2019 Year In Review

FIRST BANCORP

Introducing Zelle®

A fast, safe and easy way to send money in minutes to friends, family and others you trust, right from the First Bank mobile app.

Richard H. Moore
Chief Executive Officer

Dear Shareholders, Customers and Friends,

I am pleased to report on a very successful year for our company. Our net income rose to an all-time high of $92.0 million, or $3.10 per share, in 2019 compared to $89.3 million, or $3.01 per share, for 2018. The 2019 earnings amounted to a return on average assets of 1.53%, which is excellent for the industry.

Our strong earnings enabled your Board of Directors to announce two dividend increases during 2019 that amounted to an 80% increase in the quarterly dividend rate from 2018. We also used a portion of our earnings to repurchase $10 million of common stock and to announce another $40 million share repurchase authorization for 2020.

These shareholder-friendly actions and our high profitability likely played a part in the 22.2% increase in our stock price for the year, rising from $32.66 at December 31, 2018 to $39.91 at December 31, 2019. For the five-year period ended December 31, 2019, our total stock return was 132%, compared to an index of similarly sized banks, which rose 82%.

We also experienced solid balance sheet growth in 2019, with loans outstanding increasing 4.8% and total deposits increasing by 5.8%. Within total deposits, our retail non-brokered deposits rose 9.7% for the year. Our ratio of nonperforming assets to total assets of 0.62% at December 31, 2019 was the lowest it's been at any year end since 2007.

We continue to invest in technology in order to provide the most convenience and best possible experience for

continued...

FORTUNE

One of the Top 100 Fastest-Growing Companies, Ranked 49th

Forbes

One of Forbes' Best In-State Banks for 2019

our customers. We made major enhancements to our online banking website during the year, and we believe our mobile phone app continues to be best in class, which includes our recent addition of Zelle®, a widely used peer-to-peer payment app. In December 2019, our computer and mobile app log-ins totaled 1.2 million, an all-time high.

We continue to make investments in our Charlotte and Raleigh markets, two of the highest growth metro areas in the Southeast. We expect these investments will continue to help drive our growth.

In 2019, our successes led to two notable recognitions. In June, Forbes recognized us as one of the three best banks in North Carolina, with First Bank being the only one of the three headquartered in North Carolina.

> **First Bank will be the only bank headquartered in either of the Carolinas with assets between $5 billion and $35 billion.**

And in September, Fortune recognized our company as one of the Fastest Growing Companies for 2019.

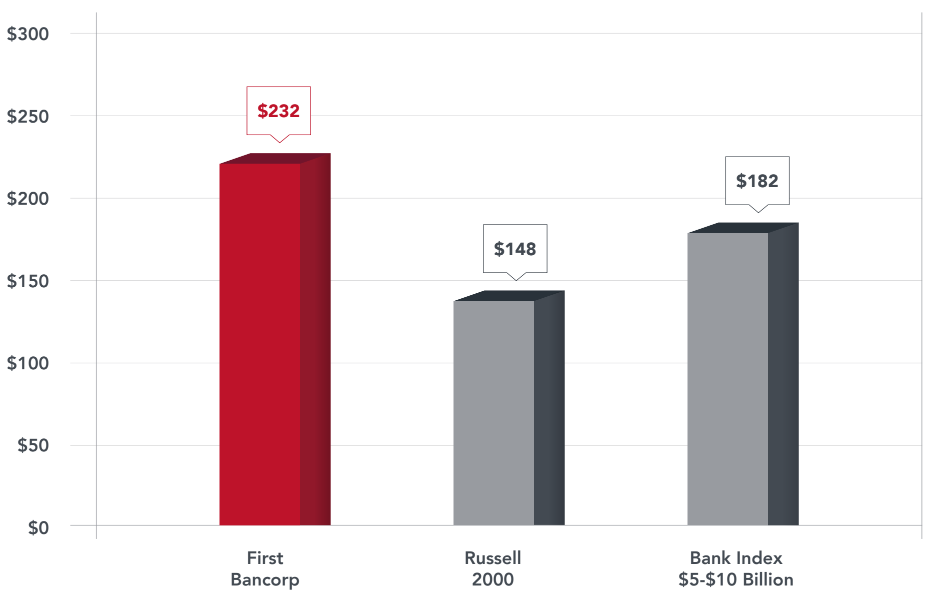
The banking landscape in the Carolinas has changed markedly over the past few years. Out-of-state banks have purchased many of our competitors. Upon completion of pending mergers, First Bank will be the only bank headquartered in either of the Carolinas with assets between $5 billion and $35 billion. This puts us in the unique position to be small enough to properly serve the community banking needs of individuals and small businesses in our local markets, while being big enough to have the resources to invest in the technology that will best enable our customers to succeed.

We look forward to continuing to capitalize on this opportunity.

Sincerely,

Richard H. Moore
Chief Executive Officer

5 Year Total Return of $100 Investment as of December 31, 2019



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

FORM 10-K

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

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

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. ☒ Yes ☐ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. ☐ Yes ☒ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

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

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

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

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

The aggregate market value of the Common Stock, no par value, held by non-affiliates of the registrant, based on the closing price of the Common Stock as of June 30, 2019 as reported by The NASDAQ Global Select Market, was approximately $1,057,000,000.

The number of shares of the registrant's Common Stock outstanding on February 26, 2020 was 29,211,612.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement to be filed pursuant to Regulation 14A are incorporated herein by reference into Part III.

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* Information called for by Part III (Items 10 through 14) is incorporated herein by reference to the Registrant's definitive Proxy Statement for the 2020 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission on or before April 30, 2020.

FORWARD-LOOKING STATEMENTS

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 in Item 1A of this report.

PART I

Item 1. Business

General Description

First Bancorp (the “Company”) is the fourth largest bank holding company headquartered in North Carolina. At December 31, 2019, the Company had total consolidated assets of $6.1 billion, total loans of $4.5 billion, total deposits of $4.9 billion, and shareholders’ equity of $0.9 billion. Our principal activity is the ownership and operation of First Bank (the “Bank”), a state-chartered bank with its main office in Southern Pines, North Carolina.

The Company was incorporated in North Carolina on December 8, 1983, as Montgomery Bancorp, for the purpose of acquiring 100% of the outstanding common stock of the Bank through a stock-for-stock exchange. On December 31, 1986, the Company changed its name to First Bancorp to conform its name to the name of the Bank, which had changed its name from Bank of Montgomery to First Bank in 1985.

The Bank was organized in 1934 and began banking operations in 1935 as the Bank of Montgomery, named for the county in which it operated. Until September 2013, the Bank’s main office was in Troy, North Carolina, located in the center of Montgomery County. In September 2013, the Company and the Bank moved their main offices approximately 45 miles to Southern Pines, North Carolina, in Moore County. As of December 31, 2019, we conducted business from 101 branches covering a geographical area from Florence, South Carolina to the south, to Wilmington, North Carolina to the east, to Kill Devil Hills, North Carolina to the northeast, to Mayodan, North Carolina to the north, and to Asheville, North Carolina to the west. Of the Bank’s 101 branches, 95 branches are in North Carolina and six branches are in South Carolina. Ranked by assets, the Bank was the fourth largest bank headquartered in North Carolina as of December 31, 2019 and the only one with total assets between $5 billion and $35 billion.

As of December 31, 2019, the Bank had three wholly owned subsidiaries, First Bank Insurance Services, Inc. (“First Bank Insurance”), SBA Complete, Inc. (“SBA Complete”), and First Troy SPE, LLC. First Bank Insurance’s primary business activity is the placement of property and casualty insurance coverage. SBA Complete specializes in providing consulting services for financial institutions across the country related to Small Business Administration (“SBA”) loan origination and servicing. First Troy SPE, LLC, which was organized in December 2009, is a holding entity for certain foreclosed properties.

Our principal executive offices are located at 300 SW Broad Street, Southern Pines, North Carolina, 28387, and our telephone number is (910) 246-2500. Unless the context requires otherwise, references to the “Company,” “we,” “our,” or “us” in this annual report on Form 10-K shall mean collectively First Bancorp and its consolidated subsidiaries.

General Business

We engage in a full range of banking activities, with the acceptance of deposits and the making of loans being our most basic activities. We offer deposit products such as checking, savings, and money market accounts, as well as time deposits, including various types of certificates of deposits (“CDs”) and individual retirement accounts (“IRAs”).

We provide loans for a wide range of consumer and commercial purposes, including loans for business, real estate, personal uses, home improvement and automobiles. We offer residential mortgages through our Mortgage Banking Division, and we offer SBA loans to small business owners across the nation through our SBA Lending Division. We also offer credit cards, debit cards, letters of credit, safe deposit box rentals and electronic funds transfer services, including wire transfers. In addition, we offer internet banking, mobile banking, cash management and bank-by-phone capabilities to our customers, and are affiliated with ATM networks that give our customers access to thousands of ATMs across the country, with no surcharge fee. We also offer a mobile check deposit feature for our mobile banking customers that allows them to securely deposit checks via their smartphone. For our business customers, we offer remote deposit capture, which provides them with a method to electronically transmit checks received from customers into their bank account without having to visit a branch. We are a member of the Certificate of Deposit Account Registry Service ("CDARS"), which gives our customers the ability to obtain Federal Deposit Insurance Corporation ("FDIC") insurance on deposits of up to $50 million, while continuing to work directly with their local First Bank branch.

Because the majority of our customers are individuals and small to medium-sized businesses located in the markets we serve, management does not believe that the loss of a single customer or group of customers would have a material adverse impact on the Bank. There are no seasonal factors that tend to have any material effect on the Bank's business, and we do not rely on foreign sources of funds or income. Because we operate primarily within North Carolina and northeastern South Carolina, the economic conditions of these areas could have a material impact on the Company. See additional discussion below in the section entitled "Territory Served and Competition."

We also offer various ancillary services as part of our commitment to customer service. Through First Bank Insurance, we offer the placement of property and casualty insurance. We also offer non-FDIC insured investment and insurance products, including mutual funds, annuities, long-term care insurance, life insurance, and company retirement plans, as well as financial planning services through our investments division called FB Wealth Management Services.

First Bank also offers SBA loans to small business owners throughout the nation, which is supported by First Bank's subsidiary, SBA Complete. SBA Complete specializes in providing consulting services for financial institutions across the country related to SBA loan origination and servicing.

The Company is also the parent to a series of statutory business trusts organized for the purpose of issuing trust preferred debt securities that qualify as regulatory capital. See additional discussion below in the section entitled "Borrowings."

Territory Served and Competition

Our headquarters are located in Southern Pines, Moore County, North Carolina, where we have a significant concentration of deposits. At the end of 2019, we served regions spread across North Carolina, with additional operations in northeastern South Carolina. The following table presents, for each county where we operated as of December 31, 2019, the number of bank branches operated by the Bank within the county, the approximate amount of deposits with the Bank in the county as of December 31, 2019, our approximate deposit market share at June 30, 2019, and the number of bank competitors located in the county at June 30, 2019.

County	Number of Branches	Deposits (in millions)	Market Share	Number of Competitors
Alamance, NC	1	$ 56	2.5%	15
Beaufort, NC	2	81	10.8%	7
Bladen, NC	1	35	10.3%	4
Brunswick, NC	4	210	9.5%	11
Buncombe, NC	8	560	10.1%	16
Cabarrus, NC	2	56	2.3%	11
Carteret, NC	2	63	4.4%	8
Chatham, NC	2	50	7.3%	9
Chesterfield, SC	1	48	11.2%	6
Columbus, NC	2	66	5.9%	5
Cumberland, NC	1	37	0.9%	14
Dare, NC	1	26	2.6%	8
Davidson, NC	2	143	5.5%	10
Dillon, SC	3	68	21.7%	4
Duplin, NC	3	173	19.5%	6
Florence, SC	2	65	2.6%	12
Forsyth, NC	4	62	0.2%	16
Guilford, NC	6	442	4.2%	19
Harnett, NC	3	138	13.6%	9
Henderson, NC	2	77	3.9%	12
Iredell, NC	3	73	2.2%	19
Lee, NC	3	222	24.7%	9
Madison, NC	1	43	43.8%	1
McDowell, NC	1	71	19.2%	5
Mecklenburg, NC	2	62	0.0%	25
Montgomery, NC	2	122	40.5%	2
Moore, NC	10	538	33.1%	9
New Hanover, NC	5	246	2.7%	20
Onslow, NC	2	103	8.8%	10
Pitt, NC	1	35	1.4%	15
Randolph, NC	3	165	9.8%	11
Richmond, NC	1	61	14.5%	5
Robeson, NC	4	209	20.1%	8
Rockingham, NC	1	27	2.3%	10
Rowan, NC	1	51	3.7%	13
Scotland, NC	1	98	21.9%	6
Stanly, NC	4	125	11.1%	6
Transylvania, NC	1	23	4.7%	6
Wake, NC	3	115	0.4%	32
Brokered Deposits	—	86		
Total	101	$ 4,931		

Historically, our branches and facilities have been primarily located in small to medium-sized communities, whose economies are based primarily on a variety of industries, including services and manufacturing. Leading producers of lumber and rugs are located in Montgomery County, North Carolina. The Pinehurst area within Moore County, North Carolina, is a widely known golf resort and retirement area. The High Point, North Carolina area is widely known for its furniture market. New Hanover and Brunswick Counties, located in the southeastern coastal region of North Carolina, are popular with tourists and have significant retirement populations. Buncombe County, located in the western region of North Carolina, is a highly diverse area with industries in manufacturing, service, and tourism. Additionally, several of the communities served by the Bank are “bedroom” communities of large cities like Charlotte, Raleigh and Greensboro, while several branches are located in medium-sized cities such as Albemarle, Asheboro, Fayetteville, Greenville, Jacksonville, High Point, Southern Pines, and Sanford.

In recent years, we have implemented a branch strategy of expansion into larger, higher growth markets. In 2016, this expansion continued with additional investments in Charlotte, Raleigh and the Triad region of North Carolina. Several seasoned bankers joined the Bank and have led our expansion efforts in these markets. We opened our first full service branch in Charlotte in August 2016, after opening a loan production office there in 2015. In Raleigh, we opened a loan production office early in 2016 and upgraded that location to a full service branch in April 2017. In the Triad region, experienced bankers joined us in early 2016 as we opened our first loan production office in Greensboro. Our expansion into higher growth markets was significantly enhanced by three strategic transactions that occurred in 2016 and 2017. See discussion below in the section entitled “Mergers and Acquisitions.”

We have three counties that hold significant shares of our deposit base. Buncombe County, the former headquarters of one of our 2017 acquisitions (Asheville Savings Bank), holds 11% of our total deposit base. Moore County, the headquarters of the Company, has total deposits comprising approximately 11% of our deposit base, while Guilford County, the former headquarters of another 2017 acquisition (Carolina Bank), also holds 9% of our deposit base. Accordingly, material changes in competition, the economy or the population of these counties could materially impact the Company. No other county comprises more than 10% of our deposit base.

We compete in our various market areas with, among others, several large interstate bank holding companies. These large competitors have substantially greater resources than our Company, including broader geographic markets, higher lending limits and the ability to make greater use of large-scale advertising and promotions. A significant number of interstate banking acquisitions have taken place in the past few years, thus further increasing the size and financial resources of some of our competitors, some of which are among the largest bank holding companies in the nation. In many of our markets, we also compete against smaller, local banks. With banks of all sizes attempting to maximize yields on earning assets, especially in the current low interest rate environment, the competition for high-quality loans remains intense. Accordingly, loan rates in our markets continue to be under competitive pressure. We also face intense competition for deposits as competing banks attempt to grow market share and fund loan growth. Many of the markets we operate in are particularly competitive markets, with at least ten other financial institutions having a physical presence within those markets.

We compete not only against banking organizations, but also against a wide range of financial service providers, including federally and state-chartered thrift institutions, credit unions, investment and brokerage firms and small-loan or consumer finance companies. One of the credit unions in our market area is among the largest in the nation. Competition among financial institutions of all types is virtually unlimited with respect to legal ability and authority to provide most financial services. We also experience competition from internet loan providers, especially for mortgage loans, and from internet banks, particularly in the area of time deposits.

Despite the competitive market, we believe we have certain advantages over our competition in the areas we serve. Compared to the smaller banks we compete against, we are large enough to be able to more easily absorb higher costs being experienced in the banking industry, particularly regulatory costs and technology costs. We are also able to originate significantly larger loans than many of our smaller bank competitors. In our competition with larger banks, we attempt to maintain a banking culture commonly associated with smaller banks – a culture that has a personal and local flavor that appeals to many retail and small business customers. Specifically, we seek to maintain a distinct local identity in each of the communities we serve, and we actively sponsor and participate in local civic affairs. Most lending and other customer-related business decisions can be made without the delays often associated with larger institutions. Additionally, employment of local managers and personnel in various offices and low turnover of personnel enable us to establish and maintain long-term relationships with individual and corporate customers. Also, due to acquisitions of other banks headquartered in North Carolina and South Carolina, we are the only bank headquartered in North Carolina with total assets between $5 billion and $35 billion and the only bank headquartered in either state with total assets between $4 billion and $15 billion. We believe that enhances several of our competitive advantages discussed above, as well as provides scarcity value from an investor viewpoint.

Lending Policy and Procedures

Conservative lending policies and procedures and appropriate underwriting standards are high priorities of the Bank. Loans are approved under our written loan policy, which provides that lending officers, principally branch managers, have authority to approve loans of various amounts up to $350,000 with lending limits varying depending upon the experience of the lending officer and whether the loan is secured or unsecured. We have seven senior lending officers who have authority to approve secured loans up to $500,000 and each of our three Regional Presidents has authority to approve secured loans up to $1,000,000. Loans up to $8,000,000 are approved by the Bank's Regional Credit Officers through our Credit Administration Department. The Bank's President and Chief Credit Officer have authority to approve loans up to $15,000,000, while the President and the Chief Credit Officer have joint authority to approve loans up to $50,000,000. The Bank's Board of Directors maintains loan authority in excess of the Bank's in-house limit, currently $50,000,000, and generally approves loans through its Executive Loan Committee. Our legal lending limit to any one borrower is approximately $100 million. All lending authorities are based on the borrower's Total Credit Exposure ("TCE"), which is an aggregate of the Bank's lending relationship to the borrower. TCE is based on the borrower's total credit exposure with the Bank either directly or indirectly through loan guarantees or other borrowing entities related to the borrower through control or ownership.

The Executive Loan Committee reviews and approves loans that exceed the Bank's in-house limit, loans to executive officers, directors, and their affiliates and, in certain instances, other types of loans. New credit extensions are reviewed daily by our senior management and the Credit Administration Department.

We continually monitor our loan portfolio to identify areas of concern and to enable us to take corrective action. Lending and credit administration officers and the board of directors meet periodically to review past due loans and portfolio quality, while assuring that the Bank is appropriately meeting the credit needs of the communities it serves. Individual lending officers are responsible for monitoring any changes in the financial status of borrowers and pursuing collection of early-stage past due amounts. For certain types of loans that exceed our established parameters of past due status, the Bank's Asset Resolution Group assumes the management of the loan, and in some cases we engage a third-party firm to assist in collection efforts.

The Bank has an internal Loan Review Department that conducts on-going and targeted reviews of the Bank's loan portfolio and assesses the Bank's adherence to loan policies, risk grading and accrual policies. Reports are generated for management based on these activities and findings are used to adjust risk grades as deemed appropriate. In addition, these reports are shared with the Bank's Board of Directors. The Loan Review Department also provides training assistance to the Bank's Training and Credit Administration departments.

To further assess the Bank's loan portfolio and as a secondary review of the Bank's Loan Review Department, we also contract with an independent consulting firm to review new loan originations meeting certain criteria, as well as to review risk grades to existing credits meeting certain thresholds. The consulting firm's observations, comments, and risk grades, including variances with the Bank's risk grades, are shared with the audit committee of the Company's board of directors and are considered by management in setting Bank policy, as well as in evaluating the adequacy of our allowance for loan losses. For additional information, see "Allowance for Loan Losses and Loan Loss Experience" under Item 7 below.

Investment Policy and Procedures

We have adopted an investment policy designed to maximize our income from funds not needed to meet loan demand, in a manner consistent with appropriate liquidity and risk objectives. Pursuant to this policy, we may invest in U.S. government and government-sponsored enterprises, mortgage-backed securities, collateralized mortgage obligations, commercial mortgage-backed securities, state and municipal obligations, public housing authority bonds, and, to a limited extent, corporate bonds. We may also invest up to $60 million in time deposits with other financial institutions. Time deposit purchases from any one financial institution exceeding FDIC insurance coverage limits are evaluated as a corporate bond and are subject to the same due diligence requirements as corporate bonds (described below).

In making investment decisions, we do not solely rely on credit ratings to determine the credit-worthiness of an issuer of securities, but we use credit ratings in conjunction with other information when performing due diligence prior to the purchase of a security. Securities that are not rated investment grade will not be purchased. Securities rated below Moody's BAA or Standard and Poor's BBB generally will not be purchased. Securities rated below A are periodically reviewed for credit-worthiness. We may purchase non-rated municipal bonds only if such bonds are in our general market area and we determine these bonds have a credit risk no greater than the minimum ratings referred to above. We are also authorized by our Board of Directors to invest a portion of our securities portfolio in high quality corporate bonds, with the amount of such bonds not to exceed 15% of the entire securities portfolio. Prior to purchasing a corporate bond, the Company's management performs due diligence on the issuer of the bond, and the purchase is not made unless we believe that the purchase of the bond bears no more risk to the Company than would an unsecured loan to the same company. On a quarterly basis, we review the financial statements for the corporate bond issuers that we own for any signs of deterioration so that we can take timely action if deemed necessary.

Our Chief Investment Officer implements the investment policy, monitors the investment portfolio, recommends portfolio strategies and reports to the Company's Investment Committee. The Investment Committee generally meets on a quarterly basis to review investment activity and to assess the overall position of the securities portfolio. The Investment Committee compares our securities portfolio with portfolios of other companies of comparable size. In addition, reports of all purchases, sales, issuer calls, net profits or losses and market appreciation or depreciation of the securities portfolio are reviewed by our Board of Directors. Once a quarter, our interest rate risk exposure is evaluated by our Board of Directors. Each year, the written investment policy is approved by the board of directors.

Mergers and Acquisitions

As part of our operations, we have pursued an acquisition strategy over the years to augment our organic growth. We regularly evaluate the potential acquisition of various financial institutions. Our acquisitions have generally fallen into one of three categories: 1) an acquisition of a financial institution or branch thereof within a market in which we operate, 2) an acquisition of a financial institution or branch thereof in a market contiguous or nearly contiguous to a market in which we operate, or 3) an acquisition of a company that has products or services that we do not currently offer. Historically, we have paid for our acquisitions with cash and/or common stock and any operating income or loss has been fully borne by the Company beginning on the closing date of the acquisition.

Since becoming a public company in 1987, we have completed numerous acquisitions in each of the three categories described above. We have completed several whole-bank traditional acquisitions in our existing and contiguous markets; we have purchased a number of bank branches from other banks (both in existing market areas and in contiguous/nearly contiguous markets); and we have acquired several insurance agencies, which has provided us with the ability to offer property and casualty insurance coverage.

In 2009, FDIC-assisted acquisitions began to occur frequently as banking regulators closed problem banks. In FDIC-assisted transactions, the acquiring bank often does not pay any consideration for the failed bank, and in some cases receives cash from the FDIC as part of the transaction. In addition, the acquiring bank usually enters into one or more loss share agreements with the FDIC, which affords the acquiring bank significant loss protection. In both 2009 and 2011 we acquired the operations of failed banks in FDIC-assisted transactions. See the Company's Annual Reports on Form 10-K for those years for more information on these acquisitions.

The following paragraphs describe the other acquisitions that we have completed in recent years.

In January 2016, we acquired Bankingport, Inc., an insurance agency based in Sanford, North Carolina. Although not material to the Company's consolidated operations, the acquisition provided us with the opportunity to enhance our product offerings, as well as expand our insurance agency operations into a significant banking market for our Company. Also, this acquisition provides us a larger platform for leveraging insurance services throughout our bank branch network.

In May 2016, we completed the acquisition of SBA Complete. SBA Complete specializes in consulting with financial institutions across the country related to SBA loan origination and servicing. Many community banks do not have the in-house capability to comprehensively originate and service those types of loans, so they contract with SBA Complete for assistance. To learn more about this subsidiary of the Bank, please visit www.sbacomplete.com. Information included on our Internet site is not incorporated by reference into this annual report.

Soon after the acquisition of SBA Complete, we leveraged its capabilities by launching our own SBA Lending Division. Through a network of specialized First Bank loan officers, this Division offers SBA loans to small business owners throughout the United States. We typically sell the portion of each loan that is guaranteed by the SBA at a premium and record the non-guaranteed portion to our balance sheet. To learn more about our SBA Lending Division, please visit www.firstbanksba.com. Information included on our Internet site is not incorporated by reference into this annual report.

In March 2016, we announced an agreement to exchange our seven Virginia branches, with approximately $151 million in loans and $134 million in deposits, for six North Carolina branches of a community bank with a large Virginia presence that included approximately $152 million in loans and $111 million in deposits. Four of the six branches we assumed were in Winston-Salem, with the other two branches located in the Charlotte-metro markets of Mooresville and Huntersville. The Winston-Salem branches we assumed improved the Triad expansion initiative, while the Mooresville and Huntersville branches increased our Charlotte market expansion. This transaction, which was completed in July 2016, resulted in our exit from western Virginia. The opportunity to assume what is essentially a banking franchise in markets where we had recently invested in human capital was the primary factor we considered in entering into the exchange agreement.

In March 2017, we acquired Carolina Bank Holdings, Inc. (“Carolina Bank”), the parent company of Carolina Bank. Carolina Bank was a community bank headquartered in Greensboro with $682 million in assets, with eight branches located in Greensboro, Winston-Salem, Burlington and Asheboro. This acquisition built on the Winston-Salem expansion previously discussed and significantly accelerated our recent expansion initiative in the Greensboro market.

In September 2017, we acquired Bear Insurance Services, an insurance agency based in Albemarle, North Carolina. This acquisition provided us a larger platform for leveraging insurance services throughout our bank branch network and more than doubled our insurance agency revenue.

In October 2017, we acquired ASB Bancorp, Inc. (“Asheville Savings Bank”), the parent company of Asheville Savings Bank, SSB. Asheville Savings Bank operated in the attractive and high-growth market of Asheville, North Carolina, with $798 million in assets and 13 branches located throughout the Asheville market area.

There are many factors that we consider when evaluating how much to offer for potential acquisition candidates, with a few of the more significant factors being projected impact on earnings per share, projected impact on capital, and projected impact on book value and tangible book value. Significant assumptions that affect this analysis include the estimated future earnings stream of the acquisition candidate, estimated credit and other losses to be incurred, the amount of cost efficiencies that can be realized, and the interest rate earned/lost on the cash received/paid. In addition to these primary factors, we also consider other factors including (but not limited to) marketplace acquisition statistics, location of the candidate in relation to our expansion strategy, market growth potential, management of the candidate, potential integration issues (including corporate culture), and the size of the acquisition candidate.

We plan to continue to evaluate acquisition opportunities that could potentially benefit the Company and its shareholders. These opportunities may include acquisitions that do not fit the categories discussed above.

Employees

As of December 31, 2019, we had 1,065 full-time and 46 part-time employees. We are not a party to any collective bargaining agreements, and we consider our employee relations to be good.

Supervision and Regulation

As a bank holding company, we are subject to supervision, examination and regulation by the Federal Reserve and the North Carolina Office of the Commissioner of Banks (the “Commissioner”). The Bank is also subject to supervision and examination by the Federal Reserve and the Commissioner. For additional information, see Note 15 to the consolidated financial statements.

Supervision and Regulation of the Company

The Company is a bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended. The Company is also regulated by the Commissioner under the North Carolina banking laws.

A bank holding company is required to file quarterly reports and other information regarding its business operations and those of its subsidiaries with the Federal Reserve. It is also subject to examination by the Federal Reserve and is required to obtain Federal Reserve approval prior to making certain acquisitions of other institutions or voting securities. The Federal Reserve requires the Company to maintain certain levels of capital - see “Capital Resources and Shareholders’ Equity” under Item 7 below. The Federal Reserve also has the authority to take enforcement action against any bank holding company that commits any unsafe or unsound practice, or violates certain laws, regulations or conditions imposed in writing by the Federal Reserve. The Federal Reserve generally prohibits a bank holding company from declaring or paying a cash dividend that would impose undue pressure on the capital of subsidiary banks or would be funded only through borrowing or other arrangements which might adversely affect a bank holding company's financial position. Under the Federal Reserve policy, a bank holding company is not permitted to continue its existing rate of cash dividends on its common stock unless its net income is sufficient to fully fund each dividend and its prospective rate of earnings retention appears consistent with its capital needs, asset quality and overall financial condition.

The Commissioner is empowered to regulate certain acquisitions of North Carolina banks and bank holding companies, issue cease and desist orders for violations of North Carolina banking laws, and promulgate rules necessary to effectuate the purposes of those banking laws.

Regulatory authorities have cease and desist powers over bank holding companies and their nonbank subsidiaries where their actions would constitute a serious threat to the safety, soundness or stability of a subsidiary bank. Those authorities may compel holding companies to invest additional capital into banking subsidiaries upon acquisitions or in the event of significant loan losses or rapid growth of loans or deposits.

The U.S. Congress and the North Carolina General Assembly have periodically considered and adopted legislation that has impacted the Company.

Supervision and Regulation of the Bank

Federal banking regulations applicable to all depository financial institutions, among other things: (i) provide federal bank regulatory agencies with powers to prevent unsafe and unsound banking practices; (ii) restrict preferential loans by banks to "insiders" of banks; (iii) require banks to keep information on loans to major shareholders and executive officers; and (iv) bar certain director and officer interlocks between financial institutions.

As a state-chartered bank, the Bank is subject to the provisions of the North Carolina banking statutes and to regulation by the Commissioner. The Commissioner has a wide range of regulatory authority over the activities and operations of the Bank, and the Commissioner's staff conducts periodic examinations of the Bank and its affiliates to ensure compliance with state banking laws and regulations and to assess the safety and soundness of the Bank. Among other things, the Commissioner regulates the merger of state-chartered banks, the payment of dividends, loans to officers and directors, recordkeeping, types and amounts of loans and investments, and the establishment of branches. The Commissioner also has cease and desist powers over state-chartered banks for violations of state banking laws or regulations and for unsafe or unsound conduct that is likely to jeopardize the interest of depositors.

The dividends that may be paid by the Bank to the Company are subject to legal limitations under North Carolina law. In addition, under Federal Reserve regulations, a dividend cannot be paid by the Bank if it would be less than well-capitalized after the dividend. The Federal Reserve may also prevent the payment of a dividend by the Bank if it determines that the payment would be an unsafe and unsound banking practice. The ability of the Company to pay dividends to its shareholders is largely dependent on the dividends paid to the Company by the Bank.

The Federal Reserve is authorized to approve conversions, mergers, and assumptions of deposit liability transactions between insured banks and uninsured banks or institutions, and to prevent capital or surplus diminution in such transactions if the resulting, continuing, or assumed bank is an insured member bank. First Bank is a member of the Federal Reserve System, and accordingly the Federal Reserve also conducts periodic examinations of the Bank to assess its safety and soundness and its compliance with banking laws and regulations, and it has the power to implement changes to, or restrictions on, the Bank's operations if it finds that a violation is occurring or is threatened. In addition, the Federal Reserve monitors the Bank's compliance with several banking statutes, such as the Depository Institution Management Interlocks Act and the Community Reinvestment Act of 1977.

FDIC Insurance

As a member of the FDIC, our deposits are insured up to applicable limits by the FDIC, and such insurance is backed by the full faith and credit of the United States Government. The basic deposit insurance level is generally $250,000, as specified in FDIC regulations. For this protection, each insured bank pays a quarterly statutory assessment and is subject to the rules and regulations of the FDIC.

The FDIC insurance premium is based on an institution's total assets minus its Tier 1 capital. An institution's premiums are determined based on its capital, supervisory ratings and other factors. Premium rates generally may increase if the FDIC deposit insurance fund is strained due to the cost of bank failures and the number of troubled banks. In addition, if the Bank experiences financial distress or operates in an unsafe or unsound manner, its deposit premiums may increase.

We recognized approximately $0.3 million, $2.3 million, and $2.4 million in FDIC insurance expense in 2019, 2018, and 2017, respectively. In November 2018, the FDIC announced that the Deposit Insurance Fund ("DIF") reserve ratio exceeded the statutory minimum of 1.35% as of September 30, 2018. Among other things, this resulted in the FDIC awarding assessment credits for banks with less than $10 billion in total assets that had contributed to the DIF in prior years. We were notified in January 2019 that we had received $1.35 million in credits that would be available to offset deposit insurance assessments once the DIF reached 1.38%. The DIF reached 1.38% as of June 30, 2019 and therefore, the FDIC began to apply the Bank's credits to our quarterly deposit insurance assessments beginning with the second quarter of 2019. We expect to utilize all credits by end of the first quarter of 2020, and thus we expect our FDIC insurance expense to increase in 2020 compared to 2019.

The FDIC may conduct examinations of and require reporting by FDIC-insured institutions. It may also prohibit an institution from engaging in any activity that it determines by regulation or order to pose a serious risk to the deposit insurance fund and may terminate the Bank's deposit insurance if it determines that the institution has engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

Legislative and Regulatory Guidance and Developments

In addition to the regulations that are described above, new legislation is introduced from time to time in the U.S. Congress that may affect our operations. In addition, the regulations governing the Company and the Bank may be amended from time to time by the Federal Reserve, the FDIC, the Securities and Exchange Commission (the "SEC"), or other agencies, as appropriate. Any legislative or regulatory changes, or changes to accounting standards, in the future could adversely affect our operations and financial condition.

Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

On July 21, 2010, the Dodd-Frank Act became law. The Dodd-Frank Act has had and will continue to have a broad impact on the financial services industry, including significant regulatory and compliance changes including, among other things,

- enhanced authority over troubled and failing banks and their holding companies;
- increased capital and liquidity requirements;
- increased regulatory examination fees; and
- specific provisions designed to improve supervision and safety and soundness by imposing restrictions and limitations on the scope and type of banking and financial activities.

While much of the original provisions of the Dodd-Frank Act were not directly applicable to us due to size thresholds, many of the requirements of the Dodd-Frank Act remain subject to implementation over the course of several years. While we do not currently expect the final requirements of the Dodd-Frank Act to have a material adverse impact on the Company, we do expect them to negatively impact our profitability, require changes to certain of our business practices, including limitations on fee income opportunities, and impose more stringent capital, liquidity and leverage requirements upon the Company. These changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with the new statutory and regulatory requirements.

In May 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act (the "Economic Growth Act"), was enacted to modify or remove certain financial reform rules and regulations, including some of those implemented under the Dodd-Frank Act. While the Economic Growth Act maintains most of the regulatory structure established by the Dodd-Frank Act, it amends certain aspects of the regulatory framework for small depository institutions with assets less than $10 billion and for large banks with assets of more than $50 billion. Many of these changes could result in meaningful regulatory changes for banks and their holding companies.

The Economic Growth Act, among other matters, expands the definition of qualified mortgages which may be held by a financial institution and provides for an alternative capital rule for financial institutions and their holding companies with total consolidated assets of less than $10 billion. The Economic Growth Act instructed the federal banking regulators to establish a single "Community Bank Leverage Ratio" of between 8% and 10%, which has been proposed to be 9% by the federal regulators. The Community Bank Leverage Ratio provides for a simpler calculation of a bank's capital ratio than the Basel III provisions currently in place (see below). Any qualifying depository institution or its holding company that exceeds the Community Bank Leverage Ratio will be considered to have met generally applicable leverage and risk-based regulatory capital requirements and any qualifying depository institution that exceeds the new ratio will be considered to be "well capitalized" under the prompt corrective action rules. In addition, the Economic Growth Act includes regulatory relief for community banks of certain sizes regarding regulatory examination cycles, call reports, the Volcker Rule (proprietary trading prohibitions), mortgage disclosures and risk weights for certain high-risk commercial real estate loans. We continue to evaluate the impact that the rules issued thus far under the Economic Growth Act will have on the bank, but we currently do not believe that it will be significant. At this time, we do not expect to opt-in to the ability to utilize the Community Bank Leverage Ratio and will instead continue to use the Basel III standards.

It is difficult at this time to predict when or how any new standards under the Economic Growth Act will ultimately be applied to, or what specific impact the Economic Growth Act and the yet-to-be-written implementing rules and regulations will have on us.

Regulatory Capital Requirement under Basel III

Effective January 1, 2015, the Company and the Bank became subject to new regulatory capital rules agreed to by the Basel Committee on Banking Supervision in the accord referred to as "Basel III." Under the Basel III Capital Rules, the following were the initial minimum capital ratios applicable to the Company and the Bank as of January 1, 2015:

- 4.5% CET1 to risk-weighted assets;
- 6.0% Tier I capital (that is, CET1 plus Additional Tier I capital) to risk-weighted assets;
- 8.0% total capital (that is, Tier I capital plus Tier II capital) to risk-weighted assets; and
- 4.0% Tier I leverage ratio (that is Tier I capital) to quarterly average total assets.

Common Equity Tier I capital ("CET1") 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 I capital is comprised of CET1 capital plus Additional Tier I capital, which for the Company includes non-cumulative perpetual preferred stock and trust preferred securities. Total capital is comprised of Tier I capital plus certain adjustments, the largest of which for the Company and the Bank is the allowance for loan losses. Risk-weighted assets refer to the on- and off-balance sheet exposures of the Company and the Bank, adjusted for their related risk levels using formulas set forth in Federal Reserve regulations

The Basel III Capital Rules include a "capital conservation buffer," composed entirely of CET1, on top of these minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. The implementation of the capital conservation buffer began on January 1, 2016 at 0.625% and is being phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reached 2.5% on January 1, 2019). Thus, effective as of January 1, 2019, the Company and the Bank were required to maintain this additional capital conservation buffer of 2.5% of CET1, resulting in the following minimum capital ratios:

- 4.5% CET1 to risk-weighted assets, plus the capital conservation buffer, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7%;
- 6.0% Tier I capital to risk-weighted assets, plus the capital conservation buffer, effectively resulting in a minimum Tier I capital ratio of at least 8.5%;
- 8.0% total capital to risk-weighted assets, plus the capital conservation buffer, effectively resulting in a minimum total capital ratio of at least 10.5%; and
- 4.0% Tier I leverage ratio

In addition to the minimum capital requirements described above, the regulatory framework for prompt corrective action also contains specific capital guidelines for a bank's classification as "well capitalized." The current specific guidelines are as follows:

- CET1 Capital Ratio of at least 6.50%;
- Tier I Capital Ratio of at least 8.00%;
- Total Capital Ratio of at least 10.00%; and a
- Leverage Ratio of at least 5.00%.

If a bank falls below "well capitalized" status in any of these three ratios, it must ask for FDIC permission to originate or renew brokered deposits. First Bank is well-capitalized under all capital guidelines.

Current Expected Credit Loss Accounting Standard

The Financial Accounting Standards Board ("FASB") has adopted a new accounting standard that is effective for the Company with reporting periods beginning January 1, 2020. This standard, referred to as Current Expected Credit Loss (or "CECL"), requires FDIC-insured institutions and their holding companies (banking organizations) to recognize credit losses expected over the life of certain financial assets. The CECL framework is expected to result in earlier recognition of credit losses and is expected to be significantly influenced by the composition, characteristics and quality of the Company's loan portfolio, as well as the prevailing economic conditions and forecasts. The Company will initially apply the impact of the new guidance through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption, which, for the Company, is January 1, 2020. Future adjustments to credit loss expectations will be recorded through the income statement as charges or credits to earnings. The Company has substantially completed its CECL model and continues to make enhancements to its estimate of expected credit losses as of January 1, 2020 based on internal analysis and consultations with third-party vendors. At this time, the Company expects its allowance for credit losses will increase to approximately $40-$44 million upon adoption compared to its allowance for loan losses at December 31, 2019 of approximately $21 million. The impact of the initial adoption will be reflected in the Company's SEC Form 10-Q for the period ended March 31, 2020.

The Federal Reserve and the FDIC have adopted a rule that provides a banking organization the option to phase-in over a three-year period the effects of CECL on its regulatory capital upon the adoption of the standard. The Company does not expect to exercise the phase-in option.

Liquidity Requirements

Historically, the regulation and monitoring of bank and bank holding company liquidity has been addressed as a supervisory matter, without required formulaic measures. Liquidity risk management has become increasingly important since the financial crisis. The Basel III liquidity framework requires banks and bank holding companies to measure their liquidity against specific liquidity tests that, although similar in some respects to liquidity measures historically applied by banks and regulators for management and supervisory purposes, going forward would be required by regulation. One test, referred to as the liquidity coverage ratio ("LCR"), is designed to ensure that the banking entity maintains an adequate level of unencumbered high-quality liquid assets equal to the entity's expected net cash outflow for a 30-day time horizon (or, if greater, 25% of its expected total cash outflow) under an acute liquidity stress scenario. The other test, referred to as the net stable funding ratio ("NSFR"), is designed to promote more medium- and long-term funding of the assets and activities of banking entities over a one-year time horizon. These requirements will incent banking entities to increase their holdings of Treasury securities and other sovereign debt as a component of assets and increase the use of long-term debt as a funding source.

In September 2014, the federal bank regulators approved final rules implementing the LCR for advanced approaches banking organizations (i.e., banking organizations with $250 billion or more in total consolidated assets or $10 billion or more in total on-balance sheet foreign exposure) and a modified version of the LCR for bank holding companies with at least $50 billion in total consolidated assets that are not advanced approach banking organizations, neither of which would apply to the Company or the Bank. The federal bank regulators have not yet proposed rules to implement the NSFR or addressed the scope of bank organizations to which it will apply.

Following the enactment of the Economic Growth Act in May 2018, the Federal Reserve stated that it would no longer require bank holding companies with less than $100 billion in total consolidated assets to comply with the modified version of the LCR. In addition, in October 2018, the federal bank regulators proposed to revise their liquidity requirements so that banking organizations that are not global systematically important banks and have less than $250 billion in total consolidated assets and less than $75 billion in each of off-balance sheet exposure, nonbank assets, cross-jurisdictional activity and short-term wholesale funding would not be subject to any LCR or NSFR requirements.

Financial Privacy and Cybersecurity

The federal banking regulators have adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to non-affiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a non-affiliated third party. These regulations affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. In addition, consumers may also prevent disclosure of certain information among affiliated companies that is assembled or used to determine eligibility for a product or service, such as that shown on consumer credit reports and asset and income information from applications. Consumers also have the option to direct banks and other financial institutions not to share information about transactions and experiences with affiliated companies for the purpose of marketing products or services.

In March 2015, federal regulators issued two related statements regarding cybersecurity. One statement indicates that financial institutions should design multiple layers of security controls to establish lines of defense and to ensure that their risk management processes also address the risk posed by compromised customer credentials, including security measures to reliably authenticate customers accessing Internet-based services of the financial institution. The other statement indicates that a financial institution's management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of the institution's operations after a cyber-attack involving destructive malware. A financial institution is also expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or its critical service providers fall victim to this type of cyber-attack. The Company has multiple Information Security Programs that reflect the requirements of this guidance. If, however, we fail to observe the regulatory guidance in the future, we could be subject to various regulatory sanctions, including financial penalties.

In the ordinary course of business, we rely on electronic communications and information systems to conduct our operations and to store sensitive data. We employ an in-depth, layered, defensive approach that leverages people, processes and technology to manage and maintain cybersecurity controls. We employ a variety of preventative and detective tools to monitor, block, and provide alerts regarding suspicious activity, as well as to report on any suspected advanced persistent threats. Notwithstanding the strength of our defensive measures, the threat from cyber-attacks is severe, attacks are sophisticated and increasing in volume, and attackers respond rapidly to changes in defensive measures. While to date we have not detected a significant compromise, significant data loss or any material financial losses related to cybersecurity attacks, our systems and those of our customers and third-party service providers are under constant threat and it is possible that we could experience a significant event in the future. Risks and exposures related to cybersecurity attacks are expected to remain high for the foreseeable future due to the rapidly evolving nature and sophistication of these threats, as well as due to the expanding use of Internet banking, mobile banking and other technology-based products and services by us and our customers. See Item 1A. Risk Factors for a further discussion of risks related to cybersecurity.

Anti-Money Laundering and the USA Patriot Act

A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The USA PATRIOT Act of 2001 (the "USA Patriot Act") substantially broadened the scope of United States anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations on financial institutions, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States.

On May 11, 2016, the Financial Crimes Enforcement Network ("FinCEN") issued new anti-money laundering ("AML") rules governing corporate entities doing business with banks and other financial institutions that are subject to the requirements of the USA Patriot Act. The AML rules impose significant due diligence obligations on financial institutions with respect to opening of new accounts and the monitoring of existing accounts. Under the AML rules, a financial institution must identify persons owning or controlling 25% or more of a "legal entity," whenever the legal entity opens a new account at the bank. The financial institution must also identify an individual who has substantial management authority at the legal entity, such as a CEO, CFO, or managing partner. These new AML rules became effective in May 2018.

The AML rules codify within the FinCEN regulations the "pillars" that must be included in a financial institutions AML compliance program. Regulators previously communicated their expectations with respect to four of these pillars: (1) the development of internal policies, procedures, and control; (2) the designation of a compliance officer; (3) the establishment of an ongoing employee training program; and (4) the implementation of an independent audit function to test programs. The new beneficial ownership requirement establishes a fifth pillar. Among other things, this new pillar includes the necessity to monitor and update the beneficial ownership of a legal entity, including the need to subject corporate borrowers to due diligence requests from financial institutions for certifications with respect to their beneficial owners. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required.

Office of Foreign Assets Control Regulation

The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others which are administered by the U.S. Treasury Department Office of Foreign Assets Control ("OFAC"). Failure to comply with these sanctions could have serious legal and reputational consequences, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required.

Community Reinvestment Act

The Community Reinvestment Act of 1977 ("CRA") requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to low- and moderate- income individuals and communities. Depository institutions are periodically examined for compliance with the CRA and are assigned ratings. In order for a financial holding company to commence any new activity permitted by the BHC Act, or to acquire any company engaged in any new activity permitted by the BHC Act, each insured depository institution subsidiary of the financial holding company must have received a rating of at least "satisfactory" in its most recent examination under the CRA. Furthermore, banking regulators take into account CRA ratings when considering a request for an approval of a proposed transaction. First Bank received a rating of "satisfactory" in its most recent CRA examination. In April 2018, the U.S. Department of Treasury issued a memorandum to the federal banking regulators with recommended changes to the CRA's implementing regulations to reduce their complexity and associated burden on banks. We will continue to evaluate the impact of any changes to the regulations implementing the CRA.

Federal Securities Laws

The common stock of the Company is registered with the SEC under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Therefore, the Company is subject to the reporting, information disclosure, proxy solicitation, insider trading limits and other requirements imposed on public companies by the SEC under the Exchange Act. This includes limits on sales of stock by certain insiders and the filing of insider ownership reports with the SEC. The SEC and Nasdaq have adopted regulations under the Sarbanes-Oxley Act of 2002 and the Dodd Frank Act that apply to the Company as a Nasdaq-traded, public company, which seek to improve corporate governance, provide enhanced penalties for financial reporting improprieties and improve the reliability of disclosures in SEC filings.

Tax Cuts and Jobs Act

U.S. tax reform legislation was signed into law on December 22, 2017 and made broad and complex changes to the U.S. Internal Revenue Code, including reducing the U.S. statutory tax rate from 35% to 21% beginning on January 1, 2018. With the adoption of this tax reform, our deferred tax balances were reduced as of December 31, 2017 to reflect the new 21% statutory tax rate.

Beginning January 1, 2018, we applied the federal tax rate of 21% to our taxable earnings. Other provisions of U.S. tax reform that we adopted on January 1, 2018, include, but are not limited to: 1) provisions reducing the dividends received deduction; 2) essentially eliminating U.S. federal income taxes on dividends from foreign subsidiaries; 3) retaining an element of current inclusion of certain earnings of controlled foreign corporations; 4) eliminating the corporate alternative minimum tax ("AMT") and 5) changing how existing AMT credits are realized.

Available Information

We maintain a corporate Internet site at www.LocalFirstBank.com, which contains a link within the "Investor Relations" section of the site to each of our filings with the SEC, including our annual reports on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act. These filings are available, free of charge, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. These filings can also be accessed at the SEC's website located at www.sec.gov. Information included on our Internet site is not incorporated by reference into this annual report.

Item 1A. Risk Factors

An investment in our common stock involves certain risks. Before you invest in our common stock, you should be aware that there are various risks, including those described below, which could affect the value of your investment in the future. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. The risk factors described in this section, as well as any cautionary language in this report, provide examples of risks, uncertainties and events that could have a material adverse effect on our business, including our operating results and financial condition. In addition to the risks and uncertainties described below, other risks and uncertainties not currently known to us, or that we currently deem to be immaterial, also may materially or adversely affect our business, financial condition, and results of operations. The value or market price of our common stock could decline due to any of these identified or other unidentified risks.

Risks Related to Our Business

Unfavorable economic conditions could adversely affect our business.

Our business is subject to periodic fluctuations based on national, regional and local economic conditions. These fluctuations are not predictable, cannot be controlled, and may have a material adverse impact on our operations and financial condition. Our banking operations are primarily locally oriented and community-based. Our retail and commercial banking activities are primarily concentrated within the same geographic footprint. Our markets include most of North Carolina and parts of South Carolina. Worsening economic conditions within our markets could have a material adverse effect on our financial condition, results of operations and cash flows. Accordingly, we expect to continue to be dependent upon local business conditions as well as conditions in the local residential and commercial real estate markets we serve. Unfavorable changes in unemployment, real estate values, interest rates and other factors could weaken the economies of the communities we serve. While economic growth and business activity has been favorable in our market area in recent years, there can be no assurance that economic conditions will persist, and these conditions could worsen. In addition, unfavorable global economic conditions, including the recent outbreak of the coronavirus, have had a negative impact on financial markets and could adversely impact our customers, which in turn could lead to lower business activity and higher loan delinquencies. Weakness in any of our market areas could have an adverse impact on our earnings, and consequently our financial condition and capital adequacy.

Cybersecurity incidents could disrupt business operations, result in the loss of critical and confidential information, and adversely impact our reputation and results of operations.

Global cybersecurity threats and incidents can range from uncoordinated individual attempts to gain unauthorized access to information technology (IT) systems to sophisticated and targeted measures known as advanced persistent threats, directed at the Company and/or its third party service providers. While we have experienced, and expect to continue to experience, these types of threats and incidents, none of them to date have been material to the Company. Although we employ comprehensive measures to prevent, detect, address and mitigate these threats (including access controls, employee training, data encryption, vulnerability assessments, continuous monitoring of our IT networks and systems and maintenance of backup and protective systems), cybersecurity incidents, depending on their nature and scope, could potentially result in the misappropriation, destruction, corruption or unavailability of critical data and confidential or proprietary information (our own or that of third parties) and the disruption of business operations. The potential consequences of a material cybersecurity incident include reputational damage, litigation with third parties and increased cybersecurity protection and remediation costs, which in turn could materially adversely affect our results of operations.

Our allowance for loan losses may not be adequate to cover actual losses; under CECL we may need to materially increase our allowance for loan losses and our provisions for credit losses may increase significantly and the provisions for credit losses may be more volatile than in the past.

Like all financial institutions, we maintain an allowance for loan losses to provide for probable losses caused by customer loan defaults. The allowance for loan losses may not be adequate to cover actual loan losses, and in this case additional and larger provisions for loan losses would be required to replenish the allowance. Provisions for loan losses are a direct charge against income.

We establish the amount of the allowance for loan losses based on historical loss rates, as well as estimates and assumptions about the ultimate amount of incurred losses that will be realized. Because of the extensive use of estimates and assumptions, our actual loan losses could differ, possibly significantly, from our estimate. We believe that our allowance for loan losses at December 31, 2019 is adequate to provide for probable losses, but it is possible that the allowance for loan losses will need to be increased for credit reasons or that regulators will require us to increase this allowance. Either of these occurrences could materially and adversely affect our earnings and profitability.

In addition, the measure of our allowance for loan losses is dependent on the adoption of new accounting standards. The FASB issued an Accounting Standards Update related to CECL, the new credit impairment model, which will be effective for the Company for reporting periods beginning on January 1, 2020. This new model requires financial institutions to estimate and develop a provision for credit losses at origination for the lifetime of the loan, as opposed to reserving for probable incurred losses up to the balance sheet date. Under the CECL model, credit deterioration will be reflected in the income statement in the period of origination or acquisition of the loan, with changes in expected credit losses due to further credit deterioration or improvement reflected in the periods in which the expectation changes.

The CECL framework is expected to result in earlier recognition of credit losses and is expected to be significantly influenced by the composition, characteristics and quality of the Company's loan portfolio, as well as the prevailing economic conditions and forecasts. The Company will initially apply the impact of the new guidance through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption, which, for the Company, is January 1, 2020. At this time, the Company expects its allowance for credit losses will increase to approximately $40-$44 million upon adoption compared to its allowance for loan losses at December 31, 2019 of approximately $21 million.

The CECL standard provides significant flexibility and requires a high degree of judgment with regards to pooling financial assets with similar risk characteristics and adjusting the relevant historical loss information in order to develop an estimate of expected lifetime losses. Providing for losses over the life of our loan portfolio is a change to the previous method of providing allowances for loan losses that are probable and incurred. This change may require us to increase our allowance for loan losses rapidly in future periods, and greatly increases the types of data we need to collect and review to determine the appropriate level of the allowance for loan losses. It may also result in even small changes to future forecasts having a significant impact on the allowance, which could make the allowance more volatile, and regulators may impose additional capital buffers to absorb this volatility.

We are subject to extensive regulation, which could have an adverse effect on our operations.

We are subject to extensive regulation and supervision from the Commissioner and the Federal Reserve. This regulation and supervision is intended primarily to enhance the safe and sound operation of the Bank and for the protection of the FDIC insurance fund and our depositors and borrowers, rather than for holders of our equity securities. In the past, our business has been materially affected by these regulations. This trend is likely to continue in the future.

Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on operations, the classification of our assets and the determination of the level of allowance for loan losses. Changes in the regulations that apply to us, or changes in our compliance with regulations, could have a material impact on our operations.

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The federal Bank Secrecy Act, the Patriot Act and other laws and regulations require financial institutions, among other duties, to institute and maintain effective anti-money laundering programs and file suspicious activity and currency transaction reports as appropriate. The FINCEN, established by the Treasury to administer the Bank Secrecy Act, is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration and Internal Revenue Service. There is also increased scrutiny of compliance with the rules enforced by the OFAC. Federal and state bank regulators also have begun to focus on compliance with Bank Secrecy Act and AML regulations. If our policies, procedures and systems are deemed deficient or the policies, procedures and systems of the financial institutions that we have already acquired or may acquire in the future are deficient, we would be subject to liability, including fines and regulatory actions such as restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition plans, which would negatively impact our business, financial condition and results of operations. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us.

Consumers may decide not to use banks to complete their financial transactions.

Technology and other changes are allowing parties to complete financial transactions through alternative methods that historically have involved banks. For example, consumers can now maintain funds that would have historically been held as bank deposits in brokerage accounts, mutual funds or general-purpose reloadable prepaid cards. Consumers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as “disintermediation,” could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost of deposits as a source of funds could have a material adverse effect on our financial condition and results of operations.

Negative public opinion regarding our Company and the financial services industry in general, could damage our reputation and adversely impact our earnings.

Reputation risk, or the risk to our business, earnings and capital from negative public opinion regarding our Company and the financial services industry in general, is inherent in our business. Negative public opinion can result from actual or alleged conduct in any number of activities, including lending practices, corporate governance and acquisitions, and from actions taken by government regulators and community organizations in response to those activities. Negative public opinion can adversely affect our ability to keep and attract clients and employees and can expose us to litigation and regulatory action. Although we have taken steps to minimize reputation risk in dealing with our clients and communities, this risk will always be present given the nature of our business.

We may make future acquisitions, which could dilute current shareholders’ stock ownership and expose us to additional risks.

In accordance with our strategic plan, we evaluate opportunities to acquire other banks and branch locations to expand the Company. As a result, we may engage in acquisitions and other transactions that could have a material effect on our operating results and financial condition, including short and long-term liquidity. Our acquisition activities could require us to issue a significant number of shares of common stock or other securities and/or to use a substantial amount of cash, other liquid assets, and/or incur debt. In addition, if goodwill recorded in connection with our potential future acquisitions were determined to be impaired, then we would be required to recognize a charge against our earnings, which could materially and adversely affect our results of operations during the period in which the impairment was recognized.

Our acquisition activities could involve a number of additional risks, some of which are described in more detail elsewhere in this report and include:

- the possibility that expected benefits may not materialize in the timeframe expected or at all, or may be more costly to achieve;
- incurring the time and expense associated with identifying and evaluating potential acquisitions and merger partners and negotiating potential transactions, resulting in management’s attention being diverted from the operation of our existing business;
- using inaccurate estimates and judgments to evaluate credit, operations, management, and market risks with respect to the target institution or assets;
- incurring the time and expense required to integrate the operations and personnel of the combined businesses;
- the possibility that we will be unable to successfully implement integration strategies, due to challenges associated with integrating complex systems, technology, banking centers, and other assets of the acquired bank in a manner that minimizes any adverse effect on customers, suppliers, employees, and other constituencies;

- the possibility of regulatory approval for the acquisition being delayed, impeded, restrictively conditioned or denied due to existing or new regulatory issues surrounding the Company, the target institution or the proposed combined entity as a result of, among other things, issues related to AML and Bank Secrecy Act compliance, fair lending laws, fair housing laws, consumer protection laws, unfair, deceptive, or abusive acts or practices regulations, or CRA requirements, and the possibility that any such issues associated with the target institution, which we may or may not be aware of at the time of the acquisition, could impact the combined entity after completion of the acquisition;

- the possibility that the acquisition may not be timely completed, if at all;

- creating an adverse short-term effect on our results of operations; and

- losing key employees and customers as a result of an acquisition that is poorly received.

If we do not successfully manage these risks, our acquisition activities could have a material adverse effect on our operating results and financial condition, including short- and long-term liquidity.

The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services companies are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, and investment banks. Defaults by, or even rumors or questions about, one or more financial services companies, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. We can make no assurance that any such losses would not materially and adversely affect our business, financial condition or results of operations.

We are subject to interest rate risk, which could negatively impact earnings.

Net interest income is the most significant component of our earnings. Our net interest income results from the difference between the yields we earn on our interest-earning assets, primarily loans and investments, and the rates that we pay on our interest-bearing liabilities, primarily deposits and borrowings. When interest rates change, the yields we earn on our interest-earning assets and the rates we pay on our interest-bearing liabilities do not necessarily move in tandem with each other because of the difference between their maturities and repricing characteristics. This mismatch can negatively impact net interest income if the margin between yields earned and rates paid narrows. Interest rate environment changes can occur at any time and are affected by many factors that are outside our control, including inflation, recession, unemployment trends, the Federal Reserve’s monetary policy, domestic and international disorder and instability in domestic and foreign financial markets.

In the normal course of business, we process large volumes of transactions involving millions of dollars. If our internal controls fail to work as expected, if our systems are used in an unauthorized manner, or if our employees subvert our internal controls, we could experience significant losses.

We process large volumes of transactions on a daily basis involving millions of dollars and are exposed to numerous types of operational risk. Operational risk includes the risk of fraud by persons inside or outside the Company, the execution of unauthorized transactions by employees, errors relating to transaction processing and systems and breaches of the internal control system and compliance requirements. This risk also includes potential legal actions that could arise as a result of an operational deficiency or as a result of noncompliance with applicable regulatory standards.

We establish and maintain systems of internal operational controls that provide us with timely and accurate information about our level of operational risk. Although not foolproof, these systems have been designed to manage operational risk at appropriate, cost-effective levels. Procedures exist that are designed to ensure that policies relating to conduct, ethics, and business practices are followed. From time to time, losses from operational risk may occur, including the effects of operational errors. We continually monitor and improve our internal controls, data processing systems, and corporate-wide processes and procedures, but there can be no assurance that future losses will not occur.

Liquidity risk could impair our ability to fund operations and jeopardize our financial condition.

Liquidity is essential to our business. We rely on a number of different sources in order to meet our potential liquidity demands. Our primary sources of liquidity are increases in deposit accounts, cash flows from loan payments and our securities portfolio. Borrowings also provide us with a source of funds to meet liquidity demands. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a substantial negative effect on our liquidity.

Our access to funding sources in amounts adequate to finance our activities or on terms which are acceptable to us could be impaired by factors that affect us specifically, or the financial services industry or economy in general. Factors that could detrimentally impact our access to liquidity sources include adverse regulatory action against us or a decrease in the level of our business activity as a result of a downturn in the markets in which our loans are concentrated. Our ability to borrow could also be impaired by factors that are not specific to us, such as a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry in light of the recent turmoil faced by banking organizations or deterioration in credit markets.

If our goodwill becomes impaired, we may be required to record a significant charge to earnings.

We have goodwill recorded on our balance sheet as an asset with a carrying value as of December 31, 2019 of $234.4 million. Under generally accepted accounting principles, goodwill is required to be tested for impairment at least annually and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The test for goodwill impairment involves comparing the fair value of a company's reporting units to their respective carrying values. 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. The price of our common stock is one of several factors available for estimating the fair value of our reporting units and is most closely associated with our First Bank reporting unit. Subject to the results of other valuation techniques, if the price of our common stock falls below book value, it could indicate that a portion of our goodwill is impaired. Accordingly, for this reason or other reasons that indicate that the goodwill at any of our reporting units is impaired, we may be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill is determined, which could have a negative impact on our results of operations.

We might be required to raise additional capital in the future, but that capital may not be available or may not be available on terms acceptable to us when it is needed.

We are required to maintain adequate capital levels to support our operations. In the future, we might need to raise additional capital to support growth, absorb loan losses, or meet more stringent capital requirements. Our ability to raise additional capital will depend on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, we cannot be certain of our ability to raise additional capital in the future if needed or on terms acceptable to us. If we cannot raise additional capital when needed, our ability to conduct our business could be materially impaired.

We may issue additional shares of stock or equity derivative securities that will dilute the percentage ownership interest of existing shareholders and may dilute the book value per share of our common stock and adversely affect the terms on which we may obtain additional capital.

Our authorized capital includes 40,000,000 shares of common stock and 5,000,000 shares of preferred stock. As of December 31, 2019, we had 29,601,264 shares of common stock outstanding. In addition, as of December 31, 2019, we had the ability to issue 632,726 shares of common stock pursuant to options and restricted stock under our existing equity compensation plans.

Subject to applicable NASDAQ rules, our board generally has the authority, without action by or vote of the shareholders, to issue all or part of any authorized but unissued shares of stock for any corporate purpose. Such corporate purposes could include, among other things, issuances of equity-based incentives under or outside of our equity compensation plans, issuances of equity in business combination transactions, and issuances of equity to raise additional capital to support growth or to otherwise strengthen our balance sheet. Any issuance of additional shares of stock or equity derivative securities will dilute the percentage ownership interest of our shareholders and may dilute the book value per share of our common stock. Shares we issue in connection with any such offering will increase the total number of outstanding shares and may dilute the economic and voting ownership interest of our existing shareholders.

We may be adversely impacted by the transition from LIBOR as a reference rate.

In 2017, the United Kingdom's Financial Conduct Authority announced that after 2021 it would no longer compel banks to submit the rates required to calculate the London Interbank Offered Rate ("LIBOR"). This announcement indicated that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. Consequently, at this time, it is not possible to predict whether and to what extent banks will continue to provide submissions for the calculation of LIBOR. Similarly, it is not possible to predict whether LIBOR will continue to be viewed as an acceptable market benchmark, what rate or rates may become accepted alternatives to LIBOR, or what the effect of any such changes in views or alternatives may be on the markets for LIBOR-indexed financial instruments.

We have a significant number of loans and borrowings with attributes that are either directly or indirectly dependent on LIBOR. The transition from LIBOR could create considerable costs and additional risk. Furthermore, failure to adequately manage this transition process with our customers could adversely impact our reputation. Although we are currently unable to assess what the ultimate impact of the transition from LIBOR will be, failure to adequately manage the transition could have a material adverse effect on our business, financial condition and results of operations.

Future acquisitions may be delayed, impeded, or prohibited due to regulatory issues.

Future acquisitions by the Company, particularly those of financial institutions, are subject to approval by a variety of federal and state regulatory agencies. The process for obtaining these required regulatory approvals has become substantially more difficult in recent years. Regulatory approvals could be delayed, impeded, restrictively conditioned or denied due to existing or new regulatory issues we have, or may have, with regulatory agencies, including, without limitation, issues related to AML and Bank Secrecy Act compliance, fair lending laws, fair housing laws, consumer protection laws, unfair, deceptive, or abusive acts or practices regulations, CRA issues, and other similar laws and regulations. We may fail to pursue, evaluate or complete strategic and competitively significant acquisition opportunities as a result of our inability, or perceived or anticipated inability, to obtain regulatory approvals in a timely manner, under reasonable conditions or at all. Difficulties associated with potential acquisitions that may result from these factors could have a material adverse effect on our business, and, in turn, our financial condition and results of operations.

We may be exposed to difficulties in combining the operations of acquired businesses into our own operations, which may prevent us from achieving the expected benefits from our acquisition activities.

We may not be able to fully achieve the strategic objectives and operating efficiencies that we anticipate in our acquisition activities. Inherent uncertainties exist in integrating the operations of an acquired business. In addition, the markets and industries in which the Company and our potential acquisition targets operate are highly competitive. We may lose customers or the customers of acquired entities as a result of an acquisition. We also may lose key personnel from the acquired entity as a result of an acquisition. We may not discover all known and unknown factors when examining a company for acquisition during the due diligence period. These factors could produce unintended and unexpected consequences for us. Undiscovered factors as a result of acquisition, pursued by non-related third party entities, could bring civil, criminal, and financial liabilities against us, our management, and the management of those entities acquired. These factors could contribute to the Company not achieving the expected benefits from its acquisitions within desired time frames.

We are subject to federal and state fair lending laws, and failure to comply with these laws could lead to material penalties.

Federal and state fair lending laws and regulations, such as the Equal Credit Opportunity Act and the Fair Housing Act, impose nondiscriminatory lending requirements on financial institutions. The Department of Justice, the Consumer Finance Protection Bureau and other federal and state agencies are responsible for enforcing these laws and regulations. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. A successful challenge to our performance under the fair lending laws and regulations could adversely impact our CRA rating and result in a wide variety of sanctions, including the required payment of damages and civil money penalties, injunctive relief, imposition of restrictions on or delays in approving merger and acquisition activity and restrictions on expansion activity, which could negatively impact our reputation, business, financial condition and results of operations.

We could experience losses due to competition with other financial institutions.

We face substantial competition in all areas of our operations from a variety of different competitors, both within and beyond our principal markets, many of which are larger and may have more financial resources. Such competitors primarily include national, regional and internet banks within the various markets in which we operate. We also face competition from many other types of financial institutions, including, without limitation, thrifts, credit unions, finance companies, brokerage firms, insurance companies and other financial intermediaries, such as online lenders and banks. The financial services industry could become even more competitive as a result of legislative and regulatory changes and continued consolidation. In addition, as customer preferences and expectations continue to evolve, technology has lowered barriers to entry and made it possible for nonbanks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Banks, securities firms and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. Many of our competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services than we can.

Our ability to compete successfully depends on a number of factors, including, among other things:

- the ability to develop, maintain, and build upon long-term customer relationships based on top quality service, high ethical standards, and safe, sound assets;
- the ability to expand our market position;
- the scope, relevance, and pricing of products and services offered to meet customer needs and demands;
- the rate at which we introduce new products and services relative to our competitors;
- customer satisfaction with our level of service; and
- industry and general economic trends.

Failure to perform in any of these areas could significantly weaken our competitive position, which could adversely affect our growth and profitability, which, in turn, could have a material adverse effect on our financial condition and results of operations.

Failure to keep pace with technological change could adversely affect our business.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on our business and, in turn, our financial condition and results of operations.

New lines of business or new products and services may subject us to additional risk.

From time to time, we may implement new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services, we may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business and/or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business and/or new products or services could have a material adverse effect on our business and, in turn, our financial condition and results of operations.

In May 2016, we completed the acquisition of SBA Complete. SBA Complete specializes in consulting with financial institutions across the country related to SBA loan origination and servicing. We leveraged the expertise assumed in the acquisition of SBA Complete to launch our own SBA Lending Division in the third quarter of 2016. These are both relatively new lines of business for the Bank with unique operational, control and accounting risks, which if not properly managed, could result in losses for our Company.

Our reported financial results are impacted by management's selection of accounting methods and certain assumptions and estimates.

Our accounting policies and methods are fundamental to the way we record and report our financial condition and results of operations. Our management must exercise judgment in selecting and applying many of these accounting policies and methods so they comply with generally accepted accounting principles and reflect management's judgment of the most appropriate manner to report our financial condition and results. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which may be reasonable under the circumstances, yet may result in reporting materially different results than would have been reported under a different alternative.

Certain accounting policies are critical to presenting our financial condition and results. They require management to make difficult, subjective or complex judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions or estimates. These critical accounting policies include: the allowance for loan losses; intangible assets; and the fair value and discount accretion of acquired loans.

Changes in accounting standards could materially impact our financial statements.

From time to time accounting standards setters change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be difficult to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in changes to previously reported financial results or a cumulative charge to retained earnings. See Note 1 – Recent Accounting Pronouncements in the notes to consolidated financial statements included in Item 8. Financial Statements.

Our business continuity plans or data security systems could prove to be inadequate, resulting in a material interruption in, or disruption to, our business and a negative impact on our results of operations.

We rely heavily on communications and information systems to conduct our business. Our daily operations depend on the operational effectiveness of our technology. We rely on our systems to accurately track and record our assets and liabilities. Any failure, interruption or breach in security of our computer systems or outside technology, whether due to severe weather, natural disasters, acts of war or terrorism, criminal activity, cyber attacks or other factors, could result in failures or disruptions in general ledger, deposit, loan, customer relationship management, and other systems leading to inaccurate financial records. This could materially affect our business operations and financial condition. While we have disaster recovery and other policies and procedures designed to prevent or limit the effect of any failure, interruption or security breach of our information systems, there can be no assurance that any such failures, interruptions, or security breaches will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions or security breaches of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our results of operations.

In addition, the Bank provides its customers the ability to bank online and through mobile banking. The secure transmission of confidential information over the Internet is a critical element of online and mobile banking. While we use qualified third party vendors to test and audit our network, our network could become vulnerable to unauthorized access, computer viruses, phishing schemes and other security issues. The Bank may be required to spend significant capital and other resources to alleviate problems caused by security breaches or computer viruses. To the extent that the Bank's activities or the activities of its customers involve the storage and transmission of confidential information, security breaches and viruses could expose the Bank to claims, litigation, and other potential liabilities. Any inability to prevent security breaches or computer viruses could also cause existing customers to lose confidence in the Bank's systems and could adversely affect its reputation and its ability to generate deposits.

Additionally, we outsource the processing of our core data system, as well as other systems such as online banking, to third party vendors. Prior to establishing an outsourcing relationship, and on an ongoing basis thereafter, management monitors key vendor controls and procedures related to information technology, which includes reviewing reports of service auditor's examinations. If our third party provider encounters difficulties or if we have difficulty in communicating with such third party, it will significantly affect our ability to adequately process and account for customer transactions, which would significantly affect our business operations.

We rely on certain external vendors.

We are reliant upon certain external vendors to provide products and services necessary to maintain our day-to-day operations. Accordingly, our operations are exposed to risk that these vendors will not perform in accordance with applicable contractual arrangements or service level agreements. We maintain a system of policies and procedures designed to monitor vendor risks including, among other things, (i) changes in the vendor's organizational structure, (ii) changes in the vendor's financial condition and (iii) changes in the vendor's support for existing products and services. While we believe these policies and procedures help to mitigate risk, and our vendors are not the sole source of service, the failure of an external vendor to perform in accordance with applicable contractual arrangements or the service level agreements could be disruptive to our operations, which could have a material adverse impact on our business and its financial condition and results of operations.

We are subject to losses due to errors, omissions or fraudulent behavior by our employees, clients, counterparties or other third parties.

We are exposed to many types of operational risk, including the risk of fraud by employees and third parties, clerical recordkeeping errors and transactional errors. Our business is dependent on our employees as well as third-party service providers to process a large number of increasingly complex transactions. We could be materially and adversely affected if employees, clients, counterparties or other third parties caused an operational breakdown or failure, either as a result of human error, fraudulent manipulation or purposeful damage to any of our operations or systems.

In deciding whether to extend credit or to enter into other transactions with clients and counterparties, we may rely on information furnished to us by or on behalf of clients and counterparties, including financial statements and other financial information, which we do not independently verify. We also may rely on representations of clients and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. For example, in deciding whether to extend credit to a client, we may assume that the client's audited financial statements conform with U.S. Generally Accepted Accounting Principles ("GAAP") and present fairly, in all material respects, the financial condition, results of operations and cash flows of the client. Our financial condition and results of operations could be negatively affected to the extent we rely on financial statements that do not comply with GAAP or are materially misleading, any of which could be caused by errors, omissions, or fraudulent behavior by our employees, clients, counterparties, or other third parties.

Risks Related to the Company's Common Stock

There can be no assurance that we will continue to pay cash dividends.

Although we have historically paid cash dividends, there is no assurance that we will continue to pay cash dividends. Future payment of cash dividends, if any, will be at the discretion of our board of directors and will be dependent upon our financial condition, results of operations, capital requirements, economic conditions, and such other factors as the board may deem relevant.

Future sales of our stock by our shareholders or the perception that those sales could occur may cause our stock price to decline.

Although our common stock is listed for trading in The NASDAQ Global Select Market under the symbol "FBNC", the trading volume in our common stock is lower than that of other larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of our common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the relatively low trading volume of our common stock, significant sales of our common stock in the public market, or the perception that those sales may occur, could cause the trading price of our common stock to decline or to be lower than it otherwise might be in the absence of those sales or perceptions.

Our stock price can be volatile.

Stock price volatility may make it more difficult for you to resell your common stock when you want and at prices you find attractive. Our stock price can fluctuate significantly in response to a variety of factors including the risk factors discussed elsewhere in this report that are outside of our control and which may occur regardless of our operating results.

An investment in the Company's common stock is not an insured deposit.

The Company's common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in the Company's common stock is inherently risky for the reasons described in this "Risk Factors" section and elsewhere in this report and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire the Company's common stock, you could lose some or all of your investment.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

The main offices of the Company and the Bank are located in a three-story building in the central business district of Southern Pines, North Carolina and is owned by the Bank. The building houses administrative facilities. The Bank's Operations Division, including customer accounting functions, offices for information technology operations, and offices for loan operations, are primarily housed in buildings in Troy, North Carolina and Greensboro, North Carolina, which are owned by the Bank. At December 31, 2019, the Company operated 101 bank branches. The Company owned all of its bank branch premises except nine branch offices for which the land and buildings are leased and eight branch offices for which the land is leased but the building is owned. The Bank also leases several other office locations for administrative functions. We also lease several locations for our SBA related activities and for our insurance subsidiary. There are no options to purchase or lease additional properties. The Company considers its facilities adequate to meet current needs and believes that lease renewals or replacement properties can be acquired as necessary to meet future needs.

Item 3. 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 4. Mine Safety Disclosure

Not applicable.

PART II

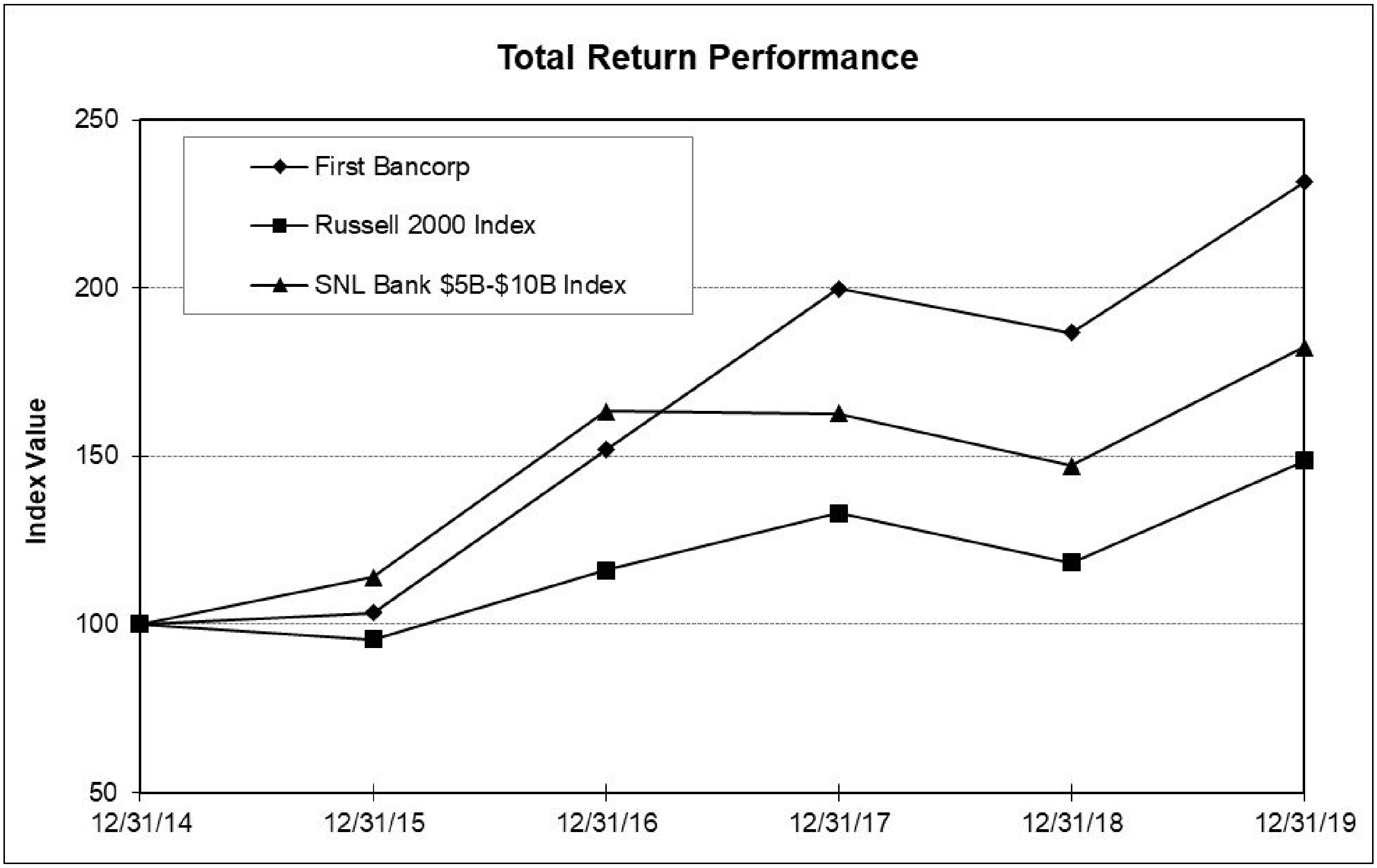
Item 5. Market for the Registrant's Common Stock, Related Shareholder Matters, and Issuer Purchases of Equity Securities

Our common stock trades on The NASDAQ Global Select Market under the trading symbol "FBNC". Tables 1 and 22 included in "Management's Discussion and Analysis" below provide historic information on the market price for the Company's common stock. As of December 31, 2019, there were approximately 2,400 shareholders of record and another 9,900 shareholders whose stock is held in "street name."

Performance Graph

The performance graph shown below compares the Company's cumulative total return to shareholders for the five-year period commencing December 31, 2014 and ending December 31, 2019, with the cumulative total return of the Russell 2000 Index (reflecting overall stock market performance of small-capitalization companies) and an index of banks with between $5 billion and $10 billion in assets, both as constructed by SNL Securities, LP (reflecting changes in banking industry stocks). The graph and table assume that $100 was invested on December 31, 2014 in each of the Company's common stock, the Russell 2000 Index, and the SNL Bank Index, and that all dividends were reinvested.

First Bancorp Comparison of Five-Year Total Return Performances (1)
Five Years Ending December 31, 2019



Total Return Index Values (1)
December 31,

	2014	2015	2016	2017	2018	2019
First Bancorp	$ 100.00	103.32	151.99	199.71	186.73	231.53
Russell 2000	100.00	95.59	115.95	132.94	118.30	148.49
SNL Index-Banks between $5 billion and $10 billion	100.00	113.92	163.20	162.59	147.15	182.34

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(1) Total return indices were provided from an independent source, SNL Securities LP, Charlottesville, Virginia, and assume initial investment of $100 on December 31, 2014, reinvestment of dividends, and changes in market values. Total return index numerical values used in this example are for illustrative purposes only.

Issuer Purchases of Equity Securities

Pursuant to authorizations by the Company's Board of Directors, the Company has from time to time repurchased shares of common stock in private transactions and in open-market purchases. The Company did not repurchase any shares of its common stock during the quarter ended December 31, 2019.

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 (or Approximate Dollar Value) That May Yet Be Purchased Under the Plans or Programs (1)
Month #1 (October 1, 2019 to October 31, 2019)	—	$ —	—	$ 15,000,120
Month #2 (November 1, 2019 to November 30, 2019)	—	$ —	—	$ 40,000,000
Month #3 (December 1, 2019 to December 31, 2019)	—	$ —	—	$ 40,000,000
Total	—	$ —	—	$ 40,000,000

(1) All shares available for repurchase are pursuant to publicly announced share repurchase authorizations. As of December 31, 2019, the Company had the authorization to repurchase up to $40 million of the Company's stock, which was authorized and announced on November 19, 2019. The repurchase authorization has an expiration date of December 31, 2020.

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

Also see "Additional Information Regarding the Registrant's Equity Compensation Plans" in Item 12.

Item 6. Selected Consolidated Financial Data

Table 1 on page 53 of this report sets forth the selected consolidated financial data for the Company.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis is intended to assist readers in understanding our results of operations and changes in financial position for the past three years. This discussion should be read in conjunction with the consolidated financial statements and accompanying notes beginning on page 70 of this report and the supplemental financial data contained in Tables 1 through 22 beginning on page 53 of this report. This discussion may contain forward-looking statements that involve risks and uncertainties. Our actual results could differ significantly from those anticipated in forward-looking statements as a result of various factors. The following discussion is intended to assist in understanding the financial condition and results of operations of the Company.

Overview - 2019 Compared to 2018

We reported net income per diluted common share of $3.10 in 2019, a 3.0% increase compared to 2018. Our outstanding loan balances increased by 4.8% and total deposits increased 5.8%.

Financial Highlights			
($ in thousands except per share data)	2019	2018	Change
Earnings			
Net interest income	$ 216,204	207,430	4.2%
Provision (reversal) for loan losses	2,263	(3,589)	n/m
Noninterest income	59,529	58,942	1.0%
Noninterest expenses	157,194	156,483	0.5%
Income before income taxes	116,276	113,478	2.5%
Income tax expense	24,230	24,189	0.2%
Net income	$ 92,046	89,289	3.1%
Net income per common share			
Basic	$ 3.10	3.02	2.6%
Diluted	3.10	3.01	3.0%
Balances At Year End			
Assets	$ 6,143,639	5,864,116	4.8%
Loans	4,453,466	4,249,064	4.8%
Deposits	4,931,355	4,659,339	5.8%
Ratios			
Return on average assets	1.53%	1.57%	
Return on average common equity	11.32%	12.27%	
Net interest margin (taxable-equivalent)	4.00%	4.09%	

n/m – not meaningful

For the year ended December 31, 2019, we recorded net income of $92.0 million, or $3.10 per diluted common share, an increase of 3% in earnings per share from the $89.3 million, or $3.01 per diluted common share, for 2018. The higher earnings in 2019 were primarily related to higher net interest income associated with our growth.

Net interest income for the year ended December 31, 2019 amounted to $216.2 million, a 4.2% increase from the $207.4 million recorded in 2018. The increase in net interest income was primarily due to growth in interest-earning assets. Also, see the section entitled “Net Interest Income” for additional information.

Our net interest margin (tax-equivalent net interest income divided by average earning assets) was 4.00% for 2019 compared to 4.09% for 2018. The decrease in the net interest margin realized in 2019 was primarily due to a combination of lower loan discount accretion and lower asset yields.

We recorded a provision for loan losses of $2.3 million in 2019 compared to negative provision for loan losses of $3.6 million (reduction of the allowance for loan losses) in 2018. The negative provision for 2018 was due primarily to several large loan recoveries realized in the first quarter of 2018 totaling $3.7 million. Generally, our provisions for loan losses have been low over the past several years due to strong asset quality, including low loan charge-offs.

For the year ended December 31, 2019, noninterest income amounted to $59.5 million compared to $58.9 million for 2018, an increase of 1.0%. Increases were experienced in i) service charges on deposit accounts due to strong deposit growth, ii) interchange income due to increased credit and debit card usage, and iii) in fees from presold mortgages due to higher mortgage origination activity. Those increases were substantially offset by lower SBA loan sale gains and lower SBA consulting fees. See the section entitled “Noninterest Income” for additional information.

Noninterest expenses for the year ended December 31, 2019 amounted to $157.2 million compared to $156.5 million in 2018, an increase of 0.5%. A 5.4% increase in salaries expense associated with wage increases and the growth of the Company was substantially offset by lower merger and acquisition expenses and lower intangibles amortization expense. See the section entitled “Noninterest Expense” for additional information.

Total assets at December 31, 2019 amounted to $6.1 billion, a 4.8% increase from a year earlier. Loan growth for the year ended December 31, 2019 amounted to $204.4 million, or 4.8%, and deposit growth amounted to $272.0 million, or 5.8%. Within deposits, our retail deposits (excludes brokered deposits and internet time deposits) grew 9.7% during 2019, with 14.8% growth in noninterest-bearing checking accounts. As a result of the strong retail deposit growth, we reduced our level of brokered deposits by $153.7 million, or 64.1%, from $239.9 million at December 31, 2018 to $86.1 million at December 31, 2019. Internet time deposits decreased from $3.4 million at December 31, 2018 to $0.7 million at December 31, 2019. Additionally, we paid down borrowings by $106 million, or 26.0%, during 2019.

During 2019, we repurchased 281,593 shares of the Company's common stock at an average price of $35.51, which totaled $10 million. As of December 31, 2019, we had $40 million of additional share repurchase authority, which has an expiration date of December 31, 2020.

Overview - 2018 Compared to 2017

We reported net income per diluted common share of $3.01 in 2018, a 65.4% increase compared to the $1.82 per share earnings for 2017. In 2018, a full year of earnings and cost efficiencies realized from two significant 2017 acquisitions drove the increase in earnings. Our loan balances, total assets and deposits all grew 5%-6%.

Financial Highlights *($ in thousands except per share data)*	2018	2017	Change
Earnings			
Net interest income	$ 207,430	164,711	25.9%
Provision (reversal) for loan losses	(3,589)	723	n/m
Noninterest income	58,942	49,232	19.7%
Noninterest expenses	156,483	145,481	7.6%
Income before income taxes	113,478	67,739	67.5%
Income tax expense	24,189	21,767	11.1%
Net income	$ 89,289	45,972	94.2%
Net income per common share			
Basic	$ 3.02	1.82	65.9%
Diluted	3.01	1.82	65.4%
Balances At Year End			
Assets	$ 5,864,116	5,547,037	5.7%
Loans	4,249,064	4,042,369	5.1%
Deposits	4,659,339	4,406,955	5.7%
Ratios			
Return on average assets	1.57%	1.00%	
Return on average common equity	12.27%	8.62%	
Net interest margin (taxable-equivalent)	4.09%	4.08%	

n/m – not meaningful

For the year ended December 31, 2018, we recorded net income of $89.3 million, or $3.01 per diluted common share, an increase of 65.4% in earnings per share from the $46.0 million, or $1.82 per diluted common share, for 2017. The higher earnings in 2018 were primarily due to the acquisitions of Carolina Bank on March 3, 2017 and Asheville Savings Bank on October 1, 2017. The assets, liabilities and earnings for the acquisitions were recorded beginning on their respective acquisition dates. Therefore, the year 2018 included twelve months of earnings from the acquisition compared to only a partial year in 2017. Earnings and earnings per share for 2018 also benefited from operational efficiencies that were realized in the integration of the acquisitions that became fully realized in the final three quarters of 2018.

Net interest income for the year ended December 31, 2018 amounted to $207.4 million, a 25.9% increase from the $164.7 million recorded in 2017. The increase in net interest income was due primarily to growth in interest-earning assets, which for the twelve month period was impacted by assets acquired in the Carolina Bank and Asheville Savings Bank acquisitions. Our net interest margin (tax-equivalent net interest income divided by average earning assets) of 4.09% for 2018 did not vary significantly from the 4.08% realized for 2017. Also, see the section entitled “Net Interest Income” for additional information.

We recorded a negative provision for loan losses of $3.6 million (reduction of the allowance for loan losses) in 2018 compared to a provision for loan losses of $0.7 million in 2017. The negative provision for 2018 was due primarily to several large loan recoveries realized in the first quarter of 2018 totaling $3.7 million. See "Provision for Loan Losses" for additional discussion.

For the year ended December 31, 2018, noninterest income amounted to $58.9 million compared to $49.2 million for 2017. The primary reasons for the increase in core noninterest income in 2018 were the previously discussed bank acquisitions and an insurance agency acquisition completed late in 2017, as well as higher income realized from SBA consulting fees and SBA loan sale gains. See the section entitled “Noninterest Income” for additional information.

Noninterest expenses for the year ended December 31, 2018 amounted to $156.5 million compared to $145.5 million in 2017. Most categories of noninterest expense experienced general increases in 2018 due to our growth, primarily due to the previously noted acquisitions. Also impacting expenses were other growth initiatives, including continued growth of SBA Complete and the SBA Lending Division. See the section entitled “Noninterest Expense” for additional information.

For the years ended December 31, 2018 and 2017, our effective tax rates were 21.3% and 32.1%, respectively. The lower effective tax rate in 2018 was due to the Tax Cuts and Jobs Act, which was signed into law in December 2017 and reduced the federal corporate tax rate from 35% to 21%.

Total assets at December 31, 2018 amounted to $5.9 billion, a 5.7% increase from a year earlier. Loan growth for the year ended December 31, 2018 amounted to $207 million, or 5.1%, and deposit growth amounted to $252.4 million, or 5.7%.

Outlook for 2020

Our outlook for 2020 is generally stable. We believe our local economies and business conditions will continue to be healthy and generally favorable and that we will continue to experience solid organic loan and deposit growth in 2020. However, we face challenges to growing our earnings primarily due to the interest rate environment and a likely increase in our provision for loan losses.

The Federal Reserve decreased short-term interest rates by 75 basis points in the second half of 2019 and longer term interest rates in the marketplace also declined in 2019 and are near historic lows. The lower interest rates have resulted in declining asset yields, which is expected to continue into 2020. On the funding side, prior to the interest rate declines, we already had a very low cost of funds and our ability to further lower those costs has been limited. These factors resulted in our net interest margin declining in the second half of 2019. We expect these net interest margin pressures to continue into 2020, which would negatively impact the earnings growth we would expect from projected increases in our loans and deposits.

In recent years, we have experienced improving trends in the levels of our nonperforming assets and loan losses have been low, and accordingly, we’ve recorded minimal provisions for loan losses. While we do not currently expect a significant rise in loan delinquencies or loan losses, we believe it is likely that we will need to record higher levels of provisions for loan losses than recent years to provide for loan growth and more normal levels of losses. Any credit deterioration would result in further increases. Furthermore, we believe the new accounting standard for reserving for loan losses, commonly referred to as CECL, will generally result in higher provisions for loan losses, especially during periods of loan growth.

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.

The above discussion reflects our allowance for loan losses policy in effect for 2019. In 2020, our allowance for loan loss policy will be based on the current expected credit losses accounting guidance. See "Allowance for Loan Losses and Loan Loss Experience" for additional discussion.

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, with the annual evaluation occurring on October 31 of each year, 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 2019 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.

Merger and Acquisition Activity

As previously discussed, in 2017, we completed two full-bank acquisitions – Carolina Bank and Asheville Savings Bank. Also in 2017, we completed the acquisition of an insurance agency headquartered in Albemarle, North Carolina.

See Note 2 to the consolidated financial statements for additional information regarding these acquisitions.

ANALYSIS OF RESULTS OF OPERATIONS

Net interest income, the “spread” between earnings on interest-earning assets and the interest paid on interest-bearing liabilities, constitutes the largest source of our earnings. Other factors that significantly affect operating results are the provision for loan losses, noninterest income such as service fees and noninterest expenses such as salaries, occupancy expense, equipment expense and other overhead costs, as well as the effects of income taxes.

Net Interest Income

Net interest income on a reported basis amounted to $216.2 million in 2019, $207.4 million in 2018, and $164.7 million in 2017. For internal purposes and in the discussion that follows, we evaluate our net interest income on a tax-equivalent basis by adding the tax benefit realized from tax-exempt loans and securities to reported interest income. Net interest income on a tax-equivalent basis amounted to $217.8 million in 2019, $209.0 million in 2018, and $167.3 million in 2017. Management believes that analysis of net interest income on a tax-equivalent basis is useful and appropriate because it allows a comparison of net interest 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. The following is a reconciliation of reported net interest income to tax-equivalent net interest income. The tax-equivalent adjustment declined significantly from 2017 to 2018 as a result of the decrease in the federal tax rate from 35% to 21%.

($ in thousands)	Year ended December 31, 2019	2018	2017
Net interest income, as reported	$ 216,204	207,430	164,711
Tax-equivalent adjustment	1,641	1,594	2,590
Net interest income, tax-equivalent	$ 217,845	209,024	167,301

Table 2 analyzes our net interest income. Our net interest income on a tax-equivalent basis increased by 4.2% in 2019 and increased by 24.9% in 2018. 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. “Net interest margin” is a ratio we use to measure the spread between the yield on our earning assets and the cost of our funding and is calculated by dividing tax-equivalent net interest income by average earning assets.

The increase in net interest income in 2019 compared to 2018 was primarily due to growth in our interest-earning assets. For 2019, average interest-earning assets increased $336.0 million, or 6.6%, including growth of $184.5 million in average loans and $281.3 million in average securities. The growth in interest-earning assets was driven by funds provided from growth in deposits.

Our net interest margin decreased from 4.09% in 2018 to 4.00% in 2019, which partially offset the positive impact on net interest income of the growth of our interest-earning assets just discussed. The lower net interest margin was a result of our funding costs increasing by more than our asset yields, largely as a result of competitive pressures. In 2019, asset yields increased by seven basis points, from 4.52% in 2018 to 4.59% in 2019, primarily as a result of Federal Reserve interest rate increases during the second half of 2018. Average funding costs increased by 18 basis points in 2019, from 0.48% in 2018 to 0.66% in 2019.

The increase in net interest income in 2018 compared to 2017 was primarily due to growth in levels of earning assets, as the net interest margin did not change significantly, amounting to 4.09% in 2019 compared to 4.08% in 2018. Excluding the impact of the tax-equivalent adjustment, our net interest income to average earning asset ratio increased from 4.02% to 4.06% as a result of asset yields that increased slightly more than our funding cost. Average earning assets grew by $1.0 billion in 2018, or 24.6%, with average loans growing by $740.9 million, or 21.7%, while average deposits increased by $820.1 million, or 22.2%. Most of increases in average loans and deposits were due to the acquisitions of Asheville Savings Bank and Carolina Bank during 2017.

The net interest margin for all periods benefited, by varying amounts, from the net accretion income, primarily associated with purchase accounting premiums/discounts associated with acquisitions. As can be seen in the table below, we recorded $6.0 million in 2019, $7.1 million in 2018, and $7.1 million in 2017 in net accretion that increased net interest income.

($ in thousands)	Year Ended December 31, 2019	Year Ended December 31, 2018	Year Ended December 31, 2017
Interest income – increased by accretion of loan discount on acquired loans	$ 4,588	6,090	6,608
Interest income - increased by accretion of loan discount on retained SBA loans	1,386	861	234
Interest expense – reduced by premium amortization of deposits	190	372	384
Interest expense – increased by discount accretion of borrowings	(181)	(181)	(148)
Impact on net interest income	$ 5,983	7,142	7,078

The biggest component of the purchase accounting adjustments in each year was loan discount accretion on purchased loans, which amounted to $4.6 million in 2019, $6.1 million in 2018, and $6.6 million in 2017. Most of this loan discount accretion relates to our 2017 acquisitions of Carolina Bank and Asheville Savings Bank, with the declines in accretion being due to the natural paydowns in those acquired loan portfolios, which is expected to continue. In addition to the loan discount accretion recorded on acquired loans, we recorded loan discount accretion of $1.4 million, $0.9 million, and $0.2 million in 2019, 2018, and 2017, respectively, on the discounts associated with the retained unguaranteed portions of SBA loans sold in the secondary market. We entered that line of business in late 2016 and the higher discount accretion on those loans is associated with the growth in that business.

At December 31, 2019, 2018, and 2017, unaccreted loan discount on purchased loans amounted to $12.7 million, $17.3 million, and $24.3 million, respectively. At December 31, 2019, 2018, and 2017, unaccreted loan discount on SBA loans amounted to $7.1 million, $5.7 million, and $2.6 million, respectively.

Table 3 presents additional detail regarding the estimated impact that changes in loan and deposit volumes and changes in the interest rates we earned/paid had on our net interest income in 2018 and 2019. For 2019, higher loan volume positively impacted interest income by $9.3 million, and higher loan interest rates positively impacted interest income by $2.9 million, with the combined effect driving the increase in total interest income of $18.9 million. Higher volumes and higher rates paid on deposits drove an increase of $10.6 million in interest expense. Lower borrowings expense in 2019, which was driven by lower levels of borrowings, partially offset the increase in total interest expense by $0.4 million. Overall, as Table 3 indicates, net interest income grew $8.8 million in 2019, with higher volumes comprising $14.2 million of the increase, which was partially offset by a $5.5 million negative impact associated with changes in interest rates. As previously discussed, in 2019 our average funding costs increased by more than our average asset yields from 2018.

For 2018, Table 3 is significantly impacted by our 2017 acquisitions of Carolina Bank and Asheville Savings Bank, which were fully reflected in our average balances in 2018 compared to only a portion of the year in 2017. For 2018, the higher amounts of loans and deposits outstanding drove a net increase of $38.1 million in net interest income, while the impact of changes in interest rates resulted in a $4.6 million increase in net interest income.

If our nonaccrual and restructured loans as of December 31, 2019, 2018 and 2017 had been current in accordance with their original terms and had been outstanding throughout the period (or since origination if held for part of the period), gross interest income in the amounts of approximately $1,763,000, $1,616,000, and $1,503,000 for nonaccrual loans and $662,000, $974,000, and $1,182,000, for restructured loans would have been recorded for 2019, 2018, and 2017, respectively. Interest income on such loans that was actually collected and included in net income in 2019, 2018 and 2017 amounted to approximately $759,000, $765,000, and $415,000 for nonaccrual loans (prior to their being placed on nonaccrual status), and $528,000, $763,000, and $885,000 for restructured loans, respectively. At December 31, 2019 and 2018, there were no commitments to lend additional funds to debtors whose loans were nonperforming.

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

Provision for Loan Losses

The provision for loan losses charged to operations is an amount sufficient to bring the allowance for loan losses to an estimated balance considered appropriate to absorb probable losses inherent in our loan portfolio. Management's determination of the adequacy of the allowance is based on our level of loan growth, an evaluation of the loan portfolio, current economic conditions, historical loan loss experience and other risk factors.

For the years ended December 31, 2019, 2018, and 2017, we recorded a provision for loan losses of $2.3 million, a negative provision for loan losses of $3.6 million, and a provision for loan losses of $0.7 million, respectively. In 2019, our provision for loan losses was higher than previous years primarily due to higher net charge-offs. The negative provision for 2018 was due primarily to several large loan recoveries realized in the first quarter of 2018 totaling $3.7 million. Although our provision for loan losses was higher in 2019, it continues a trend in recent years of being low compared to historical levels. The low levels of provision for loan losses recorded in recent years were primarily the result of a sustained period of stable and generally improving loan quality trends, which resulted in lower amounts of provision needed to adjust our allowance for loan losses to the appropriate amount. This is driven by our allowance for loan loss model, which 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. For the last three years, the new periods being added into our model had generally lower levels of net charge-offs than the older periods rolling out of the model, and thus mostly offset provisions for loan losses that would normally be required to reflect new loan growth and the net charge-offs experienced. Thus, the low level of net charge-offs (or net recoveries) experienced in recent years has been the primary reason for the low (or negative) provisions for loan losses recorded.

As shown in Table 14, total net charge-offs (recoveries) for the years ended December 31, 2019, 2018, and 2017, were $1.9 million, ($1.3 million), and $1.2 million, respectively. The higher net charge-offs in 2019 resulted from lower loan recoveries in comparison to 2018 and 2017.

In 2018, we completed a loan sale of approximately $5.2 million in smaller balance nonperforming loans that resulted in loan charge-offs of $2.2 million. However, this was more than offset by full payoffs on four loans received in the first quarter of 2018 that resulted in recoveries to the allowance for loan losses of $3.3 million

See “Nonperforming Assets” below for further discussion of our asset quality, which impacts our provisions for loan losses.

The allowance is monitored and analyzed regularly in conjunction with our loan analysis and grading program, and adjustments are made to maintain an adequate allowance for loan losses. See the section entitled “Allowance for Loan Losses and Loan Loss Experience” below for a more detailed discussion of the allowance for loan losses, including discussion of a change in the way that we will reserve for credit losses beginning in 2020 that may increase the levels and volatility of our provision for loan losses

Noninterest Income

Our noninterest income amounted to $59.5 million in 2019, $58.9 million in 2018, and $49.2 million in 2017.

See Table 4 and the following discussion for an understanding of the components of noninterest income.

Management evaluates noninterest income on a non-GAAP basis that excludes items such as securities gains and losses and other miscellaneous gains and losses. We refer to this as "adjusted noninterest income." Adjusted noninterest income amounted to $59.6 million in 2019, a 2.4% increase from the $58.2 million recorded in 2018. The 2018 adjusted noninterest income of $58.2 million was an 18.6% increase from the $49.1 million recorded in 2017. Comparisons to 2017 for several line items are significantly impacted by our 2017 acquisitions, which resulted in the noninterest income generated by those entities only impacting 2017 for a partial year compared to the full year impact in 2018 and 2019.

Service charges on deposit accounts amounted to $13.0 million, $12.7 million, and $11.9 million in 2019, 2018, and 2017, respectively. We believe the increase in 2019 is primarily due to growth in our number of checking accounts, which we have promoted with new product offerings. The increase in 2018 compared to 2017 is primarily due to the aforementioned acquisitions.

Other service charges, commissions and fees amounted to $19.5 million in 2019, an 18.2% increase from the $16.5 million in 2018. The 2018 amount of $16.5 million was 14.5% higher than the $14.4 million earned in 2017. This category of noninterest income includes items such as interchange fees, ATM charges, safety deposit box rentals, fees from sales of personalized checks, and check cashing fees. The increase in this line item in 2019 compared to 2018 was primarily due to growth in interchange fees that we earn when our customers use their debit and credit cards issued by our bank. Net interchange fees amounted to $13.8 million in 2019 compared to $12.0 million in 2018, an increase of 15.2%. We believe the growth in card usage by our customers is due to customer payment preferences, as well as a result of ongoing promotion of these products. General growth of our bank also contributed to the increase in this line item in 2019. The increase in 2018 compared to 2017 is primarily due to the aforementioned acquisitions.

Fees from presold mortgages amounted to $3.9 million in 2019, $2.7 million in 2018, and $5.7 million in 2017. The increase in 2019 was due to increased volumes in the mortgage industry due to declining interest rates, as well as the hiring of additional loan originators. The decline from 2017 to 2018 was due to: i) overall lower volumes in the mortgage industry as a result of higher interest rates, ii) our Mortgage Loan Division originating a higher percentage of loans with construction components that are held in our loan portfolio and not sold, and iii) mortgage origination employees who left the Company in 2018.

Commissions from sales of insurance and financial products amounted to $8.5 million in 2019, $8.7 million in 2018, and $5.3 million in 2017. This line item includes commissions we receive from two primary sources – 1) commissions from the sales of investment, annuity, and long term care insurance products, and 2) commissions from the sale of property and casualty insurance. The following table presents the contribution of each source to the total amount recognized in this line item:

	For the year ended December 31,		
($ in thousands)	2019	2018	2017
Commissions earned from:			
Sales of investments, annuities, and long term care insurance	$ 3,206	2,693	2,152
Sales of property and casualty insurance	5,289	6,038	3,148
Total	$ 8,495	8,731	5,300

As can be seen in the above table, sales of property and casualty insurance increased significantly in 2018, which was due to our September 1, 2017 acquisition of Bear Insurance Services (see Note 2 to the consolidated financial statements for additional information). The decline in in this line item in 2019 from 2018 was primarily due to lower contingent commissions, which can vary significantly and are impacted by the claims experience of the insurance carriers used by the Company. Sales of investments, annuities and long term care insurance increased in 2018 and 2019 due to the increased growth and promotion of this line of business.

We began offering SBA consulting services in 2016 with our May 2016 acquisition of SBA Complete. In this line of business, SBA Complete assists community banks throughout the nation with SBA origination and servicing activities. SBA consulting fees amounted to $3.9 million in 2019, $4.7 million in 2018 and $4.0 million in 2017. The variances among the years are associated with changes in the origination activity of our client banks.

Shortly after the acquisition of SBA Complete, we began a SBA Lending Division, which originates SBA loans throughout the nation and sells the SBA guaranteed portion of those loans, which results in loan sale gains. Loan sale volume can be volatile based on origination activity and the timing of the funding of loans in the pipeline. This division generated $5.5 million in SBA loan sale gains in 2017. In 2018, this division added originators and generated $10.4 million in gains from sales. In 2019, loan sale gains of $8.3 million were realized, with the decline from 2018 being due to the natural volatility discussed above, as well as lower loan sale premiums commanded by the buyers of these loans for much of the year.

Table 4 shows earnings from bank-owned life insurance income were $2.6 million in 2019, $2.5 million in 2018, and $2.3 million in 2017, with the increases being driven by growth in the underlying life insurance asset.

Securities gains of losses were not significant in the years presented, with 2019 having a net gain of $0.1 million, 2018 having no gains or losses, and 2017 having a net loss of $0.2 million.

"Other gains (losses), net" amounted to a net loss of $0.2 million for 2019, a net gain of $0.7 million in 2018, and a net gain of $0.4 million in 2017. This line item represents the net effects of miscellaneous gains and losses that are non-routine in nature. The net gain of $0.7 million in 2018 primarily related to a gain on the sale of a previously closed branch building.

Noninterest Expenses

Total noninterest expenses totaled $157.2 million, $156.5 million, $145.5 million for 2019, 2018 and 2017, respectively. Table 5 presents the components of our noninterest expense during the past three years. Comparisons to 2017 are impacted by our 2017 acquisitions, which resulted in the noninterest expense of those entities only impacting 2017 for a partial year compared to the full year impact in 2018 and 2019.

Total personnel expense increased from $92.0 million in 2018 to $96.0 million in 2019, an increase of $4.0 million, or 4.4%. Within personnel expense, salaries expense increased $4.0 million, or 5.4%, while employee benefits expense was approximately the same in 2018 and 2019 at approximately $16.9 million. Salaries expense increased primarily due to normal wage increases for our employees, as well as the hiring of several experienced bankers. Within employee benefits, health care expense, for which the Company is self-insured, is the single largest item and was unchanged in 2019 compared to 2018.

In 2018, total personnel expense increased from $82.1 million in 2017 to $92.0 million in 2018, an increase of $9.9 million, or 12.0%. The primary reason for these increase was the aforementioned acquisitions which impacted 2108 for a full year compared to a partial year in 2017. Also, approximately $1.3 million of the increase in personnel expense in 2018 can be attributed to increases in salaries expense related to our SBA lending activities. Also impacting personnel expense in 2018 was an increase in the 401(k) match offered by the Company to employees that was effective January 1, 2018, which increased from a 100% match up to 4% of an employee's salary contribution to a 100% match up to 6% of an employee's salary contribution.

Net occupancy expenses amounted to $11.1 million in 2019, $10.8 million in 2018, and $9.7 million in 2017. The increase in 2019 is primarily related to increased rent expense associated with several new leases executed during the year. The increases in 2018 were related to the aforementioned acquisitions and expansion initiatives.

Equipment related expenses amounted to $5.0 million, $5.6 million, and $4.5 million in 2019, 2018, and 2017, respectively. In 2018, we accelerated $0.3 million in depreciation expense associated with our ATM fleet in anticipation of replacing our ATM's in early 2019. This resulted in a decline in ATM depreciation expense in 2019, as well as lower associated repairs and maintenance costs. In 2018, the increase in this line item related to the aforementioned acquisitions and expansion initiatives.

Merger and acquisition expenses amounted to $0.2 million in 2019, $2.4 million in 2018, and $8.1 million in 2017. The 2018 amount was primarily comprised of severance costs and data processing conversion expenses related to the acquisition of Asheville Savings Bank. The 2017 amount was primarily comprised of professional fees and severance costs incurred in our acquisitions of Carolina Bank and Asheville Savings Bank.

Intangible amortization expense amounted to $4.9 million, $5.9 million and $4.0 million in 2019, 2018 and 2017, respectively. The increase from 2017 to 2018 was due to the addition of $22.5 million in amortizable intangible assets recorded in connection with the 2017 acquisitions of Carolina Bank, Asheville Savings Bank, and Bear Insurance Services. In 2019, intangible amortization expense declined to $4.9 million due to the amortization schedules of those intangible assets generally declining over time.

FDIC insurance expense amounted to $0.3 million in 2019, $2.3 million in 2018, and $2.4 million in 2017. As discussed previously in the section "FDIC Insurance", in 2019, we received an assessment credit of $1.3 million that was used to offset FDIC insurance expense in the last three quarters of 2019.

Outside consultant expenses amounted to $1.5 million in 2019, $1.8 million in 2018, $2.5 million in 2017, with 2017 being impacted by consulting expense associated with various operational activities and enhancements.

Data processing expenses did not vary significantly among the periods presented, amounting to $3.1 million $3.2 million, $2.9 million, in 2019, 2018, and 2017, respectively.

Marketing expense amounted to $2.7 million in 2019, $3.1 million in 2018, and $2.5 million in 2017. In 2018, we initiated special promotional efforts in our new and expanded market areas.

Non-credit losses remained relatively unchanged for the periods presented, amounting to $1.0 million in 2019, $1.0 million in 2018, and $0.9 million in 2017. These losses primarily related to debit card and credit card fraud losses.

Income Taxes

Table 6 presents the components of income tax expense and the related effective tax rates. We recorded income tax expense of $24.2 million in 2019, $24.2 million in 2018, and $21.8 million in 2017. Our effective tax rates were 20.8% for 2019, 21.3% for 2018, and 32.1% for 2017. The lower effective rates in 2019 and 2018 compared to 2017 were the result of the Tax Cuts and Jobs Act that was signed into law on December 22, 2017, which reduced the federal statutory income tax rate from 35% to 21%. At December 31, 2017, we revalued our net deferred tax liability, which reduced income tax expense by $1.3 million for 2017, while in 2018, the new income tax rate of 21% reduced our effective tax rate from 2017.

Also, our effective tax rate has been impacted in recent years due lower statutory income tax rates in North Carolina. North Carolina reduced the state income tax rate for corporations from 4.0% in 2017 to 3.0% in 2018 and to 2.5% in 2019, which is where it remains for 2020. We expect our effective tax rate to be approximately 21.0% in 2020.

Stock-Based Compensation

We recorded stock-based compensation expense of $2.3 million, $1.6 million, and $1.1 million, for the years ended December 31, 2019, 2018, and 2017, respectively. The increases in this expense have been due to retention-based restricted stock grants made to certain officers during the years presented. See Note 14 to the consolidated financial statements for more information regarding stock-based compensation.

ANALYSIS OF FINANCIAL CONDITION AND CHANGES IN FINANCIAL CONDITION

Overview

At December 31, 2019, our total assets amounted to $6.1 billion, a 4.8% increase from 2018. The following table presents detailed information regarding the nature of changes in our loans and deposits in 2018 and 2019. There were no acquisitions impacting year over year growth for either year.

($ in thousands)	Balance at beginning of period	Internal growth, net	Balance at end of period	Total percentage growth
2019				
Loans outstanding	$ 4,249,064	204,402	4,453,466	4.8%
Deposits – Noninterest-bearing	1,320,131	195,846	1,515,977	14.8%
Deposits – Interest-bearing checking	916,374	(3,590)	912,784	-0.4%
Deposits – Money market	1,035,523	137,584	1,173,107	13.3%
Deposits – Savings	432,389	(7,974)	424,415	-1.8%
Deposits – Brokered time	239,875	(153,734)	86,141	-64.1%
Deposits – Internet time	3,428	(2,730)	698	-79.6%
Deposits – Time >$100,000 – retail	447,619	115,489	563,108	25.8%
Deposits – Time <$100,000 – retail	264,000	(8,875)	255,125	-3.4%
Total deposits	$ 4,659,339	272,016	4,931,355	5.8%
2018				
Loans outstanding	$ 4,042,369	206,695	4,249,064	5.1%
Deposits – Noninterest-bearing	1,196,161	123,970	1,320,131	10.4%
Deposits – Interest-bearing checking	884,254	32,120	916,374	3.6%
Deposits – Money market	982,822	52,701	1,035,523	5.4%
Deposits – Savings	454,860	(22,471)	432,389	-4.9%
Deposits – Brokered time	239,659	216	239,875	0.1%
Deposits – Internet time	7,995	(4,567)	3,428	-57.1%
Deposits – Time >$100,000 – retail	347,862	99,757	447,619	28.7%
Deposits – Time <$100,000 – retail	293,342	(29,342)	264,000	-10.0%
Total deposits	$ 4,406,955	252,384	4,659,339	5.7%

As shown in the table above, in 2019 and 2018, our total loans outstanding increased $204.4 million, or 4.8%, and $206.7 million, or 5.1%, respectively. Loan growth for the periods was organic and primarily driven by our expansion in high-growth markets, hiring of experienced bankers, and increases in SBA lending. We expect continued growth in our loan portfolio for 2020.

During 2019, we experienced an increase in total deposits of $272.0 million, or 5.8%. Within total deposits, we grew our retail deposits (non-brokered deposits) by $426 million, or 9.6%. Within our retail deposits, we experienced growth of $321.9 million, or 8.7%, in checking, money market and savings accounts, and had growth of $106.6 million, or 15.0%, in our retail 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. The high retail deposit growth in 2019 allowed us to reduce our level of brokered deposits by $154 million, or 64.1% during the year. Additionally, we were able to pay down our borrowings in 2019 by $106 million.

During 2018, we experienced an increase in total deposits of $252.4 million, or 5.7%, which was substantially all retail deposit growth. Within our retail deposits, we experienced growth of $186.3 million, or 5.3%, in checking, money market and savings accounts, and had growth of $70.4 million, or 11.0%, in our retail time deposits.

Our overall liquidity did not vary significantly at December 31, 2019 compared to a year earlier. Our liquid assets (cash and securities) as a percentage of our total deposits and borrowings was 21.4% at December 31, 2019 compared to 21.0% at December 31, 2018.

At December 31, 2019, our nonperforming assets to total assets ratio was 0.62% compared to 0.74% at December 31, 2018. The decrease was primarily due to on-going resolution of nonperforming assets and improving credit quality.

Distribution of Assets and Liabilities

Table 7 sets forth the percentage relationships of significant components of our balance sheet at December 31, 2019, 2018, and 2017.

Our balance sheet mix has remained relatively stable over the past three years. On the asset side, net loans have consistently comprised 72% to 73% of total assets and interest-earning assets have ranged from 88%-90%. In both 2018 and 2019, we used excess cash balances to purchase available for sale securities, which resulted in our mix of securities available for sale increasing from 6% of total assets at year end 2017 to 9% of total assets at the end of 2018 and to 13% of total assets at the end of 2019.

On the liability side, deposits have consistently comprised 79% to 80% of total liabilities and shareholders' equity. In 2019, we paid down our borrowings by $106 million, which resulted in our borrowings decreasing to 5% of total liabilities and shareholders' equity from 7% at the two prior year ends.

Shareholders' equity increased from 12% of total liabilities and shareholders' equity at December 31, 2017 to 14% at December 31, 2019 due to increases in retained earnings due to high levels of net income recorded.

Securities

Information regarding our securities portfolio as of December 31, 2019, 2018, and 2017 is presented in Tables 8 and 9.

The composition of the investment securities portfolio reflects our investment strategy of maintaining an appropriate level of liquidity while providing a relatively stable source of income. The investment portfolio also provides a balance to interest rate risk and credit risk in other categories of the balance sheet while providing a vehicle for the investment of available funds, furnishing liquidity, and supplying securities to pledge as required collateral for certain deposits. We obtain fair values for our investment securities from a third-party investment recordkeeper, who specializes in securities purchases and sales, recordkeeping, and valuation. This recordkeeper provides us with a third-party report that contains an evaluation of internal controls that includes testwork of securities valuation. We further test the values we receive by comparing the values for a significant sample of securities to another third-party valuation service on a quarterly basis.

Total securities amounted to $889.9 million, $602.6 million, and $461.8 million at December 31, 2019, 2018, and 2017, respectively. The increase in securities in 2019 and 2018 was primarily due to purchases of fixed rate securities that we initiated to realize higher yields and to protect the Company from expectations of falling interest rates. To fund the purchases, we primarily used interest-bearing cash balances, which earn interest tied to the federal funds rate set by the Federal Reserve.

The majority of our "government-sponsored enterprise" securities carry one maturity date, often with an issuer call feature. At December 31, 2019, of the $20.0 million in available for sale government-sponsored enterprise securities, $15.0 million were issued by the Federal Home Loan Bank system and the remaining $5 million were issued by the Federal Farm Credit Bank system.

Nearly all of our $767.3 million in available for sale mortgage-backed securities at December 31, 2019 were issued by Freddie Mac, Fannie Mae, Ginnie Mae, or the SBA, each of which is a government agency or government-sponsored corporation and guarantees the repayment of the securities. Included in this total are commercial mortgage-backed securities of $262.3 million. Mortgage-backed securities vary in their repayment in correlation with the underlying pools of mortgage loans.

Our investment policy permits us to hold up to 15% of our securities portfolio in corporate bonds. These bonds have the most credit risk of any of our securities. At December 31, 2019, our $34.7 million investment in corporate bonds was comprised of the following:

($ in thousands)

Issuer	Issuer Ratings		Maturity Date	Amortized Cost	Fair Value
Bank of America	A2	(1)	1/11/2023	$ 7,000	7,219
Citigroup	Baa2	(1)	Various	6,021	6,209
Goldman Sachs	A3	(1)	1/22/2023	5,055	5,199
JP Morgan Chase	A2	(1)	1/25/2023	5,013	5,153
Financial Institutions, Inc.	BBB-	(2)	4/15/2030	4,000	4,137
Wells Fargo	A3	(1)	2/13/2023	3,088	3,176
Eagle Bancorp, Inc.	BBB	(2)	9/1/2024	2,534	2,643
First Citizens Bancorp (North Carolina) Trust Preferred Security	Not Rated		6/15/2034	1,000	915
Total investment in corporate bonds				$ 33,711	34,651

(1) Ratings issued by Moody's
(2) Rating issued by Kroll Bond Rating Agency.

We have concluded that any unrealized losses associated with our corporate bonds are due to interest rate considerations and not due to credit concerns.

At December 31, 2019, 2018, and 2017, net unrealized gains (losses) of $9.7 million, ($12.4 million), and ($2.2 million), respectively, were included in the carrying value of securities classified as available for sale. Management evaluated any unrealized losses on individual securities at each year end and determined them to be of a temporary nature and caused by fluctuations in market interest rates and the overall economic environment, not by concerns about the ability of the issuers to meet their obligations. Net unrealized gains and losses, net of applicable deferred income taxes, are included as part of a separate component of shareholders' equity (accumulated other comprehensive income) as of December 31, 2019, 2018, and 2017, respectively.

At December 31, 2019, we held $67.9 million in securities classified as held to maturity, which are carried at amortized cost. These securities had fair values that exceeded their carrying values by $0.4 million December 31, 2019. Approximately $41.4 million of the securities held to maturity are mortgage-backed securities that have been issued by either Freddie Mac or Fannie Mae. The remaining $26.5 million in securities held to maturity are comprised almost entirely of municipal bonds issued by state and local governments throughout our market area. We have no significant concentration of bond holdings from one government entity, with the single largest exposure to any one entity being $4.5 million. Management evaluated any unrealized losses on individual securities at each year end and determined them to be of a temporary nature and caused by fluctuations in market interest rates, not by concerns about the ability of the issuers to meet their obligations.

The weighted average taxable-equivalent yield for the securities available for sale portfolio was 2.70% at December 31, 2019. The expected weighted average life of the available for sale portfolio using the call date for above-market callable bonds, the maturity date for all other non-mortgage-backed securities, and the expected life for mortgage-backed securities, was 4.7 years.

The weighted average taxable-equivalent yield for the securities held to maturity portfolio was 2.84% at December 31, 2019. The expected weighted average life of the held to maturity portfolio using the call date for above-market callable bonds, the expected life for mortgage-backed securities, and the maturity date for all other securities, was 2.3 years.

We expect the adoption of CECL to result in an insignificant amount of credit losses related to our securities portfolio.

The following table provides the names of issuers for which the Company has investment securities totaling in excess of 10% of shareholders' equity and the fair value and amortized cost of these investments as of December 31, 2019. All of these securities are issued by government sponsored corporations.

($ in thousands)

Issuer	Amortized Cost	Fair Value	% of Shareholders' Equity
Fannie Mae	$ 438,068	443,717	52.1%
Ginnie Mae	172,220	174,486	20.5%
Freddie Mac	162,124	163,366	19.2%
Total	$ 772,412	781,569	

Loans

The loan portfolio is the largest category of our earning assets and is comprised of commercial loans, real estate mortgage loans, real estate construction loans, and consumer loans. The majority of our loan portfolio is within our 36 county market area, which are located in western, central and eastern North Carolina and three counties in northeastern South Carolina. We also have a portfolio of SBA loans that have been made on a nationwide basis. The diversity of the economic bases of our market areas has historically provided a stable lending environment.

In 2019, loans outstanding increased $204.4 million, or 4.8%, whereas in 2018, loans outstanding increased $206.7 million, or 5.1%. The growth in 2019 and 2018 was generated internally and was concentrated primarily within our higher growth markets. Also, our SBA Lending Division contributed $14 million of the growth in 2019 and $72 million in 2018.

The majority of our loan portfolio over the years has been real estate mortgage loans, with loans secured by real estate consistently comprising 88% to 90% of our outstanding loan balances. Except for construction, land development and other land loans, the majority of our "real estate" loans are personal and commercial loans where cash flow from the borrower's occupation or business is the primary repayment source, with the real estate pledged providing a secondary repayment source.

Table 10 provides a summary of the loan portfolio composition of our total loans at each of the past five year ends.

Commercial, financial, and agricultural loans have increased from 8% at December 31, 2015 to 11% at December 31, 2019, due primarily to growth in loans made to municipalities and loans originated by our SBA Lending Division.

Residential real estate loans have declined from 31% of total loans at December 31, 2015 to 25% of total loans at December 31, 2019. This decline has been due to a combination of factors including consumers refinancing their home loans held by the Bank with long term fixed rate loans, which we typically sell in the secondary market. Additionally, the Carolina Bank loan portfolio assumed during 2017 had only an 11% mix of residential real estate loans.

Commercial real estate loans as a percentage of total loans has increased steadily over the past five years and amounted to 43% of all loans at December 31, 2019. Consistent with our community banking strategy, we have placed emphases on this type of loan growth and hired a number of experienced community bankers, who have originated a significant amount of business loans secured by real estate. Also, growth in our SBA loan portfolio has contributed to the increase in this category.

Table 11 provides a summary of scheduled loan maturities over certain time periods, with fixed rate loans and adjustable rate loans shown separately. Approximately 12% of our accruing loans outstanding at December 31, 2019 mature within one year and 54% of total loans mature within five years, with both of those measures being consistent with recent years. As of December 31, 2019, the percentages of variable rate loans and fixed rate loans as compared to total performing loans were 33% and 67%, which is also consistent with recent years. Fixed rate loans continue to be popular with many borrowers in order to lock in a low interest rate during the historically low interest rate environment that has been in effect. While this presents risk to our Company if interest rates rise, we measure our interest rate risk closely and, as discussed in the section “Interest Rate Risk” below, we do not believe that an increase in interest rates would materially negatively impact our net interest income.

Nonperforming Assets

Nonperforming assets include nonaccrual loans, troubled debt restructurings, loans past due 90 or more days and still accruing interest, and foreclosed properties. As a matter of policy we place all loans that are past due 90 or more days on nonaccrual basis, and thus there were no loans at any of the past five year ends that were 90 days past due and still accruing interest.

Nonaccrual loans are loans on which interest income is no longer being recognized or accrued because management has determined that the collection of interest is doubtful. Placing loans on nonaccrual status negatively impacts earnings because (i) interest accrued but unpaid as of the date a loan is placed on nonaccrual status is reversed and deducted from interest income, (ii) future accruals of interest income are not recognized until it becomes probable that both principal and interest will be paid and (iii) principal charged-off, if appropriate, may necessitate additional provisions for loan losses that are charged against earnings. In some cases, where borrowers are experiencing financial difficulties, loans may be restructured to provide terms significantly different from the originally contracted terms.

Table 12 summarizes our nonperforming assets at the dates indicated. Prior to September 2016, we presented nonperforming assets that were subject to the loss share agreements as “covered” and nonperforming assets that were not subject to the loss share agreements as “non-covered.” Our loss share agreements with the FDIC were terminated during 2016, and all assets became non-covered at that time.

In the past several years, we have benefited from improving economic conditions and successfully implemented a combination of strategies to reduce nonperforming assets. As a result, our nonperforming asset levels have declined steadily over the years, with nonperforming assets amounting to amounting to just 0.62% of total assets at December 31, 2019. This compares to ratios of 0.74% and 0.96% at December 31, 2018 and 2017, respectively. In 2018, our nonperforming asset levels benefited from a loan sale of approximately $5.2 million in smaller balance nonperforming loans.

Table 12a presents our nonperforming assets at December 31, 2019 by general geographic region.

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

($ in thousands)	At December 31, 2019	At December 31, 2018
Commercial, financial, and agricultural	$ 5,518	919
Real estate – construction, land development, and other land loans	1,067	2,265
Real estate – mortgage – residential (1-4 family) first mortgages	7,552	10,115
Real estate – mortgage – home equity loans/lines of credit	1,797	1,685
Real estate – mortgage – commercial and other	8,820	7,452
Installment loans to individuals	112	139
Total nonaccrual loans	$ 24,866	22,575

The nonaccrual table above generally indicates a net increase in nonaccrual loans during the year, with the “Commercial, financial and agricultural” and "Real estate - mortgage - commercial and other" categories experiencing the largest increases. Both of the increases were primarily driven by SBA loans that were placed on nonaccrual status during 2019.

Management routinely monitors the status of certain large loans that, in management’s opinion, have credit weaknesses that could cause them to become nonperforming loans. In addition to the nonperforming loan amounts discussed above, management believes that an estimated $3 to $7 million of loans that were performing in accordance with their contractual terms at December 31, 2019 have the potential to develop problems in the near term depending upon the particular financial situations of the borrowers and economic conditions in general. Management has taken these potential problem loans into consideration when evaluating the adequacy of the allowance for loan losses at December 31, 2019 (see discussion below).

Loans classified for regulatory purposes as loss, doubtful, substandard, or special mention that have not been disclosed in the problem loan amounts and the potential problem loan amounts discussed above do not represent or result from trends or uncertainties that management reasonably expects will materially impact future operating results, liquidity, or capital resources, or represent material credits about which management is aware of any information that causes management to have serious doubts as to the ability of such borrowers to comply with the loan repayment terms.

We provide additional information regarding the credit quality classification status of our loans in tables contained in Note 4 to our consolidated financial statements. Those tables indicate that at December 31, 2018 and December 31, 2019, our level of classified and nonaccrual loans amounted to approximately 1.4% of total loans at each year end.

Foreclosed properties includes primarily foreclosed real estate. Total foreclosed real estate amounted to $3.9 million, $7.4 million, and $12.6 million at December 31, 2019, 2018, and 2017, respectively. Generally, we have experienced decreases in foreclosed real estate over the past several years primarily due to increased property sales activity and the improvement in our overall asset quality.

The following table presents the detail of our foreclosed real estate at each of the past two year ends:

$ in thousands	At December 31, 2019	At December 31, 2018
Vacant land and farmland	$ 1,752	2,035
1-4 family residential properties	974	2,311
Commercial real estate	1,147	3,094
Total foreclosed real estate	$ 3,873	7,440

Allowance for Loan Losses and 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. Recoveries realized during the period are credited to this allowance. We consider our procedures for recording the amount of the allowance for loan losses and the related provision for loan losses to be a critical accounting policy. See the heading “Critical Accounting Policies” above for further discussion.

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.

We use a loan analysis and grading program to facilitate our evaluation of probable inherent loan losses and the adequacy of our allowance for loan losses. In this program, credit risk grades are assigned by management and tested by an internal loan review department and also an independent third-party consulting firm. The testing program includes an evaluation of a sample of new loans, loans we identify as having potential credit weaknesses, loans past due 90 days or more, loans originated by new loan officers, nonaccrual loans and any other loans identified during previous regulatory and other examinations.

We strive to maintain our loan portfolio in accordance with what management believes are conservative loan underwriting policies that result in loans specifically tailored to the needs of our market areas. Every effort is made to identify and minimize the credit risks associated with such lending strategies. 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 loans captioned in the tables discussed below as “real estate” loans are personal and commercial loans where real estate provides additional security for the loan. Collateral for the majority of these loans is located within our principal market area.

The total allowance for loan losses amounted to $21.4 million at December 31, 2019 compared to $21.0 million at December 31, 2018 and $23.3 million at December 31, 2017.

Our allowance for loan losses is primarily based on mathematical model with the primary factors impacting this model being loan growth, net charge-off history, and asset quality trends, as well as specific reserves we set aside on certain individual loans exhibiting signs of deterioration. 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 generally lower levels of net charge-offs (and net recoveries in some periods) than the older periods rolling out of the model, and thus mostly offset upward adjustments to the allowance that would normally be required to reflect new loan growth and the net charge-offs experienced. Thus, the low level of net charge-offs (or net recoveries) experienced in recent years has been the primary reason for the low (or negative) provisions for loan losses that have been necessary to appropriately adjust the level or our allowance for loan losses.

Net loan charge-offs (recoveries) of total loans amounted to $1.9 million in 2019, ($1.3 million) in 2018, and $1.2 million in 2017. The trend of lower net charge-offs is associated with lower levels of nonperforming loans and credit improvements in our underlying loan portfolio. In 2019, the increases in the categories of "Commercial, financial, and agricultural" and "Real estate - mortgage - commercial and other" were driven by charge-offs within our SBA loan portfolio. In 2018, we received full payoffs on four loans that had been previously charged-down by approximately $3.3 million and are included in the table as recoveries, contributing significantly to the net recovery position for the year.

The ratio of our allowance to total loans was 0.48%, 0.50%, and 0.58% at December 31, 2019, 2018, and 2017, respectively. The decline in this ratio from December 31, 2017 to December 31, 2019 was a result of the factors discussed above that impacted our low levels of provision for loan losses. Our relatively low level of allowance to total loans is also significantly impacted by the acquisitions of Carolina Bank and Asheville Savings Bank, 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 is 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 on those acquired loans, amounted to $12.7 million, $17.3 million, and $24.3 million at December 31, 2019, December 31, 2018, and December 31, 2017, respectively.

Table 13 sets forth the allocation of the allowance for loan losses at the dates indicated. However, the allowance for loan losses is available to absorb losses in all categories.

Management considers the allowance for loan losses 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 allowance 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 amount 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.

In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses and losses on foreclosed real estate. Such agencies may require us to recognize additions to the allowance based on the examiners' judgments about information available to them at the time of their examinations.

For the years indicated, Table 14 summarizes our balances of loans outstanding, average loans outstanding, and a detailed rollforward of the allowance for loan losses.

The way that we reserve for loan losses will experience a significant change in 2020, as a result of new guidance issued by the FASB. 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 losses" and record an allowance that, when deducted from the amortized cost basis of the financial assets, presents the net amount expected to be collected on the financial assets. The CECL framework is expected to result in earlier recognition of credit losses and is expected to be significantly influenced by the composition, characteristics and quality of the Company's loan portfolio, as well as the prevailing economic conditions and forecasts. The Company will initially apply the impact of the new guidance through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption, which, for the Company, is January 1, 2020. At this time, the Company expects its allowance for credit losses will increase to approximately $40-$44 million upon adoption compared to its allowance for loan losses at December 31, 2019 of approximately $21 million.

The CECL standard provides significant flexibility and requires a high degree of judgment with regards to pooling financial assets with similar risk characteristics and adjusting the relevant historical loss information in order to develop an estimate of expected lifetime losses. Providing for losses over the life of our loan portfolio is a change to the previous method of providing allowances for loan losses that are probable and incurred. This change may require us to increase our allowance for loan losses rapidly in future periods, and greatly increases the types of data we need to collect and review to determine the appropriate level of the allowance for loan losses. It may also result in even small changes to future forecasts having a significant impact on the allowance, which could make the allowance more volatile, and regulators may impose additional capital buffers to absorb this volatility.

Deposits

Deposits are a critical part of our business, as they provide the primary funding source for our loans and investments. Accordingly, as discussed below, we have implemented various strategies and developed competitive products to promote growth of our deposit balances.

At December 31, 2019, deposits outstanding amounted to $4.93 billion, an increase of 5.8%, or $272.0 million, from the $4.66 billion at December 31, 2018, all of which was organic growth. Within total deposits, we grew our retail deposits (non-brokered deposits) in 2019 by $426 million, or 9.6%. Within our retail deposits, we experienced growth of $321.9 million, or 8.7%, in checking, money market and savings accounts, and had growth of $106.6 million, or 15.0%, in our retail time deposits. As a result of the strong retail deposit growth in 2019, we were able to reduce our level of brokered deposits during the year by $153.7 million, a decrease of 64.1%.

During 2018, we experienced an increase in total deposits of $252.4 million, or 5.7%, which was substantially all retail deposit growth. Within our retail deposits, we experienced growth of $186.3 million, or 5.3%, in checking, money market and savings accounts, and had growth of $70.4 million, or 11.0%, in our retail 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.

The nature of our deposit growth is illustrated in the table on page 40. The following table reflects the mix of our deposits at each of the past three year ends:

	2019	2018	2017
Noninterest-bearing checking accounts	31%	28%	27%
Interest-bearing checking accounts	18%	20%	20%
Money market deposits	24%	22%	22%
Savings deposits	9%	9%	10%
Time deposits - Brokered	2%	5%	6%
Time deposits > $100,000 – retail	11%	10%	8%
Time deposits < $100,000 – retail	5%	6%	7%
Total deposits	100%	100%	100%

Our deposit mix remains heavily concentrated in transaction and non-time deposit accounts, with time deposits comprising 21% or less of total deposits at each year end. This is beneficial for us, as these accounts generally carry lower interest rates compared to time deposits. Prior to the very low interest rate environment that we have been in for the past decade, the time deposit concentration was closer to 50%. We believe the lower mix of time deposits has been due to the relatively small gap between the interest rates that we pay on transaction accounts versus the rates we pay on time deposits.

Table 15 presents the average amounts of our deposits and the average yield paid for those deposits for the years ended December 31, 2019, 2018, and 2017.

As of December 31, 2019, we held approximately $649.9 million in time deposits of $100,000 or more. Table 16 is a maturity schedule of time deposits of $100,000 or more as of December 31, 2019. This table shows that 87% of our time deposits greater than $100,000 mature within one year.

At each of the past three year ends, we have no deposits issued through foreign offices, nor do we believe that we held any deposits by foreign depositors.

Borrowings

We typically utilize borrowings to provide balance sheet liquidity and to fund imbalances in our loan growth compared to our deposit growth. Our borrowings outstanding totaled $300.7 million at December 31, 2019, $406.6 million at December 31, 2018, and $407.5 million at December 31, 2017. Table 2 shows that average borrowings were $332.6 million in 2019, $406.9 million in 2018, and $325.9 million in 2017.

Comparing year end 2018 to year end 2017, borrowings remained essentially unchanged as deposit growth fully funded our loan growth for the year. In 2019, we used a portion of excess cash generated from deposit growth that has exceed loan growth in recent years to pay down $106 million in borrowings.

At December 31, 2019, the Company had three sources of readily available borrowing capacity – 1) an approximately $1.05 billion line of credit with the FHLB, of which $247 million and $353 million was outstanding at December 31, 2019 and 2018, respectively, 2) a $35 million federal funds line of credit with a correspondent bank, of which none was outstanding at December 31, 2019 or 2018, and 3) an approximately $129 million line of credit through the Federal Reserve Bank of Richmond's ("FRB") discount window, of which none was outstanding at December 31, 2019 or 2018.

In addition to any outstanding borrowings from the FHLB that reduce the available borrowing capacity of the line of credit, our borrowing capacity was further reduced by $190 million at both December 31, 2019 and 2018, as a result of our pledging letters of credit backed by the FHLB for public deposits at each of those dates. Thus, our unused available line of credit with the FHLB amounted to approximately $610 million at December 31, 2019 compared to $502 million a year earlier.

Our line of credit with the FHLB can be structured as either short-term or long-term borrowings, depending on the particular funding or liquidity need, and is secured by our FHLB stock and a blanket lien on most of our real estate loan portfolio. For the year ended December 31, 2019, the average amount of FHLB borrowings outstanding was approximately $278.4 million with a weighted average interest rate for the year of 2.22%. The maximum amount of short-term FHLB borrowings outstanding at any month-end during 2019 was $352.3 million. For the year ended December 31, 2018, the average amount of FHLB borrowings outstanding was approximately $353.2 million with a weighted average interest rate for the year of 1.91%. The maximum amount of short-term FHLB borrowings outstanding at any month-end during 2018 was $353.5 million.

Our correspondent bank relationship allows us to purchase up to $35 million in federal funds on an overnight, unsecured basis (federal funds purchased). We had no borrowings under this line at December 31, 2019 or 2018. There were no federal funds purchased outstanding at any month-end during 2019 or 2018.

We also have a line of credit with the FRB discount window. This line is secured by a blanket lien on a portion of our commercial and consumer loan portfolio (excluding real estate loans). Based on the collateral that we owned as of December 31, 2019, the available line of credit was approximately $129 million. At December 31, 2019 and 2018, we had no borrowings outstanding under this line.

In addition to the lines of credit described above, we also have of $56.7 million of trust preferred security debt outstanding at December 31, 2019 and 2018. Each of our three issuances have 30 year final maturities and were structured in a manner that allows them to qualify as Tier 1 capital for regulatory capital adequacy requirements. We may call these debt securities at par on any quarterly interest payment, but do not expect to do so. The interest rate on these debt securities adjusts on a quarterly basis at a rate of three-month LIBOR plus 2.70% for $20.6 million, three-month LIBOR plus 1.39% on $25.8 million, and LIBOR + 2.00% for $10.3 million that was assumed in the Carolina Bank acquisition.

Liquidity, Commitments, and Contingencies

Our liquidity is determined by our ability to convert assets to cash or to acquire alternative sources of funds to meet the needs of our customers who are withdrawing or borrowing funds, and our ability 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.

As noted above, in addition to internally generated liquidity sources, at December 31, 2019, we had the ability to obtain borrowings from the following three sources – 1) an approximately $1.05 billion line of credit with the FHLB, 2) a $35 million federal funds line with a correspondent bank, and 3) an approximately $129 million line of credit through the FRB's discount window.

Our overall liquidity remained relatively unchanged at December 31, 2019 compared to December 31, 2018. Our liquid assets (cash and securities) as a percentage of our total deposits and borrowings amounted to 21.4% at December 31, 2019 compared to 21.0% at December 31, 2018.

We continue to 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.

In the normal course of business we have various outstanding contractual obligations that will require future cash outflows. In addition, there are commitments and contingent liabilities, such as commitments to extend credit, that may or may not require future cash outflows.

Table 18 reflects our contractual obligations and other commercial commitments outstanding as of December 31, 2019. Any of our $247 million in outstanding borrowings with the FHLB may be accelerated immediately by the FHLB in certain circumstances, including material adverse changes in our condition or if our qualifying collateral is less than the amount required under the terms of the borrowing agreement.

In the normal course of business there are various outstanding commitments and contingent liabilities such as commitments to extend credit, which are not reflected in the financial statements. The following table presents a summary of our outstanding loan commitments as of December 31, 2019:

($ in millions)

Type of Commitment	Fixed Rate	Variable Rate	Total
Loan commitments	$ 264	123	387
Unused lines of credit	169	767	936
Total	$ 433	890	1,323

At December 31, 2019 and 2018, we also had $12.0 million and $15.7 million, respectively, in standby letters of credit outstanding. We had no carrying amount for these standby letters of credit at either of those dates. The nature of the standby letters of credit is that of a stand-alone obligation made on behalf of our customers to suppliers of the customers to guarantee payments owed to the supplier by the customer. The standby letters of credit are generally for terms of one year, at which time they may be renewed for another year if both parties agree. The payment of the guarantees would generally be triggered by a continued nonpayment of an obligation owed by the customer to the supplier. The maximum potential amount of future payments (undiscounted) we could be required to make under the guarantees in the event of nonperformance by the parties to whom credit or financial guarantees have been extended is represented by the contractual amount of the financial instruments discussed above. In the event that we are required to honor a standby letter of credit, a note, already executed by the customer, becomes effective providing repayment terms and any collateral. Over the past two years, we have had to honor only a few standby letters of credit, none of which resulted in any loss to the Company. We expect any draws under existing commitments to be funded through normal operations.

It has been our experience that deposit withdrawals are generally able to be replaced with new deposits when needed. Based on that assumption, management believes that it can meet its contractual cash obligations and existing commitments from normal operations.

We are not involved in any legal proceedings that, in management's opinion, are likely to have a material effect on the consolidated financial position of the Company.

Capital Resources and Shareholders' Equity

Shareholders' equity at December 31, 2019 amounted to $852.4 million compared to $764.2 million at December 31, and $693.0 million at December 31, 2017. The two basic components that typically have the largest impact on our shareholders' equity are net income, which increases shareholders' equity, and dividends declared, which decrease shareholders' equity. Additionally, any stock issuances can significantly increase shareholders' equity, including those associated with acquisitions, and any stock repurchases would reduce shareholders' equity.

In 2019, the most significant factors that impacted our equity were 1) the $92.0 million net income reported for 2019, which increased equity, 2) common stock dividends declared of $16.0 million, which reduced equity, 3) other comprehensive income of $17.1 million (primarily driven by increases in unrealized gains on available securities for sale), which increased equity, 4) stock repurchases of $10.0 million, which decreased equity, and 5) the issuance of $3.1 million in stock related to the conclusion of an earn-out period related to a 2016 acquisition, which increased equity. See the Consolidated Statements of Shareholders' Equity within the consolidated financial statements for disclosure of other less significant items affecting shareholders' equity.

In 2018, the most significant factors that impacted our equity were 1) the $89.3 million net income reported for 2018, which increased equity, and 2) common stock dividends declared of $11.9 million, which reduced equity. See the Consolidated Statements of Shareholders' Equity within the consolidated financial statements for disclosure of other less significant items affecting shareholders' equity.

In 2017, the most significant factors that impacted our equity were 1) the issuances of $284.2 million of common stock in connection with two bank acquisitions, which increased equity, 2) the $46.0 million net income reported for 2017, which increased equity, and 3) common stock dividends declared of $8.3 million, which reduced equity.

With the acquisition of Carolina Bank in March 2017, we assumed a deferred compensation plan for certain members of Carolina Bank's board of directors that is fully funded by Company stock, which was valued at $7.7 million on the date of acquisition. Subsequent to the acquisition in 2017, approximately $5.1 million of the deferred compensation has been paid to the plan participants. The balances of the related asset and liability were each $2.6 million at December 31, 2019, both of which are presented as components of shareholders' equity.

As discussed in "Borrowings" above, we also currently have $56.7 million in trust preferred securities outstanding, all of which qualify as Tier I capital under both current and forthcoming regulatory standards.

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.

The Company and the Bank must comply with regulatory capital requirements established by the Federal Reserve and the Commissioner. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements.

Table 21 presents our regulatory capital ratios as of December 31, 2019, 2018, and 2017. All of our capital ratios have significantly exceeded the minimum regulatory thresholds for all periods covered by this report.

In this economic environment, our goal is to maintain our capital ratios at levels at least 200 basis points higher than the "well capitalized" thresholds set for banks. At December 31, 2019, our tier 1 leverage ratio was 11.19% compared to the regulatory well capitalized bank-level threshold of 5.00% and our total risk-based capital ratio was 14.89% compared to the 10.00% regulatory well capitalized threshold.

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 10.20% at December 31, 2019 compared to 9.07% at December 31, 2018.

See "Supervision and Regulation" under "Business" above and Note 15 to the consolidated financial statements for discussion of other matters that may affect our capital resources.

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 derivatives activities through December 31, 2019 and have no current plans to do so.

Return on Assets and Equity

Table 20 shows return on average assets (net income divided by average total assets), return on average common equity (net income divided by average common shareholders' equity), dividend payout ratio (dividends per share divided by net income per common share) and shareholders' equity to assets ratio (average total shareholders' equity divided by average total assets) for each of the years in the three-year period ended December 31, 2019.

Interest Rate Risk (Including Quantitative and Qualitative Disclosures About Market Risk – Item 7A.)

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), even during periods of changing interest rates. Over the past five calendar years, our net interest margin has ranged from a low of 4.00% (realized in 2019) to a high of 4.13% (realized in 2015). The consistency of the net interest margin is aided by the relatively low level of long-term interest rate exposure that we maintain. At December 31, 2019, approximately 74% of our interest-earning assets are 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.

Table 17 sets forth our interest rate sensitivity analysis as of December 31, 2019, 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). As illustrated by Table 17, at December 31, 2019, we had $1.6 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 December 31, 2019 were deposits totaling $2.5 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 twelve months), this generally 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 and longer 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. Due to actions taken by the Federal Reserve related to short-term interest rates and the impact of the global economy on longer-term interest rates, we are currently in a flat interest rate curve environment. A flat interest rate curve is an unfavorable interest rate environment for many banks, including the Bank, 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. Additionally, intense competition for high-quality loans in our market areas have resulted in low interest rates in our markets. Competition for deposits is also intense as banks compete for funding and market share, and thus creates upward pressure on deposit costs. For these reasons, we have recently experienced compression to our net interest margin.

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 $4.6 million, $7.0 million, and $6.8 million in 2019, 2018, and 2017, 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 $12.7 million at December 31, 2019 compared to $17.3 million at December 31, 2018.

Based on our most recent interest rate modeling, which assumes no interest rate changes for 2020 (federal funds rate = 1.75%, prime = 4.75%), we project that our net interest margin for 2020 to decline slightly as a result of 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. Table 19 presents the expected maturities of our other than trading market risk sensitive financial instruments. Table 19 also presents the estimated fair values of market risk sensitive instruments as estimated in accordance with relevant accounting guidance. Our assets and liabilities have estimated fair values that do not materially differ from their carrying amounts.

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.

Inflation

Because the assets and liabilities of a bank are primarily monetary in nature (payable in fixed determinable amounts), the performance of a bank is affected more by changes in interest rates than by inflation. Interest rates generally increase as the rate of inflation increases, but the magnitude of the change in rates may not be the same. The effect of inflation on banks is normally not as significant as its influence on those businesses that have large investments in plant and inventories. During periods of high inflation, there are normally corresponding increases in the money supply, and banks will normally experience above average growth in assets, loans and deposits. Also, general increases in the price of goods and services will result in increased operating expenses.

Current Accounting Matters

We prepare our consolidated financial statements and related disclosures in conformity with standards established by, among others, the FASB. Because the information needed by users of financial reports is dynamic, the FASB frequently issues new rules and proposes new rules for companies to apply in reporting their activities. See Note 1 to our consolidated financial statements for a discussion of recent rule proposals and changes.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

The information responsive to this Item is found in Item 7 under the caption “Interest Rate Risk.”

Table 1 Selected Consolidated Financial Data

($ in thousands, except per share and nonfinancial data)	Year Ended December 31, 2019	2018	2017	2016	2015
Income Statement Data					
Interest income	$ 250,107	231,207	177,382	130,987	126,655
Interest expense	33,903	23,777	12,671	7,607	6,908
Net interest income	216,204	207,430	164,711	123,380	119,747
Provision (reversal) for loan losses	2,263	(3,589)	723	(23)	(780)
Net interest income after provision	213,941	211,019	163,988	123,403	120,527
Noninterest income	59,529	58,942	49,232	26,176	20,250
Noninterest expense	157,194	156,483	145,481	107,446	99,617
Income before income taxes	116,276	113,478	67,739	42,133	41,160
Income taxes	24,230	24,189	21,767	14,624	14,126
Net income	92,046	89,289	45,972	27,509	27,034
Preferred stock dividends	—	—	—	(175)	(603)
Net income available to common shareholders	92,046	89,289	45,972	27,334	26,431
Earnings per common share – basic	3.10	3.02	1.82	1.37	1.34
Earnings per common share – diluted	3.10	3.01	1.82	1.33	1.30
Per Share Data (Common)					
Cash dividends declared – common	$ 0.54	0.40	0.32	0.32	0.32
Market Price					
High	41.34	43.14	41.76	28.49	19.92
Low	31.22	30.50	26.47	17.15	15.00
Close	39.91	32.66	35.31	27.14	18.74
Stated book value – common	28.80	25.71	23.38	17.66	16.96
Selected Balance Sheet Data (at year end)					
Total assets	$ 6,143,639	5,864,116	5,547,037	3,614,862	3,362,065
Loans – non-covered	4,453,466	4,249,064	4,042,369	2,710,712	2,416,285
Loans – covered (1)	—	—	—	—	102,641
Total loans	4,453,466	4,249,064	4,042,369	2,710,712	2,518,926
Allowance for loan losses	21,398	21,039	23,298	23,781	28,583
Intangible assets	251,585	255,480	257,507	79,475	67,171
Deposits	4,931,355	4,659,339	4,406,955	2,947,353	2,811,285
Borrowings	300,671	406,609	407,543	271,394	186,394
Total shareholders' equity	852,401	764,230	692,979	368,101	342,190
Selected Average Balances					
Assets	$ 6,027,047	5,693,760	4,590,786	3,422,267	3,230,302
Loans	4,346,331	4,161,838	3,420,939	2,603,327	2,434,602
Earning assets	5,448,400	5,112,436	4,101,949	3,108,918	2,936,624
Deposits	4,824,216	4,516,811	3,696,730	2,827,513	2,687,381
Interest-bearing liabilities	3,720,536	3,663,077	3,025,401	2,324,823	2,218,246
Shareholders' equity	812,823	727,920	533,205	360,715	376,287
Ratios					
Return on average assets	1.53%	1.57%	1.00%	0.80%	0.82%
Return on average common equity	11.32%	12.27%	8.62%	7.73%	8.04%
Net interest margin (taxable-equivalent basis)	4.00%	4.09%	4.08%	4.03%	4.13%
Loans to deposits at year end	90.31%	91.19%	91.73%	91.97%	89.60%
Allowance for loan losses to total loans	0.48%	0.50%	0.58%	0.88%	1.13%
Nonperforming assets to total assets at year end	0.62%	0.74%	0.96%	1.64%	2.66%
Net charge-offs (recoveries) to average total loans	0.04%	(0.03%)	0.04%	0.14%	0.46%
Nonfinancial Data – number of branches	101	101	104	88	88
Nonfinancial Data – number of employees (FTEs)	1,088	1,076	1,140	834	812

(1) Effective September 22, 2016, all FDIC loss share agreements were terminated, and accordingly, assets previously covered under those agreements became non-covered on that date.

Table 2 Average Balances and Net Interest Income Analysis

($ in thousands)	2019 Average Volume	2019 Avg. Rate	2019 Interest Earned or Paid	2018 Average Volume	2018 Avg. Rate	2018 Interest Earned or Paid	2017 Average Volume	2017 Avg. Rate	2017 Interest Earned or Paid
	Year Ended December 31,								
Assets									
Loans (1) (2)	$ 4,346,331	5.08%	$ 220,784	$ 4,161,838	5.01%	$ 208,609	$ 3,420,939	4.79%	$ 163,738
Taxable securities	719,435	2.76%	19,881	419,356	2.54%	10,638	302,892	2.31%	7,007
Non-taxable securities	32,200	3.13%	1,007	50,945	2.91%	1,482	56,065	2.99%	1,677
Other interest-earning assets, primarily overnight funds	350,434	2.41%	8,435	480,297	2.18%	10,478	322,053	1.54%	4,960
Total interest-earning assets	5,448,400	4.59%	250,107	5,112,436	4.52%	231,207	4,101,949	4.32%	177,382
Cash and due from banks	55,422			80,053			79,025		
Premises and equipment	117,465			115,573			98,216		
Other assets	405,760			385,698			311,596		
Total assets	$ 6,027,047			$ 5,693,760			$ 4,590,786		
Liabilities and Equity									
Interest-bearing checking accounts	$ 891,766	0.15%	$ 1,358	$ 875,751	0.10%	$ 887	$ 722,286	0.07%	$ 477
Money market accounts	1,111,599	0.63%	6,992	1,023,162	0.32%	3,265	825,015	0.19%	1,569
Savings accounts	419,450	0.29%	1,201	439,880	0.21%	922	385,967	0.19%	715
Time deposits > $100,000	704,332	1.93%	13,598	641,516	1.30%	8,356	504,349	0.79%	4,005
Other time deposits	260,741	0.73%	1,901	275,904	0.38%	1,061	261,910	0.30%	778
Total interest-bearing deposits	3,387,888	0.74%	25,050	3,256,213	0.45%	14,491	2,699,527	0.28%	7,544
Borrowings	332,648	2.66%	8,853	406,864	2.28%	9,286	325,874	1.57%	5,127
Total interest-bearing liabilities	3,720,536	0.91%	33,903	3,663,077	0.65%	23,777	3,025,401	0.42%	12,671
Noninterest-bearing checking accounts	1,436,329			1,260,598			997,203		
Total sources of funds	5,156,865	0.66%		4,923,675	0.48%		4,022,604	0.32%	
Other liabilities	57,359			42,165			34,977		
Shareholders' equity	812,823			727,920			533,205		
Total liabilities and shareholders' equity	$ 6,027,047			$ 5,693,760			$ 4,590,786		
Net yield on interest-earning assets and net interest income		3.97%	$ 216,204		4.06%	$ 207,430		4.02%	$ 164,711
Net yield on interest-earning assets and net interest income – tax-equivalent (3)		4.00%	$ 217,845		4.09%	$ 209,024		4.08%	$ 167,301
Interest rate spread		3.68%			3.87%			3.90%	
Average prime rate		5.28%			4.91%			4.10%	

(1) Average loans include nonaccruing loans, the effect of which is to lower the average rate shown. Interest earned includes recognized net loan fees in the amounts of $1,264, $1,905, and $536 for 2019, 2018, and 2017, respectively.

(2) Includes accretion of discount on acquired and SBA loans of $5,974, $7,812, and $7,076 in 2019, 2018, and 2017, respectively.

(3) Includes tax-equivalent adjustments of $1,641, $1,594, and $2,590 in 2019, 2018, and 2017, respectively, to reflect the federal and state 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 for 2019 and 2018 and 37% for 2017 and is reduced by the related nondeductible portion of interest expense.

(4) We completed two significant acquisitions in 2017 that impacts the comparability between the 2017 and 2018 information presented. See section "Net Interest Income" above for further discussion.

Table 3 Volume and Rate Variance Analysis

	Year Ended December 31, 2019			Year Ended December 31, 2018		
	Change Attributable to			Change Attributable to		
($ in thousands)	Changes in Volumes	Changes in Rates	Total Increase (Decrease)	Changes in Volumes	Changes in Rates	Total Increase (Decrease)
Interest income:						
Loans	$ 9,310	2,865	12,175	36,299	8,572	44,871
Taxable securities	7,952	1,291	9,243	2,824	807	3,631
Non-taxable securities	(566)	91	(475)	(151)	(44)	(195)
Short-term investments, primarily overnight funds	(2,979)	936	(2,043)	2,945	2,573	5,518
Total interest income	13,717	5,183	18,900	41,917	11,908	53,825
Interest expense:						
Interest-bearing checking accounts	20	451	471	128	282	410
Money market accounts	419	3,310	3,729	505	1,191	1,696
Savings accounts	(51)	330	279	106	101	207
Time deposits >$100,000	1,016	4,229	5,245	1,438	2,913	4,351
Other time deposits	(84)	919	835	48	235	283
Total interest-bearing deposits	1,320	9,239	10,559	2,225	4,722	6,947
Borrowings	(1,835)	1,402	(433)	1,561	2,598	4,159
Total interest expense	(515)	10,641	10,126	3,786	7,320	11,106
Net interest income	$ 14,232	(5,458)	8,774	38,131	4,588	42,719

Changes attributable to both volume and rate are allocated equally between rate and volume variances.

Table 4 Noninterest Income

	Year Ended December 31,		
($ in thousands)	2019	2018	2017
Service charges on deposit accounts	$ 12,970	12,690	11,862
Interchange fees (1)	13,814	11,995	7,732
Other service charges, commissions, and fees	5,667	4,493	6,671
Fees from presold mortgage loans	3,944	2,735	5,695
Commissions from sales of insurance and financial products	8,495	8,731	5,300
SBA consulting fees	3,872	4,675	4,024
SBA loan sale gains	8,275	10,366	5,479
Bank-owned life insurance income	2,564	2,534	2,321
Securities gains (losses), net	97	—	(235)
Other gains (losses), net	(169)	723	383
Noninterest income	$ 59,529	58,942	49,232
Non-GAAP adjustments - Exclude:			
Securities (gains) losses, net	(97)	—	235
Other (gains) losses, net	169	(723)	(383)
Adjusted noninterest income	$ 59,601	58,219	49,084

(1) With the Company's adoption of ASC 606 on January 1, 2018, interchange expense began to be netted against interchange income within Noninterest Income on the Consolidated Statements of Income. Thus, in the table above, interchange fees are shown on a gross basis in 2017 and on a net basis in 2018 and 2019.

Table 5 Noninterest Expenses

($ in thousands)	Year Ended December 31, 2019	2018	2017
Salaries	$ 79,129	75,077	66,786
Employee benefits	16,844	16,888	15,313
Total personnel expense	95,973	91,965	82,099
Occupancy expense	11,122	10,793	9,661
Equipment related expenses	5,023	5,627	4,480
Merger and acquisition expenses	192	2,358	8,073
Amortization of intangible assets	4,858	5,917	4,033
Dues and subscriptions expense (includes software licenses)	4,250	3,431	1,969
Data processing expense	3,130	3,234	2,910
Telephone and data lines	3,057	3,024	2,470
Marketing expense	2,727	3,065	2,549
Stationery and supplies	1,830	2,582	2,399
Outside consultants	1,508	1,820	2,511
FDIC insurance expense	344	2,333	2,350
Interchange expense (1)	—	—	2,797
Non-credit losses	974	960	887
Foreclosed property losses, net	939	565	531
Other operating expenses	21,267	18,809	15,762
Total	$ 157,194	156,483	145,481

(1) With the Company's adoption of ASC 606 on January 1, 2018, interchange expense began to be netted against interchange income within Noninterest Income on the Consolidated Statements of Income.

Table 6 Income Taxes

($ in thousands)		2019	2018	2017
Current	- Federal	$ 19,920	19,188	11,286
	- State	2,499	3,187	1,996
Deferred	- Federal	1,572	1,658	7,742
	- State	239	156	743
Total tax expense		$ 24,230	24,189	21,767
Effective tax rate		20.8%	21.3%	32.1%

Table 7 Distribution of Assets and Liabilities

	As of December 31,		
	2019	2018	2017
Assets			
Interest-earning assets			
Net loans	72%	72%	73%
Securities available for sale	13	9	6
Securities held to maturity	1	2	2
Short-term investments	3	7	7
Total interest-earning assets	89	90	88
Noninterest-earning assets			
Cash and due from banks	1	1	2
Premises and equipment	2	2	2
Intangible assets	4	4	5
Foreclosed real estate	—	—	—
Bank-owned life insurance	2	2	2
Other assets	2	1	1
Total assets	100%	100%	100%
Liabilities and shareholders' equity			
Noninterest-bearing checking accounts	25%	22%	22%
Interest-bearing checking accounts	15	16	16
Money market accounts	19	18	18
Savings accounts	7	7	8
Time deposits of $100,000 or more	10	12	11
Other time deposits	4	4	5
Total deposits	80	79	80
Borrowings	5	7	7
Accrued expenses and other liabilities	1	1	1
Total liabilities	86	87	88
Shareholders' equity	14	13	12
Total liabilities and shareholders' equity	100%	100%	100%

Table 8 Securities Portfolio Composition

	As of December 31,		
($ in thousands)	2019	2018	2017
Securities available for sale:			
Government-sponsored enterprise securities	$ 20,009	82,662	13,867
Mortgage-backed securities	767,285	385,551	295,213
Corporate bonds	34,651	33,138	34,190
Equity securities	—	—	—
Total securities available for sale	821,945	501,351	343,270
Securities held to maturity:			
Mortgage-backed securities	41,423	52,048	63,829
State and local governments	26,509	49,189	54,674
Total securities held to maturity	67,932	101,237	118,503
Total securities	$ 889,877	602,588	461,773
Average total securities during year	$ 751,635	470,301	358,957

Table 9 Securities Portfolio Maturity Schedule

($ in thousands)	As of December 31, 2019 Book Value	Fair Value	Book Yield (1)
Securities available for sale:			
Government-sponsored enterprise securities			
Due after one but within five years	$ 15,000	15,017	2.98%
Due after five but within ten years	5,000	4,992	2.32%
Total	20,000	20,009	2.82%
Mortgage-backed securities (2)			
Due within one year	910	915	2.59%
Due after one but within five years	492,753	497,870	2.63%
Due after five but within ten years	227,801	231,361	2.67%
Due after ten years	37,027	37,139	2.74%
Total	758,491	767,285	2.65%
Corporate debt securities			
Due after one but within five years	28,711	29,599	3.46%
Due after ten years	5,000	5,052	5.63%
Total	33,711	34,651	3.78%
Total securities available for sale			
Due within one year	910	915	2.59%
Due after one but within five years	536,464	542,486	2.68%
Due after five but within ten years	232,801	236,353	2.66%
Due after ten years	42,027	42,191	3.08%
Total	$ 812,202	821,945	2.70%
Securities held to maturity:			
Mortgage-backed securities (2)			
Due after one but within five years	$ 41,423	41,542	2.19%
Total	41,423	41,542	2.19%
State and local governments			
Due within one year	1,165	1,167	4.85%
Due after one but within five years	17,909	18,123	4.06%
Due after five but within ten years	6,923	6,984	3.10%
Due after ten years	512	517	3.96%
Total securities held to maturity	26,509	26,791	3.84%
Total securities held to maturity			
Due within one year	1,165	1,167	4.85%
Due after one but within five years	59,332	59,665	2.76%
Due after five but within ten years	6,923	6,984	3.10%
Due after ten years	512	517	3.96%
Total	$ 67,932	68,333	2.84%

(1) Yields on tax-exempt investments have been adjusted to a taxable equivalent basis using a 22.98% tax rate.
(2) Mortgage-backed securities are shown maturing in the periods consistent with their estimated lives based on expected prepayment speeds.

Table 10 Loan Portfolio Composition

($ in thousands)	As of December 31, 2019 Amount	2019 % of Total Loans	2018 Amount	2018 % of Total Loans	2017 Amount	2017 % of Total Loans	2016 Amount	2016 % of Total Loans	2015 Amount	2015 % of Total Loans
Commercial, financial, and agricultural	$ 504,271	11%	$ 457,037	11%	$ 381,130	10%	$ 261,813	9%	$ 202,671	8%
Real estate – construction, land development & other land loans	530,866	12%	518,976	12%	539,020	13%	354,667	13%	308,969	12%
Real estate – mortgage – residential (1-4 family) first mortgages	1,105,014	25%	1,054,176	25%	972,772	24%	750,679	28%	768,559	31%
Real estate – mortgage – home equity loans / lines of credit	337,922	8%	359,162	8%	379,978	9%	239,105	9%	232,601	9%
Real estate – mortgage – commercial and other	1,917,280	43%	1,787,022	42%	1,696,107	42%	1,049,460	39%	957,587	38%
Installment loans to individuals	56,172	1%	71,392	2%	74,348	2%	55,037	2%	47,666	2%
Loans, gross	4,451,525	100%	4,247,765	100%	4,043,355	100%	2,710,761	100%	2,518,053	100%
Unamortized net deferred loan costs (fees)	1,941		1,299		(986)		(49)		873	
Total loans	4,453,466		4,249,064		4,042,369		2,710,712		2,518,926	

Table 11 Loan Maturities

($ in thousands)	As of December 31, 2019 Due within one year Amount	Due within one year Yield	Due after one year but within five years Amount	Due after one year but within five years Yield	Due after five years Amount	Due after five years Yield	Total Amount	Total Yield
Variable Rate Loans:								
Commercial, financial, and agricultural	$ 66,540	5.34%	$ 32,764	4.92%	$ 56,650	7.37%	$ 155,954	5.99%
Real estate – construction only	61,572	5.65%	92,132	4.78%	25,950	6.66%	179,654	5.35%
Real estate – all other mortgage	93,514	5.10%	237,609	4.99%	419,536	4.80%	750,659	4.90%
Real estate – home equity loans/ line of credit	11,390	5.13%	69,679	5.07%	238,395	4.92%	319,464	4.96%
Consumer, primarily installment loans to individuals	3,126	5.72%	34,258	10.28%	2,991	6.64%	40,375	9.66%
Total at variable rates	236,142	5.32%	466,442	5.34%	743,522	5.11%	1,446,106	5.22%
Fixed Rate Loans:								
Commercial, financial, and agricultural	18,884	4.37%	153,070	4.46%	165,907	3.45%	337,861	3.96%
Real estate – construction only	75,201	4.12%	85,639	4.96%	48,234	4.62%	209,074	4.58%
Real estate – all other mortgage	177,065	4.60%	1,152,485	4.71%	1,073,449	4.28%	2,402,999	4.51%
Consumer, primarily installment loans to individuals	2,580	5.43%	21,425	6.22%	8,555	10.11%	32,560	7.18%
Total at fixed rates	273,730	4.46%	1,412,619	4.72%	1,296,145	4.22%	2,982,494	4.48%
Subtotal	509,872	4.86%	1,879,061	4.87%	2,039,667	4.54%	4,428,600	4.72%
Nonaccrual loans	24,866		—		—		24,866	
Total loans	$ 534,738		$ 1,879,061		$ 2,039,667		$ 4,453,466	

The above table is based on contractual scheduled maturities. Early repayment of loans or renewals at maturity are not considered in this table.

Table 12 Nonperforming Assets

($ in thousands)	As of December 31, 2019	2018	2017	2016	2015
Non-covered nonperforming assets (1)					
Nonaccrual loans	$ 24,866	22,575	20,968	27,468	39,994
Restructured loans - accruing	9,053	13,418	19,834	22,138	28,011
Accruing loans >90 days past due	—	—	—	—	—
Total non-covered nonperforming loans	33,919	35,993	40,802	49,606	68,005
Foreclosed properties	3,873	7,440	12,571	9,532	9,188
Total non-covered nonperforming assets	$ 37,792	43,433	53,373	59,138	77,193
Purchased credit impaired loans not included above (2)	$ 12,664	17,393	23,165	—	—
Covered nonperforming assets (1)					
Nonaccrual loans	$ —	—	—	—	7,816
Restructured loans – accruing	—	—	—	—	3,478
Accruing loans >90 days past due	—	—	—	—	—
Total covered nonperforming loans	—	—	—	—	11,294
Foreclosed properties	—	—	—	—	806
Total covered nonperforming assets	—	—	—	—	12,100
Total nonperforming assets	$ 37,792	43,433	53,373	59,138	89,293
Asset Quality Ratios – All Assets					
Nonperforming loans to total loans	0.76%	0.85%	1.01%	1.83%	3.15%
Nonperforming assets to total loans and foreclosed real estate	0.85%	1.02%	1.32%	2.17%	3.53%
Nonperforming assets to total assets	0.62%	0.74%	0.96%	1.64%	2.66%
Asset Quality Ratios – Based on Non-covered Assets only					
Non-covered nonperforming loans to non-covered loans	0.76%	0.85%	1.01%	1.83%	2.81%
Non-covered nonperforming assets to non-covered loans and non-covered foreclosed real estate	0.85%	1.02%	1.32%	2.17%	3.18%
Non-covered nonperforming assets to total non-covered assets	0.62%	0.74%	0.96%	1.64%	2.37%

(1) Covered nonperforming assets consisted of assets that were included in loss share agreements with the FDIC. In 2016, approximately $7.0 million of nonaccrual loans and $1.6 million of foreclosed real estate were transferred from covered to non-covered status upon expirations/terminations of FDIC loss-share agreements.

(2) 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 purchased credit impaired loans in accordance with ASC 310-30 accounting guidance. These loans are excluded from the nonperforming loan amounts.

Table 12a Nonperforming Assets by Geographical Region

($ in thousands)	As of December 31, 2019		
	Total Nonperforming Loans	Total Loans	Nonperforming Loans to Total Loans
Nonaccrual loans and Troubled Debt Restructurings (1)			
Eastern Region (NC)	$ 5,759	$ 958,000	0.60%
Triangle Region (NC)	7,487	974,000	0.77%
Triad Region (NC)	4,034	871,000	0.46%
Charlotte Region (NC)	2,864	335,000	0.85%
Southern Piedmont Region (NC)	3,288	275,000	1.20%
Western Region (NC)	645	662,000	0.10%
South Carolina Region	768	173,000	0.44%
Former Virginia Region	83	1,000	8.30%
Other	8,991	204,000	4.41%
Total nonaccrual loans and troubled debt restructurings	$ 33,919	$ 4,453,000	0.76%
Foreclosed Properties (1)			
Eastern Region (NC)	$ 503		
Triangle Region (NC)	759		
Triad Region (NC)	562		
Charlotte Region (NC)	—		
Southern Piedmont Region (NC)	186		
Western Region (NC)	559		
South Carolina Region	519		
Former Virginia Region	363		
Other	422		
Total foreclosed properties	$ 3,873		

(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, Madison, McDowell, 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 and through the Company's Credit Card Division

Table 13 Allocation of the Allowance for Loan Losses

($ in thousands)	As of December 31, 2019	2018	2017	2016	2015
Commercial, financial, and agricultural	$ 4,553	2,889	3,111	3,829	4,764
Real estate – construction, land development	1,976	2,243	2,816	2,691	3,790
Real estate – residential, commercial, home equity, multifamily	13,897	14,845	14,449	15,222	18,282
Installment loans to individuals	972	952	950	1,145	1,051
Total allocated	21,398	20,929	21,326	22,887	27,887
Unallocated	—	110	1,972	894	696
Total	$ 21,398	21,039	23,298	23,781	28,583
Allowance for loan losses related to covered loans included above (1)	$ —	$ —	—	—	1,799

(1) During 2016, all FDIC loss share agreements were terminated, and accordingly, there were no covered loans at December 31, 2019, 2018, 2017 and 2016.

Table 14 Loan Loss and Recovery Experience

($ in thousands)	As of December 31, 2019	2018	2017	2016	2015
Loans outstanding at end of year	$4,453,466	4,249,064	4,042,369	2,710,712	2,518,926
Average amount of loans outstanding	$4,346,331	4,161,838	3,420,939	2,603,327	2,434,602
Allowance for loan losses, at beginning of year	$ 21,039	23,298	23,781	28,583	40,626
Provision (reversal) for loan losses – non-covered	2,263	(3,589)	723	2,109	2,008
Provision (reversal) for loan losses – covered	—	—	—	(2,132)	(2,788)
Total provision (reversal) for loan losses	2,263	(3,589)	723	(23)	(780)
	23,302	19,709	24,504	28,560	39,846
Loans charged off:					
Commercial, financial, and agricultural	(2,473)	(2,128)	(1,622)	(2,033)	(3,039)
Real estate – construction, land development & other land loans	(553)	(158)	(589)	(1,101)	(3,616)
Real estate – mortgage – residential (1-4 family) first mortgages	(657)	(1,734)	(2,641)	(3,894)	(5,145)
Real estate – mortgage – home equity loans / lines of credit	(307)	(711)	(978)	(1,010)	(1,117)
Real estate – mortgage – commercial and other	(1,556)	(1,459)	(1,182)	(1,088)	(3,103)
Installment loans to individuals	(757)	(781)	(799)	(1,288)	(2,411)
Total charge-offs	(6,303)	(6,971)	(7,811)	(10,414)	(18,431)
Recoveries of loans previously charged-off:					
Commercial, financial, and agricultural	980	1,195	1,311	817	934
Real estate – construction, land development & other land loans	1,275	4,097	2,579	2,690	3,599
Real estate – mortgage – residential (1-4 family) first mortgages	705	833	1,076	1,207	678
Real estate – mortgage – home equity loans / lines of credit	629	364	333	279	143
Real estate – mortgage – commercial and other	575	1,503	1,027	1,286	1,390
Installment loans to individuals	235	309	279	406	424
Total recoveries	4,399	8,301	6,605	6,685	7,168
Net (charge-offs) recoveries	(1,904)	1,330	(1,206)	(3,729)	(11,263)
Allowance removed related to sold loans	—	—	—	(1,050)	—
Allowance for loan losses, at end of year	$ 21,398	21,039	23,298	24,831	28,583
Covered net recoveries (charge-offs) included above (1)	$ —	—	—	1,714	2,306
Ratios:					
Net charge-offs (recoveries) as a percent of average loans	0.04%	(0.03%)	0.04%	0.14%	0.46%
Allowance for loan losses as a percent of loans at end of year	0.48%	0.50%	0.58%	0.88%	1.13%
Allowance for loan losses as a multiple of net charge-offs	11.24x	n/m	19.32x	6.38x	2.54x
Provision (reversal) for loan losses as a percent of net charge-offs	118.86%	n/m	59.95%	(0.62%)	(6.93%)
Recoveries of loans previously charged-off as a percent of loans charged-off	69.79%	119.08%	84.56%	64.19%	38.89%

(1) On September 22, 2016, all FDIC loss-share agreements were terminated, and accordingly, assets previously covered under those agreements became non-covered on that date.

n/m – not meaningful

Table 15 Average Deposits

	Year Ended December 31,					
	2019		2018		2017	
($ in thousands)	Average Amount	Average Rate	Average Amount	Average Rate	Average Amount	Average Rate
Interest-bearing checking accounts	$ 891,766	0.15%	$ 875,751	0.10%	$ 722,286	0.07%
Money market accounts	1,111,599	0.63%	1,023,162	0.32%	825,015	0.19%
Savings accounts	419,450	0.29%	439,880	0.21%	385,967	0.19%
Time deposits >$100,000	704,332	1.93%	641,516	1.30%	504,349	0.79%
Other time deposits	260,741	0.73%	275,904	0.38%	261,910	0.30%
Total interest-bearing deposits	3,387,888	0.74%	3,256,213	0.45%	2,699,527	0.28%
Noninterest-bearing checking accounts	1,436,329	—	1,260,598	—	997,203	—
Total deposits	4,824,217	0.52%	4,516,811	0.32%	3,696,730	0.20%

Table 16 Maturities of Time Deposits of $100,000 or More

	As of December 31, 2019				
($ in thousands)	3 Months or Less	Over 3 to 6 Months	Over 6 to 12 Months	Over 12 Months	Total
Time deposits of $100,000 or more	$ 230,216	158,120	176,848	84,763	649,947

Table 17 Interest Rate Sensitivity Analysis

($ in thousands)	Repricing schedule for interest-earning assets and interest-bearing liabilities held as of December 31, 2019				
	3 Months or Less	Over 3 to 12 Months	Total Within 12 Months	Over 12 Months	Total
Earning assets:					
Loans (1)	$ 1,276,946	246,858	1,523,804	2,929,662	4,453,466
Securities available for sale (2)	64,205	120,603	184,808	637,137	821,945
Securities held to maturity (2)	16,376	17,444	33,820	34,112	67,932
Other earning assets, primarily short-term investments	202,284	—	202,284	17,591	219,875
Total earning assets	$ 1,559,811	384,905	1,944,716	3,618,502	5,563,218
Percent of total earning assets	28.04%	6.92%	34.96%	65.04%	100.00%
Cumulative percent of total earning assets	28.04%	34.96%	34.96%	100.00%	100.00%
Interest-bearing liabilities:					
Interest-bearing checking accounts	$ 912,784	—	912,784	—	912,784
Money market accounts	1,173,107	—	1,173,107	—	1,173,107
Savings accounts	424,415	—	424,415	—	424,415
Time deposits of $100,000 or more	230,216	334,968	565,184	84,763	649,947
Other time deposits	77,471	127,250	204,721	50,404	255,125
Borrowings	255,234	40,594	295,828	4,843	300,671
Total interest-bearing liabilities	$ 3,073,227	502,812	3,576,039	140,010	3,716,049
Percent of total interest-bearing liabilities	82.70%	13.53%	96.23%	3.77%	100.00%
Cumulative percent of total interest-bearing liabilities	82.70%	96.23%	96.23%	100.00%	100.00%
Interest sensitivity gap	$ (1,513,416)	(117,907)	(1,631,323)	3,478,492	1,847,169
Cumulative interest sensitivity gap	$ (1,513,416)	(1,631,323)	(1,631,323)	1,847,169	1,847,169
Cumulative interest sensitivity gap as a percent of total earning assets	(27.20%)	(29.32%)	(29.32%)	33.20%	33.20%
Cumulative ratio of interest-sensitive assets to interest-sensitive liabilities	50.75%	54.38%	54.38%	149.71%	149.71%

(1) The three months or less category for loans includes $128,422 in adjustable rate loans that are at their contractual rate floors, and approximately $74,708 will reprice higher within the next 100 basis points of increases in the prime rate.

(2) Securities available for sale include government-sponsored enterprise securities, mortgage-backed securities, and corporate bonds. Securities held to maturity include mortgage-backed securities and state and local government securities. For fixed rate mortgage-backed securities, the principal is assumed to reprice equally over the average life of the underlying security. All other fixed rate securities are assumed to reprice based on maturity date or call date. Variable rate securities are included in the period in which they are subject to reprice.

Table 18 Contractual Obligations and Other Commercial Commitments

Contractual Obligations As of December 31, 2019	Payments Due by Period ($ in thousands) Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Borrowings	$ 300,671	239,124	2,263	3,038	56,246
Operating leases	29,349	2,422	4,066	3,297	19,564
Time deposits	905,072	769,905	109,883	24,810	474
Non-qualified postretirement plan liabilities	9,448	330	650	634	7,834
Committed investment obligations	2,669	2,669	—	—	—
Estimated interest expense on borrowings and time deposits (1)	43,497	9,734	6,634	5,084	22,045
Total contractual cash obligations	$ 1,290,706	1,024,184	123,496	36,863	106,163

(1) Represents forecasted interest expense on borrowings and time deposits based on interest rates at December 31, 2019. Forecasts are based on the contractual maturity of each liability.

Other Commercial Commitments As of December 31, 2019	Amount of Commitment Expiration Per Period ($ in thousands) Total Amounts Committed	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Credit cards	$ 120,230	60,115	60,115		
Lines of credit and loan commitments	1,202,442	446,383	241,511	117,775	396,773
Standby letters of credit	12,002	11,117	883	2	—
Total commercial commitments	$ 1,334,674	517,615	302,509	117,777	396,773

Table 19 Market Risk Sensitive Instruments

	Expected Maturities of Market Sensitive Instruments Held at December 31, 2019 Occurring in Indicated Year								
($ in thousands)	2020	2021	2022	2023	2024	Beyond	Total	Average Interest Rate	Estimated Fair Value
Due from banks, interest-bearing	$ 166,783	—	—	—	—	—	166,783	1.54%	$ 166,783
Presold mortgages in process of settlement	19,712	—	—	—	—	—	19,712	4.25%	19,712
Debt Securities - at amortized cost (1) (2)	209,657	175,831	175,976	190,288	78,000	50,382	880,134	2.71%	890,278
Loans – fixed (3) (4)	273,729	263,981	378,981	397,367	372,290	1,296,146	2,982,494	4.48%	2,969,454
Loans – adjustable (3) (4)	236,141	167,677	112,181	118,412	68,174	743,521	1,446,106	5.22%	1,435,112
Total	$ 906,022	607,489	667,138	706,067	518,464	2,090,049	5,495,229	4.30%	$ 5,481,339
Interest-bearing checking accounts	$ 912,784	—	—	—	—	—	912,784	0.19%	$ 912,784
Money market accounts	1,173,107	—	—	—	—	—	1,173,107	0.65%	1,173,107
Savings accounts	424,415	—	—	—	—	—	424,415	0.29%	424,415
Time deposits	769,905	83,272	26,611	13,811	10,999	474	905,072	1.58%	904,468
Borrowings – fixed	239,124	1,129	1,134	1,991	1,047	2,196	246,621	1.69%	246,705
Borrowings – adjustable	—	—	—	—	—	54,050	54,050	3.90%	48,694
Total	$ 3,519,335	84,401	27,745	15,802	12,046	56,720	3,716,049	0.84%	$ 3,710,173

(1) Tax-exempt securities are reflected at a tax-equivalent basis using a 22.98% tax rate.
(2) Securities with call dates within 12 months of December 31, 2019 that have above market interest rates are assumed to mature at their call date for purposes of this table. Mortgage securities are assumed to mature in the period of their expected repayment based on estimated prepayment speeds.
(3) Excludes nonaccrual loans.
(4) Loans are shown in the period of their contractual maturity.
(5) Excludes the Company's investment in FHLB stock and FRB stock due to their perpetual nature.

Table 20 Return on Assets and Common Equity

	For the Year Ended December 31,		
	2019	2018	2017
Return on average assets	1.53%	1.57%	1.00%
Return on average common equity	11.32%	12.27%	8.62%
Dividend payout ratio – common shares	17.42%	13.25%	17.58%
Average shareholders’ equity to average assets	13.49%	12.78%	11.61%

Table 21 Risk-Based and Leverage Capital Ratios

($ in thousands)	As of December 31, 2019	2018	2017
Risk-Based and Leverage Capital			
Common Equity Tier I capital:			
Shareholders' equity	$ 852,401	764,230	692,979
Intangible assets, net of deferred tax liability	(236,636)	(240,625)	(240,299)
Accumulated other comprehensive income adjustments	(5,123)	11,961	4,146
Total Common Equity Tier I capital	610,642	535,566	456,826
Tier I capital:			
Trust preferred securities eligible for Tier I capital treatment	52,345	52,198	52,054
Deductions from Tier I capital	—	—	(89)
Total Tier I leverage capital	662,987	587,764	508,791
Tier II capital:			
Allowable allowance for loan losses	21,398	21,039	23,298
Other Tier II capital	546	625	818
Tier II capital additions	21,944	21,664	24,116
Total capital	$ 684,931	609,428	532,907
Total risk weighted assets	$ 4,599,799	4,361,238	4,262,941
Adjusted fourth quarter average assets	$ 5,924,020	5,612,092	5,314,246
Risk-based capital ratios:			
Common equity Tier I capital to Tier I risk adjusted assets	13.28%	12.28%	10.72%
Minimum required under Basel III	7.00%	6.375%	5.75%
Fully phased-in minimum under Basel III	7.00%	7.00%	7.00%
Tier I capital to Tier I risk adjusted assets	14.41%	13.48%	11.94%
Minimum required under Basel III	8.50%	7.875%	7.25%
Fully phased-in minimum under Basel III	8.50%	8.50%	8.50%
Total risk-based capital to Tier II risk-adjusted assets	14.89%	13.97%	12.50%
Minimum required under Basel III	10.50%	9.875%	9.25%
Fully phased-in minimum under Basel III	10.50%	10.50%	10.50%
Leverage capital ratios:			
Tier I leverage capital to adjusted fourth quarter average assets	11.19%	10.47%	9.58%
Minimum required under Basel III	4.00%	4.00%	4.00%
Fully phased-in minimum under Basel III	4.00%	4.00%	4.00%

Table 22 Quarterly Financial Summary (Unaudited)

($ in thousands except per share data)	2019 Fourth Quarter	2019 Third Quarter	2019 Second Quarter	2019 First Quarter	2018 Fourth Quarter	2018 Third Quarter	2018 Second Quarter	2018 First Quarter
Income Statement Data								
Interest income, taxable equivalent	$ 63,351	62,795	63,445	62,159	61,635	58,647	57,102	55,417
Interest expense	8,313	8,604	8,613	8,374	7,346	6,374	5,503	4,554
Net interest income, taxable equivalent	55,038	54,191	54,832	53,785	54,289	52,273	51,599	50,863
Taxable equivalent, adjustment	382	413	423	424	443	428	367	356
Net interest income	54,656	53,778	54,409	53,361	53,846	51,845	51,232	50,507
Provision (reversal) for loan losses	3,176	(1,105)	(308)	500	693	87	(710)	(3,659)
Net interest income after provision for losses	51,480	54,883	54,717	52,861	53,153	51,758	51,942	54,166
Noninterest income	14,662	15,156	15,634	14,078	13,405	14,672	15,275	15,590
Noninterest expense	39,891	38,446	40,084	38,774	36,665	38,534	38,037	43,247
Income before income taxes	26,251	31,593	30,267	28,165	29,893	27,896	29,180	26,509
Income taxes	5,368	6,574	6,408	5,880	5,998	5,905	6,450	5,836
Net income	20,883	25,019	23,859	22,285	23,895	21,991	22,730	20,673
Per Common Share Data								
Earnings per common share – basic	$ 0.71	0.84	0.80	0.75	0.81	0.74	0.77	0.70
Earnings per common share – diluted	0.71	0.84	0.80	0.75	0.80	0.74	0.77	0.70
Cash dividends declared	0.18	0.12	0.12	0.12	0.10	0.10	0.10	0.10
Market Price								
High	41.34	37.65	39.49	39.82	41.74	43.14	42.94	37.85
Low	34.51	34.13	33.99	31.22	30.50	39.32	34.70	33.88
Close	39.91	35.90	36.42	34.76	32.66	40.51	40.91	35.65
Stated book value - common	28.80	28.20	27.43	26.50	25.71	24.99	24.20	23.79
Selected Average Balances								
Assets	$6,159,232	6,021,979	5,994,595	5,945,049	5,840,964	5,712,940	5,671,620	5,549,516
Loans	4,419,982	4,354,477	4,329,866	4,280,272	4,222,417	4,191,751	4,133,689	4,099,495
Earning assets	5,560,099	5,440,014	5,417,284	5,372,766	5,276,311	5,143,420	5,080,372	4,949,612
Deposits	4,939,182	4,838,574	4,810,019	4,704,231	4,264,868	4,526,012	4,512,559	4,403,805
Interest-bearing liabilities	3,716,248	3,678,530	3,716,092	3,773,714	3,697,076	3,654,176	3,671,692	3,629,364
Shareholders' equity	847,317	826,914	802,131	775,059	754,734	737,560	717,975	701,411
Ratios (annualized where applicable)								
Return on average assets	1.35%	1.65%	1.60%	1.52%	1.62%	1.53%	1.61 %	1.51 %
Return on average common equity	9.78%	12.00%	11.93%	11.66%	12.56%	11.83%	12.70 %	11.95 %
Equity to assets at end of period	13.87%	13.76%	13.56%	13.03%	13.03%	13.01%	12.68 %	12.51 %
Average loans to average deposits	89.49%	90.00%	90.02%	90.99%	91.30%	92.60%	91.60 %	93.09 %
Average earning assets to interest-bearing liabilities	149.62%	147.89%	145.78%	142.37%	142.72%	140.75%	138.37 %	136.38 %
Net interest margin	3.93%	3.95%	4.06%	4.06%	4.08%	4.03%	4.07 %	4.17 %
Allowance for loan losses to gross loans	0.48%	0.44%	0.48%	0.49%	0.50%	0.49%	0.56 %	0.57 %
Nonperforming loans as a percent of total loans	0.76%	0.67%	0.67%	0.77%	0.85%	0.83%	1.03 %	0.98 %
Nonperforming assets as a percent of total assets	0.62%	0.56%	0.57%	0.65%	0.74%	0.72%	0.90 %	0.92 %
Net charge-offs (recoveries) as a percent of average total loans	0.09%	0.04%	—%	0.04%	0.02%	0.27%	(0.07)%	(0.36)%

Item 8. Financial Statements and Supplementary Data

First Bancorp and Subsidiaries
Consolidated Balance Sheets
December 31, 2019 and 2018

($ in thousands)	2019	2018
Assets		
Cash and due from banks, noninterest-bearing	$ 64,519	56,050
Due from banks, interest-bearing	166,783	406,848
Total cash and cash equivalents	231,302	462,898
Securities available for sale	821,945	501,351
Securities held to maturity (fair values of $68,333 in 2019 and $99,906 in 2018)	67,932	101,237
Presold mortgages in process of settlement	19,712	4,279
Loans	4,453,466	4,249,064
Allowance for loan losses	(21,398)	(21,039)
Net loans	4,432,068	4,228,025
Premises and equipment	114,859	119,000
Operating right-of-use lease assets	19,669	—
Accrued interest receivable	16,648	16,004
Goodwill	234,368	234,368
Other intangible assets	17,217	21,112
Foreclosed properties	3,873	7,440
Bank-owned life insurance	104,441	101,878
Other assets	59,605	66,524
Total assets	$ 6,143,639	5,864,116
Liabilities		
Deposits: Noninterest-bearing checking accounts	$ 1,515,977	1,320,131
Interest-bearing checking accounts	912,784	916,374
Money market accounts	1,173,107	1,035,523
Savings accounts	424,415	432,389
Time deposits of $100,000 or more	649,947	690,922
Other time deposits	255,125	264,000
Total deposits	4,931,355	4,659,339
Borrowings	300,671	406,609
Accrued interest payable	2,154	1,976
Operating lease liabilities	19,855	—
Other liabilities	37,203	31,962
Total liabilities	5,291,238	5,099,886
Commitments and contingencies (see Note 12)		
Shareholders' Equity		
Preferred stock, no par value per share. Authorized: 5,000,000 shares		
Issued & outstanding: none in 2019 and 2018	—	—
Common stock, no par value per share. Authorized: 40,000,000 shares		
Issued & outstanding: 29,601,264 shares in 2019 and 29,724,874 shares in 2018	429,514	434,453
Retained earnings	417,764	341,738
Stock in rabbi trust assumed in acquisition	(2,587)	(3,235)
Rabbi trust obligation	2,587	3,235
Accumulated other comprehensive income (loss)	5,123	(11,961)
Total shareholders' equity	852,401	764,230
Total liabilities and shareholders' equity	$ 6,143,639	5,864,116

See accompanying notes to consolidated financial statements.

First Bancorp and Subsidiaries
Consolidated Statements of Income
Years Ended December 31, 2019, 2018 and 2017

($ in thousands, except per share data)	2019	2018	2017
Interest Income			
Interest and fees on loans	$ 220,784	208,609	163,738
Interest on investment securities:			
Taxable interest income	19,881	10,638	7,007
Tax-exempt interest income	1,007	1,482	1,677
Other, principally overnight investments	8,435	10,478	4,960
Total interest income	250,107	231,207	177,382
Interest Expense			
Savings, checking and money market accounts	9,551	5,074	2,761
Time deposits of $100,000 or more	13,598	8,356	4,005
Other time deposits	1,901	1,061	778
Borrowings	8,853	9,286	5,127
Total interest expense	33,903	23,777	12,671
Net interest income	216,204	207,430	164,711
Provision (reversal) for loan losses	2,263	(3,589)	723
Net interest income after provision for loan losses	213,941	211,019	163,988
Noninterest Income			
Service charges on deposit accounts	12,970	12,690	11,862
Other service charges, commissions and fees	19,481	16,488	14,403
Fees from presold mortgage loans	3,944	2,735	5,695
Commissions from sales of insurance and financial products	8,495	8,731	5,300
SBA consulting fees	3,872	4,675	4,024
SBA loan sale gains	8,275	10,366	5,479
Bank-owned life insurance income	2,564	2,534	2,321
Securities gains (losses), net	97	—	(235)
Other gains (losses), net	(169)	723	383
Total noninterest income	59,529	58,942	49,232
Noninterest Expenses			
Salaries	79,129	75,077	66,786
Employee benefits	16,844	16,888	15,313
Total personnel expense	95,973	91,965	82,099
Occupancy expense	11,122	10,793	9,661
Equipment related expenses	5,023	5,627	4,480
Merger and acquisition expenses	192	2,358	8,073
Intangibles amortization	4,858	5,917	4,033
Foreclosed property losses, net	939	565	531
Other operating expenses	39,087	39,258	36,604
Total noninterest expenses	157,194	156,483	145,481
Income before income taxes	116,276	113,478	67,739
Income tax expense	24,230	24,189	21,767
Net income	$ 92,046	89,289	45,972
Earnings per common share: Basic	$ 3.10	3.02	1.82
Earnings per common share: Diluted	3.10	3.01	1.82
Dividends declared per common share	$ 0.54	0.40	0.32
Weighted average common shares outstanding:			
Basic	29,547,851	29,566,259	25,210,606
Diluted	29,720,499	29,707,431	25,291,382

See accompanying notes to consolidated financial statements.

First Bancorp and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2019, 2018 and 2017

($ in thousands)	2019	2018	2017
Net income	$ 92,046	89,289	45,972
Other comprehensive income (loss):			
Unrealized gains (losses) on securities available for sale:			
Unrealized holding gains (losses) arising during the period, pretax	22,230	(10,179)	639
Tax (expense) benefit	(5,157)	2,379	(234)
Reclassification to realized (gains) losses	(97)	—	235
Tax expense (benefit)	22	—	(87)
Postretirement plans:			
Net (loss) gain arising during period	(686)	(41)	1,601
Tax benefit (expense)	158	10	(593)
Amortization of unrecognized net actuarial loss	814	21	211
Tax benefit	(200)	(5)	(75)
Other comprehensive income (loss)	17,084	(7,815)	1,697
Comprehensive income	$ 109,130	81,474	47,669

See accompanying notes to consolidated financial statements.

First Bancorp and Subsidiaries
Consolidated Statements of Shareholders' Equity
Years Ended December 31, 2019, 2018 and 2017

(In thousands, except per share)	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, 2017	20,845	$147,287	225,921	—	—	(5,107)	368,101
Net income			45,972				45,972
Cash dividends declared ($0.32 per common share)			(8,298)				(8,298)
Equity issued pursuant to acquisitions	8,733	284,192		(7,688)	7,688		284,192
Change in Rabbi Trust Obligation				4,107	(4,107)		—
Stock option exercises	18	287					287
Stock withheld for payment of taxes	(7)	(231)					(231)
Stock-based compensation	50	1,259					1,259
Reclassification of accumulated other comprehensive income due to statutory tax changes			736			(736)	—
Other comprehensive income						1,697	1,697
Balances, December 31, 2017	29,639	432,794	264,331	(3,581)	3,581	(4,146)	692,979
Net income			89,289				89,289
Cash dividends declared ($0.40 per common share)			(11,882)				(11,882)
Change in Rabbi Trust Obligation				346	(346)		—
Stock option exercises	25	324					324
Stock withheld for payment of taxes	(11)	(406)					(406)
Stock-based compensation	72	1,741					1,741
Other comprehensive loss						(7,815)	(7,815)
Balances, December 31, 2018	29,725	434,453	341,738	(3,235)	3,235	(11,961)	764,230
Net income			92,046				92,046
Cash dividends declared ($0.54 per common share)			(16,020)				(16,020)
Change in Rabbi Trust Obligation				648	(648)		—
Equity issued related to acquisition earn-out	78	3,070					3,070
Stock repurchases	(282)	(10,000)					(10,000)
Stock option exercises	9	129					129
Stock withheld for payment of taxes	(20)	(702)					(702)
Stock-based compensation	91	2,564					2,564
Other comprehensive income						17,084	17,084
Balances, December 31, 2019	29,601	$429,514	417,764	(2,587)	2,587	5,123	852,401

See accompanying notes to consolidated financial statements.

First Bancorp and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2019, 2018 and 2017

($ in thousands)	2019	2018	2017
Cash Flows From Operating Activities			
Net income	$ 92,046	89,289	45,972
Reconciliation of net income to net cash provided by operating activities:			
Provision (reversal) for loan losses	2,263	(3,589)	723
Net security premium amortization	2,653	2,749	2,908
Loan discount accretion	(5,974)	(7,812)	(7,076)
Other purchase accounting accretion and amortization, net	(9)	(190)	(236)
Foreclosed property losses and write-downs, net	939	565	531
(Gains) losses on securities available for sale	(97)	—	235
Other losses (gains)	169	(723)	(383)
(Increase) decrease in net deferred loan costs	(642)	(2,285)	975
Depreciation of premises and equipment	5,836	6,077	5,493
Amortization of operating lease right-of-use assets	1,857	—	—
Repayments of lease obligations	(1,669)	—	—
Stock-based compensation expense	2,270	1,569	1,095
Amortization of intangible assets	4,858	5,917	4,033
Amortization of SBA servicing assets	1,340	846	207
Fees/gains from sale of presold mortgage and SBA loans	(12,219)	(13,101)	(11,174)
Originations of presold mortgage loans in process of settlement	(173,705)	(118,791)	(228,871)
Proceeds from sales of presold mortgage loans in process of settlement	162,476	129,519	235,493
Origination of SBA loans for sale	(150,677)	(196,784)	(95,436)
Proceeds from sales of SBA loans	124,527	157,427	77,034
Increase in accrued interest receivable	(644)	(1,910)	(1,072)
(Increase) decrease in other assets	(5,735)	3,525	6,724
Increase in accrued interest payable	178	741	392
Increase (decrease) in other liabilities	1,197	(6,629)	(10,729)
Net cash provided by operating activities	51,238	46,410	26,838
Cash Flows From Investing Activities			
Purchases of securities available for sale	(498,891)	(230,794)	(191,260)
Purchases of securities held to maturity	—	—	(291)
Proceeds from maturities/issuer calls of securities available for sale	158,920	60,871	37,974
Proceeds from maturities/issuer calls of securities held to maturity	32,461	16,183	22,344
Proceeds from sales of securities available for sale	39,797	—	140,621
Redemptions (purchases) of FRB and FHLB stock, net	4,088	(6,129)	(9,947)
Net increase in loans	(165,203)	(152,972)	(204,631)
Proceeds from sales of foreclosed properties	5,877	7,532	8,647
Purchases of premises and equipment	(3,534)	(10,723)	(4,659)
Proceeds from sales of premises and equipment	1,799	2,753	151
Net cash received in acquisitions	—	—	72,519
Net cash used by investing activities	(424,686)	(313,279)	(128,532)
Cash Flows From Financing Activities			
Net increase in deposits	272,206	252,756	195,468
Net (decrease) increase in short-term borrowings	(55,000)	50,000	93,000
Proceeds from long-term borrowings	—	50,000	110,000
Payments on long-term borrowings	(51,119)	(101,116)	(105,737)
Cash dividends paid – common stock	(13,662)	(11,281)	(7,596)
Repurchases of common stock	(10,000)	—	—
Proceeds from stock option exercises	129	324	287
Payment of taxes related to stock withheld	(702)	(406)	(231)
Net cash provided by financing activities	141,852	240,277	285,191
(Decrease) increase in Cash and Cash Equivalents	(231,596)	(26,592)	183,497
Cash and Cash Equivalents, Beginning of Year	462,898	489,490	305,993
Cash and Cash Equivalents, End of Year	$ 231,302	462,898	489,490
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the period for interest	33,725	23,036	12,239
Cash paid during the period for income taxes	24,336	21,162	19,537
Non-cash: Foreclosed loans transferred to foreclosed real estate	3,249	4,148	5,452
Non-cash: Unrealized gain (loss) on securities available for sale, net of taxes	16,998	(7,800)	553
Non-cash: Initial recognition of operating lease right-of-use assets	19,406	—	—
Non-cash: Initial recognition of operating lease liabilities	19,406	—	—
Non-cash: Equity issued related to acquisition earn-out	3,070	—	—

See accompanying notes to consolidated financial statements.

Note 1. Summary of Significant Accounting Policies

Basis of Presentation - The consolidated financial statements include the accounts of First Bancorp (the "Company") and its wholly owned subsidiary First Bank (the "Bank"). The Bank has three wholly owned subsidiaries that are fully consolidated - First Bank Insurance Services, Inc. ("First Bank Insurance"), SBA Complete, Inc. ("SBA Complete"), and First Troy SPE, LLC. All significant intercompany accounts and transactions have been eliminated. Subsequent events have been evaluated through the date of filing this Form 10-K.

The Company is a bank holding company. The principal activity of the Company is the ownership and operation of the Bank, a state chartered bank with its main office in Southern Pines, North Carolina. The Company is also the parent company for a series of statutory trusts that were formed at various times since 2002 for the purpose of issuing trust preferred debt securities. The trusts are not consolidated for financial reporting purposes; however, notes issued by the Company to the trusts in return for the proceeds from the issuance of the trust preferred securities are included in the consolidated financial statements and have terms that are substantially the same as the corresponding trust preferred securities. The trust preferred securities qualify as capital for regulatory capital adequacy requirements. First Bank Insurance is an agent for property and casualty insurance policies. SBA Complete specializes in providing consulting services for financial institutions across the country related to Small Business Administration ("SBA") loan origination and servicing. First Troy SPE, LLC was formed in order to hold and dispose of certain real estate foreclosed upon by the Bank.

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates made by the Company in the preparation of its consolidated financial statements are the determination of the allowance for loan losses, the valuation of other real estate, the accounting and impairment testing related to intangible assets, and the fair value and discount accretion of acquired loans.

Reclassifications - Certain amounts for prior years have been reclassified to conform to the 2019 presentation. The reclassifications had no effect on net income or shareholders' equity as previously presented, nor did they materially impact trends in financial information.

Business Combinations – The Company accounts for business combinations using the acquisition method of accounting. The accounts of an acquired entity are included as of the date of acquisition, and any excess of purchase price over the fair value of the net assets acquired is capitalized as goodwill. Under this method, all identifiable assets acquired, including purchased loans, and liabilities assumed are recorded at fair value.

The Company typically issues common stock and/or pays cash for an acquisition, depending on the terms of the acquisition agreement. The value of common shares issued is determined based on the market price of the stock as of the closing of the acquisition.

Cash and Cash Equivalents - The Company considers all highly liquid assets with original maturities of 90 days or less, such as cash on hand, noninterest-bearing and interest-bearing amounts due from banks and federal funds sold, to be "cash equivalents."

Securities - Debt securities that the Company has the positive intent and ability to hold to maturity are classified as "held to maturity" and carried at amortized cost. Securities not classified as held to maturity are classified as "available for sale" and carried at fair value, with unrealized gains and losses being reported as other comprehensive income or loss and reported as a separate component of shareholders' equity.

A decline in the market value of any available for sale or held to maturity security below cost that is deemed to be other than temporary results in a reduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established.

Gains and losses on sales of securities are recognized at the time of sale based upon the specific identification method. Premiums and discounts are amortized into income on a level yield basis, with premiums being amortized to the earliest call date and discounts being accreted to the stated maturity date.

Presold Mortgages in Process of Settlement - As a part of normal business operations, the Company originates residential mortgage loans that have been pre-approved by secondary investors to be sold on a best efforts basis. The terms of the loans are set by the secondary investors, and the purchase price that the investor will pay for the loan is agreed to prior to the funding of the loan by the Company. Generally within three weeks after funding, the loans are transferred to the investor in accordance with the agreed-upon terms. The Company records gains from the sale of these loans on the settlement date of the sale equal to the difference between the proceeds received and the carrying amount of the loan. The gain generally represents the portion of the proceeds attributed to service release premiums received from the investors and the realization of origination fees received from borrowers that were deferred as part of the carrying amount of the loan. Between the initial funding of the loans by the Company and the subsequent reimbursement by the investors, the Company carries the loans on its balance sheet at fair value.

Periodically, the Company originates other types of commercial loans and decides to sell them in the secondary market. The Company carries these loans at the lower of cost or fair value at each reporting date. There were no such loans held for sale as of December 31, 2019 or 2018.

Loans – Loans are stated at the principal amount outstanding less any partial charge-offs plus deferred origination costs, net of nonrefundable loan fees. Interest on loans is accrued on the unpaid principal balance outstanding. Net deferred loan origination costs/fees are capitalized and recognized as a yield adjustment over the life of the related loan.

The Company does not hold a significant amount of interest-only strips, loans, other receivables, or retained interests in securitizations that can be contractually prepaid or otherwise settled in a way that it would not recover substantially all of its recorded investment.

Purchased loans acquired in a business combination are recorded at estimated fair value on their purchase date. No allowance for loan losses is carried over from the seller or otherwise recorded on the purchase date.

The Company follows specific accounting guidance related to purchased impaired loans. A loan is considered to be a purchased credit impaired loan when purchased loans have evidence of credit deterioration since origination and it is probable at the date of acquisition that the Company will not collect all contractually required principal and interest payments. Evidence of credit quality deterioration as of the purchase date may include statistics such as past due, risk grade and nonaccrual status. At the acquisition date, when possible, a stream of expected cash flows is estimated and compared to the estimated fair value in order to determine the accretable yield amount, which is then recognized over the life of the loan based on the effective yield method. Throughout the life of the loan, the stream of expected cash flows may change based on actual results of the loan or the assumptions related to the future performance. Subsequent changes of expected cash flows may result in changes to accretable yield if the present value of expected cash flows exceeds the carrying value or an impairment reserve if the present value of expected cash flows is less than the carrying amount.

For purchased impaired loans for which the timing and amount of cash flows expected to be collected cannot be reasonably estimated, the Company uses the cost recovery method of income recognition. Under the cost recovery method of income recognition, all cash receipts are initially applied to principal, with interest income being recorded only after the carrying value of the loan has been reduced to zero.

For nonimpaired purchased loans, the Company accretes any fair value discount over the life of the loan in a manner consistent with the guidance for accounting for loan origination fees and costs. An allowance for loan losses is recorded for these loans when the estimated credit losses exceed the remaining unamortized discounts, based on pools of similar loans.

A loan is placed on nonaccrual status when, in management's judgment, the collection of interest appears doubtful. The accrual of interest is discontinued on substantially all loans that become 90 days or more past due with respect to principal or interest. The past due status of loans is based on the contractual payment terms. While a loan is on nonaccrual status, the Company's policy is that all cash receipts are applied to principal. Once the recorded principal balance has been reduced to zero, future cash receipts are applied to recoveries of any amounts previously charged off. Further cash receipts are recorded as interest income to the extent that any interest has been foregone. Loans are removed from nonaccrual status when they become current as to both principal and interest, when concern no longer exists as to the collectability of principal or interest, and when the loan has provided generally six months of satisfactory payment performance. In some cases, where borrowers are experiencing financial difficulties, loans may be restructured to provide terms significantly different from the originally contracted terms. For a nonaccrual loan that has been restructured, if the borrower has six months of satisfactory performance under the restructured terms and it is reasonably assured that the borrower will continue to be able to comply with the restructured terms, the loan may be returned to accruing status. The nonaccrual policy discussed above applies to all loan classifications.

A loan is considered to be impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts due according to the contractual terms of the 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, and type of collateral) and the loan is determined to be impaired. Impaired loans are measured using either 1) an estimate of the cash flows that the Company expects 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 less estimated selling costs. Unless restructured, while a loan is considered to be impaired, the Company's policy is that interest accrual is discontinued and all cash receipts are applied to principal. Once the recorded principal balance has been reduced to zero, future cash receipts are applied to recoveries of any amounts previously charged off. Further cash receipts are recorded as interest income to the extent that any interest has been foregone. Impaired loans that are restructured are returned to accruing status in accordance with the restructured terms if the Company believes that the borrower will be able to meet the obligations of the restructured loan terms, and the loan has provided generally six months of satisfactory payment performance. The impairment policy discussed above applies to all loan classifications.

SBA Loan Originations – Through its SBA Lending Division, the Company offers loans guaranteed by the Small Business Administration ("SBA") for the purchase of businesses, business startups, business expansion, equipment, and working capital. All SBA loans are underwritten and documented as prescribed by the SBA. SBA loans are generally fully amortizing and have maturity dates and amortizations of up to 25 years. The portion of SBA loans originated that are guaranteed and intended for sale on the secondary market are classified as held for sale and are carried at the lower of cost or fair value - there were an insignificant amount of these loans held for sale at December 31, 2019 and 2018. The Company generally sells the guaranteed portion of the SBA loan soon as soon as it is eligible to be sold and retains the servicing right. When the guaranteed portion of an SBA loan is sold, the Company allocates the carrying basis of the loan between the guaranteed portion of the loan sold, the unguaranteed portion of the loans retained, and the servicing asset based on their relative fair values. A gain is recorded for the difference between the proceeds received from the sale and the basis allocated to the sold portion. The relative fair value allocation results in a discount that is recorded on the unguaranteed portion of the loan that is retained. The discount is amortized as a yield adjustment over the life of the loan, so long as the loan performs. In the event of default, the remaining discount is available to offset the write-off of the remaining servicing asset and deferred origination costs, with any remaining discount available to offset any loan charge-off.

Also see SBA Servicing Assets below.

Allowance for Loan Losses - The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged-off against the allowance for loan losses when management believes that the collectability of the principal is unlikely. Recoveries on loans previously charged-off are added back to the allowance. 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. Management's determination of the adequacy of the allowance is based on several factors, including:

1. Risk grades assigned to the loans in the portfolio,
2. Specific reserves for individually evaluated impaired loans,
3. Current economic conditions, including the local, state, and national economic outlook; interest rate risk; trends in loan volume, mix and size of loans; levels and trends of delinquencies,
4. Historical loan loss experience, and
5. An assessment of the risk characteristics of the Company's loan portfolio, including industry concentrations, payment structures, changes in property values, and credit administration practices.

The Company segments the loan portfolio into broad categories with similar risk elements for the purposes of computing the allowance for loan losses. Those categories and their specific risks are described below.

Commercial, financial, and agricultural - Risks to this loan category include industry concentration and the inability to monitor the condition of the collateral which often consists of inventory, accounts receivable and other non-real estate assets. Equipment and inventory obsolescence can also pose a risk. Declines in general economic conditions and other events can cause cash flows to fall to levels insufficient to service debt.

Real estate - construction, land development, & other land loans - Risks common to commercial construction loans are cost overruns, changes in market demand for property, inadequate long-term financing arrangements and declines in real estate values. Residential construction loans are susceptible to those same risks as well as those associated with residential mortgage loans (see below). Changes in market demand for property could lead to longer marketing times resulting in higher carrying costs, declining values, and higher interest rates.

Real estate - mortgage - residential (1-4 family) first - Residential mortgage loans are susceptible to weakening general economic conditions and increases in unemployment rates and declining real estate values.

Real estate - mortgage - home equity loans / lines of credit - Risks common to home equity loans and lines of credit are general economic conditions, including an increase in unemployment rates, and declining real estate values which reduce or eliminate the borrower's home equity.

Real estate - mortgage - commercial and other - Loans in this category are susceptible to declines in occupancy rates, business failure and general economic conditions. Also, declines in real estate values and lack of suitable alternative use for the properties are risks for loans in this category.

Installment loans to individuals - Risks common to these loans include regulatory risks, unemployment and changes in local economic conditions as well as the inability to monitor collateral consisting of personal property.

While management uses the best information available to make evaluations, future adjustments may be necessary if economic and other conditions differ substantially from the assumptions used.

In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on the examiners' judgment about information available to them at the time of their examinations.

Transfers of Financial Assets - Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over financial assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Premises and Equipment - Premises and equipment are stated at cost less accumulated depreciation. Depreciation, computed by the straight-line method, is charged to operations over the estimated useful lives of the properties, which range from 2 to 40 years or, in the case of leasehold improvements, over the term of the lease, if shorter. Land is carried at cost. Maintenance and repairs are charged to operations in the year incurred. Gains and losses on dispositions are included in current operations.

Goodwill and Other Intangible Assets - Business combinations are accounted for using the purchase method of accounting. Identifiable intangible assets are recognized separately and are amortized over their estimated useful lives, which for the Company has generally been seven to ten years and at an accelerated rate. Goodwill is recognized in business combinations to the extent that the price paid exceeds the fair value of the net assets acquired, including any identifiable intangible assets. Goodwill is not amortized is subject to fair value impairment tests on at least an annual basis.

SBA Servicing Assets - When the Company sells the guaranteed portion of an SBA loan, the Company continues to perform the servicing on the loan and collects a fee related to the sold portion of the loan. A SBA servicing asset is recorded for the fair value of that fee based on a discounted cash flow analysis. SBA servicing assets are included in "Other intangible assets" on the Consolidated Balance Sheets. SBA servicing assets are amortized against income over the lives of the related loans as a reduction of servicing fee income. SBA servicing assets are tested for impairment on a quarterly basis by comparing their estimated fair values, aggregated by year of origination, to the related carrying values.

Foreclosed Properties - Foreclosed properties consists primarily of real estate acquired by the Company through legal foreclosure or deed in lieu of foreclosure. The property is initially carried at the lower of cost or the estimated fair value of the property less estimated selling costs (also see Note 13). If there are subsequent declines in fair value, which is reviewed routinely by management, the property is written down to its fair value through a charge to expense. Capital expenditures made to improve the property are capitalized. Costs of holding real estate, such as property taxes, insurance and maintenance, less related revenues during the holding period, are recorded as expense as they are incurred.

Bank-owned life insurance – The Company has purchased life insurance policies on certain current and past key employees and directors where the insurance policy benefits and ownership are retained by the employer. These policies are recorded at their cash surrender value. Income from these policies and changes in the net cash surrender value are recorded within noninterest income as “Bank-owned life insurance income.”

Income Taxes - Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced, if necessary, by the amount of such benefits that are not expected to be realized based upon available evidence.

Other Investments – The Company accounts for substantially all of its investments in limited partnerships, limited liability companies (“LLCs”), and other privately held companies using the equity method of accounting. The accounting treatment depends upon the Company’s percentage ownership and degree of management influence.

Under the equity method of accounting, the Company records its initial investment at cost. Subsequently, the carrying amount of the investment is increased or decreased to reflect the Company’s share of income or loss of the investee. The Company’s recognition of earnings or losses from an equity method investment is based on the Company’s ownership percentage in the investee and the investee’s earnings on a quarterly basis. The investees generally provide their financial information during the quarter following the end of a given period. The Company’s policy is to record its share of earnings or losses on equity method investments in the quarter the financial information is received.

All of the Company’s investments in limited partnerships, LLCs, and other companies are privately held, and their market values are not readily available. The Company’s management evaluates its investments in investees for impairment based on the investee’s ability to generate cash through its operations or obtain alternative financing, and other subjective factors. There are inherent risks associated with the Company’s investments in such companies, which may result in income statement volatility in future periods.

At December 31, 2019 and 2018, the Company’s investments in limited partnerships, LLCs and other privately held companies totaled $8.0 million and $7.5 million, respectively, and are included in "Other assets".

Also see Note 3 for discussion of an investment without a readily determinable fair value.

Federal Home Loan Bank (FHLB) Stock - The Company is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors. FHLB stock is carried at cost and is recorded in "Other assets". Cash dividends are reported as income.

Federal Reserve Bank (FRB) Stock - The Company is a member of its regional Federal Reserve Bank and is required to own stock based on its level of capital. FRB stock is carried at cost and is recorded in "Other assets". Cash dividends are reported as income.

Loan Commitments and Related Financial Instruments - Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Stock-based Compensation - Restricted stock awards are the primary form of equity grant utilized by the Company. Compensation cost is based on the fair value of the award, which is the closing price of the Company's common stock on the date of the grant.

Restricted stock awards issued by the Company typically have vesting periods with service conditions. Compensation cost is recognized as expense over the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period. Because of the insignificant amount of forfeitures the Company has experienced, forfeitures are recognized as they occur.

Earnings Per Share Amounts - Basic Earnings Per Common Share is calculated by dividing net income, less income allocated to participating securities, by the weighted average number of common shares outstanding during the period, excluding unvested shares of restricted stock. For the Company, participating securities are comprised of 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, as well as contingently issuable shares.

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 total number of weighted average unvested shares outstanding. 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 weighted average number of shares that would have been issuable if the end of the reporting period had been 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.

Fair Value of Financial Instruments - Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument, as more fully described in Note 13. 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 assets 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.

Impairment - Goodwill is evaluated for impairment on at least an annual basis by comparing the estimated fair value of the reporting units to their related carrying value. If the carrying value of a reporting unit exceeds its fair value, the Company determines whether the implied fair value of the goodwill, using various valuation techniques, exceeds the carrying value of the goodwill. If the carrying value of the goodwill exceeds the implied fair value of the goodwill, an impairment loss is recorded in an amount equal to that excess.

The Company reviews all other long-lived assets, including identifiable intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Company's policy is that an impairment loss is recognized if the sum of the undiscounted future cash flows is less than the carrying amount of the asset. Any long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

To date, the Company has not recorded any impairment write-downs of its long-lived assets or goodwill.

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.

Segment Reporting - Accounting standards require management to report selected financial and descriptive information about reportable operating segments. The standards also require related disclosures about products and services, geographic areas, and major customers. Generally, disclosures are required for segments internally identified to evaluate performance and resource allocation. The Company's operations are within a single banking segment, and the financial statements presented herein reflect the results of that segment. The Company has no foreign operations or customers.

Recent Accounting Pronouncements -

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 10 – 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 losses" and record an allowance that, when deducted from the amortized cost basis of the financial assets, presents the net amount expected to be collected on the financial assets. In May 2019, the FASB issued additional guidance to provide entities with an option to irrevocably elect the fair value option, applied on an instrument-by-instrument basis for eligible instruments, upon the adoption of the CECL model. The Company does not expect to elect this option. The CECL framework is expected to result in earlier recognition of credit losses and is expected to be significantly influenced by the composition, characteristics and quality of the Company's loan portfolio, as well as the prevailing economic conditions and forecasts. The Company will initially apply the impact of the new guidance through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption, which, for the Company, is January 1, 2020. Future adjustments to credit loss expectations will be recorded through the income statement as charges or credits to earnings. The Company has substantially completed its CECL model and continues to make enhancements to its estimate of expected credit losses as of January 1, 2020 based on internal analysis and consultations with third-party vendors. At this time, the Company expects its allowance for credit losses related to all financial assets will increase to approximately $40-$44 million upon adoption compared to its allowance for loan losses at December 31, 2019 of approximately $21 million. The impact of the initial adoption will be reflected in the Company's SEC Form 10-Q for the period ended March 31, 2020.

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 2. Acquisitions

Since January 1, 2017, the Company completed the acquisitions described below. The results of each acquired company are included in the Company’s results beginning on its respective acquisition date.

(1) On March 3, 2017, the Company completed the acquisition of Carolina Bank Holdings, Inc. (“Carolina Bank”), headquartered in Greensboro, North Carolina, pursuant to an Agreement and Plan of Merger and Reorganization dated June 21, 2016. The results of Carolina Bank are included in First Bancorp’s results beginning on the March 3, 2017 acquisition date.

    Carolina Bank’s subsidiary bank was a North Carolina state-chartered bank with eight branches located in the North Carolina cities of Greensboro, High Point, Burlington, Winston-Salem, and Asheboro, and mortgage offices in Burlington, Hillsborough, and Sanford. The acquisition complemented the Company’s expansion into several of these high-growth markets and increased its market share in others with facilities, operations and experienced staff already in place. The Company was willing to record goodwill primarily due to the reasons just noted, as well as the positive earnings of Carolina Bank. The total merger consideration consisted of $25.3 million in cash and 3,799,471 shares of the Company’s common stock, with each share of Carolina Bank common stock being exchanged for either $20.00 in cash or 1.002 shares of the Company’s stock, subject to the total consideration being 75% stock / 25% cash. The issuance of common stock was valued at $114.5 million and was based on the Company's closing stock price on March 3, 2017 of $30.13 per share.

This acquisition was accounted for using the purchase method of accounting for business combinations, and accordingly, the assets and liabilities of Carolina Bank were recorded based on estimates of fair values as of March 3, 2017. The Company was able to change its valuations of acquired Carolina Bank assets and liabilities for up to one year after the acquisition date by recording measurement period adjustments. The table below is a condensed balance sheet disclosing the amount assigned to each major asset and liability category of Carolina Bank on March 3, 2017, and the related fair value adjustments recorded by the Company to reflect the acquisition. The $66.5 million in goodwill that resulted from this transaction is non-deductible for tax purposes.

($ in thousands)	As Recorded by Carolina Bank	Initial Fair Value Adjustments		Measurement Period Adjustments		As Recorded by First Bancorp
Assets						
Cash and cash equivalents	$ 81,466	(2)	(a)	—		81,464
Securities	49,629	(261)	(b)	—		49,368
Loans, gross	505,560	(5,469)	(c)	146	(l)	497,522
		(2,715)	(d)	—		
Allowance for loan losses	(5,746)	5,746	(e)	—		—
Premises and equipment	17,967	4,251	(f)	(319)	(m)	21,899
Core deposit intangible	—	8,790	(g)	—		8,790
Other	34,976	(4,804)	(h)	757	(n)	30,929
Total	683,852	5,536		584		689,972
Liabilities						
Deposits	$ 584,950	431	(i)	—		585,381
Borrowings	21,855	(2,855)	(j)	(262)	(o)	18,738
Other	12,855	225	(k)	(444)	(p)	12,636
Total	619,660	(2,199)		(706)		616,755
Net identifiable assets acquired						73,217
Total cost of acquisition						
Value of stock issued		$ 114,478				
Cash paid in the acquisition		25,279				
Total cost of acquisition						139,757
Goodwill recorded related to acquisition of Carolina Bank						$ 66,540

Explanation of Fair Value Adjustments

(a) This adjustment was recorded to a short-term investment to its estimated fair value.
(b) This fair value adjustment was recorded to adjust the securities portfolio to its estimated fair value.
(c) This fair value adjustment represents the amount necessary to reduce performing loans to their fair value due to interest rate factors and credit factors. Assuming the loans continue to perform, this amount will be amortized to increase interest income over the remaining lives of the related loans.
(d) This fair value adjustment was recorded to write-down purchased credit impaired loans assumed in the acquisition to their estimated fair market value.
(e) This fair value adjustment reduced the allowance for loan losses to zero as required by relevant accounting guidance.
(f) This adjustment represents the amount necessary to increase premises and equipment from its book value on the date of acquisition to its estimated fair market value.
(g) This fair value adjustment represents the value of the core deposit base assumed in the acquisition based on a study performed by an independent consulting firm. This amount was recorded by the Company as an identifiable intangible asset and will be amortized as expense on an accelerated basis over seven years.

(h) This fair value adjustment primarily represents the net deferred tax liability associated with the other fair value adjustments made to record the transaction.
(i) This fair value adjustment was recorded because the weighted average interest rate of Carolina Bank's time deposits exceeded the cost of similar wholesale funding at the time of the acquisition. This amount is being amortized to reduce interest expense on an accelerated basis over their remaining five year life.
(j) This fair value adjustment was primarily recorded because the interest rate of Carolina Bank's trust preferred securities was less than the current interest rate on similar instruments. This amount is being amortized on approximately a straight-line basis to increase interest expense over the remaining life of the related borrowing, which is 18 years.
(k) This fair value adjustment represents miscellaneous adjustments needed to record assets and liabilities at their fair value.
(l) This fair value adjustment was a miscellaneous adjustment to increase the initial fair value of gross loans.
(m) This fair value adjustment relates to miscellaneous adjustment to decrease the initial fair value of premises and equipment.
(n) This fair value adjustment relates to changes in the estimate of deferred tax assets/liabilities associated with the acquisition and a miscellaneous adjustment to decrease the initial fair value of foreclosed real estate acquired in the transaction based on newly obtained valuations.
(o) This fair value adjustment relates to miscellaneous adjustments to decrease the initial fair value of borrowings.
(p) This fair value adjustment related to a change in the estimate of a contingent liability.

The following unaudited pro forma financial information presents the combined results of the Company and Carolina Bank as if the acquisition had occurred as of January 1, 2016, after giving effect to certain adjustments, including amortization of the core deposit intangible, and related income tax effects. The pro forma financial information does not necessarily reflect the results of operations that would have occurred had the Company and Carolina Bank constituted a single entity during such period.

($ in thousands, except share data)		Pro Forma Combined Year Ended December 31, 2017
Net interest income	$	168,759
Noninterest income		50,098
Total revenue		218,857
Net income available to common shareholders		49,907
Earnings per common share		
Basic	$	1.93
Diluted		1.92

For purposes of the supplemental pro forma information, merger-related expenses of $5.2 million that were recorded in the Company's consolidated statements of income for the year ended December 31, 2017 and $4.6 million of merger-related expenses that were recorded by Carolina Bank in 2017 prior to the merger date are each excluded above in the pro forma presentation for 2017.

(2) On September 1, 2017, First Bank Insurance completed the acquisition of Bear Insurance Service ("Bear Insurance"). The results of Bear Insurance are included the Company's results beginning on the September 1, 2017 acquisition date.

Bear Insurance, an insurance agency based in Albemarle, North Carolina, with four locations in Stanly, Cabarrus, and Montgomery counties and annual commission income of approximately $4 million, and represented an opportunity to complement the Company's insurance agency operations in these markets and the surrounding areas. Also, this acquisition provided the Company with a larger platform for leveraging insurance services throughout the Company's bank branch network. The transaction value was $9.8 million, with the Company paying $7.9 million in cash and issuing 13,374 shares of its common stock, which had a value of approximately $0.4 million. Per the terms of the acquisition agreement, the Company also recorded an earn-out liability initially valued at $1.2 million, which will be paid as a cash distribution after a four-year period if pre-determined goals are met for the periods.

This acquisition was accounted for using the purchase method of accounting for business combinations, and accordingly, the assets and liabilities of Bear Insurance were recorded based on estimates of fair values as of September 1, 2017. In connection with this transaction, the Company recorded $5.3 million in goodwill, which is deductible for tax purposes, and $3.9 million in other amortizable intangible assets, which are also deductible for tax purposes.

(3) On October 1, 2017, the Company completed the acquisition of ASB Bancorp, Inc. ("Asheville Savings Bank"), headquartered in Asheville, North Carolina, pursuant to an Agreement and Plan of Merger and Reorganization dated May 1, 2017. The results of Asheville Savings Bank are included in First Bancorp's results beginning on the October 1, 2017 acquisition date.

Asheville Savings Bank's subsidiary bank was a North Carolina state-chartered savings bank with eight branches located in Buncombe County, North Carolina and five branches located in the counties of Henderson, Madison, McDowell and Transylvania, all in North Carolina. The acquisition complemented the Company's existing presence in the Asheville and surrounding markets, which are high-growth and highly desired markets. The Company was willing to record goodwill primarily due to the reasons just noted, as well as the positive earnings of Asheville Savings Bank. The total merger consideration consisted of $17.9 million in cash and 4,920,061 shares of the Company's common stock, with each share of Asheville Savings Bank common stock being exchanged for either $41.90 in cash or 1.44 shares of the Company's stock, subject to the total consideration being 90% stock / 10% cash. The issuance of common stock was valued at $169.3 million and was based on the Company's closing stock price on September 30, 2017 of $34.41 per share.

This acquisition was accounted for using the purchase method of accounting for business combinations, and accordingly, the assets and liabilities of Asheville Savings Bank were recorded based on estimates of fair values as of October 1, 2017. The Company was able to change its valuations of acquired Asheville Savings Bank assets and liabilities for up to one year after the acquisition date by recording measurement period adjustments. The table below is a condensed balance sheet disclosing the amount assigned to each major asset and liability category of Asheville Savings Bank on October 1, 2017, and the related fair value adjustments recorded by the Company to reflect the acquisition. The $88.7 million in goodwill that resulted from this transaction is non-deductible for tax purposes.

($ in thousands)	As Recorded by Asheville Savings Bank	Initial Fair Value Adjustments		Measurement Period Adjustments		As Recorded by First Bancorp
Assets						
Cash and cash equivalents	$ 41,824	—		—		41,824
Securities	95,020	—		—		95,020
Loans, gross	617,159	(9,631)	(a)	—		606,180
		(1,348)	(b)	—		
Allowance for loan losses	(6,685)	6,685	(c)	—		—
Presold mortgages	3,785	—		—		3,785
Premises and equipment	10,697	9,857	(d)	—		20,554
Core deposit intangible	—	9,760	(e)	120	(i)	9,880
Other	35,944	(5,851)	(f)	(777)	(j)	29,316
Total	797,744	9,472		(657)		806,559
Liabilities						
Deposits	$ 678,707	430	(g)	—		679,137
Borrowings	20,000	—		—		20,000
Other	8,943	298	(h)	(380)	(k)	8,861
Total	707,650	728		(380)		707,998
Net identifiable assets acquired						98,561
Total cost of acquisition						
Value of stock issued		$ 169,299				
Cash paid in the acquisition		17,939				
Total cost of acquisition						187,238
Goodwill recorded related to acquisition of Asheville Savings Bank						$ 88,677

Explanation of Fair Value Adjustments

(a) This fair value adjustment represents the amount necessary to reduce performing loans to their fair value due to interest rate factors and credit factors. Assuming the loans continue to perform, this amount will be amortized to increase interest income over the remaining lives of the related loans.

(b) This fair value adjustment was recorded to write-down purchased credit impaired loans assumed in the acquisition to their estimated fair market value.

(c) This fair value adjustment reduced the allowance for loan losses to zero as required by relevant accounting guidance.

(d) This adjustment represents the amount necessary to increase premises and equipment from its book value on the date of acquisition to its estimated fair market value.

(e) This fair value adjustment represents the value of the core deposit base assumed in the acquisition based on a study performed by an independent consulting firm. This amount was recorded by the Company as an identifiable intangible asset and is being amortized as expense on an accelerated basis over seven years.

(f) This fair value adjustment primarily represents the net deferred tax liability associated with the other fair value adjustments made to record the transaction.

(g) This fair value adjustment was recorded because the weighted average interest rate of Asheville Savings Bank’s time deposits exceeded the cost of similar wholesale funding at the time of the acquisition. This amount is being amortized to reduce interest expense on an accelerated basis over their remaining five year life.

(h) This fair value adjustment represents miscellaneous adjustments needed to record assets and liabilities at their fair value.

(i) This fair value adjustment relates to a change in the final amount of the core deposit intangible asset from the amount originally estimated.
(j) This fair value adjustment relates to the write-down of a foreclosed property based on an updated appraisal and the related tax deferred tax asset adjustment.
(k) This fair value adjustment was recorded to adjust the tax liability assumed on the acquisition date based on updated information.

The following unaudited pro forma financial information presents the combined results of the Company and Asheville Savings Bank as if the acquisition had occurred as of January 1, 2016, after giving effect to certain adjustments, including amortization of the core deposit intangible, and related income tax effects. The pro forma financial information does not necessarily reflect the results of operations that would have occurred had the Company and Asheville Savings Bank constituted a single entity during such period.

($ in thousands, except share data)	Pro Forma Combined Twelve Months Ended December 31, 2017
Net interest income	$ 183,996
Noninterest income	54,523
Total revenue	238,519
Net income available to common shareholders	51,600
Earnings per common share	
Basic	$ 1.79
Diluted	1.78

For purposes of the supplemental pro forma information, merger-related expenses of $2.7 million that were recorded in the Company's consolidated statements of income for the twelve months ended December 31, 2017 and $20.4 million of merger-related expenses that were recorded by Asheville Savings Bank in 2017 prior to the merger date are each excluded above in the pro forma presentation for 2017.

Note 3. Securities

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

	2019				2018			
			Unrealized				Unrealized	
($ in thousands)	Amortized Cost	Fair Value	Gains	(Losses)	Amortized Cost	Fair Value	Gains	(Losses)
Securities available for sale:								
Government-sponsored enterprise securities	$ 20,000	20,009	17	(8)	82,995	82,662	63	(396)
Mortgage-backed securities	758,491	767,285	9,463	(669)	396,995	385,551	39	(11,483)
Corporate bonds	33,711	34,651	1,025	(85)	33,751	33,138	76	(689)
Total available for sale	812,202	821,945	10,505	(762)	513,741	501,351	178	(12,568)
Securities held to maturity:								
Mortgage-backed securities	41,423	41,542	125	(6)	52,048	50,241	—	(1,807)
State and local governments	26,509	26,791	285	(3)	49,189	49,665	525	(49)
Total held to maturity	$ 67,932	68,333	410	(9)	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 $1.1 million and $1.0 million as of December 31, 2019 and 2018, respectively.

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

($ 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	$ 4,992	8	—	—	4,992	8
Mortgage-backed securities	77,274	293	50,851	382	128,125	675
Corporate bonds	—	—	915	85	915	85
State and local governments	—	—	934	3	934	3
Total temporarily impaired securities	$ 82,266	301	52,700	470	134,966	771

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 December 31, 2019 and 2018 are 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.

As of December 31, 2019, the Company's security portfolio held 54 securities that were in an unrealized loss position. The majority of unrealized losses are related to the Company's mortgage-backed securities.

The book values and approximate fair values of investment securities at December 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.

	Securities Available for Sale		Securities Held to Maturity	
($ in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Debt securities				
Due within one year	$ —	—	$ 1,165	1,167
Due after one year but within five years	43,711	44,616	17,909	18,123
Due after five years but within ten years	5,000	4,992	6,923	6,984
Due after ten years	5,000	5,052	512	517
Mortgage-backed securities	758,491	767,285	41,423	41,542
Total securities	$ 812,202	821,945	$ 67,932	68,333

At December 31, 2019 and 2018, investment securities with carrying values of $260,826,000 and $234,382,000, respectively, were pledged as collateral for public deposits.

In 2019, the Company received proceeds from sales of securities of $39,797,000 and recorded $97,000 in gains from the sales. In 2017, the Company received proceeds from sales of securities of $140,621,000 and recorded $(235,000) in losses from the sales. The Company sold no securities in 2018.

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 $33,380,000 and $37,468,000 at December 31, 2019 and 2018, respectively. The FHLB stock had a cost and fair value of $15,789,000 and $20,036,000 at December 31, 2019 and 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 and fair value of $17,591,000 and $17,432,000 at December 31, 2019 and 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, which the Company is not a party to. 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 December 31, 2019 was approximately 1.62, which means the Company would receive approximately 20,051 Class A shares if the stock had converted on that date. This Class B stock does not have a readily determinable fair value and is carried at 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 4. Loans and Asset Quality Information

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

($ in thousands)	December 31, 2019		December 31, 2018	
	Amount	Percentage	Amount	Percentage
All loans:				
Commercial, financial, and agricultural	$ 504,271	11%	$ 457,037	11%
Real estate – construction, land development & other land loans	530,866	12%	518,976	12%
Real estate – mortgage – residential (1-4 family) first mortgages	1,105,014	25%	1,054,176	25%
Real estate – mortgage – home equity loans / lines of credit	337,922	8%	359,162	8%
Real estate – mortgage – commercial and other	1,917,280	43%	1,787,022	42%
Installment loans to individuals	56,172	1%	71,392	2%
Subtotal	4,451,525	100%	4,247,765	100%
Unamortized net deferred loan costs (fees)	1,941		1,299	
Total loans	$ 4,453,466		$ 4,249,064	

Loans in the amount of $4.0 billion and $3.8 billion were pledged as collateral for certain borrowings as of December 31, 2019 and December 31, 2018, respectively (see Note 9).

Included in the table above are credit card balances outstanding totaling $30.9 million and $26.5 million at December 31, 2019 and 2018, respectively.

The loans above also include loans to executive officers and directors serving the Company at December 31, 2019 and to their associates, totaling approximately $5.5 million and $5.7 million at December 31, 2019 and 2018, respectively. Management does not believe these loans involve more than the normal risk of collectability or present other unfavorable features.

Included in the table above are the following amounts of SBA loans:

($ in thousands)	December 31, 2019	December 31, 2018
Guaranteed portions of SBA Loans included in table above	$ 54,400	53,205
Unguaranteed portions of SBA Loans included in table above	110,782	97,572
Total SBA loans included in the table above	$ 165,182	150,777
Sold portions of SBA loans with servicing retained - not included in table above	$ 316,730	230,424

At December 31, 2019 and 2018, there was a remaining unaccreted discount on the retained portion of sold SBA loans amounting to $7.1 million and $5.7 million, respectively. The discounts are amortized as yield adjustments over the respective lives of the loans, so long as the loans perform.

The Company has several acquired loan portfolios as a result of merger and acquisition transactions. In these transactions, the Company recorded loans at their fair value as required by applicable accounting guidance. Included in these loan portfolios were purchased credit impaired ("PCI") loans, which are loans for which it is probable at acquisition date that all contractually required payments will not be collected. The remaining loans were considered to be purchased non-impaired loans and their related fair value discount or premium is being recognized as an adjustment to yield over the remaining life of each loan.

As of December 31, 2019, 2018 and 2017, there was a remaining accretable discount of $11.1 million, $15.0 million, and $21.5 million, respectively, related to purchased non-impaired loans. The 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 carrying value of PCI loans.

($ in thousands)

Purchased Credit Impaired Loans	For the year Ended December 31, 2019	For the year Ended December 31, 2018	For the year Ended December 31, 2017
Balance at beginning of period	$ 17,393	23,165	514
Additions due to acquisition of Carolina Bank	—	—	19,254
Additions due to acquisition of Asheville Savings Bank	—	—	9,886
Change due to payments received and accretion	(4,863)	(5,799)	(6,016)
Change due to loan charge-offs	(11)	(4)	(12)
Transfers to foreclosed real estate	—	(10)	(69)
Other	145	41	(392)
Balance at end of period	$ 12,664	17,393	23,165

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

($ in thousands)

Accretable Yield for PCI loans	For the year Ended December 31, 2019	For the year Ended December 31, 2018	For the year Ended December 31, 2017
Balance at beginning of period	$ 4,750	4,688	—
Additions due to acquisition of Carolina Bank	—	—	3,617
Additions due to acquisition of Asheville Savings Bank	—	—	1,804
Accretion	(1,486)	(2,050)	(1,846)
Reclassification from (to) nonaccretable difference	617	849	423
Other, net	268	1,263	690
Balance at end of period	$ 4,149	4,750	4,688

During 2019, the Company received $406,000 in payments that exceeded the carrying amount of the related PCI loans, of which $348,000 was recognized as loan discount accretion income and $58,000 was recorded as additional loan interest income. During 2018, the Company received $772,000 in payments that exceeded the carrying amount of the related PCI loans, of which $493,000 was recognized as loan discount accretion income and $279,000 was recorded as additional loan interest income. During 2017, the Company received $1,064,000 in payments that exceeded the carrying amount of the related PCI loans, of which $962,000 was recognized as loan discount accretion income and $102,000 was recorded as additional loan interest income.

Nonperforming assets are defined as nonaccrual loans, restructured loans, 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)*		December 31, 2019	December 31, 2018
Nonperforming assets			
Nonaccrual loans	$	24,866	22,575
Restructured loans - accruing		9,053	13,418
Accruing loans > 90 days past due		—	—
Total nonperforming loans		33,919	35,993
Foreclosed real estate		3,873	7,440
Total nonperforming assets	$	37,792	43,433
Purchased credit impaired loans not included above (1)	$	12,664	17,393

(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 $0.8 million and $0.6 million in PCI loans at December 31, 2019 and 2018, respectively, that are contractually past due 90 days or more.

At December 31, 2019 and 2018, the Company had $0.6 million and $0.7 million in residential mortgage loans in process of foreclosure, respectively.

At December 31, 2019 and 2018, there were no commitments to lend additional funds to debtors whose loans were nonperforming.

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

($ in thousands)		December 31, 2019	December 31, 2018
Commercial, financial, and agricultural	$	5,518	919
Real estate – construction, land development & other land loans		1,067	2,265
Real estate – mortgage – residential (1-4 family) first mortgages		7,552	10,115
Real estate – mortgage – home equity loans / lines of credit		1,797	1,685
Real estate – mortgage – commercial and other		8,820	7,452
Installment loans to individuals		112	139
Total	$	24,866	22,575

The following table presents an analysis of the payment status of the Company's loans as of December 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	$ 752	—	—	5,518	497,788	504,058
Real estate – construction, land development & other land loans	37	152	—	1,067	529,444	530,700
Real estate – mortgage – residential (1-4 family) first mortgages	10,858	5,056	—	7,552	1,076,205	1,099,671
Real estate – mortgage – home equity loans / lines of credit	770	300	—	1,797	334,832	337,699
Real estate – mortgage – commercial and other	4,257	—	—	8,820	1,897,573	1,910,650
Installment loans to individuals	344	137	—	112	55,490	56,083
Purchased credit impaired	218	38	762	—	11,646	12,664
Total	$ 17,236	5,683	762	24,866	4,402,978	4,451,525
Unamortized net deferred loan costs						1,941
Total loans						$ 4,453,466

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 fees						1,299
Total loans						$ 4,249,064

The following table presents the activity in the allowance for loan losses for the year ended December 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	Unallocated	Total
As of and for the year ended December 31, 2019								
Beginning balance	$ 2,889	2,243	5,197	1,665	7,983	952	110	21,039
Charge-offs	(2,473)	(553)	(657)	(307)	(1,556)	(757)	—	(6,303)
Recoveries	980	1,275	705	629	575	235	—	4,399
Provisions	3,157	(989)	(1,413)	(860)	1,936	542	(110)	2,263
Ending balance	$ 4,553	1,976	3,832	1,127	8,938	972	—	21,398
Ending balances as of December 31, 2019: Allowance for loan losses								
Individually evaluated for impairment	$ 1,791	50	750	—	983	—	—	3,574
Collectively evaluated for impairment	$ 2,720	1,926	2,976	1,127	7,931	961	—	17,641
Purchased credit impaired	$ 42	—	106	—	24	11	—	183
Loans receivable as of December 31, 2019:								
Ending balance – total	$ 504,271	530,866	1,105,014	337,922	1,917,280	56,172	—	4,451,525
Unamortized net deferred loan costs								1,941
Total loans								$4,453,466
Ending balances as of December 31, 2019: Loans								
Individually evaluated for impairment	$ 4,957	796	9,546	333	9,570	—	—	25,202
Collectively evaluated for impairment	$ 499,101	529,904	1,090,125	337,366	1,901,080	56,083	—	4,413,659
Purchased credit impaired	$ 213	166	5,343	223	6,630	89	—	12,664

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	Unallocated	Total
<u>As of and for the year ended December 31, 2018</u>								
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 fees								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 the year ended December 31, 2017.

($ 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, 2017									
Beginning balance	$	3,829	2,691	7,704	2,420	5,098	1,145	894	23,781
Charge-offs		(1,622)	(589)	(2,641)	(978)	(1,182)	(799)	—	(7,811)
Recoveries		1,311	2,579	1,076	333	1,027	279	—	6,605
Provisions		(407)	(1,865)	8	52	1,532	325	1,078	723
Ending balance	$	3,111	2,816	6,147	1,827	6,475	950	1,972	23,298
Ending balances as of December 31, 2017: Allowance for loan losses									
Individually evaluated for impairment	$	215	18	1,099	—	232	—	—	1,564
Collectively evaluated for impairment	$	2,896	2,798	4,831	1,788	6,226	950	1,972	21,461
Purchased credit impaired	$	—	—	217	39	17	—	—	273
Loans receivable as of December 31, 2017:									
Ending balance – total	$	381,130	539,020	972,772	379,978	1,696,107	74,348	—	4,043,355
Unamortized net deferred loan fees									(986)
Total loans									4,042,369
Ending balances as of December 31, 2017: Loans									
Individually evaluated for impairment	$	579	2,975	14,800	368	8,493	—	—	27,215
Collectively evaluated for impairment	$	379,903	535,638	949,113	379,327	1,675,102	73,892	—	3,992,975
Purchased credit impaired	$	648	407	8,859	283	12,512	456	—	23,165

The following table presents loans individually evaluated for impairment by class of loans, excluding purchased credit impaired loans, as of December 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	$ 16	19	—	74
Real estate – mortgage – construction, land development & other land loans	221	263	—	366
Real estate – mortgage – residential (1-4 family) first mortgages	4,300	4,539	—	4,415
Real estate – mortgage –home equity loans / lines of credit	333	357	—	147
Real estate – mortgage –commercial and other	2,643	3,328	—	3,240
Installment loans to individuals	—	—	—	—
Total impaired loans with no allowance	$ 7,513	8,506	—	8,242
Impaired loans with an allowance recorded:				
Commercial, financial, and agricultural	$ 4,941	4,995	1,791	1,681
Real estate – mortgage – construction, land development & other land loans	575	575	50	586
Real estate – mortgage – residential (1-4 family) first mortgages	5,246	5,469	750	6,206
Real estate – mortgage –home equity loans / lines of credit	—	—	—	55
Real estate – mortgage –commercial and other	6,927	7,914	983	5,136
Installment loans to individuals	—	—	—	—
Total impaired loans with allowance	$ 17,689	18,953	3,574	13,664

Interest income recorded on impaired loans during the year ended December 31, 2019 was $1.3 million, and reflects interest income recorded on nonaccrual loans prior to them being placed on nonaccrual status and interest income recorded on accruing TDRs.

The following table presents loans individually evaluated for impairment by class of loans, excluding purchased credit impaired 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 $1.5 million, and reflects interest income recorded on nonaccrual loans prior to them being placed on nonaccrual status and interest income recorded on accruing TDRs.

The following table presents loans individually evaluated for impairment by class of loans, excluding purchased credit impaired loans, as of December 31, 2017.

($ in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Impaired loans with no related allowance recorded:				
Commercial, financial, and agricultural	$ 183	425	—	276
Real estate – mortgage – construction, land development & other land loans	2,743	3,941	—	2,846
Real estate – mortgage – residential (1-4 family) first mortgages	5,205	5,728	—	7,067
Real estate – mortgage –home equity loans / lines of credit	368	387	—	129
Real estate – mortgage –commercial and other	3,066	3,321	—	3,143
Installment loans to individuals	—	—	—	—
Total impaired loans with no allowance	$ 11,565	13,802	—	13,461
Impaired loans with an allowance recorded:				
Commercial, financial, and agricultural	$ 396	396	215	214
Real estate – mortgage – construction, land development & other land loans	232	241	18	503
Real estate – mortgage – residential (1-4 family) first mortgages	9,595	9,829	1,099	10,077
Real estate – mortgage –home equity loans / lines of credit	—	—	—	66
Real estate – mortgage –commercial and other	5,427	5,427	232	5,369
Installment loans to individuals	—	—	—	—
Total impaired loans with allowance	$ 15,650	15,893	1,564	16,229

Interest income recorded on impaired loans during the year ended December 31, 2017 was $1.3 million, and reflects interest income recorded on nonaccrual loans prior to them being placed on nonaccrual status and interest income recorded on accruing TDRs.

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 available 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 December 31, 2019.

($ in thousands)	Pass	Special Mention Loans	Classified Accruing Loans	Classified Nonaccrual Loans	Total
Commercial, financial, and agricultural	$ 486,081	7,998	4,461	5,518	504,058
Real estate – construction, land development & other land loans	522,767	4,075	2,791	1,067	530,700
Real estate – mortgage – residential (1-4 family) first mortgages	1,063,735	13,187	15,197	7,552	1,099,671
Real estate – mortgage – home equity loans / lines of credit	328,903	1,258	5,741	1,797	337,699
Real estate – mortgage – commercial and other	1,873,594	20,800	7,436	8,820	1,910,650
Installment loans to individuals	55,203	413	355	112	56,083
Purchased credit impaired	8,098	2,590	1,976	—	12,664
Total	$ 4,338,381	50,321	37,957	24,866	4,451,525
Unamortized net deferred loan costs					1,941
Total loans					4,453,466

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	$ 452,373	3,056	459	919	456,807
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	1,004,457	12,238	21,113	10,115	1,047,923
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 fees					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, extension of terms and other actions intended to minimize potential losses.

The majority of the Company's troubled debt restructurings modified during the years ended December 31, 2019, 2018, and 2017 related to interest rate reductions combined with extension of terms. 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 year ended December 31, 2019.

($ in thousands)	For the year ended December 31, 2019		
	Number of Contracts	Pre-Modification Restructured Balances	Post-Modification Restructured Balances
TDRs – Accruing			
Commercial, financial, and agricultural	2	$ 395	$ 395
Real estate – construction, land development & other land loans	—	—	—
Real estate – mortgage – residential (1-4 family) first mortgages	3	387	391
Real estate – mortgage – home equity loans / lines of credit	—	—	—
Real estate – mortgage – commercial and other	1	274	274
Installment loans to individuals	—	—	—
TDRs – Nonaccrual			
Commercial, financial, and agricultural	—	—	—
Real estate – construction, land development & other land loans	—	—	—
Real estate – mortgage – residential (1-4 family) first mortgages	—	—	—
Real estate – mortgage – home equity loans / lines of credit	—	—	—
Real estate – mortgage – commercial and other	—	—	—
Installment loans to individuals	—	—	—
Total TDRs arising during period	6	$ 1,056	$ 1,060

The following table presents information related to loans modified in a troubled debt restructuring during the year ended December 31, 2018.

($ in thousands)	For the year ended December 31, 2018		
	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	2	254	273
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	3	340	350
Real estate – mortgage – home equity loans / lines of credit	—	—	—
Real estate – mortgage – commercial and other	—	—	—
Installment loans to individuals	—	—	—
Total TDRs arising during period	6	$ 655	$ 684

The following table presents information related to loans modified in a troubled debt restructuring during the year ended December 31, 2017.

($ in thousands)	For the year ended December 31, 2017		
	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	—	—	—
Real estate – mortgage – home equity loans / lines of credit	—	—	—
Real estate – mortgage – commercial and other	6	4,120	4,095
Installment loans to individuals	—	—	—
TDRs – Nonaccrual			
Commercial, financial, and agricultural	1	38	25
Real estate – construction, land development & other land loans	1	32	32
Real estate – mortgage – residential (1-4 family) first mortgages	2	262	262
Real estate – mortgage – home equity loans / lines of credit	—	—	—
Real estate – mortgage – commercial and other	—	—	—
Installment loans to individuals	—	—	—
Total TDRs arising during period	10	$ 4,452	$ 4,414

Accruing restructured loans that were modified in the previous 12 months and that defaulted during the years ended December 31, 2019, 2018, and 2017 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 Year ended December 31, 2019		For the Year ended December 31, 2018		For the Year ended December 31, 2017	
	Number of Contracts	Recorded Investment	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	1	60	2	880
Real estate – mortgage – commercial and other	—	—	3	1,333	—	—
Total accruing TDRs that subsequently defaulted	1	$ 93	4	$ 1,393	2	$ 880

Note 5. Premises and Equipment

Premises and equipment at December 31, 2019 and 2018 consisted of the following:

($ in thousands)	2019	2018
Land	$ 38,164	38,647
Buildings	93,738	93,794
Furniture and equipment	33,110	36,115
Leasehold improvements	2,195	2,404
Total cost	167,207	170,960
Less accumulated depreciation and amortization	(52,348)	(51,960)
Total premises and equipment	$ 114,859	119,000

Note 6. Goodwill and Other Intangible Assets

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

	December 31, 2019		December 31, 2018	
($ in thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets:				
Customer lists	$ 6,013	2,185	6,013	1,637
Core deposit intangibles	28,440	20,610	28,440	16,469
SBA servicing asset	7,776	2,393	5,472	1,053
Other	1,303	1,127	1,303	957
Total	$ 43,532	26,315	41,228	20,116
Unamortizable intangible assets:				
Goodwill	$ 234,368		234,368	

The Company recorded $2,304,000 and $3,278,000 in servicing assets associated with the guaranteed portion of SBA loans originated and sold during 2019 and 2018, respectively. During 2019 , 2018, and 2017, the Company recorded $1,340,000, $846,000, and $207,000 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 initially 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 as an offset to SBA servicing fees within the line item "Other service charges, commissions and fees." At December 31, 2019 and 2018, the Company serviced for others SBA loans totaling $309.1 million and $248.6 million, respectively.

Amortization expense of all other intangible assets totaled $4,858,000, $5,917,000 and $4,033,000 for the years ended December 31, 2019, 2018 and 2017, respectively.

Goodwill is evaluated for impairment on at least an annual basis, with the annual evaluation occurring on October 31 of each year – see Note 1 for additional discussion. For each of the years presented, the Company's evaluation indicated that there was no goodwill impairment.

The following table presents the estimated amortization expense schedule related to acquisition-related amortizable intangible assets for each of the five calendar years ending December 31, 2024 and the estimated amount amortizable thereafter. These amounts will be recorded as "Intangibles amortization expense" within the noninterest expense section of the Consolidated Statements of Income. 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 amortizable intangible assets.

($ in thousands)	Estimated Amortization Expense
2020	$ 3,841
2021	2,927
2022	2,022
2023	1,041
2024	404
Thereafter	1,599
Total	$ 11,834

Note 7. Income Taxes

Total income taxes for the years ended December 31, 2019, 2018, and 2017 were allocated as follows:

($ in thousands)	2019	2018	2017
Allocated to net income	$ 24,230	24,189	21,767
Allocated to stockholders' equity, for unrealized holding gain/loss on debt and equity securities for financial reporting purposes	5,135	(2,379)	321
Allocated to stockholders' equity, for tax benefit of pension liabilities	42	(5)	668
Total income taxes	$ 29,407	21,805	22,756

The components of income tax expense for the years ended December 31, 2019, 2018, and 2017 are as follows:

($ in thousands)		2019	2018	2017
Current	- Federal	$ 19,920	19,188	11,286
	- State	2,499	3,187	1,996
Deferred	- Federal	1,572	1,658	7,742
	- State	239	156	743
Total		$ 24,230	24,189	21,767

The sources and tax effects of temporary differences that give rise to significant portions of the deferred tax assets (liabilities) at December 31, 2019 and 2018 are presented below:

($ in thousands)	2019	2018
Deferred tax assets:		
Allowance for loan losses	$ 4,916	4,917
Excess book over tax pension plan cost	241	92
Deferred compensation	293	367
Federal & state net operating loss and tax credit carryforwards	376	631
Accruals, book versus tax	2,833	3,036
Pension liability adjustments	710	752
Foreclosed real estate	87	715
Basis differences in assets acquired in FDIC transactions	416	1,121
Nonqualified stock options	370	240
Partnership investments	254	208
Unrealized loss on securities available for sale	—	2,895
SBA servicing asset	400	310
All other	3	42
Gross deferred tax assets	10,899	15,326
Less: Valuation allowance	(40)	(36)
Net deferred tax assets	10,859	15,290
Deferred tax liabilities:		
Loan fees	(2,428)	(2,484)
Excess book over tax pension plan cost	—	—
Depreciable basis of fixed assets	(4,995)	(4,278)
Amortizable basis of intangible assets	(7,844)	(7,921)
FHLB stock dividends	(472)	(721)
Trust preferred securities	(548)	(528)
Purchase accounting adjustments	(84)	(122)
Unrealized gain on securities available for sale	(2,239)	—
Gross deferred tax liabilities	(18,610)	(16,054)
Net deferred tax liability - included in other liabilities	$ (7,751)	(764)

A portion of the annual change in the net deferred tax asset relates to unrealized gains and losses on securities available for sale. The related 2019 and 2018 deferred tax expense (benefit) of approximately $5,135,000 and ($2,379,000) respectively, has been recorded directly to shareholders' equity. Additionally, a portion of the annual change in the net deferred tax asset relates to pension adjustments. The related 2019 and 2018 deferred tax expense (benefit) of $42,000 and ($5,000) respectively, has been recorded directly to shareholders' equity. The balance of the 2019 increase in the net deferred tax liability of $1,881,000 is reflected as deferred income tax expense, and the balance of the 2018 increase in the net deferred tax liability of $1,814,000 is reflected as deferred income tax expense in the consolidated statement of income.

The valuation allowances for 2019 and 2018 relate primarily to state net operating loss carryforwards. It is management's belief that the realization of the remaining net deferred tax assets is more likely than not. The Company adjusted its net deferred income tax asset as a result of reductions in the North Carolina income tax rate, which reduced the state income tax rate to 2.5% effective January 1, 2019.

The Company had no significant uncertain tax positions, and thus no reserve for uncertain tax positions has been recorded. Additionally, the Company determined that it has no material unrecognized tax benefits that if recognized would affect the effective tax rate. The Company's general policy is to record tax penalties and interest as a component of "other operating expenses".

The Company is subject to routine audits of its tax returns by the Internal Revenue Service and various state taxing authorities. The Company's tax returns are subject to income tax audit by federal and state agencies beginning with the year 2016. There are no indications of any material adjustments relating to any examination currently being conducted by any taxing authority.

Retained earnings at December 31, 2019 and 2018 include approximately $6,869,000 representing pre-1988 tax bad debt reserve base year amounts for which no deferred income tax liability has been provided since these reserves are not expected to reverse or may never reverse. Circumstances that would require an accrual of a portion or all of this unrecorded tax liability are a reduction in qualifying loan levels relative to the end of 1987, failure to meet the definition of a bank, dividend payments in excess of accumulated tax earnings and profits, or other distributions in dissolution, liquidation or redemption of the Bank's stock.

The following is a reconcilement of federal income tax expense at the statutory rate of 21% at December 31, 2019 and December 31, 2018 and 35% at 2017, to the income tax provision reported in the financial statements.

($ in thousands)	2019	2018	2017
Tax provision at statutory rate	$ 24,418	23,830	23,709
Increase (decrease) in income taxes resulting from:			
Tax-exempt interest income	(1,186)	(1,117)	(1,461)
Low income housing tax credits	(756)	(698)	(596)
Non-deductible interest expense	43	27	24
State income taxes, net of federal benefit	2,178	2,639	1,780
Change in valuation allowance	4	(8)	(1)
Impact of tax reform	(73)	—	(1,269)
Other, net	(398)	(484)	(419)
Total	$ 24,230	24,189	21,767

Note 8. Time Deposits and Related Party Deposits

At December 31, 2019, the scheduled maturities of time deposits were as follows:

($ in thousands)	
2020	$ 769,905
2021	83,272
2022	26,611
2023	13,811
2024	10,999
Thereafter	474
	$ 905,072

Deposits received from executive officers and directors and their associates totaled approximately $1.3 million and $1.0 million at December 31, 2019 and 2018, respectively.

Deposit overdrafts of approximately $0.7 million at December 31, 2019 and 2018 are included within "Loans" on the Consolidated Balance Sheets.

As of December 31, 2019 and 2018, the Company held $442.2 million and $503.1 million, respectively, in time deposits of $250,000 or more (which is the current FDIC insurance limit for insured deposits as of December 31, 2019). Included in these deposits were brokered deposits of $86.1 million and $239.9 million at December 31, 2019 and 2018, respectively.

Note 9. Borrowings and Borrowings Availability

The following tables present information regarding the Company's outstanding borrowings at December 31, 2019 and 2018 - dollars are in thousands:

Description – 2019	Due date	Call Feature	2019 Amount	Interest Rate
FHLB Term Note	1/30/2020	None	$ 100,000	1.70% fixed
FHLB Term Note	1/31/2020	None	68,000	1.70% fixed
FHLB Term Note	1/31/2020	None	30,000	1.70% fixed
FHLB Term Note	5/29/2020	None	40,000	1.62% fixed
FHLB Principal Reducing Credit	7/24/2023	None	168	1.00% fixed
FHLB Principal Reducing Credit	12/22/2023	None	1,029	1.25% fixed
FHLB Principal Reducing Credit	1/15/2026	None	6,500	1.98% fixed
FHLB Principal Reducing Credit	6/26/2028	None	245	0.25% fixed
FHLB Principal Reducing Credit	7/17/2028	None	55	0.00% fixed
FHLB Principal Reducing Credit	8/18/2028	None	181	1.00% fixed
FHLB Principal Reducing Credit	8/22/2028	None	181	1.00% fixed
FHLB Principal Reducing Credit	12/20/2028	None	367	0.50% fixed
Trust Preferred Securities	1/23/2034	Quarterly by Company beginning 1/23/2009	20,620	4.64% at 12/31/2019 adjustable rate 3 month LIBOR + 2.70%
Trust Preferred Securities	6/15/2036	Quarterly by Company beginning 6/15/2011	25,774	3.28% at 12/31/2019 adjustable rate 3 month LIBOR + 1.39%
Trust Preferred Securities	1/7/2035	Quarterly by Company beginning 1/7/2010	10,310	3.99% at 12/31/2019 adjustable rate 3 month LIBOR + 2.00%
Total borrowings / weighted average rate as of December 31, 2019			$ 303,430	2.12%
Unamortized discount on acquired borrowings			(2,759)	
Total borrowings			$ 300,671	

Description – 2018	Due date	Call Feature	2018 Amount	Interest Rate
FHLB Term Note	1/10/2019	None	$ 68,000	2.47% fixed
FHLB Term Note	1/17/2019	None	135,000	2.49% fixed
FHLB Term Note	1/24/2019	None	20,000	2.54% fixed
FHLB Term Note	1/31/2019	None	20,000	2.53% fixed
FHLB Term Note	1/31/2019	None	10,000	2.53% fixed
FHLB Term Note	4/18/2019	None	50,000	2.36% fixed
FHLB Term Note	5/29/2020	None	40,000	1.62% fixed
FHLB Principal Reducing Credit	7/24/2023	None	210	1.00% fixed
FHLB Principal Reducing Credit	12/22/2023	None	1,065	1.25% fixed
FHLB Principal Reducing Credit	1/15/2026	None	7,500	1.98% fixed
FHLB Principal Reducing Credit	6/26/2028	None	255	0.25% fixed
FHLB Principal Reducing Credit	7/17/2028	None	61	0.00% fixed
FHLB Principal Reducing Credit	8/18/2028	None	188	1.00% fixed
FHLB Principal Reducing Credit	8/22/2028	None	188	1.00% fixed
FHLB Principal Reducing Credit	12/20/2028	None	379	0.50% fixed
Trust Preferred Securities	1/23/2034	Quarterly by Company beginning 1/23/2009	20,620	5.22% at 12/31/2018 adjustable rate 3 month LIBOR + 2.70%
Trust Preferred Securities	6/15/2036	Quarterly by Company beginning 6/15/2011	25,774	4.18% at 12/31/2018 adjustable rate 3 month LIBOR + 1.39%
Trust Preferred Securities	1/7/2035	Quarterly by Company beginning 1/7/2010	10,310	4.44% at 12/31/2018 adjustable rate 3 month LIBOR + 2.00%
Total borrowings / weighted average rate as of December 31, 2018			$ 409,550	2.68%
Unamortized discount on acquired borrowings			(2,941)	
Total borrowings			$ 406,609	

All outstanding FHLB borrowings may be accelerated immediately by the FHLB in certain circumstances, including material adverse changes in the condition of the Company or if the Company's qualifying collateral amounts to less than that required under the terms of the FHLB borrowing agreement.

In the above tables, borrowings of $198.0 million and $253.0 million at December 31, 2019 and 2018, respectively, were considered short-term as their original maturity terms were for less than 3 months.

In the above tables, the $20.6 million in borrowings due on January 23, 2034 relate to borrowings structured as trust preferred capital securities that were issued by First Bancorp Capital Trusts II and III ($10.3 million by each trust), which are unconsolidated subsidiaries of the Company, on December 19, 2003 and qualify as capital for regulatory capital adequacy requirements. These unsecured debt securities became callable by the Company at par on any quarterly interest payment date beginning on January 23, 2009. The interest rate on these debt securities adjusts on a quarterly basis at a rate of three-month LIBOR plus 2.70%.

In the above tables, the $25.8 million in borrowings due on June 15, 2036 relate to borrowings structured as trust preferred capital securities that were issued by First Bancorp Capital Trust IV, an unconsolidated subsidiary of the Company, on April 13, 2006 and qualify as capital for regulatory capital adequacy requirements. These unsecured debt securities became callable by the Company at par on any quarterly interest payment date beginning on June 15, 2011. The interest rate on these debt securities adjusts on a quarterly basis at a rate of three-month LIBOR plus 1.39%.

In the above tables, the $10.3 million in borrowings due on January 7, 2035 relate to borrowings structured as trust preferred capital securities that were issued by Carolina Capital Trust, an unconsolidated subsidiary of the

Company. The Company acquired Carolina Bank Holdings, Inc. and its subsidiary, Carolina Capital Trust, on March 3, 2017. These unsecured debt securities qualify as capital for regulatory capital adequacy requirements and became callable by the Company at par on any quarterly interest payment date beginning on January 7, 2010. The interest rate on these debt securities adjusts on a quarterly basis at a rate of three-month LIBOR plus 2.00%.

At December 31, 2019, the Company had three sources of readily available borrowing capacity – 1) an approximately $1.05 billion line of credit with the FHLB, of which $247 million was outstanding at December 31, 2019 and $353 million was outstanding at December 31, 2018, 2) a $35 million federal funds line of credit with a correspondent bank, of which none was outstanding at December 31, 2019 or 2018, and 3) an approximately $129 million line of credit through the Federal Reserve Bank of Richmond's (FRB) discount window, of which none was outstanding at December 31, 2019 or 2018.

The Company's line of credit with the FHLB totaling approximately $1.05 billion can be structured as either short-term or long-term borrowings, depending on the particular funding or liquidity needs and is secured by the Company's FHLB stock and a blanket lien on most of its real estate loan portfolio. The borrowing capacity was reduced by $190 million at both December 31, 2019 and 2018, as a result of the Company pledging letters of credit for public deposits at each of those dates. Accordingly, the Company's unused FHLB line of credit was $610 million at December 31, 2019 and $502 million at December 31, 2018.

The Company's correspondent bank relationship allows the Company to purchase up to $35 million in federal funds on an overnight, unsecured basis (federal funds purchased). The Company had no borrowings outstanding under this line at December 31, 2019 or 2018.

The Company has a line of credit with the FRB discount window. This line is secured by a blanket lien on a portion of the Company's commercial and consumer loan portfolio (excluding real estate). Based on the collateral owned by the Company as of December 31, 2019, the available line of credit was approximately $129 million. The Company had no borrowings outstanding under this line of credit at December 31, 2019 or 2018.

Note 10. Leases

The Company enters into leases in the normal course of business. As of December 31, 2019, the Company leased nine branch offices for which the land and buildings are leased and eight branch offices for which the land is leased but the building is owned. The Company also leases office space for several operational departments. All of the Company's leases are operating leases under applicable accounting standards and 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 20.4 years as of December 31, 2019. The Company includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain the Company will exercise the option. As permitted by applicable accounting standards, the Company has elected not to recognize leases with original lease terms of 12 months or less (short-term leases) on the Company's Consolidated Balance Sheets.

Leases are classified as either operating or finance leases at the lease commencement date, and as previously noted, all of the Company's leases have been determined to be operating leases. Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the lease term. Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

The Company uses its incremental borrowing rate, on a collateralized basis, at lease commencement to calculate the present value of lease payments when the rate implicit in the lease is not known. The weighted average discount rate for leases was 3.29% as of December 31, 2019.

The right-of-use assets and lease liabilities were $19.7 million and $19.9 million as of December 31, 2019, respectively. Prior to 2019, the accounting standards did not require assets or liabilities to be recorded for operating leases.

Total operating lease expense charged to operations under all operating lease agreements was $2.6 million in 2019, $2.3 million in 2018, and $2.3 million in 2017.

Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2019 are as follows:

($ in thousands)		
Year ending December 31:		
2020	$	2,422
2021		2,215
2022		1,851
2023		1,727
2024		1,570
Thereafter		19,564
Total undiscounted lease payments		29,349
Less effect of discounting		(9,494)
Present value of estimated lease payments (lease liability)	$	19,855

Note 11. Employee Benefit Plans

401(k) Plan. The Company sponsors a retirement savings plan pursuant to Section 401(k) of the Internal Revenue Code ("IRC"). New employees who have met the age requirement are automatically enrolled in the plan at a 5% deferral rate. The automatic deferral can be modified by the employee at any time. An eligible employee may contribute up to 15% of annual salary to the plan, not to exceed IRC limits. For 2017, the Company contributed an amount equal to the sum of 1) 100% of the employee's salary contributed up to 3% and 2) 50% of the employee's salary contributed between 3% and 5%. For 2018 and 2019, the Company's matching contribution equaled 100% of the employee's salary contribution up to 6%. The Company's matching contribution expense was $4.2 million, $3.6 million and $2.3 million for the years ended December 31, 2019, 2018 and 2017, respectively. Although discretionary contributions by the Company are permitted by the plan, the Company did not make any such contributions in 2019, 2018 or 2017. The Company's matching and discretionary contributions are made according to the same investment elections each participant has established for their deferral contributions.

Pension Plan. Historically, the Company offered a noncontributory defined benefit retirement plan (the "Pension Plan") that qualified under Section 401(a) of the Internal Revenue Code. The Pension Plan provided for a monthly payment, at normal retirement age of 65, equal to one-twelfth of the sum of (i) 0.75% of Final Average Annual Compensation (five highest consecutive calendar years' earnings out of the last ten years of employment) multiplied by the employee's years of service not in excess of 40 years, and (ii) 0.65% of Final Average Annual Compensation in excess of the average social security wage base multiplied by years of service not in excess of 35 years. Benefits were fully vested after five years of service. Effective December 31, 2012, the Company froze the Pension Plan for all participants.

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. As discussed below, the contributions are invested to provide for benefits under the Pension Plan. The Company did not make any contributions to the Pension Plan in 2019, 2018 or 2017. The Company does not expect to contribute to the Pension Plan in 2020.

The following table reconciles the beginning and ending balances of the Pension Plan's benefit obligation, as computed by the Company's independent actuarial consultants, and its plan assets, with the difference between the two amounts representing the funded status of the Pension Plan as of the end of the respective year.

($ in thousands)	2019	2018	2017
Change in benefit obligation			
Benefit obligation at beginning of year	$ 36,354	38,150	36,840
Service cost	—	—	—
Interest cost	1,482	1,312	1,449
Actuarial loss (gain)	5,492	(1,160)	1,941
Benefits paid	(1,736)	(1,948)	(2,080)
Benefit obligation at end of year	41,592	36,354	38,150
Change in plan assets			
Plan assets at beginning of year	39,170	41,306	36,950
Actual return on plan assets	6,390	(188)	6,436
Employer contributions	—	—	—
Benefits paid	(1,736)	(1,948)	(2,080)
Plan assets at end of year	43,824	39,170	41,306
Funded status at end of year	$ 2,232	2,816	3,156

The accumulated benefit obligation related to the Pension Plan was $41,592,000, $36,354,000, and $38,150,000 at December 31, 2019, 2018, and 2017, respectively.

The following table presents information regarding the amounts recognized in the consolidated balance sheets at December 31, 2019 and 2018 as it relates to the Pension Plan, excluding the related deferred tax assets.

($ in thousands)	2019	2018
Other assets	$ 2,232	2,816

The following table presents information regarding the amounts recognized in accumulated other comprehensive income (loss) (“AOCI”) at December 31, 2019 and 2018, as it relates to the Pension Plan.

($ in thousands)	2019	2018
Net loss	$ (3,721)	(4,034)
Prior service cost	—	—
Amount recognized in AOCI before tax effect	(3,721)	(4,034)
Tax benefit	855	943
Net amount recognized as decrease to AOCI	$ (2,866)	(3,091)

The following table reconciles the beginning and ending balances of AOCI at December 31, 2019 and 2018, as it relates to the Pension Plan:

($ in thousands)	2019	2018
Accumulated other comprehensive loss at beginning of fiscal year	$ (3,091)	(2,909)
Net loss arising during period	(664)	(143)
Amortization of unrecognized actuarial loss	977	34
Tax benefit of changes during the year, net	(88)	(73)
Accumulated other comprehensive loss at end of fiscal year	$ (2,866)	(3,091)

The following table reconciles the beginning and ending balances of the prepaid pension cost related to the Pension Plan:

($ in thousands)	2019	2018
Prepaid pension cost as of beginning of fiscal year	$ 6,851	7,082
Net periodic pension cost for fiscal year	(897)	(231)
Actual employer contributions	—	—
Prepaid pension asset as of end of fiscal year	$ 5,954	6,851

Net pension (income) cost for the Pension Plan included the following components for the years ended December 31, 2019, 2018, and 2017:

($ in thousands)	2019	2018	2017
Service cost – benefits earned during the period	$ —	—	—
Interest cost on projected benefit obligation	1,482	1,312	1,449
Expected return on plan assets	(1,562)	(1,115)	(2,810)
Net amortization and deferral	977	34	244
Net periodic pension cost (income)	$ 897	231	(1,117)

The estimated net loss for the Pension Plan that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost over the next fiscal year is $930,000.

The following table is an estimate of the benefits that will be paid in accordance with the Pension Plan during the indicated time periods, assuming the Pension Plan is operated on an ongoing basis.

($ in thousands)	Estimated benefit payments
Year ending December 31, 2020	$ 1,858
Year ending December 31, 2021	1,930
Year ending December 31, 2022	1,992
Year ending December 31, 2023	2,033
Year ending December 31, 2024	2,059
Years ending December 31, 2025-2029	10,870

The investment objective of the Company’s Pension Plan is to ensure that there are sufficient assets to fund regular pension benefits payable to employees over the long-term life of the plan. The Plan seeks to allocate plan assets in a manner that is closely duration-matched with the actuarial projected cash flows of the Plan liabilities, consistent with prudent standards for preservation of capital, tolerance of investment risk, and maintenance of liquidity. Assets of the Plan are held by Fidelity Investments (the “Trustee”).

In 2018, the Plan adopted a liability-driven investment (“LDI”) approach to help meet these objectives. The LDI strategy employs a structured fixed-income portfolio designed to reduce volatility in the Plan’s future funding requirements and funding status. This is accomplished by using a blend of high quality corporate and government fixed-income securities, with both intermediate and long-term durations. Generally, the value of these fixed income securities is inversely correlated to changes in market interest rates, which substantially offsets changes in the value of the pension benefit obligation caused by changes in the interest rate used to discount plan liabilities.

The fair values of the Company's pension plan assets at December 31, 2019, by asset category, were as follows:

($ in thousands)	Total Fair Value at December 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 274	—	274	—
Investment funds				
Fixed income funds	43,550	—	43,550	—
Total	$ 43,824	—	43,824	—

The fair values of the Company's pension plan assets at December 31, 2018, by asset category, were as follows:

($ in thousands)	Total 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)
Cash and cash equivalents	$ 267	—	267	—
Investment funds				
Fixed income funds	38,903	—	38,903	—
Total	$ 39,170	—	39,170	—

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2019 and 2018.

- Cash and cash equivalents: Valued at net asset value ("NAV"), which can be validated with a sufficient level of observable activity (i.e. purchases and sales at NAV), and therefore, the funds were classified within Level 2 of the fair value hierarchy.
- Fixed income funds consist of commingled funds that primarily include investments in U.S. government securities and corporate bonds. The commingled funds also include an insignificant portion of investments in other asset-based securities, municipal securities, etc. The commingled funds are valued at the NAV for the units in the fund. The NAV, as provided by the Trustee, is used as practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund.

Supplemental Executive Retirement Plan. Historically, the Company sponsored a Supplemental Executive Retirement Plan (the "SERP") for the benefit of certain senior management executives of the Company. The purpose of the SERP was to provide additional monthly pension benefits to ensure that each such senior management executive would receive lifetime monthly pension benefits equal to 3% of his or her final average compensation multiplied by his or her years of service (maximum of 20 years) to the Company or its subsidiaries, subject to a maximum of 60% of his or her final average compensation. The amount of a participant's monthly SERP benefit is reduced by (i) the amount payable under the Company's qualified Pension Plan (described above), and (ii) 50% of the participant's primary social security benefit. Final average compensation means the average of the five highest consecutive calendar years of earnings during the last ten years of service prior to termination of employment. The SERP is an unfunded plan. Payments are made from the general assets of the Company. Effective December 31, 2012, the Company froze the SERP to all participants.

The following table reconciles the beginning and ending balances of the SERP's benefit obligation, as computed by the Company's independent actuarial consultants:

($ in thousands)	2019	2018	2017
Change in benefit obligation			
Projected benefit obligation at beginning of year	$ 5,794	5,970	5,910
Service cost	—	124	118
Interest cost	219	200	227
Actuarial (gain) loss	23	(102)	85
Benefits paid	(398)	(398)	(370)
Projected benefit obligation at end of year	5,638	5,794	5,970
Plan assets	—	—	—
Funded status at end of year	$ (5,638)	(5,794)	(5,970)

The accumulated benefit obligation related to the SERP was $5,638,000, $5,794,000, and $5,970,000 at December 31, 2019, 2018, and 2017, respectively.

The following table presents information regarding the amounts recognized in the consolidated balance sheets at December 31, 2019 and 2018 as it relates to the SERP, excluding the related deferred tax assets.

($ in thousands)	2019	2018
Other liabilities	$ (5,638)	(5,794)

The following table presents information regarding the amounts recognized in AOCI at December 31, 2019 and 2018, as it relates to the SERP:

($ in thousands)	2019	2018
Net gain	$ 629	814
Prior service cost	—	—
Amount recognized in AOCI before tax effect	629	814
Tax expense	(145)	(190)
Net amount recognized as increase to AOCI	$ 484	624

The following table reconciles the beginning and ending balances of AOCI at December 31, 2019 and 2018, as it relates to the SERP:

($ in thousands)	2019	2018
Accumulated other comprehensive income (loss) at beginning of fiscal year	$ 624	457
Net (loss) gain arising during period	(22)	102
Prior service cost	—	—
Amortization of unrecognized actuarial gain	(163)	(13)
Amortization of prior service cost and transition obligation	—	—
Tax expense related to changes during the year, net	45	78
Accumulated other comprehensive income (loss) at end of fiscal year	$ 484	624

The following table reconciles the beginning and ending balances of the prepaid pension cost related to the SERP:

($ in thousands)	2019	2018
Prepaid pension cost (liability) as of beginning of fiscal year	$ (6,608)	(6,695)
Net periodic pension cost for fiscal year	(56)	(311)
Benefits paid	398	398
Prepaid pension cost (liability) as of end of fiscal year	$ (6,266)	(6,608)

Net pension cost for the SERP included the following components for the years ended December 31, 2019, 2018, and 2017:

($ in thousands)	2019	2018	2017
Service cost – benefits earned during the period	$ —	124	118
Interest cost on projected benefit obligation	219	200	227
Net amortization and deferral	(163)	(13)	(34)
Net periodic pension cost	$ 56	311	311

The estimated net gain for the SERP that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $157,000.

The following table is an estimate of the benefits that will be paid in accordance with the SERP during the indicated time periods:

($ in thousands)	Estimated benefit payments
Year ending December 31, 2020	$ 330
Year ending December 31, 2021	327
Year ending December 31, 2022	323
Year ending December 31, 2023	319
Year ending December 31, 2024	315
Years ending December 31, 2025-2029	1,712

Applicable to both Plans

The components of net periodic benefit cost other than the service cost component are included in the line item "Other operating expenses" in the Consolidated Statements of Income.

The following assumptions were used in determining the actuarial information for the Pension Plan and the SERP for the years ended December 31, 2019, 2018, and 2017:

	2019		2018		2017	
	Pension Plan	SERP	Pension Plan	SERP	Pension Plan	SERP
Discount rate used to determine net periodic pension cost	4.08%	3.92%	3.46%	3.46%	3.97%	3.97%
Discount rate used to calculate end of year liability disclosures	3.03%	2.89%	4.08%	3.92%	3.46%	3.46%
Expected long-term rate of return on assets	4.08%	n/a	2.75%	n/a	7.75%	n/a
Rate of compensation increase	n/a	n/a	n/a	n/a	n/a	n/a

The Company’s discount rate policy for the Pension Plan is based on a calculation of the Company’s expected pension payments, with those payments discounted using the FTSE yield curve (formerly called the Citigroup Pension Index yield curve) that matches the specific expected cash flows of the Pension Plan. The discount rate policy for the SERP is to use the FTSE yield curve that matches the expected cash flows of the SERP.

For the year ended December 31, 2017, the Company used an expected long-term rate of return on assets assumption of 7.75%. The Company arrived at this rate based primarily on a third-party investment consulting firm's historical analysis of investment returns, which indicated that the mix of the Pension Plan's assets (generally 75% equities and 25% fixed income) could be expected to return approximately 7.75% on a long term basis.

As discussed previously, in 2018, the Company changed investment strategies, which resulted in the expected return on assets being adjusted to 2.75% for the year, which approximated the yield on the assets held for the year. In 2019, the liability-driven model adopted by the Company was in place for the full year, and the Company invested the Pension Plan's assets into investments that matched the duration and discount rate of the liabilities of the plan.

Note 12. Commitments, Contingencies, and Concentrations of Credit Risk

See Note 10 with respect to future obligations under operating leases.

In the normal course of business, there are various outstanding commitments to extend credit that are not reflected in the financial statements. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment. Commitments may expire without being used. The following table presents the Company's outstanding loan commitments at December 31, 2019 and December 31, 2018.

($ in thousands)	December 31, 2019			December 31, 2018		
Type of Commitment	Fixed Rate	Variable Rate	Total	Fixed Rate	Variable Rate	Total
Loan commitments	$ 263,775	123,169	386,944	206,756	175,254	382,010
Unused lines of credit	169,278	766,450	935,728	152,868	753,916	906,784
Total	$ 433,053	889,619	1,322,672	359,624	929,170	1,288,794

At December 31, 2019 and 2018, the Company had $12.0 million and $15.7 million, respectively, in standby letters of credit outstanding. The Company has no carrying amount for these standby letters of credit at either of those dates. The nature of the standby letters of credit is a stand-alone obligation made on behalf of the Company's customers to suppliers of the customers to guarantee payments owed to the supplier by the customer. The standby letters of credit are generally for terms for one year, at which time they may be renewed for another year if both parties agree. The payment of the guarantees would generally be triggered by a continued nonpayment of an obligation owed by the customer to the supplier. The maximum potential amount of future payments (undiscounted) the Company could be required to make under the guarantees in the event of nonperformance by the parties to whom credit or financial guarantees have been extended is represented by the contractual amount of the standby letter of credit. In the event that the Company is required to honor a standby letter of credit, a note, already executed with the customer, is triggered which provides repayment terms and any collateral. Over the past two years, the Company has only had to honor a minimal amount of standby letters of credit, which have been or are being repaid by the borrower without any loss to the Company. Management expects any draws under existing commitments to be funded through normal operations.

The Company is not involved in any legal proceedings which, in management's opinion, could have a material effect on the consolidated financial position of the Company.

The Bank grants primarily commercial and installment loans to customers throughout its market area, which consists of branch locations in 36 counties across all regions of North Carolina and three counties in northeastern South Carolina. The real estate loan portfolio can be affected by the condition of the local real estate market. The commercial and installment loan portfolios can be affected by local economic conditions.

The Company's loan portfolio is not concentrated in loans to any single borrower or to a relatively small number of borrowers. Additionally, management is not aware of any concentrations of loans to classes of borrowers or industries that would be similarly affected by economic conditions.

In addition to monitoring potential concentrations of loans to particular borrowers or groups of borrowers, industries and geographic regions, the Company monitors exposure to credit risk that could arise from potential concentrations of lending products and practices such as loans that subject borrowers to substantial payment increases (e.g. principal deferral periods, loans with initial interest-only periods, etc.), and loans with high loan-to-value ratios. Additionally, there are industry practices that could subject the Company to increased credit risk should economic conditions change over the course of a loan's life. For example, the Bank makes variable rate loans and fixed rate principal-amortizing loans with maturities prior to the loan being fully paid (i.e. balloon payment loans). These loans are underwritten and monitored to manage the associated risks. The Company has determined that there is no concentration of credit risk associated with its lending policies or practices.

The Company's investment portfolio consists principally of obligations of government-sponsored enterprises, mortgage-backed securities guaranteed by government-sponsored enterprises, corporate bonds, and general obligation municipal securities. The Company also holds stock with the Federal Reserve Bank and the Federal Home Loan Bank as a requirement for membership in the system. The following are the fair values at December 31, 2019 of securities to any one issuer/guarantor that exceed $5.0 million, with such amounts representing the maximum amount of credit risk that the Company would incur if the issuer did not repay the obligation.

(*$ in thousands*) Issuer		Amortized Cost	Fair Value
Fannie Mae – mortgage-backed securities	$	438,068	443,717
Ginnie Mae – mortgage-backed securities		172,220	174,486
Freddie Mac – mortgage-backed securities		162,124	163,366
Small Business Administration securities		26,400	26,100
Federal Reserve Bank - common stock		17,591	17,591
Federal Home Loan Bank of Atlanta - common stock		15,789	15,789
Federal Home Loan Bank System - bonds		15,000	15,004
Bank of America corporate bonds		7,000	7,219
Citigroup, Inc. corporate bonds		6,021	6,209
Goldman Sachs Group Inc. corporate bond		5,055	5,199
JP Morgan Chase corporate bond		5,013	5,153
Federal Farm Credit Bank – bond		5,000	5,005

The Company also periodically invests in limited partnerships, limited liability companies ("LLCs"), and other privately held companies. As of December 31, 2019, the Company had a remaining funding commitments of $2.7 million related to these investments.

The Company primarily places its deposits and correspondent accounts with the Federal Home Loan Bank of Atlanta, the Federal Reserve Bank, and Pacific Coast Bankers Bank ("PCBB"). At December 31, 2019, the Company had deposits in the Federal Home Loan Bank of Atlanta totaling $22.3 million, deposits of $118.6 million in the Federal Reserve Bank, and deposits of $2.8 million in PCBB. None of the deposits held at the Federal Home Loan Bank of Atlanta or the Federal Reserve Bank are FDIC-insured, however the Federal Reserve Bank is a government entity and therefore risk of loss is minimal. The deposits held at PCBB are FDIC-insured up to $250,000.

Note 13. Fair Value of Financial Instruments

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal and most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are 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 December 31, 2019.

($ in thousands)

Description of Financial Instruments	Fair Value at December 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	$ 20,009	—	20,009	—
Mortgage-backed securities	767,285	—	767,285	—
Corporate bonds	34,651	—	34,651	—
Total available for sale securities	$ 821,945	—	821,945	—
Presold mortgages in process of settlement	$ 19,712	19,712	—	—
Nonrecurring				
Impaired loans	$ 16,215	—	—	16,215
Foreclosed real estate	1,830	—	—	1,830

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	—
Presold mortgages in process of settlement	$ 4,279	4,279	—	—
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.

Presold Mortgages in Process of Settlement - The fair value is based on the committed price that an investor has agreed to pay for the loan and is considered a Level 1 input.

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, commercial mortgage-backed 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.

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 non-recurring basis as of December 31, 2019, the significant unobservable inputs used in the fair value measurements were as follows:

($ in thousands)

Description	Fair Value at December 31, 2019	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average)
Impaired loans - valued at collateral value	$ 10,718	Appraised value	Discounts applied for estimated costs to sell	10%
Impaired loans - valued at PV of expected cash flows	$ 5,497	PV of expected cash flows	Discount rates used in the calculation of PV of expected cash flows	4-11% (6.50%)
Foreclosed real estate	1,830	Appraised value	Discounts for estimated costs to sell	10%

For Level 3 assets and liabilities measured at fair value on a 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	General 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%

The carrying amounts and estimated fair values of financial instruments not carried at fair value as of December 31, 2019 and 2018 are as follows:

		December 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	$ 64,519	64,519	56,050	56,050
Due from banks, interest-bearing	Level 1	166,783	166,783	406,848	406,848
Securities held to maturity	Level 2	67,932	68,333	101,237	99,906
Total loans, net of allowance	Level 3	4,432,068	4,407,610	4,228,025	4,181,139
Accrued interest receivable	Level 1	16,648	16,648	16,004	16,004
Bank-owned life insurance	Level 1	104,441	104,441	101,878	101,878
SBA Servicing Asset	Level 3	5,383	5,649	4,419	4,617
Deposits	Level 2	4,931,355	4,930,751	4,659,339	4,653,522
Borrowings	Level 2	300,671	295,399	406,609	402,556
Accrued interest payable	Level 2	2,154	2,154	1,976	1,976

Note 14. Stock-Based Compensation

The Company recorded total stock-based compensation expense of $2,270,000, $1,569,000 and $1,095,000 for the years ended December 31, 2019, 2018, and 2017, respectively. The Company recognized $522,000, $367,000, and $405,000 of income tax benefits related to stock-based compensation expense in the income statement for the years ended December 31, 2019, 2018, and 2017, respectively.

At December 31, 2019, the sole equity-based compensation place for the Company is the First Bancorp 2014 Equity Plan (the "Equity Plan), which was approved by shareholders on May 8, 2014. As of December 31, 2019, the Equity Plan had 632,726 shares remaining available for grant.

The 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 plans' participants with those of the Company and its shareholders. The 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 to employees have been in the form of shares of restricted stock with service vesting conditions only. Compensation expense for these grants 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 plan), unless the awards remain outstanding or substitute equivalent awards are provided, the awards become immediately vested.

Certain of the Company's equity grants 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 been insignificant 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.

In addition to employee equity awards, the Company's practice is to grant common shares, valued at approximately $32,000, to each non-employee director (currently 10 in total) in June of each year. Compensation expense associated with these director awards is recognized on the date of the award since there are no vesting conditions. On June 1, 2019, the Company granted 9,030 shares of common stock to non-employee directors (903 shares per director), at a fair market value of $35.41 per share, which was the closing price of the Company's common stock on that date, which resulted in $320,000 in expense. On June 1, 2018, the Company granted 8,393 shares of common stock to non-employee directors (763 shares per director), at a fair market value of $41.93 per share, which was the closing price of the Company's common stock on that date, which resulted in $352,000 in expense. The expense associated with director grants is classified as "other operating expense" in the Consolidated Statements of Income.

The following table presents information regarding the activity during 2017, 2018, and 2019 related to the Company's outstanding restricted stock:

	Long-Term Restricted Stock		
Nonvested at January 1, 2017	91,790	$	18.65
Granted during the period	48,322		31.05
Vested during the period	(28,514)		20.05
Forfeited or expired during the period	(8,535)		18.34
Nonvested at December 31, 2017	103,063	$	24.08
Granted during the period	66,060		40.04
Vested during the period	(35,703)		22.82
Forfeited or expired during the period	(4,169)		29.99
Nonvested at December 31, 2018	129,251	$	32.39
Granted during the period	82,826		36.36
Vested during the period	(51,757)		25.02
Forfeited or expired during the period	(954)		41.93
Nonvested at December 31, 2019	159,366	$	36.79

Total unrecognized compensation expense as of December 31, 2019 amounted to $3,100,000 with a weighted average remaining term of 2.0 years. The Company expects to record $1,740,000 of compensation expense in the next twelve months related to these nonvested awards that are outstanding at December 31, 2019.

Prior to 2010, stock options were the primary form of stock-based compensation utilized by the Company. At December 31, 2019, there were no stock options outstanding.

The following table presents information regarding the activity since January 1, 2017 related to all of the Company's stock options outstanding:

	Options Outstanding			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Contractual Term (years)	Aggregate Intrinsic Value
Balance at January 1, 2017	59,948	$ 17.18		
Granted	—	—		
Exercised	(21,259)	19.16		$ 236,584
Forfeited	—	—		
Expired	—	—		
Balance at December 31, 2017	38,689	$ 16.09		
Granted	—	—		
Exercised	(29,689)	16.61		$ 659,743
Forfeited	—	—		
Expired	—	—		
Balance at December 31, 2018	9,000	$ 14.35		
Granted	—	—		
Exercised	(9,000)	14.35		$ 203,963
Forfeited	—	—		
Expired	—	—		
Outstanding at December 31, 2019	—	$ —	—	$ —
Exercisable at December 31, 2019	—	$ —	—	$ —

In 2019, 2018 and 2017, the Company received $129,000, $324,000 and $287,000, respectively, as a result of stock option exercises.

Note 15. Regulatory Restrictions

The Company is regulated by the Board of Governors of the FRB and is subject to securities registration and public reporting regulations of the Securities and Exchange Commission. The Bank is regulated by the FRB and the North Carolina Commissioner of Banks.

The primary source of funds for the payment of dividends by the Company is dividends received from its subsidiary, the Bank. The Bank, as a North Carolina banking corporation, may declare dividends so long as such dividends do not reduce its capital below its applicable required capital (typically, the level of capital required to be deemed "adequately capitalized.") As of December 31, 2019, approximately $587,400,000 of the Company's investment in the Bank is restricted as to transfer to the Company without obtaining prior regulatory approval.

The average reserve balance maintained by the Bank under the requirements of the FRB was approximately $3,802,000 for the year ended December 31, 2019.

The Company and the Bank must comply with regulatory capital requirements established by the FRB. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's and Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

In 2013, the FRB approved final rules implementing the Basel Committee on Banking Supervision capital guidelines, referred to a "Basel III." The final rules established a new "Common Equity Tier I" ratio; new higher capital ratio requirements, including a capital conservation buffer; narrowed the definitions of capital; imposed new operating restrictions on banking organizations with insufficient capital buffers; and increased the risk weighting of certain assets. The final rules became effective January 1, 2015 for the Company. The capital conservation buffer requirement was phased in beginning January 1, 2016, at 0.625% of risk weighted assets, and increased each year until fully implemented at 2.5% in January 1, 2019. The capital conservation buffer requirement at December 31, 2019 was 2.5%.

As of December 31, 2019, the capital standards require the Company to maintain minimum ratios of "Common Equity Tier I" capital to total risk-weighted assets, "Tier I" 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 I 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 I capital is comprised of Common Equity Tier I capital plus Additional Tier I Capital, which for the Company includes non-cumulative perpetual preferred stock and trust preferred securities. Total capital is comprised of Tier I 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 FRB and FDIC regulations.

In addition to the risk-based capital requirements described above, the Company and the Bank are subject to a leverage capital requirement, which calls for a minimum ratio of Tier I 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 FRB has not advised the Company of any requirement specifically applicable to it.

In addition to the minimum capital requirements described above, the regulatory framework for prompt corrective action also contains specific capital guidelines applicable to banks for classification as "well capitalized," which are presented with the minimum ratios, the Company's ratios and the Bank's ratios as of December 31, 2019 and 2018 in the following table. Based on the most recent notification from its regulators, the Bank is well capitalized under the framework. There are no conditions or events since that notification that management believes have changed the Company's classification.

($ in thousands)	Actual		Fully Phased-In Regulatory Guidelines Minimum		To Be Well Capitalized Under Current Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(must equal or exceed)		(must equal or exceed)	
As of December 31, 2019						
Common Equity Tier I Capital Ratio						
Company	$ 610,642	13.28%	$ 321,994	7.00%	$ N/A	N/A
Bank	661,234	14.38%	321,866	7.00%	298,875	6.50%
Total Capital Ratio						
Company	684,931	14.89%	482,991	10.50%	N/A	N/A
Bank	683,178	14.86%	482,799	10.50%	459,808	10.00%
Tier I Capital Ratio						
Company	662,987	14.41%	390,993	8.50%	N/A	N/A
Bank	661,234	14.38%	390,837	8.50%	367,846	8.00%
Leverage Ratio						
Company	662,987	11.19%	236,904	4.00%	N/A	N/A
Bank	661,234	11.17%	236,700	4.00%	295,875	5.00%
As of December 31, 2018						
Common Equity Tier I Capital Ratio						
Company	$ 535,566	12.28%	$ 305,287	7.00%	$ N/A	N/A
Bank	586,053	13.44%	305,163	7.00%	283,366	6.50%
Total Capital Ratio						
Company	609,428	13.97%	457,930	10.50%	N/A	N/A
Bank	607,717	13.94%	457,745	10.50%	435,948	10.00%
Tier I Capital Ratio						
Company	587,764	13.48%	370,705	8.50%	N/A	N/A
Bank	586,053	13.44%	370,555	8.50%	348,758	8.00%
Leverage Ratio						
Company	587,764	10.47%	224,014	4.00%	N/A	N/A
Bank	586,053	10.45%	224,406	4.00%	280,508	5.00%

Note 16. Supplementary Income Statement Information

Components of other noninterest income/expense exceeding 1% of total income for any of the years ended December 31, 2019, 2018, and 2017 are as follows:

($ in thousands)	2019	2018	2017
Other service charges, commissions, and fees – interchange fees, net (1)	$ 13,814	11,995	
Other service charges, commissions, and fees – interchange fees, gross (1)			11,454
Other operating expenses – dues and subscriptions (includes software subscriptions)	4,250	3,431	1,889
Other operating expenses – data processing expense	3,130	3,234	2,910
Other operating expenses – telephone and data line expense	3,057	3,024	2,470
Other operating expenses – marketing	2,727	3,065	2,549
Other operating expenses – stationery and supplies	1,830	2,582	2,399
Other operating expenses – outside consultants	1,508	1,820	2,511
Other operating expenses – FDIC insurance expense	344	2,333	2,350
Other operating expenses – interchange expense, gross (1)			2,797

(1) With the Company's adoption of ASC 606 on January 1, 2018, interchange fees began to be presented on a net basis (interchange income is offset with interchange expense) - see Note 21 for more information.

Note 17. Condensed Parent Company Information

Condensed financial data for First Bancorp (parent company only) follows:

CONDENSED BALANCE SHEETS	As of December 31,	
($ in thousands)	2019	2018
Assets		
Cash on deposit with bank subsidiary	$ 2,014	5,544
Investment in wholly-owned subsidiaries, at equity	904,924	816,648
Premises and Equipment	7	7
Other assets	5,642	—
Total assets	912,587	822,199
Liabilities and shareholders' equity		
Trust preferred securities	54,049	53,902
Other liabilities	6,137	4,067
Total liabilities	60,186	57,969
Shareholders' equity	852,401	764,230
Total liabilities and shareholders' equity	$ 912,587	822,199

CONDENSED STATEMENTS OF INCOME	Year Ended December 31,		
($ in thousands)	2019	2018	2017
Dividends from wholly-owned subsidiaries	$ 29,800	15,525	52,732
Earnings of wholly-owned subsidiaries, net of dividends	65,555	77,050	(4,793)
Interest expense	(2,648)	(2,498)	(1,867)
All other income and expenses, net	(661)	(788)	(100)
Net income	$ 92,046	89,289	45,972

CONDENSED STATEMENTS OF CASH FLOWS	Year Ended December 31,		
($ in thousands)	2019	2018	2017
Operating Activities:			
Net income	$ 92,046	89,289	45,972
(Equity in undistributed earnings of subsidiaries) Excess of dividends over earnings of subsidiaries	(65,555)	(77,050)	4,793
(Increase) decrease in other assets	(5,850)	(13)	283
Increase (decrease) in other liabilities	64	146	(67)
Total – operating activities	20,705	12,372	50,981
Investing Activities:			
Downstream cash investment to subsidiary	—	—	(9,000)
Note receivable proceeds received	—	—	3,054
Proceeds from sales of investments	—	—	174
Net cash paid in acquisitions	—	—	(37,664)
Total - investing activities	—	—	(43,436)
Financing Activities:			
Payment of common stock cash dividends	(13,662)	(11,281)	(7,596)
Repurchases of common stock	(10,000)	—	—
Proceeds from issuance of common stock	129	324	287
Stock withheld for payment of taxes	(702)	(406)	(231)
Total - financing activities	(24,235)	(11,363)	(7,540)
Net (decrease) increase in cash	(3,530)	1,009	5
Cash, beginning of year	5,544	4,535	4,530
Cash, end of year	$ 2,014	5,544	4,535

Note 18. Shareholders' Equity

Rabbi Trust Obligation

With the acquisition of Carolina Bank in March 2017, the Company assumed a deferred compensation plan for certain members of Carolina Bank's board of directors that is fully funded by Company stock, which was valued at $7.7 million on the date of acquisition. Subsequent to the acquisition in 2017, approximately $5.1 million of the deferred compensation has been paid to the plan participants. The balances of the related asset and liability were each $2.6 million and $3.2 million at December 31, 2019 and December 31, 2018, respectively, both of which are presented as components of shareholders' equity.

Equity Issuance

On May 5, 2016, the Company acquired SBA Complete, Inc. ("SBA Complete"), a firm that provides services to financial institutions across the country related to Small Business Administration ("SBA") loan origination and servicing. Per the terms of the acquisition agreement, the former owners of SBA Complete were eligible for a contingent earn-out payment to be paid in shares of Company stock based on achieving predetermined profitability goals over a cumulative three year period. The Company initially valued the earn-out at $3.0 million and adjusted the value quarterly thereafter based on updated estimates. On May 5, 2019, the three year earn-out period concluded, and based on the terms of the earn-out, the Company issued 78,353 shares of common stock with a value of $3.1 million, which increased shareholders' equity and decreased a previously recorded liability.

Stock Repurchases

During 2019, the Company repurchased approximately 282,000 shares of the Company's common stock at an average price of $35.51, which totaled $10 million, under a $25 million repurchase authorization publicly announced in February 2019. In November 2019, the Board of Directors announced a share repurchase authorization of up to $40 million, which expires on December 31, 2020 and replaces the prior authorization. Depending on market conditions, the Company may repurchase shares up to that limit during 2020.

Note 19. Earnings Per Share

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

	For Years Ended December 31,								
	2019			2018			2017		
($ in thousands except per share amounts)	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS:									
Net income	$ 92,046			$ 89,289			$ 45,972		
Less: income allocated to participating securities	$ (450)			$ —			$ —		
Basic EPS per common share	$ 91,596	29,547,851	$ 3.10	$ 89,289	29,566,259	$ 3.02	$ 45,972	25,210,606	$ 1.82
Diluted EPS:									
Net income	$ 92,046	29,547,851		$ 89,289	29,566,259		$ 45,972	25,210,606	
Effect of Dilutive Securities	—	172,648		—	141,172		—	80,776	
Diluted EPS per common share	$ 92,046	29,720,499	$ 3.10	$ 89,289	29,707,431	$ 3.01	$ 45,972	25,291,382	$ 1.82

For the years ended December 31, 2019, 2018, and 2017, there were no options that were anti-dilutive.

Note 20. Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss) for the Company are as follows:

($ in thousands)	December 31, 2019	December 31, 2018	December 31, 2017
Unrealized gain (loss) on securities available for sale	$ 9,743	(12,390)	(2,211)
Deferred tax (liability) asset	(2,239)	2,896	517
Net unrealized gain (loss) on securities available for sale	7,504	(9,494)	(1,694)
Postretirement plans asset (liability)	(3,092)	(3,220)	(3,200)
Deferred tax asset (liability)	711	753	748
Net postretirement plans asset (liability)	(2,381)	(2,467)	(2,452)
Total accumulated other comprehensive income (loss)	$ 5,123	(11,961)	(4,146)

The following table discloses the changes in accumulated other comprehensive income (loss) for the years ended December 31, 2019, 2018, and 2017 (all amounts are net of tax).

($ in thousands)	Unrealized Gain (Loss) on Securities Available for Sale	Postretirement Plans Asset (Liability)	Total
Beginning balance at January 1, 2017	$ (1,947)	(3,160)	(5,107)
Other comprehensive income before reclassifications	405	1,008	1,413
Amounts reclassified from accumulated other comprehensive income	148	136	284
Net current-period other comprehensive income	553	1,144	1,697
Reclassification of accumulated other comprehensive income to retained earnings due to statutory tax changes	(300)	(436)	(736)
Ending balance at December 31, 2017	(1,694)	(2,452)	(4,146)
Other comprehensive loss before reclassifications	(7,800)	(31)	(7,831)
Amounts reclassified from accumulated other comprehensive income	—	16	16
Net current-period other comprehensive loss	(7,800)	(15)	(7,815)
Ending balance at December 31, 2018	(9,494)	(2,467)	(11,961)
Other comprehensive income (loss) before reclassifications	17,073	(528)	16,545
Amounts reclassified from accumulated other comprehensive income	(75)	614	539
Net current-period other comprehensive income	16,998	86	17,084
Ending balance at December 31, 2019	$ 7,504	(2,381)	5,123

Amounts reclassified from accumulated other comprehensive income for Unrealized Gain (Loss) on Securities Available for Sale represent realized securities gains or losses, net of tax effects. Amounts reclassified from accumulated other comprehensive income for Postretirement Plans Asset (Liability) represent amortization of amounts included in Accumulated Other Comprehensive Income, net of taxes, and are recorded in the "Other operating expenses" line item of the Consolidated Statements of Income.

Note 21. 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 ("ASC 606") are recognized within noninterest income. The following table presents the Company's sources of noninterest income for years ended December 31, 2019, 2018, and 2017. Items outside the scope of ASC 606 are noted as such.

($ in thousands)	For the Years Ended December 31, 2019	2018	2017
Noninterest Income			
In-scope of Topic 606:			
Service charges on deposit accounts	$ 12,970	12,690	11,862
Other service charges, commissions, and fees:			
Interchange income	13,814	11,995	11,454
Other fees	5,667	4,493	2,949
Commissions from sales of insurance and financial products:			
Insurance income	5,289	6,038	3,148
Wealth management income	3,206	2,693	2,152
SBA consulting fees	3,872	4,675	4,024
Noninterest income (in-scope of Topic 606)	44,818	42,584	35,589
Noninterest income (out-of-scope of Topic 606)	14,711	16,358	13,643
Total noninterest income	$ 59,529	58,942	49,232

A description of the Company's revenue streams accounted for under ASC 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. Interchange expenses were presented on a gross basis prior to the adoption of ASC 606 and are presented on a net basis in 2018 and 2019. The 2018 income for this item was originally reported on a gross basis, but is presented net of $2.6 million in interchange expenses in these financial statements. 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.

<u>Commissions from the sale of insurance and financial products:</u> 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, for which the performance obligation has been satisfied.

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.

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.

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors
First Bancorp
Southern Pines, North Carolina

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of First Bancorp and subsidiaries (the “Company”) as of December 31, 2019, the related consolidated statements of income, comprehensive income, shareholders’ equity, and cash flows for the year ended December 31, 2019, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and the results of its operations and its cash flows for the year ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and our report dated February 28, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

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

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

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

Critical Audit Matter

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

Allowance for Loan Losses

As described in Notes 1 and 4 to the Company's consolidated financial statements, the Company had a gross loan portfolio of approximately $4.5 billion and related allowance for loan losses of approximately $21.4 million as of December 31, 2019. The allowance for loan losses includes a reserve for loans collectively evaluated for impairment of approximately $17.6 million and loans individually evaluated for impairment of approximately $3.8 million. In calculating the collectively evaluated component of the allowance for loan losses, management considers both quantitative and qualitative loss factors. The evaluation of the qualitative loss factors involves subjective estimates and assumptions, which require a high degree of management's judgment. These estimates and assumptions are affected by changes in loan growth, evaluation of the loan portfolio, current economic conditions, historical loan loss experience and other risk factors. Changes in these assumptions could have a material effect on the Company's financial results.

We identified management's evaluation of the qualitative loss factors within the collectively evaluated component of the allowance for loan losses as a critical audit matter. Management's assessment of the qualitative loss factors for collectively evaluated loans requires significant judgments related to current economic conditions, including local, state, and national economic outlook, trends in loan volume, mix and size of loans, levels and trends of delinquencies, industry concentrations, changes in property values, and credit administration practices. Auditing these judgments and assumptions involved especially challenging auditor judgment due to the nature and extent of audit evidence and effort required, including the extent of specialized skill or knowledge needed.

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

- Testing the design and operating effectiveness of internal controls over management's review of the qualitative risk factors, and the resulting reserve for loans collectively evaluated for impairment, including controls related to: (i) the accuracy of data inputs used in the determination of adjustments made to the qualitative loss factors, and (ii) management's review of the conclusions reached related to the qualitative loss factors and the resulting allocation to the allowance.

- Assessing the appropriateness and the reasonableness of assumptions related to current economic conditions, evaluation of the loan portfolio and other risk factors used in forming the qualitative risk factors for collectively evaluated loans and determining whether such assumptions were relevant, reliable, and reasonable for the purpose used.

- Evaluating the reasonableness of assumptions and data used by management in developing the qualitative factors by comparing these data points to internally developed and third-party sources, and other audit evidence gathered.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2019.

Raleigh, North Carolina
February 28, 2020

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors
First Bancorp
Southern Pines, North Carolina

Opinion on Internal Control over Financial Reporting

We have audited First Bancorp and subsidiaries (the "Company's") internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheet of the Company as of December 31, 2019, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the year ended December 31, 2019, and the related notes and our report dated February 28, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, *Management's Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ BDO USA, LLP

Raleigh, North Carolina
February 28, 2020

elliott davis

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of First Bancorp

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of First Bancorp and its subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes to the consolidated financial statements (collectively, the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 1, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Elliott Davis, PLLC

We have served as the Company's auditor since 2005.

Charlotte, North Carolina
March 1, 2019

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure 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 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.

Management's Report On Internal Control Over Financial Reporting

Management of First Bancorp and its subsidiaries (the "Company") is responsible for establishing and maintaining effective internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Under the supervision and with the participation of management, including the principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013). Based on Management's evaluation under the framework in Internal Control – Integrated Framework, management of the Company has concluded the Company maintained effective internal control over financial reporting, as such term is defined in Securities Exchange Act of 1934 Rules 13a-15(f), as of December 31, 2019.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting can also be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Management is also responsible for the preparation and fair presentation of the consolidated financial statements and other financial information contained in this report. The accompanying consolidated financial statements were prepared in conformity with U.S. generally accepted accounting principles and include, as necessary, best estimates and judgments by management.

BDO USA, LLP, an independent, registered public accounting firm, has audited the Company's consolidated financial statements as of and for the year ended December 31, 2019, and audited the Company's effectiveness of internal control over financial reporting as of December 31, 2019, as stated in their report, which is included in Item 8 hereof.

Changes in Internal Controls

There were no changes in our internal control over financial reporting that occurred during, or subsequent to, the fourth quarter of 2019 that were reasonably likely to materially affect our internal control over financial reporting.

Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Incorporated herein by reference is the information under the captions "Directors, Nominees and Executive Officers," "Section 16(a) Beneficial Ownership Reporting Compliance," "Corporate Governance Policies and Practices" and "Board Committees, Attendance and Compensation" from the Company's definitive proxy statement to be filed pursuant to Regulation 14A.

Item 11. Executive Compensation

Incorporated herein by reference is the information under the captions "Executive Compensation" and "Board Committees, Attendance and Compensation" from the Company's definitive proxy statement to be filed pursuant to Regulation 14A.

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

Incorporated herein by reference is the information under the captions "Principal Holders of First Bancorp Voting Securities" and "Directors, Nominees and Executive Officers" from the Company's definitive proxy statement to be filed pursuant to Regulation 14A.

Additional Information Regarding the Registrant's Equity Compensation Plans

At December 31, 2019, the Company had one equity-based compensation plan, under which new grants of equity-based awards are possible.

The following table presents information as of December 31, 2019 regarding shares of the Company's stock that may be issued pursuant to the Company's equity-based compensation plan. At December 31, 2019, the Company had no warrants or stock appreciation rights outstanding under any compensation plans.

	As of December 31, 2019		
	(a)	(b)	(c)
Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders (1)	—	$ —	632,726
Equity compensation plans not approved by security holders	—	—	—
Total	—	$ —	632,726

(1) Consists of the Company's 2014 Equity Plan, which is currently in effect.

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

Incorporated herein by reference is the information under the caption "Certain Transactions" and "Corporate Governance Policies and Practices" from the Company's definitive proxy statement to be filed pursuant to Regulation 14A.

Item 14. Principal Accountant Fees and Services

Incorporated herein by reference is the information under the caption "Audit Committee Report" from the Company's definitive proxy statement to be filed pursuant to Regulation 14A.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) 1. Financial Statements - See Item 8 and the Cross Reference Index on page 3 for information concerning the Company's consolidated financial statements and report of independent auditors.

2. Financial Statement Schedules - not applicable

3. Exhibits

The following exhibits are filed with this report or, as noted, are incorporated by reference. Except as noted below the exhibits identified have SEC 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.

4.b Description of the Company's securities registered pursuant to Section 12 of the Securities Exchange Act of 1934.

10.a Form of Indemnification Agreement between the Company and its Directors and Officers was filed as Exhibit 10.a to the Company's Annual Report on Form 10-K for the year ended December 31, 2014, and is incorporated herein by reference.

10.b First Bancorp Senior Management Supplemental Executive Retirement Plan was filed as Exhibit 10.b to the Company's Annual Report on Form 10-K for the year ended December 31, 2018, and is incorporated herein by reference. (*)

10.c First Bancorp 2007 Equity Plan was filed as Appendix B to the Registrant's Form Def 14A filed on March 27, 2007, and is incorporated herein by reference. (*)

10.d First Bancorp 2014 Equity Plan was filed as Appendix B to the Registrant's Form Def 14A filed on April 4, 2014, and is incorporated herein by reference. (*)

10.e First Bancorp Long Term Care Insurance Plan was filed as Exhibit 10(o) to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004, and is incorporated by reference. (*)

10.f Advances and Security Agreement with the Federal Home Loan Bank of Atlanta dated February 15, 2005 was attached as Exhibit 99(a) to the Company's Current Report on Form 8-K filed on February 22, 2005, and is incorporated herein by reference.

10.g Form of Stock Option and Performance Unit Award Agreement was filed as Exhibit 10 to the Company's Current Report on Form 8-K filed on June 23, 2008, and is incorporated herein by reference. (*)

10.h Description of Director Compensation pursuant to Item 601(b)(10)(iii)(A) of Regulation S-K was filed as Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016, as is incorporated herein by reference. (*)

10.i First Bancorp Employees' Pension Plan, including amendments, was filed as Exhibit 10.v to the Company's Annual Report on Form 10-K for the year ended December 31, 2009, and is incorporated herein by reference. (*)

10.j Employment Agreement between the Company and Richard H. Moore dated August 28, 2012 was filed as Exhibit 10.a to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, and is incorporated herein by reference. Amendments to this agreement were filed in the Company's Current Reports on Form 8-K filed on March 9, 2017 and February 9, 2018 and are incorporated herein by reference. (*)

10.k Employment Agreement between the Company and Michael G. Mayer dated March 10, 2014 was filed as Exhibit 10.z to the Company's Annual Report on Form 10-K for the year ended December 31, 2013, and is incorporated herein by reference. (*)

10.l Amendment to the First Bancorp Senior Management Supplemental Executive Retirement Plan dated March 11, 2014 was filed as Exhibit 10.aa to the Company's Annual Report on Form 10-K for the year ended December 31, 2013, and is incorporated herein by reference. (*)

10.m Employment Agreement between the Company and Eric P. Credle dated November 7, 2014 was filed as Exhibit 10.a to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, and is incorporated herein by reference. (*)

10.n The Company's Annual Incentive Plan for certain employees and executive officers was filed as Exhibit 10(a) to the Company's Current Report on Form 8-K filed on March 2, 2015, and is incorporated herein by reference. (*)

10.o The Executive Nonqualified Excess Plan Document was filed as Exhibit 10.q to the Company's Annual Report on Form 10-K for the year ended December 31, 2017, and is incorporated herein by reference. (*)

10.p The Executive Nonqualified Excess Plan Adoption Agreement dated January 30, 2017 was filed as Exhibit 10.r to the Company's Annual Report on Form 10-K for the year ended December 31, 2017, and is incorporated herein by reference. (*)

10.q The Executive Nonqualified Excess Plan Adoption Agreement dated February 26, 2018 was filed as Exhibit 10.s to the Company's Annual Report on Form 10-K for the year ended December 31, 2017, and is incorporated herein by reference. (*)

21 List of Subsidiaries of Registrant was filed as Exhibit 21 to the Company's Annual Report on Form 10-K for the year ended December 31, 2017 and is incorporated herein by reference.

23.1 Consent of Independent Registered Public Accounting Firm, Elliott Davis, PLLC

23.2 Consent of Independent Registered Public Accounting Firm, BDO USA, LLP

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.

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.

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 Annual Report on Form 10-K for the year ended December 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

(b) Exhibits - see (a)(3) above.
(c) No financial statement schedules are filed herewith.

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

Item 16. Form 10-K Summary

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, FIRST BANCORP has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Southern Pines, and State of North Carolina, on the 28th day of February 2020.

First Bancorp

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

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

Executive Officers

/s/ Richard H. Moore
Richard H. Moore
Chief Executive Officer
February 28, 2020

/s/ Eric P. Credle
Eric P. Credle
EVP / Chief Financial Officer
(Principal Accounting Officer)
February 28, 2020

Board of Directors

/s/ James C. Crawford, III
James C. Crawford, III
Chairman of the Board
Director
February 28, 2020

/s/ Richard H. Moore
Richard H. Moore
Director
February 28, 2020

/s/ Daniel T. Blue, Jr.
Daniel T. Blue, Jr.
Director
February 28, 2020

/s/ Thomas F. Phillips
Thomas F. Phillips
Director
February 28, 2020

/s/ Mary Clara Capel
Mary Clara Capel
Director
February 28, 2020

/s/ O. Temple Sloan, III
O. Temple Sloan, III
Director
February 28, 2020

/s/ Suzanne DeFerie
Suzanne DeFerie
Director
February 28, 2020

/s/ Frederick L. Taylor II
Frederick L. Taylor II
Director
February 28, 2020

/s/ Abby J. Donnelly
Abby J. Donnelly
Director
February 28, 2020

/s/ Virginia C. Thomasson
Virginia C. Thomasson
Director
February 28, 2020

/s/ John B. Gould
John B. Gould
Director
February 28, 2020

/s/ Dennis A. Wicker
Dennis A. Wicker
Director
February 28, 2020

/s/ Michael G. Mayer
Michael G. Mayer
Director
February 28, 2020