

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, 2022

Commission File Number 0-15572

FIRST BANCORP

(Exact Name of Registrant as Specified in its Charter)

North Carolina

56-1421916

(State or Other Jurisdiction of Incorporation or Organization)

(I.R.S. Employer Identification Number)

300 SW Broad St., Southern Pines, North Carolina

28387

(Address of Principal Executive Offices)

(Zip Code)

(Registrant's telephone number, including area code)

(910) 246-2500

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

Title of each class
Common Stock, No Par Value

Trading Symbol
FBNC

Name of each exchange on which registered:
The Nasdaq Global Select Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

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

Large Accelerated Filer ☒
Non-Accelerated Filer ☐

Accelerated Filer ☐
Smaller Reporting Company ☐
Emerging Growth Company ☐

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

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

The number of shares of the registrant's Common Stock outstanding on October 31, 2022 was 35,711,754.

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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 statements concerning our opinions or judgment about future events. Our actual results may differ materially from those anticipated in any forward-looking statements, as they will depend on many factors about which we are unsure, including many factors which are beyond our control. Factors that could influence the accuracy of such forward-looking statements include, but are not limited to, the financial success or changing strategies of our customers, our level of success in integrating acquisitions, actions of government regulators, the level of market interest rates, geopolitical influences 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 2021 Annual Report on Form 10-K and Item 1A of Part II of this report.

Part I. Financial Information
Item 1 - Financial Statements

First Bancorp and Subsidiaries
Consolidated Balance Sheets

(\$ in thousands)	September 30, 2022 (unaudited)	December 31, 2021
ASSETS		
Cash and due from banks, noninterest-bearing	\$ 83,050	128,228
Due from banks, interest-bearing	186,465	332,934
Total cash and cash equivalents	269,515	461,162
Securities available for sale	2,338,215	2,630,414
Securities held to maturity (fair values of \$418,599 and \$511,699)	544,193	513,825
Presold mortgages in process of settlement at fair value	3,233	19,257
SBA and other loans held for sale	477	61,003
Loans	6,525,286	6,081,715
Allowance for credit losses on loans	(86,587)	(78,789)
Net loans	6,438,699	6,002,926
Premises and equipment	134,288	136,092
Operating right-of-use lease assets	19,230	20,719
Accrued interest receivable	25,332	25,896
Goodwill	364,263	364,263
Other intangible assets	13,887	17,827
Foreclosed properties	658	3,071
Bank-owned life insurance	164,793	165,786
Other assets	199,079	86,660
Total assets	\$ 10,515,862	10,508,901
LIABILITIES		
Deposits: Noninterest-bearing checking accounts	\$ 3,748,207	3,348,622
Interest-bearing checking accounts	5,481,064	5,776,007
Total deposits	9,229,271	9,124,629
Borrowings	226,476	67,386
Accrued interest payable	881	607
Operating lease liabilities	19,847	21,192
Other liabilities	54,890	64,512
Total liabilities	9,531,365	9,278,326
Commitments and contingencies		
SHAREHOLDERS' EQUITY		
Preferred stock, no par value per share. Authorized: 5,000,000 shares		
Issued & outstanding: none as of September 30, 2022 and December 31, 2021	—	—
Common stock, no par value per share. Authorized: 60,000,000 shares		
Issued & outstanding: 35,711,754 shares and 35,629,177 shares as of September 30, 2022 and December 31, 2021, respectively	724,694	722,671
Retained earnings	617,839	532,874
Stock in rabbi trust assumed in acquisition	(1,585)	(1,803)
Rabbi trust obligation	1,585	1,803
Accumulated other comprehensive loss	(358,036)	(24,970)
Total shareholders' equity	984,497	1,230,575
Total liabilities and shareholders' equity	\$ 10,515,862	10,508,901

See accompanying notes to unaudited consolidated financial statements.

First Bancorp and Subsidiaries
Consolidated Statements of Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
(\$ in thousands, except share data - unaudited)	2022	2021	2022	2021
INTEREST INCOME				
Interest and fees on loans	\$ 72,239	50,957	201,518	154,325
Interest on investment securities:				
Taxable interest income	13,450	8,383	40,045	22,085
Tax-exempt interest income	1,115	686	3,267	1,483
Other, principally overnight investments	1,486	528	3,016	1,809
Total interest income	88,290	60,554	247,846	179,702
INTEREST EXPENSE				
Interest on deposits	1,848	1,626	5,204	6,013
Interest on borrowings	1,108	375	2,160	1,139
Total interest expense	2,956	2,001	7,364	7,152
Net interest income	85,334	58,553	240,482	172,550
Provision for (reversal of) credit losses	5,100	(1,400)	8,600	(1,400)
Provision for (reversal of) unfunded commitments	300	1,049	(1,200)	2,988
Total provision for credit losses	5,400	(351)	7,400	1,588
Net interest income after provision for credit losses	79,934	58,904	233,082	170,962
NONINTEREST INCOME				
Service charges on deposit accounts	4,166	3,209	11,407	8,766
Other service charges and fees	6,312	6,464	21,200	18,482
Fees from presold mortgage loans	376	2,096	1,951	8,914
Commissions from sales of insurance and financial products	1,391	1,198	3,487	5,854
SBA consulting fees	479	1,128	1,963	6,079
SBA loan sale gains	479	1,655	4,581	6,981
Bank-owned life insurance income	962	711	2,880	1,945
Other gains, net	2,747	50	5,958	1,533
Total noninterest income	16,912	16,511	53,427	58,554
NONINTEREST EXPENSES				
Salaries expense	24,416	20,651	71,669	61,969
Employee benefits expense	4,156	4,447	16,044	13,105
Total personnel expense	28,572	25,098	87,713	75,074
Occupancy expense	3,175	2,618	9,681	8,190
Equipment related expenses	1,672	1,125	4,490	3,223
Merger and acquisition expenses	548	254	4,769	665
Intangibles amortization expense	889	695	2,859	2,437
Foreclosed property losses (gains), net	—	23	(372)	7
Other operating expenses	13,844	11,004	40,423	32,271
Total noninterest expenses	48,700	40,817	149,563	121,867
Income before income taxes	48,146	34,598	136,946	107,649
Income tax expense	10,197	6,955	28,443	22,527
Net income	\$ 37,949	27,643	108,503	85,122
Earnings per common share:				
Basic	\$ 1.06	0.97	3.04	2.99
Diluted	1.06	0.97	3.04	2.99
Dividends declared per common share	\$ 0.22	0.20	0.66	0.60
Weighted average common shares outstanding:				
Basic	35,469,001	28,385,912	35,474,239	28,358,393
Diluted	35,703,446	28,515,328	35,662,527	28,514,405

See accompanying notes to unaudited consolidated financial statements.

First Bancorp and Subsidiaries
Consolidated Statements of Comprehensive Income

(\$ in thousands - unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net income	\$ 37,949	27,643	108,503	85,122
Other comprehensive (loss) income:				
Unrealized (losses) gains on securities available for sale:				
Unrealized (losses) gains arising during the period	(141,155)	3,673	(432,573)	(16,236)
Tax benefit (expense)	32,437	(844)	99,405	3,731
Postretirement Plans:				
Amortization of unrecognized net actuarial loss	44	109	132	485
Tax (expense) benefit	(10)	5	(30)	(112)
Other comprehensive (loss) income	(108,684)	2,943	(333,066)	(12,132)
Comprehensive (loss) income	\$ (70,735)	30,586	(224,563)	72,990

See accompanying notes to unaudited consolidated financial statements.

First Bancorp and Subsidiaries
Consolidated Statements of Shareholders' Equity

	Common Stock			Stock in Rabbi Trust Assumed in Acquisition	Rabbi Trust Obligation	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
(\$ in thousands, except share data - unaudited)	Shares	Amount	Retained Earnings				
Three Months Ended September 30, 2021							
Balances, July 1, 2021	28,492	\$ 397,704	507,531	(1,928)	1,928	(725)	904,510
Net income			27,643				27,643
Cash dividends declared (\$0.20 per common share)			(5,700)				(5,700)
Change in Rabbi Trust obligation				137	(137)		—
Stock withheld for payment of taxes	(6)	(182)					(182)
Stock-based compensation	38	536					536
Other comprehensive income						2,943	2,943
Balances, September 30, 2021	<u>28,524</u>	<u>\$ 398,058</u>	<u>529,474</u>	<u>(1,791)</u>	<u>1,791</u>	<u>2,218</u>	<u>929,750</u>
Three Months Ended September 30, 2022							
Balances, July 1, 2022	35,684	\$ 723,956	587,739	(1,573)	1,573	(249,352)	1,062,343
Net income			37,949				37,949
Cash dividends declared (\$0.22 per common share)			(7,849)				(7,849)
Change in Rabbi Trust obligation				(12)	12		—
Stock withheld for payment of taxes	—	—					—
Stock-based compensation	28	738					738
Other comprehensive loss						(108,684)	(108,684)
Balances, September 30, 2022	<u>35,712</u>	<u>\$ 724,694</u>	<u>617,839</u>	<u>(1,585)</u>	<u>1,585</u>	<u>(358,036)</u>	<u>984,497</u>

See accompanying notes to unaudited consolidated financial statements.

First Bancorp and Subsidiaries
Consolidated Statements of Shareholders' Equity

	Common Stock		Retained Earnings	Stock in Rabbi Trust Assumed in Acquisition	Rabbi Trust Obligation	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
(\$ in thousands, except share data - unaudited)	Shares	Amount					
Nine Months Ended September 30, 2021							
Balances, January 1, 2021	28,579	\$ 400,582	478,489	(2,243)	2,243	14,350	893,421
Net income			85,122				85,122
Adoption of new accounting standard			(17,051)				(17,051)
Cash dividends declared (\$0.60 per common share)			(17,086)				(17,086)
Change in Rabbi Trust Obligation				452	(452)		—
Stock repurchases	(107)	(4,036)					(4,036)
Stock withheld for payment of taxes	(13)	(506)					(506)
Stock-based compensation	65	2,018					2,018
Other comprehensive loss						(12,132)	(12,132)
Balances, September 30, 2021	28,524	\$ 398,058	529,474	(1,791)	1,791	2,218	929,750
Nine Months Ended September 30, 2022							
Balances, January 1, 2022	35,629	722,671	532,874	(1,803)	1,803	(24,970)	1,230,575
Net income			108,503				108,503
Cash dividends declared (\$0.66 per common share)			(23,538)				(23,538)
Change in Rabbi Trust Obligation				218	(218)		—
Stock withheld for payment of taxes	(17)	(603)					(603)
Stock-based compensation	100	2,626					2,626
Other comprehensive loss						(333,066)	(333,066)
Balances, September 30, 2022	35,712	\$ 724,694	617,839	(1,585)	1,585	(358,036)	984,497

See accompanying notes to unaudited consolidated financial statements.

First Bancorp and Subsidiaries
Consolidated Statements of Cash Flows

	Nine Months Ended September 30,	
(\$ in thousands-unaudited)	2022	2021
Cash Flows From Operating Activities		
Net income	\$ 108,503	85,122
Reconciliation of net income to net cash provided by operating activities:		
Provision for credit losses and unfunded commitments, net	7,400	1,588
Net security premium amortization	9,431	9,930
Loan discount accretion	(4,736)	(6,199)
Other purchase accounting accretion and amortization, net	(335)	98
Foreclosed property gains and write-downs, net	(372)	7
Other gains, net	(5,958)	(1,533)
Decrease in net deferred loan fees	(570)	(309)
Bank-owned life insurance income	(2,880)	(1,945)
Depreciation of premises and equipment	5,152	4,434
Amortization of operating lease right-of-use assets	1,489	1,107
Repayments of lease obligations	(1,345)	(1,034)
Stock-based compensation expense	2,286	1,764
Amortization of intangible assets	2,859	2,437
Amortization and impairment of SBA servicing assets	2,239	1,605
Fees/gains from sale of presold mortgages and SBA loans	(6,532)	(15,895)
Origination of presold mortgage loans in process of settlement	(96,589)	(243,737)
Proceeds from sales of presold mortgage loans in process of settlement	114,133	277,394
Origination of SBA loans for sale	(62,190)	(73,510)
Proceeds from sales of SBA and other loans	109,608	72,219
Decrease in accrued interest receivable	564	850
Decrease in other assets	5,925	596
Increase in net deferred income tax asset	(465)	(42)
Increase (decrease) in accrued interest payable	274	(295)
Decrease in other liabilities	(8,682)	(3,476)
Net cash provided by operating activities	179,209	111,176
Cash Flows From Investing Activities		
Purchases of securities available for sale	(354,765)	(1,128,880)
Purchases of securities held to maturity	(39,004)	(213,485)
Proceeds from maturities/issuer calls of securities available for sale	208,438	252,668
Proceeds from maturities/issuer calls of securities held to maturity	5,158	11,246
(Purchases) redemptions of Federal Reserve and FHLB stock, net	(13,826)	1,792
Purchase of bank owned life insurance	—	(25,000)
Net increase in loans	(422,655)	(125,083)
Proceeds from sales of foreclosed properties	2,904	2,847
Purchases of premises and equipment	(3,749)	(8,847)
Proceeds from sales of premises and equipment	158	218
Net cash received from sale of insurance operations	—	11,314
Bank-owned life insurance death benefits	5,827	—
Net cash used by investing activities	(611,514)	(1,221,210)
Cash Flows From Financing Activities		
Net increase in deposits	105,166	1,159,204
Net increase in short-term borrowings	159,000	—
Payments on long-term borrowings	(99)	(1,198)
Cash dividends paid – common stock	(22,806)	(16,527)
Repurchases of common stock	—	(4,036)
Payment of taxes related to stock withheld	(603)	(506)
Net cash provided by financing activities	240,658	1,136,937
(Decrease) increase in cash and cash equivalents	(191,647)	26,903
Cash and cash equivalents, beginning of period	461,162	367,290
Cash and cash equivalents, end of period	\$ 269,515	394,193

(Continued)

First Bancorp and Subsidiaries
Consolidated Statements of Cash Flows

(\$ in thousands-unaudited)	Nine Months Ended September 30,	
	2022	2021
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for interest	\$ 7,425	7,447
Cash paid during the period for income taxes	29,091	25,602
Non-cash: Unrealized loss on securities available for sale, net of taxes	(333,168)	(12,505)
Non-cash: Foreclosed loans transferred to other real estate	119	2,249
Non-cash: Accrued dividends at end of period	7,857	7,125
Non-cash: Initial recognition of operating lease right-of-use assets and operating lease liabilities	—	2,191
Non-cash: Derecognition of intangible assets related to sale of insurance operations	—	(10,229)

See accompanying notes to consolidated financial statements.

First Bancorp and Subsidiaries
Notes to Consolidated Financial Statements
(unaudited)

Note 1 - Organization and Basis of Presentation

The consolidated financial statements include the accounts of First Bancorp (the "Company") and its wholly owned subsidiary First Bank (the "Bank"). The Bank has three wholly owned subsidiaries that are fully consolidated, SBA Complete, Inc. ("SBA Complete"), Magnolia Financial, Inc. ("Magnolia Financial"), and First Troy SPE, LLC. All significant intercompany accounts and transactions have been eliminated.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and notes necessary for complete financial statements in accordance with GAAP. 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, 2022, the consolidated results of operations for the three and nine months ended September 30, 2022 and 2021, and the consolidated cash flows for the nine months ended September 30, 2022 and 2021. Any such adjustments were of a normal, recurring nature. These interim financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes in the Annual Report on Form 10-K for the year ended December 31, 2021. Operating results for interim period are not necessarily indicative of the results that may be expected for the full year.

Reference is made to Note 1 of the 2021 Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") for a discussion of accounting policies and other relevant information with respect to the financial statements. To maintain consistency and comparability, certain amounts from prior periods may have been reclassified to conform to current period presentation with no effect on net income or shareholders' equity as previously reported.

The Company has evaluated all subsequent events through the date the financial statements were issued.

Note 2 – Accounting Pronouncements

Accounting Standards Adopted in 2022

The Company did not adopt any accounting standards during the first nine months of 2022.

Accounting Standards Pending Adoption

ASU 2022-02, "Financial Instruments-Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures." The amendments contained in this Accounting Standards Update ("ASU") eliminate the accounting guidance for troubled debt restructurings by creditors, while enhancing disclosure requirements for certain loan refinancing and restructurings by creditors when a borrower is experiencing financial difficulty. This ASU also requires entities to disclose current period gross write-offs by year of origination for financing receivables and net investment in leases. The amendments in this ASU will be effective for fiscal years beginning after December 15, 2022 including interim periods within those fiscal years and early adoption is permitted. The entity must have adopted the amendments in ASU 2016-13 ("CECL") to adopt the amendments in this ASU. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements but does not expect it to have a material effect on its financial statements.

ASU 2022-03, "Fair Value Measurements (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions." This ASU clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security, and, therefore, is not considered in measuring fair value. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance. The Company is currently evaluating this ASU for impact on the consolidated financial statements but does not expect it to have a material effect on its financial statements.

Note 3 – Securities

The book values and approximate fair values of investment securities at September 30, 2022 and December 31, 2021 are summarized as follows:

(\$ in thousands)	September 30, 2022				December 31, 2021			
	Amortized Cost	Fair Value	Unrealized Gains	Unrealized (Losses)	Amortized Cost	Fair Value	Unrealized Gains	Unrealized (Losses)
Securities available for sale:								
U.S. Treasuries	\$ 174,328	168,723	—	(5,605)	—	—	—	—
Government-sponsored enterprise securities	71,956	57,429	—	(14,527)	71,951	69,179	—	(2,772)
Mortgage-backed securities	2,512,221	2,068,769	7	(443,459)	2,545,150	2,514,805	9,489	(39,834)
Corporate bonds	44,350	43,294	—	(1,056)	45,380	46,430	1,106	(56)
Total available for sale	<u>\$ 2,802,855</u>	<u>2,338,215</u>	<u>7</u>	<u>(464,647)</u>	<u>2,662,481</u>	<u>2,630,414</u>	<u>10,595</u>	<u>(42,662)</u>
Securities held to maturity:								
Mortgage-backed securities	\$ 16,092	14,891	—	(1,201)	20,260	20,845	585	—
State and local governments	528,101	403,708	—	(124,393)	493,565	490,854	2,955	(5,666)
Total held to maturity	<u>\$ 544,193</u>	<u>418,599</u>	<u>—</u>	<u>(125,594)</u>	<u>513,825</u>	<u>511,699</u>	<u>3,540</u>	<u>(5,666)</u>

All of the Company's mortgage-backed securities were issued by government-sponsored enterprises ("GSE"), except for private mortgage-backed securities with a fair value of \$0.8 million and \$0.9 million as of September 30, 2022 and December 31, 2021, respectively.

The following table presents information regarding all securities with unrealized losses at September 30, 2022:

(\$ 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
U.S. Treasuries	\$ 168,723	5,605	—	—	168,723	5,605
Government-sponsored enterprise securities	1,519	424	55,910	14,103	57,429	14,527
Mortgage-backed securities	770,879	145,469	1,308,825	299,191	2,079,704	444,660
Corporate bonds	40,633	966	910	90	41,543	1,056
State and local governments	252,833	70,679	149,289	53,714	402,122	124,393
Total unrealized loss position	<u>\$ 1,234,587</u>	<u>223,143</u>	<u>1,514,934</u>	<u>367,098</u>	<u>2,749,521</u>	<u>590,241</u>

The following table presents information regarding all securities with unrealized losses at December 31, 2021:

	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
(\$ in thousands)						
Government-sponsored enterprise securities	\$ 21,436	522	47,743	2,250	69,179	2,772
Mortgage-backed securities	1,773,022	25,977	404,484	13,857	2,177,506	39,834
Corporate bonds	999	1	945	55	1,944	56
State and local governments	228,279	3,797	34,398	1,869	262,677	5,666
Total unrealized loss position	\$ 2,023,736	30,297	487,570	18,031	2,511,306	48,328

As of September 30, 2022, the Company's securities portfolio held 669 securities of which 641 securities were in an unrealized loss position. As of December 31, 2021, the Company's securities portfolio held 648 securities of which 371 securities were in an unrealized loss position. In the above tables, all of the securities that were in an unrealized loss position at September 30, 2022 and December 31, 2021 are bonds that the Company has determined are in a loss position due primarily to interest rate factors and not credit quality concerns. In arriving at this conclusion, the Company reviewed third-party credit ratings and considered the severity of the impairment. The state and local government investments are comprised almost entirely of highly-rated municipal bonds issued by state and local governments throughout the nation. The Company has no significant concentrations of bond holdings from one state or local government entity. Nearly all of our mortgage-backed securities were issued by FHLMC, FNMA, GNMA, or the SBA, each of which is a government agency or GSE and guarantees the repayment of the securities. 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.

At September 30, 2022 and December 31, 2021, the Company determined that expected credit losses associated with held to maturity debt securities were insignificant.

The book values and approximate fair values of investment securities at September 30, 2022, 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	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(\$ in thousands)				
Due within one year	\$ 25,086	25,002	435	435
Due after one year but within five years	176,842	171,210	997	869
Due after five years but within ten years	87,706	72,324	58,625	47,494
Due after ten years	1,000	910	468,044	354,910
Mortgage-backed securities	2,512,221	2,068,769	16,092	14,891
Total securities	\$ 2,802,855	2,338,215	544,193	418,599

At September 30, 2022 and December 31, 2021, investment securities with carrying values of \$731.7 million and \$951.4 million, respectively, were pledged as collateral for public deposits.

At September 30, 2022 and December 31, 2021, there were no holdings of securities of any one issuer, other than U.S. Government and its agencies or GSEs, in an amount greater than 10% of shareholders' equity.

Included in "Other assets" in the Consolidated Balance Sheets are investments in Federal Home Loan Bank ("FHLB") and Federal Reserve Bank of Richmond ("Federal Reserve") stock totaling \$36.2 million and \$22.3 million at September 30, 2022 and December 31, 2021, respectively. These investments do not have readily determinable fair values. The FHLB stock had a cost and fair value of \$11.3 million and \$4.6 million at September 30, 2022 and December 31, 2021, 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 Federal Reserve stock had a cost and fair value of \$24.9 million and \$17.8 million at September 30, 2022 and December 31, 2021, respectively, and is a

requirement for Federal Reserve member bank qualification. Periodically, both the FHLB and Federal Reserve recalculate the Company's required level of holdings, and the Company either buys more stock or redeems a portion of the stock at cost. The Company determined that neither stock was impaired at either period end.

The Company owns 12,356 Class B shares of Visa, Inc. ("Visa") stock that were received upon Visa's initial public offering. These shares are expected to convert into Class A Visa shares subsequent to the settlement of certain litigation against Visa, to which the Company is not a party. The Class B shares have transfer restrictions, and the conversion rate into Class A shares is periodically adjusted as Visa settles litigation. The conversion rate at September 30, 2022 was approximately 1.61, which means the Company would have received approximately 19,843 Class A shares if the stock had converted on that date. This Class B stock does not have a readily determinable fair value and is carried at zero. If a readily determinable fair value becomes available for the Class B shares, or upon their conversion to Class A shares, the Company will adjust the carrying value of the stock to its market value with a credit to earnings.

Note 4 – Loans, Allowance for Credit Losses, and Asset Quality Information

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

(\$ in thousands)

	September 30, 2022		December 31, 2021	
	Amount	Percentage	Amount	Percentage
All loans:				
Commercial, financial, and agricultural	\$ 617,538	9 %	\$ 648,997	11 %
Real estate – construction, land development & other land loans	919,236	14 %	828,549	13 %
Real estate – mortgage – residential (1-4 family) first mortgages	1,132,552	17 %	1,021,966	17 %
Real estate – mortgage – home equity loans / lines of credit	323,218	5 %	331,932	5 %
Real estate – mortgage – commercial and other	3,473,225	53 %	3,194,737	53 %
Consumer loans	60,651	1 %	57,238	1 %
Subtotal	6,526,420	100 %	6,083,419	100 %
Unamortized net deferred loan fees	(1,134)		(1,704)	
Total loans	<u>\$ 6,525,286</u>		<u>\$ 6,081,715</u>	

Included in the line item "Commercial, financial, and agricultural" in the table above are Paycheck Protection Program ("PPP") loans totaling \$39.0 million at December 31, 2021. There were essentially no remaining PPP loans at September 30, 2022. PPP loans are fully guaranteed by the United State Small Business Administration ("SBA").

Included in the table above are credit card balances outstanding totaling \$42.0 million and \$37.9 million at September 30, 2022 and December 31, 2021, respectively. At September 30, 2022, approximately 57% of total credit card balances were business credit cards included in "commercial, financial and agricultural" above and the remaining 43% were personal credit cards included in consumer loans in the table above.

Also included in the table above are various non-PPP SBA loans, with additional information on these loans presented in the table below.

(\$ in thousands)

	September 30, 2022	December 31, 2021
Guaranteed portions of non-PPP SBA loans included in table above	\$ 36,625	48,377
Unguaranteed portions of non-PPP SBA loans included in table above	119,590	122,772
Total non-PPP SBA loans included in the table above	<u>\$ 156,215</u>	<u>171,149</u>
Sold portions of SBA loans with servicing retained - not included in tables above	<u>\$ 396,108</u>	<u>414,240</u>

At September 30, 2022 and December 31, 2021, there was a remaining unaccreted discount on the retained portion of sold non-PPP SBA loans amounting to \$4.6 million and \$6.0 million, respectively.

Loans in the amount of \$5.2 billion and \$4.3 billion were pledged as collateral for certain borrowings at September 30, 2022 and December 31, 2021, respectively.

The loans above also include loans to executive officers and directors serving the Company at September 30, 2022 and to their related persons, totaling approximately \$6.1 million and \$0.6 million at September 30, 2022 and December 31, 2021, respectively. For the nine months ended September 30, 2022 there were \$5.8 million in new loans due to the addition of new directors, \$38,000 in advances on loans, and repayments of \$0.4 million. The loans were made on terms and conditions applicable to similarly situated borrowers and management does not believe these loans involve more than the normal risk of collectability or present other unfavorable features.

As of September 30, 2022 and December 31, 2021, unamortized discounts on all acquired loans totaled \$12.5 million and \$17.2 million, respectively. Loan discounts are generally amortized as yield adjustments over the respective lives of the loans, so long as the loans perform.

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

(\$ in thousands)	September 30, 2022	December 31, 2021
Nonaccrual loans	\$ 28,669	34,696
TDRs - accruing	11,355	13,866
Accruing loans > 90 days past due	—	1,004
Total nonperforming loans	40,024	49,566
Foreclosed real estate	658	3,071
Total nonperforming assets	\$ 40,682	52,637

At September 30, 2022 and December 31, 2021, the Company had \$1.7 million and \$1.5 million, respectively, in residential mortgage loans in the process of foreclosure.

The following table is a summary of the Company's nonaccrual loans by major categories as of September 30, 2022.

(\$ in thousands)	Nonaccrual Loans with No Allowance	Nonaccrual Loans with an Allowance	Total Nonaccrual Loans
Commercial, financial, and agricultural	\$ 3,912	7,446	11,358
Real estate – construction, land development & other land loans	877	120	997
Real estate – mortgage – residential (1-4 family) first mortgages	157	3,203	3,360
Real estate – mortgage – home equity loans / lines of credit	—	1,340	1,340
Real estate – mortgage – commercial and other	5,517	5,992	11,509
Consumer loans	—	105	105
Total	\$ 10,463	18,206	28,669

The following table is a summary of the Company's nonaccrual loans by major categories as of December 31, 2021.

(\$ in thousands)	Nonaccrual Loans with No Allowance	Nonaccrual Loans with an Allowance	Total Nonaccrual Loans
Commercial, financial, and agricultural	\$ 3,947	8,205	12,152
Real estate – construction, land development & other land loans	495	137	632
Real estate – mortgage – residential (1-4 family) first mortgages	858	4,040	4,898
Real estate – mortgage – home equity loans / lines of credit	—	694	694
Real estate – mortgage – commercial and other	7,648	8,583	16,231
Consumer loans	—	89	89
Total	\$ 12,948	21,748	34,696

There was no interest income recognized during the nine month period ended September 30, 2022 or the year ended December 31, 2021 on nonaccrual loans. The Company follows its nonaccrual policy of reversing contractual interest income in the income statement when the Company places a loan on nonaccrual status.

The following table represents the accrued interest receivables written off by reversing interest income during each period indicated.

(\$ in thousands)	Nine Months Ended September 30, 2022	For the Year Ended December 31, 2021	Nine Months Ended September 30, 2021
Commercial, financial, and agricultural	\$ 56	195	160
Real estate – construction, land development & other land loans	16	6	—
Real estate – mortgage – residential (1-4 family) first mortgages	32	31	20
Real estate – mortgage – home equity loans / lines of credit	17	14	11
Real estate – mortgage – commercial and other	108	453	446
Consumer loans	2	—	—
Total	\$ 231	699	637

The following table presents an analysis of the payment status of the Company's loans as of September 30, 2022.

(\$ in thousands)	Accruing 30-59 Days Past Due	Accruing 60-89 Days Past Due	Accruing 90 Days or More Past Due	Nonaccrual Loans	Accruing Current	Total Loans Receivable
Commercial, financial, and agricultural	\$ 825	158	—	11,358	605,197	617,538
Real estate – construction, land development & other land loans	3,434	—	—	997	914,805	919,236
Real estate – mortgage – residential (1-4 family) first mortgages	2,008	1,053	—	3,360	1,126,131	1,132,552
Real estate – mortgage – home equity loans / lines of credit	126	244	—	1,340	321,508	323,218
Real estate – mortgage – commercial and other	1,077	532	—	11,509	3,460,107	3,473,225
Consumer loans	229	74	—	105	60,243	60,651
Total	\$ 7,699	2,061	—	28,669	6,487,991	6,526,420
Unamortized net deferred loan fees						(1,134)
Total loans						6,525,286

The following table presents an analysis of the payment status of the Company's loans as of December 31, 2021.

(\$ in thousands)	Accruing 30-59 Days Past Due	Accruing 60-89 Days Past Due	Accruing 90 Days or More Past Due	Nonaccrual Loans	Accruing Current	Total Loans Receivable
Commercial, financial, and agricultural	\$ 377	93	—	12,152	636,375	648,997
Real estate – construction, land development & other land loans	4,046	—	286	632	823,585	828,549
Real estate – mortgage – residential (1-4 family) first mortgages	6,571	1,488	—	4,898	1,009,009	1,021,966
Real estate – mortgage – home equity loans / lines of credit	489	124	718	694	329,907	331,932
Real estate – mortgage – commercial and other	164	1,496	—	16,231	3,176,846	3,194,737
Consumer loans	116	62	—	89	56,971	57,238
Total	\$ 11,763	3,263	1,004	34,696	6,032,693	6,083,419
Unamortized net deferred loan fees						(1,704)
Total loans						\$ 6,081,715

Collateral dependent loans are loans for which the repayment is expected to be provided substantially through the operation or sale of the collateral and the borrower is experiencing financial difficulty. The Company reviews individually evaluated loans on nonaccrual with a net book balance of \$350,000 or greater for designation as collateral dependent loans, as well as certain other loans that may still be accruing interest and/or are less than \$350,000 in size that management of the Company designates as having higher risk. These loans do not share common risk characteristics and are not included within the collectively evaluated loans for determining the allowance for credit losses ("ACL").

The following table presents an analysis of collateral dependent loans of the Company as of September 30, 2022.

(\$ in thousands)	Residential Property	Business Assets	Land	Commercial Property	Total Collateral- Dependent Loans
Commercial, financial, and agricultural	\$ —	6,575	—	—	6,575
Real estate – construction, land development & other land loans	—	—	877	—	877
Real estate – mortgage – residential (1-4 family) first mortgages	157	—	—	—	157
Real estate – mortgage – commercial and other	—	—	—	7,257	7,257
Total	\$ 157	6,575	877	7,257	14,866

The following table presents an analysis of collateral dependent loans of the Company as of December 31, 2021.

(\$ in thousands)	Residential Property	Business Assets	Land	Commercial Property	Total Collateral- Dependent Loans
Commercial, financial, and agricultural	\$ —	7,886	—	—	7,886
Real estate – construction, land development & other land loans	—	—	533	—	533
Real estate – mortgage – residential (1-4 family) first mortgages	871	—	—	—	871
Real estate – mortgage – commercial and other	—	—	—	10,743	10,743
Total	\$ 871	7,886	533	10,743	20,033

Under CECL, for collateral dependent loans, the Company has adopted the practical expedient to measure the ACL based on the fair value of collateral. The ACL is calculated on an individual loan basis based on the shortfall between the fair value of the loan's collateral, which is adjusted for liquidation costs/discounts, and amortized cost. If the fair value of the collateral exceeds the amortized cost, no allowance is required.

The Company's policy is to obtain third-party appraisals on any significant pieces of collateral. For loans secured by real estate, the Company's policy is to write nonaccrual loans down to 90% of the appraised value, which considers estimated selling costs that are usually incurred when disposing of real estate collateral. For real estate collateral that is in industries which may be undergoing heightened stress due to economic or other external factors, the Company may reduce the collateral values by an additional 10-25% of appraised value to recognize additional discounts that are estimated to be incurred in a near-term sale. For non real estate collateral secured loans, the Company generally writes nonaccrual loans down to 75% of the appraised value, which provides for selling costs and liquidity discounts that are usually incurred when disposing of non real estate collateral. For reviewed loans that are not on nonaccrual basis, the Company assigns a specific allowance based on the parameters noted above.

The Company does not believe that there is significant excess collateral for any of the loan types noted above.

The following tables presents the activity in the ACL on loans for each of the periods indicated. Fluctuations in the ACL each period are based on loan mix and growth, changes in the levels of nonperforming loans, economic forecasts impacting loss drivers, other assumptions and inputs to the CECL model, and as occurred in 2021, adjustments for acquired loan portfolios. With regard to the increase in ACL for three and nine months ended September 30, 2022, approximately half of the increase was due to organic growth in the loan portfolio. The balance of the increase was a result of updated economic forecast inputs to our CECL model driving higher loss rate assumptions, primarily due to higher unemployment forecasts and deteriorating Commercial Real Estate Index forecasts given the developing uncertain economic environment.

(\$ 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	Consumer Loans	Unallocated	Total
As of and for the three months ended September 30, 2022								
Beginning balance	\$ 15,450	16,171	8,650	2,086	37,194	2,630	—	82,181
Charge-offs	(512)	—	—	(2)	(470)	(221)	—	(1,205)
Recoveries	166	109	1	85	112	38	—	511
Provisions / (Reversals)	2,482	(1,352)	2,064	597	938	371	—	5,100
Ending balance	\$ 17,586	14,928	10,715	2,766	37,774	2,818	—	86,587

As of and for the nine months ended September 30, 2022								
Beginning balance	\$ 16,249	16,519	8,686	4,337	30,342	2,656	—	78,789
Charge-offs	(2,030)	—	—	(43)	(1,333)	(602)	—	(4,008)
Recoveries	636	376	16	446	1,567	165	—	3,206
Provisions / (Reversals)	2,731	(1,967)	2,013	(1,974)	7,198	599	—	8,600
Ending balance	\$ 17,586	14,928	10,715	2,766	37,774	2,818	—	86,587

(\$ 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	Consumer Loans	Unallocated	Total
As of and for the year ended December 31, 2021								
Beginning balance	\$ 11,316	5,355	8,048	2,375	23,603	1,478	213	52,388
Adjustment for implementation of CECL	3,067	6,140	2,584	2,580	(257)	674	(213)	14,575
Allowance for acquired PCD loans	2,917	165	222	92	1,489	10	—	4,895
Charge-offs	(3,722)	(245)	(273)	(400)	(2,295)	(667)	—	(7,602)
Recoveries	1,744	948	761	578	533	358	—	4,922
Provisions/(Reversals)	927	4,156	(2,656)	(888)	7,269	803	—	9,611
Ending balance	<u>\$ 16,249</u>	<u>16,519</u>	<u>8,686</u>	<u>4,337</u>	<u>30,342</u>	<u>2,656</u>	<u>—</u>	<u>78,789</u>

(\$ 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	Consumer Loans	Unallocated	Total
As of and for the three months ended September 30, 2021								
Beginning balance	\$ 14,809	10,104	8,651	3,737	25,358	2,363	—	65,022
Charge-offs	(899)	—	(24)	—	(4)	(178)	—	(1,105)
Recoveries	398	98	176	311	79	49	—	1,111
Provisions/(Reversals)	(808)	2,187	(1,032)	(546)	(1,336)	135	—	(1,400)
Ending balance	<u>\$ 13,500</u>	<u>12,389</u>	<u>7,771</u>	<u>3,502</u>	<u>24,097</u>	<u>2,369</u>	<u>—</u>	<u>63,628</u>

As of and for the nine months ended September 30, 2021								
Beginning balance	\$ 11,316	5,355	8,048	2,375	23,603	1,478	213	52,388
Adjustment for implementation of CECL	3,067	6,140	2,584	2,580	(257)	674	(213)	14,575
Charge-offs	(2,887)	(66)	(138)	(139)	(1,838)	(485)	—	(5,553)
Recoveries	1,065	784	499	540	419	311	—	3,618
Provisions/(Reversals)	939	176	(3,222)	(1,854)	2,170	391	—	(1,400)
Ending balance	<u>\$ 13,500</u>	<u>12,389</u>	<u>7,771</u>	<u>3,502</u>	<u>24,097</u>	<u>2,369</u>	<u>—</u>	<u>63,628</u>

Credit Quality Indicators

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
<u>Pass:</u>	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 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.
<u>Special Mention:</u>	6	Existing loans with defined weaknesses in primary source of repayment that, if not corrected, could cause a loss to the Bank.
	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.
<u>Classified:</u>	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 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 tables that follow, substantially all of the "Classified Loans" have grades of 7 or Fail, with those categories having similar levels of risk.

The tables below present the Company's recorded investment in loans by credit quality indicators by year of origination or renewal as of the periods indicated. Acquired loans are presented in the year originated, not in the year of acquisition. For three month and nine month periods ended September 30, 2022, the amount of revolving lines of credit that converted to term loans totaled \$2.4 million and \$4.6 million, respectively. Converted lines of credit were immaterial in the comparable prior year periods.

(\$ in thousands)	Term Loans by Year of Origination						Revolving	Total
	2022	2021	2020	2019	2018	Prior		
As of September 30, 2022								
Commercial, financial, and agricultural								
Pass	\$ 126,775	136,151	89,302	56,471	59,693	22,133	110,825	601,350
Special Mention	30	175	677	1,472	906	244	85	3,589
Classified	440	2,193	902	1,251	6,864	368	581	12,599
Total commercial, financial, and agricultural	127,245	138,519	90,881	59,194	67,463	22,745	111,491	617,538
Real estate – construction, land development & other land loans								
Pass	438,062	357,411	54,529	32,455	5,461	8,146	13,579	909,643
Special Mention	3,444	9	4	4,061	103	—	—	7,621
Classified	592	112	35	908	66	16	243	1,972
Total real estate – construction, land development & other land loans	442,098	357,532	54,568	37,424	5,630	8,162	13,822	919,236
Real estate – mortgage – residential (1-4 family) first mortgages								
Pass	197,181	300,207	192,410	101,787	66,548	250,772	7,298	1,116,203
Special Mention	852	350	274	304	106	2,382	100	4,368
Classified	403	811	225	585	971	8,084	902	11,981
Total real estate – mortgage – residential (1-4 family) first mortgages	198,436	301,368	192,909	102,676	67,625	261,238	8,300	1,132,552
Real estate – mortgage – home equity loans / lines of credit								
Pass	1,042	2,046	365	256	869	1,902	308,219	314,699
Special Mention	—	179	—	—	—	18	977	1,174
Classified	39	158	95	82	—	290	6,681	7,345
Total real estate – mortgage – home equity loans / lines of credit	1,081	2,383	460	338	869	2,210	315,877	323,218
Real estate – mortgage – commercial and other								
Pass	934,199	1,215,815	596,502	278,815	152,596	206,579	55,726	3,440,232
Special Mention	954	1,153	4,305	4,750	1,918	2,596	670	16,346
Classified	3,168	1,479	115	2,772	6,876	1,746	491	16,647
Total real estate – mortgage – commercial and other	938,321	1,218,447	600,922	286,337	161,390	210,921	56,887	3,473,225
Consumer loans								
Pass	14,507	27,261	4,271	1,339	1,040	490	11,565	60,473
Special Mention	—	—	—	—	—	—	—	—
Classified	6	99	5	1	—	12	55	178
Total consumer loans	14,513	27,360	4,276	1,340	1,040	502	11,620	60,651
Total	\$ 1,721,694	2,045,609	944,016	487,309	304,017	505,778	517,997	6,526,420
Unamortized net deferred loan fees								(1,134)
Total loans								6,525,286

(\$ in thousands)	Term Loans by Year of Origination						Revolving	Total
	2021	2020	2019	2018	2017	Prior		
As of December 31, 2021								
Commercial, financial, and agricultural								
Pass	\$ 204,945	138,540	71,369	66,645	16,009	17,492	112,933	627,933
Special Mention	225	1,255	1,313	2,729	225	9	2,348	8,104
Classified	1,609	793	1,703	7,096	511	96	1,152	12,960
Total commercial, financial, and agricultural	206,779	140,588	74,385	76,470	16,745	17,597	116,433	648,997
Real estate – construction, land development & other land loans								
Pass	573,613	133,888	69,066	12,455	9,764	8,190	13,737	820,713
Special Mention	41	737	5,095	110	104	2	9	6,098
Classified	1,541	49	47	83	14	4	—	1,738
Total real estate – construction, land development & other land loans	575,195	134,674	74,208	12,648	9,882	8,196	13,746	828,549
Real estate – mortgage – residential (1-4 family) first mortgages								
Pass	241,619	224,617	120,097	82,531	86,074	234,950	11,051	1,000,939
Special Mention	888	615	516	229	323	3,237	94	5,902
Classified	419	156	535	1,185	653	11,246	931	15,125
Total real estate – mortgage – residential (1-4 family) first mortgages	242,926	225,388	121,148	83,945	87,050	249,433	12,076	1,021,966
Real estate – mortgage – home equity loans / lines of credit								
Pass	3,111	498	439	1,304	245	1,649	317,319	324,565
Special Mention	194	—	15	—	—	19	1,341	1,569
Classified	75	97	71	—	—	607	4,948	5,798
Total real estate – mortgage – home equity loans / lines of credit	3,380	595	525	1,304	245	2,275	323,608	331,932
Real estate – mortgage – commercial and other								
Pass	1,328,156	796,992	355,885	211,118	197,165	197,659	66,104	3,153,079
Special Mention	1,759	4,849	5,801	3,741	2,072	1,801	1,440	21,463
Classified	7,147	413	2,110	6,025	3,897	603	—	20,195
Total real estate – mortgage – commercial and other	1,337,062	802,254	363,796	220,884	203,134	200,063	67,544	3,194,737
Consumer loans								
Pass	14,960	25,431	2,965	1,722	673	525	10,810	57,086
Special Mention	—	4	—	—	—	—	—	4
Classified	—	73	—	8	—	25	42	148
Total consumer loans	14,960	25,508	2,965	1,730	673	550	10,852	57,238
Total	\$ 2,380,302	1,329,007	637,027	396,981	317,729	478,114	544,259	6,083,419
Unamortized net deferred loan fees								(1,704)
Total loans								6,081,715

Troubled Debt Restructurings

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

The vast majority of the Company's TDRs modified during the periods ended September 30, 2022 and September 30, 2021 related to interest rate reductions combined with extension of terms. The Company does not generally grant principal forgiveness.

The Company's TDRs can be classified as either nonaccrual or accruing based on the loan's payment status. The TDRs that are nonaccrual are reported within the nonaccrual loan totals presented previously.

At September 30, 2022, there was one loan with immaterial commitments to lend additional funds to debtors whose loans were modified as a TDR. At December 31, 2021, there were no commitments to lend additional funds to debtors whose loans were modified as a TDR.

The following table presents information related to loans modified in a TDR during the three months ended September 30, 2022 and 2021.

(\$ in thousands)

	For the three months ended September 30, 2022			For the three months ended September 30, 2021		
	Number of Contracts	Pre-Modification Restructured Balances	Post-Modification Restructured Balances	Number of Contracts	Pre-Modification Restructured Balances	Post-Modification Restructured Balances
TDRs – Accruing						
Real estate – mortgage – home equity loans / lines of credit	1	176	176	—	—	—
TDRs – Nonaccrual						
Commercial, financial, and agricultural	1	327	327	—	—	—
Total TDRs arising during period	2	\$ 503	\$ 503	—	\$ —	\$ —

The following table presents information related to loans modified in a TDR during the nine months ended September 30, 2022 and 2021.

(\$ in thousands)

	For the nine months ended September 30, 2022			For the nine months ended September 30, 2021		
	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	\$ 161	\$ 161	—	\$ —	\$ —
Real estate – construction, land development & other land loans	1	131	131	—	—	—
Real estate – mortgage – residential (1-4 family) first mortgages	1	36	36	1	33	33
Real estate – mortgage – home equity loans / lines of credit	3	379	379	—	—	—
Real estate – mortgage – commercial and other	—	—	—	1	160	160
Consumer loans	—	—	—	—	—	—
TDRs – Nonaccrual						
Commercial, financial, and agricultural	4	627	627	3	826	823
Real estate – construction, land development & other land loans	—	—	—	1	75	75
Real estate – mortgage – residential (1-4 family) first mortgages	1	36	36	1	263	263
Real estate – mortgage – home equity loans / lines of credit	—	—	—	—	—	—
Real estate – mortgage – commercial and other	2	784	784	3	1,569	1,569
Consumer loans	—	—	—	—	—	—
Total TDRs arising during period	13	2,154	2,154	10	2,926	2,923

The Company considers a TDR 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. There were no accruing TDRs that were modified in the previous twelve months and that defaulted during the three or nine months ended September 30, 2022 or 2021.

Concentration of Credit Risk

Most of the Company's business activity is with customers located within the markets where it has banking operations. Therefore, the Company's exposure to credit risk is significantly affected by changes in the economy within its markets. Approximately 90% of the Company's loan portfolio is secured by real estate and is therefore susceptible to changes in real estate valuations.

Allowance for Credit Losses - Unfunded Loan Commitments

In addition to the ACL on loans, the Company maintains an ACL for lending-related commitments such as unfunded loan commitments and letters of credit. The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The allowance for lending-related commitments on off-balance sheet credit exposures is adjusted as a provision for unfunded commitments expense. The estimate includes consideration of the likelihood that funding will occur, which is based on a historical funding study derived from internal information, and an estimate of expected credit losses on commitments expected to be funded over its estimated life, which are the same loss rates that are used in computing the ACL on loans. The ACL for unfunded loan commitments of \$12.3 million and \$13.5 million at September 30, 2022 and December 31, 2021, respectively, is separately classified on the Consolidated Balance Sheets within "Other liabilities".

The following table presents the balance and activity in the allowance for credit losses for unfunded loan commitments for the nine months ended September 30, 2022.

(\$ in thousands)	Total Allowance for Credit Losses - Unfunded Loan Commitments
Beginning balance at December 31, 2021	\$ 13,506
Charge-offs	—
Recoveries	—
Reversal of provision for unfunded commitments	(1,200)
Ending balance at September 30, 2022	\$ 12,306

Allowance for Credit Losses - Securities Held to Maturity

The ACL for securities held to maturity was immaterial at September 30, 2022 and December 31, 2021.

Note 5 – 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, 2022 and December 31, 2021, and the carrying amount of unamortized intangible assets as of those same dates.

(\$ in thousands)	September 30, 2022		December 31, 2021	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets:				
Customer lists	\$ 2,700	1,731	2,700	1,386
Core deposit intangibles	29,050	20,571	29,050	18,076
SBA servicing assets	13,090	8,699	11,932	6,460
Other	100	52	100	33
Total	\$ 44,940	31,053	43,782	25,955
Unamortizable intangible assets:				
Goodwill	\$ 364,263		364,263	

Amortization expense of all other intangible assets, excluding the SBA servicing assets, totaled \$0.9 million and \$0.7 million for the three months ended September 30, 2022 and 2021, respectively, and \$2.9 million and \$2.4 million for the nine months ended September 30, 2022 and 2021, respectively.

SBA servicing assets are recorded for the portions of SBA loans that the Company has sold but continues to service for a fee. Servicing assets are initially recorded at fair value and amortized over the expected lives of the related loans and are tested for impairment on a quarterly basis. SBA servicing asset amortization expense is recorded within noninterest income as an offset to SBA servicing fees within the line item "Other service charges, commissions, and fees." The following table presents the changes in the SBA servicing assets for the three and nine months ended September 30, 2022 and 2021.

(\$ in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Beginning balance, net	\$ 4,967	6,089	5,472	5,788
Add: New servicing assets	131	396	1,158	1,711
Less: Amortization and impairment expense	707	591	2,239	1,605
Ending balance, net	\$ 4,391	5,894	4,391	5,894

At September 30, 2022 and December 31, 2021, the Company serviced SBA loans totaling \$396.1 million and \$414.2 million, respectively, for others. There were no other loans serviced in any period presented.

There were no changes to the carrying amounts of goodwill for the three or nine months ended September 30, 2022.

Goodwill is evaluated for impairment on at least an annual basis, with the annual evaluation occurring as of October 31 of each year. The Company performed the required annual impairment testing in the fourth quarter of 2021. Management evaluated the events and circumstances in the third quarter of 2022 that could indicate that goodwill might be impaired and concluded that a subsequent interim test was not necessary.

The following table presents the estimated amortization expense schedule related to acquisition-related amortizable intangible assets. These amounts will be recorded as "Intangibles amortization expense" within the noninterest expense section of the Consolidated Statements of Income. These estimates are subject to change in future periods to the extent management determines it is necessary to make adjustments to the carrying value or estimated useful lives of amortized intangible assets.

<i>(\$ in thousands)</i>	Estimated Amortization Expense
October 1, 2022 to December 31, 2022	\$ 825
2023	2,545
2024	1,718
2025	1,358
2026	962
Thereafter	2,088
Total	<u>\$ 9,496</u>

Note 6 - Borrowings

The following tables present information regarding the Company's outstanding borrowings at September 30, 2022 and December 31, 2021 (dollars in thousands).

Description	Due date	Call Feature	September 30, 2022	Interest Rate
FHLB Principal Reducing Credit	7/24/2023	None	\$ 44	1.00% fixed
FHLB Principal Reducing Credit	12/22/2023	None	922	1.25% fixed
FHLB Principal Reducing Credit	6/26/2028	None	216	0.25% fixed
FHLB Principal Reducing Credit	7/17/2028	None	39	0.00% fixed
FHLB Principal Reducing Credit	8/18/2028	None	161	1.00% fixed
FHLB Principal Reducing Credit	8/22/2028	None	161	1.00% fixed
FHLB Principal Reducing Credit	12/20/2028	None	332	0.50% fixed
FHLB Daily Rate Credit	8/23/2023	None	34,000	3.32% fixed
FHLB Fixed Rate Credit	10/27/2022	None	50,000	3.11% fixed
FHLB Fixed Rate Credit	10/13/2022	None	75,000	3.03% fixed
Trust Preferred Securities	1/23/2034	Quarterly by Company beginning 1/23/2009	10,310	5.43% at 9/30/22 adjustable rate 3 month LIBOR + 2.65%
Trust Preferred Securities	1/23/2034	Quarterly by Company beginning 1/23/2009	10,310	5.53% at 9/30/22 adjustable rate 3 month LIBOR + 2.75%
Trust Preferred Securities	9/20/2034	Quarterly by Company beginning 9/20/2009	12,372	5.68% at 9/30/22 adjustable rate 3 month LIBOR + 2.15%
Trust Preferred Securities	1/7/2035	Quarterly by Company beginning 1/7/2010	10,310	4.51% at 9/30/22 adjustable rate 3 month LIBOR + 2.00%
Trust Preferred Securities	6/15/2036	Quarterly by Company beginning 6/15/2011	25,774	4.68% at 9/30/22 adjustable rate 3 month LIBOR + 1.39%
Total borrowings / weighted average rate as of September 30, 2022			229,951	3.69%
Unamortized discount on acquired borrowings			(3,475)	
Total borrowings			<u>\$ 226,476</u>	

Description	Due date	Call Feature	December 31, 2021	Interest Rate
FHLB Principal Reducing Credit	7/24/2023	None	\$ 79	1.00% fixed
FHLB Principal Reducing Credit	12/22/2023	None	952	1.25% fixed
FHLB Principal Reducing Credit	6/26/2028	None	225	0.25% fixed
FHLB Principal Reducing Credit	7/17/2028	None	44	0.00% fixed
FHLB Principal Reducing Credit	8/18/2028	None	166	1.00% fixed
FHLB Principal Reducing Credit	8/22/2028	None	166	1.00% fixed
FHLB Principal Reducing Credit	12/20/2028	None	342	0.50% fixed
Trust Preferred Securities	1/23/2034	Quarterly by Company beginning 1/23/2009	10,310	2.78% at 12/31/21 adjustable rate 3 month LIBOR + 2.65%
Trust Preferred Securities	1/23/2034	Quarterly by Company beginning 1/23/2009	10,310	2.88% at 12/31/21 adjustable rate 3 month LIBOR + 2.75%
Trust Preferred Securities	9/20/2034	Quarterly by Company beginning 9/20/2009	12,372	2.72% at 12/31/21 adjustable rate 3 month LIBOR + 2.15%
Trust Preferred Securities	1/7/2035	Quarterly by Company beginning 1/7/2010	10,310	2.12% at 12/31/21 adjustable rate 3 month LIBOR + 2.00%
Trust Preferred Securities	6/15/2036	Quarterly by Company beginning 6/15/2011	25,774	1.59% at 12/31/21 adjustable rate 3 month LIBOR + 1.39%
Total borrowings / weighted average rate as of December 31, 2021			71,050	2.24%
Unamortized discount on acquired borrowings			(3,664)	
Total borrowings			<u>\$ 67,386</u>	

Note 7 – Leases

The Company enters into leases in the normal course of business. As of September 30, 2022, the Company leased 16 branch offices for which the land and buildings are leased and nine branch offices for which the land is leased but the buildings are owned. The Company also leases office space for several operational departments. All of the Company's leases are operating leases under applicable accounting standards and the lease agreements have maturity dates ranging from July 2023 through May 2076, some of which include options for multiple five- and ten-year extensions. The weighted average remaining life of the lease term for these leases was 19.6 years as of September 30, 2022. Certain of the Company's lease agreements include variable lease payments based on changes in inflation, with the impact of that factor being insignificant to the Company's total lease expense. As permitted by applicable accounting standards, the Company has elected not to recognize leases with original lease terms of 12 months or less (short-term leases) on the Company's Consolidated Balance Sheets. The short-term lease cost for each period presented was insignificant.

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

The Company uses its incremental borrowing rate, on a collateralized basis, at lease commencement to calculate the present value of lease payments when the rate implicit in the lease is not known. The weighted average discount rate for leases was 2.94% as of September 30, 2022.

Total operating lease expense was \$0.7 million and \$0.5 million for the three months ended September 30, 2022 and 2021, respectively, and \$2.3 million and \$1.8 million for the nine months ended September 30, 2022 and 2021, respectively. The right-of-use assets and lease liabilities were \$19.2 million and \$19.8 million as of September 30, 2022, respectively, and were \$20.7 million and \$21.2 million as of December 31, 2021, respectively.

Future undiscounted lease payments for operating leases with initial terms of one year or more as of September 30, 2022 are as follows.

(\$ in thousands)

October 1, 2022 to December 31, 2022	\$	584
2023		2,360
2024		2,163
2025		1,706
2026		1,685
Thereafter		19,988
Total undiscounted lease payments		28,486
Less effect of discounting		(8,639)
Present value of estimated lease payments (lease liability)	\$	19,847

Note 8 – Pension Plans

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

The Company recorded periodic pension cost totaling \$51,000 and \$158,000 for the three months ended September 30, 2022 and 2021, respectively, and \$153,000 and \$475,000 for the nine months ended September 30, 2022 and 2021, respectively. The following tables contain the components of the pension cost.

(\$ in thousands)	For the Three Months Ended September 30,					
	2022 Pension Plan	2022 SERP	2022 Total Both Plans	2021 Pension Plan	2021 SERP	2021 Total Both Plans
Service cost	\$ —	—	—	—	—	—
Interest cost	267	28	295	283	30	313
Expected return on plan assets	(288)	—	(288)	(264)	—	(264)
Amortization of net (gain)/loss	180	(136)	44	106	3	109
Net periodic pension cost	\$ 159	(108)	51	125	33	158

(\$ in thousands)	For the Nine Months Ended September 30,					
	2022 Pension Plan	2022 SERP	2022 Total Both Plans	2021 Pension Plan	2021 SERP	2021 Total Both Plans
Service cost	\$ —	—	—	—	—	—
Interest cost	801	84	885	693	89	782
Expected return on plan assets	(864)	—	(864)	(792)	—	(792)
Amortization of net (gain)/loss	540	(408)	132	474	11	485
Net periodic pension cost	\$ 477	(324)	153	375	100	475

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

The Company's contributions to the Pension Plan are based on computations by independent actuarial consultants and are intended to be deductible for income tax purposes. The Company did not contribute to the Pension Plan in the first nine months of 2022 and does not expect to contribute to the Pension Plan in the remainder of 2022.

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

Note 9 – Fair Value

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal and most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair value:

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

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

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

The following table summarizes the Company's financial instruments that were measured at fair value on a recurring and nonrecurring basis at September 30, 2022.

(\$ in thousands)

Description of Financial Instruments	Fair Value at September 30, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring				
Securities available for sale:				
U.S. Treasury	\$ 168,723	—	168,723	—
Government-sponsored enterprise securities	57,429	—	57,429	—
Mortgage-backed securities	2,068,769	—	2,068,769	—
Corporate bonds	43,294	—	43,294	—
Total available for sale securities	<u>\$ 2,338,215</u>	<u>—</u>	<u>2,338,215</u>	<u>—</u>
Presold mortgages in process of settlement	<u>\$ 3,233</u>	<u>3,233</u>	<u>—</u>	<u>—</u>
Nonrecurring				
Individually evaluated loans	\$ 9,725	—	—	9,725

The following table summarizes the Company's financial instruments that were measured at fair value on a recurring and nonrecurring basis at December 31, 2021.

(\$ in thousands)

Description of Financial Instruments	Fair Value at December 31, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring				
Securities available for sale:				
Government-sponsored enterprise securities	\$ 69,179	—	69,179	—
Mortgage-backed securities	2,514,805	—	2,514,805	—
Corporate bonds	46,430	—	46,430	—
Total available for sale securities	\$ 2,630,414	—	2,630,414	—
Presold mortgages in process of settlement	\$ 19,257	19,257	—	—
Nonrecurring				
Individually evaluated loans	\$ 11,583	—	—	11,583
Foreclosed real estate	364	—	—	364

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

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

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

Individually evaluated loans — Fair values for individually evaluated loans are measured on a non-recurring basis and are based on (1) the underlying collateral values securing the loans, adjusted for estimated selling costs, or (2) the net present value of the cash flows expected to be received for such loans. Collateral may be in the form of real estate or business assets including equipment, inventory and accounts receivable. The vast majority of the collateral is real estate. The value of real estate collateral is generally determined by third-party appraisers using an income or market valuation approach based on an appraisal conducted by an independent, licensed third party appraiser (Level 3). The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable borrower's financial statements if not considered significant. Likewise, values for inventory and accounts receivable collateral are based on borrower financial statement balances or aging reports on a discounted basis as appropriate (Level 3). Appraisals used in this analysis are generally obtained at least annually based on when the loans first became impaired, and thus the appraisals are not necessarily as of the period ends presented. Any fair value adjustments are recorded in the period incurred as provision for credit losses on the Consolidated Statements of Income.

Foreclosed real estate — Foreclosed real estate, consisting of properties obtained through foreclosure or in satisfaction of loans, is reported at the lower of cost or fair value. Fair value is measured on a non-recurring basis and is based upon independent market prices or current appraisals that are generally prepared using an income or market valuation approach and conducted by an independent, licensed third party appraiser, adjusted for estimated selling costs (Level 3). Appraisals used in this analysis are generally obtained at least annually based on when the assets were acquired, and thus the appraisals are not necessarily as of the period ends presented. At the time of foreclosure, any excess of the loan balance over the fair value of the real estate held as collateral is treated as a charge against the ACL. For any real estate valuations

subsequent to foreclosure, any excess of the real estate recorded value over the fair value of the real estate is treated as a foreclosed real estate write-down on the Consolidated Statements of Income.

For Level 3 assets and liabilities measured at fair value on a recurring or non-recurring basis as of September 30, 2022, the significant unobservable inputs used in the fair value measurements were as follows:

(\$ in thousands)	Fair Value at September 30, 2022	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average)
Individually evaluated loans - collateral-dependent	\$ 5,212	Appraised value	Discounts applied for estimated costs to sell	10%
Individually evaluated loans - cash-flow dependent	4,513	PV of expected cash flows	Discount rates used in the calculation of the present value ("PV") of expected cash flows	4%-11% (6.60%)

For Level 3 assets and liabilities measured at fair value on a recurring or non-recurring basis as of December 31, 2021, the significant unobservable inputs used in the fair value measurements were as follows:

(\$ in thousands)	Fair Value at December 31, 2021	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average)
Individually evaluated loans - collateral-dependent	\$ 7,326	Appraised value	Discounts applied for estimated costs to sell	10%
Individually evaluated loans - cash-flow dependent	4,257	PV of expected cash flows	Discount rates used in the calculation of PV of expected cash flows	4%-11% (6.22%)
Foreclosed real estate	364	Appraised value	Discounts applied for estimated costs to sell	10%

The carrying amounts and estimated fair values of financial instruments not carried at fair value at September 30, 2022 and December 31, 2021 were as follows:

(\$ in thousands)	Level in Fair Value Hierarchy	September 30, 2022		December 31, 2021	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Cash and due from banks, noninterest-bearing	Level 1	\$ 83,050	83,050	128,228	128,228
Due from banks, interest-bearing	Level 1	186,465	186,465	332,934	332,934
Securities held to maturity	Level 2	544,193	418,599	513,825	511,699
SBA and other loans held for sale	Level 2	477	477	61,003	62,044
Total loans, net of allowance	Level 3	6,438,699	6,300,474	6,002,926	5,990,235
Accrued interest receivable	Level 1	25,332	25,332	25,896	25,896
Bank-owned life insurance	Level 1	164,793	164,793	165,786	165,786
SBA Servicing Asset	Level 3	4,392	5,343	5,472	5,546
Deposits	Level 2	9,229,271	9,218,071	9,124,629	9,124,701
Borrowings	Level 2	226,476	216,516	67,386	61,295
Accrued interest payable	Level 2	881	881	607	607

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

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

Note 10 – Stock-Based Compensation

The Company recorded total stock-based compensation expense of \$0.7 million and \$0.5 million for the three months ended September 30, 2022 and 2021, respectively, and \$1.9 million and \$1.8 million for the nine months ended September 30, 2022 and 2021, respectively. In addition, the Company recognized \$170,000 and \$123,000 of income tax benefits related to stock-based compensation expense for the three months ended September 30, 2022 and 2021, respectively, and \$445,000 and \$405,000 for the nine months ended September 30, 2022 and 2021, respectively.

At September 30, 2022, the sole equity-based compensation plan of the Company was the First Bancorp 2014 Equity Plan (the "Equity Plan"), which was approved by shareholders on May 8, 2014. As of September 30, 2022, the Equity Plan had 346,033 shares remaining available for grant.

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

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

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

In addition to employee equity awards, the Company's practice is to grant common shares, valued at approximately \$32,000 for the current year, to each non-employee director (currently 12 in total) in June of each year. Compensation expense associated with these director awards is recognized on the date of award since there are no vesting conditions.

The following table presents information regarding the activity for the first nine months of 2022 related to the Company's outstanding restricted stock awards:

	Long-Term Restricted Stock Awards	
	Number of Units	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2022	206,331	\$ 35.25
Granted during the period	95,960	38.09
Vested during the period	(52,423)	35.70
Forfeited or expired during the period	(7,115)	31.50
Nonvested at September 30, 2022	242,753	\$ 36.37

Total unrecognized compensation expense as of September 30, 2022 amounted to \$5.5 million with a weighted-average remaining term of 2.3 years. For the nonvested awards that are outstanding at September 30, 2022, the Company expects to record \$2.7 million in compensation expense in the next twelve months, \$0.7 million of which is expected to be recorded in the remaining quarter of 2022.

Note 11 - Shareholders' Equity

Stock Repurchases

During the first nine months of 2022, the Company did not repurchase any shares of the Company's common stock. The Company currently has a \$40.0 million repurchase authorization that was announced on February 7, 2022, and expires December 31, 2022.

During the first nine months of 2021, the Company repurchased 106,744 shares of the Company's common stock at an average stock price of \$37.81 per share, which totaled approximately \$4.0 million, under a \$20.0 million repurchase authorization announced publicly in January 2021.

Note 12 – Earnings Per Share

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

(\$ in thousands except per share amounts)	For the Three Months Ended September 30,					
	2022			2021		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS:						
Net income	\$ 37,949			\$ 27,643		
Less: income allocated to participating securities	(249)			(125)		
Basic EPS per common share	\$ 37,700	35,469,001	\$ 1.06	\$ 27,518	28,385,912	\$ 0.97
Diluted EPS:						
Net income	\$ 37,949	35,469,001		\$ 27,643	28,385,912	
Effect of dilutive securities	—	234,445		—	129,416	
Diluted EPS per common share	\$ 37,949	35,703,446	\$ 1.06	\$ 27,643	28,515,328	\$ 0.97

(\$ in thousands except per share amounts)	For the Nine Months Ended September 30,					
	2022			2021		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS:						
Net income	\$ 108,503			\$ 85,122		
Less: income allocated to participating securities	(573)			(466)		
Basic EPS per common share	\$ 107,930	35,474,239	\$ 3.04	\$ 84,656	28,358,393	\$ 2.99
Diluted EPS:						
Net income	\$ 108,503	35,474,239		\$ 85,122	28,358,393	
Effect of Dilutive Securities	—	188,288		—	156,012	
Diluted EPS per common share	\$ 108,503	35,662,527	\$ 3.04	\$ 85,122	28,514,405	\$ 2.99

Note 13 – Accumulated Other Comprehensive Loss

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

(\$ in thousands)	September 30, 2022	December 31, 2021
Unrealized loss on securities available for sale	\$ (464,640)	(32,067)
Deferred tax asset	106,774	7,369
Net unrealized loss on securities available for sale	(357,866)	(24,698)
Postretirement plans liability	(221)	(353)
Deferred tax asset	51	81
Net postretirement plans liability	(170)	(272)
Total accumulated other comprehensive loss	\$ (358,036)	(24,970)

The following tables disclose the changes in accumulated other comprehensive income (loss) for the three and nine months ended September 30, 2022 and 2021 (all amounts are net of tax).

(\$ in thousands)	For the Three Months Ended September 30, 2022		
	Unrealized Loss on Securities Available for Sale	Postretirement Plans Asset (Liability)	Total
Beginning balance	\$ (249,148)	(204)	(249,352)
Other comprehensive loss before reclassifications	(108,718)	—	(108,718)
Amounts reclassified from accumulated other comprehensive income	—	34	34
Net current-period other comprehensive (loss) income	(108,718)	34	(108,684)
Ending balance	\$ (357,866)	(170)	(358,036)

	For the Three Months Ended September 30, 2021		
(\$ in thousands)	Unrealized (Loss) Gain on Securities Available for Sale	Postretirement Plans Asset (Liability)	Total
Beginning balance	\$ 415	(1,140)	(725)
Other comprehensive income before reclassifications	2,829	—	2,829
Amounts reclassified from accumulated other comprehensive income	—	114	114
Net current-period other comprehensive income	2,829	114	2,943
Ending balance	\$ 3,244	(1,026)	2,218

	For the Nine Months Ended September 30, 2022		
(\$ in thousands)	Unrealized Loss on Securities Available for Sale	Postretirement Plans Asset (Liability)	Total
Beginning balance	\$ (24,698)	(272)	(24,970)
Other comprehensive loss before reclassifications	(333,168)	—	(333,168)
Amounts reclassified from accumulated other comprehensive income	—	102	102
Net current-period other comprehensive (loss) income	(333,168)	102	(333,066)
Ending balance	\$ (357,866)	(170)	(358,036)

	For the Nine Months Ended September 30, 2021		
(\$ in thousands)	Unrealized Gain (Loss) on Securities Available for Sale	Postretirement Plans Asset (Liability)	Total
Beginning balance	\$ 15,749	(1,399)	14,350
Other comprehensive loss before reclassifications	(12,505)	—	(12,505)
Amounts reclassified from accumulated other comprehensive income	—	373	373
Net current-period other comprehensive (loss) income	(12,505)	373	(12,132)
Ending balance	\$ 3,244	(1,026)	2,218

Amounts reclassified from accumulated other comprehensive income for unrealized gain (loss) on securities available for sale represent realized securities gains or losses, net of tax effects. There were no security sales in any period presented. Amounts reclassified from accumulated other comprehensive income for postretirement plans asset (liability) represent amortization of amounts included in accumulated other comprehensive income (loss), net of taxes, and are recorded in the "Other operating expenses" line item of the Consolidated Statements of Income.

Note 14 – Revenue from Contracts with Customers

All of the Company's revenues that are in the scope of the "Revenue from Contracts with Customers" accounting standard ("ASC 606") are recognized within noninterest income. The following table presents the Company's sources of noninterest income for the three and nine months ended September 30, 2022 and 2021. Items outside the scope of ASC 606 are noted as such.

(\$ in thousands)	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Noninterest Income: In-scope of ASC 606:				
Service charges on deposit accounts	\$ 4,166	3,209	11,407	8,766
Other service charges and fees:				
Bankcard interchange income, net	3,009	4,405	12,532	12,338
Other service charges and fees	1,594	1,086	4,347	3,237
Commissions from sales of insurance and financial products:				
Insurance income	—	6	—	2,725
Wealth management income	1,391	1,128	3,487	3,065
SBA consulting fees	479	1,128	1,963	6,079
Noninterest income (in-scope of ASC 606)	10,639	10,962	33,736	36,210
Noninterest income (out-of-scope of ASC 606)	6,273	5,549	19,691	22,344
Total noninterest income	\$ 16,912	16,511	53,427	58,554

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

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

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

Commissions from the sales of insurance and financial products: The Company earns commissions from the sale of wealth management products. In addition, this line included earned commissions from the sale of insurance policies until the sale of substantially all of the assets of First Bank Insurance Services on June 30, 2021, at which time this revenue source ceased.

Insurance income, which was earned by the Company until June 30, 2021, generally consisted of commissions from the sale of insurance policies and performance-based commissions from insurance companies. The Company recognized commission income from the sale of insurance policies when it acted as an agent between the insurance company and the policyholder. The Company's performance obligation was generally satisfied upon the issuance of the insurance policy.

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

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

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

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

Acquisitions

On October 15, 2021 we completed the acquisition of Select Bancorp, Inc. ("Select") which was headquartered in Dunn, North Carolina and which contributed total assets of \$1.8 billion, total loans of \$1.3 billion, and total deposits of \$1.6 billion as of the acquisition date. As such, comparisons for the financial periods presented are impacted by our acquisition of Select.

On June 21, 2022, we announced an agreement to acquire GrandSouth Bancorporation ("GrandSouth"), headquartered in Greenville, South Carolina, in an all-stock transaction. The terms of the agreement provide that each share of GrandSouth common and preferred stock issued and outstanding immediately prior to the effective time of the acquisition will be converted into 0.91 shares of the Company's common stock. We have received all regulatory approvals for the transaction. Approval by GrandSouth's shareholders remains pending and is expected in the fourth quarter of 2022. The acquisition is expected to close in early January 2023. GrandSouth operates eight branches throughout South Carolina and currently has \$1.3 billion in total assets, \$995.1 million in loans, and \$1.1 billion in deposits.

Overview and Highlights at and for Three Months Ended September 30, 2022

We earned net income of \$37.9 million, or \$1.06 diluted EPS, during the three months ended September 30, 2022 compared to net income of \$27.6 million, or \$0.97 diluted EPS, for the three months ended September 30, 2021.

The main drivers to the increase in net income are presented below. Refer also to additional discussion in the Results of Operations section following.

- Net interest income for the third quarter of 2022 was \$85.3 million, a 45.7% increase from the \$58.6 million recorded in the third quarter of 2021. The increase in net interest income from the prior year period was driven by higher earning assets related to both organic growth and the Select acquisition.
- Also contributing to the increase in net interest income was the higher net interest margin ("NIM") which increased in the third quarter of 2022 to 3.40% from 3.03% for the third quarter of 2021 related to the increase in market interest rates driving higher yields on loans, while our cost of funds has remained low and was essentially unchanged from the same period of the prior year.
- For the three months ended September 30, 2022, the Company recorded \$5.1 million in provision for credit losses. This is compared to a release of provisions of \$1.4 million for the third quarter of 2021. Fluctuations each period are based on loan growth during the period, changes in the levels of nonperforming loans, economic forecasts impacting loss drivers, and other assumptions and inputs to the CECL model.
- Noninterest income for the three months ended September 30, 2022 increased slightly, up \$0.4 million, or 2.4%, from the comparable period of 2021 with higher service charges and other gains offset by lower loan sale gains, consulting income and other fees.
- Noninterest expense increased \$7.9 million, or 19.3%, for the quarter ended September 30, 2022, as compared to the prior year period driven by higher operating expenses resulting from the Select acquisition.

Total assets at September 30, 2022 amounted to \$10.5 billion, a 0.1% increase from December 31, 2021. The primary balance sheet changes are presented below. Refer also to additional discussion in the Financial Condition section following.

- Total loans amounted to \$6.5 billion at September 30, 2022, an increase of \$443.6 million, a 9.7% annualized growth rate, from December 31, 2021 due to organic growth in all markets. Organic growth for the third quarter of 2022 amounted to \$282.1 million.
- Total investment securities decreased \$261.8 million from December 31, 2021 to total \$2.9 billion at September 30, 2022, as cash flows were utilized to fund loan growth. Also contributing to the decline was the increase in unrealized losses on available for sale securities which totaled \$464.6 million at September 30, 2022.
- Total deposits amounted to \$9.2 billion at September 30, 2022, an increase of \$104.6 million, or 1.1%, from December 31, 2021. While deposits have continued to grow for the year to date period, the third quarter of 2022 realized a decline in total deposits of \$130.5 million as market rates for deposits have become more competitive and customer behaviors may be shifting from activity experienced during the COVID-19 pandemic.
- We remain well-capitalized by all regulatory standards with a total common equity Tier 1 ratio of 12.76% and total risk-based capital ratio of 14.84%.
- Accumulated other comprehensive loss increased \$333.1 million related to higher unrealized losses on available for sale securities due to increased market rates experienced starting in March 2022.

Overview and Highlights for Nine Months Ended September 30, 2022

Total net income of \$108.5 million, or \$3.04 diluted EPS, was reported during the nine months ended September 30, 2022 compared to net income of \$85.1 million, or \$2.99 diluted EPS, for the nine months ended September 30, 2021.

The main drivers to the increase in net income are presented below. Refer also to additional discussion in the Results of Operations section following.

- Net interest income for the nine months ended September 30, 2022 was \$240.5 million, a 39.4% increase from the \$172.6 million recorded in the nine months ended September 30, 2021. The increase in net interest income from the prior year period was due in large part to higher earning assets related to both organic growth and the Select acquisition completed in the fourth quarter of 2021. Also contributing to the increase in net interest income was the higher NIM which increased 10 basis points in 2022 as compared to the prior year.
- For the nine months ended September 30, 2022, we recorded a provision for credit losses of \$8.6 million based on loan growth for the period and CECL model assumptions including deterioration economic forecasts. This is compared to a reversal of the provision for credit losses of \$1.4 million for the comparable period of 2021.
- Noninterest income declined \$5.1 million, or 8.8%, from the prior year period primarily due to a \$7.0 million decrease in mortgage banking income related to lower levels of activity due to market rate increases. Other decreases in SBA consulting and loan sale gains were more than offset by higher service charges and other income related to higher level of accounts and transactions arising from the Select acquisition.
- Noninterest expense increased \$27.7 million, or 22.7%, for the nine months ended September 30, 2022 as compared to the same period in the prior year. Included in the current year period was \$4.8 million in merger and acquisition expenses primarily related to computer system conversion costs resulting from the Select acquisition. The balance of the increase in noninterest expenses was driven by higher operating expenses resulting from the Select acquisition.

Critical Accounting Policies and Estimates

The accounting principles we follow and our methods of applying these principles conform with GAAP and with general practices followed by the banking industry. Certain of these principles involve a significant amount of judgment and may involve the use of estimates based on our best assumptions at the time of the estimation. We have identified the accounting policies discussed below as being more sensitive in terms of judgments and estimates taking into account their overall potential impact to our consolidated financial statements.

Allowance for Credit Losses on Loans and Unfunded Commitments

The allowance for credit losses represents management's current estimate of credit losses for the remaining estimated life of financial instruments. We perform periodic and systematic detailed reviews of the loan portfolio to identify trends and to assess the overall collectability of the portfolio. We believe the accounting estimate related to the ACL is a "critical accounting estimate" as: (1) changes in it can materially affect the provision for credit losses and net income; (2) it requires management to predict borrowers' likelihood or capacity to repay, including evaluation of inherently uncertain future economic conditions; (3) the value of underlying collateral must be estimated on collateral-dependent loans; (4) prepayment activity must be projected to estimate the life of loans that often are shorter than contractual terms; and (5) it requires estimation of a reasonable and supportable forecast period for credit losses. Accordingly, this is a highly subjective process and requires significant judgment since it is difficult to evaluate current and future economic conditions in relation to an overall credit cycle and estimate the timing and extent of loss events that are expected to occur prior to end of a loan's estimated life.

Our ACL is assessed at each balance sheet date and adjustments are recorded in the provision for credit losses. The ACL is estimated based on loan level characteristics using historical loss rates, a reasonable and supportable economic forecast, and assumptions of probability of default and loss given default. Loan balances considered uncollectible are charged-off against the ACL. There are many factors affecting the ACL, some of which are quantitative, while others require qualitative judgment. Although management believes its process for determining the ACL adequately considers all the potential factors that could potentially result in credit losses, the process includes subjective elements and is susceptible to significant change. To the extent actual outcomes differ from management estimates, additional provision for credit losses could be required that could adversely affect our earnings or financial position in future periods.

Purchased credit deteriorated ("PCD") loans represent assets that are acquired with evidence of more than insignificant credit quality deterioration since origination as of the acquisition date. At acquisition, an allowance on PCD assets is booked directly to the ACL. Any subsequent changes in the ACL on PCD assets is recorded through the provision for credit losses.

We believe that the ACL is adequate to absorb the expected life of loan credit losses on the portfolio of loans as of the balance sheet date. Actual losses incurred may differ materially from our estimates.

We estimate expected credit losses on unfunded commitments to extend credit over the contractual period in which we are exposed to credit risk on the underlying commitments, unless the obligation is unconditionally cancellable. The allowance for off-balance sheet credit exposures, which is included in "Other liabilities" on the Consolidated Balance Sheets, is adjusted for as an increase or decrease to the provision for unfunded commitments. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The methodology is based on a loss rate approach that starts with the probability of funding based on historical experience. Similar to methodology discussed above related to the loans receivable portfolio, adjustments are made to the historical losses for current conditions and reasonable and supportable forecast.

Goodwill and Other Intangible Assets

We believe that the accounting for goodwill and other intangible assets also involves a higher degree of judgment than most other significant accounting policies. Accounting Standards Codification 350-10 establishes standards for the amortization of acquired intangible assets, generally over the estimated useful life of the related assets, and impairment assessment of goodwill. At September 30, 2022, we had core deposit and other intangibles of \$13.9 million subject to amortization and \$364.3 million of goodwill, which is not subject to amortization.

Goodwill arising from business combinations represents the excess of the purchase price over the sum of the estimated fair values of the tangible and identifiable intangible assets acquired less the estimated fair value of the liabilities assumed. Goodwill has an indefinite useful life and is evaluated for impairment annually or more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. At each reporting date between annual goodwill impairment tests, we consider potential indicators of impairment. During 2022 there were no triggers warranting interim impairment assessments and for the 2021 annual assessment, we concluded that it was more likely than not that the fair value exceeded its carrying value.

The primary identifiable intangible asset we typically record in connection with a whole bank or bank branch acquisition is the value of the core deposit intangibles which represent the estimated value of the long-term deposit relationships acquired in the transaction. Determining the amount of identifiable intangible assets and their average lives involves multiple assumptions and estimates and is typically determined by performing a discounted cash flow analysis, which involves a combination of any or all of the following assumptions: customer attrition/runoff, alternative funding costs, deposit servicing costs, and discount rates. The core deposit intangibles are amortized over the estimated useful lives of the deposit accounts based on a method that we believe reasonably approximates the anticipated benefit stream from this intangible. The estimated useful lives are periodically reviewed for reasonableness and have generally been estimated to have a life ranging from seven to ten years, with an accelerated rate of amortization. We review identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Our policy is that an impairment loss is recognized, equal to the difference between the asset's carrying amount and its fair value, if the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset. Estimating future cash flows involves the use of multiple estimates and assumptions, such as those listed above.

Current Accounting Matters

See Note 2 to the Consolidated Financial Statements for information about recently announced or adopted accounting standards.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income is our largest source of revenue and is the difference between the interest earned on interest-earning assets (generally loans and investment securities) and the interest expense incurred in connection with interest-bearing liabilities (generally deposits and borrowed funds). Changes in the net interest income are the result of changes in volume and the net interest spread which affects NIM. Volume refers to the average dollar levels of interest-earning assets and interest-bearing liabilities. Net interest spread refers to the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities. NIM refers to net interest income divided by average interest-earning assets and is influenced by the level and relative mix of interest-earning assets and interest-bearing liabilities. Net interest income is also influenced by external factors such as local economic conditions, competition for loans and deposits, and market interest rates.

Net interest income for the three months ended September 30, 2022 amounted to \$85.3 million, an increase of \$26.8 million, or 45.7%, from the \$58.6 million recorded in the third quarter of 2021. Net interest income on a tax-equivalent basis for the three months ended September 30, 2022 amounted to \$86.0 million, an increase of \$26.9 million, or 45.5%, from the \$59.1 million recorded in the third quarter of 2021. For internal purposes, we evaluate our NIM on a tax-equivalent basis by adding the tax benefit realized from tax-exempt loans and securities to reported interest income then dividing by total average earning assets. We believe that analysis of NIM on a tax-equivalent basis is useful and appropriate because it allows a comparison of net interest in different periods without taking into account the different mix of taxable versus non-taxable loans and investments that may have existed during those periods.

The following table presents an analysis of net interest income for the three months ended September 30, 2022 and 2021.

Average Balances and Net Interest Income Analysis

(\$ in thousands)	For the Three Months Ended September 30,					
	2022			2021		
	Average Volume	Average Rate	Interest Earned or Paid	Average Volume	Average Rate	Interest Earned or Paid
Assets						
Loans (1) (2)	\$ 6,389,996	4.49 %	\$ 72,239	\$ 4,820,007	4.09 %	\$ 50,957
Taxable securities	3,078,561	1.73 %	13,450	2,274,336	1.46 %	8,381
Non-taxable securities	299,822	1.48 %	1,115	193,511	1.41 %	688
Short-term investments, primarily interest-bearing cash	260,009	2.27 %	1,486	447,759	0.47 %	528
Total interest-earning assets	10,028,388	3.49 %	88,290	7,735,613	3.11 %	60,554
Cash and due from banks	89,042			82,204		
Premises and equipment	134,903			123,190		
Other assets	314,800			378,320		
Total assets	\$ 10,567,133			\$ 8,319,327		
Liabilities						
Interest-bearing checking	\$ 1,529,233	0.06 %	\$ 250	\$ 1,349,796	0.06 %	\$ 194
Money market deposits	2,480,043	0.13 %	841	1,865,477	0.13 %	613
Savings deposits	752,042	0.06 %	111	617,064	0.06 %	96
Time deposits >\$100,000	494,707	0.32 %	394	504,437	0.44 %	558
Other time deposits	295,134	0.34 %	252	214,686	0.30 %	165
Total interest-bearing deposits	5,551,159	0.13 %	1,848	4,551,460	0.14 %	1,626
Borrowings	110,180	3.99 %	1,108	60,822	2.45 %	375
Total interest-bearing liabilities	5,661,339	0.21 %	2,956	4,612,282	0.17 %	2,001
Noninterest-bearing checking	3,748,119			2,728,815		
Other liabilities	69,912			59,244		
Shareholders' equity	1,087,763			918,986		
Total liabilities and shareholders' equity	\$ 10,567,133			\$ 8,319,327		
Net yield on interest-earning assets and net interest income		3.38 %	\$ 85,334		3.00 %	\$ 58,553
Net yield on interest-earning assets and net interest income – tax-equivalent (3)		3.40 %	\$ 86,026		3.03 %	\$ 59,129
Interest rate spread		3.28 %			2.94 %	
Average prime rate		5.35 %			3.25 %	

(1) Average loans include nonaccruing loans, the effect of which is to lower the average rate shown. Interest earned includes recognized net loan fees, including late fees, prepayment fees, and deferred loan fee amortization (including deferred PPP fees), in the amounts of \$0.8 million, and \$1.9 million for three months ended September 30, 2022 and 2021, respectively.

(2) Includes accretion of discount on acquired and SBA loans of \$2.6 million and \$1.2 million for three months ended September 30, 2022 and 2021, respectively.

(3) Includes tax-equivalent adjustments of \$0.7 million and \$0.6 million for three months ended September 30, 2022 and 2021, respectively, to reflect the tax benefit that we receive related to tax-exempt securities and tax-exempt loans, which carry interest rates lower than similar taxable investments/loans due to their tax exempt status. This amount has been computed assuming a 23% tax rate and is reduced by the related nondeductible portion of interest expense.

Overall, as demonstrated in the table above, net interest income grew \$26.8 million for the three months ended September 30, 2022 from the comparable period of the prior year. Higher earning asset volumes, from both organic growth and the Select acquisition, combined with an expansion in NIM, drove the increase. Rates on interest-bearing deposits remained stable year-over-year while rates on borrowings increased relative to higher market rates.

- Market interest rates increased 300 basis points between March and September 2022 to result in an average prime rate of 5.35% for three months ended September 30, 2022 compared to 3.25% for the prior year period.
- Average loan volumes for the three months ended September 30, 2022 were \$1.6 billion higher than the same period in 2021. In addition to higher volumes, interest rates on loans increased 40 basis points to 4.49% for the third quarter of 2022, to result in an increase in loan interest income of \$21.3 million.
- Interest income on total investment securities increased \$5.5 million for the three months ended September 30, 2022 when compared to the same period in 2021 related primarily to the higher yields on the portfolio as reinvestment rates increased between the periods. Average volumes increased \$910.5 million between periods contributing to the increase in interest income.
- Higher average balances in interest-bearing deposits of \$1.0 billion drove a \$0.2 million increase in deposit interest expense for the three months ended September 30, 2022 compared to the same period in 2021. Rates for the same periods remained essentially unchanged.
- The combination of higher rates on borrowings, up 154 basis points from the third quarter of 2021 as compared to the third quarter of 2022, related to increasing market rates, and the increase in volume of borrowings between periods drove the \$0.7 million increase in interest expense for this category. Starting in the third quarter of 2022, short-term borrowings were utilized as needed to fund loan growth and manage fluctuations in deposit balances.
- The increase in NIM was in large part the result of market rate increases and improved pricing on new loans.

Net interest income for the nine months ended September 30, 2022 amounted to \$240.5 million, an increase of \$67.9 million, or 39.4%, from the \$172.6 million recorded in the nine months ended September 30, 2021. Net interest income on a tax-equivalent basis for the nine months ended September 30, 2022 amounted to \$242.5 million, an increase of \$68.5 million, or 39.3%, from the \$174.1 million recorded in the nine months ended September 30, 2021. For internal purposes, we evaluate our NIM on a tax-equivalent basis by adding the tax benefit realized from tax-exempt loans and securities to reported interest income then dividing by total average earning assets. We believe that analysis of NIM on a tax-equivalent basis is useful and appropriate because it allows a comparison of net interest in different periods without taking into account the different mix of taxable versus non-taxable loans and investments that may have existed during those periods.

The following table presents an analysis of net interest income for the nine months ended September 30, 2022 and 2021.

Average Balances and Net Interest Income Analysis						
(\$ in thousands)	For the Nine Months Ended September 30,					
	2022			2021		
	Average Volume	Average Rate	Interest Earned or Paid	Average Volume	Average Rate	Interest Earned or Paid
Assets						
Loans (1) (2)	\$ 6,197,915	4.35 %	\$ 201,518	\$ 4,728,258	4.36 %	\$ 154,325
Taxable securities	3,070,745	1.74 %	40,045	2,030,491	1.45 %	22,081
Non-taxable securities	296,132	1.48 %	3,267	131,263	1.51 %	1,487
Short-term investments, primarily interest-bearing cash	366,529	1.10 %	3,016	453,267	0.53 %	1,809
Total interest-earning assets	9,931,321	3.34 %	\$ 247,846	7,343,279	3.27 %	179,702
Cash and due from banks	110,007			83,115		
Premises and equipment	135,476			122,605		
Other assets	372,405			373,918		
Total assets	\$ 10,549,209			\$ 7,922,917		
Liabilities						
Interest bearing checking	\$ 1,548,935	0.06 %	\$ 684	\$ 1,278,103	0.07 %	\$ 685
Money market deposits	2,550,643	0.13 %	2,426	1,764,857	0.18 %	2,330
Savings deposits	739,927	0.06 %	324	579,595	0.08 %	338
Time deposits >\$100,000	531,168	0.30 %	1,180	528,589	0.53 %	2,097
Other time deposits	298,112	0.26 %	590	219,031	0.34 %	563
Total interest-bearing deposits	5,668,785	0.12 %	5,204	4,370,175	0.18 %	6,013
Borrowings	81,817	3.53 %	2,160	61,180	2.49 %	1,139
Total interest-bearing liabilities	5,750,602	0.17 %	7,364	4,431,355	0.22 %	7,152
Noninterest bearing checking	3,617,293			2,534,262		
Other liabilities	52,130			57,839		
Shareholders' equity	1,129,184			899,461		
Total liabilities and shareholders' equity	\$ 10,549,209			\$ 7,922,917		
Net yield on interest-earning assets and net interest income		3.24 %	\$ 240,482		3.14 %	\$ 172,550
Net yield on interest-earning assets and net interest income – tax-equivalent (3)		3.27 %	\$ 242,540		3.17 %	\$ 174,086
Interest rate spread		3.17 %			3.05 %	
Average prime rate		4.20 %			3.25 %	

(1) Average loans include nonaccruing loans, the effect of which is to lower the average rate shown. Interest earned includes recognized net loan fees, including late fees, prepayment fees, and deferred loan fee amortization (including deferred PPP fees), in the amounts of \$2.8 million, and \$7.5 million for nine months ended September 30, 2022 and 2021, respectively.

(2) Includes accretion of discount on acquired and SBA loans of \$7.2 million and \$6.2 million for nine months ended September 30, 2022 and 2021, respectively.

(3) Includes tax-equivalent adjustments of \$2.1 million and \$1.5 million for nine months ended September 30, 2022 and 2021, respectively, to reflect the tax benefit that we receive related to tax-exempt securities and tax-exempt loans, which carry interest rates lower than similar taxable investments/loans due to their tax exempt status. This amount has been computed assuming a 23% tax rate and is reduced by the related nondeductible portion of interest expense

Overall, as demonstrated in the table above, net interest income grew \$67.9 million for the nine months ended September 30, 2022 from the comparable period of the prior year. Higher earning asset volumes, from both organic growth and the Select acquisition, combined with an expansion in NIM, drove the increase.

- Average loan volumes for the nine months ended September 30, 2022 were \$1.5 billion higher than the same period in 2021. Interest rates on loans remained fairly stable between periods as increases in market rates during 2022 were offset by a decline of \$5.2 million in PPP loan fee accretion for 2022 as compared to 2021. The combination of factors resulted in an increase in loan interest income of \$47.2 million.
- Higher average volume of \$1.2 billion on total securities resulted in an increase of \$19.7 million in interest income for the nine months ended September 30, 2022 when compared to the same period in 2021. Also contributing to the increase in interest income was the higher yields on the taxable portfolio as reinvestment rates increased between the periods.
- Lower interest rates paid on deposits drove a \$0.8 million decrease in deposit interest expense for the nine months ended September 30, 2022 compared to the same period in 2021. Reductions in rates on deposits more than offset the \$1.3 billion increase in average volume for total interest-bearing deposits.
- Starting in the third quarter of 2022, short-term borrowings were utilized as needed to fund loan growth and manage fluctuations in deposit balances. In addition, higher market interest rates drove the increase in rates on borrowings, up 104 basis points for nine months ended September 30, 2022 as compared to the prior year period. and resulted in an increase of \$1.0 million increase in interest expense for this category.
- The increase in NIM was in large part the result of higher market rates and lower deposit pricing, partially offset by lower PPP loan fee accretion.

Our NIM for all periods benefited from net accretion income, primarily associated with purchase accounting premiums/discounts on loans, deposits and borrowings associated with acquisitions. Presented in the table below is the amount of accretion which increased net interest income in each time period presented.

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Interest income – increased by accretion of loan discount on acquired loans	\$ 1,519	530	4,735	4,195
Interest income – increased by accretion of loan discount on retained SBA loans	1,032	697	2,428	2,004
Total interest income impact	2,551	1,227	7,163	6,199
Interest expense – reduced by premium amortization of deposits	121	8	524	34
Interest expense – increased by discount accretion of borrowings	(64)	(45)	(190)	(133)
Total net interest expense impact	57	(37)	334	(99)
Total impact on net interest income	\$ 2,608	1,190	7,497	6,100

The increase in loan discount accretion on purchased loans for both the three months and the nine months ended September 30, 2022 as compared to the same periods in the prior year is related to the Select acquisition. Generally, the level of loan discount accretion will decline each year due to the natural paydowns in acquired loan portfolios. At September 30, 2022 and 2021, unaccreted loan discount on purchased loans amounted to \$12.5 million and \$4.8 million, respectively.

In addition to the loan discount accretion recorded on acquired loans, we record accretion on the discounts associated with the retained unguaranteed portions of SBA loans sold in the secondary market. The level of SBA loan discount accretion will vary relative to fluctuations in the SBA loan portfolio. At September 30, 2022 and 2021, unaccreted loan discount on SBA loans amounted to \$4.6 million and \$6.6 million, respectively.

Amortization of net deferred loan fees also impacts interest income. During the nine months ended September 30, 2022, we amortized net deferred PPP fees of \$2.6 million as interest income compared to \$7.8 million for the nine months ended September 30, 2021. At September 30, 2022, there were no remaining deferred PPP origination fees.

Provision for Credit Losses and Provision for Unfunded Commitments

The provisions for credit losses represents our current estimate of life of loan credit losses in the loan portfolio and unfunded loan commitments. Our estimate of credit losses is determined using a complex model that relies on reasonable and supportable forecasts and historical loss information to determine the balance of the ACL and resulting provision for credit losses. The provision for unfunded commitments represents expected losses on unfunded loan commitments that are expected to result in outstanding loan balances. The allowance for unfunded commitments is included in "Other liabilities" in the Consolidated Balance Sheets.

The amount of provision recorded in each period was the amount required such that the total ACL reflected the appropriate balance as determined under CECL. A provision for credit losses of \$5.1 million was recorded for the three months ended September 30, 2022 and \$8.6 million was recorded for the nine months ended September 30, 2022 based on loan growth during each period, updated economic forecasts impacting loss drivers, and other assumptions and inputs to the CECL model. Also based on the CECL model results and fluctuations in asset quality trends, a reversal provision of \$1.4 million was required for the three and nine months ended September 30, 2021.

In addition, a \$0.3 million provision for unfunded commitments was recorded for the three months ended September 30, 2022, and a reversal provision of \$1.2 million was recorded for the nine months ended September 30, 2022, related primarily to the fluctuations in the levels and mix of outstanding loan commitments. There was a \$1.0 million and \$3.0 million provision for unfunded commitments for the three and nine months ended September 30, 2021, respectively.

Additional discussion of our asset quality and credit metrics, which impact our provision for credit losses, is provided in the "Nonperforming Assets" and "Allowance for Credit Losses and Loan Loss Experience" sections following.

Noninterest Income

Our noninterest income amounted to \$16.9 million and \$16.5 million for the three months ended September 30, 2022 and 2021, respectively, and \$53.4 million and \$58.6 million for the nine months ended September 30, 2022 and 2021, respectively. Included in noninterest income was nonrecurring amounts totaling \$2.7 million and \$50,000 in other gains for the three months ended September 30, 2022 and 2021, respectively, and \$6.0 million and \$1.5 million in other gains for the nine months ended September 30, 2022 and 2021, respectively.

The following table presents the primary components of noninterest income.

(\$ in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
Service charges on deposit accounts	\$ 4,166	3,209	11,407	8,766
Other service charges and fees - bankcard interchange income, net	3,009	4,405	12,532	12,338
Other service charges and fees - other	3,303	2,059	8,668	6,144
Fees from presold mortgage loans	376	2,096	1,951	8,914
Commissions from sales of insurance and financial products	1,391	1,198	3,487	5,854
SBA consulting fees	479	1,128	1,963	6,079
SBA loan sale gains	479	1,655	4,581	6,981
Bank-owned life insurance ("BOLI") income	962	711	2,880	1,945
Other gains, net	2,747	50	5,958	1,533
Noninterest income	<u>\$ 16,912</u>	<u>16,511</u>	<u>53,427</u>	<u>58,554</u>

Service charges on deposit accounts increased \$1.0 million, or 29.8%, for the three months ended September 30, 2022 as compared to the three months ended September 30, 2021, and increased \$2.6 million for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021. The increase was driven by the higher number of new customers and transaction accounts generating fees from both organic growth and the Select acquisition.

Other service charges and fees - bankcard interchange income, net represents interchange income from debit and credit card transactions, net of associated interchange expense, and decreased \$1.4 million, or 31.7%, for the three months ended September 30, 2022 as compared to the prior year period, and increased \$0.2 million for the nine months ended September 30, 2022 compared to the prior year period. The decrease is a result of the Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 limitation on debit card interchange fees. Because the Company exceeded \$10 billion in total assets at December 31, 2021, the interchange fee limitation became effective for us July 1, 2022. Higher volumes of accounts and transactions have partially offset the rate limitation.

Other service charges and fees - other includes items such as SBA guarantee servicing fees and related servicing rights amortization, ATM charges, wire transfer fees, safety deposit box rentals, fees from sales of personalized checks, and check cashing fees. The increase in this line item for the three months ended September 30, 2022 compared to the three months ended September 30, 2021 of \$1.2 million, or 60.4%, and the increase of \$2.5 million for the nine months ended September 30, 2022 compared to the prior year period, was primarily due to growth in the number of accounts and related transaction activity, as well as the Bank's deposit base increases.

Fees from presold mortgage loans amounted to \$0.4 million for the three months ended September 30, 2022, a decline of \$1.7 million, or 82.1%, from the same time period in 2021, and a \$7.0 million decrease for the nine months ended September 30, 2022 compared to the prior year period. The decrease was due to the general increase in market interest rates and related decline in home mortgage refinancings and new originations during 2022 as compared to the prior year.

Commissions from sales of insurance and financial products for the three months ended September 30, 2022 increased \$0.2 million from the same period in 2021. There was a decrease of \$2.4 million for the nine months ended September 30, 2022 compared to the prior year period which was directly related to the sale of the majority of the assets of our property and casualty insurance subsidiary in June 2021.

SBA consulting fees decreased for the three months ended September 30, 2022, compared to the same period in 2021 by \$0.6 million, or 57.5%, and decreased \$4.1 million for the nine months ended September 30, 2022 compared to the prior year period. The declines in fees were directly related to the wind-down of the PPP loan program and lower related revenues earned in the current year periods.

SBA loan sale gains decreased \$1.2 million, or 71.1%, for the three months ended September 30, 2022 compared to the three months ended September 30, 2021 and declined \$2.4 million for the nine months ended September 30, 2022 compared to the prior year period. The lower gains were related to the timing of sales and the volume of originated loans available to be sold in each period.

Other gains, net for the third quarter of 2022 consisted primarily of a settlement of a prior year cash letter processing differences. Also included in other gains for the nine months ended September 30, 2022 were death benefits realized on BOLI policies. Other gains for the nine months ended September 30, 2021 are primarily related to the sale of the majority of the assets of our property and casualty insurance subsidiary in June 2021.

Noninterest Expenses

Noninterest expenses totaled \$48.7 million and \$40.8 million for the three months ended September 30, 2022 and 2021, respectively, and \$149.6 million and \$121.9 million for the nine months ended September 30, 2022 and 2021, respectively. Included in noninterest expense was nonrecurring merger and acquisition costs totaling \$0.5 million and \$0.3 million for the three months ended September 30, 2022 and 2021, respectively. Merger and acquisition costs totaled \$4.8 million and \$0.7 million for the nine months ended September 30, 2022 and 2021, respectively.

The following table presents the primary components of noninterest expense.

(\$ in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
Salaries	\$ 24,416	20,651	71,669	61,969
Employee benefits	4,156	4,447	16,044	13,105
Total personnel expense	28,572	25,098	87,713	75,074
Occupancy expense	3,175	2,618	9,681	8,190
Equipment related expenses	1,672	1,125	4,490	3,223
Merger and acquisition expenses	548	254	4,769	665
Amortization of intangible assets	889	695	2,859	2,437
Credit card rewards and other bankcard expenses	805	1,161	3,018	3,353
Telephone and data lines	929	736	2,719	2,226
Software costs	1,590	1,238	4,452	3,947
Data processing expense	1,790	1,440	5,811	4,139
Professional fees	1,117	952	3,295	2,052
Advertising and marketing expense	856	742	2,651	1,972
Non-credit losses	828	321	1,918	782
Deposit related expenses	604	383	1,271	1,145
Foreclosed property losses (gains), net	—	23	(372)	7
Other operating expenses	5,325	4,031	15,288	12,655
Total	\$ 48,700	\$ 40,817	\$ 149,563	\$ 121,867

In general, the increase in noninterest expenses was driven by higher operating expenses from personnel, locations, number of accounts, and higher level of activity resulting from the Select acquisition completed in the fourth quarter of 2021. Merger and acquisition expenses amounted to \$4.8 million for the nine months ended September 30, 2022 and primarily related to March 2022 core system conversion costs incurred for the Select acquisition.

Total personnel expense increased \$3.5 million, or 13.8%, for the three months ended September 30, 2022 as compared to the three months ended September 30, 2021. Total personnel expense increased \$12.6 million for the nine months ended September 30, 2022 compared to the prior year period. The increase for each period was a direct result of the incremental number of associates from the Select acquisition, combined with regular annual salary increases. Also contributing to the increases were higher insurance claims and costs in 2022 compared to the prior year.

Income Taxes

We recorded income tax expense of \$10.2 million for the three months ended September 30, 2022 and \$7.0 million for the three months ended September 30, 2021. Our effective tax rates increased to 21.2% from 20.1% for the three months ended September 30, 2022 and 2021, respectively. The increase in effective tax rate between quarterly periods was attributable to the utilization of additional federal disaster credits in the third quarter of 2021.

For the nine months ended September 30, 2022 and 2021, we recorded income tax expense of \$28.4 million and \$22.5 million, respectively. Our effective tax rates remained stable at 20.8% for the nine months ended September 30, 2022 compared to 20.9% for the comparable period of the prior year.

FINANCIAL CONDITION

Total assets at September 30, 2022 amounted to \$10.5 billion, a nominal increase from December 31, 2021 as growth in loans was funded by existing cash and investments shifting the balance sheet mix somewhat. Total loans at September 30, 2022 amounted to \$6.5 billion, a 7.3% increase from December 31, 2021, and total deposits amounted to \$9.2 billion, a 1.1% increase from December 31, 2021.

For the nine months ended September 30, 2022, the net increase in loans was \$443.6 million, or 7.3%, related primarily to core growth and loans amounted to 62.1% of total assets as compared to 57.9% of total assets at December 31, 2021. We experienced organic growth in most of our loan categories, with commercial real estate, 1-4 family first mortgages, and construction categories experiencing the largest growth. The mix of our loan portfolio remained substantially the same at September 30, 2022 compared to December 31, 2021. The majority of our real estate loans were personal and commercial loans where real estate provides additional security for the loan. Note 4 to the consolidated financial statements presents additional detailed information regarding our mix of loans.

The composition of our investment portfolio remained substantially the same as at December 31, 2021, and continues to reflect our investment strategy of maintaining an appropriate level of liquidity while providing a relatively stable source of income. Total investment securities decreased \$261.8 million from December 31, 2021 to total \$2.9 billion at September 30, 2022. as cash flows were utilized to fund loan growth. Also contributing to the decline was the increase in unrealized losses on available for sale securities which totaled \$464.6 million at September 30, 2022. Note 3 to the consolidated financial statements presents additional detailed information regarding our mix of investments and the unrealized losses for each category.

We invest primarily in securities issued by GSEs including FHLMC, FNMA, GNMA, and SBA, each of which guarantees the repayment of the securities. Nearly all of our mortgage-backed securities are issued by GSEs and are traded in liquid secondary markets. The state and local government investments are comprised almost entirely of highly-rated municipal bonds issued by state and local governments throughout the nation. We have no significant concentration of bond holdings from one state or local government entity. We have evaluated the unrealized losses on individual securities at September 30, 2022 and determined them to be of a temporary nature due primarily to interest rate factors and not credit quality concerns. In arriving at this conclusion, we reviewed third-party credit ratings and considered the severity of the impairment.

For the nine months ended September 30, 2022, we continued to experience growth in our deposit base, with total deposits increasing by \$104.6 million, or 1.1%, from December 31, 2021. Deposit growth was primarily in transaction accounts (checking and money market products), which we believe to be related to our ongoing deposit growth initiatives, as well as the build up in liquidity during the pandemic. While deposits have continued to grow for the year to date period, the third quarter of 2022 realized a decline in total deposits of \$130.5 million as market rates for deposits have become more competitive and customer behaviors may be shifting from activity experienced during the COVID-19 pandemic.

Nonperforming Assets

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

<i>\$ in thousands</i>	September 30, 2022	December 31, 2021
<u>Nonperforming assets</u>		
Nonaccrual loans	\$ 28,669	34,696
TDRs – accruing	11,355	13,866
Accruing loans >90 days past due	—	1,004
Total nonperforming loans	40,024	49,566
Foreclosed real estate	658	3,071
Total nonperforming assets	\$ 40,682	52,637
<u>Asset Quality Ratios</u>		
Nonaccrual loans to total loans	0.44 %	0.57 %
Nonperforming loans to total loans	0.61 %	0.82 %
Nonperforming assets to total loans and foreclosed properties	0.62 %	0.87 %
Nonperforming assets to total assets	0.39 %	0.50 %
Allowance for credit losses to nonaccrual loans	302.02 %	227.08 %
Allowance for credit losses to nonperforming loans	216.34 %	158.96 %

As shown in the table above, nonperforming assets decreased from December 31, 2021 to September 30, 2022, with improvements noted in all categories. At September 30, 2022, total nonaccrual loans amounted to \$28.7 million, compared to \$34.7 million at December 31, 2021. "Real estate-mortgage-commercial and other" is the largest category of nonaccrual loans, at \$11.5 million, or 40.1%, of total nonaccrual loans, followed by "Commercial, financial, and agricultural" at \$11.4 million, or 39.6%, of total nonaccrual loans. Included in those categories are nonaccrual SBA loans totaling \$15.6 million at September 30, 2022, or 54.4%, of total nonaccrual loans, that have \$5.8 million in guarantees from the SBA.

TDRs are accruing loans for which we have granted concessions to the borrower as a result of the borrower's financial difficulties. At September 30, 2022, total accruing TDRs amounted to \$11.4 million, compared to \$13.9 million at December 31, 2021, with the decrease being attributed to several large commercial TDR pay-offs or charge-offs during the period which more than offset the new TDRs added during the year to date period.

As reflected in Note 4 to the accompanying consolidated financial statements, total classified loans declined 9.4% to \$50.7 million at September 30, 2022 compared to \$56.0 million at December 31, 2021. Special mention loans decreased 23.3% from \$43.1 million at December 31, 2021 to \$33.1 million at September 30, 2022. The majority of the improvements were in the commercial real estate and 1-4 family mortgage categories.

Total foreclosed real estate amounted to \$0.7 million at September 30, 2022 and \$3.1 million at December 31, 2021. Our foreclosed property balances have generally been decreasing as a result of sales activity during the periods and favorable overall asset quality. During the nine months ended September 30, 2022, we recorded sales of six foreclosed properties partially offset by the addition of one foreclosed property. We believe that the fair values of foreclosed real estate, less estimated costs to sell, equal or exceed their respective carrying values at the dates presented.

Allowance for Credit Losses and Loan Loss Experience

Our ACL is based on the total amount of loan losses that are expected over the remaining life of the loan portfolio. Our estimate of credit losses on loans is determined using a complex model that relies on reasonable and supportable forecasts and historical loss information to determine the balance of the ACL and resulting provision for credit losses. The ACL is measured on a collective pool basis when similar risk characteristics exist based primarily on discounted cash flows computed for each loan in a pool based on its individual characteristics. When we determine that foreclosure is probable or when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate. We have reviewed the collateral for our nonperforming assets, including nonaccrual loans, and have included this review among the factors considered in the evaluation of the ACL.

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

For the nine months ended September 30, 2022 and 2021, we recorded a provision for credit losses of \$8.6 million and a reversal of provision for credit losses totaling \$1.4 million, respectively. The increase in provision for 2022 as compared to the prior year period was primarily due to growth in the loan portfolio which accounted for approximately half of the higher provision in 2022. Also contributing to the increase was the economic forecast inputs to our CECL model driving higher loss rate assumptions, primarily due to higher unemployment forecasts and deteriorating Commercial Real Estate Index forecasts given the developing uncertain economic environment.

For the periods indicated, the following table summarizes our balances of loans outstanding, average loans outstanding, ACL, charge-offs and recoveries, and key ratios.

Loan Ratios, Loss and Recovery Experience			
	Nine Months Ended September 30, 2022	Twelve Months Ended December 31, 2021	Nine Months Ended September 30, 2021
(\$ in thousands)			
Loans outstanding at end of period	\$ 6,525,286	6,081,715	4,869,841
Average amount of loans outstanding	6,197,915	5,018,391	4,728,258
Allowance for credit losses, at period end	86,587	78,789	63,628
Total charge-offs	(4,008)	(7,602)	(5,553)
Total recoveries	3,206	4,922	3,618
Net charge-offs	<u>\$ (802)</u>	<u>(2,680)</u>	<u>(1,935)</u>
Ratios:			
Net charge-offs as a percent of average loans (annualized)	0.02 %	0.05 %	0.05 %
Allowance for credit losses as a percent of loans at end of period	1.33 %	1.30 %	1.31 %
Recoveries of loans previously charged-off as a percent of loans charged-off	79.99 %	64.75 %	65.15 %

Allowance for Unfunded Commitments

In addition to the ACL on loans, we maintain an allowance for lending-related commitments such as unfunded loan commitments. We estimate expected credit losses associated with these commitments over the contractual period in which we are exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable. The allowance for lending-related commitments on off-balance sheet credit exposures is adjusted as a provision for unfunded commitments expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life.

For the nine months ended September 30, 2022, we recorded a reversal of the provision for unfunded commitments of \$1.2 million related to fluctuations in the levels and mix of outstanding loans commitments. For the comparable period of 2021, a \$3.0 million provision for unfunded commitments was required related to higher levels of unfunded commitments for the period. The allowance for unfunded commitments of \$12.3 million and \$13.5 million at September 30, 2022 and December 31, 2021, respectively, is classified on the balance sheet within "Other liabilities".

We believe the ACL is adequate at each period end presented. It must be emphasized, however, that the determination of the allowances using our procedures and methods rests upon various judgments and assumptions about economic conditions and other factors affecting loans. No assurance can be given that we will not in any particular period sustain loan losses that are sizable in relation to the amounts reserved or that subsequent evaluations of the loan portfolio, in light of conditions and factors then prevailing, will not require significant changes in the ACL or future charges to earnings. See "Critical Accounting Policies – Allowance for Credit Losses on Loans and Unfunded Commitments" in Note 1 to the 2021 Annual Report on Form 10-K filed with the SEC for more information.

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

Liquidity, Commitments, and Contingencies

Our liquidity is determined by our ability to convert assets to cash or acquire alternative sources of funds to meet the needs of our customers who are withdrawing or borrowing funds, and to maintain required reserve levels, pay expenses and operate the Company on an ongoing basis. Our primary liquidity sources are net income from operations, cash and due from banks, federal funds sold and other short-term investments. Our securities portfolio is comprised almost entirely of readily marketable securities, which could also be sold to provide cash. Since the beginning of the COVID-19 pandemic in early 2020, we have seen our liquidity levels increase, with increases in deposits account balances leading to higher cash and investment securities levels.

In addition to internally generated liquidity sources, we have the ability to obtain borrowings under: 1) an approximately \$857 million line of credit with the FHLB (of which \$160.9 million and \$2.0 million were outstanding at September 30, 2022 and December 31, 2021, respectively); 2) federal funds lines with several correspondent banks totaling \$265 million (of which none was outstanding at September 30, 2022 or December 31, 2021); and 3) an approximately \$161 million line of credit through the Federal Reserve's discount window (of which none was outstanding at September 30, 2022 or December 31, 2021). Unused and available lines of credit amounted to \$1.1 billion at September 30, 2022.

Our overall liquidity is essentially the same as at December 31, 2021 with our liquid assets (cash and unpledged securities) as a percentage of our unpledged deposits and borrowings at 26.7% at September 30, 2022. We believe our liquidity sources, including unused lines of credit, are at an acceptable level and remain adequate to meet our operating needs in the foreseeable future.

The amount and timing of our contractual obligations and commercial commitments have not changed materially since December 31, 2021, the detail of which is presented in the Contractual Obligations and Other Commercial Commitments table of our 2021 Annual Report on Form 10-K. In addition, we are not involved in any legal proceedings that, in our opinion, could have a material effect on our consolidated financial position.

Off-Balance Sheet Arrangements and Derivative Financial Instruments

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

Derivative financial instruments include futures, forwards, interest rate swaps, options contracts, and other financial instruments with similar characteristics. We have not engaged in significant derivative activities through September 30, 2022, and have no current plans to do so.

Capital Resources

The Company is regulated by the Federal Reserve and is subject to the securities registration and public reporting regulations of the SEC. Our banking subsidiary, First Bank, is also regulated by the Federal Reserve and the North Carolina Office of the Commissioner of Banks. We must comply with regulatory capital requirements established by the Federal Reserve. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on our financial statements. We are not aware of any recommendations of regulatory authorities or otherwise which, if they were to be implemented, would have a material effect on our liquidity, capital resources, or operations.

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

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

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

At September 30, 2022, our capital ratios exceeded the regulatory minimum ratios discussed above. The following table presents the capital ratios for the Company and the regulatory minimums discussed above for the periods indicated.

	September 30, 2022	December 31, 2021
Risk-based capital ratios:		
Common equity Tier 1 to Tier 1 risk weighted assets	12.76 %	12.53 %
Minimum required Common Equity Tier 1 capital	7.00 %	7.00 %
Tier I capital to Tier 1 risk weighted assets	13.59 %	13.42 %
Minimum required Tier 1 capital	8.50 %	8.50 %
Total risk-based capital to Tier II risk weighted assets	14.84 %	14.67 %
Minimum required total risk-based capital	10.50 %	10.50 %
Leverage capital ratio:		
Tier 1 capital to quarterly average total assets	10.21 %	9.39 %
Minimum required Tier 1 leverage capital	4.00 %	4.00 %

First Bank is also subject to capital requirements that do not vary materially from the Company’s capital ratios presented above. At September 30, 2022, First Bank exceeded the minimum ratios established by the regulatory authorities.

Item 3 – Quantitative and Qualitative Disclosures About Market Risk

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

Net interest income is our most significant component of earnings and we consider interest rate risk to be our most significant market risk. In addition to changes in volumes of loans and deposits, our level of net interest income is continually at risk due to the effect that changes in general market interest rate trends have on interest yields earned and paid with respect to our various categories of earning assets and interest-bearing liabilities. It is our policy to maintain portfolios of earning assets and interest-bearing liabilities with maturities and repricing opportunities that will afford protection, to the extent practical, against wide interest rate fluctuations.

Our exposure to interest rate risk is analyzed on a regular basis by management using standard "gap" reports (which measure the difference between the amount of interest-earning assets maturing or repricing within a specific time period and the amount of interest-bearing liabilities maturing or repricing within that time period), maturity reports, and an asset/liability software model that simulates future levels of interest income and expense based on current interest rates, expected future interest rates, and various intervals of "shock" or "ramped" interest rate scenarios. Over the years, we have been able to maintain a fairly consistent yield on average earning assets (our NIM), even during periods of changing interest rates. Over the past five calendar years, our NIM has ranged from a low of 3.16% (realized in 2021) to a high of 4.09% (realized in 2018). The 93 basis point fluctuation in NIM between the high and low point during this period was a direct result of the Federal Reserve monetary policy enacted at the beginning of the COVID-19 pandemic resulting in a reduction in short-term market interest rates totaling 150 basis points in March 2020. During the first nine months of 2022, the Federal Reserve implemented monetary policy to combat inflationary conditions and increased short-term rates 300 basis points, with the anticipation of additional rate increases to occur throughout 2022.

There has been no significant change in the Company-estimated net interest income sensitivity from December 31, 2021. Using stated maturities for all fixed rate instruments except mortgage-backed securities (which are allocated in the periods of their expected payback) and securities and borrowings with call features that are expected to be called (which are shown in the period of their expected call), at September 30, 2022, we had approximately \$3.5 billion more in interest-bearing liabilities that are subject to interest rate changes within one year than earning assets. This generally would indicate that net interest income would experience downward pressure in a rising interest rate environment and would benefit from a declining interest rate environment. However, this method of analyzing interest sensitivity only measures the magnitude of the timing differences and does not address earnings, market value, or management actions. Also, interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. In addition to the effects of "when" various rate-sensitive products reprice, market rate changes may not result in uniform changes in rates among all products. For example, included in interest-bearing liabilities subject to interest rate changes within one year as of September 30, 2022 were deposits totaling \$4.7 billion comprised of checking, savings, and certain types of money market deposits with interest rates set by management. These types of deposits historically have not repriced with, or in the same proportion, as general market indicators.

Generally, when rates change, our interest-sensitive assets that are subject to adjustment reprice immediately at the full amount of the change, while our interest-sensitive liabilities that are subject to adjustment reprice at a lag to the rate change and typically not to the full extent of the rate change. In the short-term (less than twelve months), this generally results in us being asset-sensitive, meaning that our net interest income benefits from an increase in interest rates and is negatively impacted by a decrease in interest rates. The increase in our NIM during the third quarter of 2022 demonstrated this concept. In the twelve-month and longer horizon, the impact of having a higher level of interest-sensitive liabilities generally lessens the short-term effects of changes in interest rates. Overall we believe that in the near-term (twelve months), net interest income will not likely experience significant pressure from fluctuations in interest rates, and we may continue to benefit from the anticipated rise in interest rates.

Because of the static nature and limitations as discussed above of the gap report, we also employ an earnings simulation model to analyze the sensitivity of net interest income to movements in interest rates. The model is based on actual cash flows and repricing characteristics for on- and off-balance sheet instruments and incorporates market-based assumptions regarding the impact of changing interest rates on the prepayment rate of certain assets and liabilities. Earnings-simulation analysis captures not only the potential of these interest sensitive assets and liabilities to mature or reprice, but also the probability that they will do so. Moreover, earnings-simulation analysis considers the relative sensitivities of these balance sheet items and projects their behavior over an extended period of time.

The general discussion in the foregoing paragraph applies most directly in a “normal” interest rate environment in which longer-term maturity instruments carry higher interest rates than short-term maturity instruments, and is less applicable in periods in which there is a “flat” interest rate curve. A “flat yield curve” means that short-term interest rates are substantially the same as long-term interest rates. Actions taken by the Federal Reserve at the beginning of the pandemic resulted in a very low and flat interest rate curve environment. Recent actions to raise short-term interest rates have resulted in a some steepening of the yield curve on the short end (within 1 year). However, the longer end of the curve continues to be flat and has actually inverted recently (between 1 and 10 years) meaning that the yield on short-term instruments (1 year) are higher than longer-term instruments (10 years). A flat or inverted interest rate curve is an unfavorable interest rate environment for many financial institutions, including the Bank, as short-term interest rates generally drive our deposit pricing and longer-term interest rates generally drive loan pricing. When these rates converge or invert, the profit spread we realize between loan yields and deposit rates narrows, which pressures our net interest margin.

Assuming that short term rates continue to rise over the next 12 months, we may see some benefit to our net interest margin from raising rates if we are able to maintain stable funding costs. Our experience historically has been that our demand deposit accounts have lagged the timing and amount of general market increases. However, we expect continued pressure on net interest margin from market competition for quality loans and the current mix of out earning assets in lower yielding investment securities.

Inflation

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

Item 4 – Controls and Procedures

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

Part II. Other Information**Item 1 – Legal Proceedings**

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

Item 1A – Risk Factors

Investing in shares of our common stock involves certain risks, including those identified and described in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2021, as well as cautionary statements contained in this Form 10-Q, including those under the caption "Forward-Looking Statements" set forth in the forepart of this Form 10-Q, risks and matters described elsewhere in this Form 10-Q and in our other filings with the SEC. There are no material changes from the risk factors set forth in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

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

Issuer Purchases of Equity Securities				
Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares (or Approximate Dollar Value) that May Yet Be Purchased Under the Plans or Programs (1)
July 1, 2022 to July 31, 2022	—	\$ —	—	\$ 40,000,000
August 1, 2022 to August 31, 2022	—	—	—	\$ 40,000,000
September 1, 2022 to September 30, 2022	—	—	—	\$ 40,000,000
Total	—	—	—	\$ 40,000,000

- (1) All shares available for repurchase are pursuant to publicly announced share repurchase authorizations. On February 7, 2022, the Company reported the authorization of a \$40 million repurchase program with an expiration date of December 31, 2022. As of September 30, 2022, the Company had the remaining authorization to repurchase up to \$40 million of the Company's stock.

Item 6 - Exhibits

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

- 2.a [Purchase and Assumption Agreement dated as of March 3, 2016 between First Bank \(as Seller\) and First Community Bank \(as Purchaser\) was filed as Exhibit 99.2 to the Company's Current Report on Form 8-K filed on March 7, 2016, and is incorporated herein by reference.](#)
- 2.b [Purchase and Assumption Agreement dated as of March 3, 2016 between First Community Bank \(as Seller\) and First Bank \(as Purchaser\) was filed as Exhibit 99.3 to the Company's Current Report on Form 8-K filed on March 7, 2016, and is incorporated herein by reference.](#)
- 2.c [Merger Agreement between First Bancorp and Carolina Bank Holdings, Inc. dated June 21, 2016 was filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed on June 22, 2016, and is incorporated herein by reference.](#)
- 2.d [Merger Agreement between First Bancorp and ASB Bancorp, Inc. dated May 1, 2017 was filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed on May 1, 2017, and is incorporated herein by reference.](#)
- 2.e [Merger Agreement between First Bancorp and Select Bancorp, Inc. dated June 1, 2021 was filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed on June 1, 2021, and is incorporated herein by reference.](#)
- 2.f [Merger Agreement between First Bancorp and GrandSouth Bancorporation dated June 21, 2022 was filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed on June 21, 2022, and is incorporated herein by reference.](#)
- 3.a Articles of Incorporation of the Company and amendments thereto were filed as [Exhibits 3.a.i through 3.a.v to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2002](#), and are incorporated herein by reference. Articles of Amendment to the Articles of Incorporation were filed as [Exhibits 3.1 and 3.2 to the Company's Current Report on Form 8-K filed on January 13, 2009](#), and are incorporated herein by reference. Articles of Amendment to the Articles of Incorporation were filed as [Exhibit 3.1.b to the Company's Registration Statement on Form S-3D filed on June 29, 2010 \(Commission File No. 333-167856\)](#), and are incorporated herein by reference. Articles of Amendment to the Articles of Incorporation were filed as [Exhibit 3.1 to the Company's Current Report on Form 8-K filed on September 6, 2011](#), and are incorporated herein by reference. Articles of Amendment to the Articles of Incorporation were filed as [Exhibit 3.1 to the Company's Current Report on Form 8-K filed on December 26, 2012](#), and are incorporated herein by reference. Articles of Amendment to the Articles of Incorporation were filed as [Exhibit 99.1 to the Company's Current Report on Form 8-K filed June 14, 2022](#), and are incorporated herein by reference.
- 3.b [Amended and Restated Bylaws of the Company were filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on February 9, 2018, and are incorporated herein by reference.](#)
- 4.a [Form of Common Stock Certificate was filed as Exhibit 4 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999, and is incorporated herein by reference.](#)
- 31.1 [Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302\(a\) of the Sarbanes-Oxley Act of 2002.](#)
- 31.2 [Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302\(a\) of the Sarbanes-Oxley Act of 2002.](#)
- 32.1 [Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 32.2 [Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
- 101 The following financial information from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2022, formatted in eXtensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Shareholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements.

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

SIGNATURES

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

FIRST BANCORP

November 7, 2022

BY:/s/ Richard H. Moore

Richard H. Moore
Chief Executive Officer
(Principal Executive Officer),
and Director

November 7, 2022

BY:/s/ Elizabeth B. Bostian

Elizabeth B. Bostian
Executive Vice President
and Chief Financial Officer

November 7, 2022

BY:/s/ Blaise B. Buczkowski

Blaise B. Buczkowski
Executive Vice President
and Chief Accounting Officer

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

I, Richard H. Moore, certify that:

1. I have reviewed this Form 10-Q of First Bancorp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 7, 2022

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

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

I, Elizabeth B. Bostian, certify that:

1. I have reviewed this Form 10-Q of First Bancorp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 7, 2022

/s/ Elizabeth B. Bostian
Elizabeth B. Bostian
Chief Financial Officer

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

In connection with the Quarterly Report of First Bancorp (the "Company") on Form 10-Q for the period ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard H. Moore, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Richard H. Moore
Richard H. Moore
Chief Executive Officer
November 7, 2022

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

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

In connection with the Quarterly Report of First Bancorp (the "Company") on Form 10-Q for the period ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Elizabeth B. Bostian, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Elizabeth B. Bostian
Elizabeth B. Bostian
Chief Financial Officer
November 7, 2022

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