FIRST BANCORP /NC/
Form 10-Q
May 10, 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 March 31, 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 April 30, 2018 was 29,660,967.

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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)	March 31, 2018	December 31, 2017 (audited)	March 31, 2017
ASSETS			
Cash and due from banks, noninterest-bearing	$78,217	114,301	81,514
Due from banks, interest-bearing	448,515	375,189	323,646
Total cash and cash equivalents	526,732	489,490	405,160
Securities available for sale	341,001	343,270	214,743
Securities held to maturity (fair values of $111,201, $118,998, and $134,185)	112,058	118,503	133,254
Presold mortgages in process of settlement	6,029	12,459	11,661
Loans	4,113,785	4,042,369	3,289,355
Allowance for loan losses	(23,298)	(23,298)	(23,546)
Net loans	4,090,487	4,019,071	3,265,809
Premises and equipment	115,542	116,233	97,142
Accrued interest receivable	13,270	14,094	10,524
Goodwill	231,681	233,070	142,872
Other intangible assets	24,079	24,437	12,811
Foreclosed real estate	11,307	12,571	12,789
Bank-owned life insurance	99,786	99,162	86,923
Other assets	69,555	64,677	48,158
Total assets	$5,641,527	5,547,037	4,441,846
LIABILITIES			
Deposits: Noninterest bearing checking accounts	$1,227,608	1,196,161	958,175
Interest bearing checking accounts	896,189	884,254	694,898
Money market accounts	1,035,261	984,945	814,079
Savings accounts	445,405	454,860	415,600
Time deposits of $100,000 or more	606,313	593,123	486,556
Other time deposits	284,932	293,612	259,862
Total deposits	4,495,708	4,406,955	3,629,170
Borrowings	407,059	407,543	290,403

Accrued interest payable	1,306	1,235	691
Other liabilities	31,804	38,325	32,121
Total liabilities	4,935,877	4,854,058	3,952,385
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: 29,660,967, 29,639,374, and 24,663,241 shares	433,305	432,794	262,180
Retained earnings	282,038	264,331	231,503
Stock in rabbi trust assumed in acquisition	(3,588)	(3,581)	(7,688)
Rabbi trust obligation	3,588	3,581	7,688
Accumulated other comprehensive income (loss)	(9,693)	(4,146)	(4,222)
Total shareholders' equity	705,650	692,979	489,461
Total liabilities and shareholders' equity	$5,641,527	5,547,037	4,441,846

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 March 31, 2018	2017
INTEREST INCOME		
Interest and fees on loans	$50,170	33,703
Interest on investment securities:		
Taxable interest income	3,032	1,824
Tax-exempt interest income	380	443
Other, principally overnight investments	1,479	498
Total interest income	55,061	36,468
INTEREST EXPENSE		
Savings, checking and money market accounts	979	522
Time deposits of $100,000 or more	1,411	714
Other time deposits	283	166
Borrowings	1,881	770
Total interest expense	4,554	2,172
Net interest income	50,507	34,296
Provision (reversal) for loan losses	(3,659)	723
Net interest income after provision for loan losses	54,166	33,573
NONINTEREST INCOME		
Service charges on deposit accounts	3,263	2,614
Other service charges, commissions and fees	4,597	3,173
Fees from presold mortgage loans	859	768
Commissions from sales of insurance and financial products	1,940	840
SBA consulting fees	1,141	1,260
SBA loan sale gains	3,802	622
Bank-owned life insurance income	623	508
Foreclosed property gains (losses), net	(288)	25
Securities gains (losses), net	—	(235)
Other gains (losses), net	4	234
Total noninterest income	15,941	9,809
NONINTEREST EXPENSES		
Salaries expense	19,398	13,950
Employee benefits expense	4,607	3,910
Total personnel expense	24,005	17,860
Occupancy expense	2,802	2,184
Equipment related expenses	1,252	1,058
Merger and acquisition expenses	2,761	2,373
Intangibles amortization expense	1,672	576

Other operating expenses	11,106	8,021
Total noninterest expenses	43,598	32,072
Income before income taxes	26,509	11,310
Income tax expense	5,836	3,755
Net income available to common shareholders	$20,673	7,555
Earnings per common share:		
Basic	$0.70	0.34
Diluted	0.70	0.34
Dividends declared per common share	$0.10	0.08
Weighted average common shares outstanding:		
Basic	29,533,869	21,983,963
Diluted	29,624,150	22,064,923

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 March 31, 2018	2017
Net income	$ 20,673	7,555
Other comprehensive income (loss):		
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period, pretax	(7,290)	1,113
Tax (expense) benefit	1,703	(407)
Reclassification to realized (gains) losses	—	235
Tax expense (benefit)	—	(87)
Postretirement Plans:		
Amortization of unrecognized net actuarial (gain) loss	52	51
Tax expense (benefit)	(12)	(20)
Other comprehensive income (loss)	(5,547)	885
Comprehensive income	$ 15,126	8,440

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 Shares	Common Stock Amount	Retained Earnings	Stock in Rabbi Trust Assumed in Acquisition	Rabbi Trust Obligation	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balances, January 1, 2017	20,845	$147,287	225,921			(5,107)	368,101
Net income			7,555				7,555
Cash dividends declared ($0.08 per common share)			(1,973)				(1,973)
Equity issued pursuant to acquisition	3,799	114,478		(7,688)	7,688		114,478
Stock option exercises	4	45					45
Stock-based compensation	15	370					370
Other comprehensive income (loss)						885	885
Balances, March 31, 2017	24,663	$262,180	231,503	(7,688)	7,688	(4,222)	489,461
Balances, January 1, 2018	29,639	$432,794	264,331	(3,581)	3,581	(4,146)	692,979
Net income			20,673				20,673
Cash dividends declared ($0.10 per common share)			(2,966)				(2,966)
Payment of deferred fees				(7)	7		—
Stock option exercises	8	108					108
Stock-based compensation	14	403					403
Other comprehensive income (loss)						(5,547)	(5,547)
Balances, March 31, 2018	29,661	$433,305	282,038	(3,588)	3,588	(9,693)	705,650

See accompanying notes to consolidated financial statements.

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First Bancorp and Subsidiaries

Consolidated Statements of Cash Flows

($ in thousands-unaudited)	Three Months Ended March 31, 2018	2017
Cash Flows From Operating Activities		
Net income	$20,673	7,555
Reconciliation of net income to net cash provided by operating activities:		
Provision (reversal) for loan losses	(3,659)	723
Net security premium amortization	685	232
Loan discount accretion	(2,111)	(1,360)
Purchase accounting accretion and amortization, net	(71)	(48)
Foreclosed property (gains) losses and write-downs, net	288	(25)
Loss (gain) on securities available for sale	—	235
Other losses (gains)	(4)	(234)
Decrease (increase) in net deferred loan fees	(786)	655
Depreciation of premises and equipment	1,445	1,300
Stock-based compensation expense	231	178
Amortization of intangible assets	1,672	576
Fees/gains from sale of presold mortgages and SBA loans	(4,661)	(1,390)
Origination of presold mortgages in process of settlement	(33,834)	(39,061)
Proceeds from sales of presold mortgages in process of settlement	40,945	37,493
Origination of SBA loans for sale	(63,040)	(9,779)
Proceeds from sales of SBA loans	50,996	7,961
Decrease in accrued interest receivable	824	279
Decrease in other assets	2,030	3,741
Increase (decrease) in accrued interest payable	71	(112)
Decrease in other liabilities	(6,279)	(8,257)
Net cash provided by operating activities	5,415	662
Cash Flows From Investing Activities		
Purchases of securities available for sale	(13,182)	(29,313)
Proceeds from maturities/issuer calls of securities available for sale	7,764	6,632
Proceeds from maturities/issuer calls of securities held to maturity	6,159	7,357
Proceeds from sales of securities available for sale	—	46,618
Purchases of Federal Reserve and Federal Home Loan Bank stock, net	(6,099)	(3,766)
Net increase in loans	(49,662)	(81,048)
Proceeds from sales of foreclosed real estate	1,455	1,818
Purchases of premises and equipment	(1,224)	(873)
Proceeds from sales of premises and equipment	540	
Net cash received in acquisition	—	56,185
Net cash provided (used) by investing activities	(54,249)	3,610
Cash Flows From Financing Activities		
Net increase in deposits	88,869	96,519

Net decrease in borrowings	(529)	—
Cash dividends paid – common stock	(2,372)	(1,669)
Proceeds from stock option exercises	108	45
Net cash provided by financing activities	86,076	94,895
Increase in cash and cash equivalents	37,242	99,167
Cash and cash equivalents, beginning of period	489,490	305,993
Cash and cash equivalents, end of period	$526,732	405,160
Supplemental Disclosures of Cash Flow Information:		
Cash paid (received) during the period for:		
Interest	$4,483	2,020
Income taxes	(181)	(1,495)
Non-cash transactions:		
Unrealized gain (loss) on securities available for sale, net of taxes	(5,587)	854
Foreclosed loans transferred to other real estate	648	1,968

See accompanying notes to consolidated financial statements.

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First Bancorp and Subsidiaries

Notes to Consolidated Financial Statements

For the Periods Ended March 31, 2018 and 2017
(*unaudited)*

Note 1 - Basis of Presentation

In the opinion of the Company, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the consolidated financial position of the Company as of March 31, 2018 and 2017 and the consolidated results of operations and consolidated cash flows for the periods ended March 31, 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 March 31, 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

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component. The amendments were effective for the Company on January 1, 2018 and did not have a material effect on its financial statements.

In February 2018, the FASB issued guidance related to the Income Statement – Reporting Comprehensive Income topic of the Accounting Standards Codifcation, 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.

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

Note 3 – Reclassifications

Certain amounts reported in the period ended March 31, 2018 have been reclassified to conform to the presentation for March 31, 2017. These reclassifications had no effect on net income or shareholders' equity for the periods presented, nor did they materially impact trends in financial information.

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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.

($ 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

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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 security was less than the current interest rate on similar instruments. This amount is being amortized on approximately a straight-line basis to increase interest expense over the remaining life of the related borrowing, which is 18 years.

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

(l) This fair value adjustment was a miscellaneous adjustment to increase the initial fair value of gross loans.

(m) This fair value adjustment relates to miscellaneous adjustment to decrease the initial fair value of premises and equipment.

(n) This fair value adjustment relates to changes in the estimate of deferred tax assets/liabilities associated with the acquisition and a miscellaneous adjustment to decrease the initial fair value of the foreclosed real estate acquired in the transaction.

(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 Only - March 3, 2017-	Pro Forma Combined Three Months Ended

	March 31, 2017	March 31, 2017
Net interest income	$ 1,886	38,209
Noninterest income	503	10,999
Total revenue	2,389	49,208
Net income available to common shareholders	210	5,377
Earnings per common share		
Basic		$ 0.22
Diluted		0.22

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The above pro forma results for the three months ended March 31, 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 and the transaction was completed on September 1, 2017 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 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.

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 $87.5 million in goodwill that resulted from this acquisition is non-deductible for tax purposes.

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($ 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)	—		30,093
Total	797,744	9,472		120		807,336
Liabilities						
Deposits	$ 678,707	430	(g)	—		679,137
Borrowings	20,000	—		—		20,000
Other	8,943	298	(h)	(822)	(j)	8,419
Total	707,650	728		(822)		707,556
Net identifiable assets acquired						99,780
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						$ 87,458

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 slightly revised estimate of the core deposit intangible asset.

(j) This fair value adjustment was recorded to reflect the tax deduction of deferred compensation plan payouts.

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Note 5 – Stock-Based Compensation Plans

The Company recorded total stock-based compensation expense of $231,000 and $178,000 for the three months ended March 31, 2018 and 2017, respectively. Stock based compensation is reflected as an adjustment to cash flows from operating activities on the Company's consolidated statement of cash flows. The Company recognized $54,000 and $66,000 of income tax benefits related to stock based compensation expense in its consolidated income statement for the three months ended March 31, 2018 and 2017, respectively.

At March 31, 2018, the Company had the following stock-based compensation plans: the First Bancorp 2014 Equity Plan and the First Bancorp 2007 Equity Plan. The Company's shareholders approved all equity-based compensation plans. The First Bancorp 2014 Equity Plan became effective upon the approval of shareholders on May 8, 2014. As of March 31, 2018, the First Bancorp 2014 Equity Plan was the only plan that had shares available for future grants, and there were 796,182 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 to employees have either had performance vesting conditions, service vesting conditions, or both. Compensation expense for these grants is recorded over the various service periods based on the estimated number of equity grants that are probable to vest. No compensation cost is recognized for grants that do not vest and any previously recognized compensation cost will be reversed. The Company issues new shares of common stock when options are exercised.

Certain of the Company's stock option grants contain terms that provide for a graded vesting schedule whereby portions of the award vest in increments over the requisite service period. The Company recognizes compensation expense for awards with graded vesting schedules on a straight-line basis over the requisite service period for each incremental award. Compensation expense is based on the estimated number of stock options and awards that will ultimately vest. Over the past five years, there have only been minimal amounts of forfeitures, and therefore the Company assumes that all awards granted without performance conditions will become vested.

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.

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 54,861 shares of restricted stock have been granted related to performance in the preceding fiscal years. Total compensation expense associated with those grants was $907,000 and is being recognized over the respective vesting periods. The Company recorded $74,000 and $69,000 in compensation expense during the three months ended March 31, 2018 and 2017, respectively, related to these grants and expects to record $74,000 in compensation expense during each remaining quarter of 2018.

In the last three years, the Compensation Committee also granted 88,494 shares of stock to various employees of the Company to promote retention. The total value associated with these grants amounted to $2.0 million, which is being recorded as an expense over their three year vesting periods. For the three months ended March 31, 2018 and 2017, total compensation expense related to these grants was $155,600 and $109,000, respectively. The Company expects to record $154,000 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.

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The following table presents information regarding the activity the first three 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	13,485	35.29
Vested during the period	—	—
Forfeited or expired during the period	—	—
Nonvested at March 31, 2018	116,548	$ 25.37

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 March 31, 2018, there were 29,181 stock options outstanding related to the Company's two equity-based plans, with exercise prices ranging from $14.35 to $16.81.

The following table presents information regarding the activity for the first three 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	(9,508)	16.60		$ 184,018

Forfeited	—	—		
Expired	—	—		
Outstanding at March 31, 2018	29,181	$ 15.92	0.5	$ 575,671
Exercisable at March 31, 2018	29,181	$ 15.92	0.5	$ 575,671

During the three months ended March 31, 2018 and 2017, the Company received $108,000 and $45,000, 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 March 31,					
	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	$20,673	29,533,869	$ 0.70	$7,555	21,983,963	$ 0.34
Effect of Dilutive Securities	—	90,281		—	80,960	

Diluted EPS per common share	$20,673	29,624,150	$ 0.70	$7,555	22,064,923	$ 0.34

For both the three months ended March 31, 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 March 31, 2018 and December 31, 2017 are summarized as follows:

($ in thousands)	March 31, 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	18,604	—	(396)	14,000	13,867	—	(133)
Mortgage-backed securities	297,720	288,924	62	(8,858)	297,690	295,213	246	(2,722)
Corporate bonds	33,782	33,473	132	(441)	33,792	34,190	512	(114)
Total available for sale	$350,502	341,001	194	(9,695)	345,482	343,270	758	(2,969)
Securities held to maturity:								
Mortgage-backed securities	$60,784	59,017	—	(1,767)	63,829	63,092	—	(737)
State and local governments	51,274	52,184	975	(65)	54,674	55,906	1,280	(48)
Total held to maturity	$112,058	111,201	975	(1,832)	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 one private mortgage-backed security with a fair value of $0.5 million as of March 31, 2018 and December 31, 2017.

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

($ in thousands)	Securities in an Unrealized Loss Position for Less than 12 Months		Securities in an Unrealized Loss Position for More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government-sponsored enterprise securities	$ 15,673	326	2,930	70	18,603	396
Mortgage-backed securities	222,384	6,583	117,509	4,042	339,893	10,625
Corporate bonds	24,852	376	935	65	25,787	441
State and local governments	9,545	65	—	—	9,545	65
Total temporarily impaired securities	$ 272,454	7,350	121,374	4,177	393,828	11,527

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 March 31, 2018 and December 31, 2017 were bonds that the Company 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 March 31, 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.

	Securities Available for Sale		Securities Held to Maturity	
($ in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities				
Due within one year	$ —	—	3,007	3,041
Due after one year but within five years	40,235	39,547	22,812	23,222
Due after five years but within ten years	7,547	7,480	20,775	21,271
Due after ten years	5,000	5,050	4,680	4,650
Mortgage-backed securities	297,720	288,924	60,784	59,017
Total securities	$ 350,502	341,001	112,058	111,201

At March 31, 2018 and December 31, 2017 investment securities with carrying values of $209,482,000 and $176,813,000, respectively, were pledged as collateral for public deposits.

In the first quarter of 2017, the Company received proceeds from sales of securities of $46,618,000 and recorded losses of $235,000 from the sales. There were no securities sales in the first quarter 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 March 31, 2018 and December 31, 2017, respectively. The FHLB stock had a cost and fair value of $20,036,000 and $19,647,000 at March 31, 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 March 31, 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)	March 31, 2018		December 31, 2017		March 31, 2017	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
All loans:						
Commercial, financial, and agricultural	$411,662	10%	$ 381,130	10%	$ 363,219	