

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, 2024**
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

(State or other jurisdiction of incorporation or organization)

55-0694814

(IRS Employer Identification No.)

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

(Address of principal executive offices)

24605-0989

(Zip Code)

(276) 326-9000

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock (\$1.00 par value)	FCBC	NASDAQ Global Select

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 every Interactive Data File required to be submitted 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 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 ☐

Non-accelerated filer ☐

Accelerated filer ☒

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 29, 2024, there were 18,290,938 shares outstanding of the registrant's Common Stock, \$1.00 par value.

FIRST COMMUNITY BANKSHARES, INC.
FORM 10-Q
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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:

- inflation, interest rate, market and monetary fluctuations;
- 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;
- 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;
- 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;
- technological changes;
- the cost and effects of cyber incidents or other failures, interruptions, or security breaches of our systems or those of third-party providers;
- the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board, and other accounting standard setters;
- the effect of acquisitions, including, without limitation, the failure to achieve the expected revenue growth and/or expense savings from such acquisitions;
- the sustainability 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 Quarterly Report on Form 10-Q and Part I, Item 1A, "Risk Factors," of the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2024 (Unaudited)	December 31, 2023(1)
<i>(Amounts in thousands, except share and per share data)</i>		
Assets		
Cash and due from banks	\$ 89,068	\$ 77,563
Federal funds sold	224,378	37,312
Interest-bearing deposits in banks	1,892	1,545
Total cash and cash equivalents	315,338	116,420
Debt securities available-for-sale, at fair value	166,669	280,961
Loans held for investment, net of unearned income	2,444,113	2,572,298
Allowance for credit losses	(35,118)	(36,189)
Loans held for investment, net	2,408,995	2,536,109
Premises and equipment, net	49,654	50,680
Other real estate owned	346	192
Interest receivable	9,883	10,881
Goodwill	143,946	143,946
Other intangible assets	13,550	15,145
Other assets	115,980	114,211
Total assets	<u>\$ 3,224,361</u>	<u>\$ 3,268,545</u>
Liabilities		
Deposits		
Noninterest-bearing	\$ 869,723	\$ 931,920
Interest-bearing	1,789,530	1,790,405
Total deposits	2,659,253	2,722,325
Securities sold under agreements to repurchase	954	1,119
Interest, taxes, and other liabilities	43,460	41,807
Total liabilities	2,703,667	2,765,251
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; 27,568,383 shares issued and 18,290,938 outstanding at September 30, 2024; 27,522,547 shares issued and 18,502,396 outstanding at December 31, 2023	18,291	18,502
Additional paid-in capital	168,691	175,841
Retained earnings	342,121	319,902
Accumulated other comprehensive loss	(8,409)	(10,951)
Total stockholders' equity	520,694	503,294
Total liabilities and stockholders' equity	<u>\$ 3,224,361</u>	<u>\$ 3,268,545</u>

(1) Derived from audited financial statements

See Notes to Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
<i>(Amounts in thousands, except share and per share data)</i>				
Interest income				
Interest and fees on loans	\$ 32,120	\$ 33,496	\$ 98,234	\$ 93,051
Interest on securities -- taxable	961	1,765	3,613	5,597
Interest on securities -- tax-exempt	109	147	366	471
Interest on deposits in banks	3,702	697	7,497	2,044
Total interest income	36,892	36,105	109,710	101,163
Interest expense				
Interest on deposits	5,298	2,758	14,540	5,406
Interest on short-term borrowings	-	-	35	136
Total interest expense	5,298	2,758	14,575	5,542
Net interest income	31,594	33,347	95,135	95,621
Provision for credit losses	1,360	1,109	2,515	6,956
Net interest income after provision for credit losses	30,234	32,238	92,620	88,665
Noninterest income				
Wealth management	1,071	1,145	3,234	3,127
Service charges on deposits	3,661	3,729	10,399	10,359
Other service charges and fees	3,697	3,564	10,817	10,106
Gain on sale of securities	-	-	-	(21)
Other operating income	2,023	1,184	4,603	3,419
Total noninterest income	10,452	9,622	29,053	26,990
Noninterest expense				
Salaries and employee benefits	13,129	12,673	38,201	36,954
Occupancy expense	1,270	1,271	3,957	3,715
Furniture and equipment expense	1,574	1,480	4,806	4,389
Service fees	2,461	2,350	7,337	6,653
Advertising and public relations	967	968	2,696	2,457
Professional fees	221	172	923	780
Amortization of intangibles	536	536	1,596	1,195
FDIC premiums and assessments	365	392	1,098	1,135
Merger expenses	-	-	-	2,393
Litigation expense	-	-	1,800	-
Other operating expense	3,654	3,071	10,046	8,726
Total noninterest expense	24,177	22,913	72,460	68,397
Income before income taxes	16,509	18,947	49,213	47,258
Income tax expense	3,476	4,307	10,649	11,022
Net income	\$ 13,033	\$ 14,640	\$ 38,564	\$ 36,236
Earnings per common share				
Basic	\$ 0.71	\$ 0.78	\$ 2.10	\$ 2.03
Diluted	0.71	0.79	2.09	2.06
Weighted average shares outstanding				
Basic	18,279,612	18,786,032	18,366,249	17,816,505
Diluted	18,371,907	18,831,836	18,432,023	17,857,494

See Notes to Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
<i>(Amounts in thousands)</i>				
Net income	\$ 13,033	\$ 14,640	\$ 38,564	\$ 36,236
Other comprehensive income (loss), before tax				
Available-for-sale debt securities:				
Change in net unrealized gains (losses) gains on debt securities	5,070	(3,776)	3,218	(2,206)
Reclassification adjustment for loss recognized in net income	-	-	-	21
Net unrealized gains (losses) on available-for-sale debt securities	5,070	(3,776)	3,218	(2,185)
Employee benefit plans:				
Net actuarial loss	(10)	(32)	(28)	(95)
Reclassification adjustment for amortization of prior service cost and net actuarial loss recognized in net income	10	32	28	95
Net unrealized gains (losses) on employee benefit plans	-	-	-	-
Other comprehensive income (loss), before tax	5,070	(3,776)	3,218	(2,185)
Income tax expense (benefit) expense	1,065	(793)	676	(460)
Other comprehensive gain (loss), net of tax	4,005	(2,983)	2,542	(1,725)
Total comprehensive income	\$ 17,038	\$ 11,657	\$ 41,106	\$ 34,511

See Notes to Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)
THREE MONTHS ENDED
September 30, 2024 and 2023

<i>(Amounts in thousands, except share and per share data)</i>	Preferred Stock Outstanding	Preferred Stock	Common Stock Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance July, 1 2023	-	\$ -	18,969,281	\$ 18,969	\$ 189,917	\$ 304,295	\$ (14,461)	\$ 498,720
Net income	-	-	-	-	-	14,640	-	14,640
Other comprehensive income	-	-	-	-	-	-	(2,983)	(2,983)
Common dividends declared -- \$0.29 per share	-	-	-	-	-	(5,446)	-	(5,446)
Equity-based compensation expense	-	-	69	-	82	-	-	82
Common stock options exercised	-	-	1,132	1	22	-	-	23
Repurchase of common shares at \$31.33 per share	-	-	(299,012)	(299)	(9,070)	-	-	(9,369)
Balance September 30, 2023	-	\$ -	18,671,470	\$ 18,671	\$ 180,951	\$ 313,489	\$ (17,444)	\$ 495,667
Balance July, 1 2024	-	\$ -	18,270,273	\$ 18,270	\$ 168,272	\$ 334,756	\$ (12,414)	\$ 508,884
Net income	-	-	-	-	-	13,033	-	13,033
Other comprehensive loss	-	-	-	-	-	-	4,005	4,005
Common dividends declared -- \$0.31 per share	-	-	-	-	-	(5,668)	-	(5,668)
Equity-based compensation expense	-	-	-	-	-	-	-	-
Common stock options exercised	-	-	33,519	34	874	-	-	908
Repurchase of common shares at \$36.48 per share	-	-	(12,854)	(13)	(455)	-	-	(468)
Balance September 30, 2024	-	\$ -	18,290,938	\$ 18,291	\$ 168,691	\$ 342,121	\$ (8,409)	\$ 520,694

See Notes to Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)
NINE MONTHS ENDED
September 30, 2024 and 2023

<i>(Amounts in thousands, except share and per share data)</i>	Preferred Stock Outstanding	Preferred Stock	Common Stock Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance January 1, 2023	-	\$ -	16,225,399	\$ 16,225	\$ 128,508	\$ 292,971	\$ (15,719)	\$ 421,985
Surrey acquisition	-	-	2,996,786	2,997	68,357	-	-	71,354
Net income	-	-	-	-	-	36,236	-	36,236
Other comprehensive income	-	-	-	-	-	-	(1,725)	(1,725)
Common dividends declared -- \$0.87 per share	-	-	-	-	-	(15,718)	-	(15,718)
Equity-based compensation expense	-	-	24,243	25	491	-	-	516
Common stock options exercised	-	-	3,359	3	67	-	-	70
Issuance of common stock to 401(k) plan	-	-	262	-	8	-	-	8
Repurchase of common shares at \$29.48 per share	-	-	(578,579)	(579)	(16,480)	-	-	(17,059)
Balance September 30, 2023	-	\$ -	18,671,470	\$ 18,671	\$ 180,951	\$ 313,489	\$ (17,444)	\$ 495,667
Balance January 1, 2024	-	\$ -	18,502,396	\$ 18,502	\$ 175,841	\$ 319,902	\$ (10,951)	\$ 503,294
Net income	-	-	-	-	-	38,564	-	38,564
Other comprehensive loss	-	-	-	-	-	-	2,542	2,542
Common dividends declared -- \$0.89 per share	-	-	-	-	-	(16,345)	-	(16,345)
Equity-based compensation expense	-	-	9,204	9	394	-	-	403
Common stock options exercised	-	-	36,544	37	913	-	-	950
Issuance of common stock to 401(k) plan	-	-	88	-	3	-	-	3
Repurchase of common shares at \$33.88 per share	-	-	(257,294)	(257)	(8,460)	-	-	(8,717)
Balance September 30, 2024	-	\$ -	18,290,938	\$ 18,291	\$ 168,691	\$ 342,121	\$ (8,409)	\$ 520,694

See Notes to Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Amounts in thousands)	Nine Months Ended September 30,	
	2024	2023
Operating activities		
Net income	\$ 38,564	\$ 36,236
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for credit losses for loans	2,515	6,956
Depreciation and amortization of premises and equipment	3,301	2,934
Accretion of discounts on investments	(465)	(2,263)
Amortization of intangible assets	1,596	1,195
Accretion on acquired loans	(2,035)	(1,951)
Equity-based compensation expense	403	516
Issuance of common stock to 401(k) plan	3	8
Gain on sale of premises and equipment, net	(815)	(190)
Loss on sale of other real estate owned	29	94
Net loss on sale of securities	-	21
Decrease (increase) in accrued interest receivable	998	(1,149)
(Decrease) increase in other operating activities	(1,273)	4,426
Net cash provided by operating activities	42,821	46,833
Investing activities		
Proceeds from sale of securities available-for-sale	-	38,979
Proceeds from maturities, prepayments, and calls of securities available-for-sale	157,962	75,898
Payments to acquire securities available-for-sale	(39,987)	(68,868)
Net decrease in loans	125,706	43,575
Proceeds from the sale (purchase) of FHLB stock, net	265	(876)
Proceeds from bank owned life insurance	585	-
Cash proceeds from merger, net	-	176,684
Proceeds from sale of premises and equipment	1,129	1,828
Payments to acquire premises and equipment	(2,654)	(2,252)
Proceeds from sale of other real estate owned	440	616
Net cash provided by investing activities	243,446	265,584
Financing activities		
Decrease in noninterest-bearing deposits, net	(62,197)	(86,256)
Decrease in interest-bearing deposits, net	(875)	(250,058)
Repayments from securities sold under agreements to repurchase, net	(165)	(845)
Proceeds from stock options exercised	950	70
Payments for repurchase of common stock	(8,717)	(17,059)
Payments of common dividends	(16,345)	(15,718)
Net cash used in financing activities	(87,349)	(369,866)
Net increase (decrease) in cash and cash equivalents	198,918	(57,449)
Cash and cash equivalents at beginning of period	116,420	170,846
Cash and cash equivalents at end of period	\$ 315,338	\$ 113,397
Supplemental disclosure -- cash flow information		
Cash paid for interest	\$ 14,254	\$ 5,297
Cash paid for income taxes	11,002	5,585
Supplemental transactions -- noncash items		
Transfer of loans to other real estate owned	623	270
Loans originated to finance other real estate owned	-	20
Increase (decrease) in other comprehensive income (loss), net of taxes	2,542	(1,725)
Acquisition of Surrey Bancorp	-	See Note 2

See Notes to Condensed Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Basis of Presentation

General

First Community Bankshares, Inc. (the "Company"), a financial holding company, was founded in 1989 and reincorporated under the laws of the Commonwealth of Virginia. The Company's principal executive office is located in 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 offers wealth management and investment advice through its Trust Division and wholly owned subsidiary First Community Wealth Management. Unless the context suggests otherwise, the terms "First Community," "Company," "we," "our," and "us" refer to First Community Bankshares, 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") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. 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, and wealth management. 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, 2023 (the "2023 Form 10-K"), as filed with the Securities and Exchange Commission (the "SEC") on March 8, 2024. The condensed consolidated balance sheet as of December 31, 2023, 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 net 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.

Significant Accounting Policies

The Company's significant accounting policies are 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 2023 Form 10-K.

Recent Accounting Standards

Standards Not Yet Adopted

In December 2023, the FASB issued ASU 2023-09, "Income Taxes (Topic 740)." The amendments in this ASU are related to the rate reconciliation and income taxes paid disclosures and are designed to improve the transparency of income tax disclosures by requiring (1) consistent categories and greater disaggregation of information in the rate reconciliation and (2) income taxes paid disaggregated by jurisdiction. Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance. The adoption of this pronouncement is not expected to have a material impact on the Consolidated Financial Statements.

The Company has not yet adopted any new accounting standards in 2024 that have been issued by the FASB or other standards-setting bodies. The Company does not anticipate any of the recent standards issued to have a material impact on the consolidated financial statements.

Note 2. Acquisitions

On November 18, 2022, the Company and North Carolina-based Surrey Bancorp ("Surrey"), parent company of Surrey Bank & Trust, jointly announced their entry into an agreement and plan of merger pursuant to which First Community would acquire Surrey and its wholly-owned bank subsidiary, Surrey Bank & Trust. Under the terms of the agreement and plan of merger, each share of Surrey common stock immediately converted into the right to receive 0.7159 shares of the Company's common stock. The transaction was consummated on April 21, 2023. The total purchase price for the transaction was \$71.37 million.

The Surrey transaction was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at estimated fair value on the acquisition date. Fair values are preliminary and subject to refinement for up to a year after the closing date of the acquisition. The Company incurred a total of \$2.99 million in merger expenses related to the Surrey transaction, \$ 596 thousand was recorded in the last quarter of 2022 and \$2.39 million in 2023. These costs were primarily related to data conversion, investment banking fees, and legal fees.

Goodwill arising from business combinations represents the excess of the purchase price over the sum of the estimated fair values of the tangible and identifiable intangible assets acquired less the fair value of the liabilities assumed. The Surrey acquisition resulted in the Company recognizing \$14.38 million in goodwill.

The primary identifiable intangible asset we typically record in connection with a whole bank or bank branch acquisition is the value of the core deposit intangibles which represents the estimated value of the long-term deposit relationships acquired in the transaction. Determining the amount of identifiable intangible assets and their average lives involves multiple assumptions and estimates and is typically determined by performing a discounted cash flow analysis, which involves a combination of any or all of the following assumptions: customer attrition/runoff, alternative funding costs, deposit servicing costs, and discount rates. The core deposit intangibles are amortized over the estimated useful lives of the deposit accounts based on a method that we believe reasonably approximates the anticipated benefit stream from this intangible. Core deposit intangibles for the Surrey transaction totaled \$12.70 million.

When loans are acquired they are identified as either purchased credit deteriorated PCD or non-PCD. PCD loans represent assets that are acquired with evidence of more than insignificant credit quality deterioration since the origination of the loans as of the acquisition date. The ACL for PCD assets is recognized within business combination accounting with no initial impact to net income. Changes in estimates of expected credit losses on PCD loans after acquisition are recognized as provision expense (or reversal of provision expense) in subsequent periods as they arise. Non-PCD loans acquired are generally estimated at fair value using a discounted cash flow approach with assumptions of discount rate, remaining life, prepayments, probability of default, and loss given default. The actual cash flows on these loans could differ materially from the fair value estimates. The amount we record as the fair values for the loans is generally less than the contractual unpaid principal balance due from the borrowers, with the difference being referred to as the "discount" on the acquired loans. Discounts on acquired non-PCD loans are accreted to interest income over their estimated remaining lives, which may include prepayment estimates in certain circumstances. The ACL for non-PCD assets is recognized as provision expense in the same reporting period as the business combination. Estimated loan losses for acquired loans are determined using methodologies and applying estimates and assumptions similar to originated performing loans. The fair value of purchased loans with credit deterioration was \$101.42 million on the date of acquisition with the gross contractual amount totaling \$111.22 million. The Company estimates that \$2.01 million of contractual cash flows specific to the purchased loans with credit deterioration will not be collected. Non purchased credit deteriorated loans acquired had a fair value of \$ 137.55 million with a gross contractual value of \$143.55 million.

(Amounts in thousands, except share and per share data)

	As recorded by Surrey	Fair Value Adjustments	As recorded by the Company
Assets			
Cash and cash equivalents	\$ 176,700	\$ -	\$ 176,700
Securities-available-for-sale	22,027	(1,093) (a)	20,934
Loans held for investment, net of allowance and mark	251,944	(12,864) (b)	239,080
Premises and equipment	5,501	774 (c)	6,275
Other assets	10,787	(229) (d), (e)	10,558
Intangible assets	-	12,700 (f)	12,700
Total assets	<u>\$ 466,959</u>	<u>\$ (712)</u>	<u>\$ 466,247</u>
Liabilities			
Deposits:			
Noninterest-bearing	\$ 158,389	\$ -	\$ 158,389
Interest-bearing	246,460	(1,214) (g)	245,246
Total deposits	404,849	(1,214)	403,635
Long term debt	-	-	-
Other liabilities	6,004	(381) (h)	5,623
Total liabilities	410,853	(1,595)	409,258
Net identifiable assets acquired over liabilities assumed	56,106	883	56,989
Goodwill	-	14,381	14,381
Net assets acquired over liabilities assumed	<u>\$ 56,106</u>	<u>\$ 15,264</u>	<u>\$ 71,370</u>
Consideration:			
First Community Bankshares, Inc. common stock issued			2,996,786
Purchase price per share of the Company's common stock			<u>\$ 23.81</u>
Fair value of Company common stock issued			71,354
Cash paid for fractional shares			<u>16</u>
Fair Value of total consideration transferred			<u>\$ 71,370</u>

Explanation of fair value adjustments:

- (a) Adjustment reflects the fair value adjustment based on the Company's evaluation of the acquired investment portfolio.
- (b) Adjustment reflects the fair value adjustments of \$(15.80) million based on the Company's evaluation of the acquired loan portfolio and excludes the allowance for credit losses and deferred loans fees of \$2.94 million as recorded by Surrey.
- (c) Adjustment reflects the fair value adjustments based on the Company's evaluation of the acquired premises and equipment.
- (d) Adjustment reflects the fair value adjustment based on the Company's evaluation of stocks with other banks of \$ 47 thousand.
- (e) Adjustment to record the deferred tax asset related to the fair value adjustments \$(177) thousand.
- (f) Adjustment to record the core deposit intangible on the acquired deposit accounts.
- (g) Adjustment reflects the fair value adjustment based on the Company's evaluation of the time deposit portfolio.
- (h) Adjustment to reclass deferred tax asset \$(99) thousand, goodwill \$(282) thousand, federal income tax payable \$(389) thousand, and state income tax payable \$8 thousand.

Note 3. 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:

	September 30, 2024			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
<i>(Amounts in thousands)</i>				
U.S. Treasury securities	\$ 45,699	\$ 5	\$ (1)	\$ 45,703
Municipal securities	14,933	6	(44)	14,895
Corporate notes	28,590	-	(884)	27,706
Agency mortgage-backed securities	88,313	37	(9,985)	78,365
Total	\$ 177,535	\$ 48	\$ (10,914)	\$ 166,669

	December 31, 2023			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
<i>(Amounts in thousands)</i>				
U.S. Agency securities	\$ 5,750	\$ -	\$ (1)	\$ 5,749
U.S. Treasury securities	146,653	16	(843)	145,826
Municipal securities	19,528	11	(162)	19,377
Corporate notes	28,566	-	(1,485)	27,081
Agency mortgage-backed securities	94,548	2	(11,622)	82,928
Total	\$ 295,045	\$ 29	\$ (14,113)	\$ 280,961

There was no allowance for credit losses for debt securities as of September 30, 2024; therefore, it is not presented in the table above. The Company excludes the accrued interest receivable from the amortized cost basis in measuring expected credit losses on the debt securities and does not record an allowance for credit losses on accrued interest receivable. Accrued interest receivable for debt securities was \$856 thousand and \$1.25 million as of September 30, 2024, and December 31, 2023, respectively.

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The following table presents the amortized cost and aggregate fair value of available-for-sale 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.

	September 30, 2024	
	Amortized Cost	Fair Value
<i>(Amounts in thousands)</i>		
Available-for-sale debt securities		
Due within one year	\$ 53,464	\$ 53,417
Due after one year but within five years	35,758	34,887
Due after five years but within ten years	-	-
	89,222	88,304
Agency mortgage-backed securities	88,313	78,365
Total debt securities available-for-sale	\$ 177,535	\$ 166,669

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:

	September 30, 2024					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>(Amounts in thousands)</i>						
U.S. Treasury securities	\$ 22,405	\$ (1)	\$ -	\$ -	\$ 22,405	\$ (1)
Municipal securities	295	-	6,495	(44)	6,790	(44)
Corporate notes	-	-	28,590	(884)	28,590	(884)
Agency mortgage-backed securities	211	-	83,918	(9,985)	84,129	(9,985)
Total	\$ 22,911	\$ (1)	\$ 119,003	\$ (10,913)	\$ 141,914	\$ (10,914)

	December 31, 2023					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>(Amounts in thousands)</i>						
U.S. Agency securities	\$ 5,749	\$ (1)	\$ —	\$ —	\$ 5,749	\$ (1)
U.S. Treasury securities	11,417	(14)	129,108	(829)	140,525	(843)
Municipal securities	4,742	(20)	5,484	(142)	10,226	(162)
Corporate notes	—	—	27,081	(1,485)	27,081	(1,485)
Agency mortgage-backed securities	3,421	(10)	78,319	(11,612)	81,740	(11,622)
Total	<u>\$ 25,329</u>	<u>\$ (45)</u>	<u>\$ 239,992</u>	<u>\$ (14,068)</u>	<u>\$ 265,321</u>	<u>\$ (14,113)</u>

There were 92 individual debt securities in an unrealized loss position as of September 30, 2024, and the combined depreciation in value represented 6.49% of the debt securities portfolio. There were 112 individual debt securities in an unrealized loss position as of December 31, 2023, and their combined depreciation in value represented 5.02% of the debt securities portfolio.

Management evaluates securities for impairment where there has been a decline in fair value below the amortized cost basis of a security to determine whether there is a credit loss associated with the decline in fair value on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Credit losses are calculated individually, rather than collectively, using a discounted cash flow method, whereby management compares the present value of expected cash flows with the amortized cost basis of the security. The credit loss component would be recognized through the provision for credit losses and the creation of an allowance for credit losses. Consideration is given to (1) the financial condition and near-term prospects of the issuer including looking at default and delinquency rates, (2) the outlook for receiving the contractual cash flows of the investments, (3) the length of time and the extent to which the fair value has been less than cost, (4) our intent and ability to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value or for a debt security whether it is more-likely-than-not that we will be required to sell the debt security prior to recovering its fair value, (5) the anticipated outlook for changes in the general level of interest rates, (6) credit ratings, (7) third party guarantees, and (8) collateral values. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, the results of reviews of the issuer's financial condition, and the issuer's anticipated ability to pay the contractual cash flows of the investments. All of the U.S. Treasury and Agency-Backed Securities have the full faith and credit backing of the United State Government or one of its agencies. Municipal securities and all other securities that do not have a zero expected credit loss are evaluated quarterly to determine whether there is a credit loss associated with a decline in fair value. All debt securities available-for-sale in an unrealized loss position as of September 30, 2024, continue to perform as scheduled and we do not believe that there is a credit loss or that a provision for credit losses is necessary. Also, as part of our evaluation of our intent and ability to hold investments for a period of time sufficient to allow for any anticipated recovery in the market, we consider our investment strategy, cash flow needs, liquidity position, capital adequacy and interest rate risk position. We do not currently intend to sell the securities within the portfolio and it is not more-likely-than-not that we will be required to sell the debt securities.

Management continues to monitor all of our securities with a high degree of scrutiny. There can be no assurance that we will not conclude in future periods that conditions existing at that time indicate some or all of its securities may be sold or would require a charge to earnings as a provision for credit losses in such periods.

There were no available-for-sale securities sold during the third quarter or for the first nine months of 2024. Approximately \$38.98 million in securities available for sale were sold in the first nine months of 2023. Approximately \$20.93 million of the sales in 2023 were attributable to the sale of the entire portfolio of Surrey comprised primarily of U. S. Treasury Notes. The following table presents gross realized gains and losses from the sale of available-for-sale debt securities for the periods indicated:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2024	2023	2024	2023
<i>(Amounts in thousands)</i>				
Gross realized gains	\$ -	\$ -	\$ -	\$ 7
Gross realized losses	-	-	-	(28)
Net gain (loss) on sale of securities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (21)</u>

The carrying amount of securities pledged for various purposes totaled \$27.11 million as of September 30, 2024, and \$145.09 million as of December 31, 2023.

Note 4. 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. Customer overdrafts reclassified as loans totaled \$2.53 million as of September 30, 2024, and \$1.50 million as of December 31, 2023. Deferred loan fees, net of loan costs, totaled \$ 6.77 million as of September 30, 2024, and \$7.71 million as of December 31, 2023.

In accordance with the adoption of ASU 2016-13, the table below reflects the loan portfolio at the amortized cost basis to include net deferred loan fees of \$6.77 million and \$7.71 million and unamortized discount related to loans acquired of \$13.25 million and \$15.29 million for September 30, 2024, and December 31, 2023, respectively. Accrued interest receivable of \$9.03 million as of September 30, 2024, and \$9.64 million as of December 31, 2023, is accounted for separately and reported in Interest Receivable on the Consolidated Balance Sheet.

	September 30, 2024		December 31, 2023	
	Amount	Percent	Amount	Percent
<i>(Amounts in thousands)</i>				
Loans held for investment				
Commercial loans				
Construction, development, and other land	\$ 74,580	3.05%	\$ 105,945	4.12%
Commercial and industrial	216,211	8.85%	211,850	8.24%
Multi-family residential	201,588	8.25%	188,382	7.32%
Single family non-owner occupied	203,348	8.32%	224,895	8.74%
Non-farm, non-residential	863,329	35.32%	894,550	34.78%
Agricultural	17,565	0.72%	21,669	0.84%
Farmland	12,116	0.49%	14,202	0.55%
Total commercial loans	1,588,737	65.00%	1,661,493	64.59%
Consumer real estate loans				
Home equity lines	88,975	3.64%	87,626	3.41%
Single family owner occupied	662,094	27.09%	696,140	27.06%
Owner occupied construction	4,565	0.19%	8,445	0.33%
Total consumer real estate loans	755,634	30.92%	792,211	30.80%
Consumer and other loans				
Consumer loans	97,216	3.98%	117,091	4.55%
Other	2,526	0.10%	1,503	0.06%
Total consumer and other loans	99,742	4.08%	118,594	4.61%
Total loans held for investment, net of unearned income	\$ 2,444,113	100.00%	\$ 2,572,298	100.00%

Note 5. 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.

The following table presents the recorded investment of the loan portfolio, by loan class and credit quality, as of the dates indicated:

September 30, 2024						
(Amounts in thousands)	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Commercial loans						
Construction, development, and other land	\$ 71,539	\$ 134	\$ 2,907	\$ -	\$ -	\$ 74,580
Commercial and industrial	210,992	1,723	3,496	-	-	216,211
Multi-family residential	196,825	3,412	1,351	-	-	201,588
Single family non-owner occupied	195,683	1,776	5,889	-	-	203,348
Non-farm, non-residential	841,567	13,340	8,422	-	-	863,329
Agricultural	11,854	3,656	2,055	-	-	17,565
Farmland	10,640	446	1,030	-	-	12,116
Consumer real estate loans						
Home equity lines	85,094	478	3,403	-	-	88,975
Single family owner occupied	636,788	2,084	23,222	-	-	662,094
Owner occupied construction	4,565	-	-	-	-	4,565
Consumer and other loans						
Consumer loans	95,354	-	1,862	-	-	97,216
Other	2,526	-	-	-	-	2,526
Total loans	\$ 2,363,427	\$ 27,049	\$ 53,637	\$ -	\$ -	\$ 2,444,113

December 31, 2023						
(Amounts in thousands)	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Commercial loans						
Construction, development, and other land	\$ 103,573	\$ 1,955	\$ 417	\$ -	\$ -	\$ 105,945
Commercial and industrial	207,034	2,097	2,719	-	-	211,850
Multi-family residential	184,565	3,522	295	-	-	188,382
Single family non-owner occupied	215,375	2,016	7,504	-	-	224,895
Non-farm, non-residential	866,711	15,240	12,599	-	-	894,550
Agricultural	15,944	3,878	1,847	-	-	21,669
Farmland	12,480	484	1,238	-	-	14,202
Consumer real estate loans						
Home equity lines	83,769	546	3,311	-	-	87,626
Single family owner occupied	669,878	2,360	23,902	-	-	696,140
Owner occupied construction	8,445	-	-	-	-	8,445
Consumer and other loans						
Consumer loans	114,725	4	2,362	-	-	117,091
Other	1,503	-	-	-	-	1,503
Total loans	\$ 2,484,002	\$ 32,102	\$ 56,194	\$ -	\$ -	\$ 2,572,298

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The following tables present the amortized cost basis and current period gross write-offs of the loan portfolio, by year of origination, loan class, and credit quality, as of the date indicated:

(Amounts in thousands)

	Term Loans Amortized Cost Basis by Origination Year							
Balance at September 30, 2024	2024	2023	2022	2021	2020	Prior	Revolving	Total
Construction, development and other land								
Pass	\$ 4,866	\$ 7,254	\$ 35,419	\$ 16,100	\$ 2,103	\$ 4,071	\$ 1,726	\$ 71,539
Special mention	-	-	-	-	66	68	-	134
Substandard	164	2,417	-	-	12	314	-	2,907
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total construction, development, and other land	\$ 5,030	\$ 9,671	\$ 35,419	\$ 16,100	\$ 2,181	\$ 4,452	\$ 1,726	\$ 74,580
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8	\$ -	\$ 8
Commercial and industrial								
Pass	\$ 42,894	\$ 38,394	\$ 53,792	\$ 13,484	\$ 8,294	\$ 13,476	\$ 40,658	\$ 210,992
Special mention	5	70	60	92	-	1,146	350	1,723
Substandard	33	377	813	446	430	1,397	-	3,496
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total commercial and industrial	\$ 42,931	\$ 38,841	\$ 54,665	\$ 14,022	\$ 8,724	\$ 16,019	\$ 41,008	\$ 216,211
Current period gross write-offs	\$ -	\$ 95	\$ 214	\$ 39	\$ 28	\$ 2	\$ -	\$ 378
Multi-family residential								
Pass	\$ 654	\$ 10,462	\$ 74,190	\$ 42,860	\$ 29,149	\$ 37,255	\$ 2,255	\$ 196,825
Special mention	-	-	-	-	-	3,412	-	3,412
Substandard	-	-	1,294	-	-	57	-	1,351
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total multi-family residential	\$ 654	\$ 10,462	\$ 75,483	\$ 42,860	\$ 29,149	\$ 40,725	\$ 2,255	\$ 201,588
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Non-farm, non-residential								
Pass	\$ 28,956	\$ 79,795	\$ 228,838	\$ 143,883	\$ 108,336	\$ 244,059	\$ 7,700	\$ 841,567
Special mention	156	61	571	1,781	-	10,771	-	13,340
Substandard	-	925	290	1,903	976	4,010	318	8,422
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total non-farm, non-residential	\$ 29,112	\$ 80,781	\$ 229,699	\$ 147,567	\$ 109,312	\$ 258,840	\$ 8,018	\$ 863,329
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 29	\$ -	\$ 29
Agricultural								
Pass	\$ 752	\$ 3,345	\$ 3,028	\$ 1,733	\$ 304	\$ 1,786	\$ 907	\$ 11,854
Special mention	-	-	261	167	4	3,224	-	3,656
Substandard	-	439	191	29	91	1,305	-	2,055
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total agricultural	\$ 752	\$ 3,784	\$ 3,480	\$ 1,929	\$ 399	\$ 6,315	\$ 907	\$ 17,565
Current period gross write-offs	\$ -	\$ 115	\$ 96	\$ 19	\$ -	\$ -	\$ -	\$ 230
Farmland								
Pass	\$ 604	\$ 1,314	\$ 1,085	\$ 1,430	\$ 681	\$ 4,465	\$ 1,061	\$ 10,640
Special mention	-	-	-	100	-	346	-	446
Substandard	-	-	-	-	142	888	-	1,030
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total farmland	\$ 604	\$ 1,314	\$ 1,085	\$ 1,530	\$ 823	\$ 5,699	\$ 1,061	\$ 12,116
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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(Amounts in thousands)

	Term Loans Amortized Cost Basis by Origination Year							
Balance at September 30, 2024	2024	2023	2022	2021	2020	Prior	Revolving	Total
Home equity lines								
Pass	\$ 83	\$ 52	\$ 1,112	\$ 81	\$ 134	\$ 3,723	\$ 79,910	\$ 85,094
Special mention	-	-	-	-	-	142	336	478
Substandard	-	-	65	-	407	1,932	999	3,403
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total home equity lines	\$ 83	\$ 52	\$ 1,177	\$ 81	\$ 540	\$ 5,797	\$ 81,245	\$ 88,975
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17	\$ 17
Single family Mortgage								
Pass	\$ 12,068	\$ 48,607	\$ 158,281	\$ 209,061	\$ 177,532	\$ 226,067	\$ 854	\$ 832,471
Special mention	-	-	-	447	-	3,413	-	3,860
Substandard	-	231	1,319	1,325	1,393	24,842	-	29,111
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total single family owner and non-owner occupied	\$ 12,068	\$ 48,838	\$ 159,601	\$ 210,833	\$ 178,925	\$ 254,322	\$ 854	\$ 865,442
Current period gross write-offs	\$ -	\$ -	\$ -	\$ 94	\$ -	\$ 40	\$ -	\$ 134
Owner occupied construction								
Pass	\$ 1,151	\$ 2,335	\$ 537	\$ 226	\$ -	\$ 316	\$ -	\$ 4,565
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total owner occupied construction	\$ 1,151	\$ 2,335	\$ 537	\$ 226	\$ -	\$ 316	\$ -	\$ 4,565
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Consumer loans								
Pass	\$ 19,301	\$ 23,316	\$ 28,459	\$ 12,697	\$ 4,013	\$ 1,908	\$ 8,186	\$ 97,880
Special mention	-	-	-	-	-	-	-	-
Substandard	27	376	763	313	65	288	30	1,862
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total consumer loans	\$ 19,328	\$ 23,692	\$ 29,222	\$ 13,010	\$ 4,077	\$ 2,196	\$ 8,216	\$ 99,742
Current period gross write-offs	\$ 963	\$ 1,024	\$ 1,832	\$ 710	\$ 201	\$ 97	\$ 224	\$ 5,051

(Amounts in thousands)

	Term Loans Amortized Cost Basis by Origination Year							
Balance at September 30, 2024	2024	2023	2022	2021	2020	Prior	Revolving	Total
Total loans								
Pass	\$111,329	\$214,874	\$584,741	\$441,555	\$330,545	\$537,125	\$ 143,257	\$2,363,427
Special mention	161	131	892	2,587	70	22,522	686	27,049
Substandard	224	4,765	4,735	4,016	3,515	35,035	1,347	53,637
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total loans	\$111,714	\$219,770	\$590,368	\$448,158	\$334,131	\$594,682	\$ 145,290	\$2,444,113
Current period gross write-offs	\$ 963	\$ 1,234	\$ 2,142	\$ 862	\$ 229	\$ 176	\$ 241	\$ 5,847

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(Amounts in thousands)

	Term Loans Amortized Cost Basis by Origination Year							
Balance at December 31, 2023	2023	2022	2021	2020	2019	Prior	Revolving	Total
Construction, development and other land								
Pass	\$ 12,379	\$ 54,752	\$ 23,328	\$ 4,121	\$ 2,700	\$ 3,874	\$ 2,419	\$ 103,573
Special Mention	1,737	-	-	139	-	79	-	1,955
Substandard	-	-	-	-	175	242	-	417
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total construction, development, and other land	<u>\$ 14,116</u>	<u>\$ 54,752</u>	<u>\$ 23,328</u>	<u>\$ 4,260</u>	<u>\$ 2,875</u>	<u>\$ 4,195</u>	<u>\$ 2,419</u>	<u>\$ 105,945</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13</u>
Commercial and industrial								
Pass	\$ 53,619	\$ 64,380	\$ 19,477	\$ 11,538	\$ 5,717	\$ 11,775	\$ 40,528	\$ 207,034
Special Mention	-	229	11	-	349	1,408	100	2,097
Substandard	51	744	276	86	926	636	-	2,719
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total commercial and industrial	<u>\$ 53,670</u>	<u>\$ 65,353</u>	<u>\$ 19,764</u>	<u>\$ 11,624</u>	<u>\$ 6,992</u>	<u>\$ 13,819</u>	<u>\$ 40,628</u>	<u>\$ 211,850</u>
Current period gross write-offs	<u>\$ 66</u>	<u>\$ 168</u>	<u>\$ 201</u>	<u>\$ 51</u>	<u>\$ 32</u>	<u>\$ 66</u>	<u>\$ -</u>	<u>\$ 584</u>
Multi-family residential								
Pass	\$ 6,753	\$ 67,484	\$ 36,621	\$ 30,021	\$ 3,280	\$ 36,982	\$ 3,424	\$ 184,565
Special Mention	-	-	-	-	-	3,522	-	3,522
Substandard	-	-	-	-	-	295	-	295
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total multi-family residential	<u>\$ 6,753</u>	<u>\$ 67,484</u>	<u>\$ 36,621</u>	<u>\$ 30,021</u>	<u>\$ 3,280</u>	<u>\$ 40,799</u>	<u>\$ 3,424</u>	<u>\$ 188,382</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Non-farm, non-residential								
Pass	\$ 83,420	\$ 234,607	\$ 151,433	\$ 114,974	\$ 53,466	\$ 217,034	\$ 11,777	\$ 866,711
Special Mention	65	583	2,590	819	-	11,132	51	15,240
Substandard	1,175	238	1,968	690	3,175	5,143	210	12,599
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total non-farm, non-residential	<u>\$ 84,660</u>	<u>\$ 235,428</u>	<u>\$ 155,991</u>	<u>\$ 116,483</u>	<u>\$ 56,641</u>	<u>\$ 233,309</u>	<u>\$ 12,038</u>	<u>\$ 894,550</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ 8</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ 10</u>
Agricultural								
Pass	\$ 5,004	\$ 4,215	\$ 2,352	\$ 625	\$ 674	\$ 2,094	\$ 980	\$ 15,944
Special Mention	28	276	184	8	90	3,292	-	3,878
Substandard	157	166	50	28	1,188	258	-	1,847
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total agricultural	<u>\$ 5,189</u>	<u>\$ 4,657</u>	<u>\$ 2,586</u>	<u>\$ 661</u>	<u>\$ 1,952</u>	<u>\$ 5,644</u>	<u>\$ 980</u>	<u>\$ 21,669</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ 59</u>	<u>\$ -</u>	<u>\$ 9</u>	<u>\$ 14</u>	<u>\$ 8</u>	<u>\$ -</u>	<u>\$ 90</u>
Farmland								
Pass	\$ 1,380	\$ 1,237	\$ 1,557	\$ 912	\$ 745	\$ 5,766	\$ 883	\$ 12,480
Special Mention	-	-	103	-	-	381	-	484
Substandard	-	-	-	-	-	1,238	-	1,238
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total farmland	<u>\$ 1,380</u>	<u>\$ 1,237</u>	<u>\$ 1,660</u>	<u>\$ 912</u>	<u>\$ 745</u>	<u>\$ 7,385</u>	<u>\$ 883</u>	<u>\$ 14,202</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(Amounts in thousands)

	Term Loans Amortized Cost Basis by Origination Year							
Balance at December 31, 2023	2023	2022	2021	2020	2019	Prior	Revolving	Total
Home equity lines								
Pass	\$ 9	\$ 962	\$ 86	\$ 73	\$ 68	\$ 3,800	\$ 78,771	\$ 83,769
Special Mention	-	-	-	-	-	45	501	546
Substandard	-	12	-	27	102	1,853	1,317	3,311
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total home equity lines	\$ 9	\$ 974	\$ 86	\$ 100	\$ 170	\$ 5,698	\$ 80,589	\$ 87,626
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 227	\$ 227
Single family Mortgage								
Pass	\$ 50,826	\$ 164,974	\$ 221,352	\$ 191,156	\$ 44,974	\$ 211,540	\$ 431	\$ 885,253
Special Mention	-	-	465	98	108	3,705	-	4,376
Substandard	236	555	1,464	1,381	1,515	26,255	-	31,406
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total single family owner and non-owner occupied	\$ 51,062	\$ 165,529	\$ 223,281	\$ 192,635	\$ 46,597	\$ 241,500	\$ 431	\$ 921,035
Current period gross write-offs	\$ -	\$ -	\$ 47	\$ -	\$ -	\$ 194	\$ -	\$ 241
Owner occupied construction								
Pass	\$ 3,620	\$ 4,232	\$ 240	\$ -	\$ 21	\$ 332	\$ -	\$ 8,445
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total owner occupied construction	\$ 3,620	\$ 4,232	\$ 240	\$ -	\$ 21	\$ 332	\$ -	\$ 8,445
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Consumer loans								
Pass	\$ 31,243	\$ 43,675	\$ 20,672	\$ 7,710	\$ 3,214	\$ 1,026	\$ 8,688	\$ 116,228
Special Mention	-	-	3	-	-	-	1	4
Substandard	338	820	590	198	157	212	47	2,362
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total consumer loans	\$ 31,581	\$ 44,495	\$ 21,265	\$ 7,908	\$ 3,371	\$ 1,238	\$ 8,736	\$ 118,594
Current period gross write-offs	\$ 1,238	\$ 3,594	\$ 1,852	\$ 518	\$ 196	\$ 77	\$ 185	\$ 7,660

(Amounts in thousands)

	Term Loans Amortized Cost Basis by Origination Year							
Balance at December 31, 2023	2023	2022	2021	2020	2019	Prior	Revolving	Total
Total loans								
Pass	\$248,253	\$640,518	\$477,118	\$361,130	\$114,859	\$494,223	\$ 147,901	\$2,484,002
Special mention	1,830	1,088	3,356	1,064	547	23,564	653	32,102
Substandard	1,957	2,535	4,348	2,410	7,238	36,132	1,574	56,194
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total loans	\$252,040	\$644,141	\$484,822	\$364,604	\$122,644	\$553,919	\$ 150,128	\$2,572,298
Current period gross write-offs	\$ 1,304	\$ 3,829	\$ 2,100	\$ 578	\$ 255	\$ 347	\$ 412	\$ 8,825

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The Company generally places a loan on nonaccrual status when it is 90 days or more past due. The following table presents nonaccrual loans, by loan class, as of the dates indicated:

(Amounts in thousands)	September 30, 2024			December 31, 2023		
	No Allowance	With an Allowance	Total	No Allowance	With an Allowance	Total
Commercial loans						
Construction, development, and other land	\$ 144	\$ -	\$ 144	\$ 172	\$ —	\$ 172
Commercial and industrial	2,100	-	2,100	1,438	—	1,438
Multi-family residential	160	-	160	183	—	183
Single family non-owner occupied	851	-	851	832	—	832
Non-farm, non-residential	1,645	923	2,568	1,271	1,173	2,444
Agricultural	1,745	-	1,745	1,558	—	1,558
Farmland	258	-	258	123	—	123
Consumer real estate loans						
Home equity lines	1,523	-	1,523	1,335	—	1,335
Single family owner occupied	8,986	-	8,986	9,365	—	9,365
Owner occupied construction	-	-	-	—	—	—
Consumer and other loans						
Consumer loans	1,419	-	1,419	1,906	—	1,906
Total nonaccrual loans	\$ 18,831	\$ 923	\$ 19,754	\$ 18,183	\$ 1,173	\$ 19,356

Loans are considered past due when either principal or interest payments become contractually delinquent by 30 days or more. The Company's policy is to discontinue the accrual of interest, if warranted, on loans based on the payment status, evaluation of the related collateral, and the financial strength of the borrower. Loans that are 90 days or more past due are placed on nonaccrual status. Management may elect to continue the accrual of interest when the loan is well secured and in process of collection. When interest accruals are discontinued, interest accrued and not collected in the current year is reversed from income, and interest accrued and not collected from prior years is charged to the allowance for credit losses. Nonaccrual loans may be returned to accrual status when all principal and interest amounts contractually due, including past due payments, are brought current; the ability of the borrower to repay the obligation is reasonably assured; and there is generally a period of at least six months of repayment performance by the borrower in accordance with the contractual terms. There was no material nonaccrual loan interest recognized in income during the third quarter or for the first nine months of 2024 or 2023.

The following tables presents the aging of past due loans, by loan class, as of the dates indicated. Nonaccrual loans 30 days or more past due are include in the applicable delinquency category:

(Amounts in thousands)	September 30, 2024						
	30 - 59 Days Past Due	60 - 89 Days Past Due	90+ Days Past Due	Total Past Due	Current Loans	Total Loans	Amortized Cost of > 90 Days Accruing No Allowance
Commercial loans							
Construction, development, and other land	\$ 893	\$ 5	\$ 139	\$ 1,037	\$ 73,543	\$ 74,580	\$ -
Commercial and industrial	1,970	604	1,273	3,847	212,364	216,211	-
Multi-family residential	161	-	-	161	201,427	201,588	-
Single family non-owner occupied	1,576	282	483	2,341	201,007	203,348	-
Non-farm, non-residential	1,677	173	788	2,638	860,691	863,329	-
Agricultural	55	-	511	566	16,999	17,565	-
Farmland	130	-	142	272	11,844	12,116	-
Consumer real estate loans							
Home equity lines	789	193	483	1,465	87,510	88,975	-
Single family owner occupied	3,539	2,735	3,427	9,701	652,393	662,094	-
Owner occupied construction	-	-	-	-	4,565	4,565	-
Consumer and other loans							
Consumer loans	3,161	1,034	714	4,909	92,307	97,216	-
Other	-	-	-	-	2,526	2,526	-
Total loans	\$ 13,951	\$ 5,026	\$ 7,960	\$ 26,937	\$ 2,417,176	\$ 2,444,113	\$ -

(Amounts in thousands)	December 31, 2023							Amortized Cost of > 90 Days Accruing No Allowance
	30 - 59 Days Past Due	60 - 89 Days Past Due	90+ Days Past Due	Total Past Due	Current Loans	Total Loans		
Commercial loans								
Construction, development, and other land	\$ 38	\$ 6	\$ 23	\$ 67	\$ 105,878	\$ 105,945	\$	—
Commercial and industrial	1,232	766	390	2,388	209,462	211,850		—
Multi-family residential	115	68	—	183	188,199	188,382		—
Single family non-owner occupied	777	455	232	1,464	223,431	224,895		—
Non-farm, non-residential	617	229	382	1,228	893,322	894,550		—
Agricultural	22	56	217	295	21,374	21,669		—
Farmland	15	—	—	15	14,187	14,202		—
Consumer real estate loans								
Home equity lines	639	343	534	1,516	86,110	87,626		—
Single family owner occupied	6,108	2,831	3,519	12,458	683,682	696,140		—
Owner occupied construction	—	—	—	—	8,445	8,445		—
Consumer and other loans								
Consumer loans	4,390	1,440	1,087	6,917	110,174	117,091		—
Other	—	—	—	—	1,503	1,503		—
Total loans	<u>\$ 13,953</u>	<u>\$ 6,194</u>	<u>\$ 6,384</u>	<u>\$ 26,531</u>	<u>\$ 2,545,767</u>	<u>\$ 2,572,298</u>	<u>\$</u>	<u>—</u>

ASC 326 prescribes that when an entity determines foreclosure is probable, the expected credit loss can be measured based on the fair value of the collateral. As a practical expedient, an entity may use the fair value as of the reporting date when recording the net carrying amount of the asset. For the collateral dependent asset ("CDA") a credit loss expense is recorded for loan amounts in excess of fair value of the collateral. The table below summarizes collateral dependent loans, where foreclosure is probable, by type of collateral, and the extent to which they are collateralized during the period.

(Amounts in thousands)	September 30, 2024			December 31, 2023		
	Balance	Collateral Coverage	%	Balance	Collateral Coverage	%
Commercial Real Estate						
Other	\$ 923	\$ 825	89.38%	\$ 1,173	\$ 825	70.33%
Total collateral dependent loans	<u>\$ 923</u>	<u>\$ 825</u>	<u>86.25%</u>	<u>\$ 1,173</u>	<u>\$ 825</u>	<u>70.33%</u>

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The Company may make concessions in interest rates, loan terms and/or amortization terms when restructuring loans for borrowers experiencing financial difficulty. Effective, January 1, 2023, the Company adopted ASU 2022-02, Financial Instruments-Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures. The amendments eliminated TDR accounting guidance for issuers that adopted ASU 2016-13, created a single loan modification accounting model, and clarified disclosure requirements for loan modifications and write-offs. Presented below are the amortized cost basis and percentage of loan class for loan modifications made to borrowers experiencing financial difficulty by loan class, concession type, and financial effect as of the dates indicated:

	Amortized Cost Basis September 30, 2024	Payment Delays % of Total Class of Financing Receivable	Financial Effect
<i>(Amounts in thousands)</i>			
Non Farm, Non Residential Property	\$ 639	0.07%	Deferred 6 months of interest to loan maturity.
Single Family Owner Occupied	519	0.08%	Deferred \$66 thousand in principal to loan maturity.
Single Family Non Owner Occupied	33	0.02%	Deferred 6 months of interest to loan maturity.
Commercial & Industrial	143	0.07%	Deferred \$8 thousand in principal to loan maturity.
Total	<u>\$ 1,334</u>		

	Amortized Cost Basis September 30, 2024	Term Extensions % of Total Class of Financing Receivable	Financial Effect
<i>(Amounts in thousands)</i>			
Commercial & Industrial	\$ 157	0.07%	Delayed repayment of P & I for two years.
Consumer	3	0.00%	Extended term from 60 to 84 months.
HELOC	3	0.00%	Delayed repayment of P & I for two years.
Total	<u>\$ 163</u>		

	Amortized Cost Basis September 30, 2024	Term Extension and Rate Reduction % of Total Class of Financing Receivable	Financial Effect
<i>(Amounts in thousands)</i>			
Single family owner occupied	\$ 815	0.12%	Reduced interest income and extended time to recover principal.
Consumer	8	0.01%	Reduced rate to 10.5%; extended term by ten months.
Total	<u>\$ 823</u>		

Payment Delays

	<u>Amortized Cost Basis December 31, 2023</u>	<u>% of Total Class of Financing Receivable</u>	<u>Financial Effect</u>
<i>(Amounts in thousands)</i>			
Non farm, non residential property	\$ 662	0.07%	Deferred 6 months of interest to loan maturity.
Single family owner occupied	548	0.08%	Deferred \$66 thousand in principal to loan maturity.
Single family non owner occupied	89	0.04%	Deferred 6 months of interest to loan maturity.
Commercial & industrial	171	0.08%	Deferred \$8 thousand in principal to loan maturity.
Total	<u>\$ 1,470</u>		

Term Extensions

	<u>Amortized Cost Basis December 31, 2023</u>	<u>% of Total Class of Financing Receivable</u>	<u>Financial Effect</u>
<i>(Amounts in thousands)</i>			
Consumer	\$ 6	0.01%	Extended term from 60 to 84 months.
Total	<u>\$ 6</u>		

Principal Forgiveness

	<u>Amortized Cost Basis December 31, 2023</u>	<u>% of Total Class of Financing Receivable</u>	<u>Financial Effect</u>
<i>(Amounts in thousands)</i>			
Single family owner occupied	\$ 5	0.00%	Reduced amortized cost basis by \$13 thousand.
Total	<u>\$ 5</u>		

Term Extension and Rate Reduction

	<u>Amortized Cost Basis December 31, 2023</u>	<u>% of Total Class of Financing Receivable</u>	<u>Financial Effect</u>
<i>(Amounts in thousands)</i>			
Single family owner occupied	\$ 565	0.08%	Reduced interest income and extended time to recover principal.
Total	<u>\$ 565</u>		

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Upon the Company's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount. There were no modified loans (or portions of a loan) deemed uncollectible as of September 30, 2024, or December 31, 2023.

The Company closely monitors the performance of the loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table depicts the performance of loans that have been modified for the periods indicated:

September 30, 2024			
Payment Status (Amortized Cost Basis)			
	Current	30-89 Days Past Due	90+ Days Past Due
(Amounts in thousands)			
Non farm, non residential property	\$ 639	\$ -	\$ -
Single family owner occupied	1,156	178	-
Single family non owner occupied	33	-	-
Commercial & Industrial	152	148	-
HELOC	3	-	-
Consumer	11	-	-
Total	<u>\$ 1,994</u>	<u>\$ 326</u>	<u>\$ -</u>

December 31, 2023			
Payment Status (Amortized Cost Basis)			
	Current	30-89 Days Past Due	90+ Days Past Due
(Amounts in thousands)			
Non farm, non residential	\$ 662	\$ -	\$ -
Single family owner occupied	864	254	-
Single family non owner occupied	89	-	-
Commercial & industrial	171	-	-
Consumer	6	-	-
Total	<u>\$ 1,792</u>	<u>\$ 254</u>	<u>\$ -</u>

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

	September 30, 2024	December 31, 2023
(Amounts in thousands)		
OREO	\$ 346	\$ 192
OREO secured by residential real estate	\$ 346	\$ 192
Residential real estate loans in the foreclosure process ⁽¹⁾	\$ 2,334	\$ 1,895

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

Note 6. Allowance for Credit Losses

The following tables present the changes in the allowance for credit losses, by loan segment, during the periods indicated:

	Three Months Ended September 30, 2024			
	Commercial	Consumer Real Estate	Consumer and Other	Total Allowance
(Amounts in thousands)				
Total allowance				
Balance at beginning of quarter:				
Allowance for credit losses - loans	\$ 20,352	\$ 9,879	\$ 4,654	\$ 34,885
Allowance for credit losses - loan commitments	289	118	34	441
Total allowance for credit losses beginning of year	20,641	9,997	4,688	35,326
Provision for credit losses:				
Provision for (recovery of) credit losses - loans	(151)	242	1,269	1,360
Provision for credit losses - loan commitments	-	-	-	-
Total (recovery of) provision for credit losses - loans and loan commitments	(151)	242	1,269	1,360
Charge-offs	(89)	(22)	(1,689)	(1,800)
Recoveries	253	57	363	673
Net recoveries (charge-offs)	164	35	(1,326)	(1,127)
Allowance for credit losses - loans	20,365	10,156	4,597	35,118
Allowance for credit losses - loan commitments	289	118	34	441
Ending balance	<u>\$ 20,654</u>	<u>\$ 10,274</u>	<u>\$ 4,631</u>	<u>\$ 35,559</u>

	Three Months Ended September 30, 2023			
	Commercial	Consumer Real Estate	Consumer and Other	Total Allowance
(Amounts in thousands)				
Total allowance				
Balance at beginning of quarter:				
Allowance for credit losses - loans	\$ 21,515	\$ 9,956	\$ 4,706	\$ 36,177
Allowance for credit losses - loan commitments	786	150	28	964
Total allowance for credit losses beginning of year	22,301	10,106	4,734	37,141
Provision for credit losses:				
Provision for credit losses - loans	39	(207)	1,483	1,315
Recovery of credit losses - loan commitments	(194)	(9)	(3)	(206)
Total (recovery of) provision for credit losses - loans and loan commitments	(155)	(216)	1,480	1,109
Charge-offs	(245)	(73)	(1,839)	(2,157)
Recoveries	227	82	387	696
Net (charge-offs) recoveries	(18)	9	(1,452)	(1,461)
Allowance for credit losses - loans	21,536	9,758	4,737	36,031
Allowance for credit losses - loan commitments	592	141	25	758
Ending balance	<u>\$ 22,128</u>	<u>\$ 9,899</u>	<u>\$ 4,762</u>	<u>\$ 36,789</u>

	Nine Months Ended September 30, 2024			
	Commercial	Consumer Real Estate	Consumer and Other	Total Allowance
<i>(Amounts in thousands)</i>				
Total allowance				
Balance at beginning of year:				
Allowance for credit losses - loans	\$ 21,850	\$ 9,693	\$ 4,646	\$ 36,189
Allowance for credit losses - loan commitments	597	121	28	746
Total allowance for credit losses beginning of year	22,447	9,814	4,674	36,935
Purchased credit deteriorated -Surrey acquisition	-	-	-	-
Provision for credit losses:				
Provision for (recovery of) credit losses - loans	(1,337)	300	3,857	2,820
(Recovery of) provision for credit losses - loan commitments	(308)	(3)	6	(305)
Total (recovery of) provision for credit losses - loans and loan commitments	(1,645)	297	3,863	2,515
Charge-offs	(645)	(151)	(5,051)	(5,847)
Recoveries	497	314	1,145	1,956
Net (charge-offs) recoveries	(148)	163	(3,906)	(3,891)
Allowance for credit losses - loans	20,365	10,156	4,597	35,118
Allowance for credit losses - loan commitments	289	118	34	441
Ending balance	<u>\$ 20,654</u>	<u>\$ 10,274</u>	<u>\$ 4,631</u>	<u>\$ 35,559</u>

	Nine Months Ended September 30, 2023			
	Commercial	Consumer Real Estate	Consumer and Other	Total Allowance
<i>(Amounts in thousands)</i>				
Total allowance				
Balance at beginning of year:				
Allowance for credit losses - loans	\$ 17,213	\$ 8,931	\$ 4,412	\$ 30,556
Allowance for credit losses - loan commitments	1,018	156	22	1,196
Total allowance for credit losses beginning of year	18,231	9,087	4,434	31,752
Purchased credit deteriorated-Surrey acquisition	1,452	529	30	2,011
Provision for credit losses:				
Provision for credit losses - loans	2,425	276	4,693	7,394
(Recovery of) provision for credit losses - loan commitments	(426)	(15)	3	(438)
Total provision for credit losses - loans and loan commitments	1,999	261	4,696	6,956
Charge-offs	(551)	(396)	(5,773)	(6,720)
Recoveries	997	418	1,375	2,790
Net recoveries (charge-offs)	446	22	(4,398)	(3,930)
Allowance for credit losses - loans	21,536	9,758	4,737	36,031
Allowance for credit losses - loan commitments	592	141	25	758
Ending balance	<u>\$ 22,128</u>	<u>\$ 9,899</u>	<u>\$ 4,762</u>	<u>\$ 36,789</u>

Note 7. Deposits

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

	September 30, 2024	December 31, 2023
<i>(Amounts in thousands)</i>		
Noninterest-bearing demand deposits	\$ 869,723	\$ 931,920
Interest-bearing deposits:		
Interest-bearing demand deposits	657,764	693,979
Money market accounts	347,040	307,487
Savings deposits	540,389	535,566
Certificates of deposit	164,283	166,417
Individual retirement accounts	80,054	86,956
Total interest-bearing deposits	1,789,530	1,790,405
Total deposits	<u>\$ 2,659,253</u>	<u>\$ 2,722,325</u>

Note 8. Borrowings

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

(Amounts in thousands)	September 30, 2024		December 31, 2023	
	Balance	Weighted Average Rate	Balance	Weighted Average Rate
Retail repurchase agreements	\$ 954	0.05%	\$ 1,119	0.06%

Repurchase agreements are secured by certain securities that remain under the Company's control during the terms of the agreements.

The Company had no long-term borrowings as of September 30, 2024, or December 31, 2023.

Unused borrowing capacity with the FHLB totaled \$353.31 million, net of FHLB letters of credit of \$119.69 million, as of September 30, 2024. As of September 30, 2024, the Company maintains \$473.00 million in qualifying loans to secure the FHLB borrowing capacity.

Note 9. Derivative Instruments and Hedging Activities

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 has used interest rate swap contracts to modify its exposure to interest rate risk caused by changes in benchmark interest rates 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 Secured Overnight Financing Rate ("SOFR") plus a spread 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 the floating rate and the stated fixed rate. If SOFR is above the stated rate for a given period, the Company will receive payments based on the notional amount times the difference between the floating rate 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 fair value hedges were effective as of September 30, 2024, and December 31, 2023.

The following table presents the notional, or contractual, amounts and fair values of derivative instruments as of the dates indicated:

(Amounts in thousands)	September 30, 2024			December 31, 2023		
	Notional or Contractual Amount	Fair Value		Notional or Contractual Amount	Fair Value	
		Derivative Assets	Derivative Liabilities		Derivative Assets	Derivative Liabilities
Derivatives designated as hedges						
Interest rate swaps	\$ 3,252	\$ 79	\$ -	\$ 3,557	\$ 136	\$ -
Total derivatives	\$ 3,252	\$ 79	\$ -	\$ 3,557	\$ 136	\$ -

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

(Amounts in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,		Income Statement Location
	2024	2023	2024	2023	
Derivatives designated as hedges					
Interest rate swaps	\$ (25)	\$ (26)	\$ (78)	\$ (72)	Interest and fees on loans
Total derivative (income) expense	\$ (25)	\$ (26)	\$ (78)	\$ (72)	

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 ("SERP") and the Directors' Supplemental Retirement Plan ("Director Plan"). The SERP was frozen near the end of 2021; the Director Plan was fundamentally frozen at that time as well. The following table presents the components of net periodic pension cost and the effect on the consolidated statements of income for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,		Income Statement Location
	2024	2023	2024	2023	
<i>(Amounts in thousands)</i>					
Interest cost	\$ 104	\$ 90	\$ 311	\$ 267	Other expense
Amortization of prior service cost	-	-	-	-	Other expense
Amortization of losses	10	32	28	95	Other expense
Net periodic cost	<u>\$ 114</u>	<u>\$ 122</u>	<u>\$ 339</u>	<u>\$ 362</u>	

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 September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
<i>(Amounts in thousands, except share and per share data)</i>				
Net income	\$ 13,033	\$ 14,640	\$ 38,564	\$ 36,236
Adjust net income for fair value of restricted stock units (tax effected)	-	237	-	592
Net income for fully dilutive earnings per common share	<u>\$ 13,033</u>	<u>\$ 14,877</u>	<u>\$ 38,564</u>	<u>\$ 36,828</u>
Weighted average common shares outstanding, basic	18,279,612	18,786,032	18,366,249	17,816,505
Dilutive effect of potential common shares				
Stock options	41,718	17,223	29,151	14,323
Unvested stock awards	-	-	-	4,067
Restricted stock units	50,577	28,581	36,623	22,599
Total dilutive effect of potential common shares	<u>92,295</u>	<u>45,804</u>	<u>65,774</u>	<u>40,989</u>
Weighted average common shares outstanding, diluted	<u>18,371,907</u>	<u>18,831,836</u>	<u>18,432,023</u>	<u>17,857,494</u>
Basic earnings per common share	\$ 0.71	\$ 0.78	\$ 2.10	\$ 2.03
Diluted earnings per common share	0.71	0.79	2.09	2.06
Antidilutive potential common shares				
Stock options	-	129,355	-	130,577
Stock units	-	93	20,840	82
Total potential antidilutive shares	<u>-</u>	<u>129,448</u>	<u>20,840</u>	<u>130,659</u>

Note 12. Accumulated Other Comprehensive Income (Loss)

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

	Three Months Ended September 30, 2024		
	Unrealized Losses on Available-		
	for-Sale Securities	Employee Benefit Plans	Total
(Amounts in thousands)			
Beginning balance	\$ (12,589)	\$ 175	\$ (12,414)
Other comprehensive income before reclassifications	4,005	(7)	3,998
Reclassified from AOCI	-	7	7
Other comprehensive income, net	4,005	-	4,005
Ending balance	\$ (8,584)	\$ 175	\$ (8,409)

	Three Months Ended September 30, 2023		
	Unrealized Losses on Available-		
	for-Sale Securities	Employee Benefit Plans	Total
(Amounts in thousands)			
Beginning balance	\$ (14,363)	\$ (98)	\$ (14,461)
Other comprehensive loss before reclassifications	(2,983)	(28)	(3,011)
Reclassified from AOCI	-	28	28
Other comprehensive loss, net	(2,983)	-	(2,983)
Ending balance	\$ (17,346)	\$ (98)	\$ (17,444)

	Nine Months Ended September 30, 2024		
	Unrealized Gains (Losses) on Available-		
	for-Sale Securities	Employee Benefit Plans	Total
(Amounts in thousands)			
Beginning balance	\$ (11,126)	\$ 175	\$ (10,951)
Other comprehensive income before reclassifications	2,542	(22)	2,520
Reclassified from AOCI	-	22	22
Other comprehensive income, net	2,542	-	2,542
Ending balance	\$ (8,584)	\$ 175	\$ (8,409)

	Nine Months Ended September 30, 2023		
	Unrealized Gains (Losses) on Available-		
	for-Sale Securities	Employee Benefit Plans	Total
(Amounts in thousands)			
Beginning balance	\$ (15,621)	\$ (98)	\$ (15,719)
Other comprehensive loss before reclassifications	(1,743)	(76)	(1,819)
Reclassified from AOCI	18	76	94
Other comprehensive loss, net	(1,725)	-	(1,725)
Ending balance	\$ (17,346)	\$ (98)	\$ (17,444)

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

(Amounts in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,		Income Statement Line Item Affected
	2024	2023	2024	2023	
Available-for-sale securities					
Gain recognized	\$ -	\$ -	\$ -	\$ 21	Net loss on sale of securities
Reclassified out of AOCI, before tax	-	-	-	21	Income before income taxes
Income tax expense	-	-	-	4	Income tax expense
Reclassified out of AOCI, net of tax	-	-	-	17	Net income
Employee benefit plans					
Amortization of prior service cost	-	-	-	-	Salaries and employee benefits
Amortization of net actuarial benefit cost	10	32	28	95	Salaries and employee benefits
Reclassified out of AOCI, before tax	10	32	28	95	Income before income taxes
Income tax expense	3	7	6	19	Income tax expense
Reclassified out of AOCI, net of tax	7	25	22	76	Net income
Total reclassified out of AOCI, net of tax	<u>\$ 7</u>	<u>\$ 25</u>	<u>\$ 22</u>	<u>\$ 93</u>	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

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, 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. 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 that are subject to a fair value hedge are reported at fair value derived from third-party models. Loans designated in 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.

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:

(Amounts in thousands)	September 30, 2024			
	Total Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Available-for-sale debt securities				
U.S. Treasury securities	\$ 45,703	\$ -	\$ 45,703	\$ -
Municipal securities	14,895	-	14,895	-
Corporate Notes	27,706	-	27,706	-
Agency mortgage-backed securities	78,365	-	78,365	-
Total available-for-sale debt securities	166,669	-	166,669	-
Equity securities	55	-	55	-
Fair value loans	3,173	-	-	3,173
Derivative assets	79	-	79	-
Deferred compensation assets	8,485	8,485	-	-
Deferred compensation liabilities	10,022	10,022	-	-

(Amounts in thousands)	December 31, 2023			
	Total Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Available-for-sale debt securities				
U.S. Agency securities	\$ 5,749	\$ -	\$ 5,749	\$ -
U.S. Treasury securities	145,826	-	145,826	-
Municipal securities	19,377	-	19,377	-
Corporate notes	27,081	-	27,081	-
Agency mortgage-backed securities	82,928	-	82,928	-
Total available-for-sale debt securities	280,961	-	280,961	-
Equity securities	55	-	55	-
Fair value loans	3,421	-	-	3,421
Derivative assets	136	-	136	-
Deferred compensation assets	6,729	6,729	-	-
Deferred compensation liabilities	8,282	8,282	-	-

Assets Measured at Fair Value on a Nonrecurring Basis

Impaired Loans. 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.

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:

	September 30, 2024			
	Total Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
(Amounts in thousands)				
Collateral dependent assets with specific reserves	\$ 825	\$ -	\$ -	\$ 825
OREO	346	-	-	346

	December 31, 2023			
	Total Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
(Amounts in thousands)				
Collateral dependent assets with specific reserves	\$ 825	\$ -	\$ -	\$ 825
OREO	192	-	-	192

Quantitative Information about Level 3 Fair Value Measurements

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

	Valuation Technique	Unobservable Input	Discount Range (Weighted Average) September 30, 2024
Collateral dependent assets with specific reserves	Discounted appraisals(1)	Appraisal adjustments(2)	12% (12%)
OREO	Discounted appraisals(1)	Appraisal adjustments(2)	20% to 74% (65%)

(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.

	Valuation Technique	Unobservable Input	Discount Range (Weighted Average) December 31, 2023
Collateral dependent assets with specific reserves	Discounted appraisals(1)	Appraisal adjustments(2)	42% (42%)
OREO	Discounted appraisals(1)	Appraisal adjustments(2)	20% to 100% (60%)

(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 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:

(Amounts in thousands)	September 30, 2024				
	Carrying Amount	Fair Value	Fair Value Measurements Using		
			Level 1	Level 2	Level 3
Assets					
Cash and cash equivalents	\$ 315,338	\$ 315,338	\$ 315,338	\$ -	\$ -
Debt securities available-for-sale	166,669	166,669	-	166,669	-
Equity securities	55	55	-	55	-
Loans held for investment, net of allowance	2,408,995	2,221,250	-	-	2,221,250
Derivative financial assets	79	79	-	79	-
Interest receivable	9,883	9,883	-	856	9,027
Deferred compensation assets	8,485	8,485	8,485	-	-
Liabilities					
Time deposits	244,337	243,141	-	243,141	-
Securities sold under agreements to repurchase	954	954	-	954	-
Interest payable	878	878	-	878	-
Deferred compensation liabilities	10,022	10,022	10,022	-	-

(Amounts in thousands)	December 31, 2023				
	Carrying Amount	Fair Value	Fair Value Measurements Using		
			Level 1	Level 2	Level 3
Assets					
Cash and cash equivalents	\$ 116,420	\$ 116,420	\$ 116,420	\$ -	\$ -
Debt securities available-for-sale	280,961	280,961	-	280,961	-
Equity securities	55	55	-	55	-
Loans held for investment, net of allowance	2,536,109	2,350,071	-	-	2,350,071
Interest receivable	10,881	10,881	-	1,246	9,635
Deferred compensation assets	6,729	6,729	6,729	-	-
Derivative assets	136	136	-	136	-
Liabilities					
Time deposits	253,373	247,141	-	247,141	-
Securities sold under agreements to repurchase	1,119	1,119	-	1,119	-
Interest payable	556	556	-	556	-
Deferred compensation liabilities	8,282	8,282	8,282	-	-

Note 14. Litigation, Commitments, and Contingencies

Litigation

We are currently a defendant in 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.

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.

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

	September 30, 2024	December 31, 2023
(Amounts in thousands)		
Commitments to extend credit	\$ 247,884	\$ 277,462
Standby letters of credit and financial guarantees (1)	122,064	129,220
Total off-balance sheet risk	<u>\$ 369,948</u>	<u>\$ 406,682</u>

(1) Includes FHLB letters of credit

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, 2023 (the "2023 Form 10-K"). Unless the context suggests otherwise, the terms "First Community," "Company," "we," "our," and "us" refer to First Community Bankshares, Inc. and its subsidiaries as a consolidated entity.

Executive Overview

First Community Bankshares, 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 September 30, 2024, the Bank operated 53 branches in Virginia, West Virginia, North Carolina and Tennessee. As of September 30, 2024, full-time equivalent employees, calculated using the number of hours worked, totaled 578. 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. 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 Inc. ("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 investment advisory fees and commissions on assets under management and administration. As of September 30, 2024, the Trust Division and FCWM managed and administered \$1.64 billion in combined assets under various fee-based arrangements as fiduciary or agent. The Bank also offers a full range of commercial and personal insurance products through its strategic partnership with Bankers Insurance, LLC.

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 Quarterly Report on Form 10-Q. Our accounting policies are described in detail in Note 1, "Basis of Presentation and Significant Accounting Policies," of the Notes to Consolidated Financial Statements in Part II, Item 8 of our 2023 Form 10-K. Our critical accounting estimates are detailed in the "Critical Accounting Estimates" section in Part II, Item 7 of our 2023 Form 10-K.

Performance Overview

Highlights of our results of operations for the three and nine months ended September 30, 2024, and financial condition as of September 30, 2024, include the following:

- Net income of \$13.03 million for the third quarter of 2024, was a decrease of \$1.61 million, or 10.98%, from the same quarter of 2023. Net income of \$38.56 million for the first nine months of 2024, was an increase of \$2.33 million, or 6.42%, from the same period of 2023.
- Net interest income decreased \$1.75 million compared to the same quarter in 2023, primarily due to increases in rates paid on interest-bearing deposits.
- Net interest margin of 4.41% was a decrease of 10 basis points over the same quarter of 2023. The yield on earning assets increased 26 basis points from the same period of 2023 and is attributable to an increase in interest income resulting from an increase in yield. While there was an increase in yield for both loans and securities available for sale; the average balances decreased. The average balance for interest-bearing deposits with banks increased \$219.59 million over the same period of 2023; however, there was no change in the yield from the same period of 2023. The yield on interest-bearing liabilities increased 58 basis points when compared with the same period of 2023 and is primarily attributable to increased rates on interest-bearing deposit liabilities.
- Noninterest income increased approximately \$830 thousand, or 8.63%, when compared to the same quarter of 2023. Noninterest income for the third quarter of 2024 included a gain of \$825 thousand from the sale of two closed branch properties; while noninterest income for the same period of 2023 included a gain of \$204 thousand for the sale of a closed branch property. Noninterest expense increased \$1.26 million, or 5.52%.
- Annualized return on average assets ("ROA") was 1.60% for the third quarter and 1.60% for the first nine months of 2024 compared to 1.74% and 1.49% for the same periods, respectively, of 2023. Annualized return on average common equity ("ROE") was 10.04% for the third quarter and 10.08% for the first nine months of 2024 compared to 11.63% and 10.25% for the same periods, respectively, of 2023. Annualized return on average tangible common equity ("ROTCE") was 14.46% for the third quarter and 14.61% for the first nine months of 2024 compared to 17.11% and 14.94% for the same periods, respectively, of 2023.
- Consolidated assets totaled \$3.22 billion at September 30, 2024.
- Loans decreased \$128.19 million, or 4.98%, from December 31, 2023. Securities available for sale decreased \$114.29 million, or 40.68%, from December 31, 2023. Deposits decreased \$63.07 million, or 2.32%. The net effect of these balance sheet changes resulted in an increase in cash and cash equivalents of \$198.92 million, or 170.86%.
- The Company repurchased 12,854 common shares during the third quarter of 2024 at a total cost of \$469 thousand. The Company repurchased 257,294 common shares during the first nine months of 2024 at a total cost of \$8.72 million.
- Non-performing loans to total loans increased to 0.82% when compared with the same quarter of 2023. The Company experienced net charge-offs for the third quarter of 2024 of \$1.13 million, or 0.18% of annualized average loans, compared to net charge-offs of \$1.46 million, or 0.22%, of annualized average loans for the same period in 2023.
- The allowance for credit losses to total loans was 1.44% at September 30, 2024 compared to 1.41% at December 31, 2023, and 1.39% for September 30, 2023.
- Book value per share at September 30, 2024, was \$28.47, an increase of \$1.27 from year-end 2023.

Results of Operations

During the last week of September 2024, Hurricane Helene made landfall in Florida's panhandle, and brought the full suite of hurricane impacts to the southern Appalachian region resulting in widespread flooding and washing out of towns and roadways. Hurricane Helene had a significant impact on western North Carolina. Millions have lost access to critical services like water and sewer, electricity, and telecommunications. Thousands of miles of roads and bridges were damaged. The hurricane resulted in property damage to our customers, the closing or disruption of many businesses and damage to infrastructure in communities that we serve. Our branch in Banner Elk, North Carolina was temporarily closed due to lack of power and water, but it is now open to the public. We continue to evaluate the impact of Hurricane Helene on our customers and the Bank's loans. Based on our assessment to date, we do not expect the losses related to Hurricane Helene to have a material impact on the Bank's financial condition or results of operations.

Net Income

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

(Amounts in thousands, except per share data)	Three Months Ended				Nine Months Ended			
	September 30,		Increase (Decrease)	% Change	September 30,		Increase (Decrease)	% Change
	2024	2023			2024	2023		
Net income	\$ 13,033	\$ 14,640	\$ (1,607)	-10.98%	\$ 38,564	\$ 36,236	\$ 2,328	6.42%
Basic earnings per common share	0.71	0.78	(0.07)	-8.97%	2.10	2.03	0.07	3.45%
Diluted earnings per common share	0.71	0.79	(0.08)	-10.13%	2.09	2.06	0.03	1.46%
Return on average assets	1.60%	1.74%	-0.14%	-8.05%	1.60%	1.49%	0.11%	7.38%
Return on average common equity	10.04%	11.63%	-1.59%	-13.67%	10.08%	10.25%	-0.17%	-1.66%

Three-Month Comparison.

Net income decreased \$1.61 million in the third quarter of 2024 compared to the same period in 2023. The decrease is primarily attributable to a decrease in net interest income of \$1.75 million. While interest income increased \$787 thousand for the third quarter of 2024, interest expense increased \$2.54 million. The increase in interest expense is primarily attributable to an increase in deposit rates.

Nine-Month Comparison.

Net income increased \$2.33 million in the first nine months of 2024 compared to the same period in 2023. The increase is primarily attributable to a decrease in provision for credit losses of \$4.44 million. Noninterest income increased by \$2.06 million, as well. These increases were offset by an increase in noninterest expense of \$4.06 million compared to the same period in 2023.

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:

AVERAGE BALANCE SHEETS AND NET INTEREST INCOME ANALYSIS (Unaudited)

	Three Months Ended September 30,					
	2024			2023		
	Average Balance	Interest ⁽¹⁾	Average Yield/Rate ⁽¹⁾	Average Balance	Interest ⁽¹⁾	Average Yield/Rate ⁽¹⁾
<i>(Amounts in thousands)</i>						
Assets						
Earning assets						
Loans ⁽²⁾⁽³⁾	\$ 2,455,807	\$ 32,201	5.22%	\$ 2,604,885	\$ 33,566	5.11%
Securities available-for-sale	133,654	1,099	3.27%	284,659	1,952	2.72%
Interest-bearing deposits	270,440	3,701	5.44%	50,855	697	5.44%
Total earning assets	2,859,901	37,001	5.15%	2,940,399	36,215	4.89%
Other assets	371,358			393,001		
Total assets	<u>\$ 3,231,259</u>			<u>\$ 3,333,400</u>		
Liabilities and stockholders' equity						
Interest-bearing deposits						
Demand deposits	\$ 656,780	\$ 234	0.14%	\$ 699,066	\$ 165	0.09%
Savings deposits	886,766	3,735	1.68%	862,121	1,941	0.89%
Time deposits	245,020	1,329	2.16%	263,940	652	0.98%
Total interest-bearing deposits	1,788,566	5,298	1.18%	1,825,127	2,758	0.60%
Borrowings						
Retail repurchase agreements	1,054	-	0.05%	1,254	-	N/M
Federal funds purchased	-	-	-	-	-	-
Total borrowings	1,054	-	0.05%	1,254	-	N/M
Total interest-bearing liabilities	1,789,620	5,298	1.18%	1,826,381	2,758	0.60%
Noninterest-bearing demand deposits	877,472			964,093		
Other liabilities	47,892			43,574		
Total liabilities	2,714,984			2,834,048		
Stockholders' equity	516,275			499,352		
Total liabilities and stockholders' equity	<u>\$ 3,231,259</u>			<u>\$ 3,333,400</u>		
Net interest income, FTE ⁽¹⁾		<u>\$ 31,703</u>			<u>\$ 33,457</u>	
Net interest rate spread			<u>3.97%</u>			<u>4.29%</u>
Net interest margin, FTE ⁽¹⁾			<u>4.41%</u>			<u>4.51%</u>

(1) Interest income and average yield/rate are presented on a FTE, non-GAAP, basis using the federal statutory income tax rate of 21%.

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

(3) Interest on loans includes non-cash and accelerated purchase accounting accretion of \$592 thousand and \$874 thousand for the three months ended September 30, 2024 and 2023, respectively.

AVERAGE BALANCE SHEETS AND NET INTEREST INCOME ANALYSIS (Unaudited)

	Nine Months Ended September 30,					
	2024			2023		
	Average Balance	Interest(1)	Average Yield/Rate(1)	Average Balance	Interest(1)	Average Yield/Rate(1)
(Amounts in thousands)						
Assets						
Earning assets						
Loans(2)(3)	\$ 2,501,209	\$ 98,479	5.26%	\$ 2,523,814	\$ 93,261	4.94%
Securities available-for-sale	172,331	4,073	3.16%	306,435	6,191	2.70%
Interest-bearing deposits	182,773	7,499	5.48%	51,759	2,047	5.29%
Total earning assets	2,856,313	110,051	5.15%	2,882,008	101,499	4.71%
Other assets	372,663			366,243		
Total assets	<u>\$ 3,228,976</u>			<u>\$ 3,248,251</u>		
Liabilities and stockholders' equity						
Interest-bearing deposits						
Demand deposits	\$ 662,433	\$ 570	0.11%	\$ 682,820	\$ 225	0.04%
Savings deposits	875,797	10,730	1.64%	850,411	3,731	0.59%
Time deposits	247,088	3,240	1.75%	272,435	1,450	0.71%
Total interest-bearing deposits	1,785,318	14,540	1.09%	1,805,666	5,406	0.40%
Borrowings						
Retail repurchase agreements	1,061	-	0.05%	1,674	1	0.06%
Federal funds purchased	839	35	5.52%	3,532	135	5.11%
Total borrowings	1,900	35	2.46%	5,206	136	3.49%
Total interest-bearing liabilities	1,787,218	14,575	1.09%	1,810,872	5,542	0.41%
Noninterest-bearing demand deposits	883,013			924,591		
Other liabilities	47,772			40,014		
Total liabilities	2,718,003			2,775,477		
Stockholders' equity	510,973			472,774		
Total liabilities and stockholders' equity	<u>\$ 3,228,976</u>			<u>\$ 3,248,251</u>		
Net interest income, FTE (1)		<u>\$ 95,476</u>			<u>\$ 95,957</u>	
Net interest rate spread			<u>4.06%</u>			<u>4.30%</u>
Net interest margin, FTE (1)			<u>4.46%</u>			<u>4.45%</u>

(1) Interest income and average yield/rate are presented on a FTE, non-GAAP, basis using the federal statutory income tax rate of 21%.

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

(3) Interest on loans includes non-cash and accelerated purchase accounting accretion of \$2.04 million and \$1.95 million for the nine months ended September 30, 2024 and 2023, respectively.

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The following table presents the impact to net interest income on an FTE basis due to changes in volume (change in 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:

(Amounts in thousands)	Three Months Ended September 30, 2024 Compared to 2023 Dollar Increase (Decrease) due to				Nine Months Ended September 30, 2024 Compared to 2023 Dollar Increase (Decrease) due to			
	Volume	Rate	Rate/ Volume	Total	Volume	Rate	Rate/ Volume	Total
Interest earned on (1)								
Loans	\$ (5,700)	\$ 2,028	\$ 2,307	\$ (1,365)	\$ (836)	\$ 6,017	\$ 37	\$ 5,218
Securities available-for-sale	(3,073)	1,172	1,048	(853)	(2,712)	1,045	(451)	(2,118)
Interest-bearing deposits with other banks	8,931	3	(5,930)	3,004	5,186	75	191	5,452
Total interest earning assets	158	3,203	(2,575)	786	1,638	7,137	(223)	8,552
Interest paid on								
Demand deposits	(30)	251	(152)	69	(7)	362	(10)	345
Savings deposits	165	5,045	(3,416)	1,794	111	6,678	210	6,999
Time deposits	(139)	2,325	(1,509)	677	(135)	2,119	(194)	1,790
Federal funds purchased	-	-	-	-	-	-	(100)	(100)
Retail repurchase agreements	-	2	(2)	-	-	(1)	-	(1)
FHLB advances and other borrowings	-	-	-	-	-	-	-	-
Total interest-bearing liabilities	(4)	7,623	(5,079)	2,540	(31)	9,158	(94)	9,033
Change in net interest income (1)	\$ 162	\$ (4,420)	\$ 2,504	\$ (1,754)	\$ 1,669	\$ (2,021)	\$ (129)	\$ (481)

(1) FTE basis based on the federal statutory rate of 21%.

Three-Month Comparison. Net interest income comprised 75.14% of total net interest and noninterest income in the third quarter of 2024 compared to 77.61% in the same quarter of 2023. Net interest income on a GAAP basis decreased \$1.75 million, or 5.26%. Net interest income on a FTE basis decreased \$1.75 million, with a percentage decrease of 5.24%. The net interest margin on a FTE basis decreased 10 basis points while the net interest spread on a FTE basis decreased 32 basis points. The decrease in both the net interest margin and the net interest spread was primarily driven by an increase in the yield on interest-bearing liabilities of 58 basis points when compared with the same period of 2023 and is primarily attributable to increased rates on interest-bearing deposit liabilities.

Average earning assets decreased \$80.50 million, or 2.74%, primarily due to a decrease in average securities available for sale of \$151.01 million, or 53.05%. In addition, the average balance for loans decreased \$149.08 million, or 5.72%. These decreases to earning assets were offset by an increase in the average balance for interest-bearing balances with banks of \$219.59 million, or 431.79%. The yield on earning assets increased 26 basis points, or 5.32%, primarily due to an increase in benchmark rates as compared to the same period of 2023. The average loan to deposit ratio decreased to 92.11% from 93.39% reported in the same quarter of 2023. Non-cash accretion income was \$592 thousand for the third quarter compared to \$874 thousand reported in the same period of 2023.

Average interest-bearing liabilities, which consist of interest-bearing deposits and borrowings, decreased \$36.76 million, or 2.01%, primarily due to a decrease in deposits. Interest-bearing demand deposits decreased \$42.29 million, or 6.05%, while time deposits decreased \$18.92 million, or 7.17%. These decreases were offset by an increase in savings deposits of \$24.65 million, or 2.86%. The yield on interest-bearing liabilities increased 58 basis points and is primarily due to increases in benchmark rates throughout 2023.

Nine-Month Comparison. Net interest income comprised 76.61% of total net interest and noninterest income for the nine months ending September 30, 2024 compared to 77.99% in the same period of 2023. Net interest income on a GAAP basis decreased \$486 thousand, or 0.51%. Net interest income on a FTE basis decreased \$481 thousand, with a percentage decrease of 0.50%. The net interest margin on a FTE basis increased 1 basis point while the net interest spread on a FTE basis decreased 24 basis points. The 24 basis point decrease in net interest spread is primarily due to the increase in yield for interest-bearing liabilities of 68 basis points versus the increase in yield for earning assets of 44 basis points.

Average earning assets decreased \$25.70 million, or 0.89%, primarily due to decreases in both securities available for sale and loans. Securities available for sale decrease \$134.10 million, or 43.76%. Loans decreased \$22.61 million, or 0.90%. These decreases were offset by an increase in the average balance of interest-bearing deposits with banks of \$131.01 million, or 253.12%. The yield on earning assets increased 44 basis points, or 9.34%, primarily due to an increase in benchmark rates as compared to the same period of 2023. The average loan to deposit ratio increased to 93.74% from 92.44% reported in the same period of 2023. Non-cash accretion income increased to \$2.04 million from \$1.95 million reported in the same period of 2023.

Average interest-bearing liabilities, which consist of interest-bearing deposits and borrowings, decreased \$23.65 million, or 1.31%, primarily due to a decrease in deposits. Time deposits decreased \$25.35 million, or 9.30%, while interest-bearing demand deposits decreased \$20.39 million, or 2.99%. These decreases were offset by an increase in savings deposits of \$25.39 million, or 2.99%. The yield on interest-bearing liabilities increased 68 basis points and is primarily due to increases in benchmark rates throughout 2023.

Provision for Credit Losses

Three-Month Comparison. The provision charged to operations increased \$251 thousand in the third quarter of 2024 compared to the same quarter of 2023. Provision for credit losses for loans of \$1.36 was recorded in the third quarter of 2024 compared to the provision of \$1.32 million recorded in the same period of 2023. There was a recovery of provision recorded for the allowance for unfunded commitments during the third quarter of 2023 of \$206 thousand. There was no provision recorded for unfunded commitments during the third quarter of 2024.

Nine-Month Comparison. The provision charged to operations decreased \$4.44 million for the nine months ending September 30, 2024 compared to the same period of 2023. Provision for credit losses for loans of \$2.82 million was recorded in the first nine months of 2024 compared to the provision of \$7.39 million recorded in the same period of 2023. The provision of \$7.39 million recorded in the first nine months of 2023 included \$1.61 million of Day 2 provision associated with the Surrey Bancorp acquisition. The remaining decrease in provision is primarily due a much smaller required credit loss provision as the loan portfolio has experienced a decrease in balance of \$149.36 million from the same period of 2023. In addition, there was a recovery of provision recorded for the allowance for unfunded commitments during the first nine months of 2024 of \$305 thousand. There was a recovery of provision for the allowance for unfunded commitments for the same period of 2023 of \$438 thousand.

Noninterest Income

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

	Three Months Ended September 30,		Increase (Decrease)	% Change	Nine Months Ended September 30,		Increase (Decrease)	% Change
	2024	2023			2024	2023		
<i>(Amounts in thousands)</i>								
Wealth management	\$ 1,071	\$ 1,145	\$ (74)	-6.46%	\$ 3,234	\$ 3,127	\$ 107	3.42%
Service charges on deposits	3,661	3,729	(68)	-1.82%	10,399	10,359	40	0.39%
Other service charges and fees	3,697	3,564	133	3.73%	10,817	10,106	711	7.04%
Gain on sale of securities	-	-	-	-	-	(21)	21	-100.00%
Other operating income	2,023	1,184	839	70.86%	4,603	3,419	1,184	34.63%
Total noninterest income	\$ 10,452	\$ 9,622	\$ 830	8.63%	\$ 29,053	\$ 26,990	\$ 2,063	7.64%

Three-Month Comparison. Noninterest income comprised 24.86% of total net interest and noninterest income in the third quarter of 2024 compared to 22.39% in the same quarter of 2023. Noninterest income increased \$830 thousand or 8.63%. Noninterest income for the third quarter of 2024 included a gain of \$825 thousand from the sale of two closed branch properties; while noninterest income for the same period of 2023 included a gain of \$204 thousand for the sale of a closed branch property. Both of these gains are reflected in other operating income are primarily attributable for the change in total noninterest income.

Nine-Month Comparison. Noninterest income comprised 23.39% of total net interest and noninterest income for the nine months ending September 30, 2024 compared to 22.01% in the same period of 2023. Noninterest income increased \$2.06 million or 7.64%. Other operating income increased \$1.18 million. As noted above, other operating income for the third quarter of 2024 included a gain of \$825 thousand from the sale of two closed branch properties; while other operating income for the same period of 2023 included a gain of \$204 thousand for the sale of a closed branch property. In addition, other operating income for 2024, included a holdback payment of \$184 thousand related to a prior divestiture of an insurance agency. Other service charges and fees increased \$711 thousand and was primarily driven by an increase in interchange income.

Noninterest Expense

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

	Three Months Ended September 30,		Increase (Decrease)	% Change	Nine Months Ended September 30,		Increase (Decrease)	% Change
	2024	2023			2024	2023		
(Amounts in thousands)								
Salaries and employee benefits	\$ 13,129	\$ 12,673	\$ 456	3.60%	\$ 38,201	\$ 36,954	\$ 1,247	3.37%
Occupancy expense	1,270	1,271	(1)	-0.08%	3,957	3,715	242	6.51%
Furniture and equipment expense	1,574	1,480	94	6.35%	4,806	4,389	417	9.50%
Service fees	2,461	2,350	111	4.72%	7,337	6,653	684	10.28%
Advertising and public relations	967	968	(1)	-0.10%	2,696	2,457	239	9.73%
Professional fees	221	172	49	28.49%	923	780	143	18.33%
Amortization of intangibles	536	536	-	0.00%	1,596	1,195	401	33.56%
FDIC premiums and assessments	365	392	(27)	-6.89%	1,098	1,135	(37)	-3.26%
Litigation expense	-	-	-	-	1,800	-	1,800	-
Merger expense	-	-	-	-	-	2,393	(2,393)	-100.00%
Other operating expense	3,654	3,071	583	18.98%	10,046	8,726	1,320	15.13%
Total noninterest expense	\$ 24,177	\$ 22,913	\$ 1,264	5.52%	\$ 72,460	\$ 68,397	\$ 4,063	5.94%

Three-Month Comparison. Noninterest expense increased \$1.26 million, or 5.52%, in the third quarter of 2024 compared to the same quarter of 2023. The largest increases were primarily due to increases in other operating expense and salaries and employee benefits. The increase in other operating expense of \$583 thousand is largely attributable to an increase in loan and deposit fraud losses. The increase in salaries and employee benefits of \$456 thousand is attributable to inflationary increases in employee salaries.

Nine-Month Comparison. Noninterest expense increased \$4.06 million, or 5.94%, for the nine months ending September 30, 2024 compared to the same period of 2023. Noninterest expense for the second quarter of 2024 included a non-recurring charge of \$1.80 million to settle a putative class action lawsuit. Noninterest expense for the nine month period of 2023 included non-recurring expense of \$2.39 million in merger charges related to the Surrey acquisition. Other increases include an increase in salaries and employee benefits, other operating expense, and service fees. The increases are largely attributable to the addition of Surrey branches and inflationary increases.

Income Tax Expense

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.

Three-Month Comparison. Income tax expense decreased \$831 thousand, or 19.29%. The effective tax rate decreased to 21.05% in the third quarter of 2024 from 22.73% in the same quarter of 2023.

Nine-Month Comparison. Income tax expense decreased \$373 thousand, or 3.38%. The effective tax rate decreased to 21.64% for the first nine months of 2024 from 23.32% in the same period of 2023.

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 measure presented in this report includes net interest income on a FTE basis. 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%. While we believe certain 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 non-GAAP to GAAP measures are presented below.

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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 Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
<i>(Amounts in thousands)</i>				
Net interest income, GAAP	\$ 31,594	\$ 33,347	\$ 95,135	\$ 95,621
FTE adjustment(1)	109	110	341	336
Net interest income, FTE	<u>31,703</u>	<u>33,457</u>	<u>95,476</u>	<u>95,957</u>
Net interest margin, GAAP	4.39%	4.49%	4.44%	4.40%
FTE adjustment(1)	0.02%	0.02%	0.02%	0.05%
Net interest margin, FTE	<u>4.41%</u>	<u>4.51%</u>	<u>4.46%</u>	<u>4.45%</u>

(1) FTE basis of 21%.

Financial Condition

Total assets as of September 30, 2024, decreased \$44.18 million, or 1.35%, from December 31, 2023. The decrease in assets was primarily driven by decreases in the securities available-for-sale portfolio and loans. Total liabilities decreased \$61.58 million, or 2.23%, and was primarily driven by a decrease in deposits. Stockholders' equity increased \$17.40 million or 3.46%.

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 September 30, 2024, decreased \$114.29 million, or 40.68%, compared to December 31, 2023. The decrease is primarily due to the maturity of securities of \$157.96 million during the first nine months of 2024 offset by purchases of \$39.99 million. The market value of debt securities available-for-sale as a percentage of amortized cost was 93.88% as of September 30, 2024, compared to 95.23% as of December 31, 2023.

Management evaluates securities for impairment where there has been a decline in fair value below the amortized cost basis of a security to determine whether there is a credit loss associated with the decline in fair value on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Credit losses are calculated individually, rather than collectively, using a discounted cash flow method, whereby management compares the present value of expected cash flows with the amortized cost basis of the security. The credit loss component would be recognized through the provision for credit losses and the creation of an allowance for credit losses. Consideration is given to (1) the financial condition and near-term prospects of the issuer including looking at default and delinquency rates, (2) the outlook for receiving the contractual cash flows of the investments, (3) the length of time and the extent to which the fair value has been less than cost, (4) our intent and ability to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value or for a debt security whether it is more-likely-than-not that we will be required to sell the debt security prior to recovering its fair value, (5) the anticipated outlook for changes in the general level of interest rates, (6) credit ratings, (7) third party guarantees, and (8) collateral values. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, the results of reviews of the issuer's financial condition, and the issuer's anticipated ability to pay the contractual cash flows of the investments. U.S. Treasury Securities, Agency-Backed Securities including GNMA, FHLMC, FNMA, FHLB, FFCB and SBA. All of the U.S. Treasury and Agency-Backed Securities have the full faith and credit backing of the United State Government or one of its agencies. Municipal securities and all other securities that do not have a zero expected credit loss are evaluated quarterly to determine whether there is a credit loss associated with a decline in fair value. All debt securities available-for-sale in an unrealized loss position as of September 30, 2024 continue to perform as scheduled and we do not believe that a provision for credit losses is necessary.

Loans Held for Investment

Loans held for investment, which generates the 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.

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

(Amounts in thousands)	September 30, 2024		December 31, 2023		September 30, 2023	
	Amount	Percent	Amount	Percent	Amount	Percent
Loans held for investment						
Commercial loans						
Construction, development, and other land	\$ 74,580	3.05%	\$ 105,945	4.12%	\$ 113,790	4.39%
Commercial and industrial	216,211	8.85%	211,850	8.24%	213,541	8.23%
Multi-family residential	201,588	8.25%	188,382	7.32%	169,245	6.53%
Single family non-owner occupied	203,348	8.32%	224,895	8.74%	230,836	8.90%
Non-farm, non-residential	863,329	35.32%	894,550	34.78%	896,555	34.57%
Agricultural	17,565	0.72%	21,669	0.84%	22,146	0.85%
Farmland	12,116	0.49%	14,202	0.55%	15,997	0.62%
Total commercial loans	1,588,737	65.00%	1,661,493	64.59%	1,662,110	64.09%
Consumer real estate loans						
Home equity lines	88,975	3.64%	87,626	3.41%	88,224	3.40%
Single family owner occupied	662,094	27.09%	696,140	27.06%	703,789	27.14%
Owner occupied construction	4,565	0.19%	8,445	0.33%	10,692	0.41%
Total consumer real estate loans	755,634	30.92%	792,211	30.80%	802,705	30.95%
Consumer and other loans						
Consumer loans	97,216	3.98%	117,091	4.55%	126,917	4.89%
Other	2,526	0.10%	1,503	0.06%	1,740	0.07%
Total consumer and other loans	99,742	4.08%	118,594	4.61%	128,657	4.96%
Total loans held for investment, net of unearned income	2,444,113	100.00%	2,572,298	100.00%	2,593,472	100.00%
Less: allowance for credit losses	35,118		36,189		36,031	
Total loans held for investment, net of unearned income and allowance	<u>\$ 2,408,995</u>		<u>\$ 2,536,109</u>		<u>\$ 2,557,441</u>	

Total loans as of September 30, 2024, decreased \$128.19 million, or 4.98%, compared to December 31, 2023. The largest decrease occurred in the commercial loans segment with an overall decrease of \$72.76 million, or 4.38%. Within this segment, the largest decreases occurred in construction and non-farm, non-residential loans with decreases of \$31.37 million and \$31.22 million, respectively. The consumer real estate segment decreased \$36.58 million, or 4.62%, primarily due to a decrease in single family owner occupied of \$34.05 million, or 4.89%.

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 performs an independent credit analysis on a risk-based sample of commercial loan relationships annually, and performs a qualitative review of a sample of smaller commercial and retail loans.

Nonperforming assets consist of nonaccrual loans, accrual loans contractually past due 90 days or more, and modified loans past due 90 days or more, 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.

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

	September 30, 2024	December 31, 2023	September 30, 2023
<i>(Amounts in thousands)</i>			
Nonperforming			
Nonaccrual loans	\$ 19,754	\$ 19,356	\$ 18,366
Accruing loans past due 90 days or more	176	104	59
Modified loans past due 90 days or more	-	-	-
Total nonperforming loans	19,930	19,460	18,425
OREO	346	192	243
Total nonperforming assets	\$ 20,276	\$ 19,652	\$ 18,668
Additional Information			
Total modified loans	\$ 2,320	\$ 2,046	\$ 1,674
Asset Quality Ratios:			
Nonperforming loans to total loans	0.82%	0.76%	0.71%
Nonperforming assets to total assets	0.63%	0.60%	0.57%
Allowance for credit losses to nonperforming loans	176.21%	185.97%	195.55%
Allowance for credit losses to total loans	1.44%	1.41%	1.39%

Nonperforming assets as of September 30, 2024, increased \$624 thousand, or 3.18%, from December 31, 2023. Nonaccrual loans increased \$398 thousand, or 2.06%. OREO increased \$154 thousand, or 80.21% and accruing loans past due 90 days or more increased \$72 thousand from year-end. As of September 30, 2024, nonaccrual loans were largely attributed to single family owner occupied (45.49%), non-farm, non-residential (13.00%), and commercial and industrial of (10.63%). 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.

Delinquent loans, comprised of loans 30 days or more past due and nonaccrual loans, totaled \$33.92 million as of September 30, 2024, a decrease of \$10 thousand, or 0.03%, compared to \$33.93 million as of December 31, 2023. Delinquent loans as a percent of total loans totaled 1.35% as of September 30, 2024, which includes past due loans (0.58%) and nonaccrual loans (0.81%).

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When restructuring loans for borrowers experiencing financial difficulty, we generally make concessions in interest rates, loan terms, or amortization terms. Total loans modified as of September 30, 2024, were \$2.32 million. As of September 30, 2024, \$326 thousand of these loans were 30-89 days past due.

OREO, which is carried at the lesser of estimated net realizable value or cost, increased \$154 thousand, or 80.21%, as of September 30, 2024, compared to December 31, 2023, and consisted of 6 properties with an average holding period of approximately 2 months. The net loss on the sale of OREO totaled \$29 thousand for the nine months ended September 30, 2024, compared to a net loss of \$94 thousand for the same period of the prior year. The following table presents the changes in OREO during the periods indicated:

	Nine Months Ended September 30,	
	2024	2023
(Amounts in thousands)		
Beginning balance January 1	\$ 192	\$ 703
Additions	623	270
Disposals	(420)	(698)
Valuation adjustments	(14)	(32)
Other adjustments	(35)	-
Ending balance	<u>\$ 346</u>	<u>\$ 243</u>

Allowance for Credit Losses

The ACL reflects management's estimate of losses that will result from the inability of our borrowers to make required loan payments. Management uses a systematic methodology to determine its ACL for loans held for investment and certain off-balance-sheet credit exposures. The ACL is a valuation account that is deducted from the amortized cost basis to present the net amount expected to be collected on the loan portfolio. Management considers the effects of past events, current conditions, and reasonable and supportable forecasts on the collectability of the loan portfolio. The Company's estimate of its ACL involves a high degree of judgment; therefore, management's process for determining expected credit losses may result in a range of expected credit losses. It is possible that others, given the same information, may at any point in time reach a different reasonable conclusion. The Company's ACL recorded in the balance sheet reflects management's best estimate of expected credit losses. The Company recognizes in net income the amount needed to adjust the ACL for management's current estimate of expected credit losses. The Company's measurement of credit losses policy adheres to GAAP as well as interagency guidance. The Company's ACL is calculated using collectively evaluated and individually evaluated loans.

For collectively evaluated loans, the Company in general uses two modeling approaches to estimate expected credit losses. The Company projects the contractual run-off of its portfolio at the segment level and incorporates a prepayment assumption in order to estimate exposure at default. Financial assets that have been individually evaluated can be returned to a pool for purposes of estimating the expected credit loss insofar as their credit profile improves and that the repayment terms were not considered to be unique to the asset.

In addition to its own loss experience, management also includes peer bank historical loss experience in its assessment of expected credit losses to determine the ACL. The Company utilized call report data to measure historical credit loss experience with similar risk characteristics within the segments. For the majority of segment models for collectively evaluated loans, the Company incorporated at least one macroeconomic driver either using a statistical regression modeling methodology or simple loss rate modeling methodology.

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Included in its systematic methodology to determine its ACL for loans held for investment and certain off-balance-sheet credit exposures. Management considers the need to qualitatively adjust expected credit losses for information not already captured in the loss estimation process. These qualitative adjustments either increase or decrease the quantitative model estimation (i.e. formulaic model results). Each period the Company considers qualitative factors that are relevant within the qualitative framework. For further discussion of our Allowance for Credit Losses - See Note 1, "Basis of Presentation and Significant Accounting Policies," of the Notes to Consolidated Financial Statements in Part II, Item 8 of our 2023 Form 10-K.

As of September 30, 2024, the balance of the ACL for loans was \$35.12 million, or 1.44% of total loans. The ACL at September 30, 2024, decreased \$1.07 million from the balance of \$36.19 million recorded at December 31, 2023. This decrease included a \$2.82 million provision offset by net charge-offs for the nine months of \$3.89 million.

The Company is working with borrowers and customers in North Carolina, Tennessee, Virginia, and southern West Virginia affected by the devastating floods, power outages, and water shortages from Hurricane Helene. This includes payment relief for affected borrowers. We will continue to monitor the situation over the coming weeks as it relates to asset quality.

At September 30, 2024, the Company also had an allowance for unfunded commitments of \$441 thousand which was recorded in Other Liabilities on the Balance Sheet. During the first nine months of 2024, the Company recorded a recovery of provision for credit losses for loan commitments of \$305 thousand compared to a provision of provision of \$438 thousand recorded in the same period of 2023.

Deposits

Total deposits as of September 30, 2024, decreased \$63.07 million, or 2.32%, compared to December 31, 2023. The largest decreases in deposits occurred in noninterest-bearing demand of \$62.20 million, or 6.67%, and interest-bearing demand of \$36.22 million, or 5.22%. Time deposits decreased \$9.04 million or 3.57%. These decreases were offset by an increase in savings of \$44.38 million or 5.26%.

Total borrowings in the form of retail repurchase agreements as of September 30, 2024, decreased \$165 thousand, or 14.75%, compared to December 31, 2023.

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.

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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 September 30, 2024, the Company's cash reserves and short-term investment securities totaled \$6.50 million and \$7.71 million, respectively. The Company's cash reserves and investments provide adequate working capital to meet obligations for the next twelve months.

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 September 30, 2024, our unencumbered cash totaled \$315.34 million, unused borrowing capacity from the FHLB totaled \$353.31 million, available credit from the FRB Discount Window totaled \$5.85 million, available lines from correspondent banks totaled \$100.00 million, and unpledged available-for-sale securities totaled \$139.56 million.

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 September 30, 2024, increased \$17.40 million, or 3.46%, to \$520.69 million from \$503.29 million as of December 31, 2023. Capital increased due to net income of \$38.56 million. The increase was offset by dividends declared of \$16.35 million as well as the repurchase of our common stock totaling \$8.72 million. Book value per share at September 30, 2024, was \$28.47, an increase of \$1.27 from year-end 2023.

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 are based on the international capital standards known as Basel III. A description of the Basel III capital rules is included in Part I, Item 1 of the 2023 Form 10-K. Our current required capital ratios are as follows:

- 4.5% Common Equity Tier 1 capital to risk-weighted assets (effectively 7.00% including the capital conservation buffer)
- 6.0% Tier 1 capital to risk-weighted assets (effectively 8.50% including the capital conservation buffer)
- 8.0% Total capital to risk-weighted assets (effectively 10.50% including the capital conservation buffer)
- 4.0% Tier 1 capital to average consolidated assets ("Tier 1 leverage ratio")

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

	September 30, 2024		December 31, 2023	
	Company	Bank	Company	Bank
Common equity Tier 1 ratio	13.76%	16.22%	14.69%	12.97%
Tier 1 risk-based capital ratio	13.76%	16.22%	14.69%	12.97%
Total risk-based capital ratio	15.02%	17.48%	15.94%	14.22%
Tier 1 leverage ratio	10.24%	12.02%	11.52%	10.07%

Our risk-based capital ratios as of September 30, 2024, increased from December 31, 2023, primarily due to a decrease in risk weighted assets and increased capital levels. The decrease in risk-weighted assets was primarily driven by a decrease in both the loan and securities available for sale portfolios. As of September 30, 2024, 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 that would change the Bank's classification. Additionally, our capital ratios were in excess of the minimum standards under the Basel III capital rules as of September 30, 2024.

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:

	September 30, 2024	December 31, 2023
(Amounts in thousands)		
Commitments to extend credit	\$ 247,884	\$ 277,462
Standby letters of credit and financial guarantees ⁽¹⁾	122,064	129,220
Total off-balance sheet risk	<u>\$ 369,948</u>	<u>\$ 406,682</u>

(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 internal simulation and third-party 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.

As of September 30, 2024, the Federal Open Market Committee had set the benchmark federal funds rate to a range of 475 to 500 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:

Increase (Decrease) in Basis Points	September 30, 2024		December 31, 2023	
	Change in Net Interest Income	Percent Change	Change in Net Interest Income	Percent Change
(Dollars in thousands)				
200	\$ 1,415	1.1%	\$ 1,606	1.3%
100	719	0.6%	757	0.6%
(100)	(362)	(0.3)%	(3,858)	-3.0%
(200)	(902)	(0.7)%	(9,257)	-7.5%

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.

Astronomic federal government spending alongside labor shortages and supply chain complications have contributed to rising inflation. The timing and impact of inflation and rising interest rates on our business and related financial results will depend on future developments, which are highly uncertain and difficult to predict.

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 2 of this Quarterly Report on Form 10-Q.

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 September 30, 2024, 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.

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 September 30, 2024, 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

The risk factors set forth in our annual report on Form 10-K for the year ended December 31, 2023, 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 in our annual report on Form 10-K for the year ended December 31, 2023 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, such 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 annual report on Form 10-K for the year ended December 31, 2023.

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

- (a) Not Applicable
- (b) Not Applicable
- (c) Issuer Purchases of Equity Securities

During the third quarter of 2024, the Company purchased 12,854 shares of its common stock.

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:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs (1)
July 1-31, 2024	12,854	\$ 36.48	12,854	2,245,206
August 1-31, 2024	-	-	-	2,245,206
September 1-30, 2024	-	-	-	2,245,206
Total	12,854	\$ 36.48	12,854	

- (1) In September, 2023, the Board of Directors approved a repurchase plan to repurchase 2,700,000 shares of the Company's common stock. The timing, price, and quantity of purchases under the repurchase plan are at the discretion of management and the repurchase plan may be discontinued, suspended, or restarted at any time depending on the facts and circumstances.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

None.

ITEM 5. Other Information

- (a) None.
- (b) No changes were made to the procedures by which security holders may recommend nominees to the Company's board of directors.
- (c) During the three months ended September 30, 2024, none of our directors or executive officers (as defined in Rule 16a-1(f) of the Exchange Act) adopted or terminated a Rule 10b5-1 trading arrangement or a non-Rule 10b5-1 trading arrangement (as such terms defined in Item 408 of Regulation S-K under the Securities Exchange Act of 1934, as amended).

ITEM 6. Exhibits

- 2.1 [Agreement and Plan of Reincorporation and Merger between First Community Bancshares, Inc. and First Community Bankshares, Inc., incorporated by reference to Appendix A of the Definitive Proxy Statement on Form DEF 14A dated April 24, 2018, filed on March 13, 2018](#)
- 2.3 [Agreement and Plan of Merger between First Community Bankshares, Inc. and Surrey Bancorp. incorporated by reference to Exhibit 2.1 of the Current Report on Form 8-K dated and filed November 18, 2022](#)
- 3.1 [Articles of Incorporation of First Community Bankshares, Inc., incorporated by reference to Appendix B of the Definitive Proxy Statement on Form DEF 14A dated April 24, 2018, filed on March 13, 2018](#)
- 3.2 [Bylaws of First Community Bankshares, Inc., incorporated by reference to Exhibit 3.2 of the Current Report on Form 8-K dated and filed October 2, 2018](#)
- 4.1 [Description of First Community Bankshares, Inc. Common Stock, incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K dated and filed October 2, 2018](#)
- 4.2 [Form of First Community Bankshares, Inc. Common Stock Certificate, incorporated by reference to Exhibit 4.2 of the Current Report on Form 8-K dated and filed October 2, 2018](#)
- 10.1.1** [First Community Bancshares, Inc. 1999 Stock Option Plan, incorporated by reference to Exhibit 10.1 of the Annual Report on Form 10-K/A for the period ended December 31, 1999, filed on April 13, 2000](#)
- 10.1.2** [Amendment One to the First Community Bancshares, Inc. 1999 Stock Option Plan, incorporated by reference to Exhibit 10.1.1 of the Quarterly Report on Form 10-Q for the period ended March 31, 2004, filed on May 7, 2004](#)
- 10.2** [First Community Bancshares, Inc. 1999 Stock Option Agreement, incorporated by reference to Exhibit 10.5 of the Quarterly Report on Form 10-Q for the period ended June 30, 2002, filed on August 13, 2002](#)
- 10.1.7** [First Community Bankshares Executive Incentive Compensation Plan, incorporated by reference to Exhibit 10.1 of the current Report on Form 8-K filed May 31, 2022](#)
- 10.3** [First Community Bancshares, Inc. 2001 Nonqualified Director Stock Option Agreement, incorporated by reference to Exhibit 10.4 of the Quarterly Report on Form 10-Q for the period ended June 30, 2002, filed on August 14, 2002](#)
- 10.6** [First Community Bancshares, Inc. 2012 Omnibus Equity Compensation Plan, incorporated by reference to Appendix B of the Definitive Proxy Statement on Form DEF 14A dated April 24, 2012, filed on March 7, 2012](#)
- 10.7** [First Community Bancshares, Inc. 2012 Omnibus Equity Compensation Plan Restricted Stock Grant Agreement, incorporated by reference to Exhibit 99.1 of the Current Report on Form 8-K dated and filed May 28, 2013](#)
- 10.8** [First Community Bancshares, Inc. Life Insurance Endorsement Method Split Dollar Plan and Agreement, incorporated by reference to Exhibit 10.5 of the Annual Report on Form 10-K/A for the period ended December 31, 1999, filed on April 13, 2000](#)
- 10.9.1** [First Community Bancshares, Inc. and Affiliates Executive Retention Plan, incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K dated December 30, 2008, filed on January 5, 2009](#)
- 10.9.2** [Amendment #1 to the First Community Bancshares, Inc. and Affiliates Executive Retention Plan, incorporated by reference to Exhibit 10.3 of the Current Report on Form 8-K dated December 16, 2010, filed on December 17, 2010](#)
- 10.9.3** [Amendment #2 to the First Community Bancshares, Inc. and Affiliates Executive Retention Plan, incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K dated February 21, 2013, filed on February 25, 2013](#)

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10.9.4**	Amendment #3 to the First Community Bancshares, Inc. and Affiliates Executive Retention Plan, incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K dated May 24, 2016, filed on May 31, 2016
10.9.5**	Amendment #4 to the First Community Bancshares, Inc. and Affiliates Executive Retention Plan, incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K dated and filed on February 28, 2017
10.9.6	Amendment #5 to the First Community Bancshares, Inc. and Affiliates Executive Retention Plan
10.9.7	Amendment #6 to the First Community Bancshares, Inc. and Affiliates Executive Retention Plan
10.10**	Amended and Restated Deferred Compensation Plan for Directors of First Community Bancshares, Inc. and Affiliates, incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K dated December 16, 2019, filed on December 19, 2019
10.11.1**	First Community Bancshares, Inc. Amended and Restated Nonqualified Supplemental Cash or Deferred Retirement Plan, incorporated by reference to Exhibit 99.1 of the Current Report on Form 8-K dated August 22, 2006, filed on August 23, 2006, and Amendment #2, incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K dated and filed on February 28, 2017
10.11.2**	Amendment #2 to the First Community Bancshares, Inc. Amended and Restated Nonqualified Supplemental Cash or Deferred Retirement Plan, incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K dated and filed on February 28, 2017
10.12.1**	First Community Bancshares, Inc. Supplemental Directors Retirement Plan, as amended and restated, incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K dated December 16, 2010, filed on December 17, 2010, and Amendment #2, incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K dated May 24, 2016, filed on May 31, 2016
10.12.2**	Amendment #2 to the First Community Bancshares, Inc. Supplemental Directors Retirement Plan, as amended and restated, incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K dated May 24, 2016, filed on May 31, 2016
10.12.3**	Amendment #3 to the First Community Bankshares, Inc. Supplemental Directors Retirement Plan, as amended and restated, incorporated by reference to Exhibit 10.12.3 of the Annual Report on Form 10-K for the period ended December 31, 2021, filed on March 3, 2022
10.12.4**	Amendment #4 to the First Community Bankshares, Inc. Supplemental Directors Retirement Plan, as amended and restated, incorporated by reference to Exhibit 10.12.4 of the Annual Report on Form 10-K for the period ended December 31, 2021, filed on March 3, 2022
10.13**	Employment Agreement between First Community Bancshares, Inc. and David D. Brown, incorporated by reference to Exhibit 10.3 of the Current Report on Form 8-K dated and filed on April 16, 2015
10.15**	Employment Agreement between First Community Bancshares, Inc. and Gary R. Mills, incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K dated and filed on April 16, 2015
10.16**	Employment Agreement between First Community Bancshares, Inc. and William P. Stafford, II, incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K dated and filed on April 16, 2015
10.17**	First Community Bankshares, Inc. 2022 Omnibus Equity Compensation Plan incorporated by reference to Exhibit 99.a of the Definitive Proxy Statement on Form DEF 14A dated April 26, 2022, filed on March 16, 2022
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101***	Interactive data files pursuant to Rule 405 of Regulation S-T formatted in Inline Extensible Business Reporting Language (iXBRL): (i) Condensed Consolidated Balance Sheets as of September 30, 2024, (Unaudited) and December 31, 2023; (ii) Condensed Consolidated Statements of Income (Unaudited) for the three and nine months ended September 30, 2024 and 2023; (iii) Condensed Consolidated Statements of Comprehensive Income (Unaudited) for the three and nine months ended September 30, 2024 and 2023; (iv) Condensed Consolidated Statements of Stockholders' Equity (Unaudited) for the three and nine months ended September 30, 2024 and 2023; (v) Condensed Consolidated Statements of Cash Flows (Unaudited) for the nine months ended September 30, 2024 and 2023; and (vi) Notes to Condensed Consolidated Financial Statements (Unaudited).
104*	The cover page of First Community Bankshares, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 2024, formatted in Inline XBRL (included within the Exhibit 101 attachments).

* Filed herewith.

** Indicates a management contract or compensation plan or agreement. These contracts, plans, or agreements were assumed by First Community Bankshares, Inc. in October 2018 in connection with First Community Bancshares, Inc., a Nevada corporation, merging with and into its wholly-owned subsidiary, First Community Bankshares, Inc., a Virginia corporation, pursuant to an Agreement and Plan of Reincorporation and Merger with First Community Bankshares, Inc. continuing as the surviving corporation.

*** Submitted electronically herewith

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 November 7, 2024.

First Community Bankshares, 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)

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER

I, William P. Stafford, II, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of First Community Bankshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2024

/s/ William P. Stafford, II

William P. Stafford, II
Chief Executive Officer

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER

I, David D. Brown, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of First Community Bankshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2024

/s/ David D. Brown

David D. Brown
Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned certify, to their best knowledge and belief, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Quarterly Report on Form 10-Q of First Community Bankshares, Inc. (the "Company") for the period ended September 30, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2024

By: /s/ William P. Stafford, II
William P. Stafford, II
Chief Executive Officer

By: /s/ David D. Brown
David D. Brown
Chief Financial Officer