FIRST BANCORP /NC/
Form 10-Q
November 10, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2014

Commission File Number 0-15572

FIRST BANCORP

(Exact Name of Registrant as Specified in its Charter)

North Carolina (State or Other Jurisdiction of Incorporation or Organization)	56-1421916 (I.R.S. Employer Identification Number)
300 SW Broad Street, Southern Pines, North Carolina (Address of Principal Executive Offices)	28387 (Zip Code)
(Registrant's telephone number, including area code)	(910) 246-2500

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ý YES ¨ NO

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

¨ Large Accelerated Filer ý Accelerated Filer ¨ Non-Accelerated Filer
¨ Smaller Reporting Company(Do not check if a smaller reporting company)

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

The number of shares of the registrant's Common Stock outstanding on October 31, 2014 was 19,705,381.

INDEX

FIRST BANCORP AND SUBSIDIARIES

Index

FORWARD-LOOKING STATEMENTS

Part I of this report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995, which statements are inherently subject to risks and uncertainties. Forward-looking statements are statements that include projections, predictions, expectations or beliefs about future events or results or otherwise are not statements of historical fact. Further, forward-looking statements are intended to speak only as of the date made. Such statements are often characterized by the use of qualifying words (and their derivatives) such as “expect,” “believe,” “estimate,” “plan,” “project,” or other statement concerning our opinions or judgment about future events. Our actual results may differ materially from those anticipated in any forward-looking statements, as they will depend on many factors about which we are unsure, including many factors which are beyond our control. Factors that could influence the accuracy of such forward-looking statements include, but are not limited to, the financial success or changing strategies of our customers, our level of success in integrating acquisitions, actions of government regulators, the level of market interest rates, and general economic conditions. For additional information about factors that could affect the matters discussed in this paragraph, see the “Risk Factors” section of our 2013 Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC).

Index

Part I. Financial Information

Item 1 - Financial Statements

First Bancorp and Subsidiaries

Consolidated Balance Sheets

($ in thousands-unaudited)	September 30, 2014	December 31, 2013 (audited)	September 30, 2013
ASSETS			
Cash and due from banks, noninterest-bearing	$84,128	83,881	89,383
Due from banks, interest-bearing	251,111	136,644	95,634
Federal funds sold	1,275	2,749	102
Total cash and cash equivalents	336,514	223,274	185,119
Securities available for sale	159,254	173,041	172,535
Securities held to maturity (fair values of $57,601, $56,700, and $56,824)	53,821	53,995	54,054
Presold mortgages in process of settlement	5,761	5,422	2,884
Loans – non-covered	2,292,841	2,252,885	2,215,173
Loans – covered by FDIC loss share agreement	133,249	210,309	226,909
Total loans	2,426,090	2,463,194	2,442,082
Allowance for loan losses – non-covered	(41,564)	(44,263)	(43,475)
Allowance for loan losses – covered	(2,567)	(4,242)	(4,216)
Total allowance for loan losses	(44,131)	(48,505)	(47,691)
Net loans	2,381,959	2,414,689	2,394,391
Premises and equipment	74,871	77,448	77,621
Accrued interest receivable	8,885	9,649	9,663
FDIC indemnification asset	25,328	48,622	64,946
Goodwill	65,835	65,835	65,835
Other intangible assets	2,252	2,834	3,054
Foreclosed real estate – non-covered	11,705	12,251	15,098
Foreclosed real estate – covered	3,237	24,497	29,193
Bank-owned life insurance	44,996	44,040	43,642
Other assets	21,193	29,473	54,405
Total assets	$3,195,611	3,185,070	3,172,440
LIABILITIES			
Deposits: Noninterest bearing checking accounts	$540,349	482,650	463,972
Interest bearing checking accounts	538,815	557,413	543,905
Money market accounts	548,832	551,335	556,470

Savings accounts	178,260	169,023	166,706
Time deposits of $100,000 or more	503,125	564,527	562,934
Other time deposits	369,631	426,071	446,873
Total deposits	2,679,012	2,751,019	2,740,860
Borrowings	116,394	46,394	46,394
Accrued interest payable	695	879	920
Other liabilities	14,695	14,856	21,524
Total liabilities	2,810,796	2,813,148	2,809,698
Commitments and contingencies			
SHAREHOLDERS' EQUITY			
Preferred stock, no par value per share. Authorized: 5,000,000 shares			
Series B issued & outstanding: 63,500, 63,500, and 63,500 shares	63,500	63,500	63,500
Series C, convertible, issued & outstanding: 728,706, 728,706, and 728,706 shares	7,287	7,287	7,287
Common stock, no par value per share. Authorized: 40,000,000 shares			
Issued & outstanding: 19,705,381, 19,679,659, and 19,679,659 shares	132,440	132,099	132,098
Retained earnings	179,656	167,136	163,250
Accumulated other comprehensive income (loss)	1,932	1,900	(3,393)
Total shareholders' equity	384,815	371,922	362,742
Total liabilities and shareholders' equity	$3,195,611	3,185,070	3,172,440

See accompanying notes to consolidated financial statements.

Index

First Bancorp and Subsidiaries

Consolidated Statements of Income

($ in thousands, except share data-unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
INTEREST INCOME				
Interest and fees on loans	$32,019	34,870	102,481	105,451
Interest on investment securities:				
Taxable interest income	646	843	2,523	2,572
Tax-exempt interest income	470	472	1,411	1,428
Other, principally overnight investments	239	143	590	470
Total interest income	33,374	36,328	107,005	109,921
INTEREST EXPENSE				
Savings, checking and money market accounts	263	322	774	1,213
Time deposits of $100,000 or more	1,058	1,408	3,413	4,567
Other time deposits	408	613	1,283	2,121
Borrowings	302	258	849	770
Total interest expense	2,031	2,601	6,319	8,671
Net interest income	31,343	33,727	100,686	101,250
Provision for loan losses – non-covered	1,279	3,487	5,802	13,301
Provision for loan losses – covered	206	1,493	2,917	8,419
Total provision for loan losses	1,485	4,980	8,719	21,720
Net interest income after provision for loan losses	29,858	28,747	91,967	79,530
NONINTEREST INCOME				
Service charges on deposit accounts	3,426	3,390	10,445	9,579
Other service charges, commissions and fees	2,538	2,402	7,467	6,917
Fees from presold mortgage loans	807	776	2,204	2,343
Commissions from sales of insurance and financial products	685	591	1,985	1,569
Bank-owned life insurance income	311	366	956	786
Foreclosed property gains (losses) – non-covered	(757)	153	(1,464)	1,687
Foreclosed property gains (losses) – covered	773	1,397	(2,517)	(3,738)
FDIC indemnification asset income (expense), net	(3,210)	(3,786)	(9,704)	(2,296)
Securities gains	—	553	786	560
Other gains (losses)	35	(234)	(282)	(204)
Total noninterest income	4,608	5,608	9,876	17,203
NONINTEREST EXPENSES				
Salaries	11,773	11,401	34,787	33,081
Employee benefits	2,550	2,248	7,147	7,421
Total personnel expense	14,323	13,649	41,934	40,502
Net occupancy expense	1,863	1,793	5,547	5,226
Equipment related expenses	953	1,157	2,905	3,351

Intangibles amortization	194	220	582	639
Other operating expenses	8,598	6,885	23,294	22,966
Total noninterest expenses	25,931	23,704	74,262	72,684
Income before income taxes	8,535	10,651	27,581	24,049
Income tax expense	2,956	4,318	9,680	9,028
Net income	5,579	6,333	17,901	15,021
Preferred stock dividends	(217)	(216)	(651)	(678)
Net income available to common shareholders	$5,362	6,117	17,250	14,343
Earnings per common share:				
Basic	$0.27	0.31	0.88	0.73
Diluted	0.27	0.30	0.85	0.71
Dividends declared per common share	$0.08	0.08	0.24	0.24
Weighted average common shares outstanding:				
Basic	19,705,514	19,679,751	19,697,426	19,674,229
Diluted	20,437,739	20,424,984	20,431,836	20,416,517

See accompanying notes to consolidated financial statements.

Index

First Bancorp and Subsidiaries

Consolidated Statements of Comprehensive Income

($ in thousands-unaudited)	Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013
Net income	$5,579	6,333	17,901	15,021
Other comprehensive income (loss):				
Unrealized gains (losses) on securities available for sale:				
Unrealized holding gains (losses) arising during the period, pretax	(47)	(2,589)	1,004	(4,748)
Tax (expense) benefit	19	1,011	(391)	1,852
Reclassification to realized gains	—	(553)	(786)	(560)
Tax expense	—	216	306	218
Postretirement Plans:				
Amortization of unrecognized net actuarial (gain) loss	(56)	15	(166)	34
Tax expense (benefit)	(2)	(6)	65	(13)
Other comprehensive income (loss)	(86)	(1,906)	32	(3,217)
Comprehensive income	$5,493	4,427	17,933	11,804

See accompanying notes to consolidated financial statements.

Page 6

Index

First Bancorp and Subsidiaries

Consolidated Statements of Shareholders' Equity

(In thousands, except per share - unaudited)	Preferred Stock	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Share-holders' Equity
Balances, January 1, 2013	$70,787	19,669	$131,877	153,629	(176)	356,117
Net income				15,021		15,021
Cash dividends declared ($0.24 per common share)				(4,722)		(4,722)
Preferred dividends				(678)		(678)
Stock-based compensation		11	221			221
Other comprehensive income (loss)					(3,217)	(3,217)
Balances, September 30, 2013	$70,787	19,680	$132,098	163,250	(3,393)	362,742
Balances, January 1, 2014	$70,787	19,680	$132,099	167,136	1,900	371,922
Net income				17,901		17,901
Cash dividends declared ($0.24 per common share)				(4,730)		(4,730)
Preferred dividends				(651)		(651)
Stock-based compensation		25	341			341
Other comprehensive income (loss)					32	32
Balances, September 30, 2014	$70,787	19,705	$132,440	179,656	1,932	384,815

See accompanying notes to consolidated financial statements.

Index
First Bancorp and Subsidiaries

Consolidated Statements of Cash Flows

($ in thousands-unaudited)	Nine Months Ended September 30, 2014	2013
Cash Flows From Operating Activities		
Net income	$17,901	15,021
Reconciliation of net income to net cash provided by operating activities:		
Provision for loan losses	8,719	21,720
Net security premium amortization	1,416	2,089
Purchase accounting accretion and amortization, net	(13,745)	(14,283)
Foreclosed property losses and write-downs, net	3,981	2,051
Gain on securities available for sale	(786)	(560)
Other losses	282	204
Decrease in net deferred loan costs	198	300
Depreciation of premises and equipment	3,477	3,459
Branch consolidation expense	925	—
Stock-based compensation expense	248	221
Amortization of intangible assets	582	639
Origination of presold mortgages in process of settlement	(75,775)	(79,117)
Proceeds from sales of presold mortgages in process of settlement	75,568	84,723
Decrease in accrued interest receivable	764	538
Decrease in other assets	13,786	1,795
Decrease in accrued interest payable	(184)	(406)
Increase (decrease) in other liabilities	(429)	2,133
Net cash provided by operating activities	36,928	40,527
Cash Flows From Investing Activities		
Purchases of securities available for sale	(57,408)	(55,499)
Proceeds from sales of securities available for sale	47,473	12,935
Proceeds from maturities/issuer calls of securities available for sale	23,484	30,717
Proceeds from maturities/issuer calls of securities held to maturity	—	1,837
Purchase of bank-owned life insurance	—	(15,000)
Net decrease (increase) in loans	27,468	(71,332)
Proceeds from FDIC loss share agreements	16,810	36,639
Proceeds from sales of foreclosed real estate	27,908	42,892
Purchases of premises and equipment	(3,278)	(5,288)
Proceeds from sale of premises and equipment	1,232	—
Proceeds from loans held for sale	—	30,393
Net cash received in acquisition	—	38,315
Net cash provided by investing activities	83,689	46,609
Cash Flows From Financing Activities		
Net decrease in deposits	(72,000)	(137,809)
Proceeds from borrowings, net	70,000	—
Cash dividends paid – common stock	(4,726)	(4,722)

Cash dividends paid – preferred stock	(651)	(993)
Net cash provided (used) by financing activities	(7,377)	(143,524)
Increase (decrease) in cash and cash equivalents	113,240	(56,388)
Cash and cash equivalents, beginning of period	223,274	241,507
Cash and cash equivalents, end of period	$336,514	185,119
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	$6,503	9,050
Income taxes	3,009	107
Non-cash transactions:		
Unrealized gain (loss) on securities available for sale, net of taxes	133	(3,238)
Foreclosed loans transferred to other real estate	10,083	15,659

See accompanying notes to consolidated financial statements.

Index

First Bancorp and Subsidiaries

Notes to Consolidated Financial Statements

(*unaudited)* For the Periods Ended September 30, 2014 and 2013

Note 1 - Basis of Presentation

In the opinion of the Company, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the consolidated financial position of the Company as of September 30, 2014 and 2013 and the consolidated results of operations and consolidated cash flows for the periods ended September 30, 2014 and 2013. All such adjustments were of a normal, recurring nature. Reference is made to the 2013 Annual Report on Form 10-K filed with the SEC for a discussion of accounting policies and other relevant information with respect to the financial statements. The results of operations for the periods ended September 30, 2014 and 2013 are not necessarily indicative of the results to be expected for the full year. The Company has evaluated all subsequent events through the date the financial statements were issued.

Note 2 – Accounting Policies

Note 1 to the 2013 Annual Report on Form 10-K filed with the SEC contains a description of the accounting policies followed by the Company and discussion of recent accounting pronouncements. The following paragraphs update that information as necessary.

In July 2013, the Financial Accounting Standards Board ("FASB") issued guidance to eliminate the diversity in practice regarding presentation of unrecognized tax benefits in the statement of financial position. Under the clarified guidance, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, will be presented in the financial statements as a reduction to a deferred tax asset unless certain criteria are met. The requirements should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The amendments became effective for the Company for reporting periods beginning after December 15, 2013 and did not have a material effect on its financial statements.

In January 2014, the FASB amended the Investments—Equity Method and Joint Ventures topic to address accounting for investments in qualified affordable housing projects. If certain conditions are met, the amendments permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects by amortizing the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizing the net investment performance in the income statement as a component of income tax expense (benefit). If those conditions are not met, the investment should be accounted for as an equity method investment or a cost method investment in accordance with existing accounting guidance. The amendments will be effective for the Company for interim and annual reporting periods beginning after December 15, 2014 and should be applied retrospectively for all periods presented. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In January 2014, the FASB amended the Receivables topic of the Accounting Standards Codification. The amendments are intended to resolve diversity in practice with respect to when a creditor should reclassify a collateralized consumer mortgage loan to other real estate owned ("OREO"). In addition, the amendments require a creditor to reclassify a collateralized consumer mortgage loan to OREO upon obtaining legal title to the real estate collateral, or the borrower voluntarily conveying all interest in the real estate property to the lender to satisfy the loan through a deed in lieu of foreclosure or similar legal agreement. The amendments will be effective for the Company for annual periods, and interim periods within those annual periods, beginning after December 15, 2014, with early implementation of the guidance permitted. In implementing this guidance, assets that are reclassified from real estate to loans are measured at the carrying value of the real estate at the date of adoption. Assets reclassified from loans to real estate are measured at the lower of the net amount of the loan receivable or the fair value of the real estate less costs to sell at the date of adoption. The Company can apply these amendments either prospectively or using a modified retrospective approach. The Company does not expect these amendments to have a material effect on its financial statements.

In May 2014, the FASB issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance will be effective for the Company for reporting periods beginning after December 15, 2016. The Company can apply the guidance using either the full retrospective approach or a modified retrospective approach. The Company does not expect these amendments to have a material effect on its financial statements.

Index

In June 2014, the FASB issued guidance which makes limited amendments to the guidance on accounting for certain repurchase agreements. The new guidance (1) requires entities to account for repurchase-to-maturity transactions as secured borrowings (rather than as sales with forward repurchase agreements), (2) eliminates accounting guidance on linked repurchase financing transactions, and (3) expands disclosure requirements related to certain transfers of financial assets that are accounted for as sales and certain transfers (specifically, repos, securities lending transactions, and repurchase-to-maturity transactions) accounted for as secured borrowings. The amendments will be effective for the Company for the first interim or annual period beginning after December 15, 2014. The Company will apply the guidance by making a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. The Company does not expect these amendments to have a material effect on its financial statements.

In June 2014, the FASB issued guidance which clarifies that performance targets associated with stock compensation should be treated as a performance condition and should not be reflected in the grant date fair value of the stock award. The amendments will be effective for the Company for fiscal years that begin after December 15, 2015. The Company will apply the guidance to all stock awards granted or modified after the amendments are effective. The Company does not expect these amendments to have a material effect on its financial statements.

In August 2014, the FASB amended guidance to eliminate the diversity in the classification of foreclosed mortgage loans when the loan is guaranteed under certain government-sponsored loan guarantee programs. The amendments will be effective for the Company for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The Company does not expect these amendments to have a material effect on its financial statements.

In August 2014, the FASB issued guidance that is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. In connection with preparing financial statements, management will need to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the organization's ability to continue as a going concern within one year after the date that the financial statements are issued. The amendments will be effective for the Company for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. The Company does not expect these amendments to have a material effect on its financial statements.

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

Note 3 – Reclassifications

Certain amounts reported for the periods ended September 30, 2013 have been reclassified to conform to the presentation for September 30, 2014. These reclassifications had no effect on net income or shareholders' equity for the periods presented, nor did they materially impact trends in financial information.

Note 4 – Equity-Based Compensation Plans

At September 30, 2014, the Company had the following equity-based compensation plans: the First Bancorp 2014 Equity Plan, the First Bancorp 2007 Equity Plan, and the First Bancorp 2004 Stock Option Plan. The Company's shareholders approved all equity-based compensation plans. The First Bancorp 2014 Equity Plan became effective upon the approval of shareholders on May 8, 2014. As of September 30, 2014, the First Bancorp 2014 Equity Plan was the only plan that had shares available for future grants.

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

Index

Recent equity grants to employees have either had performance vesting conditions, service vesting conditions, or both. Compensation expense for these grants is recorded over the various service periods based on the estimated number of equity grants that are probable to vest. No compensation cost is recognized for grants that do not vest and any previously recognized compensation cost will be reversed. As it relates to director equity grants, the Company grants common shares, valued at approximately $16,000, to each non-employee director (currently 11 in total) in June of each year. Compensation expense associated with these director grants is recognized on the date of grant since there are no vesting conditions.

Pursuant to an employment agreement, the Company granted the chief executive officer 75,000 non-qualified stock options and 40,000 shares of restricted stock during the third quarter of 2012. The option award and the restricted stock award will vest in full on December 31, 2014 and December 31, 2015, respectively, if the Company achieves certain earnings targets for those years, and will be forfeited if the applicable earnings targets are not achieved. Compensation expense for this grant will be recorded over the various periods based on the estimated number of options and restricted stock that are probable to vest. If the awards do not vest, no compensation cost will be recognized and any previously recognized compensation cost will be reversed. Based on current conditions, the Company has concluded that it is not probable that these awards will vest, and thus no compensation expense has been recorded.

Based on the Company's performance in 2013, the Company granted long-term restricted shares of common stock to the chief executive officer on February 11, 2014 with a two-year minimum vesting period. The total compensation expense associated with the grant was $278,200 and the grant will fully vest on January 1, 2016. One third of this value was expensed during 2013. The Company recorded $23,200 and $69,600 in compensation expense during the three and nine months ended September 30, 2014, respectively, and expects to record $23,200 in compensation expense each quarter thereafter until the award vests.

The Company granted long-term restricted shares of common stock to certain senior executives on February 23, 2012 with a two year minimum vesting period. The total compensation expense associated with this grant was $58,900 and the grant fully vested on February 23, 2014. The Company recorded $600 and $20,000 in stock option expense related to this grant during the nine months ended September 30, 2014 and 2013, respectively.

Under the terms of the predecessor plans and the First Bancorp 2014 Equity Plan, options can have a term of no longer than ten years, and all options granted thus far under these plans have had a term of ten years. The Company's options provide for immediate vesting if there is a change in control (as defined in the plans).

At September 30, 2014, there were 277,679 options outstanding related to the three First Bancorp plans, with exercise prices ranging from $9.76 to $22.12. At September 30, 2014, there were 989,935 shares remaining available for grant under the First Bancorp 2014 Equity Plan.

The Company issues new shares of common stock when options are exercised.

The Company measures the fair value of each option award on the date of grant using the Black-Scholes option-pricing model. The Company determines the assumptions used in the Black-Scholes option pricing model as follows: the risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant; the dividend yield is based on the Company’s dividend yield at the time of the grant (subject to adjustment if the dividend yield on the grant date is not expected to approximate the dividend yield over the expected life of the option); the volatility factor is based on the historical volatility of the Company’s stock (subject to adjustment if future volatility is reasonably expected to differ from the past); and the weighted-average expected life is based on the historical behavior of employees related to exercises, forfeitures and cancellations.

The Company’s equity grants for the nine months ended September 30, 2014 were the issuance of 1) 15,657 shares of long-term restricted stock to the chief executive officer on February 11, 2014, at a fair market value of $17.77 per share, which was the closing price of the Company’s common stock on that date, and 2) 10,065 shares of common stock to non-employee directors on June 2, 2014 (915 shares per director), at a fair market value of $17.60 per share, which was the closing price of the Company’s common stock on that date.

The Company’s equity grants for the nine months ended September 30, 2013 were the issuance of 13,164 shares of common stock to non-employee directors on June 3, 2013 (1,097 shares per director), at a fair market value of $14.68 per share, which was the closing price of the Company’s common stock on that date.

Index

The Company recorded total stock-based compensation expense of $248,000 and $221,000 for the nine-month periods ended September 30, 2014 and 2013, respectively. Of the $248,000 in expense that was recorded in 2014, approximately $177,000 related to the June 2, 2014 director grants, which is classified as "other operating expenses" in the Consolidated Statements of Income. The remaining $71,000 in expense relates to the employee grants discussed above and is recorded as "salaries expense." Stock based compensation is reflected as an adjustment to cash flows from operating activities on the Company's Consolidated Statements of Cash Flows. The Company recognized $97,000 and $86,000 of income tax benefits related to stock based compensation expense in the income statement for the nine months ended September 30, 2014 and 2013, respectively.

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

The following table presents information regarding the activity for the first nine months of 2014 related to all of the Company's stock options outstanding:

	Options Outstanding			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Contractual Term (years)	Aggregate Intrinsic Value
Balance at January 1, 2014	408,408	$ 17.75		
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Expired	(130,729)	21.22		
Outstanding at September 30, 2014	277,679	$ 16.11	4.2	$ 530,400
Exercisable at September 30, 2014	202,679	$ 18.46	2.9	$ 49,275

The Company did not have any stock option exercises during the nine months ended September 30, 2014 or 2013. The Company recorded no tax benefits from the exercise of nonqualified stock options during the nine months ended September 30, 2014 or 2013.

The following table presents information regarding the activity the first nine months of 2014 related to the Company's outstanding restricted stock:

	Long-Term Restricted Stock	
	Number of Units	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2014	45,374	$ 9.90
Granted during the period	15,657	17.77
Vested during the period	(10,593)	14.32
Forfeited or expired during the period	—	—
Nonvested at September 30, 2014	50,438	$ 11.42

Note 5 – Earnings Per Common Share

Basic Earnings Per Common Share is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted Earnings Per Common Share is computed by assuming the issuance of common shares for all potentially dilutive common shares outstanding during the reporting period. Currently, the Company's potentially dilutive common stock issuances relate to stock option grants under the Company's equity-based compensation plans and the Company's Series C Preferred Stock, which is convertible into common stock on a one-for-one ratio.

Index

In computing Diluted Earnings Per Common Share, adjustments are made to the computation of Basic Earnings Per Common shares, as follows. As it relates to stock options, it is assumed that all dilutive stock options are exercised during the reporting period at their respective exercise prices, with the proceeds from the exercises used by the Company to buy back stock in the open market at the average market price in effect during the reporting period. The difference between the number of shares assumed to be exercised and the number of shares bought back is included in the calculation of dilutive securities. As it relates to the Series C Preferred Stock, it is assumed that the preferred stock was converted to common stock during the reporting period. Dividends on the preferred stock are added back to net income and the shares assumed to be converted are included in the number of shares outstanding.

If any of the potentially dilutive common stock issuances have an anti-dilutive effect, which is the case when a net loss is reported, the potentially dilutive common stock issuance is disregarded.

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

	For the Three Months Ended September 30,					
	2014			2013		
($ in thousands except per share amounts)	Income (Numer-ator)	Shares (Denom-inator)	Per Share Amount	Income (Numer-ator)	Shares (Denom-inator)	Per Share Amount
Basic EPS						
Net income available to common shareholders	$5,362	19,705,514	$ 0.27	$6,117	19,679,751	$ 0.31
Effect of Dilutive Securities	58	732,225		58	745,233	
Diluted EPS per common share	$5,420	20,437,739	$ 0.27	$6,175	20,424,984	$ 0.30

	For the Nine Months Ended September 30					
	2014			2013		
($ in thousands except per share amounts)	Income (Numer-ator)	Shares (Denom-inator)	Per Share Amount	Income (Numer-ator)	Shares (Denom-inator)	Per Share Amount
Basic EPS						
Net income available to common shareholders	$17,250	19,697,426	$ 0.88	$14,343	19,674,229	$ 0.73
Effect of Dilutive Securities	175	734,410		175	742,288	
Diluted EPS per common share	$17,425	20,431,836	$ 0.85	$14,518	20,416,517	$ 0.71

For both the three and nine months ended September 30, 2014, there were 93,000 options that were anti-dilutive because the exercise price exceeded the average market price for the period, and thus are not included in the calculation to determine the effect of dilutive securities. Also, for the three and nine months ended September 30, 2014, the Company excluded 75,000 options that had an exercise price below the average market price for the period, but had performance vesting requirements that the Company has concluded are not probable to vest. For both the three and nine months ended September 30, 2013, there were 364,813 and 391,813 options, respectively, that were antidilutive because the exercise price exceeded the average market price for the period, and thus are not included in the calculation to determine the effect of dilutive securities.

Index

Note 6 – Securities

The book values and approximate fair values of investment securities at September 30, 2014 and December 31, 2013 are summarized as follows:

($ in thousands)	September 30, 2014 Amortized Cost	Fair Value	Unrealized Gains	(Losses)	December 31, 2013 Amortized Cost	Fair Value	Unrealized Gains	(Losses)
Securities available for sale:								
Government-sponsored enterprise securities	$18,546	18,465	—	(81)	18,432	18,245	32	(219)
Mortgage-backed securities	135,406	133,769	402	(2,039)	148,646	147,187	1,415	(2,874)
Corporate bonds	1,000	890	—	(110)	3,999	3,598	44	(445)
Equity securities	6,105	6,130	39	(14)	3,984	4,011	40	(13)
Total available for sale	$161,057	159,254	441	(2,244)	175,061	173,041	1,531	(3,551)
Securities held to maturity:								
State and local governments	$53,821	57,601	3,780	—	53,995	56,700	2,709	(4)

Included in mortgage-backed securities at September 30, 2014 were collateralized mortgage obligations with an amortized cost of $124,000 and a fair value of $127,000. Included in mortgage-backed securities at December 31, 2013 were collateralized mortgage obligations with an amortized cost of $192,000 and a fair value of $200,000. All of the Company’s mortgage-backed securities, including collateralized mortgage obligations, were issued by government-sponsored corporations.

The Company owned Federal Home Loan Bank (“FHLB”) stock with a cost and fair value of $6,016,000 at September 30, 2014 and $3,894,000 at December 31, 2013, which is included in equity securities above and serves as part of the collateral for the Company’s line of credit with the FHLB. The investment in this stock is a requirement for membership in the FHLB system. Periodically the FHLB recalculates the Company’s required level of holdings, and the Company either buys more stock or the FHLB redeems a portion of the stock at cost.

The following table presents information regarding securities with unrealized losses at September 30, 2014:

($ in thousands)	Securities in an Unrealized Loss Position for Less than 12 Months	Securities in an Unrealized Loss Position for More than 12 Months	Total

	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government-sponsored enterprise securities	$ 9,541	4	5,923	77	15,464	81
Mortgage-backed securities	46,924	304	45,606	1,735	92,530	2,039
Corporate bonds	—	—	890	110	890	110
Equity securities	—	—	16	14	16	14
State and local governments	—	—	—	—	—	—
Total temporarily impaired securities	$ 56,465	308	52,435	1,936	108,900	2,244

The following table presents information regarding securities with unrealized losses at December 31, 2013:

($ in thousands)	Securities in an Unrealized Loss Position for Less than 12 Months		Securities in an Unrealized Loss Position for More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government-sponsored enterprise securities	$ 12,212	219	—	—	12,212	219
Mortgage-backed securities	64,937	1,675	17,979	1,199	82,916	2,874
Corporate bonds	—	—	555	445	555	445
Equity securities	—	—	22	13	22	13
State and local governments	992	4	—	—	992	4
Total temporarily impaired securities	$ 78,141	1,898	18,556	1,657	96,697	3,555

Index

In the above tables, all of the non-equity securities that were in an unrealized loss position at September 30, 2014 and December 31, 2013 are bonds that the Company has determined are in a loss position due to interest rate factors, the overall economic downturn in the financial sector, and the broader economy in general. The Company has evaluated the collectability of each of these bonds and has concluded that there is no other-than-temporary impairment. The Company does not intend to sell these securities, and it is more likely than not that the Company will not be required to sell these securities before recovery of the amortized cost. The Company has also concluded that each of the equity securities in an unrealized loss position at September 30, 2014 and December 31, 2013 was in such a position due to temporary fluctuations in the market prices of the securities. The Company's policy is to record an impairment charge for any of these equity securities that remains in an unrealized loss position for twelve consecutive months unless the amount is insignificant.

The aggregate carrying amount of cost-method investments was $6,016,000 and $3,894,000 at September 30, 2014 and December 31, 2013, respectively, which was the FHLB stock discussed above. The Company determined that none of its cost-method investments were impaired at either period end.

The book values and approximate fair values of investment securities at September 30, 2014, by contractual maturity, are summarized in the table below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities Available for Sale		Securities Held to Maturity	
($ in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Debt securities				
Due within one year	$ —	—	—	—
Due after one year but within five years	18,546	18,465	10,948	11,743
Due after five years but within ten years	—	—	38,417	41,151
Due after ten years	1,000	890	4,456	4,707
Mortgage-backed securities	135,406	133,769	—	—
Total debt securities	154,952	153,124	53,821	57,601
Equity securities	6,105	6,130	—	—
Total securities	$ 161,057	159,254	53,821	57,601

At September 30, 2014 and December 31, 2013 investment securities with carrying values of $76,263,000 and $79,838,000, respectively, were pledged as collateral for public deposits.

During the nine months ended September 2014 and 2013, the Company sold approximately $47,473,000 and $12,935,000, respectively, in securities and recorded net gains of $786,000 and $553,000, respectively, related to these sales. During the nine months ended September 30, 2013, the Company recorded a net gain of $7,000 related to the call of several municipal and bond securities.

Index

Note 7 – Loans and Asset Quality Information

The loans and foreclosed real estate that were acquired in FDIC-assisted transactions are covered by loss share agreements between the FDIC and the Company's banking subsidiary, First Bank, which afford First Bank significant loss protection - see Note 2 to the financial statements included in the Company's 2011 Annual Report on Form 10-K filed with the SEC for detailed information regarding these transactions. Because of the loss protection provided by the FDIC, the risk of the loans and foreclosed real estate that are covered by loss share agreements are significantly different from those assets not covered under the loss share agreements. Accordingly, the Company presents separately loans subject to the loss share agreements as "covered loans" in the information below and loans that are not subject to the loss share agreements as "non-covered loans."

On July 1, 2014, one of the Company's loss share agreements with the FDIC expired. The agreement that expired related to the non-single family assets of Cooperative Bank, a failed bank acquisition from June 2009. Accordingly, the remaining balances associated with these loans and foreclosed real estate were transferred from the covered portfolio to the non-covered portfolio on July 1, 2014. The Company will bear all future losses on this portfolio of loans and foreclosed real estate. Immediately prior to the transfer to non-covered status, the loans in this portfolio had a carrying value of $39.7 million and the foreclosed real estate in this portfolio had a carrying value of $3.0 million. Of the $39.7 million in loans that lost loss share protection, approximately $9.7 million were on nonaccrual status and $2.1 million were classified as accruing troubled debt restructurings as of July 1, 2014. Additionally, approximately $1.7 million in allowance for loan losses associated with this portfolio of loans was transferred to the allowance for loan losses for non-covered loans on July 1, 2014.

Index

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

($ in thousands)	September 30, 2014		December 31, 2013		September 30, 20	
	Amount	Percentage	Amount	Percentage	Amount	Perc
All loans (non-covered and covered):						
Commercial, financial, and agricultural	$165,215	7%	$168,469	7%	$166,044	7%
Real estate – construction, land development & other land loans	298,091	13%	305,246	12%	296,731	12
Real estate – mortgage – residential (1-4 family) first mortgages	806,954	33%	838,862	34%	839,273	34
Real estate – mortgage – home equity loans / lines of credit	224,553	9%	227,907	9%	229,559	9%
Real estate – mortgage – commercial and other	879,122	36%	855,249	35%	841,674	35
Installment loans to individuals	51,425	2%	66,533	3%	67,777	3%
Subtotal	2,425,360	100%	2,462,266	100%	2,441,058	10
Unamortized net deferred loan costs	730		928		1,024	
Total loans	$2,426,090		$2,463,194		$2,442,082	

As of September 30, 2014, December 31, 2013 and September 30, 2013, net loans include unamortized premiums of $0, $98,000, and $147,000, respectively, related to acquired loans.

The following is a summary of the major categories of non-covered loans outstanding:

($ in thousands)	September 30, 2014		December 31, 2013		September 30, 20	
	Amount	Percentage	Amount	Percentage	Amount	Perc
Non-covered loans:						
Commercial, financial, and agricultural	$162,994	7%	$164,195	7%	$161,552	7%
Real estate – construction, land development & other land loans	292,401	13%	273,412	12%	261,457	12
Real estate – mortgage – residential (1-4 family) first mortgages	714,879	31%	730,712	32%	722,716	33
Real estate – mortgage – home equity loans / lines of credit	211,477	9%	213,016	10%	213,026	10
Real estate – mortgage – commercial and other	858,935	38%	804,621	36%	788,240	35
Installment loans to individuals	51,425	2%	66,001	3%	67,158	3%
Subtotal	2,292,111	100%	2,251,957	100%	2,214,149	10
Unamortized net deferred loan costs	730		928		1,024	
Total non-covered loans	$2,292,841		$2,252,885		$2,215,173	

Page 17

Index

The carrying amount of the covered loans at September 30, 2014 consisted of impaired and nonimpaired purchased loans (as determined on the date of acquisition), as follows:

($ in thousands)	Impaired Purchased Loans – Carrying Value	Impaired Purchased Loans – Unpaid Principal Balance	Nonimpaired Purchased Loans – Carrying Value	Nonimpaired Purchased Loans - Unpaid Principal Balance	Total Covered Loans – Carrying Value	Total Covered Loans – Unpaid Principal Balance
Covered loans:						
Commercial, financial, and agricultural	$68	125	2,153	2,243	2,221	2,368
Real estate – construction, land development & other land loans	316	540	5,374	6,970	5,690	7,510
Real estate – mortgage – residential (1-4 family) first mortgages	387	1,310	91,688	107,669	92,075	108,979
Real estate – mortgage – home equity loans / lines of credit	12	19	13,064	15,485	13,076	15,504
Real estate – mortgage – commercial and other	1,255	3,231	18,932	21,362	20,187	24,593
Total	$2,038	5,225	131,211	153,729	133,249	158,954

The carrying amount of the covered loans at December 31, 2013 consisted of impaired and nonimpaired purchased loans (as determined on the date of the acquisition), as follows:

($ in thousands)	Impaired Purchased Loans – Carrying Value	Impaired Purchased Loans – Unpaid Principal Balance	Nonimpaired Purchased Loans – Carrying Value	Nonimpaired Purchased Loans - Unpaid Principal Balance	Total Covered Loans – Carrying Value	Total Covered Loans – Unpaid Principal Balance
Covered loans:						
Commercial, financial, and agricultural	$75	136	4,199	5,268	4,274	5,404
Real estate – construction, land development & other land loans	325	564	31,509	47,792	31,834	48,356
Real estate – mortgage – residential (1-4 family) first mortgages	575	1,500	107,575	126,882	108,150	128,382
Real estate – mortgage – home equity loans / lines of credit	14	21	14,877	18,318	14,891	18,339
Real estate – mortgage – commercial and other	2,153	4,042	48,475	62,630	50,628	66,672
Installment loans to individuals	—	—	532	607	532	607
Total	$3,142	6,263	207,167	261,497	210,309	267,760

The following table presents information regarding covered purchased nonimpaired loans since December 31, 2012. The amounts include principal only and do not reflect accrued interest as of the date of the acquisition or beyond.

($ in thousands)

Carrying amount of nonimpaired covered loans at December 31, 2012	$277,489
Principal repayments	(63,588)
Transfers to foreclosed real estate	(13,977)
Loan charge-offs	(12,957)
Accretion of loan discount	20,200
Carrying amount of nonimpaired covered loans at December 31, 2013	207,167
Principal repayments	(43,323)
Transfers to foreclosed real estate	(4,658)
Transfers to non-covered loans due to expiration of loss-share agreement	(38,987)
Loan charge-offs	(2,824)
Accretion of loan discount	13,836
Carrying amount of nonimpaired covered loans at September 30, 2014	$131,211

As reflected in the table above, the Company accreted $13,836,000 of the loan discount on purchased nonimpaired loans into interest income during the first nine months of 2014. As of September 30, 2014, there was remaining loan discount of $18,747,000 related to purchased accruing loans. If these loans continue to be repaid by the borrowers, the Company will accrete the remaining loan discount into interest income over the estimated lives of the respective loans. In such circumstances, a corresponding entry to reduce the indemnification asset will be recorded amounting to approximately 80% of the loan discount accretion, which reduces noninterest income. At September 30, 2014, the Company also had $4,411,000 of loan discount related to purchased nonperforming loans. It is not expected that a significant amount of this discount will be accreted, as it represents estimated losses on these loans.

Index

The following table presents information regarding all purchased impaired loans since December 31, 2012, the majority of which are covered loans. The Company has applied the cost recovery method to all purchased impaired loans at their respective acquisition dates due to the uncertainty as to the timing of expected cash flows, as reflected in the following table.

($ in thousands)	Contractual Principal Receivable	Fair Market Value Adjustment – Write Down (Nonaccretable Difference)	Carrying Amount
Purchased Impaired Loans			
Balance at December 31, 2012	$ 8,815	3,990	4,825
Change due to payments received	(301)	(31)	(270)
Transfer to foreclosed real estate	(2,100)	(784)	(1,316)
Change due to loan charge-off	(150)	(54)	(96)
Other	(1)	—	(1)
Balance at December 31, 2013	$ 6,263	3,121	3,142
Change due to payments received	(548)	173	(721)
Change due to loan charge-off	(2)	29	(31)
Other	197	(115)	312
Balance at September 30, 2014	$ 5,910	3,208	2,702

Because of the uncertainty of the expected cash flows, the Company is accounting for each purchased impaired loan under the cost recovery method, in which all cash payments are applied to principal. Thus, there is no accretable yield associated with the above loans. During the first nine months of 2014 and 2013, the Company received $179,000 and $62,000, respectively, in payments that exceeded the initial carrying amount of the purchased impaired loans, which is included in the loan discount accretion amount discussed previously.

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

ASSET QUALITY DATA *($ in thousands)*	September 30, 2014	December 31, 2013	September 30, 2013
Non-covered nonperforming assets			

Nonaccrual loans	$ 53,620	$ 41,938	$ 40,711
Restructured loans - accruing	31,501	27,776	27,656
Accruing loans > 90 days past due	—	—	—
Total non-covered nonperforming loans	85,121	69,714	68,367
Foreclosed real estate	11,705	12,251	15,098
Total non-covered nonperforming assets	$ 96,826	$ 81,965	$ 83,465
Covered nonperforming assets			
Nonaccrual loans (1)	$ 10,478	$ 37,217	$ 47,233
Restructured loans - accruing	6,273	8,909	6,537
Accruing loans > 90 days past due	—	—	—
Total covered nonperforming loans	16,751	46,126	53,770
Foreclosed real estate	3,237	24,497	29,193
Total covered nonperforming assets	$ 19,988	$ 70,623	$ 82,963
Total nonperforming assets	$ 116,814	$ 152,588	$ 166,428

(1) At September 30, 2014, December 31, 2013, and September 30, 2013, the contractual balance of the nonaccrual loans covered by FDIC loss share agreements was $16.3 million, $60.4 million, and $75.5 million, respectively.

Index

The remaining tables in this note present information derived from the Company’s allowance for loan loss model. Relevant accounting guidance requires certain disclosures to be disaggregated based on how the Company develops its allowance for loan losses and manages its credit exposure. This model combines loan types in a different manner than the tables previously presented.

The following table presents the Company’s nonaccrual loans as of September 30, 2014. As previously discussed, on July 1, 2014 approximately $9.7 million in nonaccrual loans were transferred from the “covered” category to the “non-covered” category due to the expiration of one of the Company’s loss share agreements with the FDIC.

($ in thousands)	Non-covered	Covered	Total
Commercial, financial, and agricultural:			
Commercial – unsecured	$ 249	3	252
Commercial – secured	3,498	273	3,771
Secured by inventory and accounts receivable	391	6	397
Real estate – construction, land development & other land loans	10,364	1,492	11,856
Real estate – residential, farmland and multi-family	25,118	6,054	31,172
Real estate – home equity lines of credit	2,317	237	2,554
Real estate – commercial	11,132	2,413	13,545
Consumer	551	—	551
Total	$ 53,620	10,478	64,098

The following table presents the Company’s nonaccrual loans as of December 31, 2013.

($ in thousands)	Non-covered	Covered	Total
Commercial, financial, and agricultural:			
Commercial – unsecured	$ 222	38	260
Commercial – secured	2,662	114	2,776
Secured by inventory and accounts receivable	545	782	1,327
Real estate – construction, land development & other land loans	8,055	13,502	21,557
Real estate – residential, farmland and multi-family	17,814	12,344	30,158
Real estate – home equity lines of credit	2,200	335	2,535
Real estate – commercial	10,115	10,099	20,214

Consumer	325	3	328
Total	$ 41,938	37,217	79,155

Index

The following table presents an analysis of the payment status of the Company's loans as of September 30, 2014.

($ in thousands)	30-59 Days Past Due	60-89 Days Past Due	Nonaccrual Loans	Current	Total Loans Receivable
Non-covered loans					
Commercial, financial, and agricultural:					
Commercial - unsecured	$54	67	249	33,353	33,723
Commercial - secured	1,079	21	3,498	110,806	115,404
Secured by inventory and accounts receivable	176	—	391	20,954	21,521
Real estate – construction, land development & other land loans	1,312	105	10,364	254,638	266,419
Real estate – residential, farmland, and multi-family	8,883	2,119	25,118	824,098	860,218
Real estate – home equity lines of credit	1,624	61	2,317	194,975	198,977
Real estate - commercial	2,454	1,658	11,132	736,864	752,108
Consumer	281	242	551	42,667	43,741
Total non-covered	$15,863	4,273	53,620	2,218,355	2,292,111
Unamortized net deferred loan costs					730
Total non-covered loans					$2,292,841
Covered loans	$789	528	10,478	121,454	133,249
Total loans	$16,652	4,801	64,098	2,339,809	2,426,090

The Company had no non-covered or covered loans that were past due greater than 90 days and accruing interest at September 30, 2014.

The following table presents an analysis of the payment status of the Company's loans as of December 31, 2013.

($ in thousands)	30-59 Days Past Due	60-89 Days Past Due	Nonaccrual Loans	Current	Total Loans Receivable
Non-covered loans					
Commercial, financial, and agricultural:					
Commercial - unsecured	$347	94	222	36,352	37,015
Commercial - secured	1,233	462	2,662	117,923	122,280
Secured by inventory and accounts receivable	438	767	545	19,426	21,176

Real estate – construction, land development & other land loans	2,304	1,391	8,055	232,920	244,670
Real estate – residential, farmland, and multi-family	11,682	2,631	17,814	837,260	869,387
Real estate – home equity lines of credit	1,465	305	2,200	194,157	198,127
Real estate - commercial	3,196	214	10,115	696,081	709,606
Consumer	494	187	325	48,690	49,696
Total non-covered	$21,159	6,051	41,938	2,182,809	2,251,957
Unamortized net deferred loan costs					928
Total non-covered loans					$2,252,885
Covered loans	$5,179	768	37,217	167,145	210,309
Total loans	$26,338	6,819	79,155	2,349,954	2,463,194

The Company had no non-covered or covered loans that were past due greater than 90 days and accruing interest at December 31, 2013.

Index

The following table presents the activity in the allowance for loan losses for non-covered loans for the three and nine months ended September 30, 2014.

($ in thousands)	Commercial, Financial, and Agricultural	Real Estate – Construction, Land Development, & Other Land Loans	Real Estate – Residential, Farmland, and Multi-family	Real Estate – Home Equity Lines of Credit	Real Estate – Commercial and Other	Consumer	Unallo-cated	Total
As of and for the three months ended September 30, 2014								
Beginning balance	$8,948	7,414	11,132	3,755	9,212	906	599	41,9
Charge-offs	(840)	(470)	(874)	(116)	(987)	(463)	—	(3,7
Recoveries	32	40	111	7	14	128	—	332
Transfer from covered category	36	813	51	—	833	4	—	1,73
Provisions	1,185	(574)	(194)	49	971	343	(501)	1,27
Ending balance	$9,361	7,223	10,226	3,695	10,043	918	98	41,5
As of and for the nine months ended September 30, 2014								
Beginning balance	$7,432	12,966	15,142	1,838	5,524	1,513	(152)	44,2
Charge-offs	(3,506)	(1,704)	(2,505)	(619)	(1,876)	(1,262)	—	(11
Recoveries	81	349	290	18	135	361	—	1,23
Transfer from covered category	36	813	51	—	833	4	—	1,73
Provisions	5,318	(5,201)	(2,752)	2,458	5,427	302	250	5,80
Ending balance	$9,361	7,223	10,226	3,695	10,043	918	98	41,5
Ending balances as of September 30, 2014: Allowance for loan losses								
Individually evaluated for impairment	$381	513	1,771	—	229	20	—	2,91
Collectively evaluated for impairment	$8,980	6,710	8,455	3,695	9,814	898	98	38,6
Loans acquired with deteriorated credit quality	$—	—	—	—	—	—	—	—
Loans receivable as of September 30, 2014:								
Ending balance – total	$170,648	266,419	860,218	198,977	752,108	43,741	—	2,29
Ending balances as of September 30, 2014: Loans								

Individually evaluated for impairment	$972	8,613	24,233	481	20,128	34	—	54,4
Collectively evaluated for impairment	$169,676	257,806	835,985	198,496	731,316	43,707	—	2,2
Loans acquired with deteriorated credit quality	$—	—	—	—	664	—	—	664

Index

The following table presents the activity in the allowance for loan losses for non-covered loans for the year ended December 31, 2013.

($ in thousands)	Commercial, Financial, and Agricultural	Real Estate – Construction, Land Development, & Other Land Loans	Real Estate – Residential, Farmland, and Multi-family	Real Estate – Home Equity Lines of Credit	Real Estate – Commercial and Other	Consumer	Unallo-cated	Tota
As of and for the year ended December 31, 2013								
Beginning balance	$4,687	12,856	14,082	1,884	5,247	1,939	948	41,(
Charge-offs	(4,418)	(2,739)	(3,732)	(1,314)	(4,346)	(2,174)	(660)	(19
Recoveries	299	743	753	87	1,381	474	—	3,7
Provisions	6,864	2,106	4,039	1,181	3,242	1,274	(440)	18,
Ending balance	$7,432	12,966	15,142	1,838	5,524	1,513	(152)	44,
Ending balances as of December 31, 2013: Allowance for loan losses								
Individually evaluated for impairment	$202	544	1,162	1	649	1	—	2,5
Collectively evaluated for impairment	$7,230	12,422	13,980	1,837	4,875	1,512	(152)	41,
Loans acquired with deteriorated credit quality	$—	—	—	—	—	—	—	—
Loans receivable as of December 31, 2013:								
Ending balance – total	$180,471	244,670	869,387	198,127	709,606	49,696	—	2,2
Ending balances as of December 31, 2013: Loans								
Individually evaluated for impairment	$582	8,027	19,111	22	16,894	13	—	44,
Collectively evaluated for impairment	$179,889	236,643	850,276	198,105	692,712	49,683	—	2,20
Loans acquired with deteriorated credit quality	$—	—	—	—	—	—	—	—

Page 23

Index

The following table presents the activity in the allowance for loan losses for non-covered loans for the three and nine months ended September 30, 2013.

($ in thousands)	Commercial, Financial, and Agricultural	Real Estate – Construction, Land Development, & Other Land Loans	Real Estate – Residential, Farmland, and Multi-family	Real Estate – Home Equity Lines of Credit	Real Estate – Commercial and Other	Consumer	Unallo-cated	Tota
As of and for the three months ended September 30, 2013								
Beginning balance	$5,960	14,593	14,961	2,061	5,239	1,703	299	44,8
Charge-offs	(1,205)	(800)	(893)	(200)	(1,473)	(593)	—	(5,1
Recoveries	28	91	60	6	27	124	—	336
Provisions	1,618	(1,224)	671	193	1,517	377	335	3,48
Ending balance	$6,401	12,660	14,799	2,060	5,310	1,611	634	43,4
As of and for the nine months ended September 30, 2013								
Beginning balance	$4,687	12,856	14,082	1,884	5,247	1,939	948	41,6
Charge-offs	(2,589)	(2,017)	(2,548)	(1,089)	(3,920)	(1,683)	(659)	(14
Recoveries	261	708	723	68	909	367	—	3,0
Provisions	4,042	1,113	2,542	1,197	3,074	988	345	13,
Ending balance	$6,401	12,660	14,799	2,060	5,310	1,611	634	43,4
Ending balances as of September 30, 2013: Allowance for loan losses								
Individually evaluated for impairment	$140	329	1,298	1	700	2	—	2,4
Collectively evaluated for impairment	$6,261	12,331	13,501	2,059	4,610	1,609	634	41,0
Loans acquired with deteriorated credit quality	$—	—	—	—	—	—	—	—
Loans receivable as of September 30, 2013:								
Ending balance – total	$178,396	232,670	859,330	197,697	695,734	50,322	—	2,2
Ending balances as of September 30, 2013: Loans								
Individually evaluated for impairment	$1,295	8,069	19,903	22	21,543	14	—	50,8
Collectively evaluated for impairment	$177,101	224,601	839,427	197,675	674,191	50,308	—	2,16
Loans acquired with deteriorated credit quality	$—	—	—	—	—	—	—	—

Index

The following table presents the activity in the allowance for loan losses for covered loans for the three and nine months ended September 30, 2014.

($ in thousands)	Covered Loans
As of and for the three months ended September 30, 2014	
Beginning balance	$ 3,830
Charge-offs	(195)
Recoveries	463
Transferred to non-covered	(1,737)
Provisions	206
Ending balance	$ 2,567
As of and for the nine months ended September 30, 2014	
Beginning balance	$ 4,242
Charge-offs	(5,865)
Recoveries	3,010
Transferred to non-covered	(1,737)
Provisions	2,917
Ending balance	$ 2,567
Ending balances as of September 30, 2014: Allowance for loan losses	
Individually evaluated for impairment	$ 1,537
Collectively evaluated for impairment	1,003
Loans acquired with deteriorated credit quality	27
Loans receivable as of September 30, 2014:	
Ending balance – total	$ 133,249
Ending balances as of September 30, 2014: Loans	
Individually evaluated for impairment	$ 11,258
Collectively evaluated for impairment	119,953
Loans acquired with deteriorated credit quality	2,038

The following table presents the activity in the allowance for loan losses for covered loans for the year ended December 31, 2013.

($ in thousands)	Covered Loans
As of and for the year ended December 31, 2013	

Beginning balance	$ 4,759
Charge-offs	(13,053)
Recoveries	186
Provisions	12,350
Ending balance	$ 4,242
Ending balances as of December 31, 2013: Allowance for loan losses	
Individually evaluated for impairment	$ 3,112
Collectively evaluated for impairment	1,105
Loans acquired with deteriorated credit quality	25
Loans receivable as of December 31, 2013:	
Ending balance – total	$ 210,309
Ending balances as of December 31, 2013: Loans	
Individually evaluated for impairment	$ 43,107
Collectively evaluated for impairment	164,060
Loans acquired with deteriorated credit quality	3,142

Index

The following table presents the activity in the allowance for loan losses for covered loans for the three and nine months ended September 30, 2013.

($ in thousands)	Covered Loans
As of and for the three months ended September 30, 2013	
Beginning balance	$ 6,035
Charge-offs	(3,446)
Recoveries	134
Provisions	1,493
Ending balance	$ 4,216
As of and for the nine months ended September 30, 2013	
Beginning balance	$ 4,759
Charge-offs	(9,096)
Recoveries	134
Provisions	8,419
Ending balance	$ 4,216
Ending balances as of September 30, 2013: Allowance for loan losses	
Individually evaluated for impairment	$ 2,444
Collectively evaluated for impairment	1,772
Loans acquired with deteriorated credit quality	—
Loans receivable as of September 30, 2013:	
Ending balance – total	$ 226,909
Ending balances as of September 30, 2013: Loans	
Individually evaluated for impairment	$ 50,734
Collectively evaluated for impairment	173,028
Loans acquired with deteriorated credit quality	3,147

Index

The following table presents the Company's impaired loans as of September 30, 2014.

($ in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Non-covered loans with no related allowance recorded:				
Commercial, financial, and agricultural:				
Commercial - unsecured	$ —	—	—	16
Commercial - secured	69	72	—	118
Secured by inventory and accounts receivable	—	—	—	—
Real estate – construction, land development & other land loans	7,410	10,679	—	6,318
Real estate – residential, farmland, and multi-family	10,300	12,547	—	7,428
Real estate – home equity lines of credit	481	498	—	366
Real estate – commercial	15,998	18,831	—	10,537
Consumer	9	11	—	8
Total non-covered impaired loans with no allowance	$ 34,267	42,638	—	24,791
Total covered impaired loans with no allowance	$ 5,642	8,015	—	19,208
Total impaired loans with no allowance recorded	$ 39,909	50,653	—	43,999
Non-covered loans with an allowance recorded:				
Commercial, financial, and agricultural:				
Commercial - unsecured	$ 242	245	202	143
Commercial - secured	661	661	179	536
Secured by inventory and accounts receivable	—	—	—	19
Real estate – construction, land development & other land loans	1,203	1,220	513	1,580
Real estate – residential, farmland, and multi-family	13,933	14,133	1,771	14,312
Real estate – home equity lines of credit	—	—	—	6
Real estate – commercial	4,130	4,223	229	7,150
Consumer	25	25	20	10
Total non-covered impaired loans with allowance	$ 20,194	20,507	2,914	23,756
Total covered impaired loans with allowance	$ 5,616	6,149	1,537	9,336
Total impaired loans with an allowance recorded	$ 25,810	26,656	4,451	33,092

Interest income recorded on non-covered and covered impaired loans during the nine months ended September 30, 2014 is considered insignificant.

Index

The following table presents the Company's impaired loans as of December 31, 2013.

($ in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Non-covered loans with no related allowance recorded:				
Commercial, financial, and agricultural:				
Commercial - unsecured	$ —	—	—	—
Commercial - secured	—	—	—	334
Secured by inventory and accounts receivable	—	—	—	—
Real estate – construction, land development & other land loans	6,398	6,907	—	5,005
Real estate – residential, farmland, and multi-family	3,883	4,429	—	2,329
Real estate – home equity lines of credit	—	—	—	—
Real estate – commercial	7,324	9,008	—	9,981
Consumer	—	—	—	—
Total non-covered impaired loans with no allowance	$ 17,605	20,344	—	17,649
Total covered impaired loans with no allowance	$ 26,569	43,582	—	39,215
Total impaired loans with no allowance recorded	$ 44,174	63,926	—	56,864
Non-covered loans with an allowance recorded:				
Commercial, financial, and agricultural:				
Commercial - unsecured	$ 115	115	63	72
Commercial - secured	392	394	64	1,081
Secured by inventory and accounts receivable	75	75	75	80
Real estate – construction, land development & other land loans	1,629	2,148	544	2,339
Real estate – residential, farmland, and multi-family	15,228	15,642	1,162	13,417
Real estate – home equity lines of credit	22	22	1	637
Real estate – commercial	9,570	10,873	649	5,914
Consumer	13	35	1	466
Total non-covered impaired loans with allowance	$ 27,044	29,304	2,559	24,006
Total covered impaired loans with allowance	$ 16,538	21,540	3,112	14,343
Total impaired loans with an allowance recorded	$ 43,582	50,844	5,671	38,349

Interest income recorded on non-covered and covered impaired loans during the year ended December 31, 2013 was insignificant.

Index

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

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

Numerical Risk Grade	Description
Pass:	
1	Cash secured loans.
2	Non-cash secured loans that have no minor or major exceptions to the lending guidelines.
3	Non-cash secured loans that have no major exceptions to the lending guidelines.
Weak Pass:	
4	Non-cash secured loans that have minor or major exceptions to the lending guidelines, but the exceptions are properly mitigated.
Watch or Standard:	
9	Loans that meet the guidelines for a Risk Graded 5 loan, except the collateral coverage is sufficient to satisfy the debt with no risk of loss under reasonable circumstances. This category also includes all loans to insiders and any other loan that management elects to monitor on the watch list.
Special Mention:	
5	Existing loans with major exceptions that cannot be mitigated.
Classified:	
6	Loans that have a well-defined weakness that may jeopardize the liquidation of the debt if deficiencies are not corrected.
7	Loans that have a well-defined weakness that make the collection or liquidation improbable.
8	Loans that are considered uncollectible and are in the process of being charged-off.

Index

The following table presents the Company’s recorded investment in loans by credit quality indicators as of September 30, 2014.

($ in thousands)	Credit Quality Indicator (Grouped by Internally Assigned Gr					
	Pass (Grades 1, 2, & 3)	Weak Pass (Grade 4)	Watch or Standard Loans (Grade 9)	Special Mention Loans (Grade 5)	Classified Loans (Grades 6, 7, & 8)	Nona Loans
Non-covered loans:						
Commercial, financial, and agricultural:						
Commercial - unsecured	$12,240	17,394	5	1,415	2,420	249
Commercial - secured	34,385	68,397	63	4,602	4,459	3,49
Secured by inventory and accounts receivable	7,585	11,510	—	1,186	849	391
Real estate – construction, land development & other land loans	84,414	144,702	1,571	12,989	12,379	10,3
Real estate – residential, farmland, and multi-family	221,422	529,203	4,470	44,584	35,421	25,1
Real estate – home equity lines of credit	123,649	62,223	1,258	4,320	5,210	2,31
Real estate - commercial	188,845	492,862	7,568	30,705	20,996	11,1
Consumer	24,679	16,995	53	756	707	551
Total	$697,219	1,343,286	14,988	100,557	82,441	53,6
Unamortized net deferred loan costs						
Total non-covered loans						
Total covered loans	$14,615	75,618	34	10,050	22,454	10,4
Total loans	$711,834	1,418,904	15,022	110,607	104,895	64,0

At September 30, 2014, there was an insignificant amount of loans that were graded “8” with an accruing status.

As previously discussed, on July 1, 2014 the Company transferred $39.7 million of loans from the covered category to the non-covered category as a result of the expiration of one of the Company’s loss-share agreements with the FDIC. Approximately $2.8 million of those loans were “Special Mention Loans”, $5.5 million were “Classified Loans”, and $9.7 million were “Nonaccrual Loans”.

Index

The following table presents the Company’s recorded investment in loans by credit quality indicators as of December 31, 2013.

($ in thousands)	Credit Quality Indicator (Grouped by Internally Assigned Gr					
	Pass (Grades 1, 2, & 3)	Weak Pass (Grade 4)	Watch or Standard Loans (Grade 9)	Special Mention Loans (Grade 5)	Classified Loans (Grades 6, 7, & 8)	Nona Loans
Non-covered loans:						
Commercial, financial, and agricultural:						
Commercial - unsecured	$8,495	24,415	7	1,509	2,367	222
Commercial - secured	31,494	77,441	100	5,597	4,986	2,66
Secured by inventory and accounts receivable	4,098	12,800	—	2,022	1,711	545
Real estate – construction, land development & other land loans	31,221	181,050	2,365	11,646	10,333	8,05
Real estate – residential, farmland, and multi-family	227,053	540,349	5,062	41,583	37,526	17,8
Real estate – home equity lines of credit	120,205	63,400	1,499	5,699	5,124	2,20
Real estate - commercial	115,397	533,680	10,014	24,557	15,843	10,1
Consumer	25,703	21,790	54	829	995	325
Total	$563,666	1,454,925	19,101	93,442	78,885	41,9
Unamortized net deferred loan costs						
Total non-covered loans						
Total covered loans	$25,078	92,147	—	8,857	47,010	37,2
Total loans	$588,744	1,547,072	19,101	102,299	125,895	79,1

At December 31, 2013, there was an insignificant amount of loans that were graded “8” with an accruing status.

Troubled Debt Restructurings

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

The vast majority of the Company's troubled debt restructurings modified during the periods ended September 30, 2014 and 2013 related to interest rate reductions combined with restructured amortization schedules. The Company does not generally grant principal forgiveness.

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

Index

The following table presents information related to loans modified in a troubled debt restructuring during the three and nine months ended September 30, 2014.

($ in thousands)	For the three months ended September 30, 2014		
	Number of Contracts	Pre-Modification Restructured Balances	Post-Modification Restructured Balances
Non-covered TDRs – Accruing			
Real estate – residential, farmland, and multi-family	1	$ 36	$ 36
Non-covered TDRs - Nonaccrual			
Commercial, financial, and agricultural:			
Commercial - secured	1	15	15
Real estate – residential, farmland, and multi-family	3	275	275
Total non-covered TDRs arising during period	5	326	326
Total covered TDRs arising during period– Accruing	1	$ 680	$ 667
Total covered TDRs arising during period – Nonaccrual	2	150	145
Total TDRs arising during period	8	$ 1,156	$ 1,138

($ in thousands)	For the nine months ended September 30, 2014		
	Number of Contracts	Pre-Modification Restructured Balances	Post-Modification Restructured Balances
Non-covered TDRs – Accruing			
Real estate – residential, farmland, and multi-family	7	$ 713	$ 713
Non-covered TDRs - Nonaccrual			
Commercial, financial, and agricultural:			
Commercial - secured	1	15	15
Real estate – residential, farmland, and multi-family	7	713	713
Total non-covered TDRs arising during period	15	1,441	1,441
Total covered TDRs arising during period– Accruing	3	$ 928	$ 912
Total covered TDRs arising during period – Nonaccrual	7	860	827
Total TDRs arising during period	25	$ 3,229	$ 3,180

Index

The following table presents information related to loans modified in a troubled debt restructuring during the three and nine months ended September 30, 2013.

($ in thousands)	For the three months ended September 30, 2013		
	Number of Contracts	Pre-Modification Restructured Balances	Post-Modification Restructured Balances
Non-covered TDRs – Accruing			
Commercial, financial, and agricultural:			
Commercial - unsecured	1	$ 66	$ 66
Commercial - secured	5	322	322
Real estate – construction, land development & other land loans	2	1,261	1,261
Real estate – residential, farmland, and multi-family	1	174	174