FIRST BANCORP /NC/
Form 10-Q
November 09, 2016

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 September 30, 2016

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)

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

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 October 31, 2016 was 20,119,411.

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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 2015 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)	September 30, 2016	December 31, 2015 (audited)	September 30, 2015
ASSETS			
Cash and due from banks, noninterest-bearing	$64,145	53,285	52,788
Due from banks, interest-bearing	217,188	213,426	165,271
Federal funds sold	—	557	730
Total cash and cash equivalents	281,333	267,268	218,789
Securities available for sale	199,156	165,614	178,765
Securities held to maturity (fair values of $139,514, $157,146, and $162,858)	135,808	154,610	160,048
Presold mortgages in process of settlement	4,094	4,323	3,150
Loans – non-covered	2,651,459	2,416,285	2,375,094
Loans – covered by FDIC loss share agreement	—	102,641	106,609
Total loans	2,651,459	2,518,926	2,481,703
Total allowance for loan losses	(24,575)	(28,583)	(30,055
Net loans	2,626,884	2,490,343	2,451,648
Premises and equipment	76,731	74,559	74,839
Accrued interest receivable	8,785	9,166	9,008
FDIC indemnification asset	—	8,439	7,649
Goodwill	75,392	65,835	65,835
Other intangible assets	4,603	1,336	1,516
Foreclosed real estate	10,103	9,994	10,873
Bank-owned life insurance	73,613	72,086	56,557
Other assets	40,978	38,492	34,164
Total assets	$3,537,480	3,362,065	3,272,841
LIABILITIES			
Deposits: Noninterest bearing checking accounts	$749,256	659,038	635,287
Interest bearing checking accounts	593,065	626,878	609,908
Money market accounts	659,741	639,189	584,490
Savings accounts	207,494	186,616	187,607

Time deposits of $100,000 or more	451,622	403,545	381,895
Other time deposits	249,662	296,019	308,566
Total deposits	2,910,840	2,811,285	2,707,753
Borrowings	236,394	186,394	176,394
Accrued interest payable	523	585	588
Other liabilities	24,775	21,611	16,932
Total liabilities	3,172,532	3,019,875	2,901,667
Commitments and contingencies			
SHAREHOLDERS' EQUITY			
Preferred stock, no par value per share. Authorized: 5,000,000 shares			
Series B issued & outstanding: None, None, and 31,500 shares	—	—	31,500
Series C, convertible, issued & outstanding: 728,706, 728,706, and 728,706 shares	7,287	7,287	7,287
Common stock, no par value per share. Authorized: 40,000,000 shares			
Issued & outstanding: 20,119,411, 19,747,509, and 19,785,314 shares	139,979	133,393	133,211
Retained earnings	219,233	205,060	199,886
Accumulated other comprehensive loss	(1,551)	(3,550)	(710
Total shareholders' equity	364,948	342,190	371,174
Total liabilities and shareholders' equity	$3,537,480	3,362,065	3,272,841

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 September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
INTEREST INCOME				
Interest and fees on loans	$29,919	29,863	90,301	88,257
Interest on investment securities:				
Taxable interest income	1,688	1,670	5,472	4,693
Tax-exempt interest income	435	455	1,312	1,375
Other, principally overnight investments	213	142	612	523
Total interest income	32,255	32,130	97,697	94,848
INTEREST EXPENSE				
Savings, checking and money market accounts	401	292	1,204	842
Time deposits of $100,000 or more	657	657	1,931	2,236
Other time deposits	196	308	725	977
Borrowings	647	487	1,750	1,099
Total interest expense	1,901	1,744	5,610	5,154
Net interest income	30,354	30,386	92,087	89,694
Provision for loan losses – non-covered	—	267	2,109	1,372
Provision (reversal) for loan losses – covered	—	(1,681)	(2,132)	(2,109)
Total provision (reversal) for loan losses	—	(1,414)	(23)	(737)
Net interest income after provision (reversal) for loan losses	30,354	31,800	92,110	90,431
NONINTEREST INCOME				
Service charges on deposit accounts	2,710	2,951	7,960	8,724
Other service charges, commissions and fees	2,996	2,778	8,869	8,091
Fees from presold mortgage loans	710	481	1,491	2,020
Commissions from sales of insurance and financial products	969	691	2,844	1,917
SBA consulting fees	1,178	—	1,898	—
SBA loan sale gains	694	—	694	—
Bank-owned life insurance income	514	382	1,526	1,136
Foreclosed property losses	(266)	(939)	(189)	(1,522)
FDIC indemnification asset expense, net	(5,711)	(2,865)	(10,255)	(7,085)
Securities (losses) gains	—	(1)	3	(1)
Other gains (losses)	1,363	28	1,237	(241)
Total noninterest income	5,157	3,506	16,078	13,039
NONINTEREST EXPENSES				
Salaries	13,430	12,378	37,465	35,456
Employee benefits	2,608	2,221	7,892	6,702
Total personnel expense	16,038	14,599	45,357	42,158
Net occupancy expense	2,005	1,823	5,791	5,504
Equipment related expenses	904	900	2,693	2,805

Merger and acquisition expenses	600	—	1,286	—
Intangibles amortization	387	181	834	541
Other operating expenses	7,784	7,111	22,677	21,620
Total noninterest expenses	27,718	24,614	78,638	72,628
Income before income taxes	7,793	10,692	29,550	30,842
Income tax expense	3,115	3,687	10,396	10,605
Net income	4,678	7,005	19,154	20,237
Preferred stock dividends	(58)	(137)	(175)	(566)
Net income available to common shareholders	$4,620	6,868	18,979	19,671
Earnings per common share:				
Basic	$0.23	0.35	0.95	1.00
Diluted	0.23	0.34	0.93	0.97
Dividends declared per common share	$0.08	0.08	0.24	0.24
Weighted average common shares outstanding:				
Basic	20,007,518	19,781,789	19,904,226	19,760,807
Diluted	20,785,689	20,512,959	20,697,125	20,491,973

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 September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Net income	$ 4,678	7,005	19,154	20,237
Other comprehensive income (loss):				
Unrealized gains (losses) on securities available for sale:				
Unrealized holding gains (losses) arising during the period, pretax	241	589	3,131	(154)
Tax (expense) benefit	(94)	(231)	(1,223)	60
Reclassification to realized (gains) losses	—	1	(3)	1
Tax expense	—	—	1	—
Postretirement Plans:				
Amortization of unrecognized net actuarial (gain) loss	50	(16)	152	(63)
Tax expense (benefit)	(20)	6	(59)	24
Other comprehensive income (loss)	177	349	1,999	(132)
Comprehensive income	$ 4,855	7,354	21,153	20,105

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)	Preferred Stock	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Share-holders' Equity
Balances, January 1, 2015	$70,787	19,710	$132,532	184,958	(578)	387,699
Net income				20,237		20,237
Preferred stock redeemed (Series B)	(32,000)					(32,000)
Stock option exercises		2	32			32
Cash dividends declared ($0.24 per common share)				(4,743)		(4,743)
Preferred dividends				(566)		(566)
Stock-based compensation		73	647			647
Other comprehensive loss					(132)	(132)
Balances, September 30, 2015	$38,787	19,785	$133,211	199,886	(710)	371,174
Balances, January 1, 2016	$7,287	19,748	$133,393	205,060	(3,550)	342,190
Net income				19,154		19,154
Cash dividends declared ($0.24 per common share)				(4,806)		(4,806)
Preferred dividends				(175)		(175)
Equity issued pursuant to acquisitions		279	5,509			5,509
Stock option exercises		23	375			375
Stock-based compensation		69	702			702
Other comprehensive income					1,999	1,999
Balances, September 30, 2016	$7,287	20,119	$139,979	219,233	(1,551)	364,948

See accompanying notes to consolidated financial statements.

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First Bancorp and Subsidiaries

Consolidated Statements of Cash Flows

($ in thousands-unaudited)	Nine Months Ended September 30, 2016	2015
Cash Flows From Operating Activities		
Net income	$19,154	20,237
Reconciliation of net income to net cash provided by operating activities:		
Provision (reversal) for loan losses	(23)	(737)
Net security premium amortization	2,418	2,380
Purchase accounting accretion	(3,553)	(3,897)
FDIC indemnification asset expense, net	9,993	6,162
Foreclosed property losses and write-downs, net	189	1,522
(Gain) loss on securities available for sale	(3)	1
Other losses	126	241
Decrease in net deferred loan costs	675	181
Depreciation of premises and equipment	3,405	3,375
Stock-based compensation expense	527	554
Amortization of intangible assets	834	541
Fees/gains from sales of presold mortgages and SBA loans	(2,185)	(2,020)
Origination of presold mortgages and SBA loans	(64,731)	(76,728)
Proceeds from sales of presold mortgages and SBA loans	67,180	81,620
Gain on sale of branch	(1,356)	—
Decrease (increase) in accrued interest receivable	381	(88)
Increase in other assets	(1,530)	(990)
Decrease in accrued interest payable	(20)	(98)
Increase (decrease) in other liabilities	185	(667)
Net cash provided by operating activities	31,666	31,589
Cash Flows From Investing Activities		
Purchases of securities available for sale	(99,896)	(83,313)
Purchases of securities held to maturity	—	(2,003)
Proceeds from maturities/issuer calls of securities available for sale	68,206	61,426
Proceeds from maturities/issuer calls of securities held to maturity	17,652	19,246
Proceeds from sales of securities available for sale	8	—
Purchases of Federal Reserve and Federal Home Loan Bank stock, net	(2,263)	(9,597)
Net increase in loans	(138,044)	(98,347)
(Payments) proceeds related to FDIC loss share agreements	(1,554)	8,758
Payment to FDIC for termination of loss share agreements	(2,012)	—
Proceeds from sales of foreclosed real estate	6,670	6,426
Purchases of premises and equipment	(6,876)	(3,828)
Proceeds from sales of premises and equipment	21	847
Proceeds from branch sale	26,211	—
Net cash paid in acquisitions	(53,640)	—
Net cash used by investing activities	(185,517)	(100,385)

Cash Flows From Financing Activities		
Net increase in deposits	122,476	11,847
Net increase in borrowings	50,000	60,000
Cash dividends paid – common stock	(4,760)	(4,732)
Cash dividends paid – preferred stock	(175)	(646)
Redemption of preferred stock	—	(32,000)
Proceeds from stock option exercises	375	32
Net cash provided by financing activities	167,916	34,501
Increase (decrease) in cash and cash equivalents	14,065	(34,295)
Cash and cash equivalents, beginning of period	267,268	253,084
Cash and cash equivalents, end of period	$281,333	218,789
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	$5,672	$5,252
Income taxes	10,511	11,139
Non-cash transactions:		
Unrealized gain (loss) on securities available for sale, net of taxes	1,906	(94)
Foreclosed loans transferred to other real estate	6,968	6,700

See accompanying notes to consolidated financial statements.

First Bancorp and Subsidiaries

Notes to Consolidated Financial Statements

(*unaudited)* For the Periods Ended September 30, 2016 and 2015

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 September 30, 2016 and 2015 and the consolidated results of operations and consolidated cash flows for the periods ended September 30, 2016 and 2015. All such adjustments were of a normal, recurring nature. Reference is made to the 2015 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 September 30, 2016 and 2015 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 2015 Annual Report on Form 10-K filed with the SEC contains a description of the accounting policies followed by the Company and discussion of recent accounting pronouncements. The following paragraphs update that information as necessary.

In June 2014, the Financial Accounting Standards Board (“FASB”) issued guidance which clarifies that performance targets associated with stock compensation should be treated as a performance condition and should not be reflected in the grant date fair value of the stock award. The amendments were effective for the Company on January 1, 2016. The Company will apply the guidance to all stock awards granted or modified after January 1, 2016. The Company’s adoption of these amendments did not have a material effect on its financial statements.

In January 2015, the FASB issued guidance to eliminate from U.S. GAAP the concept of an extraordinary item, which is an event or transaction that is both (1) unusual in nature and (2) infrequently occurring. Under the new guidance, an entity will no longer (1) segregate an extraordinary item from the results of ordinary operations; (2) separately present an extraordinary item on its income statement, net of tax, after income from continuing operations; or (3) disclose income taxes and earnings-per-share data applicable to an extraordinary item. The amendments were effective for the Company on January 1, 2016, and did not have a material effect on its financial statements.

In February 2015, the FASB issued guidance which amends the consolidation requirements and significantly changes the consolidation analysis required under U.S. GAAP. The amendments were expected to result in the deconsolidation of many entities. The amendments were effective for the Company on January 1, 2016. The adoption of these amendments did not have a material effect on the Company’s financial statements.

In April 2015, the FASB issued guidance that will require debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. This update affects disclosures related to debt issuance costs but does not affect existing recognition and measurement guidance for these items. The amendments were effective for the Company on January 1, 2016. The Company’s adoption of these amendments did not have a material effect on its financial statements.

In April 2015, the FASB issued guidance which provides a practical expedient that permits the Company to measure defined benefit plan assets and obligations using the month-end that is closest to the Company’s fiscal year-end. The amendments were effective for the Company on January 1, 2016. The Company’s adoption of these amendments did not have a material effect on its financial statements.

In June 2015, the FASB issued amendments to clarify the Accounting Standards Codification, correct unintended application of guidance, and make minor improvements that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The amendments were effective upon issuance (June 12, 2015) for amendments that do not have transition guidance. Amendments that were subject to transition guidance were effective for the Company on January 1, 2016. The adoption of this guidance did not have a material effect on the Company’s financial statements.

In September 2015, the FASB amended the Business Combinations topic of the Accounting Standards Codification to simplify the accounting for adjustments made to provisional amounts recognized in a business combination by eliminating the requirement to retrospectively account for those adjustments. The amendments will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted for financial statements that have not been issued. All entities are required to apply the amendments prospectively to adjustments to provisional amounts that occur after the effective date. The amendment was effective for the Company on January 1, 2016 and these amendments did not have a material effect on its 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. The amendments will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company will apply the guidance by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values will be applied prospectively to equity investments that exist as of the date of adoption of the amendments. The Company does not expect these amendments to have a material effect on its financial statements.

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. The provisions of this guidance are effective for reporting periods beginning after December 15, 2018; early adoption is permitted. These provisions are to be applied using a modified retrospective approach. The Company is evaluating the effect that this new guidance will have on our consolidated financial statements, but does not expect it will 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 will be effective for financial statements issued for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company will apply the guidance using a modified retrospective transition method by means of a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year in which the guidance is effective to each period presented. The Company does not expect these amendments to have a material effect on its financial statements.

In March 2016, the FASB amended the Investments—Equity Method and Joint Ventures topic of the Accounting Standards Codification to eliminate the requirement to retroactively adopt the equity method of accounting. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The Company will apply the guidance prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. The Company does not expect these amendments to have a material effect on its financial statements

In March 2016, the FASB amended the Revenue from Contracts with Customers topic of the Accounting Standards Codification to clarify the implementation guidance on principal versus agent considerations and address how an entity should assess whether it is the principal or the agent in contracts that include three or more parties. The amendments will be effective for the Company for reporting periods beginning after December 15, 2017. The Company does not expect these amendments to have a material effect on its financial statements.

In March 2016, the FASB issued guidance to simplify several aspects of the accounting for share-based payment award transactions including the income tax consequences, the classification of awards as either equity or liabilities, and the classification on the statement of cash flows. Additionally, the guidance simplifies two areas specific to entities other than public business entities allowing them apply a practical expedient to estimate the expected term for all awards with performance or service conditions that have certain characteristics and also allowing them to make a one-time election to switch from measuring all liability-classified awards at fair value to measuring them at intrinsic value. The amendments will be effective for the Company for annual periods beginning after December 15, 2016 and interim periods within those annual periods. The Company does not expect these amendments to have a material effect on its financial statements.

In April 2016, the FASB amended the Revenue from Contracts with Customers topic of the Accounting Standards Codification to clarify the guidance related to identifying performance obligations and accounting for licenses of intellectual property. The amendments will be effective for the Company for reporting periods beginning after December 15, 2017. The Company does not expect these amendments to have a material effect on its financial statements.

In May 2016, the FASB amended the Revenue from Contracts with Customers topic of the Accounting Standards Codification to clarify guidance related to collectability, noncash consideration, presentation of sales tax, and transition. The amendments will be effective for the Company for reporting periods beginning after December 15, 2017. The Company does not expect these amendments to have a material effect on its financial statements.

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In June 2016, the FASB issued guidance to change the accounting for credit losses and modify the impairment model for certain debt securities. The amendments will be effective for the Company for reporting periods beginning after December 15, 2019. The Company is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

In August 2016, the FASB amended the Statement of Cash Flows topic of the Accounting Standards Codification to clarify how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments will be effective for the Company for fiscal years beginning after December 15, 2017, including interim periods within those years. 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 September 30, 2015 have been reclassified to conform to the presentation for September 30, 2016. 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 and Divestures

The Company completed the following acquisitions in 2016.

(1) On January 1, 2016, the Company completed the acquisition of Bankingport, Inc. ("Bankingport"). The results of Bankingport are included in First Bancorp's results for the three and nine months ended September 30, 2016 beginning on the January 1, 2016 acquisition date.

Bankingport was an insurance agency based in Sanford, North Carolina. This acquisition represented an opportunity to expand the insurance agency operations into a contiguous and significant banking market for the Company. Also, this acquisition provided the Company with a larger platform for leveraging insurance services throughout the Company's bank branch network. The deal value was $2.2 million and the transaction was completed on January 1, 2016 with the Company paying $700,000 in cash and issuing 79,012 shares of its common stock, which had a value of approximately $1.5 million. In connection with the acquisition, the Company also paid $1.1 million to purchase the office space previously leased by Bankingport.

This acquisition has been accounted for using the purchase method of accounting for business combinations, and accordingly, the assets and liabilities of Bankingport were recorded based on estimates of fair values as of January 1, 2016. In connection with this transaction, the Company recorded $1.7 million in goodwill, which is non-deductible for tax purposes, and $0.7 million in other amortizable intangible assets.

(2) On May 5, 2016, the Company completed the acquisition of SBA Complete, Inc. (“SBA Complete”). The results of SBA Complete are included in First Bancorp’s results for the three and nine months ended September 30, 2016 beginning on the May 5, 2016 acquisition date. SBA Complete is a consulting firm that specializes in consulting with financial institutions across the country related to Small Business Administration (“SBA”) loan origination and servicing. The deal value was $8.9 million and the transaction was completed on May 5, 2016 with the Company paying $1.5 million in cash and issuing 199,829 shares of its common stock, which had a value of approximately $4.0 million. Per the terms of the agreement, the Company also recorded an earn-out liability valued at $3.4 million, which will be paid in shares of Company stock in annual distributions over a three year period if pre-determined goals are met for those three years.

This acquisition has been accounted for using the purchase method of accounting for business combinations, and accordingly, the assets and liabilities of SBA Complete were recorded based on estimates of fair values as of May 5, 2016. In connection with this transaction, the Company recorded $6.0 million in goodwill, which is non-deductible for tax purposes, and $2.0 million in other amortizable intangible assets.

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(3) On July 15, 2016, the Company completed a branch exchange with First Community Bank headquartered in Bluefield, Virginia. In the branch exchange transaction, the Bank acquired six of First Community Bank's branches located in North Carolina, while concurrently selling seven of its branches in the southwestern area of Virginia to First Community Bank.

In connection with the sale, the Company sold $150.6 million in loans, $5.7 million in premises and equipment and $134.3 million in deposits to First Community Bank. In connection with the sale, the Company received a deposit premium of $3.8 million, removed $1.0 million of allowance for loan losses associated with the sold loans, allocated and wrote-off $3.5 million of previously recorded goodwill, and recorded a net gain of $1.4 million in this transaction.

In connection with the purchase transaction, the Company acquired assets with a fair value of $156.1 million, including $152.2 million in loans and $3.4 million in premises and equipment. Additionally, the Company assumed $111.3 million in deposits and $0.2 million in other liabilities. In connection with the purchase, the Company recorded: i) a discount on acquired loans of $1.5 million, ii) a premium on deposits of $0.3 million, iii) a $1.2 million core deposit intangible, iv) and $5.4 million in goodwill.

The branch acquisition has been accounted for using the purchase method of accounting for business combinations, and accordingly, the assets and liabilities of the acquired branches were recorded on the Company's balance sheet at their fair values as of July 15, 2016 and the related results of operations for the acquired branches have been included in the Company's consolidated statement of comprehensive income since that date. The goodwill recorded in the branch exchange is deductible for tax purposes.

In addition to the acquisitions completed during 2016 discussed above, on June 21, 2016, the Company announced that it had reached an agreement to acquire Carolina Bank Holdings, Inc. ("Carolina Bank"), headquartered in Greensboro, North Carolina, with a total deal value of $97.3 million. The merger consideration is a combination of both cash and stock, with each share of Carolina Bank common stock being exchanged for either $20.00 in cash or 1.002 shares of First Bancorp stock, subject to the total consideration being 75% stock / 25% cash. Carolina Bank operates eight branches located in Greensboro, High Point, Burlington, and Winston-Salem, North Carolina and also operates three mortgage offices in North Carolina. The acquisition is a natural extension of the Company's recent expansion into these high-growth areas. As of September 30, 2016, Carolina Bank had $709 million in total assets, $546 million in gross loans, and $601 million in total deposits. Subject to regulatory approval and the satisfaction of customary closing conditions, the transaction is expected to close in the fourth quarter of 2016 or the first quarter of 2017.

Note 5 – Equity-Based Compensation Plans

The Company recorded total stock-based compensation expense of $146,000 and $150,000 for the three months ended September 30, 2016 and 2015, respectively, and $527,000 and $554,000 for the nine months ended September 30, 2016 and 2015, respectively. Of the $527,000 in expense that was recorded in 2016, approximately $129,000 related to the June 1, 2016 director grants, which is classified as “other operating expenses” in the Consolidated Statements of Income. The remaining $398,000 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 $206,000 and $216,000 of income tax benefits related to stock based compensation expense in the income statement for the nine months ended September 30, 2016 and 2015, respectively.

At September 30, 2016, the Company had the following equity-based compensation plans: the First Bancorp 2014 Equity Plan, the First Bancorp 2007 Equity Plan, and the First Bancorp 2004 Stock Option 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 September 30, 2016, the First Bancorp 2014 Equity Plan was the only plan that had shares available for future grants, and there were 850,308 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 plans’ 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.

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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 $16,000 to each non-employee director (currently eight 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, 2016, the Company granted 6,584 shares of common stock to non-employee directors (823 shares per director), at a fair market value of $19.56 per share, which was the closing price of the Company’s common stock on that date. On June 1, 2015, the Company granted 8,176 shares of common stock to non-employee directors (1,022 shares per director), at a fair market value of $15.75 per share, which was the closing price of the Company’s common stock on that date.

Based on the Company’s performance in 2013, the Company granted long-term 15,657 restricted shares of common stock to the chief executive officer on February 11, 2014 with a two-year vesting period. The total compensation expense associated with the grant was $278,200. The Company recorded $70,000 in compensation expense related to this grant during the nine months ended September 30, 2015.

In 2014, the Company’s Compensation Committee determined that seven of the Company’s senior officers would receive their annual bonus 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. Previously, awards under this plan were paid solely in cash. Accordingly, in February 2015 and February 2016, a total of 40,914 shares of restricted stock were granted related to performance in the preceding fiscal year. Total compensation expense associated with those grants was $742,000 and is being recognized over the vesting period. For the three and nine months ended September 30, 2016, total compensation expense related to these grants was $55,000 and $165,000, respectively compared to $23,000 and $70,000 for the three and nine months ended September 30, 2015, respectively.

In 2015 and 2016, the Compensation Committee also granted 87,471 shares of stock to various employees of the Company to promote retention. The total value associated with these grants amounted to $1.6 million, which is being recorded as expense over their three year vesting periods. For the three and nine months ended September 30, 2016, total compensation expense related to these grants was $92,000 and $234,000, respectively compared to $104,000 and

$286,000 for the three and nine months ended September 30, 2015, respectively.

Based on the vesting schedules of the shares of restricted stock currently outstanding, the Company expects to record $182,000 in stock-based compensation expense over the remainder of 2016.

Under the terms of the predecessor plans and the First Bancorp 2014 Equity Plan, stock options can have a term of no longer than ten years. In 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 September 30, 2016, there were 59,948 stock options outstanding related to the three First Bancorp plans, with exercise prices ranging from $14.35 to $20.80.

The following table presents information regarding the activity for the first nine months of 2016 related to the Company's stock options outstanding:

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	Options Outstanding			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Contractual Term (years)	Aggregate Intrinsic Value
Balance at January 1, 2016	117,408	$ 18.12		
Granted	—	—		
Exercised	(23,710)	15.84		$ 81,894
Forfeited	—	—		
Expired	(33,750)	21.39		
Outstanding at September 30, 2016	59,948	$ 17.18	1.6	$ 156,086
Exercisable at September 30, 2016	59,948	$ 17.18	1.6	$ 156,086

During the nine months ended September 30, 2016, the Company received $375,000 as a result of stock option exercises and recorded insignificant tax benefits from the exercise of nonqualified options during the period. During the nine months ended September 30, 2015, the Company received $32,000 as a result of stock option exercises.

The following table presents information regarding the activity for the first nine months of 2016 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, 2016	55,329	$ 17.31
Granted during the period	62,767	19.37
Vested during the period	(5,219)	17.77
Forfeited or expired during the period	—	—
Nonvested at September 30, 2016	112,877	$ 18.44

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, with nonvested restricted stock excluded from the calculation. 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. The Company's potentially dilutive common stock issuances relate to grants of stock options and nonvested restricted stock under the Company's equity-based compensation plans and the Company's Series C Preferred Stock, which is convertible into common stock on a one-for-one ratio.

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 stock options, it is assumed that all dilutive stock options are exercised during the reporting period at their respective exercise prices, with the proceeds from the exercises used by the Company to buy back stock in the open market at the average market price in effect during the reporting period. The difference between the number of shares assumed to be exercised and the number of shares bought back is included in the calculation of dilutive securities. As it relates to nonvested restricted stock, cash equal to the average amount of compensation cost attributable to future services and not yet recognized as expense is assumed to be used by the Company to buy back stock in the open market and are deducted from the total number of nonvested restricted stock that is included in the denominator of the calculation. As it relates to the Series C Preferred Stock, it is assumed that the preferred stock was converted to common stock during the reporting period. Dividends on the preferred stock are added back to net income and the shares assumed to be converted are included in the number of shares outstanding.

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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 September 30,					
	2016			2015		
($ 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	$4,620	20,007,518	$ 0.23	$6,868	19,781,789	$ 0.35
Effect of Dilutive Securities	58	778,171		58	731,170	
Diluted EPS per common share	$4,678	20,785,689	$ 0.23	$6,926	20,512,959	$ 0.34

	For the Nine Months Ended September 30,					
	2016			2015		
($ 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	$18,979	19,904,226	$ 0.95	$19,671	19,760,807	$ 1.00
Effect of Dilutive Securities	175	792,899		175	731,166	
Diluted EPS per common share	$19,154	20,697,125	$ 0.93	$19,846	20,491,973	$ 0.97

For both the three and nine months ended September 30, 2016, there were 16,250 options that were antidilutive because the exercise price exceeded the average market price for the period, and thus are not included in the calculation to determine the effect of dilutive securities. For the both the three and nine months ended September 30, 2015, there were 52,500 options that were antidilutive.

Note 7 – Securities

The book values and approximate fair values of investment securities at September 30, 2016 and December 31, 2015 are summarized as follows:

	September 30, 2016				December 31, 2015			
	Amortized	Fair	Unrealized		Amortized	Fair	Unrealized	
($ in thousands)	Cost	Value	Gains	(Losses)	Cost	Value	Gains	(Losses)
Securities available for sale:								
Government-sponsored enterprise securities	$3,000	2,999	—	(1)	19,000	18,972	1	(29)
Mortgage-backed securities	160,267	161,443	1,441	(265)	122,474	121,553	348	(1,269)
Corporate bonds	33,842	34,571	852	(123)	25,216	24,946	—	(270)
Equity securities	83	143	67	(7)	88	143	64	(9)
Total available for sale	$197,192	199,156	2,360	(396)	166,778	165,614	413	(1,577)
Securities held to maturity:								
Mortgage-backed securities	$86,463	87,249	786	—	102,509	101,767	—	(742)
State and local governments	49,345	52,265	2,920	—	52,101	55,379	3,284	(6)
Total held to maturity	$135,808	139,514	3,706	—	154,610	157,146	3,284	(748)

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All of the Company’s mortgage-backed securities were issued by government-sponsored corporations.

The following table presents information regarding securities with unrealized losses at September 30, 2016:

($ 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	$ 2,999	1	—	—	2,999	1
Mortgage-backed securities	11,695	49	17,069	216	28,764	265
Corporate bonds	2,500	58	935	65	3,435	123
Equity securities	—	—	10	7	10	7
State and local governments	—	—	—	—	—	—
Total temporarily impaired securities	$ 17,194	108	18,014	288	35,208	396

The following table presents information regarding securities with unrealized losses at December 31, 2015:

($ 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	$ 5,993	7	2,978	22	8,971	29
Mortgage-backed securities	150,853	1,148	27,460	863	178,313	2,011
Corporate bonds	24,006	210	940	60	24,946	270
Equity securities	—	—	17	9	17	9
State and local governments	840	6	—	—	840	6
Total temporarily impaired securities	$ 181,692	1,371	31,395	954	213,087	2,325

In the above tables, all of the non-equity securities that were in an unrealized loss position at September 30, 2016 and December 31, 2015 are bonds that the Company has determined are in a loss position due primarily to interest rate factors and not credit quality concerns. The Company has evaluated the collectability of each of these bonds and has concluded that there is no other-than-temporary impairment. The Company does not intend to sell these securities, and it is more likely than not that the Company will not be required to sell these securities before recovery of the amortized cost.

The Company has also concluded that each of the equity securities in an unrealized loss position at September 30, 2016 and December 31, 2015 was in such a position due to temporary fluctuations in the market prices of the securities. The Company's policy is to record an impairment charge for any of these equity securities that remains in an unrealized loss position for twelve consecutive months unless the amount is insignificant.

The book values and approximate fair values of investment securities at September 30, 2016, 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
Debt securities				
Due within one year	$—	—	1,556	1,571
Due after one year but within five years	3,000	2,999	16,913	17,703
Due after five years but within ten years	28,842	29,556	29,711	31,818
Due after ten years	5,000	5,015	1,165	1,173
Mortgage-backed securities	160,267	161,443	86,463	87,249
Total debt securities	197,109	199,013	135,808	139,514
Equity securities	83	143	—	—
Total securities	$197,192	199,156	135,808	139,514

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At September 30, 2016 and December 31, 2015 investment securities with carrying values of $169,100,000 and $141,379,000, respectively, were pledged as collateral for public deposits.

For the nine months ended September 30, 2016, the Company received proceeds from sales of securities of $8,000 and recorded $3,000 in gains from the sales. The Company recorded insignificant losses on securities during the three and nine months ended September 30, 2015.

The aggregate carrying amount of cost-method investments was $18,156,000 and $15,468,000 at September 30, 2016 and 2015, respectively, which is recorded within the line item “other assets” on the Company’s Consolidated Balance Sheets. These investments are comprised of Federal Home Loan Bank (“FHLB”) stock and Federal Reserve Bank of Richmond (“FRB”) stock. The FHLB stock had a cost and fair value of $11,100,000 and $8,421,000 at September 30, 2016 and 2015, 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 $7,056,000 and $7,047,000 at September 30, 2016 and 2015, respectively. Periodically, both the FHLB and FRB recalculate the Company’s required level of holdings, and the Company either buys more stock or the redeems a portion of the stock at cost. The Company determined that neither stock was impaired at either period end.

Note 8 – Loans and Asset Quality Information

Prior to July 1, 2016, Company’s banking subsidiary, First Bank, had certain loans and foreclosed real estate that were covered by loss share agreements between the FDIC and First Bank which afforded First Bank significant loss protection - see Note 2 to the financial statements included in the Company’s 2011 Annual Report on Form 10-K for detailed information regarding FDIC-assisted purchase transactions. On July 1, 2014, the loss share provisions associated with non-single family assets related to the 2009 failed bank acquisition of Cooperative Bank expired. On April 1, 2016, the loss share provisions associated with non-single family assets related to the 2011 failed bank acquisition of The Bank of Asheville expired. Effective July 1, 2016, the Company terminated all of the loss share agreements with the FDIC such that all future losses and recoveries on loans and foreclosed real estate associated with the failed banks acquired through FDIC-assisted transactions will be borne solely by First Bank. As a result of the termination of the agreements, the Company recorded indemnification asset expense of $5.7 million during the three months ended September 30, 2016, which primarily related to the write-off of the remaining indemnification asset associated with the agreements.

In the information presented, the term “covered” is used to describe assets that were included in FDIC loss share agreements, while the term “non-covered” refers to the Company’s legacy assets, which are not included in any type of loss share arrangement. As discussed previously, all loss share agreements were terminated effective July 1, 2016 and thus the entire loan portfolio is now classified as non-covered. Certain prior period disclosures will continue to present the breakout of the loan portfolio between covered and non-covered.

As a result of the termination of all loss share agreements, the remaining balances associated with those loans and foreclosed real estate were reclassified from the covered portfolio to the non-covered portfolio. Balances related to the expired agreement and the termination of all remaining agreements as of the respective dates is as follows:

	Bank of Asheville non-single family agreement termination April 1, 2016	Remaining loss share agreement terminations July 1, 2016
Carrying value of total covered loans transferred to non-covered	$ 17,737	78,387
Covered nonaccrual loans transferred to non-covered	2,785	4,194
Covered foreclosed real estate transferred to non-covered	1,165	385
Allowance for loan losses associated with covered loans transferred to allowance for non-covered loans	307	1,074

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

($ in thousands)	September 30, 2016		December 31, 2015		September 30, 20	
	Amount	Percentage	Amount	Percentage	Amount	Perc
All loans:						
Commercial, financial, and agricultural	$248,877	9%	$202,671	8%	$199,630	8%
Real estate – construction, land development & other land loans	327,863	12%	308,969	12%	294,426	12
Real estate – mortgage – residential (1-4 family) first mortgages	756,880	29%	768,559	31%	770,691	31
Real estate – mortgage – home equity loans / lines of credit	239,049	9%	232,601	9%	224,639	9%
Real estate – mortgage – commercial and other	1,026,328	39%	957,587	38%	944,432	38
Installment loans to individuals	52,264	2%	47,666	2%	47,120	2%
Subtotal	2,651,261	100%	2,518,053	100%	2,480,938	10
Unamortized net deferred loan costs	198		873		765	
Total loans	$2,651,459		$2,518,926		$2,481,703	

The following is a summary of the major categories of loans outstanding allocated to the non-covered and covered loan portfolios for periods when the FDIC loss share agreements were in effect. There were no covered loans at September 30, 2016:

($ in thousands)	December 31, 2015			September 30, 2015	
	Non-covered	Covered	Total	Non-covered	Covered
Commercial, financial, and agricultural	$201,798	873	202,671	198,624	1,006
Real estate – construction, land development & other land loans	305,228	3,741	308,969	290,465	3,961
Real estate – mortgage – residential (1-4 family) first mortgages	692,902	75,657	768,559	692,431	78,260
Real estate – mortgage – home equity loans / lines of credit	221,995	10,606	232,601	213,435	11,204
Real estate – mortgage – commercial and other	945,823	11,764	957,587	932,254	12,178
Installment loans to individuals	47,666	—	47,666	47,120	—
Subtotal	2,415,412	102,641	2,518,053	2,374,329	106,609
Unamortized net deferred loan costs	873	—	873	765	—
Total	$2,416,285	102,641	2,518,926	2,375,094	106,609

As a result of the termination of the FDIC loss share agreements during the third quarter of 2016, there were no covered loans at September 30, 2016. The follow presents the carrying amount of the covered loans at December 31, 2015 detailed by impaired and nonimpaired purchased loans (as determined on the date of the acquisition):

($ in thousands)	Impaired Purchased Loans – Carrying Value	Impaired Purchased Loans – Unpaid Principal Balance	Nonimpaired Purchased Loans – Carrying Value	Nonimpaired Purchased Loans - Unpaid Principal Balance	Total Covered Loans – Carrying Value	Total Covered Loans – Unpaid Principal Balance
Covered loans:						
Commercial, financial, and agricultural	$—	—	873	886	873	886
Real estate – construction, land development & other land loans	277	365	3,464	3,457	3,741	3,822
Real estate – mortgage – residential (1-4 family) first mortgages	102	633	75,555	88,434	75,657	89,067
Real estate – mortgage – home equity loans / lines of credit	7	14	10,599	12,099	10,606	12,113
Real estate – mortgage – commercial and other	1,003	3,136	10,761	11,458	11,764	14,594
Total	$1,389	4,148	101,252	116,334	102,641	120,482

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The following table presents information regarding covered purchased nonimpaired loans since December 31, 2014. The amounts include principal only and do not reflect accrued interest as of the date of the acquisition or beyond. All balances of covered loans were transferred to non-covered as of the termination of the loss share agreements.

($ in thousands)	
Carrying amount of nonimpaired covered loans at December 31, 2014	$125,644
Principal repayments	(30,238)
Transfers to foreclosed real estate	(1,211)
Net loan recoveries	2,306
Accretion of loan discount	4,751
Carrying amount of nonimpaired covered loans at December 31, 2015	101,252
Principal repayments	(7,997)
Transfers to foreclosed real estate	(1,036)
Net loan recoveries	1,784
Accretion of loan discount	1,908
Transfer to non-covered loans due to expiration of loss-share agreement, April 1, 2016	(17,530)
Transfer to non-covered loans due to termination of loss-share agreements, July 1, 2016	(78,381)
Carrying amount of nonimpaired covered loans at September 30, 2016	$—

As reflected in the table above, the Company accreted $1,908,000 of the loan discount on covered purchased nonimpaired loans into interest income during 2016 prior to the termination of the loss share agreements. There was no accretion or other activity on covered loans in the quarter ended September 30, 2016 with the exception of the transfer of the balance of covered loans to non-covered status. The Company also accreted $1,645,000 into interest income of loan discount on non-covered nonimpaired purchased loans during the first nine months of 2016.

As of September 30, 2016, there was a remaining loan discount of $12,358,000 related to purchased accruing loans, which will be accreted into interest income over the lives of the respective loans. At September 30, 2016, the Company also had $888,000 of loan discount related to purchased nonaccruing loans, which the Company does not expect will be accreted into income.

The following table presents information regarding all purchased impaired loans since December 31, 2014, the majority of which were previously covered loans. The Company has applied the cost recovery method to all purchased impaired loans at their respective acquisition dates due to the uncertainty as to the timing of expected cash flows, as reflected in the following table.

($ in thousands)	Contractual Principal Receivable	Fair Market Value Adjustment – Write Down	Carrying Amount

			(Nonaccretable Difference)
Purchased Impaired Loans			
Balance at December 31, 2014	$ 5,859	3,262	2,597
Change due to payments received	(634)	(102)	(532)
Transfer to foreclosed real estate	(431)	(336)	(95)
Other	(3)	(3)	—
Balance at December 31, 2015	$ 4,791	2,821	1,970
Change due to payments received	(3,400)	(2,244)	(1,156)
Change due to loan charge-off	(428)	(358)	(70)
Balance at September 30, 2016	$ 963	219	744

Because of the uncertainty of the expected cash flows, the Company is accounting for each purchased impaired loan under the cost recovery method, in which all cash payments are applied to principal. Thus, there is no accretable yield associated with the above loans. There were no excess payments received during the three months ended September 30, 2016. For the nine month period ended September 30, 2016, the Company received $1,108,000 in payments that exceeded the carrying amount of the related purchased impaired loans, of which $780,000 was recognized as discount accretion loan interest income and $328,000 was recorded as additional loan interest income. For the three and nine months ended September 30, 2015, payments received that exceeded the carrying amount of the related purchased impaired loans were insignificant.

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Nonperforming assets are defined as nonaccrual loans, restructured loans, loans past due 90 or more days and still accruing interest, nonperforming loans held for sale, and foreclosed real estate. Nonperforming assets are summarized as follows:

ASSET QUALITY DATA *($ in thousands)*	September 30, 2016	December 31, 2015	September 30, 2015
Nonperforming assets			
Nonaccrual loans	$ 32,796	47,810	47,720
Restructured loans - accruing	27,273	31,489	33,075
Accruing loans > 90 days past due	—	—	—
Total nonperforming loans	60,069	79,299	80,795
Foreclosed real estate	10,103	9,994	10,873
Total nonperforming assets	$ 70,172	89,293	91,668
Total covered nonperforming assets included above (1)	$ —	12,100	10,767

(1) All FDIC loss share agreements were terminated effective July 1, 2016 and, accordingly, assets previously covered under those agreements become non-covered on that date.

At September 30, 2016 and 2015, the Company had $1.7 million and $3.0 million in residential mortgage loans in process of foreclosure, respectively.

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

($ in thousands)	September 30, 2016	December 31, 2015	September 30, 2015
Commercial, financial, and agricultural	$ 2,253	2,964	2,852
Real estate – construction, land development & other land loans	3,858	4,704	5,434
Real estate – mortgage – residential (1-4 family) first mortgages	17,989	23,829	25,206
Real estate – mortgage – home equity loans / lines of credit	2,441	3,525	2,472
Real estate – mortgage – commercial and other	6,151	12,571	11,398
Installment loans to individuals	104	217	358
Total	$ 32,796	47,810	47,720

Total covered nonperforming assets included above	$ —	7,816	5,373

The following table presents an analysis of the payment status of the Company's loans as of September 30, 2016.

($ in thousands)	30-59 Days Past Due	60-89 Days Past Due	Nonaccrual Loans	Current	Total Loans Receivable
Commercial, financial, and agricultural	$111	90	2,253	246,423	248,877
Real estate – construction, land development & other land loans	1,117	338	3,858	322,550	327,863
Real estate – mortgage – residential (1-4 family) first mortgages	2,835	1,052	17,989	735,004	756,880
Real estate – mortgage – home equity loans / lines of credit	670	65	2,441	235,873	239,049
Real estate – mortgage – commercial and other	3,670	261	6,151	1,016,246	1,026,328
Installment loans to individuals	345	258	104	51,557	52,264
Total	$8,748	2,064	32,796	2,607,653	2,651,261
Unamortized net deferred loan costs					198
Total loans					$2,651,459

The Company had no covered loans and no loans that were past due greater than 90 days and accruing interest at September 30, 2016.

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The following table presents an analysis of the payment status of the Company's loans as of December 31, 2015.

($ in thousands)	30-59 Days Past Due	60-89 Days Past Due	Nonaccrual Loans	Current	Total Loans Receivable
Commercial, financial, and agricultural	$999	127	2,964	198,581	202,671
Real estate – construction, land development & other land loans	1,512	429	4,704	302,324	308,969
Real estate – mortgage – residential (1-4 family) first mortgages	15,443	3,614	23,829	725,673	768,559
Real estate – mortgage – home equity loans / lines of credit	1,276	105	3,525	227,695	232,601
Real estate – mortgage – commercial and other	5,591	864	12,571	938,561	957,587
Installment loans to individuals	278	255	217	46,916	47,666
Total loans	$25,099	5,394	47,810	2,439,750	2,518,053
Unamortized net deferred loan costs					873
Total loans					$2,518,926
Covered loans included above	$3,313	402	7,816	91,110	102,641

The Company had no non-covered or covered loans that were past due greater than 90 days and accruing interest at December 31, 2015.

As previously discussed in Note 4 – Acquisitions and Divestures, in connection with the branch exchange effective July 15, 2016, the Company acquired $152.2 million in performing loans and sold $150.6 million in performing loans. Allowance for loan losses totaling $1.0 million associated with loans sold were removed from the allowance as of the date of sale.

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The following table presents the activity in the allowance for loan losses loans for the three and nine months ended September 30, 2016. There were no covered loans at September 30, 2016 and all reserves associated with previously covered loans have been transferred to the non-covered allowance.

($ 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	C
As of and for the three months ended September 30, 2016								
Beginning balance	$4,282	2,899	7,860	2,285	5,571	1,480	572	1
Charge-offs	(495)	(161)	(692)	(196)	(288)	(223)	—	-
Recoveries	252	588	377	69	317	55	—	-
Transfer from covered status	—	3	788	281	1	—	1	(
Removed due to branch loan sale	(263)	(39)	(347)	(110)	(228)	(63)	(1)	-
Provisions	755	(612)	(492)	54	(165)	(38)	498	-
Ending balance	$4,531	2,678	7,494	2,383	5,208	1,211	1,070	-
As of and for the nine months ended September 30, 2016								
Beginning balance	$4,742	3,754	7,832	2,893	5,816	1,051	696	1
Charge-offs	(1,229)	(638)	(3,383)	(930)	(850)	(741)	—	(
Recoveries	554	799	672	188	602	308	—	1
Transfer from covered status	56	65	839	293	127	—	1	(
Removed due to branch loan sale	(263)	(39)	(347)	(110)	(228)	(63)	(1)	-
Provisions	671	(1,263)	1,881	49	(259)	656	374	(
Ending balance	$4,531	2,678	7,494	2,383	5,208	1,211	1,070	-
Ending balances as of September 30, 2016: Allowance for loan losses								
Individually evaluated for impairment	$9	169	1,306	5	444	—	—	-
Collectively evaluated for impairment	$4,522	2,509	6,188	2,372	4,764	1,211	1,070	-
Loans acquired with deteriorated credit quality	$—	—	—	6	—	—	—	-
Loans receivable as of September 30, 2016:								
Ending balance – total	$248,877	327,863	756,880	239,049	1,026,328	52,264	—	-
Unamortized net deferred loan costs								
Total loans								
Ending balances as of September 30, 2016: Loans								

Individually evaluated for impairment	$1,732	4,181	21,611	310	11,291	1	—	-
Collectively evaluated for impairment	$247,145	323,682	735,062	238,733	1,014,506	52,263	—	-
Loans acquired with deteriorated credit quality	$—	—	207	6	531	—	—	-

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The following table presents the activity in the allowance for loan losses for non-covered and covered loans for the year ended December 31, 2015.

($ in thousands)	Commercial, Financial, and Agricultural	Real Estate – Construction, Land Development, & Other Land Loans	Real Estate – Residential (1-4 Family) First Mortgages	Real Estate– Mortgage – Home Equity Lines of Credit	Real Estate– Mortgage– Commercial and Other	Installment Loans to Individuals	Unallocated	Total Cove
As of and for the year ended December 31, 2015								
Beginning balance	$6,769	8,158	10,136	4,753	6,466	1,916	147	38,3
Charge-offs	(2,908)	(3,034)	(4,904)	(1,054)	(2,804)	(2,411)	—	(17,1
Recoveries	831	998	279	121	904	413	—	3,54
Provisions	50	(2,368)	2,321	(927)	1,250	1,133	549	2,00
Ending balance	$4,742	3,754	7,832	2,893	5,816	1,051	696	26,7
Ending balances as of December 31, 2015: Allowance for loan losses								
Individually evaluated for impairment	$304	241	1,440	321	336	45	—	2,68
Collectively evaluated for impairment	$4,438	3,513	6,392	2,572	5,480	1,006	696	24,0
Loans acquired with deteriorated credit quality	$—	—	—	—	—	—	—	—
Loans receivable as of December 31, 2015:								
Ending balance – total	$201,798	305,228	692,902	221,995	945,823	47,666	—	2,41
Unamortized net deferred loan costs								873
Total non-covered loans								2,41
Ending balances as of December 31, 2015: Loans								
Individually evaluated for impairment	$992	4,898	21,325	758	16,605	76	—	44,6
Collectively evaluated for impairment	$200,806	300,330	671,577	221,237	928,637	47,590	—	2,37
Loans acquired with deteriorated credit quality	$—	—	—	—	581	—	—	581

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The following table presents the activity in the allowance for loan losses for non-covered and covered loans for the three and nine months ended September 30, 2015.

($ 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	Tot Cov
As of and for the three months ended September 30, 2015								
Beginning balance	$5,387	5,427	8,082	3,383	5,664	1,116	1,096	30
Charge-offs	(473)	(642)	(1,692)	(129)	(289)	(419)	—	(3,
Recoveries	354	626	82	47	150	118	—	1,3
Provisions	(187)	(1,088)	1,275	(498)	226	223	316	26
Ending balance	$5,081	4,323	7,747	2,803	5,751	1,038	1,412	28
As of and for the nine months ended September 30, 2015								
Beginning balance	$6,769	8,158	10,136	4,753	6,466	1,916	147	38
Charge-offs	(2,774)	(2,650)	(3,949)	(726)	(2,311)	(1,997)	—	(14
Recoveries	697	944	241	105	545	313	—	2,8
Provisions	389	(2,129)	1,319	(1,329)	1,051	806	1,265	1,3
Ending balance	$5,081	4,323	7,747	2,803	5,751	1,038	1,412	28
Ending balances as of September 30, 2015: Allowance for loan losses								
Individually evaluated for impairment	$93	270	1,502	46	456	42	—	2,4
Collectively evaluated for impairment	$4,988	4,053	6,245	2,757	5,295	996	1,412	25
Loans acquired with deteriorated credit quality	$—	—	—	—	—	—	—	—
Loans receivable as of September 30, 2015:								
Ending balance – total	$198,624	290,465	692,431	213,435	932,254	47,120	—	2,3
Unamortized net deferred loan costs								76
Total non-covered loans								2,3
Ending balances as of September 30, 2015: Loans								
Individually evaluated for impairment	$909	5,126	20,857	435	18,521	77	—	45
Collectively evaluated for impairment	$197,715	285,339	671,574	213,000	913,136	47,043	—	2,3
Loans acquired with deteriorated credit quality	$—	—	—	—	597	—	—	59

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The following table presents loans individually evaluated for impairment as of September 30, 2016.

($ in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Loans with no related allowance recorded:				
Commercial, financial, and agricultural	$ 1,674	1,796	—	872
Real estate – mortgage – construction, land development & other land loans	3,397	4,703	—	3,746
Real estate – mortgage – residential (1-4 family) first mortgages	10,321	12,522	—	9,098
Real estate – mortgage –home equity loans / lines of credit	143	202	—	140
Real estate – mortgage –commercial and other	6,103	7,049	—	8,777
Installment loans to individuals	1	2	—	2
Total impaired loans with no allowance	$ 21,639	26,274	—	22,635
Loans with an allowance recorded:				
Commercial, financial, and agricultural	$ 58	110	9	229
Real estate – mortgage – construction, land development & other land loans	784	800	169	861
Real estate – mortgage – residential (1-4 family) first mortgages	11,497	11,725	1,306	12,021
Real estate – mortgage –home equity loans / lines of credit	173	179	11	358
Real estate – mortgage –commercial and other	5,719	5,887	444	5,548
Installment loans to individuals	—	—	—	61
Total impaired loans with allowance	$ 18,231	18,701	1,939	19,078

Interest income recorded on impaired loans during the nine months ended September 30, 2016 was insignificant.

The following table presents loans individually evaluated for impairment as of December 31, 2015.

($ in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Impaired loans with no related allowance recorded:				
Commercial, financial, and agricultural	$ 360	422	—	235
Real estate – mortgage – construction, land development & other land loans	3,944	7,421	—	4,651
Real estate – mortgage – residential (1-4 family) first mortgages	12,346	14,644	—	11,258
Real estate – mortgage –home equity loans / lines of credit	121	175	—	505
Real estate – mortgage –commercial and other	13,156	16,818	—	18,112
Installment loans to individuals	3	4	—	5
Total impaired loans with no allowance	$ 29,930	39,484	—	34,766

Total covered impaired loans with no allowance included above	$ 5,231	8,529	—	5,607
Impaired loans with an allowance recorded:				
Commercial, financial, and agricultural	$ 676	709	348	616
Real estate – mortgage – construction, land development & other land loans	954	976	241	1,980
Real estate – mortgage – residential (1-4 family) first mortgages	15,285	15,691	1,912	15,636
Real estate – mortgage –home equity loans / lines of credit	667	678	344	430
Real estate – mortgage –commercial and other	6,094	6,279	421	4,950
Installment loans to individuals	73	80	45	111
Total impaired loans with allowance	$ 23,749	24,413	3,311	23,723
Total covered impaired loans with allowance included above	$ 3,213	3,476	624	3,742

Interest income recorded on impaired loans during the year ended December 31, 2015 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.

In the second quarter of 2016, the Company made nonsubstantive changes to the numerical scale of risk grades. Previously, the description for grade 5 noted above was assigned a grade of 9. As a result of the change, most grade 9 loans were assigned a grade of 5 and the numerical grade assignments for the previous grades of 5 and below were moved one row lower in the descriptions. In the tables below, prior periods have been adjusted to be consistent with the presentation for September 30, 2016.

Also during the second quarter of 2016, the Company introduced a pass/fail grade system for smaller balance consumer loans (balances less than $500,000), primarily residential home loans and installment consumer loans. Accordingly, all such consumer loans are no longer graded on a scale of 1-9, but instead are assigned a rating of “pass” or “fail”, with “fail” loans being considered as classified loans. As of the implementation of the revised grade definitions, there were approximately $29.7 million of consumer loans that had previously been assigned grade of “special mention” and were assigned a rating of “pass”, which impacts the comparability of the September 30, 2016 table below to prior periods.

The changes noted above had no significant impact on the Company’s allowance for loan loss calculation.

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The following table presents the Company's recorded investment in loans by credit quality indicators as of September 30, 2016.

($ in thousands)

	Pass	Special Mention Loans	Classified Accruing Loans	Classified Nonaccrual Loans	Total
Commercial, financial, and agricultural	$233,267	10,062	3,295	2,253	248,877
Real estate – construction, land development & other land loans	305,881	9,693	8,431	3,858	327,863
Real estate – mortgage – residential (1-4 family) first mortgages	684,241	16,997	37,653	17,989	756,880
Real estate – mortgage – home equity loans / lines of credit	226,103	1,394	9,111	2,441	239,049
Real estate – mortgage – commercial and other	977,505	27,950	14,722	6,151	1,026,328
Installment loans to individuals	51,561	349	250	104	52,264
Total	$2,478,558	66,445	73,462	32,796	2,651,261
Unamortized net deferred loan costs					198
Total loans					2,651,459

The following table presents the Company's recorded investment in loans by credit quality indicators as of December 31, 2015.

($ in thousands)

	Pass	Special Mention Loans	Classified Accruing Loans	Classified Nonaccrual Loans	Total
Commercial, financial, and agricultural	$192,454	3,733	3,520	2,964	202,671
Real estate – construction, land development & other land loans	280,647	13,489	10,129	4,704	308,969
Real estate – mortgage – residential (1-4 family) first mortgages	664,618	39,895	40,217	23,829	768,559
Real estate – mortgage – home equity loans / lines of credit	212,391	7,374	9,311	3,525	232,601
Real estate – mortgage – commercial and other	897,579	33,155	14,282	12,571	957,587
Installment loans to individuals	46,209	776	464	217	47,666
Total	$2,293,898	98,422	77,923	47,810	2,518,053
Unamortized net deferred loan costs					873
Total loans					2,518,926
Total covered loans included above	$71,398	7,423	16,004	7,816	102,641

Troubled Debt Restructurings

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

The vast majority of the Company’s troubled debt restructurings 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 September 30, 2016 and 2015.

($ in thousands)	For the three months ended September 30, 2016			For the three months ended September 30, 2015		
	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	1	$ 1,071	$ 1,071	—	$ —	$ —
Real estate – construction, land development & other land loans	—	—	—	1	235	235
Real estate – mortgage – residential (1-4 family) first mortgages	—	—	—	—	—	—
Real estate – mortgage – home equity loans / lines of credit	—	—	—	2	411	411
Real estate – mortgage – commercial and other	—	—	—	—	—	—
Installment loans to individuals	—	—	—	—	—	—
TDRs – Nonaccrual						
Commercial, financial, and agricultural	—	—	—	—	—	—
Real estate – construction, land development & other land loans	—	—	—	2	495	495
Real estate – mortgage – residential (1-4 family) first mortgages	—	—	—	1	95	95
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	$ 1,071	$ 1,071	6	$ 1,236	$ 1,236

The following table presents information related to loans modified in a troubled debt restructuring during the nine months ended September 30, 2016 and 2015.

($ in thousands)	For the nine months ended September 30, 2016			For the nine months ended September 30, 2015		
	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	1	$ 1,071	$ 1,071	2	$ 52	$ 52
Real estate – construction, land development & other land loans	—	—	—	1	235	235
Real estate – mortgage – residential (1-4 family) first mortgages	—	—	—	2	265	265
Real estate – mortgage – home equity loans / lines of credit	—	—	—	—	—	—
Real estate – mortgage – commercial and other	—	—	—	4	557	557
Installment loans to individuals	—	—	—	—	—	—

TDRs – Nonaccrual						
Commercial, financial, and agricultural	—	—	—	—	—	—
Real estate – construction, land development & other land loans	—	—	—	3	496	496
Real estate – mortgage – residential (1-4 family) first mortgages	—	—	—	4	399	399
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	$ 1,071	$ 1,071	16	$ 2,004	$ 2,004
Total covered TDRs arising during period included above	—	—	—	2	$ 139	$ 139

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Accruing restructured loans that were modified in the previous 12 months and that defaulted during the three months ended September 30, 2016 and 2015 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 September 30, 2016		For the three months ended September 30, 2015	
	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	$ 152
Total accruing TDRs that subsequently defaulted	—	$ —	1	$ 152

Accruing restructured loans that were modified in the previous 12 months and that defaulted during the nine months ended September 30, 2016 and 2015 are presented in the table below.

($ in thousands)	For the nine months ended September 30, 2016		For the nine months ended September 30, 2015	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Accruing TDRs that subsequently defaulted				
Commercial, financial, and agricultural	1	$ 44	1	$ 7
Real estate – mortgage – residential (1-4 family first mortgages)	—	—	2	186
Real estate – mortgage – commercial and other	1	21	—	—
Total accruing TDRs that subsequently defaulted	2	$ 65	3	$ 193
Total covererd accruing TDRs that subsequently defaulted included above	1	$ 44	—	$ —

Note 9 – Deferred Loan Costs

The amount of loans shown on the Consolidated Balance Sheets includes net deferred loan costs of approximately $198,000, $873,000, and $765,000 at September 30, 2016, December 31, 2015, and September 30, 2015, respectively.

Note 10 – FDIC Indemnification Asset

As discussed previously in Note 8 – Loans and Asset Quality Information, the Company terminated all loss share agreements with the FDIC effective July 1, 2016. As a result, the remaining balance in the FDIC Indemnification Asset, which represented the estimated amount to be received from the FDIC under the loss share agreements, was written off as indemnification asset expense as of the termination date.

The FDIC indemnification asset was comprised of the following components as of the dates shown:

($ in thousands)	September 30, 2016	December 31, 2015	September 30, 2015
Receivable (payable) related to loss claims incurred (recoveries), not yet received (paid), net	$ —	(633)	(2,427)
Receivable related to estimated future claims on loans	—	8,675	9,522
Receivable related to estimated future claims on foreclosed real estate	—	397	554
FDIC indemnification asset	$ —	8,439	7,649

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The following presents a rollforward of the FDIC indemnification asset since December 31, 2015 through agreement termination July 1, 2016.

($ in thousands)	
Balance at December 31, 2015	$8,439
Decrease related to favorable changes in loss estimates	(2,246)
Increase related to reimbursable expenses	205
Cash paid	1,554
Amortization associated with accretion of loan discount	(2,005)
Other	(236)
Write off of asset balance upon termination of FDIC loss share agreements effective July 1, 2016	(5,711)
Balance at September 30, 2016	$—

Note 11 – Goodwill and Other Intangible Assets

The following is a summary of the gross carrying amount and accumulated amortization of amortizable intangible assets as of September 30, 2016, December 31, 2015, and September 30, 2015 and the carrying amount of unamortized intangible assets as of those same dates. Activity related to transactions during the year includes the following:

(1) In connection with the January 1, 2016 acquisition of Bankingport, Inc., an insurance agency located in Sanford, North Carolina, the Company recorded $1,693,000 in goodwill, $591,000 in a customer list intangible, and $92,000 in other amortizable intangible assets.

(2) In connection with the May 4, 2016 acquisition of SBA Complete, Inc., a SBA loan consulting firm, the Company recorded $6,013,000 in goodwill, $1,100,000 in a customer list intangible, and $940,000 in other amortizable intangible assets.

(3) In connection with the branch exchange transaction with First Community Bank in Bluefield, Virginia, the Company recorded a net increase of $1,851,000 in goodwill and $1,170,000 in core deposit premiums.

In addition to the above acquisition related activity, the Company recorded $208,000 in servicing assets associated with the guaranteed portion of SBA loans originated and sold during the quarter. Servicing assets are recorded at fair value and amortized as a reduction of service fee income over the expected life of the related loans.

	September 30, 2016		December 31, 2015		September 30, 2015	
($ in thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets:						
Customer lists	$ 2,369	668	678	550	678	539
Core deposit premiums	9,730	7,902	8,560	7,352	8,560	7,183

Other	1,032	166	—	—