Section 1: 10-Q (FORM 10-Q)

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

FORM 10-Q

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

For the quarterly period ended **March 31, 2019**
or

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

Commission file number: **000-19297**

FIRST COMMUNITY BANKSHARES, INC.
(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

☑ 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 ☐	Accelerated filer ☑
Non-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

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

As of April 30, 2019, there were 15,756,830 shares outstanding of the registrant's Common Stock, $1.00 par value.

FIRST COMMUNITY BANKSHARES, INC.
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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

This list of important factors is not exclusive. If one or more of the factors affecting these forward-looking statements proves incorrect, actual results, performance, or achievements could differ materially from those expressed in, or implied by, forward-looking statements contained in this Quarterly Report on Form 10-Q and other reports we file with the Securities and Exchange Commission. Therefore, the Company cautions you not to place undue reliance on forward-looking information and statements. The Company does not intend to update any forward-looking statements, whether written or oral, to reflect changes. These cautionary statements expressly qualify all forward-looking statements that apply to the Company including the risk factors presented in Part II, Item 1A, "Risk Factors," of this report and Part I, Item 1A, "Risk Factors," of the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

FIRST COMMUNITY BANKSHARES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share and per share data)	March 31, 2019 (Unaudited)	December 31, 2018[(1)]
Assets		
Cash and due from banks	$ 36,600	$ 40,421
Federal funds sold	110,950	35,457
Interest-bearing deposits in banks	996	995
Total cash and cash equivalents	148,546	76,873
Debt securities available for sale	132,597	153,116
Debt securities held to maturity	-	25,013
Loans held for investment, net of unearned income (includes covered loans of $17,475 and $18,815, respectively)	1,737,380	1,775,084
Allowance for loan losses	(18,243)	(18,267)
Loans held for investment, net	1,719,137	1,756,817
FDIC indemnification asset	4,578	5,108
Premises and equipment, net	46,636	45,785
Other real estate owned (includes covered OREO of $152 and $32, respectively)	4,055	3,838
Interest receivable	5,227	5,481
Goodwill	92,744	92,744
Other intangible assets	4,780	5,026
Other assets	84,035	74,573
Total assets	$ 2,242,335	$ 2,244,374
Liabilities		
Deposits		
Noninterest-bearing	$ 479,299	$ 459,550
Interest-bearing	1,399,138	1,396,200
Total deposits	1,878,437	1,855,750
Securities sold under agreements to repurchase	3,700	29,370
Interest, taxes, and other liabilities	27,096	26,397
Total liabilities	1,909,233	1,911,517
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; 15,818,368 shares issued and outstanding at March 31, 2019; 16,007,263 shares issued and outstanding at December 31, 2018	15,818	16,007
Additional paid-in capital	115,914	122,486
Retained earnings	202,103	195,793
Accumulated other comprehensive loss	(733)	(1,429)
Total stockholders' equity	333,102	332,857
Total liabilities and stockholders' equity	$ 2,242,335	$ 2,244,374

(1) Derived from audited financial statements

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
(Amounts in thousands, except share and per share data)	**2019**	**2018**
Interest income		
Interest and fees on loans	$ 22,179	$ 22,755
Interest on securities -- taxable	409	389
Interest on securities -- tax-exempt	685	715
Interest on deposits in banks	338	471
Total interest income	23,611	24,330
Interest expense		
Interest on deposits	1,305	1,251
Interest on short-term borrowings	120	200
Interest on long-term debt	-	500
Total interest expense	1,425	1,951
Net interest income	22,186	22,379
Provision for loan losses	1,220	495
Net interest income after provision for loan losses	20,966	21,884
Noninterest income		
Wealth management	745	794
Service charges on deposits	3,408	3,468
Other service charges and fees	2,049	1,857
Insurance commissions	-	329
Net FDIC indemnification asset amortization	(552)	(382)
Other income	1,675	-
Other operating income	755	602
Total noninterest income	8,080	6,668
Noninterest expense		
Salaries and employee benefits	9,166	9,441
Occupancy expense	1,153	1,250
Furniture and equipment expense	1,033	1,046
Service fees	1,030	828
Advertising and public relations	524	522
Professional fees	414	307
Amortization of intangibles	246	261
FDIC premiums and assessments	168	211
Other operating expense	3,051	3,250
Total noninterest expense	16,785	17,116
Income before income taxes	12,261	11,436
Income tax expense	2,630	2,568
Net income	9,631	8,868
Earnings per common share		
Basic	$ 0.61	$ 0.52
Diluted	0.60	0.52
Cash dividends per common share	0.21	0.66
Weighted average shares outstanding		
Basic	15,839,424	16,955,758
Diluted	15,920,950	17,047,638

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2019	2018
(Amounts in thousands)		
Net income	$ 9,631	$ 8,868
Other comprehensive income, before tax		
Available-for-sale debt securities:		
Change in net unrealized (losses) gains on debt securities without other-than-temporary impairment	1,218	(2,147)
Reclassification adjustment for net losses recognized in net income	-	-
Net unrealized (losses) gains on available-for-sale debt securities	1,218	(2,147)
Employee benefit plans:		
Net actuarial (loss)	(407)	(1)
Reclassification adjustment for amortization of prior service cost and net actuarial loss recognized in net income	69	71
Net unrealized gains (losses) on employee benefit plans	(338)	70
Other comprehensive (loss) income, before tax	880	(2,077)
Income tax (benefit) expense	184	(436)
Other comprehensive (loss) income, net of tax	696	(1,641)
Total comprehensive income	$ 10,327	$ 7,227

See Notes to Condensed Consolidated Financial Statements.

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

(Amounts in thousands, except share and per share data)	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance January 1, 2018	$ -	$ 21,382	$ 228,750	$ 180,543	$ (79,121)	$ (840)	$ 350,714
Net income	-	-	-	8,868	-	-	8,868
Other comprehensive (loss)	-	-	-	-	-	(1,641)	(1,641)
Common dividends declared -- $0.66 per share	-	-	-	(11,184)	-	-	(11,184)
Equity-based compensation expense	-	-	(16)	-	547	-	531
Common stock options exercised -- 1,697 shares	-	-	(9)	-	31	-	22
Issuance of treasury stock to 401(k) plan -- 4,943 shares	-	-	49	-	91	-	140
Purchase of treasury shares -- 187,300 shares at $28.90 per share	-	-	-	-	(5,413)	-	(5,413)
Balance March 31, 2018	$ -	$ 21,382	$ 228,774	$ 178,227	$ (83,865)	$ (2,481)	$ 342,037
Balance January 1, 2019	$ -	$ 16,007	$ 122,486	$ 195,793	$ -	$ (1,429)	$ 332,857
Net income	-	-	-	9,631	-	-	9,631
Other comprehensive income	-	-	-	-	-	696	696
Common dividends declared -- $0.21 per share	-	-	-	(3,321)	-	-	(3,321)
Equity-based compensation expense	-	38	819	-	-	-	857
Common stock options exercised -- 1,418 shares	-	2	22	-	-	-	24
Issuance of common stock to 401(k) plan -- 4,098 shares	-	4	136	-	-	-	140
Purchase of common shares -- 232,900 shares at $33.41 per share	-	(233)	(7,549)	-	-	-	(7,782)
Balance March 31, 2019	$ -	$ 15,818	$ 115,914	$ 202,103	$ -	$ (733)	$ 333,102

See Notes to Condensed Consolidated Financial Statements.

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

(Amounts in thousands)	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Operating activities		
Net income	$ 9,631	$ 8,868
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	1,220	495
Depreciation and amortization of premises and equipment	736	806
Amortization of premiums on investments, net	16	112
Amortization of FDIC indemnification asset, net	552	382
Amortization of intangible assets	246	261
Accretion on acquired loans	(765)	(1,845)
Equity-based compensation expense	857	531
Issuance of common stock to 401(k) plan	140	140
(Gain) loss on sale of premises and equipment, net	(20)	7
Loss on sale of other real estate owned	364	103
Decrease in accrued interest receivable	254	623
(Increase) decrease in other operating activities	862	350
Net cash provided by operating activities	14,093	10,833
Investing activities		
Proceeds from maturities, prepayments, and calls of securities available for sale	11,735	2,552
Proceeds from maturities and calls of securities held to maturity	25,000	-
Payments to acquire securities available for sale	-	(23,387)
Proceeds from repayment of loans, net	35,316	22,862
Proceeds from bank owned life insurance	-	171
(Redemption of) proceeds from FHLB stock, net	(129)	3
(Payments to) proceeds from the FDIC	(23)	111
Proceeds from sale of premises and equipment	40	475
Payments to acquire premises and equipment	(1,625)	(121)
Proceeds from sale of other real estate owned	1,328	508
Net cash provided by investing activities	71,642	3,174
Financing activities		
Increase in noninterest-bearing deposits, net	19,749	6,335
Increase in interest-bearing deposits, net	2,938	44,393
(Repayments of) securities sold under agreements to repurchase, net	(25,670)	(971)
Proceeds from stock options exercised	24	22
Payments for repurchase of common stock	(7,782)	(5,413)
Payments of common dividends	(3,321)	(11,184)
Net cash (used in) provided by financing activities	(14,062)	33,182
Net increase in cash and cash equivalents	71,673	47,189
Cash and cash equivalents at beginning of period	76,873	157,951
Cash and cash equivalents at end of period	$ 148,546	$ 205,140
Supplemental disclosure -- cash flow information		
Cash paid for interest	$ 1,515	$ 1,983
Cash paid for income taxes	2,678	-
Supplemental transactions -- noncash items		
Transfer of loans to other real estate owned	1,908	2,787
Loans originated to finance other real estate owned	488	-
Decrease (increase) in accumulated other comprehensive loss	696	(1,641)
Security settlements in process	10,000	20,000

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 incorporated under the laws of the Commonwealth of Virginia in 2018. The Company is the successor to First Community Bancshares, Inc., a Nevada corporation, pursuant to an Agreement and Plan of Reincorporation and Merger, the sole purpose of which was to change the Company's state of incorporation from Nevada to Virginia. The Company's principal executive office is located at One Community Place, Bluefield, Virginia. The Company provides banking products and services to individual and commercial customers through its wholly owned subsidiary First Community Bank (the "Bank"), a Virginia-chartered banking institution founded in 1874. The Bank operates as First Community Bank in Virginia, West Virginia, and North Carolina and People's Community Bank, a Division of First Community Bank, in Tennessee. The Bank offers wealth management and investment advice through its Trust Division and wholly owned subsidiary First Community Wealth Management ("FCWM"). Unless the context suggests otherwise, the terms "First Community," "Company," "we," "our," and "us" refer to First Community 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") and prevailing practices in the banking industry. The consolidated financial statements include all accounts of the Company and its wholly owned subsidiaries and eliminate all intercompany balances and transactions. The Company operates in one business segment, Community Banking, which consists of all operations, including commercial and consumer banking, lending activities, wealth management, and insurance services. Operating results for interim periods are not necessarily indicative of results that may be expected for other interim periods or for the full year. In management's opinion, the accompanying unaudited interim condensed consolidated financial statements contain all necessary adjustments, including normal recurring accruals, and disclosures for a fair presentation.

These unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018 (the "2018 Form 10-K"), as filed with the Securities and Exchange Commission (the "SEC") on March 1, 2019. The condensed consolidated balance sheet as of December 31, 2018, 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. Material estimates that require the most subjective or complex judgments relate to fair value measurements, investment securities, the allowance for loan losses, goodwill and other intangible assets, and income taxes. A discussion of the Company's application of critical accounting estimates is included in "Critical Accounting Estimates" in Item 2 of this report.

Significant Accounting Policies

The 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 2018 Form 10-K.

Recent Accounting Standards

Standards Adopted in 2019

In July 2018, the FASB issued ASU 2018-09, "Codification Improvements." This ASU makes changes to a variety of topics to clarify, correct errors in, or make minor improvements to the Accounting Standards Codification. The majority of the amendments in ASU 2018-09 became effective for the Company for fiscal years beginning after December 15, 2018. The Company adopted ASU 2018-09 in the first quarter of 2019. The adoption of the standard had no material effect on its financial statements.

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." The ASU intends to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements and simplify the application of hedge accounting guidance. ASU 2017-12 became effective for the Company for fiscal years beginning after December 15, 2018. The Company adopted ASU 2017-12 in the first quarter of 2019. The adoption of the standard had no material effect on its financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." This ASU increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and requiring more disclosures related to leasing transactions. In January 2018, the FASB issued ASU 2018-01, which allows entities the option to apply the provisions of the new guidance at the effective date without adjusting the comparative periods presented. In July 2018, the FASB issued ASU 2018-10, "Codification Improvements to Topic 842, Leases," which updates narrow aspects of the guidance issued in ASU 2016-02, as well as issuing ASU 2018-11, which allows entities to choose an additional transition method in which an entity is allowed to apply the standard at adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption Under this method, the entity shall recognize and measure the leases that exist at the adoption date and the prior comparative periods are not adjusted. The Company adopted ASU 2016-02 January 1, 2019, electing to recognize and measure existing leases at the adoption date with no adjustments to prior periods. In addition, the Company elected the practical expedients of not re-assessing the classifications of existing leases, not re-assessing if existing leases have initial direct costs, or examining expired or existing contracts to determine if a lease exists. All of the current leases are classified as operating leases. The adoption of the standard resulted in a right-of-use asset of $915 thousand and a lease liability of $915 thousand which are included in other assets and other liabilities, respectively, in the condensed consolidated balance sheets. The adoption did not have a material impact on the financial position or results of operations of the Company.

Standards Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." This ASU intends to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. This ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, the update amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 will be effective for the Company for fiscal years beginning after December 15, 2019, with early adoption permitted for fiscal years beginning after December 15, 2018. The Company expects to adopt ASU 2016-13 in the first quarter of 2020 and recognize a cumulative adjustment to retained earnings as of the beginning of the year of adoption. The Company has established a working group to prepare for, and implement changes related to, the standard and has engaged a third-party vendor solution to assist in the application of the standard. The Company is currently unable to reasonably estimate the impact of adopting ASU 2016-13, but expects that the impact of adoption could be significantly influenced by the composition, characteristics, and quality of the Company's loan and securities portfolios as well as the prevailing economic conditions and forecasts as of the adoption date. The adoption of the standard could result in significant changes to the Company's consolidated financial statements, which may include changes in the level of the allowance for credit losses that will be considered adequate, a reduction in shareholders' equity and regulatory capital, differences in the timing of recognizing changes to the allowance for credit losses, expanded disclosures about the allowance for credit losses, and the Company's internal control over financial reporting related to the allowance for credit losses.

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

Note 2. Debt Securities

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

	March 31, 2019			
(Amounts in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Agency securities	$ 1,079	$ -	$ (1)	$ 1,078
U.S. Treasury securities	-	-	-	-
Municipal securities	95,810	1,231	(44)	96,997
Mortgage-backed Agency securities	34,851	92	(421)	34,522
Total	$ 131,740	$ 1,323	$ (466)	$ 132,597

	December 31, 2018			
(Amounts in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Agency securities	$ 1,108	$ 5	$ -	$ 1,113
U.S. Treasury securities	19,970	-	(10)	19,960
Municipal securities	96,886	912	(509)	97,289
Mortgage-backed Agency securities	35,513	14	(773)	34,754
Total	$ 153,477	$ 931	$ (1,292)	$ 153,116

The remaining debt securities held in the held-to-maturity portfolio at year-end matured during the first quarter of 2019. The funds were used to repay the Company's remaining wholesale repurchase agreement of $25 million. The following table presents the amortized cost and fair value of held-to-maturity debt securities, including gross unrealized gains and losses, at year-end:

	December 31, 2018			
(Amounts in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Agency securities	$ 17,887	$ -	$ (20)	$ 17,867
Corporate securities	7,126	-	(3)	7,123
Total	$ 25,013	$ -	$ (23)	$ 24,990

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.

	March 31, 2019	
(Amounts in thousands)	Amortized Cost	Fair Value
Available-for-sale debt securities		
Due within one year	$ -	$ -
Due after one year but within five years	17,977	18,188
Due after five years but within ten years	78,912	79,887
Due after ten years	-	-
	96,889	98,075
Mortgage-backed securities	34,851	34,522
Total debt securities available for sale	$ 131,740	$ 132,597

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:

	March 31, 2019					
	Less than 12 Months		12 Months or Longer		Total	
(Amounts in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Agency securities	$ 1,068	$ (1)	$ -	$ -	$ 1,068	$ (1)
Municipal securities	-	-	4,999	(44)	4,999	(44)
Mortgage-backed Agency securities	518	(2)	16,317	(419)	16,835	(421)
Total	$ 1,586	$ (3)	$ 21,316	$ (463)	$ 22,902	$ (466)

	December 31, 2018					
	Less than 12 Months		12 Months or Longer		Total	
(Amounts in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities	$ 19,960	$ (10)	$ -	$ -	$ 19,960	$ (10)
Municipal securities	7,116	(62)	18,081	(447)	25,197	(509)
Mortgage-backed Agency securities	15,762	(99)	15,344	(674)	31,106	(773)
Total	$ 42,838	$ (171)	$ 33,425	$ (1,121)	$ 76,263	$ (1,292)

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

	December 31, 2018					
	Less than 12 Months		12 Months or Longer		Total	
(Amounts in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Agency securities	$ -	$ -	$ 17,867	$ (20)	$ 17,867	$ (20)
Corporate securities	-	-	7,123	(3)	7,123	(3)
Total	$ -	$ -	$ 24,990	$ (23)	$ 24,990	$ (23)

There were 35 individual debt securities in an unrealized loss position as of March 31, 2019, and their combined depreciation in value represented 0.35% of the debt securities portfolio. There were 90 individual debt securities in an unrealized loss position as of December 31, 2018, and their combined depreciation in value represented 0.74% of the debt securities portfolio.

The Company reviews its investment portfolio quarterly for indications of other-than-temporary impairment (“OTTI”). The initial indicator of OTTI for debt securities is a decline in fair value below book value and the severity and duration of the decline. The credit-related OTTI is recognized as a charge to noninterest income and the noncredit-related OTTI is recognized in other comprehensive income (“OCI”). During the three months ended March 31, 2019 and 2018, the Company incurred no OTTI charges on debt securities. Temporary impairment on debt securities is primarily related to changes in benchmark interest rates, changes in pricing in the credit markets, and other current economic factors.

There were no gross realized gains or losses from the sale of available-for-sale debt securities for the three months ended March 31, 2019 or 2018. The carrying amount of securities pledged for various purposes totaled $27.14 million as of March 31, 2019, and $38.25 million as of December 31, 2018.

Note 3. Loans

The Company groups loans held for investment into three segments (commercial loans, consumer real estate loans, and consumer and other loans) with each segment divided into various classes. Covered loans are those loans acquired in Federal Deposit Insurance Corporation (“FDIC”) assisted transactions that are covered by loss share agreements. Customer overdrafts reclassified as loans totaled $1.60 million as of March 31, 2019, and $1.79 million as of December 31, 2018. Deferred loan fees, net of loan costs, totaled $4.23 million as of March 31, 2019, and $4.60 million as of December 31, 2018. For information about off-balance sheet financing, see Note 14, “Litigation, Commitments, and Contingencies,” to the Condensed Consolidated Financial Statements of this report.

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

	March 31, 2019		December 31, 2018	
(Amounts in thousands)	**Amount**	**Percent**	**Amount**	**Percent**
Non-covered loans held for investment				
Commercial loans				
Construction, development, and other land	$ 63,975	3.68%	$ 63,508	3.58%
Commercial and industrial	94,039	5.41%	104,863	5.91%
Multi-family residential	102,071	5.87%	107,012	6.03%
Single family non-owner occupied	140,037	8.06%	140,097	7.89%
Non-farm, non-residential	602,207	34.67%	613,877	34.58%
Agricultural	8,975	0.52%	8,545	0.48%
Farmland	18,569	1.07%	18,905	1.07%
Total commercial loans	1,029,873	59.28%	1,056,807	59.54%
Consumer real estate loans				
Home equity lines	90,000	5.18%	93,466	5.27%
Single family owner occupied	502,059	28.89%	510,963	28.79%
Owner occupied construction	13,867	0.80%	18,171	1.02%
Total consumer real estate loans	605,926	34.87%	622,600	35.08%
Consumer and other loans				
Consumer loans	79,185	4.56%	71,552	4.03%
Other	4,921	0.28%	5,310	0.30%
Total consumer and other loans	84,106	4.84%	76,862	4.33%
Total non-covered loans	1,719,905	98.99%	1,756,269	98.94%
Total covered loans	17,475	1.01%	18,815	1.06%
Total loans held for investment, net of unearned income	$ 1,737,380	100.00%	$ 1,775,084	100.00%

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

(Amounts in thousands)	March 31, 2019	December 31, 2018
Covered loans		
Commercial loans		
Construction, development, and other land	$ 33	$ 35
Single family non-owner occupied	231	238
Non-farm, non-residential	6	6
Total commercial loans	270	279
Consumer real estate loans		
Home equity lines	14,076	15,284
Single family owner occupied	3,129	3,252
Total consumer real estate loans	17,205	18,536
Total covered loans	$ 17,475	$ 18,815

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

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

	March 31, 2019		December 31, 2018	
(Amounts in thousands)	Recorded Investment	Unpaid Principal Balance	Recorded Investment	Unpaid Principal Balance
PCI Loans, by acquisition				
Peoples	$ 5,348	$ 7,116	$ 5,330	$ 7,272
Waccamaw	5,266	18,436	5,805	19,602
Other acquired	853	879	868	894
Total PCI Loans	$ 11,467	$ 26,431	$ 12,003	$ 27,768

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

(Amounts in thousands)	Peoples	Waccamaw	Total
Balance January 1, 2018	$ 3,388	$ 19,465	$ 22,853
Accretion	(364)	(1,845)	(2,209)
Reclassifications (to) from nonaccretable difference(1)	(29)	601	572
Other changes, net	132	(261)	(129)
Balance March 31, 2018	$ 3,127	$ 17,960	$ 21,087
Balance January 1, 2019	$ 2,590	$ 14,639	$ 17,229
Accretion	(259)	(752)	(1,011)
Reclassifications from nonaccretable difference(1)	7	653	660
Other changes, net	58	250	308
Balance March 31, 2019	$ 2,396	$ 14,790	$ 17,186

(1) Represents changes attributable to expected loss assumptions

Note 4. Credit Quality

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

- Pass -- This grade is assigned to loans with acceptable credit quality and risk. The Company further segments this grade based on borrower characteristics that include capital strength, earnings stability, liquidity, leverage, and industry conditions.
- Special Mention -- This grade is assigned to loans that require an above average degree of supervision and attention. These loans have the characteristics of an asset with acceptable credit quality and risk; however, adverse economic or financial conditions exist that create potential weaknesses deserving of management's close attention. If potential weaknesses are not corrected, the prospect of repayment may worsen.
- Substandard -- This grade is assigned to loans that have well defined weaknesses that may make payment default, or principal exposure, possible. These loans will likely be dependent on collateral liquidation, secondary repayment sources, or events outside the normal course of business to meet repayment terms.
- Doubtful -- This grade is assigned to loans that have the weaknesses inherent in substandard loans; however, the weaknesses are so severe that collection or liquidation in full is unlikely based on current facts, conditions, and values. Due to certain specific pending factors, the amount of loss cannot yet be determined.
- Loss -- This grade is assigned to loans that will be charged off or charged down when payments, including the timing and value of payments, are uncertain. This risk grade does not imply that the asset has no recovery or salvage value, but simply means that it is not practical or desirable to defer writing off, either all or a portion of, the loan balance even though partial recovery may be realized in the future.

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

	March 31, 2019					
(Amounts in thousands)	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Loss**	**Total**
Non-covered loans						
Commercial loans						
Construction, development, and other land	$ 62,395	$ 639	$ 941	$ -	$ -	$ 63,975
Commercial and industrial	91,320	1,852	867	-	-	94,039
Multi-family residential	99,811	847	1,413	-	-	102,071
Single family non-owner occupied	131,049	4,139	4,849	-	-	140,037
Non-farm, non-residential	582,290	7,447	12,324	146	-	602,207
Agricultural	8,807	119	49	-	-	8,975
Farmland	16,300	528	1,741	-	-	18,569
Consumer real estate loans						
Home equity lines	87,657	641	1,702	-	-	90,000
Single family owner occupied	474,928	3,925	23,206	-	-	502,059
Owner occupied construction	13,570	-	297	-	-	13,867
Consumer and other loans						
Consumer loans	78,830	11	344	-	-	79,185
Other	4,921	-	-	-	-	4,921
Total non-covered loans	1,651,878	20,148	47,733	146	-	1,719,905
Covered loans						
Commercial loans						
Construction, development, and other land	-	33	-	-	-	33
Single family non-owner occupied	216	-	15	-	-	231
Non-farm, non-residential	-	-	6	-	-	6
Consumer real estate loans						
Home equity lines	8,953	4,791	332	-	-	14,076
Single family owner occupied	2,393	339	397	-	-	3,129
Total covered loans	11,562	5,163	750	-	-	17,475
Total loans	$ 1,663,440	$ 25,311	$ 48,483	$ 146	$ -	$ 1,737,380

(Amounts in thousands)	December 31, 2018 Pass	Special Mention	Substandard	Doubtful	Loss	Total
Non-covered loans						
Commercial loans						
Construction, development, and other land	$ 61,877	$ 661	$ 970	$ -	$ -	$ 63,508
Commercial and industrial	102,044	2,166	653	-	-	104,863
Multi-family residential	104,183	1,087	1,742	-	-	107,012
Single family non-owner occupied	131,443	4,395	4,259	-	-	140,097
Non-farm, non-residential	595,659	8,166	9,906	146	-	613,877
Agricultural	8,328	131	86	-	-	8,545
Farmland	16,898	538	1,469	-	-	18,905
Consumer real estate loans						
Home equity lines	91,194	649	1,623	-	-	93,466
Single family owner occupied	482,794	4,355	23,814	-	-	510,963
Owner occupied construction	17,872	-	299	-	-	18,171
Consumer and other loans						
Consumer loans	71,240	4	308	-	-	71,552
Other	5,310	-	-	-	-	5,310
Total non-covered loans	1,688,842	22,152	45,129	146	-	1,756,269
Covered loans						
Commercial loans						
Construction, development, and other land	-	35	-	-	-	35
Single family non-owner occupied	223	-	15	-	-	238
Non-farm, non-residential	-	-	6	-	-	6
Consumer real estate loans						
Home equity lines	9,511	5,244	529	-	-	15,284
Single family owner occupied	2,507	355	390	-	-	3,252
Total covered loans	12,241	5,634	940	-	-	18,815
Total loans	$ 1,701,083	$ 27,786	$ 46,069	$ 146	$ -	$ 1,775,084

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

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

	March 31, 2019			December 31, 2018		
(Amounts in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with no related allowance						
Commercial loans						
Construction, development, and other land	$ 803	$ 831	$ -	$ 824	$ 840	$ -
Commercial and industrial	615	641	-	386	416	-
Multi-family residential	1,334	1,804	-	1,127	1,274	-
Single family non-owner occupied	3,003	3,255	-	2,761	3,095	-
Non-farm, non-residential	4,553	4,987	-	4,154	4,494	-
Agricultural	49	51	-	86	96	-
Farmland	1,464	1,548	-	1,464	1,547	-
Consumer real estate loans						
Home equity lines	1,411	1,515	-	1,315	1,451	-
Single family owner occupied	15,554	17,912	-	15,451	18,390	-
Owner occupied construction	224	224	-	225	225	-
Consumer and other loans						
Consumer loans	104	107	-	145	156	-
Total impaired loans with no allowance	29,114	32,875	-	27,938	31,984	-
Impaired loans with a related allowance						
Commercial loans						
Commercial and industrial	-	-	-	-	-	-
Multi-family residential	-	-	-	534	536	230
Single family non-owner occupied	-	-	-	-	-	-
Non-farm, non-residential	-	-	-	840	842	235
Farmland	-	-	-	-	-	-
Consumer real estate loans						
Home equity lines	-	-	-	65	68	65
Single family owner occupied	2,319	2,319	684	3,631	3,683	922
Total impaired loans with an allowance	2,319	2,319	684	5,070	5,129	1,452
Total impaired loans[(1)]	$ 31,433	$ 35,194	$ 684	$ 33,008	$ 37,113	$ 1,452

(1) Total impaired loans include loans totaling $24.41 million as of March 31, 2019, and $25.27 million as of December 31, 2018, that do not meet the Company's evaluation threshold for individual impairment and are therefore collectively evaluated for impairment. During the first quarter of 2018, the Company changed the threshold for quarterly reviews of individual loans that are deemed to be impaired from $250 thousand to $500 thousand or greater.

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

	Three Months Ended March 31,			
	2019		2018	
(Amounts in thousands)	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment
Impaired loans with no related allowance:				
Commercial loans				
Construction, development, and other land	$ 7	$ 800	$ 13	$ 1,116
Commercial and industrial	3	617	1	585
Multi-family residential	9	1,618	10	799
Single family non-owner occupied	28	2,994	23	2,960
Non-farm, non-residential	17	4,675	39	7,109
Agricultural	2	53	-	283
Farmland	16	1,449	9	438
Consumer real estate loans				
Home equity lines	7	1,408	7	1,806
Single family owner occupied	124	15,939	107	15,586
Owner occupied construction	2	221	3	227
Consumer and other loans				
Consumer loans	1	105	1	76
Total impaired loans with no related allowance	216	29,879	213	30,985
Impaired loans with a related allowance:				
Commercial loans				
Construction, development, and other land	-	-	-	-
Commercial and industrial	-	-	-	-
Single family non-owner occupied	-	-	7	439
Non-farm, non-residential	-	-	-	166
Farmland	-	-	-	404
Consumer real estate loans				
Home equity lines	-	-	-	72
Single family owner occupied	29	2,291	32	5,474
Owner occupied construction	-	-	-	-
Total impaired loans with a related allowance	29	2,291	39	6,555
Total impaired loans	$ 245	$ 32,170	$ 252	$ 37,540

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

	March 31, 2019			December 31, 2018		
(Amounts in thousands)	Non-covered	Covered	Total	Non-covered	Covered	Total
Commercial loans						
Construction, development, and other land	$ 400	$ -	$ 400	$ 413	$ -	$ 413
Commercial and industrial	597	-	597	428	-	428
Multi-family residential	1,074	-	1,074	1,395	-	1,395
Single family non-owner occupied	2,166	13	2,179	1,696	15	1,711
Non-farm, non-residential	3,559	-	3,559	4,020	-	4,020
Agricultural	49	-	49	86	-	86
Farmland	717	-	717	711	-	711
Consumer real estate loans						
Home equity lines	699	189	888	614	271	885
Single family owner occupied	9,232	35	9,267	10,141	36	10,177
Consumer and other loans						
Consumer loans	51	-	51	79	-	79
Total nonaccrual loans	$ 18,544	$ 237	$ 18,781	$ 19,583	$ 322	$ 19,905

The following tables present the aging of past due loans, by loan class, as of the dates indicated. Nonaccrual loans 30 days or more past due are included in the applicable delinquency category. Loans acquired with credit deterioration, with a discount, continue to accrue interest based on expected cash flows; therefore, PCI loans are not generally considered nonaccrual. Non-covered accruing loans contractually past due 90 days or more totaled $156 thousand as of March 31, 2019, compared to $58 thousand as of December 31, 2018.

	March 31, 2019					
(Amounts in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	90+ Days Past Due	Total Past Due	Current Loans	Total Loans
Non-covered loans						
Commercial loans						
Construction, development, and other land	$ 135	$ -	$ 395	$ 530	$ 63,445	$ 63,975
Commercial and industrial	372	16	507	895	93,144	94,039
Multi-family residential	-	-	956	956	101,115	102,071
Single family non-owner occupied	721	638	1,149	2,508	137,529	140,037
Non-farm, non-residential	2,170	1,030	2,149	5,349	596,858	602,207
Agricultural	-	-	-	-	8,975	8,975
Farmland	510	260	457	1,227	17,342	18,569
Consumer real estate loans						
Home equity lines	219	278	484	981	89,019	90,000
Single family owner occupied	4,529	3,691	3,450	11,670	490,389	502,059
Owner occupied construction	-	-	-	-	13,867	13,867
Consumer and other loans						
Consumer loans	674	103	42	819	78,366	79,185
Other	-	-	-	-	4,921	4,921
Total non-covered loans	9,330	6,016	9,589	24,935	1,694,970	1,719,905
Covered loans						
Commercial loans						
Construction, development, and other land	-	-	-	-	33	33
Single family non-owner occupied	13	-	-	13	218	231
Non-farm, non-residential	-	-	-	-	6	6
Consumer real estate loans						
Home equity lines	578	-	-	578	13,498	14,076
Single family owner occupied	53	-	-	53	3,076	3,129
Total covered loans	644	-	-	644	16,831	17,475
Total loans	$ 9,974	$ 6,016	$ 9,589	$ 25,579	$ 1,711,801	$ 1,737,380

(Amounts in thousands)	December 31, 2018 30 - 59 Days Past Due	60 - 89 Days Past Due	90+ Days Past Due	Total Past Due	Current Loans	Total Loans
Non-covered loans						
Commercial loans						
Construction, development, and other land	$ 111	$ -	$ 407	$ 518	$ 62,990	$ 63,508
Commercial and industrial	306	-	262	568	104,295	104,863
Multi-family residential	113	-	1,274	1,387	105,625	107,012
Single family non-owner occupied	514	1,115	992	2,621	137,476	140,097
Non-farm, non-residential	1,332	540	2,398	4,270	609,607	613,877
Agricultural	109	-	-	109	8,436	8,545
Farmland	640	-	392	1,032	17,873	18,905
Consumer real estate loans						
Home equity lines	408	209	334	951	92,515	93,466
Single family owner occupied	5,006	3,495	4,445	12,946	498,017	510,963
Owner occupied construction	-	-	-	-	18,171	18,171
Consumer and other loans						
Consumer loans	507	200	59	766	70,786	71,552
Other	-	-	-	-	5,310	5,310
Total non-covered loans	9,046	5,559	10,563	25,168	1,731,101	1,756,269
Covered loans						
Commercial loans						
Construction, development, and other land	-	-	-	-	35	35
Single family non-owner occupied	15	-	-	15	223	238
Non-farm, non-residential	-	-	-	-	6	6
Consumer real estate loans						
Home equity lines	176	38	91	305	14,979	15,284
Single family owner occupied	166	-	-	166	3,086	3,252
Total covered loans	357	38	91	486	18,329	18,815
Total loans	$ 9,403	$ 5,597	$ 10,654	$ 25,654	$ 1,749,430	$ 1,775,084

The Company may make concessions in interest rates, loan terms and/or amortization terms when restructuring loans for borrowers experiencing financial difficulty. Restructured loans in excess of $250 thousand are evaluated for a specific reserve based on either the collateral or net present value method, whichever is most applicable. Restructured loans under $250 thousand are subject to the reserve calculation at the historical loss rate for classified loans. Certain TDRs are classified as nonperforming at the time of restructuring and are returned to performing status after six months of satisfactory payment performance; however, these loans remain identified as impaired until full payment or other satisfaction of the obligation occurs. PCI loans are generally not considered TDRs as long as the loans remain in the assigned loan pool. No covered loans were recorded as TDRs as of March 31, 2019, or December 31, 2018.

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

(Amounts in thousands)	March 31, 2019 Nonaccrual (1)	Accruing	Total	December 31, 2018 Nonaccrual (1)	Accruing	Total
Commercial loans						
Construction, development, and other land	$ -	$ -	$ -	$ -	$ -	$ -
Single family non-owner occupied	638	610	$ 1,248	$ 640	$ 309	$ 949
Non-farm, non-residential	-	313	313	-	314	314
Consumer real estate loans						
Home equity lines	4	123	127	-	127	127
Single family owner occupied	2,221	5,185	7,406	1,941	5,417	7,358
Owner occupied construction	-	224	224	-	225	225
Consumer and other loans						
Consumer loans	-	34	34	-	35	35
Total TDRs	$ 2,863	$ 6,489	$ 9,352	$ 2,581	$ 6,427	$ 9,008
Allowance for loan losses related to TDRs			$ 481			$ 568

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

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

(Amounts in thousands)	Three Months Ended March 31 2019	Three Months Ended March 31 2018
Interest income recognized	$ 63	$ 70

The following tables present loans modified as TDRs, by type of concession made and loan class, that were restructured during the periods indicated:

	Three Months Ended March 31,					
	2019			2018		
(Amounts in thousands)	Total Contracts	Pre-modification Recorded Investment	Post-modification Recorded Investment[1]	Total Contracts	Pre-modification Recorded Investment	Post-modification Recorded Investment[1]
Below market interest rate and extended payment term						
Single family owner occupied	$ 2	$ 374	$ 372	-	-	-
Single family non-owner occupied	1	304	304	-	-	-
Consumer loans	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total below market interest rate and extended payment term	3	678	676	-	-	-
Payment deferral						
Single family owner occupied	1	66	49	-	-	-
Home equity lines	1	4	4	-	-	-
Total principal deferral	2	70	53	-	-	-

There were no payment defaults on loans modified as TDRs that were restructured within the previous 12 months as of March 31, 2019 or 2018.

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

(Amounts in thousands)	March 31, 2019	December 31, 2018
Non-covered OREO	$ 3,903	$ 3,806
Covered OREO	152	32
Total OREO	$ 4,055	$ 3,838
Non-covered OREO secured by residential real estate	$ 2,653	$ 2,303
Residential real estate loans in the foreclosure process[1]	4,152	6,349

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

Note 5. Allowance for Loan Losses

The following tables present the changes in the allowance for loan losses, by loan segment, during the periods indicated. There was no allowance related to PCI loans as of March 31, 2019.

	Three Months Ended March 31, 2019			
(Amounts in thousands)	Commercial	Consumer Real Estate	Consumer and Other	Total Allowance
Total allowance				
Beginning balance	$ 10,499	$ 6,732	$ 1,036	$ 18,267
(Recovery of) provision for loan losses charged to operations	(106)	817	509	1,220
Charge-offs	(492)	(759)	(371)	(1,622)
Recoveries	164	66	148	378
Net charge-offs	(328)	(693)	(223)	(1,244)
Ending balance	$ 10,065	$ 6,856	$ 1,322	$ 18,243

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

The following tables present the allowance for loan losses and recorded investment in loans evaluated for impairment, excluding PCI loans, by loan class, as of the dates indicated:

(Amounts in thousands)	March 31, 2019 Loans Individually Evaluated for Impairment	Allowance for Loans Individually Evaluated	Loans Collectively Evaluated for Impairment	Allowance for Loans Collectively Evaluated
Commercial loans				
Construction, development, and other land	$ -	$ -	$ 63,510	$ 436
Commercial and industrial	-	-	94,039	525
Multi-family residential	536	-	101,535	1,009
Single family non-owner occupied	-	-	138,399	1,472
Non-farm, non-residential	1,403	-	596,856	6,354
Agricultural	-	-	8,975	78
Farmland	542	-	18,027	191
Total commercial loans	2,481	-	1,021,341	10,065
Consumer real estate loans				
Home equity lines	-	-	99,516	668
Single family owner occupied	4,543	684	500,058	5,399
Owner occupied construction	-	-	13,867	105
Total consumer real estate loans	4,543	684	613,441	6,172
Consumer and other loans				
Consumer loans	-	-	79,185	1,322
Other	-	-	4,921	-
Total consumer and other loans	-	-	84,106	1,322
Total loans, excluding PCI loans	$ 7,024	$ 684	$ 1,718,888	$ 17,559

(Amounts in thousands)	December 31, 2018 Loans Individually Evaluated for Impairment	Allowance for Loans Individually Evaluated	Loans Collectively Evaluated for Impairment	Allowance for Loans Collectively Evaluated
Commercial loans				
Construction, development, and other land	$ -	$ -	$ 63,039	$ 417
Commercial and industrial	-	-	104,863	663
Multi-family residential	534	230	106,478	962
Single family non-owner occupied	-	-	138,451	1,442
Non-farm, non-residential	840	235	609,100	6,295
Agricultural	-	-	8,545	85
Farmland	-	-	18,905	170
Total commercial loans	1,374	465	1,049,381	10,034
Consumer real estate loans				
Home equity lines	65	65	103,668	683
Single family owner occupied	3,631	922	509,929	4,931
Owner occupied construction	-	-	18,171	131
Total consumer real estate loans	3,696	987	631,768	5,745
Consumer and other loans				
Consumer loans	-	-	71,552	1,036
Other	-	-	5,310	-
Total consumer and other loans	-	-	76,862	1,036
Total loans, excluding PCI loans	$ 5,070	$ 1,452	$ 1,758,011	$ 16,815

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

	March 31, 2019		December 31, 2018	
(Amounts in thousands)	Recorded Investment	Allowance for Loan Pools With Impairment	Recorded Investment	Allowance for Loan Pools With Impairment
Commercial loans				
Waccamaw commercial	$ -	$ -	$ -	$ -
Peoples commercial	4,442	-	4,405	-
Other	853	-	868	-
Total commercial loans	5,295	-	5,273	-
Consumer real estate loans				
Waccamaw serviced home equity lines	4,560	-	5,017	-
Waccamaw residential	706	-	788	-
Peoples residential	906	-	925	-
Total consumer real estate loans	6,172	-	6,730	-
Total PCI loans	$ 11,467	$ -	$ 12,003	$ -

Management believed the allowance was adequate to absorb probable loan losses inherent in the loan portfolio as of March 31, 2019.

Note 6. FDIC Indemnification Asset

In connection with the FDIC-assisted acquisition of Waccamaw Bank (“Waccamaw”) in 2012, the Company entered into loss share agreements with the FDIC in which the FDIC agrees to cover 80% of most loan and foreclosed real estate losses and reimburse certain expenses incurred in relation to these covered assets. Loss share coverage expired June 30, 2017, for commercial loans, with recoveries continuing until June 30, 2019. Loss share coverage on single family loans will expire June 30, 2022. The Company’s consolidated statements of income include the expense on covered assets net of estimated reimbursements. The following table presents the changes in the FDIC indemnification asset during the periods indicated:

	Three Months Ended March 31,	
(Amounts in thousands)	2019	2018
Beginning balance	$ 5,108	$ 7,161
Reimbursable expenses (to) from the FDIC	-	(6)
Net amortization	(552)	(382)
Payments to the FDIC	22	111
Ending balance	$ 4,578	$ 6,884

Note 7. Deposits

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

(Amounts in thousands)	March 31, 2019	December 31, 2018
Noninterest-bearing demand deposits	$ 479,299	$ 459,550
Interest-bearing deposits:		
Interest-bearing demand deposits	457,617	451,721
Money market accounts	154,561	153,483
Savings deposits	352,963	345,335
Certificates of deposit	322,171	330,757
Individual retirement accounts	111,826	114,904
Total interest-bearing deposits	1,399,138	1,396,200
Total deposits	$ 1,878,437	$ 1,855,750

Note 8. Leases

Effective January 1, 2019, the Company adopted ASU 2016-02, “Leases (Topic 842)”; the standard was adopted prospectively. The Company currently has two operating leases that are recorded as a right of use (“ROU”) asset and operating lease liability. The right of use asset is recorded in other assets on the consolidated balance sheet; while the lease liability is recorded in other liabilities. The ROU asset represents the right to use an underlying asset during the lease term and the lease liability represents the obligation to make lease payments arising from the lease. The current ROU asset and lease liability were recognized at the adoption date of January 1, 2019 based on the present value of the remaining lease payemnts using a discount rate that represented our incremental borrowing rate at the time of adoption. The lease expense which is comprised of the amortization of the ROU asset and the implicit interest accreted on the lease liability, is recognized on a straight-line basis over the lease term, and is recorded in occupancy expense in the consolidated statements of income.

The Company’s current operating leases relate primarily to bank branches with remaining terms of 1 to 10 years. As of March 31, 2019, the ROU asset and lease liability were $895 thousand and $899 thousand, respectively. The weigted average discount rate was 3.34% as of March 31, 2019.

Future minimum lease payments as of March 31, 2019 are as follows:

Year (Amounts in thousands)	Amount
2020	$ 115
2021	101
2022	101
2023	101
2024 and thereafter	639
Total lease payments	1,057
Less: Interest	(158)
Present value of lease liabilities	$ 899

Note 9. Borrowings

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

(Amounts in thousands)	March 31, 2019 Balance	March 31, 2019 Weighted Average Rate	December 31, 2018 Balance	December 31, 2018 Weighted Average Rate
Short-term borrowings				
Retail repurchase agreements	$ 3,700	0.13%	$ 4,370	0.12%
Long-term borrowings				
Wholesale repurchase agreement	-		25,000	3.18%
Total borrowings	$ 3,700		$ 29,370	

Repurchase agreements are secured by certain securities that remain under the Company's control during the terms of the agreements. The Company's remaining wholesale repurchase agreement of $25 million matured during the first quarter. The Company repaid the borrowing with current liquidity.

As of March 31, 2019, the Company had no long-term borrowings.

Unused borrowing capacity with the FHLB totaled $397.66 million, net of FHLB letters of credit of $144.38 million, as of March 31, 2019. As of March 31, 2019, the Company pledged $856.76 million in qualifying loans to secure the FHLB letters of credit, which provide an attractive alternative to pledging securities for public unit deposits.

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

Note 10. 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.

As of March 31, 2019, the Company's derivative instruments consisted of three interest rate swap agreements. The Company uses interest rate swap contracts to modify its exposure to interest rate risk caused by changes in the LIBOR curve in relation to certain designated fixed rate loans. These instruments are used to convert these fixed rate loans to an effective floating rate. If the LIBOR rate falls below the loan's stated fixed rate for a given period, the Company will owe the floating rate payer the notional amount times the difference between LIBOR and the stated fixed rate. If LIBOR is above the stated rate for a given period, the Company will receive payments based on the notional amount times the difference between LIBOR and the stated fixed rate. The Company's interest rate swaps qualify as fair value hedging instruments; therefore, fair value changes in the derivative and hedged item attributable to the hedged risk are recognized in earnings in the same period. The fair value hedges were effective as of March 31, 2019. The following table presents the notional, or contractual, amounts and fair values of derivative instruments as of the dates indicated:

	March 31, 2019				December 31, 2018		
	Notional or Contractual Amount	Fair Value: Derivative Assets	Fair Value: Derivative Liabilities		Notional or Contractual Amount	Fair Value: Derivative Assets	Fair Value: Derivative Liabilities
(Amounts in thousands)							
Derivatives designated as hedges							
Interest rate swaps	$ 5,397	$ -	$ 76		$ 5,483	$ 12	$ -
Total derivatives	$ 5,397	$ -	$ 76	#	$ 5,483	$ 12	$ -

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

	Three Months Ended March 31,		Income Statement Location
(Amounts in thousands)	2019	2018	
Derivatives designated as hedges			
Interest rate swaps	$ -	$ 13	Interest and fees on loans
Total derivative expense	$ -	$ 13	

Note 11. Employee Benefit Plans

The Company maintains two nonqualified domestic, noncontributory defined benefit plans (the "Benefit Plans") for key members of senior management and non-management directors. The Company's unfunded Benefit Plans include the Supplemental Executive Retention Plan and the Directors' Supplemental Retirement Plan. 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 March 31,		Income Statement Location
	2019	2018	
(Amounts in thousands)			
Service cost	$ 80	$ 68	Salaries and employee benefits
Interest cost	101	89	Other expense
Amortization of prior service cost	64	59	Other expense
Amortization of losses	5	12	Other expense
Net periodic cost	$ 250	$ 228	

Note 12. Earnings per Share

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

	Three Months Ended March 31,	
	2019	2018
(Amounts in thousands, except share and per share data)		
Net income	$ 9,631	$ 8,868
Weighted average common shares outstanding, basic	15,839,424	16,955,758
Dilutive effect of potential common shares		
Stock options	58,929	54,305
Restricted stock	22,597	37,575
Total dilutive effect of potential common shares	81,526	91,880
Weighted average common shares outstanding, diluted	15,920,950	17,047,638
Basic earnings per common share	$ 0.61	$ 0.52
Diluted earnings per common share	0.60	0.52
Antidilutive potential common shares		
Stock options	-	64,081
Restricted stock	-	5,667
Total potential antidilutive shares	-	69,748

Note 13. Accumulated Other Comprehensive Income (Loss)

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

	Three Months Ended March 31, 2019		
(Amounts in thousands)	Unrealized Gains (Losses) on Available-for-Sale Securities	Employee Benefit Plans	Total
Beginning balance	$ (285)	$ (1,144)	$ (1,429)
Other comprehensive loss before reclassifications	962	(321)	641
Reclassified from AOCI	-	55	55
Other comprehensive (loss) income, net	962	(266)	696
Ending balance	$ 677	$ (1,410)	$ (733)

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

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

	Three Months Ended March 31,		
(Amounts in thousands)	2019	2018	Income Statement Line Item Affected
Employee benefit plans			
Amortization of prior service cost	$ 64	$ 59	(1)
Amortization of net actuarial benefit cost	5	12	(1)
Reclassified out of AOCI, before tax	69	71	Income before income taxes
Income tax expense	14	15	Income tax expense
Reclassified out of AOCI, net of tax	55	56	Net income
Total reclassified out of AOCI, net of tax	$ 55	$ 56	Net income

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

Note 14. 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, single issue trust preferred securities, and mortgage-backed securities. Securities are based on Level 3 inputs when there is limited activity or less transparency to the valuation inputs. In the absence of observable or corroborated market data, internally developed estimates that incorporate market-based assumptions are used when such information is available.

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

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

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

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

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

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:

	March 31, 2019			
	Total	Fair Value Measurements Using		
(Amounts in thousands)	Fair Value	Level 1	Level 2	Level 3
Available-for-sale debt securities				
U.S. Agency securities	$ 1,078	$ -	$ 1,078	$ -
U.S. Treasury securities	-	-	-	-
Municipal securities	96,997	-	96,997	-
Mortgage-backed Agency securities	34,522	-	34,522	-
Total available-for-sale debt securities	132,597	-	132,597	-
Equity securities	55	55	-	-
Fair value loans	5,253	-	-	5,253
Deferred compensation assets	3,789	3,789	-	-
Deferred compensation liabilities	3,789	3,789	-	-
Derivative liabilities	75	-	75	-

	December 31, 2018			
	Total	Fair Value Measurements Using		
(Amounts in thousands)	Fair Value	Level 1	Level 2	Level 3
Available-for-sale debt securities				
U.S. Agency securities	$ 1,113	$ -	$ 1,113	$ -
U.S. Treasury securities	19,960	-	19,960	-
Municipal securities	97,289	-	97,289	-
Mortgage-backed Agency securities	34,754	-	34,754	-
Total available-for-sale debt securities	153,116	-	153,116	-
Equity securities	55	55	-	-
Fair value loans	5,412	-	-	5,412
Deferred compensation assets	3,527	3,527	-	-
Derivative assets	12	-	12	-
Deferred compensation liabilities	3,527	3,527	-	-

Assets Measured at Fair Value on a Nonrecurring Basis

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

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

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

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

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

	March 31, 2019			
	Total	Fair Value Measurements Using		
	Fair Value	Level 1	Level 2	Level 3
(Amounts in thousands)				
Impaired loans, non-covered	$ 1,635	$ -	$ -	$ 1,635
OREO, non-covered	3,903	-	-	3,903
OREO, covered	152	-	-	152

	December 31, 2018			
	Total	Fair Value Measurements Using		
	Fair Value	Level 1	Level 2	Level 3
(Amounts in thousands)				
Impaired loans, non-covered	$ 3,618	$ -	$ -	$ 3,618
OREO, non-covered	3,806	-	-	3,806
OREO, covered	32	-	-	32

Quantitative Information about Level 3 Fair Value Measurements

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

	Valuation	Unobservable	Discount Range (Weighted Average)	
	Technique	Input	March 31, 2019	December 31, 2018
Impaired loans, non-covered	Discounted appraisals(1)	Appraisal adjustments(2)	22% to 37% (30%)	15% to 100% (29%)
OREO, non-covered	Discounted appraisals(1)	Appraisal adjustments(2)	10% to 100% (10%)	1% to 81% (31%)
OREO, covered	Discounted appraisals(1)	Appraisal adjustments(2)	46% to 54% (70%)	49% to 49% (49%)

(1) Fair value is generally based on appraisals of the underlying collateral.
(2) Appraisals may be adjusted by management for customized discounting criteria, estimated sales costs, and proprietary qualitative adjustments.

Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

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

	March 31, 2019				
			Fair Value Measurements Using		
(Amounts in thousands)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Assets					
Cash and cash equivalents	$ 148,546	$ 148,546	$ 148,546	$ -	$ -
Debt securities available for sale	132,542	132,542	-	132,542	-
Equity securities	55	55	55	-	-
Loans held for investment, net of allowance	1,719,137	1,681,646	-	-	1,681,646
FDIC indemnification asset	4,578	1,654	-	-	1,654
Interest receivable	5,227	5,227	-	5,227	-
Deferred compensation assets	3,789	3,789	3,789	-	-
Liabilities					
Time deposits	433,997	426,552	-	426,552	-
Securities sold under agreements to repurchase	3,700	3,700	-	3,700	-
Interest payable	528	528	-	528	-
Derivative financial liabilities	75	75	-	75	-
Deferred compensation liabilities	3,789	3,789	3,789	-	-

(Amounts in thousands)	Carrying Amount		Fair Value		Level 1		Level 2		Level 3
	December 31, 2018				Fair Value Measurements Using				
Assets									
Cash and cash equivalents	$	76,873	$	76,873	$	76,873	$	-	$ -
Debt securities available for sale		153,116		153,116		-		153,116	-
Debt securities held to maturity		25,013		24,990		-		24,990	-
Equity securities		55		55		55		-	-
Loans held for investment, net of allowance		1,756,817		1,720,114		-		-	1,720,114
FDIC indemnification asset		5,108		2,565		-		-	2,565
Interest receivable		5,481		5,481		-		5,481	-
Derivative financial assets		12		12		-		12	-
Deferred compensation assets		3,527		3,527		3,527		-	-
Liabilities									
Time deposits		445,661		436,018		-		436,018	-
Securities sold under agreements to repurchase		29,370		29,389		-		29,389	-
Interest payable		618		618		-		618	-
Deferred compensation liabilities		3,527		3,527		3,527		-	-

Note 15. Litigation, Commitments, and Contingencies

Litigation

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

Commitments and Contingencies

The Company is a party to financial instruments with off balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit, and financial guarantees. These instruments involve, to varying degrees, elements of credit and interest rate risk beyond the amount recognized in the consolidated balance sheets. The contractual amounts of these instruments reflect the extent of involvement the Company has in particular classes of financial instruments. If the other party to a financial instrument does not perform, the Company’s credit loss exposure is the same as the contractual amount of the instrument. The Company uses the same credit policies in making commitments and conditional obligations as it does for on balance sheet instruments.

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

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

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

(Amounts in thousands)	March 31, 2019	December 31, 2018
Commitments to extend credit	$ 198,868	$ 215,239
Standby letters of credit and financial guarantees(1)	149,610	149,494
Total off-balance sheet risk	348,478	364,733
Reserve for unfunded commitments	$ 66	$ 66

(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, 2018 (the "2018 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 March 31, 2019, the Bank operated 44 branches as First Community Bank in Virginia, West Virginia, and North Carolina and as People's Community Bank, a Division of First Community Bank, in Tennessee. As of March 31, 2019, full-time equivalent employees, calculated using the number of hours worked, totaled 518. Our primary source of earnings is net interest income, the difference between interest earned on assets and interest paid on liabilities, which is supplemented by fees for services, commissions on sales, and various deposit service charges. We fund our lending and investing activities primarily through the retail deposit operations of our branch banking network and, to a lesser extent, retail and wholesale repurchase agreements and Federal Home Loan Bank ("FHLB") borrowings. We invest our funds primarily in loans to retail and commercial customers and various investment securities. Our common stock is traded on the NASDAQ Global Select Market under the symbol, FCBC.

The Bank offers trust management, estate administration, and investment advisory services through its Trust Division and wholly owned subsidiary First Community Wealth Management ("FCWM"). The Trust Division manages inter vivos trusts and trusts under will, develops and administers employee benefit and individual retirement plans, and manages and settles estates. Fiduciary fees for these services are charged on a schedule related to the size, nature, and complexity of the account. Revenues consist primarily of investment advisory fees and commissions on assets under management and administration. As of March 31, 2019, the Trust Division and FCWM managed and administered $1.02 billion in combined assets under various fee-based arrangements as fiduciary or agent.

Acquisitions and Divestitures

On September 17, 2018, the Company announced its intention to sell its remaining insurance agency assets to Bankers Insurance, LLC ("BI") of Glen Allen, Virginia in exchange for an equity interest in BI. The sale, which closed October 1, 2018, strategically allowed the Company to continue offering insurance products to its customers through a larger, more diversified insurance agency. In connection with the decision to divest the insurance agency assets, the Company recognized a one-time goodwill impairment charge of $1.49 million during the third quarter of 2018. The Company used the fair value of the equity interest in BI as the basis for determining the goodwill impairment.

On October 2, 2018, we completed our Plan of Reincorporation and Merger changing our corporate domicile from Nevada to Virginia, along with a slight revision in the spelling of our name from First Community Bancshares, Inc. to First Community Bankshares, Inc.

Critical Accounting Estimates

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

Our accounting policies are fundamental in understanding MD&A and the disclosures presented in Item 1, "Financial Statements," of this report. Our accounting policies are described in detail in Note 1, "Basis of Presentation," of the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2019, and in Note 1, "Basis of Presentation and Significant Accounting Policies," of the Notes to Consolidated Financial Statements in Part II, Item 8 of our 2018 Form 10-K. Our critical accounting estimates are detailed in the "Critical Accounting Estimates" section in Part II, Item 7 of our 2018 Form 10-K.

Performance Overview

Highlights of our results of operations for the three months ended March 31, 2019, and financial condition as of March 31, 2019, include the following:

- Net income increased $763 thousand, or 8.60%, to $9.63 million compared to the same quarter of 2018.
- Diluted earnings per share increased $.08 to $.60 compared to the same quarter of 2018, for an increase of 15.38%.
- Return on average assets for the quarter increased to 1.75%. Return on average equity for the quarter increased to 11.77%.
- Net interest margin increased 22 basis points to 4.60% compared to the same quarter of 2018.
- The Company's remaining wholesale repurchase agreement of $25 million matured during the first quarter. The Company repaid the borrowing with current liquidity, which should result in annualized net pre-tax savings of $378 thousand. This culminates the Company's 5-year strategic shift back to a more traditional community bank balance sheet, during which the Company paid off $200 million in wholesale debt.
- The Company received $1.68 million from litigation settlements during the first quarter.
- Book value per common share increased $0.27 to $21.06, and tangible book value per common share increased $0.20 to a record $14.89, compared to December 31, 2018.
- The Company repurchased 232,900 common shares for $7.78 million during the quarter.
- The Company and its subsidiary bank both significantly exceed regulatory "well capitalized" targets as of March 31, 2019.

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 March 31, 2019	Three Months Ended March 31, 2018	Three Months Ended Increase (Decrease)	Three Months Ended % Change
Net income	$ 9,631	$ 8,868	$ 763	8.60%
Basic earnings per common share	0.61	0.52	0.09	17.31%
Diluted earnings per common share	0.60	0.52	0.08	15.38%
Return on average assets	1.75%	1.52%	0.23%	15.13%
Return on average common equity	11.77%	10.30%	1.47%	14.27%

Three-Month Comparison. Net income increased in the first quarter of 2019 due to litigation settlements received of $1.68 million offset by an increase in provision for loan losses of $725 thousand.

Net Interest Income

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

	Three Months Ended March 31,					
	2019			2018		
(Amounts in thousands)	Average Balance	Interest(1)	Average Yield/ Rate(1)	Average Balance	Interest(1)	Average Yield/ Rate(2)
Assets						
Earning assets						
Loans(2)(3)	$ 1,765,132	$ 22,236	5.11%	$ 1,805,839	$ 22,827	5.13%
Securities available for sale	145,783	1,231	3.42%	165,103	1,384	3.40%
Securities held to maturity	12,348	45	1.48%	25,132	105	1.69%
Interest-bearing deposits	54,694	338	2.51%	117,953	471	1.62%
Total earning assets	1,977,957	23,850	4.89%	2,114,027	24,787	4.76%
Other assets	247,965			252,284		
Total assets	$ 2,225,922			$ 2,366,311		
Liabilities and stockholders' equity						
Interest-bearing deposits						
Demand deposits	$ 447,023	$ 37	0.03%	$ 462,741	$ 63	0.06%
Savings deposits	501,276	175	0.14%	518,560	82	0.06%
Time deposits	438,454	1,093	1.01%	493,545	1,106	0.91%
Total interest-bearing deposits	1,386,753	1,305	0.38%	1,474,846	1,251	0.34%
Borrowings						
Retail repurchase agreements	3,259	1	0.12%	4,444	1	0.09%
Wholesale repurchase agreements	15,278	119	3.16%	25,000	199	3.23%
FHLB advances and other borrowings	-	-		50,000	500	4.06%
Total borrowings	18,537	120	2.63%	79,444	700	3.57%
Total interest-bearing liabilities	1,405,290	1,425	0.41%	1,554,290	1,951	0.51%
Noninterest-bearing demand deposits	459,766			432,606		
Other liabilities	28,894			30,142		
Total liabilities	1,893,950			2,017,038		
Stockholders' equity	331,972			349,273		
Total liabilities and stockholders' equity	$ 2,225,922			$ 2,366,311		
Net interest income, FTE		$ 22,425			$ 22,836	
Net interest rate spread			4.48%			4.25%
Net interest margin			4.60%			4.38%

(1) FTE basis based on the federal statutory rate of 21% for periods after January 1, 2018, and 35% for periods prior to January 1, 2018
(2) Interest on loans included non-cash purchase accounting accretion of $765 thousand and $1.8 million for the three months ended March 31, 2019 and 2018, respectively.
(3) Nonaccrual loans are included in average balances; however, no related interest income is recorded during the period of nonaccrual.

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

	Three Months Ended March 31, 2019 Compared to 2018 Dollar Increase (Decrease) due to			
(Amounts in thousands)	Volume	Rate	Rate/ Volume	Total
Interest earned on[1]				
Loans	$ (515)	$ (78)	$ 2	$ (591)
Securities available-for-sale	(162)	10	(1)	(153)
Securities held-to-maturity	(53)	(13)	6	(60)
Interest-bearing deposits with other banks	(253)	258	(138)	(133)
Total interest earning assets	(983)	177	(131)	(937)
Interest paid on[1]				
Demand deposits	(2)	(25)	1	(26)
Savings deposits	(3)	99	(3)	93
Time deposits	(123)	124	(14)	(13)
Retail repurchase agreements	-	-	-	-
Wholesale repurchase agreements	(77)	(4)	1	(80)
FHLB advances and other borrowings	(500)	-	-	(500)
Total interest-bearing liabilities	(705)	194	(15)	(526)
Change in net interest income[1]	$ (278)	$ (17)	$ (116)	$ (411)

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

Three-Month Comparison. Net interest income comprised 73.30% of total net interest and noninterest income in the first quarter of 2019 compared to 77.04% in the same quarter of 2018. Net interest income on a GAAP basis decreased $193 thousand, or 0.86%, compared to a decrease of $411 thousand, or 1.80%, on a FTE basis. The net interest margin on a FTE basis increased 22 basis points and the net interest spread on a FTE basis increased 23 basis points. The increase in the net interest margin and the net interest spread are primarily attributable to the Company's strategy to shift back to a more traditional community bank balance sheet through the payoffs of higher-rate wholesale debt.

Average earning assets decreased $136.07 million, or 6.44%, primarily due to a decrease in average interest-bearing deposits as well as average loans. The yield on earning assets increased 13 basis points as the yields in interest-bearing deposits and the available-for-sale investment portfolio increased. Average loans decreased $40.71 million, or 2.25%, and the average loan to deposit ratio increased to 95.59% from 94.67% in the same quarter of 2018. Non-cash accretion income decreased $1.08 million, or 58.59%, due to continued acquired portfolio attrition.

Average interest-bearing liabilities, which consist of interest-bearing deposits and borrowings, decreased $149 million, or 9.59%, primarily due to a decline in average borrowings. The yield on interest-bearing liabilities decreased 10 basis points. Average borrowings decreased $60.91 million, or 76.67%, largely due to a $50 million, or 100.00%, decrease in FHLB advances as well as a decrease in average wholesale repurchase agreements of $9.72 million, or 38.89%. Average interest-bearing deposits decreased $88.09 million, or 5.97%, which was driven by a $55.09 million, or 11.16%, decrease in average time deposits.

Provision for Loan Losses

Three-Month Comparison. The provision charged to operations increased $725 thousand, or 146.46%, to $1.22 million in the first quarter of 2019 compared to the same quarter of 2018. For additional information, see "Allowance for Loan Losses" in the "Financial Condition" section below.

Noninterest Income

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

	Three Months Ended March 31,		Three Months Ended	
	2019	2018	Increase (Decrease)	% Change
(Amounts in thousands)				
Wealth management	$ 745	$ 794	$ (49)	-6.17%
Service charges on deposits	3,408	3,468	(60)	-1.73%
Other service charges and fees	2,049	1,857	192	10.34%
Insurance commissions	-	329	(329)	-100.00%
Net loss on sale of securities	-	-	-	-
Net FDIC indemnification asset amortization	(552)	(382)	(170)	44.50%
Other income	1,675	-	1,675	
Other operating income	755	602	153	25.42%
Total noninterest income	$ 8,080	$ 6,668	$ 1,412	21.18%

Three-Month Comparison. Noninterest income comprised 26.70% of total net interest and noninterest income in the first quarter of 2019 compared to 22.96% in the same quarter of 2018. Noninterest income increased $1.41 million, or 21.18%, primarily due to $1.68 million received from litigation settlements. Other service charges and fees increased $192 thousand, or 10.34%, primarily due to an increase of $159 thousand in net interchange income. Increases in noninterest income were offset by the decrease in insurance commissions as a result of the divestiture of the remaining insurance agency in the fourth quarter of 2018. In addition there was an increase in net amortization related to the FDIC indemnification asset. Excluding the impact from litigation settlements and net FDIC and indemnification asset amortization, noninterest income decreased $93 thousand, or 1.31%, to $6.96 million in the first quarter of 2018, from $7.05 million in the same quarter of 2018.

Noninterest Expense

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

	Three Months Ended March 31,		Three Months Ended	
	2019	2018	Increase (Decrease)	% Change
(Amounts in thousands)				
Salaries and employee benefits	$ 9,166	$ 9,441	$ (275)	-2.91%
Occupancy expense	1,153	1,250	(97)	-7.76%
Furniture and equipment expense	1,033	1,046	(13)	-1.24%
Service fees	1,030	828	202	24.40%
Advertising and public relations	524	522	2	0.38%
Professional fees	414	307	107	34.85%
Amortization of intangibles	246	261	(15)	-5.75%
FDIC premiums and assessments	168	211	(43)	-20.38%
Other operating expense	3,051	3,250	(199)	-6.12%
Total noninterest expense	$ 16,785	$ 17,116	$ (331)	-1.93%

Three-Month Comparison. Noninterest expense decreased $331 thousand, or 1.93%, in the first quarter of 2019 compared to the same quarter of 2018, which was largely due to a decrease in salaries and employee benefits of $275 thousand and a decrease in other operating expense of $199 thousand. These decreases were offset by increases in service fees of $202 thousand as well as an increase of $107 thousand in professional fees.

Income Tax Expense

The Tax Cuts and Jobs Act ("Tax Reform Act") was enacted on December 22, 2017. Among other things, the new law establishes a new, flat corporate federal statutory income tax rate of 21%; eliminates the corporate alternative minimum tax and allows the use of any such carryforwards to offset regular tax liability for any taxable year; limits the deduction for net interest expense incurred by U.S. corporations; allows businesses to immediately expense the cost of new investments in certain qualified depreciable assets for tax purposes; eliminates or reduces certain deductions related to meals and entertainment expenses; modifies the limitation on excessive employee remuneration to eliminate the exception for performance-based compensation and clarifies the definition of a covered employee; and limits the deductibility of deposit insurance premiums.

Three-Month Comparison. The Company's effective tax rate, income tax as a percent of pre-tax income, may vary significantly from the statutory rate due to permanent differences and available tax credits. Permanent differences are income and expense items excluded by law in the calculation of taxable income. The Company's most significant permanent differences generally include interest income on municipal securities and increases in the cash surrender value of life insurance policies. The Tax Reform Act enacted on December 22, 2017, reduced our federal statutory income tax rate from 35% to 21% beginning January 1, 2018. Income tax expense increased $62 thousand, or 2.41%, primarily due to the increase in pretax net income. The effective tax rate decreased to 21.45% in the first quarter of 2019 from 22.46% in the same quarter of 2018.

Non-GAAP Financial Measures

In addition to financial statements prepared in accordance with GAAP, we use certain non-GAAP financial measures that management believes provide investors with important information useful in understanding our operational performance and comparing our financial measures with other financial institutions. The non-GAAP financial 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.

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 March 31,	
(Amounts in thousands)	**2019**	**2018**
Net interest income, GAAP	$ 22,186	$ 22,379
FTE adjustment(1)	239	457
Net interest income, FTE	22,425	22,836
Net interest margin, GAAP	4.55%	4.28%
FTE adjustment(1)	0.05%	0.10%
Net interest margin, FTE	4.60%	4.38%

(1) FTE basis based on the federal statutory rate of 21% for periods after January 1, 2018.

Financial Condition

Total assets as of March 31, 2019, decreased $2.04 million, or 0.09% from December 31, 2018. In addition, total liabilities as of March 31, 2019, decreased $2.28 million, or 0.12% from December 31, 2018.

Investment Securities

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

Available-for-sale debt securities as of March 31, 2019, decreased $20.52 million, or 13.40%, compared to December 31, 2018. The market value of debt securities available for sale as a percentage of amortized cost was 100.65% as of March 31, 2019, compared to 99.76% as of December 31, 2018. The remaining debt securities held in the held-to-maturity portfolio matured during the first quarter. The funds were used to repay the Company's remaining wholesale repurchase agreement of $25 million.

Investment securities are reviewed quarterly for possible other-than-temporary impairment ("OTTI") charges. We recognized no OTTI charges in earnings associated with debt securities for the three months ended March 31, 2019 or 2018. For additional information, see Note 2, "Debt Securities," to the Condensed Consolidated Financial Statements in Item 1 of this report.

Loans Held for Investment

Loans held for investment, our largest component of interest income, are grouped into commercial, consumer real estate, and consumer and other loan segments. Each segment is divided into various loan classes based on collateral or purpose. Certain loans acquired in FDIC-assisted transactions are covered under loss share agreements ("covered loans"). Total loans held for investment, net of unearned income, as of March 31, 2019, decreased $37.70 million, or 2.14%, compared to December 31, 2018, primarily due to an $36.36 million, or 2.07%, decrease in non-covered loans, which was driven by declines in owner occupied construction; multi-family residential; non-farm, non-residential and commercial and industrial segments. Covered loans decreased $1.34 million, or 7.12%, as the covered Waccamaw portfolio continues to pay down. For additional information, see Note 3, "Loans," to the Condensed Consolidated Financial Statements in Item 1 of this report.

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

	March 31, 2019		December 31, 2018		March 31, 2018	
(Amounts in thousands)	Amount	Percent	Amount	Percent	Amount	Percent
Non-covered loans held for investment						
Commercial loans						
Construction, development, and other land	$ 63,975	3.68%	$ 63,508	3.58%	$ 52,264	2.92%
Commercial and industrial	94,039	5.41%	104,863	5.91%	90,361	5.04%
Multi-family residential	102,071	5.87%	107,012	6.03%	120,656	6.73%
Single family non-owner occupied	140,037	8.06%	140,097	7.89%	142,227	7.93%
Non-farm, non-residential	602,207	34.67%	613,877	34.58%	618,872	34.51%
Agricultural	8,975	0.52%	8,545	0.48%	9,350	0.52%
Farmland	18,569	1.07%	18,905	1.07%	23,567	1.31%
Total commercial loans	1,029,873	59.28%	1,056,807	59.54%	1,057,297	58.96%
Consumer real estate loans						
Home equity lines	90,000	5.18%	93,466	5.27%	101,476	5.66%
Single family owner occupied	502,059	28.89%	510,963	28.78%	506,368	28.24%
Owner occupied construction	13,867	0.80%	18,171	1.02%	29,518	1.65%
Total consumer real estate loans	605,926	34.87%	622,600	35.07%	637,362	35.55%
Consumer and other loans						
Consumer loans	79,185	4.56%	71,552	4.03%	68,534	3.82%
Other	4,921	0.28%	5,310	0.30%	4,510	0.25%
Total consumer and other loans	84,106	4.84%	76,862	4.33%	73,044	4.07%
Total non-covered loans	1,719,905	98.99%	1,756,269	98.94%	1,767,703	98.58%
Total covered loans	17,475	1.01%	18,815	1.06%	25,406	1.42%
Total loans held for investment, net of unearned income	1,737,380	100.00%	1,775,084	100.00%	1,793,109	100.00%
Less: allowance for loan losses	18,243		18,267		19,500	
Total loans held for investment, net of unearned income and allowance	$ 1,719,137		$ 1,756,817		$ 1,773,609	

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

	March 31, 2019		December 31, 2018		March 31, 2018	
(Amounts in thousands)	Amount	Percent	Amount	Percent	Amount	Percent
Commercial loans						
Construction, development, and other land	$ 33	0.19%	$ 35	0.19%	$ 37	0.15%
Single family non-owner occupied	231	1.32%	238	1.26%	277	1.09%
Non-farm, non-residential	6	0.03%	6	0.03%	9	0.03%
Total commercial loans	270	1.54%	279	1.48%	323	1.27%
Consumer real estate loans						
Home equity lines	14,076	80.55%	15,284	81.24%	21,438	84.38%
Single family owner occupied	3,129	17.91%	3,252	17.28%	3,645	14.35%
Total consumer real estate loans	17,205	98.46%	18,536	98.52%	25,083	98.73%
Total covered loans	$ 17,475	100.00%	$ 18,815	100.00%	$ 25,406	100.00%

Risk Elements

We seek to mitigate credit risk by following specific underwriting practices and by ongoing monitoring of our loan portfolio. Our underwriting practices include the analysis of borrowers’ prior credit histories, financial statements, tax returns, and cash flow projections; valuation of collateral based on independent appraisers’ reports; and verification of liquid assets. We believe our underwriting criteria are appropriate for the various loan types we offer; however, losses may occur that exceed the reserves established in our allowance for loan losses. We track certain credit quality indicators that include: trends related to the risk rating of commercial loans, the level of classified commercial loans, net charge-offs, nonperforming loans, and general economic conditions. The Company’s loan review function generally analyzes all commercial loan relationships greater than $4.00 million annually and at various times during the year. Smaller commercial and retail loans are sampled for review during the year.

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

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

(Amounts in thousands)	March 31, 2019	December 31, 2018	March 31, 2018
Non-covered nonperforming			
Nonaccrual loans	$ 18,544	$ 19,583	$ 21,650
Accruing loans past due 90 days or more	156	58	27
TDRs[1]	835	161	77
Total nonperforming loans	19,535	19,802	21,754
Non-covered OREO	3,903	3,806	4,620
Total non-covered nonperforming assets	$ 23,438	$ 23,608	$ 26,374
Covered nonperforming			
Nonaccrual loans	$ 237	$ 322	$ 596
Total nonperforming loans	237	322	596
Covered OREO	152	32	70
Total covered nonperforming assets	$ 389	$ 354	$ 666
Total nonperforming			
Nonaccrual loans	$ 18,781	$ 19,905	$ 22,246
Accruing loans past due 90 days or more	156	58	27
TDRs[1]	835	161	77
Total nonperforming loans	19,772	20,124	22,350
OREO	4,055	3,838	4,690
Total nonperforming assets	$ 23,827	$ 23,962	$ 27,040
Additional Information			
Performing TDRs[2]	$ 5,654	$ 6,266	$ 7,220
Total TDRs[3]	6,489	6,427	7,297
Non-covered ratios			
Nonperforming loans to total loans	1.14%	1.13%	1.23%
Nonperforming assets to total assets	1.05%	1.06%	1.10%
Non-PCI allowance to nonperforming loans	93.39%	92.25%	89.64%
Non-PCI allowance to total loans	1.06%	1.04%	1.10%
Total ratios			
Nonperforming loans to total loans	1.14%	1.13%	1.25%
Nonperforming assets to total assets	1.06%	1.07%	1.11%
Allowance for loan losses to nonperforming loans	92.27%	90.77%	87.25%
Allowance for loan losses to total loans	1.05%	1.03%	1.09%

(1) TDRs restructured within the past six months and nonperforming TDRs exclude nonaccrual TDRs of $ 800 thousand, $898 thousand, and $115 thousand for the periods ended March 31, 2019, December 31, 2018, and March 31, 2018, respectively.
(2) TDRs with six months or more of satisfactory payment performance exclude nonaccrual TDRs of $2.06 million, $1.68 million, and $1.89 million for the periods ended March 31, 2019, December 31, 2018, and March 31, 2018, respectively.
(3) Total TDRs exclude nonaccrual TDRs of $2.86 million, $2.58 million, and $2.01 million for the periods ended March 31, 2019, December 31, 2018, and March 31, 2018, respectively.

Non-covered nonperforming assets as of March 31, 2019, decreased $170 thousand, or 0.72%, from December 31, 2018, primarily due to a decrease in non-covered nonaccrual loans offset by an increase in troubled debt restructurings. Non-covered nonaccrual loans as of March 31, 2019, decreased $1.04 million, or 5.31%, from December 31, 2018. As of March 31, 2019, non-covered nonaccrual loans were largely attributed to single family owner occupied (49.78%) and non-farm, non-residential (19.19%) loans. As of March 31, 2019, approximately $1.57 million, or 8.47%, of non-covered nonaccrual loans were attributed to performing loans acquired in business combinations. Certain loans included in the nonaccrual category have been written down to estimated realizable value or assigned specific reserves in the allowance for loan losses based on management’s estimate of loss at ultimate resolution.

Non-covered delinquent loans, comprised of loans 30 days or more past due and nonaccrual loans, totaled $29.53 million as of March 31, 2019, a decrease of $354 thousand, or 1.18%, compared to $29.89 million as of December 31, 2018. Non-covered delinquent loans as a percent of total non-covered loans totaled 1.72% as of March 31, 2019, which includes past due loans (0.64%) and nonaccrual loans (1.08%).

When restructuring loans for borrowers experiencing financial difficulty, we generally make concessions in interest rates, loan terms, or amortization terms. Certain TDRs are classified as nonperforming when modified and are returned to performing status after six months of satisfactory payment performance; however, these loans remain identified as impaired until full payment or other satisfaction of the obligation occurs. Accruing TDRs as of March 31, 2019, increased $62 thousand, or 0.96%, to $6.49 million from December 31, 2018. Unseasoned and nonperforming accruing TDRs as of March 31, 2019, increased $674 thousand to $835 thousand compared to December 31, 2018. Unseasoned and nonperforming accruing TDRs as a percent of total accruing TDRs totaled 12.87% as of March 31, 2019, compared to 2.51% as of December 31, 2018. Specific reserves on TDRs totaled $481 thousand as of March 31, 2019, compared to $568 thousand as of December 31, 2018.

Non-covered OREO, which is carried at the lesser of estimated net realizable value or cost, increased $97 thousand, or 2.55%, as of March 31, 2019, compared to December 31, 2018, and consisted of 24 properties with an average holding period of 9 months. The net loss on the sale of OREO totaled $364 thousand for the three months ended March 31, 2019, compared to $103 thousand for the same period of the prior year. The following table presents the changes in OREO during the periods indicated:

	Three Months Ended March 31,					
	2019			2018		
(Amounts in thousands)	Non-covered	Covered	Total	Non-covered	Covered	Total
Beginning balance	$ 3,806	$ 32	$ 3,838	$ 2,409	$ 105	$ 2,514
Additions	1,778	130	1,908	2,787	-	2,787
Disposals	(1,392)	-	(1,392)	(541)	(26)	(567)
Valuation adjustments	(289)	(10)	(299)	(35)	(9)	(44)
Ending balance	$ 3,903	$ 152	$ 4,055	$ 4,620	$ 70	$ 4,690

Allowance for Loan Losses

The allowance for loan losses is maintained at a level management deems sufficient to absorb probable loan losses inherent in the loan portfolio. The allowance is increased by the provision for loan losses and recoveries of prior loan charge-offs and decreased by loans charged off. The provision for loan losses is calculated and charged to expense to bring the allowance to an appropriate level using a systematic process of measurement that requires significant judgments and estimates. As of March 31, 2019, our qualitative risk factors reflect a stable risk of loan losses due to consistent asset quality metrics and relatively stable business and economic conditions in our primary market areas. The loan portfolio is continually monitored for deterioration in credit, which may result in the need to increase the allowance for loan losses in future periods. Management considered the allowance adequate as of March 31, 2019; however, no assurance can be made that additions to the allowance will not be required in future periods. For additional information, see Note 5, “Allowance for Loan Losses,” to the Condensed Consolidated Financial Statements in Item 1 of this report.

The allowance for loan losses as of March 31, 2019, decreased $24 thousand, or 0.13%, from December 31, 2018. The non-PCI allowance as a percent of non-covered loans totaled 1.04% as of March 31, 2019, compared to 1.03% as of December 31, 2018. PCI loans were aggregated into five loan pools as of March 31, 2019, and December 31, 2018: Waccamaw commercial, Waccamaw serviced home equity lines, Waccamaw residential, Peoples Bank of Virginia (“Peoples”) commercial, and Peoples residential. The cash flow analysis identified no impaired PCI loan pools as of March 31, 2019, or December 31, 2018. Net charge-offs increased $973 thousand for the three months ended March 31, 2019, compared to the same period of the prior year. The increase in net charge-offs was driven by one loan relationship in the multi-family segment and three larger relationships in the owner occupied single family segment.

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

	Three Months Ended March 31					
	2019			2018		
(Amounts in thousands)	Non-PCI Portfolio	PCI Portfolio	Total	Non-PCI Portfolio	PCI Portfolio	Total
Beginning balance	$ 18,267	$ -	$ 18,267	$ 19,276	$ -	$ 19,276
Provision for (recovery of) loan losses charged to operations	1,220	-	1,220	495	-	495
Charge-offs	(1,622)	-	(1,622)	(698)	-	(698)
Recoveries	378	-	378	427	-	427
Net charge-offs	(1,244)	-	(1,244)	(271)	-	(271)
Ending balance	$ 18,243	$ -	$ 18,243	$ 19,500	$ -	$ 19,500

Deposits

Total deposits as of March 31, 2019, increased $22.69 million, or 1.22%, compared to December 31, 2018. The increase was largely attributable to non-interest bearing demand accounts which increased $19.75 million, or 4.30%. Other increases included $8.71 million in savings deposits, which consist of money market and savings accounts; and interest-bearing demand with an increase of $5.90 million. Time deposits, which consist of certificates of deposit and individual retirement accounts, decreased $11.66 million compared to December 31, 2018.

Borrowings

Total borrowings as of March 31, 2019, decreased $25.67 million, or 87.40%, compared to December 31, 2018. During the first quarter the Company's remaining wholesale repurchase agreement of $25 million matured. The Company repaid the borrowing with current liquidity, which should result in annualized net pre-tax savings of $378 thousand.

Liquidity and Capital Resources

Liquidity

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

As a financial holding company, the Company's primary source of liquidity is dividends received from the Bank, which are subject to certain regulatory limitations. Other sources of liquidity include cash, investment securities, and borrowings. As of March 31, 2019, the Company's cash reserves totaled $13.77 million and availability on an unsecured, committed line of credit with an unrelated financial institution totaled $15.00 million. There was no outstanding balance on the line of credit as of March 31, 2019. The Company's cash reserves and investments provide adequate working capital to meet obligations, projected dividends to shareholders, and anticipated debt repayments for the next twelve months.

In addition to cash on hand and deposits with other financial institutions, we rely on customer deposits, cash flows from loans and investment securities, and lines of credit from the FHLB and the Federal Reserve Bank ("FRB") Discount Window to meet potential liquidity demands. These sources of liquidity are immediately available to satisfy deposit withdrawals, customer credit needs, and our operations. Secondary sources of liquidity include approved lines of credit with correspondent banks and unpledged available-for-sale securities. As of March 31, 2019, our unencumbered cash totaled $148.55 million, unused borrowing capacity from the FHLB totaled $397.66 million, available credit from the FRB Discount Window totaled $6.00 million, available lines from correspondent banks totaled $90.00 million, and unpledged available-for-sale securities totaled $105.46 million.

Cash Flows

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

	Three Months Ended March 31,	
(Amounts in thousands)	**2019**	**2018**
Net cash provided by operating activities	$ 14,093	$ 10,833
Net cash provided by investing activities	71,642	3,174
Net cash (provided by) used in financing activities	(14,062)	33,182
Net increase in cash and cash equivalents	71,673	47,189
Cash and cash equivalents, beginning balance	76,873	157,951
Cash and cash equivalents, ending balance	$ 148,546	$ 205,140

Cash and cash equivalents increased $71.67 million for the three months ended March 31, 2019, compared to an increase of $47.19 million for the same period of the prior year. The increase was primarily due to a $68.47 million increase in net cash used in investing activities due to a net increase in loan proceeds as well as proceeds from maturities, calls and prepayments in the investment portfolios. Net cash provided by financing activities decreased $47.24 million largely due to decreases in deposits as well as the repayment of the Company’s remaining wholesale repurchase agreement. Net cash provided by operating activities increased $3.30 million primarily due to a decrease in accretion on acquired loans.

Capital Resources

We are committed to effectively managing our capital to protect our depositors, creditors, and shareholders. Failure to meet certain capital requirements may result in actions by regulatory agencies that could have a material impact on our operations. Total stockholders’ equity as of March 31, 2019, increased $245 thousand, or 0.07%, to $333.10 million from $332.86 million as of December 31, 2018. The change in stockholders’ equity was largely due to the repurchase of 232,900 shares of our common stock totaling $7.78 million and dividends declared on our common stock of $3.32 million, offset by net income of $9.63 million. Accumulated other comprehensive loss decreased $696 thousand to $733 thousand as of March 31, 2019, compared to December 31, 2018, primarily due to net unrealized gains on securities. In accordance with current regulatory guidelines, accumulated other comprehensive income/(loss) is largely excluded from stockholders' equity in the calculation of our capital ratios. Our book value per common share increased $0.27 or 1.30% to $21.06 as of March 31, 2019, from $20.79 as of December 31, 2018.

Capital Adequacy Requirements

Risk-based capital guidelines, issued by state and federal banking agencies, include balance sheet assets and off-balance sheet arrangements weighted by the risks inherent in the specific asset type. Our current risk-based capital requirements, based on the international capital standards known as Basel III, became effective on January 1, 2015, subject to a four-year phase-in period. Basel III’s capital conservation buffer became effective on January 1, 2016, at 0.625%, and was phased in over a four-year period (increasing by an additional 0.625% each year reaching 2.5% on January 1, 2019). A description of the Basel III capital rules is included in Part I, Item 1 of the 2018 Form 10-K. Our current required capital ratios are as follows:

- 4.5% Common Equity Tier 1 capital to risk-weighted assets (effectively 6.50% including the capital conservation buffer)
- 6.0% Tier 1 capital to risk-weighted assets (effectively 8.00% including the capital conservation buffer)
- 8.0% Total capital to risk-weighted assets (effectively 10.00% 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:

	March 31, 2019		December 31, 2018	
	Company	Bank	Company	Bank
Common equity Tier 1 ratio	14.00%	12.86%	13.72%	12.55%
Tier 1 risk-based capital ratio	14.00%	12.86%	13.72%	12.55%
Total risk-based capital ratio	15.09%	13.95%	14.79%	13.62%
Tier 1 leverage ratio	11.10%	10.19%	10.95%	9.98%

Our risk-based capital ratios as of March 31, 2019, increased from December 31, 2018, due to a increase in Tier 1 and total risk-based capital. As of March 31, 2019, we continued to meet all capital adequacy requirements and were classified as well-capitalized under the regulatory framework for prompt corrective action. Management believes there have been no conditions or events since those notifications that would change the Bank's classification. Additionally, our capital ratios were in excess of the minimum standards under the Basel III capital rules on a fully phased-in basis as of March 31, 2019.

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:

(Amounts in thousands)	March 31, 2019	December 31, 2018
Commitments to extend credit	$ 198,868	$ 215,239
Standby letters of credit and financial guarantees (1)	149,610	149,494
Total off-balance sheet risk	$ 348,478	$ 364,733
Reserve for unfunded commitments	$ 66	$ 66

(1) Includes FHLB letters of credit

Market Risk and Interest Rate Sensitivity

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

In order to manage our exposure to interest rate risk, we periodically review 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.

At March 31, 2019 the Federal Open Market Committee had set the benchmark federal funds rate to a range of 225 to 250 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	March 31, 2019 Change in Net Interest Income	March 31, 2019 Percent Change	December 31, 2018 Change in Net Interest Income	December 31, 2018 Percent Change
(Dollars in thousands)				
300	$ 7	0.0%	$ (1,215)	-1.3%
200	318	0.4%	(545)	-0.6%
100	297	0.3%	(135)	-0.1%
(100)	(3,663)	-4.1%	(3,322)	-3.7%
(200)	(7,815)	-8.7%	(7,525)	-8.4%

The Company primarily uses derivative instruments to manage exposure to market risk and meet customer financing needs. As of March 31, 2019, we maintained interest rate swap agreements with notional amounts totaling $5.40 million to modify our exposure to interest rate risk caused by changes in the LIBOR curve in relation to certain designated fixed rate loans. The fair values of the swap agreements, which are accounted for as fair value hedges, were recorded as a derivative liability totaling $76 thousand as of March 31, 2019, and a derivative asset totaling $12 thousand as of December 31, 2018. For additional information, see Note 9, “Derivative Instruments and Hedging Activities,” to the Condensed Consolidated Financial Statements in Item 1 of this report.

Inflation and Changing Prices

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

In connection with this report, we conducted an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), of the effectiveness of our disclosure controls and procedures under the Exchange Act Rule 13a-15(b). Based upon that evaluation, the CEO and CFO concluded that, as of March 31, 2019, 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 March 31, 2019, that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

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

ITEM 1A. Risk Factors

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

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

(a) Not Applicable

(b) Not Applicable

(c) Issuer Purchases of Equity Securities

We repurchased 232,900 shares of our common stock during the first quarter of 2019 compared to 187,300 shares during the same quarter of 2018.

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 Plan	Maximum Number of Shares that May Yet be Purchased Under the Plan[(1)]
January 1-31, 2019	194,800	$ 33.12	194,800	1,023,627
February 1-28, 2019	17,100	35.12	17,100	1,006,527
March 1-31, 2019	21,000	34.70	21,000	985,527
Total	232,900	$ 33.41	232,900	

(1) On June 27, 2018, our Board of Directors increased the number of shares authorized under the stock repurchase plan by 1,600,000 shares. Our stock repurchase plan, as amended, authorizes the purchase and retention of up to 6,600,000 shares. The plan has no expiration date and is currently in effect.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

None.

ITEM 5. Other Information

None.

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
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 14, 2002
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
10.4**	First Community Bancshares, Inc. 2004 Omnibus Stock Option Plan, incorporated by reference to Annex B of the Definitive Proxy Statement on Form DEF 14A dated April 27, 2004, filed on March 15, 2004
10.5**	First Community Bancshares, Inc. 2004 Omnibus Stock Option Plan Stock Award Agreement, incorporated by reference to Exhibit 10.13 of the Quarterly Report on Form 10-Q for the period ended June 30, 2004, filed on August 6, 2004
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; Amendment #1, incorporated by reference to Exhibit 10.3 of the Current Report on Form 8-K dated December 16, 2010, filed on December 17, 2010; Amendment #2, incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K dated February 21, 2013, filed on February 25, 2013; Amendment #3, incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K dated May 24, 2016, filed on May 27, 2016; and Amendment #4, incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K dated and filed on February 28, 2017
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
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

10.10**	Amended and Restated Deferred Compensation Plan for Directors of First Community Bancshares, Inc. and Affiliates, incorporated by reference to Exhibit 99.2 of the Current Report on Form 8-K dated August 22, 2006, filed on August 23, 2006
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
10.13**	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
10.14**	Employment Agreement between First Community Bancshares, Inc. and E. Stephen Lilly, incorporated by reference to Exhibit 10.5 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**	Employment Agreement between First Community Bank and Mark R. Evans, incorporated by reference to Exhibit 2.1 of the Current Report on Form 8-K dated April 2, 2009, filed on April 3, 2009
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: (i) Condensed Consolidated Balance Sheets as of March 31, 2019, (Unaudited) and December 31, 2018; (ii) Condensed Consolidated Statements of Income (Unaudited) for the three months ended March 31, 2019 and 2018; (iii) Condensed Consolidated Statements of Comprehensive Income (Unaudited) for the three months ended March 31, 2019 and 2018; (iv) Condensed Consolidated Statements of Stockholders' Equity (Unaudited) for the three months ended March 31, 2019 and 2018; (v) Condensed Consolidated Statements of Cash Flows (Unaudited) for the three months ended March 31, 2019 and 2018; and (vi) Notes to Condensed Consolidated Financial Statements (Unaudited).

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*	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

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 10th day of May, 2019.

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)

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Section 2: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

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: May 10, 2019

/s/ William P. Stafford, II

William P. Stafford, II
Chief Executive Officer

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Section 3: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

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: May 10, 2019

/s/ David D. Brown

David D. Brown
Chief Financial Officer

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Section 4: EX-32 (EXHIBIT 32)

Exhibit 32

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 March 31, 2019, 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: May 10, 2019

By: /s/ William P. Stafford, II

William P. Stafford, II
Chief Executive Officer

By: /s/ David D. Brown

David D. Brown
Chief Financial Officer

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