

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

FORM 10-K

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended **December 31, 2021**  
or  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number **000-19297**

**FIRST COMMUNITY BANKSHARES, INC.**

(Exact name of registrant as specified in its charter)

**Virginia**

(State or other jurisdiction  
of incorporation or organization)

**55-0694814**

(I.R.S. Employer Identification No.)

**P.O. Box 989**

**Bluefield, Virginia 24605-0989**

(Address of principal executive offices) (Zip Code)

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

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

| Title of each class                   | Trading Symbols | Name of each exchange on which registered |
|---------------------------------------|-----------------|---|
| <b>Common Stock, \$1.00 par value</b> | <b>FCBC</b>     | <b>NASDAQ Global Select</b>               |

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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

Yes  No

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

Yes  No

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

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404 (b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

Yes  No

As of June 30, 2021, the aggregate market value of the registrant's voting and non-voting common stock held by non-affiliates was \$374.88 million.

As of February 23, 2022, there were 16,806,360 shares outstanding of the registrant's Common Stock, \$1.00 par value.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on April 26, 2022, are incorporated by reference in Part III of this Form 10-K.

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## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Forward-looking statements in filings with the Securities and Exchange Commission, including this Annual Report on Form 10-K 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 effects of the COVID-19 pandemic, including the negative impacts and disruptions to the communities the Company serves, and the domestic and global economy, which may have an adverse effect on the Company's business;
- 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;
- the impact of the U.S. Department of the Treasury and federal banking regulators' continued implementation of programs to address capital and liquidity in the banking system;
- technological changes;
- the costs and effects of cyber incidents or other failures, interruptions, or security breaches of our systems or those of third-party providers;
- the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board, and other accounting standard setters;
- the effect of acquisitions, including, without limitation, the failure to achieve the expected revenue growth and/or expense savings from such acquisitions;
- the 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.

The 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 Annual Report on Form 10-K 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. Further, statements about the potential effects of the COVID-19 pandemic on our business, financial condition, liquidity and results of operations may contain forward-looking statements and are subject to the risk that the actual effects may differ, possibly materially, from what is reflected in those forward-looking statements due to factors and future developments that are uncertain, unpredictable and in many cases beyond our control. Further, statements about the potential effects of the COVID-19 pandemic on our business, financial condition, liquidity and results of operations may contain forward-looking statements and are subject to the risk that the actual effects may differ, possibly materially, from what is reflected in those forward-looking statements due to factors and future developments that are uncertain, unpredictable and in many cases beyond our control. 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 I, Item 1A of this report.

## PART I

### Item 1. Business.

#### General

First Community Bankshares, Inc. (the “Company”), a financial holding company, was founded in 1989 and reincorporated under the laws of the Commonwealth of Virginia. The Company’s principal executive office is located in Bluefield, Virginia. The Company provides banking products and services to individual and commercial customers through its wholly owned subsidiary First Community Bank (the “Bank”), a Virginia-chartered banking institution founded in 1874. The Bank offers wealth management and investment advice through its Trust Division and wholly owned subsidiary First Community Wealth Management. Unless the context suggests otherwise, the terms “First Community,” “Company,” “we,” “our,” and “us” in this Annual Report on Form 10-K refer to First Community Bankshares, Inc. and its subsidiaries as a consolidated entity.

We focus on building financial partnerships and creating enduring and mutually beneficial relationships with businesses and individuals through a personal and local approach to banking and financial services. We strive to be the bank of choice in the markets we serve by offering impeccable service and a complete line of competitive products that include:

- demand deposit accounts, savings and money market accounts, certificates of deposit, and individual retirement arrangements;
- commercial, consumer, and real estate mortgage loans and lines of credit;
- various credit card, debit card, and automated teller machine card services;
- corporate and personal trust services; and
- investment management services.

Our operations are guided by a strategic plan that focuses on organic growth supplemented by strategic acquisitions of complementary financial institutions.

#### Employees and Human Capital Resources

As of December 31, 2021, we had 599 full-time employees and 26 part-time employees. The employees are not represented by a collective bargaining unit and we consider our relationship with our employees to be good.

We encourage and support the growth and development of our employees and, wherever possible, seek to fill positions by promotion and transfer from within the organization. Continual learning and career development is advanced through ongoing performance and development conversations with employees, internally developed training programs and customized corporate training engagements.

The safety, health and wellness of our employees is a top priority. The COVID-19 pandemic presented a unique challenge with regard to maintaining employee safety while continuing successful operations. Within a short period of time, through teamwork and the adaptability of our management and staff, we were able to transition and provide remote access to non-customer facing employees to effectively work from remote locations and were able to ensure a safely-distanced working environment for employees performing customer facing activities at branches and operations centers. All employees are asked not to come to work when they experience signs or symptoms of a possible communicable illness, including COVID-19, and have been provided additional paid time off to cover compensation during such absences. On an ongoing basis, we further promote the health and wellness of our employees by strongly encouraging work-life balance and keeping increases in the employee portion of health care premiums as small as possible and sponsoring various wellness programs.

Employee retention helps us operate efficiently and achieve one of our business objectives, which is building financial partnerships. We believe our commitment to living out our core values, actively prioritizing concern for our employees’ well-being, supporting our employees’ career goals, offering competitive wages and providing valuable fringe benefits aids in retention of our top-performing employees. In addition, nearly all of our employees are stockholders of the Company through participation in our current 401(k) plan and a former employee stock ownership plan, which aligns employee and stockholder interests by providing stock ownership on a tax-deferred basis at no investment cost to our associates.

#### Market Area

As of December 31, 2021, we operated 49 branch locations in Virginia, West Virginia, North Carolina, and Tennessee through our sole operating segment, Community Banking. Economic indicators in our market areas show relatively stable employment and business conditions. We serve a diverse base of individuals and businesses across a variety of industries such as education; government and health services; retail trade; construction; manufacturing; tourism; coal mining and gas extraction; and transportation.

#### Competition

The financial services industry is highly competitive and constantly evolving. We encounter strong competition in attracting and retaining deposit, loan, and other financial relationships in our market areas. We compete with other commercial banks, thrifts, savings and loan associations, credit unions, consumer finance companies, mortgage banking firms, commercial finance and leasing companies, securities firms, brokerage firms, and insurance companies. We have positioned ourselves as a regional community bank that provides an alternative to larger banks, which often place less emphasis on personal relationships, and smaller community banks, which lack the capital and resources to efficiently serve customer needs. Factors that influence our ability to remain competitive include the ability to develop, maintain, and build long-term customer relationships; the quality, variety, and pricing of products and services; the convenience of banking locations and office hours; technological developments; and industry and general economic conditions. We seek to mitigate competitive pressures with our relationship style of banking, competitive pricing, and cost efficiencies.

## **Supervision and Regulation**

### ***Overview***

We are subject to extensive examination, supervision, and regulation under applicable federal and state laws and various regulatory agencies. These regulations are intended to protect consumers, depositors, borrowers, deposit insurance funds, and the stability of the financial system and are not for the protection of stockholders or creditors.

Applicable laws and regulations restrict our permissible activities and investments and impose conditions and requirements on the products and services we offer and the manner in which they are offered and sold. They also restrict our ability to repurchase stock or pay dividends, or to receive dividends from our banking subsidiary, and impose capital adequacy requirements on the Company and the Bank. The consequences of noncompliance with these laws and regulations can include substantial monetary and nonmonetary sanctions.

The following discussion summarizes significant laws and regulations applicable to the Company and the Bank. These summaries are not intended to be complete and are qualified in their entirety by reference to the applicable statute or regulation. Changes in laws and regulations may have a material effect on our business, financial condition, or results of operations.

#### ***First Community Bankshares, Inc.***

The Company is a bank holding company registered under the Bank Holding Company Act of 1956, as amended, (“BHC Act”) and a financial holding company under the Gramm-Leach-Bliley Act of 1999 (“GLB Act”). The Company elected financial holding company status in December 2006. The Company and its subsidiaries are subject to supervision, regulation, and examination by the Board of Governors of the Federal Reserve System (“Federal Reserve”). The BHC Act generally provides for umbrella regulation of financial holding companies, such as the Company, by the Federal Reserve, as well as functional regulation of financial holding company subsidiaries by applicable regulatory agencies. The Federal Reserve is granted the authority, in certain circumstances, to require reports of, examine, and adopt rules applicable to any bank holding company subsidiary.

The Company is also subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, (“Exchange Act”), as administered by the Securities and Exchange Commission (“SEC”). The Company’s common stock is listed on the NASDAQ Global Select Market under the trading symbol FCBC and is subject to NASDAQ’s rules for listed companies.

#### ***First Community Bank***

The Bank is a Virginia chartered bank and a member of the Federal Reserve subject to supervision, regulation, and examination by the Virginia Bureau of Financial Institutions and the Federal Reserve Bank (“FRB”) of Richmond. The Bank is a member of the Federal Deposit Insurance Corporation (“FDIC”), and its deposits are insured by the FDIC to the extent provided by law. The regulations of these agencies govern most aspects of the Bank’s business, including requirements concerning the allowance for loan losses, lending and mortgage operations, interest rates received on loans and paid on deposits, the payment of dividends, loans to affiliates, mergers and acquisitions, capital, and the establishment of branches. Various consumer and compliance laws and regulations also affect the Bank’s operations.

As a member bank, the Bank is required to hold stock in the FRB of Richmond in an amount equal to 6% of its capital stock and surplus (half paid to acquire the stock with the remainder held as a cash reserve). Member banks do not have any control over the Federal Reserve as a result of owning the stock and the stock cannot be sold or traded.

#### ***Permitted Activities under the BHC Act***

The BHC Act limits the activities of bank holding companies, such as the Company, to the business of banking, managing or controlling banks and other activities the Federal Reserve determines to be closely related to banking. A bank holding company that elects treatment as a financial holding company under the GLB Act, such as the Company, may engage in a broader range of activities that are financial in nature or complementary to a financial activity and do not pose a substantial risk to the safety and soundness of depository institutions or the financial system. These activities include securities underwriting, dealing, and market making; sponsoring mutual funds and investment companies; insurance underwriting and agency; merchant banking activities; and other activities that the Federal Reserve determines to be closely related to banking.

In order to maintain financial holding company status, the Company and the Bank must be well-capitalized and well-managed under applicable Federal Reserve regulations and have received at least a satisfactory rating under the Community Reinvestment Act (“CRA”). See “Prompt Corrective Action” and “Community Reinvestment Act” below. If we fail to meet these requirements, the Federal Reserve may impose corrective capital and managerial requirements and place limitations or conditions on our ability to conduct activities permissible for financial holding companies. If the deficiencies persist, the Federal Reserve may require the Company to divest the Bank or divest investments in companies engaged in activities permissible only for financial holding companies.

In July 2019, the federal bank regulators adopted final rules (the “Capital Simplification Rules”) that, among other things, eliminated the standalone prior approval requirement in the Basel III Capital Rules for any repurchase of common stock. The Company is required to give the Federal Reserve prior notice of any redemption or repurchase of its own equity securities, subject to certain exemptions, if the consideration to be paid, together with the consideration paid for any repurchases or redemptions in the preceding 12 months, is equal to 10% or more of the Company’s consolidated net worth. The Federal Reserve may oppose the transaction if it believes that the transaction would constitute an unsafe or unsound practice or would violate any law or regulation. Any redemption or repurchase of preferred stock or subordinated debt remains subject to the prior approval of the Federal Reserve Board.

The BHC Act requires that bank holding companies obtain the Federal Reserve’s approval before acquiring direct or indirect ownership or control of more than 5% of the voting shares or all, or substantially all, of the assets of a bank. The regulatory authorities are required to consider the financial and managerial resources and future prospects of the bank holding company and the target bank, the convenience and needs of the communities to be served, and various competitive factors when approving acquisitions. The BHC Act also prohibits a bank holding company from acquiring direct or indirect control of more than 5% of the outstanding voting stock of any company engaged in a non-banking business unless the Federal Reserve determines it to be closely related to banking.

### ***Capital Requirements***

We are subject to various regulatory capital requirements administered by the Federal Reserve (the “Basel III Capital Rules”).

Since fully phased in on January 1, 2019, Basel III Capital Rules require the Company and the Bank to maintain the following:

- A minimum ratio of Common Equity Tier 1 (“CET1”) to risk-weighted assets of at least 4.50%, plus a 2.50% “capital conservation buffer” that is composed entirely of CET1 capital (resulting in a minimum ratio of CET1 to risk-weighted assets of 7.00%);
- A minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.00%, plus the capital conservation buffer (resulting in a minimum Tier 1 capital ratio of 8.50%);
- A minimum ratio of total capital (Tier 1 capital plus Tier 2 capital) to risk-weighted assets of at least 8.00%, plus the capital conservation buffer (resulting in a minimum total capital ratio of 10.50%); and
- A minimum leverage ratio of 4.00%, calculated as the ratio of Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the “leverage ratio”).

Banking institutions that fail to meet the effective minimum ratios once the capital conservation buffer is taken into account, as detailed above, will be subject to constraints on capital distributions, including dividends and share repurchases, and certain discretionary executive compensation. The severity of the constraints depends on the amount of the shortfall and the institution’s “eligible retained income” (that is, the greater of (i) net income for the preceding four quarters, net of distributions and associated tax effects not reflected in net income and (ii) average net income over the preceding four quarters).

Basel III Capital Rules and the Capital Simplification Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that certain deferred tax assets and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 25% of CET1. Prior to the adoption of the Capital Simplification Rules in July 2019, amounts were deducted from CET1 to the extent that any one such category exceeded 10% of CET1 or all such items, in the aggregate, exceeded 15% of CET1. The Capital Simplification Rules took effect for the Company and the Bank as of January 1, 2020. These limitations did not impact our regulatory capital during any of the reported periods.

Basel III Capital Rules prescribe a standardized approach for risk weightings that expand the risk-weighting categories from the four Basel I categories (0%, 20%, 50% and 100%) to a larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset categories. In November 2019, the federal banking agencies adopted a rule revising the scope of commercial real estate mortgages subject to a 150% risk weight.

Management believes that the Company and the Bank's current capital levels exceed the required capital amounts to be considered well-capitalized and also meet the fully phased-in minimum capital requirements, including the related capital conservation buffers, as required by the Basel III Capital Rules as of December 31, 2021. For additional information, see Note 20, "Regulatory Requirements and Restrictions," to the Consolidated Financial Statements in Part II, Item 8 of this report.

### ***Prompt Corrective Action***

The federal banking regulators are required to take prompt corrective action with respect to capital-deficient institutions. Agency regulations define, for each capital category, the levels at which institutions are well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, or critically undercapitalized. An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if the appropriate federal regulators determine that it is engaging in an unsafe or unsound practice or is in an unsafe or unsound condition. A bank's capital category is determined solely for applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank's financial condition or prospects for other purposes.

The Bank was classified as well-capitalized under prompt corrective action regulations as of December 31, 2021. In order to be considered a well-capitalized institution under Basel III Capital Rules, an organization must not be subject to any written agreement, order, capital directive, or prompt corrective action directive and must maintain the following minimum capital ratios:

- 6.5% CET1 to risk-weighted assets
- 8.0% Tier 1 capital to risk-weighted assets
- 10.0% Total capital to risk-weighted assets
- 5.0% Tier 1 leverage ratio

Undercapitalized institutions are required to submit a capital restoration plan to federal banking regulators. Under the Federal Deposit Insurance Act, as amended ("FDIA"), in order for the capital restoration plan to be accepted by the appropriate federal banking agency, a bank holding company must provide appropriate assurances of performance and guarantee that its subsidiary bank will comply with its capital restoration plan, subject to certain limitations. Agency regulations contain broad restrictions on certain activities of undercapitalized institutions, including asset growth, acquisitions, establishing branches, and engaging in new lines of business. With certain exceptions, a depository institution is prohibited from making capital distributions, including dividends, and is prohibited from paying management fees to its parent holding company if the institution would be undercapitalized after such distribution or payment.

A significantly undercapitalized institution is subject to various requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets, and ending deposits from correspondent banks. The FDIC has limited discretion in dealing with a critically undercapitalized institution and is generally required to appoint a receiver or conservator.



### ***Safety and Soundness Standards***

Guidelines adopted by federal bank regulatory agencies establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, and compensation. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage risks and exposures. If an institution fails to meet safety and soundness standards, the regulatory agencies may require the institution to submit a written compliance plan describing the steps they would take to correct the situation and the time that such steps would be taken. If an institution fails to submit or implement an acceptable compliance plan, after being notified, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions, such as those applicable to undercapitalized institutions under the prompt corrective action provisions of the FDIA. An institution may be subject to judicial proceedings and civil money penalties if it fails to follow such an order.

### ***Payment of Dividends***

The Company is a legal entity that is separate and distinct from its subsidiaries. The Company's principal source of cash flow is derived from dividends paid by the Bank. There are various restrictions by regulatory agencies related to dividends paid by the Bank to the Company and dividends paid by the Company to its shareholders. The payment of dividends by the Company and the Bank may be limited by certain factors, such as requirements to maintain capital above regulatory guideline minimums.

Prior FRB approval is required for the Bank to declare or pay a dividend to the Company if the total of all dividends declared in any given year exceed the total of the Bank's net profits for that year and its retained profits for the preceding two years, less any required transfers to surplus or to fund the retirement of preferred stock. Dividends paid by the Company to shareholders are subject to oversight by the Federal Reserve. Federal Reserve policy states that bank holding companies generally should pay dividends on common stock only from income available over the past year if prospective earnings retention is consistent with the organization's expected future needs, asset quality, and financial condition.

Regulatory agencies have the authority to limit or prohibit the Company and the Bank from paying dividends if the payments are deemed to constitute an unsafe or unsound practice. The appropriate regulatory authorities have stated that paying dividends that deplete a bank's capital base to an inadequate level would be an unsafe and unsound banking practice and that banking organizations should generally pay dividends only from current operating earnings. In addition, the Bank may not declare or pay a dividend if, after paying the dividend, the Bank would be classified as undercapitalized. In the current financial and economic environment, the FRB has discouraged payout ratios that are at maximum allowable levels, unless both asset quality and capital are very strong, and has noted that bank holding companies should carefully review their dividend policy. Bank holding companies should not maintain dividend levels that undermine their ability to be a source of strength to their banking subsidiaries.

### ***Source of Strength***

Federal Reserve policy and federal law requires the Company to act as a source of financial and managerial strength to the Bank. Under this requirement, the Company is expected to commit resources to support the Bank even when it may not be in a financial position to provide such resources. Because the Company is a legal entity separate and distinct from its subsidiaries, any capital loans it makes to the Bank are subordinate in right of payment to depositors and to certain other indebtedness of the Bank. In the event of the Company's bankruptcy, any commitment by the Company to a federal bank regulatory agency to maintain the capital of the Bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

### ***Transactions with Affiliates***

The Federal Reserve Act ("FRA") and Federal Reserve Regulation W place restrictions on "covered transactions" between the Bank and its affiliates, including the Company. The term "covered transactions" includes making loans, purchasing assets, issuing guarantees, and other similar transactions. The Dodd-Frank Act expanded the definition of "covered transactions" to include derivative activities, repurchase agreements, and securities lending or borrowing activities. These restrictions limit the amount of transactions with affiliates, require certain levels of collateral for loans to affiliates, and require that all transactions with affiliates be on terms that are consistent with safe and sound banking practices. In addition, these transactions must be on terms that are substantially the same, or at least as favorable to the Bank, as those prevailing at the time for similar transactions with non-affiliates.

The FRA and Federal Reserve Regulation O place restrictions on loans between the Company and the Bank and their directors, executive officers, principal shareholders, affiliates, and interests of those directors, executive officers, and principal shareholders. These restrictions limit the amount of loans to one borrower and require that loans are on terms that are substantially the same as, and follow underwriting procedures that are not less stringent than, those prevailing at the time for similar loans with non-insiders. In addition, the aggregate limit of loans to all insiders, as a group, cannot exceed the Bank's total unimpaired capital and surplus.

### ***Deposit Insurance and Assessments***

Substantially all of the Bank's deposits are insured up to applicable limits by the Deposit Insurance Fund ("DIF") of the FDIC and are subject to quarterly deposit insurance assessments to maintain the DIF. Deposit insurance premiums are assessed using a risk-based system that places FDIC-insured institutions into one of four risk categories based on capital, supervisory ratings and other factors. The assessment rate determined by considering such information is then applied to the institution's average assets minus average tangible equity to determine the institution's insurance premium. The FDIC may change assessment rates or revise its risk-based assessment system if deemed necessary to maintain an adequate reserve ratio for the DIF. The Dodd-Frank Act required that the minimum reserve ratio for the DIF increase from 1.15% to 1.35% by September 30, 2020. Under the FDIA, the FDIC may terminate deposit insurance if it determines that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order, or condition imposed by the FDIC. The decrease in FDIC assessments in 2019 and 2020 were primarily the result of the receipt of Small Bank Assessment Credits from the FDIC. On September 30, 2018, the Deposit Insurance Fund Reserve Ratio reached 1.36 percent. Because the reserve ratio exceeded 1.35 percent, two deposit insurance assessment changes occurred under the FDIC regulations. Surcharges on large banks, \$10 billion or more in consolidated assets, ended; and small banks, less than \$10 billion in consolidated assets, were awarded assessment credits for the portion of their assessments that contributed to the growth in the reserve ratio from 1.15 percent to 1.35 percent.

In addition, all FDIC-insured institutions were required to pay annual assessments to fund interest payments on bonds issued by the Financing Corporation ("FICO") through March 29, 2019. The FICO is a mixed-ownership government corporation that was formed to borrow the money necessary to carry out the closing and ultimate disposition of failed thrift institutions by the Resolution Trust Corporation.

### ***The Volcker Rule***

The Dodd-Frank Act amended the BHC Act to prohibit depository institutions and their affiliates from engaging in proprietary trading and from investing in, sponsoring, or having certain relationships with hedge funds or private equity funds, known as the Volcker Rule. The Volcker Rule, which became effective in July 2015 and the implementing regulations of which were amended in 2019 and were subject to further amendment in 2020, does not significantly impact the operations of the Company and its subsidiaries, as we do not have any engagement in the businesses prohibited by the Volcker Rule.

### ***Community Reinvestment Act***

The CRA of 1977, as amended, requires depository institutions to help meet the credit needs of their market areas, including low-and moderate-income individuals and communities, consistent with safe and sound banking practices. Federal banking regulators periodically examine depository institutions and assign ratings based on CRA compliance. A rating of less than satisfactory may restrict certain operating activities, delay or deny certain transactions, or result in an institution losing its financial holding company status. The Bank received a rating of satisfactory in its most recent CRA examination.

In December 2021, the OCC issued a proposal to rescind its June 2020 CRA rulemaking and replace it with previous rules jointly adopted by the OCC, the Federal Reserve Board, the FDIC, and the former Office of Thrift Supervision in 1995. Last year, although the OCC and the FDIC published a joint notice of proposed rulemaking, the FDIC did not ultimately join with the OCC in the June 2020 CRA rulemaking. In an interagency statement, the OCC, Federal Reserve Board, and the FDIC indicated their commitment to work together on developing a joint notice of proposed CRA rulemaking to ensure a modernized framework exists for insured depository institutions to "help meet the credit needs of the communities in which they do business, including low- and moderate-income neighborhoods." As such, we will continue to evaluate the impact of any changes to the regulations implementing the CRA and their impact to our financial condition, results of operations, and/or liquidity, which cannot be predicted at this time.

### ***Incentive Compensation***

Federal regulatory agencies have issued comprehensive guidance intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance is based on the key principles that a banking organization's incentive compensation arrangements should (1) provide incentives that do not encourage risk taking beyond the organization's ability to effectively identify and manage risks, (2) be compatible with effective internal controls and risk management, and (3) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors.

Federal banking regulators periodically examine the incentive compensation arrangements of banking organizations and incorporate any deficiencies in the organization's supervisory ratings, which can affect certain operating activities. The FRB may initiate enforcement actions if the organization's incentive compensation arrangements or related risk management, control, or governance processes pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies. The scope and content of the U.S. banking regulators' policies on incentive compensation are continuing to develop. It cannot be determined at this time if or when a final rule will be adopted or if compliance with such a final rule will adversely affect the ability of the Company and its subsidiaries to hire, retain and motivate their key employees.

### ***Anti-Tying Restrictions***

The Bank and its affiliates are prohibited from tying the provision of certain services, such as extensions of credit, to other services offered by the Company.

### ***Consumer Protection and Privacy***

We are subject to certain consumer laws and regulations that are designed to protect consumers in transactions with banks. These laws and regulations include the Mortgage Reform and Anti-Predatory Lending Act, the Truth in Lending Act, the Truth in Savings Act, the Home Mortgage Disclosure Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Fair Debt Collections Act, the Right to Financial Privacy Act, the Fair Housing Act, and various state law counterparts. These laws and regulations contain extensive customer privacy protection provisions that limit the ability of financial institutions to disclose non-public information about consumers to non-affiliated third parties and require financial institutions to disclose certain policies to consumers.

The Consumer Financial Protection Bureau (“CFPB”) is a federal agency with broad authority to implement, examine, and enforce compliance with federal consumer protection laws that relate to credit card, deposit, mortgage, and other consumer financial products and services. The CFPB may enforce actions to prevent and remedy unfair, deceptive, or abusive acts and practices related to consumer financial products and services. The agency has authority to impose new disclosure requirements for any consumer financial product or service. The CFPB may impose a civil penalty or injunction against an entity in violation of federal consumer financial laws. The CFPB has examination and enforcement authority over all banks with more than \$10 billion in assets, as well as their affiliates. As a bank with less than \$10 billion in assets, the Bank is subject to these federal consumer financial laws, but continues to be examined for compliance by the Federal Reserve, its primary federal banking regulator, not the CFPB.

### ***Cybersecurity***

In February 2018, the SEC published interpretive guidance to assist public companies in preparing disclosures about cybersecurity risks and incidents. These SEC guidelines, and any other regulatory guidance, are in addition to notification and disclosure requirements under state and federal banking law and regulations.

In November 2021, the federal banking agencies issued a final rule that requires banking organizations to notify their primary regulator within 36 hours of becoming aware of a “computer-security incident” that rises to the level of a “notification incident.” The rule also requires specific and immediate notifications by bank service providers that become aware of similar incidents.

The federal banking regulators regularly issue new guidance and standards, and update existing guidance and standards, regarding cybersecurity intended to enhance cyber risk management among financial institutions. Financial institutions are expected to comply with such guidance and standards and to accordingly develop appropriate security controls and risk management processes. If we fail to observe such regulatory guidance or standards, we could be subject to various regulatory sanctions, including financial penalties. Our employees participate in regular company-sponsored training about cyber risks and cybersecurity. We feel this is part of a sound cyber risk management program, but can be no assurance that we will not be the victim of a cyberattack.

### ***Bank Secrecy Act and Anti-Money Laundering***

The Bank is subject to the requirements of the Bank Secrecy Act and the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act (“USA PATRIOT Act”) of 2001. The USA PATRIOT Act broadened existing anti-money laundering legislation by imposing new compliance and due diligence obligations focused on detecting and reporting money laundering transactions. These laws and regulations require the Bank to implement policies, procedures, and controls to detect, prevent, and report money laundering and terrorist financing and to verify the identity of our customers. Violations can result in substantial civil and criminal sanctions. In addition, provisions of the USA PATRIOT Act require the federal financial regulatory agencies to consider the effectiveness of a financial institution’s anti-money laundering activities when reviewing mergers and acquisitions.

The Anti-Money Laundering Act of 2020 (“AMLA”), which amends the Bank Secrecy Act of 1970 (“BSA”), was enacted in January 2021. The AMLA is intended to be a comprehensive reform and modernization to U.S. bank secrecy and anti-money laundering laws. Among other things, it codifies a risk-based approach to anti-money laundering compliance for financial institutions; requires the development of standards for evaluating technology and internal processes for BSA compliance; expands enforcement- and investigation-related authority, including increasing available sanctions for certain BSA violations and instituting BSA whistleblower incentives and protections.

### ***Office of Foreign Assets Control Regulation***

The U.S. Department of the Treasury’s (“Treasury”) Office of Foreign Assets Control (“OFAC”) administers and enforces economic and trade sanctions against targeted foreign countries and regimes, under authority of various laws, including designated foreign countries, nationals, and others. OFAC publishes lists of specially designated targets and countries. We are responsible for, among other things, blocking accounts of, and transactions with, such targets and countries, prohibiting unlicensed trade and financial transactions with them, and reporting blocked transactions after their occurrence. Failure to comply with these sanctions could have serious legal, financial, and reputational consequences, including causing applicable bank regulatory authorities to not approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required.

### ***Sarbanes-Oxley Act***

The Sarbanes-Oxley Act (“SOX Act”) of 2002 addresses a broad range of corporate governance, auditing and accounting, executive compensation, and disclosure requirements for public companies and their directors and officers. The SOX Act requires our Chief Executive Officer and Chief Financial Officer to certify the accuracy of certain information included in our quarterly and annual reports. The rules require these officers to certify that they are responsible for establishing, maintaining, and regularly evaluating the effectiveness of our financial reporting and disclosure controls and procedures; that they have made certain disclosures to the auditors and to the Audit Committee of the Board of Directors about our controls and procedures; and that they have included information in their quarterly and annual filings about their evaluation and whether there have been significant changes to the controls and procedures or other factors which would significantly impact these controls subsequent to their evaluation. Section 404 of the SOX Act requires management to undertake an assessment of the adequacy and effectiveness of our internal controls over financial reporting and requires our auditors to attest to and report on the effectiveness of these controls.



## Available Information

We file annual, quarterly, and current reports; proxy statements; and other information with the SEC. You may read and copy any document we file with the SEC at the SEC's website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information that issuers file electronically with the SEC. We maintain a website at [www.firstcommunitybank.com](http://www.firstcommunitybank.com) that makes available, free of charge, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and other information, including any amendments to those reports as soon as reasonably practicable after such reports are filed with, or furnished to, the SEC. You are encouraged to access these reports and other information about our business from the Investor Relations section of our website. The Investor Relations section contains information about our Board of Directors, executive officers, and corporate governance policies and principles, which include the charters of the standing committees of the Board of Directors, the Insider Trading Policy, and the Standards of Conduct governing our directors, officers, and employees. Information on our website is not incorporated by reference in this report.

## Item 1A. Risk Factors.

The risk factors described below 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.

### Risks Related to the Economic Environment

*The COVID-19 pandemic and government responses to the pandemic have adversely affected our business, financial condition and results of operations, and the ultimate impacts of the pandemic on our business, financial condition and results of operations will depend on future developments and other factors that are highly uncertain and will be impacted by the scope and duration of the pandemic and actions taken by governmental authorities in response to the pandemic.*

The ongoing COVID-19 global and national health emergency has caused significant disruption in the international and United States economies and financial markets and has had an adverse effect on our business, financial condition and results of operations. The spread of COVID-19 has caused illness, quarantines, cancellation of events and travel, business and school shutdowns, reduction in business activity and financial transactions, supply chain interruptions and overall economic and financial market instability.

The extent to which the COVID-19 pandemic will continue to negatively affect the Company's business, financial condition, liquidity and results of operations will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the direct and indirect impact of the pandemic on the Company's employees, customers, clients, counterparties and service providers, as well as other market participants, and actions taken, or that may yet be taken, by governmental authorities and other third parties in response to the pandemic, and public acceptance of any vaccines for COVID-19.

Although financial markets have largely rebounded from the significant declines that occurred earlier in the pandemic and global economic conditions showed signs of improvement, many of the circumstances that arose or became more pronounced after the onset of the pandemic persist, including:

- employees contracting COVID-19;
- reductions in our operating effectiveness as our employees work from home;
- increased cybersecurity risk due to the continuation of the work-from-home measures;
- a work stoppage, forced quarantine, or other interruption of our business;
- unavailability of key personnel necessary to conduct our business activities;
- effects on key employees, including operational management personnel and those charged with preparing, monitoring and evaluating our financial reporting and internal controls;
- sustained closures of our branch lobbies or the offices of our customers;
- declines in demand for loans and other banking services and products;
- reduced consumer spending due to both job losses and other effects attributable to the COVID-19 pandemic;
- unprecedented volatility in United States financial markets;
- volatile performance of our investment securities portfolio;
- declines in value of collateral for loans, including real estate collateral;
- declines in the net worth and liquidity of borrowers and loan guarantors, impairing their ability to honor commitments to us; and
- declines in demand resulting from businesses being deemed to be "non-essential" by governments in the markets we serve, and from "non-essential" and "essential" businesses suffering adverse effects from reduced levels of economic activity in our markets.

These factors, together or in combination with other events or occurrences that may not yet be known or anticipated, may materially and adversely affect our business, financial condition and results of operations.

The further spread of the COVID-19 outbreak, as well as ongoing or new governmental, regulatory and private sector responses to the pandemic, may materially disrupt banking and other economic activity generally and in the areas in which we operate. This could result in further decline in demand for our banking products and services, and could negatively impact, among other things, our liquidity, regulatory capital and our growth strategy. Any one or more of these developments could have a material adverse effect on our business, financial condition and results of operations.

We are taking precautions to protect the safety and well-being of our employees and customers. However, no assurance can be given that the steps being taken will

be adequate or deemed to be appropriate, nor can we predict the level of disruption which will occur to our employee's ability to provide customer support and service. If we are unable to recover from a business disruption on a timely basis, our business, financial condition and results of operations could be materially and adversely affected. We may also incur additional costs to remedy damages caused by such disruptions, which could further adversely affect our business, financial condition and results of operations.

***The current economic environment poses significant challenges.***

Our financial performance is generally highly dependent on the business environment in the markets we operate in and of the U.S. as a whole, which includes the ability of borrowers to pay interest, repay principal on outstanding loans, the value of collateral securing those loans, and demand for loans and other products and services we offer. A favorable business environment is generally characterized by, among other factors, economic growth, efficient capital markets, low inflation, low unemployment, high business and investor confidence, and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity, and investor or business confidence; limitations on the availability, or increases, in the cost of credit and capital; increases in inflation, interest rates, or employee costs; high unemployment; natural disasters; or a combination of these or other factors.

In recent years, economic growth and business activity across a wide range of industries has been slow and uneven. There are continuing concerns related to the level of U.S. government debt, fiscal actions that may be taken to address that debt, energy price volatility, global economic conditions, and significant uncertainty with respect to domestic and international fiscal and monetary policy. Economic and inflationary pressure on consumers and uncertainty about continuing economic improvement may result in changes in consumer and business spending, borrowing, and savings habits. There can be no assurance that these conditions will improve or that these conditions will not worsen. Such conditions could adversely affect the credit quality of the Bank's loans and the Company's business, financial condition, and results of operations.

***As a participating lender in the SBA Paycheck Protection Program ("PPP"), the Company and the Bank are subject to additional risks of litigation from the Bank's customers or other parties regarding the Bank's processing of loans for the PPP and risks that the SBA may not fund some or all PPP loan guaranties.***

On March 27, 2020, President Trump signed the CARES Act, which included a \$349 billion loan program administered through the SBA referred to as the PPP. Under the PPP, small businesses and other entities and individuals applied for loans from existing SBA lenders and other approved regulated lenders that enrolled in the program, subject to numerous limitations and eligibility criteria. The Bank participated as a lender in the PPP. Congress approved additional funding for the PPP of approximately \$320 billion on April 24, 2020. As part of the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (Economic Aid Act) enacted on December 27, 2020, in January, 2021, the SBA released applications for the second round of PPP loans for second draw loans for borrowers who received funding in the first round and first draw loans to first time borrowers. As of December 31, 2021, we have funded approximately 1,429 loans with original principal balances totaling \$92.58 million through the PPP program. Through December 31, 2021 \$56.86 million, or 93.20%, of the Company's first round PPP loan balances had been forgiven by the SBA. Current PPP loan balances at December 31, 2021, which include second round originations, were \$20.64 million.

Since the opening of the PPP, several other larger banks have been subject to litigation regarding the process and procedures that such banks used in processing applications for the PPP. The Company and the Bank may be exposed to the risk of litigation, from both customers and non-customers who approached the Bank regarding PPP loans, regarding its process and procedures used in processing applications for the PPP. If any such litigation is filed against the Company or the Bank and is not resolved in a manner favorable to the Company or the Bank, it may result in significant financial liability or adversely affect the Company's reputation. In addition, litigation can be costly, regardless of outcome. Any financial liability, litigation costs or reputational damage caused by PPP related litigation could have a material adverse impact on our business, financial condition and results of operations.

The Bank also has credit risk on PPP loans if a determination is made by the SBA that there is a deficiency in the manner in which the loan was originated, funded, or serviced by the Bank, such as an issue with the eligibility of a borrower to receive a PPP loan, which may or may not be related to the ambiguity in the laws, rules and guidance regarding the operation of the PPP. In the event of a loss resulting from a default on a PPP loan and a determination by the SBA that there was a deficiency in the manner in which the PPP loan was originated, funded, or serviced by the Company, the SBA may deny its liability under the guaranty, reduce the amount of the guaranty, or, if it has already paid under the guaranty, seek recovery of any loss related to the deficiency from the Company.

Additionally, if a borrower under the PPP loan fails to qualify for loan forgiveness, the Bank is at the heightened risk of holding the loan at an unfavorable interest rate as compared to loans to customers that the Bank would have otherwise extended credit.

**Regulatory Risks**

***We operate in a highly regulated industry subject to examination, supervision, enforcement, and other legal actions by various federal and state governmental authorities, laws, and judicial and administrative decisions.***

Congress and federal regulatory agencies continually review banking laws, regulations, and policies. Changes to these statutes, regulations, and regulatory policies, including changes in the interpretation or implementation, may cause substantial and unpredictable effects, require additional costs, limit the types of financial services and products offered, or allow non-banks to offer competing financial services and products. Failure to follow laws, regulations, and policies may result in sanctions by regulatory agencies and civil money penalties, which could have material adverse effects on our reputation, business, financial condition, and results of operations. We have policies and procedures designed to prevent violations; however, there is no assurance that violations will not occur. Existing and future laws, regulations, and policies yet to be adopted may make compliance more difficult or expensive; restrict our ability to originate, broker, or sell loans; further limit or restrict commissions, interest, and other charges earned on loans we originate or sell; and adversely affect our business, financial condition, and results of operations.

***The Bank's ability to pay dividends is subject to regulatory limitations that may affect the Company's ability to pay expenses and dividends to shareholders.***

The Company is a legal entity that is separate and distinct from its subsidiaries. The Company depends on the Bank and its other subsidiaries for cash, liquidity, and the payment of dividends to the Company to pay operating expenses and dividends to stockholders. There is no assurance that the Bank will have the capacity to pay dividends to the Company in the future or that the Company will not require dividends from the Bank to satisfy obligations. The Bank's dividend payment is governed by various statutes and regulations. For additional information, see "Payment of Dividends" in Item 1 of this report. The Company may not be able to service obligations as they become due if the Bank is unable to pay dividends sufficient to satisfy the Company's obligations, including our common stock. Consequently, the inability to receive dividends from the Bank could adversely affect the Company's financial condition, results of operations, cash flows, and prospects.





## Market and Interest Rate Risk

### *We are subject to interest rate risk.*

Interest rate risk results principally 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. Our earnings and cash flows are largely dependent upon net interest income. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies, particularly, the Federal Reserve. Changes in monetary policy and interest rates could influence the interest we receive on loans and securities and the amount of interest we pay on deposits and borrowings. Further, such changes could also affect our ability to originate loans and obtain deposits and the fair value of our financial assets and liabilities. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, our net interest income and earnings could be adversely affected. Conversely, if interest rates received on loans and other investments fall more quickly than interest rates paid on deposits and other borrowings, our net interest income and earnings could also be adversely affected.

### *Uncertainty relating to LIBOR calculation process and the phasing out of LIBOR may adversely affect us.*

The London Interbank Offered Rate (“LIBOR”) and certain other “benchmarks” are the subject of recent national, international, and other regulatory guidance and proposals for reform. These reforms may cause such benchmarks to perform differently than in the past or have other consequences, which cannot be predicted. On July 27, 2017, the United Kingdom’s Financial Conduct Authority (“FCA”), which regulates LIBOR, publicly announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021. Since then, regulators, industry groups and certain committees (e.g., the Alternative Reference Rates Committee) have, among other things, published recommended fall-back language for LIBOR-linked financial instruments, identified recommended alternatives for certain LIBOR rates (e.g., the Secured Overnight Financing Rate as the recommended alternative to U.S. Dollar LIBOR), and proposed implementations of the recommended alternatives in floating rate instruments. On November 30, 2020, ICE Benchmark Administration Limited (“IBA”), the benchmark administrator for the U.S. Dollar (“USD”) LIBOR announced a proposal to extend the publication of the most commonly used USD LIBOR settings until June 30, 2023.

The administrator for LIBOR announced on March 5, 2021 that it will permanently cease to publish most LIBOR settings beginning on January 1, 2022 and cease to publish the overnight, one-month, three-month, six-month and 12-month USD LIBOR settings on July 1, 2023. Accordingly, the FCA has stated that it does not intend to persuade or compel banks to submit to LIBOR after such respective dates. Until such time, however, FCA panel banks have agreed to continue to support LIBOR.

Banking regulators issued guidance strongly encouraging banks to cease entering into new contracts that use USD LIBOR as a reference rate as soon as practicable and in any event by December 31, 2021. There can be no assurances on which benchmark rate(s) may replace LIBOR or how LIBOR will be determined for purposes of financial instruments that are currently referencing LIBOR when it ceases to exist. The discontinuance of LIBOR may result in uncertainty or differences in the calculation of the applicable interest rate or payment amount depending on the terms of the governing documents, may adversely affect the value of our floating rate obligations, loans, deposits, derivatives, and other financial instruments tied to LIBOR rates and may also increase operational and other risks to the Company and the industry.

In addition, the implementation of LIBOR reform proposals may result in increased compliance costs and operational costs, including costs related to continued participation in LIBOR and the transition to a replacement reference rate or rates. We cannot reasonably estimate the expected cost.

### *Changes in the fair value of our investment securities may reduce stockholders’ equity and net income.*

A decline in the estimated fair value of the investment portfolio may result in a decline in stockholders’ equity, book value per common share, and tangible book value per common share. Unrealized losses are recorded even though the securities are not sold or held for sale. If a debt security is never sold and no credit impairment exists, the decrease is recovered at the security’s maturity. Equity securities have no stated maturity; therefore, declines in fair value may or may not be recovered over time. We conduct quarterly reviews of our securities portfolio to determine if unrealized losses are temporary or other than temporary. No assurance can be given that we will not need to recognize other-than-temporary impairment (“OTTI”) charges in the future. Additional OTTI charges may materially affect our financial condition and earnings. For additional information, see Note 1, “Basis of Presentation and Accounting Policies,” and Note 3, “Debt Securities,” to the Consolidated Financial Statements in Part II, Item 8 of this report.

### *The repeal of the federal prohibitions on payment of interest on demand deposits could increase our interest expense.*

All federal prohibitions on the ability of financial institutions to pay interest on demand deposit accounts were repealed as part of the Dodd-Frank Act. We do not know what interest rates other institutions may offer as market interest rates begin to increase. Our interest expense will increase and net interest margin will decrease if we offer interest on demand deposits to attract additional customers or maintain current customers, which could have a material adverse effect on our business, financial condition, and results of operations.

## Credit Risk

### *Our accounting estimates and risk management processes rely on analytical and forecasting models.*

The processes we use to estimate probable loan losses and to measure the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates and other market measures on our financial condition and results of operations, depend upon analytical and forecasting models. These models reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen circumstances. Even if these assumptions are adequate, the models may prove to be inadequate or inaccurate because of other flaws in their design or their implementation. If the models we use for interest rate risk and asset/liability management are inadequate, we may incur increased or unexpected losses upon changes in market interest rates or other market measures. If the models used for determining probable loan losses are inadequate, the allowance for credit losses may not be sufficient to cover actual loan losses and an increase in the loan loss provision could materially and adversely affect our operating results. Federal regulatory agencies regularly review our loans and allowance

for credit losses as an integral part of the examination process. There is no assurance that we will not, or that regulators will not require us to, increase our allowance in future periods, which could materially and adversely affect our earnings and profitability. If the models we use to measure the fair value of financial instruments are inadequate, the fair value of such financial instruments may fluctuate unexpectedly or may not accurately reflect what we could realize upon the sale or settlement of such financial instruments. Any such failure in our analytical or forecasting models could have a material adverse effect on our business, financial condition, and results of operations. For additional information, see "Fair Value Measurements" and "Allowance for Credit Losses" in the "Critical Accounting Policies" section in Part II, Item 7 and Note 1, "Basis of Presentation and Accounting Policies," to the Consolidated Financial Statements in Part II, Item 8 of this report.

***We are subject to credit risk associated with the financial condition of other financial institutions***

Credit risk is the risk of not collecting payments pursuant to the contractual terms of loans, leases and investment securities. Financial institutions are interrelated as a result of trading, clearing, counterparty, and other relationships. We have exposure to different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, investment companies, and other institutional clients. Our ability to engage in routine funding transactions could be adversely affected by the failure, actions, and commercial soundness of other financial institutions. These transactions may expose us to credit risk if our counterparty or client defaults on their contractual obligation. Our credit risk may increase if the collateral we hold cannot be realized or liquidated at prices sufficient to recover the full amount of the loan or derivative exposure due to us. In the event of default, we may be required to provide collateral to secure the obligation to the counterparties. In the event of a bankruptcy or insolvency proceeding involving one of such counterparties, we may experience delays in recovering the assets posted as collateral or may incur a loss to the extent that the counterparty was holding collateral in excess of the obligation to such counterparty. Losses from routine funding transactions could have a material adverse effect on our financial condition and results of operations.

***Our commercial loan portfolio may expose us to increased credit risk.***

Commercial business and real estate loans generally have a higher risk of loss because loan balances are typically larger than residential real estate and consumer loans and repayment is usually dependent on cash flows from the borrower's business or the property securing the loan. Our commercial business loans are primarily made to small business and middle market customers. As of December 31, 2021, commercial business and real estate loans totaled \$1.03 billion, or 47.64%, of our total loan portfolio. As of the same date, our largest outstanding commercial business loan was \$5.37 million and largest outstanding commercial real estate loan was \$15.94 million. Commercial construction loans generally have a higher risk of loss due to the assumptions used to estimate the value of property at completion and the cost of the project, including interest. If the assumptions and estimates are inaccurate, the value of completed property may fall below the related loan amount. As of December 31, 2021, commercial construction loans totaled \$65.81 million, or 3.04% of our total loan portfolio. As of the same date, our largest outstanding commercial construction loan was \$3.46 million. Losses from our commercial loan portfolio could have a material adverse effect on our financial condition and results of operations.

**Operational Risks**

***We face strong competition from other financial institutions, financial service companies, and organizations that offer services similar to our offerings.***

Our larger competitors may have substantially greater resources and lending limits, name recognition, and market presence that allow them to offer products and services that we do not offer and to price loans and deposits more aggressively than we do. The expansion of non-bank competitors, which may have fewer regulatory constraints and lower cost structures, has intensified competitive pressures on core deposit generation and retention. For additional information, see "Competition" in Item 1 of this report. Our success depends, in part, on our ability to attract and retain customers by adapting our products and services to evolving customer needs and industry and economic conditions. Failure to perform in any of these areas could weaken our competitive position, reduce deposits and loan originations, and adversely affect our financial condition, results of operations, cash flows, and prospects.

***Liquidity risk could impair our ability to fund operations.***

Liquidity is essential to our business and the inability to raise funds through deposits, borrowings, equity and debt offerings, or other sources could have a materially adverse effect on our liquidity. Company specific factors such as a decline in our credit rating, an increase in the cost of capital from financial capital markets, a decrease in business activity due to adverse regulatory action or other company specific event, or a decrease in depositor or investor confidence may impair our access to funding with acceptable terms adequate to finance our activities. General factors related to the financial services industry such as a severe disruption in financial markets, a decrease in industry expectations, or a decrease in business activity due to political or environmental events may impair our access to liquidity.

***We may require additional capital in the future that may not be available when needed.***

We may need to raise additional capital to strengthen our capital position, increase our liquidity, satisfy obligations, or pursue growth objectives. Our ability to raise additional capital depends on current conditions in capital markets, which are outside our control, and our financial performance. Certain economic conditions and declining market confidence may increase our cost of funds and limit our access to customary sources of capital, such as borrowings with other financial institutions, repurchase agreements, and availability under the FRB's Discount Window. Events that limit access to capital markets and the inability to obtain capital may have a materially adverse effect on our business, financial condition, results of operations, and market value of common stock. We cannot provide any assurance that additional capital will be available, on acceptable terms or at all, in the future.

***We may experience future goodwill impairment.***

We test goodwill for impairment annually, or more frequently if events or circumstances indicate there may be impairment, using either a quantitative or qualitative assessment. If we determine that the carrying amount of a reporting unit is greater than its fair value, a goodwill impairment charge is recognized for the difference, but limited to the amount of goodwill allocated to that reporting unit. Unfavorable or uncertain economic and market conditions may trigger additional impairment charges that may cause an adverse effect on our earnings and financial position. For additional information, see "Goodwill and Other Intangible Assets" in the "Critical Accounting Policies" section in Part II, Item 7 and Note 1, "Basis of Presentation and Accounting Policies," and Note 8, "Goodwill and Other Intangible Assets," to the Consolidated Financial Statements in Part II, Item 8 of this report.

***We may be required to pay higher FDIC insurance premiums or special assessments.***

Our deposits are insured up to applicable limits by the DIF of the FDIC and we are subject to deposit insurance assessments to maintain the DIF. For additional information, see “Deposit Insurance and Assessments” in Item 1 of this report. We are unable to predict future insurance assessment rates; however, deterioration in our risk-based capital ratios or adjustments to base assessment rates may result in higher insurance premiums or special assessments. The deterioration of banking and economic conditions and financial institution failures deplete the FDIC’s DIF and reduce the ratio of reserves to insured deposits. If the DIF is unable to meet funding requirements, increases in deposit insurance premium rates or special assessments may be required. Future assessments, increases, or required prepayments related to FDIC insurance premiums may negatively affect our financial condition and results of operations.

***We continue to encounter technological change and are subject to information security risks associated with technology.***

The financial services industry continues to experience rapid technological change with the introduction of new, and increasingly complex, technology-driven products and services. The effective use of technology increases operational efficiency that enables financial service institutions to reduce costs. Our future success depends, in large part, on our ability to provide products and services that satisfactorily meet the financial needs of our customers, as well as to realize additional efficiencies in our operations. We may fail to use technology-driven products and services effectively to better serve our customers and increase operational efficiency or sufficiently invest in technology solutions and upgrades to ensure systems are operating properly. Further, many of our competitors have substantially greater resources to invest in technology, which may adversely affect our ability to compete.

We rely on electronic communications and information systems, including those provided by third-party vendors, to conduct our business operations. Our security risks increase as our reliance on technology increases; consequently, the expectation to safeguard information by monitoring systems for potential failures, disruptions, and breakdowns has also increased. Risks associated with technology include security breaches, operational failures and service interruptions, and reputational damages. These risks also apply to our third-party service providers. Our third-party vendors include large entities with significant market presence in their respective fields; therefore, their services could be difficult to replace quickly if there are operational failures or service interruptions.

We rely on our technology-driven systems to conduct daily business and accounting operations that include the collection, processing, and retention of confidential financial and client information. We may be vulnerable to security breaches, such as employee error, cyberattacks, and viruses, beyond our control. In addition to security breaches, programming errors, vandalism, natural disasters, terrorist attacks, and third-party vendor disruptions may cause operational failures and service interruptions to our communication and information systems. Further, our systems may be temporarily disrupted during implementation or upgrade. Security breaches and service interruptions related to our information systems could damage our reputation, which may cause us to lose customers, subject us to regulatory scrutiny, or expose us to civil litigation and financial liability.

Our customers and employees have been, and will continue to be, targeted by parties using fraudulent e-mails and other communications in attempts to misappropriate passwords, bank account information or other personal information, or to introduce viruses or other malware through "Trojan horse" programs to our information systems and/or our customers' computers. Though we endeavor to mitigate these threats through product improvements, use of encryption and authentication technology, and customer and employee education, such cyberattacks against us or our third-party service providers remain a serious issue. The pervasiveness of cybersecurity incidents in general and the risks of cybercrime are complex and continue to evolve. More generally, publicized information about security and cyber-related problems could inhibit the use or growth of electronic or web-based applications or solutions as a means of conducting commercial transactions.

While we have not experienced a significant compromise, significant data loss, or any material financial losses related to cybersecurity attacks, our systems and those of our customers and third-party service providers are under constant threat and it is possible that we could experience a significant event in the future. Although we make significant efforts to maintain the security and integrity of our information systems and have implemented various measures to manage the risk of a security breach or disruption, there can be no assurance that our security efforts and measures will be effective or that attempted security breaches or disruptions would not be successful or damaging. Even the most well protected information, networks, systems and facilities remain potentially vulnerable because attempted security breaches, particularly cyberattacks and intrusions, or disruptions will occur in the future, and because the techniques used in such attempts are constantly evolving and generally are not recognized until launched against a target, and in some cases are designed not to be detected and, in fact, may not be detected. Accordingly, we may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures, and thus it is virtually impossible for us to entirely mitigate this risk. A security breach or other significant disruption of our information systems or those related to our customers, merchants and our third-party vendors, including as a result of cyberattacks, could (1) disrupt the proper functioning of our networks and systems and therefore our operations and/or those of our customers; (2) result in the unauthorized access to, and destruction, loss, theft, misappropriation or release of confidential, sensitive or otherwise valuable information of ours or our customers; (3) result in a violation of applicable privacy, data breach and other laws, subjecting us to additional regulatory scrutiny and expose us to civil litigation, governmental fines and possible financial liability; (4) require significant management attention and resources to remedy the damages that result; or (5) harm our reputation or cause a decrease in the number of customers who choose to do business with us. The occurrence of any of the foregoing could have a material adverse effect on our business, financial condition and results of operations.

***We may be subject to claims and litigation pertaining to intellectual property.***

Banking and other financial services companies, such as the Company, rely on technology companies to provide information technology products and services necessary to support the Company’s day-to-day operations. Technology companies often enter into litigation based on allegations of patent infringement or other violations of intellectual property rights. In addition, patent holding companies seek to monetize patents they have purchased or otherwise obtained. Competitors of the Company’s vendors, or other individuals or companies, have from time to time claimed to hold intellectual property sold to the Company by its vendors. Such claims may increase in the future as the financial services sector becomes more reliant on information technology vendors. The plaintiffs in these actions often seek injunctions and substantial damages.

Regardless of the scope or validity of such patents or other intellectual property rights, or the merits of any claims by potential or actual litigants, the Company may have to engage in protracted litigation. Such litigation is often expensive, time consuming, disruptive to the Company's operations, and distracting to management. If the Company is found to have infringed on one or more patents or other intellectual property rights, it may be required to pay substantial damages or royalties to a third party. In certain cases, the Company may consider entering into licensing agreements for disputed intellectual property, although no assurance can be given that such licenses can be obtained on acceptable terms or that litigation will not occur. These licenses may also significantly increase the Company's operating expenses. If legal matters related to intellectual property claims were resolved against the Company or settled, the Company could be required to make payments in amounts that could have a material adverse effect on its business, financial condition, and results of operations.

## **Risks Related to Our Common Stock**

### ***The market price of our common stock may be volatile.***

Stock price volatility may make it more difficult for our stockholders to resell their common stock when desired. Our common stock price may fluctuate significantly due to a variety of factors that include the following:

- actual or expected variations in quarterly results of operations;
- recommendations by securities analysts;
- operating and stock price performance of comparable companies, as deemed by investors;
- news reports relating to trends, concerns, and other issues in the financial services industry;
- perceptions in the marketplace about our Company or competitors;
- new technology used, or services offered, by competitors;
- significant acquisitions or business combinations, strategic partnerships, joint ventures, or capital commitments by, or involving, our Company or competitors;
- failure to integrate acquisitions or realize expected benefits from acquisitions;
- changes in government regulations; and
- geopolitical conditions, such as acts or threats of terrorism or military action.

General market fluctuations; industry factors; political conditions; and general economic conditions and events, such as economic slowdowns, recessions, interest rate changes, or credit loss trends, could also cause our common stock price to decrease regardless of operating results.

### ***The trading volume in our common stock is less than that of other larger financial services companies.***

Although our common stock is listed for trading on the NASDAQ, the trading volume in our common stock is less than that of other, larger financial services companies. A public trading market having the desired characteristics of depth, liquidity, and orderliness depends on the presence in the marketplace of willing buyers and sellers of our common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the lower trading volume of our common stock, significant sales of our common stock or the expectation of these sales could cause our stock price to fall.

### ***We may not continue to pay dividends on our common stock in the future.***

Our common stockholders are only entitled to receive dividends when declared by our Board of Directors from funds legally available for such payments. Although we have historically declared cash dividends on our common stock, we are not required to do so, and may reduce or eliminate our common stock dividend in the future. This could adversely affect the market price of our common stock. As a financial holding company, the Company's ability to declare and pay dividends is dependent on certain federal regulatory considerations, including the guidelines of the Federal Reserve about capital adequacy and dividends. For additional information, see "Payment of Dividends" in Item 1 of this report.

## **General Risks**

### ***We are subject to environmental liability risk associated with lending activities.***

A significant portion of our loan portfolio is secured by real property. In the ordinary course of business, we foreclose on and take title to properties that secure certain loans. Hazardous or toxic substances could be found on properties we own. If substances are present, we may be liable for remediation costs, personal injury claims, and property damage and our ability to use or sell the property would be limited. We have policies and procedures in place that require environmental reviews before initiating foreclosure actions on real property; however, these reviews may not detect all potential environmental hazards. Environmental laws that require us to incur substantial remediation costs, which could materially reduce the affected property's value, and other liabilities associated with environmental hazards could have a material adverse effect on our financial condition and results of operations.

***Potential acquisitions may disrupt our business and dilute stockholder value.***

We may seek merger or acquisition partners that are culturally similar, have experienced management, and possess either significant market presence or the potential for improved profitability through financial management, economies of scale, or expanded services. Risks inherent in acquiring other banks, businesses, and banking branches may include the following:

- potential exposure to unknown or contingent liabilities of the target company;
- exposure to potential asset quality issues of the target company;
- difficulty, expense, and delays of integrating the operations and personnel of the target company;
- potential disruption to our business;
- potential diversion of management's time and attention;
- loss of key employees and customers of the target company;
- difficulty in estimating the value of the target company;
- potential changes in banking or tax laws or regulations that may affect the target company;
- unexpected costs and delays;
- the target company's performance does not meet our growth and profitability expectations;
- limited experience in new markets or product areas;
- increased time, expenses, and personnel as a result of strain on our infrastructure, staff, internal controls, and management; and
- potential short-term decreases in profitability.

We regularly evaluate merger and acquisition opportunities and conduct due diligence activities related to possible transactions with other financial institutions and financial services companies. As a result, merger or acquisition discussions and, in some cases, negotiations may take place and future mergers or acquisitions involving the payment of cash or the issuance of debt or equity securities may occur at any time. Acquisitions typically involve goodwill, a purchase premium over the acquired company's book and market values; therefore, dilution of our tangible book value and net income per common share may occur. If we are unable to realize revenue increases, cost savings, geographic or product presence growth, or other projected benefits from acquisitions, our financial condition and results of operations may be adversely affected.

***Attractive acquisition opportunities may not be available in the future.***

We expect banking and financial companies, which may have significantly greater resources, to compete for the acquisition of financial service businesses. This competition could increase the price of potential acquisitions that we believe are attractive. If we fail to receive proper regulatory approval, we will not be able to consummate an acquisition. Our regulators consider our capital, liquidity, profitability, regulatory compliance, level of goodwill and intangible assets, and other factors when considering acquisition and expansion proposals. Future acquisitions may be dilutive to our earnings and equity per share of our common stock.

***We may lose members of our management team and have difficulty attracting skilled personnel.***

Our success depends, in large part, on our ability to attract and retain key employees. Competition for the best people can be intense. The unexpected loss of key personnel could have a material adverse impact on our business due to the loss of certain skills, market knowledge, and industry experience and the difficulty of promptly finding qualified replacement personnel. Certain existing and proposed regulatory guidance on compensation may also negatively affect our ability to retain and attract skilled personnel.

***Our internal controls and procedures may fail or be circumvented.***

We review our internal controls over financial reporting quarterly and enhance controls in response to these assessments, internal and external audit, and regulatory recommendations. A control system, no matter how well conceived and operated, includes certain assumptions and can only provide reasonable assurance that the objectives of the control system are met. These controls may be circumvented by individual acts, collusion, or management override. Any failure or circumvention related to our controls and procedures or failure to follow regulations related to controls and procedures could have a material adverse effect on our business, reputation, results of operations, and financial condition.

***We are subject to environmental, social and governance ("ESG") risks that could adversely affect the Company's results of operations, reputation, and the market price of its securities.***

The Company is subject to a variety of risks arising from ESG matters. ESG matters include environmental and climate change activism, diversity activism, and racial and social justice issues. Such matters may involve our personnel, customers, or third parties with whom we do business. Risks arising from ESG matters may adversely affect, among other things, the Company's reputation and the market price of our securities. Further, the Company may be exposed to negative publicity based on the identity and activities of our shareholders, those to whom we lend and with which we otherwise do business, and the public's view of the approach and requirements of our state or federal regulators, customers, and business partners with respect to ESG matters. Any such negative publicity could arise through traditional media or electronic social media platforms. The Company's relationships and reputation with its existing and prospective customers and third parties with which we do business could be damaged if we were to become the subject of any such negative publicity. This, in turn, could have an adverse effect on the Company's ability to attract and retain customers and employees and could have a negative impact on the market price for our securities. Certain investors have begun to consider the steps taken and resources allocated by financial institutions and other commercial organizations with respect to ESG matters when making investment decisions. Certain investors are beginning to incorporate the business risks of ESG regulation and activism and the adequacy of companies' responses to these into their investment decisions. These shifts in investing priorities may result in adverse effects on the market price of the Company's securities.

The U.S. Congress, state legislatures and federal and state regulatory agencies, as well as certain stock exchanges, continue to propose numerous initiatives related to ESG matters. Similar and even more expansive initiatives are expected under the current administration, including potentially increasing supervisory

expectations with respect to banks' risk management practices, accounting practices, and credit portfolio concentrations management practices. The lack of empirical data surrounding the credit and other financial risks posed by ESG regulation and activism render it impossible to predict how specifically ESG matters may impact the Company's financial condition and results of operations.

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Specifically, environmental activism may adversely impact the economic viability of many of the Company’s deposit and loan customers in our West Virginia and southwestern Virginia markets. We have customers who operate in carbon-intensive industries like coal, oil and gas that are exposed to climate activism risks and those risks created by a transition to a less carbon-dependent economy, as well as customers who operate in low-carbon industries that may be subject to risks associated with new technologies. Further, the effects of climate change activism may negatively impact regional and local economic activity, which could impact the economies of the communities the Company serves and in which we operate. The Company’s business, reputation and ability to attract and retain employees and customers may also be harmed if our response to ESG activism is perceived to be excessive or insufficient.

Federal and state banking regulators and supervisory authorities, investors and other stakeholders have increasingly viewed financial institutions as a tool to effect ESG activism, both directly and with respect to their customers, which may result in financial institutions coming under increased pressure regarding the disclosure and management of ESG matters. Given that ESG matters could impose systemic risks upon the financial sector, either via disruptions in economic activity resulting from activism, the Company faces increasing focus on our resilience to ESG risks. Ongoing legislative or regulatory uncertainties and changes regarding ESG risk management and practices may result in higher regulatory, compliance, credit and reputational risks and costs.

**Item 1B. Unresolved Staff Comments.**

None.

**Item 2. Properties.**

We own our corporate headquarters located at One Community Place, Bluefield, Virginia. As of December 31, 2021, the Bank provided financial services through a network of 49 branch locations in West Virginia (17 branches), Virginia (23 branches), North Carolina (7 branches), and Tennessee (2 branches). We own 48 of those branches and lease the remaining branch. As of December 31, 2021, there were no mortgages or liens against any properties. We believe that our properties are suitable and adequate to serve as financial services facilities. A list of all branch and ATM locations is available on our website at [www.firstcommunitybank.com](http://www.firstcommunitybank.com). Information contained on our website is not part of this report. For additional information, see Note 7, “Premises, Equipment, and Leases,” to the Consolidated Financial Statements in Part II, Item 8 of this report.

**Item 3. 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 of these matters with certainty, we are of the belief that the resolution of these actions should not have a material adverse effect on our financial position, results of operations, or cash flows.

**Item 4. Mine Safety Disclosures.**

None.

**PART II****Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.****Market Information and Holders**

Our common stock is traded on the NASDAQ Global Select Market under the symbol FCBC. As of February 23, 2022, there were 2,789 record holders and 16,806,360 outstanding shares of our common stock.

**Purchases of Equity Securities**

We repurchased 949,386 shares of our common stock in 2021, 734,653 shares of our common stock in 2020, and 487,400 shares in 2019.

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:

|                     | <u>Total Number<br/>of Shares<br/>Purchased</u> | <u>Average Price<br/>Paid per Share</u> | <u>Total Number<br/>of Shares<br/>Purchased as<br/>Part of a<br/>Publicly<br/>Announced<br/>Plan</u> | <u>Maximum<br/>Number of<br/>Shares that<br/>May Yet be<br/>Purchased<br/>Under the<br/>Plan(1)</u> |
|---------------------|---|---|--|---|
| October 1-31, 2021  | 60,100  | \$ 32.32                                | 1,942,637  | 1,613,214   |
| November 1-30, 2021 | 88,000  | 34.25                                   | 3,014,050  | 1,525,214   |
| December 1-31, 2021 | 74,600  | 33.47                                   | 2,496,609  | 1,450,614   |
| Total               | <u>222,700</u>                                  | <u>\$ 33.47</u>                         | <u>7,453,296</u>   |   |

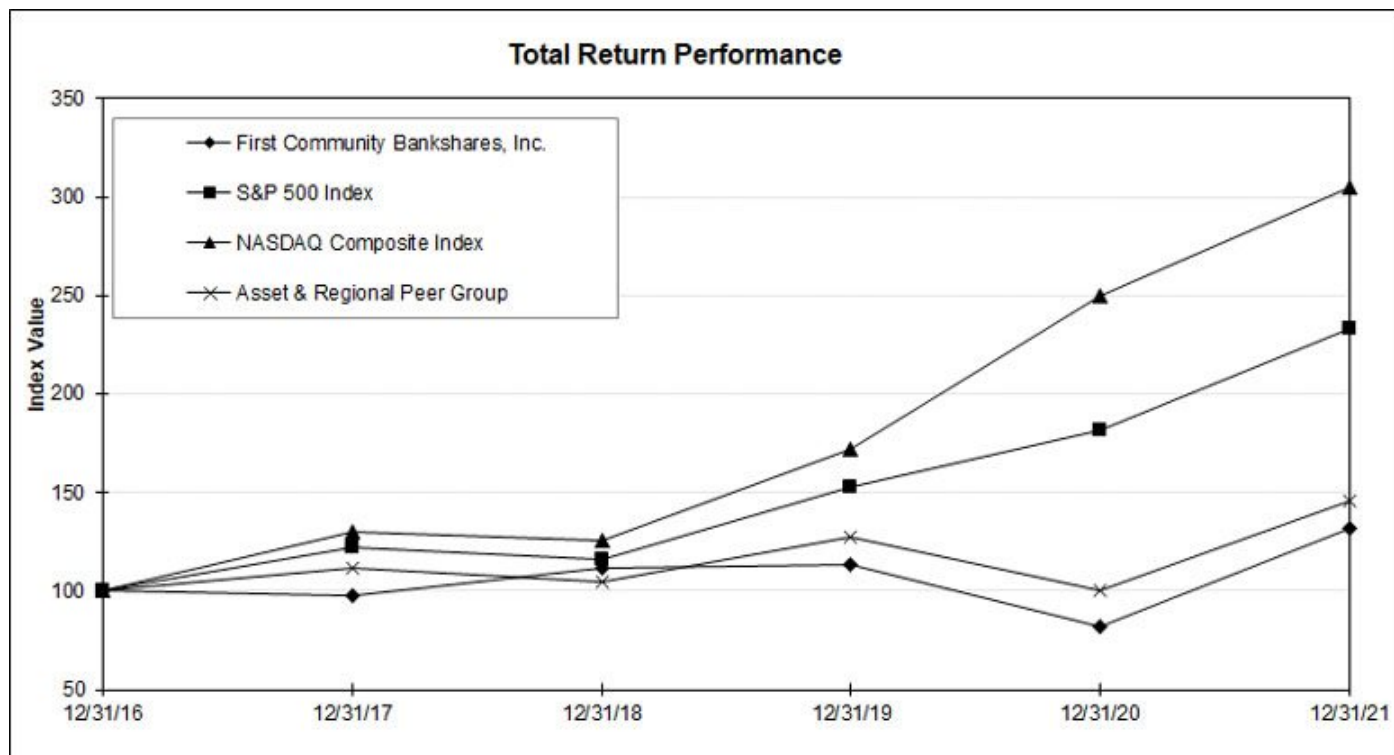
(1) In the first quarter of 2020, the Company exhausted its 6,600,000 shares repurchase authorization. As a result of the uncertainty associated with the



COVID-19 pandemic; the Company elected not to repurchase shares during the remainder of 2020. In February 2021, the Board of Directors approved a new repurchase plan to repurchase 2,400,000 shares. The timing, price, and quantity of purchases under the repurchase plan are at the discretion of management and the repurchase plan may be discontinued, suspended or restarted at any time depending on the facts and circumstances.

**Stock Performance Graph**

The following graph, compiled by S&P Global Market Intelligence (“S&P Global”), compares the cumulative total shareholder return on our common stock for the five years ended December 31, 2021, with the cumulative total return of the S&P 500 Index, the NASDAQ Composite Index, and S&P Global’s Asset Size & Regional Peer Group. The Asset Size & Regional Peer Group consists of 42 bank holding companies with total assets between \$1 billion and \$5 billion that are located in the Southeast Region of the United States and traded on NASDAQ, the OTC Bulletin Board, and pink sheets. The cumulative returns assume that \$100 was originally invested on December 31, 2016, and that all dividends are reinvested.



|   | Year Ended December 31, |        |        |        |        |        |
|---|-------------------------|--------|--------|--------|--------|--------|
|   | 2016                    | 2017   | 2018   | 2019   | 2020   | 2021   |
| First Community Bankshares, Inc.          | 100.00                  | 97.65  | 111.50 | 113.09 | 82.36  | 132.20 |
| S&P 500 Index                             | 100.00                  | 121.83 | 116.49 | 153.17 | 181.35 | 233.41 |
| NASDAQ Composite Index                    | 100.00                  | 129.64 | 125.96 | 172.18 | 249.51 | 304.85 |
| S&P Global Asset & Regional Peer Group(1) | 100.00                  | 112.06 | 104.51 | 127.31 | 100.28 | 146.01 |

(1) Includes the following institutions: American National Bankshares Inc.; Atlantic Capital Bancshares, Inc.; Auburn National Bancorporation, Inc.; BankFirst Capital Corporation; C&F Financial Corporation; Capital City Bank Group, Inc.; CapStar Financial Holdings, Inc.; Carter Bankshares, Inc.; Chesapeake Financial Shares, Inc.; Citizens Bancorp Investment, Inc.; Citizens Holding Company; CoastalSouth Bancshares, Inc.; Colony Bankcorp, Inc.; Eagle Financial Services, Inc.; F&M Bank Corp.; FineMark Holdings, Inc.; First Community Bankshares, Inc.; First Community Corporation; First National Corporation; FVCBankcorp, Inc.; GrandSouth Bancorporation; Heritage Southeast Bancorporation, Inc.; HomeTrust Bancshares, Inc.; MainStreet Bancshares, Inc.; MetroCity Bankshares, Inc.; Morris State Bancshares, Inc.; Mountain Commerce Bankcorp, Inc.; MVB Financial Corp.; National Bankshares, Inc.; Old Point Financial Corporation; Peoples Bancorp of North Carolina, Inc.; Primis Financial Corp. ; Professional Holding Corp.; SmartFinancial, Inc.; South Atlantic Bancshares, Inc.; Southern First Bancshares, Inc.; Southern States Bancshares, Inc.; Summit Financial Group, Inc.; UB Bankcorp; United Bancorporation of Alabama, Inc.; USCB Financial Holdings, Inc.; Virginia National Bankshares Corporation.

**Item 6. Reserved**

## **Item 7. 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. 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 December 31, 2021, the Bank operated 49 branches in Virginia, West Virginia, North Carolina and Tennessee. Our primary source of earnings is net interest income, the difference between interest earned on assets and interest paid on liabilities, which is supplemented by fees for services, commissions on sales, and various deposit service charges. We fund our lending and investing activities primarily through the retail deposit operations of our branch banking network supplemented by 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.

The Bank offers trust management, estate administration, and investment advisory services through its Trust Division and wholly owned subsidiary First Community Wealth Management (“FCWM”). The Trust Division manages inter vivos trusts and trusts under will, develops and administers employee benefit and individual retirement plans, and manages and settles estates. Fiduciary fees for these services are charged on a schedule related to the size, nature, and complexity of the account. Revenues consist primarily of commissions on assets under management and investment advisory fees. As of December 31, 2021, the Trust Division and FCWM managed and administered \$1.32 billion in combined assets under various fee-based arrangements as fiduciary or agent.

Our acquisition and divestiture activity during the last three years includes the December 31, 2019, acquisition of Highlands Bankshares, Inc. (“Highlands”), headquartered in Abingdon, Virginia with total assets of \$563 million. The completion of the transaction resulted in total consolidated assets increasing to \$2.80 billion immediately after the transaction. For additional information, see Note 2, “Acquisitions and Divestitures,” to the Consolidated Financial Statements in Item 8 of this report.

### **Operating, Accounting, and Reporting Considerations Related to COVID-19 and the CARES Act**

The outbreak of COVID-19 has significantly disrupted local, national, and global economies and has adversely impacted a broad range of industries in which the Company’s customers operate and could impair their ability to fulfill their financial obligations to the Company. The spread of the outbreak has caused significant disruptions in the U.S. and global economy and has disrupted banking and other financial activity in the areas in which the Company operates. COVID-19 has the potential to create widespread business continuity issues for the Company.

Congress, the Executive Branch, and the Federal Reserve have taken several actions designed to cushion the economic fallout. Most notably, the Coronavirus Aid, Relief and Economic Security (“CARES”) Act was signed into law at the end of March 2020 as a \$2 trillion legislative package. The goal of the CARES Act was to curb the economic downturn through various measures, including direct financial aid to American families and economic stimulus to significantly impacted industry sectors through programs like the Paycheck Protection Program (“PPP”). The package also included extensive emergency funding for hospitals and providers. In addition to the general impact of COVID-19, certain provisions of the CARES Act as well as other recent legislative and regulatory relief efforts have had a material impact on the Company’s operations and could continue to impact operations going forward.

The Company’s business is dependent upon the willingness and ability of its employees and customers to conduct banking and other financial transactions. While progress has been made on the vaccine front, if the global response to contain COVID-19 is prolonged or is unsuccessful, the Company could experience further adverse effects on its business, financial condition, results of operations and cash flows. While it is not possible to know the full universe or extent that the impact of COVID-19, and resulting measures to curtail its spread, will have on the Company’s operations, the Company is disclosing potentially material items of which it is aware.

#### *Financial position and results of operations*

In 2020, COVID-19 had a material impact on our allowance for credit losses. While we did not experience any significant charge-offs related to COVID-19, our allowance calculation and resulting provision for credit losses were significantly impacted by governmental reactions and forced shutdowns. On January 1, 2021, we adopted ASU 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”, (“CECL”), which had the effect of increasing our allowance for credit losses by \$13.11 million largely due to the uncertainty around the impact of COVID-19 which adversely affected the economic forecasts that were utilized in the adoption. In 2021, the economic forecasts improved significantly and credit quality remained strong; with both factors contributing to a reversal of provision for credit losses of \$8.47 million. However, should economic conditions or forecasts worsen and credit quality deteriorate, we could experience further increase in our required allowance for credit losses and record additional provision for credit. It is possible that our asset quality measures could worsen at future measurement periods if the effects of COVID-19 are prolonged.

The Company’s fee income has been reduced due to COVID-19. Consumer spending behavior has proven to be very conservative during the pandemic resulting in a decrease in overdraft behavior that generates NSF and other fee income. However, as lock-down restrictions have either eased or been lifted, the Company is beginning to experience an upward trend in these fees. Recovering from a negative trend throughout the last half of 2020 and the first quarter of 2021, service charges on deposits increased \$427 thousand or 3.28%, year to date from 2020. Should the pandemic and the global response escalate further, it is possible that the Company could see further decreases in fees in future periods; however, at this time, the Company is unable to project the materiality of such an impact on the results of operations in future periods.

The Company’s interest income could be reduced due to COVID-19. In keeping with guidance from regulators, the Company continues to work with COVID-19

affected borrowers to defer their payments, interest, and fees. While interest and fees continue to accrue to income, through normal GAAP accounting, should eventual credit losses on these deferred payments emerge, the related loans would be placed on nonaccrual status and interest income and fees accrued would be reversed. In such a scenario, interest income in future periods could be negatively impacted. As of December 31, 2021 the Company carried \$2.87 million of accrued interest income and fees on outstanding deferrals made to COVID-19 affected borrowers compared to \$3.47 million in 2020. At this time, the Company is unable to project the materiality of such an impact on future deferrals to COVID-19 affected borrowers, but recognizes the breadth of the economic impact may affect its borrowers' ability to repay in future periods.

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### *Capital and liquidity*

As of December 31, 2021, the Company continued to meet all capital adequacy requirements and were classified as well-capitalized under the regulatory framework for prompt corrective action. Management believes there have been no conditions or events since those notifications that would change the Bank's classification. Additionally, our capital ratios were in excess of the minimum standards under the Basel III capital rules on a fully phased-in basis, if such requirements were in effect, as of December 31, 2021. While we believe that we have sufficient capital, our reported and regulatory capital ratios could be adversely impacted by loan losses and other negative trends initiated by the pandemic. We rely on cash on hand as well as dividends from the Bank to pay dividends to our shareholders. If our capital deteriorates such that the Bank is unable to pay dividends for an extended period of time, we may not be able to pay dividends to our shareholders.

We maintain access to multiple sources of liquidity including wholesale funding markets. If funding costs are elevated for an extended period of time, it could have an adverse effect on our net interest margin. In addition, if an extended recession caused large numbers of our deposit customers to withdraw their funds, we might become more reliant on volatile or more expensive sources of funding.

### *Asset valuation*

Currently, we do not expect COVID-19 to affect our ability to account timely for the assets on our balance sheet; however, this could change in future periods. While certain valuation assumptions and judgments will change to account for pandemic-related circumstances such as widening credit spreads, we do not anticipate significant changes in methodology used to determine the fair value of assets measured in accordance with GAAP.

As of December 31, 2021, our goodwill was not impaired. A goodwill step 1 analysis was performed as of October 31, 2021. The goodwill analysis did not identify any goodwill impairment for our one reporting unit. There were no events that occurred after the annual analysis of goodwill, that would indicate to management any impairment of goodwill as of December 31, 2021. COVID-19 could cause a decline in our stock price or the occurrence of what management would deem to be a triggering event that could, under certain circumstances, cause us to perform a goodwill impairment test and result in an impairment charge being recorded for that period. In the event that we conclude that all or a portion of our goodwill is impaired, a non-cash charge for the amount of such impairment would be recorded to earnings. Such a charge would have no impact on tangible capital or regulatory capital.

As of December 31, 2021, we did not have any impairment with respect to our other intangible assets. It is possible that the lingering effects of COVID-19 could cause the occurrence of what management would deem to be a triggering event that could, under certain circumstances, cause us to perform an intangible asset impairment test and result in an impairment charge being recorded for that period. In the event that we conclude that all or a portion of our other intangible assets are impaired, a non-cash charge for the amount of such impairment would be recorded to earnings. Such a charge would have no impact on tangible capital or regulatory capital. At December 31, 2021 we had other intangible assets of \$5.62 million, representing approximately 1.31% of equity.

Impairment charges related to certain long-term investments in land and buildings totaled \$781 thousand in 2021 and \$812 thousand in 2020

### *Our processes, controls and business continuity plan*

The Company maintains an Enterprise Risk Management team to respond to, prepare, and execute responses to unforeseen circumstances, such as, natural disasters and pandemics. Upon the WHO's pandemic declaration, the Company's Enterprise Risk Management team implemented its Board approved Business Continuity Plan. The Company appointed an internal pandemic preparedness task force comprised of the Company's management to address both operational and financial risks posed by COVID-19. Shortly after invoking the Plan, the Company deployed a successful remote working strategy, provided timely communication to team members and customers, implemented protocols for team member safety, and initiated strategies for monitoring and responding to local COVID-19 impacts - including customer relief efforts. The Company's preparedness efforts, coupled with quick and decisive plan implementation, resulted in minimal impacts to operations as a result of COVID-19. At December 31, 2021, a significant portion of our backroom operations employees continue to work remotely with no disruption to our operations. We have not incurred additional material cost related to our remote working strategy to date, nor do we anticipate incurring material cost in future periods.

As of December 31, 2021, we don't anticipate significant challenges to our ability to maintain our systems and controls in light of the measures we have taken to prevent the spread of COVID-19. The Company does not currently face any material resource constraint through the implementation of our business continuity plans.

### *Lending operations and accommodations to borrowers*

The CARES Act included a provision allowing banks to not apply the guidance on accounting for troubled debt restructurings to loan modifications, such as extensions or deferrals, related to COVID-19 made between March 1, 2020, and the earlier of (i) December 31, 2020, or (ii) 60 days after the end of the COVID-19 national emergency. The relief can only be applied to modifications for borrowers that were not more than 30 days past due as of December 31, 2019. The Company elected to adopt this provision of the CARES Act. Through December 31, 2021, we have modified 4,066 commercial and consumer loans totaling \$475.82 million. Those modifications were generally short-term payment deferrals and are not considered TDR's based on the CARES Act. Our policy is to downgrade commercial loans modified for COVID-19 to special mention, which caused the significant increase in loans in that rating. Subsequent upgrade or downgrade will be on a case by case basis. The Company is upgrading these loans back to pass once the modification period has ended and timely contractual payments resume. Further downgrade would be based on a number of factors, including but not limited to additional modifications, payment performance and current underwriting. As of December 31, 2021, current COVID-19 loan deferrals stood at \$2.92 million, compared with \$32.26 million as of December 31, 2020. It is possible that these deferrals could be extended further under the CARES Act; as amended by the Consolidated Appropriations Act of 2021 ("CAA") signed into law on December 27, 2021, that extended the ability to provide necessary loan modifications to our customers and not consider these troubled debt restructurings. However, the volume of these future potential extensions is unknown. It is also possible that in spite of our best efforts to assist our borrowers and achieve full collection of our investment, these deferred loans could result in future charge-offs with additional credit loss expense charged to earnings; however, the amount of any future charge-offs on deferred loans is unknown.



With the passage of the PPP, administered by the Small Business Administration (“SBA”) small businesses and other entities and individuals can apply for loans from existing SBA lenders and other approved regulated lenders that enroll in the program, subject to numerous limitations and eligibility criteria. The Bank participated as a lender in the PPP. The PPP opened on April 3, 2020, and on or about April 16, 2020, the SBA notified lenders that the \$349 billion earmarked for the PPP was exhausted. Congress approved additional funding for the PPP of approximately \$320 billion on April 24, 2020. As part of the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (“Economic Aid Act”) enacted on December 27, 2020, in January, 2021, the SBA released applications for the second round of PPP loans for second draw loans for borrowers who received funding in the first round and first draw loans to first time borrowers. As of December 31, 2021 we have funded approximately 1,429 loans with original principal balances totaling \$92.58 million through the PPP program. Through December 31, 2021, \$56.86 million, or 93.20%, of the Company’s first round PPP loan balances had been forgiven by the SBA. Current PPP loan balances at December 31, 2021, which include second round originations, were \$20.64 million. It is the Company’s understanding that loans funded through the PPP program are fully guaranteed by the U.S. government. Should those circumstances change, the Company could be required to establish an allowance for credit loss through additional credit loss expense charged to earnings.

The safety, health and wellness of our employees is a top priority. The COVID-19 pandemic presented a unique challenge with regard to maintaining employee safety while continuing successful operations. Within a short period of time, through teamwork and the adaptability of our management and staff, we were able to transition and provide remote access to non-customer facing employees to effectively work from remote locations and were able to ensure a safely-distanced working environment for employees performing customer facing activities at branches and operations centers. All employees are asked not to come to work when they experience signs or symptoms of a possible communicable illness, including COVID-19, and have been provided additional paid time off to cover compensation during such absences.

It is impossible to predict the full extent to which COVID-19 and the resulting measures to prevent its spread will affect the Company’s operations. Although there is a high degree of uncertainty around the magnitude and duration of the economic impact of COVID-19, the Company’s management believes its financial position, including high levels of capital and liquidity, will allow it to successfully endure the negative economic impacts of the crisis.

### **Critical Accounting Policies**

Our consolidated financial statements are prepared in conformity with generally accepted accounting principles (“GAAP”) in the U.S. and prevailing practices in the banking industry. Our accounting policies, as presented in Note 1, “Basis of Presentation and Accounting Policies,” to the Consolidated Financial Statements in Item 8 of this report are fundamental in understanding MD&A and the disclosures presented in Item 8, “Financial Statements and Supplementary Data,” of this report. Management may be required 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. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates used, we have identified the allowance for loan losses and goodwill as the accounting areas that require the most subjective or complex judgments or are the most susceptible to change.

#### ***Allowance for Credit Losses or “ACL”***

The ACL reflects management’s estimate of losses that will result from the inability of our borrowers to make required loan payments. Management uses a systematic methodology to determine its ACL for loans held for investment and certain off-balance-sheet credit exposures. Management considers the effects of past events, current conditions, and reasonable and supportable forecasts on the collectability of the loan portfolio. The Company’s estimate of its ACL involves a high degree of judgment; therefore, management’s process for determining expected credit losses may result in a range of expected credit losses. It is possible that others, given the same information, may at any point in time reach a different reasonable conclusion. The Company’s ACL recorded in the balance sheet reflects management’s best estimate of expected credit losses. The Company recognizes in net income the amount needed to adjust the ACL for management’s current estimate of expected credit losses. See Note 1 – “Basis of Presentation - Significant Accounting Policies” in this Annual Report on Form 10-K for further detailed descriptions of our estimation process and methodology related to the ACL. See also Note 6 — “Allowance for Credit Losses” in this Annual Report on Form 10-K, “Provision for Credit Losses and Nonperforming Assets” in this MD&A. Periods prior to the January 1, 2021, adoption of ASU 2016-13 follow prior accounting guidance for estimated loan losses and are not comparable

The Company uses a number of economic variables to estimate the allowance for credit losses, with the most significant driver being a forecast of the national unemployment rate. In the December 31, 2021, estimate, the Company assumed an unemployment forecast range of 4.1% to 3.6%, which has improved from a range of 6.6% to 5.6% utilized in the January 1, 2021, estimate. Based on a sensitivity analysis as of December 31, 2021, an increase of 1% in the unemployment forecast would result in an increase in the allowance for credit losses of approximately 11.6%.

**Goodwill**

Goodwill is tested for impairment annually, on October 31<sup>st</sup>, or more frequently if events or circumstances indicate there may be impairment. We have one reporting unit, Community Banking. If we elect to perform a qualitative assessment, we evaluate factors such as macroeconomic conditions, industry and market considerations, overall financial performance, changes in stock price, and progress towards stated objectives in determining if it is more likely than not that the fair value of our reporting unit is less than its carrying amount. If we conclude that it is more likely than not that the fair value of our reporting unit is less than its carrying amount, a quantitative test is performed; otherwise, no further testing is required. The quantitative test consists of comparing the fair value of our reporting unit to its carrying amount, including goodwill. If the fair value of our reporting unit is greater than its book value, no goodwill impairment exists. If the carrying amount of our reporting unit is greater than its calculated fair value, a goodwill impairment charge is recognized for the difference. We performed a quantitative assessment for the annual test on October 31, 2021, which resulted in no goodwill impairment. For additional information, see Note 8, “Goodwill and Other Intangible Assets,” to the Consolidated Financial Statements in Item 8 of this report.

**Non-GAAP Financial Measures**

In addition to financial statements prepared in accordance with GAAP, we use certain non-GAAP financial measures that provide useful information for financial and operational decision making, evaluating trends, and comparing financial results to other financial institutions. The non-GAAP financial measures presented in this report include certain financial measures presented on a fully taxable equivalent (“FTE”) basis. While we believe certain non-GAAP financial measures enhance the understanding of our business and performance, they are supplemental and not a substitute for, or more important than, financial measures prepared in accordance with GAAP and may not be comparable to those reported by other financial institutions. The reconciliations of non-GAAP to GAAP measures are presented below.

We believe FTE basis is the preferred industry measurement of net interest income and provides better comparability between taxable and tax exempt amounts. We use this non-GAAP financial measure to monitor net interest income performance and to manage the composition of our balance sheet. FTE basis adjusts for the tax benefits of income from certain tax exempt loans and investments using the federal statutory income tax rate of 21% for periods after January 1, 2018. 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:

|                               | <b>Year Ended December 31,</b> |                   |                  |
|-------------------------------|--------------------------------|-------------------|------------------|
|                               | <b>2021</b>                    | <b>2020</b>       | <b>2019</b>      |
| <i>(Amounts in thousands)</i> |                                |                   |                  |
| Net interest income, GAAP     | \$ 102,474                     | \$ 108,572        | \$ 89,453        |
| FTE adjustment(1)             | 439                            | 647               | 848              |
| Net interest income, FTE      | <u>\$ 102,913</u>              | <u>\$ 109,219</u> | <u>\$ 90,301</u> |
| Net interest margin, GAAP     | 3.65%                          | 4.27%             | 4.54%            |
| FTE adjustment(1)             | 0.02%                          | 0.02%             | 0.05%            |
| Net interest margin, FTE      | <u>3.67%</u>                   | <u>4.29%</u>      | <u>4.59%</u>     |

(1) FTE basis of 21%.



## Performance Overview

Highlights of our results of operations in 2021, and financial condition as of December 31, 2021, include the following:

- Annual net income for 2021 of \$51.17 million, or \$2.94 per diluted common share, was an increase of \$15.24 million over 2020 and represents a 45.54% increase in diluted earnings per share compared to 2020. A reversal of \$8.47 million in the allowance for credit losses in 2021 accounts for a large portion of the increase in net income. The decreases in credit loss provisioning are primarily due to significantly improved economic forecasts and GDP growth in the current year, as well as strong credit quality metrics, versus prior year provisioning driven by the pandemic. The increase was offset by a decrease in net interest income of \$6.10 million, or 5.62%, driven by the current historically low interest rate environment, as well as a \$3.33 million decrease in accretion on acquired loans
- Return on average assets increased to 1.63% compared to 1.24% for 2020.
- Return on average common equity increased to 11.96% compared to 8.54% for 2020.
- Non-interest income increased 14.98% to \$34.30 million, over last year. The increase is largely attributable to an increase in other service charges due to the more vibrant state of local economies with increased customer activity compared with last year.
- Net charge-offs for 2021 were \$2.96 million, or 0.14% of average loans, compared to net charge-offs of \$4.91 million, or 0.23% of average loans, for 2020. Non-performing loans to total loans remained a very low 1.03%.
- The allowance for credit losses to total loans remains very strong at 1.29% of total loans compared to 1.20% for 2020.
- The SBA had forgiven \$56.86 million, or 93.20%, of the Company's first round Paycheck Protection Program ("PPP") loan balances through December 31, 2021. Current PPP loan balances at December 31, 2021, which include second round originations, were \$20.64 million.
- Book value per share at December 31, 2021, was \$25.34, an increase of \$1.26 from year-end 2020.
- The Company repurchased 949,386 common shares, or 5.62% of outstanding, for \$28.88 million.

## Results of Operations

### Net Income

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

| <i>(Amounts in thousands, except per share data)</i> | <u>Year Ended December 31,</u> |             |             | <u>2021 Compared to 2020</u> |               | <u>2020 Compared to 2019</u> |               |
|--|--------------------------------|-------------|-------------|------------------------------|---------------|------------------------------|---------------|
|  | <u>2021</u>                    | <u>2020</u> | <u>2019</u> | <u>Increase</u>              | <u>%</u>      | <u>Increase</u>              | <u>%</u>      |
|  |                                |             |             | <u>(Decrease)</u>            | <u>Change</u> | <u>(Decrease)</u>            | <u>Change</u> |
| Net income   | \$ 51,168                      | \$ 35,926   | \$ 38,802   | \$ 15,242                    | 42.43%        | \$ (2,876)                   | (7.41)%       |
| Basic earnings per common share                      | 2.95                           | 2.02        | 2.47        | 0.93                         | 46.04%        | (0.45)                       | (18.22)%      |
| Diluted earnings per common share                    | 2.94                           | 2.02        | 2.46        | 0.92                         | 45.54%        | (0.44)                       | (17.88)%      |
| Return on average assets                             | 1.63%                          | 1.24%       | 1.75%       | 0.39%                        | 31.45%        | (0.51)%                      | (29.14)%      |
| Return on average common equity                      | 11.96%                         | 8.54%       | 11.54%      | 3.42%                        | 40.05%        | (3.00)%                      | (26.00)%      |

*2021 Compared to 2020.* Pre-tax income increased \$20.42 million, or 44.27%, primarily due to a reversal of \$8.47 million in the allowance for credit losses in 2021 compared to \$12.67 million in provision recorded in 2020. The decrease in credit loss provisioning increased pre-tax income \$21.14 million and is primarily due to significantly improved economic forecasts in the current year, as well as strong credit quality metrics, versus prior year provisioning driven by the pandemic. The increase was offset by a decrease in net interest income of \$6.10 million, or 5.62%, driven by the current historically low interest rate environment, as well as a \$3.33 million decrease in accretion on acquired loans. Income tax expense increased \$5.17 million from 2020 primarily as a result of the increase in pre-tax income.

*2020 Compared to 2019.* Pre-tax income decreased \$3.68 million, or 7.40%, due to an increase in noninterest expense of \$9.86 million, an increase in the provision for loan losses of \$9.10 million, and a decrease in noninterest income of \$3.84 million. The decreases to income were offset by a increase in net interest income of \$19.12 million. Income tax expense decreased \$808 thousand primarily as a result of the decrease in pre-tax income.

### 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” above. The following table presents the consolidated average balance sheets and net interest analysis on a FTE basis for the dates indicated:

| (Amounts in thousands)                      | Year Ended December 31, |                   |                       |                     |                   |                       |                     |                  |                       |
|---|-------------------------|-------------------|-----------------------|---------------------|-------------------|-----------------------|---------------------|------------------|-----------------------|
|   | 2021                    |                   |                       | 2020                |                   |                       | 2019                |                  |                       |
|   | Average Balance         | Interest(1)       | Average Yield/Rate(1) | Average Balance     | Interest(1)       | Average Yield/Rate(1) | Average Balance     | Interest(1)      | Average Yield/Rate(1) |
| <b>Assets</b>                               |                         |                   |                       |                     |                   |                       |                     |                  |                       |
| Earning assets                              |                         |                   |                       |                     |                   |                       |                     |                  |                       |
| Loans(2)(3)                                 | \$ 2,153,099            | \$ 102,996        | 4.78%                 | \$ 2,142,637        | \$ 110,619        | 5.16%                 | \$ 1,722,419        | \$ 88,990        | 5.17%                 |
| Securities available for sale               | 81,049                  | 2,008             | 2.48%                 | 105,005             | 3,259             | 3.10%                 | 126,732             | 4,334            | 3.42%                 |
| Securities held to maturity                 | —                       | —                 | —                     | —                   | —                 | —                     | 3,045               | 45               | 1.48%                 |
| Interest-bearing deposits                   | 570,040                 | 745               | 0.13%                 | 296,495             | 805               | 0.27%                 | 116,119             | 2,447            | 2.10%                 |
| Total earning assets                        | 2,804,188               | \$ 105,749        | 3.77%                 | 2,544,137           | \$ 114,683        | 4.51%                 | 1,968,315           | \$ 95,816        | 4.87%                 |
| Other assets                                | 330,640                 |                   |                       | 348,150             |                   |                       | 248,926             |                  |                       |
| Total assets                                | <u>\$ 3,134,828</u>     |                   |                       | <u>\$ 2,892,287</u> |                   |                       | <u>\$ 2,217,241</u> |                  |                       |
| <b>Liabilities and stockholders' equity</b> |                         |                   |                       |                     |                   |                       |                     |                  |                       |
| Interest-bearing deposits                   |                         |                   |                       |                     |                   |                       |                     |                  |                       |
| Demand deposits                             | \$ 646,999              | \$ 127            | 0.02%                 | \$ 556,279          | \$ 311            | 0.06%                 | \$ 453,824          | \$ 281           | 0.06%                 |
| Savings deposits                            | 816,845                 | 281               | 0.03%                 | 711,831             | 902               | 0.13%                 | 504,081             | 823              | 0.16%                 |
| Time deposits                               | 387,249                 | 2,427             | 0.63%                 | 456,755             | 4,247             | 0.93%                 | 418,450             | 4,288            | 1.02%                 |
| Total interest-bearing deposits             | 1,851,093               | 2,835             | 0.15%                 | 1,724,865           | 5,460             | 0.32%                 | 1,376,355           | 5,392            | 0.39%                 |
| Borrowings                                  |                         |                   |                       |                     |                   |                       |                     |                  |                       |
| Retail repurchase agreements                | 1,194                   | 1                 | 0.07%                 | 1,145               | 3                 | 0.28%                 | 2,471               | 4                | 0.14%                 |
| Wholesale repurchase agreements             | —                       | —                 | —                     | —                   | —                 | —                     | 3,767               | 119              | 3.17%                 |
| FHLB advances and other borrowings          | —                       | —                 | —%                    | 36                  | 1                 | 2.23%                 | —                   | —                | —                     |
| Total borrowings                            | 1,194                   | 1                 | 0.07%                 | 1,181               | 4                 | 0.34%                 | 6,238               | 123              | 1.96%                 |
| Total interest-bearing liabilities          | 1,852,287               | 2,836             | 0.15%                 | 1,726,046           | 5,464             | 0.32%                 | 1,382,593           | 5,515            | 0.40%                 |
| Noninterest-bearing demand deposits         | 816,638                 |                   |                       | 707,623             |                   |                       | 468,774             |                  |                       |
| Other liabilities                           | 38,151                  |                   |                       | 37,826              |                   |                       | 29,736              |                  |                       |
| Total liabilities                           | 2,707,076               |                   |                       | 2,471,495           |                   |                       | 1,881,103           |                  |                       |
| Stockholders' equity                        | 427,752                 |                   |                       | 420,792             |                   |                       | 336,138             |                  |                       |
| Total liabilities and equity                | <u>\$ 3,134,828</u>     |                   |                       | <u>\$ 2,892,287</u> |                   |                       | <u>\$ 2,217,241</u> |                  |                       |
| Net interest income, FTE(1)                 |                         | <u>\$ 102,913</u> |                       |                     | <u>\$ 109,219</u> |                       |                     | <u>\$ 90,301</u> |                       |
| Net interest rate spread, FTE(1)            |                         |                   | <u>3.62%</u>          |                     |                   | <u>4.19%</u>          |                     |                  | <u>4.47%</u>          |
| Net interest margin, FTE(1)                 |                         |                   | <u>3.67%</u>          |                     |                   | <u>4.29%</u>          |                     |                  | <u>4.59%</u>          |

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

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

(3) Interest on loans include non-cash purchase accounting accretion of \$4.66 million in 2021, \$7.99 million in 2020, and \$3.23 million in 2019.

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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:

| <i>(Amounts in thousands)</i>              | Year Ended<br>December 31, 2021 Compared to 2020<br>Dollar Increase (Decrease) due to |            |                 |            | Year Ended<br>December 31, 2020 Compared to 2019<br>Dollar Increase (Decrease) due to |          |                 |           |
|--|---|------------|-----------------|------------|---|----------|-----------------|-----------|
|  | Volume  | Rate       | Rate/<br>Volume | Total      | Volume  | Rate     | Rate/<br>Volume | Total     |
|  | Interest earned on(1):  |            |                 |            |   |          |                 |           |
| Loans                                      | \$ 540  | \$ (8,123) | \$ (40)         | \$ (7,623) | \$ 21,736   | \$ (42)  | \$ (65)         | \$ 21,629 |
| Securities available for sale              | (744)   | (657)      | 150             | (1,251)    | (743)   | (101)    | (231)           | (1,075)   |
| Securities held to maturity                | —   | —          | —               | —          | (45)  | —        | —               | (45)      |
| Interest-bearing deposits with other banks | 715   | (388)      | (387)           | (60)       | 3,791   | (534)    | (4,899)         | (1,642)   |
| Total interest-earning assets              | 511   | (9,168)    | (277)           | (8,934)    | 24,739  | (677)    | (5,195)         | 18,867    |
| Interest paid on(1):                       |   |            |                 |            |   |          |                 |           |
| Demand deposits                            | 51  | (202)      | (33)            | (184)      | 63  | (7)      | (26)            | 30        |
| Savings deposits                           | 133   | (657)      | (97)            | (621)      | 338   | (46)     | (213)           | 79        |
| Time deposits                              | (646)   | (1,384)    | 210             | (1,820)    | 391   | (97)     | (335)           | (41)      |
| Retail repurchase agreements               | —   | (1)        | (1)             | (2)        | (2)   | 1        | —               | (1)       |
| Wholesale repurchase agreements            | —   | —          | —               | —          | (119)   | —        | —               | (119)     |
| FHLB advances and other borrowings         | (1)   | —          | —               | (1)        | —   | —        | 1               | 1         |
| Total interest-bearing liabilities         | (463)   | (2,244)    | 79              | (2,628)    | 671   | (149)    | (573)           | (51)      |
| Change in net interest income(1)           | \$ 974  | \$ (6,924) | \$ (356)        | \$ (6,306) | \$ 24,068   | \$ (528) | \$ (4,622)      | \$ 18,918 |

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

*2021 Compared to 2020.* Net interest income comprised 74.92% of total net interest and noninterest income in 2021 compared to 78.45% in 2020. Net interest income decreased \$6.10 million, or 5.62%, decreased \$6.31 million, or 5.77%, on a FTE basis. The FTE net interest margin decreased 62 basis points and the FTE net interest spread decreased 57 basis points. The decrease in the net interest margin and the net interest spread are primarily attributable to the current historically low interest rate environment as well as a decrease in purchase accounting accretion from acquired loans.

Average earning assets increased \$260.05 million, or 10.22%, primarily due to an increase in average interest-bearing deposits and average loans offset by a decrease in average debt securities. The yield on earning assets decreased 74 basis points as the yields decreased primarily due to the historically low rate environment. Average loans increased \$10.46 million, or 0.49%, and the average loan to deposit ratio decreased to 80.71% from 88.08% in 2020. Non-cash accretion income related to PCI loans decreased \$3.33 million, or 41.73%, to \$4.66 million due reduced balances in the PCI portfolios. The impact of non-cash purchase accounting accretion income on the FTE net interest margin was 17 basis points compared to 31 basis points in the prior year.

Average interest-bearing liabilities, which consist of interest-bearing deposits and borrowings, increased \$126.24 million, or 7.31%, primarily due to an increase in average interest-bearing deposits. The yield on interest-bearing liabilities decreased 17 basis points. Average interest-bearing deposits increased \$126.23 million, or 7.32%, with increases of \$105.01 million, or 14.75%, in average savings deposits, \$90.72 million, or 16.31%, in average interest-bearing demand deposits, offset by a decrease of \$69.51, or 15.22%, in average time deposits.

*2020 Compared to 2019.* Net interest income comprised 78.45% of total net interest and noninterest income in 2020 compared to 72.65% in 2019. Net interest income increased \$19.12 million, or 21.37%, compared to a increase of \$18.92 million, or 20.95%, on a FTE basis. The FTE net interest margin decreased 30 basis points and the FTE net interest spread decreased 28 basis points. The decrease in the net interest margin and the net interest spread are primarily attributable to the current historically low interest rate environment partially offset by purchase accounting accretion from the Highlands portfolio as well as accelerated paydowns of acquired loans.

Average earning assets increased \$575.82 million, or 29.25%, primarily due to an increase in average loans and average interest-bearing deposits offset by a decrease in average debt securities. The yield on earning assets decreased 36 basis points as the yields on interest-bearing deposits and debt securities decreased primarily due to the historically low rate environment. Average loans increased \$420.22 million, or 24.40%, and the average loan to deposit ratio decreased to 88.08% from 93.35%. The increase in average loans was primarily due to the addition of Highlands. Non-cash accretion income related to PCI loans increased \$4.76 million, or 147.37%, to \$7.99 million due the addition of Highlands and the fourth quarter payoff of a large acquired loan relationship. The impact of non-cash purchase accounting accretion income on the FTE net interest margin was 31 basis points compared to 17 basis points in the prior year.

Average interest-bearing liabilities, which consist of interest-bearing deposits and borrowings, increased \$343.45 million, or 24.84%, primarily due to an increase in average interest-bearing deposits. The yield on interest-bearing liabilities decreased 8 basis points. Average interest-bearing deposits increased \$348.51 million, or 25.32%, which was driven by the December 31, 2019, Highlands acquisition with increases of \$207.75 million, or 41.21%, in average savings deposits, \$102.46 million, or 22.58%, in average interest-bearing demand deposits, and \$38.31 million, or 9.15%, in average time deposits.



*Provision for Credit/Loan Losses*

*2021 Compared to 2020.* The provision charged to operations decreased \$21.14 million, or 166.87%. The decrease was primarily due to significantly improved economic forecasts in the current year, as well as strong credit quality metrics, versus prior year provisioning driven by the pandemic. The most significant forecast variable in our allowance model is unemployment. The forecast used for December 31, 2021, ranged from 4.1% to 3.6%. That forecast was much stronger than that used for January 1, 2021, that ranged from 6.6% to 5.6% over the forecast period.

*2020 Compared to 2019.* The provision charged to operations increased \$9.10 million, or 254.75%. The increase was primarily related to the economic uncertainty caused by the coronavirus pandemic.

*Noninterest Income*

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

|   | Year Ended December 31, |           |           | 2021 Compared to 2020  |             | 2020 Compared to 2019  |             |
|---|-------------------------|-----------|-----------|------------------------|-------------|------------------------|-------------|
|   | 2021                    | 2020      | 2019      | Increase<br>(Decrease) | %<br>Change | Increase<br>(Decrease) | %<br>Change |
|   |                         |           |           |                        |             |                        |             |
| <i>(Amounts in thousands)</i>               |                         |           |           |                        |             |                        |             |
| Wealth management                           | \$ 3,853                | \$ 3,417  | \$ 3,423  | \$ 436                 | 12.76%      | \$ (6)                 | -0.18%      |
| Service charges on deposits                 | 13,446                  | 13,019    | 14,594    | 427                    | 3.28%       | (1,575)                | -10.79%     |
| Other service charges and fees              | 12,422                  | 10,333    | 8,281     | 2,089                  | 20.22%      | 2,052                  | 24.78%      |
| Net (loss) gain on sale of securities       | —                       | 385       | (43)      | (385)                  | -100.00%    | 428                    | -995.35%    |
| Net FDIC indemnification asset amortization | (1,226)                 | (1,690)   | (2,377)   | 464                    | -27.46%     | 687                    | -28.90%     |
| Litigation income                           | —                       | —         | 6,995     | —                      | —           | (6,995)                | -100.00%    |
| Other operating income                      | 5,806                   | 4,369     | 2,804     | 1,437                  | 32.89%      | 1,565                  | 55.81%      |
| Total noninterest income                    | \$ 34,301               | \$ 29,833 | \$ 33,677 | \$ 4,468               | 14.98%      | \$ (3,844)             | -11.41%     |

*2021 Compared to 2020.* Noninterest income comprised 25.08% of total net interest and noninterest income in 2021 compared to 21.55% in 2020. Noninterest income increased \$4.47 million, or 14.98%, primarily due to an increase in other service charges of \$2.09 million, or 20.22%, due primarily to an increase in net interchange income of \$1.90 million, compared to 2020. In addition, a recovered amount of \$1.00 million was received and recorded in other operating income during the second quarter of 2021 for the recovery of an acquired loan from a failed bank acquisition that had been written down prior to acquisition. Additional increases occurred in wealth management income and service charges on deposits of \$436 thousand and \$427 thousand, respectively.

*2020 Compared to 2019.* Noninterest income comprised 21.55% of total net interest and noninterest income in 2020 compared to 27.35% in 2019. Noninterest income decreased \$3.84 million, or 11.41%, primarily due to \$7.00 million received in litigation settlements in 2019. Service charges on deposits decreased \$1.58 million, or 10.79%; the decrease was primarily attributable to pandemic shutdowns throughout 2020. Other service charges and fees increased \$2.05 million, or 24.78%, primarily from an increase in net interchange income for the addition of Highlands accounts. Other operating income increased \$1.57 million, or 55.81%, and was primarily driven by third party incentives associated with debit cards.

### Noninterest Expense

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

|  | Year Ended December 31, |                  |                  | 2021 Compared to 2020  |               | 2020 Compared to 2019  |               |
|--|-------------------------|------------------|------------------|------------------------|---------------|------------------------|---------------|
|  | 2021                    | 2020             | 2019             | Increase<br>(Decrease) | %<br>Change   | Increase<br>(Decrease) | %<br>Change   |
|  |                         |                  |                  |                        |               |                        |               |
| <i>(Amounts in thousands)</i>                |                         |                  |                  |                        |               |                        |               |
| Salaries and employee benefits               | \$ 44,239               | \$ 44,005        | \$ 37,148        | \$ 234                 | 0.53%         | \$ 6,857               | 18.46%        |
| Occupancy expense                            | 4,913                   | 5,043            | 4,334            | (130)                  | -2.58%        | 709                    | 16.36%        |
| Furniture and equipment expense              | 5,627                   | 5,558            | 4,457            | 69                     | 1.24%         | 1,101                  | 24.70%        |
| Service fees                                 | 6,324                   | 5,665            | 4,448            | 659                    | 11.63%        | 1,217                  | 27.36%        |
| Advertising and public relations             | 2,076                   | 1,951            | 2,310            | 125                    | 6.41%         | (359)                  | -15.54%       |
| Professional fees                            | 1,524                   | 1,224            | 1,698            | 300                    | 24.51%        | (474)                  | -27.92%       |
| Amortization of intangibles                  | 1,446                   | 1,450            | 997              | (4)                    | -0.28%        | 453                    | 45.44%        |
| FDIC premiums and assessments                | 832                     | 426              | 318              | 406                    | 95.31%        | 108                    | 33.96%        |
| Merger, acquisition, and divestiture expense | —                       | 1,893            | 2,124            | (1,893)                | -100.00%      | (231)                  | -10.88%       |
| Other operating expense                      | 11,737                  | 12,410           | 11,929           | (673)                  | -5.42%        | 481                    | 4.03%         |
| <b>Total noninterest expense</b>             | <b>\$ 78,718</b>        | <b>\$ 79,625</b> | <b>\$ 69,763</b> | <b>\$ (907)</b>        | <b>-1.14%</b> | <b>\$ 9,862</b>        | <b>14.14%</b> |

*2021 Compared to 2020.* Noninterest expense decreased \$907 thousand, or 1.14%. The decrease was primarily due to residual merger expenses of \$1.89 million recognized in the first quarter of 2020. In addition, other operating expense decreased \$673 thousand. These decreases were offset by increases in other service fees, FDIC premiums and assessments, professional fees and salaries and employee benefits of \$659 thousand, \$406 thousand, \$300 thousand, and \$234 thousand, respectively.

*2020 Compared to 2019.* Noninterest expense increased \$9.86 million, or 14.14%. The increase was primarily due to an increase in salaries and benefits of \$6.86 million, or 18.46%, which was largely due to the addition of Highlands employees. In addition, occupancy and furniture and equipment expense increase a combined total of \$1.81 million and was primarily driven by the addition of branch locations acquired in the Highlands transaction.

### Income Tax Expense

The Company's effective tax rate, income tax as a percent of pre-tax income, may vary significantly from the statutory rate due to permanent differences and available tax credits. Permanent differences are income and expense items excluded by law in the calculation of taxable income. The Company's most significant permanent differences generally include interest income on municipal securities and increases in the cash surrender value of life insurance policies.

*2021 Compared to 2020.* Income tax expense increased \$5.17 million or 50.80%, and is primarily attributable to the increase in pre-tax net income. The effective tax rate increased to 23.09% in 2021 compared to 22.09% in 2020.

*2020 Compared to 2019.* Income tax expense decreased \$808 thousand, or 7.35%, and is primarily attributable to the decrease in pre-tax net income. The effective tax rate increased to 22.09% in 2020 compared to 22.08% in 2019.

### Financial Condition

Total assets as of December 31, 2021, increased \$183.38 million, or 6.09%, to \$3.19 billion from \$3.01 billion as of December 31, 2020. The increase is primarily attributable to the increase in overnight funds of \$231.28 million, or 58.44%. In addition, total liabilities as of December 31, 2021, increased \$182.34 million, or 7.06%, to \$2.77 billion from \$2.58 billion as of December 31, 2020. The increase is primarily the result of an increase in total deposits of \$183.14 million, or 7.19%. The increase in deposits is primarily attributable to the significant increase in demand deposits due to the unprecedented level of stimulus payments from the federal government in response to the pandemic.

### Investment Securities

Our investment securities are used to generate interest income through the deployment of excess funds, to fund loan demand or deposit liquidation, to pledge as collateral where required, and to make selective investments for Community Reinvestment Act purposes. 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 December 31, 2021, decreased \$7.07 million, or 8.48%, compared to December 31, 2020. The decrease was primarily attributable to \$27.26 million from maturities, prepayments, and calls offset by purchases of \$22.39 million. The market value of debt securities available for sale as a percentage of amortized cost was 100.02% as of December 31, 2021 compared to 101.71% as of December 31, 2020. There were no held-to-maturity debt securities as of December 31, 2021 or December 31, 2020. The following table presents the amortized cost and fair value of debt securities as of the dates indicated:

|  | December 31,      |                  |                   |                  |
|--|-------------------|------------------|-------------------|------------------|
|  | 2021              |                  | 2020              |                  |
|  | Amortized<br>Cost | Fair<br>Value    | Amortized<br>Cost | Fair<br>Value    |
| <i>(Amounts in thousands)</i>              |                   |                  |                   |                  |
| <b>Available for Sale</b>                  |                   |                  |                   |                  |
| U.S. Agency securities                     | \$ 469            | \$ 466           | \$ 555            | \$ 551           |
| U.S. Treasury securities                   | —                 | —                | —                 | —                |
| Municipal securities                       | 28,596            | 28,794           | 43,950            | 44,459           |
| Corporate Notes                            | 9,935             | 9,919            | —                 | —                |
| Mortgage-backed Agency securities          | 37,273            | 37,113           | 37,453            | 38,348           |
| <b>Total securities available for sale</b> | <b>\$ 76,273</b>  | <b>\$ 76,292</b> | <b>\$ 81,958</b>  | <b>\$ 83,358</b> |
| Fair value to amortized cost               |                   | 100.02%          |                   | 101.71%          |

The following table provides information about our investment portfolio as of the dates indicated:

|                           | December 31, |      |
|---------------------------|--------------|------|
|                           | 2021         | 2020 |
| <i>(Amounts in years)</i> |              |      |
| Average life              | 4.74         | 5.02 |
| Average duration          | 2.99         | 1.84 |

There were no holdings of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10% of our total consolidated shareholders' equity as of December 31, 2021 or 2020.

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The following table presents the amortized cost, fair value, and weighted-average yield of available-for-sale debt securities by contractual maturity, as of December 31, 2021. Actual maturities could differ from contractual maturities because issuers may have the right to call or prepay obligations with or without penalties.

| <i>(Amounts in thousands)</i>           | U.S. Agency<br>Securities | Municipal<br>Securities | Corporate<br>Notes | Total            | Tax<br>Equivalent<br>Purchase<br>Yield(1) |
|---|---------------------------|-------------------------|--------------------|------------------|---|
| <b>Amortized cost maturity:</b>         |                           |                         |                    |                  |   |
| One year or less                        | \$ —                      | \$ 735                  | \$ 7,382           | \$ 8,117         | 0.46%                                     |
| After one year through five years       | —                         | 19,425                  | 2,553              | 21,978           | 3.35%                                     |
| After five years through ten years      | 469                       | 8,436                   | —                  | 8,905            | 3.17%                                     |
| After ten years                         | —                         | —                       | —                  | —                | —   |
| Amortized cost                          | <u>\$ 469</u>             | <u>\$ 28,596</u>        | <u>\$ 9,935</u>    | 39,000           |   |
| Mortgage-backed securities              |                           |                         |                    | 37,273           | 1.61%                                     |
| Total amortized cost                    |                           |                         |                    | <u>\$ 76,273</u> |   |
| Tax equivalent purchase yield(1)        | 2.07%                     | 3.57%                   | 0.25%              | 2.71%            |   |
| Average contractual maturity (in years) | 5.07                      | 3.75                    | 0.63               | 2.97             |   |
| <b>Fair value maturity:</b>             |                           |                         |                    |                  |   |
| One year or less                        | \$ —                      | \$ 736                  | \$ 7,372           | \$ 8,108         |   |
| After one year through five years       | —                         | 19,537                  | 2,547              | 22,084           |   |
| After five years through ten years      | 466                       | 8,521                   | —                  | 8,987            |   |
| After ten years                         | —                         | —                       | —                  | —                |   |
| Fair value                              | <u>\$ 466</u>             | <u>\$ 28,794</u>        | <u>\$ 9,919</u>    | 39,179           |   |
| Mortgage-backed securities              |                           |                         |                    | 37,113           |   |
| Total fair value                        |                           |                         |                    | <u>\$ 76,292</u> |   |

(1) FTE basis of 21%

On January 1, 2021, we adopted ASU 2016-13, CECL. Management evaluates securities for impairment where there has been a decline in fair value below the amortized cost basis of a security to determine whether there is a credit loss associated with the decline in fair value on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Credit losses are calculated individually, rather than collectively, using a discounted cash flow method, whereby Management compares the present value of expected cash flows with the amortized cost basis of the security. The credit loss component would be recognized through the provision for credit losses and the creation of an allowance for credit losses. Consideration is given to (1) the financial condition and near-term prospects of the issuer including looking at default and delinquency rates, (2) the outlook for receiving the contractual cash flows of the investments, (3) the length of time and the extent to which the fair value has been less than cost, (4) our intent and ability to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value or for a debt security whether it is more-likely-than-not that we will be required to sell the debt security prior to recovering its fair value, (5) the anticipated outlook for changes in the general level of interest rates, (6) credit ratings, (7) third party guarantees, and (8) collateral values. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, the results of reviews of the issuer's financial condition, and the issuer's anticipated ability to pay the contractual cash flows of the investments. U.S. Treasury Securities, Agency-Backed Securities including GNMA, FHLMC, FNMA, FHLB, FFCB and SBA. All of the U.S. Treasury and Agency-Backed Securities have the full faith and credit backing of the United State Government or one of its agencies. Municipal securities and all other securities that do not have a zero expected credit loss are evaluated quarterly to determine whether there is a credit loss associated with a decline in fair value. Based on the application of the new standard, and that all debt securities available for sale in an unrealized loss position as of December 31, 2021 continue to perform as scheduled; we do not believe that a provision for credit losses is necessary in 2021. We recognized no impairment charges in earnings associated with debt securities in 2020. For additional information, see Note 1, "Basis of Presentation and Accounting Policies," and Note 3, "Debt Securities," to the Consolidated Financial Statements in Item 8, 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. Effective September 28, 2021, the Company terminated its remaining loss share agreement with the FDIC associated with Waccamaw Bank and received a payment of \$176 thousand in consideration. The termination eliminates the FDIC guarantee on particular loan losses associated with Waccamaw Bank and removes future responsibility related to the agreement. Prior to the termination, certain loans acquired in the FDIC-assisted transaction were covered under the loss share agreement and noted as covered loans. Covered loans were \$9.68 million at year-end 2020. The general characteristics of each loan segment are as follows:

- Commercial loans – This segment consists of loans to small and mid-size industrial, commercial, and service companies. Commercial real estate projects represent a variety of sectors of the commercial real estate market, including single family and apartment lessors, commercial real estate lessors, and hotel/motel operators. Commercial loan underwriting guidelines require that comprehensive reviews and independent evaluations be performed on credits exceeding predefined size limits. Updates to these loan reviews are done periodically or annually depending on the size of the loan relationship.
- Consumer real estate loans – This segment consists of largely of loans to individuals within our market footprint for home equity loans and lines of credit and for the purpose of financing residential properties. Residential real estate loan underwriting guidelines require that borrowers meet certain credit, income, and collateral standards at origination.
- Consumer and other loans – This segment consists of loans to individuals within our market footprint that include, but are not limited to, automobile,



credit cards, personal lines of credit, boats, mobile homes, and other consumer goods. Consumer loan underwriting guidelines require that borrowers meet certain credit, income, and collateral standards at origination.

Total loans held for investment, net of unearned income, as of December 31, 2021, decreased \$21.06 million, or 0.96%, compared to December 31, 2020. We had no foreign loans or loan concentrations to any single borrower or industry, which are not otherwise disclosed as a category of loans that represented 10% or more of outstanding loans, as of December 31, 2021 or 2020. For additional information, see Note 4, "Loans," to the Consolidated Financial Statements in Item 8 of this report.

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The following table presents loans, net of unearned income and by loan class, as of the dates indicated:

| <i>(Amounts in thousands)</i>   | <b>December 31,</b> |                     |
|---|---------------------|---------------------|
|   | <b>2021</b>         | <b>2020</b>         |
| Loans held for investment   |                     |                     |
| Commercial loans  |                     |                     |
| Construction, development, and other land                             | \$ 65,806           | \$ 44,674           |
| Commercial and industrial   | 133,630             | 173,024             |
| Multi-family residential  | 100,402             | 115,161             |
| Single family non-owner occupied                                      | 198,778             | 187,783             |
| Non-farm, non-residential   | 707,506             | 734,793             |
| Agricultural  | 9,341               | 9,749               |
| Farmland  | 15,013              | 19,761              |
| Total commercial loans  | 1,230,476           | 1,284,945           |
| Consumer real estate loans  |                     |                     |
| Home equity lines   | 79,857              | 96,526              |
| Single family owner occupied  | 703,864             | 661,054             |
| Owner occupied construction   | 16,910              | 17,720              |
| Total consumer real estate loans                                      | 800,631             | 775,300             |
| Consumer and other loans  |                     |                     |
| Consumer loans  | 129,794             | 120,373             |
| Other   | 4,668               | 6,014               |
| Total consumer and other loans  | 134,462             | 126,387             |
| Total loans   | 2,165,569           | 2,186,632           |
| Less: allowance for loan losses                                       | 27,858              | 26,182              |
| Total loans held for investment, net of unearned income and allowance | <u>\$ 2,137,711</u> | <u>\$ 2,160,450</u> |

The following table presents the percentage of loans to total loans in the portfolio, by loan class, as of the dates indicated:

|   | <b>December 31,</b> |                |
|---|---------------------|----------------|
|   | <b>2021</b>         | <b>2020</b>    |
| Commercial loans                          |                     |                |
| Construction, development, and other land | 3.04%               | 2.04%          |
| Commercial and industrial                 | 6.17%               | 7.91%          |
| Multi-family residential                  | 4.64%               | 5.27%          |
| Single family non-owner occupied          | 9.18%               | 8.59%          |
| Non-farm, non-residential                 | 32.67%              | 33.60%         |
| Agricultural                              | 0.43%               | 0.45%          |
| Farmland                                  | 0.69%               | 0.91%          |
| Total commercial loans                    | 56.82%              | 58.77%         |
| Consumer real estate loans                |                     |                |
| Home equity lines                         | 3.69%               | 4.41%          |
| Single family owner occupied              | 32.50%              | 30.23%         |
| Owner occupied construction               | 0.78%               | 0.81%          |
| Total consumer real estate loans          | 36.97%              | 35.45%         |
| Consumer and other loans                  |                     |                |
| Consumer loans                            | 5.99%               | 5.50%          |
| Other                                     | 0.22%               | 0.28%          |
| Total consumer and other loans            | 6.21%               | 5.78%          |
| Total loans                               | <u>100.00%</u>      | <u>100.00%</u> |

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The following table presents the maturities and rate sensitivities of the loan portfolio as of December 31, 2021:

| <i>(Amounts in thousands)</i>                | <b>Due in One<br/>Year or Less</b> | <b>Due After One<br/>Year Through<br/>Five Years</b> | <b>Due After Five<br/>Through<br/>Fifteen Years</b> | <b>Due After<br/>Fifteen Years</b> | <b>Total</b>        |
|--|------------------------------------|--|---|------------------------------------|---------------------|
| <b>Commercial loans</b>                      |                                    |  |   |                                    |                     |
| Construction, development, and other land(1) | \$ 2,982                           | \$ 10,518  | \$ 26,078   | \$ 26,228                          | \$ 65,806           |
| Commercial and industrial                    | 19,205                             | 78,649   | 35,322  | 454                                | 133,630             |
| Multi-family residential                     | 1,303                              | 19,957   | 55,405  | 23,737                             | 100,402             |
| Single family non-owner occupied             | 5,560                              | 18,126   | 75,297  | 99,795                             | 198,778             |
| Non-farm, non-residential                    | 51,274                             | 122,883  | 289,248   | 244,101                            | 707,506             |
| Agricultural                                 | 994                                | 6,702  | 1,645   | —                                  | 9,341               |
| Farmland                                     | 1,650                              | 4,262  | 6,373   | 2,728                              | 15,013              |
| <b>Total commercial loans</b>                | <b>82,968</b>                      | <b>261,097</b>                                       | <b>489,368</b>                                      | <b>397,043</b>                     | <b>1,230,476</b>    |
| <b>Consumer real estate loans</b>            |                                    |  |   |                                    |                     |
| Home equity lines                            | 7,028                              | 14,162   | 47,833  | 10,834                             | 79,857              |
| Single family owner occupied                 | 3,209                              | 20,605   | 182,836   | 497,214                            | 703,864             |
| Owner occupied construction                  | —                                  | 669  | 1,844   | 14,397                             | 16,910              |
| <b>Total consumer real estate loans</b>      | <b>10,237</b>                      | <b>35,436</b>  | <b>232,513</b>                                      | <b>522,445</b>                     | <b>800,631</b>      |
| <b>Consumer and other loans</b>              |                                    |  |   |                                    |                     |
| Consumer loans                               | 6,830                              | 89,574   | 31,493  | 1,897                              | 129,794             |
| Other  | 4,668                              | —  | —   | —                                  | 4,668               |
| <b>Total consumer and other loans</b>        | <b>11,498</b>                      | <b>89,574</b>  | <b>31,493</b>                                       | <b>1,897</b>                       | <b>134,462</b>      |
| <b>Total loans</b>                           | <b>\$ 104,703</b>                  | <b>\$ 386,107</b>                                    | <b>\$ 753,374</b>                                   | <b>\$ 921,385</b>                  | <b>\$ 2,165,569</b> |
| <b>Rate sensitivities</b>                    |                                    |  |   |                                    |                     |
| Predetermined interest rate                  | \$ 75,595                          | \$ 339,582   | \$ 501,013  | \$ 540,826                         | \$ 1,457,016        |
| Floating or adjustable interest rate         | 29,108                             | 46,525   | 252,360   | 380,560                            | 708,553             |
| <b>Total loans</b>                           | <b>\$ 104,703</b>                  | <b>\$ 386,107</b>                                    | <b>\$ 753,373</b>                                   | <b>\$ 921,386</b>                  | <b>\$ 2,165,569</b> |

(1) Construction loans with maturities due after five years include construction to permanent loans that have not yet converted to principal and interest payments.

### 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. The Company has a loan review function independent of credit administration that performs a risk-based review of a sample of loans and loan relationships in the Company's commercial portfolio, and conducts analytical review of credit quality on the Company's non-commercial portfolios.

Nonperforming assets consist of nonaccrual loans, accrual loans contractually past due 90 days or more, unseasoned troubled debt restructurings ("TDRs"), and other real estate owned ("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 5, "Credit Quality," to the Consolidated Financial Statements in Item 8 of this report.

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

| <i>(Amounts in thousands)</i>  | <b>December 31,</b> |                  |                  |                  |                  |
|--|---------------------|------------------|------------------|------------------|------------------|
|  | <b>2021</b>         | <b>2020</b>      | <b>2019</b>      | <b>2018</b>      | <b>2017</b>      |
| <b>Nonperforming</b>   |                     |                  |                  |                  |                  |
| Nonaccrual loans   | \$ 20,768           | \$ 22,003        | \$ 16,357        | \$ 19,905        | \$ 19,339        |
| Accruing loans past due 90 days or more  | 87                  | 295              | 144              | 58               | 1                |
| TDRs(1)  | 1,367               | 187              | 720              | 161              | 120              |
| Total non-covered nonperforming loans  | 22,222              | 22,485           | 17,221           | 20,124           | 19,460           |
| OREO   | 1,015               | 2,083            | 3,969            | 3,838            | 2,514            |
| Total nonperforming assets   | <u>\$ 23,237</u>    | <u>\$ 24,568</u> | <u>\$ 21,190</u> | <u>\$ 23,962</u> | <u>\$ 21,974</u> |
| <b>Additional Information</b>  |                     |                  |                  |                  |                  |
| Total TDRs(2)  | 8,652               | 10,248           | 6,575            | 6,427            | 7,734            |
| Gross interest income that would have been recorded under the original terms of restructured and nonperforming loans | 1,129               | 1,586            | 1,068            | 1,175            | 1,217            |
| Actual interest income recorded on restructured and nonperforming loans  | 422                 | 473              | 277              | 264              | 222              |
| <b>Total ratios</b>  |                     |                  |                  |                  |                  |
| Nonperforming loans to total loans   | 1.03%               | 1.03%            | 0.81%            | 1.13%            | 1.07%            |
| Nonperforming assets to total assets   | 0.73%               | 0.82%            | 0.76%            | 1.07%            | 0.92%            |
| Allowance for credit losses to nonperforming loans   | 125.36%             | 116.44%          | 106.99%          | 90.77%           | 99.05%           |
| Allowance for credit losses to total loans   | 1.29%               | 1.20%            | 0.87%            | 1.03%            | 1.06%            |

(1) TDRs restructured within the past six months and nonperforming TDRs exclude nonaccrual TDRs of \$1.80 million, \$1.18 million, \$95 thousand, \$898 thousand, and \$169 thousand for the five years ended December 31, 2021. They are included in nonaccrual loans.

(2) Total accruing TDRs exclude nonaccrual TDRs of \$2.52 million, \$1.81 million, \$2.34 million, \$2.58 million, and \$1.93 million for the five years ended December 31, 2021. They are included in nonaccrual loans.

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Nonperforming assets as of December 31, 2021, decreased \$1.33 million, or 5.42%, from December 31, 2020, primarily due to decreases of \$1.24 million, or 5.61%, in nonaccrual loans, \$1.07 million, or 51.27%, in OREO, offset by a \$1.18 million increase, or 631.02%, increase non-performing troubled debt restructurings. OREO, which is carried at the lesser of estimated net realizable value or cost, consisted of 15 properties with an average holding period of 12 months as of December 31, 2021. The net loss on the sale of OREO was \$231 thousand in 2021, \$316 thousand in 2020, and \$1.25 million in 2019. The following table presents the changes in OREO during the periods indicated:

|                               | <b>Year Ended December 31,</b> |                 |
|-------------------------------|--------------------------------|-----------------|
|                               | <b>2021</b>                    | <b>2020</b>     |
| <i>(Amounts in thousands)</i> |                                |                 |
| Beginning balance             | \$ 2,083                       | \$ 3,969        |
| Additions                     | 1,283                          | 695             |
| Disposals                     | (2,063)                        | (2,139)         |
| Valuation adjustments         | (288)                          | (442)           |
| Ending balance                | <u>\$ 1,015</u>                | <u>\$ 2,083</u> |

As of December 31, 2021, nonaccrual loans were largely attributed to single family owner occupied (43.13%) and non-farm, non-residential (21.86%) loans. As of December 31, 2021, approximately \$3.45 million, or 16.63%, of 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.

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 obligations occurs. Accruing TDRs as of December 31, 2021, decreased \$1.60 million, or 15.57%, to \$8.65 million from December 31, 2020. Nonperforming accruing TDRs as of December 31, 2021, increased \$1.18 million, or 631.02%, to \$1.37 million from December 31, 2020. Nonperforming accruing TDRs as a percent of total accruing TDRs totaled 15.81% as of December 31, 2021, compared to 1.82% as of December 31, 2020. There were no specific reserves on TDRs as of December 31, 2021, compared to \$233 thousand as of December 31, 2020. When restructuring loans for borrowers experiencing financial difficulty, we generally make concessions in interest rates, loan terms, or amortization terms.

The CARES Act included a provision allowing banks to not apply the guidance on accounting for troubled debt restructurings to loan modifications, such as extensions or deferrals, related to COVID-19 made between March 1, 2020, and the earlier of (i) December 31, 2021, or (ii) 60 days after the end of the COVID-19 national emergency. The relief can only be applied to modifications for borrowers that were not more than 30 days past due as of December 31, 2019. The Company elected to adopt this provision of the CARES Act.

Through December 31, 2021, we had modified a total of 4,066 loans for \$475.82 million related to COVID-19 relief. Those modifications were generally short-term payment deferrals and are not considered TDRs based on the CARES Act. Our policy is to downgrade commercial loans modified for COVID-19 to special mention, which caused the significant increase in loans in that rating. Subsequent upgrade or downgrade will be on a case by case basis. The Company has upgraded these loans back to pass once the modification period has ended and timely contractual payments resume. Further downgrade would be based on a number of factors, including but not limited to additional modifications, payment performance and current underwriting. As of December 31, 2021, current COVID-19 loan deferrals stood at \$2.92 million, down significantly from \$32.26 million at December 31, 2020.

Delinquent loans, comprised of loans 30 days or more past due and nonaccrual loans, totaled \$33.10 million as of December 31, 2021, an decrease of \$2.61 million, or 7.32%, compared to \$35.72 million as of December 31, 2020. Delinquent loans as a percent of total loans totaled 1.53% as of December 31, 2021, which includes past due loans (0.57%) and nonaccrual loans (0.96%), compared to 1.64% as of December 31, 2020.

#### *Allowance for Credit Losses (ACL)*

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

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

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

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

With the adoption of ASU 2016-13 effective January 1, 2021, the Company changed its method for calculating its allowance for loans from an incurred loss method to a life of loan method. See Note 1 – "Basis of Presentation - Significant Accounting Policies" for further details. As of December 31, 2021, the balance of the ACL for loans was \$27.86 million, or 1.29% of total loans. The ACL at December 31, 2021, increased \$1.68 million from the balance of \$26.18 million recorded before the adoption of the new standard on January 1, 2021. This increase included a \$13.11 million cumulative adjustment for the adoption of ASU 2016-13 offset by a reversal of provision of \$8.47 million and net charge-offs for the twelve months of \$2.96 million. The reversal in provision for the twelve months ended December 31, 2021, was due largely to significantly improved forecasts for unemployment from those used at year-end 2020.

At December 31, 2021, the Company also had an allowance for unfunded commitments of \$678 thousand which was recorded in Other Liabilities on the Balance Sheet. With the adoption of ASU 2016-13 effective January 1, 2021, the Company increased its allowance for credit losses on unfunded commitments by \$509 thousand. During 2021, the provision for credit losses on unfunded commitments was \$103 thousand which was recorded in the provision for credit losses on the Statement of Income. The Company did not have an allowance for credit losses or record a provision for credit losses on investment securities or other financial assets during 2021.

Management considered the allowance adequate as of December 31, 2021; however, no assurance can be made that additions to the allowance will not be required in future periods. For additional information, see "Allowance for Loan Losses" in the "Critical Accounting Policies" section above and Note 6, "Allowance for Loan Losses," to the Consolidated Financial Statements in Item 8 of this report.

The following table presents net charge-offs, by loan class, and the ratio to average loans during the periods indicated:

|   | December 31,                 |               |  |                              |               |  |                              |               |  |
|---|------------------------------|---------------|--|------------------------------|---------------|--|------------------------------|---------------|--|
|   | 2021                         |               |  | 2020                         |               |  | 2019                         |               |  |
|   | Net (charge-offs) recoveries | Average Loans | Ratio of Net (charge-offs) recoveries to average loans | Net (charge-offs) recoveries | Average Loans | Ratio of Net (charge-offs) recoveries to average loans | Net (charge-offs) recoveries | Average Loans | Ratio of Net (charge-offs) recoveries to average loans |
| <i>(Amounts in thousands)</i>             |                              |               |  |                              |               |  |                              |               |  |
| Commercial loans                          |                              |               |  |                              |               |  |                              |               |  |
| Construction, development, and other land | \$ (108)                     | \$ 47,285     | -0.23%   | \$ (83)                      | \$ 44,493     | -0.19%   | \$ (207)                     | \$ 61,434     | -0.34%   |
| Commercial and industrial                 | (639)                        | 173,206       | -0.37%   | (679)                        | 188,475       | -0.36%   | (450)                        | 118,080       | -0.38%   |
| Multi-family residential                  | 302                          | 102,175       | 0.30%  | (256)                        | 109,611       | -0.23%   | (307)                        | 89,534        | -0.34%   |
| Single family non-owner occupied          | 58                           | 185,752       | 0.03%  | (405)                        | 173,431       | -0.23%   | (52)                         | 127,745       | -0.04%   |
| Non-farm, non-residential                 | (696)                        | 724,444       | -0.10%   | (555)                        | 746,127       | -0.07%   | (469)                        | 610,858       | -0.08%   |
| Agricultural                              | (157)                        | 9,441         | -1.66%   | (149)                        | 10,683        | -1.39%   | (51)                         | 9,367         | -0.54%   |
| Farmland                                  | (56)                         | 16,799        | -0.33%   | (12)                         | 22,422        | -0.05%   | (139)                        | 14,797        | -0.94%   |
| Total commercial loans                    | (1,296)                      | 1,259,102     | -0.10%   | (2,139)                      | 1,295,242     | -0.17%   | (1,675)                      | 1,031,815     | -0.16%   |
| Consumer real estate loans                |                              |               |  |                              |               |  |                              |               |  |
| Home equity lines                         | 397                          | 82,861        | 0.48%  | 117                          | 103,289       | 0.11%  | (73)                         | 95,511        | -0.08%   |
| Single family owner occupied              | 132                          | 657,741       | 0.02%  | (271)                        | 610,532       | -0.04%   | (271)                        | 487,489       | -0.06%   |
| Owner occupied construction               | —                            | 27,529        | 0.00%  | —                            | 20,918        | 0.00%  | 42                           | 17,019        | 0.25%  |
| Total consumer real estate loans          | 529                          | 768,131       | 0.07%  | (154)                        | 734,739       | 0.07%  | (302)                        | 600,019       | -0.05%   |
| Consumer and other loans                  |                              |               |  |                              |               |  |                              |               |  |
| Consumer loans                            | (2,193)                      | 125,866       | -1.74%   | (2,618)                      | 118,504       | -2.21%   | (1,436)                      | 89,413        | -1.61%   |
| Total                                     | \$ (2,960)                   | \$ 2,153,099  | 0.14%  | \$ (4,911)                   | \$ 2,148,485  | -0.23%   | \$ (3,413)                   | \$ 1,721,247  | -0.20%   |

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The following table presents the allowance for loan losses, by loan class, as of the dates indicated:

|   | December 31,     |                                     |                  |                                     |
|---|------------------|-------------------------------------|------------------|-------------------------------------|
|   | 2021             |                                     | 2020             |                                     |
|   | Balance          | Percentage of<br>Total<br>Allowance | Balance          | Percentage of<br>Total<br>Allowance |
| <i>(Amounts in thousands)</i>               |                  |                                     |                  |                                     |
| <b>Commercial loans</b>                     |                  |                                     |                  |                                     |
| Construction, development, and other land   | \$ 759           | 2.72%                               | \$ 528           | 2.02%                               |
| Commercial and industrial                   | 1,480            | 5.31%                               | 1,024            | 3.91%                               |
| Multi-family residential                    | 863              | 3.10%                               | 1,417            | 5.41%                               |
| Single family non-owner occupied            | 2,586            | 9.28%                               | 1,861            | 7.11%                               |
| Non-farm, non-residential                   | 8,877            | 31.87%                              | 9,417            | 35.97%                              |
| Agricultural                                | 5                | 0.02%                               | 218              | 0.83%                               |
| Farmland                                    | 205              | 0.74%                               | 196              | 0.75%                               |
| <b>Consumer real estate loans</b>           |                  |                                     |                  |                                     |
| Home equity lines                           | 677              | 2.43%                               | 799              | 3.05%                               |
| Single family owner occupied                | 9,172            | 32.92%                              | 7,957            | 30.39%                              |
| Owner occupied construction                 | 123              | 0.44%                               | 195              | 0.74%                               |
| <b>Consumer and other loans</b>             |                  |                                     |                  |                                     |
| Consumer loans                              | 3,111            | 11.17%                              | 2,570            | 9.82%                               |
| <b>Total allowance, excluding PCI loans</b> | <b>\$ 27,858</b> | <b>100.00%</b>                      | <b>\$ 26,182</b> | <b>100.00%</b>                      |

### Deposits

Total deposits as of December 31, 2021, increased \$183.14 million, or 7.19%, compared to December 31, 2020. Savings deposits, which consist of money market accounts and savings accounts, increased \$100.81 million, interest-bearing demand deposits increased \$78.11 million, noninterest-bearing demand deposits increased \$69.99 million, time deposits, which consist of certificates of deposit and individual retirement accounts, decreased \$65.76 million, as of December 31, 2021, compared to December 31, 2020. We attribute the significant increase in demand deposits to the unprecedented level of stimulus payments from the federal government in response to the pandemic. We had no material deposit concentrations to any single customer or industry that represented 10% or more of outstanding deposits as of December 31, 2021 or 2020.

The following schedule presents the contractual maturities of time deposits of \$250 thousand or more as of December 31, 2021:

|                                |                  |
|--------------------------------|------------------|
| <i>(Amounts in thousands)</i>  |                  |
| Three months or less           | \$ 6,057         |
| Over three through six months  | 2,268            |
| Over six through twelve months | 8,861            |
| Over twelve months             | 9,952            |
|                                | <b>\$ 27,138</b> |

### Borrowings

Total borrowings as of December 31, 2021, increased \$572 thousand, or 59.34%, compared to December 31, 2020. Total borrowings for 2021 were comprised entirely of short-term borrowings, which consist of retail repurchase agreements. The weighted average rate decreased 27 basis points to 0.07% as of December 31, 2021, compared to December 31, 2020.

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The following table presents the balances and weighted average rates paid on short-term borrowings for the periods indicated:

|                               | <b>Year Ended December 31,</b> |             |               |             |
|-------------------------------|--------------------------------|-------------|---------------|-------------|
|                               | <b>2021</b>                    |             | <b>2020</b>   |             |
|                               | <b>Amount</b>                  | <b>Rate</b> | <b>Amount</b> | <b>Rate</b> |
| <i>(Amounts in thousands)</i> |                                |             |               |             |
| Year-end balance              | \$ 1,536                       | 0.07%       | \$ 964        | 0.23%       |
| Average annual balance        | 1,194                          | 0.07%       | 1,181         | 0.34%       |
| Maximum month-end balance     | 1,536                          |             | 2,348         |             |

Long-term borrowings consisted of a \$40 thousand amortizing advance with the FHLB of Atlanta that was assumed in the Highlands transaction. That small borrowing was repaid early in 2020. In the first quarter of 2019, the Company's remaining wholesale repurchase agreement of \$25.00 million with a weighted average rate of 3.18% matured.

## Liquidity and Capital Resources

### Liquidity

Liquidity is a measure of our ability to meet current and future cash flow needs as they become due. The liquidity of a financial institution reflects its ability to meet loan requests, to accommodate possible outflows in deposits and to take advantage of interest rate market opportunities. The ability of a financial institution to meet its current financial obligations is a function of its balance sheet structure that draws together all sources and uses of liquidity. The objective of our liquidity management is to manage cash flow and liquidity reserves so that they are adequate to fund our operations and to meet obligations and other commitments on a timely basis and at a reasonable cost. We seek to achieve this objective and ensure that funding needs are met by maintaining an appropriate level of liquid funds through asset/liability management, which includes managing the mix and time to maturity of financial assets and financial liabilities on our balance sheet.

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 of December 31, 2021, management is not aware of any events that are reasonably likely to have a material adverse effect on our liquidity, capital resources or operations. In addition, management is not aware of any regulatory recommendations regarding liquidity that would have a material adverse effect on the Company.

In the ordinary course of business we have entered into contractual obligations and have made other commitments to make future payments. Refer to the accompanying notes to the Consolidated Financial Statements in Item 8 of this report for the expected timing of such payments as of December 31, 2021. These include payments related to (i) operating leases (Note - 7 Premises, Equipment, and Leases ), (ii) time deposits with stated maturity dates (Note 9 - Deposits), and (iii) commitments to extend credit and standby letters of credit (Note - 19 Litigation, Commitments, and Contingencies).

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 December 31, 2021, the Company's cash reserves and short-term investment securities totaled \$17.65 million. The Company's cash reserves and investments provide adequate working capital to meet obligations and projected dividends to shareholders 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 December 31, 2021, our unencumbered cash totaled \$677.44 million, unused borrowing capacity from the FHLB totaled \$411.23 million, available credit from the FRB Discount Window totaled \$6.08 million, available lines from correspondent banks totaled \$90.00 million, and unpledged available-for-sale securities totaled \$54.14 million.



*Cash Flows*

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

|   | Year Ended December 31, |                   |                   |
|---|-------------------------|-------------------|-------------------|
|   | 2021                    | 2020              | 2019              |
| <i>(Amounts in thousands)</i>                       |                         |                   |                   |
| Net cash provided by operating activities           | \$ 48,215               | \$ 45,844         | \$ 56,655         |
| Net cash provided by investing activities           | 35,350                  | 17,798            | 171,377           |
| Net cash provided by (used) in financing activities | 137,313                 | 175,910           | (87,896)          |
| Net increase in cash and cash equivalents           | 220,878                 | 239,552           | 140,136           |
| Cash and cash equivalents, beginning balance        | 456,561                 | 217,009           | 76,873            |
| Cash and cash equivalents, ending balance           | <u>\$ 677,439</u>       | <u>\$ 456,561</u> | <u>\$ 217,009</u> |

*2021 Compared to 2020.* Cash and cash equivalents increased \$220.88 million compared to a increase of \$239.55 million in the prior year. The increase was primarily due to an increase in both interest-bearing and noninterest-bearing deposits for a total of \$183.14 million as well as \$27.47 million received for repayment of loan balances. The increase in deposits was largely due to the significant inflow of unprecedented government stimulus in response to the COVID-19 pandemic and changes in consumer spending. The repayment of loan balances is primarily due to proceeds from the SBA for debt forgiveness for loans originated through the Small Business Administration's Paycheck Protection Lending program.

*2020 Compared to 2019.* Cash and cash equivalents increased \$239.55 million compared to an increase of \$140.14 million in the prior year. The increase was primarily due to an increase in both interest-bearing and noninterest-bearing deposits for a total of \$216.34 million. The increase in deposits was largely due to the significant inflow of unprecedented government stimulus in response to the COVID-19 pandemic and changes in consumer spending.

*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 December 31, 2021, increased \$1.05 million, or 0.24%, to \$427.78 million from \$426.73 million as of December 31, 2020. The Company earned \$51.17 million, which was offset by repurchasing 949,386 shares of our common stock totaling \$28.88 million and declaring dividends on our common stock of \$18.06 million. Our book value per common share increased \$1.26 to \$25.34 as of December 31, 2021, from \$24.08 as of December 31, 2020.

*Capital Adequacy Requirements*

Risk-based capital guidelines, issued by state and federal banking agencies, include balance sheet assets and off-balance sheet arrangements weighted by the risks inherent in the specific asset type. Our current risk-based capital requirements are based on the international capital standards known as Basel III. Our current minimum required capital ratios are as follows:

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

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

|                                 | December 31, |        |        |
|---------------------------------|--------------|--------|--------|
|                                 | 2021         | 2020   | 2019   |
| <b>The Company</b>              |              |        |        |
| Common equity Tier 1 ratio      | 14.39%       | 14.28% | 14.31% |
| Tier 1 risk-based capital ratio | 14.39%       | 14.28% | 14.31% |
| Total risk-based capital ratio  | 15.65%       | 15.53% | 15.21% |
| Tier 1 leverage ratio           | 9.65%        | 10.24% | 14.01% |
| <b>The Bank</b>                 |              |        |        |
| Common equity Tier 1 ratio      | 13.37%       | 13.57% | 12.87% |
| Tier 1 risk-based capital ratio | 13.37%       | 13.57% | 12.87% |
| Total risk-based capital ratio  | 14.62%       | 14.82% | 13.78% |
| Tier 1 leverage ratio           | 8.94%        | 9.73%  | 12.61% |

As of December 31, 2021, we continued to meet all capital adequacy requirements and were classified as well-capitalized under the regulatory framework for prompt corrective action. Management believes there have been no conditions or events since those notifications that would change the Bank's classification. Additionally, our capital ratios were in excess of the minimum standards under the Basel III capital rules on a fully phased-in basis, if such requirements were in effect, as of December 31, 2021. For additional information, see "Capital Requirements" in Part I, Item 1 and Note 20, "Regulatory Requirements and Restrictions," to the Consolidated Financial Statements in Item 8 of this report.

**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 and third-party simulation models that project net interest income at risk, which measures the impact of different interest rate scenarios on net interest income, and the economic value of equity at risk, which measures potential long-term risk in the balance sheet by valuing our assets and liabilities at fair value under different interest rate scenarios. Simulation results show the existence and severity of interest rate risk in each scenario based on our current balance sheet position, assumptions about changes in the volume and mix of interest-earning assets and interest-bearing liabilities, and estimated yields earned on assets and rates paid on liabilities. The simulation model provides the best tool available to us and the industry for managing interest rate risk; however, the model cannot precisely predict the impact of fluctuations in interest rates on net interest income due to the use of significant estimates and assumptions. Actual results will differ from simulated results due to the timing, magnitude, and frequency of interest rate changes; changes in market conditions and customer behavior; and changes in our strategies that management might undertake in response to a sudden and sustained rate shock.

During 2021, the Federal Open Market Committee maintained the benchmark federal funds rate at a range of 0 to 25 basis points. The following table presents the sensitivity of net interest income from immediate and sustained rate shocks in various interest rate scenarios over a twelve-month period for the periods indicated. Due to the current target Fed Funds rate as of December 31, 2021, we do not reflect a decrease of more than 100 basis points from current rates in our analysis.

| Increase (Decrease) in Basis Points<br><i>(Dollars in thousands)</i> | Year Ended December 31,             |                   |                                     |                   |
|--|-------------------------------------|-------------------|-------------------------------------|-------------------|
|  | 2021                                |                   | 2020                                |                   |
|  | Change in Net<br>Interest<br>Income | Percent<br>Change | Change in Net<br>Interest<br>Income | Percent<br>Change |
| 300  | \$ 14,960                           | 14.9%             | \$ 8,429                            | 8.5%              |
| 200  | 10,303                              | 10.3%             | 5,912                               | 6.0%              |
| 100  | 5,502                               | 5.5%              | 3,130                               | 3.2%              |
| (100)  | (6,285)                             | -6.3%             | (4,749)                             | -4.8%             |

We have established policy limits for tolerance of interest rate risk in various interest rate scenarios and exposure limits to changes in the economic value of equity. As of December 31, 2021, we feel our exposure to interest rate risk was adequately mitigated for the scenarios presented.

**Item 7A. 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 7 of this report.

**Item 8. Financial Statements and Supplementary Data.**

**FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA  
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**FIRST COMMUNITY BANKSHARES, INC.**  
**CONSOLIDATED BALANCE SHEETS**

| (Amounts in thousands, except share and per share data)   | December 31, |              |
|---|--------------|--------------|
|   | 2021         | 2020         |
| <b>Assets</b>   |              |              |
| Cash and due from banks   | \$ 47,067    | \$ 58,404    |
| Federal funds sold  | 627,036      | 395,756      |
| Interest-bearing deposits in banks  | 3,336        | 2,401        |
| Total cash and cash equivalents   | 677,439      | 456,561      |
| Debt securities available for sale  | 76,292       | 83,358       |
| Loans held for investment, net of unearned income   | 2,165,569    | 2,186,632    |
| Allowance for credit/loan losses (1)  | (27,858)     | (26,182)     |
| Loans held for investment, net  | 2,137,711    | 2,160,450    |
| Premises and equipment, net   | 52,284       | 57,700       |
| Other real estate owned   | 1,015        | 2,083        |
| Interest receivable   | 7,900        | 9,052        |
| Goodwill  | 129,565      | 129,565      |
| Other intangible assets   | 5,622        | 7,069        |
| Other assets  | 106,691      | 105,298      |
| Total assets  | \$ 3,194,519 | \$ 3,011,136 |
| <b>Liabilities</b>  |              |              |
| Noninterest-bearing deposits  | \$ 842,783   | \$ 772,795   |
| Interest-bearing deposits   | 1,886,608    | 1,773,452    |
| Total deposits  | 2,729,391    | 2,546,247    |
| Securities sold under agreements to repurchase  | 1,536        | 964          |
| Interest, taxes, and other liabilities  | 35,817       | 37,195       |
| Total liabilities   | 2,766,744    | 2,584,406    |
| <b>Stockholders' equity</b>   |              |              |
| Preferred stock, undesignated par value; 1,000,000 shares authorized; Series A Noncumulative Convertible  |              |              |
| Preferred Stock, \$0.01 par value; 25,000 shares authorized; none outstanding   | —            | —            |
| Common stock, \$1 par value; 50,000,000 shares authorized; 23,971,347 issued and 16,878,220 outstanding at December 31, 2021; 24,319,076 shares issued and 17,722,507 shares outstanding at December 31, 2020 | 16,878       | 17,723       |
| Additional paid-in capital  | 147,619      | 173,345      |
| Retained earnings   | 264,824      | 237,585      |
| Accumulated other comprehensive loss  | (1,546)      | (1,923)      |
| Total stockholders' equity  | 427,775      | 426,730      |
| Total liabilities and stockholders' equity  | \$ 3,194,519 | \$ 3,011,136 |

(1) Effective January 1, 2021, the Company adopted the current expected credit loss methodology ("CECL"), prior to January 1, 2021, the Company utilized the incurred credit loss methodology.

See Notes to Consolidated Financial Statements.

**FIRST COMMUNITY BANKSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**

|  | Year Ended December 31, |            |            |
|--|-------------------------|------------|------------|
|  | 2021                    | 2020       | 2019       |
| <i>(Amounts in thousands, except share and per share data)</i> |                         |            |            |
| <b>Interest income</b>   |                         |            |            |
| Interest and fees on loans                                     | \$ 102,832              | \$ 110,447 | \$ 88,805  |
| Interest on securities -- taxable                              | 700                     | 1,004      | 1,219      |
| Interest on securities -- tax-exempt                           | 1,037                   | 1,785      | 2,497      |
| Interest on deposits in banks                                  | 741                     | 800        | 2,447      |
| Total interest income  | 105,310                 | 114,036    | 94,968     |
| <b>Interest expense</b>  |                         |            |            |
| Interest on deposits   | 2,835                   | 5,460      | 5,392      |
| Interest on short-term borrowings                              | 1                       | 4          | 123        |
| Total interest expense   | 2,836                   | 5,464      | 5,515      |
| <b>Net interest income</b>                                     | 102,474                 | 108,572    | 89,453     |
| (Recovery of) provision for credit/loan losses                 | (8,471)                 | 12,668     | 3,571      |
| <b>Net interest income after provision for loan losses</b>     | 110,945                 | 95,904     | 85,882     |
| <b>Noninterest income</b>                                      |                         |            |            |
| Wealth management  | 3,853                   | 3,417      | 3,423      |
| Service charges on deposits                                    | 13,446                  | 13,019     | 14,594     |
| Other service charges and fees                                 | 12,422                  | 10,333     | 8,281      |
| Net gain (loss) on sale of securities                          | —                       | 385        | (43)       |
| Litigation settlements   | —                       | —          | 6,995      |
| Other operating income   | 4,580                   | 2,679      | 427        |
| Total noninterest income                                       | 34,301                  | 29,833     | 33,677     |
| <b>Noninterest expense</b>                                     |                         |            |            |
| Salaries and employee benefits                                 | 44,239                  | 44,005     | 37,148     |
| Occupancy expense  | 4,913                   | 5,043      | 4,334      |
| Furniture and equipment expense                                | 5,627                   | 5,558      | 4,457      |
| Service fees   | 6,324                   | 5,665      | 4,448      |
| Advertising and public relations                               | 2,076                   | 1,951      | 2,310      |
| Professional fees  | 1,524                   | 1,224      | 1,698      |
| Amortization of intangibles                                    | 1,446                   | 1,450      | 997        |
| FDIC premiums and assessments                                  | 832                     | 426        | 318        |
| Merger expense   | —                       | 1,893      | 2,124      |
| Other operating expense  | 11,737                  | 12,410     | 11,929     |
| Total noninterest expense                                      | 78,718                  | 79,625     | 69,763     |
| Income before income taxes                                     | 66,528                  | 46,112     | 49,796     |
| Income tax expense   | 15,360                  | 10,186     | 10,994     |
| <b>Net income</b>  | \$ 51,168               | \$ 35,926  | \$ 38,802  |
| <b>Earnings per common share</b>                               |                         |            |            |
| Basic  | \$ 2.95                 | \$ 2.02    | \$ 2.47    |
| Diluted  | 2.94                    | 2.02       | 2.46       |
| Cash dividends per common share                                | 1.04                    | 1.00       | 0.96       |
| <b>Weighted average shares outstanding</b>                     |                         |            |            |
| Basic  | 17,335,615              | 17,781,748 | 15,690,812 |
| Diluted  | 17,402,936              | 17,815,380 | 15,756,093 |

See Notes to Consolidated Financial Statements.

**FIRST COMMUNITY BANKSHARES, INC**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

|  | Year Ended December 31, |                  |                  |
|--|-------------------------|------------------|------------------|
|  | 2021                    | 2020             | 2019             |
| <i>(Amounts in thousands)</i>  |                         |                  |                  |
| <b>Net income</b>  | \$ 51,168               | \$ 35,926        | \$ 38,802        |
| <b>Other comprehensive income, before tax</b>  |                         |                  |                  |
| Available-for-sale debt securities:  |                         |                  |                  |
| Change in net unrealized (losses) gains on securities without other-than-temporary impairment                      | (1,381)                 | 689              | 1,414            |
| Reclassification adjustment for net (gain) loss recognized in net income   | —                       | (385)            | 43               |
| Net unrealized (losses) gains on available-for-sale debt securities  | (1,381)                 | 304              | 1,457            |
| Employee benefit plans:  |                         |                  |                  |
| Net actuarial gain (loss)  | 1,472                   | (1,217)          | (1,570)          |
| Plan change  | —                       | —                | (262)            |
| Reclassification adjustment for amortization of prior service cost and net actuarial loss recognized in net income | 386                     | 386              | 278              |
| Net unrealized gains (losses) on employee benefit plans  | 1,858                   | (831)            | (1,554)          |
| <b>Other comprehensive income (loss), before tax</b>   | 477                     | (527)            | (97)             |
| Income tax (expense) benefit   | (100)                   | 110              | 20               |
| <b>Other comprehensive income (loss), net of tax</b>   | 377                     | (417)            | (77)             |
| <b>Total comprehensive income</b>  | <u>\$ 51,545</u>        | <u>\$ 35,509</u> | <u>\$ 38,725</u> |

See Notes to Consolidated Financial Statements.

**FIRST COMMUNITY BANKSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

|  | <b>Preferred<br/>Stock</b> | <b>Common<br/>Stock</b> | <b>Additional<br/>Paid-in<br/>Capital</b> | <b>Retained<br/>Earnings</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Income (Loss)</b> | <b>Total</b>      |
|--|----------------------------|-------------------------|---|------------------------------|--|-------------------|
| <i>(Amounts in thousands, except share and per share data)</i>     |                            |                         |   |                              |  |                   |
| Balance January 1, 2019  | \$ —                       | \$ 16,007               | \$ 122,486                                | \$ 195,793                   | \$ (1,429)   | \$ 332,857        |
| Net income   | —                          | —                       | —   | 38,802                       | —  | 38,802            |
| Other comprehensive loss   | —                          | —                       | —   | —                            | (77)   | (77)              |
| Common dividends declared -- \$0.96 per share                      | —                          | —                       | —   | (15,060)                     | —  | (15,060)          |
| Equity-based compensation expense                                  | —                          | 44                      | 1,437                                     | —                            | —  | 1,481             |
| Common stock options exercised -- 8,459 shares                     | —                          | 8                       | 128                                       | —                            | —  | 136               |
| Issuance of stock to 401(k) plan -- 12,407 shares                  | —                          | 12                      | 399                                       | —                            | —  | 411               |
| Repurchase of common shares -- 487,400 shares at \$33.57 per share | —                          | (487)                   | (15,875)                                  | —                            | —  | (16,362)          |
| Highlands Bankshares, Inc. acquisition                             | —                          | 2,793                   | 83,838                                    | —                            | —  | 86,631            |
| Balance December 31, 2019  | <u>\$ —</u>                | <u>\$ 18,377</u>        | <u>\$ 192,413</u>                         | <u>\$ 219,535</u>            | <u>\$ (1,506)</u>  | <u>\$ 428,819</u> |
| Balance January 1, 2020  | \$ —                       | \$ 18,377               | \$ 192,413                                | \$ 219,535                   | \$ (1,506)   | \$ 428,819        |
| Net income   | —                          | —                       | —   | 35,926                       | —  | 35,926            |
| Other comprehensive loss   | —                          | —                       | —   | —                            | (417)  | (417)             |
| Common dividends declared -- \$1.00 per share                      | —                          | —                       | —   | (17,876)                     | —  | (17,876)          |
| Equity-based compensation expense                                  | —                          | 58                      | 1,585                                     | —                            | —  | 1,643             |
| Issuance of stock to 401(k) plan -- 22,693 shares                  | —                          | 23                      | 484                                       | —                            | —  | 507               |
| Repurchase of common shares -- 734,653 shares at \$29.77 per share | —                          | (735)                   | (21,137)                                  | —                            | —  | (21,872)          |
| Balance December 31, 2020  | <u>\$ —</u>                | <u>\$ 17,723</u>        | <u>\$ 173,345</u>                         | <u>\$ 237,585</u>            | <u>\$ (1,923)</u>  | <u>\$ 426,730</u> |
| Balance January 1, 2021  | \$ —                       | \$ 17,723               | \$ 173,345                                | \$ 237,585                   | \$ (1,923)   | \$ 426,730        |
| Cumulative effect of adoption of ASU 2016-13                       | —                          | —                       | —   | (5,870)                      | —  | (5,870)           |
| Net income   | —                          | —                       | —   | 51,168                       | —  | 51,168            |
| Other comprehensive income   | —                          | —                       | —   | —                            | 377  | 377               |
| Common dividends declared -- \$1.04 per share                      | —                          | —                       | —   | (18,059)                     | —  | (18,059)          |
| Equity-based compensation expense                                  | —                          | 48                      | 1,233                                     | —                            | —  | 1,281             |
| Common stock options exercised -- 39,995 shares                    | —                          | 40                      | 498                                       | —                            | —  | 538               |
| Issuance of stock to 401(k) plan -- 16,716 shares                  | —                          | 16                      | 476                                       | —                            | —  | 492               |
| Repurchase of common shares -- 949,386 shares at \$30.42 per share | —                          | (949)                   | (27,933)                                  | —                            | —  | (28,882)          |
| Balance December 31, 2021  | <u>\$ —</u>                | <u>\$ 16,878</u>        | <u>\$ 147,619</u>                         | <u>\$ 264,824</u>            | <u>\$ (1,546)</u>  | <u>\$ 427,775</u> |

*See Notes to Consolidated Financial Statements.*



**FIRST COMMUNITY BANKSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| (Amounts in thousands)  | Year Ended December 31, |            |            |
|---|-------------------------|------------|------------|
|   | 2021                    | 2020       | 2019       |
| <b>Operating activities</b>   |                         |            |            |
| Net income  | \$ 51,168               | \$ 35,926  | \$ 38,802  |
| Adjustments to reconcile net income to net cash provided by operating activities  |                         |            |            |
| (Recovery of) provision for credit/loan losses                                    | (8,471)                 | 12,668     | 3,571      |
| Depreciation and amortization of premises and equipment                           | 4,471                   | 4,458      | 3,448      |
| Amortization of premiums on investments, net                                      | 454                     | 1,468      | 195        |
| Amortization of FDIC indemnification asset, net                                   | —                       | 1,690      | 2,377      |
| Amortization of intangible assets   | 1,446                   | 1,450      | 997        |
| Goodwill impairment   | —                       | —          | —          |
| Accretion on acquired loans   | (4,656)                 | (7,991)    | (3,231)    |
| Equity-based compensation expense   | 1,281                   | 1,643      | 1,481      |
| Issuance of common stock to 401(k) plan   | 492                     | 507        | 411        |
| Loss (gain) on sale of premises and equipment, net                                | 499                     | (59)       | (75)       |
| Provision expense and loss on sale of other real estate owned                     | 231                     | 319        | 1,253      |
| (Gain) loss on sale of securities   | —                       | (385)      | 43         |
| Writedowns of property, plant & equipment   | —                       | 812        | 380        |
| Decrease (increase) in other operating activities                                 | 1,300                   | (6,662)    | 7,003      |
| Net cash provided by operating activities   | 48,215                  | 45,844     | 56,655     |
| <b>Investing activities</b>   |                         |            |            |
| Proceeds from sale of available for sale securities                               | 370                     | 51,027     | 13,898     |
| Proceeds from maturities, prepayments, and calls of securities available for sale | 27,256                  | 44,676     | 32,863     |
| Proceeds from maturities and calls of securities held to maturity                 | —                       | —          | 25,000     |
| Payments to acquire securities available for sale                                 | (22,394)                | (10,267)   | (8,255)    |
| Proceeds from repayments (Originations of) loans, net                             | 27,467                  | (69,259)   | 85,233     |
| Redemption of (payments for) FHLB stock, net                                      | 1,012                   | (12)       | 129        |
| Cash proceeds from mergers, acquisitions, and divestitures, net                   | —                       | —          | 25,863     |
| Payments to the FDIC  | —                       | (30)       | (152)      |
| Proceeds from sale of premises and equipment                                      | 2,616                   | 2,861      | 1,955      |
| Payments to acquire premises and equipment  | (3,038)                 | (3,195)    | (8,411)    |
| Proceeds from sale of other real estate owned                                     | 2,061                   | 1,997      | 3,254      |
| Net cash provided by investing activities   | 35,350                  | 17,798     | 171,377    |
| <b>Financing activities</b>   |                         |            |            |
| Increase in noninterest-bearing deposits, net                                     | 69,988                  | 144,927    | 12,604     |
| Increase (decrease) in interest-bearing deposits, net                             | 113,156                 | 71,408     | (41,445)   |
| Increase (decrease) securities sold under agreements to repurchase, net           | 572                     | (637)      | (27,769)   |
| Repayments of FHLB and other borrowings, net                                      | —                       | (40)       | —          |
| Proceeds from stock options exercised   | 538                     | —          | 136        |
| Payments for repurchase of common stock   | (28,882)                | (21,872)   | (16,362)   |
| Payments of common stock dividends  | (18,059)                | (17,876)   | (15,060)   |
| Net cash provided by (used in) financing activities                               | 137,313                 | 175,910    | (87,896)   |
| Net increase in cash and cash equivalents   | 220,878                 | 239,552    | 140,136    |
| Cash and cash equivalents at beginning of period                                  | 456,561                 | 217,009    | 76,873     |
| Cash and cash equivalents at end of period  | \$ 677,439              | \$ 456,561 | \$ 217,009 |
| <b>Supplemental disclosure -- cash flow information</b>                           |                         |            |            |
| Cash paid for interest  | \$ 3,141                | \$ 5,500   | \$ 5,661   |
| Cash paid for income taxes  | 14,399                  | 9,074      | 8,057      |
| <b>Supplemental transactions -- non-cash items</b>                                |                         |            |            |
| Transfer of loans to other real estate  | 1,283                   | 695        | 3,160      |
| Loans originated to finance other real estate                                     | 59                      | 266        | 484        |
| Increase in accumulated other comprehensive income(loss)                          | 377                     | (417)      | (77)       |
| Acquisitions:   |                         |            |            |
| Fair value of assets acquired   | —                       | —          | 556,005    |
| Fair value of liabilities assumed   | —                       | —          | 506,179    |
| Net assets acquired   | —                       | —          | 49,826     |
| Common stock issued in acquisition  | —                       | —          | 86,631     |

See Notes to Consolidated Financial Statements.



**FIRST COMMUNITY BANKSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. Basis of Presentation and Significant Accounting Policies**

***Basis of Presentation***

First Community Bankshares, Inc. (the “Company”) is a financial holding company incorporated under the laws of the Commonwealth of Virginia. The Company’s principal executive office is located in Bluefield, Virginia. The Company provides banking products and services to individual and commercial customers through its wholly owned subsidiary First Community Bank (the “Bank”), a Virginia-chartered banking institution founded in 1874. The Bank offers wealth management and investment advice through its Trust Division and wholly owned subsidiary First Community Wealth Management (“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, and wealth management.

The Company maintains investments in variable interest entities (“VIEs”). VIEs are legal entities in which equity investors do not have sufficient equity at risk for the entity to independently finance its activities, or as a group, the holders of the equity investment at risk lack the power through voting or similar rights to direct the activities of the entity that most significantly impact its economic performance, or do not have the obligation to absorb the expected losses of the entity or the right to receive expected residual returns of the entity. Consolidation of a VIE is required if a reporting entity is the primary beneficiary of the VIE. The Company periodically reviews its VIEs and has determined that it is not the primary beneficiary of any VIE; therefore, the assets and liabilities of these entities are not consolidated into the financial statements.

***Reclassification***

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 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, the allowance for loan losses and goodwill and other intangible asset. For additional information, see “Critical Accounting Policies” in Part II, Item 7 of this report.

***Summary of Significant Accounting Policies***

***Fair Value Measurements***

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability, in the principal or most advantageous market for the asset or liability, in an orderly transaction between market participants. Market participants are buyers and sellers in the principal market that are independent, knowledgeable, able to transact, and willing to transact.

**FIRST COMMUNITY BANKSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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.

*Cash and Cash Equivalents*

Cash and cash equivalents include cash and due from banks, federal funds sold, and interest-bearing balances on deposit with the Federal Home Loan Bank (“FHLB”), the Federal Reserve Bank (“FRB”), and correspondent banks that are available for immediate withdrawal.

*Investment Securities*

Management classifies debt securities as held-to-maturity or available-for-sale based on the intent and ability to hold the securities to maturity. Debt securities that the Company has the intent and ability to hold to maturity are classified as held-to-maturity securities and carried at amortized cost. Debt securities not classified as held to maturity are classified as available-for-sale securities and carried at estimated fair value. Available-for-sale securities consist of securities the Company intends to hold for indefinite periods of time including securities to be used as part of the Company’s asset/liability management strategy and securities that may be sold for a variety of reasons. Unrealized gains and losses on available-for-sale securities are included in accumulated other comprehensive income (“AOCI”), net of income taxes, in stockholders’ equity. Gains or losses on calls, maturities, or sales of investment securities are recorded based on the specific identification method and included in noninterest income. Premiums and discounts are amortized or accreted over the life of a security into interest income.

Management evaluates securities for impairment where there has been a decline in fair value below the amortized cost basis of a security to determine whether there is a credit loss associated with the decline in fair value on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Credit losses are calculated individually, rather than collectively, using a discounted cash flow method, whereby Management compares the present value of expected cash flows with the amortized cost basis of the security. The credit loss component would be recognized through the provision for credit losses and the creation of an allowance for credit losses. Consideration is given to (1) the financial condition and near-term prospects of the issuer including looking at default and delinquency rates, (2) the outlook for receiving the contractual cash flows of the investments, (3) the length of time and the extent to which the fair value has been less than cost, (4) our intent and ability to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value or for a debt security whether it is more-likely-than-not that we will be required to sell the debt security prior to recovering its fair value, (5) the anticipated outlook for changes in the general level of interest rates, (6) credit ratings, (7) third party guarantees, and (8) collateral values. The Company evaluates impairment where there has been a decline in fair value below the amortized cost basis of a security to determine whether there is a credit loss associated with the decline in fair value. The nature of the collateral is considered along with potential future changes in collateral values, default rates, delinquency rates, third-party guarantees, credit ratings, interest rate changes since purchase, volatility of the security’s fair value and historical loss information for financial assets secured with similar collateral among other factors. Credit losses are calculated individually, rather than collectively, using a discounted cash flow method, whereby management compares the present value of expected cash flows with the amortized cost basis of the security. The credit loss component would be recognized through the provision for credit losses in the Statement of Income and establish an allowance for credit losses on the Balance Sheet.

The Company excludes the accrued interest receivable from the amortized cost basis in measuring expected credit losses on the investment securities. Nor does the Company record an allowance for credit losses on accrued interest receivable. As of December 31, 2021, the accrued interest receivable for investment securities available for sale was \$360 thousand.

*Other Investments*

As a condition of membership in the FHLB and the FRB, the Company is required to hold a minimum level of stock in the FHLB of Atlanta and the FRB of Richmond. These securities are carried at cost and periodically reviewed for impairment. The total investment in FHLB and FRB stock, which is included in other assets, was \$9.78 million as of December 31, 2021, and \$10.80 million as of December 31, 2020.

The Company owns certain long-term equity investments without readily determinable fair values, including certain tax credit limited partnerships and various limited liability companies that manage real estate investments, facilitate tax credits, and provide title insurance and other related financial services. These investments are accounted for at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment. The total carrying value in these investments, which is included other assets, totaled \$3.85 million as of December 31, 2021, and \$3.93 million as of December 31, 2020.

**FIRST COMMUNITY BANKSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*Business Combinations*

The Company accounts for business combinations using the acquisition method of accounting as outlined in using Topic 805 of the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC"). Under this method, all identifiable assets acquired, including purchased loans, and liabilities assumed are recorded at fair value. Any excess of the purchase price over the fair value of net assets acquired is recorded as goodwill. In instances where the price of the acquired business is less than the net assets acquired, a gain on the purchase is recorded. Fair values are assigned based on quoted prices for similar assets, if readily available, or appraisals by qualified independent parties for relevant asset and liability categories. Certain financial assets and liabilities are valued using discount models that apply current discount rates to streams of cash flow. Valuation methods require assumptions, which can result in alternate valuations, varying levels of goodwill or bargain purchase gains, or amortization expense or accretion income. Management must make estimates for the useful or economic lives of certain acquired assets and liabilities that are used to establish the amortization or accretion of some intangible assets and liabilities, such as core deposits. Fair values are subject to refinement for up to one year after the closing date of the acquisition as additional information about the closing date fair values becomes available. Acquisition and divestiture activities are included in the Company's consolidated results of operations from the closing date of the transaction. Acquisition and divestiture related costs are recognized in noninterest expense as incurred. For additional information, see "Purchased Credit Impaired Loans" and "Intangible Assets" below.

*Loans Held for Investment*

Loans classified as held for investment are originated with the intent to hold indefinitely, until maturity, or until pay-off. Loans held for investment are carried at the principal amount outstanding, net of unearned income and any necessary write-downs to reduce individual loans to net realizable value. Interest income on performing loans is recognized as interest income at the contractual rate of interest. Loan origination fees, including loan commitment and underwriting fees, are reduced by direct costs associated with loan processing, including salaries, legal review, and appraisal fees. Net deferred loan fees are deferred and amortized over the life of the related loan or commitment period.

*Purchased Performing Loans.* Purchased loans that are deemed to be performing at the acquisition date are accounted for using the contractual cash flow method of accounting, which results in the loans being recorded at fair value with a credit discount. The fair value discount or premium is accreted or amortized, as the case may be, as an adjustment to yield over the estimated contractual lives of the loans.

*Purchased Credit Deteriorated ("PCD") Loans.* Purchased credit-deteriorated, otherwise referred to herein as PCD, assets are defined as acquired individual financial assets (or acquired groups of financial assets with similar risk characteristics) that, as of the date of acquisition, have experienced a more-than-insignificant deterioration in credit quality since origination, as determined by the Company's assessment. The Company records acquired PCD loans by adding the expected credit losses (i.e. allowance for credit losses) to the purchase price of the financial assets rather than recording through the provision for credit losses in the income statement. The expected credit loss, as of the acquisition date, of a PCD loan is added to the allowance for credit losses. The non-credit discount or premium is the difference between the fair value and the amortized cost basis as of the acquisition date. Subsequent to the acquisition date, the change in the ACL on PCD loans is recognized through the provision for credit losses. The non-credit discount or premium is accreted or amortized, respectively, into interest income over the remaining life of the PCD loan on a level-yield basis. In accordance with the transition requirements within the standard, the Company's acquired purchased credit impaired loans were treated as PCD loans.

*Individually Evaluated Loans and Nonperforming Assets.* The Company maintains an active and robust problem credit identification system through its ongoing credit review function. When a loan no longer shares similar risk characteristics with its segment, the asset is assessed to determine whether it should be included in another pool or should be individually evaluated. The Company currently maintains a net book balance threshold of \$500,000 for individually-evaluated loans. Generally, individually-evaluated loans other than Troubled Debt Restructurings, otherwise referred to herein as "TDRs," are on nonaccrual status. Based on the threshold above, consumer loans will generally remain in pools unless they meet the dollar threshold and foreclosure is probable. The expected credit losses on individually-evaluated loans will be estimated based on discounted cash flow analysis unless the loan meets the criteria for use of the fair value of collateral, either by virtue of an expected foreclosure or through meeting the definition of collateral-dependent. Financial assets that have been individually evaluated can be returned to a pool for purposes of estimating the expected credit loss insofar as their credit profile improves and that the repayment terms were not considered to be unique to the asset. The Company follows its nonaccrual policy by reversing contractual interest income in the income statement when the Company places a loan on nonaccrual status. Therefore, Management excludes the accrued interest receivable balance from the amortized cost basis in measuring expected credit losses on the portfolio and does not record an allowance for credit losses on accrued interest receivable. The accrual of interest, which is based on the daily amount of principal outstanding, on individually evaluated loans is generally continued unless the loan becomes delinquent 90 days or more.

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Loans are considered past due when either principal or interest payments become contractually delinquent by 30 days or more. The Company's policy is to discontinue the accrual of interest, if warranted, on loans based on the payment status, evaluation of the related collateral, and the financial strength of the borrower. Loans that are 90 days or more past due are placed on nonaccrual status. Management may elect to continue the accrual of interest when the loan is well secured and in process of collection. When interest accruals are discontinued, interest accrued and not collected in the current year is reversed from income, and interest accrued and not collected from prior years is charged to the allowance for loan losses. Nonaccrual loans may be returned to accrual status when all principal and interest amounts contractually due, including past due payments, are brought current; the ability of the borrower to repay the obligation is reasonably assured; and there is generally a period of at least six months of repayment performance by the borrower in accordance with the contractual terms.

Seriously delinquent loans are evaluated for loss mitigation options. Closed-end retail loans are generally charged off against the allowance for credit losses when the loans become 120 days past due. Open-end retail loans and residential real estate secured loans are generally charged off when the loans become 180 days past due. Unsecured loans are generally charged off when the loans become 90 days past due. All other loans are charged off against the allowance for loan losses after collection attempts have been exhausted, which generally is within 120 days. Recoveries of loans previously charged off are credited to the allowance for loan losses in the period received.

Loans are considered troubled debt restructurings when the Company grants concessions, for legal or economic reasons, to borrowers experiencing financial difficulty that would not otherwise be considered. The Company generally makes concessions in interest rates, loan terms, and/or amortization terms. All TDRs \$500 thousand or greater are evaluated for a specific reserve based on either the collateral or net present value method, whichever is most applicable. TDRs under \$500 thousand are subject to the reserve calculation for classified loans based primarily on the historical loss rate. At the date of modification, nonaccrual loans are classified as nonaccrual TDRs. TDRs classified as nonperforming at the date of modification 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.

Other real estate owned ("OREO") acquired through foreclosure, or other settlement, is carried at the lower of cost or fair value less estimated selling costs. The fair value is generally based on current third-party appraisals. When a property is transferred into OREO, any excess of the loan balance over the net realizable fair value is charged against the allowance for loan losses. Operating expenses, gains, and losses on the sale of OREO are included in other noninterest expense in the Company's consolidated statements of income after any fair value write-downs are recorded as valuation adjustments.

*Allowance for Credit Losses (ACL)*

We review our allowance for credit losses quarterly to determine if it is sufficient to absorb expected loan losses in the portfolio. This determination requires management to make significant estimates and assumptions. While management uses its best judgment and available information, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond our control, including the performance of our loan portfolio, the economy, changes in interest rates, and the view of regulatory authorities towards loan classifications. These uncertainties may result in material changes to the allowance for loan losses in the near term; however, the amount of the change cannot reasonably be estimated. Prior to January 1, 2021, we followed the incurred loss accounting method for reserving for loan losses which required us to estimate losses that had been incurred as of the balance sheet date. For additional information, see this note, Note 1, "Basis of Presentation," to the Consolidated Financial Statements in "*Recent Accounting Standards*".

The ACL is an estimate of losses that will result from the inability of borrowers to make required loan payments. The Company established the incremental increase in the ACL at the adoption through retained earnings and subsequent adjustments will be made through a provision for credit losses charged to earnings. Loans charged off are recorded against the ACL and subsequent recoveries increase the ACL when they are recognized.

A systematic methodology is used to determine ACL for loans held for investment and certain off-balance sheet credit exposures. The ACL is a valuation account that is deducted from the amortized cost basis to present the net amount expected to be collected on the loan portfolio. Management considers the effects of past events, current conditions, and reasonable and supportable forecasts on the collectability of the loan portfolio. The Company's estimate of its ACL involves a high degree of judgement and reflects management's best estimate within the range of expected credit losses. The Company recognizes in net income the amount needed to adjust the ACL for management's current estimate of expected credit losses. The Company's ACL is calculated using collectively evaluated and individually evaluated loans.

The Company collectively evaluates loans that share similar risk characteristics. In general, loans are segmented by loan purpose. The Company collectively evaluates loans within the following consumer and commercial segments: Loans secured by 1-4 Family Properties, Home Equity Lines of Credit ("HELOC"), Owner Occupied Construction Loans, Consumer Loans, Commercial and Industrial, Multi-family, Non-farm/Non-residential Property, Commercial Construction/A&D/other Land Loans, Agricultural Loans, Credit Card Loans, Loans Secured by Farmland, and Other Consumer Loans (Overdrafts).

For collectively evaluated loans, the Company uses a combination of discounted cash flow and remaining life to estimate expected credit losses. In addition to its own loss experience, management also includes peer bank historical loss experience in its assessment of expected credit losses to determine the ACL. The Company utilized call report data to measure its and its peers' historical credit losses experience with similar risk characteristics within the segments over an economic cycle. Management reviewed the historical loss information to appropriately adjust for differences in current asset specific risk characteristics. Also considered were further adjustments to historical loss information for current conditions and reasonable and supportable forecasts that differ from the conditions that existed for the period over which historical information was evaluated. For the majority of the segments of collectively evaluated loans, the Company incorporated at least one macroeconomic driver either using a statistical regression modeling methodology.

Management considers forward-looking information in estimated expected credit losses. The Company subscribes to a third-party service which provides summary detail of dozens of economic forecasts. Using that information and other publicly available economic forecasts, management determines the economic variables to use for the one-year reasonable and supportable forecast period. Management has determined that the forecast period is consistent with how the Company has historically forecasted for its profitability planning and capital management. Management has evaluated the appropriateness of the reasonable and

supportable forecast for the current period along with the inputs used in the estimation of expected credit losses. For the contractual term that extends beyond the reasonable and supportable forecast period, the Company reverts to historical loss information over eight quarters using a straight-line approach. Management may apply different reversion techniques depending on the economic environment for the financial asset portfolio and as of the current period has utilized a linear reversion technique.

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Included in its systematic methodology to determine its ACL for loans held for investment and certain off-balance sheet credit exposures, Management considers the need to qualitatively adjust expected credit losses for information not already captured in the loss estimation process. These qualitative adjustments either increase or decrease the quantitative model estimation. Each period the Company considers qualitative factors that are relevant within the qualitative framework that includes the following: 1) changes in lending policies and procedures, 2) changes in economic conditions, 3) changes in portfolio nature and volume, 4) changes in management, 5) changes in past due loans, 6) changes in the quality of the Company's credit review system, 7) changes in the value of underlying collateral, 8) the effect of concentrations of credit, and 9) the effect of other external factors.

When a loan no longer shares similar risk characteristics with its segment, the asset is assessed to determine whether it should be included in another pool or should be individually evaluated. The Company currently maintains a net book balance threshold of \$500,000 for individually-evaluated loans. Generally, individually-evaluated loans other than TDRs are on nonaccrual status. Based on the threshold above, consumer loans will generally remain in pools unless they meet the dollar threshold and foreclosure is probable. The expected credit losses on individually-evaluated loans will be estimated based on discounted cash flow analysis unless the loan meets the criteria for use of the fair value of collateral, either by virtue of an expected foreclosure or through meeting the definition of collateral-dependent. Financial assets that have been individually evaluated can be returned to a pool for purposes of estimating the expected credit loss insofar as their credit profile improves and that the repayment terms were not considered to be unique to the asset.

Management measures expected credit losses over the contractual term of the loans. When determining the contractual term, the Company considers expected prepayments but is precluded from considering expected extensions, renewals, or modifications, unless the Company reasonably expects it will execute a TDR with a borrower. In the event of a reasonably-expected TDR, the Company factors the reasonably-expected TDR into the current expected credit losses estimate. The effects of a TDR are recorded when an individual asset is specifically identified as a reasonably-expected TDR. For consumer loans, the point at which a TDR is reasonably expected is when the Company approves the borrower's application for a modification (i.e. the borrower qualifies for the TDR) or when the Credit Administration department approves loan concessions on substandard loans. For commercial loans, the point at which a TDR is reasonably expected is when the Company approves the loan for modification or when the Credit Administration department approves loan concessions on substandard loans. The Company uses a discounted cash flow methodology to calculate the effect of the concession provided to the borrower in TDR within the ACL.

The Company has a variety of assets that have a component that qualifies as an off-balance sheet exposure. These primarily include undrawn portions of revolving lines of credit and standby letters of credit. The expected losses associated with these exposures within the unfunded portion of the loans will be recorded as a liability on the balance sheet with an offsetting income statement expense. Management has determined that a majority of the Company's off-balance-sheet credit exposures are not unconditionally cancellable. As of December 31, 2021, the liability recorded for expected credit losses on unfunded commitments in Other Liabilities was \$678 thousand. The current adjustment to the ACL for unfunded commitments would be recognized through the provision for credit losses in the Statement of Income. For additional information, see Note 6, "Allowance for Loan Losses," to the Consolidated Financial Statements in Item 8 of this report.



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*Premises and Equipment*

Premises, equipment, and capital leases are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the respective assets. Useful lives range from 5 to 10 years for furniture, fixtures, and equipment; 3 to 5 years for computer software, hardware, and data handling equipment; and 7 to 40 years for buildings and building improvements. Land improvements are amortized over a period of 20 years and leasehold improvements are amortized over the lesser of the term of the respective leases plus the first optional renewal period, when renewal is reasonably assured, or the estimated useful lives of the improvements. The Company leases various properties within its branch network. Leases generally have initial terms of up to 10 years and most contain options to renew with increases in rent. All leases are accounted for as operating leases. Maintenance and repairs are charged to current operations while improvements that extend the economic useful life of the underlying asset are capitalized. Disposition gains and losses are reflected in current operations.

*Intangible Assets*

Intangible assets consist of goodwill, core deposit intangible assets, and other identifiable intangible assets that result from business combinations. Goodwill represents the excess of the purchase price over the fair value of net assets acquired that is allocated to the appropriate reporting unit when acquired. Core deposit intangible assets represent the future earnings potential of acquired deposit relationships that are amortized over their estimated remaining useful lives. Other identifiable intangible assets primarily represent the rights arising from contractual arrangements that are amortized using the straight-line method.

An interim analysis of Goodwill is performed quarterly, and goodwill is tested for impairment annually, on October 31st, or more frequently if events or circumstances indicate there may be impairment. We have one reporting unit, Community Banking. If we elect to perform a qualitative assessment, we evaluate factors such as macroeconomic conditions, industry and market considerations, overall financial performance, changes in stock price, and progress towards stated objectives in determining if it is more likely than not that the fair value of our reporting unit is less than its carrying amount. If we conclude that it is more likely than not that the fair value of our reporting unit is less than its carrying amount, a quantitative test is performed; otherwise, no further testing is required. The quantitative test consists of comparing the fair value of our reporting unit to its carrying amount, including goodwill. If the fair value of our reporting unit is greater than its book value, no goodwill impairment exists. If the carrying amount of our reporting unit is greater than its calculated fair value, a goodwill impairment charge is recognized for the difference.

Management has concluded that there was no goodwill impairment for 2021.

*Securities Sold Under Agreements to Repurchase*

Securities sold under agreements to repurchase are generally accounted for as collateralized financing transactions and recognized as short-term borrowings in the Company's consolidated balance sheets. Securities, generally U.S. government and federal agency securities, pledged as collateral under these arrangements can be sold or repledged only if replaced by the secured party. The fair value of the collateral provided to a third party is continually monitored and additional collateral is provided as appropriate.

*Derivative Instruments*

The Company primarily uses derivative instruments to protect against the risk of adverse price or interest rate movements on the value of certain assets and liabilities and on future cash flows. Derivative instruments represent contracts between parties that usually require little or no initial net investment and result in one party delivering cash or another asset to the other party based on a notional amount and an underlying asset as specified in the contract such as interest rates, equity security prices, currencies, commodity prices, or credit spreads. These derivative instruments may consist of interest rate swaps, floors, caps, collars, futures, forward contracts, and written and purchased options. Derivative contracts often involve future commitments to exchange interest payment streams or currencies based on a notional or contractual amount, such as interest rate swaps or currency forwards, or to purchase or sell other financial instruments at specified terms on a specified date, such as options to buy or sell securities or currencies. Derivative instruments are subject to counterparty credit risk due to the possibility that the Company will incur a loss because a counterparty, which may be a bank, a broker-dealer or a customer, fails to meet its contractual obligations. This risk is measured as the expected positive replacement value of contracts. Derivative contracts may be executed only with exchanges or counterparties approved by the Company's Asset/Liability Management Committee.

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If certain conditions are met, a derivative may be designated as a hedge related to fair value, cash flow, or foreign exposure risk. The recognition of changes in the fair value of a derivative instrument varies depending on the intended use of the derivative and the resulting designation. The Company accounts for hedges of customer loans as fair value hedges. The change in fair value of the hedging derivative and the change in fair value of the hedged exposure are recorded in earnings. Any hedge ineffectiveness is also reflected in current earnings. Changes in the fair value of derivatives not designated as hedging instruments are recognized as a gain or loss in earnings. The Company formally documents any relationships between hedging instruments and hedged items and the risk management objective and strategy for undertaking each hedged transaction. All derivative instruments are reported at fair value in the consolidated balance sheets.

*Equity-Based Compensation*

The cost of employee services received in exchange for equity instruments, including stock options and restricted stock awards, is generally measured at fair value on the grant date. The Black-Scholes-Merton valuation model is used to estimate the fair value of stock options at the grant date while the fair value of restricted stock awards is based on the market price of the Company's common stock on the grant date. The Black-Scholes-Merton model incorporates the following assumptions: the expected volatility is based on the weekly historical volatility of the Company's common stock price over the expected term of the option; the expected term is generally calculated using the shortcut method; the risk-free interest rate is based on the U.S. Department of the Treasury's ("Treasury") yield curve on the grant date with a term comparable to the grant; and the dividend yield is based on the Company's dividend yield using the most recent dividend rate paid per share and trading price of the Company's common stock. Compensation cost is recognized over the required service period, generally defined as the vesting period for stock option awards and as the restriction period for restricted stock awards. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

*Revenue Recognition*

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

*Service charges on deposits and other service charges and fees.* Service charges on deposits and other service charges and fees represent general service fees for account maintenance and activity and transaction-based fees that consist of transaction-based revenue, time-based revenue (service period), item-based revenue, or some other individual attribute-based revenue. Revenue is recognized when the performance obligation is completed, which is generally monthly for account maintenance services or when a transaction has been completed. Payment for such performance obligations is generally received at the time the performance obligations are satisfied. Other service charges and fees include interchange income from debit and credit card transaction fees.

*Advertising Expenses*

Advertising costs are generally expensed as incurred. The Company may establish accruals for incurred advertising expenses in the course of a fiscal year.

*Income Taxes*

Income tax expense is comprised of the current and deferred tax consequences of events and transactions already recognized. The Company includes interest and penalties related to income tax liabilities in income tax expense. The effective tax rate, income tax expense as a percent of pre-tax income, may vary significantly from statutory rates due to tax credits and permanent differences. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are adjusted through the provision for income taxes as changes in tax laws or rates are enacted.

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*Per Share Results*

Basic earnings per common share is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of potential common stock that could be issued by the Company. Under the treasury stock method of accounting, potential common stock may be issued for stock options, non-vested restricted stock awards, performance based stock awards, and convertible preferred stock. Diluted earnings per common share is calculated by dividing net income by the weighted average number of common shares outstanding for the period plus the number of dilutive potential common shares. The calculation of diluted earnings per common share excludes potential common shares that have an exercise price greater than the average market value of the Company's common stock because the effect would be antidilutive.

*Risks and Uncertainties*

Recent COVID-19 Virus Developments –

During 2020 and continuing into 2021, government reaction to the novel coronavirus (“COVID-19”) pandemic significantly disrupted local, national, and global economies and adversely impacted a broad range of industries, including banking and other financial services. As the pandemic events unfolded during 2020 and 2021, the Company implemented various plans, strategies and protocols to protect its employees, maintain services for customers, assure the functional continuity of its operating systems, controls and processes, and mitigate financial risks posed by changing market conditions.

The global pandemic has adversely impacted a broad range of industries in which the Company's customers operate and could still impair their ability to fulfill their financial obligations to the Company. The Company's business is dependent upon the willingness and ability of its employees and customers to conduct banking and other financial transactions. While it appears that the epidemiological and macroeconomic conditions are trending in a positive direction as of December 31, 2021, if there is a resurgence in the virus, the Company could experience further adverse effects on its business, financial condition, results of operations and cash flows. While it is not possible to know the full universe or extent that the impact of COVID-19, and any potential resulting measures to curtail its spread, will have on the Company's future operations, the Company is disclosing potentially material items of which it is aware.

Lending operations and accommodations to borrowers

The general economic slowdown caused by COVID-19 in local economies in communities served by the Company has affected loan demand and consumption of financial services, generally, reducing interest income, service fees, and the demand for other profitable financial services provided by the Company.

In addition to the general impact of COVID-19, certain provisions of the Coronavirus Aid, Relief and Economic Security (“CARES”) Act, as well as other legislative and regulatory actions may materially impact the Company. The Company has participated in the Paycheck Protection Program (“PPP”), administered by the SBA, in an attempt to assist its customers. Per the terms of the program, PPP loans have a two-year or a five-year term, earn interest at 1%, are fully guaranteed by the SBA, and are partially or totally forgivable if administered by the borrower according to guidance provided by the SBA. The Company believes the majority of these loans have the potential to be forgiven by the SBA if administered in accordance with the terms of the program. Through December 31, 2021 the Company processed a total of 1,429 loans with original principal balances totaling \$92.58 million through both the first and second rounds of the PPP. As of December 31, 2021 \$56.74 million or 93.03%, of the Company's first round PPP loan balances have been forgiven by the SBA. As of December 31, 2021 28.22%, or \$8.91 million of the second round PPP loans have been forgiven.

To date, the Company has identified no material, unmitigated operational or internal control challenges or risks and anticipates no significant challenges to its ability to maintain systems and controls as a result of the actions taken to prevent the spread of COVID-19. In addition, the Company currently faces no material resource constraints arising due to implementation of the business continuity plan.

It is impossible to predict the full extent to which COVID-19 and the resulting measures to prevent its spread will affect the Company's operations. Although there is a high degree of uncertainty around the magnitude and duration of the economic impact of COVID-19, the Company's management believes its financial position, including high levels of capital and liquidity, will allow it to successfully endure the negative economic impacts of the pandemic.

## Recent Accounting Standards

### Standards Adopted in 2021

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” This ASU requires earlier recording of credit losses on loans and other financial assets held by financial institutions and other organizations. This ASU also 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. It further 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 ASU amends the accounting for credit losses in investments in debt securities and purchased financial assets with credit deterioration. The Company adopted the new standard as of January 1, 2021. The standard was applied using the modified retrospective method as a cumulative-effect adjustment to retained earnings as of January 1, 2021. Under this method, comparative periods will not be required to be restated for financial statements related to Topic 326. Comparative prior period disclosures will be presented using the guidance for the allowance for loan losses. This adoption method is considered a change in accounting principle requiring additional disclosure of the nature of and the reasons for the change, which is solely a result of the adoption of the required standard. This standard did not have a material impact on our investment securities portfolio at implementation. Related to the implementation of the standard, the Company recorded an additional ACL for loans of \$13.11 million, deferred tax assets of \$1.81 million, and additional reserve for unfunded commitments of \$509 thousand and an adjustment to retained earnings, net of tax, of \$5.87 million. See the table below for the impact of ASU 2016-13 on the Company’s consolidated balance sheet.

|   | January 1, 2021                     |                                 |                                      |
|---|-------------------------------------|---------------------------------|--------------------------------------|
|   | As Reported<br>Under<br>ASU 2016-13 | Pre-<br>ASU 2016-13<br>Adoption | Impact of<br>ASU 2016-13<br>Adoption |
| <b>Assets:</b>  |                                     |                                 |                                      |
| <b>Non-covered loans held for investment</b>                      |                                     |                                 |                                      |
| Allowance for credit losses on debt securities                    |                                     |                                 |                                      |
| Investment securities - available for sale                        | \$ 83,358                           | \$ 83,358                       | \$ - A                               |
| <b>Loans</b>  |                                     |                                 |                                      |
| Non-acquired loans and acquired performing loans                  | 2,146,972                           | 2,146,972                       | -                                    |
| Acquired purchased deteriorated loans                             | 45,535                              | 39,660                          | 5,875 B                              |
| Allowance for credit losses on loans                              | (39,289)                            | (26,182)                        | (13,107) C                           |
| Deferred tax asset  | 19,306                              | 17,493                          | 1,813 D                              |
| Accrued interest receivable - loans                               | 9,109                               | 9,052                           | 57 B                                 |
| <b>Liabilities</b>  |                                     |                                 |                                      |
| Allowance for credit losses on off-balance sheet credit exposures | 575                                 | 66                              | 509 E                                |
| <b>Equity:</b>  |                                     |                                 |                                      |
| Retained earnings   | 231,714                             | 237,585                         | (5,870) F                            |

A. Per our analysis no ACL was necessary for investment securities available for sale.

B. Accrued interest receivable from acquired credit impaired loans of \$57 thousand was reclassified to other assets and was offset by the reclass of the grossed up credit discount on acquired credit impaired loans of \$57 thousand that was moved to the ACL for the purchased credit deteriorated loans.

C. Calculated adjustment to the ACL related to the adoption of ASU 2016-13. Includes additional reserve related to purchased deteriorated loans of \$5.88 million.

D. Effect of deferred tax assets related to the adjustment to the ACL from the adoption of ASU 2016-13 using a 23.37% tax rate.

E. Adjustment to the reserve for unfunded commitments related to the adoption of ASU 2016-13.

F. Net adjustment to retained earnings related to the adoption of ASU 2016-13.

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In December 2019, the FASB issued ASU 2019-12, “Income Taxes (Topic 740), Simplifying the Accounting for Income Taxes”. This ASU simplifies the accounting for income taxes by removing certain exceptions to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition for deferred tax liabilities for outside basis differences. The Company adopted this ASU as of January 1, 2021, and it did not have a material effect on the Company's financial statements.

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. Acquisitions and Divestitures**

On December 31, 2019, the Company acquired Highlands Bankshares, Inc. (“Highlands”) of Abingdon, Virginia. Under the terms of the acquisition, each share of Highlands’ common and preferred stock outstanding immediately converted into the right to receive 0.2703 shares of the Company’s stock. The transaction combined two traditional Southwestern Virginia community banks who serve the Highlands region in Virginia, North Carolina, and Tennessee. The total purchase price for the transaction was \$86.65 million. Goodwill of \$36.82 million was added as a result of the acquisition.

**Note 3. Debt Securities**

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

|                                   | <b>December 31, 2021</b>  |                             |                              |                       |
|-----------------------------------|---------------------------|-----------------------------|------------------------------|-----------------------|
|                                   | <b>Amortized<br/>Cost</b> | <b>Unrealized<br/>Gains</b> | <b>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> |
| <i>(Amounts in thousands)</i>     |                           |                             |                              |                       |
| U.S. Agency securities            | \$ 469                    | \$ —                        | \$ (3)                       | \$ 466                |
| Municipal securities              | 28,596                    | 198                         | —                            | 28,794                |
| Corporate Notes                   | 9,935                     | —                           | (16)                         | 9,919                 |
| Mortgage-backed Agency securities | 37,273                    | 513                         | (673)                        | 37,113                |
| Total                             | <u>\$ 76,273</u>          | <u>\$ 711</u>               | <u>\$ (692)</u>              | <u>\$ 76,292</u>      |

|                                   | <b>December 31, 2020</b>  |                             |                              |                       |
|-----------------------------------|---------------------------|-----------------------------|------------------------------|-----------------------|
|                                   | <b>Amortized<br/>Cost</b> | <b>Unrealized<br/>Gains</b> | <b>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> |
| <i>(Amounts in thousands)</i>     |                           |                             |                              |                       |
| U.S. Agency securities            | \$ 555                    | \$ —                        | \$ (4)                       | \$ 551                |
| Municipal securities              | 43,950                    | 509                         | —                            | 44,459                |
| Mortgage-backed Agency securities | 37,453                    | 992                         | (97)                         | 38,348                |
| Total                             | <u>\$ 81,958</u>          | <u>\$ 1,501</u>             | <u>\$ (101)</u>              | <u>\$ 83,358</u>      |

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The following table presents the amortized cost and fair value of available-for-sale debt securities, by contractual maturity, as of December 31, 2021. Actual maturities could differ from contractual maturities because issuers may have the right to call or prepay obligations with or without penalties.

| <i>(Amounts in thousands)</i>      | <u>U.S. Agency<br/>Securities</u> | <u>Municipal<br/>Securities</u> | <u>Corporate<br/>Notes</u> | <u>Total</u>     |
|------------------------------------|-----------------------------------|---------------------------------|----------------------------|------------------|
| Amortized cost maturity:           |                                   |                                 |                            |                  |
| One year or less                   | \$ —                              | \$ 735                          | \$ 7,382                   | \$ 8,117         |
| After one year through five years  | —                                 | 19,425                          | 2,553                      | 21,978           |
| After five years through ten years | 469                               | 8,436                           | —                          | 8,905            |
| After ten years                    | —                                 | —                               | —                          | —                |
| Amortized cost                     | <u>\$ 469</u>                     | <u>\$ 28,596</u>                | <u>\$ 9,935</u>            | <u>\$ 39,000</u> |
| Mortgage-backed securities         |                                   |                                 |                            | <u>37,273</u>    |
| Total amortized cost               |                                   |                                 |                            | <u>\$ 76,273</u> |
| Fair value maturity:               |                                   |                                 |                            |                  |
| One year or less                   | \$ —                              | \$ 736                          | \$ 7,372                   | \$ 8,108         |
| After one year through five years  | —                                 | 19,537                          | 2,547                      | 22,084           |
| After five years through ten years | 466                               | 8,521                           | —                          | 8,987            |
| After ten years                    | —                                 | —                               | —                          | —                |
| Fair value                         | <u>\$ 466</u>                     | <u>\$ 28,794</u>                | <u>\$ 9,919</u>            | <u>\$ 39,179</u> |
| Mortgage-backed securities         |                                   |                                 |                            | <u>37,113</u>    |
| Total fair value                   |                                   |                                 |                            | <u>\$ 76,292</u> |

**FIRST COMMUNITY BANKSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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:

|                                   | <b>December 31, 2021</b>   |                          |                            |                          |                   |                          |
|-----------------------------------|----------------------------|--------------------------|----------------------------|--------------------------|-------------------|--------------------------|
|                                   | <b>Less than 12 Months</b> |                          | <b>12 Months or Longer</b> |                          | <b>Total</b>      |                          |
|                                   | <b>Fair Value</b>          | <b>Unrealized Losses</b> | <b>Fair Value</b>          | <b>Unrealized Losses</b> | <b>Fair Value</b> | <b>Unrealized Losses</b> |
| <i>(Amounts in thousands)</i>     |                            |                          |                            |                          |                   |                          |
| U.S. Agency securities            | \$ —                       | \$ —                     | \$ 459                     | \$ (3)                   | \$ 459            | \$ (3)                   |
| Municipal securities              | —                          | —                        | —                          | —                        | —                 | —                        |
| Corporate Notes                   | 9,919                      | (16)                     | —                          | —                        | 9,919             | (16)                     |
| Mortgage-backed Agency securities | 14,092                     | (253)                    | 8,384                      | (420)                    | 22,476            | (673)                    |
| <b>Total</b>                      | <b>\$ 24,011</b>           | <b>\$ (269)</b>          | <b>\$ 8,843</b>            | <b>\$ (423)</b>          | <b>\$ 32,854</b>  | <b>\$ (692)</b>          |

|                                   | <b>December 31, 2020</b>   |                          |                            |                          |                   |                          |
|-----------------------------------|----------------------------|--------------------------|----------------------------|--------------------------|-------------------|--------------------------|
|                                   | <b>Less than 12 Months</b> |                          | <b>12 Months or Longer</b> |                          | <b>Total</b>      |                          |
|                                   | <b>Fair Value</b>          | <b>Unrealized Losses</b> | <b>Fair Value</b>          | <b>Unrealized Losses</b> | <b>Fair Value</b> | <b>Unrealized Losses</b> |
| <i>(Amounts in thousands)</i>     |                            |                          |                            |                          |                   |                          |
| U.S. Agency securities            | \$ —                       | \$ —                     | \$ 544                     | \$ (4)                   | \$ 544            | \$ (4)                   |
| Municipal securities              | —                          | —                        | —                          | —                        | —                 | —                        |
| Mortgage-backed Agency securities | 11,018                     | (97)                     | —                          | —                        | 11,018            | (97)                     |
| <b>Total</b>                      | <b>\$ 11,018</b>           | <b>\$ (97)</b>           | <b>\$ 544</b>              | <b>\$ (4)</b>            | <b>\$ 11,562</b>  | <b>\$ (101)</b>          |

There were 23 individual debt securities in an unrealized loss position as of December 31, 2021, and their combined depreciation in value represented 0.91% of the debt securities portfolio. There were 6 individual debt securities in an unrealized loss position as of December 31, 2020, and their combined depreciation in value represented 0.12% of the debt securities portfolio.

The following table presents gross realized gains and losses from the sale of available-for-sale debt securities for the periods indicated:

|  | <b>Year Ended December 31,</b> |               |                |
|--|--------------------------------|---------------|----------------|
|  | <b>2021</b>                    | <b>2020</b>   | <b>2019</b>    |
| <i>(Amounts in thousands)</i>                |                                |               |                |
| Gross realized gains                         | \$ —                           | \$ 419        | \$ 67          |
| Gross realized losses                        | —                              | (34)          | (110)          |
| <b>Net gain (loss) on sale of securities</b> | <b>\$ —</b>                    | <b>\$ 385</b> | <b>\$ (43)</b> |

The carrying amount of securities pledged for various purposes totaled \$22.15 million as of December 31, 2021, and \$36.56 million as of December 31, 2020.



**FIRST COMMUNITY BANKSHARES, INC.**  
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**Note 4. Loans**

The Company groups loans into three segments (commercial loans, consumer real estate loans, and consumer and other loans) with each segment divided into various classes. Customer overdrafts reclassified as loans totaled \$1.65 million as of December 31, 2021, and \$1.13 million as of December 31, 2020. Deferred loan fees were \$5.06 million as of December 31, 2021, and \$5.58 million as of December 31, 2020. For information about off-balance sheet financing, see Note 19, "Litigation, Commitments, and Contingencies," to the Consolidated Financial Statements of this report.

In accordance with the adoption of ASU 2016-13, the table below reflects the loan portfolio at the amortized cost basis for the current period December 31, 2021, to include net deferred loan fees of \$5.06 million and unamortized discount total related to loans acquired of \$5.41 million. Accrued interest receivable (AIR) of \$7.54 million is accounted for separately and reported in Interest Receivable on the Consolidated Balance Sheet.

The comparative periods in the table below reflect the loan portfolio prior to the adoption of ASU 2016-13. Prior periods were reported as shown in the below tables, with the acquired loans being net of unearned and of related discounts, which includes the credit discount on the acquired credit impaired loans.

Included in total loans at December 31, 2020, were covered loans generally reimbursable by the FDIC of \$9.68 million. The Company terminated its remaining loss share agreement with the FDIC effective, September 28, 2021, associated with Waccamaw Bank. The termination eliminates the FDIC guarantee on particular loan losses and removes future responsibility related to the agreement.

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

| <i>(Amounts in thousands)</i>                           | December 31, |         |              |         |
|---|--------------|---------|--------------|---------|
|   | 2021         |         | 2020         |         |
|   | Amount       | Percent | Amount       | Percent |
| Commercial loans  |              |         |              |         |
| Construction, development, and other land               | \$ 65,806    | 3.04%   | \$ 44,674    | 2.04%   |
| Commercial and industrial                               | 133,630      | 6.17%   | 173,024      | 7.91%   |
| Multi-family residential                                | 100,402      | 4.64%   | 115,161      | 5.27%   |
| Single family non-owner occupied                        | 198,778      | 9.18%   | 187,783      | 8.59%   |
| Non-farm, non-residential                               | 707,506      | 32.67%  | 734,793      | 33.60%  |
| Agricultural  | 9,341        | 0.43%   | 9,749        | 0.45%   |
| Farmland  | 15,013       | 0.69%   | 19,761       | 0.91%   |
| Total commercial loans                                  | 1,230,476    | 56.82%  | 1,284,945    | 58.77%  |
| Consumer real estate loans                              |              |         |              |         |
| Home equity lines                                       | 79,857       | 3.69%   | 96,526       | 4.41%   |
| Single family owner occupied                            | 703,864      | 32.50%  | 661,054      | 30.23%  |
| Owner occupied construction                             | 16,910       | 0.78%   | 17,720       | 0.81%   |
| Total consumer real estate loans                        | 800,631      | 36.97%  | 775,300      | 35.45%  |
| Consumer and other loans                                |              |         |              |         |
| Consumer loans  | 129,794      | 5.99%   | 120,373      | 5.50%   |
| Other   | 4,668        | 0.22%   | 6,014        | 0.28%   |
| Total consumer and other loans                          | 134,462      | 6.21%   | 126,387      | 5.78%   |
| Total loans held for investment, net of unearned income | \$ 2,165,569 | 100.00% | \$ 2,186,632 | 100.00% |
|   |              | %       |              | %       |

**FIRST COMMUNITY BANKSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENT**

The Company began participating as a Small Business Administration (“SBA”) Paycheck Protection Program (“PPP”) lender during the second quarter of 2020. At December 31, 2021, the PPP loans had a current balance of \$20.64 million, compared to \$57.06 million at December 31, 2020 and were included in commercial and industrial loan balances. Deferred loan origination fees related to the PPP loans, net of deferred loan origination costs, totaled \$4.33 million at December 31, 2021, and \$2.30 million at December 31, 2020. During 2021, the Company recorded amortization of net deferred loan origination fees of \$2.74 million on PPP loans, compared with \$868 thousand for 2020. The remaining net deferred loan origination fees will be amortized over the expected life of the respective loans, or until forgiven by the SBA, and will be recognized in interest income. As of December 31, 2021, \$56.86 million, or 93.20%, of the Company's first round Paycheck Protection Program loan balances had been forgiven by the SBA.

Prior to the adoption of ASU 2016-13, the Company identified certain purchased loans as impaired when fair values were established at acquisition and grouped those PCI loans into loan pools with common risk characteristics. The Company estimated cash flows to be collected on PCI loans and discounted those cash flows at a market rate of interest. Effective January 1, 2020, the Company consolidated the insignificant PCI loans and discounts for Peoples, Waccamaw, and other acquired loans into the core loan portfolio. The only remaining PCI pools were those loans acquired in the Highlands acquisition on December 31, 2019. As of December 31, 2020, the recorded investment and contractual unpaid principal balance of PCI loans, was \$39.66 million and \$47.51 million, respectively.

**FIRST COMMUNITY BANKSHARES, INC.**  
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The Highlands acquisition added \$8.15 million in accretable yield. The total fair value of the Highlands PCI loans was \$53.12 million at the time of the acquisition. The gross contractual cash flows for the Highlands PCI loans was \$76.45 million. The following table presents the changes in the accretable yield on PCI loans, by acquisition, during the periods indicated prior to the adoption of ASU 2016-13:

| <i>(Amounts in thousands)</i>                      | <u>Peoples</u>  | <u>Waccamaw</u>  | <u>Highlands</u> | <u>Total</u>     |
|--|-----------------|------------------|------------------|------------------|
| Balance January 1, 2019                            | \$ 2,590        | \$ 14,639        | \$ —             | \$ 17,229        |
| Accretion  | (950)           | (3,317)          | —                | (4,267)          |
| Reclassifications from nonaccretable difference(1) | 17              | 1,440            | —                | 1,457            |
| Other changes, net                                 | 233             | (188)            | —                | 45               |
| Balance December 31, 2019                          | <u>\$ 1,890</u> | <u>\$ 12,574</u> | <u>\$ —</u>      | <u>\$ 14,464</u> |
| Balance January 1, 2020                            | \$ 1,890        | \$ 12,574        | \$ —             | \$ 14,464        |
| Additions  | —               | —                | 8,152            | 8,152            |
| Accretion  | —               | —                | (2,497)          | (2,497)          |
| Other changes, net                                 | (1,890)         | (12,574)         | —                | (14,464)         |
| Balance December 31, 2020                          | <u>\$ —</u>     | <u>\$ —</u>      | <u>\$ 5,655</u>  | <u>\$ 5,655</u>  |

(1) Represents changes attributable to expected loss assumptions

**Note 5. Credit Quality**

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

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

**FIRST COMMUNITY BANKSHARES, INC.**  
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The following tables present the recorded investment of the loan portfolio, by loan class and credit quality, as of the dates indicated. Included in total loans December 31, 2020, were covered loans of \$9.68 million generally reimbursable by the FDIC at the applicable loss share percentage of 80%.

|   | <b>December 31, 2021</b> |                            |                    |                 |             |                     |
|---|--------------------------|----------------------------|--------------------|-----------------|-------------|---------------------|
| <i>(Amounts in thousands)</i>             | <b>Pass</b>              | <b>Special<br/>Mention</b> | <b>Substandard</b> | <b>Doubtful</b> | <b>Loss</b> | <b>Total</b>        |
| <b>Commercial loans</b>                   |                          |                            |                    |                 |             |                     |
| Construction, development, and other land | \$ 64,498                | \$ 451                     | \$ 857             | \$ —            | \$ —        | \$ 65,806           |
| Commercial and industrial                 | 128,770                  | 1,005                      | 3,855              | —               | —           | 133,630             |
| Multi-family residential                  | 98,457                   | 1,090                      | 855                | —               | —           | 100,402             |
| Single family non-owner occupied          | 186,184                  | 3,607                      | 8,977              | 10              | —           | 198,778             |
| Non-farm, non-residential                 | 665,559                  | 25,624                     | 16,323             | —               | —           | 707,506             |
| Agricultural                              | 8,758                    | 70                         | 513                | —               | —           | 9,341               |
| Farmland                                  | 11,939                   | 633                        | 2,441              | —               | —           | 15,013              |
| <b>Consumer real estate loans</b>         |                          |                            |                    |                 |             |                     |
| Home equity lines                         | 76,259                   | 426                        | 3,172              | —               | —           | 79,857              |
| Single family owner occupied              | 671,459                  | 2,420                      | 29,985             | —               | —           | 703,864             |
| Owner occupied construction               | 16,629                   | —                          | 281                | —               | —           | 16,910              |
| <b>Consumer and other loans</b>           |                          |                            |                    |                 |             |                     |
| Consumer loans                            | 127,514                  | 16                         | 2,264              | —               | —           | 129,794             |
| Other                                     | 4,668                    | —                          | —                  | —               | —           | 4,668               |
| <b>Total loans</b>                        | <b>\$ 2,060,694</b>      | <b>\$ 35,342</b>           | <b>\$ 69,523</b>   | <b>\$ 10</b>    | <b>\$ —</b> | <b>\$ 2,165,569</b> |

**FIRST COMMUNITY BANKSHARES, INC.**  
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**December 31, 2020**

| <i>(Amounts in thousands)</i>             | <b>Pass</b>         | <b>Special<br/>Mention</b> | <b>Substandard</b> | <b>Doubtful</b> | <b>Loss</b> | <b>Total</b>        |
|---|---------------------|----------------------------|--------------------|-----------------|-------------|---------------------|
| <b>Commercial loans</b>                   |                     |                            |                    |                 |             |                     |
| Construction, development, and other land | \$ 36,934           | \$ 4,975                   | \$ 2,765           | \$ —            | \$ —        | \$ 44,674           |
| Commercial and industrial                 | 160,625             | 7,065                      | 5,519              | —               | —           | 173,209             |
| Multi-family residential                  | 103,291             | 8,586                      | 3,284              | —               | —           | 115,161             |
| Single family non-owner occupied          | 165,146             | 9,602                      | 12,838             | 12              | —           | 187,598             |
| Non-farm, non-residential                 | 568,438             | 125,907                    | 40,448             | —               | —           | 734,793             |
| Agricultural                              | 7,724               | 1,686                      | 339                | —               | —           | 9,749               |
| Farmland                                  | 13,527              | 2,597                      | 3,637              | —               | —           | 19,761              |
| <b>Consumer real estate loans</b>         |                     |                            |                    |                 |             | —                   |
| Home equity lines                         | 91,712              | 1,488                      | 3,326              | —               | —           | 96,526              |
| Single family owner occupied              | 623,860             | 3,859                      | 33,335             | —               | —           | 661,054             |
| Owner occupied construction               | 17,232              | 201                        | 287                | —               | —           | 17,720              |
| <b>Consumer and other loans</b>           |                     |                            |                    |                 |             | —                   |
| Consumer loans                            | 118,134             | 28                         | 2,211              | —               | —           | 120,373             |
| Other                                     | 6,014               | —                          | —                  | —               | —           | 6,014               |
| <b>Total loans</b>                        | <u>\$ 1,912,637</u> | <u>\$ 165,994</u>          | <u>\$ 107,989</u>  | <u>\$ 12</u>    | <u>\$ -</u> | <u>\$ 2,186,632</u> |

**FIRST COMMUNITY BANKSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The following tables present the amortized cost basis of the loan portfolio, by year of origination, loan class, and credit quality, as of the date indicated:

*(Amounts in thousands)*

| Balance at December 31, 2021                           | Term Loans Amortized Cost Basis by Origination Year |                   |                  |                  |                  |                   |                  | Total             |
|--|---|-------------------|------------------|------------------|------------------|-------------------|------------------|-------------------|
|  | 2021  | 2020              | 2019             | 2018             | 2017             | Prior             | Revolving        |                   |
| <b>Construction, development and other land</b>        |   |                   |                  |                  |                  |                   |                  |                   |
| Pass   | \$ 40,207   | \$ 10,127         | \$ 3,081         | \$ 3,704         | \$ 1,308         | \$ 5,717          | \$ 354           | \$ 64,498         |
| Special Mention  | -   | 266               | -                | 128              | -                | 21                | 36               | 451               |
| Substandard  | -   | -                 | 128              | 11               | 291              | 427               | -                | 857               |
| Doubtful   | -   | -                 | -                | -                | -                | -                 | -                | -                 |
| Loss   | -   | -                 | -                | -                | -                | -                 | -                | -                 |
| <b>Total construction, development, and other land</b> | <b>\$ 40,207</b>                                    | <b>\$ 10,393</b>  | <b>\$ 3,209</b>  | <b>\$ 3,843</b>  | <b>\$ 1,599</b>  | <b>\$ 6,165</b>   | <b>\$ 390</b>    | <b>\$ 65,806</b>  |
| <b>Commercial and industrial</b>                       |   |                   |                  |                  |                  |                   |                  |                   |
| Pass   | \$ 34,539   | \$ 18,887         | \$ 13,679        | \$ 13,772        | \$ 4,817         | \$ 5,890          | \$ 16,544        | \$ 108,128        |
| Special Mention  | 32  | 60                | 597              | 192              | 28               | -                 | 96               | 1,005             |
| Substandard  | 184   | 355               | 706              | 384              | 842              | 866               | 518              | 3,855             |
| Doubtful   | -   | -                 | -                | -                | -                | -                 | -                | -                 |
| Loss   | -   | -                 | -                | -                | -                | -                 | -                | -                 |
| <b>Total commercial and industrial</b>                 | <b>\$ 34,755</b>                                    | <b>\$ 19,302</b>  | <b>\$ 14,982</b> | <b>\$ 14,348</b> | <b>\$ 5,687</b>  | <b>\$ 6,756</b>   | <b>\$ 17,158</b> | <b>\$ 112,988</b> |
| <b>Paycheck Protection Loans</b>                       |   |                   |                  |                  |                  |                   |                  |                   |
| Pass   | \$ 16,482   | \$ 4,160          | \$ -             | \$ -             | \$ -             | \$ -              | \$ -             | \$ 20,642         |
| Special Mention  | -   | -                 | -                | -                | -                | -                 | -                | -                 |
| Substandard  | -   | -                 | -                | -                | -                | -                 | -                | -                 |
| Doubtful   | -   | -                 | -                | -                | -                | -                 | -                | -                 |
| Loss   | -   | -                 | -                | -                | -                | -                 | -                | -                 |
| <b>Total Paycheck Protection Loans</b>                 | <b>\$ 16,482</b>                                    | <b>\$ 4,160</b>   | <b>\$ -</b>      | <b>\$ -</b>      | <b>\$ -</b>      | <b>\$ -</b>       | <b>\$ -</b>      | <b>\$ 20,642</b>  |
| <b>Multi-family residential</b>                        |   |                   |                  |                  |                  |                   |                  |                   |
| Pass   | \$ 11,307   | \$ 24,299         | \$ 4,644         | \$ 1,897         | \$ 8,413         | \$ 46,962         | \$ 935           | \$ 98,457         |
| Special Mention  | -   | -                 | -                | -                | -                | 1,090             | -                | 1,090             |
| Substandard  | -   | -                 | -                | -                | -                | 855               | -                | 855               |
| Doubtful   | -   | -                 | -                | -                | -                | -                 | -                | -                 |
| Loss   | -   | -                 | -                | -                | -                | -                 | -                | -                 |
| <b>Total multi-family residential</b>                  | <b>\$ 11,307</b>                                    | <b>\$ 24,299</b>  | <b>\$ 4,644</b>  | <b>\$ 1,897</b>  | <b>\$ 8,413</b>  | <b>\$ 48,907</b>  | <b>\$ 935</b>    | <b>\$ 100,402</b> |
| <b>Non-farm, non-residential</b>                       |   |                   |                  |                  |                  |                   |                  |                   |
| Pass   | \$ 147,978  | \$ 146,381        | \$ 62,651        | \$ 50,943        | \$ 43,776        | \$ 199,812        | \$ 14,018        | \$ 665,559        |
| Special Mention  | 397   | 3,334             | 823              | 2,595            | 9,190            | 9,135             | 150              | 25,624            |
| Substandard  | 1,161   | 711               | 2,508            | 2,531            | 3,232            | 5,953             | 227              | 16,323            |
| Doubtful   | -   | -                 | -                | -                | -                | -                 | -                | -                 |
| Loss   | -   | -                 | -                | -                | -                | -                 | -                | -                 |
| <b>Total non-farm, non-residential</b>                 | <b>\$ 149,536</b>                                   | <b>\$ 150,426</b> | <b>\$ 65,982</b> | <b>\$ 56,069</b> | <b>\$ 56,198</b> | <b>\$ 214,900</b> | <b>\$ 14,395</b> | <b>\$ 707,506</b> |
| <b>Agricultural</b>                                    |   |                   |                  |                  |                  |                   |                  |                   |
| Pass   | \$ 4,564  | \$ 1,548          | \$ 998           | \$ 534           | \$ 346           | \$ 335            | \$ 433           | \$ 8,758          |
| Special Mention  | 43  | 27                | -                | -                | -                | -                 | -                | 70                |
| Substandard  | 44  | 11                | 282              | 39               | 17               | 120               | -                | 513               |
| Doubtful   | -   | -                 | -                | -                | -                | -                 | -                | -                 |
| Loss   | -   | -                 | -                | -                | -                | -                 | -                | -                 |
| <b>Total agricultural</b>                              | <b>\$ 4,651</b>                                     | <b>\$ 1,586</b>   | <b>\$ 1,280</b>  | <b>\$ 573</b>    | <b>\$ 363</b>    | <b>\$ 455</b>     | <b>\$ 433</b>    | <b>\$ 9,341</b>   |
| <b>Farmland</b>  |   |                   |                  |                  |                  |                   |                  |                   |
| Pass   | \$ 428  | \$ 1,047          | \$ 82            | \$ 1,125         | \$ 887           | \$ 6,835          | \$ 1,535         | \$ 11,939         |
| Special Mention  | 189   | -                 | -                | 240              | 5                | 199               | -                | 633               |
| Substandard  | -   | 14                | 519              | 249              | 264              | 1,395             | -                | 2,441             |
| Doubtful   | -   | -                 | -                | -                | -                | -                 | -                | -                 |
| Loss   | -   | -                 | -                | -                | -                | -                 | -                | -                 |
| <b>Total farmland</b>                                  | <b>\$ 617</b>                                       | <b>\$ 1,061</b>   | <b>\$ 601</b>    | <b>\$ 1,614</b>  | <b>\$ 1,156</b>  | <b>\$ 8,429</b>   | <b>\$ 1,535</b>  | <b>\$ 15,013</b>  |

(Amounts in thousands)

| Balance at December 31, 2021                            | Term Loans Amortized Cost Basis by Origination Year |                   |                  |                  |                  |                   |                  | Revolving         | Total |
|---|---|-------------------|------------------|------------------|------------------|-------------------|------------------|-------------------|-------|
|   | 2021  | 2020              | 2019             | 2018             | 2017             | Prior             |                  |                   |       |
| <b>Home equity lines</b>                                |   |                   |                  |                  |                  |                   |                  |                   |       |
| Pass  | \$ 115  | \$ 59             | \$ -             | \$ 25            | \$ 2             | \$ 2,168          | \$ 73,890        | \$ 76,259         |       |
| Special Mention   | -   | -                 | -                | -                | -                | -                 | 426              | 426               |       |
| Substandard   | -   | -                 | 28               | 249              | 128              | 1,316             | 1,451            | 3,172             |       |
| Doubtful  | -   | -                 | -                | -                | -                | -                 | -                | -                 |       |
| Loss  | -   | -                 | -                | -                | -                | -                 | -                | -                 |       |
| <b>Total home equity lines</b>                          | <b>\$ 115</b>                                       | <b>\$ 59</b>      | <b>\$ 28</b>     | <b>\$ 274</b>    | <b>\$ 130</b>    | <b>\$ 3,484</b>   | <b>\$ 75,767</b> | <b>\$ 79,857</b>  |       |
| <b>Single family Mortgage</b>                           |   |                   |                  |                  |                  |                   |                  |                   |       |
| Pass  | \$ 239,917  | \$ 225,294        | \$ 61,925        | \$ 46,716        | \$ 41,757        | \$ 240,845        | \$ 1,189         | \$ 857,643        |       |
| Special Mention   | 399   | 510               | 937              | 269              | 137              | 3,775             | -                | 6,027             |       |
| Substandard   | 1,213   | 799               | 1,475            | 1,668            | 1,878            | 31,929            | -                | 38,962            |       |
| Doubtful  | -   | -                 | -                | -                | -                | 10                | -                | 10                |       |
| Loss  | -   | -                 | -                | -                | -                | -                 | -                | -                 |       |
| <b>Total single family owner and non-owner occupied</b> | <b>\$ 241,529</b>                                   | <b>\$ 226,603</b> | <b>\$ 64,337</b> | <b>\$ 48,653</b> | <b>\$ 43,772</b> | <b>\$ 276,559</b> | <b>\$ 1,189</b>  | <b>\$ 902,642</b> |       |
| <b>Owner occupied construction</b>                      |   |                   |                  |                  |                  |                   |                  |                   |       |
| Pass  | \$ 9,689  | \$ 4,729          | \$ 178           | \$ 22            | \$ 428           | \$ 1,583          | \$ -             | \$ 16,629         |       |
| Special Mention   | -   | -                 | -                | -                | -                | -                 | -                | -                 |       |
| Substandard   | -   | -                 | -                | -                | -                | 281               | -                | 281               |       |
| Doubtful  | -   | -                 | -                | -                | -                | -                 | -                | -                 |       |
| Loss  | -   | -                 | -                | -                | -                | -                 | -                | -                 |       |
| <b>Total owner occupied construction</b>                | <b>\$ 9,689</b>                                     | <b>\$ 4,729</b>   | <b>\$ 178</b>    | <b>\$ 22</b>     | <b>\$ 428</b>    | <b>\$ 1,864</b>   | <b>\$ -</b>      | <b>\$ 16,910</b>  |       |
| <b>Consumer loans</b>                                   |   |                   |                  |                  |                  |                   |                  |                   |       |
| Pass  | \$ 65,018   | \$ 31,065         | \$ 16,548        | \$ 4,980         | \$ 2,306         | \$ 10,040         | \$ 2,225         | \$ 132,182        |       |
| Special Mention   | -   | -                 | 16               | -                | -                | -                 | -                | 16                |       |
| Substandard   | 328   | 663               | 824              | 107              | 78               | 186               | 78               | 2,264             |       |
| Doubtful  | -   | -                 | -                | -                | -                | -                 | -                | -                 |       |
| Loss  | -   | -                 | -                | -                | -                | -                 | -                | -                 |       |
| <b>Total consumer loans</b>                             | <b>\$ 65,346</b>                                    | <b>\$ 31,728</b>  | <b>\$ 17,388</b> | <b>\$ 5,087</b>  | <b>\$ 2,384</b>  | <b>\$ 10,226</b>  | <b>\$ 2,303</b>  | <b>\$ 134,462</b> |       |

(Amounts in thousands)

| Balance at December 31, 2021 | Term Loans Amortized Cost Basis by Origination Year |                   |                   |                   |                   |                   |                   | Revolving           | Total |
|------------------------------|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|---------------------|-------|
|                              | 2021  | 2020              | 2019              | 2018              | 2017              | Prior             |                   |                     |       |
| <b>Total Loans</b>           |   |                   |                   |                   |                   |                   |                   |                     |       |
| Pass                         | \$ 570,244  | \$ 467,596        | \$ 163,786        | \$ 123,718        | \$ 104,040        | \$ 520,187        | \$ 111,123        | \$ 2,060,694        |       |
| Special Mention              | 1,060   | 4,197             | 2,373             | 3,424             | 9,360             | 14,220            | 708               | 35,342              |       |
| Substandard                  | 2,930   | 2,553             | 6,470             | 5,238             | 6,730             | 43,328            | 2,274             | 69,523              |       |
| Doubtful                     | -   | -                 | -                 | -                 | -                 | 10                | -                 | 10                  |       |
| Loss                         | -   | -                 | -                 | -                 | -                 | -                 | -                 | -                   |       |
| <b>Total loans</b>           | <b>\$ 574,234</b>                                   | <b>\$ 474,346</b> | <b>\$ 172,629</b> | <b>\$ 132,380</b> | <b>\$ 120,130</b> | <b>\$ 577,745</b> | <b>\$ 114,105</b> | <b>\$ 2,165,569</b> |       |

Prior to the adoption of ASU 2016-13, the Company identified 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. When the Company determined that it was probable all principal and interest amounts contractually due would not be collected, the loan was generally deemed impaired.

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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 date indicated prior to the adoption of ASU 2016-13:

|   | December 31, 2020      |                                |                      |
|---|------------------------|--------------------------------|----------------------|
|   | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance |
| <i>(Amounts in thousands)</i>             |                        |                                |                      |
| Impaired loans with no related allowance  |                        |                                |                      |
| Commercial loans                          |                        |                                |                      |
| Construction, development, and other land | \$ 616                 | \$ 891                         | \$ —                 |
| Commercial and industrial                 | 2,341                  | 2,392                          | —                    |
| Multi-family residential                  | 946                    | 1,593                          | —                    |
| Single family non-owner occupied          | 4,816                  | 5,785                          | —                    |
| Non-farm, non-residential                 | 8,238                  | 9,467                          | —                    |
| Agricultural                              | 218                    | 226                            | —                    |
| Farmland                                  | 1,228                  | 1,311                          | —                    |
| Consumer real estate loans                |                        |                                |                      |
| Home equity lines                         | 1,604                  | 1,772                          | —                    |
| Single family owner occupied              | 16,778                 | 19,361                         | —                    |
| Owner occupied construction               | 216                    | 216                            | —                    |
| Consumer and other loans                  |                        |                                |                      |
| Consumer loans                            | 818                    | 833                            | —                    |
| Total impaired loans with no allowance    | <u>37,819</u>          | <u>43,847</u>                  | <u>—</u>             |
| Impaired loans with a related allowance   |                        |                                |                      |
| Commercial loans                          |                        |                                |                      |
| Non-farm, non-residential                 | 1,068                  | 1,121                          | 319                  |
| Consumer real estate loans                |                        |                                |                      |
| Single family owner occupied              | 338                    | 338                            | 108                  |
| Total impaired loans with an allowance    | <u>1,406</u>           | <u>1,459</u>                   | <u>427</u>           |
| Total impaired loans(1)                   | <u>\$ 39,225</u>       | <u>\$ 45,306</u>               | <u>\$ 427</u>        |

(1) Total recorded investment of impaired loans include loans totaling \$31.18 million as of December 31, 2020, that do not meet the Company's evaluation threshold of \$500 thousand for individual impairment and are therefore collectively evaluated for impairment.



**FIRST COMMUNITY BANKSHARES, INC.**  
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Prior to the adoption of ASU 2016-13, the Company presented the average recorded investment and interest income recognized on impaired loans, excluding PCI loans, for the periods indicated:

|  | Year Ended December 31,       |                                   |                               |                                   |
|--|-------------------------------|-----------------------------------|-------------------------------|-----------------------------------|
|  | 2020                          |                                   | 2019                          |                                   |
|  | Interest Income<br>Recognized | Average<br>Recorded<br>Investment | Interest Income<br>Recognized | Average<br>Recorded<br>Investment |
| <i>(Amounts in thousands)</i>                  |                               |                                   |                               |                                   |
| Impaired loans with no related allowance:      |                               |                                   |                               |                                   |
| Commercial loans                               |                               |                                   |                               |                                   |
| Construction, development, and other land      | \$ 25                         | \$ 935                            | \$ 22                         | \$ 704                            |
| Commercial and industrial                      | 155                           | 2,749                             | 34                            | 363                               |
| Multi-family residential                       | 19                            | 808                               | 24                            | 1,356                             |
| Single family non-owner occupied               | 189                           | 4,890                             | 123                           | 2,979                             |
| Non-farm, non-residential                      | 295                           | 7,450                             | 123                           | 4,683                             |
| Agricultural                                   | 9                             | 241                               | 9                             | 121                               |
| Farmland                                       | 63                            | 1,569                             | 55                            | 1,469                             |
| Consumer real estate loans                     |                               |                                   |                               |                                   |
| Home equity lines                              | 51                            | 1,594                             | 46                            | 1,439                             |
| Single family owner occupied                   | 578                           | 17,044                            | 599                           | 16,058                            |
| Owner occupied construction                    | 10                            | 407                               | 29                            | 308                               |
| Consumer and other loans                       |                               |                                   |                               |                                   |
| Consumer loans                                 | 42                            | 543                               | 13                            | 213                               |
| Total impaired loans with no related allowance | 1,436                         | 38,230                            | 1,077                         | 29,693                            |
| Impaired loans with a related allowance:       |                               |                                   |                               |                                   |
| Commercial loans                               |                               |                                   |                               |                                   |
| Multi-family residential                       | —                             | 707                               | —                             | —                                 |
| Single family non-owner occupied               | —                             | —                                 | —                             | —                                 |
| Non-farm, non-residential                      | 17                            | 1,524                             | 48                            | 766                               |
| Farmland                                       | —                             | —                                 | —                             | —                                 |
| Consumer real estate loans                     |                               |                                   |                               |                                   |
| Home equity lines                              | —                             | —                                 | —                             | —                                 |
| Single family owner occupied                   | 29                            | 1,196                             | 46                            | 1,947                             |
| Total impaired loans with a related allowance  | 46                            | 3,427                             | 94                            | 2,713                             |
| Total impaired loans                           | \$ 1,482                      | \$ 41,657                         | \$ 1,171                      | \$ 32,406                         |

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

| <i>(Amounts in thousands)</i>             | <b>December 31, 2021</b> |                          |                  |
|---|--------------------------|--------------------------|------------------|
|   | <b>No Allowance</b>      | <b>With an Allowance</b> | <b>Total</b>     |
| <b>Commercial loans</b>                   |                          |                          |                  |
| Construction, development, and other land | \$ 409                   | \$ —                     | \$ 409           |
| Commercial and industrial                 | 1,734                    | —                        | 1,734            |
| Multi-family residential                  | 208                      | —                        | 208              |
| Single family non-owner occupied          | 2,304                    | —                        | 2,304            |
| Non-farm, non-residential                 | 3,439                    | 1,100                    | 4,539            |
| Agricultural                              | 136                      | —                        | 136              |
| Farmland                                  | 222                      | —                        | 222              |
| <b>Consumer real estate loans</b>         |                          |                          | —                |
| Home equity lines                         | 767                      | —                        | 767              |
| Single family owner occupied              | 8,957                    | —                        | 8,957            |
| Owner occupied construction               | —                        | —                        | —                |
| <b>Consumer and other loans</b>           |                          |                          | —                |
| Consumer loans                            | 1,492                    | —                        | 1,492            |
| <b>Total nonaccrual loans</b>             | <u>\$ 19,668</u>         | <u>\$ 1,100</u>          | <u>\$ 20,768</u> |

During 2021, \$72 thousand in nonaccrual loan interest was recognized.

The following table presents nonaccrual loans prior to the adoption of ASU 2016-13. PCI loans were generally not classified as nonaccrual due to the accrual of interest income under the accretion method of accounting. Covered nonaccrual loans totaled \$297 thousand at December 31, 2020; the total was comprised of consumer real estate loans. The following table presents nonaccrual loans, by loan class, as of the date indicated:

| <i>(Amounts in thousands)</i>             | <b>December 31, 2020</b> |
|---|--------------------------|
| <b>Commercial loans</b>                   |                          |
| Construction, development, and other land | \$ 244                   |
| Commercial and industrial                 | 895                      |
| Multi-family residential                  | 946                      |
| Single family non-owner occupied          | 2,990                    |
| Non-farm, non-residential                 | 6,343                    |
| Agricultural                              | 217                      |
| Farmland                                  | 489                      |
| <b>Consumer real estate loans</b>         |                          |
| Home equity lines                         | 1,122                    |
| Single family owner occupied              | 7,976                    |
| Owner occupied construction               | —                        |
| <b>Consumer and other loans</b>           |                          |
| Consumer loans                            | 781                      |
| <b>Total nonaccrual loans</b>             | <u>\$ 22,003</u>         |

**FIRST COMMUNITY BANKSHARES, INC.**  
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The following table presents the aging of past due loans, by loan class, as of the date indicated. Nonaccrual loans 30 days or more past due are included in the applicable delinquency category.

|   | <b>December 31, 2021</b>         |                                      |                              |                           |                          |                        |  |
|---|----------------------------------|--------------------------------------|------------------------------|---------------------------|--------------------------|------------------------|--|
| <i>(Amounts in thousands)</i>             | <b>30 - 59 Days<br/>Past Due</b> | <b>60 - 89<br/>Days<br/>Past Due</b> | <b>90+ Days<br/>Past Due</b> | <b>Total<br/>Past Due</b> | <b>Current<br/>Loans</b> | <b>Total<br/>Loans</b> | <b>Amortized Cost<br/>of<br/>&gt;90 Days<br/>Accruing<br/>No Allowance</b> |
| <b>Commercial loans</b>                   |                                  |                                      |                              |                           |                          |                        |  |
| Construction, development, and other land | \$ 52                            | \$ —                                 | \$ 120                       | \$ 172                    | \$ 65,634                | \$ 65,806              | \$ —   |
| Commercial and industrial                 | 325                              | 35                                   | 1,394                        | 1,754                     | 131,876                  | 133,630                | —  |
| Multi-family residential                  | 97                               | —                                    | —                            | 97                        | 100,305                  | 100,402                | —  |
| Single family non-owner occupied          | 1,210                            | 583                                  | 795                          | 2,588                     | 196,190                  | 198,778                | —  |
| Non-farm, non-residential                 | 1,002                            | 441                                  | 2,333                        | 3,776                     | 703,730                  | 707,506                | —  |
| Agricultural                              | 73                               | 7                                    | 101                          | 181                       | 9,160                    | 9,341                  | —  |
| Farmland                                  | 52                               | —                                    | 222                          | 274                       | 14,739                   | 15,013                 | —  |
| <b>Consumer real estate loans</b>         |                                  |                                      |                              |                           |                          |                        |  |
| Home equity lines                         | 275                              | 388                                  | 333                          | 996                       | 78,861                   | 79,857                 | —  |
| Single family owner occupied              | 4,740                            | 2,584                                | 3,880                        | 11,204                    | 692,660                  | 703,864                | —  |
| Owner occupied construction               | 139                              | —                                    | —                            | 139                       | 16,771                   | 16,910                 | —  |
| <b>Consumer and other loans</b>           |                                  |                                      |                              |                           |                          |                        |  |
| Consumer loans                            | 3,469                            | 1,182                                | 1,049                        | 5,700                     | 124,094                  | 129,794                | —  |
| Other                                     | —                                | —                                    | —                            | —                         | 4,668                    | 4,668                  | —  |
| <b>Total loans</b>                        | <b>\$ 11,434</b>                 | <b>\$ 5,220</b>                      | <b>\$ 10,227</b>             | <b>\$ 26,881</b>          | <b>\$ 2,138,688</b>      | <b>\$ 2,165,569</b>    | <b>\$ —</b>  |

**FIRST COMMUNITY BANKSHARES, INC.**  
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The following table presents the aging of past due loans, by loan class, as of the date indicated prior to the adoption of ASU 2016-13. 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. Accruing loans contractually past due 90 days or more totaled \$295 thousand as of December 31, 2020.

| (Amounts in thousands)                    | December 31, 2020        |                          |                      |                   |                     |                     |
|---|--------------------------|--------------------------|----------------------|-------------------|---------------------|---------------------|
|   | 30 - 59 Days<br>Past Due | 60 - 89 Days<br>Past Due | 90+ Days<br>Past Due | Total<br>Past Due | Current<br>Loans    | Total<br>Loans      |
| <b>Commercial loans</b>                   |                          |                          |                      |                   |                     |                     |
| Construction, development, and other land | \$ 1,039                 | \$ —                     | \$ 235               | \$ 1,274          | \$ 43,400           | \$ 44,674           |
| Commercial and industrial                 | 669                      | 230                      | 700                  | 1,599             | 171,425             | 173,024             |
| Multi-family residential                  | 103                      | —                        | 946                  | 1,049             | 114,112             | 115,161             |
| Single family non-owner occupied          | 925                      | 488                      | 2,144                | 3,557             | 184,226             | 187,783             |
| Non-farm, non-residential                 | 601                      | 296                      | 3,368                | 4,265             | 730,528             | 734,793             |
| Agricultural                              | 70                       | 189                      | 88                   | 347               | 9,402               | 9,749               |
| Farmland                                  | 43                       | —                        | 457                  | 500               | 19,261              | 19,761              |
| <b>Consumer real estate loans</b>         |                          |                          |                      |                   |                     |                     |
| Home equity lines                         | 649                      | 380                      | 425                  | 1,454             | 95,072              | 96,526              |
| Single family owner occupied              | 5,317                    | 2,265                    | 3,891                | 11,473            | 649,581             | 661,054             |
| Owner occupied construction               | 82                       | —                        | —                    | 82                | 17,638              | 17,720              |
| <b>Consumer and other loans</b>           |                          |                          |                      |                   |                     |                     |
| Consumer loans                            | 2,637                    | 746                      | 651                  | 4,034             | 116,339             | 120,373             |
| Other                                     | —                        | —                        | —                    | —                 | 6,014               | 6,014               |
| <b>Total loans</b>                        | <b>\$ 12,135</b>         | <b>\$ 4,594</b>          | <b>\$ 12,905</b>     | <b>\$ 29,634</b>  | <b>\$ 2,156,998</b> | <b>\$ 2,186,632</b> |

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

| (Amounts in thousands)                  | December 31, 2021 |                        |                |
|---|-------------------|------------------------|----------------|
|   | Balance           | Collateral<br>Coverage | Coverage Ratio |
| <b>Commercial Real Estate</b>           |                   |                        |                |
| Hotel                                   | \$ -              | \$ -                   | -              |
| Office                                  | -                 | -                      | -              |
| Other                                   | 2,216             | 2,312                  | 104.33%        |
| Retail                                  | -                 | -                      | -              |
| <b>Multi-Family</b>                     |                   |                        |                |
| Industrial                              | -                 | -                      | -              |
| Office                                  | -                 | -                      | -              |
| Other                                   | -                 | -                      | -              |
| <b>Commercial and industrial</b>        |                   |                        |                |
| Industrial                              | -                 | -                      | -              |
| Other                                   | -                 | -                      | -              |
| <b>Home equity loans</b>                |                   |                        |                |
| Consumer owner occupied                 | -                 | -                      | -              |
| Consumer                                | -                 | -                      | -              |
| <b>Total collateral dependent loans</b> | <b>\$ 2,216</b>   | <b>\$ 2,312</b>        | <b>104.33%</b> |

The Company may make concessions in interest rates, loan terms and/or amortization terms when restructuring loans for borrowers experiencing financial difficulty. 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.

The CARES Act included a provision allowing banks to not apply the guidance on accounting for troubled debt restructurings to loan modifications, such as extensions or deferrals, related to COVID-19 made between March 1, 2020 and the earlier of (i) December 31, 2020, or (ii) 60 days after the end of the COVID-19 national emergency. The relief can only be applied to modifications for borrowers that were not more than 30 days past due as of December 31, 2019. The Company elected to adopt this provision of the CARES Act.

From March, 2020, through December 31, 2021, the Company modified a total of 4,066 loans with principal balances totaling \$475.82 million related to COVID-19 relief. Those modifications were generally short-term payment deferrals and are not considered TDRs based on the CARES Act. The Company's policy is to downgrade commercial loans modified for COVID-19 to Special Mention due to a higher-than-usual level of risk, which caused the significant increase

in loans in that rating. Subsequent upgrade or downgrade will be on a case by case basis. The Company upgrades these loans back to pass once the modification period has ended and timely contractual payments resume. Further downgrade would be based on a number of factors, including but not limited to additional modifications, payment performance and current underwriting. As of December 31, 2021, total COVID-19 loan deferrals stood at \$2.92 million.

**FIRST COMMUNITY BANKSHARES, INC.**  
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The following table presents loans modified as TDRs, by loan class and accrual status, as of the dates indicated:

| <i>(Amounts in thousands)</i>                    | December 31,    |                 |                  |                 |                  |                  |
|--|-----------------|-----------------|------------------|-----------------|------------------|------------------|
|  | 2021            |                 |                  | 2020            |                  |                  |
|  | Nonaccrual(1)   | Accruing        | Total            | Nonaccrual(1)   | Accruing         | Total            |
| Commercial loans                                 |                 |                 |                  |                 |                  |                  |
| Commercial and industrial                        | \$ 396          | \$ 470          | \$ 866           | \$ —            | \$ 1,326         | \$ 1,326         |
| Single family non-owner occupied                 | 857             | 1,100           | 1,957            | 1,585           | 1,265            | 2,850            |
| Non-farm, non-residential                        | —               | 2,021           | 2,021            | —               | 2,407            | 2,407            |
| Consumer real estate loans                       |                 |                 |                  |                 |                  |                  |
| Home equity lines                                | —               | 67              | 67               | —               | 77               | 77               |
| Single family owner occupied                     | 1,266           | 4,755           | 6,021            | 229             | 4,927            | 5,156            |
| Owner occupied construction                      | —               | 212             | 212              | —               | 216              | 216              |
| Consumer and other loans                         |                 |                 |                  |                 |                  |                  |
| Consumer loans                                   | —               | 27              | 27               | —               | 30               | 30               |
| <b>Total TDRs</b>                                | <b>\$ 2,519</b> | <b>\$ 8,652</b> | <b>\$ 11,171</b> | <b>\$ 1,814</b> | <b>\$ 10,248</b> | <b>\$ 12,062</b> |
| Allowance for credit/loan losses related to TDRs |                 |                 | \$ —             |                 |                  | \$ —             |

(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:

| <i>(Amounts in thousands)</i> | Year Ended December 31, |        |        |
|-------------------------------|-------------------------|--------|--------|
|                               | 2021                    | 2020   | 2019   |
| Interest income recognized    | \$ 422                  | \$ 473 | \$ 277 |

The following table presents loans modified as TDRs, by type of concession made and loan class, that were restructured during the periods indicated.

| <i>(Amounts in thousands)</i>                              | Year Ended December 31, |                                      |  |                 |                                      |  |
|--|-------------------------|--------------------------------------|--|-----------------|--------------------------------------|--|
|  | 2021                    |                                      |  | 2020            |                                      |  |
|  | 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                                 |                         |                                      |  |                 |                                      |  |
| Single family owner occupied                               | —                       | \$ —                                 | \$ —                                     | 1               | \$ 50                                | \$ 50                                    |
| Below market interest rate and extended payment term       |                         |                                      |  |                 |                                      |  |
| Single family non-owner occupied                           | 1                       | 165                                  | 165                                      | —               | —                                    | —  |
| Single family owner occupied                               | 4                       | 402                                  | 402                                      | —               | —                                    | —  |
| Total below market interest rate and extended payment term | 5                       | 567                                  | 567                                      | —               | —                                    | —  |
| Principal deferral   |                         |                                      |  |                 |                                      |  |
| Construction, development, and other land development      | —                       | —                                    | —  | 3               | 1,708                                | 1,708                                    |
| Non-farm, non-residential                                  | —                       | —                                    | —  | 3               | 2,115                                | 2,115                                    |
| Home equity  | —                       | —                                    | —  | —               | —                                    | —  |
| Single family non-owner occupied                           | 1                       | 753                                  | 753                                      | —               | —                                    | —  |
| Single family owner occupied                               | 1                       | 41                                   | 41                                       | 5               | 4,908                                | 4,877                                    |
| Total principal deferral                                   | 2                       | 794                                  | 794                                      | 11              | 4,908                                | 4,877                                    |
| <b>Total</b>   | <b>7</b>                | <b>\$ 1,361</b>                      | <b>\$ 1,361</b>                          | <b>12</b>       | <b>\$ 4,958</b>                      | <b>\$ 4,927</b>                          |

(1) Represents the loan balance immediately following modification

**FIRST COMMUNITY BANKSHARES, INC.**  
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The following table presents loans modified as TDRs, by loan class, that were restructured within the previous 12 months for which there was a payment default during the periods indicated

|                               | Year Ended December 31, |                        |                    |                        |
|-------------------------------|-------------------------|------------------------|--------------------|------------------------|
|                               | 2021                    |                        | 2020               |                        |
|                               | Total<br>Contracts      | Recorded<br>Investment | Total<br>Contracts | Recorded<br>Investment |
| <i>(Amounts in thousands)</i> |                         |                        |                    |                        |
| Single family owner occupied  | —                       | \$ —                   | 1                  | \$ 53                  |
| Total                         | —                       | \$ —                   | 1                  | \$ 53                  |

The following table provides information about OREO, which consists of properties acquired through foreclosure, as of the dates indicated:

|   | December 31, 2021 | December 31, 2020 |
|---|-------------------|-------------------|
| <i>(Amounts in thousands)</i>                               |                   |                   |
| Total OREO  | \$ 1,015          | \$ 2,083          |
| OREO secured by residential real estate                     | \$ 337            | \$ 769            |
| Residential real estate loans in the foreclosure process(1) | \$ 2,210          | \$ 4,141          |

(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 6. Allowance for Credit Losses**

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

|  | Year Ended December 31, 2021 |                         |                       |                    |
|--|------------------------------|-------------------------|-----------------------|--------------------|
|  | Commercial                   | Consumer<br>Real Estate | Consumer and<br>Other | Total<br>Allowance |
| <i>(Amounts in thousands)</i>  |                              |                         |                       |                    |
| Beginning balance  | \$ 14,661                    | \$ 8,951                | \$ 2,570              | \$ 26,182          |
| Cumulative effect of adoption of ASU 2016-13                         | 8,360                        | 4,145                   | 602                   | 13,107             |
| Provision for (recovery of) credit/loan losses charged to operations | (6,949)                      | (3,653)                 | 2,131                 | (8,471)            |
| Charge-offs  | (3,431)                      | (318)                   | (3,025)               | (6,774)            |
| Recoveries   | 2,134                        | 847                     | 833                   | 3,814              |
| Net (charge-offs) recoveries   | (1,297)                      | 529                     | (2,192)               | (2,960)            |
| Ending balance   | \$ 14,775                    | \$ 9,972                | \$ 3,111              | \$ 27,858          |

|   | Year Ended December 31, 2020 |                         |                       |                    |
|---|------------------------------|-------------------------|-----------------------|--------------------|
|   | Commercial                   | Consumer<br>Real Estate | Consumer and<br>Other | Total<br>Allowance |
| <i>(Amounts in thousands)</i>                   |                              |                         |                       |                    |
| Beginning balance                               | \$ 10,235                    | \$ 6,325                | \$ 1,865              | \$ 18,425          |
| Provision for loan losses charged to operations | 6,583                        | 2,760                   | 3,325                 | 12,668             |
| Charge-offs                                     | (2,769)                      | (558)                   | (3,296)               | (6,623)            |
| Recoveries                                      | 612                          | 424                     | 676                   | 1,712              |
| Net charge-offs                                 | (2,157)                      | (134)                   | (2,620)               | (4,911)            |
| Ending balance                                  | \$ 14,661                    | \$ 8,951                | \$ 2,570              | \$ 26,182          |

**FIRST COMMUNITY BANKSHARES, INC.**  
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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 prior to the adoption of ASU 2016-13:

|   | <b>December 31, 2020</b>                           |   |  |   |
|---|--|---|--|---|
|   | <b>Loans Individually Evaluated for Impairment</b> | <b>Allowance for Loans Individually Evaluated</b> | <b>Loans Collectively Evaluated for Impairment</b> | <b>Allowance for Loans Collectively Evaluated</b> |
| <i>(Amounts in thousands)</i>             |  |   |  |   |
| <b>Commercial loans</b>                   |  |   |  |   |
| Construction, development, and other land | \$ —   | \$ —  | \$ 43,716  | \$ 528  |
| Commercial and industrial                 | 724  | —   | 171,486  | 1,024   |
| Multi-family residential                  | 695  | —   | 112,852  | 1,417   |
| Single family non-owner occupied          | 1,041  | —   | 183,283  | 1,861   |
| Non-farm, non-residential                 | 3,916  | 319   | 714,160  | 9,097   |
| Agricultural                              | —  | —   | 9,728  | 218   |
| Farmland                                  | —  | —   | 17,540   | 196   |
| <b>Total commercial loans</b>             | <b>6,376</b>                                       | <b>319</b>  | <b>1,252,765</b>                                   | <b>14,341</b>                                     |
| <b>Consumer real estate loans</b>         |  |   |  |   |
| Home equity lines                         | —  | —   | 95,765   | 799   |
| Single family owner occupied              | 1,673  | 108   | 647,040  | 7,849   |
| Owner occupied construction               | —  | —   | 17,567   | 195   |
| <b>Total consumer real estate loans</b>   | <b>1,673</b>                                       | <b>108</b>  | <b>760,372</b>                                     | <b>8,843</b>                                      |
| <b>Consumer and other loans</b>           |  |   |  |   |
| Consumer loans                            | —  | —   | 119,770  | 2,570   |
| Other                                     | —  | —   | 6,014  | —   |
| <b>Total consumer and other loans</b>     | <b>—</b>   | <b>—</b>  | <b>125,784</b>                                     | <b>2,570</b>                                      |
| <b>Total loans, excluding PCI loans</b>   | <b>\$ 8,049</b>                                    | <b>\$ 427</b>                                     | <b>\$ 2,138,921</b>                                | <b>\$ 25,754</b>                                  |



**FIRST COMMUNITY BANKSHARES, INC.**  
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The following table presents the allowance for loan losses on PCI loans and recorded investment in PCI loans, by loan pool, as of the dates indicated prior to the adoption of ASU 2016-13:

| <i>(Amounts in thousands)</i>              | December 31, 2020      |  |
|--|------------------------|--|
|  | Recorded<br>Investment | Allowance for Loan<br>Pools With<br>Impairment |
| Commercial loans                           |                        |  |
| Highlands:                                 |                        |  |
| 1-4 family, senior-commercial              | \$ —                   | \$ —   |
| Construction & land development            | 958                    | —  |
| Farmland and other agricultural            | 2,242                  | —  |
| Multifamily                                | 1,614                  | —  |
| Commercial real estate-owner occupied      | 16,717                 | —  |
| Commercial real estate- non-owner occupied | 3,459                  | —  |
| Commercial and industrial                  | 814                    | —  |
| Other                                      | —                      | —  |
| Total commercial loans                     | 25,804                 | —  |
| Consumer real estate loans                 |                        |  |
| Highlands:                                 |                        |  |
| 1-4 family, junior and HELOCS              | 761                    | —  |
| 1-4 family, senior-consumer                | 12,494                 | —  |
| Consumer                                   | 603                    | —  |
| Total consumer real estate loans           | 13,858                 | —  |
| Total PCI loans                            | \$ 39,662              | \$ —   |

Management believes the allowance was adequate to absorb probable loan losses inherent in the loan portfolio as of December 31, 2021.

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**Note 7. Premises, Equipment, and Leases*****Premises and Equipment***

The following table presents the components of premises and equipment as of the dates indicated:

|   | December 31, |           |
|---|--------------|-----------|
|   | 2021         | 2020      |
| <i>(Amounts in thousands)</i>             |              |           |
| Land                                      | \$ 20,402    | \$ 21,693 |
| Buildings and leasehold improvements      | 48,118       | 50,639    |
| Equipment                                 | 40,501       | 40,072    |
| Total premises and equipment              | 109,021      | 112,404   |
| Accumulated depreciation and amortization | (56,737)     | (54,704)  |
| Total premises and equipment, net         | \$ 52,284    | \$ 57,700 |

Impairment charges related to certain long-term investments in land and buildings totaled \$781 thousand in 2021, \$812 thousand in 2020, and \$380 thousand in 2019. Depreciation and amortization expense for premises and equipment was \$4.47 million in 2021, \$4.46 million in 2020, and \$3.45 million in 2019.

***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 payments 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 to one existing bank branch and the remaining two operating leases were acquired in separate bank acquisitions. Neither of the two acquired operating leases are for bank branches. One of the leases will terminate in early 2022; the remaining lease will terminate in July 2029. No ROU was recorded in the transaction due to the ROU asset related to the lease that terminates in 2022 being impaired as of the acquisition date; a lease liability was recorded for \$82 thousand. The Company’s total operating leases have remaining terms of 4 months to 7.5 years. As of December 31, 2021, the Company’s ROU asset and lease liability were \$741 thousand and \$770 thousand, respectively. The weighted average discount rate was 3.22% for both 2021 and 2020.

**FIRST COMMUNITY BANKSHARES, INC.**  
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Future minimum lease payments as of the dates indicated are as follows:

| <b>Year</b>                        | <b>Amount</b> |
|------------------------------------|---------------|
| <i>(Amounts in thousands)</i>      |               |
| 2022                               | \$ 131        |
| 2023                               | 119           |
| 2024                               | 117           |
| 2025                               | 101           |
| 2026 and thereafter                | 362           |
| Total lease payments               | 830           |
| Less: Interest                     | (60)          |
| Present value of lease liabilities | \$ 770        |

Lease expense was \$182 thousand in 2021, \$180 thousand in 2020, and \$203 thousand in 2019. The Company maintained no subleases as of December 31, 2021.

**Note 8. Goodwill and Other Intangible Assets**

***Goodwill***

The Company has one reporting unit for goodwill impairment testing purposes, Community Banking. The Company performed its annual assessment of goodwill as of October 31, 2021, and concluded that the carrying value of goodwill was not impaired. No events have occurred after the analysis to indicate potential impairment.

As of January 1, 2019, the Company goodwill totaled \$92.75 million. The December 31, 2019, acquisition of Highlands added \$36.82 million in goodwill; resulting in a ending balance of \$129.57 million. There was no change in the balance for 2021 or 2020.:

**FIRST COMMUNITY BANKSHARES, INC.**  
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**Other Intangible Assets**

As of December 31, 2021, the remaining lives of core deposit intangibles ranged from 3 years to 8 years with a weighted average remaining life of 6 years. The following table presents the components of other intangible assets as of the dates indicated:

|                                     | December 31,    |                 |                 |
|-------------------------------------|-----------------|-----------------|-----------------|
|                                     | 2021            | 2020            | 2019            |
| <i>(Amounts in thousands)</i>       |                 |                 |                 |
| Core deposit intangibles            | \$ 12,674       | \$ 12,674       | \$ 8,184        |
| Acquisitions                        | —               | —               | 4,490           |
| Accumulated amortization            | (7,052)         | (5,605)         | (4,155)         |
| Core deposit intangibles, net       | 5,622           | 7,069           | 8,519           |
| Other identifiable intangibles      | —               | —               | —               |
| Accumulated amortization            | —               | —               | —               |
| Other identifiable intangibles, net | —               | —               | —               |
| Total other intangible assets, net  | <u>\$ 5,622</u> | <u>\$ 7,069</u> | <u>\$ 8,519</u> |

Amortization expense for other intangible assets was \$1.45 million in 2021, and 2020, and \$997 thousand in 2019.

The following schedule presents the estimated amortization expense for intangible assets, by year, as of December 31, 2021:

|                                      |                 |
|--------------------------------------|-----------------|
| <i>(Amounts in thousands)</i>        |                 |
| 2022                                 | \$ 1,446        |
| 2023                                 | 878             |
| 2024                                 | 856             |
| 2025                                 | 647             |
| 2026                                 | 449             |
| 2027 and thereafter                  | 1,346           |
| Total estimated amortization expense | <u>\$ 5,622</u> |

**FIRST COMMUNITY BANKSHARES, INC.**  
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**Note 9. Deposits**

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

|                                     | December 31,        |                     |
|-------------------------------------|---------------------|---------------------|
|                                     | 2021                | 2020                |
| <i>(Amounts in thousands)</i>       |                     |                     |
| Noninterest-bearing demand deposits | \$ 842,783          | \$ 772,795          |
| Interest-bearing deposits           |                     |                     |
| Interest-bearing demand deposits    | 676,254             | 598,148             |
| Money market accounts               | 293,915             | 258,864             |
| Savings deposits                    | 561,576             | 495,821             |
| Certificates of deposit             | 237,919             | 293,848             |
| Individual retirement accounts      | 116,944             | 126,771             |
| Total interest-bearing deposits     | 1,886,608           | 1,773,452           |
| Total deposits                      | <u>\$ 2,729,391</u> | <u>\$ 2,546,247</u> |

The following schedule presents the contractual maturities of time deposits, by year, as of December 31, 2021:

|                               |                   |
|-------------------------------|-------------------|
| <i>(Amounts in thousands)</i> |                   |
| 2022                          | \$ 192,936        |
| 2023                          | 73,329            |
| 2024                          | 34,791            |
| 2025                          | 29,260            |
| 2026                          | 19,210            |
| 2027 and thereafter           | 5,337             |
| Total contractual maturities  | <u>\$ 354,863</u> |

Time deposits of \$250 thousand or more totaled \$27.14 million as of December 31, 2021, and \$35.93 million as of December 31, 2020. The following schedule presents the contractual maturities of time deposits of \$250 thousand or more as of December 31, 2021:

|                                |                  |
|--------------------------------|------------------|
| <i>(Amounts in thousands)</i>  |                  |
| Three months or less           | \$ 6,057         |
| Over three through six months  | 2,268            |
| Over six through twelve months | 8,861            |
| Over twelve months             | 9,952            |
| Total contractual maturities   | <u>\$ 27,138</u> |

**FIRST COMMUNITY BANKSHARES, INC.**  
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**Note 10. Borrowings**

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

| <i>(Amounts in thousands)</i> | December 31, |                          |         |                          |
|-------------------------------|--------------|--------------------------|---------|--------------------------|
|                               | 2021         |                          | 2020    |                          |
|                               | Balance      | Weighted<br>Average Rate | Balance | Weighted<br>Average Rate |
| Retail repurchase agreements  | \$ 1,536     | 0.07%                    | \$ 964  | 0.34%                    |

Repurchase agreements are secured by certain securities that remain under the Company's control during the terms of the agreements. The counterparties may redeem callable repurchase agreements, which could substantially shorten the borrowings' lives. The prepayment or early termination of a repurchase agreement may result in substantial penalties based on market conditions. The following schedule presents the contractual maturities of repurchase agreements, by type of collateral pledged, as of December 31, 2021:

|                                   | Overnight and<br>Continuous | Up to 30 Days | 30 - 90 Days | Greater than 90<br>Days | Total    |
|-----------------------------------|-----------------------------|---------------|--------------|-------------------------|----------|
| <i>(Amounts in thousands)</i>     |                             |               |              |                         |          |
| U.S. Agency securities            | \$ —                        | \$ —          | \$ —         | \$ —                    | \$ —     |
| Municipal securities              | 871                         | —             | —            | —                       | 871      |
| Mortgage-backed Agency securities | 665                         | —             | —            | —                       | 665      |
| Total                             | \$ 1,536                    | \$ —          | \$ —         | \$ —                    | \$ 1,536 |

As of December 31, 2021, unused borrowing capacity with the FHLB totaled \$411.23 million, net of FHLB letters of credit of \$150.81 million. The Company pledged \$744.08 million in qualifying loans to secure the FHLB letters of credit, which provide an attractive alternative to pledging securities for public unit deposits.

**Note 11. 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.

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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. Certain of 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 December 31, 2021. The remaining interest rate swaps do not qualify as fair value hedges and the fair value changes in the derivative are recognized in earnings each period. The following table presents the notional, or contractual, amounts and fair values of derivative instruments as of the dates indicated:

| <i>(Amounts in thousands)</i>        | December 31,                         |                      |                           |                                      |                      |                           |
|--------------------------------------|--------------------------------------|----------------------|---------------------------|--------------------------------------|----------------------|---------------------------|
|                                      | 2021                                 |                      |                           | 2020                                 |                      |                           |
|                                      | Notional or<br>Contractual<br>Amount | Derivative<br>Assets | Derivative<br>Liabilities | Notional or<br>Contractual<br>Amount | Derivative<br>Assets | Derivative<br>Liabilities |
| Derivatives designated as hedges     |                                      |                      |                           |                                      |                      |                           |
| Interest rate swaps                  | \$ 4,388                             | \$ —                 | \$ 229                    | \$ 4,772                             | \$ —                 | \$ 465                    |
| Derivatives not designated as hedges |                                      |                      |                           |                                      |                      |                           |
| Interest rate swaps                  | 7,890                                | -                    | 608                       | 11,928                               | -                    | 666                       |
| <b>Total derivatives</b>             | <b>\$ 12,278</b>                     | <b>\$ —</b>          | <b>\$ 837</b>             | <b>\$ 16,700</b>                     | <b>\$ —</b>          | <b>\$ 1,131</b>           |

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

| <i>(Amounts in thousands)</i>        | Year Ended December 31, |               |              | Income Statement Location  |
|--------------------------------------|-------------------------|---------------|--------------|----------------------------|
|                                      | 2021                    | 2020          | 2019         |                            |
| Derivatives designated as hedges     |                         |               |              |                            |
| Interest rate swaps                  | \$ 111                  | \$ 85         | \$ 12        | Interest and fees on loans |
| Derivatives not designated as hedges |                         |               |              |                            |
| Interest rate swaps                  | 217                     | 235           | -            | Interest and fees on loans |
| <b>Total derivative expense</b>      | <b>\$ 328</b>           | <b>\$ 320</b> | <b>\$ 12</b> |                            |

## Note 12. Employee Benefit Plans

### Defined Benefit Plans

The Company maintains two nonqualified domestic, noncontributory defined benefit plans (the "Benefit Plans") for key members of senior management and non-management directors. The Company's unfunded Benefit Plans include the Supplemental Executive Retention Plan ("SERP") and the Directors' Supplemental Retirement Plan ("Directors' Plan"). The SERP provides for a defined benefit, at normal retirement age, targeted at 35% of the participant's projected final average compensation, subject to a defined maximum annual benefit. Benefits under the SERP generally become payable at age 62. The Directors' Plan provides for a defined benefit, at normal retirement age, up to 100% of the participant's highest consecutive three-year average compensation. Benefits under the Directors' Plan generally become payable at age 70. The SERP was frozen near the end of 2021; the Directors' Plan was fundamentally frozen at that time as well. The following table presents the changes in the aggregate actuarial benefit obligation for the two plans combined during the periods indicated:

| <i>(Amounts in thousands)</i> | December 31,     |                  |
|-------------------------------|------------------|------------------|
|                               | 2021             | 2020             |
| Beginning balance             | \$ 12,579        | \$ 11,312        |
| Effect of curtailment         | 289              | —                |
| Service cost                  | 352              | 310              |
| Interest cost                 | 315              | 355              |
| Actuarial (gain) loss         | (1,472)          | 1,217            |
| Benefits paid                 | (605)            | (615)            |
| <b>Ending balance</b>         | <b>\$ 11,458</b> | <b>\$ 12,579</b> |

**FIRST COMMUNITY BANKSHARES, INC.**  
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The following table presents the components of net periodic pension cost, the effect on the consolidated statements of income, and the assumed discount rate for the periods indicated:

|                                    | <b>Year Ended December 31,</b> |                 |                 | <b>Income Statement Location</b> |
|------------------------------------|--------------------------------|-----------------|-----------------|----------------------------------|
|                                    | <b>2021</b>                    | <b>2020</b>     | <b>2019</b>     |                                  |
| <i>(Amounts in thousands)</i>      |                                |                 |                 |                                  |
| Service cost                       | \$ 352                         | \$ 310          | \$ 320          | Salaries and employee benefits   |
| Interest cost                      | 315                            | 355             | 404             | Other expense                    |
| Effect of curtailment              | 289                            | —               | —               | Salaries and employee benefits   |
| Amortization of prior service cost | 124                            | 201             | 257             | Other expense                    |
| Amortization of losses             | 264                            | 186             | 20              | Other expense                    |
| Net periodic cost                  | <u>\$ 1,344</u>                | <u>\$ 1,052</u> | <u>\$ 1,001</u> |                                  |
| Assumed discount rate              | 2.88%                          | 2.53%           | 3.10%           |                                  |

The following schedule presents the projected benefit payments to be paid under the Benefit Plans, by year, as of December 31, 2021:

|                               |        |
|-------------------------------|--------|
| <i>(Amounts in thousands)</i> |        |
| 2022                          | \$ 685 |
| 2023                          | 684    |
| 2024                          | 734    |
| 2025                          | 729    |
| 2026                          | 831    |
| 2027 through 2031             | 3,669  |

#### ***Deferred Compensation Plan***

The Company maintains deferred compensation agreements with certain current and former officers that provide benefit payments, over various periods, commencing at retirement or death. There were no accrued benefits, which are based on the present values of expected payments and estimated life expectancies, as of December 31, 2021 or 2020. There was no deferred compensation plan expense in 2021, 2020, or 2019.

The Company maintains a deferred compensation plan, referred to as the WRAP, and is a voluntary, non-tax qualified deferred compensation plan available to certain employees, including executive officers. Under the plan, participants may defer a portion of their base and/or annual incentive compensation. The plan is intended to mirror the Corporation's qualified KSOP, and may include discretionary match that coincides with a match made to the KSOP to the extent participants cannot otherwise receive the full match in the KSOP. The balance as of December 31, 2021 and 2020 was \$5.25 million and \$4.18 million, respectively.

#### ***Employee Welfare Plan***

The Company provides various medical, dental, vision, life, accidental death and dismemberment, and long-term disability insurance benefits to all full-time employees who elect coverage under this program. A third-party administrator manages the health plan. Monthly employer and employee contributions are made to a tax-exempt employee benefits trust where the third-party administrator processes and pays claims. As of December 31, 2021, stop-loss insurance coverage generally limits the Company's risk of loss to \$200 thousand for individual claims and \$5.70 million for aggregate claims. Health plan expenses were \$3.98 million in 2021, \$4.17 million in 2020, and \$3.97 million in 2019.

#### ***Employee Stock Ownership and Savings Plan***

The Company maintains the Employee Stock Ownership and Savings Plan ("KSOP") that consists of a 401(k) savings feature that covers all employees that meet minimum eligibility requirements. The Company matches employee contributions at levels determined by the Board of Directors annually. These contributions are made in the first quarter following each plan year and employees must be employed on the last day of the plan year to be eligible. Matching contributions to qualified deferrals under the 401(k) savings component of the KSOP totaled \$1.71 million in 2021, \$1.51 million in 2020, and \$1.10 million in 2019. The KSOP held 320,164 shares of the Company's common stock as of December 31, 2021, 351,222 shares as of December 31, 2020, and 346,833 shares as of December 31, 2019.

#### ***Equity-Based Compensation Plans***

The Company maintains equity-based compensation plans to promote the long-term success of the Company by encouraging officers, employees, directors, and other individuals performing services for the Company to focus on critical long-range objectives. The Company's equity-based compensation plans include the 2012 Omnibus Equity Compensation Plan ("2012 Plan"), 2004 Omnibus Stock Option Plan, 2001 Director's Option Plan, 1999 Stock Option Plan, and various other plans obtained through acquisitions. As of December 31, 2021, the 2012 Plan was the only plan available for the issuance of future grants. All plans issued or obtained before the 2012 Plan are frozen and no new grants may be issued; however, any options or awards unexercised and outstanding under those plans remain in effect per their respective terms. The 2012 Plan authorized 600,000 shares available for potential grants of incentive stock options, nonqualified stock options, performance awards, restricted stock, restricted stock units, stock appreciation rights, bonus stock, and stock awards. Grants issued under the 2012 Plan state the period of time the grant may be exercised, not to exceed more than ten years from the date granted. The Company's Compensation and Retirement Committee determines the vesting period for each grant; however, if no vesting period is specified the vesting occurs in 25% increments on the first four anniversaries of the





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The following table presents the pre-tax compensation expense and excess tax benefit recognized in earnings for all equity-based compensation plans for the periods indicated:

|                               | Year Ended December 31, |          |          |
|-------------------------------|-------------------------|----------|----------|
|                               | 2021                    | 2020     | 2019     |
| <i>(Amounts in thousands)</i> |                         |          |          |
| Pre-tax compensation expense  | \$ 1,282                | \$ 1,643 | \$ 1,481 |
| Excess tax (benefit) expense  | (633)                   | 202      | (340)    |

*Stock Options*

The following table presents stock option activity and related information for the year ended December 31, 2021:

|  | Option Shares | Weighted<br>Average<br>Exercise Price<br>Per Share | Weighted<br>Average<br>Remaining<br>Contractual<br>Term (Years) | Aggregate<br>Intrinsic Value |
|--|---------------|--|---|------------------------------|
|  |               |  |   |                              |
| <i>(Amounts in thousands, except share and per share data)</i> |               |  |   |                              |
| Outstanding, January 1, 2021                                   | 114,279       | \$ 19.56   |   |                              |
| Granted  | 131,198       | 33.00  |   |                              |
| Exercised  | (39,995)      | 13.44  |   |                              |
| Canceled/Expired   | (604)         | 24.72  |   |                              |
| Outstanding, December 31, 2021                                 | 204,878       | \$ 29.35   | 4.99  | \$ 834                       |
| Exercisable, December 31, 2021                                 | 73,680        | \$ 22.84   | 5.42  | \$ 779                       |

The following table presents the total options granted and the weighted average assumptions used to estimate the fair value of those options during the periods indicated. There were no options granted in 2020.

The Company granted 131,198 stock options in 2021. The grant date fair value per share was \$7.87. The volatility, risk-free rate, and expected dividend yield was 33.08%, 1.24%, and 3.57%, respectively. The expected term for these options in years is 5.4 years.

There were 39,995 options exercised in 2021; none were exercised in 2020. The intrinsic value of options exercised was \$628 thousand in 2021, and none in 2020. As of December 31, 2021, unrecognized compensation cost related to nonvested stock options totaled \$769 thousand with an expected weighted average recognition period of 2.25 years. The actual compensation cost recognized might differ from this estimate due to various items, including new grants and changes in estimated forfeitures.

*Restricted Stock Awards*

The following table presents restricted stock activity and related information for the year ended December 31, 2021:

|                              | Shares   | Weighted Average<br>Grant-Date Fair<br>Value |
|------------------------------|----------|--|
|                              |          |  |
| Nonvested, January 1, 2021   | 84,915   | \$ 25.31                                     |
| Granted                      | —        | —  |
| Vested                       | (37,497) | 26.93  |
| Canceled                     | (1,762)  | 23.85  |
| Nonvested, December 31, 2021 | 45,656   | \$ 24.03                                     |

As of December 31, 2021, unrecognized compensation cost related to nonvested restricted stock awards totaled \$535 thousand with an expected weighted average recognition period of 1.11 years. The actual compensation cost recognized might differ from this estimate due to various items, including new awards granted and changes in estimated forfeitures.

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**Note 13. Other Operating Income and Expense**

The following table presents the components of other operating income and expense for the periods indicated:

| <i>(Amounts in thousands)</i>               | Year Ended December 31, |                  |                  |
|---|-------------------------|------------------|------------------|
|   | 2021                    | 2020             | 2019             |
| Other operating income                      |                         |                  |                  |
| Bank owned life insurance                   | \$ 1,183                | \$ 814           | \$ 916           |
| Net FDIC indemnification asset amortization | (1,226)                 | (1,690)          | (2,377)          |
| Other(1)                                    | 4,623                   | 3,555            | 1,888            |
| Total other operating income                | <u>\$ 4,580</u>         | <u>\$ 2,679</u>  | <u>\$ 427</u>    |
| Other operating expense                     |                         |                  |                  |
| OREO expense and net loss                   | 330                     | 414              | 1,494            |
| Telephone and data communications           | 1,720                   | 2,188            | 1,404            |
| Office supplies                             | 553                     | 660              | 647              |
| Other(1)                                    | 9,134                   | 9,148            | 8,384            |
| Total other operating expense               | <u>\$ 11,737</u>        | <u>\$ 12,410</u> | <u>\$ 11,929</u> |

(1) Components of other operating income or expense that do not exceed 1% of total income

**Note 14. Income Taxes**

Income tax expense is comprised of current and deferred, federal and state income taxes on the Company's pre-tax earnings. The following table presents the components of the income tax provision for the periods indicated:

| <i>(Amounts in thousands)</i>        | Year Ended December 31, |                  |                  |
|--------------------------------------|-------------------------|------------------|------------------|
|                                      | 2021                    | 2020             | 2019             |
| Current tax expense:                 |                         |                  |                  |
| Federal                              | \$ 8,546                | \$ 10,048        | \$ 9,603         |
| State                                | 1,563                   | 1,643            | 1,554            |
| Total current tax expense            | <u>10,109</u>           | <u>11,691</u>    | <u>11,157</u>    |
| Deferred tax expense (benefit):      |                         |                  |                  |
| Federal                              | 4,677                   | (1,266)          | (152)            |
| State                                | 574                     | (239)            | (11)             |
| Total deferred tax expense (benefit) | <u>5,251</u>            | <u>(1,505)</u>   | <u>(163)</u>     |
| Total income tax expense             | <u>\$ 15,360</u>        | <u>\$ 10,186</u> | <u>\$ 10,994</u> |

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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 following table reconciles the Company's income tax expense to the amount computed by applying the federal statutory tax rate to pre-tax income for the periods indicated:

|  | Year Ended December 31, |               |                  |               |                  |               |
|--|-------------------------|---------------|------------------|---------------|------------------|---------------|
|  | 2021                    |               | 2020             |               | 2019             |               |
|  | Amount                  | Percent       | Amount           | Percent       | Amount           | Percent       |
| <i>(Amounts in thousands)</i>            |                         |               |                  |               |                  |               |
| Federal income tax at the statutory rate | \$ 13,971               | 21.00%        | \$ 9,683         | 21.00%        | \$ 10,457        | 21.00%        |
| State income tax, net of federal benefit | 2,076                   | 3.12%         | 1,109            | 3.12%         | 1,220            | 3.12%         |
|  | <u>16,047</u>           | <u>24.12%</u> | <u>10,792</u>    | <u>24.12%</u> | <u>11,677</u>    | <u>24.12%</u> |
| Increase (decrease) resulting from:      |                         |               |                  |               |                  |               |
| Tax-exempt interest income               | (340)                   | (0.51)%       | (500)            | (1.08)%       | (637)            | (1.28)%       |
| Excess tax benefits                      | (133)                   | (0.20)%       | 42               | 0.09%         | (71)             | (0.14)%       |
| Bank owned life insurance                | (225)                   | (0.34)%       | (139)            | (0.30)%       | (249)            | (0.50)%       |
| Other items, net                         | 11                      | 0.02%         | (9)              | (0.74)%       | 274              | 0.04%         |
| Income tax at the effective tax rate     | <u>\$ 15,360</u>        | <u>23.09%</u> | <u>\$ 10,186</u> | <u>22.09%</u> | <u>\$ 10,994</u> | <u>22.24%</u> |

Deferred taxes derived from continuing operations reflect the net effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for tax purposes. The following table presents the significant components of the net deferred tax asset as of the dates indicated:

|   | December 31,     |                  |
|---|------------------|------------------|
|   | 2021             | 2020             |
| <i>(Amounts in thousands)</i>                     |                  |                  |
| Deferred tax assets                               |                  |                  |
| Allowance for loan losses                         | \$ 6,647         | \$ 6,128         |
| Unrealized asset losses                           | 482              | 545              |
| Purchase accounting                               | 455              | 2,559            |
| FDIC assisted transactions                        | 810              | 1,685            |
| Intangible assets                                 | (318)            | 217              |
| Deferred compensation assets                      | 4,360            | 4,048            |
| Federal net operating loss carryforward           | 2,179            | 4,093            |
| Deferred loan fees                                | 2,350            | 2,401            |
| Other   | 1,930            | 1,816            |
| Total deferred tax assets                         | <u>18,895</u>    | <u>23,492</u>    |
| Deferred tax liabilities                          |                  |                  |
| FDIC indemnification asset                        | —                | 286              |
| Fixed assets                                      | (823)            | 2,450            |
| Odd days interest deferral                        | (3,324)          | 1,482            |
| Unrealized gains on available for sale securities | (4)              | 257              |
| Other   | (592)            | 287              |
| Total deferred tax liabilities                    | <u>(4,743)</u>   | <u>4,762</u>     |
| Net deferred tax asset                            | <u>\$ 14,152</u> | <u>\$ 18,730</u> |

The Company had no unrecognized tax benefits or accrued interest or penalties as of December 31, 2021 or 2020. The Company had no deferred tax valuation allowance recorded as of December 31, 2021 or 2020, as management believes it is more likely than not that all of the deferred tax assets will be realized against deferred tax liabilities and projected future taxable income. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service and various state tax departments for the years ended December 31, 2018 through 2020.

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**Note 15. Accumulated Other Comprehensive Income**

The following table presents the changes in AOCI, net of tax and by component, during the periods indicated:

| <i>(Amounts in thousands)</i>                              | <b>Unrealized Gains<br/>(Losses) on<br/>Available-for-Sale<br/>Securities</b> | <b>Employee Benefit<br/>Plans</b> | <b>Total</b>      |
|--|---|-----------------------------------|-------------------|
| Balance January 1, 2019                                    | \$ (285)  | \$ (1,144)                        | \$ (1,429)        |
| Other comprehensive income (loss) before reclassifications | 1,117   | (1,448)                           | (331)             |
| Reclassified from AOCI                                     | 34  | 220                               | 254               |
| Other comprehensive (loss) income, net                     | 1,151   | (1,228)                           | (77)              |
| Balance December 31, 2019                                  | <u>\$ 866</u>   | <u>\$ (2,372)</u>                 | <u>\$ (1,506)</u> |
| Balance January 1, 2020                                    | \$ 866  | \$ (2,372)                        | \$ (1,506)        |
| Other comprehensive income (loss) before reclassifications | 544   | (961)                             | (417)             |
| Reclassified from AOCI                                     | (304)   | 304                               | —                 |
| Other comprehensive income (loss), net                     | 240   | (657)                             | (417)             |
| Balance December 31, 2020                                  | <u>\$ 1,106</u>   | <u>\$ (3,029)</u>                 | <u>\$ (1,923)</u> |
| Balance January 1, 2021                                    | \$ 1,106  | \$ (3,029)                        | \$ (1,923)        |
| Other comprehensive (loss) income before reclassifications | (1,091)   | 1,160                             | 69                |
| Reclassified from AOCI                                     | —   | 308                               | 308               |
| Other comprehensive income (loss), net                     | (1,091)   | 1,468                             | 377               |
| Balance December 31, 2021                                  | <u>\$ 15</u>  | <u>\$ (1,561)</u>                 | <u>\$ (1,546)</u> |

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

| <i>(Amounts in thousands)</i>              | <b>Year Ended December 31,</b> |             |               | <b>Income Statement<br/>Line Item Affected</b> |
|--|--------------------------------|-------------|---------------|--|
|  | <b>2021</b>                    | <b>2020</b> | <b>2019</b>   |  |
| Available-for-sale securities              |                                |             |               |  |
| (Losses) gains recognized                  | \$ —                           | \$ (385)    | \$ 43         | Net loss on sale of securities                 |
| Reclassified out of AOCI, before tax       | —                              | (385)       | 43            | Income before income taxes                     |
| Income tax benefit                         | —                              | 81          | (9)           | Income tax expense                             |
| Reclassified out of AOCI, net of tax       | —                              | (304)       | 34            | Net income                                     |
| Employee benefit plans                     |                                |             |               |  |
| Amortization of prior service cost         | 124                            | 201         | 257           | Other operating expense                        |
| Amortization of net actuarial loss         | 264                            | 185         | 21            | Other operating expense                        |
| Reclassified out of AOCI, before tax       | 388                            | 386         | 278           | Income before income taxes                     |
| Income tax expense                         | (80)                           | (82)        | (58)          | Income tax expense                             |
| Reclassified out of AOCI, net of tax       | 308                            | 304         | 220           | Net income                                     |
| Total reclassified out of AOCI, net of tax | <u>\$ 308</u>                  | <u>\$ —</u> | <u>\$ 254</u> | Net income                                     |

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**Note 16. Fair Value**

*Financial Instruments Measured at Fair Value*

The following discussion describes the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments under the valuation hierarchy.

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

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

Fair value models may be required when trading activity has declined significantly or does not exist, prices are not current, or pricing variations are significant. For Level 3 securities, the Company obtains the cash flow of specific securities from third parties that use modeling software to determine cash flows based on market participant data and knowledge of the structures of each individual security. The fair values of Level 3 securities are determined by applying proper market observable discount rates to the cash flow derived from third-party models. 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.

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

| <i>(Amounts in thousands)</i>            | <b>December 31, 2021</b> |                                      |                |                |
|--|--------------------------|--------------------------------------|----------------|----------------|
|  | <b>Total</b>             | <b>Fair Value Measurements Using</b> |                |                |
|  | <b>Fair Value</b>        | <b>Level 1</b>                       | <b>Level 2</b> | <b>Level 3</b> |
| Available-for-sale debt securities       |                          |                                      |                |                |
| U.S. Agency securities                   | \$ 466                   | \$ —                                 | \$ 466         | \$ —           |
| Municipal securities                     | 28,794                   | —                                    | 28,794         | —              |
| Corporate Notes                          | 9,919                    | —                                    | 9,919          | —              |
| Mortgage-backed Agency securities        | 37,113                   | —                                    | 37,113         | —              |
| Total available-for-sale debt securities | 76,292                   | —                                    | 76,292         | —              |
| Equity securities                        | 55                       | —                                    | 55             | —              |
| Fair value loans                         | 13,106                   | —                                    | —              | 13,106         |
| Deferred compensation assets             | 5,245                    | 5,245                                | —              | —              |
| Deferred compensation liabilities        | 5,245                    | 5,245                                | —              | —              |
| Derivative liabilities                   | 837                      | —                                    | 837            | —              |

| <i>(Amounts in thousands)</i>            | <b>December 31, 2020</b> |                                      |                |                |
|--|--------------------------|--------------------------------------|----------------|----------------|
|  | <b>Total</b>             | <b>Fair Value Measurements Using</b> |                |                |
|  | <b>Fair Value</b>        | <b>Level 1</b>                       | <b>Level 2</b> | <b>Level 3</b> |
| Available-for-sale debt securities       |                          |                                      |                |                |
| U.S. Agency securities                   | \$ 551                   | \$ —                                 | \$ 551         | \$ —           |
| Municipal securities                     | 44,459                   | —                                    | 44,459         | —              |
| Mortgage-backed Agency securities        | 38,348                   | —                                    | 38,348         | —              |
| Total available-for-sale debt securities | 83,358                   | —                                    | 83,358         | —              |
| Equity securities                        | 55                       | —                                    | 55             | —              |
| Fair value loans                         | 17,831                   | —                                    | —              | 17,831         |
| Deferred compensation assets             | 4,181                    | 4,181                                | —              | —              |
| Deferred compensation liabilities        | 4,181                    | 4,181                                | —              | —              |
| Derivative liabilities                   | 1,131                    | —                                    | 1,131          | —              |

*Changes in Level 3 Fair Value Measurements*

The following table presents the changes in Level 3 assets recorded at fair value on a recurring basis during the period indicated:

| <i>(Amounts in thousands)</i>      | <b>Assets</b>    |
|------------------------------------|------------------|
| Balance January 1, 2020            | \$ 17,942        |
| Changes in fair value              | 621              |
| Changes due to principal reduction | (732)            |
| Balance December 31, 2020          | <u>\$ 17,831</u> |
| Balance January 1, 2021            | \$ 17,831        |
| Changes in fair value              | (303)            |
| Changes due to principal reduction | (4,422)          |
| Balance December 31, 2021          | <u>\$ 13,106</u> |

No transfers into or out of Level 3 of the fair value hierarchy occurred during the year ended December 31, 2021 or 2020.

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*Assets Measured at Fair Value on a Nonrecurring Basis*

*Impaired Loans.* Prior to the adoption of ASU 2016-13, impaired loans were 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.

*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:

|  | <b>December 31, 2021</b> |                                      |                |                |
|--|--------------------------|--------------------------------------|----------------|----------------|
|  | <b>Total</b>             | <b>Fair Value Measurements Using</b> |                |                |
|  | <b>Fair Value</b>        | <b>Level 1</b>                       | <b>Level 2</b> | <b>Level 3</b> |
| <i>(Amounts in thousands)</i>                      |                          |                                      |                |                |
| Collateral dependent assets with specific reserves | \$ 2,312                 | \$ —                                 | \$ —           | \$ 2,312       |
| OREO   | 1,015                    | —                                    | —              | 1,015          |

|                               | <b>December 31, 2020</b> |                                      |                |                |
|-------------------------------|--------------------------|--------------------------------------|----------------|----------------|
|                               | <b>Total</b>             | <b>Fair Value Measurements Using</b> |                |                |
|                               | <b>Fair Value</b>        | <b>Level 1</b>                       | <b>Level 2</b> | <b>Level 3</b> |
| <i>(Amounts in thousands)</i> |                          |                                      |                |                |
| Impaired loans                | \$ 979                   | \$ —                                 | \$ —           | \$ 979         |
| OREO                          | 2,083                    | —                                    | —              | 2,083          |



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*Quantitative Information about Level 3 Fair Value Measurements*

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

|  | Valuation<br>Technique   | Unobservable<br>Input    | Discount Range<br>(Weighted Average)<br>December 31, 2021 |
|--|--------------------------|--------------------------|---|
| Collateral dependent assets with specific reserves | Discounted appraisals(1) | Appraisal adjustments(2) | 0% to 11% (6)%  |
| OREO   | Discounted appraisals(1) | Appraisal adjustments(2) | 0% to 87%(32)%  |

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

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

|                | Valuation<br>Technique   | Unobservable<br>Input    | Discount Range<br>(Weighted Average)<br>December 31, 2020 |
|----------------|--------------------------|--------------------------|---|
| Impaired loans | Discounted appraisals(1) | Appraisal adjustments(2) | 22% to 38% (30)%  |
| OREO           | Discounted appraisals(1) | Appraisal adjustments(2) | 8% to 77% (25)%   |

(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.

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:

|  | December 31, 2021  |            |                               |         |           |
|--|--------------------|------------|-------------------------------|---------|-----------|
|  | Carrying<br>Amount | Fair Value | Fair Value Measurements Using |         |           |
|  |                    |            | Level 1                       | Level 2 | Level 3   |
| <i>(Amounts in thousands)</i>                  |                    |            |                               |         |           |
| <b>Assets</b>                                  |                    |            |                               |         |           |
| Cash and cash equivalents                      | \$ 677,439         | \$ 677,439 | \$ 677,439                    | \$ —    | \$ —      |
| Debt securities available for sale             | 76,292             | 76,292     | —                             | 76,292  | —         |
| Equity securities                              | 55                 | 55         | —                             | 55      | —         |
| Loans held for investment, net of allowance    | 2,137,711          | 2,108,513  | —                             | —       | 2,108,513 |
| Interest receivable                            | 7,900              | 7,900      | —                             | 7,900   | —         |
| Deferred compensation assets                   | 5,245              | 5,245      | 5,245                         | —       | —         |
| <b>Liabilities</b>                             |                    |            |                               |         |           |
| Time deposits                                  | 354,863            | 352,000    | —                             | 352,000 | —         |
| Securities sold under agreements to repurchase | 1,536              | 1,536      | —                             | 1,536   | —         |
| Interest payable                               | 314                | 314        | —                             | 314     | —         |
| Deferred compensation liabilities              | 5,245              | 5,245      | 5,245                         | —       | —         |
| Derivative liabilities                         | 837                | 837        | —                             | 837     | —         |

|  | December 31, 2020  |            |                               |         |           |
|--|--------------------|------------|-------------------------------|---------|-----------|
|  | Carrying<br>Amount | Fair Value | Fair Value Measurements Using |         |           |
|  |                    |            | Level 1                       | Level 2 | Level 3   |
| <i>(Amounts in thousands)</i>                  |                    |            |                               |         |           |
| <b>Assets</b>                                  |                    |            |                               |         |           |
| Cash and cash equivalents                      | \$ 456,561         | \$ 456,561 | \$ 456,561                    | \$ —    | \$ —      |
| Debt securities available for sale             | 83,358             | 83,358     | —                             | 83,358  | —         |
| Equity securities                              | 55                 | 55         | —                             | 55      | —         |
| Loans held for sale                            | —                  | —          | —                             | —       | —         |
| Loans held for investment, net of allowance    | 2,160,450          | 2,126,221  | —                             | —       | 2,126,221 |
| FDIC indemnification asset                     | 1,223              | 509        | —                             | —       | 509       |
| Interest receivable                            | 9,052              | 9,052      | —                             | 9,052   | —         |
| Deferred compensation assets                   | 4,181              | 4,181      | 4,181                         | —       | —         |
| <b>Liabilities</b>                             |                    |            |                               |         |           |
| Time deposits                                  | 420,619            | 423,120    | —                             | 423,120 | —         |
| Securities sold under agreements to repurchase | 964                | 964        | —                             | 964     | —         |

|                                   |       |       |       |       |   |
|-----------------------------------|-------|-------|-------|-------|---|
| Interest payable                  | 582   | 582   | —     | 582   | — |
| Deferred compensation liabilities | 4,181 | 4,181 | 4,181 | —     | — |
| Derivative liabilities            | 1,131 | 1,131 | —     | 1,131 | — |

**FIRST COMMUNITY BANKSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 17. Earnings per Share**

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

|  | Year Ended December 31, |            |            |
|--|-------------------------|------------|------------|
|  | 2021                    | 2020       | 2019       |
| <i>(Amounts in thousands, except share and per share data)</i> |                         |            |            |
| Net income   | \$ 51,168               | \$ 35,926  | \$ 38,802  |
| Weighted average common shares outstanding, basic              | 17,335,615              | 17,781,748 | 15,690,812 |
| Dilutive effect of potential common shares                     |                         |            |            |
| Stock options  | 30,854                  | 22,495     | 53,907     |
| Restricted stock   | 36,467                  | 11,137     | 11,374     |
| Total dilutive effect of potential common shares               | 67,321                  | 33,632     | 65,281     |
| Weighted average common shares outstanding, diluted            | 17,402,936              | 17,815,380 | 15,756,093 |
| Basic earnings per common share                                | \$ 2.95                 | \$ 2.02    | \$ 2.47    |
| Diluted earnings per common share                              | 2.94                    | 2.02       | 2.46       |
| Potential antidilutive common shares                           |                         |            |            |
| Stock options  | 103,520                 | 58,166     | 25         |
| Restricted stock   | 630                     | 26,900     | 25,853     |
| Total potential antidilutive shares                            | 104,150                 | 85,066     | 25,878     |

**Note 18. Related Party Transactions**

The Company engages in transactions with related parties in the normal course of business. Related parties include directors, executive officers, and principal shareholders and their immediate family members, business interests, and affiliates. All related party transactions are made on terms that are substantially the same as those prevailing at the time for similar transactions with unrelated parties, including interest rates and collateral. The following table presents the changes in loans with related parties during the periods indicated:

|                               | Year Ended December 31, |           |
|-------------------------------|-------------------------|-----------|
|                               | 2021                    | 2020      |
| <i>(Amounts in thousands)</i> |                         |           |
| Beginning balance             | \$ 20,166               | \$ 20,345 |
| New loans and advances        | 4,476                   | 4,821     |
| Loan repayments               | (4,139)                 | (5,023)   |
| Reclassifications(1)          | 13,237                  | 23        |
| Ending balance                | \$ 33,740               | \$ 20,166 |

(1) Changes related to the composition of the Company's directors, executive officers, and related insiders

Deposits from related parties totaled \$11.92 million as of December 31, 2021, and \$8.04 million as of December 31, 2020. Legal fees paid to related parties totaled \$80 thousand in 2021, \$70 thousand in 2020, and \$150 thousand in 2019. There were no lease payments paid to related parties in 2021, 2020, 2019. Other expense paid to related parties totaled \$104 thousand in 2021, \$68 thousand in 2020, and \$7 thousand in 2019.

**Note 19. 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.

**FIRST COMMUNITY BANKSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***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:

|   | December 31,   |                |
|---|----------------|----------------|
|   | 2021           | 2020           |
| <i>(Amounts in thousands)</i>                         |                |                |
| Commitments to extend credit                          | \$ 272,447     | \$ 229,408     |
| Standby letters of credit and financial guarantees(1) | 153,717        | 179,022        |
| Total off-balance sheet risk                          | <u>426,164</u> | <u>408,430</u> |
| Allowance for unfunded commitments                    | \$ 678         | \$ 66          |

(1) Includes FHLB letters of credit

**Note 20. Regulatory Requirements and Restrictions**

The Company and the Bank are subject to various regulatory capital requirements administered by state and federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under the capital adequacy guidelines and the regulatory framework for prompt corrective action, which applies only to the Bank, the Bank must meet specific capital guidelines that involve quantitative measures of the entity's balance sheet assets and off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. In addition, the Company and the Bank are subject to various regulatory restrictions related to the payment of dividends, including requirements to maintain capital at or above regulatory minimums.

The current risk-based capital requirements, based on the international capital standards known as Basel III, requires the Company and the Bank to maintain minimum amounts and ratios of Common Equity Tier 1 capital, Tier 1 capital, and total capital to risk-weighted assets, and of Tier 1 capital to average consolidated assets ("Tier 1 leverage ratio"), as defined in the regulations. Basel III's capital conservation buffer ("CCB"), which is intended to absorb losses during periods of economic stress, increased those minimum ratios by 2.5% on January 1, 2019).

**FIRST COMMUNITY BANKSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The following tables present actual and required capital ratios, under Basel III capital rules, as of the dates indicated:

|                                 | December 31, 2021 |        |                               |       |  |        |                                 |        |
|---------------------------------|-------------------|--------|-------------------------------|-------|--|--------|---------------------------------|--------|
|                                 | Actual            |        | Minimum Basel III Requirement |       | Minimum Basel III Requirement - with CCB |        | Well Capitalized Requirement(1) |        |
|                                 | Amount            | Ratio  | Amount                        | Ratio | Amount                                   | Ratio  | Amount                          | Ratio  |
| <i>(Amounts in thousands)</i>   |                   |        |                               |       |  |        |                                 |        |
| <b>The Company</b>              |                   |        |                               |       |  |        |                                 |        |
| Common equity Tier 1 ratio      | \$ 294,207        | 14.39% | \$ 91,983                     | 4.50% | \$ 143,084                               | 7.00%  | N/A                             | N/A    |
| Tier 1 risk-based capital ratio | 294,207           | 14.39% | 122,644                       | 6.00% | 173,745                                  | 8.50%  | N/A                             | N/A    |
| Total risk-based capital ratio  | 319,795           | 15.65% | 163,525                       | 8.00% | 214,626                                  | 10.50% | N/A                             | N/A    |
| Tier 1 Leverage ratio           | 294,207           | 9.65%  | 121,892                       | 4.00% | N/A                                      | N/A    | N/A                             | N/A    |
| <b>The Bank</b>                 |                   |        |                               |       |  |        |                                 |        |
| Common equity Tier 1 ratio      | \$ 271,806        | 13.37% | \$ 91,499                     | 4.50% | \$ 142,332                               | 7.00%  | \$ 132,166                      | 6.50%  |
| Tier 1 risk-based capital ratio | 271,806           | 13.37% | 121,999                       | 6.00% | 172,832                                  | 8.50%  | 162,666                         | 8.00%  |
| Total risk-based capital ratio  | 297,261           | 14.62% | 162,666                       | 8.00% | 213,499                                  | 10.50% | 203,332                         | 10.00% |
| Tier 1 Leverage ratio           | 271,806           | 8.94%  | 121,623                       | 4.00% | N/A                                      | N/A    | 152,028                         | 5.00%  |

(1) Based on prompt corrective action provisions

|                                 | December 31, 2020 |        |                               |       |  |        |                                 |        |
|---------------------------------|-------------------|--------|-------------------------------|-------|--|--------|---------------------------------|--------|
|                                 | Actual            |        | Minimum Basel III Requirement |       | Minimum Basel III Requirement - with CCB |        | Well Capitalized Requirement(1) |        |
|                                 | Amount            | Ratio  | Amount                        | Ratio | Amount                                   | Ratio  | Amount                          | Ratio  |
| <i>(Amounts in thousands)</i>   |                   |        |                               |       |  |        |                                 |        |
| <b>The Company</b>              |                   |        |                               |       |  |        |                                 |        |
| Common equity Tier 1 ratio      | \$ 292,019        | 14.28% | \$ 92,043                     | 4.50% | \$ 143,178                               | 7.00%  | N/A                             | N/A    |
| Tier 1 risk-based capital ratio | 292,019           | 14.28% | 122,724                       | 6.00% | 214,767                                  | 8.50%  | N/A                             | N/A    |
| Total risk-based capital ratio  | 317,595           | 15.53% | 163,632                       | 8.00% | 173,859                                  | 10.50% | N/A                             | N/A    |
| Tier 1 Leverage ratio           | 292,019           | 10.24% | 114,081                       | 4.00% | N/A                                      | N/A    | N/A                             | N/A    |
| <b>The Bank</b>                 |                   |        |                               |       |  |        |                                 |        |
| Common equity Tier 1 ratio      | \$ 277,449        | 13.57% | \$ 92,017                     | 4.50% | \$ 143,137                               | 7.00%  | \$ 132,913                      | 6.50%  |
| Tier 1 risk-based capital ratio | 277,449           | 13.57% | 122,689                       | 6.00% | 173,809                                  | 8.50%  | 163,585                         | 8.00%  |
| Total risk-based capital ratio  | 303,018           | 14.82% | 163,585                       | 8.00% | 214,706                                  | 10.50% | 204,482                         | 10.00% |
| Tier 1 Leverage ratio           | 277,449           | 9.73%  | 114,058                       | 4.00% | N/A                                      | N/A    | 142,572                         | 5.00%  |

(1) Based on prompt corrective action provisions

**FIRST COMMUNITY BANKSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 21. Parent Company Financial Information**

The following tables present condensed financial information for the parent company, First Community Bankshares, Inc., as of and for the dates indicated:

| <i>(Amounts in thousands)</i>                     | <b>CONDENSED BALANCE SHEETS</b> |                   |
|---|---------------------------------|-------------------|
|   | <b>December 31,</b>             |                   |
|   | <b>2021</b>                     | <b>2020</b>       |
| <b>Assets</b>                                     |                                 |                   |
| Cash and due from banks                           | \$ 7,728                        | \$ 10,089         |
| Securities available for sale                     | 9,919                           | —                 |
| Investment in subsidiaries                        | 405,374                         | 412,161           |
| Other assets                                      | 5,522                           | 5,089             |
| <b>Total assets</b>                               | <b>\$ 428,543</b>               | <b>\$ 427,339</b> |
| <b>Liabilities</b>                                |                                 |                   |
| Other liabilities                                 | \$ 768                          | \$ 609            |
| <b>Total liabilities</b>                          | <b>768</b>                      | <b>609</b>        |
| <b>Stockholders' equity</b>                       |                                 |                   |
| Common stock                                      | 16,878                          | 17,723            |
| Additional paid-in capital                        | 147,619                         | 173,345           |
| Retained earnings                                 | 264,824                         | 237,585           |
| Accumulated other comprehensive loss              | (1,546)                         | (1,923)           |
| <b>Total stockholders' equity</b>                 | <b>427,775</b>                  | <b>426,730</b>    |
| <b>Total liabilities and stockholders' equity</b> | <b>\$ 428,543</b>               | <b>\$ 427,339</b> |

| <i>(Amounts in thousands)</i>   | <b>CONDENSED STATEMENTS OF INCOME</b> |                  |                  |
|---|---------------------------------------|------------------|------------------|
|   | <b>Year Ended December 31,</b>        |                  |                  |
|   | <b>2021</b>                           | <b>2020</b>      | <b>2019</b>      |
| Cash dividends received from subsidiary bank                                      | \$ 53,200                             | \$ 23,710        | \$ 38,500        |
| Other income  | 8                                     | 3                | 444              |
| Other operating expense   | 1,086                                 | 1,446            | 1,420            |
| Income before income taxes and equity in undistributed net income of subsidiaries | 52,122                                | 22,267           | 37,524           |
| Income tax benefit  | (351)                                 | (375)            | (276)            |
| Income before equity in undistributed net income of subsidiaries                  | 52,473                                | 22,642           | 37,800           |
| Equity in (dividends in excess) of undistributed net income of subsidiaries       | (1,305)                               | 13,284           | 1,002            |
| <b>Net income</b>   | <b>\$ 51,168</b>                      | <b>\$ 35,926</b> | <b>\$ 38,802</b> |

**FIRST COMMUNITY BANKSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

|  | <b>CONDENSED STATEMENTS OF CASH FLOWS</b> |                  |                  |
|--|---|------------------|------------------|
|  | <b>Year Ended December 31,</b>            |                  |                  |
|  | <b>2021</b>                               | <b>2020</b>      | <b>2019</b>      |
| <i>(Amounts in thousands)</i>  |   |                  |                  |
| <b>Operating activities</b>  |   |                  |                  |
| Net income   | \$ 51,168                                 | \$ 35,926        | \$ 38,802        |
| Adjustments to reconcile net income to net cash provided by operating activities |   |                  |                  |
| Net change in other operating activities   | 253                                       | 1,047            | 1,865            |
| Net cash provided by operating activities  | 51,421                                    | 36,973           | 40,667           |
| <b>Investing activities</b>  |   |                  |                  |
| Purchase of investment securities  | (9,919)                                   | —                | —                |
| Dividends in excess of undistributed net income of subsidiaries                  | 1,305                                     | (13,284)         | (1,002)          |
| Net cash provided by investing activities  | (8,614)                                   | (13,284)         | (1,002)          |
| <b>Financing activities</b>  |   |                  |                  |
| Proceeds from issuance of common stock   | —   | —                | 136              |
| Payments for repurchase of common stock  | (28,882)                                  | (21,872)         | (16,362)         |
| Payments of common dividends   | (18,059)                                  | (17,876)         | (15,060)         |
| Net change in other financing activities   | 1,773                                     | 2,150            | 1,893            |
|  | (45,168)                                  | (37,598)         | (29,393)         |
| Net increase (decrease) in cash and cash equivalents                             | (2,361)                                   | (13,909)         | 10,272           |
| Cash and cash equivalents at beginning of period                                 | 10,089                                    | 23,998           | 13,726           |
| Cash and cash equivalents at end of period                                       | <u>\$ 7,728</u>                           | <u>\$ 10,089</u> | <u>\$ 23,998</u> |

**Note 23. Quarterly Financial Data (Unaudited)**

The following tables present selected financial data for the periods indicated:

|  | <b>Year Ended December 31, 2021</b> |                       |                      |                       |
|--|-------------------------------------|-----------------------|----------------------|-----------------------|
|  | <b>First Quarter</b>                | <b>Second Quarter</b> | <b>Third Quarter</b> | <b>Fourth Quarter</b> |
| <i>(Amounts in thousands, except share and per share data)</i> |                                     |                       |                      |                       |
| Interest income  | \$ 27,151                           | \$ 26,538             | \$ 25,789            | \$ 25,832             |
| Interest expense   | 869                                 | 724                   | 643                  | 600                   |
| Net interest income  | 26,282                              | 25,814                | 25,146               | 25,232                |
| Recovery of loan losses  | (4,001)                             | (2,230)               | (1,394)              | (846)                 |
| Net interest income after provision                            | 30,283                              | 28,044                | 26,540               | 26,078                |
| Noninterest income, excluding net loss on sale of securities   | 7,569                               | 8,797                 | 8,720                | 9,215                 |
| Noninterest expense  | 18,820                              | 19,361                | 18,836               | 21,701                |
| Income before income taxes                                     | 19,032                              | 17,480                | 16,424               | 13,592                |
| Income tax expense   | 4,430                               | 4,077                 | 3,816                | 3,037                 |
| Net income   | <u>\$ 14,602</u>                    | <u>\$ 13,403</u>      | <u>\$ 12,608</u>     | <u>\$ 10,555</u>      |
| Basic earnings per common share                                | \$ 0.83                             | \$ 0.77               | \$ 0.73              | \$ 0.62               |
| Diluted earnings per common share                              | 0.82                                | 0.76                  | 0.73                 | 0.62                  |
| Dividends per common share                                     | 0.25                                | 0.25                  | 0.27                 | 0.27                  |
| Weighted average basic shares outstanding                      | 17,669,937                          | 17,486,182            | 17,221,244           | 16,974,005            |
| Weighted average diluted shares outstanding                    | 17,729,185                          | 17,536,144            | 17,279,576           | 17,038,980            |

**FIRST COMMUNITY BANKSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

|  | Year Ended December 31, 2020 |                   |                  |                   |
|--|------------------------------|-------------------|------------------|-------------------|
|  | First<br>Quarter             | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter |
| <i>(Amounts in thousands, except share and per share data)</i> |                              |                   |                  |                   |
| Interest income  | \$ 29,509                    | \$ 27,786         | \$ 27,995        | \$ 28,746         |
| Interest expense   | 1,827                        | 1,447             | 1,161            | 1,029             |
| Net interest income  | 27,682                       | 26,339            | 26,834           | 27,717            |
| Provision for loan losses                                      | 3,500                        | 3,831             | 4,703            | 634               |
| Net interest income after provision                            | 24,182                       | 22,508            | 22,131           | 27,083            |
| Noninterest income, excluding net loss on sale of securities   | 7,164                        | 6,913             | 7,638            | 7,733             |
| Net loss on sale of securities                                 | 385                          | —                 | —                | —                 |
| Noninterest expense  | 21,664                       | 18,913            | 19,171           | 19,877            |
| Income before income taxes                                     | 10,067                       | 10,508            | 10,598           | 14,939            |
| Income tax expense   | 2,195                        | 2,270             | 2,332            | 3,389             |
| Net income   | <u>\$ 7,872</u>              | <u>\$ 8,238</u>   | <u>\$ 8,266</u>  | <u>\$ 11,550</u>  |
| Basic earnings per common share                                | \$ 0.44                      | \$ 0.47           | \$ 0.47          | \$ 0.65           |
| Diluted earnings per common share                              | 0.44                         | 0.46              | 0.47             | 0.65              |
| Dividends per common share                                     | 0.25                         | 0.25              | 0.25             | 0.25              |
| Weighted average basic shares outstanding                      | 17,998,994                   | 17,701,853        | 17,710,283       | 17,717,356        |
| Weighted average diluted shares outstanding                    | 18,050,071                   | 17,728,300        | 17,732,428       | 17,751,805        |



**- Report of Independent Registered Public Accounting Firm -**

Board of Directors and Stockholders  
First Community Bankshares, Inc.  
Bluefield, Virginia

We have audited the accompanying consolidated balance sheets of First Community Bankshares, Inc. (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows, for each of the years in the three-year period ended December 31, 2021, and the related notes (collectively referred to as the "financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020 and the results of its operations and cash flows for each of the years in the three-year period ended December 31, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 3, 2022 expressed an unqualified opinion thereon.

**Basis for Opinion**

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

**Adoption of New Accounting Standard**

As discussed in Notes 1, 4, 5 and 6 to the consolidated financial statements, the Company changed its method of accounting for credit losses effective January 1, 2021 due to the adoption of Accounting Standards Codification (ASC) *Topic 326 Financial Instruments – Credit Losses*.

**Critical Audit Matter**

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

*Allowance for Credit Losses for Loans*

The allowance for credit losses for loans ("ACL") was \$27.9 million at December 31, 2021. As described in Note 1, the Company adopted ASC *Topic 326 Financial Instruments – Credit Losses* as of January 1, 2021. As described in Note 1 to the consolidated financial statements, management estimates the ACL by considering the effects of past events, current conditions, and reasonable and supportable forecasts on the collectability of the loan portfolio. The Company's estimate of its ACL involves a high degree of judgment and reflects management's best estimate within the range of expected credit losses over the contractual term of the loans, adjusted for expected prepayments. Loans that share similar risk characteristics are collectively evaluated and generally segmented by loan purpose. For collectively evaluated loans, the Company uses a combination of discounted cash flows and remaining life methods to estimate expected credit losses. Management utilizes both Company and peer bank historical loss experience with similar risk characteristics to assess expected credit loss within the segments over an economic cycle based on call report data. Management also determines the economic variables to use for the one-year reasonable and supportable forecast period. For contractual terms that extend beyond the forecast period, the Company reverts to historical loss information over eight quarters using a straight-line approach.

We identified the ACL as a critical audit matter. The principal considerations for our determination of the ACL as a critical audit matter includes the high degree of judgment and subjectivity involved in management's determination of significant model assumptions, including the selection and application of macroeconomic data within the forecasts. In turn, auditing management's judgments regarding loan credit loss estimates and assumptions involved a high degree of subjectivity, including specialized skill and knowledge, and an increased extent of audit effort.

The primary procedures we performed to address this critical audit matter included:

- We obtained an understanding of the Company’s methodology and process for establishing the ACL, and evaluated the design and operating effectiveness of controls relating to management’s determination of the ACL, including controls over:
  - The development of the allowance for credit losses model, including approval of key policies adopted under implementation of the new accounting standard and selection of reasonable and supportable economic forecasts used in the model,
  - The completeness and accuracy of data input into the model used to determine the ACL, and
  - Management’s review and approval of the ACL, including management’s selection and application of macroeconomic data within the forecasts.
- We evaluated management’s selection and application of macroeconomic data within the forecasts, including comparing key economic forecasts to independent sources, as well as involving our valuation specialists in testing the application of forecasts in the model calculation.
- We tested the completeness and accuracy of the loan data uploaded into the model software and reconciled the loan data to the Company’s core system by segment.

**/s/ DIXON HUGHES GOODMAN LLP**

We have served as the Company’s auditor since 2006.  
Charlotte, North Carolina  
March 3,2022

**- Management’s Assessment of Internal Control over Financial Reporting -**

First Community Bankshares, Inc. (the “Company”) is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements included in this Annual Report on Form 10-K. The consolidated financial statements and notes included in this Annual Report on Form 10-K have been prepared in conformity with U.S. generally accepted accounting principles and necessarily include some amounts that are based on management’s best estimates and judgments.

We, as management of the Company, are responsible for establishing and maintaining effective internal control over financial reporting that is designed to produce reliable financial statements in conformity with U.S. generally accepted accounting principles. The system of internal control over financial reporting as it relates to the financial statements is evaluated for effectiveness by management and tested for reliability. Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden and misstatements due to error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to financial statement preparation.

Management conducted an assessment of the effectiveness of the Company’s internal control over financial reporting based on the framework in the *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that its system of internal control over financial reporting was effective as of December 31, 2021.

Dixon Hughes Goodman LLP, independent registered public accounting firm, has issued a report on the effectiveness of the Company’s internal control over financial reporting as of December 31, 2021. The Report of Independent Registered Public Accounting Firm, which expresses an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting as of December 31, 2021, appears hereafter in Item 8 of this Annual Report on Form 10-K.

Dated this 3rd day of March 2022.

/s/ William P. Stafford, II

William P. Stafford, II  
Chief Executive Officer

/s/ David D. Brown

David D. Brown  
Chief Financial Officer

**- Report of Independent Registered Public Accounting Firm -**

Board of Directors and Stockholders  
First Community Bankshares, Inc.  
Bluefield, Virginia

**Opinion on Internal Control Over Financial Reporting**

We have audited First Community Bankshares, Inc.'s (the "Company") internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, First Community Bankshares, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated financial statements of First Community Bankshares, Inc. as of December 31, 2021 and 2020, and for each of the years in the three-year period ended December 31, 2021 and our report dated March 3, 2022, expressed an unqualified opinion on those consolidated financial statements.

**Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Assessment of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

## **Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

**/s/ DIXON HUGHES GOODMAN LLP**

Charlotte, North Carolina

March 3, 2022

**Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. 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 December 31, 2021, 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 December 31, 2021, that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Management’s Report on Internal Controls over Financial Reporting**

Management’s report on the Company’s internal control over financial reporting and the attestation report of Dixon Hughes Goodman LLP, the Company’s independent registered public accounting firm, on internal control over financial reportings are under the headings “Management’s Assessment of Internal Control over Financial Reporting,” and “Report of Independent Registered Public Accounting Firm,” in Item 8 of this report and are incorporated in this Item 9A by reference.

**Item 9B. Other Information.**

On December 21, 2021, the Board of Directors of the Company amended the First Community Bankshares, Inc. and Affiliated Executive Retention Plan (“Executive Retention Plan”) to provide that as of January 1, 2022, (i) no new participants would be admitted to the Executive Retention Plan, (ii) future benefit accruals under the Executive Retention Plan would be ceased for the current participants in the Executive Retention Plan and (iii) no further vesting would occur under the Executive Retention Plan for the current participants in the Executive Retention Plan. The Board of Directors of the Company reviewed the Company’s compensation philosophy and various plans and concluded that the continuation of the Executive Retention Plan was no longer required for the recruitment and retention of the individuals eligible to participate in the Executive Retention Plan and was not in the Company’s best interests.

A copy of Amendment #6 to the First Community Bankshares, Inc. and Affiliates Executive Retention Plan is included as Exhibit 10.9.7 and is incorporated herein by reference. The above summary is qualified in its entirety by reference to Amendment #6 to the First Community Bankshares, Inc. and Affiliates Executive Retention Plan attached as Exhibit 10.9.7.

The Board of Directors of the Company also amended the First Community Bankshares, Inc. Supplemental Directors Retirement Plan (the “Directors Retirement Plan”) on December 21, 2021 to (i) “freeze” the Directors Retirement Plan so that no new participants would be admitted to the Directors Retirement Plan and (ii) amend the definition of Final Average Compensation in the Directors Retirement Plan in order to cease benefit accrual. The definition of Years of Service in the Directors Retirement Plan did not change, and current participants are allowed to continue to accrue Years of Service for vesting purposes. Under the amendment, no annual compensation after December 31, 2021 will be counted toward the calculation of Final Average Compensation under the Directors Retirement Plan. In assessing the Company’s compensation philosophy and various plans, the Board of Directors concluded that the design of the Directors Retirement Plan was no longer common in the industry, favored by the market or required for the recruitment and retention of qualified directors and therefore, no longer in the best interests of the Company.

A copy of Amendment #4 to the First Community Bankshares, Inc. Supplemental Directors Retirement Plan is included as Exhibit 10.12.4 and is incorporated herein by reference. The above summary is qualified in its entirety by reference to Amendment #4 to the First Community Bankshares, Inc. Supplemental Directors Retirement Plan attached as Exhibit 10.12.4.

**Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections**

None.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance.**

**Board of Directors, First Community Bankshares, Inc.**

**C. William Davis**

Attorney at Law, Richardson & Davis, PLLC

**Samuel L. Elmore**

Retired Chief Credit Officer and Senior Vice President, First Community Bank; Past Executive Vice President, Citizens Southern Bank, Inc.; Past President and Chief Executive Officer, Bank One; Past Vice President, Key Centurion Bancshares; Past President and Chief Operations Officer, Beckley National Bank; Director, Raleigh County Commission on Aging

**Richard S. Johnson**

Chairman, President, and Chief Executive Officer, The Wilton Companies; Past Chair and Director, City of Richmond Economic Development Authority; Trustee Emeritus, University of Richmond

**Gary R. Mills**

President, First Community Bankshares, Inc.; Chief Executive Officer and President, First Community Bank

**Harriet B. Price**

Chief Financial Officer, Price-Williams Realty, Inc.

**M. Adam Sarver**

Member/Co-Manager, Main Street Builders, LLC, Eastern Door & Glass, LLC, Longview Properties LLC, and Clover Leaf Properties, LLC

**William P. Stafford, II**

Chief Executive Officer, First Community Bankshares, Inc.; Attorney at Law, Brewster Morhous PLLC

**Dr. Beth A. Taylor**

Mayor - Town of Wytheville, Virginia; Doctor of Medicine/Private Practice (retired)

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**Executive Officers, First Community Bankshares, Inc**

**William P. Stafford, II**

Chief Executive Officer

**Gary R. Mills**

President

**Sarah W. Harmon**

Chief Administrative Officer and General Counsel

**David D. Brown**

Chief Financial Officer

**Jason R. Belcher**

Chief Operating Officer

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**Board of Directors, First Community Bank**

**James H. Atkinson, Jr.**

Retired Chief Executive Officer, Peoples Bank of Virginia

**Robert L. Buzzo**

Retired Vice President and Secretary, First Community Bankshares, Inc.; Retired President Emeritus, First Community Bank

**Samuel D. Campbell**

Attorney at Law

**C. William Davis**

(See above)

**Samuel L. Elmore**

(See above)

**S. Michael Feola**

Retired Senior Vice President – Regional President, First Community Bank

**T. Vernon Foster**

President of J. La'Verne Print Communications; Past Director, TriStone Community Bank; Executive Director: MBA Programs, Career Management & Public Relations, University of Louisville, College of Business

**Richard H. Jarrell**

Chick-fil-A Franchise Owner; Director, Raleigh General Hospital Board of Trustees; Director, Beckley-Raleigh County Chamber of Commerce; Director, United Way of Southwest Virginia; Director, Raleigh County Board of Education

**Richard S. Johnson**

(See above)

**Gary R. Mills**

(See above)

**Harriet B. Price**

Chief Financial Officer, Price-Williams Realty, Inc.

**M. Adam Sarver**

(See above)

**William P. Stafford, II**

(See above)

**Dr. Beth A. Taylor**

Mayor - Town of Wytheville, Virginia; Doctor of Medicine/Private Practice (retired)



**Frank C. Tinder**

President, Tinder Enterprises, Inc. and Tinco Leasing Corporation; Realtor,  
Premier Realty

**Additional Information**

Additional information required in this item is incorporated by reference to our Proxy Statement for the Annual Meeting of Stockholders to be held on April 26, 2022 ("2022 Annual Meeting") under the headings "Proposal 1: Election of Directors," "Director Nominees for the Class of 2025," "Incumbent Directors," "Non-Director Named Executive Officers," "Other Key Officers," "Board Committees," and "Delinquent Section 16(a) Reports."

Our Standards of Conduct apply to all directors and employees, including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. The Standards of Conduct is available on the Investor Relations section of our website at [www.firstcommunitybank.com](http://www.firstcommunitybank.com). There have been no waivers of the Standards of Conduct for any officer.

There have been no material changes to the procedures by which stockholders may recommend nominees to our Board of Directors since the disclosure in our Proxy Statement filed with the SEC on March 16, 2021.

**Item 11. Executive Compensation.**

The information required in this item is incorporated by reference to our Proxy Statement for the 2022 Annual Meeting under the headings "Board Committees," "Compensation Discussion and Analysis," "Director Compensation," and "Pay Ratio Disclosure."

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The following table provides information about compensation plans under which our equity securities are authorized for issuance as of December 31, 2021:

| Plan category   | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))(3) |
|---|---|---|--|
|   | (a)   | (b)   | (c)  |
| Equity compensation plans approved by security holders(1)     | 167,607   | \$ 30.66  | 74,961   |
| Equity compensation plans not approved by security holders(2) | 37,271  | \$ 23.46  | —  |
| <b>Total</b>  | <b>204,878</b>  |   | <b>74,961</b>  |

(1) Includes the 2012 Omnibus Equity Compensation Plan and 2004 Omnibus Stock Option Plan

(2) Includes the 2001 Directors' Option Plan and 1999 Stock Option Plan

(3) Shares are available for future issuance under the 2012 Omnibus Equity Compensation Plan.

Additional information required in this item is incorporated by reference to our Proxy Statement for the 2022 Annual Meeting under the heading "Information on Stock Ownership."

**Item 13. Certain Relationships and Related Transactions, and Director Independence.**

The information required in this item is incorporated by reference to our Proxy Statement for the 2022 Annual Meeting under the headings "Independence of Directors" and "Related Person/Party Transactions."

**Item 14. Principal Accounting Fees and Services.**

The Independent Registered Public Accounting Firm is Dixon Hughes Goodman LLP (PCAOB Firm ID No. 57) located in Charlotte, North Carolina.

PART IV

**Item 15. Exhibits, Financial Statement Schedules.**

**(a) Documents Filed as Part of this Report**

**(1) Financial Statements**

The financial statements required in this item are incorporated by reference to Item 8, “Financial Statements and Supplementary Data,” in Part II of this report.

**(2) Financial Statement Schedules**

The schedules required in this item are omitted because they are not applicable or the required information is included in the consolidated financial statements or related notes.

**(3) Exhibits**

| <b>Exhibit No.</b> | <b>Exhibit</b>  |
|--------------------|---|
| 2.1                | <a href="#">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</a> |
| 2.2                | <a href="#">Agreement and Plan of Merger between First Community Bankshares, Inc. and Highlands Bankshares, Inc., incorporated by reference to Exhibit 2.1 of the Current Report on Form 8-K dated and filed September 11, 2019</a>   |
| 3.1                | <a href="#">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</a>  |
| 3.2                | <a href="#">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</a>  |
| 4.1                | <a href="#">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</a>  |
| 4.2                | <a href="#">Form of First Community Bankshares, Inc. Common Stock Certificate</a>   |
| 10.1.1**           | <a href="#">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</a>  |
| 10.1.2**           | <a href="#">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</a>  |
| 10.2**             | <a href="#">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</a>   |
| 10.3**             | <a href="#">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</a>   |
| 10.6**             | <a href="#">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</a>  |
| 10.7**             | <a href="#">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</a>   |
| 10.8**             | <a href="#">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</a>                       |
| 10.9.1**           | <a href="#">First Community Bankshares, 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.</a>  |
| 10.9.2**           | <a href="#">Amendment #1 to the First Community Bankshares, 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</a>   |
| 10.9.3**           | <a href="#">Amendment #2 to the First Community Bankshares, 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</a>   |
| 10.9.4**           | <a href="#">Amendment #3 to the First Community Bankshares, 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</a>   |
| 10.9.5**           | <a href="#">Amendment #4 to the First Community Bankshares, 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</a>  |
| 10.9.6*            | <a href="#">Amendment #5 to the First Community Bankshares, Inc. and Affiliates Executive Retention Plan</a>  |
| 10.9.7*            | <a href="#">Amendment #6 to the First Community Bankshares, Inc. and Affiliates Executive Retention Plan</a>  |

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|           |   |
|-----------|---|
| 10.10**   | <a href="#">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</a>   |
| 10.11.1** | <a href="#">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</a>   |
| 10.11.2** | <a href="#">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</a>  |
| 10.12.1** | <a href="#">First Community Bankshares, 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</a>  |
| 10.12.2** | <a href="#">Amendment #2 to the First Community Bankshares, 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</a>   |
| 10.12.3*  | <a href="#">Amendment #3 to the First Community Bankshares, Inc. Supplemental Directors Retirement Plan, as amended and restated</a>  |
| 10.12.4*  | <a href="#">Amendment #4 to the First Community Bankshares, Inc Supplemental Directors Retirement Plan, as amended and restated</a>   |
| 10.13**   | <a href="#">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</a>   |
| 10.15**   | <a href="#">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</a>  |
| 10.16**   | <a href="#">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</a>  |
| 21*       | <a href="#">Subsidiaries of the Registrant</a>  |
| 23*       | <a href="#">Consent of Independent Public Accounting Firm</a>   |
| 31.1*     | <a href="#">Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>  |
| 31.2*     | <a href="#">Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>  |
| 32*       | <a href="#">Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>  |
| 101***    | Inline interactive data files pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets as of December 31, 2021 and 2020; (ii) Consolidated Statements of Income for the years ended December 31, 2021, 2020, and 2019; (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2021, 2020, and 2019; (iv) Consolidated Statements of Stockholders' Equity for the years ended December 31, 2021, 2020, and 2019; (v) Consolidated Statements of Cash Flows for the years ended December 31, 2021, 2020, and 2019; and (vi) Notes to Consolidated Financial Statements |
| 104       | The cover page of First Community Bankshares, Inc. Annual Report on Form 10-K for the year ended December 31, 2021, formatted in Inline XBRL (included within the Exhibit 101 attachments).   |

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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

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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 3rd day of March, 2022.

First Community Bankshares, Inc.  
(Registrant)

By: /s/ William P. Stafford, II

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

By: /s/ David D. Brown

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <u>Signature</u>  | <u>Title</u>                                      | <u>Date</u>   |
|---|---|---------------|
| <u>/s/ William P. Stafford, II</u><br>William P. Stafford, II | Chairman and Chief Executive Officer and Director | March 3, 2022 |
| <u>/s/ David D. Brown</u><br>David D. Brown                   | Chief Financial Officer                           | March 3, 2022 |
| <u>/s/ C. William Davis</u><br>C. William Davis               | Director  | March 3, 2022 |
| <u>/s/ Richard S. Johnson</u><br>Richard S. Johnson           | Director  | March 3, 2022 |
| <u>/s/ Gary R. Mills</u><br>Gary R. Mills                     | President and Director                            | March 3, 2022 |
| <u>/s/ M. Adam Sarver</u><br>M. Adam Sarver                   | Director  | March 3, 2022 |
| <u>/s/ Samuel L. Elmore</u><br>Samuel L. Elmor                | Director  | March 3, 2022 |
| <u>/s/ Harriet B. Price</u><br>Harriet B. Price               | Director  | March 3, 2022 |
| <u>/s/ Beth A. Taylor</u><br>Beth A. Taylor                   | Director  | March 3, 2022 |

**AMENDMENT FIVE  
FIRST COMMUNITY BANCSHARES, INC. AND AFFILIATES  
AMENDED AND RESTATED  
EXECUTIVE RETENTION PLAN**

First Community Bancshares, Inc., and First Community Bankshares, Inc. pursuant to Article 15 of the *First Community Bancshares, Inc. and Affiliates Executive Retention Plan* as amended and restated effective January 1, 2005 (inclusive of all amendments, hereinafter referred to as the "Plan") hereby amends said Plan effective as of the 2<sup>nd</sup> day of October, 2018.

**WITNESSETH**

**WHEREAS**, the Board of Directors of First Community Bancshares, Inc. (the "Board") previously approved and adopted the Plan; and

**WHEREAS**, the Board has approved a plan of reincorporation and merger whereby First Community Bancshares, Inc. will be merged with and into a newly formed Virginia company, First Community Bankshares, Inc., for the sole purpose of moving the corporation's domicile from Nevada to Virginia; and

**WHEREAS**, the shareholders of First Community Bancshares, Inc. approved said plan of reincorporation and merger at the 2018 Annual Meeting of shareholders; and

**WHEREAS**, as a result of the merger, all assets and liabilities of First Community Bancshares, Inc. shall become the assets and liabilities of First Community Bankshares, Inc., including without limitation those associated with the Plan.

**NOW, THEREFORE**, as a result of the merger of First Community Bancshares, Inc. into First Community Bankshares, Inc., First Community Bankshares, Inc. hereby adopts the Plan which shall be amended so that all references to First Community Bancshares, Inc., shall be amended simultaneously with said merger to reference First Community Bankshares, Inc., a Virginia corporation, including without limitation references in the titling and the following specific reference:

1. Section 1.21 shall be amended in its entirety to read as follows:

1.21 Employer or Company shall mean *First Community Bankshares, Inc.* (55- 0694814), a Virginia corporation, or any other organization which has adopted the Plan with the consent of such establishing employer; and any successor of such employer. The term Employer shall also apply to any subsidiary or affiliated corporations, who adopt the Plan and who, at the time such reference applies, are included in the list of Affiliated Employers set forth below. For the purpose of this Plan, First Community Bankshares, Inc. shall be deemed the representative of each Employer and any action taken by First Community Bankshares, Inc. shall be binding on all Employers.

Affiliated Employers  
First Community Bank

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An Employer may be removed from the above list as of the date on which it ceases to be subsidiary to, affiliated with, or allied with First Community Bankshares, Inc. or such Employer loses its status as a legal entity by means of dissolution, merger, consolidation, bankruptcy, or otherwise. An Employer shall also be removed from the list of Employers upon the termination of the Plan for that Employer.

As used in the further provisions of the Plan, the term Employer shall be deemed to apply to each Employer independently.

2. Section 1.31 shall be amended in its entirety to read as follows:

1.31 Plan shall mean the *First Community Bankshares, Inc. and Affiliates Executive Retention Plan* as embodied in this instrument, any and all supporting documents, and all subsequent amendments and supplements thereto.

3. Section 16.1 shall be amended in its entirety to read as follows:

This Plan is created for the exclusive benefit of the Eligible Employees of the Employer and their Beneficiaries and shall be interpreted in a manner consistent with *First Community Bankshares, Inc. and Affiliates Executive Retention Plan*.

4. Except as indicated herein, all other terms of the Plan remain intact.

**IN WITNESS WHEREOF**, this Amendment is adopted on this the 24<sup>th</sup> day of July, 2018.

**First Community Bankshares, Inc.**

By: /s/ Richard S. Johnson

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Richard S. Johnson

Its: Compensation & Retirement Committee Chairman

## Amendment # 6

First Community Bankshares, Inc. and Affiliates  
Executive Retention Plan

This Amendment is to be effective January 1, 2022, and hereby amends the *First Community Bankshares, Inc. and Affiliates Executive Retention Plan* as amended and restated January 1, 2005. It is intended that this Amendment comply with Internal Revenue Code § 409A as it does not affect the timing or method of payment of any benefits under this Plan.

## WITNESSETH

**WHEREAS**, the First Community Bankshares, Inc. (the “Employer”) previously adopted the Plan to provide nonqualified benefits to a select group of management and highly compensated employees; and

**WHEREAS**, the Employer desires to “freeze” the Plan so that, effective January 1, 2022, (1) no new Participants may be admitted; (2) future benefit accruals are ceased for current Participants; and (3) no further vesting shall occur under the Plan for current Participants.

**NOW, THEREFORE**, the Plan is hereby amended as follows:

1. Pursuant to the authority granted to the Committee in Section 15.4 of the Plan, the Plan is hereby amended to cease future Participant benefit accruals after December 31, 2021. All provisions of the Plan shall be interpreted consistent with this cessation of future benefit accruals and future additional vesting, whether or not specifically amended herein. This action is not intended to reduce any Participants Accrued Benefit or vested percentage therein as of December 31, 2021, or any optional form of payment on such Accrued Benefit.

2. Section 1.1 is amended to add the following concluding provision:

Notwithstanding any other provisions of this Section 1.1 to the contrary, each Participant’s Accrued Benefit as of December 31, 2021, shall be their final Accrued Benefit.

3. The final sentence of Section 1.12 is amended to read in full as follows:

For each subsequent Plan Year ending on or before December 31 2021, a Participant’s annual Base Compensation is assumed to increase three percent (3%) more than the preceding Plan Year; actual wage increases shall be disregarded and the three percent (3%) shall be used in lieu of any actual wage increase.

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4. Section 1.13 shall be amended in its entirety to read as follows:

**1.13 Computation Periods:**

- (a) Accrual of Benefit Computation Period - The 12 consecutive month period beginning with the first day of the Plan Year and ending with the last day of the Plan Year (provided that no calendar year beginning after December 31, 2021 shall be an Accrual of Benefit Computation Period) during which an Employee is credited with at least 750 or more Hours of Service. Thus, if an Employee is not credited with at least 750 Hours of Service during a Plan Year, or if such Plan Year begins after December 31, 2021, he is not given credit for a year of benefit accrual for that Plan Year.
- (b) Vesting Computation Period - Means each calendar year, or Plan Year during which a Participant is expected to complete at least 750 Hours of Service, all provided that no calendar year or Plan Year beginning after December 31, 2021 shall be a Vesting Computation Period.

5. Section 1.17 shall be amended in its entirety to read in full as follows:

**1.17 Early Retirement Date** means the first day of the month coinciding with or next following the Participant's 60<sup>th</sup> birthday provided that the Participant has completed at least 20 Years of Service and has incurred a Separation of Service from the Employer. In accordance with Section 8.2(vii), a Participant reaching his Early Retirement Date after December 31, 2021 shall be vested in his Early Retirement Benefit at the vested percentage based on his Years of Service prior to January 1, 2022. (A Participant who reached his Early Retirement Date prior to December 31, 2021 shall be 100% vested in his Accrued Benefit.)

6. Sections 1.19 and 1.29 are amended to add the following concluding provisions:

Provided, however, that no Employees of the Employer shall be considered Eligible Employees or become Participants after December 31, 2021.

7. The first sentence of Section 3.1 shall be amended in its entirety to read as follows:

**3.1 Early Retirement Benefit** - A Participant who has reached Early Retirement Age will be entitled to an Early Retirement Benefit provided he has completed at least 20 Years of Service prior to January 1, 2022 and has incurred a Separation from Service from the Employer.

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8. Section 3.2 shall be amended in its entirety to read as follows:

**3.2 Amount And Form of Early Retirement Benefit –**

- (a) If the payment of benefits commences on or after a Participant's Early Retirement Date, but prior to his Normal Retirement Date, the amount of the benefit shall be the Participant's Accrued Benefit as of December 31, 2021 (or, if earlier his Early Retirement Date is earlier than December 31, 2021, then the Participant's Accrued Benefit as of his Early Retirement Date), reduced by one-one hundred eightieth (1/180) for each of the months by which the starting date of the benefit precedes the Participant's Normal Retirement Date. (The Actuarial Equivalent of the Participant's Accrued Benefit shall be paid in the (Normal Annuity Form) form of a 10 Year Certain & Life Annuity with 120 guaranteed monthly payments, unless the Participant elects another Form of Payment (i) on his *Initial Payment Election Form* or (ii) by making a *Subsequent Payment Election* in accordance with Section 9.3.
- (b) If the payment of benefits is deferred until his Normal Retirement Date or later date, the amount of the benefit payable as of his Normal Retirement Date or later date shall be the Participant's Accrued Benefit as of December 31, 2021 (or, if his Early Retirement Date is earlier than December 31, 2021, then the Participant's Accrued Benefit as of his Early Retirement Date). The Actuarial Equivalent of the Participant's Accrued Benefit shall be paid in the (Normal Annuity Form) form of a 10 Year Certain and Life Annuity with 120 guaranteed monthly payments, unless the Participant elects another Form of Payment (i) on his *Initial Payment Election Form* or (ii) by making a *Subsequent Payment Election* in accordance with Section 9.3.

9. Section 4.1 shall be amended in its entirety to read as follows:

At Normal Retirement Age each Participant who was 100% vested on or before December 31, 2021 shall have a 100% vested right to his Normal Retirement Benefit; provided, however, that if a Participant shall reach Normal Retirement Age after December 31, 2021, then in accordance with Section 8.2(vii), he shall only be entitled to that portion of his Normal Retirement Benefit that was accrued and vested as of December 31, 2021.

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10. Section 4.2(b) shall be amended in its entirety to read as follows:

- (b) **Final Average Compensation** - A Participant's "Final Average Compensation" shall not be based on a Participant's actual compensation but shall be based on a calculation which is determined by an average of the last three (3) full calendar years of his Compensation while employed by the Employer, including any service with any employer acquired by the Employer. In computing the average Compensation, a Participant's *Initial Base Compensation* (see Section 1.12) is assumed to increase at a compounded annual rate of three percent (3%) per calendar year provided, however, that no calendar year beginning after December 31, 2021 shall be used in determining Final Average Compensation. Accordingly, for all Participants, "*Final Average Compensation*" shall be defined as an average of the last three (3) full calendar years of his Compensation while employed by the Employer prior to January 1, 2022, including any service prior to January 1, 2022 with any employer acquired by the Employer.

11. Section 5.2 shall be amended in its entirety to read as follows:

**5.2 Amount of Deferred Retirement Benefit.** A Participant who continues in the employ of the Employer beyond his Normal Retirement Date shall receive their Accrued Benefit based on his Final Average Compensation as of the earlier of December 31, 2021 and his Deferred Retirement Date.

12. Section 6.1 shall be amended in its entirety to read in full as follows:

**6.1 Eligibility for Disability Retirement Benefits.** A Participant who becomes Disabled (as defined in Section 1.15 herein) on or after December 31, 2021 but prior to his actual Early or Normal Retirement Date shall, in accordance with Section 8.2(vii), be vested in his Accrued Benefit as of December 31, 2021, with the vesting percentage therein at the vested percentage based on his Years of Service prior to January 1, 2022. [A Participant who became Disabled (as defined in Section 1.15 herein) prior to December 31, 2021 and prior to his actual Early or Normal Retirement Date shall be 100% vested in his Accrued Benefit as of the date that he is determined to be Disabled.]

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13. Section 6.3(b) shall be amended in its entirety to read as follows:

(b) The amount of such Disability benefit shall be determined as follows:

- (1) Once a Participant who becomes Disabled (as defined in Section 1.15 herein) on or after December 31, 2021 but prior to his actual Early or Normal Retirement Date, is determined to be Disabled, his Accrued Benefit as of December 31, 2021 shall be at the vested percentage based on his Years of Service prior to January 1, 2022. [For a Participant who became Disabled (as defined in Section 1.15 herein) prior to December 31, 2021, his Accrued Benefit shall be vested 100% as of the date he is determined to be Disabled.]
  - (2) For purposes of benefit accrual, a Participant shall continue to receive credit for Hours of Service during the six (6) month waiting period in Section 6.3(a), but not beyond the 6 month waiting period, equal to the Hours of Service he would have normally received credit for if the Participant would have been employed during this six (6) month waiting period, all provided that notwithstanding any of the foregoing, no credit shall be given for any Hour of Service for any period after December 31, 2021.
  - (3) If the payment of benefits commences at Normal Retirement Date, the amount of the benefit shall be the Participant's Accrued Benefit as of the earlier of December 31, 2021 and his Disability Retirement Date.
  - (4) If the payment of benefits commences prior to a Participant's Normal Retirement Date, the amount of the benefit shall be the Participant's Accrued Benefit as of the earlier of December 31, 2021 and his Disability Retirement Date, [and reduced three percent (3%) for each year that his benefit commences prior to his Normal Retirement Date *only* if his Disability Retirement Date is on or before December 31, 2021.]
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14. Section 7.1(a) shall be amended in its entirety to read as follows:

- (a) Death before Early Retirement or Normal Retirement Benefit have commenced. In the event of death of a Participant before his Early Retirement or Normal Retirement Benefit has commenced he shall be vested in his Accrued Benefit at the vested percentage based on his Years of Service prior to January 1, 2022 [or vested at 100% in the event such death of a Participant occurs on or before December 31, 2021 and before his Early Retirement or Normal Retirement Benefit has commenced] and his Beneficiary shall receive the Actuarial Equivalent of his Accrued Benefit, determined at the earlier of December 31, 2021 or the Participant's date of death, payable in 120 continuous monthly payments, with the first payment commencing as of the first day of the month next following 90 days after the Participant's death.

15. Section 8.1 shall be amended in its entirety to read as follows:

**8.1 Non-forfeitable Rights** - Notwithstanding any other provisions of this Article, a Participant's Accrued Benefit shall be vested, at the vested percentage based on his Years of Service prior to January 1, 2022, upon the events listed in Section 8.2, [all provided that for a Participant who became 100% vested in his Accrued Benefit as of a date prior to December 31, 2021, because an event listed in Section 8.2 occurred before December 31, 2021, while such Participant was employed by the Employer and a Participant prior to December 31, 2021, said Participant shall remain 100% vested.]

16. Section 8.2 shall be amended in its entirety to read as follows:

**8.2 Vesting of Benefits** – The following shall apply in determining the percentage of vesting of a Participant in his Accrued Benefit:

- (i) In the event, on or after December 31, 2021, the Participant either dies (Section 7.1) or becomes Disabled as provided in Article 6, then upon the date of death or the date on which the Participant becomes Disabled, as the case may be, the Participant shall be vested at the vested percentage based on his Years of Service prior to January 1, 2022, [provided that if the Participant either died (Section 7.1) prior to December 31, 2021 or became Disabled as provided in Article 6 prior to December 31, 2021, then upon the date (prior to December 31, 2021) on which the Participant died or became Disabled, as the case may be, the Participant shall be 100% vested];
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- (ii) In the event the Participant first qualifies for Early Retirement (Section 3.1) on a date on or after December 31, 2021, the Participant shall be vested at the vested percentage based on his Years of Service prior to January 1, 2022 [ provided that in the event the Participant first qualified for Early Retirement (Section 3.1) on a date prior to December 31, 2021, the Participant shall be 100% vested];
  - (iii) In the event the Participant attains his Normal Retirement Age (Section 1.27) on or after December 31, 2021, the Participant shall be vested at the vested percentage based on his Years of Service prior to January 1, 2022, [provided that in the event the Participant attained his Normal Retirement Age prior to December 31, 2021, the Participant shall be 100% vested];
  - (iv) In the event of a “Change in Control” as defined in Section 1.9, occurs on or after December 31, 2021, a Participant shall be vested at the vested percentage based on his Years of Service prior to January 1, 2022, [provided that if a “Change in Control” as defined in Section 1.9 occurred before December 31, 2021, any Participant who was then employed and a Participant herein, and who thereby became 100% vested, shall continue to be 100% vested];
  - (v) In the event of an Involuntary Termination of employment, on or after December 31, 2021, of the Participant by the Employer “*not for cause*,” [and “*Not for cause*” shall mean any termination of the employment of the Employee by the Employer that does not fall within the meaning of termination “**for cause**” as defined in Section 8.3(b) below,] the Participant shall be vested at the vested percentage based on his Years of Service prior to January 1, 2022 (provided that if a Participant had an Involuntary Termination of employment, as defined above, prior to December 31, 2021, and thereby became 100% vested, said Participant shall continue to be 100% vested);
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- (vi) Vesting based on Years of Service. A Participant shall become Vested in his Accrued Benefit based on his number of Years of Service prior to January 1, 2022 as follows:

| <b>Years of Service prior to January 1, 2022</b> | <b>Vested %</b> |
|--|-----------------|
| Less than 5                                      | 0%              |
| 5-9  | 25%             |
| 10-14  | 50%             |
| 15   | 75%             |
| 16   | 80%             |
| 17   | 85%             |
| 18   | 90%             |
| 19   | 95%             |
| 20 or more                                       | 100%            |

Notwithstanding any of the above, or any other provision of this Plan, no Years of Service subsequent to December 31, 2021 shall be counted for purposes of determining a Participant's vesting.

- (vii) Notwithstanding any other provision of this Section 8.2 or this Plan to the contrary, no Participant shall vest beyond the vested percentage based on their Years of Service prior to January 1, 2022.

17. Section 15.3 is amended in its entirety to read as follows:

**15.3 Vesting Upon Complete Termination** - Upon complete termination of this Plan on or after December 31, 2021, the Accrued Benefit of each affected Participant as of the date of termination shall be vested at the vested percentage based on the Participant's Years of Service prior to January 1, 2022.

18. Except as indicated herein, all other terms of the Plan remain intact.

19. The Employer reserves the right to further amend the Plan.

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**IN WITNESS WHEREOF**, this Amendment is adopted on this the 14<sup>th</sup> day of December, 2021.

**First Community Bankshares, Inc.**

By: /s/ William P. Stafford, II

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William P. Stafford, II

Its: Chairman and Chief Executive Officer



**AMENDMENT THREE  
FIRST COMMUNITY BANCSHARES, INC.  
AMENDED AND RESTATED  
DIRECTORS RETIREMENT PLAN**

First Community Bancshares, Inc., and First Community Bankshares, Inc. pursuant to Article 14 of the *First Community Bancshares, Inc. Directors Retirement Plan* as amended and restated effective January 1, 2011 (inclusive of all amendments, hereinafter referred to as the "Plan") hereby amends said Plan effective as of the 2<sup>nd</sup> day of October, 2018.

**WITNESSETH**

**WHEREAS**, the Board of Directors of First Community Bancshares, Inc. (the "Board") previously approved and adopted the Plan; and

**WHEREAS**, the Board has approved a plan of reincorporation and merger whereby First Community Bancshares, Inc. will be merged with and into a newly formed Virginia company, First Community Bankshares, Inc., for the sole purpose of moving the corporation's domicile from Nevada to Virginia; and

**WHEREAS**, the shareholders of First Community Bancshares, Inc. approved said plan of reincorporation and merger at the 2018 Annual Meeting of shareholders; and

**WHEREAS**, as a result of the merger, all assets and liabilities of First Community Bancshares, Inc. shall become the assets and liabilities of First Community Bankshares, Inc., including without limitation those associated with the Plan.

**NOW, THEREFORE**, as a result of the merger of First Community Bancshares, Inc. into First Community Bankshares, Inc., First Community Bankshares, Inc. hereby adopts the Plan which shall be amended so that all references to First Community Bancshares, Inc., shall be amended simultaneously with said merger to reference First Community Bankshares, Inc., a Virginia corporation, including without limitation references in the titling and the following specific reference:

1. Section 1.27 shall be amended in its entirety to read as follows:

1.27 Plan shall mean the *First Community Bankshares, Inc. Supplemental Directors Retirement Plan* as embodied in this instrument, any and all supporting documents, and all subsequent amendments and supplements thereto.

2. Section 1.18 shall be amended in its entirety to read as follows:

1.18 Company shall mean *First Community Bankshares, Inc. (55-0694814)* or any other organization which has adopted the Plan with the consent of such establishing Company; and any successor of such Company.

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3. Section 16.1 shall be amended in its entirety to read as follows:

This Plan is created for the exclusive benefit of the Eligible Directors of the Company and their Beneficiaries and shall be interpreted in a manner consistent with *First Community Bankshares, Inc. Supplemental Directors Retirement Plan*.

4. Except as indicated herein, all other terms of the Plan remain intact.

**IN WITNESS WHEREOF**, this Amendment is adopted on this the 24<sup>th</sup> day of July, 2018.

**First Community Bankshares, Inc.**

By: /s/ Richard S. Johnson

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Richard S. Johnson

Its: Compensation & Retirement Committee Chairman

**Amendment # 4****First Community Bankshares, Inc.  
Supplemental Directors Retirement Plan  
As Amended and Restated**

This Amendment is to be effective January 1, 2022, and hereby amends the *First Community Bankshares, Inc. Supplemental Directors Retirement Plan* as amended and restated January 1, 2005. It is intended that this Amendment comply with Internal Revenue Code 409A as it does not affect the timing or method of payment of any benefits under this Plan.

**WITNESSETH**

**WHEREAS**, the Board of Directors (the “Board”) of First Community Bankshares, Inc. (the “Employer”) previously approved and adopted the Plan; and

**WHEREAS**, the Compensation Committee of the Corporation is permitted to elect, pursuant to Section 14.4 of the Plan, to cease benefit accruals under the Plan at a specified date, provided that no Participant’s Accrued Benefit or an optional Form of Payment on such Accrued Benefit is reduced;

**WHEREAS**, the Compensation Committee of the Corporation, has its powers as delegated by the full Board, the Board of the Corporation may exercise any powers of the Compensation Committee, including but not limited to election to cease benefit accruals at a specified date provided that no Participant’s Accrued Benefit or an optional Form of Payment on such Accrued Benefit is reduced;

**WHEREAS**, effective January 1, 2022, the Board of Directors of the Corporation has resolved to (1) “freeze” the Plan to new Participants with the effect of having no new Participants, and (2) amend the definition of Final Average Compensation in the Plan, but not the definition of Years of Service in the Plan, in order to cease benefit accruals, but to allow current Participants to continue to accrue Years of Service for vesting purposes;

**NOW, THEREFORE**, the Plan is hereby amended as follows:

1. Sections 1.16 and 1.25 are amended to add the following concluding provisions:

Provided, however, that no Directors shall be considered Eligible Directors or become Participants after December 31, 2021.

2. Section 3.2, Subsection (b) shall be amended in its entirety to read as follows:

Final Average Compensation – A “Participant’s *Final Average Compensation*” is an average of the Director’s annual Compensation for the highest consecutive three (3) calendar years out of the last ten (10) years that he has served as a member of the Board of Directors of the Company; provided, however, that no calendar year after December 31, 2021 shall be used in determining Final Average Compensation. Accordingly, for Participants serving after December 31, 2021, “*Final Average Compensation*” shall be defined as an average of the Director’s annual Compensation for the highest consecutive three (3) calendar years between 2011 and 2021.

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3. Except as indicated herein, all other terms of the Plan remain intact.

4. The Employer reserves the right to further amend the Plan.

**IN WITNESS WHEREOF**, this Amendment is adopted on this the 14<sup>th</sup> day of December, 2021.

**First Community Bankshares, Inc.**

By: /s/ William P. Stafford, II

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William P. Stafford, II

Its: Chairman and Chief Executive Officer

**SUBSIDIARIES OF THE REGISTRANT**

**Title**

**State of Incorporation**

First Community Bank

Virginia

**- Consent of Independent Registered Public Accounting Firm -**

Board of Directors and Stockholders  
First Community Bankshares, Inc.  
Bluefield, Virginia

We consent to the incorporation by reference in the Registration Statements pertaining to the 2012 Omnibus Equity Compensation Plan (Form S-8, No. 333-183057, as amended) and the Employee Stock Ownership and Savings Plan (Form S-8, No. 333-63865, as amended) of First Community Bankshares, Inc. of our reports dated March 3, 2022, with respect to the consolidated financial statements of First Community Bankshares, Inc. and the effectiveness of internal control over financial reporting, included in this Annual Report on Form 10-K for the year ended December 31, 2021.

**/s/ DIXON HUGHES GOODMAN LLP**

Charlotte, North Carolina  
March 3, 2022

## CERTIFICATION

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

1. I have reviewed this Annual Report on Form 10-K 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: March 3, 2022

/s/ William P. Stafford, II

William P. Stafford, II  
Chief Executive Officer

## CERTIFICATION

I, David D. Brown, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: March 3, 2022

/s/ David D. Brown

David D. Brown  
Chief Financial Officer



