Section 1: 10-Q (10-Q)

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

FORM 10-Q

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

For the quarterly period ended March 31, 2019

Commission File Number 0-15572

FIRST BANCORP
(Exact Name of Registrant as Specified in its Charter)

North Carolina	56-1421916
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
300 SW Broad St., Southern Pines, North Carolina	28387
(Address of Principal Executive Offices)	(Zip Code)
(Registrant's telephone number, including area code)	(910) 246-2500

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 twelve 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. (Check one)

☒ Large Accelerated Filer	☐ Accelerated Filer
☐ Non-Accelerated Filer	☐ Smaller Reporting Company
	☐ Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ YES ☒ NO

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

Title of each class	Trading Symbol	Name of each exchange on which registered:
Common Stock, No Par Value	FBNC	The Nasdaq Global Select Market

The number of shares of the registrant's Common Stock outstanding on April 30, 2019 was 29,746,455.

INDEX
FIRST BANCORP AND SUBSIDIARIES

FORWARD-LOOKING STATEMENTS

Part I of this report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995, which statements are inherently subject to risks and uncertainties. Forward-looking statements are statements that include projections, predictions, expectations or beliefs about future events or results or otherwise are not statements of historical fact. Further, forward-looking statements are intended to speak only as of the date made. Such statements are often characterized by the use of qualifying words (and their derivatives) such as “expect,” “believe,” “estimate,” “plan,” “project,” or other statements concerning our opinions or judgment about future events. Our actual results may differ materially from those anticipated in any forward-looking statements, as they will depend on many factors about which we are unsure, including many factors which are beyond our control. Factors that could influence the accuracy of such forward-looking statements include, but are not limited to, the financial success or changing strategies of our customers, our level of success in integrating acquisitions, actions of government regulators, the level of market interest rates, and general economic conditions. For additional information about factors that could affect the matters discussed in this paragraph, see the “Risk Factors” section of our 2018 Annual Report on Form 10-K.

Part I. Financial Information
Item 1 - Financial Statements

First Bancorp and Subsidiaries
Consolidated Balance Sheets

($ in thousands)	March 31, 2019 (unaudited)	December 31, 2018	March 31, 2018 (unaudited)
ASSETS			
Cash and due from banks, noninterest-bearing	$ 80,620	56,050	78,217
Due from banks, interest-bearing	366,187	406,848	448,515
Total cash and cash equivalents	446,807	462,898	526,732
Securities available for sale	639,609	501,351	341,001
Securities held to maturity (fair values of $90,280, $99,906, and $111,201)	90,903	101,237	112,058
Presold mortgages in process of settlement	3,318	4,279	6,029
Loans	4,303,787	4,249,064	4,113,785
Allowance for loan losses	(21,095)	(21,039)	(23,298)
Net loans	4,282,692	4,228,025	4,090,487
Premises and equipment	137,725	119,000	115,542
Accrued interest receivable	16,516	16,004	13,270
Goodwill	234,368	234,368	231,681
Other intangible assets	20,081	21,112	24,079
Foreclosed real estate	6,390	7,440	11,307
Bank-owned life insurance	102,524	101,878	99,786
Other assets	69,315	66,524	69,555
Total assets	$ 6,050,248	5,864,116	5,641,527
LIABILITIES			
Deposits: Noninterest bearing checking accounts	$ 1,390,516	1,320,131	1,227,608
Interest bearing checking accounts	922,254	916,374	896,189
Money market accounts	1,079,002	1,035,523	1,035,261
Savings accounts	417,812	432,389	445,405
Time deposits of $100,000 or more	726,192	690,922	606,313
Other time deposits	261,462	264,000	284,932
Total deposits	4,797,238	4,659,339	4,495,708
Borrowings	406,125	406,609	407,059
Accrued interest payable	2,341	1,976	1,306
Other liabilities	56,405	31,962	31,804
Total liabilities	5,262,109	5,099,886	4,935,877
Commitments and contingencies			
SHAREHOLDERS' EQUITY			
Preferred stock, no par value per share. Authorized: 5,000,000 shares			
Issued & outstanding: none, none, and none	—	—	—
Common stock, no par value per share. Authorized: 40,000,000 shares			
Issued & outstanding: 29,746,455, 29,724,874, and 29,660,990 shares	434,948	434,453	433,305
Retained earnings	360,455	341,738	282,038
Stock in rabbi trust assumed in acquisition	(3,245)	(3,235)	(3,588)
Rabbi trust obligation	3,245	3,235	3,588
Accumulated other comprehensive income (loss)	(7,264)	(11,961)	(9,693)
Total shareholders' equity	788,139	764,230	705,650
Total liabilities and shareholders' equity	$ 6,050,248	5,864,116	5,641,527

See accompanying notes to unaudited consolidated financial statements.

First Bancorp and Subsidiaries
Consolidated Statements of Income

($ in thousands, except share data-unaudited)	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
INTEREST INCOME		
Interest and fees on loans	$ 53,960	50,170
Interest on investment securities:		
Taxable interest income	4,737	2,586
Tax-exempt interest income	337	380
Other, principally overnight investments	2,701	1,925
Total interest income	61,735	55,061
INTEREST EXPENSE		
Savings, checking and money market accounts	2,009	979
Time deposits of $100,000 or more	3,178	1,411
Other time deposits	390	283
Borrowings	2,797	1,881
Total interest expense	8,374	4,554
Net interest income	53,361	50,507
Provision (reversal) for loan losses	500	(3,659)
Net interest income after provision for loan losses	52,861	54,166
NONINTEREST INCOME		
Service charges on deposit accounts	2,945	3,263
Other service charges, commissions and fees	5,248	4,485
Fees from presold mortgage loans	545	859
Commissions from sales of insurance and financial products	2,029	1,940
SBA consulting fees	1,263	1,141
SBA loan sale gains	2,062	3,802
Bank-owned life insurance income	646	623
Foreclosed property gains (losses), net	(245)	(288)
Other gains (losses), net	82	4
Total noninterest income	14,575	15,829
NONINTEREST EXPENSES		
Salaries expense	18,965	19,398
Employee benefits expense	4,588	4,607
Total personnel expense	23,553	24,005
Occupancy expense	2,754	2,802
Equipment related expenses	1,369	1,252
Merger and acquisition expenses	110	2,761
Intangibles amortization expense	1,332	1,560
Other operating expenses	10,153	11,106
Total noninterest expenses	39,271	43,486
Income before income taxes	28,165	26,509
Income tax expense	5,880	5,836
Net income available to common shareholders	$ 22,285	20,673
Earnings per common share:		
Basic	$ 0.75	0.70
Diluted	0.75	0.70
Dividends declared per common share	$ 0.12	0.10
Weighted average common shares outstanding:		
Basic	29,587,217	29,533,869
Diluted	29,743,395	29,624,150

See accompanying notes to unaudited consolidated financial statements.

First Bancorp and Subsidiaries
Consolidated Statements of Comprehensive Income

($ in thousands-unaudited)	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Net income	$ 22,285	20,673
Other comprehensive income (loss):		
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period, pretax	5,903	(7,290)
Tax (expense) benefit	(1,380)	1,703
Postretirement Plans:		
Amortization of unrecognized net actuarial loss	228	52
Tax benefit	(54)	(12)
Other comprehensive income (loss)	4,697	(5,547)
Comprehensive income	$ 26,982	15,126

See accompanying notes to unaudited consolidated financial statements.

First Bancorp and Subsidiaries
Consolidated Statements of Shareholders' Equity

($ in thousands, except per share - unaudited)	Common Stock Shares	Common Stock Amount	Retained Earnings	Stock in Rabbi Trust Assumed in Acquisition	Rabbi Trust Obligation	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balances, January 1, 2018	29,639	$ 432,794	264,331	(3,581)	3,581	(4,146)	692,979
Net income			20,673				20,673
Cash dividends declared ($0.10 per common share)			(2,966)				(2,966)
Change in Rabbi Trust Obligation				(7)	7		—
Stock option exercises	8	108					108
Stock-based compensation	14	403					403
Other comprehensive income (loss)						(5,547)	(5,547)
Balances, March 31, 2018	29,661	$ 433,305	282,038	(3,588)	3,588	(9,693)	705,650
Balances, January 1, 2019	29,725	$ 434,453	341,738	(3,235)	3,235	(11,961)	764,230
Net income			22,285				22,285
Cash dividends declared ($0.12 per common share)			(3,568)				(3,568)
Change in Rabbi Trust Obligation				(10)	10		—
Stock-based compensation	24	586					586
Stock withheld for payment of taxes	(3)	(91)					(91)
Other comprehensive income (loss)						4,697	4,697
Balances, March 31, 2019	29,746	$ 434,948	360,455	(3,245)	3,245	(7,264)	788,139

See accompanying notes to unaudited consolidated financial statements.

First Bancorp and Subsidiaries
Consolidated Statements of Cash Flows

($ in thousands-unaudited)	Three Months Ended March 31, 2019	2018
Cash Flows From Operating Activities		
Net income	$ 22,285	20,673
Reconciliation of net income to net cash provided by operating activities:		
Provision (reversal) for loan losses	500	(3,659)
Net security premium amortization	459	685
Loan discount accretion	(1,419)	(2,111)
Other purchase accounting accretion and amortization, net	(13)	(71)
Foreclosed property (gains) losses and write-downs, net	245	288
Other losses (gains)	(82)	(4)
Increase in net deferred loan costs	(325)	(786)
Depreciation of premises and equipment	1,468	1,445
Amortization of operating lease right-of-use assets	475	—
Repayments of lease obligations	(455)	—
Stock-based compensation expense	403	231
Amortization of intangible assets	1,332	1,560
Fees/gains from sale of presold mortgages and SBA loans	(2,607)	(4,661)
Origination of presold mortgage loans in process of settlement	(19,025)	(33,834)
Proceeds from sales of presold mortgage loans in process of settlement	20,506	40,945
Origination of SBA loans for sale	(38,329)	(63,040)
Proceeds from sales of SBA loans	30,678	50,996
(Increase) decrease in accrued interest receivable	(512)	824
(Increase) decrease in other assets	(4,194)	2,142
Increase in accrued interest payable	365	71
Increase (decrease) in other liabilities	5,254	(6,279)
Net cash provided by operating activities	17,009	5,415
Cash Flows From Investing Activities		
Purchases of securities available for sale	(161,892)	(13,182)
Proceeds from maturities/issuer calls of securities available for sale	29,313	7,764
Proceeds from maturities/issuer calls of securities held to maturity	10,098	6,159
Purchases of Federal Reserve and Federal Home Loan Bank stock, net	(308)	(6,099)
Net increase in loans	(45,018)	(49,662)
Proceeds from sales of foreclosed real estate	1,513	1,455
Purchases of premises and equipment	(1,450)	(1,224)
Proceeds from sales of premises and equipment	279	540
Net cash used by investing activities	(167,465)	(54,249)
Cash Flows From Financing Activities		
Net increase in deposits	137,957	88,869
Net decrease in borrowings	(529)	(529)
Cash dividends paid – common stock	(2,972)	(2,372)
Proceeds from stock option exercises	—	108
Stock withheld for payment of taxes	(91)	—
Net cash provided by financing activities	134,365	86,076
(Decrease) increase in cash and cash equivalents	(16,091)	37,242
Cash and cash equivalents, beginning of period	462,898	489,490
Cash and cash equivalents, end of period	$ 446,807	526,732
Supplemental Disclosures of Cash Flow Information:		
Cash paid (received) during the period for:		
Interest	$ 8,009	4,483
Income taxes	103	(181)
Non-cash transactions:		
Unrealized gain (loss) on securities available for sale, net of taxes	4,523	(5,587)
Foreclosed loans transferred to other real estate	708	648
Initial recognition of operating lease right-of-use assets	19,459	—
Initial recognition of operating lease liabilities	19,459	—

See accompanying notes to consolidated financial statements.

Note 1 - Basis of Presentation

In the opinion of the Company, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the consolidated financial position of the Company as of March 31, 2019 and 2018 and the consolidated results of operations and consolidated cash flows for the periods ended March 31, 2019 and 2018. All such adjustments were of a normal, recurring nature. Reference is made to the 2018 Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) for a discussion of accounting policies and other relevant information with respect to the financial statements. The results of operations for the periods ended March 31, 2019 and 2018 are not necessarily indicative of the results to be expected for the full year. The Company has evaluated all subsequent events through the date the financial statements were issued.

Note 2 – Accounting Policies

Note 1 to the 2018 Annual Report on Form 10-K filed with the SEC contains a description of the accounting policies followed by the Company and a discussion of recent accounting pronouncements. The following paragraphs update that information as necessary.

Accounting Standards Adopted in 2019

In February 2016, the Financial Accounting Standards Board (“FASB”) issued new guidance on accounting for leases, which generally requires all leases to be recognized in the statement of financial position by recording an asset representing its right to use the underlying asset and recording a liability, which represents the Company’s obligation to make lease payments. The new standard was adopted by the Company on January 1, 2019. The guidance provides for a modified retrospective transition approach requiring lessees to recognize and measure leases on the balance sheet at the beginning of either the earliest period presented or as of the beginning of the period of adoption. The Company elected to apply the guidance as of the beginning of the period of adoption (January 1, 2019) and will not restate comparative periods. Adoption of the guidance resulted in the recognition of lease liabilities and the recognition of right-of-use assets totaling $19.4 million as of the date of adoption. Lease liabilities and right-of-use assets are reflected in other liabilities and premises and equipment, respectively. The initial balance sheet gross-up upon adoption was related to operating leases of certain real estate properties. The Company has no finance leases or material subleases or leasing arrangements for which it is the lessor of property or equipment. The Company elected to apply the package of practical expedients allowed by the new standard under which the Company need not reassess whether any expired or existing contracts are leases or contain leases, the Company need not reassess the lease classification for any expired or existing lease, and the Company need not reassess initial direct costs for any existing leases. Adoption of this guidance did not have a material impact on the consolidated statements of income or the consolidated statements of cash flows. See Note 13 – Leases for additional disclosures related to leases.

In March 2017, the FASB amended the requirements in the Receivables—Nonrefundable Fees and Other Costs topic of the Accounting Standards Codification related to the amortization period for certain purchased callable debt securities held at a premium. The amendments shorten the amortization period for the premium to the earliest call date. The amendments were effective for the Company on January 1, 2019 and adoption did not have a material effect on its financial statements.

In June 2018, the FASB amended the Compensation—Stock Compensation Topic of the Accounting Standards Codification. The amendments expand the scope of this Topic to include share-based payment transactions for acquiring goods and services from nonemployees. The amendments were effective for the Company on January 1, 2019 and the adoption did not have a material effect on its financial statements.

Accounting Standards Pending Adoption

In June 2016, the FASB issued guidance to change the accounting for credit losses. The guidance requires an entity to utilize a new impairment model known as the current expected credit loss ("CECL") model to estimate its lifetime "expected credit loss" and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. The CECL model is expected to result in earlier recognition of credit losses. The guidance also requires new disclosures for financial assets measured at amortized cost, loans and available-for-sale debt securities. The Company will apply the guidance through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. While early adoption is permitted beginning in first quarter 2019, the Company did not elect that option. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2019. The Company continues its ongoing analysis on the impact of this guidance on its consolidated financial statements. In that regard, a cross-functional working group has been formed, under the direction of the Company's Chief Financial Officer. The working group is comprised of individuals from various functional areas including credit, risk management, finance and information technology, among others. Implementation efforts continue with model development, ongoing system requirements evaluation and the identification of data and resource needs, among other things. The Company has also engaged a third-party vendor solution to assist in the application of the new guidance. The Company has provided core data to the vendor and continues to validate and enhance the data. The Company is currently running models under both the current methodology and the CECL methodology. While the Company is currently unable to reasonably estimate the impact of adopting the guidance, the impact of adoption is expected to be significantly influenced by the composition, characteristics and quality of loan and securities portfolios as well as the prevailing economic conditions and forecasts as of the adoption date.

In January 2017, the FASB amended the Goodwill and Other Intangibles topic of the Accounting Standards Codification to simplify the accounting for goodwill impairment for public business entities and other entities that have goodwill reported in their financial statements and have not elected the private company alternative for the subsequent measurement of goodwill. The amendment removes Step 2 of the goodwill impairment test. The amount of goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The effective date and transition requirements for the technical corrections will be effective for the Company for reporting periods beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect this amendment to have a material effect on its financial statements.

In August 2018, the FASB amended the Fair Value Measurement Topic of the Accounting Standards Codification. The amendments remove, modify, and add certain fair value disclosure requirements based on the concepts in the FASB Concepts Statement, *Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements*. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this guidance and delay adoption of the additional disclosures until their effective date. The Company does not expect these amendments to have a material effect on its financial statements.

In August 2018, the FASB amended the Compensation - Retirement Benefits – Defined Benefit Plans Topic of the Accounting Standards Codification to improve disclosure requirements for employers that sponsor defined benefit pension and other postretirement plans. The guidance removes disclosures that are no longer considered cost-beneficial, clarifies the specific requirements of disclosures, and adds disclosure requirements identified as relevant. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In March 2019, the FASB issued guidance to address concerns companies had raised about an accounting exception they would lose when assessing the fair value of underlying assets under the leases standard and clarify that lessees and lessors are exempt from a certain interim disclosure requirement associated with adopting the new standard. The amendments will be effective for the Company for reporting periods beginning after December 15, 2019. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

Note 3 – Reclassifications

Certain amounts reported in the period ended March 31, 2018 have been reclassified to conform to the presentation for March 31, 2019. These reclassifications had no effect on net income or shareholders' equity for the periods presented, nor did they materially impact trends in financial information.

Note 4 – Stock-Based Compensation Plans

The Company recorded total stock-based compensation expense of $403,000 and $231,000 for the three months ended March 31, 2019 and 2018, respectively. Stock based compensation is reflected as an adjustment to cash flows from operating activities on the Company's consolidated statement of cash flows. The Company recognized

$94,000 and $54,000 of income tax benefits related to stock based compensation expense in its consolidated income statement for the three months ended March 31, 2019 and 2018, respectively.

At March 31, 2019, the Company had the following stock-based compensation plans: the First Bancorp 2014 Equity Plan and the First Bancorp 2007 Equity Plan. The Company's shareholders approved each plan. The First Bancorp 2014 Equity Plan became effective upon the approval of shareholders on May 8, 2014. As of March 31, 2019, the First Bancorp 2014 Equity Plan was the only plan that had shares available for future grants, and there were 727,934 shares remaining available for grant.

The First Bancorp 2014 Equity Plan is intended to serve as a means to attract, retain and motivate key employees and directors and to associate the interests of the Plan's participants with those of the Company and its shareholders. The First Bancorp 2014 Equity Plan allows for both grants of stock options and other types of equity-based compensation, including stock appreciation rights, restricted stock, restricted performance stock, unrestricted stock, and performance units.

Recent equity awards have been shares of restricted stock with service vesting conditions only. Compensation expense for these awards is recorded over the requisite service periods. Upon forfeiture, any previously recognized compensation cost is reversed. Upon a change in control (as defined in the plans), unless the awards remain outstanding or substitute equivalent awards are provided, the awards become immediately vested.

Certain of the Company's stock awards contain terms that provide for a graded vesting schedule whereby portions of the award vest in increments over the requisite service period. The Company recognizes compensation expense for awards with graded vesting schedules on a straight-line basis over the requisite service period for each incremental award. Compensation expense is based on the estimated number of stock options and awards that will ultimately vest. Over the past five years, there have only been minimal amounts of forfeitures, and therefore the Company assumes that all awards granted with service conditions only will vest. The Company issues new shares of common stock when options are exercised.

As it relates to director equity awards, the Company grants common shares, valued at approximately $32,000 to each non-employee director (currently 11 in total) in June of each year. Compensation expense associated with these director awards is recognized on the date of award since there are no vesting conditions.

The following table presents information regarding the activity for the first three months of 2019 related to the Company's outstanding restricted stock:

	Long-Term Restricted Stock	
	Number of Units	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2019	129,251	$32.39
Granted during the period	25,104	37.73
Vested during the period	(5,266)	19.00
Forfeited or expired during the period	—	—
Nonvested at March 31, 2019	149,089	$ 33.76

Total unrecognized compensation expense as of March 31, 2019 amounted to $2,737,000 with a weighted-average remaining term of 2.2 years. The Company expects to record $379,000 in compensation expense during each remaining quarter of 2019.

Prior to 2010, stock options were the primary form of equity based compensation utilized by the Company. The stock options had a term of ten years.

At March 31, 2019, there were 9,000 stock options outstanding each having an exercise price of $14.35 and an expiration date of June 1, 2019.

The following table presents information regarding the activity for the first three months of 2019 related to the Company's outstanding stock options:

	Options Outstanding			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Balance at January 1, 2019	9,000	$ 14.35		
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Expired	—	—		
Outstanding at March 31, 2019	9,000	$ 14.35	0.17	$ 183,690
Exercisable at March 31, 2019	9,000	$ 14.35	0.17	$ 183,690

During the three months ended March 31, 2019 and 2018, the Company received $0 and $108,000, respectively, as a result of stock option exercises.

Note 5 – Earnings Per Common Share

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, excluding unvested shares of restricted stock. Diluted Earnings Per Common Share is computed by assuming the issuance of common shares for all potentially dilutive common shares outstanding during the reporting period. For the periods presented, the Company's potentially dilutive common stock issuances related to unvested shares of restricted stock and stock option grants under the Company's equity-based plans.

In computing Diluted Earnings Per Common Share, adjustments are made to the computation of Basic Earnings Per Common shares, as follows. As it relates to unvested shares of restricted stock, the number of shares added to the denominator is equal to the number of unvested shares less the assumed number of shares bought back by the Company in the open market at the average market price with the amount of proceeds being equal to the average deferred compensation for the reporting period. As it relates to stock options, it is assumed that all dilutive stock options are exercised during the reporting period at their respective exercise prices, with the proceeds from the exercises used by the Company to buy back stock in the open market at the average market price in effect during the reporting period. The difference between the number of shares assumed to be exercised and the number of shares bought back is included in the calculation of dilutive securities. As it relates to contingently issuable shares, the number of shares that are included in the calculation of dilutive securities is based on the number of shares that are issuable if the end of the reporting period were the end of the contingency period.

If any of the potentially dilutive common stock issuances have an anti-dilutive effect, the potentially dilutive common stock issuance is disregarded.

The following is a reconciliation of the numerators and denominators used in computing Basic and Diluted Earnings Per Common Share:

($ in thousands except per share amounts)	For the Three Months Ended March 31, 2019 Income (Numerator)	2019 Shares (Denominator)	2019 Per Share Amount	2018 Income (Numerator)	2018 Shares (Denominator)	2018 Per Share Amount
Basic EPS						
Net income available to common shareholders	$ 22,285	29,587,217	$ 0.75	$ 20,673	29,533,869	$ 0.70
Effect of Dilutive Securities	—	156,178		—	90,281	
Diluted EPS per common share	$ 22,285	29,743,395	$ 0.75	$ 20,673	29,624,150	$ 0.70

For both the three months ended March 31, 2019 and 2018, there were no options that were antidilutive.

Note 6 – Securities

The book values and approximate fair values of investment securities at March 31, 2019 and December 31, 2018 are summarized as follows:

($ in thousands)	March 31, 2019 Amortized Cost	March 31, 2019 Fair Value	March 31, 2019 Unrealized Gains	March 31, 2019 Unrealized (Losses)	December 31, 2018 Amortized Cost	December 31, 2018 Fair Value	December 31, 2018 Unrealized Gains	December 31, 2018 Unrealized (Losses)
Securities available for sale:								
Government-sponsored enterprise securities	$ 78,995	78,887	84	(192)	82,995	82,662	63	(396)
Mortgage-backed securities	533,360	526,948	1,089	(7,501)	396,995	385,551	39	(11,483)
Corporate bonds	33,741	33,774	203	(170)	33,751	33,138	76	(689)
Total available for sale	$ 646,096	639,609	1,376	(7,863)	513,741	501,351	178	(12,568)
Securities held to maturity:								
Mortgage-backed securities	$ 49,361	48,291	—	(1,070)	52,048	50,241	—	(1,807)
State and local governments	41,542	41,989	465	(18)	49,189	49,665	525	(49)
Total held to maturity	$ 90,903	90,280	465	(1,088)	101,237	99,906	525	(1,856)

All of the Company's mortgage-backed securities were issued by government-sponsored corporations, except for private mortgage-backed securities with a fair value of $1.0 million as of March 31, 2019 and December 31, 2018.

The following table presents information regarding securities with unrealized losses at March 31, 2019:

($ in thousands)	Securities in an Unrealized Loss Position for Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	Securities in an Unrealized Loss Position for More than 12 Months Fair Value	More than 12 Months Unrealized Losses	Total Fair Value	Total Unrealized Losses
Government-sponsored enterprise securities	$ —	—	18,808	192	18,808	192
Mortgage-backed securities	70,478	346	298,133	8,225	368,611	8,571
Corporate bonds	2,480	60	9,049	110	11,529	170
State and local governments	—	—	5,823	18	5,823	18
Total temporarily impaired securities	$ 72,958	406	331,813	8,545	404,771	8,951

The following table presents information regarding securities with unrealized losses at December 31, 2018:

($ in thousands)	Securities in an Unrealized Loss Position for Less than 12 Months		Securities in an Unrealized Loss Position for More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government-sponsored enterprise securities	$ 4,921	78	13,682	318	18,603	396
Mortgage-backed securities	82,525	351	294,305	12,939	376,830	13,290
Corporate bonds	20,704	433	5,817	256	26,521	689
State and local governments	595	1	6,641	48	7,236	49
Total temporarily impaired securities	$ 108,745	863	320,445	13,561	429,190	14,424

In the above tables, all of the securities that were in an unrealized loss position at March 31, 2019 and December 31, 2018 were bonds that the Company has determined are in a loss position due primarily to interest rate factors and not credit quality concerns. The Company evaluated the collectability of each of these bonds and concluded that there was no other-than-temporary impairment. The Company does not intend to sell these securities, and it is more likely than not that the Company will not be required to sell these securities before recovery of the amortized cost.

The book values and approximate fair values of investment securities at March 31, 2019, by contractual maturity, are summarized in the table below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

($ in thousands)	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities				
Due within one year	$ —	—	865	868
Due after one year but within five years	105,196	105,195	26,571	26,860
Due after five years but within ten years	2,540	2,480	12,427	12,559
Due after ten years	5,000	4,986	1,679	1,702
Mortgage-backed securities	533,360	526,948	49,361	48,291
Total securities	$ 646,096	639,609	90,903	90,280

At March 31, 2019 and December 31, 2018 investment securities with carrying values of $245,711,000 and $284,382,000, respectively, were pledged as collateral for public deposits.

Included in "other assets" in the Consolidated Balance Sheets are cost-method investments in Federal Home Loan Bank ("FHLB") and Federal Reserve Bank of Richmond ("FRB") stock totaling $37,776,000 and $37,468,000 at March 31, 2019 and December 31, 2018, respectively. The FHLB stock had a cost of $20,322,000 and $20,036,000 at March 31, 2019 and December 31, 2018, respectively, and serves as part of the collateral for the Company's line of credit with the FHLB and is also a requirement for membership in the FHLB system. The FRB stock had a cost of $17,454,000 and $17,432,000 at March 31, 2019 and December 31, 2018, respectively, and is a requirement for FRB member bank qualification. Periodically, both the FHLB and FRB recalculate the Company's required level of holdings, and the Company either buys more stock or redeems a portion of the stock at cost. The Company determined that neither stock was impaired at either period end.

The Company owns 12,356 Class B shares of Visa, Inc. ("Visa") stock that were received upon Visa's initial public offering. These shares are expected to convert into Class A Visa shares subsequent to the settlement of certain litigation against Visa. The Class B shares have transfer restrictions, and the conversion rate into Class A shares is periodically adjusted as Visa settles litigation. The conversion rate at March 31, 2019 was approximately 1.63, which means the Company would receive approximately 20,140 Class A shares if the stock had converted on that date. This stock does not have a readily determinable fair value and is therefore carried at its cost basis of zero. If a readily determinable fair value becomes available for the Class B shares, or upon the conversion to Class A shares, the Company will adjust the carrying value of the stock to its market value with a credit to earnings.

Note 7 – Loans and Asset Quality Information

The following is a summary of the major categories of total loans outstanding:

($ in thousands)	March 31, 2019		December 31, 2018		March 31, 2018	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
All loans:						
Commercial, financial, and agricultural	$ 468,388	11%	$ 457,037	11%	$ 411,662	10%
Real estate – construction, land development & other land loans	553,760	13%	518,976	12%	542,960	13%
Real estate – mortgage – residential (1-4 family) first mortgages	1,061,049	25%	1,054,176	25%	995,662	24%
Real estate – mortgage – home equity loans / lines of credit	354,669	8%	359,162	8%	373,797	9%
Real estate – mortgage – commercial and other	1,794,794	42%	1,787,022	42%	1,718,698	42%
Installment loans to individuals	69,503	1%	71,392	2%	71,257	2%
Subtotal	4,302,163	100%	4,247,765	100%	4,114,036	100%
Unamortized net deferred loan costs (fees)	1,624		1,299		(251)	
Total loans	$ 4,303,787		$ 4,249,064		$ 4,113,785	

At March 31, 2019 and December 31, 2018, there was a remaining unaccreted discount on the retained portion of sold SBA loans amounting to $6.2 million and $5.7 million, respectively. As of March 31, 2019 and December 31, 2018, there was a remaining accretable discount of $14.1 million and $15.0 million, respectively, related to purchased non-impaired loans. Both types of discounts are amortized as yield adjustments over the respective lives of the loans, so long as the loans perform.

The following table presents changes in the recorded investment of purchased credit impaired (“PCI”) loans.

($ in thousands)

PCI loans	For the Quarter Ended March 31, 2019	For the Year Ended December 31, 2018	For the Quarter Ended March 31, 2018
Balance at beginning of period	$ 17,393	23,165	23,165
Change due to payments received and accretion	(1,556)	(5,799)	(1,023)
Change due to loan charge-offs	(8)	(10)	—
Transfers to foreclosed real estate	—	(4)	—
Other	38	41	5
Balance at end of period	$ 15,867	17,393	22,147

The following table presents changes in the accretable yield for PCI loans.

($ in thousands)

Accretable Yield for PCI loans	For the Quarter Ended March 31, 2019	For the Year Ended December 31, 2018	For the Quarter Ended March 31, 2018
Balance at beginning of period	$ 4,750	4,688	4,688
Accretion	(392)	(2,050)	(374)
Reclassification from (to) nonaccretable difference	237	849	155
Other, net	550	1,263	(73)
Balance at end of period	$ 5,145	4,750	4,396

During the first three months of 2019, the Company received $133,000 in payments that exceeded the carrying amount of the related PCI loans, of which $112,000 was recognized as loan discount accretion income and $21,000 was recorded as additional loan interest income. During the first three months of 2018, the Company received $68,000 in payments that exceeded the carrying amount of the related PCI loans, all of which was recognized as loan discount accretion income.

Nonperforming assets are defined as nonaccrual loans, troubled debt restructured (“TDR”) loans, loans past due 90 or more days and still accruing interest, and foreclosed real estate. Nonperforming assets are summarized as follows.

($ in thousands)	March 31, 2019	December 31, 2018	March 31, 2018
Nonperforming assets			
Nonaccrual loans	$ 20,684	22,575	21,849
TDRs- accruing	12,457	13,418	18,495
Accruing loans > 90 days past due	—	—	—
Total nonperforming loans	33,141	35,993	40,344
Foreclosed real estate	6,390	7,440	11,307
Total nonperforming assets	$ 39,531	43,433	51,651
Purchased credit impaired loans not included above (1)	$ 15,867	17,393	22,147

(1) In the March 3, 2017 acquisition of Carolina Bank, and the October 1, 2017 acquisition of Asheville Savings Bank, the Company acquired $19.3 million and $9.9 million, respectively, in PCI loans in accordance with ASC 310-30 accounting guidance. These loans are excluded from nonperforming loans, including $0.6 million, $0.6 million, and $0.5 million in PCI loans at March 31, 2019, December 31, 2018, and March 31, 2018, respectively, that were contractually past due 90 days or more.

At March 31, 2019 and December 31, 2018, the Company had $1.5 million and $0.7 million in residential mortgage loans in process of foreclosure, respectively.

The following is a summary of the Company’s nonaccrual loans by major categories.

($ in thousands)	March 31, 2019	December 31, 2018
Commercial, financial, and agricultural	$ 980	919
Real estate – construction, land development & other land loans	1,677	2,265
Real estate – mortgage – residential (1-4 family) first mortgages	9,958	10,115
Real estate – mortgage – home equity loans / lines of credit	1,632	1,685
Real estate – mortgage – commercial and other	6,280	7,452
Installment loans to individuals	157	139
Total	$ 20,684	22,575

The following table presents an analysis of the payment status of the Company’s loans as of March 31, 2019.

($ in thousands)	Accruing 30-59 Days Past Due	Accruing 60-89 Days Past Due	Accruing 90 Days or More Past Due	Nonaccrual Loans	Accruing Current	Total Loans Receivable
Commercial, financial, and agricultural	$ 817	319	—	980	466,067	468,183
Real estate – construction, land development & other land loans	369	93	—	1,677	551,446	553,585
Real estate – mortgage – residential (1-4 family) first mortgages	6,480	485	—	9,958	1,038,072	1,054,995
Real estate – mortgage – home equity loans / lines of credit	624	—	—	1,632	352,081	354,337
Real estate – mortgage – commercial and other	438	275	—	6,280	1,778,884	1,785,877
Installment loans to individuals	526	51	—	157	68,585	69,319
Purchased credit impaired	340	389	551	—	14,587	15,867
Total	$ 9,594	1,612	551	20,684	4,269,722	4,302,163
Unamortized net deferred loan costs						1,624
Total loans						$ 4,303,787

The following table presents an analysis of the payment status of the Company's loans as of December 31, 2018.

($ in thousands)	Accruing 30-59 Days Past Due	Accruing 60-89 Days Past Due	Accruing 90 Days or More Past Due	Nonaccrual Loans	Accruing Current	Total Loans Receivable
Commercial, financial, and agricultural	$ 191	5	—	919	455,692	456,807
Real estate – construction, land development & other land loans	849	212	—	2,265	515,472	518,798
Real estate – mortgage – residential (1-4 family) first mortgages	14,178	1,369	—	10,115	1,022,261	1,047,923
Real estate – mortgage – home equity loans / lines of credit	1,048	254	—	1,685	355,831	358,818
Real estate – mortgage – commercial and other	709	520	—	7,452	1,768,205	1,776,886
Installment loans to individuals	359	220	—	139	70,422	71,140
Purchased credit impaired	990	138	583	—	15,682	17,393
Total	$ 18,324	2,718	583	22,575	4,203,565	4,247,765
Unamortized net deferred loan costs						1,299
Total loans						$ 4,249,064

The following table presents the activity in the allowance for loan losses for all loans for the three months ended March 31, 2019.

($ in thousands)	Commercial, Financial, and Agricultural	Real Estate – Construction, Land Development & Other Land Loans	Real Estate – Residential (1-4 Family) First Mortgages	Real Estate – Mortgage – Home Equity Lines of Credit	Real Estate – Mortgage – Commercial and Other	Installment Loans to Individuals	Unallo -cated	Total
As of and for the three months ended March 31, 2019								
Beginning balance	$ 2,889	2,243	5,197	1,665	7,983	952	110	21,039
Charge-offs	(246)	(264)	(30)	(80)	(836)	(281)	—	(1,737)
Recoveries	414	287	160	128	271	33	—	1,293
Provisions	652	18	(817)	(339)	702	302	(18)	500
Ending balance	$ 3,709	2,284	4,510	1,374	8,120	1,006	92	21,095
Ending balances as of March 31, 2019: Allowance for loan losses								
Individually evaluated for impairment	$ 857	28	858	—	312	—	—	2,055
Collectively evaluated for impairment	$ 2,852	2,256	3,596	1,362	7,723	990	92	18,871
Purchased credit impaired	$ —	—	56	12	85	16	—	169
Loans receivable as of March 31, 2019:								
Ending balance – total	$ 468,388	553,760	1,061,049	354,669	1,794,794	69,503	—	4,302,163
Unamortized net deferred loan costs								1,624
Total loans								$ 4,303,787
Ending balances as of March 31, 2019: Loans								
Individually evaluated for impairment	$ 1,044	797	10,891	21	8,396	—	—	21,149

Collectively evaluated for impairment	$ 467,139	552,788	1,044,104	354,316	1,777,481	69,319	—	4,265,147
Purchased credit impaired	$ 205	175	6,054	332	8,917	184	—	15,867

The following table presents the activity in the allowance for loan losses for the year ended December 31, 2018.

($ in thousands)	Commercial, Financial, and Agricultural	Real Estate – Construction, Land Development & Other Land Loans	Real Estate – Residential (1-4 Family) First Mortgages	Real Estate – Mortgage – Home Equity Lines of Credit	Real Estate – Mortgage – Commercial and Other	Installment Loans to Individuals	Unallo -cated	Total
As of and for the year ended December 31, 2018								
Beginning balance	$ 3,111	2,816	6,147	1,827	6,475	950	1,972	23,298
Charge-offs	(2,128)	(158)	(1,734)	(711)	(1,459)	(781)	—	(6,971)
Recoveries	1,195	4,097	833	364	1,503	309	—	8,301
Provisions	711	(4,512)	(49)	185	1,464	474	(1,862)	(3,589)
Ending balance	$ 2,889	2,243	5,197	1,665	7,983	952	110	21,039
Ending balances as of December 31, 2018: Allowance for loan losses								
Individually evaluated for impairment	$ 226	134	955	48	906	—	—	2,269
Collectively evaluated for impairment	$ 2,661	2,109	4,143	1,608	7,070	941	110	18,642
Purchased credit impaired	$ 2	—	99	9	7	11	—	128
Loans receivable as of December 31, 2018:								
Ending balance – total	$ 457,037	518,976	1,054,176	359,162	1,787,022	71,392	—	4,247,765
Unamortized net deferred loan costs								1,299
Total loans								$ 4,249,064
Ending balances as of December 31, 2018: Loans								
Individually evaluated for impairment	$ 696	1,345	12,391	296	9,525	—	—	24,253
Collectively evaluated for impairment	$ 456,111	517,453	1,035,532	358,522	1,767,361	71,140	—	4,206,119
Purchased credit impaired	$ 230	178	6,253	344	10,136	252	—	17,393

The following table presents the activity in the allowance for loan losses for all loans for the three months ended March 31, 2018.

($ in thousands)	Commercial, Financial, and Agricultural	Real Estate – Construction, Land Development, & Other Land Loans	Real Estate – Residential (1-4 Family) First Mortgages	Real Estate – Mortgage – Home Equity Lines of Credit	Real Estate – Mortgage – Commercial and Other	Installment Loans to Individuals	Unallo -cated	Total
As of and for the three months ended March 31, 2018								
Beginning balance	$ 3,111	2,816	6,147	1,827	6,475	950	1,972	23,298
Charge-offs	(239)	(2)	(243)	(176)	(41)	(118)	—	(819)
Recoveries	499	3,046	145	153	582	53	—	4,478
Provisions	(835)	(3,543)	(157)	462	(1,025)	(41)	1,480	(3,659)
Ending balance	$ 2,536	2,317	5,892	2,266	5,991	844	3,452	23,298
Ending balances as of March 31, 2018: Allowance for loan losses								
Individually evaluated for impairment	$ 143	22	1,120	—	398	—	—	1,683
Collectively evaluated for impairment	$ 2,391	2,295	4,598	2,225	5,581	844	3,452	21,386
Purchased credit impaired	$ 2	—	174	41	12	—	—	229
Loans receivable as of March 31, 2018:								
Ending balance – total	$ 411,662	542,960	995,662	373,797	1,718,698	71,257	—	4,114,036
Unamortized net deferred loan fees								(251)
Total loans								$ 4,113,785
Ending balances as of March 31, 2018: Loans								
Individually evaluated for impairment	$ 433	3,242	13,783	23	9,063	—	—	26,544
Collectively evaluated for impairment	$ 410,816	539,317	973,550	373,501	1,697,319	70,842	—	4,065,345
Purchased credit impaired	$ 413	401	8,329	273	12,316	415	—	22,147

The following table presents loans individually evaluated for impairment by class of loans, excluding PCI loans, as of March 31, 2019.

($ in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Impaired loans with no related allowance recorded:				
Commercial, financial, and agricultural	$ 28	29	—	169
Real estate – mortgage – construction, land development & other land loans	458	782	—	472
Real estate – mortgage – residential (1-4 family) first mortgages	4,789	5,112	—	4,708
Real estate – mortgage –home equity loans / lines of credit	21	30	—	21
Real estate – mortgage –commercial and other	4,016	4,808	—	3,745
Installment loans to individuals	—	—	—	—
Total impaired loans with no allowance	$ 9,312	10,761	—	9,115
Impaired loans with an allowance recorded:				
Commercial, financial, and agricultural	$ 1,016	1,016	857	701
Real estate – mortgage – construction, land development & other land loans	339	339	28	599
Real estate – mortgage – residential (1-4 family) first mortgages	6,102	6,303	858	6,934
Real estate – mortgage –home equity loans / lines of credit	—	—	—	137
Real estate – mortgage –commercial and other	4,380	4,998	312	5,215
Installment loans to individuals	—	—	—	—
Total impaired loans with allowance	$ 11,837	12,655	2,055	13,586

Interest income recorded on impaired loans during the three months ended March 31, 2019 was insignificant.

The following table presents loans individually evaluated for impairment by class of loans, excluding PCI loans, as of December 31, 2018.

($ in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Impaired loans with no related allowance recorded:				
Commercial, financial, and agricultural	$ 310	310	—	957
Real estate – mortgage – construction, land development & other land loans	485	803	—	2,366
Real estate – mortgage – residential (1-4 family) first mortgages	4,626	4,948	—	4,804
Real estate – mortgage –home equity loans / lines of credit	22	31	—	91
Real estate – mortgage –commercial and other	3,475	4,237	—	3,670
Installment loans to individuals	—	—	—	—
Total impaired loans with no allowance	$ 8,918	10,329	—	11,888
Impaired loans with an allowance recorded:				
Commercial, financial, and agricultural	$ 386	387	226	422
Real estate – mortgage – construction, land development & other land loans	860	864	134	385
Real estate – mortgage – residential (1-4 family) first mortgages	7,765	7,904	955	8,963
Real estate – mortgage –home equity loans / lines of credit	274	275	48	184
Real estate – mortgage –commercial and other	6,050	6,054	906	5,911
Installment loans to individuals	—	—	—	2
Total impaired loans with allowance	$ 15,335	15,484	2,269	15,867

Interest income recorded on impaired loans during the year ended December 31, 2018 was insignificant. Interest income recorded on impaired loans during the three months ended March 31, 2018 was insignificant.

The Company tracks credit quality based on its internal risk ratings. Upon origination, a loan is assigned an initial risk grade, which is generally based on several factors such as the borrower's credit score, the loan-to-value ratio, the debt-to-income ratio, etc. Loans that are risk-graded as substandard during the origination process are declined. After loans are initially graded, they are monitored regularly for credit quality based on many factors, such as payment history, the borrower's financial status, and changes in collateral value. Loans can be downgraded or upgraded depending on management's evaluation of these factors. Internal risk-grading policies are consistent throughout each loan type.

The following describes the Company's internal risk grades in ascending order of likelihood of loss:

	Risk Grade	Description
Pass:		
	1	Loans with virtually no risk, including cash secured loans.
	2	Loans with documented significant overall financial strength. These loans have minimum chance of loss due to the presence of multiple sources of repayment – each clearly sufficient to satisfy the obligation.
	3	Loans with documented satisfactory overall financial strength. These loans have a low loss potential due to presence of at least two clearly identified sources of repayment – each of which is sufficient to satisfy the obligation under the present circumstances.
	4	Loans to borrowers with acceptable financial condition. These loans could have signs of minor operational weaknesses, lack of adequate financial information, or loans supported by collateral with questionable value or marketability.
	5	Loans that represent above average risk due to minor weaknesses and warrant closer scrutiny by management. Collateral is generally required and felt to provide reasonable coverage with realizable liquidation values in normal circumstances. Repayment performance is satisfactory.
	P (Pass)	Consumer loans (<$500,000) that are of satisfactory credit quality with borrowers who exhibit good personal credit history, average personal financial strength and moderate debt levels. These loans generally conform to Bank policy, but may include approved mitigated exceptions to the guidelines.
Special Mention:		
	6	Existing loans with defined weaknesses in primary source of repayment that, if not corrected, could cause a loss to the Bank.
Classified:		
	7	An existing loan inadequately protected by the current sound net worth and paying capacity of the obligor or the collateral pledged, if any. These loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt.
	8	Loans that have a well-defined weakness that make the collection or liquidation in full highly questionable and improbable. Loss appears imminent, but the exact amount and timing is uncertain.
	9	Loans that are considered uncollectible and are in the process of being charged-off. This grade is a temporary grade assigned for administrative purposes until the charge-off is completed.
	F (Fail)	Consumer loans (<$500,000) with a well-defined weakness, such as exceptions of any kind with no mitigating factors, history of paying outside the terms of the note, insufficient income to support the current level of debt, etc.

The following table presents the Company's recorded investment in loans by credit quality indicators as of March 31, 2019.

($ in thousands)

	Pass	Special Mention Loans	Classified Accruing Loans	Classified Nonaccrual Loans	Total
Commercial, financial, and agricultural	$ 460,963	4,667	1,573	980	468,183
Real estate – construction, land development & other land loans	544,496	5,960	1,452	1,677	553,585
Real estate – mortgage – residential (1-4 family) first mortgages	1,009,860	16,271	18,905	9,958	1,054,994
Real estate – mortgage – home equity loans / lines of credit	345,187	1,466	6,052	1,632	354,337
Real estate – mortgage – commercial and other	1,752,757	18,664	8,177	6,280	1,785,878
Installment loans to individuals	68,606	227	329	157	69,319
Purchased credit impaired	8,148	4,025	3,694	—	15,867
Total	$ 4,190,017	51,280	40,182	20,684	4,302,163
Unamortized net deferred loan costs					1,624
Total loans					4,303,787

The following table presents the Company's recorded investment in loans by credit quality indicators as of December 31, 2018.

($ in thousands)

	Pass	Special Mention Loans	Classified Accruing Loans	Classified Nonaccrual Loans	Total
Commercial, financial, and agricultural	$ 452,372	3,056	459	919	456,806
Real estate – construction, land development & other land loans	509,251	5,668	1,614	2,265	518,798
Real estate – mortgage – residential (1-4 family) first mortgages	1,004,458	12,238	21,113	10,115	1,047,924
Real estate – mortgage – home equity loans / lines of credit	348,792	1,688	6,653	1,685	358,818
Real estate – mortgage – commercial and other	1,750,810	14,484	4,140	7,452	1,776,886
Installment loans to individuals	70,357	231	413	139	71,140
Purchased credit impaired	8,355	5,214	3,824	—	17,393
Total	$ 4,144,395	42,579	38,216	22,575	4,247,765
Unamortized net deferred loan costs					1,299
Total loans					4,249,064

Troubled Debt Restructurings

The restructuring of a loan is considered a "troubled debt restructuring" if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses.

The vast majority of the Company's troubled debt restructurings are due to interest rate reductions combined with restructured amortization schedules. The Company does not generally grant principal forgiveness.

All loans classified as troubled debt restructurings are considered to be impaired and are evaluated as such for determination of the allowance for loan losses. The Company's troubled debt restructurings can be classified as either nonaccrual or accruing based on the loan's payment status. The troubled debt restructurings that are nonaccrual are reported within the nonaccrual loan totals presented previously.

The following table presents information related to loans modified in a troubled debt restructuring during the three months ended March 31, 2019 and 2018.

($ in thousands)	For three months ended March 31, 2019			For the three months ended March 31, 2018		
	Number of Contracts	Pre-Modification Restructured Balances	Post-Modification Restructured Balances	Number of Contracts	Pre-Modification Restructured Balances	Post-Modification Restructured Balances
TDRs – Accruing						
Commercial, financial, and agricultural	—	$ —	$ —	—	$ —	$ —
Real estate – construction, land development & other land loans	—	—	—	—	—	—
Real estate – mortgage – residential (1-4 family) first mortgages	1	55	55	—	—	—
Real estate – mortgage – home equity loans / lines of credit	—	—	—	—	—	—
Real estate – mortgage – commercial and other	—	—	—	—	—	—
Installment loans to individuals	—	—	—	—	—	—
TDRs – Nonaccrual						
Commercial, financial, and agricultural	—	—	—	—	—	—
Real estate – construction, land development & other land loans	—	—	—	1	61	61
Real estate – mortgage – residential (1-4 family) first mortgages	—	—	—	2	254	264
Real estate – mortgage – home equity loans / lines of credit	—	—	—	—	—	—
Real estate – mortgage – commercial and other	—	—	—	—	—	—
Installment loans to individuals	—	—	—	—	—	—
Total TDRs arising during period	1	$ 55	$ 55	3	$ 315	$ 325

Accruing restructured loans that were modified in the previous 12 months and that defaulted during the three months ended March 31, 2019 and 2018 are presented in the table below. The Company considers a loan to have defaulted when it becomes 90 or more days delinquent under the modified terms, has been transferred to nonaccrual status, or has been transferred to foreclosed real estate.

($ in thousands)	For the three months ended March 31, 2019		For the three months ended March 31, 2018	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Accruing TDRs that subsequently defaulted				
Real estate – mortgage – residential (1-4 family first mortgages)	1	$ 93	—	$ —
Real estate – mortgage – commercial and other	—	—	1	570
Total accruing TDRs that subsequently defaulted	1	$ 93	1	$ 570

Note 8 – Goodwill and Other Intangible Assets

The following is a summary of the gross carrying amount and accumulated amortization of amortizable intangible assets as of March 31, 2019, December 31, 2018, and March 31, 2018 and the carrying amount of unamortized intangible assets as of those same dates.

	March 31, 2019		December 31, 2018		March 31, 2018	
($ in thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets:						
Customer lists	$ 6,013	1,774	6,013	1,637	6,013	1,185
Core deposit intangibles	28,440	17,585	28,440	16,469	28,440	12,803
SBA servicing asset	6,072	1,352	5,472	1,053	3,348	319
Other	1,303	1,036	1,303	957	1,303	718
Total	$ 41,828	21,747	41,228	20,116	39,104	15,025
Unamortizable intangible assets:						
Goodwill	$ 234,368		234,368		231,681	

The Company recorded $600,000 and $1,154,000 in servicing assets associated with the guaranteed portion of SBA loans originated and sold during the first quarters of 2019 and 2018, respectively. During the first quarters of 2019 and 2018, the Company recorded $299,000 and $112,000, respectively, in related amortization expense. Servicing assets are recorded for loans, or portions thereof, that the Company has sold but continue to service for a fee. Servicing assets are recorded at fair value and amortized over the expected lives of the related loans and are tested for impairment on a quarterly basis. SBA servicing asset amortization expense is recorded within noninterest income to offset SBA servicing fees.

Amortization expense of all other intangible assets totaled $1,332,000 and $1,560,000 for the three months ended March 31, 2019 and 2018, respectively.

The following table presents the estimated amortization expense related to amortizable intangible assets for the last three quarters of calendar year 2019 and for each of the four calendar years ending December 31, 2023 and the estimated amount amortizable thereafter. These estimates are subject to change in future periods to the extent management determines it is necessary to make adjustments to the carrying value or estimated useful lives of amortized intangible assets.

($ in thousands)	Estimated Amortization Expense
April 1 to December 31, 2019	$ 4,191
2020	4,641
2021	3,628
2022	2,525
2023	1,453
Thereafter	3,643
Total	$ 20,081

Note 9 – Pension Plans

The Company has historically sponsored two defined benefit pension plans – a qualified retirement plan (the “Pension Plan”) which was generally available to all employees, and a Supplemental Executive Retirement Plan (the “SERP”), which was for the benefit of certain senior management executives of the Company. Effective December 31, 2012, the Company froze both plans for all participants. Although no previously accrued benefits were lost, employees no longer accrue benefits for service subsequent to 2012.

The Company recorded periodic pension cost totaling $244,000 and $365,000 for the three months ended March 31, 2019 and 2018, respectively. The following table contains the components of the pension cost.

	For the Three Months Ended March 31,					
($ in thousands)	2019 Pension Plan	2018 Pension Plan	2019 SERP	2018 SERP	2019 Total Both Plans	2018 Total Both Plans
Service cost	$ —	—	—	29	—	29
Interest cost	372	330	41	57	413	387
Expected return on plan assets	(397)	(103)	—	—	(397)	(103)
Amortization of net (gain)/loss	223	60	5	(8)	228	52
Net periodic pension cost	$ 198	287	46	78	244	365

The service cost component of net periodic pension cost is included in salaries and benefits expense and all other components of net periodic pension cost are included in other noninterest expense.

The Company’s contributions to the Pension Plan are based on computations by independent actuarial consultants and are intended to be deductible for income tax purposes. The Company did not contribute to the Pension Plan in the first quarter 2019 and does not expect to contribute to the Pension Plan in 2019.

The Company’s funding policy with respect to the SERP is to fund the related benefits from the operating cash flow of the Company.

Note 10 – Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity during a period for non-owner transactions and is divided into net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes revenues, expenses, gains, and losses that are excluded from earnings under current accounting standards. The components of accumulated other comprehensive income (loss) for the Company are as follows:

($ in thousands)

	March 31, 2019	December 31, 2018	March 31, 2018
Unrealized gain (loss) on securities available for sale	$ (6,487)	(12,390)	(9,501)
Deferred tax asset (liability)	1,516	2,896	2,220
Net unrealized gain (loss) on securities available for sale	(4,971)	(9,494)	(7,281)
Additional pension asset (liability)	(2,992)	(3,220)	(3,148)
Deferred tax asset (liability)	699	753	736
Net additional pension asset (liability)	(2,293)	(2,467)	(2,412)
Total accumulated other comprehensive income (loss)	$ (7,264)	(11,961)	(9,693)

The following table discloses the changes in accumulated other comprehensive income (loss) for the three months ended March 31, 2019 (all amounts are net of tax).

($ in thousands)	Unrealized Gain (Loss) on Securities Available for Sale	Additional Pension Asset (Liability)	Total
Beginning balance at January 1, 2019	$ (9,494)	(2,467)	(11,961)
Other comprehensive income (loss) before reclassifications	4,523	—	4,523
Amounts reclassified from accumulated other comprehensive income	—	174	174
Net current-period other comprehensive income (loss)	4,523	174	4,697
Ending balance at March 31, 2019	$ (4,971)	(2,293)	(7,264)

The following table discloses the changes in accumulated other comprehensive income (loss) for the three months ended March 31, 2018 (all amounts are net of tax).

($ in thousands)	Unrealized Gain (Loss) on Securities Available for Sale	Additional Pension Asset (Liability)	Total
Beginning balance at January 1, 2018	$ (1,694)	(2,452)	(4,146)
Other comprehensive income (loss) before reclassifications	(5,587)	—	(5,587)
Amounts reclassified from accumulated other comprehensive income	—	40	40
Net current-period other comprehensive income (loss)	(5,587)	40	(5,547)
Ending balance at March 31, 2018	$ (7,281)	(2,412)	(9,693)

Note 11 – Fair Value

Relevant accounting guidance establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) of identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The following table summarizes the Company's financial instruments that were measured at fair value on a recurring and nonrecurring basis at March 31, 2019.

($ in thousands)

Description of Financial Instruments	Fair Value at March 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring				
Securities available for sale:				
Government-sponsored enterprise securities	$ 78,887	—	78,887	—
Mortgage-backed securities	526,948	—	526,948	—
Corporate bonds	33,774	—	33,774	—
Total available for sale securities	$ 639,609	—	639,609	—
Nonrecurring				
Impaired loans	$ 10,820	—	—	10,820
Foreclosed real estate	6,390	—	—	6,390

The following table summarizes the Company's financial instruments that were measured at fair value on a recurring and nonrecurring basis at December 31, 2018.

($ in thousands)

Description of Financial Instruments	Fair Value at December 31, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring				
Securities available for sale:				
Government-sponsored enterprise securities	$ 82,662	—	82,662	—
Mortgage-backed securities	385,551	—	385,551	—
Corporate bonds	33,138	—	33,138	—
Total available for sale securities	$ 501,351	—	501,351	—
Nonrecurring				
Impaired loans	$ 13,071	—	—	13,071
Foreclosed real estate	7,440	—	—	7,440

The following is a description of the valuation methodologies used for instruments measured at fair value.

Securities Available for Sale — When quoted market prices are available in an active market, the securities are classified as Level 1 in the valuation hierarchy. If quoted market prices are not available, but fair values can be estimated by observing quoted prices of securities with similar characteristics, the securities are classified as Level 2 on the valuation hierarchy. Most of the fair values for the Company's Level 2 securities are determined by our third-party bond accounting provider using matrix pricing. Matrix pricing is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities. For the Company, Level 2 securities include mortgage-backed securities, collateralized mortgage obligations, government-sponsored enterprise securities, and corporate bonds. In cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

The Company reviews the pricing methodologies utilized by the bond accounting provider to ensure the fair value determination is consistent with the applicable accounting guidance and that the investments are properly classified in the fair value hierarchy. Further, the Company validates the fair values for a sample of securities in the portfolio by comparing the fair values provided by the bond accounting provider to prices from other independent sources for the same or similar securities. The Company analyzes unusual or significant variances and conducts additional research with the portfolio manager, if necessary, and takes appropriate action based on its findings.

Impaired loans — Fair values for impaired loans in the above table are measured on a non-recurring basis and are based on the underlying collateral values securing the loans, adjusted for estimated selling costs, or the net present value of the cash flows expected to be received for such loans. Collateral may be in the form of real estate or business assets including equipment, inventory and accounts receivable. The vast majority of the collateral is real estate. The value of real estate collateral is determined using an income or market valuation approach based on an appraisal conducted by an independent, licensed third party appraiser (Level 3). The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable borrower's financial statements if not considered significant. Likewise, values for inventory and accounts receivable collateral are based on borrower financial statement balances or aging reports on a discounted basis as appropriate (Level 3). Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Consolidated Statements of Income.

Foreclosed real estate – Foreclosed real estate, consisting of properties obtained through foreclosure or in satisfaction of loans, is reported at the lower of cost or fair value. Fair value is measured on a non-recurring basis and is based upon independent market prices or current appraisals that are generally prepared using an income or market valuation approach and conducted by an independent, licensed third party appraiser, adjusted for estimated selling costs (Level 3). At the time of foreclosure, any excess of the loan balance over the fair value of the real estate held as collateral is treated as a charge against the allowance for loan losses. For any real estate valuations subsequent to foreclosure, any excess of the real estate recorded value over the fair value of the real estate is treated as a foreclosed real estate write-down on the Consolidated Statements of Income.

For Level 3 assets and liabilities measured at fair value on a recurring or non-recurring basis as of March 31, 2019, the significant unobservable inputs used in the fair value measurements were as follows:

($ in thousands)

Description	Fair Value at March 31, 2019	Valuation Technique	Significant Unobservable Inputs	Range of Significant Unobservable Input Values
Impaired loans	$ 10,820	Appraised value; PV of expected cash flows	Discounts to reflect current market conditions, ultimate collectability, and estimated costs to sell	0-10%
Foreclosed real estate	6,390	Appraised value; List or contract price	Discounts to reflect current market conditions, abbreviated holding period and estimated costs to sell	0-10%

For Level 3 assets and liabilities measured at fair value on a recurring or non-recurring basis as of December 31, 2018, the significant unobservable inputs used in the fair value measurements were as follows:

($ in thousands)

Description	Fair Value at December 31, 2018	Valuation Technique	Significant Unobservable Inputs	Range of Significant Unobservable Input Values
Impaired loans	$ 13,071	Appraised value; PV of expected cash flows	Discounts to reflect current market conditions, ultimate collectability, and estimated costs to sell	0-10%
Foreclosed real estate	7,440	Appraised value; List or contract price	Discounts to reflect current market conditions and estimated costs to sell	0-10%

Transfers of assets or liabilities between levels within the fair value hierarchy are recognized when an event or change in circumstances occurs. There were no transfers between Level 1 and Level 2 for assets or liabilities measured on a recurring basis during the three months ended March 31, 2019 or 2018.

For the three months ended March 31, 2019 and 2018, the increase (decrease) in the fair value of securities available for sale was $5,903,000 and ($7,290,000), respectively, which is included in other comprehensive income (net of tax benefit (expense) of ($1,380,000) and $1,703,000, respectively). Fair value measurement methods at March 31, 2019 and 2018 are consistent with those used in prior reporting periods.

The carrying amounts and estimated fair values of financial instruments at March 31, 2019 and December 31, 2018 are as follows:

		March 31, 2019		December 31, 2018	
($ in thousands)	Level in Fair Value Hierarchy	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Cash and due from banks, noninterest-bearing	Level 1	$ 80,620	80,620	56,050	56,050
Due from banks, interest-bearing	Level 1	366,187	366,187	406,848	406,848
Securities available for sale	Level 2	639,609	639,609	501,351	501,351
Securities held to maturity	Level 2	90,903	90,280	101,237	99,906
Presold mortgages in process of settlement	Level 1	3,318	3,318	4,279	4,279
Total loans, net of allowance	Level 3	4,282,692	4,228,688	4,228,025	4,181,139
Accrued interest receivable	Level 1	16,516	16,516	16,004	16,004
Bank-owned life insurance	Level 1	102,524	102,524	101,878	101,878
SBA Servicing Asset	Level 3	4,720	4,990	4,419	4,617
Deposits	Level 2	4,797,238	4,792,368	4,659,339	4,653,522
Borrowings	Level 2	406,125	401,064	406,609	402,556
Accrued interest payable	Level 2	2,341	2,341	1,976	1,972

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no highly liquid market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on- and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial assets or liabilities include net premises and equipment, intangible and other assets such as deferred income taxes, prepaid expense accounts, income taxes currently payable and other various accrued expenses. In addition, the income tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

Note 12 – Revenue from Contracts with Customers

All of the Company's revenues that are in the scope of the "*Revenue from Contracts with Customers*" accounting standard ("Topic 606") are recognized within noninterest income. The following table presents the Company's sources of noninterest income for the three months ended March 31, 2019 and 2018. Items outside the scope of Topic 606 are noted as such.

	For the Three Months Ended	
$ in thousands	March 31, 2019	March 31, 2018
Noninterest Income		
In-scope of Topic 606:		
Service charges on deposit accounts:	$ 2,945	3,263
Other service charges, commissions, and fees:		
Interchange income	3,551	3,061
Other service charges and fees	1,697	1,424
Commissions from sales of insurance and financial products:		
Insurance income	1,368	1,414
Wealth management income	661	526
SBA consulting fees	1,263	1,141
Foreclosed property gains (losses), net	(245)	(288)
Noninterest income (in-scope of Topic 606)	11,240	10,541
Noninterest income (out-of-scope of Topic 606)	3,335	5,288
Total noninterest income	$ 14,575	15,829

A description of the Company's revenue streams accounted for under Topic 606 is detailed below.

<u>Service Charges on Deposit Accounts:</u> The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Overdraft fees are recognized at the point in time that the overdraft occurs. Maintenance and activity fees include account maintenance fees and transaction-based fees. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of the month, representing the period over which the Company satisfies the performance obligation. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Service charges on deposits are withdrawn from the customer's account balance.

<u>Other service charges, commissions, and fees:</u> The Company earns interchange income on its customers' debit and credit card usage and earns fees from other services utilized by its customers. Interchange income is primarily comprised of interchange fees earned whenever the Company's debit and credit cards are processed through card payment networks such as MasterCard. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. Other service charges include revenue from processing wire transfers, bill pay service, cashier's checks, ATM surcharge fees, and other services. The Company's performance obligation for fees, exchange, and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month.

Commissions from the sale of insurance and financial products: The Company earns commissions from the sale of insurance policies and wealth management products.

Insurance income generally consists of commissions from the sale of insurance policies and performance-based commissions from insurance companies. The Company recognizes commission income from the sale of insurance policies when it acts as an agent between the insurance company and the policyholder. The Company's performance obligation is generally satisfied upon the issuance of the insurance policy. Shortly after the policy is issued, the carrier remits the commission payment to the Company, and the Company recognizes the revenue. Performance-based commissions from insurance companies are recognized at a point in time as policies are sold.

Wealth Management Income primarily consists of commissions received on financial product sales, such as annuities. The Company's performance obligation is generally satisfied upon the issuance of the financial product. Shortly after the policy is issued, the carrier remits the commission payment to the Company, and the Company recognizes the revenue. The Company also earns some fees from asset management, which is billed quarterly for services rendered in the most recent period.

SBA Consulting fees: The Company earns fees for its consulting services related to the origination of SBA loans. Fees are based on a percentage of the dollar amount of the originated loans and are recorded when the performance obligation has been satisfied, upon closing the loan.

Foreclosed property gains (losses), net: The Company records a gain or loss from the sale of foreclosed property when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of foreclosed property to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the foreclosed property asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer.

The Company has made no significant judgments in applying the revenue guidance prescribed in ASC 606 that affect the determination of the amount and timing of revenue from the above-described contracts with customers.

Note 13 – Leases

Effective January 1, 2019, the Company adopted new accounting guidance regarding *Leases* (Topic 842). As of March 31, 2019, the Company leased eight branch offices for which the land and buildings are leased and nine branch offices for which the land is leased but the building is owned. The Company also leases one loan production office and office space for several operational departments. All of the Company's leases have historically qualified as operating leases under prior accounting guidance, and therefore, were not previously recognized on the Company's Consolidated Balance Sheets. The lease agreements have maturity dates ranging from January 2021 through May 2076, some of which include options for multiple five- and ten-year extensions. The weighted average remaining life of the lease term for these leases was 21.19 years as of March 31, 2019.

The discount rate that was determined for each lease was based on the Company's incremental borrowing rate at lease inception, on a collateralized basis, over a similar term. For operating leases existing prior to January 1, 2019, the rate for the remaining lease term as of January 1, 2019 was used. The weighted average discount rate for leases was 3.42% as of March 31, 2019.

Total operating lease expense was $0.6 million for the three months ended March 31, 2019. The right-of-use assets, included in premises and equipment, and lease liabilities, included in other liabilities, were $18.9 million and $19.0 million as of March 31, 2019, respectively.

Estimated lease payments for the Company's operating leases with initial terms of one year or more as of March 31, 2019 were as follows.

($ in thousands)	Estimated Amortization Expense
April 1 to December 31, 2019	$ 2,206
2020	2,175
2021	1,986
2022	1,699
2023	1,607
Thereafter	19,571
Total estimated lease payments	29,244
Less effect of discounting	(10,268)
Present value of estimated lease payments (lease liability)	$ 18,976

Item 2 - Management's Discussion and Analysis of Consolidated Results of Operations and Financial Condition

Critical Accounting Policies

The accounting principles we follow and our methods of applying these principles conform with accounting principles generally accepted in the United States of America and with general practices followed by the banking industry. Certain of these principles involve a significant amount of judgment and may involve the use of estimates based on our best assumptions at the time of the estimation. The allowance for loan losses, intangible assets, and the fair value and discount accretion of acquired loans are three policies we have identified as being more sensitive in terms of judgments and estimates, taking into account their overall potential impact to our consolidated financial statements.

Allowance for Loan Losses

Due to the estimation process and the potential materiality of the amounts involved, we have identified the accounting for the allowance for loan losses and the related provision for loan losses as an accounting policy critical to our consolidated financial statements. The provision for loan losses charged to operations is an amount sufficient to bring the allowance for loan losses to an estimated balance considered adequate to absorb losses inherent in the portfolio.

Our determination of the adequacy of the allowance is based primarily on a mathematical model that estimates the appropriate allowance for loan losses. This model has two components. The first component involves the estimation of losses on individually evaluated “impaired loans.” A loan is considered to be impaired when, based on current information and events, it is probable we will be unable to collect all amounts due according to the contractual terms of the original loan agreement. A loan is specifically evaluated for an appropriate valuation allowance if the loan balance is above a prescribed evaluation threshold (which varies based on credit quality, accruing status, troubled debt restructured status, purchased credit impaired status, and type of collateral) and the loan is determined to be impaired. The estimated valuation allowance is the difference, if any, between the loan balance outstanding and the value of the impaired loan as determined by either 1) an estimate of the cash flows that we expect to receive from the borrower discounted at the loan’s effective rate, or 2) in the case of a collateral-dependent loan, the fair value of the collateral.

The second component of the allowance model is an estimate of losses for all loans not considered to be impaired loans (“general reserve loans”). General reserve loans are segregated into pools by loan type and risk grade and estimated loss percentages are assigned to each loan pool based on historical losses. The historical loss percentages are then adjusted for any environmental factors used to reflect changes in the collectability of the portfolio not captured by historical data.

The reserves estimated for individually evaluated impaired loans are then added to the reserve estimated for general reserve loans. This becomes our “allocated allowance.” The allocated allowance is compared to the actual allowance for loan losses recorded on our books and any adjustment necessary for the recorded allowance to absorb losses inherent in the portfolio is recorded as a provision for loan losses. The provision for loan losses is a direct charge to earnings in the period recorded. Any remaining difference between the allocated allowance and the actual allowance for loan losses recorded on our books is our “unallocated allowance.”

Purchased loans are recorded at fair value at the acquisition date. Therefore, amounts deemed uncollectible at the acquisition date represent a discount to the loan value and become a part of the fair value calculation. Subsequent decreases in the amount expected to be collected result in a provision for loan losses with a corresponding increase in the allowance for loan losses. Subsequent increases in the amount expected to be collected are accreted into income over the life of the loan and this accretion is referred to as “loan discount accretion.”

Within the purchased loan portfolio, loans are deemed purchased credit impaired at acquisition if the bank believes it will not be able to collect all contractual cash flows. Performing loans with an unamortized discount or premium that are not deemed purchased credit impaired are considered to be purchased performing loans. Purchased credit impaired loans are individually evaluated as impaired loans, as described above, while purchased performing loans are evaluated as general reserve loans. For purchased performing loan pools, any computed allowance that is in excess of remaining net discounts is a component of the allocated allowance.

Although we use the best information available to make evaluations, future material adjustments may be necessary if economic, operational, or other conditions change. In addition, various regulatory agencies, as an integral part of their examination process, periodically review our allowance for loan losses. Such agencies may require us to recognize additions to the allowance based on the examiners' judgment about information available to them at the time of their examinations.

For further discussion, see "Nonperforming Assets" and "Summary of Loan Loss Experience" below.

Intangible Assets

Due to the estimation process and the potential materiality of the amounts involved, we have also identified the accounting for intangible assets as an accounting policy critical to our consolidated financial statements.

When we complete an acquisition transaction, the excess of the purchase price over the amount by which the fair market value of assets acquired exceeds the fair market value of liabilities assumed represents an intangible asset. We must then determine the identifiable portions of the intangible asset, with any remaining amount classified as goodwill. Identifiable intangible assets associated with these acquisitions are generally amortized over the estimated life of the related asset, whereas goodwill is tested annually for impairment, but not systematically amortized. Assuming no goodwill impairment, it is beneficial to our future earnings to have a lower amount assigned to identifiable intangible assets and higher amount of goodwill as opposed to having a higher amount considered to be identifiable intangible assets and a lower amount classified as goodwill.

The primary identifiable intangible asset we typically record in connection with a whole bank or bank branch acquisition is the value of the core deposit intangible, whereas when we acquire an insurance agency or a consulting firm, as we did in 2016 and 2017, the primary identifiable intangible asset is the value of the acquired customer list. Determining the amount of identifiable intangible assets and their average lives involves multiple assumptions and estimates and is typically determined by performing a discounted cash flow analysis, which involves a combination of any or all of the following assumptions: customer attrition/runoff, alternative funding costs, deposit servicing costs, and discount rates. We typically engage a third party consultant to assist in each analysis. For the whole bank and bank branch transactions recorded to date, the core deposit intangibles have generally been estimated to have a life ranging from seven to ten years, with an accelerated rate of amortization. For insurance agency acquisitions, the identifiable intangible assets related to the customer lists were determined to have a life of ten to fifteen years, with amortization occurring on a straight-line basis. For SBA Complete, the consulting firm we acquired in 2016, the identifiable intangible asset related to the customer list was determined to have a life of approximately seven years, with amortization occurring on a straight-line basis.

Subsequent to the initial recording of the identifiable intangible assets and goodwill, we amortize the identifiable intangible assets over their estimated average lives, as discussed above. In addition, on at least an annual basis, goodwill is evaluated for impairment by comparing the fair value of our reporting units to their related carrying value, including goodwill. We have three reporting units – 1) First Bank with $222.7 million in goodwill, 2) First Bank Insurance with $7.4 million in goodwill, and 3) SBA activities, including SBA Complete and our SBA Lending Division, with $4.3 million in goodwill. If the carrying value of a reporting unit were ever to exceed its fair value, we would determine whether the implied fair value of the goodwill, using a discounted cash flow analysis, exceeded the carrying value of the goodwill. If the carrying value of the goodwill exceeded the implied fair value of the goodwill, an impairment loss would be recorded in an amount equal to that excess. Performing such a discounted cash flow analysis would involve the significant use of estimates and assumptions.

In our October 31, 2018 goodwill impairment evaluation, we concluded that the goodwill for each of our reporting units was not impaired.

We review identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Our policy is that an impairment loss is recognized, equal to the difference between the asset's carrying amount and its fair value, if the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset. Estimating future cash flows involves the use of multiple estimates and assumptions, such as those listed above.

Fair Value and Discount Accretion of Acquired Loans

We consider the determination of the initial fair value of acquired loans and the subsequent discount accretion of the purchased loans to involve a high degree of judgment and complexity.

We determine fair value accounting estimates of newly assumed assets and liabilities in accordance with relevant accounting guidance. However, the amount that we realize on these assets could differ materially from the carrying value reflected in our financial statements, based upon the timing of collections on the acquired loans in future periods. Because of inherent credit losses and interest rate marks associated with acquired loans, the amount that we record as the fair values for the loans is generally less than the contractual unpaid principal balance due from the borrowers, with the difference being referred to as the “discount” on the acquired loans. For non-impaired purchased loans, we accrete the discount over the lives of the loans in a manner consistent with the guidance for accounting for loan origination fees and costs.

For purchased credit-impaired (“PCI”) loans, the excess of the cash flows initially expected to be collected over the fair value of the loans at the acquisition date (i.e., the accretable yield) is accreted into interest income over the estimated remaining life of the loans using the effective yield method, provided that the timing and the amount of future cash flows is reasonably estimable. Accordingly, such loans are not classified as nonaccrual and they are considered to be accruing because their interest income relates to the accretable yield recognized under accounting for PCI loans and not to contractual interest payments. The difference between the contractually required payments and the cash flows expected to be collected at acquisition, considering the impact of prepayments, is referred to as the nonaccretable difference.

Subsequent to an acquisition, estimates of cash flows expected to be collected are updated periodically based on updated assumptions regarding default rates, loss severities, and other factors that are reflective of current market conditions. If there is a decrease in cash flows expected to be collected, the provision for loan losses is charged, resulting in an increase to the allowance for loan losses. If the Company has a probable increase in cash flows expected to be collected, we will first reverse any previously established allowance for loan losses and then increase interest income as a prospective yield adjustment over the remaining life of the loan. The impact of changes in variable interest rates is recognized prospectively as adjustments to interest income.

Current Accounting Matters

See Note 2 to the Consolidated Financial Statements above for information about accounting standards that we have recently adopted.

FINANCIAL OVERVIEW

Net income available to common shareholders for the first quarter of 2019 was $22.3 million, or $0.75 per diluted common share, an increase of 7.1% in earnings per share from the $20.7 million, or $0.70 per diluted common share, recorded in the first quarter of 2018.

Net Interest Income and Net Interest Margin

Net interest income for the first quarter of 2019 was $53.4 million, a 5.7% increase from the $50.5 million recorded in the first quarter of 2018. The increase in net interest income was due to growth in interest-earning assets.

Our net interest margin (tax-equivalent net interest income divided by average earning assets) for the first quarter of 2019 was 4.06% compared to 4.17% for the first quarter of 2018. The decrease in the net interest margin realized in 2019 was primarily due to lower loan discount accretion, significant interest recoveries realized in the prior year, and interest bearing liability costs that have increased more than earning asset yields.

Provision for Loan Losses and Asset Quality

We recorded a provision for loan losses of $0.5 million in the first quarter of 2019 compared to a negative provision for loan losses of $3.7 million (reduction of the allowance for loan losses) in the first quarter of 2018. In the first quarter of 2018, we experienced net loan recoveries of $3.7 million, which drove the negative provision for the quarter. Our provision for loan losses has remained at a low level over the past several years as a result of strong asset quality, including low loan charge-offs.

Noninterest Income

Total noninterest income was $14.6 million and $15.8 million for the three months ended March 31, 2019 and March 31, 2018, respectively, with the majority of the decrease relating to declines in gains on SBA loan sales.

Noninterest Expenses

Noninterest expenses amounted to $39.3 million in the first quarter of 2019 compared to $43.5 million recorded in the first quarter of 2018. Most categories of noninterest expense decreased in the first quarter 2019 compared to the first quarter of 2018 due to operating efficiencies realized subsequent to the March 2018 merger conversion of the Asheville Savings Bank operations into First Bank.

Income Taxes

Our effective tax rate for the first quarter of 2019 was 20.9% compared to 22.0% in the first quarter of 2018. The decline was due to a decrease in the North Carolina corporate income tax rate from 3.0% to 2.5%, as well as the impact of certain merger expenses recorded in 2018 that were not tax deductible.

Balance Sheet and Capital

Total assets at March 31, 2019 amounted to $6.1 billion, a 7.2% increase from a year earlier. Total loans at March 31, 2019 amounted to $4.3 billion, a 4.6% increase from a year earlier, and total deposits amounted to $4.8 billion at March 31, 2019, a 6.7% increase from a year earlier.

We experienced steady organic loan and deposit growth during the first quarter of 2019. Organic loan growth amounted to $54.7 million, or 5.2% annualized, and organic deposit growth amounted to $137.9 million, or 12.0% annualized. We have ongoing internal initiatives to enhance loan and deposit growth, including our continued expansion into higher growth markets such as Charlotte and Raleigh.

We remain well-capitalized by all regulatory standards, with an estimated Total Risk-Based Capital Ratio at March 31, 2019 of 14.21%, an increase from the 12.79% reported at March 31, 2018.

Impact of New Lease Accounting Standard

During the first quarter of 2019, we adopted new accounting guidance which required us to record all long-term leases on our balance sheet. With the adoption of this guidance, we recorded $19.5 million in right-to-use lease assets, which was recorded within premises and equipment, and $19.5 million in lease obligations, which was recorded in other liabilities. These additions had an insignificant impact on our capital ratios, and there was no impact to our earnings related to the adoption of this new standard.

Components of Earnings

Net interest income is the largest component of earnings, representing the difference between interest and fees generated from earning assets and the interest costs of deposits and other funds needed to support those assets. Net interest income for the three month period ended March 31, 2019 amounted to $53.4 million, an increase of $2.9 million, or 5.7%, from the $50.5 million recorded in the first quarter of 2018. Net interest income on a tax-equivalent basis for the three month period ended March 31, 2019 amounted to $53.8 million, an increase of $2.9 million, or 5.7%, from the $50.9 million recorded in the first quarter of 2018. We believe that analysis of net interest income on a tax-equivalent basis is useful and appropriate because it allows a comparison of net interest income amounts in different periods without taking into account the different mix of taxable versus non-taxable loans and investments that may have existed during those periods.

	Three Months Ended March 31,	
($ in thousands)	2019	2018
Net interest income, as reported	$ 53,361	50,507
Tax-equivalent adjustment	424	356
Net interest income, tax-equivalent	$ 53,785	50,863

There are two primary factors that cause changes in the amount of net interest income we record - 1) changes in our loans and deposits balances, and 2) our net interest margin (tax-equivalent net interest income divided by average interest-earning assets).

For the three months ended March 31, 2019, the higher net interest income compared to the same period of 2018 was due to growth in loans outstanding.

The following table presents an analysis of net interest income.

	For the Three Months Ended March 31,					
	2019			2018		
($ in thousands)	Average Volume	Average Rate	Interest Earned or Paid	Average Volume	Average Rate	Interest Earned or Paid
Assets						
Loans (1)	$4,280,272	5.11%	$53,960	$4,099,495	4.96%	$50,170
Taxable securities	651,878	2.95%	4,737	410,586	2.55%	2,586
Non-taxable securities	45,752	2.99%	337	52,945	2.91%	380
Short-term investments, primarily overnight funds	394,864	2.77%	2,701	386,586	2.02%	1,925
Total interest-earning assets	5,372,766	4.66%	61,735	4,949,612	4.51%	55,061
Cash and due from banks	55,899			93,185		
Premises and equipment	137,023			115,956		
Other assets	379,361			390,763		
Total assets	$5,945,049			$5,549,516		
Liabilities						
Interest bearing checking	$ 908,039	0.15%	$ 327	$ 885,428	0.09%	$ 199
Money market deposits	1,056,931	0.54%	1,395	1,005,588	0.23%	575
Savings deposits	426,843	0.27%	287	448,785	0.19%	205
Time deposits >$100,000	712,540	1.81%	3,178	599,727	1.00%	1,475
Other time deposits	263,171	0.60%	390	282,678	0.31%	219
Total interest-bearing deposits	3,367,524	0.67%	5,577	3,222,206	0.34%	2,673
Borrowings	406,190	2.79%	2,797	407,158	1.87%	1,881
Total interest-bearing liabilities	3,773,714	0.90%	8,374	3,629,364	0.51%	4,554
Noninterest bearing checking	1,336,707			1,181,599		
Other liabilities	59,569			37,142		
Shareholders' equity	775,059			701,411		
Total liabilities and shareholders' equity	$5,945,049			$5,549,516		
Net yield on interest-earning assets and net interest income		4.03%	$53,361		4.14%	$50,507
Net yield on interest-earning assets and net interest income – tax-equivalent (2)		4.06%	$53,785		4.17%	$50,863
Interest rate spread		3.76%			4.00%	
Average prime rate		5.50%			4.53%	

(1) Average loans include nonaccruing loans, the effect of which is to lower the average rate shown.

(2) Includes tax-equivalent adjustments of $424,000 and $356,000 in 2019 and 2018, respectively, to reflect the tax benefit that we receive related to tax-exempt securities and tax-exempt loans, which carry interest rates lower than similar taxable investments/loans due to their tax exempt status. This amount has been computed assuming a 23% tax rate and is reduced by the related nondeductible portion of interest expense.

Average loans outstanding for the first quarter of 2019 were $4.280 billion, which was $181 million, or 4.4%, higher than the average loans outstanding for the first quarter of 2018 ($4.099 billion). The higher amount of average loans outstanding in 2019 was primarily due to our loan growth initiatives, including our continued focus and expansion into higher growth markets.

The mix of our loan portfolio remained substantially the same at March 31, 2019 compared to December 31, 2018, with approximately 88% of our loans being real estate loans, 11% being commercial, financial, and agricultural loans, and the remaining 1% being consumer installment loans. The majority of our real estate loans are personal and commercial loans where real estate provides additional security for the loan.

Average total deposits outstanding for the first quarter of 2019 were $4.704 billion, which was $300 million, or 6.8%, higher than the average deposits outstanding for the first quarter of 2018 ($4.404 billion). We continue to implement strategies to grow deposits, which we believe to be the principal reason for the increases in the past year. Average transaction deposit accounts (noninterest bearing checking, interest bearing checking, money market and savings accounts) increased from $3.521 billion at March 31, 2018 to $3.729 billion at March 31, 2019, representing growth of $207 million, or 5.9%. Average time deposits also increased from $882 million at March 31, 2018 to $976 million at March 31, 2019, an increase of $93 million, or 10.6%.

Average borrowings remained stable at approximately $406 million at March 31, 2019 and 2018. Our cost of funds, which includes noninterest bearing checking accounts at a zero percent cost, was 0.66% in the first quarter of 2019 compared to 0.38% in the first quarter of 2018.

See additional information regarding changes in our loans and deposits in the section below entitled “Financial Condition.”

Our net interest margin (tax-equivalent net interest income divided by average earning assets) for the first quarter of 2019 was 4.06% and was 4.17% for the first quarter of 2018. The decrease in the net interest margin realized in 2019 was primarily due to lower loan discount accretion, significant interest recoveries realized in the prior year and interest bearing liability costs that have increased more than earning asset yields, as discussed in the following paragraph.

We recorded loan discount accretion of $1.4 million in the first quarter of 2019, compared to $2.1 million in the first quarter of 2018. Loan discount accretion had an 11 basis point impact on the net interest margin in the first quarter of 2019 compared to an 18 basis point impact in the first quarter of 2018. The lower discount accretion in 2019 was attributable to paydowns in our acquired loan portfolios. Additionally, in the first quarter of 2018, we received approximately $750,000 in interest recoveries on loans that had been charged off in the past that added approximately 6 basis points to the net interest margin in the first quarter of 2018. Finally, over the past year, our interest bearing liability costs have increased more than earning asset yields, with the rate on interest bearing liabilities being 39 basis points higher in the first quarter of 2019 compared to the first quarter of 2018, while earning asset yields increased by approximately 27 basis points for that same period (exclusive of the impact of the loan discount accretion and interest recovery variances).

See additional information regarding net interest income in the section entitled “Interest Rate Risk.”

We recorded a provision for loan losses of $0.5 million for the first quarter of 2018 compared to a negative provision for loan losses (reduction of the allowance for loan losses) of $3.7 million in first quarter of 2018. In the first quarter of 2018, we experienced net loan recoveries of $3.7 million, which drove the negative provision for the quarter. Our provision for loan losses has remained at a low level over the past several years as a result of strong asset quality, including low loan charge-offs.

Our provision for loan loss levels have been impacted by continued improvement in asset quality. Nonperforming assets amounted to $39.5 million at March 31, 2019, a decrease of 23.5% from the $51.7 million one year earlier. Our nonperforming assets to total assets ratio was 0.65% at March 31, 2019 compared to 0.92% at March 31, 2018. Annualized net charge-offs (recoveries) as a percentage of average loans for the three months ended March 31, 2019 was 0.04% compared to (0.36%) for the same period of 2018.

Total noninterest income was $14.6 million in the first quarter of 2019 compared to $15.8 million for the first quarter of 2018, as presented in the following table:

$ in thousands	For the Three Months Ended March 31, 2019	March 31, 2018
Service charges on deposit accounts	$ 2,945	3,263
Other service charges, commissions, and fees	5,248	4,485
Fees from presold mortgage loans	545	859
Commissions from sales of insurance and financial products	2,029	1,940
SBA consulting fees	1,263	1,141
SBA loan sale gains	2,062	3,802
Bank-owned life insurance income	646	623
Foreclosed property gains (losses), net	(245)	(288)
Other gains (losses), net	82	4
Noninterest income	14,575	15,829
Non-GAAP adjustments		
Add: Foreclosed property gains (losses), net	245	288
Less: Other gains (losses), net	(82)	(4)
Adjusted noninterest income	$ 14,738	16,113

Management evaluates noninterest income on a basis that excludes items that can be volatile in nature, such as foreclosed property gains (losses), net. We consider this adjusted noninterest income. As presented in the table above, adjusted noninterest income for the first quarter of 2019 was $14.7 million, a decrease of 7.9% from the $16.1 million reported for the first quarter of 2018, which was primarily due to decreases in SBA loan sale gains recorded in 2019 (see additional discussion below). Adjusted noninterest income includes i) service charges on deposit accounts, ii) other service charges, commissions, and fees, iii) fees from presold mortgage loans, iv) commissions from sales of insurance and financial products, v) SBA consulting fees, vi) SBA loan sale gains, and vii) bank-owned life insurance income.

As shown in the table above, service charges on deposit accounts decreased from $3.3 million in the first quarter of 2018 to $2.9 million in the first quarter of 2019. The decrease in 2019 was primarily due to fewer instances of fees earned from customers overdrawing their accounts.

Other service charges, commissions, and fees increased in the first quarter of 2019 compared to 2018, primarily as a result of higher debit card and credit card interchange fees associated with increased usage. We earn a small fee each time a customer uses a debit card to make a purchase. Due to the growth in checking accounts and increased customer usage of debit cards, we have experienced increases in this line item. Interchange income from credit cards has also increased due to growth in the number and usage of credit cards, which we believe is a result of continued promotion of this product

Fees from presold mortgages decreased from $0.9 million in the first quarter of 2018 to $0.5 million in the first quarter of 2019. Fees decreased in the first quarter of 2019 due to overall lower volumes in the mortgage industry and employee turnover within the mortgage department.

Commissions from sales of insurance and financial products amounted to approximately $2.0 million and $1.9 million for the first three months of 2019 and 2018, respectively. The increase in 2019 was primarily due to increases in commissions from the sales of our wealth management products.

During the three months ended March 31, 2019 and 2018, we realized $2.0 million and $3.8 million in gains on SBA loan sales, respectively. The decline in the first quarter of 2019 gains was a result of a combination of a lower sales volume and lower premiums realized.

Noninterest expenses amounted to $39.3 million in the first quarter of 2019 compared to $43.5 million recorded in the first quarter of 2018. Most categories of noninterest expense decreased in the first quarter 2019 compared to the first quarter of 2018 due to operating efficiencies realized subsequent to the March 2018 merger conversion of the Asheville Savings Bank operations into First Bank.

Salaries expense decreased to $19.0 million in the first quarter of 2019 from the $19.4 million in the first quarter of 2018, primarily due to a lower estimated payout for our annual incentive plan for the 2019 fiscal year. Employee benefits expense remained relatively unchanged and amounted to $4.6 million in each of the first quarters of 2019 and 2018.

The combined amount of occupancy and equipment expense remained stable at $4.1 million in each of the first quarters of 2019 and 2018.

Merger and acquisition expenses amounted to $0.1 million for the three months ended March 31, 2019, compared to $2.8 million in the comparable period of 2018. The merger and acquisition expenses recorded in the first quarter of 2018 related to the Asheville Savings Bank acquisition.

Intangibles amortization expense amounted to $1.3 million in the first quarter of 2019 compared to $1.6 million in the first quarter of 2018.

Other operating expenses amounted to $10.2 million for the first quarter of 2019 compared to $11.1 million in the first quarter of 2018, with the decrease relating to numerous operational efficiencies gained after the March 2018 merger conversion of the operations of Asheville Savings Bank into First Bank.

For the first quarter of 2019, the provision for income taxes was $5.9 million, an effective tax rate of 20.9%. For the first quarter of 2018, the provision for income taxes was $5.8 million, an effective tax rate of 22.0%. The decline was due to a decrease in the North Carolina corporate income tax rate from 3.0% to 2.5%, as well as the impact of certain merger expenses recorded in 2018 that were not tax deductible.

The consolidated statements of comprehensive income reflect other comprehensive income of $4.7 million during the first quarter of 2019 compared other comprehensive loss of $5.5 million during the first quarter of 2018. The primary component of other comprehensive income for the periods presented was changes in unrealized holding gains (losses) of our available for sale securities. Our available for sale securities portfolio is predominantly comprised of fixed rate bonds that generally increase in value when market yields for fixed rate bonds decrease and decline in value when market yields for fixed rate bonds increase. Management has evaluated any unrealized losses on individual securities at each period end and determined that there is no other-than-temporary impairment.

FINANCIAL CONDITION

Total assets at March 31, 2019 amounted to $6.1 billion, a 7.2% increase from a year earlier. Total loans at March 31, 2019 amounted to $4.3 billion, a 4.6% increase from a year earlier, and total deposits amounted to $4.8 billion, a 6.7% increase from a year earlier.

The following table presents information regarding the nature of changes in our levels of loans and deposits for the twelve months ended March 31, 2019 and for the first quarter of 2019.

April 1, 2018 to March 31, 2019	Balance at beginning of period	Internal Growth, net	Balance at end of period	Total percentage growth
Total loans	$ 4,113,785	190,002	4,303,787	4.6%
Deposits – Noninterest bearing checking	1,227,608	162,908	1,390,516	13.3%
Deposits – Interest bearing checking	896,189	26,065	922,254	2.9%
Deposits – Money market	1,026,043	52,959	1,079,002	5.2%
Deposits – Savings	445,405	(27,593)	417,812	-6.2%
Deposits – Brokered	251,043	(34,427)	216,616	-13.7%
Deposits – Internet time	7,248	(3,820)	3,428	-52.7%
Deposits – Time>$100,000	357,595	148,553	506,148	41.5%
Deposits – Time<$100,000	284,577	(23,115)	261,462	-8.1%
Total deposits	$ 4,495,708	301,530	4,797,238	6.7%
January 1, 2019 to March 31, 2019				
Total loans	$ 4,249,064	54,723	4,303,787	1.3%
Deposits – Noninterest bearing checking	1,320,131	70,385	1,390,516	5.3%
Deposits – Interest bearing checking	916,374	5,880	922,254	0.6%
Deposits – Money market	1,035,523	43,479	1,079,002	4.2%
Deposits – Savings	432,389	(14,577)	417,812	-3.4%
Deposits – Brokered	239,875	(23,259)	216,616	-9.7%
Deposits – Internet time	3,428	—	3,428	0.0%
Deposits – Time>$100,000	447,619	58,529	506,148	13.1%
Deposits – Time<$100,000	264,000	(2,538)	261,462	-1.0%
Total deposits	$ 4,659,339	137,899	4,797,238	3.0%

As derived from the table above, for the twelve months preceding March 31, 2019, our total loans increased $190.0 million, or 4.6%. For the first three months of 2019, loan growth was $54.7 million, or 1.3%. Loan growth for both periods was organic and driven by our continued expansion into high-growth markets and our emphasis on SBA lending. We expect continued growth in our loan portfolio in 2019.

The mix of our loan portfolio remains substantially the same at March 31, 2019 compared to December 31, 2018. The majority of our real estate loans are personal and commercial loans where real estate provides additional security for the loan. Note 6 to the consolidated financial statements presents additional detailed information regarding our mix of loans.

For both the three and twelve month periods ended March 31, 2019, we experienced internal growth in our core deposit accounts (checking, money market and savings) and in our retail time deposits, excluding brokered and internet time deposits. We routinely engage in activities designed to grow and retain deposits, such as (1) emphasizing relationship banking to new and existing customers, where borrowers are encouraged and normally expected to maintain deposit accounts with us, (2) pricing deposits at rate levels that will attract and/or retain deposits, and (3) continually working to identify and introduce new products that will attract customers or enhance our appeal as a primary provider of financial services. Total brokered and internet time deposits declined in both periods due to the strong growth in our retail deposits.

With our deposit growth exceeding our loan growth over the past twelve months, our liquidity levels have increased. Our liquid assets (cash and securities) as a percentage of our total deposits and borrowings increased from 20.0% at March 31, 2018 to 22.6% at March 31, 2019.

Over the past year, we have invested a portion of our cash balances into available for sale investment securities, primarily to achieve higher yields. Total securities available for sale increased from $341.0 million at March 31, 2018 to $639.6 million at March 31, 2019, while total cash balance have declined from $526.7 million to $446.8 million over that same period.

Nonperforming Assets

Nonperforming assets include nonaccrual loans, TDRs, loans past due 90 or more days and still accruing interest, and foreclosed real estate. Nonperforming assets are summarized as follows:

ASSET QUALITY DATA *($ in thousands)*	As of/for the quarter ended March 31, 2019	As of/for the quarter ended December 31, 2018	As of/for the quarter ended March 31, 2018
Nonperforming assets			
Nonaccrual loans	$ 20,684	22,575	21,849
TDRs – accruing	12,457	13,418	18,495
Accruing loans >90 days past due	—	—	—
Total nonperforming loans	33,141	35,993	40,344
Foreclosed real estate	6,390	7,440	11,307
Total nonperforming assets	$ 39,531	43,433	51,651
Purchased credit impaired loans not included above (1)	$ 15,867	17,393	22,147
Asset Quality Ratios – All Assets			
Net charge-offs to average loans - annualized	0.04%	0.02%	(0.36%)
Nonperforming loans to total loans	0.77%	0.85%	0.98%
Nonperforming assets to total assets	0.65%	0.74%	0.92%
Allowance for loan losses to total loans	0.49%	0.50%	0.57%
Allowance for loan losses + unaccreted discount on acquired loans to total loans	0.86%	0.90%	1.11%
Allowance for loan losses to nonperforming loans	63.65%	58.45%	57.75%

(1) In the March 3, 2017 acquisition of Carolina Bank and the October 1, 2017 acquisition of Asheville Savings Bank, we acquired $19.3 million and $9.9 million, respectively, in PCI loans in accordance with ASC 310-30 accounting guidance. These loans are excluded from the nonperforming loan amounts, including $0.6 million, $0.6 million, and $0.5 million in PCI loans at March 31, 2019, December 31, 2018, and March 31, 2018, respectively, that were contractually past due 90 days or more.

We have reviewed the collateral for our nonperforming assets, including nonaccrual loans, and have included this review among the factors considered in the evaluation of the allowance for loan losses discussed below.

As noted in the table above, at March 31, 2019, total nonaccrual loans amounted to $20.7 million, compared to $22.6 million at December 31, 2018 and $21.8 million at March 31, 2018. Nonaccrual loans have generally declined in recent years as our local economies have improved, and we continue to focus on resolving our problem assets.

TDRs are accruing loans for which we have granted concessions to the borrower as a result of the borrower's financial difficulties. At March 31, 2019, total accruing TDRs amounted to $12.5 million, compared to $13.4 million at December 31, 2018 and $18.5 million at March 31, 2018.

Foreclosed real estate includes primarily foreclosed properties. Total foreclosed real estate amounted to $6.4 million at March 31, 2019, $7.4 million at December 31, 2018, and $11.3 million at March 31, 2018. Our foreclosed property balances have generally been decreasing as a result of sales activity during the periods and the improvement in our overall asset quality.

The following is the composition, by loan type, of all of our nonaccrual loans at each period end

($ in thousands)	At March 31, 2019	At December 31, 2018	At March 31, 2018
Commercial, financial, and agricultural	$ 980	919	801
Real estate – construction, land development, and other land loans	1,677	2,265	1,766
Real estate – mortgage – residential (1-4 family) first mortgages	9,958	10,115	12,073
Real estate – mortgage – home equity loans/lines of credit	1,632	1,685	1,980
Real estate – mortgage – commercial and other	6,280	7,452	5,119
Installment loans to individuals	157	139	110
Total nonaccrual loans	$ 20,684	22,575	21,849

The table above indicated decreases in most categories of nonaccrual loans. The decreases reflect stabilization in most of our market areas and our increased focus on the resolution of our nonperforming assets.

We believe that the fair values of the items of foreclosed real estate, less estimated costs to sell, equal or exceed their respective carrying values at the dates presented. The following table presents the detail of all of our foreclosed real estate at each period end:

($ in thousands)	At March 31, 2019	At December 31, 2018	At March 31, 2018
Vacant land and farmland	$ 1,968	2,035	2,852
1-4 family residential properties	1,526	2,311	3,710
Commercial real estate	2,896	3,094	4,745
Total foreclosed real estate	$ 6,390	7,440	11,307

The following table presents geographical information regarding our nonperforming assets at March 31, 2019.

($ in thousands)	As of March 31, 2019			
	Total Nonperforming Loans	Total Loans	Nonperforming Loans to Total Loans	Total Foreclosed Real Estate
Region (1)				
Eastern Region (NC)	$ 8,487	916,000	0.93%	$ 1,973
Triangle Region (NC)	7,722	914,000	0.84%	1,148
Triad Region (NC)	5,521	867,000	0.64%	202
Charlotte Region (NC)	1,223	334,000	0.37%	180
Southern Piedmont Region (NC)	5,868	268,000	2.19%	743
Western Region (NC)	1,137	684,000	0.17%	1,064
South Carolina Region	1,186	161,000	0.74%	389
Former Virginia Region	91	1,000	9.10%	691
Other	1,906	159,000	1.20%	—
Total	$ 33,141	4,304,000	0.77%	$ 6,390

(1) The counties comprising each region are as follows:
Eastern North Carolina Region - New Hanover, Brunswick, Duplin, Dare, Beaufort, Pitt, Onslow, Carteret
Triangle North Carolina Region - Moore, Lee, Harnett, Chatham, Wake
Triad North Carolina Region - Montgomery, Randolph, Davidson, Rockingham, Guilford, Stanly, Forsyth, Alamance
Charlotte North Carolina Region - Iredell, Cabarrus, Rowan, Mecklenburg
Southern Piedmont North Carolina Region - Richmond, Scotland, Robeson, Bladen, Columbus, Cumberland
Western North Carolina Region – Buncombe, Henderson, McDowell, Madison, Transylvania
South Carolina Region - Chesterfield, Dillon, Florence
Former Virginia Region - Wythe, Washington, Montgomery, Roanoke
Other includes loans originated on a national basis through the Company’s SBA Lending Division

Summary of Loan Loss Experience

The allowance for loan losses is created by direct charges to operations (known as a “provision for loan losses” for the period in which the charge is taken). Losses on loans are charged against the allowance in the period in which such loans, in management’s opinion, become uncollectible. The recoveries realized during the period are credited to this allowance.

We have no foreign loans, few agricultural loans and do not engage in significant lease financing or highly leveraged transactions. Commercial loans are diversified among a variety of industries. The majority of our real estate loans are primarily personal and commercial loans where real estate provides additional security for the loan. Collateral for virtually all of these loans is located within our principal market area.

The factors that influence management's judgment in determining the amount charged to operating expense include recent loan loss experience, composition of the loan portfolio, evaluation of probable inherent losses and current economic conditions.

For the periods indicated, the following table summarizes our balances of loans outstanding, average loans outstanding, changes in the allowance for loan losses arising from charge-offs and recoveries, and additions to the allowance for loan losses that have been charged to expense.

($ in thousands)	Three Months Ended March 31, 2019	Twelve Months Ended December 31, 2018	Three Months Ended March 31, 2018
Loans outstanding at end of period	$ 4,303,787	4,249,064	4,113,785
Average amount of loans outstanding	$ 4,280,272	4,161,838	4,099,495
Allowance for loan losses, at beginning of year	$ 21,039	23,298	23,298
Provision (reversal) for loan losses	500	(3,589)	(3,659)
	21,539	19,709	19,639
Loans charged off:			
Commercial, financial, and agricultural	(246)	(2,128)	(239)
Real estate – construction, land development & other land loans	(264)	(158)	(2)
Real estate – mortgage – residential (1-4 family) first mortgages	(30)	(1,734)	(243)
Real estate – mortgage – home equity loans / lines of credit	(80)	(711)	(176)
Real estate – mortgage – commercial and other	(836)	(1,459)	(41)
Installment loans to individuals	(281)	(781)	(118)
Total charge-offs	(1,737)	(6,971)	(819)
Recoveries of loans previously charged-off:			
Commercial, financial, and agricultural	414	1,195	499
Real estate – construction, land development & other land loans	287	4,097	3,046
Real estate – mortgage – residential (1-4 family) first mortgages	160	833	145
Real estate – mortgage – home equity loans / lines of credit	128	364	153
Real estate – mortgage – commercial and other	271	1,503	582
Installment loans to individuals	33	309	53
Total recoveries	1,293	8,301	4,478
Net (charge-offs) recoveries	(444)	1,330	3,659
Allowance for loan losses, at end of period	$ 21,095	21,039	23,298
Ratios:			
Net charge-offs (recoveries) as a percent of average loans (annualized)	0.04%	(0.03%)	(0.36%)
Allowance for loan losses as a percent of loans at end of period	0.49%	0.50%	0.57%
Allowance for loan losses + unaccreted discount on acquired loans as a percent of loans	0.86%	0.90%	1.11%

We recorded a provision for loan losses of $0.5 million in the first quarter of 2019, compared to a negative provision for loan losses (reduction of the allowance for loan losses) of $3.7 million in the first quarter of 2018. In the first quarter of 2018, the Company experienced net loan recoveries of $3.7 million, which drove the negative provision for the quarter and was the primary reason for the variance in the provision for loan losses when comparing the first quarter of 2019 to the first quarter of 2018. Other factors impacting the provision for loan loss are discussed in the following two paragraphs.

Our allowance for loan loss is a mathematical model with the primary factors impacting this model being loan growth, net charge-off history, and asset quality trends. Our allowance for loan loss model utilizes the net charge-offs experienced in the most recent years as a significant component of estimating the current allowance for loan losses that is necessary. Thus, older years (and parts thereof) systematically age out and are excluded from the analysis as time goes on. In recent years, the new periods have had significantly lower net charge-offs (and net recoveries in some periods) than the older periods rolling out of the model. This has resulted in a lower required amount of allowance for loan losses in our modeling. The low level of net-charge offs (or net recoveries) experienced over the past several years has been the primary reason for the low (or negative) provisions for loan losses recorded.

Organic loan growth for the first three months of 2019 of $54.7 million was relatively consistent with the $71.4 million realized for first quarter of 2018, with the variance not significantly impacting the required allowance for loan losses. As it relates to asset quality trends, our total classified and nonaccrual loans amounted to $61 million at both March 31, 2019 and December 31, 2018 compared to $80.0 million at March 31, 2018.

The ratio of our allowance to total loans was 0.49%, 0.50%, and 0.57% at March 31, 2019, December 31, 2018, and March 31, 2018, respectively. The decline in this ratio was a result of the factors discussed above that impacted our relatively low levels of provision for loan losses. Our relatively low level of allowance to total loans is significantly impacted by the acquisitions of Carolina Bank and Asheville Savings Bank in 2017, which had over $1 billion in total loans. Applicable accounting guidance did not allow us to record an allowance for loan losses upon the acquisition of loans – instead the acquired loans were recorded at their discounted fair value, which included the consideration of any expected losses. No allowance for loan losses will be recorded for the acquired loans unless the expected credit losses exceed the remaining unamortized discounts – based on an individual basis for purchased credit impaired loans and on a pooled basis for performing acquired loans. See Critical Accounting Policies above for further discussion. Unaccreted discount on acquired loans, which is available to absorb loan losses, amounted to $16.1 million, $17.3 million, and $22.3 million at March 31, 2019, December 31, 2018, and March 31, 2018, respectively.

We believe our reserve levels are adequate to cover probable loan losses on the loans outstanding as of each reporting date. It must be emphasized, however, that the determination of the reserve using our procedures and methods rests upon various judgments and assumptions about economic conditions and other factors affecting loans. No assurance can be given that we will not in any particular period sustain loan losses that are sizable in relation to the amounts reserved or that subsequent evaluations of the loan portfolio, in light of conditions and factors then prevailing, will not require significant changes in the allowance for loan losses or future charges to earnings. See "Critical Accounting Policies – Allowance for Loan Losses" above.

In addition, various regulatory agencies, as an integral part of their examination process, periodically review our allowance for loan losses and value of other real estate. Such agencies may require us to recognize adjustments to the allowance or the carrying value of other real estate based on their judgments about information available at the time of their examinations.

Based on the results of our loan analysis and grading program and our evaluation of the allowance for loan losses at March 31, 2019, there have been no material changes to the allocation of the allowance for loan losses among the various categories of loans since December 31, 2018.

Liquidity, Commitments, and Contingencies

Our liquidity is determined by our ability to convert assets to cash or acquire alternative sources of funds to meet the needs of our customers who are withdrawing or borrowing funds, and to maintain required reserve levels, pay expenses and operate the Company on an ongoing basis. Our primary liquidity sources are net income from operations, cash and due from banks, federal funds sold and other short-term investments. Our securities portfolio is comprised almost entirely of readily marketable securities, which could also be sold to provide cash.

In addition to internally generated liquidity sources, we have the ability to obtain borrowings from the following three sources - 1) an approximately $1.080 billion line of credit with the Federal Home Loan Bank (of which $352 million was outstanding at both March 31, 2019 and December 31, 2018), 2) a $35 million federal funds line with a correspondent bank (of which none was outstanding at March 31, 2019 or December 31, 2018), and 3) an approximately $123 million line of credit through the Federal Reserve Bank of Richmond's discount window (of which none was outstanding at March 31, 2019 or December 31, 2018). In addition to the outstanding borrowings from the FHLB that reduce the available borrowing capacity of that line of credit, our borrowing capacity was reduced by $190 million at both March 31, 2019 and December 31, 2018, as a result of our pledging letters of credit for public deposits at each of those dates. Unused and available lines of credit amounted to $505 million at March 31, 2019 compared to $502 million at December 31, 2018.

Our overall liquidity has increased since March 31, 2018 due primarily to the strong deposit growth expeirenced. Our liquid assets (cash and securities) as a percentage of our total deposits and borrowings increased from 20.0% at March 31, 2018 to 22.6% at March 31, 2019.

We believe our liquidity sources, including unused lines of credit, are at an acceptable level and remain adequate to meet our operating needs in the foreseeable future. We will continue to monitor our liquidity position carefully and will explore and implement strategies to increase liquidity if deemed appropriate.

The amount and timing of our contractual obligations and commercial commitments has not changed materially since December 31, 2018, detail of which is presented in Table 18 on page 77 of our 2018 Annual Report on Form 10-K.

We are not involved in any other legal proceedings that, in our opinion, could have a material effect on our consolidated financial position.

Off-Balance Sheet Arrangements and Derivative Financial Instruments

Off-balance sheet arrangements include transactions, agreements, or other contractual arrangements pursuant to which we have obligations or provide guarantees on behalf of an unconsolidated entity. We have no off-balance sheet arrangements of this kind other than letters of credit and repayment guarantees associated with our trust preferred securities.

Derivative financial instruments include futures, forwards, interest rate swaps, options contracts, and other financial instruments with similar characteristics. We have not engaged in significant derivative activities through March 31, 2019, and have no current plans to do so.

Capital Resources

The Company is regulated by the Board of Governors of the Federal Reserve Board (“Federal Reserve”) and is subject to the securities registration and public reporting regulations of the Securities and Exchange Commission. Our banking subsidiary, First Bank, is also regulated by the North Carolina Office of the Commissioner of Banks. We are not aware of any recommendations of regulatory authorities or otherwise which, if they were to be implemented, would have a material effect on our liquidity, capital resources, or operations.

We must comply with regulatory capital requirements established by the Federal Reserve. 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 our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Our capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The capital standards require us to maintain minimum ratios of “Common Equity Tier 1” capital to total risk-weighted assets, “Tier 1” capital to total risk-weighted assets, and total capital to risk-weighted assets of 4.50%, 6.00% and 8.00%, respectively. Common Equity Tier 1 capital is comprised of common stock and related surplus, plus retained earnings, and is reduced by goodwill and other intangible assets, net of associated deferred tax liabilities. Tier 1 capital is comprised of Common Equity Tier 1 capital plus Additional Tier 1 Capital, which for the Company includes non-cumulative perpetual preferred stock and trust preferred securities. Total capital is comprised of Tier 1 capital plus certain adjustments, the largest of which is our allowance for loan losses. Risk-weighted assets refer to our on- and off-balance sheet exposures, adjusted for their related risk levels using formulas set forth in Federal Reserve regulations.

The capital conservation buffer requirement began to be phased in on January 1, 2016, at 0.625% of risk weighted assets, and increased each year until fully implemented at 2.5% on January 1, 2019.

In addition to the risk-based capital requirements described above, we are subject to a leverage capital requirement, which calls for a minimum ratio of Tier 1 capital (as defined above) to quarterly average total assets of 3.00% to 5.00%, depending upon the institution’s composite ratings as determined by its regulators. The Federal Reserve has not advised us of any requirement specifically applicable to us.

At March 31, 2019, our capital ratios exceeded the regulatory minimum ratios discussed above. The following table presents our capital ratios and the regulatory minimums discussed above for the periods indicated.

	March 31, 2019	December 31, 2018	March 31, 2018
Risk-based capital ratios:			
Common equity Tier 1 to Tier 1 risk weighted assets	12.51%	12.28%	11.01%
Minimum required Common equity Tier 1 capital	7.00%	6.375%	6.375%
Tier I capital to Tier 1 risk weighted assets	13.73%	13.48%	12.23%
Minimum required Tier 1 capital	8.50%	7.875%	7.875%
Total risk-based capital to Tier II risk weighted assets	14.21%	13.97%	12.78%
Minimum required total risk-based capital	10.50%	9.875%	9.875%
Leverage capital ratios:			
Tier 1 capital to quarterly average total assets	10.69%	10.47%	9.88%
Minimum required Tier 1 leverage capital	4.00%	4.00%	4.00%

First Bank is also subject to capital requirements that do not vary materially from the Company's capital ratios presented above. At March 31, 2019, First Bank significantly exceeded the minimum ratios established by the regulatory authorities.

In addition to regulatory capital ratios, we also closely monitor our ratio of tangible common equity to tangible assets ("TCE Ratio"). Our TCE ratio was 9.21% at March 31, 2019 compared to 9.07% at December 31, 2018 and 8.35% at March 31, 2018.

BUSINESS DEVELOPMENT MATTERS

The following is a list of business development and other miscellaneous matters affecting First Bancorp and First Bank, our bank subsidiary.

- On February 5, 2019, the Company announced a quarterly cash dividend of $0.12 per share payable on April 25, 2019 to shareholders of record on March 31, 2019. The dividend rate represents a 20% increase over the previous dividend rate of $0.10 the Company declared in the first quarter of 2018.

SHARE REPURCHASES

We did not repurchase any shares of our common stock during the first three months of 2019. At March 31, 2019, we had authority from our board of directors to repurchase up to $25 million in shares of the Company's common stock. We may repurchase these shares in open market and privately negotiated transactions, as market conditions and our liquidity warrants, subject to compliance with applicable regulations. See also Part II, Item 2 "Unregistered Sales of Equity Securities and Use of Proceeds."

Item 3 – Quantitative and Qualitative Disclosures About Market Risk

INTEREST RATE RISK (INCLUDING QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK)

Net interest income is our most significant component of earnings. Notwithstanding changes in volumes of loans and deposits, our level of net interest income is continually at risk due to the effect that changes in general market interest rate trends have on interest yields earned and paid with respect to our various categories of earning assets and interest-bearing liabilities. It is our policy to maintain portfolios of earning assets and interest-bearing liabilities with maturities and repricing opportunities that will afford protection, to the extent practical, against wide interest rate fluctuations. Our exposure to interest rate risk is analyzed on a regular basis by management using standard GAP reports, maturity reports, and an asset/liability software model that simulates future levels of interest income and expense based on current interest rates, expected future interest rates, and various intervals of "shock" interest rates. Over the years, we have been able to maintain a fairly consistent yield on average earning assets (net interest margin). Over the past five calendar years, our net interest margin has ranged from a low of 4.03% (realized in 2016) to a high of 4.58% (realized in 2014). From 2008 until the fourth quarter of 2015, the prime rate of interest had remained at 3.25%. Beginning in December 2015, the Federal Reserve began steadily increasing the prime rate of interest, which reached a rate of 5.50% in December 2018 (also the current rate at March 31, 2019). The consistency of the net interest margin is aided by the relatively low level of long-term interest rate exposure that we maintain. At March 31, 2019, approximately 77% of our interest-earning assets were subject to repricing within five years (because they are either adjustable rate assets or they are fixed rate assets that mature) and substantially all of our interest-bearing liabilities reprice within five years.

Using stated maturities for all fixed rate instruments except mortgage-backed securities (which are allocated in the periods of their expected payback) and securities and borrowings with call features that are expected to be called (which are shown in the period of their expected call). At March 31, 2019, we had $1.4 billion more in interest-bearing liabilities that are subject to interest rate changes within one year than earning assets. This generally would indicate that net interest income would experience downward pressure in a rising interest rate environment and would benefit from a declining interest rate environment. However, this method of analyzing interest sensitivity only measures the magnitude of the timing differences and does not address earnings, market value, or management actions. Also, interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. In addition to the effects of “when” various rate-sensitive products reprice, market rate changes may not result in uniform changes in rates among all products. For example, included in interest-bearing liabilities subject to interest rate changes within one year at March 31, 2019 are deposits totaling $2.4 billion comprised of checking, savings, and certain types of money market deposits with interest rates set by management. These types of deposits historically have not repriced with, or in the same proportion, as general market indicators.

Overall, we believe that in the near term (twelve months), net interest income will not likely experience significant downward pressure from rising interest rates. Similarly, we would not expect a significant increase in near term net interest income from falling interest rates. Generally, when rates change, our interest-sensitive assets that are subject to adjustment reprice immediately at the full amount of the change, while our interest-sensitive liabilities that are subject to adjustment reprice at a lag to the rate change and typically not to the full extent of the rate change. In the short-term (less than six months), this results in us being asset-sensitive, meaning that our net interest income benefits from an increase in interest rates and is negatively impacted by a decrease in interest rates. However, in the twelve-month horizon, the impact of having a higher level of interest-sensitive liabilities lessens the short-term effects of changes in interest rates.

The general discussion in the foregoing paragraph applies most directly in a “normal” interest rate environment in which longer-term maturity instruments carry higher interest rates than short-term maturity instruments, and is less applicable in periods in which there is a “flat” interest rate curve. A “flat yield curve” means that short-term interest rates are substantially the same as long-term interest rates. As a result of the prolonged negative/fragile economic environment, the Federal Reserve took steps to suppress long-term interest rates in an effort to boost the housing market, increase employment, and stimulate the economy, which resulted in a flat interest rate curve. A flat interest rate curve is an unfavorable interest rate environment for many banks, including the Company, as short-term interest rates generally drive our deposit pricing and longer-term interest rates generally drive loan pricing. When these rates converge, the profit spread we realize between loan yields and deposit rates narrows, which pressures our net interest margin.

While there have been periods in the last few years that the yield curve has steepened somewhat, it currently remains relatively flat. This flat yield curve and the intense competition for high-quality loans in our market areas have limited our ability to charge higher rates on loans, and thus we continue to experience challenges in increasing our loan yields and net interest margin.

As it relates to deposits, the Federal Reserve made no changes to the short term interest rates it sets directly from 2008 until mid-December 2015, and since that time we have been able to reprice many of our maturing time deposits at lower interest rates. We were also able to generally decrease the rates we paid on other categories of deposits as a result of declining short-term interest rates in the marketplace and an increase in liquidity that lessened our need to offer premium interest rates. However, as a result of the nine interest rate increases initiated by the Federal Reserve since 2015 and significant competitive pressures in our market area, we have had to increase deposit rates. Deposit pricing competition began to intensify in the second half of 2018 and we expect it to continue. In the first quarter of 2019, our deposit costs have risen at a higher rate than the increase in asset yields, and thus our net interest margin compressed slightly in the first three months of 2019.

As previously discussed in the section "Net Interest Income," our net interest income has been impacted by certain purchase accounting adjustments related to the acquired banks. The purchase accounting adjustments related to the premium amortization on loans, deposits and borrowings are based on amortization schedules and are thus systematic and predictable. The accretion of the loan discount on acquired loans amounted to $1.1 million and $2.0 million for the three months ended March 31, 2019 and 2018, respectively, is less predictable and could be materially different among periods. This is because of the magnitude of the discounts that are initially recorded and the fact that the accretion being recorded is dependent on both the credit quality of the acquired loans and the impact of any accelerated loan repayments, including payoffs. If the credit quality of the loans declines, some, or all, of the remaining discount will cease to be accreted into income. If the underlying loans experience accelerated paydowns or improved performance expectations, the remaining discount will be accreted into income on an accelerated basis. In the event of total payoff, the remaining discount will be entirely accreted into income in the period of the payoff. Each of these factors is difficult to predict and susceptible to volatility. The remaining loan discount on acquired loans amounted to $16.1 million at March 31, 2019 compared to $22.3 million at March 31, 2018.

Based on our most recent interest rate modeling, which assumes no more rate changes during 2019 (federal funds rate = 2.50%, prime = 5.50%), we project that our net interest margin for 2019 will likely decline slightly in the near term due to the loan and deposit pricing pressures discussed above.

We have no market risk sensitive instruments held for trading purposes, nor do we maintain any foreign currency positions.

See additional discussion regarding net interest income, as well as discussion of the changes in the annual net interest margin in the section entitled "Net Interest Income" above.

Item 4 – Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, which are our controls and other procedures that are designed to ensure that information required to be disclosed in our periodic reports with the Securities and Exchange Commission ("SEC") is recorded, processed, summarized and reported within the required time periods. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed is communicated to our management to allow timely decisions regarding required disclosure. Based on the evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective in allowing timely decisions regarding disclosure to be made about material information required to be included in our periodic reports with the SEC. In addition, no change in our internal control over financial reporting has occurred during, or subsequent to, the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1 – Legal Proceedings

Various legal proceedings may arise in the ordinary course of business and may be pending or threatened against the Company and its subsidiaries. Neither the Company nor any of its subsidiaries is involved in any pending legal proceedings that management believes are material to the Company or its consolidated financial position. If an exposure were to be identified, it is the Company's policy to establish and accrue appropriate reserves during the accounting period in which a loss is deemed to be probable and the amount is determinable.

Item 1A – Risk Factors

Investing in shares of our common stock involves certain risks, including those identified and described in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, as well as cautionary statements contained in this Form 10-Q, including those under the caption "Forward-Looking Statements" set forth in the forepart of this Form 10-Q, risks and matters described elsewhere in this Form 10-Q and in our other filings with the SEC.

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (2)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
January 1, 2019 to January 31, 2019	—	—	—	$ 25,000,000
February 1, 2019 to February 28, 2019	—	—	—	$ 25,000,000
March 1, 2019 to March 31, 2019	—	—	—	$ 25,000,000
Total	—	—	—	$ 25,000,000

Footnotes to the Above Table

(1) All shares available for repurchase are pursuant to publicly announced share repurchase authorizations. On February 5, 2019, the Company announced that its board of directors had approved the repurchase of up to $25,000,000 in shares of the Company's common stock. The repurchase authorization expires on December 31, 2019.

(2) The table above does not include shares that were used by option holders to satisfy the exercise price of the call options issued by the Company to its employees and directors pursuant to the Company's stock option plans. There were no such exercises during the three months ended March 31, 2019.

During the three months ended March 31, 2019, there were no unregistered sales of the Company's securities.

Item 6 - Exhibits

The following exhibits are filed with this report or, as noted, are incorporated by reference. Except as noted below the exhibits identified have Securities and Exchange Commission File No. 000-15572. Management contracts, compensatory plans and arrangements are marked with an asterisk (*).

2.a Purchase and Assumption Agreement dated as of March 3, 2016 between First Bank (as Seller) and First Community Bank (as Purchaser) was filed as Exhibit 99.2 to the Company's Current Report on Form 8-K filed on March 7, 2016, and is incorporated herein by reference.

2.b Purchase and Assumption Agreement dated as of March 3, 2016 between First Community Bank (as Seller) and First Bank (as Purchaser) was filed as Exhibit 99.3 to the Company's Current Report on Form 8-K filed on March 7, 2016, and is incorporated herein by reference.

2.c Merger Agreement between First Bancorp and Carolina Bank Holdings, Inc. dated June 21, 2016 was filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed on June 22, 2016, and is incorporated herein by reference.

2.d Merger Agreement between First Bancorp and ASB Bancorp, Inc. dated May 1, 2017 was filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed on May 1, 2017, and is incorporated herein by reference

3.a Articles of Incorporation of the Company and amendments thereto were filed as Exhibits 3.a.i through 3.a.v to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2002, and are incorporated herein by reference. Articles of Amendment to the Articles of Incorporation were filed as Exhibits 3.1 and 3.2 to the Company's Current Report on Form 8-K filed on January 13, 2009, and are incorporated herein by reference. Articles of Amendment to the Articles of Incorporation were filed as Exhibit 3.1.b to the Company's Registration Statement on Form S-3D filed on June 29, 2010 (Commission File No. 333-167856), and are incorporated herein by reference. Articles of Amendment to the Articles of Incorporation were filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on September 6, 2011, and are incorporated herein by reference. Articles of Amendment to the Articles of Incorporation were filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on December 26, 2012, and are incorporated herein by reference.

3.b Amended and Restated Bylaws of the Company were filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on February 9, 2018, and are incorporated herein by reference.

4.a	Form of Common Stock Certificate was filed as Exhibit 4 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999, and is incorporated herein by reference.
31.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
31.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
32.1	Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following financial information from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019, formatted in eXtensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Shareholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements.

Copies of exhibits are available upon written request to: First Bancorp, Elizabeth B. Bostian, Secretary, 300 SW Broad Street, Southern Pines, North Carolina, 28387

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FIRST BANCORP

May 10, 2019

BY:/s/ Richard H. Moore
Richard H. Moore
Chief Executive Officer
(Principal Executive Officer),
and Director

May 10, 2019

BY:/s/ Eric P. Credle
Eric P. Credle
Executive Vice President
and Chief Financial Officer

(Back To Top)

Section 2: EX-31.1 (EX-31.1)

Exhibit 31.1

Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002

I, Richard H. Moore, certify that:

1. I have reviewed this Form 10-Q of First Bancorp;

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 most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) 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 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.

May 10, 2019

/s/ Richard H. Moore
Richard H. Moore
Chief Executive Officer

(Back To Top)

Section 3: EX-31.2 (EX-31.2)

Exhibit 31.2

Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002

I, Eric P. Credle, certify that:

1. I have reviewed this Form 10-Q of First Bancorp;

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 most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) 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 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.

May 10, 2019

/s/ Eric P. Credle
Eric P. Credle
Chief Financial Officer

(Back To Top)

Section 4: EX-32.1 (EX-32.1)

Exhibit 32.1

Chief Executive Officer
Certification Pursuant to 18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of First Bancorp (the "Company") on Form 10-Q for the period ended March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard H. Moore, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Richard H. Moore
Richard H. Moore
Chief Executive Officer
May 10, 2019

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906 has been provided to First Bancorp and will be retained by First Bancorp and furnished to the Securities and Exchange Commission or its staff upon request.

(Back To Top)

Section 5: EX-32.2 (EX-32.2)

Exhibit 32.2

Chief Financial Officer
Certification Pursuant to 18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of First Bancorp (the "Company") on Form 10-Q for the period ended March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Eric P. Credle, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Eric P. Credle
Eric P. Credle
Chief Financial Officer
May 10, 2019

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906 has been provided to First Bancorp and will be retained by First Bancorp and furnished to the Securities and Exchange Commission or its staff upon request.

(Back To Top)