

FIRST COMMUNITY BANKSHARES INC /VA/  
Form 10-Q  
November 02, 2018

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

**FORM  
10-Q**

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

For the quarterly  
period ended  
**September 30,  
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  
BANKSHARES,  
INC.**

(Exact name of  
registrant as  
specified in its  
charter)

**Virginia 55-0694814**

(State

or

other (IRS

jurisdiction Employer

of Identification

incorporation No.)

or

organization)

**P.O.**

**Box**

**989**

**24605-0989**

**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 filer	Accelerated 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  
October 26,  
2018, there  
were  
16,285,370  
shares  
outstanding  
of the  
registrant's  
Common  
Stock,  
\$1.00 par  
value.

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BANKSHARES,  
INC.  
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**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.

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COMMUNITY  
BANKSHARES,  
INC.  
CONDENSED  
CONSOLIDATED  
BALANCE  
SHEETS**

	<b>September 30, 2018</b>	<b>December 31, 2017<sup>(1)</sup></b>
	(Unaudited)	
<i>(Amounts in thousands, except share and per share data)</i>		
<b>Assets</b>		
Cash and due from banks	\$44,719	\$37,115
Federal funds sold	27,965	119,891
Interest-bearing deposits in banks	995	945
Total cash and cash equivalents	73,679	157,951
Debt securities available for sale	163,593	165,525
Debt securities held to maturity	25,047	25,149
Loans held for investment, net of unearned income (including covered loans of \$20,483 and \$27,948)	1,790,909	1,817,184
Allowance for loan losses	(18,256 )	(19,276 )
Loans held for investment, net	1,772,653	1,797,908
FDIC indemnification asset	5,653	7,161
Premises and equipment, net	45,537	48,126
Other real estate owned (including covered OREO of \$44 and \$105)	4,798	2,514
Interest receivable	5,374	5,778
Goodwill	94,287	95,779
Other intangible assets	5,366	6,151
Other assets	73,701	76,418
Total assets	\$2,269,688	\$2,388,460
<b>Liabilities</b>		
Deposits		
Noninterest-bearing	\$463,945	\$454,143
Interest-bearing	1,411,906	1,475,748
Total deposits	1,875,851	1,929,891
Securities sold under agreements to repurchase	30,151	30,086
FHLB borrowings	-	50,000



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Interest, taxes, and other liabilities	25,284	27,769
Total liabilities	1,931,286	2,037,746
<b>Stockholders' equity</b>		
Preferred stock, undesignated par value; 1,000,000 shares authorized; Series A		
Noncumulative Convertible Preferred Stock, \$0.01 par value; 25,000 shares authorized; none outstanding	-	-
Common stock, \$1 par value; 50,000,000 shares authorized; 21,381,779 shares issued at September 30, 2018, and December 31, 2017; 4,991,277 and 4,383,553 shares in treasury at September 30, 2018, and December 31, 2017, respectively	21,382	21,382
Additional paid-in capital	229,182	228,750
Retained earnings	189,902	180,543
Treasury stock, at cost	(99,247 )	(79,121 )
Accumulated other comprehensive loss	(2,817 )	(840 )
Total stockholders' equity	338,402	350,714
Total liabilities and stockholders' equity	\$2,269,688	\$2,388,460
(1) Derived from audited financial statements		

*See Notes to Condensed Consolidated Financial Statements.*

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<i>(Amounts in thousands, except share and per share data)</i>				
<b>Interest income</b>				
Interest and fees on loans	\$22,556	\$22,694	\$67,733	\$67,435
Interest on securities -- taxable	666	341	1,704	1,157
Interest on securities -- tax-exempt	706	739	2,133	2,299
Interest on deposits in banks	358	275	1,343	655
Total interest income	24,286	24,049	72,913	71,546
<b>Interest expense</b>				
Interest on deposits	1,269	1,275	3,847	3,674
Interest on short-term borrowings	204	213	606	634
Interest on long-term debt	488	511	1,494	1,753
Total interest expense	1,961	1,999	5,947	6,061
<b>Net interest income</b>	<b>22,325</b>	<b>22,050</b>	<b>66,966</b>	<b>65,485</b>
Provision for loan losses	495	730	1,485	2,156
<b>Net interest income after provision for loan losses</b>	<b>21,830</b>	<b>21,320</b>	<b>65,481</b>	<b>63,329</b>
<b>Noninterest income</b>				
Wealth management	791	758	2,408	2,339
Service charges on deposits	3,803	3,605	10,883	10,078
Other service charges and fees	1,925	1,709	5,716	5,156
Insurance commissions	299	306	966	1,004
Net loss on sale of securities	(618)	) -	(618)	) (657)
Net FDIC indemnification asset amortization	(645)	) (268)	) (1,602)	) (3,186)
Other operating income	964	593	2,393	2,336
Total noninterest income	6,519	6,703	20,146	17,070
<b>Noninterest expense</b>				
Salaries and employee benefits	8,983	9,001	27,417	26,771
Occupancy expense	1,075	1,082	3,408	3,671
Furniture and equipment expense	985	1,133	2,976	3,311
Service fees	1,134	705	2,813	2,645
Advertising and public relations	478	551	1,461	1,700
Professional fees	337	339	1,074	1,978
Amortization of intangibles	261	266	785	790
FDIC premiums and assessments	234	227	697	698
Loss on extinguishment of debt	1,096	-	1,096	-

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Goodwill impairment	1,492	-	1,492	-
Other operating expense	2,056	3,173	9,188	8,655
Total noninterest expense	18,131	16,477	52,407	50,219
Income before income taxes	10,218	11,546	33,220	30,180
Income tax expense	1,118	3,894	6,186	9,908
<b>Net income</b>	<b>9,100</b>	<b>7,652</b>	<b>27,034</b>	<b>20,272</b>
Earnings per common share				
Basic	\$0.55	\$0.45	\$1.62	\$1.19
Diluted	0.55	0.45	1.61	1.19
Cash dividends per common share	0.21	0.18	1.05	0.50
Weighted average shares outstanding				
Basic	16,512,823	17,005,654	16,717,704	17,005,350
Diluted	16,612,416	17,082,729	16,810,425	17,076,958

*See Notes to Condensed Consolidated Financial Statements.*

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

	<b>Three Months Ended September 30, 2018</b>		<b>Nine Months Ended September 30, 2018</b>	
	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>
<i>(Amounts in thousands)</i>				
<b>Net income</b>	\$9,100	\$7,652	\$27,034	\$20,272
<b>Other comprehensive income, before tax</b>				
Available-for-sale debt securities:				
Change in net unrealized (losses) gains on debt securities without other-than-temporary impairment	(983 )	(169 )	(3,426 )	2,127
Reclassification adjustment for net losses recognized in net income	618	-	618	