First Bancorp, Inc.

2018
annual report
to shareholders

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First

"If everyone is moving forward together, then success takes care of itself."

- HENRY FORD

Nationally Recognized - Community Oriented

PERFORMANCE

Ranked 8th Among all banks in the nation with assets between $1 Billion and $5 Billion
Bank Director Magazine, 2018

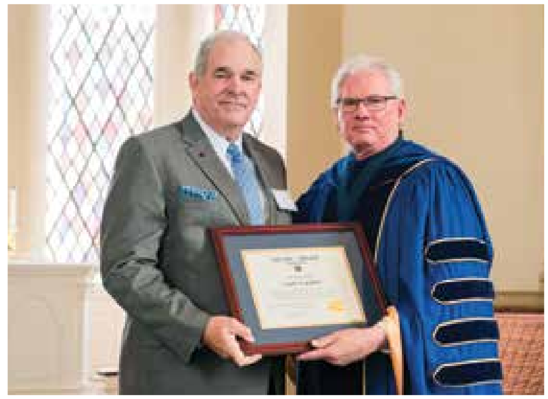
SAFETY & SOUNDNESS

Among the Strongest Financial Institutions in the Nation, 5-Star Rating
BauerFinancial Inc., 2018, 2017, 2016, and 2015

AGRIBUSINESS

2016 Recipient of the Business of the Year Award
Virginia Agribusiness Council

49th in the Nation among Top Agricultural Banks
As ranked by American Banker, 2018



William H. Hayter recognized by President Jake Schrum at Emory & Henry College Founders Day

Customer event - Staunton
James Saunders and JD Tsakis join John Bowers

Johnson City staff volunteering at Alzheimer's event

Our Locations

VIRGINIA

Abingdon
Operations Center
18528 Lee Highway
Abingdon, VA 24210
276-623-2323

711 West Main Street
Abingdon, VA 24210
276-628-9558

933 East Main Street
Abingdon, VA 24210
276-628-3838

Blacksburg
2695 Prices Fork Road
Blacksburg, VA 24060
540-951-1656

Bridgewater
610 B North Main Street
Bridgewater, VA 22812
540-828-2020

Bristol
Mortgage Division
191 Bristol East Road,
Suite 201
Bristol, VA 24202
276-644-9900

38 East Valley Drive
Bristol, VA 24201
276-466-9222

1419 West State Street
Bristol, VA 24201
276-669-1122

Christiansburg
150 Peppers Ferry Rd, NE
Christiansburg, VA 24073
540-260-9060

Fairlawn
7305 Peppers
Ferry Boulevard
Fairlawn, VA 24141
540-633-3793

Harrisonburg
120 University Boulevard
Harrisonburg, VA 22801
540-434-0671

Lebanon
359 West Main Street
Lebanon, VA 24266
276-889-4622

2030 East Main Street
Lebanon, VA 24266
276-889-3401

Lynchburg
17011 Forest Road
Forest, VA 24551
434-455-0888

Norton
1026 Park Avenue
Norton, VA 24273
276-679-7401

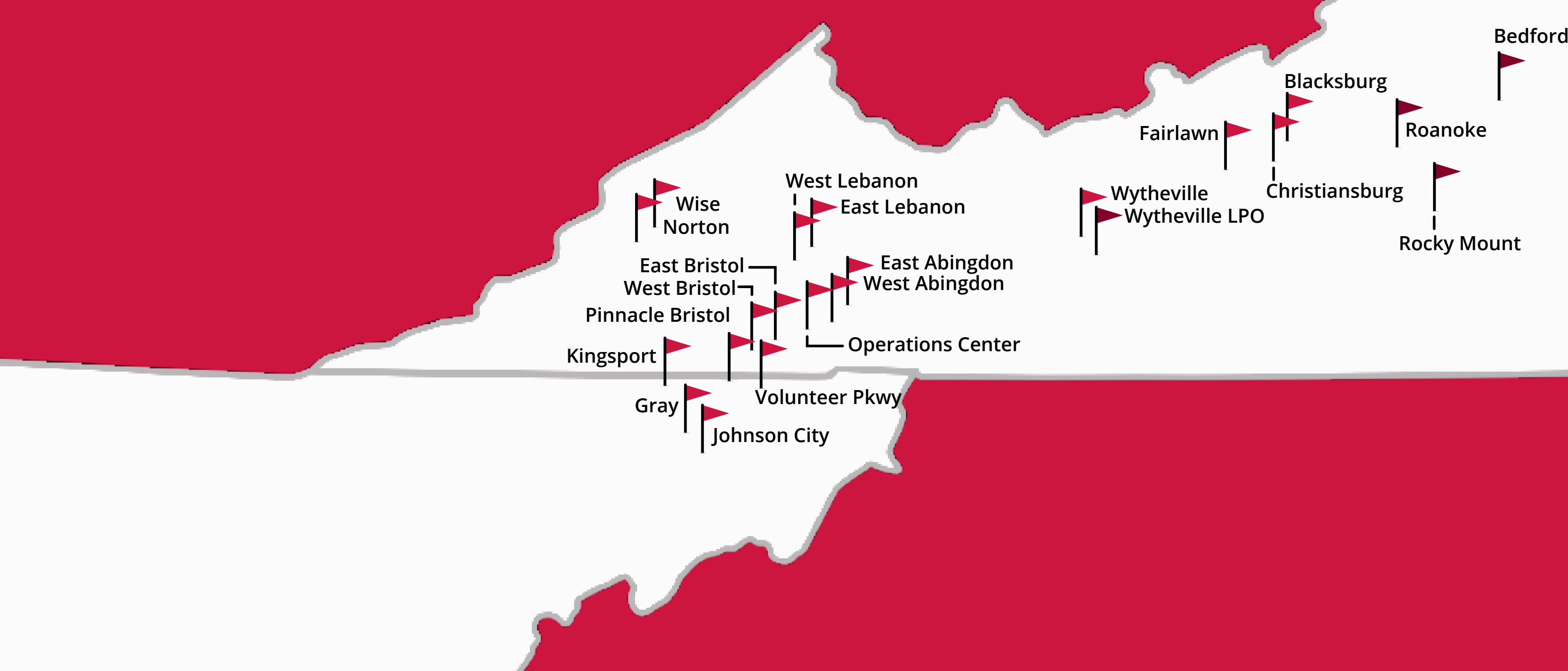
Staunton
1030 Richmond Road
Staunton, VA 24401
540-885-8000

Verona
1563 Commerce Road
Verona, VA 24482
540-248-7700

Waynesboro
851 Lew Dewitt Blvd
Waynesboro, VA 22980
540-943-5020

Wise
303 West Main Street
Wise, VA 24293
276-328-3439

Wytheville
1290 North 4th Street
Wytheville, VA 24382
276-228-1125



TENNESSEE

Bristol
1314 Volunteer Pkwy
Bristol, TN 37620
423-652-2022

Pinnacle Bristol
(Coming soon)

Gray
2100 Forest Drive
Gray, TN 37615
423-467-9966

Johnson City
1185 N. State
of Franklin Road
Johnson City, TN
37604
423-975-9900

Kingsport
1108 East Stone Drive
Kingsport, TN 37660
423-246-3700

LOAN PRODUCTION OFFICES

Bedford
1380 American Way
Court, Unit G
Bedford VA, 24523

Halifax
(Coming soon)

Hanover
9671 Sliding Hill Road,
Suite 100
Ashland, VA 23005
804-550-5700

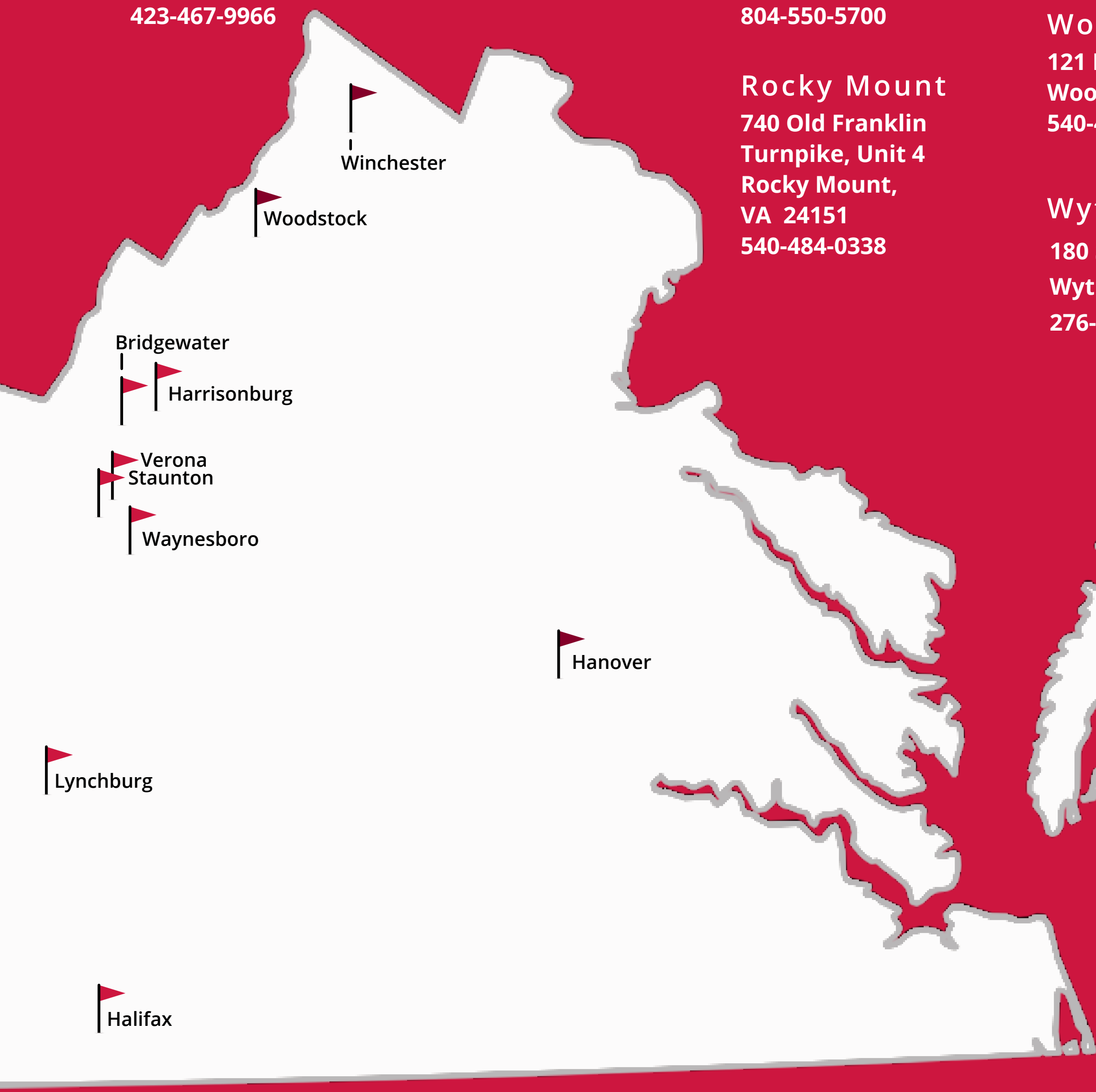
Rocky Mount
740 Old Franklin
Turnpike, Unit 4
Rocky Mount,
VA 24151
540-484-0338

Roanoke
3130 Chaparral Drive,
Suite 203
Roanoke, VA 24018
540-774-0269

Winchester
611 West Jubal
Early Drive, Suite A1
Winchester, VA 22601
540-545-8110

Woodstock
121 North Main Street
Woodstock, VA 22664
540-459-7228

Wytheville
180 South 4th Street
Wytheville, VA 24382
276-227-0722



From the PRESIDENT

First Bancorp, Inc. and its subsidiary, The First Bank & Trust Company, experienced another year of exemplary financial performance in 2018. Your Bank is profitable, growing and continues to break new ground. We are confident the outlook is optimistic, because we are operating from a position of strength.

In 2018, we expanded our presence in existing markets, beginning with construction of the new corporate office in Abingdon, Virginia. In Blacksburg, Virginia, we broke ground for a new location on Prices Fork Road, at the heart of the Virginia Tech community. In northeast Tennessee, we purchased property at the Pinnacle, home to the region's premier lifestyle shopping destination. As we continue to grow, and the headwinds that have faced financial institutions over the past decade subside, The First Bank & Trust Company has proven its ability to capitalize on the right opportunities in order to provide consistent growth and financial excellence.

The financial report outlines our overall performance for 2018. The First Bank and Trust Company generated a 13.86% return on average shareholder equity and a 1.50% return on average assets. Shareholders benefited from an 8.7% increase in dividends. This increase represents the 27th consecutive year of dividend increases for our shareholders.

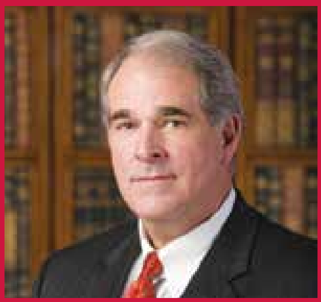
The Bank continued to meet the lending needs of our community with net loan growth of $107.6 million funded by deposit growth of $96.3 million. In 2018, the Bank's non-performing loans, 0.56% of total outstanding loans, compared favorably to that of our peers, and reflects continued control of the Bank's asset quality. The Bank generated $26.4 million in income after tax or $3.18 per share as compared to $2.43 per share in the prior year. This was the result of above average operating efficiency of 55.92% coupled with lower than average percentage of non-performing assets, favorable earnings, asset quality and growth, all of which continue to provide The First Bank & Trust Company with additional capital to support future growth.

The First Bank & Trust Company was again awarded a 5-star rating Among the Strongest Financial Institutions in the Nation by Bauer Financial, Inc. in 2018. Likewise, Bank Director Magazine's performance score card ranked The First Bank & Trust Company among top performing banks in Virginia, and the 14th highest performing bank among all banks in the United States. Your Bank was also ranked 8th among all banks in the nation with assets between $1 billion and $5 billion.

While the world is moving at a faster than ever pace, one thing remains unchanged at The First Bank & Trust Company: We cater to the growing needs of our customers with cutting edge technology coupled with old fashioned customer friendly service. We remain optimistic about the future and the performance of this company. As we continue to execute our strategy in an effort to maximize shareholder return, we pause to thank you for your long-term support.

William H. Hayter
President & CEO

First Bancorp, Inc. - Board of Directors



William H. Hayter
President & CEO

David A. Leonard
Vice Chairman

Ronald L. Barrett
Secretary

A. Benton Chafin, Jr.
Chairman

W. Mark Nelson
Board Member

C.B. Yates, Jr.
Board Member

The First Bank & Trust Company - Board of Directors

(Back Row - L-R)
W. Mark Nelson,
Ronald L. Barrett II,
David A. Leonard II,
Sophie Chafin-Vance,
N. Trent Yates,
Ronald L. Barrett
& C.B. Yates, Jr.

(Front Row - L-R)
A. Benton Chafin, Jr.,
William H. Hayter,
David A. Leonard
& Raleigh E. Hayter

SUMMARY OF OPERATIONS

	2018	2017	2016	2015	2014
Interest Income	76,224	67,494	62,045	57,353	54,802
Interest Expense	12,819	8,079	7,154	6,310	6,627
Net Interest Income	63,405	59,415	54,891	51,043	48,175
Provision for Loan Losses	1,033	-399	402	978	2,831
Other Income	13,707	13,452	13,992	13,166	13,747
Other Expense	43,121	40,204	38,634	35,207	32,691
Applicable Income Taxes	6,591	12,928	9,778	8,812	8,366
Net Income	26,367	20,134	20,069	19,212	18,034

PER SHARE DATA

	2018	2017	2016	2015	2014
Net Income	3.18	2.43	2.43	2.33	2.18
Cash Dividends Declared	1.25	1.15	1.00	0.80	0.65
Book Value	23.92	22.06	20.74	19.30	17.78

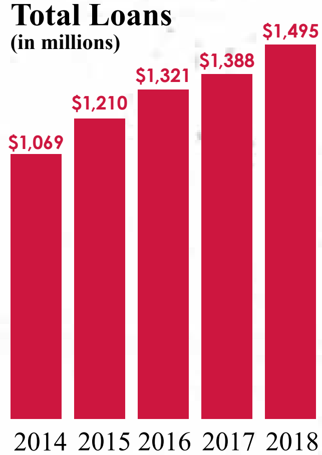
END OF PERIOD BALANCE SHEET SUMMARY

	2018	2017	2016	2015	2014
Loans, Net	1,495,298	1,387,659	1,320,641	1,210,498	1,068,891
Securities Available for Sale	28,256	39,986	38,436	55,385	56,766
Securities Held for Sale	11,998	12,882	13,635	14,370	15,067
Total Assets	1,810,942	1,713,231	1,648,963	1,505,736	1,392,630
Deposits	1,516,617	1,420,324	1,397,441	1,251,502	1,184,463
Capital	198,168	182,915	171,696	159,591	146,879

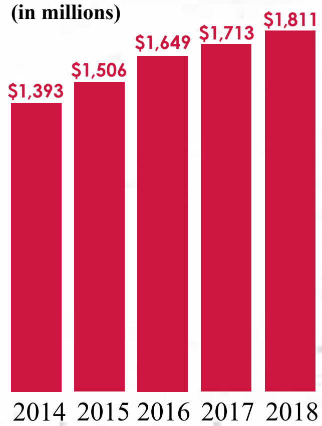
SELECTED RATIOS

	2018	2017	2016	2015	2014
Avg. Equity to Average Assets	10.81%	10.70%	10.64%	10.74%	10.37%
Return on Average Assets	1.50%	1.21%	1.29%	1.34%	1.33%
Return on Average Equity	13.86%	11.32%	12.14%	12.53%	12.79%
Cash Dividends Declared as Percent of Net Income	39.30%	47.30%	41.19%	34.39%	29.76%

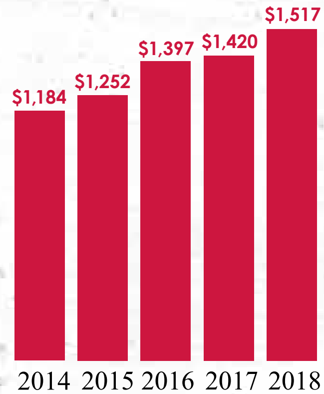
Total Loans
(in millions)



Total Assets
(in millions)



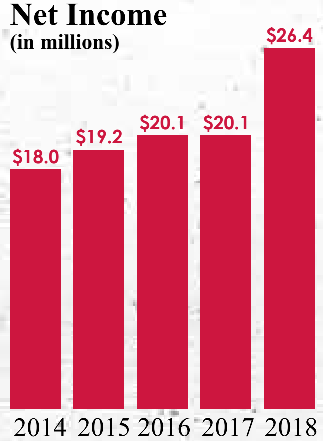
Total Deposits
(in millions)



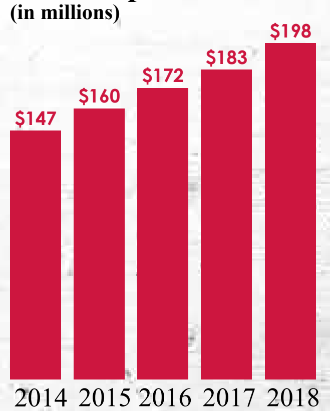
Five Year SUMMARY

(In thousands of dollars except per share)

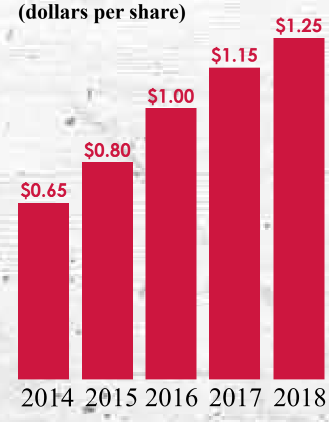
Net Income
(in millions)



Total Capital
(in millions)



Cash Dividends
(dollars per share)



Commercial/Business Lending

James McAlister, Jr.
Sr. Vice President
New River Valley Region

Hugh Ferguson
Sr. Vice President
Tri Cities Region

John Meade, III
Sr. Vice President
Shenandoah Valley Region

John Rock
Sr. Vice President
Southwest Virginia Region

Comprehensive products and services to meet your needs.

- Loans for building and acquisition, or construction and permanent financing
- Operating lines of credit
- Letters of credit
- Commercial and real estate loans
- Machinery and equipment financing
- Municipal financing
- Industrial development loans
- Energy sector loans
- Small business loans
- Church loans
- Medical health care practices
- Public colleges and university financing options

Small Business Administration Loan Guaranty Programs

Comprehensive products and services to meet your needs.

- 7(a) Loans – Commercial Real Estate and equipment up to $5 million and up to 85% guarantee
- SBA Express – Line of credit for working capital up to $350,000 and up to 50% guarantee
- CAP Lines – Line of credit for working capital up to $5 million and up to 85% guarantee
- 504 Loans – Up to 90% loan to value
  Low down payment
  First Bank & Trust portion – 50% loan to value
- International / Export Program – Working capital loans for export and international trade. Up to $5 million and up to 90% guarantee

Commercial Deposit Management

Misty Pack
Business Relationship Manager

The First Bank & Trust Company helps businesses set the standard as profitable industry leaders by helping them effectively manage cash, investments and other financial assets of their business. Personally assigned relationship specialists help businesses understand their needs and provide solutions that are tailored to their largest business challenges.

- **Diverse deposit services including ACH, payroll and merchant services**
- **Payables and Receivables management**
- **Remote Deposit services**
- **Positive Pay check fraud protection**
- **Direct Deposit employee payroll**
- **Integrate receivables from a variety of sources**
- **Remittance solutions for high volume invoicing**
- **Customized merchant services programs, including Point-of-Sale (POS)**

Scott Peak stands with Aaron Lily, developer of Wildflower Ridge Solar Subdivision in Bristol, VA.

Agricultural Division

Keith Phillips
Sr. Vice President
Agricultural Lending Division

Our experienced lenders, management and Board of Directors are committed to the needs of the agribusiness industry with 40 years of service. Our advisory board is comprised of industry leaders.

- **Financial agribusiness lenders with more than 200 combined years of experience in financing farming operations**
- **40 years of serving the agricultural industry of the Mid-Atlantic states**
- **Experienced Board of Directors, management and agricultural lenders**
- **Specialized financing for real estate, livestock, dairy, poultry, equipment, crops and agribusiness enterprises**
- **Full service banking**
- **Farm Service Agency Preferred Lender**
- **Ranked among the Top 50 Agricultural Lenders in the Nation with more than $422 million in outstanding agricultural loans**

First Bank & Trust Company Agricultural Division present at: the Crew's family farm (top left), the Ron Ramsey Agricultural Center (top right), and the Virginia Dairy Expo (left).

Trust & Wealth Management Division

The First Bank & Trust Company's Trust and Wealth Management Division is comprised of a dedicated team of professionals uniquely qualified to offer wealth management solutions. Their mission is to help clients with a personalized plan to grow assets, create income, preserve wealth and efficiently transfer assets to future generations. The Trust and Wealth Management team provides fiduciary services in trust, investment management, wills and estates. The First Bank & Trust Company's team spends as much time as it takes with clients to develop closer personal relationships and to better understand their unique financial situations.

Randy Roller
Sr. Vice President
Trust & Wealth Management Manager

Plans

- Financial
- Retirement
- Education
- Estate
- Charitable

Services

- Investment Management
- Trust
- IRA
- Employee Retirement Plans
- Estate Settlement

Mortgage Division

In 2018 the Mortgage Division expanded its market into Northern and Central Virginia by adding new originators in Winchester and Hanover County, both of which are exceptional housing markets. In 2018 the mortgage division closed over $158,000,000 in residential mortgages, added new products, contributed almost $2,500,000 in profits to the Bank's bottom line and ended the year with less than a 1.5% delinquent ratio which is a result of our quality underwriting.

Rick Buchanan
Sr. Vice President
Mortgage Division Manager

- Purchase loans
- Refinance loans
- Construction loans
- Debt consolidation loans
- Interim temporary HELOC financing
- Home improvement 2nds
- Home Equity Lines of Credit
- Government loans (VA, FHA, USDA)
- Low or no down payment options
- First time home buyer products
- Jumbo loans
- Lot/land loans
- Home purchase/ renovation loans

Breaking new ground
means more than excavation...

SEIZING OPPORTUNITY WITH CONSTRUCTION

The First Bank & Trust Company: Blacksburg, VA office (top left), future property site at The Pinnacle in Bristol, TN (top right), new corporate office under construction in Abingdon, VA (bottom left), and temporary office for west Abingdon branch (bottom right).

it's laying the ground work
for the future.

REVOLUTIONIZING BUSINESS THROUGH MODERN TECHNOLOGY

Free Online Banking
Access to account balances, transfer funds between existing accounts.

MobiMoney
Activate and deactivate your Visa Check Card, receive instant alerts on your mobile devices, and limit usage based on location, merchant preferences, transaction type, and threshold amounts.

Rewards
Earn rewards when you use your First Bank & Trust Company Check Card.

First Wallet
Online deposit account opening and loan application access. Choose from selection of deposit and loan services to fit your personal needs.

Remote Deposit Anywhere
Deposit checks anytime, anywhere with a smart phone and mobile banking.

Free Online Bill Pay
Including person to person payments. Free to all personal account holders.

Free ATMs
55,000 worldwide wherever you see the Allpoint logo.

Allpoint

Firstperks
A subscription based account that provides a network of savings, roadside assistance, ID theft and more.

Free Mobile & Text Banking
Use any Android, i-Device or cell phone for mobile or text banking anywhere, anytime.

Free e-statements
Green up and bring a new level of safety and security to your account. Receive account statements, NSF and overdraft privilege notices electronically.

Free Phone Banking
FirstCall 24-hour Phone banking 24 hours a day, seven days a week.

Instant Issue
The ability to instantly issue a customer their Visa check card, while they wait, when opening a new account, or when a card has been lost or stolen.

Young Bankers

The goal of the Young Bankers is clearly stated in their mission: To build and grow relationships with each other and across the organization by facilitating conversations, and empowering the system through openness and a drive for innovative ideas while at the same time upholding the Bank's core values.

Young Bankers group at Wolf Hills Fabricators.

Young Bankers tested their skill set at the Tri-Cities Escape Room where they participated in a fully immersive real life escape game as part of a team-building exercise.

Employees show support for Future Farmers of America (or FFA) (top). Young Bankers at Rescue Mission Ministries (bottom).

2018

auditor's report

HESS, STEWART & CAMPBELL, PLLC

JOHN G. HESS, CPA
RICHARD M. STEWART, CPA
ROBERT C. CAMPBELL, CPA
TOMI J. WEBER, CPA
CHARLES A. COOK, CPA
JEFFREY M. MOLLOHAN, CPA
ELIOTT, R. WILSON, CPA, CFF, ABV, CVA
TODD A. ROBINSON, CPA

DARRELL D. TUCKER, CPA
CHARLES "MATT" MORRIS, CPA
MERRILL L. MAY, CPA
JASON S. KELLEY, CPA
ANDREW G. REED, CPA
MATTHEW "MATT" SANDY, CPA
TIFFANY D. GOODERHAM, CPA
MAEGAN N. WILSON, CPA
LEANNE T. IMPERI, EA

CERTIFIED PUBLIC ACCOUNTANTS
122 E. MAIN STREET
BECKLEY, WEST VIRGINIA 25801

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940 4TH AVENUE
SUITE 250
P.O. BOX 1060
HUNTINGTON, WV 25713
(304) 523-6464
(304) 523-4395 FAX

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
First Bancorp, Inc. and Subsidiaries
Lebanon, Virginia

We have audited the accompanying consolidated financial statements of First Bancorp, Inc. and Subsidiaries (a Virginia corporation), which comprise the consolidated balance sheets as of December 31, 2018 and 2017 and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements. We also have audited First Bancorp, Inc. and Subsidiaries' internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9C), as of December 31, 2018, based on criteria established in the 2013 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria).

Management's Responsibility for the Financial Statements and Internal Control over Financial Reporting

First Bancorp, Inc. and Subsidiaries' management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of effective internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. Management is also responsible for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Report on Management's Assessment of Internal Control over Financial Reporting.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements and an opinion on First Bancorp, Inc. and Subsidiaries' internal control over financial reporting based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement and whether effective internal control over financial reporting was maintained in all material respects.

An audit of the financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the institution's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of financial statements also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

An audit of internal control over financial reporting involves performing procedures to obtain evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risk that a material weakness exists. An audit of internal control over financial reporting also involves obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk. Our audits also included performing such other procedures as we considered necessary, in the circumstances.

We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

Definitions and Inherent Limitations of Internal Control over Financial Reporting

An institution's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of First Bancorp, Inc. and Subsidiaries' internal control over financial reporting included controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America with the instructions to the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9C). An institution's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the consolidated financial statements.

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

Opinions

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of First Bancorp, Inc. and Subsidiaries' as of December 31, 2018 and 2017 and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Also, in our opinion, First Bancorp, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

Hess, Stewart & Campbell, P.L.L.C.

Beckley, West Virginia
February 26, 2019

Statement of Management's Responsibilities

The management of First Bancorp, Inc. and Subsidiary (The First Bank and Trust Company) is responsible for preparing the institution's annual consolidated financial statements in accordance with generally accepted accounting principles; for designing, implementing and maintaining an adequate internal control structure and procedures for financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Financial Statements for a Bank Holding Company (FR Y-9C), Parent Company Only Financial Statements for Large Bank Holding Companies (FR Y-9LP), and Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only (FFIEC 041); and for complying with Federal laws and regulations pertaining to insider loans and the Federal and State laws and regulations pertaining to dividend restrictions.

Management's Assessment of Compliance with Designated Laws and Regulations

The management of First Bancorp, Inc. and Subsidiary has assessed the Institution's compliance with the Federal laws and regulations pertaining to insider loans and the Federal and State laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2018. Based upon its assessment, management has concluded that First Bancorp, Inc. and Subsidiary has complied with the Federal laws and regulations pertaining to insider loans and the Federal and State laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2018.

Management's Assessment of Internal Control over Financial Reporting

First Bancorp, Inc. and Subsidiary's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of reliable consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes including Consolidated Financial Statements for a Bank Holding Company (FR Y-9C), Parent Company Only Financial Statements for Large Bank Holding Companies (FR Y-9LP), and Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only (FFIEC 041). First Bancorp, Inc. and Subsidiary's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of First Bancorp, Inc. and Subsidiary; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, and that receipts and expenditures of First Bancorp, Inc. and Subsidiary are being made only in accordance with authorizations of management and directors of First Bancorp, Inc. and Subsidiary; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of First Bancorp, Inc. and Subsidiary's assets that could have a material effect on the consolidated financial statements.

Internal control over financial reporting has inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override.

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

Management assessed the effectiveness of First Bancorp, Inc. and Subsidiary's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Financial Statements for a Bank Holding Company (FR Y-9C), Parent Company Only Financial Statements for Large Bank Holding Companies (FR Y-9LP), and Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only (FFIEC 041), as of December 31, 2018, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework*.

Based upon its assessment, management has concluded that, as of December 31, 2018, First Bancorp Inc. and Subsidiary's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Financial Statements for a Bank Holding Company (FR Y-9C), Parent Company Only Financial Statements for Large Bank Holding Companies (FR Y-9LP), and Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only (FFIEC 041), is effective based on the criteria established in *Internal Control – Integrated Framework*.

First Bancorp, Inc. and Subsidiary's control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for Consolidated Financial Statements for a Bank Holding Company (FR Y-9C), Parent Company Only Financial Statements for Large Bank Holding Companies (FR Y-9LP), and Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only (FFIEC 041), as of December 31, 2018, has been audited by Hess, Stewart & Campbell, PLLC, an independent public accounting firm, as stated in their report dated February 26, 2019.

First Bancorp, Inc. and Subsidiary

William H. Hayter
President and Chief Executive Officer
February 26, 2019

William Mark Nelson

W. Mark Nelson
Chief Financial Officer
February 26, 2019

FIRST BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2018 and 2017

	2018	2017
ASSETS		
Cash and due from banks	**$ 11,514,363**	$ 34,960,669
Interest-bearing due from banks	**165,566,304**	156,378,925
Federal funds sold	**407**	401
Cash and cash equivalents	**177,081,074**	191,339,995
Securities available-for-sale, at fair value	**28,256,126**	39,986,107
Securities held-to-maturity	**11,997,560**	12,881,484
Restricted equity securities	**5,339,200**	5,920,500
Loans held for sale	**4,676,021**	3,513,341
Loans, net of allowance of $16,884,477 and $15,775,091 in 2018 and 2017, respectively	**1,490,622,390**	1,384,145,837
Bank premises and equipment, net	**25,877,698**	20,642,206
Bank owned life insurance	**37,175,709**	26,640,152
Foreclosed assets	**8,396,344**	8,879,992
Accrued interest receivable	**7,029,021**	6,039,727
Goodwill	**1,002,216**	1,002,216
Other assets	**13,488,901**	12,239,145
	$ 1,810,942,260	$ 1,713,230,702
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing	**$ 345,062,183**	$ 340,863,868
Interest-bearing	**1,171,554,395**	1,079,460,627
Total deposits	**1,516,616,578**	1,420,324,495
Short-term debt	**-**	-
Long-term debt	**79,370,324**	93,992,031
Accrued interest and other liabilities	**7,287,817**	6,499,469
	86,658,141	100,491,500
TRUST PREFERRED SECURITIES	**9,500,000**	9,500,000
STOCKHOLDERS' EQUITY		
Capital stock:		
Common, no par value; authorized 20,000,000 shares; Issued: 8,311,712 shares 2018 and 2017 Outstanding: 8,282,459 shares 2018 and 8,293,356 shares 2017	**10,524,640**	10,524,640
Additional paid-in capital	**248,040**	248,040
Retained earnings	**188,595,270**	172,502,998
Accumulated other comprehensive income	**(483,110)**	(360,971)
Treasury stock, at cost: 29,253 shares 2018 and 18,356 shares 2017	**(717,299)**	-
	198,167,541	182,914,707
	$ 1,810,942,260	$ 1,713,230,702

See Notes to Consolidated Financial Statements.

FIRST BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2018 and 2017

	2018	2017
Interest and Dividend Income:		
Interest and fees on loans	**$ 71,910,878**	$ 64,891,773
Investment securities:		
Taxable	**542,042**	588,498
Tax-exempt	**435,058**	475,986
Interest on interest-bearing funds	**2,994,788**	1,305,499
Other interest and dividends	**340,938**	231,792
	76,223,704	67,493,548
Interest Expense:		
Interest on deposits	**10,445,677**	6,307,210
Interest on short-term debt	**25**	7
Interest on long-term debt	**2,373,350**	1,771,284
	12,819,052	8,078,501
Net interest income	**63,404,652**	59,415,047
Provision for Loan Losses:	**1,033,278**	(399,381)
Net interest income after provision for loan losses	**62,371,374**	59,814,428
Noninterest Income:		
Trust department fees	**1,057,962**	947,514
Service charges on deposit accounts	**3,330,308**	3,418,576
Other service charges, commissions and fees	**6,987,536**	6,445,970
Gain on sale of loans	**1,739,865**	2,000,178
Realized gains (losses) on securities available-for-sale	**(41)**	(356)
Other	**591,781**	640,423
	13,707,411	13,452,305
Noninterest Expenses:		
Salaries and employee benefits	**27,151,658**	25,030,839
Occupancy and equipment	**3,499,272**	3,226,480
Loss (Gain) on sale of foreclosed properties	**(21,109)**	17,965
Other operating expenses	**12,490,219**	11,929,438
	43,120,040	40,204,722
Income before income taxes	**32,958,745**	33,062,011
Income Taxes		
Income taxes	**6,591,381**	12,927,957
Net Income	**$ 26,367,364**	$ 20,134,054
Earnings per common share	**$ 3.18**	$ 2.43

See Notes to Consolidated Financial Statements.

FIRST BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2018 and 2017

	2018	2017
Net income	**$ 26,367,364**	$ 20,134,054
Other comprehensive income, net of tax		
Unrealized gains on securities:		
Unrealized losses arising during period	**(154,606)**	(141,627)
Reclassification adjustment for (gains) losses in net income	**41**	356
Income tax effect	**32,426**	(11,603)
Other comprehensive loss	**(122,139)**	(152,874)
Comprehensive income	**$ 26,245,225**	$ 19,981,180

See Notes to Consolidated Financial Statements.

FIRST BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended December 31, 2018 and 2017

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance, December 31, 2016	$ 10,524,640	$ 248,040	$ 161,547,511	$ (208,097)	$ (416,460)	$ 171,695,634
Comprehensive income:						
Net income	-	-	20,134,054	-	-	20,134,054
Other comprehensive loss	-	-	-	(152,874)	-	(152,874)
Sale of treasury stock (16,794 shares)	-	-	345,358	-	416,460	761,818
Cash dividends paid ($1.15 per share)	-	-	(9,523,925)	-	-	(9,523,925)
Balance, December 31, 2017	10,524,640	248,040	172,502,998	(360,971)	-	182,914,707
Comprehensive income:						
Net income	-	-	26,367,364	-	-	26,367,364
Other comprehensive loss	-	-	-	(122,139)	-	(122,139)
Sale of treasury stock (15,195 shares)	-	-	87,908	-	650,736	738,644
Purchase of Treasury Stock (26,092 shares)			-		(1,368,035)	(1,368,035)
Cash dividends paid ($1.25 per share)	-	-	(10,363,000)	-	-	(10,363,000)
Balance, December 31, 2018	**$ 10,524,640**	**$ 248,040**	**$ 188,595,270**	**$ (483,110)**	**$ (717,299)**	**$ 198,167,541**

See Notes to Consolidated Financial Statements.

FIRST BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 26,367,364	$ 20,134,054
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	1,527,020	1,507,233
Amortization of intangibles	7,050	7,050
Mortgage servicing rights amortization and capitalization, net	60,228	(85,537)
Provision for loan losses	1,033,278	(399,381)
Change in fair value of servicing rights, net	(630,841)	(269,277)
Net amortization of securities	264,431	308,170
Realized loss on available-for-sale securities, net	41	356
Loans originated for sale	(66,074,000)	(75,283,823)
Proceeds from sale of loans	64,237,000	75,930,145
Gain on sale of loans	(1,739,865)	(2,000,178)
(Gain) loss on sale of foreclosed property	(21,109)	17,965
Writedowns on foreclosed assets	816,953	428,773
Deferred income tax benefit	313,059	2,277,206
Increase in bank owned life insurance	(10,535,557)	(2,846,998)
(Increase) decrease in loans held for sale	(1,162,680)	462,623
Increase in accrued interest receivable	(989,294)	(649,879)
Increase in other assets	(1,138,952)	(142,164)
Increase in accrued interest and other liabilities	788,348	586,200
Net cash provided by operating activities	13,122,474	19,982,538
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in available-for-sale securities		
Maturities, repayments and calls	12,152,408	14,993,859
Purchases	(841,505)	(16,994,357)
Activity in held-to-maturity securities		
Maturities, repayments and calls	883,924	753,060
Increase in customer loans	(104,397,275)	(66,203,722)
Additions to premises and equipment	(6,590,345)	(1,314,442)
Proceeds from sale of foreclosed assets	592,228	3,548,846
Additions to foreclosed assets	(440,115)	(184,081)
Restricted equity transactions, net	581,300	(1,394,000)
Net cash used in investing activities	(98,059,380)	(66,794,837)

See Notes to Consolidated Financial Statements.

FIRST BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in non-interest deposits	**4,198,315**	40,120,359
Net increase (decrease) in interest-bearing deposits	**92,093,768**	(17,237,209)
Proceeds from issuance of long-term debt	**-**	40,818,400
Repayment of long-term debt	**(14,621,707)**	(11,238,924)
Cash dividends paid	**(10,363,000)**	(9,523,925)
Sale of treasury stock	**738,644**	761,818
Purchase of treasury stock	**(1,368,035)**	-
Net cash provided by financing activities	**70,677,985**	43,700,519
` Net decrease in cash and cash equivalents	**(14,258,921)**	(3,111,780)
CASH AND CASH EQUIVALENTS		
Beginning	**191,339,995**	194,451,775
Ending	**$ 177,081,074**	$ 191,339,995
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest paid on deposits and borrowed funds	**$ 12,703,585**	$ 7,919,449
Income taxes paid	**6,704,886**	10,970,549
Transfer of loans to foreclosed assets	**464,309**	476,493

See Notes to Consolidated Financial Statements.

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

The Company is a bank holding company headquartered in Lebanon, Virginia. The Company, through its banking subsidiary's twenty-one branches, grants agribusiness, commercial, residential and installment loans to its customers. Primary deposit products are non-interest bearing checking accounts, savings and term certificate of deposits. The Company currently operates in the states of Virginia and Tennessee.

The accounting and reporting policies and practices of the Company conform to accounting principles generally accepted in the United States of America. The following is a summary of the Company's significant accounting policies.

Principles of Consolidation: The consolidated financial statements include the accounts of First Bancorp, Inc., (Company or Parent) and its wholly owned subsidiaries: The First Bank & Trust Company (Bank) and First Southeast Development LLC. All significant intercompany balances and transactions have been eliminated in consolidation. The Company consolidates subsidiaries in which it holds, directly or indirectly, more than 50% of the voting rights or where it has the ability to exercise control. The Bank operates under a state charter and is subject to regulation by the Virginia Bureau of Financial Institutions and the Federal Deposit Insurance Corporation. The Parent is subject to regulation by the Federal Reserve.

Use of Estimates: In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the balance sheet date as well as reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

The Bank's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions. While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Bank to recognize additional losses based on judgments drawn from available information at the time of the examination. Due to the influence of factors described, it is reasonably possible that the estimated losses on loans are susceptible to change in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Reclassifications: Certain amounts in the financial statements have been reclassified. Such reclassifications had no impact on shareholders' equity or net income for any period.

Cash and Cash Equivalents: For purposes of reporting cash flows, cash and cash equivalents include cash, due from banks, federal funds sold, interest-bearing deposits, and cash items in process of clearing. The Company maintains amounts due from banks which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES, continued

Significant Group Concentration of Credit Risk: Most of the Company's activities are with customers within Russell, Washington, Augusta, Rockingham, Wise, Wythe and Montgomery Counties in Virginia and Washington, and Sullivan Counties in Tennessee. Note 4 discusses the types of investment securities that the Company invests in. Note 5 discuss the types of lending that the Company engages in. The Company does not have any significant concentrations to any one industry or customer.

Trust Assets: Assets of the trust department, other than cash on deposit at the subsidiary bank, are not included in these financial statements because they are not assets of the Company. Managed assets as of December 31, 2018 totaled $158,685,438.

Securities: Management determines the appropriate classification of securities at the time of purchase. Securities available-for-sale are those debt securities that the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. Securities available-for-sale are carried at fair value. Unrealized gains or losses are reported in comprehensive income. Securities classified as held-to-maturity are those debt securities that the Company has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or general economic conditions and are carried at amortized cost. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Realized gains (losses) on securities available-for-sale are included in other income (expense) and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

The Company evaluates each held-to-maturity and available-for-sale security in a loss position for other-than-temporary impairment (OTTI). In estimating other-than-temporary impairment losses, management considers such factors as the length of time and the extent to which the market value has been below cost, the financial condition of the issuer and the Company's intent to sell and whether it is more likely than not that the Company will be required to sell the security before anticipated recovery of the amortized cost basis. If the Company intends to sell or if it is more likely than not that the Company will be required to sell the security before recovery, the OTTI write-down is recognized in earnings. If the Company does not intend to sell the security or it is not likely it will be required to sell the security before recovery, the OTTI write-down is separated into an amount representing credit loss, which is recognized in earnings, and an amount related to all other factors, which is recognized in other comprehensive income (loss).

Restricted Equity Securities: The Company owns investments in the stock of the Federal Reserve Bank (FRB) and the Federal Home Loan Bank of Atlanta (FHLB). No ready market exists for these stocks and they have no quoted market value. FRB stock is redeemable at par, therefore, market value equals cost. The Bank, as a member of the FHLB, is required to maintain an investment in the capital stock of the FHLB. The stock is redeemable at par by the FHLB, and is therefore carried at cost and periodically evaluated for impairment. The Company's ability to redeem the shares owned is dependent on the redemption practices of the FHLB. The Company records dividends in income on the ex-dividend date.

Loans Held for Sale: Loans originated and intended for sale in the secondary market are carried at cost. Due to the short time existing between processing and sale, no valuation account is established.

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES, continued

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are stated at their outstanding unpaid principal balances adjusted for unearned income and the allowance for possible loan losses. Loan commitment fees and certain direct loan costs are not deferred as they represent an insignificant item.

For loans, interest is accrued daily on the outstanding balance. The methods collectively produce a result that is not materially different from the level yield method. The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash basis or cost recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses: The allowance for loan losses is established as losses estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a quarterly basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers classified and non-classified loans based on historical charge-off experience and expected loss given default derived from the Company's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

Impaired Loans: Identified loans where a portion of the outstanding principal and interest is at risk of collection based on the current market value of the collateral securing the credit are considered impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES, continued

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

Troubled Debt Restructurings: In situations where, for economic or legal reasons related to a debtor's financial difficulties, the Bank grants a concession for other than an insignificant period of time to the debtor that the Bank would not otherwise consider, the related loan is classified as a troubled debt restructuring (TDR). The Bank strives to identify debtors in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where the Bank grants the debtor new terms that provide for a reduction of either interest or principal, the Bank measures any impairment on the restructuring as previously noted for impaired loans.

Servicing: Servicing assets are recognized as separate assets when rights are acquired through the sale or through the purchase of financial assets. Generally, purchased servicing rights are capitalized at the cost to acquire the rights. For sales of mortgage loans, the fair value of the servicing right is allocated based on relative fair value. Fair value is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses.

Servicing assets are evaluated for impairment based on the fair value of the rights compared to amortized cost. Impairment is determined by stratifying rights based on final maturity dates, to the extent that the fair value is less than the capitalized amount for each maturity date tranche. If the Company later determines that all or a portion of the impairment no longer exists, a reduction of the allowance may be recorded as an increase to income. Capitalized servicing rights are reported in other assets and are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

Bank Premises and Equipment: Land is carried at cost. Other bank premises and equipment are carried at cost less accumulated depreciation and amortization computed on the straight-line method over the estimated useful lives of the assets as follows:

	Years
Building and improvements	10-40
Furniture and equipment	3-10

Costs of ordinary maintenance and repairs are charged to expense as incurred while major improvements are capitalized. Gains and losses on dispositions are included in current operations.

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES, continued

Foreclosed Assets: Foreclosed assets represent properties acquired through foreclosure or other proceedings. Foreclosed assets are held- for-sale and are recorded at the lower of the recorded amount of the loan or fair value of the properties less estimated costs of disposal. Any write-down to fair value at the time of transfer to foreclosed assets is charged to the allowance for possible loan losses. Property is evaluated regularly to ensure the recorded amount is supported by its current fair value and valuation allowances to reduce the carrying amount to fair value less estimated costs to dispose, are recorded as necessary. Depreciation is recorded based on the recorded amount of depreciable assets after they have been owned for one year. Depreciation and additions to or reductions from valuation allowances are recorded in income.

Intangible Assets: Goodwill of $1,002,216 is reviewed annually for impairment in accordance with GAAP. Management has determined under this evaluation that no impairment to goodwill has occurred during 2018. Included in other assets are other net intangible assets of $119,850 and $126,900 at December 31, 2018 and 2017, respectively. Other intangible assets consist of organizational costs. Organization costs of $282,000 are being amortized over a forty-year period.

Income Taxes: Deferred taxes are provided on a liability method where deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. The operating results of the Parent Company and its Subsidiary are included in a consolidated federal income tax return. The Subsidiary pays its allocation of federal income taxes to the Parent Company or receives payment from the Parent Company to the extent that tax benefits are realized.

Treasury Stock: Common stock shares repurchased are recorded as treasury stock at cost.

Earnings Per Share: Earnings per share are computed on the weighted average number of shares outstanding.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains on securities available-for-sale, and unrealized losses related to factors other than credit on debt securities available-for-sale.

Fair Value of Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in note 2. Fair value estimates involve uncertainties and matters of judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

Retirement Plan: The Company funds retirement costs as incurred.

Advertising Costs: Advertising costs are expensed as incurred. Advertising expense totaled $718,307 and $732,792 for the years ended December 31, 2018 and 2017, respectively.

Accrued Compensated Absences: Due to the timing of payment and restrictions on absence usage, the Company has determined that accruals for compensated absences are not material.

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES, continued

Subsequent Events: The Company has evaluated the accompanying consolidated financial statements for subsequent events and transactions through February 26, 2019, the date these financial statements were available for issue, based on FASB ASC 855, Subsequent Events, and have determined that no material subsequent events have occurred that would affect the information presented in the accompanying consolidated financial statements or require additional disclosure.

Recent Accounting Pronouncements: The following is a summary of recent authoritative pronouncements that could impact the accounting, reporting and/or disclosure of financial information by the Company.

In July 2018, The FASB issued Accounting Standards Update 2018-11, *Leases – Targeted Improvements*. The amendments in this Update provide entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption consistent with preparers' requests. Consequently, an entity's reporting for the comparative periods presented in the financial statements in which it adopts the new leases standard will continue to be in accordance with current GAAP (Topic 840, Leases). An entity that elects this additional (and optional) transition method must provide the required Topic 840 disclosures for all periods that continue to be in accordance with Topic 840. The amendments do not change the existing disclosure requirements in Topic 840 (for example, they do not create interim disclosure requirements that entities previously were not required to provide).

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

NOTE 2. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the Fair Value Measurements and Disclosures topic of FASB ASC, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. Under GAAP, the Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine the fair value. These levels are:

Level 1 — Valuation is based upon quoted prices in active markets for identical instruments that the entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded on the active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 — Valuation is based upon inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on 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 for substantially the full term of the asset or liability.

Level 3 — Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments.

Cash and Short-term Investments: The carrying amount of cash and short-term instruments approximate fair values.

Securities: Prices for these securities are obtained through third party data service providers or dealer market participants with which the Company has historically transacted both purchases and sales of investment securities. Benchmarks and other comparable securities are also used in estimating the values of these investment securities. Securities available-for-sale are recorded at fair value on a recurring basis.

Loan Receivables: The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Mortgage Servicing Rights: Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income.

NOTE 2. FAIR VALUE OF FINANCIAL INSTRUMENTS, continued

Deposit Liabilities: The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

Short-term Debt: The fair value of debt due on demand or with a maturity of three months or less is the amount payable on demand at the reporting date.

Long-term Debt: Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate fair value of existing debt.

Accrued Interest: The carrying amounts of accrued interest approximate fair value.

Commitment to Extend Credit, Standby Letters of Credit, and Financial Guarantees Written: The fair value of standby letters of credit, unused commercial line commitments, revolving home equity lines, credit card lines and other lines of commitments are based on the Company's prime rate, which is the same rate used when the aforementioned off-balance sheet items become recognized.

Assets measured at fair value on a recurring basis and non-recurring basis are summarized below:

	Total	Quoted Prices Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2018:				
Recurring basis:				
Securities available-for-sale:				
U.S. Government agencies	$ 3,778,364	$ -	$ 3,778,364	$ -
State and political subdivisions	1,094,554	-	1,094,554	-
Mortgage-backed securities	22,656,224	-	22,656,224	-
Other debt securities	726,984	-	726,984	-
Loans held for sale	4,676,021	-	4,676,021	-
Mortgage servicing rights	4,892,417	-	-	4,892,417
Non-recurring basis:				
Impaired loans	8,999,127	-	-	8,999,127
Foreclosed assets	8,396,344	-	-	8,396,344
	$ 55,220,035	$ -	$ 32,932,147	$ 22,287,888

NOTE 2. FAIR VALUE OF FINANCIAL INSTRUMENTS, continued

December 31, 2017:				
Recurring basis:				
Securities available-for-sale:				
U.S. Government agencies	$ 7,361,791	$ -	$ 7,361,791	$ -
State and political subdivisions	1,087,794	-	1,087,794	-
Mortgage-backed securities	31,500,147	-	31,500,147	-
Other debt securities	36,375	-	36,375	-
Loans held for sale	3,513,341	-	3,513,341	-
Mortgage servicing rights	4,321,804	-	-	4,321,804
Non-recurring basis:				
Impaired loans	11,622,098	-	-	11,622,098
Foreclosed assets	8,879,992	-	-	8,879,992
	$ 68,323,342	$ -	$ 43,499,448	$ 24,823,894

The estimated fair values in thousands of dollars of the Company's financial instruments at December 31, 2018 and 2017 are as follows:

	December 31, 2018		December 31, 2017	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets:				
Cash and cash equivalents	**$ 177,081**	**$ 177,081**	$ 191,340	$ 191,340
Securities available-for-sale	**28,256**	**28,256**	39,986	39,986
Securities held-to-maturity	**11,998**	**12,002**	12,881	12,891
Other investments-stock	**5,339**	**5,339**	5,921	5,921
Loans held for sale	**4,676**	**4,676**	3,514	3,514
Loans	**1,507,506**	**1,503,274**	1,399,920	1,394,573
Less: Allowance for possible loan losses	**16,884**	**16,884**	15,775	15,775
Net loans	**1,490,622**	**1,486,390**	1,384,145	1,378,798
Mortgage servicing rights	**4,892**	**4,892**	4,322	4,322
Bank owned life insurance	**37,178**	**37,178**	26,640	26,640
Accrued interest receivable	**7,029**	**7,029**	6,040	6,040
Financial Liabilities:				
Deposits	**1,516,617**	**1,337,992**	1,420,324	1,263,209
Short-term debt	**-**	**-**	-	-
Long-term debt	**79,370**	**76,920**	93,992	92,424
Accrued interest payable	**814**	**814**	699	699
Trust Preferred Securities	**9,500**	**10,319**	9,500	9,592
Unrecognized Instruments				
Standby letters of credit		**24,309**		14,875
Unused loan commitments		**271,038**		219,889
Revolving home equity lines		**21,230**		20,420

NOTE 3. RESTRICTIONS ON CASH AND DUE FROM BANKS

The company does not have any restrictions on cash with the Federal Reserve or any correspondent banks.

NOTE 4. SECURITIES

The amortized cost and estimated fair values of debt securities with unrealized gains and losses as of December 31, 2018 and 2017 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2018:				
Securities available-for-sale:				
U.S. Government agencies and corporations	**$ 3,779,764**	**$ -**	**$ 1,400**	**$ 3,778,364**
State and political subdivisions	**1,117,522**	**419**	**23,388**	**1,094,553**
Mortgage-backed securities	**23,165,755**	**9,474**	**519,004**	**22,656,225**
Other debt securities	**804,618**	**20,382**	**98,016**	**726,984**
	28,867,659	**30,275**	**641,808**	**28,256,126**
Securities held-to-maturity				
State and political subdivisions	**11,997,560**	**4,569**	**-**	**12,002,129**
	$ 40,865,219	**$ 34,844**	**$ 641,808**	**$ 40,258,255**
2017:				
Securities available-for-sale:				
U.S. Government agencies and corporations	$ 7,357,923	$ 5,672	$ 1,804	$ 7,361,791
State and political subdivisions	1,105,069	773	18,048	1,087,794
Mortgage-backed securities	31,971,929	32,536	504,318	31,500,147
Other debt securities	8,113	28,262	-	36,375
	40,443,034	67,243	524,170	39,986,107
Securities held-to-maturity				
State and political subdivisions	12,881,484	9,901	-	12,891,385
	$ 53,324,518	$ 77,144	$ 524,170	$ 52,877,492

The amortized cost and fair value of debt securities by contractual maturity as of December 31, 2018 are shown below. Maturities may differ from contractual maturities in mortgage-backed securities because the mortgages underlying the securities may be called or repaid without penalties.

	Amortized Cost	Fair Value
Due in one year or less	**$ 819,756**	**$ 742,394**
Due after one year through five years	**12,694,783**	**12,414,392**
Due after five years through ten years	**12,967,908**	**12,766,718**
Due after ten years	**14,382,772**	**14,334,751**
	$ 40,865,219	**$ 40,258,255**

NOTE 4. SECURITIES, continued

Securities with carrying values of $26,434,589 and $38,861,938 at December 31, 2018 and 2017, respectively, were pledged as collateral on public deposits, repurchase agreements, and for other purposes as permitted by law. Gross realized gains for the years ended December 31, 2018 and 2017 totaled $0 and $0, respectively. Gross realized losses for the years ended December 31, 2018 and 2017 totaled ($41) and ($356) respectively.

The following table shows the unrealized losses and fair value of the entity's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and the length of time that individual securities have been in a continuous loss position at December 31, 2018 and 2017:

	Less Than Twelve Months		**Over Twelve Months**		**Total**	
	Estimated Fair Value	**Unrealized Losses**	**Estimated Fair Value**	**Unrealized Losses**	**Estimated Fair Value**	**Unrealized Losses**
2018:						
Available-for-Sale						
U.S Agencies	**$ 3,778,365**	**$ 1,400**	**$ -**	**$ -**	**$ 3,778,365**	**$ 1,400**
Mortgage-backed	**2,392,555**	**20,193**	**18,952,439**	**498,811**	**21,344,994**	**519,004**
Municipals	**-**	**-**	**1,030,680**	**23,388**	**1,030,680**	**23,388**
Other	**-**	**-**	**698,489**	**98,016**	**698,489**	**98,016**
	6,170,920	**21,593**	**20,681,608**	**620,215**	**26,852,528**	**641,808**
Held-to-Maturity						
Municipals	**-**	**-**	**-**	**-**	**-**	**-**
Total	**$ 6,170,920**	**$ 21,593**	**$ 20,681,608**	**$ 620,215**	**$ 26,852,528**	**$ 641,808**

	Less Than Twelve Months		Over Twelve Months		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
2017:						
Available-for-Sale						
U.S Agencies	$ 1,554,354	$ 1,686	$ 999,440	$ 534	$ 2,553,794	$ 2,220
Mortgage-backed	9,674,586	147,842	17,765,144	356,060	27,439,730	503,902
Municipals	-	-	1,056,210	18,048	1,056,210	18,048
Other	-	-	-	-	-	-
	11,228,940	149,528	19,820,794	374,642	31,049,734	524,170
Held-to-Maturity						
Municipals	-	-	-	-	-	-
Total	$ 11,228,940	$ 149,528	$19,820,794	$ 374,642	$31,049,734	$ 524,170

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which fair value has been less than cost, (2) the financial condition and near-term

NOTE 4. SECURITIES, continued

prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. At December 31, 2018, forty-two debt securities with fair values of $26,852,528 and total unrealized losses of $641,808 had depreciated 2.33% from the Company's amortized cost basis. At December 31, 2017, thirty-six debt securities with fair values of $31,049,734 and total unrealized losses of $524,170 had depreciated 1.69% from the Company's amortized cost basis. These securities are guaranteed by either the U.S. Government or other governments. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether the downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

Restricted equity securities consist of Federal Home Loan Bank stock and Federal Reserve Stock. At December 31, 2018 and 2017, FHLB Stock totaled $4,734,900 and $5,316,200, respectively. At December 31, 2018 and 2017, Federal Reserve stock totaled $604,300 for both years.

NOTE 5. LOANS

The following table presents the composition of loans, including loans held for sale, segregated by class of loans, as of December 31:

	2018	2017
Commercial	**$ 137,787,550**	$ 130,446,505
Commercial real estate	**429,098,623**	407,728,030
Construction and land development	**115,248,050**	101,194,306
Agriculture	**422,141,545**	396,550,463
Residential real estate	**310,763,739**	277,642,890
Consumer	**16,095,950**	14,693,753
Other	**81,047,431**	75,178,322
	1,512,182,888	1,403,434,269
Less allowance	**(16,884,477)**	(15,775,091)
	$1,495,298,411	$1,387,659,178

Overdraft deposit accounts that have been reclassified as loans as of December 31, 2018 and 2017 totaled $509,704 and $417,339, respectively.

As a part of the ongoing monitoring of the credit quality of the loan portfolio, management tracks certain credit quality indicators including trends related to (i) the risk grade assigned to commercial and consumer loans, (ii) the level of classified commercial and consumer loans, (iii) net charge-offs, (iv) nonperforming loans, and (v) the general economic conditions in the Company's geographic region. The Company uses a risk grading system to assign a risk grade to each of its loans. Loans are graded on a scale of 0-9. The Company risk rates one hundred percent of the loans in its portfolio. The bank uses the following definitions for risk ratings:

Pass (0-5) – Loans and leases classified as pass should be performing relatively close to expectations, with adequate evidence that the borrower is continuing to generate adequate cash flow to service debt. There should be no significant departure from the intended source and timing of repayment, and there should be no undue reliance on secondary sources of repayment. To the extent that some variance exists in one or more criteria being measured, it may be offset by the relative strength of other factors and/or collateral pledged to secure the transaction.

NOTE 5. LOANS, continued

Special Mention (6) – Has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset in the institution's credit position at some future date. Special mention assets are not adversely classified and do not expose the institution to sufficient risk to warrant an adverse classification.

Substandard (7) – Inadequately protected by the current worth and paying capacity of the obligor or the collateral pledged, if any. Assets so classified have a well-defined weakness that jeopardizes the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. Also, this risk rating may apply to non-accrual loans and other real estate owned. The loans require immediate attention and formal reporting to management on a quarterly basis.

Doubtful (8) – Has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Loans in this category must be placed on non-accrual and all payments (principal and interest) applied to principal recapture. The key issue that makes a loan Doubtful is the potential for loss. The probability of some loss is extremely high, but because of certain important and reasonable specific pending factors, the amount of loss cannot yet be determined. Therefore, every effort is made to confirm specific collateral values or other protections against loss in order to minimize the portion of the loan rated Doubtful. All or portions of Doubtful rated loans may be recommended for charge-off. All Doubtful loans must be on non-accrual; however, all non-accrual loans are not necessarily rated Doubtful.

Loss (9) – This loan is classified as a loss and is considered not collectible. It is of such little value that continuance as a bankable asset is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it is not practical or desirable to deter writing off this basically worthless loan even though partial recovery may be affected in the future. Amounts so determined must be charged-off in accordance with established procedures. The Company did not have any loans classified as Loss at December 31, 2018 and 2017.

The following table presents the loan portfolio by credit quality indicator (risk grade) as of December 31, 2018 and 2017. Those loans with a risk grade of 0, 1, 2, 3, 4 or 5 have been combined in the pass column for presentation purposes.

December 31, 2018	Pass	Special Mention	Sub-Standard	Doubtful	Total Loans
Commercial	$ 130,748,852	$ 3,004,205	$ 4,034,493	$ -	$ 137,787,550
Commercial real estate	413,917,055	4,603,186	10,347,838	230,543	429,098,622
Construction and land development	108,255,313	5,067,004	1,925,733	-	115,248,050
Agriculture	387,700,787	14,098,697	20,327,303	14,757	422,141,544
Residential real estate	299,955,164	5,936,076	4,838,340	34,161	310,763,741
Consumer	15,773,828	108,345	206,705	7,072	16,095,950
Other	80,699,457	347,974	-	-	81,047,431
Total loans	$ 1,437,050,456	$ 33,165,487	$ 41,680,412	$ 286,533	$1,512,182,888
Percentage to total loans	95.03%	2.19%	2.76%	0.02%	100%

December 31, 2017	Pass	Special Mention	Sub-Standard	Doubtful	Total Loans
Commercial	$ 123,087,010	$ 2,894,049	$ 4,465,446	$ -	$ 130,446,505
Commercial real estate	389,553,460	5,225,485	12,949,085	-	407,728,030
Construction and land development	91,009,224	6,213,916	3,971,166	-	101,194,306
Agriculture	370,395,158	20,978,583	5,171,032	5,690	396,550,463
Residential real estate	269,563,409	2,915,238	5,086,227	78,016	277,642,890
Consumer	14,505,117	81,850	101,395	5,391	14,693,753
Other	74,840,225	338,097	-	-	75,178,322
Total loans	$ 1,332,953,603	$ 38,647,218	$ 31,744,351	$ 89,097	$1,403,434,269
Percentage to total loans	94.98%	2.75%	2.26%	0.01%	100%

NOTE 5. LOANS, continued

A loan's risk grade is assigned at the inception of the loan and is based on the financial strength of the borrower and the type of collateral. Loan risk grades are subject to reassessment at various times throughout the year as part of the Company's ongoing loan review process. Loans with an assigned risk grade of 7 or below are reassessed on a quarterly basis. During this reassessment process individual reserves may be identified and placed against certain loans which are not considered impaired.

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Generally, loans are placed on nonaccrual status if principal or interest payments become 90 days past due or when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provision. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past due. Interest is accrued but not recognized as income on nonaccrual loans.

The following table represents an age analysis of past due loans and nonaccrual loans, segregated by class of loans, as of December 31, 2018 and 2017.

	Accruing Loans					
December 31, 2018	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Accruing Loans Past Due**	**Nonaccrual Loans**	**Current Loans**	**Total Loans**
Commercial	$ 517,873	$ -	$ 517,873	$ -	$ 137,269,676	$ 137,787,549
Commercial real estate	2,537,906	37,534	2,575,440	587,689	425,935,494	429,098,623
Construction and land development	740,550	-	740,550	97,601	114,409,899	115,248,050
Agriculture	3,247,715	380,476	3,628,191	1,633,385	416,879,969	422,141,545
Residential real estate	3,347,789	355,777	3,703,566	299,235	306,760,938	310,763,739
Consumer	98,702	5,540	104,242	17,965	15,973,743	16,095,950
Other	278,575	-	278,575	-	80,768,857	81,047,432
Total loans	$ 10,769,110	$ 779,327	$ 11,548,437	$ 2,635,875	$1,497,998,576	$ 1,512,182,888

	Accruing Loans					
December 31, 2017	30-89 Days Past Due	90 Days or More Past Due	Total Accruing Loans Past Due	Nonaccrual Loans	Current Loans	Total Loans
Commercial	$ 511,486	$ -	$ 511,486	$ 98,429	$ 129,836,590	$ 130,446,505
Commercial real estate	2,048,451	155,809	2,204,260	2,773,209	402,750,561	407,728,030
Construction and land development	36,873	-	36,873	110,213	101,047,220	101,194,306
Agriculture	2,604,418	355,976	2,960,394	1,130,481	392,459,588	396,550,463
Residential real estate	2,624,749	170,644	2,795,393	504,649	274,342,848	277,642,890
Consumer	91,722	-	91,722	26,286	14,575,745	14,693,753
Other	67,805	-	67,805	-	75,110,517	75,178,322
Total loans	$ 7,985,504	$ 682,429	$ 8,667,933	$ 4,643,267	$1,390,123,069	$ 1,403,434,269

NOTE 5. LOANS, continued

The following table details loans reviewed specifically for impairment at December 31, 2018 and 2017:

December 31, 2018	Impaired Balance	Related Allowance	Average Recorded Investment	Interest Income Recorded	Interest Income Collected
With No Related Allowance Recorded					
Commercial	$ 3,989,765	$ -	$ 4,272,771	$ 221,168	$ 213,885
Commercial real estate	3,957,476	-	3,935,575	188,453	168,846
Construction and land development	578,237	-	361,211	12,714	12,714
Agriculture	22,216,947	-	22,712,814	1,068,812	1,074,881
Residential real estate	522,696	-	527,978	24,265	24,085
Consumer	52,177	-	56,919	2,392	2,305
Other	29,930	-	29,964	743	801
	31,347,228	-	31,897,232	1,518,547	1,497,517
With an Allowance Recorded					
Commercial	-	-	-	-	-
Commercial real estate	5,106,031	561,031	5,168,098	187,667	228,865
Construction and land development	886,845	141,638	961,845	54,321	54,321
Agriculture	3,006,251	130,192	3,240,454	264,781	153,937
Residential real estate	-	-	-	-	-
	8,999,127	832,861	9,370,397	506,769	437,123
Total					
Commercial	3,989,765	-	4,272,771	221,168	213,885
Commercial real estate	9,063,507	561,031	9,103,673	376,120	397,711
Construction and land development	1,465,082	141,638	1,323,056	67,035	67,035
Agriculture	25,223,198	130,192	25,953,268	1,333,593	1,228,818
Residential real estate	522,696	-	527,978	24,265	24,085
Consumer	52,177	-	56,919	2,392	2,305
Other	29,930	-	29,964	743	801
	$ 40,346,355	$ 832,861	$ 41,267,629	$ 2,025,316	$ 1,934,640

December 31, 2017	Impaired Balance	Related Allowance	Average Recorded Investment	Interest Income Recorded	Interest Income Collected
With No Related Allowance Recorded					
Commercial	$ 4,557,839	$ -	$ 4,854,899	$ 208,461	$ 199,928
Commercial real estate	3,788,036	-	3,695,568	158,009	182,615
Construction and land development	2,454,206	-	2,130,719	109,519	117,113
Agriculture	8,289,001	-	8,502,033	495,956	463,032
Residential real estate	788,546	-	795,658	41,277	41,683
Consumer	28,322	-	33,499	1,509	1,794
Other	29,997	-	29,997	774	942
	19,935,947	-	20,042,373	1,015,505	1,007,107
With an Allowance Recorded					
Commercial	127,229	122,860	134,291	2,038	7,398
Commercial real estate	8,377,412	1,101,177	8,280,300	371,827	345,513
Construction and land development	1,036,845	160,294	1,021,206	27,654	55,360
Agriculture	1,670,277	71,208	1,719,585	73,280	50,001
Residential real estate	410,335	47,436	413,880	20,854	16,379
	11,622,098	1,502,975	11,569,262	495,653	474,651
Total					
Commercial	4,685,068	122,860	4,989,190	210,499	207,326
Commercial real estate	12,165,448	1,101,177	11,975,868	529,836	528,128
Construction and land development	3,491,051	160,294	3,151,925	137,173	172,473
Agriculture	9,959,278	71,208	10,221,618	569,236	513,033
Residential real estate	1,198,881	47,436	1,209,538	62,131	58,062
Consumer	28,322	-	33,499	1,509	1,794
Other	29,997	-	29,997	774	942
	$ 31,558,045	$ 1,502,975	$ 31,611,635	$ 1,511,158	$ 1,481,758

NOTE 5. LOANS, continued

In accordance with accounting principles generally accepted in the United States of America, loans totaling $40,346,355 in non-homogeneous groups were reviewed specifically for impairment as of December 31, 2018 while $31,558,045 were reviewed as of December 31, 2017. Specific loan loss reserves of $832,861 and $1,502,975 were related to these loans as of December 31, 2018 and 2017, respectively. These reserves were held against specific loan balances of $8,999,127 and $11,622,098 for 2018 and 2017, respectively. Income has been recognized on a cash basis on these loans since being placed in impaired status. The average balance invested in impaired loans was $41,267,629 and $31,611,635 in 2018 and 2017, respectively. All impaired loans as of December 31, 2018 and 2017 have been evaluated to determine whether a specific loan loss reserve is necessary.

Impaired loans include loans whose contractual terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulties. Troubled debt restructurings (TDRs) are a subset of impaired loans and totaled $4,442,175 and $2,281,032 at December 31, 2018 and 2017, respectively.

The following is a schedule of loans that are considered TDRs at December 31, 2018 and 2017:

	Agriculture and Commercial	Land Development	Residential Real Estate
2018:			
Number of contracts	**15**	**0**	**5**
Recorded investment at end of year	**$ 4,061,866**	**$ -**	**$ 380,310**
Loans previously restructured and have subsequently defaulted	**$ 873,961**	**$ -**	**$ -**
2017:			
Number of contracts	5	0	6
Recorded investment at end of year	$ 1,674,960	$ -	$ 599,392
Loans previously restructured and have subsequently defaulted	$ 131,096	$ -	$ -

At December 31, 2018, twenty loans were considered to be TDRs. The concessions made by the Bank included extending the interest only period, principal deferment, and interest rate reduction. Four TDR loans totaling $1,138,433 are also recorded as nonaccrual loans.

There have been two defaults on loans previously restructured during 2018. In the determination of the allowance for loan losses, management considers troubled debt restructurings and subsequent defaults in these restructurings.

Some loan modifications classified as TDR's may not ultimately result in the full collection of principal and interest, as modified, and result in potential incremental losses. These potential incremental losses have been factored into our overall allowance for loan losses estimate. The level of any re-defaults will likely be affected by future economic conditions. Loss exposure related to these loans is determined by management quarterly.

NOTE 5. LOANS, continued

The following tables detail activity in the allowance for loan losses, segregated by class of loan, for the years ended December 31, 2018 and 2017. Allocation portion of the allowance to one category of loans does not preclude its activity to absorb losses in other loan categories and periodically may result in reallocation within the provision categories.

December 31, 2018	**Beginning Balance**	**Charge-Offs**	**Recoveries**	**Provision**	**Ending Balance**
Commercial	$ 1,576,122	$ 66,309	$ 12,861	$ 90,884	$ 1,613,559
Commercial real estate	1,412,828	572,724	-	81,468	920,572
Construction and land development	5,543,070	-	1,068,583	319,631	6,931,284
Agriculture	6,198,474	107,901	5,952	357,424	6,453,948
Residential real estate	567,991	106,619	3,113	32,752	497,237
Consumer	337,309	52,315	19,096	19,451	323,541
BounceProtection	72,639	277,488	148,425	127,824	72,400
Other	66,658	-	1,434	3,844	71,936
	$ 15,775,091	$ 1,183,356	$ 1,259,464	$ 1,033,278	$ 16,884,477

December 31, 2017	Beginning Balance	Charge-Offs	Recoveries	Provision	Ending Balance
Commercial	$ 1,759,570	$ 131,977	$ 12,446	$ (63,917)	$ 1,576,122
Commercial real estate	1,603,686	132,604	-	(58,254)	1,412,828
Construction and land development	5,430,479	-	309,853	(197,262)	5,543,070
Agriculture	5,958,661	243,738	700,000	(216,449)	6,198,474
Residential real estate	699,751	135,267	3,507	-	567,991
Consumer	364,761	31,629	4,177	-	337,309
BounceProtection	59,020	260,799	137,917	136,501	72,639
Other	60,730	-	5,928	-	66,658
	$ 15,936,658	$ 936,014	$ 1,173,828	$ (399,381)	$ 15,775,091

The following table indicates the allocation of the allowance for loan losses based on loans evaluated specifically for impairment and loans evaluated collectively for the years ended December 31, 2018 and 2017.

	Individually Evaluated for Impairment	**Ending Balance Collectively Evaluated for Impairment**	**Total**
2018:			
Commercial	**$ -**	**$ 1,613,559**	**$ 1,613,559**
Commercial real estate	**561,031**	**359,541**	**920,572**
Construction and land development	**141,638**	**6,789,646**	**6,931,284**
Agriculture	**130,192**	**6,323,756**	**6,453,948**
Residential real estate	**-**	**497,237**	**497,237**
Consumer	**-**	**323,541**	**323,541**
Other	**-**	**144,336**	**144,336**
Ending balance of allowance for loan losses	**$ 832,861**	**$ 16,051,616**	**$ 16,884,477**
Ending balance to total allowance ratio	**4.93%**	**95.07%**	**100%**

NOTE 5. LOANS, continued

	Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment	Total
2017:			
Commercial	$ 122,860	$ 1,453,262	$ 1,576,122
Commercial real estate	1,101,177	311,651	1,412,828
Construction and land development	160,294	5,382,776	5,543,070
Agriculture	71,208	6,127,266	6,198,474
Residential real estate	47,436	520,555	567,991
Consumer	-	337,309	337,309
Other	-	139,297	139,297
Ending balance of allowance for loan losses	$ 1,502,975	$ 14,272,116	$ 15,775,091
Ending balance to total allowance ratio	9.53%	90.47%	100%

At December 31, 2018, the scheduled maturities of loans are as follows:

	2018
Three months or less	**$ 253,223,448**
Over three months through twelve months	**251,281,709**
Over one year through three years	**296,213,278**
Over three years through five years	**275,376,805**
Over five years through fifteen years	**186,790,931**
Over fifteen years	**249,296,717**
	$1,512,182,888

NOTE 6. SERVICING

The Company sells loans to the Federal Home Loan Mortgage Corporation (Freddie Mac). At December 31, 2018 and 2017, one-to-four family residential mortgage loans held-for-sale were $4,676,021 and $3,513,341, respectively.

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage and other loans serviced for others were $487,729,737 and $476,757,288 at December 31, 2018 and 2017, respectively. Loans sold for the year ended December 31, 2018 totaled $59,913,717. The balance on loans sold with recourse totaled $616,470 at December 31, 2018. Servicing rights are measured at fair value. The fair values of servicing rights were $4,892,417 and $4,321,804, respectively, at December 31, 2018 and 2017. The fair value of servicing rights was determined using discount rates of 12%, prepayment speeds averaging 9.01%, depending upon the stratification of the specific right, and a weighted average default rate of .88%. Servicing fees earned and recorded in other service charges and fees totaled $1,158,349 and $1,127,354 for the years ended December 31, 2018 and 2017, respectively.

NOTE 6. SERVICING, continued

The following summarizes the activity pertaining to mortgage servicing rights:

	2018	2017
Mortgage servicing rights:		
Balance at beginning of year	**$ 4,321,804**	$ 3,966,990
Mortgage servicing rights capitalized	**478,269**	568,801
Mortgage servicing rights amortized	**(538,497)**	(483,264)
Fair value adjustments	**630,841**	269,277
Balance at end of year	**$ 4,892,417**	$ 4,321,804

NOTE 7. BANK PREMISES AND EQUIPMENT

Major classes of bank premises and equipment and the total accumulated depreciation as of December 31, 2018 and 2017, are as follows:

	2018	2017
Land	**$ 11,293,359**	$ 7,927,208
Buildings and improvements	**20,119,407**	18,009,457
Furniture and equipment	**15,319,970**	14,540,546
	46,732,736	40,477,211
Less accumulated depreciation	**(20,855,038)**	(19,835,005)
	$ 25,877,698	$ 20,642,206

Depreciation expense for the years ended December 31, 2018 and 2017 amounted to $1,354,853 and $1,347,536, respectively. Software costs included in other assets at December 31, 2018 and 2017 totaled $1,848,600 and $1,612,843, respectively. Amortization expense on software costs for the years ended December 31, 2018 and 2017 amounted to $172,167 and $159,697, respectively.

NOTE 8. FORECLOSED ASSETS

Activity for foreclosed assets for December 31, 2018 and 2017 is as follows:

	2018	2017
Balance at beginning of year	**$ 8,879,992**	$ 12,215,002
Properties acquired	**464,309**	476,493
Additional expenses	**440,115**	184,081
Subsequent write-downs	**(816,953)**	(428,773)
Gross proceeds from sales	**(592,228)**	(3,548,846)
Gains (loss) recorded	**21,109**	(17,965)
Balance at end of year	**$ 8,396,344**	$ 8,879,992

NOTE 9. DEPOSITS

Deposits (in thousands) at December 31, 2018 and 2017 were as follows:

		2018		2017
Individuals, partnerships and corporations	**$**	**1,307,368**	$	1,222,613
U.S. Government		**7**		1
Commercial banks		**328**		318
States and political subdivisions		**208,914**		197,393
	$	**1,516,617**	$	1,420,325

The aggregate amount of time deposits in denominations of $250,000 or more at December 31, 2018 and 2017 was $100,055,068 and $109,558,200, respectively. At December 31, 2018 the scheduled maturities of time deposits of $250,000 or more are as follows:

		2018
Three months or less	**$**	**28,756,408**
Over three months through twelve months		**46,530,855**
Over one year through three years		**12,734,817**
Over three years		**12,032,988**
	$	**100,055,068**

The 1973 Regular Session of the Virginia General Assembly enacted Chapter 23 of Title 2.1, Code of Virginia (1950), as amended, known as the Virginia Security for Public Deposits Act ("Act"). The Act substantially amended the procedure and method of securing public deposits. In October, 2001 the Code of Virginia was recodified placing the Virginia Security for Public Deposits Act under Chapter 44, Title 2.2 of the Code of Virginia. The Act adopted the concept of mutuality of responsibility, involving a cross guarantee among all banks holding public deposits. In the event of default of a bank having public funds on deposit, any uncollateralized and uninsured public deposits will be collected by assessments against each participating bank for its proportionate share of the loss based on the ratio that its average public deposits bears to the statewide average. To insure that the primary responsibility for security remains that of the bank holding public deposits, the Act requires that each depository bank must collateralize its public deposits to the extent of the greater of (1) fifty percent of the average daily balance for each month of all public deposits held by the depository during the preceding calendar months, or (2) fifty percent of the actual public deposits held at the close of business on the last banking day in the prior month.

NOTE 10. SHORT-TERM DEBT

Short-term debt consists of federal funds purchased and securities sold under agreements to repurchase. Federal funds purchased include reserves at the Federal Reserve or correspondent bank purchased on a daily basis to satisfy reserve requirements. There were no federal funds purchased at December 31, 2018 and 2017. Securities sold under repurchase agreements mature daily or on demand. Securities sold under repurchase agreements at December 31, 2018 and 2017 totaled $-0-. Information concerning securities sold under agreements to repurchase is summarized as follows:

NOTE 10. SHORT-TERM DEBT, continued

	Years Ended December 31, 2018	2017
Amount outstanding	$ -	$ -
Year-end weighted average rate	-	-
Average outstanding	-	-
Average rate	-	-
Maximum outstanding at any month end	$ -	$ -

NOTE 11. LONG-TERM DEBT

The Company has advances of long-term debt from the FHLB totaling $74,920,324 and $89,542,031 at December 31, 2018 and 2017, respectively. The advances are secured by residential real estate and commercial loans and have various scheduled maturity dates beginning with July 19, 2019 through September 30, 2030. The weighted average interest rate on the advances was 2.07% at December 31, 2018. The current remaining available credit the company has with the FHLB totals $31,263,470. Loans totaling $344,671,397 are pledged as collateral.

The Company has a line of credit in the amount of $8,000,000 established with AgCredit under an agreement dated February 27, 2002. There was no outstanding balance due at December 31, 2018 or 2017. Loans totaling $7,793,017 are pledged as collateral against this line of credit. The Company has available credit in the amount of $80,000,000 established with five correspondent banks under various agreements. There were no outstanding balances due under these agreements at December 31, 2018 or 2017. In addition, the Company has a secured line of credit with the Federal Reserve totaling $44,776,673. There was no outstanding balance due under this line of credit at December 31, 2018 or 2017. Loans totaling $85,341,245 are pledged as collateral against the Federal Reserve credit.

The Company has a note payable dated April 2016 in the amount of $500,000 bearing interest at 4% and matures on April 22, 2021. The payment will be one single payment of principal due on this date. Interest payments are made quarterly.

The Company has a note payable dated May 2016 in the amount of $950,000 bearing interest at 4% and matures May 19, 2021. The payment will be one single payment of principal due on this date. Interest payments are made quarterly.

The Company has a note payable dated June 2016 in the amount of $500,000 bearing interest at 4% and matures June 17, 2021. The payment will be one single payment of principal due on this date. Interest payments are made quarterly.

The Company has a note payable dated May 2016 in the amount of $2,500,000 bearing interest at 4% and matures May 19, 2021. The payment will be one single payment of principal due on this date. Interest payments are made quarterly.

NOTE 11. LONG-TERM DEBT, continued

Long-term debt at December 31, 2018 matures as follows:

2019	$ 11,666
2020	5,853,138
2021	4,481,944
2022	14,336,730
2023	14,707,230
Thereafter	39,979,616
	$ 79,370,324

NOTE 12. TRUST PREFERRED SECURITIES

On September 20, 2004, First Bancorp (VA) Statutory Trust I issued $4.5 million of floating rate trust preferred securities and $140,000 common stock. First Bancorp (VA) Statutory Trust I, a Delaware Statutory business trust is a wholly-owned subsidiary of the Company, with its sole assets being $4.5 million aggregate principal amount of Floating Rate Junior Subordinated Debt Securities due September 24, 2034 of First Bancorp, Inc. (the trust debenture).

The trust preferred securities are non-voting, pay quarterly distributions at a variable rate, and carry a liquidation value of $1,000 per share. The variable rate is LIBOR plus 2.20% (4.99% at December 31, 2018) and distributions for 2018 on the trust preferred securities and stock totaled $197,305. The Company has executed a guarantee with regard to the trust preferred securities. The guarantee, when taken together with the Company's obligations under the trust debenture, the indenture pursuant to which the trust debenture was issued and the applicable trust document, provides a full and unconditional guarantee of the trust's obligations under the trust preferred securities.

After September 24, 2010, the trust preferred securities are redeemable, at the option of the Company, for a redemption price of $1,000 per share. The trust preferred securities are subject to a mandatory redemption on September 24, 2034, at a redemption price of $1,000 per share.

On August 5, 2008, First Bancorp (VA) Statutory Trust II issued $5.0 million of floating rate trust preferred securities and $155,000 common stock. First Bancorp (VA) Statutory Trust II, a Delaware Statutory business trust is a wholly-owned subsidiary of the Company, with its sole assets being $5.0 million aggregate principal amount of Floating Rate Junior Subordinated Debt Securities due August 15, 2035 of First Bancorp, Inc. (the trust debenture).

The trust preferred securities are non-voting, pay quarterly distributions at a variable rate, and carry a liquidation value of $1,000 per share. The variable rate is LIBOR plus 1.59% (4.38% at December 31, 2018) and distributions for 2018 on the trust preferred securities and stock totaled $188,107. The Company has executed a guarantee with regard to the trust preferred securities. The guarantee, when taken together with the Company's obligations under the trust debenture, the indenture pursuant to which the trust preferred debenture was issued and the applicable trust document provides a full obligation under the trust preferred securities.

NOTE 12. TRUST PREFERRED SECURITIES, continued

After August 15, 2010, the trust preferred securities are redeemable, at the option of the Company, for a redemption price of $1,000 per share. The trust preferred securities are subject to a mandatory redemption on August 15, 2035, at a redemption price of $1,000 per share. First Bancorp, Inc. may cause the trust to delay payment of distributions on the trust preferred securities. During such deferral periods, distributions to which holders of the trust preferred securities were entitled will compound quarterly in arrears at the applicable rate for each period.

NOTE 13. INCOME TAXES

Consolidated net deferred tax assets consist of the following components:

	2018	2017
Deferred tax assets:		
Loan loss allowance	$ 3,611,613	$ 3,312,769
Deferred retirement	1,046,412	966,355
Nonaccrual interest	81,982	59,630
OREO property write-downs	508,271	353,341
Unrealized loss on securities available-for-sale, net	128,422	95,958
	5,376,700	4,778,053
Deferred tax liabilities:		
Bank premises and equipment	673,637	563,143
Accretion of discounts, net	17,575	17,421
Servicing rights	804,981	672,505
Unrealized gain on securities available-for-sale, net	-	-
	1,496,193	1,253,069
Net deferred tax assets	$ 3,880,507	$ 3,534,984

The provision for consolidated income taxes charged to operations for the years ended December 31, 2018 and 2017 consists of the following:

	2018	2017
Current tax expense	$ 6,904,440	$ 10,020,751
Deferred tax expense	(313,059)	2,277,206
Total income taxes	$ 6,591,381	$ 12,927,957

The income tax provision differs from the amount of income tax determined by applying the applicable U.S. federal tax rate to pretax income for the years ended December 31, 2018 and 2017 due to the following:

	2018	2017
Computed expected tax expense	$ 6,921,336	$ 11,571,704
Tax-exempt interest	(321,673)	(508,128)
Disallowed interest expense to carry tax-exempts	16,908	18,941
Rate change for remeasured deferred tax assets	-	2,077,062
Other, net	(25,190)	(231,622)
Total income taxes	$ 6,591,381	$ 12,927,957

NOTE 13. INCOME TAXES, continued

The Company files income tax returns in the U.S. federal jurisdiction, and the State of Virginia. The company has evaluated the tax positions taken or expected to be taken in future tax returns and does not believe it has any uncertain tax positions. Deferred tax expenses and benefits are recorded by the bank. Current income tax expense or benefit is recorded at the parent level and subsidiaries' level according to their respective taxable income or loss. Interest and penalties associated with any tax assessments are recorded as interest expense and noninterest expense, respectively. December 31, 2015 through December 31, 2017 remain open for audits by tax authorities. There is no valuation allowance for deferred tax assets at December 31, 2018 and 2017 as Company believes it is more likely than not that all of the deferred tax assets will be realized because they are supported by recordable taxes paid in prior years. The reduction in net deferred tax assets in 2017 of $2.3 million consists primarily of a $2.1 million non-cash charge due to the Company's corporate rate being reduced from 35% to 21% under the newly enacted tax legislation. Therefore, the deferred tax assets and liabilities were remeasured at the lower rate.

NOTE 14. STOCKHOLDERS' EQUITY

The holding company's principal assets are investments in the wholly-owned consolidated subsidiary Bank. The principal source of income for the holding company is dividends from the Bank. Regulatory agencies limit the amount of funds that may be transferred from the Bank to the holding company in the form of dividends, loans, or advances. Dividend payments are made from dividends received from its subsidiary which amounted to $10,363,000 for 2018 and $9,523,925 for 2017.

Banking laws and regulations limit the amount of dividends that may be paid without prior approval of the regulatory agency. Under the minimum capital guidelines, $135,571,000 was available for such payment at December 31, 2018, with the bank maintaining the prescribed level of capital.

Legal lending limits on loans to First Bancorp, Inc. (Parent) are governed by Federal Reserve Act 23A and differ from legal lending limits on loans to external customers. Generally, a bank may lend up to 10% of its capital and surplus to its parent, if the loan is secured. If collateral is in the form of stocks, bonds, debentures or similar obligations, it must have a market value when the loan is made of at least 20% more than the amount of the loan, and if obligations of a state or political subdivision or agency thereof, it must have a market value of at least 10% more than the amount of the loan. If such loans are secured by obligations of the United States or agencies thereof, or notes, drafts, bills of exchange or bankers' acceptances eligible for rediscount or purchase by a Federal Reserve Bank, requirements for collateral in excess of loan amount do not apply. Under this definition, the combined legal lending limit for First Bancorp's subsidiary on loans to the Parent is $2,014,312 for December 31, 2018. Substantially all undivided profits of the Parent are represented by undistributed earnings of the Subsidiary. Earnings per share are computed on weighted average number of shares outstanding of 8,288,726 shares at December 31, 2018 and 8,282,122 at December 31, 2017.

The Company, including the Bank, is subject to various regulatory capital requirements by the various banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a material effect on the Company's and Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require the company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as

NOTE 14. STOCKHOLDERS' EQUITY, continued

defined in the regulations) to risk-weighted assets (as defined). As of December 31, 2018, the most recent notification from the federal banking agencies categorized the Company and the Bank as "well capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since these notifications that management believes have changed the institution's categories. The Company and the Bank's actual capital amounts and ratios are presented in the following table (dollars in thousands):

	Actual Capital		Minimum Requirements	
2018:	**Ratio**	**Amount**	**Well Capitalized**	**Adequately Capitalized**
Tier 1 Capital (to Risk-Weighted Assets)				
Consolidated	**15.03%**	**$ 207,029**	**8.00%**	**6.00%**
Subsidiary bank	**15.14%**	**208,281**	**8.00%**	**6.00%**
Total Capital (to Risk-Weighted Assets)				
Consolidated	**16.27%**	**224,054**	**10.00%**	**8.00%**
Subsidiary bank	**16.38%**	**225,306**	**10.00%**	**8.00%**
Tier 1 Capital (to Average Assets)				
Consolidated	**11.59%**	**207,029**	**5.00%**	**4.00%**
Subsidiary bank	**11.68%**	**208,281**	**5.00%**	**4.00%**
Common Equity (to RWA)				
Consolidated	**14.34%**	**197,529**	**6.50%**	**4.50%**
Subsidiary bank	**15.14%**	**208,281**	**6.50%**	**4.50%**
2017:				
Tier 1 Capital (to Risk-Weighted Assets)				
Consolidated	15.01%	$ 191,673	8.00%	6.00%
Subsidiary bank	15.11%	192,715	8.00%	6.00%
Total Capital (to Risk-Weighted Assets)				
Consolidated	16.25%	207,589	10.00%	8.00%
Subsidiary bank	16.35%	208,631	10.00%	8.00%
Tier 1 Capital (to Average Assets)				
Consolidated	11.50%	191,673	5.00%	4.00%
Subsidiary bank	11.58%	192,715	5.00%	4.00%
Common Equity (to RWA)				
Consolidated	14.26%	182,173	6.50%	4.50%
Subsidiary bank	15.11%	192,715	6.50%	4.50%

NOTE 15. COMPREHENSIVE INCOME

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available-for-sale. The components of other comprehensive income and related tax effects for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
Unrealized holding losses on available-for-sale securities	$ (154,606)	$ (141,627)
Reclassification adjustment for (gains) losses realized in income	41	356
Net unrealized losses	(154,565)	(141,271)
Tax effect	32,426	(11,603)
Net-of-tax effect	$ (122,139)	$ (152,874)

NOTE 16. OTHER INFORMATION

The principal components of other income and other expense in the statements of income for the years ended December 31, 2018 and 2017 are:

	2018	2017
Other income:		
Other (no items in excess of 1% of total revenues)	$ 591,781	$ 640,423
Other expenses:		
Franchise taxes	$ 1,433,531	$ 1,442,608
Debit card fees	1,068,053	972,746
FDIC assessments	495,000	517,152
Advertising	718,307	732,792
Professional Fees	752,950	765,904
Data processing	1,030,422	967,865
Other (no items in excess of 1% of total revenues)	6,991,956	6,530,371
	$ 12,490,219	$ 11,929,438

NOTE 17. LEASE OBLIGATIONS

Equipment Leases: In the normal course of business, the Company has entered into operating leases for equipment. Expenses under these leases for years ended December 31, 2018 and 2017 were $63,001 and $46,904, respectively.

Land Leases: The Company has entered into two land leases. The first lease was entered into in 2000 for a term of thirty years. The current monthly payment for this lease is $4,631. Lease payments are adjusted at five-year intervals by five percent until the year 2025. The Company also entered into a thirty-year land lease beginning March 1, 2008. The current monthly lease payment is $6,050. At each five-year interval, the monthly lease rate increases by ten percent.

NOTE 17. LEASE OBLIGATIONS, continued

Real Estate Leases: The Company renewed a three-year real estate lease in October, 2016 with current monthly payments of $3,448. The Company renewed a five-year real estate lease in November, 2018 with current monthly payments of $3,500. The Company renewed a three-year real estate lease in December, 2018 with current monthly payments of $1,716. The Company renewed a three-year lease beginning August, 2018 with current monthly payments of $1,300. In November, 2015 the Company renewed a lease on a monthly basis with current monthly payments of $1,500. The Company entered into a three-year real estate lease in November, 2016 with current monthly payments of $2,875. In February, 2017 the Company entered into a three-year real estate lease with current monthly payments of $2,780. In August, 2017 the Company entered into a five-year real estate lease with current monthly payments of $2,700. The Company entered into a twenty-nine month lease in October, 2018 with the fee of $200,000 for the entire term of the lease paid in advance. Monthly amortization of the prepaid lease is $6,897.

Rent expense under the land and real estate leases for the years ended December 31, 2018 and 2017 were $391,585 and $389,763, respectively. Minimum future lease payments on these leases are as follows:

2019	**$**	**342,455**
2020		**254,108**
2021		**238,152**
2022		**196,028**
2023		**182,988**
Thereafter		**1,639,188**
	$	**2,852,919**

The Company leases property to commercial customers. Rental income recorded on this property for the years ended December 31, 2018 and 2017 amounted to $205,334 and $218,900, respectively.

NOTE 18. COMMITMENTS AND CONTINGENCIES

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and other commitments. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the statements of financial position. The contract amounts of these instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. Unless noted otherwise, the Company requires that financial instruments with credit risk be collateralized with deeds of trust.

	Contract Amounts at December 31	
	2018	2017
Financial instruments whose contract amounts represent credit risk:		
Standby letters of credit	**$ 24,309,656**	$ 14,875,361
Revolving home equity lines	**21,229,935**	20,420,059
Unused loan commitments	**271,038,214**	219,888,739

NOTE 18. COMMITMENTS AND CONTINGENCIES, continued

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties. For unused loan commitments, interest rates could be fixed or variable.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters-of-credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Essentially all letters of credit issued have review dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting those commitments, and at December 31, 2018 and 2017 such collateral was in excess of $24,309,000 and $14,875,000, respectively.

The Company and Subsidiary are subject to claims and lawsuits which arise principally in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position of the Company.

NOTE 19. TRANSACTIONS WITH RELATED PARTIES

The Company has banking transactions in the ordinary course of business with directors, principal officers, their immediate families and affiliated companies in which they are principal stockholders (commonly referred to as related parties), all of which have been, in the opinion of management, on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. Aggregate loan transactions with related parties are as follows:

	Years Ended December 31,	
	2018	2017
Balance, beginning	**$ 3,721,113**	$ 3,073,087
New loans	**1,261,501**	2,501,604
Repayments	**(1,506,726)**	(1,853,578)
Relationship change	**-**	-
Balance, ending	**$ 3,475,888**	$ 3,721,113

Deposits from related parties held by the Bank at December 31, 2018 and 2017 amounted to $7,139,195 and $6,369,157, respectively.

NOTE 20. EMPLOYEE STOCK OWNERSHIP AND SAVINGS PLAN

On January 1, 1993, the Company established an Employee Stock Ownership (ESOP) and Savings Plan. The Plan consists of two portions, the ESOP and the 401(k) portions. Substantially all the employees who meet the eligibility requirements are covered by the Plan. The Plan acquired 8,000 shares of common stock on August 24, 1993. The stock was acquired by the Plan using funds rolled over from the former 401(k) plan and a loan obtained from the Company's banking subsidiary. The Company makes cash payments to the Plan, consisting of contributions and dividend payments, in amounts sufficient for it to satisfy service requirements. Acquisitions of common stock from corporation per year have been: 1994 - 4,000 shares; 1995 – 11,428 shares; 1998 – 7,140 shares; 2001 - 4,000 shares; 2003 - 12,600 shares; 2004 - 3,762 shares; 2006 - 14,324 shares; 2007 - 9,458 shares; 2008 – 1,860 shares; 2009 – 20,484 shares; 2010 – 2,950 shares; 2011 – 10,658 shares; 2012 – 11,832 shares; 2013 – 24,668 shares; 2014 – 15,040 shares; 2015 – 14,630 shares; 2016 - 16,278 shares; 2017 – 24,680 shares, 2018 –20,375 shares. Cash payments to the Plan during the years ended December 31, 2018 and 2017 were $732,154 and $700,136 respectively. Shares owned by the plan at December 31, 2018 and 2017 totaled 343,263 and 346,242, respectively. There were no unallocated shares at December 31, 2018.

Dividends paid to the plan totaled $433,153 and $391,420 for the years ended December 31, 2018 and 2017, respectively.

The Company has adopted a nonqualified tax retirement plan for executive officers to supplement benefits such executives can receive under the Company's ESOP Plan. Under the plan, benefits are accrued each year and are dependent on the Company's performance. To fund the plan, the Company has invested in bank owned life insurance. At December 31, 2018 and 2017, the carrying value of this investment was $37,175,709 and $26,640,152 respectively. The Company also entered into a nonqualified Plan for two key executives to supplement life insurance post-retirement in the amount of $1,500,000. Benefits accrued and recorded in other liabilities at December 31, 2018 and 2017 were $5,288,352 and $4,884,771, respectively. The amount of expenses recorded for 2018 and 2017 were $1,107,016 and $1,000,324, respectively.

NOTE 21. UNAUDITED INTERIM FINANCIAL INFORMATION

The following unaudited data includes, in the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary to present fairly the results of operations for such periods:

	Three Months Ended (In Thousands of Dollars Except Per Share Data)			
2018:	**March 31**	**June 30**	**September 30**	**December 31**
Interest income	**$ 17,649**	**$ 18,810**	**$ 19,474**	**$ 20,291**
Interest expense	**2,580**	**3,024**	**3,345**	**3,870**
Provision for possible loan losses	**1**	**45**	**452**	**535**
Securities gains (losses)	**-**	**-**	**-**	**-**
Other income	**3,360**	**3,473**	**3,311**	**3,563**
Other expense	**11,028**	**10,563**	**10,346**	**11,184**
Income before tax expense	**7,400**	**8,651**	**8,642**	**8,265**
Income tax expense	**1,554**	**1,817**	**1,578**	**1,642**
Net income	**$ 5,846**	**$ 6,834**	**$ 7,064**	**$ 6,623**
Net income per share	**$ 0.71**	**$ 0.82**	**$ 0.85**	**$ 0.80**

2017:	March 31	June 30	September 30	December 31
Interest income	$ 16,308	$ 16,604	$ 17,185	$ 17,397
Interest expense	1,892	1,947	1,997	2,243
Provision for possible loan losses	-	-	400	-
Securities gains (losses)	-	-	-	-
Other income	3,157	3,403	3,475	3,417
Other expense	9,723	9,971	10,253	10,258
Income before tax expense	7,850	8,089	8,810	8,313
Income tax expense	2,357	2,867	2,964	4,740
Net income	$ 5,493	$ 5,222	$ 5,846	$ 3,573
Net income per share	$ 0.66	$ 0.63	$ 0.71	$ 0.43

NOTE 22. PARENT COMPANY FINANCIAL INFORMATION

Condensed financial information of First Bancorp, Inc. (Parent Company) is presented below:

BALANCE SHEETS	**December 31,**	
	2018	2017
ASSETS		
Cash and noninterest-bearing deposits in banks	**$ 422,575**	$ 574,120
Investments in subsidiary, at equity	**211,527,463**	196,112,835
Other assets	**203,720**	210,770
	$ 212,153,758	$ 196,897,725
LIABILITIES		
Accrued interest	**$ 36,217**	$ 33,018
Notes payable	**4,450,000**	4,450,000
	4,486,217	4,483,018
TRUST PREFERRED SECURITIES	**9,500,000**	9,500,000
STOCKHOLDERS' EQUITY		
Common stock	**10,524,640**	10,524,640
Additional paid-in capital	**248,040**	248,040
Retained earnings	**188,595,270**	172,502,998
Accumulated other comprehensive income	**(483,110)**	(360,971)
Treasury stock at cost (29,253 shares at 2018 and 18,356 shares at 2017)	**(717,299)**	-
	198,167,541	182,914,707
	$ 212,153,758	$ 196,897,725

NOTE 22. PARENT COMPANY FINANCIAL INFORMATION, continued

STATEMENTS OF INCOME	**Years Ended**	
	2018	2017
Dividends from banking subsidiary	**$ 11,540,000**	$ 9,523,925
Other income	**12,000**	154,525
	11,552,000	9,678,450
Expenses:		
Professional fees	**2,400**	1,825
Amortization of intangibles	**7,050**	7,050
Interest expense	**566,612**	474,590
Other operating expenses	**369,076**	774,714
	945,138	1,258,179
Income before income tax benefit and equity in undistributed income of subsidiary	**10,606,862**	8,420,271
Federal income tax benefit	**194,478**	346,166
Income before equity in undistributed income of subsidiary	**10,801,340**	8,766,437
Equity in undistributed income of subsidiary	**15,566,024**	11,367,617
Net income	**$ 26,367,364**	$ 20,134,054

NOTE 22. PARENT COMPANY FINANCIAL INFORMATION, continued

STATEMENTS OF CASH FLOWS

	Years Ended 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**$ 26,367,364**	$ 20,134,054
Adjustments to reconcile net income to net cash provided by operating activities:		
Increase in equity in undistributed income of subsidiary	**(15,566,024)**	(11,367,617)
Decrease in other assets	**36,306**	116,487
Increase (decrease) in other liabilities	**3,200**	2,331
	10,840,846	8,885,255
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of securities	**-**	-
Capitalization of subsidiaries	**-**	-
Net cash provided by investing activities	**-**	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends	**(10,363,000)**	(9,523,925)
Treasury stock transactions, net	**(629,391)**	416,460
Repayment of Long - term Debt	**-**	-
Net cash used in financing activities	**(10,992,391)**	(9,107,465)
Net increase (decrease) in cash and due from banks	**(151,545)**	(222,210)
Cash and due from banks		
Beginning	**574,120**	351,910
Ending	**$ 422,575**	$ 574,120

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