FIRST BANCORP /NC/
Form 10-Q
August 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018

Commission File Number 0-15572

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

North Carolina (State or Other Jurisdiction of Incorporation or Organization)	56-1421916 (I.R.S. Employer Identification Number)
300 SW Broad St., Southern Pines, North Carolina (Address of Principal Executive Offices)	28387 (Zip Code)

(Registrant's telephone number, including area code) (910) 246-2500

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x YES o NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted 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 and post such files). x YES o NO

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

x Large Accelerated Filer o Accelerated Filer o Non-Accelerated Filer o Smaller Reporting Company

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter). o 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. o

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

The number of shares of the registrant's Common Stock outstanding on July 31, 2018 was 29,702,912.

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FIRST BANCORP AND SUBSIDIARIES

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FORWARD-LOOKING STATEMENTS

Part I of this report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995, which statements are inherently subject to risks and uncertainties. Forward-looking statements are statements that include projections, predictions, expectations or beliefs about future events or results or otherwise are not statements of historical fact. Further, forward-looking statements are intended to speak only as of the date made. Such statements are often characterized by the use of qualifying words (and their derivatives) such as “expect,” “believe,” “estimate,” “plan,” “project,” or other statement concerning our opinions or judgment about future events. Our actual results may differ materially from those anticipated in any forward-looking statements, as they will depend on many factors about which we are unsure, including many factors which are beyond our control. Factors that could influence the accuracy of such forward-looking statements include, but are not limited to, the financial success or changing strategies of our customers, our level of success in integrating acquisitions, actions of government regulators, the level of market interest rates, and general economic conditions. For additional information about factors that could affect the matters discussed in this paragraph, see the “Risk Factors” section of our 2017 Annual Report on Form 10-K.

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Part I. Financial Information

Item 1 - Financial Statements

First Bancorp and Subsidiaries

Consolidated Balance Sheets

($ in thousands-unaudited)	June 30, 2018	December 31, 2017 (audited)	June 30, 2017
ASSETS			
Cash and due from banks, noninterest-bearing	$97,163	114,301	80,234
Due from banks, interest-bearing	462,972	375,189	337,326
Total cash and cash equivalents	560,135	489,490	417,560
Securities available for sale	334,068	343,270	207,496
Securities held to maturity (fair values of $107,068, $118,998, and $129,697)	108,265	118,503	127,866
Presold mortgages in process of settlement	9,311	12,459	13,071
Loans	4,149,390	4,042,369	3,375,976
Allowance for loan losses	(23,298)	(23,298)	(24,025)
Net loans	4,126,092	4,019,071	3,351,951
Premises and equipment	113,774	116,233	96,605
Accrued interest receivable	13,930	14,094	10,830
Goodwill	232,458	233,070	139,124
Other intangible assets	23,152	24,437	12,132
Foreclosed real estate	8,296	12,571	11,196
Bank-owned life insurance	100,413	99,162	87,501
Other assets	87,706	64,677	53,288
Total assets	$5,717,600	5,547,037	4,528,620
LIABILITIES			
Deposits: Noninterest bearing checking accounts	$1,252,214	1,196,161	990,004
Interest bearing checking accounts	915,666	884,254	728,973
Money market accounts	1,021,659	984,945	782,963
Savings accounts	440,475	454,860	411,814
Time deposits of $100,000 or more	647,206	593,123	479,839
Other time deposits	276,401	293,612	250,737
Total deposits	4,553,621	4,406,955	3,644,330
Borrowings	407,076	407,543	355,405

Accrued interest payable	1,651	1,235	1,014
Other liabilities	30,530	38,325	27,220
Total liabilities	4,992,878	4,854,058	4,027,969
Commitments and contingencies			
SHAREHOLDERS' EQUITY			
Preferred stock, no par value per share. Authorized: 5,000,000 shares			
Series C, convertible, issued & outstanding: none, none, and none	—	—	—
Common stock, no par value per share. Authorized: 40,000,000 shares			
Issued & outstanding: 29,702,912, 29,639,374, and 24,678,295 shares	434,117	432,794	262,901
Retained earnings	301,800	264,331	240,682
Stock in rabbi trust assumed in acquisition	(3,214)	(3,581)	(4,257)
Rabbi trust obligation	3,214	3,581	4,257
Accumulated other comprehensive income (loss)	(11,195)	(4,146)	(2,932)
Total shareholders' equity	724,722	692,979	500,651
Total liabilities and shareholders' equity	$5,717,600	5,547,037	4,528,620

See accompanying notes to consolidated financial statements.

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First Bancorp and Subsidiaries

Consolidated Statements of Income

($ in thousands, except share data-unaudited)	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
INTEREST INCOME				
Interest and fees on loans	$51,451	39,656	101,621	73,359
Interest on investment securities:				
Taxable interest income	2,465	1,710	5,051	3,265
Tax-exempt interest income	368	427	748	870
Other, principally overnight investments	2,451	1,034	4,376	1,801
Total interest income	56,735	42,827	111,796	79,295
INTEREST EXPENSE				
Savings, checking and money market accounts	1,132	685	2,111	1,207
Time deposits of $100,000 or more	1,850	874	3,325	1,588
Other time deposits	251	173	470	339
Borrowings	2,270	1,179	4,151	1,949
Total interest expense	5,503	2,911	10,057	5,083
Net interest income	51,232	39,916	101,739	74,212
Provision (reversal) for loan losses	(710)	—	(4,369)	723
Net interest income after provision for loan losses	51,942	39,916	106,108	73,489
NONINTEREST INCOME				
Service charges on deposit accounts	3,122	2,966	6,385	5,580
Other service charges, commissions and fees	4,913	3,554	9,510	6,727
Fees from presold mortgage loans	796	1,511	1,655	2,279
Commissions from sales of insurance and financial products	2,119	1,038	4,059	1,878
SBA consulting fees	1,126	1,050	2,267	2,310
SBA loan sale gains	2,598	927	6,400	1,549
Bank-owned life insurance income	628	580	1,251	1,088
Foreclosed property gains (losses), net	(99)	(248)	(387)	(223)
Securities gains (losses), net	—	—	—	(235)
Other gains (losses), net	908	497	912	731
Total noninterest income	16,111	11,875	32,052	21,684
NONINTEREST EXPENSES				
Salaries expense	18,446	16,299	37,844	30,249
Employee benefits expense	4,084	4,042	8,691	7,952
Total personnel expense	22,530	20,341	46,535	38,201
Occupancy expense	2,543	2,358	5,345	4,542
Equipment related expenses	1,241	1,363	2,493	2,421
Merger and acquisition expenses	640	1,122	3,401	3,495
Intangibles amortization expense	1,745	1,031	3,417	1,607

Other operating expenses	10,174	8,869	21,280	16,890
Total noninterest expenses	38,873	35,084	82,471	67,156
Income before income taxes	29,180	16,707	55,689	28,017
Income tax expense	6,450	5,553	12,286	9,308
Net income available to common shareholders	$22,730	11,154	43,403	18,709
Earnings per common share:				
Basic	$0.77	0.45	1.47	0.80
Diluted	0.77	0.45	1.46	0.80
Dividends declared per common share	$0.10	0.08	0.20	0.16
Weighted average common shares outstanding:				
Basic	29,544,747	24,593,307	29,539,308	23,288,635
Diluted	29,632,738	24,671,550	29,630,822	23,368,503

See accompanying notes to consolidated financial statements.

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First Bancorp and Subsidiaries

Consolidated Statements of Comprehensive Income

($ in thousands-unaudited)	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
Net income	$22,730	11,154	43,403	18,709
Other comprehensive income (loss):				
Unrealized gains (losses) on securities available for sale:				
Unrealized holding gains (losses) arising during the period, pretax	(2,012)	1,989	(9,302)	3,102
Tax (expense) benefit	471	(737)	2,174	(1,144)
Reclassification to realized (gains) losses	—	—	—	235
Tax expense (benefit)	—	—	—	(87)
Postretirement Plans:				
Amortization of unrecognized net actuarial (gain) loss	51	54	103	105
Tax expense (benefit)	(12)	(16)	(24)	(36)
Other comprehensive income (loss)	(1,502)	1,290	(7,049)	2,175
Comprehensive income	$21,228	12,444	36,354	20,884

See accompanying notes to consolidated financial statements.

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First Bancorp and Subsidiaries

Consolidated Statements of Shareholders' Equity

(In thousands, except per share - unaudited)	Common Stock		Retained	Stock in Rabbi Trust Assumed in Acquisi-	Rabbi Trust	Accumulated Other Compre- hensive Income	Total Share- holders'
	Shares	Amount	Earnings	tion	Obligation	(Loss)	Equity
Balances, January 1, 2017	20,845	$147,287	225,921	—	—	(5,107)	368,101
Net income			18,709				18,709
Cash dividends declared ($0.16 per common share)			(3,948)				(3,948)
Equity issued pursuant to acquisition	3,799	114,478		(7,688)	7,688		114,478
Payment of deferred fees				3,431	(3,431)		—
Stock option exercises	16	287					287
Stock-based compensation	18	849					849
Other comprehensive income (loss)						2,175	2,175
Balances, June 30, 2017	24,678	$262,901	240,682	(4,257)	4,257	(2,932)	500,651
Balances, January 1, 2018	29,639	$432,794	264,331	(3,581)	3,581	(4,146)	692,979
Net income			43,403				43,403
Cash dividends declared ($0.20 per common share)			(5,934)				(5,934)
Payment of deferred fees				367	(367)		—
Stock option exercises	25	324					324
Stock withheld for payment of taxes	(4)	—					—
Stock-based compensation	43	999					999
Other comprehensive income (loss)						(7,049)	(7,049)
Balances, June 30, 2018	29,703	$434,117	301,800	(3,214)	3,214	(11,195)	724,722

See accompanying notes to consolidated financial statements.

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First Bancorp and Subsidiaries

Consolidated Statements of Cash Flows

($ in thousands-unaudited)	Six Months Ended June 30, 2018	2017
Cash Flows From Operating Activities		
Net income	$43,403	18,709
Reconciliation of net income to net cash provided (used) by operating activities:		
Provision (reversal) for loan losses	(4,369)	723
Net security premium amortization	1,476	1,470
Loan discount accretion	(4,407)	(3,328)
Purchase accounting accretion and amortization, net	(125)	(122)
Foreclosed property (gains) losses and write-downs, net	387	223
Loss (gain) on securities available for sale	—	235
Other losses (gains)	(912)	(731)
Decrease (increase) in net deferred loan fees	(955)	759
Depreciation of premises and equipment	2,859	2,708
Stock-based compensation expense	827	683
Amortization of intangible assets	3,417	1,607
Fees/gains from sale of presold mortgages and SBA loans	(8,055)	(3,828)
Origination of presold mortgages in process of settlement	(70,056)	(109,454)
Proceeds from sales of presold mortgages in process of settlement	74,729	107,986
Origination of SBA loans for sale	(110,116)	(27,432)
Proceeds from sales of SBA loans	88,811	22,260
(Increase) decrease in accrued interest receivable	164	(27)
(Increase) decrease in other assets	(14,988)	2,810
Increase in accrued interest payable	416	211
Decrease in other liabilities	(7,504)	(11,886)
Net cash provided (used) by operating activities	(4,998)	3,576
Cash Flows From Investing Activities		
Purchases of securities available for sale	(18,850)	(29,809)
Purchases of securities held to maturity	—	(291)
Proceeds from maturities/issuer calls of securities available for sale	17,835	15,497
Proceeds from maturities/issuer calls of securities held to maturity	9,679	13,683
Proceeds from sales of securities available for sale	—	45,601
Purchases of Federal Reserve and Federal Home Loan Bank stock, net	(6,099)	(6,527)
Net increase in loans	(73,471)	(162,197)
Proceeds from sales of foreclosed real estate	4,619	4,610
Purchases of premises and equipment	(1,959)	(2,135)
Proceeds from sales of premises and equipment	2,579	—
Net cash received in acquisition	—	56,185
Net cash used by investing activities	(65,667)	(65,383)
Cash Flows From Financing Activities		
Net increase in deposits	146,882	111,756

Net increase (decrease) in borrowings	(558)	64,973
Cash dividends paid – common stock	(5,338)	(3,642)
Proceeds from stock option exercises	324	287
Net cash provided by financing activities	141,310	173,374
Increase in cash and cash equivalents	70,645	111,567
Cash and cash equivalents, beginning of period	489,490	305,993
Cash and cash equivalents, end of period	$560,135	417,560
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	$9,641	4,872
Income taxes	10,190	8,570
Non-cash transactions:		
Unrealized gain (loss) on securities available for sale, net of taxes	(7,128)	2,106
Foreclosed loans transferred to other real estate	1,913	3,415

See accompanying notes to consolidated financial statements.

First Bancorp and Subsidiaries

Notes to Consolidated Financial Statements

(*unaudited)* For the Periods Ended June 30, 2018 and 2017

Note 1 - Basis of Presentation

In the opinion of the Company, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the consolidated financial position of the Company as of June 30, 2018 and 2017 and the consolidated results of operations and consolidated cash flows for the periods ended June 30, 2018 and 2017. All such adjustments were of a normal, recurring nature. Reference is made to the 2017 Annual Report on Form 10-K filed with the SEC for a discussion of accounting policies and other relevant information with respect to the financial statements. The results of operations for the periods ended June 30, 2018 and 2017 are not necessarily indicative of the results to be expected for the full year. The Company has evaluated all subsequent events through the date the financial statements were issued.

Note 2 – Accounting Policies

Note 1 to the 2017 Annual Report on Form 10-K filed with the SEC contains a description of the accounting policies followed by the Company and a discussion of recent accounting pronouncements. The following paragraphs update that information as necessary.

Accounting Standards Adopted in 2018

In May 2014, the Financial Accounting Standards Board (“FASB”) issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The Company’s revenue is comprised of net interest income and noninterest income. The scope of the guidance explicitly excludes net interest income as well as many other revenues for financial assets and liabilities including loans, leases, securities, and derivatives. Accordingly, the majority of the Company’s revenues were not affected. The guidance was effective for the Company on January 1, 2018 and the Company adopted the guidance using the modified retrospective method. The adoption did not have a material effect on the Company’s financial statements.

In January 2016, the FASB amended the Financial Instruments topic of the Accounting Standards Codification to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. This update is intended to improve the recognition and measurement of financial instruments and it requires an entity to: (i) measure equity investments at fair value through net income, with certain exceptions; (ii) present in other comprehensive income the changes in instrument-specific credit risk for financial liabilities measured using the fair value option; (iii) present financial assets and financial liabilities by measurement category and form of financial asset; (iv) calculate the fair value of financial instruments for disclosure purposes based on an exit price and; (v) assess a valuation allowance on deferred tax assets related to unrealized losses of available for sale debt securities in combination with other deferred tax assets. The guidance also provides an election to subsequently measure certain nonmarketable equity investments at cost less any impairment and adjusted for certain observable price changes and requires a qualitative impairment assessment of such equity investments and amends certain fair value disclosure requirements. The amendments were effective for the Company on January 1, 2018 and the adoption of the guidance did not have a material effect on its financial statements.

In March 2016, the FASB amended the Liabilities topic of the Accounting Standards Codification to address the current and potential future diversity in practice related to the derecognition of a prepaid stored-value product liability. The amendments were effective for the Company on January 1, 2018 and did not have a material effect on its financial statements.

In March 2017, the FASB amended the requirements in the Compensation—Retirement Benefits topic of the Accounting Standards Codification related to the income statement presentation of the components of net periodic benefit cost for an entity’s sponsored defined benefit pension and other postretirement plans. The amendments require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by pertinent employees during the period. The other components of net periodic benefit cost are required to be presented in the income statement separately from the service cost component. The amendments were effective for the Company on January 1, 2018 and did not have a material effect on its financial statements.

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In February 2018, the FASB issued guidance related to the Income Statement – Reporting Comprehensive Income topic of the Accounting Standards Codification, which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017, which was signed into law on December 22, 2017. The guidance will be effective for all annual and interim periods beginning January 1, 2019, with early adoption permitted. The Company chose to early adopt the new standard for the year ending December 31, 2017, as allowed under the new standard, and reclassified $0.7 million between Accumulated Other Comprehensive Income and Retained Earnings.

Accounting Standards Pending Adoption

In February 2016, the 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 provisions of this guidance are effective for reporting periods beginning after December 15, 2018; early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In June 2016, the FASB issued guidance to change the accounting for credit losses. The guidance requires an entity to utilize a new impairment model known as the current expected credit loss ("CECL") model to estimate its lifetime "expected credit loss" and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. The CECL model is expected to result in earlier recognition of credit losses. The guidance also requires new disclosures for financial assets measured at amortized cost, loans and available-for-sale debt securities. The Company will apply the guidance through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. While early adoption is permitted beginning in first quarter 2019, the Company does not expect to elect that option. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2019. The Company is currently evaluating the impact of this guidance on its consolidated financial statements; however, the Company expects the adoption of this guidance will result in a significant increase in its recorded allowance for loan losses.

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 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 will be effective for the Company for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. The Company does not expect these amendments to 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 are effective for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted, but no earlier than an entity’s adoption date of the Revenue from Contracts with Customers Topic. The Company does not expect these amendments to have a material effect on its financial statements.

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

Note 3 – Reclassifications

Certain amounts reported in the period ended June 30, 2017 have been reclassified to conform to the presentation for June 30, 2018. These reclassifications had no effect on net income or shareholders' equity for the periods presented, nor did they materially impact trends in financial information.

Note 4 – 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 Holdings, Inc. was the parent company of Carolina Bank, a North Carolina state-charted bank with eight bank 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. 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 \$65.1 million in goodwill that resulted from this transaction is non-deductible for tax purposes.

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($ 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)	2,225	(n)	32,397
Total	683,852	5,536		2,052		691,440
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						74,685
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						$ 65,072

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 adjustments to decrease the initial fair value of the foreclosed real estate acquired in the transaction based on newly obtained valuations.

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(o) This fair value adjustment relates to miscellaneous adjustments to decrease the initial fair value of borrowings.
(p) This fair value adjustment relates 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)	Carolina Bank earnings - March 3, 2017 to June 30, 2017 - included in Company's earnings for the six months ended June 30, 2017	Pro Forma Combined Six Months Ended June 30, 2017
Net interest income	$ 8,778	78,260
Noninterest income	1,871	22,874
Total revenue	10,649	101,134
Net income available to common shareholders	2,275	21,229
Earnings per common share		
Basic		$ 0.86
Diluted		0.86

The above pro forma results for the six months ended June 30, 2017 include merger-related expenses and charges recorded by Carolina Bank prior to the acquisition that are nonrecurring in nature and amounted to $4.6 million pretax, or $3.1 million after-tax ($0.12 per basic and diluted share).

(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, 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 agreement, the Company also recorded an earn-out liability 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 acquisition, 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.

ASB Bancorp, Inc. was the parent company of Asheville Savings Bank, a North Carolina state-chartered savings bank with eight bank branches located in Buncombe County, North Carolina and five bank 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.

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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 may change its valuations of acquired Asheville Savings Bank assets and liabilities for up to one year after the acquisition date. 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 $88.2 million in goodwill that resulted from this acquisition 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)	(822)	(k)	8,419
Total	707,650	728		(822)		707,556
Net identifiable assets acquired						99,003
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						$88,235

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 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.

Note 5 – Stock-Based Compensation Plans

The Company recorded total stock-based compensation expense of $596,000 and $479,000 for the three months ended June 30, 2018 and 2017, respectively, and $827,000 and $683,000 for the six months ended June 30, 2018 and 2017, respectively. Of the $827,000 in expense that was recorded in 2018, approximately $352,000 related to the June 1, 2018 director grants, which are classified as "other operating expenses" in the Consolidated Statements of Income. The remaining $475,000 in expense relates to the employee grants discussed below and is recorded as "salaries expense." Stock based compensation is reflected as an adjustment to cash flows from operating activities on the Company's consolidated statement of cash flows. The Company recognized $193,000 and $243,000 of income tax benefits related to stock based compensation expense in its consolidated income statement for the six months ended June 30, 2018 and 2017, respectively.

At June 30, 2018, the Company had two stock-based compensation plans – 1) the First Bancorp 2014 Equity Plan and 2) the First Bancorp 2007 Equity Plan. The Company's shareholders approved each plan. The First Bancorp 2014 Equity Plan became effective upon the approval of shareholders on May 8, 2014. As of June 30, 2018, the First Bancorp 2014 Equity Plan was the only plan that had shares available for future grants, and there were 771,477 shares remaining available for grant.

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

Recent equity grants have had service vesting conditions. Compensation expense for these grants is recorded over the requisite service periods. No compensation cost is recognized for grants that do not vest and any previously recognized compensation cost is reversed at forfeiture. The Company issues new shares of common stock when options are exercised.

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. Over the past five years, there have only been minimal amounts of forfeitures, and therefore the Company assumes that all awards granted with service conditions only will vest.

As it relates to director equity grants, the Company grants common shares, valued at approximately $32,000, to each non-employee director (currently 11 in total) in June of each year. Compensation expense associated with these director grants is recognized on the date of grant since there are no vesting conditions. 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, and which resulted in $352,000 in expense. On June 1, 2017, the Company granted 11,190 shares of common stock to non-employee directors (1,119 shares per director), at a fair market value of $28.59 per share, which was the closing price of the Company’s common stock on that date, and which resulted in $320,000 in expense.

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The Company's senior officers receive their annual bonuses earned under the Company's annual incentive plan in a mix of 50% cash and 50% stock, with the stock being subject to a three year vesting term. In the last three years, a total of 54,529 shares of restricted stock have been granted related to performance in the preceding fiscal years (net of an immaterial amount of forfeitures). Total compensation expense associated with those grants was $1.4 million and is being recognized over the respective vesting periods. For the three months ended June 30, 2018 and 2017, total compensation expense related to these grants was $73,000 and $66,000, respectively, and for the six months ended June 30, 2018 and 2017, total compensation expense was $147,000 and $151,000, respectively. The Company expects to record $73,000 in compensation expense during each remaining quarter of 2018.

In the last three years, the Compensation Committee also granted 101,156 shares of stock to various employees of the Company to promote retention (net of an immaterial amount of forfeitures). The total value associated with these grants amounted to $2.7 million, which is being recorded as an expense over their three year vesting periods. For the three months ended June 30, 2018 and 2017, total compensation expense related to these grants was $173,000 and $89,000, respectively, and for the six months ended June 30, 2018 and 2017, total compensation expense was $328,000 and $186,000, respectively. The Company expects to record $211,000 in compensation expense during each remaining quarter of 2018. All grants were issued based on the closing price of the Company's common stock on the date of the grant.

The following table presents information regarding the activity the first six months of 2018 related to the Company's outstanding restricted stock:

	Long-Term Restricted Stock	
	Number of Units	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2018	103,063	$24.08
Granted during the period	32,027	39.10
Vested during the period	(10,626)	17.53
Forfeited or expired during the period	(2,977)	25.21
Nonvested at June 30, 2018	121,487	$ 28.58

In years prior to 2009, stock options were the primary form of equity grant utilized by the Company. The stock options had a term of ten years. Upon a change in control (as defined in the plans), unless the awards remain outstanding or substitute equivalent awards are provided, the awards become immediately vested.

At June 30, 2018, there were 9,000 stock options outstanding related to the Company's two equity-based plans, all with an exercise price of $14.35.

The following table presents information regarding the activity for the first six months of 2018 related to 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, 2018	38,689	$ 16.09		
Granted	—	—		
Exercised	(29,689)	16.61		$ 659,743
Forfeited	—	—		
Expired	—	—		
Outstanding at June 30, 2018	9,000	$ 14.35	0.9	$ 239,040
Exercisable at June 30, 2018	9,000	$ 14.35	0.9	$ 239,040

During the three and six months ended June 30, 2018, the Company received $216,000 and $324,000, respectively, as a result of stock option exercises. During the three and six months ended June 30, 2017, the Company received $242,000 and $287,000, respectively, as a result of stock option exercises.

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Note 6 – Earnings Per Common Share

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

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

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

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

	For the Three Months Ended June 30,					
	2018			2017		
($ in thousands except per share amounts)	Income (Numer-ator)	Shares (Denom-inator)	Per Share Amount	Income (Numer-ator)	Shares (Denom-inator)	Per Share Amount
Basic EPS						
Net income available to common shareholders	$22,730	29,544,747	$ 0.77	$11,154	24,593,307	$ 0.45
Effect of Dilutive Securities	—	87,991		—	78,243	
Diluted EPS per common share	$22,730	29,632,738	$ 0.77	$11,154	24,671,550	$ 0.45

($ in thousands except per share amounts)	For the Six Months Ended June 30, 2018			2017		
	Income (Numer-ator)	Shares (Denom-inator)	Per Share Amount	Income (Numer-ator)	Shares (Denom-inator)	Per Share Amount
Basic EPS						
Net income available to common shareholders	$43,403	29,539,308	$ 1.47	$18,709	23,288,635	$ 0.80
Effect of Dilutive Securities	—	91,514		—	79,868	
Diluted EPS per common share	$43,403	29,630,822	$ 1.46	$18,709	23,368,503	$ 0.80

For both the three and six months ended June 30, 2018 and 2017, there were no options that were antidilutive.

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Note 7 – Securities

The book values and approximate fair values of investment securities at June 30, 2018 and December 31, 2017 are summarized as follows:

($ in thousands)	June 30, 2018 Amortized Cost	Fair Value	Unrealized Gains	(Losses)	December 31, 2017 Amortized Cost	Fair Value	Unrealized Gains	(Losses)
Securities available for sale:								
Government-sponsored enterprise securities	$19,000	18,537	—	(463)	14,000	13,867	—	(133)
Mortgage-backed securities	292,809	282,287	48	(10,570)	297,690	295,213	246	(2,722)
Corporate bonds	33,772	33,244	64	(592)	33,792	34,190	512	(114)
Total available for sale	$345,581	334,068	112	(11,625)	345,482	343,270	758	(2,969)
Securities held to maturity:								
Mortgage-backed securities	$57,807	55,832	—	(1,975)	63,829	63,092	—	(737)
State and local governments	50,458	51,236	836	(58)	54,674	55,906	1,280	(48)
Total held to maturity	$108,265	107,068	836	(2,033)	118,503	118,998	1,280	(785)

All of the Company’s mortgage-backed securities, including commercial mortgage-backed obligations, were issued by government-sponsored corporations, except for two private mortgage-backed securities with a fair value of $1.1 million as of June 30, 2018.

The following table presents information regarding securities with unrealized losses at June 30, 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	$15,615	385	2,922	78	18,537	463
Mortgage-backed securities	224,713	8,050	110,958	4,495	335,671	12,545
Corporate bonds	25,697	530	938	62	26,635	592
State and local governments	9,360	58	—	—	9,360	58
Total temporarily impaired securities	$275,385	9,023	114,818	4,635	390,203	13,658

The following table presents information regarding securities with unrealized losses at December 31, 2017:

($ 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	$10,897	103	2,970	30	13,867	133
Mortgage-backed securities	192,702	1,582	125,060	1,877	317,762	3,459
Corporate bonds	2,500	49	935	65	3,435	114
State and local governments	7,928	48	—	—	7,928	48
Total temporarily impaired securities	$214,027	1,782	128,965	1,972	342,992	3,754

In the above tables, all of the securities that were in an unrealized loss position at June 30, 2018 and December 31, 2017 were bonds that the Company has determined were 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.

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The book values and approximate fair values of investment securities at June 30, 2018, by contractual maturity, are summarized in the table below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

($ in thousands)	Securities Available for Sale Amortized Cost	Securities Available for Sale Fair Value	Securities Held to Maturity Amortized Cost	Securities Held to Maturity Fair Value
Securities				
Due within one year	$—	—	3,248	3,276
Due after one year but within five years	40,227	39,324	28,348	28,815
Due after five years but within ten years	7,545	7,460	17,066	17,355
Due after ten years	5,000	4,997	1,796	1,790
Mortgage-backed securities	292,809	282,287	57,807	55,832
Total securities	$345,581	334,068	108,265	107,068

At June 30, 2018 and December 31, 2017, investment securities with carrying values of $233,437,000 and $176,813,000, respectively, were pledged as collateral for public deposits.

In the first six months of 2017, the Company received proceeds from sales of securities of $45,601,000 and recorded losses of $235,000 from the sales. There were no securities sales in the first six months of 2018.

Included in “other assets” in the consolidated balance sheets are cost method investments in Federal Home Loan Bank (“FHLB”) stock and Federal Reserve Bank of Richmond (“FRB”) stock totaling $37,437,000 and $31,338,000 at June 30, 2018 and December 31, 2017, respectively. The FHLB stock had a cost and fair value of $20,036,000 and $19,647,000 at June 30, 2018 and December 31, 2017, 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 $17,401,000 and $11,691,000 at June 30, 2018 and December 31, 2017, 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.

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Note 8 – Loans and Asset Quality Information

On March 3, 2017, the Company acquired Carolina Bank (see Note 4 for more information). As a result of this acquisition, the Company recorded loans with a fair value of $497.5 million. Of those loans, $19.3 million were considered to be 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 are 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.

The following table relates to Carolina Bank PCI loans and summarizes the contractually required payments, which includes principal and interest, expected cash flows to be collected, and the fair value of acquired PCI loans at the acquisition date.

($ in thousands)	Carolina Bank Acquisition on March 3, 2017
Contractually required payments	$ 27,108
Nonaccretable difference	(4,237)
Cash flows expected to be collected at acquisition	22,871
Accretable yield	(3,617)
Fair value of PCI loans at acquisition date	$ 19,254

The following table relates to acquired Carolina Bank purchased non-impaired loans and provides the contractually required payments, fair value, and estimate of contractual cash flows not expected to be collected at the acquisition date.

($ in thousands)	Carolina Bank Acquisition on March 3, 2017
Contractually required payments	$ 569,980
Fair value of acquired loans at acquisition date	478,515
Contractual cash flows not expected to be collected	3,650

On October 1, 2017, the Company acquired Asheville Savings Bank (see Note 4 for more information). As a result of this acquisition, the Company recorded loans with a fair value of $606.2 million. Of those loans, $9.9 million were considered to be PCI loans. 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.

The following table relates to acquired Asheville Savings Bank PCI loans and summarizes the contractually required payments, which includes principal and interest, expected cash flows to be collected, and the fair value of acquired PCI loans at the acquisition date.

($ in thousands)	Asheville Savings Bank Acquisition on October 1, 2017
Contractually required payments	$ 13,424
Nonaccretable difference	(1,734)
Cash flows expected to be collected at acquisition	11,690
Accretable yield	(1,804)
Fair value of PCI loans at acquisition date	$ 9,886

The following table relates to acquired Asheville Savings Bank purchased non-impaired loans and provides the contractually required payments, fair value, and estimate of contractual cash flows not expected to be collected at the acquisition date.

($ in thousands)	Asheville Savings Bank Acquisition on October 1, 2017
Contractually required payments	$ 727,706
Fair value of acquired loans at acquisition date	595,167
Contractual cash flows not expected to be collected	7,000

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

($ in thousands)	June 30, 2018		December 31, 2017		June 30, 2017	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
All loans:						
Commercial, financial, and agricultural	$417,366	10%	$381,130	10%	$383,834	11%
Real estate – construction, land development & other land loans	600,031	14%	539,020	13%	446,661	13%
Real estate – mortgage – residential (1-4 family) first mortgages	1,000,189	24%	972,772	24%	783,759	23%
Real estate – mortgage – home equity loans / lines of credit	369,875	9%	379,978	9%	320,953	10%
Real estate – mortgage – commercial and other	1,690,175	41%	1,696,107	42%	1,384,569	41%
Installment loans to individuals	71,823	2%	74,348	2%	57,008	2%
Subtotal	4,149,459	100%	4,043,355	100%	3,376,784	100%
Unamortized net deferred loan fees	(69)		(986)		(808)	
Total loans	$4,149,390		$4,042,369		$3,375,976	

The following table presents changes in the carrying value of PCI loans.

($ in thousands)

	For the Six Months Ended June 30, 2018	For the Year Ended December 31, 2017
Purchased Credit Impaired Loans		
Balance at beginning of period	$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	(2,328)	(6,016)
Change due to loan charge-offs	(10)	(12)
Transfers to foreclosed real estate	—	(69)
Other	5	(392)
Balance at end of period	$20,832	23,165

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

($ in thousands)

	For the Six Months Ended June 30, 2018	For the Year Ended December 31, 2017
Accretable Yield for PCI loans		
Balance at beginning of period	$ 4,688	—
Additions due to acquisition of Carolina Bank	—	3,617
Additions due to acquisition of Asheville Savings Bank	—	1,804
Accretion	(784)	(1,846)
Reclassification from (to) nonaccretable difference	206	423
Other, net	48	690
Balance at end of period	$ 4,158	4,688

During the first six months of 2018, the Company received $190,000 in payments that exceeded the carrying amount of the related PCI loans, of which $149,000 was recognized as loan discount accretion income and $41,000 was recorded as additional loan interest income. During the first six months of 2017, the Company received $564,000 in payments that exceeded the carrying amount of the related PCI loans, of which $558,000 was recognized as loan discount accretion income and $6,000 was recorded as additional loan interest income.

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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.

($ in thousands)	June 30, 2018	December 31, 2017	June 30, 2017
Nonperforming assets			
Nonaccrual loans	$25,494	20,968	22,795
Restructured loans - accruing	17,386	19,834	21,019
Accruing loans > 90 days past due	—	—	—
Total nonperforming loans	42,880	40,802	43,814
Foreclosed real estate	8,296	12,571	11,196
Total nonperforming assets	$51,176	53,373	55,010
Purchased credit impaired loans not included above (1)	$20,832	23,165	16,846

(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 $0.5 million, $0.6 million, and $0.4 million in PCI loans at June 30, 2018, December 31, 2017, and June 30, 2017, respectively, that were contractually past due 90 days or more.

At June 30, 2018 and December 31, 2017, the Company had $0.4 million and $0.8 million, respectively, in residential mortgage loans in process of foreclosure.

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

($ in thousands)	June 30, 2018	December 31, 2017
Commercial, financial, and agricultural	$3,407	1,001
Real estate – construction, land development & other land loans	1,374	1,822
Real estate – mortgage – residential (1-4 family) first mortgages	11,513	12,201
Real estate – mortgage – home equity loans / lines of credit	1,765	2,524
Real estate – mortgage – commercial and other	7,292	3,345
Installment loans to individuals	143	75
Total	$25,494	20,968

The following table presents an analysis of the payment status of the Company's loans as of June 30, 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	$ 1,398	28	—	3,407	412,264	417,097
Real estate – construction, land development & other land loans	913	276	—	1,374	597,143	599,706
Real estate – mortgage – residential (1-4 family) first mortgages	4,708	692	—	11,513	975,883	992,796
Real estate – mortgage – home equity loans / lines of credit	1,189	171	—	1,765	366,377	369,502
Real estate – mortgage – commercial and other	2,604	560	—	7,292	1,667,577	1,678,033
Installment loans to individuals	279	148	—	143	70,923	71,493
Purchased credit impaired	452	163	463	—	19,754	20,832
Total	$ 11,543	2,038	463	25,494	4,109,921	4,149,459
Unamortized net deferred loan fees						(69)
Total loans						$ 4,149,390

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The following table presents an analysis of the payment status of the Company's loans as of December 31, 2017.

($ 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	$ 89	151	—	1,001	379,241	380,482
Real estate – construction, land development & other land loans	1,154	214	—	1,822	535,423	538,613
Real estate – mortgage – residential (1-4 family) first mortgages	6,777	1,370	—	12,201	943,565	963,913
Real estate – mortgage – home equity loans / lines of credit	1,347	10	—	2,524	375,814	379,695
Real estate – mortgage – commercial and other	1,270	451	—	3,345	1,678,529	1,683,595
Installment loans to individuals	445	95	—	75	73,277	73,892
Purchased credit impaired	821	77	601	—	21,666	23,165
Total	$ 11,903	2,368	601	20,968	4,007,515	4,043,355
Unamortized net deferred loan fees						(986)
Total loans						$ 4,042,369

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The following table presents the activity in the allowance for loan losses for all loans for the three and six months ended June 30, 2018.

($ in thousands)	Commercial, Financial, and Agricultural	Real Estate – Construction, Land Development & Other Land Loans	Real Estate – Residential (1-4 Family) First Mortgages	Real Estate – Mortgage – Home Equity Lines of Credit	Real Estate – Mortgage – Commercial and Other	Installment Loans to Individuals	Unallo -cated	Total
As of and for the three months ended June 30, 2018								
Beginning balance	$ 2,536	2,317	5,892	2,266	5,991	844	3,452	23,298
Charge-offs	(370)	(30)	(172)	(10)	(271)	(144)	—	(997)
Recoveries	313	341	371	90	542	50	—	1,707
Provisions	(211)	64	968	(96)	1,033	147	(2,615)	(710)
Ending balance	$ 2,268	2,692	7,059	2,250	7,295	897	837	23,298
As of and for the six months ended June 30, 2018								
Beginning balance	$ 3,111	2,816	6,147	1,827	6,475	950	1,972	23,298
Charge-offs	(609)	(32)	(415)	(186)	(312)	(262)	—	(1,816)
Recoveries	812	3,387	516	243	1,124	103	—	6,185
Provisions	(1,046)	(3,479)	811	366	8	106	(1,135)	(4,369)
Ending balance	$ 2,268	2,692	7,059	2,250	7,295	897	837	23,298
Ending balances as of June 30, 2018: Allowance for loan losses								
Individually evaluated for impairment	$ 277	302	2,756	415	1,231	6	—	4,987
Collectively evaluated for impairment	$ 1,991	2,390	4,133	1,794	6,052	891	837	18,088
Purchased credit impaired	$ —	—	170	41	12	—	—	223
Loans receivable as of June 30, 2018:								
Ending balance – total	$ 417,366	600,031	1,000,189	369,875	1,690,175	71,823	—	4,149,459
Unamortized net deferred loan fees								(69)
Total loans								$ 4,149,390

Ending balances as of June 30, 2018: Loans								
Individually evaluated for impairment	$ 3,208	3,549	15,247	671	10,333	10	—	33,018
Collectively evaluated for impairment	$ 413,889	596,157	977,549	368,831	1,667,700	71,483	—	4,095,609
Purchased credit impaired	$ 269	325	7,393	373	12,142	330	—	20,832

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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

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The following table presents the activity in the allowance for loan losses for all loans for the three and six months ended June 30, 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 three months ended June 30, 2017								
Beginning balance	$ 3,792	2,764	7,376	2,138	5,979	1,067	430	23,546
Charge-offs	(814)	(92)	(353)	(347)	(88)	(172)	—	(1,866)
Recoveries	220	981	440	65	555	84	—	2,345
Provisions	232	(977)	(378)	201	(293)	95	1,120	—
Ending balance	$ 3,430	2,676	7,085	2,057	6,153	1,074	1,550	24,025
As of and for the six months ended June 30, 2017								
Beginning balance	$ 3,829	2,691	7,704	2,420	5,098	1,145	894	23,781
Charge-offs	(1,204)	(269)	(1,247)	(578)	(414)	(359)	—	(4,071)
Recoveries	518	1,471	636	130	698	139	—	3,592
Provisions	287	(1,217)	(8)	85	771	149	656	723
Ending balance	$ 3,430	2,676	7,085	2,057	6,153	1,074	1,550	24,025
Ending balances as of June 30, 2017: Allowance for loan losses								
Individually evaluated for impairment	$ 8	182	1,304	—	424	—	—	1,918
Collectively evaluated for impairment	$ 3,422	2,494	5,781	2,057	5,729	1,074	1,550	22,107
Purchased credit impaired	$ —	—	—	—	—	—	—	—
Loans receivable as of June 30, 2017:								
Ending balance – total	$ 383,834	446,661	783,759	320,953	1,384,569	57,008	—	3,376,784
Unamortized net deferred loan fees								(808)
Total loans								$ 3,375,976
Ending balances as of June 30, 2017: Loans								
Individually evaluated for impairment	$ 235	3,250	17,083	54	9,053	—	—	29,675

Collectively evaluated for impairment	$ 383,330	442,956	763,224	320,174	1,363,629	56,950	—	3,330,263
Purchased credit impaired	$ 269	455	3,452	725	11,887	58	—	16,846

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The following table presents loans individually evaluated for impairment by class of loans, excluding PCI loans, as of June 30, 2018.

($ in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Impaired loans with no related allowance recorded:				
Commercial, financial, and agricultural	$ 2,530	2,580	—	928
Real estate – mortgage – construction, land development & other land loans	2,948	3,429	—	2,901
Real estate – mortgage – residential (1-4 family) first mortgages	4,514	5,118	—	4,885
Real estate – mortgage –home equity loans / lines of credit	23	35	—	138
Real estate – mortgage –commercial and other	3,494	3,685	—	3,441
Installment loans to individuals	—	3	—	—
Total impaired loans with no allowance	$ 13,509	14,850	—	12,293
Impaired loans with an allowance recorded:				
Commercial, financial, and agricultural	$ 678	708	277	479
Real estate – mortgage – construction, land development & other land loans	601	723	302	355
Real estate – mortgage – residential (1-4 family) first mortgages	10,733	11,347	2,756	9,724
Real estate – mortgage –home equity loans / lines of credit	648	776	415	216
Real estate – mortgage –commercial and other	6,839	6,942	1,231	5,856
Installment loans to individuals	10	15	6	3
Total impaired loans with allowance	$ 19,509	20,511	4,987	16,633

Interest income recorded on impaired loans during the six months ended June 30, 2018 was insignificant.

The following table presents loans individually evaluated for impairment by class of loans, excluding PCI 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 insignificant.

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

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

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

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The following table presents the Company’s recorded investment in loans by credit quality indicators as of June 30, 2018.

($ in thousands)	Pass	Special Mention Loans	Classified Accruing Loans	Classified Nonaccrual Loans	Total
Commercial, financial, and agricultural	$410,434	2,322	934	3,407	417,097
Real estate – construction, land development & other land loans	586,310	6,812	5,210	1,374	599,706
Real estate – mortgage – residential (1-4 family) first mortgages	941,399	13,829	26,055	11,513	992,796
Real estate – mortgage – home equity loans / lines of credit	357,507	1,698	8,532	1,765	369,502
Real estate – mortgage – commercial and other	1,648,367	16,644	5,730	7,292	1,678,033
Installment loans to individuals	70,776	215	359	143	71,493
Purchased credit impaired	6,376	7,059	7,397	—	20,832
Total	$4,021,169	48,579	54,217	25,494	4,149,459
Unamortized net deferred loan fees					(69)
Total loans					4,149,390

The following table presents the Company’s recorded investment in loans by credit quality indicators as of December 31, 2017.

($ in thousands)	Pass	Special Mention Loans	Classified Accruing Loans	Classified Nonaccrual Loans	Total
Commercial, financial, and agricultural	$368,658	9,901	922	1,001	380,482
Real estate – construction, land development & other land loans	523,642	7,129	6,020	1,822	538,613
Real estate – mortgage – residential (1-4 family) first mortgages	905,111	16,235	30,366	12,201	963,913
Real estate – mortgage – home equity loans / lines of credit	365,982	3,784	7,405	2,524	379,695
Real estate – mortgage – commercial and other	1,647,725	23,335	9,190	3,345	1,683,595
Installment loans to individuals	73,379	222	216	75	73,892
Purchased credit impaired	6,541	12,309	4,315	—	23,165
Total	$3,891,038	72,915	58,434	20,968	4,043,355
Unamortized net deferred loan fees					(986)
Total loans					4,042,369

Troubled Debt Restructurings

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

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

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

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The following table presents information related to loans modified in a troubled debt restructuring during the three months ended June 30, 2018 and 2017.

($ in thousands)	For three months ended June 30, 2018			For the three months ended June 30, 2017		
	Number of Contracts	Pre-Modification Restructured Balances	Post-Modification Restructured Balances	Number of Contracts	Pre-Modification Restructured Balances	Post-Modification Restructured Balances
TDRs – Accruing						
Commercial, financial, and agricultural	—	$ —	$ —	—	$ —	$ —
Real estate – construction, land development & other land loans	—	—	—	—	—	—
Real estate – mortgage – residential (1-4 family) first mortgages	1	18	18	—	—	—
Real estate – mortgage – home equity loans / lines of credit	—	—	—	—	—	—
Real estate – mortgage – commercial and other	—	—	—	3	1,000	1,000
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	—	—	—	1	215	215
Real estate – mortgage – home equity loans / lines of credit	—	—	—	—	—	—
Real estate – mortgage – commercial and other	—	—	—	—	—	—
Installment loans to individuals	—	—	—	—	—	—
Total TDRs arising during period	1	$ 18	$ 18	6	$ 1,285	$ 1,272

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The following table presents information related to loans modified in a troubled debt restructuring during the six months ended June 30, 2018 and 2017.

($ in thousands)	For six months ended June 30, 2018			For the six months ended June 30, 2017		
	Number of Contracts	Pre-Modification Restructured Balances	Post-Modification Restructured Balances	Number of Contracts	Pre-Modification Restructured Balances	Post-Modification Restructured Balances
TDRs – Accruing						
Commercial, financial, and agricultural	—	$ —	$ —	—	$ —	$ —
Real estate – construction, land development & other land loans	—	—	—	—	—	—
Real estate – mortgage – residential (1-4 family) first mortgages	1	18	18	—	—	—
Real estate – mortgage – home equity loans / lines of credit	—	—	—	—	—	—
Real estate – mortgage – commercial and other	—	—	—	5	3,550	3,525
Installment loans to individuals	—	—	—	—	—	—
TDRs – Nonaccrual						
Commercial, financial, and agricultural	—	—	—	1	38	25
Real estate – construction, land development & other land loans	1	61	61	1	32	32
Real estate – mortgage – residential (1-4 family) first mortgages	2	254	264	1	215	215
Real estate – mortgage – home equity loans / lines of credit	—	—	—	—	—	—
Real estate – mortgage – commercial and other	—	—	—	—	—	—
Installment loans to individuals	—	—	—	—	—	—
Total TDRs arising during period	4	$ 333	$ 343	8	$ 3,835	$ 3,797

Accruing restructured loans that were modified in the previous 12 months and that defaulted during the three months ended June 30, 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 three months ended June 30, 2018		For the three months ended June 30, 2017	
	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	$ 60	1	$ 254
Real estate – mortgage – commercial and other	2	763	—	—
Total accruing TDRs that subsequently defaulted	3	$ 823	1	$ 254

Accruing restructured loans that were modified in the previous 12 months and that defaulted during the six months ended June 30, 2018 and 2017 are presented in the table below

($ in thousands)	For the six months ended June 30, 2018		For the six months ended June 30, 2017	
	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	$ 60	2	$ 880
Real estate – mortgage – commercial and other	3	1,333	—	—
Total accruing TDRs that subsequently defaulted	4	$ 1,393	2	$ 880

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Note 9 – Deferred Loan (Fees) Costs

The amount of loans shown on the consolidated balance sheets includes net deferred loan (fees) costs of approximately ($69,000), ($986,000), and ($808,000) at June 30, 2018, December 31, 2017, and June 30, 2017, respectively.

Note 10 – Goodwill and Other Intangible Assets

The following is a summary of the gross carrying amount and accumulated amortization of amortizable intangible assets as of June 30, 2018, December 31, 2017, and June 30, 2017 and the carrying amount of unamortized intangible assets as of those same dates.

	June 30, 2018		December 31, 2017		June 30, 2017	
($ in thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets:						
Customer lists	$6,013	1,322	6,013	1,090	2,369	866
Core deposit intangibles	28,440	14,078	28,280	11,475	18,520	9,404
SBA servicing asset	4,166	558	2,194	207	928	66
Other	1,303	812	1,303	581	1,032	381
Total	$39,922	16,770	37,790	13,353	22,849	10,717
Unamortizable intangible assets:						
Goodwill	$232,458		233,070		139,124	

Activity related to transactions during the periods includes the following:

(1) In connection with the Carolina Bank acquisition on March 3, 2017, the Company recorded a net increase of $65,072,000 in goodwill and $8,790,000 in a core deposit intangible.

(2) In connection with the September 1, 2017 acquisition of Bear Insurance Service, the Company recorded $5,330,000 in goodwill, $3,644,000 in a customer list intangible, and $271,000 in other amortizable intangible assets.

(3) In connection with the Asheville Savings Bank acquisition on October 1, 2017, the Company recorded a net increase of $88,235,000 in goodwill and $9,880,000 in a core deposit intangible.

In addition to the above acquisition related activity, the Company recorded $1,972,000 and $513,000 in servicing assets associated with the guaranteed portion of SBA loans originated and sold during the first six months of 2018 and 2017, respectively. During the first six months of 2018 and 2017, the Company recorded $351,000 and $66,000, respectively, in related amortization expense. Servicing assets are recorded at fair value and amortized over the expected life of the related loans.

Amortization expense of all intangible assets totaled $1,745,000 and $1,031,000 for the three months ended June 30, 2018 and 2017, respectively, and $3,417,000 and $1,607,000 for the six months ended June 30, 2018 and 2017, respectively.

The following table presents the estimated amortization expense related to amortizable intangible assets for the last two quarters of calendar year 2018 and for each of the four calendar years ending December 31, 2022 and the estimated amount amortizable thereafter. These estimates are subject to change in future periods to the extent management determines it is necessary to make adjustments to the carrying value or estimated useful lives of amortized intangible assets.

($ in thousands)	Estimated Amortization Expense
July 1 to December 31, 2018	$ 3,164
2019	5,440
2020	4,370
2021	3,288
2022	2,312
Thereafter	4,578
Total	$ 23,152

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Note 11 – Pension Plans

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

The Company recorded periodic pension cost (income) totaling ($93,000) and ($241,000) for the three months ended June 30, 2018 and 2017, respectively, which primarily related to investment income from the Pension Plan’s assets. The following table contains the components of the pension cost (income).

	For the Three Months Ended June 30,					
	2018	2017	2018	2017	2018 Total	2017 Total
($ in thousands)	Pension Plan	Pension Plan	SERP	SERP	Both Plans	Both Plans
Service cost	$—	—	33	32	33	32
Interest cost	326	350	53	53	379	403
Expected return on plan assets	(556)	(730)	—	—	(556)	(730)
Amortization of net (gain)/loss	59	62	(8)	(8)	51	54
Net periodic pension cost (income)	$(171)	(318)	78	77	(93)	(241)

The Company recorded pension cost (income) totaling $272,000 and $(403,000) for the six months ended June 30, 2018 and 2017, respectively. The following table contains the components of the pension cost (income).

	For the Six Months Ended June 30,					
	2018	2017	2018	2017	2018 Total	2017 Total
($ in thousands)	Pension Plan	Pension Plan	SERP	SERP	Both Plans	Both Plans
Service cost	$—	—	62	59	62	59
Interest cost	656	725	110	113	766	838
Expected return on plan assets	(659)	(1,405)	—	—	(659)	(1,405)
Amortization of net (gain)/loss	119	122	(16)	(17)	103	105
Net periodic pension cost (income)	$116	(558)	156	155	272	(403)

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

The Company's contributions to the Pension Plan are based on computations by independent actuarial consultants and are intended to be deductible for income tax purposes. The Company does not expect to contribute to the Pension Plan in 2018.

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

Note 12 – Comprehensive Income (Loss)

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

($ in thousands)	June 30, 2018	December 31, 2017	June 30, 2017
Unrealized gain (loss) on securities available for sale	$(11,513)	(2,211)	252
Deferred tax asset (liability)	2,691	517	(93)
Net unrealized gain (loss) on securities available for sale	(8,822)	(1,694)	159
Additional pension asset (liability)	(3,097)	(3,200)	(4,907)
Deferred tax asset (liability)	724	748	1,816
Net additional pension asset (liability)	(2,373)	(2,452)	(3,091)
Total accumulated other comprehensive income (loss)	$(11,195)	(4,146)	(2,932)

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The following table discloses the changes in accumulated other comprehensive income (loss) for the six months ended June 30, 2018 (all amounts are net of tax).

($ in thousands)	Unrealized Gain (Loss) on Securities Available for Sale	Additional Pension Asset (Liability)	Total
Beginning balance at January 1, 2018	$ (1,694)	(2,452)	(4,146)
Other comprehensive income (loss) before reclassifications	(7,128)	—	(7,128)
Amounts reclassified from accumulated other comprehensive income	—	79	79
Net current-period other comprehensive income (loss)	(7,128)	79	(7,049)
Ending balance at June 30, 2018	$ (8,822)	(2,373)	(11,195)

The following table discloses the changes in accumulated other comprehensive income (loss) for the six months ended June 30, 2017 (all amounts are net of tax).

($ in thousands)	Unrealized Gain (Loss) on Securities Available for Sale	Additional Pension Asset (Liability)	Total
Beginning balance at January 1, 2017	$ (1,947)	(3,160)	(5,107)
Other comprehensive income (loss) before reclassifications	1,958	—	1,958
Amounts reclassified from accumulated other comprehensive income	148	69	217
Net current-period other comprehensive income (loss)	2,106	69	2,175
Ending balance at June 30, 2017	$ 159	(3,091)	(2,932)

Note 13 – Fair Value

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

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

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

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

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The following table summarizes the Company's financial instruments that were measured at fair value on a recurring and nonrecurring basis at June 30, 2018.

($ in thousands)

Description of Financial Instruments	Fair Value at June 30, 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	$18,537	—	18,537	—
Mortgage-backed securities	282,287	—	282,287	—
Corporate bonds	33,244	—	33,244	—
Total available for sale securities	$334,068	—	334,068	—
Nonrecurring				
Impaired loans	$14,586	—	—	14,586
Foreclosed real estate	8,296	—	—	8,296

The following table summarizes the Company's financial instruments that were measured at fair value on a recurring and nonrecurring basis at December 31, 2017.

($ in thousands)

Description of Financial Instruments	Fair Value at December 31, 2017	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	$13,867	—	13,867	—
Mortgage-backed securities	295,213	—	295,213	—
Corporate bonds	34,190	—	34,190	—
Total available for sale securities	$343,270	—	343,270	—
Nonrecurring				
Impaired loans	$14,086	—	—	14,086

Foreclosed real estate	12,571	—	—	12,571

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

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

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

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

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

For Level 3 assets and liabilities measured at fair value on a recurring or non-recurring basis as of June 30, 2018, the significant unobservable inputs used in the fair value measurements were as follows:

($ in thousands)

Description	Fair Value at June 30, 2018		Valuation Technique	Significant Unobservable Inputs	General Range of Significant Unobservable Input Values
Impaired loans	$	14,586	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	8,296		Appraised value; List or contract price	Discounts to reflect current market conditions, abbreviated holding period and estimated costs to sell	0-10%

For Level 3 assets and liabilities measured at fair value on a recurring or non-recurring basis as of December 31, 2017, the significant unobservable inputs used in the fair value measurements were as follows:

($ in thousands)

Description	Fair Value at December 31, 2017	Valuation Technique	Significant Unobservable Inputs	General Range of Significant Unobservable Input Values
Impaired loans	$ 14,086	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	12,571	Appraised value; List or contract price	Discounts to reflect current market conditions and estimated costs to sell	0-10%

Transfers of assets or liabilities between levels within the fair value hierarchy are recognized when an event or change in circumstances occurs. There were no transfers between Level 1 and Level 2 for assets or liabilities measured on a recurring basis during the six months ended June 30, 2018 or 2017.

For the six months ended June 30, 2018 and 2017, the increase (decrease) in the fair value of securities available for sale was ($9,302,000) and $3,102,000, respectively, which is included in other comprehensive income (net of tax benefit (expense) of $2,174,000 and ($1,144,000), respectively). Fair value measurement methods at June 30, 2018 and 2017 are consistent with those used in prior reporting periods.

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The carrying amounts and estimated fair values of financial instruments at June 30, 2018 and December 31, 2017 are as follows:

		June 30, 2018		December 31, 2017	
($ 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	$97,163	97,163	114,301	114,301
Due from banks, interest-bearing	Level 1	462,972	462,972	375,189	375,189
Securities available for sale	Level 2	334,068	334,068	343,270	343,270
Securities held to maturity	Level 2	108,265	107,068	118,503	118,998
Presold mortgages in process of settlement	Level 1	9,311	9,311	12,459	12,459
Total loans, net of allowance	Level 3	4,126,092	4,084,898	4,019,071	4,010,551
Accrued interest receivable	Level 1	13,930	13,930	14,094	14,094
Bank-owned life insurance	Level 1	100,413	100,413	99,162	99,162
Deposits	Level 2	4,553,621	4,547,235	4,406,955	4,401,757
Borrowings	Level 2	407,076	398,113	407,543	397,903
Accrued interest payable	Level 2	1,651	1,651	1,235	1,235

Fair value methods and assumptions are set forth below for the Company’s financial instruments.

Cash and Amounts Due from Banks, Presold Mortgages in Process of Settlement, Accrued Interest Receivable, and Accrued Interest Payable - The carrying amounts approximate their fair value because of the short maturity of these financial instruments.

Available for Sale and Held to Maturity Securities - Fair values are provided by a third-party and are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments or matrix pricing.

Loans - For nonimpaired loans, fair values are determined assuming the sale of the notes to a third-party financial investor. Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial, financial and agricultural, real estate construction, real estate mortgages and installment loans to individuals. Each loan category is further segmented into fixed and variable interest rate terms. The fair value for each category is determined by discounting scheduled future cash flows using current interest rates with a liquidity discount offered on loans with similar risk characteristics, and includes the Company’s estimate of future credit losses expected to be incurred over the life of the loan. Fair values for impaired loans are primarily based on estimated proceeds expected upon liquidation of the collateral or the present value of expected cash flows.

Bank-Owned Life Insurance – The carrying value of life insurance approximates fair value because this investment is carried at cash surrender value, as determined by the issuer.

Deposits - The fair value of deposits with no stated maturity, such as noninterest-bearing checking accounts, savings accounts, interest-bearing checking accounts, and money market accounts, is equal to the amount payable on demand as of the valuation date. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered in the marketplace for deposits of similar remaining maturities.

Borrowings - The fair value of borrowings is based on the discounted value of the contractual cash flows. The discount rate is estimated using the rates currently offered by the Company’s lenders for debt of similar maturities.

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

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

Note 14 – 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 the six months ended June, 2018 and 2017. Items outside the scope of ASC 606 are noted as such.

$ in thousands	For the Six Months Ended June 30, 2018	June 30, 2017
Service charges on deposit accounts	$6,385	5,580
Other service charges, commissions, and fees:		
Interchange income	6,543	4,697
Other fees	2,967	2,030
Fees from presold mortgage loans (1)	1,655	2,279
Commissions from sales of insurance and financial products:		
Insurance income	2,903	858
Wealth management income	1,156	1,020
SBA consulting fees	2,267	2,310
SBA loan sale gains (1)	6,400	1,549
Bank-owned life insurance income (1)	1,251	1,088
Foreclosed property gains (losses), net	(387)	(223)
Securities gains (losses), net (1)	—	(235)
Other gains (losses), net (1)	912	731
Total noninterest income	$32,052	21,684

(1) Not within the scope of ASC 606.

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

Service Charges on Deposit Accounts: 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.

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

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

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

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

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

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

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

Critical Accounting Policies

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

Allowance for Loan Losses

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

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

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

The reserves estimated for