
|-------------------------------|---------------------------------------------------------------|-------|
| <i>(Amounts in thousands)</i> |                                                               |       |
| Interest income recognized    | \$70                                                          | \$ 84 |

There were no loans modified as TDRs during the three months ended March 31, 2018, or 2017. There were no payment defaults on loans modified as TDRs that were restructured within the previous 12 months as of March 31, 2018 or 2017.

The following table provides information about other real estate owned ("OREO"), which consists of properties acquired through foreclosure, as of the dates indicated:

| <b>March<br/>31,</b> | <b>December<br/>31, 2017</b> |
|----------------------|------------------------------|
|----------------------|------------------------------|

**2018**

*(Amounts in thousands)*

|                  |         |          |
|------------------|---------|----------|
| Non-covered OREO | \$4,620 | \$ 2,409 |
| Covered OREO     | 70      | 105      |
| Total OREO       | \$4,690 | \$ 2,514 |

|                                                     |         |          |
|-----------------------------------------------------|---------|----------|
| Non-covered OREO secured by residential real estate | \$2,812 | \$ 2,209 |
|-----------------------------------------------------|---------|----------|

|                                                                         |       |       |
|-------------------------------------------------------------------------|-------|-------|
| Residential real estate loans in the foreclosure process <sup>(1)</sup> | 8,221 | 9,921 |
|-------------------------------------------------------------------------|-------|-------|

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

Table of Contents**Note 5. Allowance for Loan Losses**

The following tables present the changes in the allowance for loan losses, by loan segment, during the periods indicated. There was no allowance related to PCI loans as of March 31, 2018.

|                                                               | <b>Three Months Ended March 31, 2018</b> |                                     |                                   |                  |
|---------------------------------------------------------------|------------------------------------------|-------------------------------------|-----------------------------------|------------------|
|                                                               | <b>Commercial</b>                        | <b>Consumer<br/>Real<br/>Estate</b> | <b>Consumer<br/>and<br/>Other</b> | <b>Total</b>     |
|                                                               |                                          |                                     |                                   | <b>Allowance</b> |
| <i>(Amounts in thousands)</i>                                 |                                          |                                     |                                   |                  |
| <b>Total allowance</b>                                        |                                          |                                     |                                   |                  |
| Beginning balance                                             | \$11,672                                 | \$ 6,810                            | \$ 794                            | \$ 19,276        |
| (Recovery of) provision for loan losses charged to operations | (41 )                                    | 237                                 | 299                               | 495              |
| Charge-offs                                                   | (141 )                                   | (131 )                              | (426 )                            | (698 )           |
| Recoveries                                                    | 288                                      | 47                                  | 92                                | 427              |
| Net recoveries (charge-offs)                                  | 147                                      | (84 )                               | (334 )                            | (271 )           |
| Ending balance                                                | \$11,778                                 | \$ 6,963                            | \$ 759                            | \$ 19,500        |

|                                                                         | <b>Three Months Ended March 31, 2017</b> |                                     |                                   |                  |
|-------------------------------------------------------------------------|------------------------------------------|-------------------------------------|-----------------------------------|------------------|
|                                                                         | <b>Commercial</b>                        | <b>Consumer<br/>Real<br/>Estate</b> | <b>Consumer<br/>and<br/>Other</b> | <b>Total</b>     |
|                                                                         |                                          |                                     |                                   | <b>Allowance</b> |
| <i>(Amounts in thousands)</i>                                           |                                          |                                     |                                   |                  |
| <b>Allowance, excluding PCI</b>                                         |                                          |                                     |                                   |                  |
| Beginning balance                                                       | \$11,690                                 | \$ 5,487                            | \$ 759                            | \$ 17,936        |
| Provision for loan losses charged to operations                         | 85                                       | 246                                 | 161                               | 492              |
| Charge-offs                                                             | (29 )                                    | (77 )                               | (251 )                            | (357 )           |
| Recoveries                                                              | 226                                      | 78                                  | 71                                | 375              |
| Net recoveries (charge-offs)                                            | 197                                      | 1                                   | (180 )                            | 18               |
| Ending balance                                                          | \$11,972                                 | \$ 5,734                            | \$ 740                            | \$ 18,446        |
| <b>PCI allowance</b>                                                    |                                          |                                     |                                   |                  |
| Beginning balance                                                       | \$-                                      | \$ 12                               | \$ -                              | \$ 12            |
| Recovery of loan losses                                                 | -                                        | -                                   | -                                 | -                |
| Benefit attributable to the FDIC indemnification asset                  | -                                        | -                                   | -                                 | -                |
| Recovery of loan losses charged to operations                           | -                                        | -                                   | -                                 | -                |
| Recovery of loan losses recorded through the FDIC indemnification asset | -                                        | -                                   | -                                 | -                |
| Ending balance                                                          | \$-                                      | \$ 12                               | \$ -                              | \$ 12            |
| <b>Total allowance</b>                                                  |                                          |                                     |                                   |                  |
| Beginning balance                                                       | \$11,690                                 | \$ 5,499                            | \$ 759                            | \$ 17,948        |

Edgar Filing: FIRST COMMUNITY BANCSHARES INC /NV/ - Form 10-Q

|                                                                         |          |          |        |           |
|-------------------------------------------------------------------------|----------|----------|--------|-----------|
| Provision for loan losses                                               | 85       | 246      | 161    | 492       |
| Benefit attributable to the FDIC indemnification asset                  | -        | -        | -      | -         |
| Provision for loan losses charged to operations                         | 85       | 246      | 161    | 492       |
| Recovery of loan losses recorded through the FDIC indemnification asset | -        | -        | -      | -         |
| Charge-offs                                                             | (29 )    | (77 )    | (251 ) | (357 )    |
| Recoveries                                                              | 226      | 78       | 71     | 375       |
| Net recoveries (charge-offs)                                            | 197      | 1        | (180 ) | 18        |
| Ending balance                                                          | \$11,972 | \$ 5,746 | \$ 740 | \$ 18,458 |

Table of Contents

The following tables present the allowance for loan losses and recorded investment in loans evaluated for impairment, excluding PCI loans, by loan class, as of the dates indicated. During the first quarter of 2018, the Company changed the threshold for quarterly reviews of loans that are deemed to be impaired from \$250 thousand to \$500 thousand or greater.

|                                           | <b>March 31, 2018</b>     |                            |                           |                            |
|-------------------------------------------|---------------------------|----------------------------|---------------------------|----------------------------|
|                                           | <b>Loans Individually</b> | <b>Allowance for Loans</b> | <b>Loans Collectively</b> | <b>Allowance for Loans</b> |
| <i>(Amounts in thousands)</i>             | <b>Evaluated for</b>      | <b>Individually</b>        | <b>Evaluated for</b>      | <b>Collectively</b>        |
|                                           | <b>Impairment</b>         | <b>Eyualuated</b>          | <b>Impairment</b>         | <b>Evaluated</b>           |
| Commercial loans                          |                           |                            |                           |                            |
| Construction, development, and other land | \$ -                      | \$ -                       | \$ 51,658                 | \$ 723                     |
| Commercial and industrial                 | -                         | -                          | 90,353                    | 491                        |
| Multi-family residential                  | -                         | -                          | 120,656                   | 1,057                      |
| Single family non-owner occupied          | 444                       | 60                         | 139,683                   | 1,934                      |
| Non-farm, non-residential                 | 2,756                     | 591                        | 611,697                   | 6,629                      |
| Agricultural                              | -                         | -                          | 9,350                     | 63                         |
| Farmland                                  | 931                       | 105                        | 22,636                    | 125                        |
| Total commercial loans                    | 4,131                     | 756                        | 1,046,033                 | 11,022                     |
| Consumer real estate loans                |                           |                            |                           |                            |
| Home equity lines                         | 73                        | 73                         | 113,435                   | 790                        |
| Single family owner occupied              | 6,917                     | 2,065                      | 502,427                   | 3,811                      |
| Owner occupied construction               | -                         | -                          | 29,518                    | 224                        |
| Total consumer real estate loans          | 6,990                     | 2,138                      | 645,380                   | 4,825                      |
| Consumer and other loans                  |                           |                            |                           |                            |
| Consumer loans                            | -                         | -                          | 68,534                    | 759                        |
| Other                                     | -                         | -                          | 4,510                     | -                          |
| Total consumer and other loans            | -                         | -                          | 73,044                    | 759                        |
| Total loans, excluding PCI loans          | \$ 11,121                 | \$ 2,894                   | \$ 1,764,457              | \$ 16,606                  |

|                                           | <b>December 31, 2017</b>  |                            |                           |                            |
|-------------------------------------------|---------------------------|----------------------------|---------------------------|----------------------------|
|                                           | <b>Loans Individually</b> | <b>Allowance for Loans</b> | <b>Loans Collectively</b> | <b>Allowance for Loans</b> |
| <i>(Amounts in thousands)</i>             | <b>Evaluated for</b>      | <b>Individually</b>        | <b>Evaluated for</b>      | <b>Collectively</b>        |
|                                           | <b>Impairment</b>         | <b>Eyualuated</b>          | <b>Impairment</b>         | <b>Evaluated</b>           |
| Commercial loans                          |                           |                            |                           |                            |
| Construction, development, and other land | \$ -                      | \$ -                       | \$ 59,386                 | \$ 830                     |
| Commercial and industrial                 | 343                       | 270                        | 91,845                    | 492                        |
| Multi-family residential                  | -                         | -                          | 125,202                   | 1,094                      |

Edgar Filing: FIRST COMMUNITY BANCSHARES INC /NV/ - Form 10-Q

|                                  |           |          |              |           |
|----------------------------------|-----------|----------|--------------|-----------|
| Single family non-owner occupied | 770       | 62       | 139,093      | 1,914     |
| Non-farm, non-residential        | 1,367     | 15       | 611,477      | 6,582     |
| Agricultural                     | -         | -        | 7,035        | 51        |
| Farmland                         | 1,219     | 233      | 24,430       | 129       |
| Total commercial loans           | 3,699     | 580      | 1,058,468    | 11,092    |
| Consumer real estate loans       |           |          |              |           |
| Home equity lines                | -         | -        | 115,807      | 803       |
| Single family owner occupied     | 9,471     | 1,978    | 496,348      | 3,732     |
| Owner occupied construction      | -         | -        | 39,178       | 297       |
| Total consumer real estate loans | 9,471     | 1,978    | 651,333      | 4,832     |
| Consumer and other loans         |           |          |              |           |
| Consumer loans                   | -         | -        | 70,772       | 794       |
| Other                            | -         | -        | 5,001        | -         |
| Total consumer and other loans   | -         | -        | 75,773       | 794       |
| Total loans, excluding PCI loans | \$ 13,170 | \$ 2,558 | \$ 1,785,574 | \$ 16,718 |

Table of Contents

The following table presents the allowance for loan losses on PCI loans and recorded investment in PCI loans, by loan pool, as of the dates indicated:

|                                     | <b>March 31, 2018</b> |                   | <b>December 31, 2017</b> |                   |
|-------------------------------------|-----------------------|-------------------|--------------------------|-------------------|
|                                     | <b>Allowance</b>      |                   | <b>Allowance</b>         |                   |
|                                     | <b>for Loan</b>       |                   | <b>for Loan</b>          |                   |
| <i>(Amounts in thousands)</i>       | <b>Recorded</b>       |                   | <b>Recorded</b>          |                   |
|                                     | <b>Investment</b>     | <b>Pools With</b> | <b>Investment</b>        | <b>Pools With</b> |
|                                     |                       | <b>Impairment</b> |                          | <b>Impairment</b> |
| Commercial loans                    |                       |                   |                          |                   |
| Waccamaw commercial                 | \$997                 | \$ -              | \$64                     | \$ -              |
| Peoples commercial                  | 4,358                 | -                 | 4,279                    | -                 |
| Other                               | 953                   | -                 | 986                      | -                 |
| Total commercial loans              | 6,308                 | -                 | 5,329                    | -                 |
| Consumer real estate loans          |                       |                   |                          |                   |
| Waccamaw serviced home equity lines | 9,407                 | -                 | 11,118                   | -                 |
| Waccamaw residential                | 836                   | -                 | 994                      | -                 |
| Peoples residential                 | 980                   | -                 | 999                      | -                 |
| Total consumer real estate loans    | 11,223                | -                 | 13,111                   | -                 |
| Total PCI loans                     | \$17,531              | \$ -              | \$18,440                 | \$ -              |

Management believed the allowance was adequate to absorb probable loan losses inherent in the loan portfolio as of March 31, 2018.

**Note 6. FDIC Indemnification Asset**

In connection with the FDIC-assisted acquisition of Waccamaw Bank ("Waccamaw") in 2012, the Company entered into loss share agreements with the FDIC that covered \$25.41 million of loans and \$70 thousand of OREO as of March 31, 2018, compared to \$27.95 million of loans and \$105 thousand of OREO as of December 31, 2017. Under the loss share agreements, the FDIC agrees to cover 80% of most loan and foreclosed real estate losses and reimburse certain expenses incurred in relation to these covered assets. Loss share coverage expired June 30, 2017, for commercial loans, with recoveries continuing until June 30, 2019. Loss share coverage will expire June 30, 2022, for single family loans. The Company's consolidated statements of income include the expense on covered assets net of estimated reimbursements. The following table presents the changes in the FDIC indemnification asset during the periods indicated:

**Three Months  
Ended March  
31,  
2018      2017**

*(Amounts in thousands)*

|                                              |          |            |
|----------------------------------------------|----------|------------|
| Beginning balance                            | \$7,161  | \$12,173   |
| Increase in estimated losses on covered OREO | -        | 6          |
| Reimbursable expenses from the FDIC          | (6    )  | (98    )   |
| Net amortization                             | (382   ) | (1,332   ) |
| Payments to (reimbursements from) the FDIC   | 111      | (818    )  |
| Ending balance                               | \$6,884  | \$9,931    |

Table of Contents**Note 7. Deposits**

The following table presents the components of deposits as of the dates indicated:

|                                     | <b>March 31,<br/>2018</b> | <b>December<br/>31, 2017</b> |
|-------------------------------------|---------------------------|------------------------------|
| <i>(Amounts in thousands)</i>       |                           |                              |
| Noninterest-bearing demand deposits | \$460,478                 | \$454,143                    |
| Interest-bearing deposits:          |                           |                              |
| Interest-bearing demand deposits    | 510,597                   | 465,407                      |
| Money market accounts               | 172,676                   | 170,731                      |
| Savings deposits                    | 351,220                   | 342,064                      |
| Certificates of deposit             | 364,234                   | 374,373                      |
| Individual retirement accounts      | 121,414                   | 123,173                      |
| Total interest-bearing deposits     | 1,520,141                 | 1,475,748                    |
| Total deposits                      | \$1,980,619               | \$1,929,891                  |

**Note 8. Borrowings**

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

|                                 | <b>March 31, 2018<br/>Weighted</b> |                         | <b>December 31, 2017<br/>Weighted</b> |                         |   |
|---------------------------------|------------------------------------|-------------------------|---------------------------------------|-------------------------|---|
| <i>(Amounts in thousands)</i>   | <b>Balance</b>                     | <b>Average<br/>Rate</b> | <b>Balance</b>                        | <b>Average<br/>Rate</b> |   |
| Short-term borrowings           |                                    |                         |                                       |                         |   |
| Retail repurchase agreements    | \$4,115                            | 0.09                    | % \$5,086                             | 0.07                    | % |
| Long-term borrowings            |                                    |                         |                                       |                         |   |
| Wholesale repurchase agreements | 25,000                             | 3.18                    | % 25,000                              | 3.18                    | % |
| FHLB advances                   | 50,000                             | 4.00                    | % 50,000                              | 4.00                    | % |
| Total borrowings                | \$79,115                           |                         | \$80,086                              |                         |   |

The following schedule presents the contractual and weighted average maturities of long-term borrowings, by year, as of March 31, 2018:

|                                      | <b>Wholesale<br/>Repurchase<br/>Agreements</b> | <b>FHLB<br/>Borrowings</b> | <b>Total</b> |
|--------------------------------------|------------------------------------------------|----------------------------|--------------|
| <i>(Amounts in thousands)</i>        |                                                |                            |              |
| 2018                                 | \$ -                                           | \$ -                       | \$-          |
| 2019                                 | 25,000                                         | -                          | 25,000       |
| 2020                                 | -                                              | -                          | -            |
| 2021                                 | -                                              | 50,000                     | 50,000       |
| 2022                                 | -                                              | -                          | -            |
| 2023 and thereafter                  | -                                              | -                          | -            |
| Total                                | \$ 25,000                                      | \$ 50,000                  | \$75,000     |
| Weighted average maturity (in years) | 0.91                                           | 2.77                       | 2.15         |

Prepayment of an advance may result in substantial penalties based on the differential between the contractual note and current advance rate for similar maturities. The Company pledged certain loans to secure an FHLB advance and letters of credit totaling \$903.13 million as of March 31, 2018. Unused borrowing capacity with the FHLB totaled \$392.85 million, net of FHLB letters of credit of \$130.58 million, as of March 31, 2018. The FHLB letters of credit provide an attractive alternative to pledging securities for public unit deposits.

Investment securities pledged to secure repurchase agreements remain under the Company's control during the agreements' terms. The counterparties may redeem callable repurchase agreements, which could substantially shorten the borrowings' lives. The prepayment or early termination of a repurchase agreement may result in substantial penalties based on market conditions.

Table of Contents

The following schedule presents the contractual maturities of repurchase agreements, by type of collateral pledged, as of March 31, 2018:

|                               | <b>U.S.<br/>Treasury<br/>Securities</b> | <b>U.S.<br/>Agency<br/>Securities</b> | <b>Municipal<br/>Securities</b> | <b>Mortgage-backed<br/>Agency Securities</b> | <b>Total</b> |
|-------------------------------|-----------------------------------------|---------------------------------------|---------------------------------|----------------------------------------------|--------------|
| <i>(Amounts in thousands)</i> |                                         |                                       |                                 |                                              |              |
| Overnight and continuous      | \$ -                                    | \$ -                                  | \$ 2,378                        | \$ 1,660                                     | \$4,038      |
| Up to 30 days                 | -                                       | -                                     | -                               | -                                            | -            |
| 30 - 90 days                  | -                                       | -                                     | -                               | 77                                           | 77           |
| Greater than 90 days          | 9,000                                   | 4,680                                 | -                               | 11,320                                       | 25,000       |
|                               | \$ 9,000                                | \$ 4,680                              | \$ 2,378                        | \$ 13,057                                    | \$29,115     |

The Company maintains a \$15.00 million unsecured, committed line of credit with an unrelated financial institution with an interest rate of one-month LIBOR plus 2.00% that matured in April 2018 and was renewed until April 2019. There was no outstanding balance on the line as of March 31, 2018, or December 31, 2017.

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

As of March 31, 2018, the Company's derivative instruments consisted of interest rate swaps. Generally, derivative instruments help the Company manage exposure to market risk and meet customer financing needs. Market risk represents the possibility that fluctuations in external factors such as interest rates, market-driven loan rates, prices, or other economic factors will adversely affect economic value or net interest income.

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

The Company's interest rate swap agreements include a ten-year, \$1.28 million notional swap entered into in August 2017; a fourteen-year, \$1.20 million notional swap entered into in March 2015; and a fifteen-year, \$4.37 million

notional swap entered into in February 2014. The swap agreements, which are accounted for as fair value hedges, and the loans hedged by the agreements are recorded at fair value. The fair value hedges were effective as of March 31, 2018. The following table presents the notional, or contractual, amounts and fair values of derivative instruments as of the dates indicated:

|                                  | March 31, 2018 |            |             | December 31, 2017 |            |             |
|----------------------------------|----------------|------------|-------------|-------------------|------------|-------------|
|                                  | Notional       | Fair Value |             | Notional          | Fair Value |             |
|                                  | or             |            |             | or                |            |             |
|                                  | Contractual    | Derivative | Derivative  | Contractual       | Derivative | Derivative  |
| (Amounts in thousands)           | Amount         | Assets     | Liabilities | Amount            | Assets     | Liabilities |
| Derivatives designated as hedges |                |            |             |                   |            |             |
| Interest rate swaps              | \$5,731        | \$ 45      | \$ -        | \$5,813           | \$ -       | \$ 90       |
| Total derivatives                | \$5,731        | \$ 45      | \$ -        | \$5,813           | \$ -       | \$ 90       |

The following table presents the effect of derivative and hedging activity, if applicable, on the consolidated statements of income for the periods indicated:

|                                  | Three Months Ended |                | Income Statement Location  |
|----------------------------------|--------------------|----------------|----------------------------|
|                                  | March 31, 2018     | March 31, 2017 |                            |
| (Amounts in thousands)           |                    |                |                            |
| Derivatives designated as hedges |                    |                |                            |
| Interest rate swaps              | \$ 13              | \$ 22          | Interest and fees on loans |
| Total derivative expense         | \$ 13              | \$ 22          |                            |

#### Note 10. Employee Benefit Plans

The Company maintains two nonqualified domestic, noncontributory defined benefit plans (the “Benefit Plans”) for key members of senior management and non-management directors. The Company’s unfunded Benefit Plans include the Supplemental Executive Retention Plan and the Directors’ Supplemental Retirement Plan.

Table of Contents

The following table presents the components of net periodic pension cost for the periods indicated:

|                                    | <b>Three<br/>Months<br/>Ended<br/>March 31,<br/>2018 2017</b> |       | <b>Income Statement Location</b> |
|------------------------------------|---------------------------------------------------------------|-------|----------------------------------|
| <i>(Amounts in thousands)</i>      |                                                               |       |                                  |
| Service cost                       | \$68                                                          | \$58  | Salaries and employee benefits   |
| Interest cost                      | 89                                                            | 93    | Other expense                    |
| Amortization of prior service cost | 59                                                            | 57    | Other expense                    |
| Amortization of losses             | 12                                                            | 7     | Other expense                    |
| Net periodic cost                  | \$228                                                         | \$215 |                                  |

**Note 11. Earnings per Share**

The following table presents the calculation of basic and diluted earnings per common share for the periods indicated:

|                                                                | Three Months Ended<br>March 31, |            |
|----------------------------------------------------------------|---------------------------------|------------|
|                                                                | 2018                            | 2017       |
| <i>(Amounts in thousands, except share and per share data)</i> |                                 |            |
| Net income                                                     | \$8,868                         | \$6,202    |
| Weighted average common shares outstanding, basic              | 16,955,758                      | 16,998,125 |
| Dilutive effect of potential common shares                     |                                 |            |
| Stock options                                                  | 54,305                          | 53,067     |
| Restricted stock                                               | 37,575                          | 20,982     |
| Total dilutive effect of potential common shares               | 91,880                          | 74,049     |
| Weighted average common shares outstanding, diluted            | 17,047,638                      | 17,072,174 |
| Basic earnings per common share                                | \$0.52                          | \$0.36     |
| Diluted earnings per common share                              | 0.52                            | 0.36       |
| Antidilutive potential common shares                           |                                 |            |
| Stock options                                                  | 64,081                          | 49,743     |
| Restricted stock                                               | 5,667                           | 3,279      |
| Total potential antidilutive shares                            | 69,748                          | 53,022     |



Table of Contents**Note 12. Accumulated Other Comprehensive Income (Loss)**

The following tables present the changes in accumulated other comprehensive income ("AOCI"), net of tax and by component, during the periods indicated:

|                                                   | <b>Three Months Ended March<br/>31, 2018</b> |                                                    |              |
|---------------------------------------------------|----------------------------------------------|----------------------------------------------------|--------------|
|                                                   | <b>Unrealized<br/>Gains</b>                  |                                                    |              |
|                                                   | <b>(Losses)</b>                              | <b>Employee<br/>on Benefit<br/>Available Plans</b> | <b>Total</b> |
|                                                   | <b>for-Sale<br/>Securities</b>               |                                                    |              |
| <i>(Amounts in thousands)</i>                     |                                              |                                                    |              |
| Beginning balance                                 | \$975                                        | \$ (1,815 )                                        | \$ (840 )    |
| Other comprehensive loss before reclassifications | (1,697)                                      | -                                                  | (1,697)      |
| Reclassified from AOCI                            | -                                            | 56                                                 | 56           |
| Other comprehensive (loss) income, net            | (1,697)                                      | 56                                                 | (1,641)      |
| Ending balance                                    | \$ (722 )                                    | \$ (1,759 )                                        | \$ (2,481)   |

|                                                     | <b>Three Months Ended<br/>March 31, 2017</b> |                                                    |              |
|-----------------------------------------------------|----------------------------------------------|----------------------------------------------------|--------------|
|                                                     | <b>Unrealized<br/>Gains</b>                  |                                                    |              |
|                                                     | <b>(Losses)</b>                              | <b>Employee<br/>on Benefit<br/>Available Plans</b> | <b>Total</b> |
|                                                     | <b>for-Sale<br/>Securities</b>               |                                                    |              |
| <i>(Amounts in thousands)</i>                       |                                              |                                                    |              |
| Beginning balance                                   | \$(544)                                      | \$ (1,467 )                                        | \$(2,011)    |
| Other comprehensive income before reclassifications | 407                                          | 83                                                 | 490          |
| Reclassified from AOCI                              | -                                            | 40                                                 | 40           |
| Other comprehensive income, net                     | 407                                          | 123                                                | 530          |
| Ending balance                                      | \$(137)                                      | \$ (1,344 )                                        | \$(1,481)    |

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

|                                            | <b>Three<br/>Months<br/>Ended<br/>March 31, Income Statement</b> |             |                            |
|--------------------------------------------|------------------------------------------------------------------|-------------|----------------------------|
| <i>(Amounts in thousands)</i>              | <b>2018</b>                                                      | <b>2017</b> | <b>Line Item Affected</b>  |
| Employee benefit plans                     |                                                                  |             |                            |
| Amortization of prior service cost         | \$59                                                             | \$ 57       | (1)                        |
| Amortization of net actuarial benefit cost | 12                                                               | 7           | (1)                        |
| Reclassified out of AOCI, before tax       | 71                                                               | 64          | Income before income taxes |
| Income tax expense                         | 15                                                               | 24          | Income tax expense         |
| Reclassified out of AOCI, net of tax       | 56                                                               | 40          | Net income                 |
| Total reclassified out of AOCI, net of tax | \$56                                                             | \$ 40       | Net income                 |

(1) Amortization is included in net periodic pension cost. See Note 10, "Employee Benefit Plans."

### **Note 13. Fair Value**

#### ***Financial Instruments Measured at Fair Value***

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value hierarchy ranks the inputs used in measuring fair value as follows:

Level 1 – Observable, unadjusted quoted prices in active markets

Level 2 – Inputs other than quoted prices included in Level 1 that are directly or indirectly observable for the asset or liability

Level 3 – Unobservable inputs with little or no market activity that require the Company to use reasonable inputs and assumptions

## Table of Contents

The Company uses fair value measurements to record adjustments to certain financial assets and liabilities on a recurring basis. The Company may be required to record certain assets at fair value on a nonrecurring basis in specific circumstances, such as evidence of impairment. Methodologies used to determine fair value might be highly subjective and judgmental in nature; therefore, valuations may not be precise. If the Company determines that a valuation technique change is necessary, the change is assumed to have occurred at the end of the respective reporting period. The following discussion describes the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments under the valuation hierarchy.

### *Assets and Liabilities Reported at Fair Value on a Recurring Basis*

*Available-for-Sale Debt Securities.* Debt Securities available for sale are reported at fair value on a recurring basis. The fair value of Level 1 securities is based on quoted market prices in active markets, if available. If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are primarily derived from or corroborated by observable market data. Level 2 securities use fair value measurements from independent pricing services obtained by the Company. These fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and bond terms and conditions. The Company's Level 2 securities include U.S. Agency and Treasury securities, municipal securities, single issue trust preferred securities, and mortgage-backed securities. Securities are based on Level 3 inputs when there is limited activity or less transparency to the valuation inputs. In the absence of observable or corroborated market data, internally developed estimates that incorporate market-based assumptions are used when such information is available.

Fair value models may be required when trading activity has declined significantly or does not exist, prices are not current, or pricing variations are significant. For Level 3 securities, the Company obtains the cash flow of specific securities from third parties that use modeling software to determine cash flows based on market participant data and knowledge of the structures of each individual security. The fair values of Level 3 securities are determined by applying proper market observable discount rates to the cash flow derived from third-party models. Discount rates are developed by determining credit spreads above a benchmark rate, such as LIBOR, and adding premiums for illiquidity, which are based on a comparison of initial issuance spread to LIBOR versus a financial sector curve for recently issued debt to LIBOR. Securities with increased uncertainty about the receipt of cash flows are discounted at higher rates due to the addition of a deal specific credit premium based on assumptions about the performance of the underlying collateral. Finally, internal fair value model pricing and external pricing observations are combined by assigning weights to each pricing observation. Pricing is reviewed for reasonableness based on the direction of specific markets and the general economic indicators.

*Equity Securities.* Equity securities are recorded at fair value on a recurring basis and included in other assets in the consolidated balance sheets. The Company uses Level 1 inputs to value equity securities that are traded in active markets. Equity securities that are not actively traded are classified in Level 2.

*Loans Held for Investment.* Loans held for investment are reported at fair value using the exit price notion, which is derived from third-party models. Loans related to fair value hedges are recorded at fair value on a recurring basis.

*Deferred Compensation Assets and Liabilities.* Securities held for trading purposes are recorded at fair value on a recurring basis and included in other assets in the consolidated balance sheets. These securities include assets related to employee deferred compensation plans, which are generally invested in Level 1 equity securities. The liability associated with these deferred compensation plans is carried at the fair value of the obligation to the employee, which corresponds to the fair value of the invested assets.

*Derivative Assets and Liabilities.* Derivatives are recorded at fair value on a recurring basis. The Company obtains dealer quotes, Level 2 inputs, based on observable data to value derivatives.

Table of Contents

The following tables summarize financial assets and liabilities recorded at fair value on a recurring basis, by the level of valuation inputs in the fair value hierarchy, as of the dates indicated:

| <i>(Amounts in thousands)</i>            | <b>March 31, 2018</b> |                                      |                |                |
|------------------------------------------|-----------------------|--------------------------------------|----------------|----------------|
|                                          | <b>Total</b>          | <b>Fair Value Measurements Using</b> |                |                |
|                                          | <b>Fair Value</b>     | <b>Level 1</b>                       | <b>Level 2</b> | <b>Level 3</b> |
| Available-for-sale debt securities       |                       |                                      |                |                |
| U.S. Agency securities                   | \$ 11,224             | \$-                                  | \$ 11,224      | \$-            |
| U.S. Treasury securities                 | 19,942                | -                                    | 19,942         | -              |
| Municipal securities                     | 100,339               | -                                    | 100,339        | -              |
| Single issue trust preferred securities  | 8,991                 | -                                    | 8,991          | -              |
| Mortgage-backed Agency securities        | 23,641                | -                                    | 23,641         | -              |
| Total available-for-sale debt securities | 164,137               | -                                    | 164,137        | -              |
| Equity securities                        | 55                    | 55                                   | -              | -              |
| Fair value loans                         | 5,825                 | -                                    | -              | 5,825          |
| Deferred compensation assets             | 4,070                 | 4,070                                | -              | -              |
| Derivative assets                        | 45                    | -                                    | 45             | -              |
| Deferred compensation liabilities        | 4,070                 | 4,070                                | -              | -              |

| <i>(Amounts in thousands)</i>            | <b>December 31, 2017</b> |                                      |                |                |
|------------------------------------------|--------------------------|--------------------------------------|----------------|----------------|
|                                          | <b>Total</b>             | <b>Fair Value Measurements Using</b> |                |                |
|                                          | <b>Fair Value</b>        | <b>Level 1</b>                       | <b>Level 2</b> | <b>Level 3</b> |
| Available-for-sale debt securities       |                          |                                      |                |                |
| U.S. Agency securities                   | \$ 11,296                | \$-                                  | \$ 11,296      | \$ -           |
| U.S. Treasury securities                 | 19,971                   | -                                    | 19,971         | -              |
| Municipal securities                     | 103,648                  | -                                    | 103,648        | -              |
| Single issue trust preferred securities  | 8,884                    | -                                    | 8,884          | -              |
| Mortgage-backed Agency securities        | 21,726                   | -                                    | 21,726         | -              |
| Total available-for-sale debt securities | 165,525                  | -                                    | 165,525        | -              |
| Equity securities                        | 55                       | 55                                   | -              | -              |
| Fair value loans                         | 5,739                    | -                                    | 5,739          | -              |
| Deferred compensation assets             | 4,002                    | 4,002                                | -              | -              |
| Deferred compensation liabilities        | 4,002                    | 4,002                                | -              | -              |
| Derivative liabilities                   | 90                       | -                                    | 90             | -              |

As of March 31, 2018, the Company measured the fair value of loans held for investment using an exit price notion in accordance with the adoption of ASU 2016-01. Prior to March 31, 2018, loans held for investment were reported at fair value using discounted future cash flows that apply current interest rates for loans with similar terms and borrower credit quality. As a result of using the exit price, certain loans were transferred from Level 2 into Level 3 of the fair value hierarchy during the three months ended March 31, 2018. No transfers into or out of Level 3 of the fair value

hierarchy occurred during the three months ended March 31, 2017.

*Assets Measured at Fair Value on a Nonrecurring Basis*

*Impaired Loans.* Impaired loans are recorded at fair value on a nonrecurring basis when repayment is expected solely from the sale of the loan's collateral. Fair value is based on appraised value adjusted for customized discounting criteria, Level 3 inputs.

The Company maintains an active and robust problem credit identification system. The impairment review includes obtaining third-party collateral valuations to help management identify potential credit impairment and determine the amount of impairment to record. The Company's Special Assets staff manages and monitors all impaired loans. Internal collateral valuations are generally performed within two to four weeks of identifying the initial potential impairment. The internal valuation compares the original appraisal to current local real estate market conditions and considers experience and expected liquidation costs. The Company typically receives a third-party valuation within thirty to forty-five days of completing the internal valuation. When a third-party valuation is received, it is reviewed for reasonableness. Once the valuation is reviewed and accepted, discounts are applied to fair market value, based on, but not limited to, our historical liquidation experience for like collateral, resulting in an estimated net realizable value. The estimated net realizable value is compared to the outstanding loan balance to determine the appropriate amount of specific impairment reserve.

Table of Contents

Specific reserves are generally recorded for impaired loans while third-party valuations are in process and for impaired loans that continue to make some form of payment. While waiting to receive the third-party appraisal, the Company regularly reviews the relationship to identify any potential adverse developments and begins the tasks necessary to gain control of the collateral and prepare it for liquidation, including, but not limited to, engagement of counsel, inspection of collateral, and continued communication with the borrower. Generally, the only difference between the current appraised value, less liquidation costs, and the carrying amount of the loan, less the specific reserve, is any downward adjustment to the appraised value that the Company deems appropriate, such as the costs to sell the property. Impaired loans that do not meet certain criteria and do not have a specific reserve have typically been written down through partial charge-offs to net realizable value. Based on prior experience, the Company rarely returns loans to performing status after they have been partially charged off. Credits identified as impaired move quickly through the process towards ultimate resolution, except in cases involving bankruptcy and various state judicial processes that may extend the time for ultimate resolution.

**OREO.** OREO is recorded at fair value on a nonrecurring basis using Level 3 inputs. The Company calculates the fair value of OREO from current or prior appraisals that have been adjusted for valuation declines, estimated selling costs, and other proprietary qualitative adjustments that are deemed necessary.

The following tables present assets measured at fair value on a nonrecurring basis, by the level of valuation inputs in the fair value hierarchy, as of the dates indicated:

**March 31, 2018**

|                   | <b>Fair Value Measurements Using</b> |          |          |
|-------------------|--------------------------------------|----------|----------|
| <b>Total</b>      | <b>Level</b>                         |          |          |
| <b>Fair Value</b> | <b>1</b>                             | <b>2</b> | <b>3</b> |

*(Amounts in thousands)*

|                             |         |     |     |         |
|-----------------------------|---------|-----|-----|---------|
| Impaired loans, non-covered | \$4,954 | \$- | \$- | \$4,954 |
| OREO, non-covered           | 3,032   | -   | -   | 3,032   |
| OREO, covered               | 59      | -   | -   | 59      |

**December 31, 2017**

|                   | <b>Fair Value Measurements Using</b> |          |          |
|-------------------|--------------------------------------|----------|----------|
| <b>Total</b>      | <b>Level</b>                         |          |          |
| <b>Fair Value</b> | <b>1</b>                             | <b>2</b> | <b>3</b> |

*(Amounts in thousands)*

|                             |         |     |     |         |
|-----------------------------|---------|-----|-----|---------|
| Impaired loans, non-covered | \$5,015 | \$- | \$- | \$5,015 |
| OREO, non-covered           | 2,359   | -   | -   | 2,359   |
| OREO, covered               | 105     | -   | -   | 105     |

*Quantitative Information about Level 3 Fair Value Measurements*

The following table provides quantitative information for assets measured at fair value on a nonrecurring basis using Level 3 valuation inputs as of the dates indicated:

|                             | Valuation<br>Technique               | Unobservable<br>Input                | Discount Range (Weighted<br>Average) |                      |
|-----------------------------|--------------------------------------|--------------------------------------|--------------------------------------|----------------------|
|                             |                                      |                                      | March 31, 2018                       | December 31,<br>2017 |
| Impaired loans, non-covered | Discounted appraisals <sup>(1)</sup> | Appraisal adjustments <sup>(2)</sup> | 7% to 100% (37%)                     | 6% to 79% (34%)      |
| OREO, non-covered           | Discounted appraisals <sup>(1)</sup> | Appraisal adjustments <sup>(2)</sup> | 10% to 61% (23%)                     | 8% to 47% (32%)      |
| OREO, covered               | Discounted appraisals <sup>(1)</sup> | Appraisal adjustments <sup>(2)</sup> | 26% to 49% (44%)                     | 0% to 65% (52%)      |

(1) Fair value is generally based on appraisals of the underlying collateral.

(2) Appraisals may be adjusted by management for customized discounting criteria, estimated sales costs, and proprietary qualitative adjustments.

*Fair Value of Financial Instruments*

The Company uses various methodologies and assumptions to estimate the fair value of certain financial instruments. A description of valuation methodologies used for instruments not previously discussed is as follows:

*Cash and Cash Equivalents.* Cash and cash equivalents are reported at their carrying amount, which is considered a reasonable estimate due to the short-term nature of these instruments.

*Held-to-Maturity Debt Securities.* Securities held to maturity are reported at fair value using quoted market prices or dealer quotes.

Table of Contents

*FDIC Indemnification Asset.* The FDIC indemnification asset is reported at fair value using discounted future cash flows that apply current discount rates.

*Accrued Interest Receivable/Payable.* Accrued interest receivable/payable is reported at its carrying amount, which is considered a reasonable estimate due to the short-term nature of these instruments.

*Deposits and Securities Sold Under Agreements to Repurchase.* Deposits and repurchase agreements with fixed maturities and rates are reported at fair value using discounted future cash flows that apply interest rates available in the market for instruments with similar characteristics and maturities.

*FHLB and Other Borrowings.* FHLB and other borrowings are reported at fair value using discounted future cash flows that apply interest rates available to the Company for borrowings with similar characteristics and maturities. Trust preferred obligations are reported at fair value using current credit spreads in the market for similar issues.

*Off-Balance Sheet Instruments.* The Company believes that fair values of unfunded commitments to extend credit, standby letters of credit, and financial guarantees are not meaningful; therefore, off-balance sheet instruments are not addressed in the fair value disclosures. The Company believes it is not feasible or practical to accurately disclose the fair values of off-balance sheet instruments due to the uncertainty and difficulty in assessing the likelihood and timing of advancing available proceeds, the lack of an established market for these instruments, and the diversity in fee structures. For additional information about the unfunded, contractual value of off-balance sheet financial instruments, see Note 14, "Litigation, Commitments, and Contingencies," to the Condensed Consolidated Financial Statements of this report.

The following tables present the carrying amounts and fair values of financial instruments, by the level of valuation inputs in the fair value hierarchy, as of the dates indicated:

|                                             | <b>March 31, 2018</b>  |                   | <b>Fair Value Measurements Using</b> |                |                |
|---------------------------------------------|------------------------|-------------------|--------------------------------------|----------------|----------------|
|                                             | <b>Carrying Amount</b> | <b>Fair Value</b> | <b>Level 1</b>                       | <b>Level 2</b> | <b>Level 3</b> |
| <i>(Amounts in thousands)</i>               |                        |                   |                                      |                |                |
| <b>Assets</b>                               |                        |                   |                                      |                |                |
| Cash and cash equivalents                   | \$205,140              | \$205,140         | \$205,140                            | \$-            | \$-            |
| Debt securities available for sale          | 164,137                | 164,137           | -                                    | 164,137        | -              |
| Debt securities held to maturity            | 25,115                 | 24,987            | -                                    | 24,987         | -              |
| Equity securities                           | 55                     | 55                | 55                                   | -              | -              |
| Loans held for investment, net of allowance | 1,773,609              | 1,758,212         | -                                    | -              | 1,758,212      |
| FDIC indemnification asset                  | 6,884                  | 3,630             | -                                    | -              | 3,630          |

|                              |       |       |       |       |   |
|------------------------------|-------|-------|-------|-------|---|
| Interest receivable          | 5,155 | 5,155 | -     | 5,155 | - |
| Derivative financial assets  | 45    | 45    | -     | 45    | - |
| Deferred compensation assets | 4,070 | 4,070 | 4,070 | -     | - |

**Liabilities**

|                                                |         |         |       |         |   |
|------------------------------------------------|---------|---------|-------|---------|---|
| Time deposits                                  | 485,648 | 475,605 | -     | 475,605 | - |
| Securities sold under agreements to repurchase | 29,115  | 29,300  | -     | 29,300  | - |
| Interest payable                               | 1,072   | 1,072   | -     | 1,072   | - |
| FHLB and other borrowings                      | 50,000  | 51,845  | -     | 51,845  | - |
| Deferred compensation liabilities              | 4,070   | 4,070   | 4,070 | -       | - |

Table of Contents

| <i>(Amounts in thousands)</i>                  | <b>December 31, 2017</b> |                   | <b>Fair Value Measurements Using</b> |                |                |
|------------------------------------------------|--------------------------|-------------------|--------------------------------------|----------------|----------------|
|                                                | <b>Carrying Amount</b>   | <b>Fair Value</b> | <b>Level 1</b>                       | <b>Level 2</b> | <b>Level 3</b> |
| <b>Assets</b>                                  |                          |                   |                                      |                |                |
| Cash and cash equivalents                      | \$157,951                | \$157,951         | \$157,951                            | \$-            | \$-            |
| Debt securities available for sale             | 165,525                  | 165,525           | -                                    | 165,525        | -              |
| Debt securities held to maturity               | 25,149                   | 25,084            | -                                    | 25,084         | -              |
| Equity securities                              | 55                       | 55                | 55                                   | -              | -              |
| Loans held for investment, net of allowance    | 1,797,908                | 1,760,606         | -                                    | 5,739          | 1,754,867      |
| FDIC indemnification asset                     | 7,161                    | 3,927             | -                                    | -              | 3,927          |
| Interest receivable                            | 5,778                    | 5,778             | -                                    | 5,778          | -              |
| Deferred compensation assets                   | 4,002                    | 4,002             | 4,002                                | -              | -              |
| <b>Liabilities</b>                             |                          |                   |                                      |                |                |
| Demand deposits                                | 454,143                  | 454,143           | -                                    | 454,143        | -              |
| Interest-bearing demand deposits               | 465,407                  | 465,407           | -                                    | 465,407        | -              |
| Savings deposits                               | 512,795                  | 512,795           | -                                    | 512,795        | -              |
| Time deposits                                  | 497,546                  | 490,628           | -                                    | 490,628        | -              |
| Securities sold under agreements to repurchase | 30,086                   | 30,449            | -                                    | 30,449         | -              |
| Interest payable                               | 1,104                    | 1,104             | -                                    | 1,104          | -              |
| FHLB and other borrowings                      | 50,000                   | 52,702            | -                                    | 52,702         | -              |
| Derivative financial liabilities               | 90                       | 90                | -                                    | 90             | -              |
| Deferred compensation liabilities              | 4,002                    | 4,002             | 4,002                                | -              | -              |

**Note 14. Litigation, Commitments, and Contingencies*****Litigation***

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

***Commitments and Contingencies***

The Company is a party to financial instruments with off balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit, and financial guarantees. These instruments involve, to varying degrees, elements of credit and

interest rate risk beyond the amount recognized in the consolidated balance sheets. The contractual amounts of these instruments reflect the extent of involvement the Company has in particular classes of financial instruments. If the other party to a financial instrument does not perform, the Company's credit loss exposure is the same as the contractual amount of the instrument. The Company uses the same credit policies in making commitments and conditional obligations as it does for on balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many commitments are expected to expire without being drawn on, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of each customer on a case-by-case basis. Collateral may include accounts receivable, inventory, property, plant and equipment, and income producing commercial properties. The Company maintains a reserve for the risk inherent in unfunded lending commitments, which is included in other liabilities in the consolidated balance sheets.

Standby letters of credit and financial guarantees are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending credit to customers. The amount of collateral obtained, if deemed necessary, to secure the customer's performance under certain letters of credit is based on management's credit evaluation of the customer.

Table of Contents

The following table presents the off-balance sheet financial instruments as of the dates indicated:

|                                                                   | <b>March<br/>31, 2018</b> | <b>December<br/>31, 2017</b> |
|-------------------------------------------------------------------|---------------------------|------------------------------|
| <i>(Amounts in thousands)</i>                                     |                           |                              |
| Commitments to extend credit                                      | \$230,601                 | \$243,147                    |
| Standby letters of credit and financial guarantees <sup>(1)</sup> | 135,493                   | 131,587                      |
| Total off-balance sheet risk                                      | 366,094                   | 374,734                      |
| <br>Reserve for unfunded commitments                              | <br>\$66                  | <br>\$66                     |

(1) Includes FHLB letters of credit

Table of Contents

**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand our financial condition, changes in financial condition, and results of operations. MD&A contains forward-looking statements and should be read in conjunction with our consolidated financial statements, accompanying notes, and other financial information included in this report and our Annual Report on Form 10-K for the year ended December 31, 2017 (the "2017 Form 10-K"). Unless the context suggests otherwise, the terms "First Community," "Company," "we," "our," and "us" refer to First Community Bancshares, Inc. and its subsidiaries as a consolidated entity.

**Executive Overview**

First Community Bancshares, Inc. (the "Company") is a financial holding company, headquartered in Bluefield, Virginia, that provides banking products and services through its wholly owned subsidiary First Community Bank (the "Bank"), a Virginia chartered bank institution. As of March 31, 2018, the Bank operated 44 branches as First Community Bank in Virginia, West Virginia, and North Carolina and as People's Community Bank, a Division of First Community Bank, in Tennessee. Our primary source of earnings is net interest income, the difference between interest earned on assets and interest paid on liabilities, which is supplemented by fees for services, commissions on sales, and various deposit service charges. We fund our lending and investing activities primarily through the retail deposit operations of our branch banking network and, to a lesser extent, retail and wholesale repurchase agreements and Federal Home Loan Bank ("FHLB") borrowings. We invest our funds primarily in loans to retail and commercial customers and various investment securities. Our common stock is traded on the NASDAQ Global Select Market under the symbol, FCBC.

The Bank offers trust management, estate administration, and investment advisory services through its Trust Division and wholly owned subsidiary First Community Wealth Management ("FCWM"). The Trust Division manages inter vivos trusts and trusts under will, develops and administers employee benefit and individual retirement plans, and manages and settles estates. Fiduciary fees for these services are charged on a schedule related to the size, nature, and complexity of the account. Revenues consist primarily of commissions on assets under management and investment advisory fees. As of March 31, 2018, the Trust Division and FCWM managed \$945 million in combined assets under various fee-based arrangements as fiduciary or agent.

The Bank offers insurance products and services through its wholly owned subsidiary First Community Insurance Services ("FCIS"). FCIS provides in-branch commercial and insurance services in Virginia and West Virginia. Revenues are primarily derived from commissions paid by issuing companies on the sale of policies. As of March 31, 2018, FCIS operated 4 in-branch locations in Virginia and West Virginia.

We had no acquisition and divestiture activity during the three months ended March 31, 2018, and year ended December 31, 2017.

### **Critical Accounting Estimates**

We prepare our consolidated financial statements in accordance with generally accepted accounting principles (“GAAP”) in the U.S. and conform to general practices within the banking industry. Our financial position and results of operations may require management to make significant estimates and assumptions that have a material impact on our financial condition or operating performance. Due to the level of subjectivity and the susceptibility of such matters to change, actual results could differ significantly from management’s assumptions and estimates. Estimates, assumptions, and judgments, which are periodically evaluated, are based on historical experience and other factors, including expectations of future events believed reasonable under the circumstances. These estimates are generally necessary when assets and liabilities are required to be recorded at estimated fair value, when a decline in the value of an asset carried on the financial statements at fair value warrants an impairment write-down or a valuation reserve, or when an asset or liability needs recorded based on the probability of occurrence of a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. Fair values and information used to record valuation adjustments for certain assets and liabilities are based on quoted market prices, when available, or third-party sources. When quoted prices or third-party information is not available, management estimates valuation adjustments primarily through the use of financial modeling techniques and appraisal estimates.

Our accounting policies are fundamental in understanding MD&A and the disclosures presented in Item 1, “Financial Statements,” of this report. Our accounting policies are described in detail in Note 1, “Basis of Presentation and Accounting Policies,” to the Consolidated Financial Statements in Part II, Item 8 of our 2017 Form 10-K and our critical accounting estimates are detailed in the “Critical Accounting Estimates” section in Part II, Item 7 of our 2017 Form 10-K.

Table of Contents**Performance Overview**

Highlights of our results of operations for the three months ended March 31, 2018, and financial condition as of March 31, 2018, include the following:

Pre-tax income increased \$2.18 million, or 23.54%, to \$11.44 million for the first quarter of 2018 compared to the same quarter of 2017.

Net income increased \$2.67 million, or 42.99%, to \$8.87 million and diluted earnings per share increased \$0.16, or 44.44%, to \$0.52 for the first quarter of 2018 compared to the same quarter of 2017.

Net interest margin increased 21 basis points to 4.38%, and normalized net interest margin increased 8 basis points to 4.03% for the first quarter of 2018 compared to the same quarter of 2017.

The Company repurchased 187,300 common shares during the first quarter of 2018 for \$5.41 million.

The Company significantly exceeds regulatory “well capitalized” targets as of March 31, 2018.

The Company paid a one-time special cash dividend to common shareholders of \$0.48 per common share on March 23, 2018. The special dividend was in addition to the regular cash dividend of \$0.18 per common share paid on February 16, 2018.

**Results of Operations***Net Income*

The following table presents the changes in net income and related information for the periods indicated:

|                                                      | <b>Three Months<br/>Ended<br/>March 31,</b> |             | <b>Three Months<br/>Ended<br/>Increase<br/>(Decrease)<sup>%</sup><br/>Change</b> |       |   |
|------------------------------------------------------|---------------------------------------------|-------------|----------------------------------------------------------------------------------|-------|---|
| <i>(Amounts in thousands, except per share data)</i> | <b>2018</b>                                 | <b>2017</b> |                                                                                  |       |   |
| Net income                                           | \$8,868                                     | \$6,202     | \$2,666                                                                          | 42.99 | % |
| Basic earnings per common share                      | 0.52                                        | 0.36        | 0.16                                                                             | 44.44 | % |
| Diluted earnings per common share                    | 0.52                                        | 0.36        | 0.16                                                                             | 44.44 | % |
| Return on average assets                             | 1.52 %                                      | 1.06 %      | 0.46 %                                                                           | 43.40 | % |
| Return on average common equity                      | 10.30%                                      | 7.35 %      | 2.95 %                                                                           | 40.14 | % |

*Three-Month Comparison.* Net income increased in the first quarter of 2018 due to increases in noninterest and net interest income and a decrease in income tax. These changes were offset by a slight increase in noninterest expense.

Table of Contents*Net Interest Income*

Net interest income, our largest contributor to earnings, is analyzed on a fully taxable equivalent ("FTE") basis, a non-GAAP financial measure. For additional information, see "Non-GAAP Financial Measures" below. The following tables present the consolidated average balance sheets and net interest analysis on a FTE basis for the dates indicated:

|                                             | Three Months Ended March 31,<br>2018 |                         |                                          | 2017               |                         |                                          |
|---------------------------------------------|--------------------------------------|-------------------------|------------------------------------------|--------------------|-------------------------|------------------------------------------|
|                                             | Average<br>Balance                   | Interest <sup>(1)</sup> | Average<br>Yield/<br>Rate <sup>(1)</sup> | Average<br>Balance | Interest <sup>(1)</sup> | Average<br>Yield/<br>Rate <sup>(1)</sup> |
| <i>(Amounts in thousands)</i>               |                                      |                         |                                          |                    |                         |                                          |
| <b>Assets</b>                               |                                      |                         |                                          |                    |                         |                                          |
| Earning assets                              |                                      |                         |                                          |                    |                         |                                          |
| Loans <sup>(2)</sup>                        | \$1,805,839                          | \$ 22,827               | 5.13 %                                   | \$1,838,837        | \$ 21,895               | 4.83 %                                   |
| Securities available for sale               | 165,103                              | 1,384                   | 3.40 %                                   | 161,738            | 1,483                   | 3.72 %                                   |
| Securities held to maturity                 | 25,132                               | 105                     | 1.69 %                                   | 47,112             | 152                     | 1.31 %                                   |
| Interest-bearing deposits                   | 117,953                              | 471                     | 1.62 %                                   | 55,754             | 159                     | 1.16 %                                   |
| Total earning assets                        | 2,114,027                            | 24,787                  | 4.76 %                                   | 2,103,441          | 23,689                  | 4.57 %                                   |
| Other assets                                | 252,284                              |                         |                                          | 270,597            |                         |                                          |
| Total assets                                | \$2,366,311                          |                         |                                          | \$2,374,038        |                         |                                          |
| <b>Liabilities and stockholders' equity</b> |                                      |                         |                                          |                    |                         |                                          |
| Interest-bearing deposits                   |                                      |                         |                                          |                    |                         |                                          |
| Demand deposits                             | \$462,741                            | \$ 63                   | 0.06 %                                   | \$381,050          | \$ 54                   | 0.06 %                                   |
| Savings deposits                            | 518,560                              | 82                      | 0.06 %                                   | 525,573            | 84                      | 0.06 %                                   |
| Time deposits                               | 493,545                              | 1,106                   | 0.91 %                                   | 515,506            | 1,028                   | 0.81 %                                   |
| Total interest-bearing deposits             | 1,474,846                            | 1,251                   | 0.34 %                                   | 1,422,129          | 1,166                   | 0.33 %                                   |
| Borrowings                                  |                                      |                         |                                          |                    |                         |                                          |
| Retail repurchase agreements                | 4,444                                | 1                       | 0.09 %                                   | 66,947             | 11                      | 0.07 %                                   |
| Wholesale repurchase agreements             | 25,000                               | 199                     | 3.23 %                                   | 25,000             | 199                     | 3.23 %                                   |
| FHLB advances and other borrowings          | 50,000                               | 500                     | 4.06 %                                   | 66,618             | 675                     | 4.11 %                                   |
| Total borrowings                            | 79,444                               | 700                     | 3.57 %                                   | 158,565            | 885                     | 2.26 %                                   |
| Total interest-bearing liabilities          | 1,554,290                            | 1,951                   | 0.51 %                                   | 1,580,694          | 2,051                   | 0.53 %                                   |
| Noninterest-bearing demand deposits         | 432,606                              |                         |                                          | 425,540            |                         |                                          |
| Other liabilities                           | 30,142                               |                         |                                          | 25,477             |                         |                                          |
| Total liabilities                           | 2,017,038                            |                         |                                          | 2,031,711          |                         |                                          |
| Stockholders' equity                        | 349,273                              |                         |                                          | 342,327            |                         |                                          |
| Total liabilities and stockholders' equity  | \$2,366,311                          |                         |                                          | \$2,374,038        |                         |                                          |
| Net interest income, FTE                    |                                      | \$ 22,836               |                                          |                    | \$ 21,638               |                                          |
| Net interest rate spread                    |                                      |                         | 4.25 %                                   |                    |                         | 4.04 %                                   |
| Net interest margin                         |                                      |                         | 4.38 %                                   |                    |                         | 4.17 %                                   |

(1) Fully taxable equivalent ("FTE") basis based on the federal statutory rate of 21% for periods after January 1, 2018, and 35% for periods prior to January 1, 2018

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

Table of Contents

The following table presents the impact to net interest income on a FTE basis due to changes in volume (average volume times the prior year's average rate), rate (average rate times the prior year's average volume), and rate/volume (average volume times the change in average rate), for the periods indicated:

|                                              | <b>Three Months Ended<br/>March 31, 2018 Compared to<br/>2017<br/>Dollar Increase (Decrease) due<br/>to</b> |                       |               |              |
|----------------------------------------------|-------------------------------------------------------------------------------------------------------------|-----------------------|---------------|--------------|
|                                              | <b>Volume</b>                                                                                               | <b>Rate/<br/>Rate</b> | <b>Volume</b> | <b>Total</b> |
| <i>(Amounts in thousands)</i>                |                                                                                                             |                       |               |              |
| Interest earned on <sup>(1)</sup>            |                                                                                                             |                       |               |              |
| Loans <sup>(2)</sup>                         | \$(393)                                                                                                     | \$1,349               | \$ (24 )      | \$932        |
| Securities available-for-sale                | 31                                                                                                          | (127 )                | (3 )          | (99 )        |
| Securities held-to-maturity                  | (71 )                                                                                                       | 45                    | (21 )         | (47 )        |
| Interest-bearing deposits with other banks   | 177                                                                                                         | 64                    | 71            | 312          |
| Total interest earning assets                | (256)                                                                                                       | 1,331                 | 23            | 1,098        |
| Interest paid on <sup>(1)</sup>              |                                                                                                             |                       |               |              |
| Demand deposits                              | 12                                                                                                          | (2 )                  | (1 )          | 9            |
| Savings deposits                             | (1 )                                                                                                        | (1 )                  | -             | (2 )         |
| Time deposits                                | (44 )                                                                                                       | 127                   | (5 )          | 78           |
| Retail repurchase agreements                 | (10 )                                                                                                       | 4                     | (4 )          | (10 )        |
| Wholesale repurchase agreements              | -                                                                                                           | -                     | -             | -            |
| FHLB advances and other borrowings           | (168)                                                                                                       | (9 )                  | 2             | (175 )       |
| Total interest-bearing liabilities           | (211)                                                                                                       | 119                   | (8 )          | (100 )       |
| Change in net interest income <sup>(1)</sup> | \$(45 )                                                                                                     | \$1,212               | \$ 31         | \$1,198      |

(1) Fully taxable equivalent ("FTE") basis based on the federal statutory rate of 21% for periods after January 1, 2018, and 35% for periods prior to January 1, 2018

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

The following tables present the net interest analysis on a FTE basis excluding the impact of non-cash purchase accounting accretion from acquired loan portfolios for the periods indicated:

| (Amounts in thousands)                              | Three Months Ended March 31, |                                       |   |                         |                                       |   |
|-----------------------------------------------------|------------------------------|---------------------------------------|---|-------------------------|---------------------------------------|---|
|                                                     | 2018                         |                                       |   | 2017                    |                                       |   |
|                                                     | Interest <sup>(1)</sup>      | Average Yield/<br>Rate <sup>(1)</sup> |   | Interest <sup>(1)</sup> | Average Yield/<br>Rate <sup>(1)</sup> |   |
| Earning assets                                      |                              |                                       |   |                         |                                       |   |
| Loans <sup>(2)</sup>                                | \$22,827                     | 5.13                                  | % | \$21,895                | 4.83                                  | % |
| Accretion income                                    | 2,324                        |                                       |   | 1,784                   |                                       |   |
| Less: cash accretion income                         | 479                          |                                       |   | 650                     |                                       |   |
| Non-cash accretion income                           | 1,845                        |                                       |   | 1,134                   |                                       |   |
| Loans, normalized <sup>(3)</sup>                    | 20,982                       | 4.71                                  | % | 20,761                  | 4.58                                  | % |
| Other earning assets                                | 1,960                        | 2.58                                  | % | 1,794                   | 2.75                                  | % |
| Total earning assets                                | 22,942                       | 4.40                                  | % | 22,555                  | 4.35                                  | % |
| Total interest-bearing liabilities                  | 1,951                        | 0.51                                  | % | 2,051                   | 0.53                                  | % |
| Net interest income, FTE <sup>(3)</sup>             | \$20,991                     |                                       |   | \$20,504                |                                       |   |
| Net interest rate spread, normalized <sup>(3)</sup> |                              | 3.89                                  | % |                         | 3.82                                  | % |
| Net interest margin, normalized <sup>(3)</sup>      |                              | 4.03                                  | % |                         | 3.95                                  | % |

- (1) Fully taxable equivalent ("FTE") basis based on the federal statutory rate of 21% for periods after January 1, 2018, and 35% for periods prior to January 1, 2018

- (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.

## Table of Contents

*Three-Month Comparison.* Net interest income comprised 77.64% of total net interest and noninterest income in the first quarter of 2018 compared to 80.52% in the same quarter of 2017. Net interest income on a GAAP basis increased \$1.24 million, or 5.86%, and net interest income on a FTE basis increased \$1.20 million, or 5.54%. Normalized net interest income on a FTE basis is a non-GAAP measure that excludes non-cash loan accretion income related to PCI loans. For additional information, see “Non-GAAP Financial Measures” below. Normalized net interest margin increased 8 basis points compared to an increase of 21 basis points on a FTE basis. Normalized net interest spread increased 7 basis points compared to an increase of 21 basis points on a FTE basis.

Average earning assets increased \$10.59 million, or 0.50%, primarily due to an increase in interest-bearing deposits offset by decreases in loans and held-to-maturity securities. The normalized yield on earning assets increased 5 basis points compared to an increase of 19 basis points on a GAAP basis. Average loans decreased \$33.00 million, or 1.79%, and the average loan to deposit ratio decreased to 94.67% from 99.52%. The normalized yield on loans increased 13 basis points compared to an increase of 30 basis points on a GAAP basis. Non-cash accretion income increased \$711 thousand, or 62.70%.

Average interest-bearing liabilities, which consist of interest-bearing deposits and borrowings, decreased \$26.40 million, or 1.68%, primarily due to a decline in average borrowings. The yield on interest-bearing liabilities decreased 2 basis points, largely driven by a decrease in the average balance of borrowings. Average borrowings decreased \$79.12 million, or 49.90%, largely due to a \$62.50 million, or 93.36%, decrease in average retail repurchase agreements and a \$16.62 million, or 24.95%, decrease in average FHLB advances. Average interest-bearing deposits increased \$52.72 million, or 3.71%, which was driven by an \$81.69 million, or 21.44%, increase in average interest-bearing demand deposits offset by a \$21.96 million, or 4.26%, decrease in average time deposits, and a \$7.01 million, or 1.33%, decrease in average savings deposits, which include money market and savings accounts.

### *Provision for Loan Losses*

*Three-Month Comparison.* The provision charged to operations experienced a slight increase of \$3 thousand to \$495 thousand, which was attributed to the non-PCI provision. For additional information, see “Allowance for Loan Losses” in the “Financial Condition” section below.

### *Noninterest Income*

The following table presents the components of, and changes in, noninterest income for the periods indicated:

|                                             | <b>Three Months<br/>Ended<br/>March 31,</b> |             | <b>Three Months<br/>Ended<br/>Increase<br/>(Decrease)<br/>%<br/>Change</b> |        |   |
|---------------------------------------------|---------------------------------------------|-------------|----------------------------------------------------------------------------|--------|---|
|                                             | <b>2018</b>                                 | <b>2017</b> |                                                                            |        |   |
| <i>(Amounts in thousands)</i>               |                                             |             |                                                                            |        |   |
| Wealth management                           | \$794                                       | \$790       | \$4                                                                        | 0.51   | % |
| Service charges on deposits                 | 3,468                                       | 3,113       | 355                                                                        | 11.40  | % |
| Other service charges and fees              | 1,635                                       | 1,502       | 133                                                                        | 8.85   | % |
| Insurance commissions                       | 329                                         | 373         | (44 )                                                                      | -11.80 | % |
| Net FDIC indemnification asset amortization | (382 )                                      | (1,332)     | 950                                                                        | -71.32 | % |
| Other operating income                      | 602                                         | 669         | (67 )                                                                      | -10.01 | % |
| Total noninterest income                    | \$6,446                                     | \$5,115     | \$1,331                                                                    | 26.02  | % |

*Three-Month Comparison.* Noninterest income comprised 22.36% of total net interest and noninterest income in the first quarter of 2018 compared to 19.48% in the same quarter of 2017. Noninterest income increased \$1.33 million, or 26.02%, primarily due to the decrease in net negative amortization related to the FDIC indemnification asset as loss share coverage expired June 30, 2017, for commercial loans. Service charges on deposits and other service charges and fees increased \$488 thousand, or 10.57%, primarily from increases in checking account fees and net interchange income. Other service charges and fees included the netting of interchange expense against income per the adoption of ASC 606. Net interchange income increased \$82 thousand, or 8.00%, in the first quarter of 2018. Excluding the impact from net FDIC indemnification asset amortization, noninterest income increased \$381 thousand, or 5.91%, to \$6.83 million in the first quarter of 2018, from \$6.45 million in the same quarter of 2017.

Table of Contents*Noninterest Expense*

The following table presents the components of, and changes in, noninterest expense for the periods indicated:

|                                  | <b>Three Months<br/>Ended<br/>March 31,</b> |             | <b>Three Months<br/>Ended<br/>Increase<br/>(Decrease)<br/>%<br/>Change</b> |        |   |
|----------------------------------|---------------------------------------------|-------------|----------------------------------------------------------------------------|--------|---|
|                                  | <b>2018</b>                                 | <b>2017</b> |                                                                            |        |   |
| <i>(Amounts in thousands)</i>    |                                             |             |                                                                            |        |   |
| Salaries and employee benefits   | \$9,441                                     | \$8,748     | \$693                                                                      | 7.92   | % |
| Occupancy expense                | 1,250                                       | 1,248       | 2                                                                          | 0.16   | % |
| Furniture and equipment expense  | 1,046                                       | 1,091       | (45 )                                                                      | -4.12  | % |
| Service fees                     | 828                                         | 845         | (17 )                                                                      | -2.01  | % |
| Advertising and public relations | 522                                         | 605         | (83 )                                                                      | -13.72 | % |
| Professional fees                | 307                                         | 822         | (515)                                                                      | -62.65 | % |
| Amortization of intangibles      | 261                                         | 261         | -                                                                          | 0.00   | % |
| FDIC premiums and assessments    | 211                                         | 244         | (33 )                                                                      | -13.52 | % |
| Other operating expense          | 3,028                                       | 2,643       | 385                                                                        | 14.57  | % |
| Total noninterest expense        | \$16,894                                    | \$16,507    | \$387                                                                      | 2.34   | % |

*Three-Month Comparison.* Noninterest expense increased \$387 thousand, or 2.34%, in the first quarter of 2018 compared to the same quarter of 2017, which was largely due to an increase in salaries and employee benefits. Full-time equivalent employees, calculated using the number of hours worked, decreased to 550 as of March 31, 2018, from 579 as of March 31, 2017. Other operating expense included a \$510 thousand increase in property writedowns offset by a \$157 thousand decrease in the net loss on sales and expenses related to other real estate owned (“OREO”) to \$172 thousand from \$328 thousand in the first quarter of 2017. Professional fees decreased largely due to a reduction in legal fees.

*Income Tax Expense*

*Three-Month Comparison.* The Company’s effective tax rate, income tax as a percent of pre-tax income, may vary significantly from the statutory rate due to permanent differences and available tax credits. Permanent differences are income and expense items excluded by law in the calculation of taxable income. The Company’s most significant permanent differences generally include interest income on municipal securities and increases in the cash surrender value of life insurance policies. Income tax expense decreased \$487 thousand, or 15.94%, and the effective tax rate decreased to 22.46% compared to 33.00% in the same quarter of 2017. The decrease was largely due to the Tax Cuts and Jobs Act (“Tax Reform Act”) enacted on December 22, 2017, which reduced our federal statutory income tax rate from 35% to 21% beginning January 1, 2018.

***Non-GAAP Financial Measures***

In addition to financial statements prepared in accordance with GAAP, we use certain non-GAAP financial measures that management believes provide investors with important information useful in understanding our operational performance and comparing our financial measures with other financial institutions. The non-GAAP financial measures presented in this report include net interest income on a FTE basis and normalized net interest income on a FTE basis. While we believe these non-GAAP financial measures enhance understanding of our business and performance, they are supplemental and not a substitute for, or more important than, financial measures prepared on a GAAP basis. Our non-GAAP financial measures may not be comparable to those reported by other financial institutions. The reconciliations of these measures to GAAP measures are presented below.

We believe FTE basis is the preferred industry measurement of net interest income and provides better comparability between taxable and tax exempt amounts. We use this non-GAAP financial measure to monitor net interest income performance and to manage the composition of our balance sheet. The FTE basis adjusts for the tax benefits of income from certain tax exempt loans and investments using the federal statutory rate of 21% beginning January 1, 2018, and 35% prior to January 1, 2018. Normalized net interest income on a FTE basis is a non-GAAP measure that excludes non-cash loan accretion income related to PCI loans.

Table of Contents

The following table reconciles net interest income and margin, as presented in our consolidated statements of income, to net interest income on a FTE basis for the periods indicated:

|                                          | Three Months<br>Ended March 31, |   |          |   |
|------------------------------------------|---------------------------------|---|----------|---|
|                                          | 2018                            |   | 2017     |   |
| <i>(Amounts in thousands)</i>            |                                 |   |          |   |
| Net interest income, GAAP                | \$22,379                        |   | \$21,141 |   |
| FTE adjustment <sup>(1)</sup>            | 457                             |   | 497      |   |
| Net interest income, FTE                 | 22,836                          |   | 21,638   |   |
| Less:                                    |                                 |   |          |   |
| non-cash accretion income <sup>(2)</sup> | 1,845                           |   | 1,134    |   |
| Net interest income, normalized          | \$20,991                        |   | \$20,504 |   |
| Net interest margin, GAAP                | 4.28                            | % | 4.08     | % |
| FTE adjustment <sup>(1)</sup>            | 0.10                            | % | 0.09     | % |
| Net interest margin, FTE                 | 4.38                            | % | 4.17     | % |
| Less:                                    |                                 |   |          |   |
| non-cash accretion income <sup>(2)</sup> | 0.35                            | % | 0.22     | % |
| Net interest margin, normalized          | 4.03                            | % | 3.95     | % |

(1) Fully taxable equivalent ("FTE") basis based on the federal statutory rate of 21% for periods after January 1, 2018, and 35% for periods prior to January 1, 2018

(2) Includes non-cash purchase accounting accretion income from acquired loan portfolios

**Financial Condition**

Total assets as of March 31, 2018, increased \$39.85 million, or 1.67%, to \$2.43 billion from \$2.39 billion as of December 31, 2017. Total liabilities as of March 31, 2018, increased \$48.52 million, or 2.38%, to \$2.09 billion from \$2.04 billion as of December 31, 2017.

### *Investment Securities*

Our investment securities are used to generate interest income through the employment of excess funds, to provide liquidity, to fund loan demand or deposit liquidation, and to pledge as collateral where required. The composition of our investment portfolio changes from time to time as we consider our liquidity needs, interest rate expectations, asset/liability management strategies, and capital requirements.

Available-for-sale debt securities as of March 31, 2018, decreased \$1.39 million, or 0.84%, compared to December 31, 2017, primarily due to the maturity of certain U.S. Treasury securities offset by the purchase of U.S. Agency and mortgage-backed Agency securities coupled with an increase in net unrealized losses. The market value of debt securities available for sale as a percentage of amortized cost was 99.45% as of March 31, 2018, compared to 100.75% as of December 31, 2017. Held-to-maturity debt securities as of March 31, 2018, decreased \$34 thousand, or 0.14%, compared to December 31, 2017, primarily due to an increase in net unrealized losses. The market value of debt securities held to maturity as a percentage of amortized cost was 99.49% as of March 31, 2018, compared to 99.74% as of December 31, 2017.

Investment securities are reviewed quarterly for possible other-than-temporary impairment (“OTTI”) charges. We recognized no OTTI charges in earnings associated with debt securities for the three months ended March 31, 2018 or 2017. For additional information, see Note 2, “Debt Securities,” to the Condensed Consolidated Financial Statements in Item 1 of this report.

### *Loans Held for Investment*

Loans held for investment, our largest component of interest income, are grouped into commercial, consumer real estate, and consumer and other loan segments. Each segment is divided into various loan classes based on collateral or purpose. Certain loans acquired in FDIC-assisted transactions are covered under loss share agreements (“covered loans”). Total loans held for investment, net of unearned income, as of March 31, 2018, decreased \$24.08 million, or 1.32%, compared to December 31, 2017, primarily due to a \$21.53 million, or 1.20%, decrease in non-covered loans, which was driven by declines in commercial construction, owner occupied construction, and multi-family residential segments. Covered loans decreased \$2.54 million, or 9.10%, as the covered Waccamaw portfolio continues to run off. For additional information, see Note 3, “Loans,” to the Condensed Consolidated Financial Statements in Item 1 of this report.



Table of Contents

The following table presents loans, net of unearned income, with non-covered loans by loan class as of the dates indicated:

| <i>(Amounts in thousands)</i>                                         | <b>March 31, 2018</b> |                |   | <b>December 31, 2017</b> |                |   | <b>March 31, 2017</b> |                |   |
|-----------------------------------------------------------------------|-----------------------|----------------|---|--------------------------|----------------|---|-----------------------|----------------|---|
|                                                                       | <b>Amount</b>         | <b>Percent</b> |   | <b>Amount</b>            | <b>Percent</b> |   | <b>Amount</b>         | <b>Percent</b> |   |
| Non-covered loans held for investment                                 |                       |                |   |                          |                |   |                       |                |   |
| Commercial loans                                                      |                       |                |   |                          |                |   |                       |                |   |
| Construction, development, and other land                             | \$52,264              | 2.92           | % | \$60,017                 | 3.30           | % | \$61,070              | 3.33           | % |
| Commercial and industrial                                             | 90,361                | 5.04           | % | 92,188                   | 5.07           | % | 88,370                | 4.81           | % |
| Multi-family residential                                              | 120,656               | 6.73           | % | 125,202                  | 6.89           | % | 143,847               | 7.84           | % |
| Single family non-owner occupied                                      | 142,227               | 7.93           | % | 141,670                  | 7.80           | % | 143,308               | 7.81           | % |
| Non-farm, non-residential                                             | 618,872               | 34.51          | % | 616,633                  | 33.93          | % | 584,064               | 31.81          | % |
| Agricultural                                                          | 9,350                 | 0.52           | % | 7,035                    | 0.39           | % | 6,133                 | 0.33           | % |
| Farmland                                                              | 23,567                | 1.31           | % | 25,649                   | 1.41           | % | 29,241                | 1.59           | % |
| Total commercial loans                                                | 1,057,297             | 58.96          | % | 1,068,394                | 58.79          | % | 1,056,033             | 57.52          | % |
| Consumer real estate loans                                            |                       |                |   |                          |                |   |                       |                |   |
| Home equity lines                                                     | 101,476               | 5.66           | % | 103,205                  | 5.68           | % | 104,817               | 5.71           | % |
| Single family owner occupied                                          | 506,368               | 28.24          | % | 502,686                  | 27.66          | % | 500,394               | 27.26          | % |
| Owner occupied construction                                           | 29,518                | 1.65           | % | 39,178                   | 2.16           | % | 45,346                | 2.47           | % |
| Total consumer real estate loans                                      | 637,362               | 35.55          | % | 645,069                  | 35.50          | % | 650,557               | 35.44          | % |
| Consumer and other loans                                              |                       |                |   |                          |                |   |                       |                |   |
| Consumer loans                                                        | 68,534                | 3.82           | % | 70,772                   | 3.89           | % | 73,634                | 4.01           | % |
| Other                                                                 | 4,510                 | 0.25           | % | 5,001                    | 0.28           | % | 4,147                 | 0.23           | % |
| Total consumer and other loans                                        | 73,044                | 4.07           | % | 75,773                   | 4.17           | % | 77,781                | 4.24           | % |
| Total non-covered loans                                               | 1,767,703             | 98.58          | % | 1,789,236                | 98.46          | % | 1,784,371             | 97.20          | % |
| Total covered loans                                                   | 25,406                | 1.42           | % | 27,948                   | 1.54           | % | 51,412                | 2.80           | % |
| Total loans held for investment, net of unearned income               | 1,793,109             | 100.00         | % | 1,817,184                | 100.00         | % | 1,835,783             | 100.00         | % |
| Less: allowance for loan losses                                       | 19,500                |                |   | 19,276                   |                |   | 18,458                |                |   |
| Total loans held for investment, net of unearned income and allowance | \$1,773,609           |                |   | \$1,797,908              |                |   | \$1,817,325           |                |   |

The following table presents covered loans, by loan class, as of the dates indicated. The commercial loss share agreement expired June 30, 2017.

| <i>(Amounts in thousands)</i>             | <b>March 31, 2018</b> |                |   | <b>December 31, 2017</b> |                |   | <b>March 31, 2017</b> |                |   |
|-------------------------------------------|-----------------------|----------------|---|--------------------------|----------------|---|-----------------------|----------------|---|
|                                           | <b>Amount</b>         | <b>Percent</b> |   | <b>Amount</b>            | <b>Percent</b> |   | <b>Amount</b>         | <b>Percent</b> |   |
| Commercial loans                          |                       |                |   |                          |                |   |                       |                |   |
| Construction, development, and other land | \$37                  | 0.15           | % | \$39                     | 0.14           | % | \$4,337               | 8.43           | % |
| Commercial and industrial                 | -                     | 0.00           | % | -                        | 0.00           | % | 637                   | 1.24           | % |
| Multi-family residential                  | -                     | 0.00           | % | -                        | 0.00           | % | 4                     | 0.01           | % |
| Single family non-owner occupied          | 277                   | 1.09           | % | 284                      | 1.02           | % | 980                   | 1.91           | % |

Edgar Filing: FIRST COMMUNITY BANCSHARES INC /NV/ - Form 10-Q

|                                  |          |        |   |          |        |   |          |        |   |
|----------------------------------|----------|--------|---|----------|--------|---|----------|--------|---|
| Non-farm, non-residential        | 9        | 0.03   | % | 9        | 0.03   | % | 6,020    | 11.71  | % |
| Agricultural                     | -        | 0.00   | % | -        | 0.00   | % | 25       | 0.05   | % |
| Farmland                         | -        | 0.00   | % | -        | 0.00   | % | 386      | 0.75   | % |
| Total commercial loans           | 323      | 1.27   | % | 332      | 1.19   | % | 12,389   | 24.10  | % |
| Consumer real estate loans       |          |        |   |          |        |   |          |        |   |
| Home equity lines                | 21,438   | 84.38  | % | 23,720   | 84.87  | % | 32,943   | 64.08  | % |
| Single family owner occupied     | 3,645    | 14.35  | % | 3,896    | 13.94  | % | 6,080    | 11.82  | % |
| Total consumer real estate loans | 25,083   | 98.73  | % | 27,616   | 98.81  | % | 39,023   | 75.90  | % |
| Total covered loans              | \$25,406 | 100.00 | % | \$27,948 | 100.00 | % | \$51,412 | 100.00 | % |

Table of Contents

*Risk Elements*

We seek to mitigate credit risk by following specific underwriting practices and by ongoing monitoring of our loan portfolio. Our underwriting practices include the analysis of borrowers' prior credit histories, financial statements, tax returns, and cash flow projections; valuation of collateral based on independent appraisers' reports; and verification of liquid assets. We believe our underwriting criteria are appropriate for the various loan types we offer; however, losses may occur that exceed the reserves established in our allowance for loan losses. We track certain credit quality indicators that include: trends related to the risk rating of commercial loans, the level of classified commercial loans, net charge-offs, nonperforming loans, and general economic conditions. The Company's loan review function generally analyzes all commercial loan relationships greater than \$4.0 million annually and at various times during the year. Smaller commercial and retail loans are sampled for review during the year.

Nonperforming assets consist of nonaccrual loans, accrual loans contractually past due 90 days or more, unseasoned troubled debt restructurings ("TDRs"), and OREO. Ongoing activity in the classification and categories of nonperforming loans include collections on delinquencies, foreclosures, loan restructurings, and movements into or out of the nonperforming classification due to changing economic conditions, borrower financial capacity, or resolution efforts. Loans acquired with credit deterioration, with a discount, continue to accrue interest based on expected cash flows; therefore, PCI loans are not generally considered nonaccrual. For additional information, see Note 4, "Credit Quality," to the Condensed Consolidated Financial Statements in Item 1 of this report.

Table of Contents

The following table presents the components of nonperforming assets and related information as of the periods indicated:

|                                                  | March<br>31,<br>2018 | December<br>31, 2017 | March<br>31,<br>2017 |   |         |
|--------------------------------------------------|----------------------|----------------------|----------------------|---|---------|
| <i>(Amounts in thousands)</i>                    |                      |                      |                      |   |         |
| <b>Non-covered nonperforming</b>                 |                      |                      |                      |   |         |
| Nonaccrual loans                                 | \$21,650             | \$ 18,997            | \$18,537             |   |         |
| Accruing loans past due 90 days or more          | 27                   | 1                    | 20                   |   |         |
| TDRs <sup>(1)</sup>                              | 77                   | 120                  | -                    |   |         |
| Total nonperforming loans                        | 21,754               | 19,118               | 18,557               |   |         |
| Non-covered OREO                                 | 4,620                | 2,409                | 4,477                |   |         |
| Total non-covered nonperforming assets           | \$26,374             | \$ 21,527            | \$23,034             |   |         |
| <b>Covered nonperforming</b>                     |                      |                      |                      |   |         |
| Nonaccrual loans                                 | \$596                | \$ 342               | \$918                |   |         |
| Total nonperforming loans                        | 596                  | 342                  | 918                  |   |         |
| Covered OREO                                     | 70                   | 105                  | 241                  |   |         |
| Total covered nonperforming assets               | \$666                | \$ 447               | \$1,159              |   |         |
| <b>Total nonperforming</b>                       |                      |                      |                      |   |         |
| Nonaccrual loans                                 | \$22,246             | \$ 19,339            | \$19,455             |   |         |
| Accruing loans past due 90 days or more          | 27                   | 1                    | 20                   |   |         |
| TDRs <sup>(1)</sup>                              | 77                   | 120                  | -                    |   |         |
| Total nonperforming loans                        | 22,350               | 19,460               | 19,475               |   |         |
| OREO                                             | 4,690                | 2,514                | 4,718                |   |         |
| Total nonperforming assets                       | \$27,040             | \$ 21,974            | \$24,193             |   |         |
| <b>Additional Information</b>                    |                      |                      |                      |   |         |
| Performing TDRs <sup>(2)</sup>                   | \$7,220              | \$ 7,614             | \$8,593              |   |         |
| Total TDRs <sup>(3)</sup>                        | 7,297                | 7,734                | 8,593                |   |         |
| <b>Non-covered ratios</b>                        |                      |                      |                      |   |         |
| Nonperforming loans to total loans               | 1.23                 | %                    | 1.07                 | % | 1.04 %  |
| Nonperforming assets to total assets             | 1.10                 | %                    | 0.91                 | % | 0.97 %  |
| Non-PCI allowance to nonperforming loans         | 89.64                | %                    | 100.83               | % | 99.40 % |
| Non-PCI allowance to total loans                 | 1.10                 | %                    | 1.08                 | % | 1.03 %  |
| <b>Total ratios</b>                              |                      |                      |                      |   |         |
| Nonperforming loans to total loans               | 1.25                 | %                    | 1.07                 | % | 1.06 %  |
| Nonperforming assets to total assets             | 1.11                 | %                    | 0.92                 | % | 1.00 %  |
| Allowance for loan losses to nonperforming loans | 87.25                | %                    | 99.05                | % | 94.78 % |
| Allowance for loan losses to total loans         | 1.09                 | %                    | 1.06                 | % | 1.01 %  |

(1)

TDRs restructured within the past six months and nonperforming TDRs exclude nonaccrual TDRs of \$115 thousand, \$169 thousand, and \$24 thousand for the periods ended March 31, 2018, December 31, 2017, and March 31, 2017, respectively.

(2) TDRs with six months or more of satisfactory payment performance exclude nonaccrual TDRs of \$1.89 million, \$1.76 million, and \$1.40 million for the periods ended March 31, 2018, December 31, 2017, and March 31, 2017, respectively.

(3) Total TDRs exclude nonaccrual TDRs of \$2.01 million, \$1.93 million, and \$1.43 million for the periods ended March 31, 2018, December 31, 2017, and March 31, 2017, respectively.

Non-covered nonperforming assets as of March 31, 2018, increased \$4.85 million, or 22.52%, from December 31, 2017, primarily due to an increase in non-covered nonaccrual loans and non-covered OREO. Non-covered nonaccrual loans as of March 31, 2018, increased \$2.65 million, or 13.97%, from December 31, 2017. As of March 31, 2018, non-covered nonaccrual loans were largely attributed to single family owner occupied (58.85%) and non-farm, non-residential (22.35%) loans. As of March 31, 2018, approximately \$2.07 million, or 9.58%, of non-covered nonaccrual loans were attributed to performing loans acquired in business combinations. Certain loans included in the nonaccrual category have been written down to estimated realizable value or assigned specific reserves in the allowance for loan losses based on management's estimate of loss at ultimate resolution.

Non-covered delinquent loans, comprised of loans 30 days or more past due and nonaccrual loans, totaled \$29.81 million as of March 31, 2018, a decrease of \$900 thousand, or 2.93%, compared to \$30.71 million as of December 31, 2017. Non-covered delinquent loans as a percent of total non-covered loans totaled 1.66% as of March 31, 2018, which includes past due loans (0.45%) and nonaccrual loans (1.21%).

Table of Contents

When restructuring loans for borrowers experiencing financial difficulty, we generally make concessions in interest rates, loan terms, or amortization terms. Certain TDRs are classified as nonperforming when modified and are returned to performing status after six months of satisfactory payment performance; however, these loans remain identified as impaired until full payment or other satisfaction of the obligation occurs. Accruing TDRs as of March 31, 2018, decreased \$437 thousand, or 5.65%, to \$7.30 million from December 31, 2017. Nonperforming accruing TDRs as of March 31, 2018, decreased \$43 thousand, or 35.83%, to \$77 thousand compared to December 31, 2017. Nonperforming accruing TDRs as a percent of total accruing TDRs totaled 1.06% as of March 31, 2018, compared to 1.55% as of December 31, 2017. Specific reserves on TDRs totaled \$648 thousand as of March 31, 2018, compared to \$642 thousand as of December 31, 2017.

Non-covered OREO, which is carried at the lesser of estimated net realizable value or cost, increased \$2.21 million, or 91.78%, as of March 31, 2018, compared to December 31, 2017. Non-covered OREO consisted of 24 properties with an average holding period of 7 months as of March 31, 2018. The net loss on the sale of OREO totaled \$103 thousand for the three months ended March 31, 2018, compared to \$241 thousand for the same period of the prior year. The following table presents the changes in OREO during the periods indicated:

|                               | <b>Three Months Ended March 31,</b> |                |              |                    |                |              |
|-------------------------------|-------------------------------------|----------------|--------------|--------------------|----------------|--------------|
|                               | <b>2018</b>                         |                |              | <b>2017</b>        |                |              |
|                               | <b>Non-covered</b>                  | <b>Covered</b> | <b>Total</b> | <b>Non-covered</b> | <b>Covered</b> | <b>Total</b> |
| <i>(Amounts in thousands)</i> |                                     |                |              |                    |                |              |
| Beginning balance             | \$2,409                             | \$ 105         | \$2,514      | \$5,109            | \$ 276         | \$5,385      |
| Additions                     | 2,787                               | -              | 2,787        | 358                | 14             | 372          |
| Disposals                     | (541 )                              | (26 )          | (567 )       | (861 )             | (56 )          | (917 )       |
| Valuation adjustments         | (35 )                               | (9 )           | (44 )        | (129 )             | 7              | (122 )       |
| Ending balance                | \$4,620                             | \$ 70          | \$4,690      | \$4,477            | \$ 241         | \$4,718      |

*Allowance for Loan Losses*

The allowance for loan losses is maintained at a level management deems sufficient to absorb probable loan losses inherent in the loan portfolio. The allowance is increased by the provision for loan losses and recoveries of prior loan charge-offs and decreased by loans charged off. The provision for loan losses is calculated and charged to expense to bring the allowance to an appropriate level using a systematic process of measurement that requires significant judgments and estimates. As of March 31, 2018, our qualitative risk factors reflect a stable risk of loan losses due to consistent asset quality metrics and relatively stable business and economic conditions in our primary market areas. The loan portfolio is continually monitored for deterioration in credit, which may result in the need to increase the allowance for loan losses in future periods. Management considered the allowance adequate as of March 31, 2018; however, no assurance can be made that additions to the allowance will not be required in future periods. For additional information, see Note 5, "Allowance for Loan Losses," to the Condensed Consolidated Financial Statements in Item 1 of this report.

The allowance for loan losses as of March 31, 2018, increased \$224 thousand, or 1.16%, from December 31, 2017. The increase was largely attributed to a \$336 thousand increase in specific reserves on impaired loans. The non-PCI allowance as a percent of non-covered loans totaled 1.10% as of March 31, 2018, compared to 1.08% as of December 31, 2017. PCI loans were aggregated into five loan pools as of March 31, 2018, and December 31, 2017: Waccamaw commercial, Waccamaw serviced home equity lines, Waccamaw residential, Peoples Bank of Virginia ("Peoples") commercial, and Peoples residential. The cash flow analysis identified no impaired PCI loan pools as of March 31, 2018, or December 31, 2017. Net charge-offs increased \$289 thousand for the three months ended March 31, 2018, compared to the same period of the prior year, largely due to an increase in charge-offs in the consumer loan segment.

Table of Contents

The following table presents the changes in the allowance for loan losses, by loan class, during the periods indicated:

|                                                 | <b>Three Months Ended March 31,</b> |                  |              | <b>2017</b>      |                  |              |
|-------------------------------------------------|-------------------------------------|------------------|--------------|------------------|------------------|--------------|
|                                                 | <b>2018</b>                         |                  |              | <b>Non-PCI</b>   | <b>PCI</b>       |              |
|                                                 | <b>Non-PCI</b>                      | <b>PCI</b>       | <b>Total</b> | <b>Non-PCI</b>   | <b>PCI</b>       | <b>Total</b> |
|                                                 | <b>Portfolio</b>                    | <b>Portfolio</b> |              | <b>Portfolio</b> | <b>Portfolio</b> |              |
| <i>(Amounts in thousands)</i>                   |                                     |                  |              |                  |                  |              |
| Beginning balance                               | \$19,276                            | \$ -             | \$19,276     | \$17,936         | \$ 12            | \$17,948     |
| Provision for loan losses charged to operations | 495                                 | -                | 495          | 492              | -                | 492          |
| Charge-offs                                     | (698 )                              | -                | (698 )       | (357 )           | -                | (357 )       |
| Recoveries                                      | 427                                 | -                | 427          | 375              | -                | 375          |
| Net (charge-offs) recoveries                    | (271 )                              | -                | (271 )       | 18               | -                | 18           |
| Ending balance                                  | \$19,500                            | \$ -             | \$19,500     | \$18,446         | \$ 12            | \$18,458     |

*Deposits*

Total deposits as of March 31, 2018, increased \$50.73 million, or 2.63%, compared to December 31, 2017. Noninterest-bearing deposits increased \$6.34 million; interest-bearing deposits increased \$45.19 million; and savings deposits, which include money market accounts and savings accounts, increased \$11.10 million; while time deposits, which include certificates of deposit and individual retirement accounts, decreased \$11.90 million as of March 31, 2018, compared to December 31, 2017.

*Borrowings*

Total borrowings as of March 31, 2018, decreased \$971 thousand, or 1.21%, compared to December 31, 2017. Short-term borrowings consisted of retail repurchase agreements, which decreased \$971 thousand, or 19.09%, while the weighted average rate increased 2 basis points to 0.09% as of March 31, 2018, compared to December 31, 2017.

Long-term borrowings consisted of a wholesale repurchase agreement and a convertible FHLB advance as of March 31, 2018. The wholesale repurchase agreement totaled \$25.00 million with a weighted average contractual rate of 3.18% as of March 31, 2018, and December 31, 2017. Long-term FHLB borrowings totaled \$50.00 million with a weighted average contractual rate of 4.00% as of March 31, 2018, and December 31, 2017.

*Liquidity and Capital Resources*

### *Liquidity*

Liquidity is a measure of our ability to convert assets to cash or raise cash to meet financial obligations. We believe that liquidity management should encompass an overall balance sheet approach that draws together all sources and uses of liquidity. Poor or inadequate liquidity risk management may result in a funding deficit that could have a material impact on our operations. We maintain a liquidity risk management policy and contingency funding policy (“Liquidity Plan”) to detect potential liquidity issues and protect our depositors, creditors, and shareholders. The Liquidity Plan includes various internal and external indicators that are reviewed on a recurring basis by our Asset/Liability Management Committee (“ALCO”) of the Board of Directors. ALCO reviews liquidity risk exposure and policies related to liquidity management; ensures that systems and internal controls are consistent with liquidity policies; and provides accurate reports about liquidity needs, sources, and compliance. The Liquidity Plan involves ongoing monitoring and estimation of potentially credit sensitive liabilities and the sources and amounts of balance sheet and external liquidity available to replace outflows during a funding crisis. The liquidity model incorporates various funding crisis scenarios and a specific action plan is formulated, and activated, when a financial shock that affects our normal funding activities is identified. Generally, the plan will reflect a strategy of replacing liability outflows with alternative liabilities, rather than balance sheet asset liquidity, to the extent that significant premiums can be avoided. If alternative liabilities are not available, outflows will be met through liquidation of balance sheet assets, including unpledged securities.

As a financial holding company, the Company’s primary source of liquidity is dividends received from the Bank, which are subject to certain regulatory limitations. Other sources of liquidity include cash, investment securities, and borrowings. As of March 31, 2018, the Company’s cash reserves totaled \$33.90 million and availability on an unsecured, committed line of credit with an unrelated financial institution totaled \$15.00 million. There was no outstanding balance on the line of credit as of March 31, 2018. The Company’s cash reserves and investments provide adequate working capital to meet obligations, projected dividends to shareholders, and anticipated debt repayments for the next twelve months.

Table of Contents

In addition to cash on hand and deposits with other financial institutions, we rely on customer deposits, cash flows from loans and investment securities, and lines of credit from the FHLB and the Federal Reserve Bank (“FRB”) Discount Window to meet potential liquidity demands. These sources of liquidity are immediately available to satisfy deposit withdrawals, customer credit needs, and our operations. Secondary sources of liquidity include approved lines of credit with correspondent banks and unpledged available-for-sale securities. As of March 31, 2018, our unencumbered cash totaled \$205.14 million, unused borrowing capacity from the FHLB totaled \$392.85 million, available credit from the FRB Discount Window totaled \$6.15 million, available lines from correspondent banks totaled \$90.00 million, and unpledged available-for-sale securities totaled \$122.75 million.

*Cash Flows*

The following table summarizes the components of cash flow for the periods indicated:

|                                              | <b>Three Months<br/>Ended March 31,</b> |             |
|----------------------------------------------|-----------------------------------------|-------------|
|                                              | <b>2018</b>                             | <b>2017</b> |
| <i>(Amounts in thousands)</i>                |                                         |             |
| Net cash provided by operating activities    | \$10,833                                | \$10,688    |
| Net cash provided by investing activities    | 3,174                                   | 26,280      |
| Net cash provided by financing activities    | 33,182                                  | 39,576      |
| Net increase in cash and cash equivalents    | 47,189                                  | 76,544      |
| Cash and cash equivalents, beginning balance | 157,951                                 | 76,307      |
| Cash and cash equivalents, ending balance    | \$205,140                               | \$152,851   |

Cash and cash equivalents increased \$47.19 million for the three months ended March 31, 2018, compared to an increase of \$76.54 million for the same period of the prior year. The \$29.36 million decrease was primarily due to a \$23.11 million reduction in net cash provided by investing activities from the purchase of available-for-sale securities. Net cash provided by financing activities decreased \$6.39 million largely due to a net decrease in deposit accounts and an increase in cash dividends offset by the absence of repayments of FHLB and other borrowings that occurred during the first quarter of 2017. Net cash provided by operating activities increased \$145 thousand.

*Capital Resources*

We are committed to effectively managing our capital to protect our depositors, creditors, and shareholders. Failure to meet certain capital requirements may result in actions by regulatory agencies that could have a material impact on our operations. Total stockholders’ equity as of March 31, 2018, decreased \$8.68 million, or 2.47%, to \$342.04 million from \$350.71 million as of December 31, 2017. The change in stockholders’ equity was largely due to dividends

declared on our common stock of \$11.18 million, which includes the one-time special dividend, and repurchase of 187,300 shares of our common stock totaling \$5.41 million offset by net income of \$8.87 million. In accordance with current regulatory guidelines, accumulated other comprehensive income/(loss) is largely excluded from stockholders' equity in the calculation of our capital ratios. The accumulated other comprehensive loss increased \$1.64 million to \$2.48 million as of March 31, 2018, compared to December 31, 2017, primarily due to net unrealized losses on securities. Our book value per common share decreased \$0.33, or 1.60%, to \$20.30 as of March 31, 2018, from \$20.63 as of December 31, 2017.

### *Capital Adequacy Requirements*

Risk-based capital guidelines, issued by state and federal banking agencies, include balance sheet assets and off-balance sheet arrangements weighted by the risks inherent in the specific asset type. Our current risk-based capital requirements, based on the international capital standards known as Basel III, became effective on January 1, 2015, subject to a four-year phase-in period. Basel III's capital conservation buffer became effective on January 1, 2016, at 0.625%, and will be phased in over a four-year period (increasing by an additional 0.625% each year until it reaches 2.5% on January 1, 2019). A description of the Basel III capital rules is included in Part I, Item 1 of the 2017 Form 10-K. Our current required capital ratios are as follows:

4.5% Common Equity Tier 1 capital to risk-weighted assets (effectively 5.75% including the capital conservation buffer)

6.0% Tier 1 capital to risk-weighted assets (effectively 7.25% including the capital conservation buffer)

8.0% Total capital to risk-weighted assets (effectively 9.25% including the capital conservation buffer)

4.0% Tier 1 capital to average consolidated assets ("Tier 1 leverage ratio")

Table of Contents

The following table presents our capital ratios as of the dates indicated:

|                                 | <b>March<br/>31, 2018</b> | <b>December<br/>31, 2017</b> |
|---------------------------------|---------------------------|------------------------------|
| <b>The Company</b>              |                           |                              |
| Common equity Tier 1 ratio      | 13.60%                    | 13.98%                       |
| Tier 1 risk-based capital ratio | 13.60%                    | 13.98%                       |
| Total risk-based capital ratio  | 14.70%                    | 15.06%                       |
| Tier 1 leverage ratio           | 10.73%                    | 11.06%                       |
| <b>The Bank</b>                 |                           |                              |
| Common equity Tier 1 ratio      | 11.30%                    | 12.47%                       |
| Tier 1 risk-based capital ratio | 11.30%                    | 12.47%                       |
| Total risk-based capital ratio  | 12.39%                    | 13.55%                       |
| Tier 1 leverage ratio           | 8.90%                     | 9.84%                        |

Our risk-based capital ratios as of March 31, 2018, decreased from December 31, 2017, due to a decrease in Tier 1 and total risk-based capital. As of March 31, 2018, we continued to meet all capital adequacy requirements and were classified as well-capitalized under the regulatory framework for prompt corrective action. Management believes there have been no conditions or events since those notifications that would change the Bank's classification. Additionally, our capital ratios were in excess of the minimum standards under the Basel III capital rules on a fully phased-in basis, if such requirements were in effect, as of March 31, 2018.

**Off-Balance Sheet Arrangements**

We extend contractual commitments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. Our exposure to credit loss in the event of nonperformance by other parties to financial instruments is the same as the contractual amount of the instrument.

The following table presents our off-balance sheet arrangements as of the dates indicated:

|                                              | <b>March<br/>31, 2018</b> | <b>December<br/>31, 2017</b> |
|----------------------------------------------|---------------------------|------------------------------|
| <i>(Amounts in thousands)</i>                |                           |                              |
| Commitments to extend credit                 | \$ 230,601                | \$ 243,147                   |
| Financial letters of credit                  | 918                       | 250                          |
| Performance letters of credit <sup>(1)</sup> | 134,575                   | 131,337                      |
| Total off-balance sheet risk                 | \$ 366,094                | \$ 374,734                   |
| Reserve for unfunded commitments             | \$ 66                     | \$ 66                        |

(1) Includes FHLB letters of credit

**Market Risk and Interest Rate Sensitivity**

Market risk represents the risk of loss due to adverse changes in current and future cash flows, fair values, earnings, or capital due to movements in interest rates and other factors. Our profitability is largely dependent upon net interest income, which is subject to variation due to changes in the interest rate environment and unbalanced repricing opportunities. We are subject to interest rate risk when interest-earning assets and interest-bearing liabilities reprice at differing times, when underlying rates change at different levels or in varying degrees, when there is an unequal change in the spread between two or more rates for different maturities, and when embedded options, if any, are exercised. ALCO reviews our mix of assets and liabilities with the goal of limiting exposure to interest rate risk, ensuring adequate liquidity, and coordinating sources and uses of funds while maintaining an acceptable level of net interest income given the current interest rate environment. ALCO is also responsible for overseeing the formulation and implementation of policies and strategies to improve balance sheet positioning and mitigate the effect of interest rate changes.

In order to manage our exposure to interest rate risk, we periodically review third-party and internal simulation models that project net interest income at risk, which measures the impact of different interest rate scenarios on net interest income, and the economic value of equity at risk, which measures potential long-term risk in the balance sheet by valuing our assets and liabilities at fair value under different interest rate scenarios. Simulation results show the existence and severity of interest rate risk in each scenario based on our current balance sheet position, assumptions about changes in the volume and mix of interest-earning assets and interest-bearing liabilities, and estimated yields

earned on assets and rates paid on liabilities. The simulation model provides the best tool available to us and the industry for managing interest rate risk; however, the model cannot precisely predict the impact of fluctuations in interest rates on net interest income due to the use of significant estimates and assumptions. Actual results will differ from simulated results due to the timing, magnitude, and frequency of interest rate changes; changes in market conditions and customer behavior; and changes in our strategies that management might undertake in response to a sudden and sustained rate shock.

Table of Contents

During the first quarter of 2018, the Federal Open Market Committee increased the benchmark federal funds rate to a range of 150 to 175 basis points. The following table presents the sensitivity of net interest income from immediate and sustained rate shocks in various interest rate scenarios over a twelve-month period for the periods indicated. Due to the current target rate, we do not reflect a decrease of more than 100 basis points from current rates in our analysis.

|                                     | March 31, 2018                |                |   | December 31, 2017             |                |   |
|-------------------------------------|-------------------------------|----------------|---|-------------------------------|----------------|---|
|                                     | Change in Net Interest Income | Percent Change |   | Change in Net Interest Income | Percent Change |   |
| Increase (Decrease) in Basis Points |                               |                |   |                               |                |   |
| <i>(Dollars in thousands)</i>       |                               |                |   |                               |                |   |
| 300                                 | \$5,122                       | 5.9            | % | \$3,759                       | 4.3            | % |
| 200                                 | 3,642                         | 4.2            | % | 2,756                         | 3.2            | % |
| 100                                 | 1,966                         | 2.3            | % | 1,535                         | 1.8            | % |
| (100)                               | (4,847)                       | -5.6           | % | (4,405)                       | -5.1           | % |

We have established policy limits for tolerance of interest rate risk in various interest rate scenarios and exposure limits to changes in the economic value of equity. As of March 31, 2018, exposure to interest rate risk is within our defined policy limits.

The Company primarily uses derivative instruments to manage exposure to market risk and meet customer financing needs. As of March 31, 2018, we maintained interest rate swap agreements with notional amounts totaling \$5.73 million to modify our exposure to interest rate risk caused by changes in the LIBOR curve in relation to certain designated fixed rate loans. The fair values of the swap agreements, which are accounted for as fair value hedges, were recorded as a derivative asset totaling \$45 thousand as of March 31, 2018, and a derivative liability totaling \$90 thousand as of December 31, 2017. For additional information, see Note 9, "Derivative Instruments and Hedging Activities," to the Condensed Consolidated Financial Statements in Item 1 of this report.

***Inflation and Changing Prices***

Our consolidated financial statements and related notes are presented in accordance with GAAP, which requires the measurement of results of operations and financial position in historical dollars. Inflation may cause a rise in price levels and changes in the relative purchasing power of money. These inflationary effects are not reflected in historical dollar measurements. The primary effect of inflation on our operations is increased operating costs. In management's opinion, interest rates have a greater impact on our financial performance than inflation. Interest rates do not necessarily fluctuate in the same direction, or to the same extent, as the price of goods and services; therefore, the effect of inflation on businesses with large investments in property, plant, and inventory is generally more significant

than the effect on financial institutions. The U.S. inflation rate continues to be relatively stable, and management believes that any changes in inflation will not be material to our financial performance.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

The information required in this item is incorporated by reference to “Market Risk and Interest Rate Sensitivity” in Item 1 of this report.

### **Item 4. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

In connection with this report, we conducted an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), of the effectiveness of our disclosure controls and procedures under the Exchange Act Rule 13a-15(b). Based upon that evaluation, the CEO and CFO concluded that, as of March 31, 2018, our disclosure controls and procedures were effective.

Disclosure controls and procedures are our Company’s controls and other procedures that are designed to ensure that information we are required to disclose in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information we are required to disclose in the reports that we file or submit under the Exchange Act is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions about required disclosure.

Table of Contents

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

**Changes in Internal Control over Financial Reporting**

We assess the adequacy of our internal control over financial reporting quarterly and enhance our controls in response to internal control assessments and internal and external audit and regulatory recommendations. There were no changes in our internal control over financial reporting during the quarter ended March 31, 2018, that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**ITEM 1. Legal Proceedings**

We are currently a defendant in various legal actions and asserted claims in the normal course of business. Although we are unable to assess the ultimate outcome of each matter with certainty, we believe that the resolution of these actions should not have a material adverse effect on our financial position, results of operations, or cash flows.

**ITEM 1A. Risk  
Factors**

Our risk factors discuss potential events, trends, or other circumstances that could adversely affect our business, financial condition, results of operations, cash flows, liquidity, access to capital resources, and, consequently, cause the market value of our common stock to decline. These risks could cause our future results to differ materially from historical results and expectations of future financial performance. If any of the risks occur and the market price of our common stock declines significantly, individuals may lose all, or part, of their investment in our Company. Individuals should carefully consider our risk factors and information included, or incorporated by reference, in this report before making an investment decision. There may be risks and uncertainties that we have not identified or that we have deemed immaterial that could adversely affect our business; therefore, the following risk factors are not intended to be an exhaustive list of all risks we face. There have been no material changes to the risk factors included in Part I, Item 1A, "Risk Factors," of our 2017 Form 10-K.

**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

(a) Not Applicable

(b) Not Applicable

(c) Issuer Purchases of Equity Securities

We repurchased 187,300 shares of our common stock during the first quarter of 2018 compared to 6,800 shares during the same quarter of 2017.

Table of Contents

The following table provides information about purchases of our common stock made by us or on our behalf by any affiliated purchaser, as defined in Rule 10b-18(a)(3) under the Exchange Act, during the periods indicated:

|                     | <b>Total<br/>Number<br/>of<br/>Shares<br/>Purchased</b> | <b>Average<br/>Price<br/>Paid<br/>per<br/>Share</b> | <b>Total<br/>Number of<br/>Shares<br/>Purchased<br/>as Part of a<br/>Publicly<br/>Announced<br/>Plan</b> | <b>Maximum<br/>Number of<br/>Shares<br/>that May<br/>Yet be<br/>Purchased<br/>Under the<br/>Plan<sup>(1)</sup></b> |
|---------------------|---------------------------------------------------------|-----------------------------------------------------|----------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|
| January 1-31, 2018  | 5,750                                                   | \$ 27.53                                            | 5,750                                                                                                    | 611,827                                                                                                            |
| February 1-28, 2018 | 47,850                                                  | 27.34                                               | 47,850                                                                                                   | 563,977                                                                                                            |
| March 1-31, 2018    | 133,700                                                 | 29.48                                               | 133,700                                                                                                  | 465,673                                                                                                            |
| Total               | 187,300                                                 | \$ 28.87                                            | 187,300                                                                                                  |                                                                                                                    |

Our stock repurchase plan, as amended, authorizes the purchase and retention of up to 5,000,000 shares. The plan (1) has no expiration date and is currently in effect. No determination has been made to terminate the plan or to cease making purchases. We held 4,534,327 shares in treasury as of March 31, 2018.

**ITEM 3. Defaults Upon Senior Securities**

None.

**ITEM 4. Mine Safety Disclosures**

None.

**ITEM 5. Other Information**

None.



Table of Contents**ITEM 6. Exhibits**

| <b>Exhibit No.</b> | <b>Exhibit Description</b>                                                                                                            | <b>Exhibit No.</b> | <b>Form</b>                                    | <b>Dated</b> | <b>Filed</b> | <b>Filed Herewith</b> |
|--------------------|---------------------------------------------------------------------------------------------------------------------------------------|--------------------|------------------------------------------------|--------------|--------------|-----------------------|
| 2.1                | <u>Agreement and Plan of Reincorporation and Merger between First Community Bancshares, Inc. and First Community Bankshares, Inc.</u> | Appendix A         | the Definitive Proxy Statement on Form DEF 14A | 4/24/2018    | 3/13/2018    |                       |
| 3.1                | <u>Articles of Incorporation of First Community Bancshares, Inc., as amended</u>                                                      | 3(i)               | Form 10-Q                                      | 6/30/2010    | 8/16/2010    |                       |
| 3.2                | <u>Amended and Restated Bylaws of First Community Bancshares, Inc.</u>                                                                | 3.1                | Form 8-K                                       | 2/23/2016    | 2/25/2016    |                       |
| 4.1                | <u>Specimen stock certificate of First Community Bancshares, Inc.</u>                                                                 | 4.1                | Form 10-K                                      | 12/31/2002   | 3/25/2003    |                       |
| 10.1.1**           | <u>First Community Bancshares, Inc. 1999 Stock Option Plan</u>                                                                        | 10.1               | Form 10-K/A                                    | 12/31/1999   | 4/13/2000    |                       |
| 10.1.2**           | <u>Amendment One to the First Community Bancshares, Inc. 1999 Stock Option Plan</u>                                                   | 10.1.1             | Form 10-Q                                      | 3/31/2004    | 5/7/2004     |                       |
| 10.2**             | <u>First Community Bancshares, Inc. 1999 Stock Option Agreement</u>                                                                   | 10.5               | Form 10-Q                                      | 6/30/2002    | 8/14/2002    |                       |
| 10.3**             | <u>First Community Bancshares, Inc. 2001 Nonqualified Director Stock Option Agreement</u>                                             | 10.4               | Form 10-Q                                      | 6/30/2002    | 8/14/2002    |                       |
| 10.4**             | <u>First Community Bancshares, Inc. 2004 Omnibus Stock Option Plan</u>                                                                | Annex B            | the Definitive Proxy Statement on Form DEF 14A | 4/27/2004    | 3/15/2004    |                       |
| 10.5**             | <u>First Community Bancshares, Inc. 2004 Omnibus Stock Option Plan Stock Award Agreement</u>                                          | 10.13              | Form 10-Q                                      | 6/30/2004    | 8/6/2004     |                       |
| 10.6**             | <u>First Community Bancshares, Inc. 2012 Omnibus Equity Compensation Plan</u>                                                         | Appendix B         | the Definitive Proxy Statement on Form DEF 14A | 4/24/2012    | 3/7/2012     |                       |
| 10.7**             | <u>First Community Bancshares, Inc. 2012 Omnibus Equity Compensation Plan Restricted Stock Grant Agreement</u>                        | 99.1               | Form 8-K                                       | 5/28/2013    | 5/28/2013    |                       |
| 10.8**             | <u>First Community Bancshares, Inc. Life Insurance Endorsement Method Split Dollar Plan and Agreement</u>                             | 10.5               | Form 10-K/A                                    | 12/31/1999   | 4/13/2000    |                       |
| 10.9.1**           | <u>First Community Bancshares, Inc. and Affiliates Executive Retention Plan</u>                                                       | 10.1               | Form 8-K                                       | 12/30/2008   | 1/5/2009     |                       |
| 10.9.2**           | <u>Amendment #1 to the First Community Bancshares, Inc. and Affiliates</u>                                                            | 10.3               | Form 8-K                                       | 12/16/2010   | 12/17/2010   |                       |

Edgar Filing: FIRST COMMUNITY BANCSHARES INC /NV/ - Form 10-Q

|           |                                                 |                                                                                                         |          |            |            |
|-----------|-------------------------------------------------|---------------------------------------------------------------------------------------------------------|----------|------------|------------|
|           | <u>Executive Retention Plan</u>                 |                                                                                                         |          |            |            |
|           | <u>Amendment #2 to the First Community</u>      |                                                                                                         |          |            |            |
| 10.9.3**  | <u>Bancshares, Inc. and Affiliates</u>          | 10.1                                                                                                    | Form 8-K | 2/21/2013  | 2/25/2013  |
|           | <u>Executive Retention Plan</u>                 |                                                                                                         |          |            |            |
|           | <u>Amendment #3 to the First Community</u>      |                                                                                                         |          |            |            |
| 10.9.4**  | <u>Bancshares, Inc. and Affiliates</u>          | 10.1                                                                                                    | Form 8-K | 5/24/2016  | 5/31/2016  |
|           | <u>Executive Retention Plan</u>                 |                                                                                                         |          |            |            |
|           | <u>Amendment #4 to the First Community</u>      |                                                                                                         |          |            |            |
| 10.9.5**  | <u>Bancshares, Inc. and Affiliates</u>          | 10.1                                                                                                    | Form 8-K | 2/28/2017  | 2/28/2017  |
|           | <u>Executive Retention Plan</u>                 |                                                                                                         |          |            |            |
|           | <u>Amended and Restated Deferred</u>            |                                                                                                         |          |            |            |
| 10.10**   | <u>Compensation Plan for Directors of</u>       | 99.2                                                                                                    | Form 8-K | 8/22/2006  | 8/23/2006  |
|           | <u>First Community Bancshares, Inc. and</u>     |                                                                                                         |          |            |            |
|           | <u>Affiliates</u>                               |                                                                                                         |          |            |            |
|           | <u>First Community Bancshares, Inc.</u>         |                                                                                                         |          |            |            |
| 10.11.1** | <u>Amended and Restated Nonqualified</u>        | 99.1                                                                                                    | Form 8-K | 8/22/2006  | 8/23/2006  |
|           | <u>Supplemental Cash or Deferred</u>            |                                                                                                         |          |            |            |
|           | <u>Retirement Plan</u>                          |                                                                                                         |          |            |            |
|           | <u>Amendment #2 to the First Community</u>      |                                                                                                         |          |            |            |
| 10.11.2** | <u>Bancshares, Inc. Amended and Restated</u>    | 10.2                                                                                                    | Form 8-K | 2/28/2017  | 2/28/2017  |
|           | <u>Nonqualified Supplemental Cash or</u>        |                                                                                                         |          |            |            |
|           | <u>Deferred Retirement Plan</u>                 |                                                                                                         |          |            |            |
|           | <u>First Community Bancshares, Inc.</u>         |                                                                                                         |          |            |            |
| 10.12.1** | <u>Supplemental Directors Retirement</u>        | 10.1                                                                                                    | Form 8-K | 12/16/2010 | 12/17/2010 |
|           | <u>Plan, as amended and restated</u>            |                                                                                                         |          |            |            |
|           | <u>Amendment #2 to the First Community</u>      |                                                                                                         |          |            |            |
| 10.12.2** | <u>Bancshares, Inc. Supplemental</u>            | 10.2                                                                                                    | Form 8-K | 5/24/2016  | 5/31/2016  |
|           | <u>Directors Retirement Plan, as amended</u>    |                                                                                                         |          |            |            |
|           | <u>and restated</u>                             |                                                                                                         |          |            |            |
|           | <u>Employment Agreement between First</u>       |                                                                                                         |          |            |            |
| 10.13**   | <u>Community Bancshares, Inc. and David</u>     | 10.3                                                                                                    | Form 8-K | 4/16/2015  | 4/16/2015  |
|           | <u>D. Brown</u>                                 |                                                                                                         |          |            |            |
|           | <u>Employment Agreement between First</u>       |                                                                                                         |          |            |            |
| 10.14**   | <u>Community Bancshares, Inc. and E.</u>        | 10.5                                                                                                    | Form 8-K | 4/16/2015  | 4/16/2015  |
|           | <u>Stephen Lilly</u>                            |                                                                                                         |          |            |            |
|           | <u>Employment Agreement between First</u>       |                                                                                                         |          |            |            |
| 10.15**   | <u>Community Bancshares, Inc. and Gary</u>      | 10.2                                                                                                    | Form 8-K | 4/16/2015  | 4/16/2015  |
|           | <u>R. Mills</u>                                 |                                                                                                         |          |            |            |
|           | <u>Employment Agreement between First</u>       |                                                                                                         |          |            |            |
| 10.16**   | <u>Community Bancshares, Inc. and</u>           | 10.1                                                                                                    | Form 8-K | 4/16/2015  | 4/16/2015  |
|           | <u>William P. Stafford, II</u>                  |                                                                                                         |          |            |            |
|           | <u>Employment Agreement between First</u>       |                                                                                                         |          |            |            |
| 10.17**   | <u>Community Bank and Mark R. Evans</u>         | 2.1                                                                                                     | Form 8-K | 4/2/2009   | 4/3/2009   |
| 11        | <u>Statement Regarding Computation of</u>       | Note 13 of the Notes to Condensed Consolidated<br>Financial Statements in Part I, Item 1 of this report |          |            |            |
|           | <u>Earnings per Share</u>                       |                                                                                                         |          |            |            |
|           | <u>Certification of Chief Executive Officer</u> |                                                                                                         |          |            |            |
| 31.1*     | <u>pursuant to Section 302 of the</u>           |                                                                                                         |          |            | X          |
|           | <u>Sarbanes-Oxley Act of 2002</u>               |                                                                                                         |          |            |            |
|           | <u>Certification of Chief Financial Officer</u> |                                                                                                         |          |            |            |
| 31.2*     | <u>pursuant to Section 302 of the</u>           |                                                                                                         |          |            | X          |
|           | <u>Sarbanes-Oxley Act of 2002</u>               |                                                                                                         |          |            |            |

|        |                                                                                                                                                   |   |
|--------|---------------------------------------------------------------------------------------------------------------------------------------------------|---|
| 32*    | <u>Certification of Chief Executive Officer<br/>and Chief Financial Officer pursuant to<br/>Section 906 of the Sarbanes-Oxley Act<br/>of 2002</u> | X |
| 101*** | Interactive data files pursuant to Rule<br>405 of Regulation S-T                                                                                  | X |

\* Filed herewith

\*\* Indicates a management contract or  
compensation plan or agreement

\*\*\* Submitted electronically herewith

Table of Contents

**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, thereunto duly authorized, on the 4<sup>th</sup> day of May, 2018.

First Community Bancshares, Inc.

(Registrant)

/s/ William P. Stafford, II

William P. Stafford, II  
Chief Executive Officer  
(Principal Executive Officer)

/s/ David D. Brown

David D. Brown  
Chief Financial Officer  
(Principal Accounting Officer)