FIRST BANCORP /NC/
Form 10-Q
November 09, 2015

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, 2015

Commission File Number 0-15572

FIRST BANCORP

(Exact Name of Registrant as Specified in its Charter)

North Carolina	56-1421916
(State or Other Jurisdiction of	(I.R.S. Employer

Incorporation or Organization)	Identification Number)
300 SW Broad St., Southern Pines, North Carolina	28387
(Address of Principal Executive Offices)	(Zip Code)
(Registrant's telephone number, including area code)	(910) 246-2500

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

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

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

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

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

The number of shares of the registrant's Common Stock outstanding on October 31, 2015 was 19,785,314.

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FIRST BANCORP AND SUBSIDIARIES

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FORWARD-LOOKING STATEMENTS

Part I of this report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995, which statements are inherently subject to risks and uncertainties. Forward-looking statements are statements that include projections, predictions, expectations or beliefs about future events or results or otherwise are not statements of historical fact. Further, forward-looking statements are intended to speak only as of the date made. Such statements are often characterized by the use of qualifying words (and their derivatives) such as “expect,” “believe,” “estimate,” “plan,” “project,” or other statement concerning our opinions or judgment about future events. Our actual results may differ materially from those anticipated in any forward-looking statements, as they will depend on many factors about which we are unsure, including many factors which are beyond our control. Factors that could influence the accuracy of such forward-looking statements include, but are not limited to, the financial success or changing strategies of our customers, our level of success in integrating acquisitions, actions of government regulators, the level of market interest rates, and general economic conditions. For additional information about factors that could affect the matters discussed in this paragraph, see the “Risk Factors” section of our 2014 Annual Report on Form 10-K.

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Part I. Financial Information

Item 1 - Financial Statements

First Bancorp and Subsidiaries

Consolidated Balance Sheets

($ in thousands)	September 30, 2015	December 31, 2014 (audited)	September 30, 2014
ASSETS			
Cash and due from banks, noninterest-bearing	$52,788	81,068	84,128
Due from banks, interest-bearing	165,271	171,248	251,111
Federal funds sold	730	768	1,275
Total cash and cash equivalents	218,789	253,084	336,514
Securities available for sale	178,765	158,018	153,238
Securities held to maturity (fair values of $162,858, $182,411, and $57,601)	160,048	178,687	53,821
Presold mortgages in process of settlement	3,150	6,019	5,761
Loans – non-covered	2,375,094	2,268,580	2,292,841
Loans – covered by FDIC loss share agreement	106,609	127,594	133,249
Total loans	2,481,703	2,396,174	2,426,090
Allowance for loan losses – non-covered	(28,155)	(38,345)	(41,564
Allowance for loan losses – covered	(1,900)	(2,281)	(2,567
Total allowance for loan losses	(30,055)	(40,626)	(44,131
Net loans	2,451,648	2,355,548	2,381,959
Premises and equipment	74,839	75,113	74,871
Accrued interest receivable	9,008	8,920	8,885
FDIC indemnification asset	7,649	22,569	25,328
Goodwill	65,835	65,835	65,835
Other intangible assets	1,516	2,058	2,252
Foreclosed real estate – non-covered	9,304	9,771	11,705
Foreclosed real estate – covered	1,569	2,350	3,237
Bank-owned life insurance	56,557	55,421	44,996
Other assets	34,164	24,990	27,209
Total assets	$3,272,841	3,218,383	3,195,611
LIABILITIES			
Deposits: Noninterest bearing checking accounts	$635,287	560,230	540,349
Interest bearing checking accounts	609,908	583,903	538,815
Money market accounts	584,490	551,002	548,832

Savings accounts	187,607	180,317	178,260
Time deposits of $100,000 or more	381,895	470,066	503,125
Other time deposits	308,566	350,388	369,631
Total deposits	2,707,753	2,695,906	2,679,012
Borrowings	176,394	116,394	116,394
Accrued interest payable	588	686	695
Other liabilities	16,932	17,698	14,695
Total liabilities	2,901,667	2,830,684	2,810,796
Commitments and contingencies			
SHAREHOLDERS' EQUITY			
Preferred stock, no par value per share. Authorized: 5,000,000 shares			
Series B issued & outstanding: 31,500, 63,500, and 63,500 shares	31,500	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: 19,785,314, 19,709,881, and 19,705,381 shares	133,211	132,532	132,440
Retained earnings	199,886	184,958	179,656
Accumulated other comprehensive income (loss)	(710)	(578)	1,932
Total shareholders' equity	371,174	387,699	384,815
Total liabilities and shareholders' equity	$3,272,841	3,218,383	3,195,611

See accompanying notes to consolidated financial statements.

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First Bancorp and Subsidiaries

Consolidated Statements of Income

($ in thousands, except share data-unaudited)	Three Months Ended September 30, 2015	2014	Nine Months Ended September 30, 2015	2014
INTEREST INCOME				
Interest and fees on loans	$29,863	32,019	88,257	102,481
Interest on investment securities:				
Taxable interest income	1,670	646	4,693	2,523
Tax-exempt interest income	455	470	1,375	1,411
Other, principally overnight investments	142	239	523	590
Total interest income	32,130	33,374	94,848	107,005
INTEREST EXPENSE				
Savings, checking and money market accounts	292	263	842	774
Time deposits of $100,000 or more	657	1,058	2,236	3,413
Other time deposits	308	408	977	1,283
Borrowings	487	302	1,099	849
Total interest expense	1,744	2,031	5,154	6,319
Net interest income	30,386	31,343	89,694	100,686
Provision for loan losses – non-covered	267	1,279	1,372	5,802
Provision (reversal) for loan losses – covered	(1,681)	206	(2,109)	2,917
Total provision (reversal) for loan losses	(1,414)	1,485	(737)	8,719
Net interest income after provision for loan losses	31,800	29,858	90,431	91,967
NONINTEREST INCOME				
Service charges on deposit accounts	2,951	3,426	8,724	10,445
Other service charges, commissions and fees	2,778	2,538	8,091	7,467
Fees from presold mortgage loans	481	807	2,020	2,204
Commissions from sales of insurance and financial products	691	685	1,917	1,985
Bank-owned life insurance income	382	311	1,136	956
Foreclosed property gains (losses) – non-covered	(857)	(757)	(1,932)	(1,464)
Foreclosed property gains (losses) – covered	(82)	773	410	(2,517)
FDIC indemnification asset income (expense), net	(2,865)	(3,210)	(7,085)	(9,704)
Securities gains (losses)	(1)	—	(1)	786
Other gains (losses)	28	35	(241)	(282)
Total noninterest income	3,506	4,608	13,039	9,876
NONINTEREST EXPENSES				
Salaries	12,378	11,773	35,456	34,787
Employee benefits	2,221	2,550	6,702	7,147
Total personnel expense	14,599	14,323	42,158	41,934

Net occupancy expense	1,823	1,863	5,504	5,547
Equipment related expenses	900	953	2,805	2,905
Intangibles amortization	181	194	541	582
Other operating expenses	7,111	8,598	21,620	23,294
Total noninterest expenses	24,614	25,931	72,628	74,262
Income before income taxes	10,692	8,535	30,842	27,581
Income tax expense	3,687	2,956	10,605	9,680
Net income	7,005	5,579	20,237	17,901
Preferred stock dividends	(137)	(217)	(566)	(651)
Net income available to common shareholders	$6,868	5,362	19,671	17,250
Earnings per common share:				
Basic	$0.35	0.27	1.00	0.88
Diluted	0.34	0.27	0.97	0.85
Dividends declared per common share	$0.08	0.08	0.24	0.24
Weighted average common shares outstanding:				
Basic	19,781,789	19,705,514	19,760,807	19,697,426
Diluted	20,512,959	20,437,739	20,491,973	20,431,836

See accompanying notes to consolidated financial statements.

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First Bancorp and Subsidiaries

Consolidated Statements of Comprehensive Income

($ in thousands-unaudited)	Three Months Ended September 30, 2015	2014	Nine Months Ended September 30, 2015	2014
Net income	$ 7,005	5,579	20,237	17,901
Other comprehensive income (loss):				
Unrealized gains (losses) on securities available for sale:				
Unrealized holding gains (losses) arising during the period, pretax	589	(47)	(154)	1,004
Tax (expense) benefit	(231)	19	60	(391)
Reclassification to realized (gains) losses	1	—	1	(786)
Tax expense (benefit)	—	—	—	306
Postretirement Plans:				
Amortization of unrecognized net actuarial (gain) loss	(16)	(56)	(63)	(166)
Tax expense (benefit)	6	(2)	24	65
Other comprehensive income (loss)	349	(86)	(132)	32
Comprehensive income	$ 7,354	5,493	20,105	17,933

See accompanying notes to consolidated financial statements.

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First Bancorp and Subsidiaries

Consolidated Statements of Shareholders' Equity

(In thousands, except per share - unaudited)	Preferred Stock	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Share-holders' Equity
Balances, January 1, 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
Balances, January 1, 2015	$70,787	19,710	$132,532	184,958	(578)	387,699
Net income				20,237		20,237
Preferred stock redeemed (Series B)	(32,000)					(32,000)
Stock option exercises		2	32			32
Cash dividends declared ($0.24 per common share)				(4,743)		(4,743)
Preferred dividends				(566)		(566)
Stock-based compensation		73	647			647
Other comprehensive income (loss)					(132)	(132)
Balances, September 30, 2015	$38,787	19,785	$133,211	199,886	(710)	371,174

See accompanying notes to consolidated financial statements.

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First Bancorp and Subsidiaries

Consolidated Statements of Cash Flows

($ in thousands-unaudited)	Nine Months Ended September 30, 2015	2014
Cash Flows From Operating Activities		
Net income	$20,237	17,901
Reconciliation of net income to net cash provided by operating activities:		
Provision (reversal) for loan losses	(737)	8,719
Net security premium amortization	2,380	1,416
Purchase accounting accretion and amortization, net	2,265	(7,261)
Foreclosed property losses and write-downs, net	1,522	3,981
Loss (gain) on securities available for sale	1	(786)
Other losses	241	282
Decrease in net deferred loan costs	181	198
Depreciation of premises and equipment	3,375	3,477
Branch consolidation expense	—	925
Stock-based compensation expense	554	248
Amortization of intangible assets	541	582
Origination of presold mortgages in process of settlement	(76,728)	(75,775)
Proceeds from sales of presold mortgages in process of settlement	79,600	75,568
Decrease (increase) in accrued interest receivable	(88)	764
Decrease (increase) in other assets	(990)	7,302
Decrease in accrued interest payable	(98)	(184)
Decrease in other liabilities	(667)	(429)
Net cash provided by operating activities	31,589	36,928
Cash Flows From Investing Activities		
Purchases of securities available for sale	(83,313)	(54,258)
Purchases of securities held to maturity	(2,003)	—
Proceeds from sales of securities available for sale	—	47,473
Proceeds from maturities/issuer calls of securities available for sale	61,426	22,456
Proceeds from maturities/issuer calls of securities held to maturity	19,246	—
Purchases of Federal Reserve Bank stock and Federal Home Loan Bank stock, net	(9,597)	(2,122)
Net decrease (increase) in loans	(98,347)	27,468
Proceeds from FDIC loss share agreements	8,758	16,810
Proceeds from sales of foreclosed real estate	6,426	27,908
Purchases of premises and equipment	(3,828)	(3,278)
Proceeds from sale of premises and equipment	847	1,232
Net cash provided (used) by investing activities	(100,385)	83,689
Cash Flows From Financing Activities		
Net increase (decrease) in deposits	11,847	(72,000)
Net increase in borrowings	60,000	70,000
Cash dividends paid – common stock	(4,732)	(4,726)
Cash dividends paid – preferred stock	(646)	(651)

Redemption of preferred stock	(32,000)	—
Proceeds from stock option exercises	32	—
Net cash provided (used) by financing activities	34,501	(7,377)
Increase (decrease) in cash and cash equivalents	(34,295)	113,240
Cash and cash equivalents, beginning of period	253,084	223,274
Cash and cash equivalents, end of period	$218,789	336,514
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	$5,252	6,503
Income taxes	11,139	3,009
Non-cash transactions:		
Unrealized gain (loss) on securities available for sale, net of taxes	(94)	133
Foreclosed loans transferred to other real estate	6,700	10,083

See accompanying notes to consolidated financial statements.

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First Bancorp and Subsidiaries

Notes to Consolidated Financial Statements

(*unaudited)* For the Periods Ended September 30, 2015 and 2014

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, 2015 and 2014 and the consolidated results of operations and consolidated cash flows for the periods ended September 30, 2015 and 2014. All such adjustments were of a normal, recurring nature. Reference is made to the 2014 Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") for a discussion of accounting policies and other relevant information with respect to the financial statements. The results of operations for the periods ended September 30, 2015 and 2014 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 2014 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 January 2014, the Financial Accounting Standards Board ("FASB") amended the Equity Method and Joint Ventures topic of the Accounting Standards Codification. The amendments provide criteria that must be met in order to apply a proportional amortization method to Low-Income Housing Tax Credit investments and provide guidance on the method used to amortize the investment, the impairment approach, and the eligibility criteria for entities that have other arrangements (e.g., loans) with the limited liability entity. The amendments were effective for the Company on January 1, 2015 for new investments in qualified affordable housing projects. These amendments did not have a material effect on the Company's 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 were effective for the Company on January 1, 2015. 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. These amendments did not have a material effect on the Company's 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 interim and annual reporting periods beginning after December 15, 2017. The Company can apply the guidance using either a full retrospective approach or a modified retrospective approach. The Company does not expect these amendments to have a material effect on its financial statements.

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 were effective for the Company on January 1, 2015. These amendments did not have a material effect on the Company's financial statements.

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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 January 2015, the FASB issued guidance to eliminate from U.S. GAAP the concept of an extraordinary item, which is an event or transaction that is both (1) unusual in nature and (2) infrequently occurring. Under the new guidance, an entity will no longer (1) segregate an extraordinary item from the results of ordinary operations; (2) separately present an extraordinary item on its income statement, net of tax, after income from continuing operations; or (3) disclose income taxes and earnings-per-share data applicable to an extraordinary item. The amendments will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company will apply the guidance prospectively.

In February 2015, the FASB issued guidance which amends the consolidation requirements and significantly changes the consolidation analysis required under U.S. GAAP. The amendments are expected to result in the deconsolidation of many entities. The amendments will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted (including during an interim period), provided that the guidance is applied as of the beginning of the annual period containing the adoption date. The Company does not expect these amendments to have a material effect on its financial statements.

In April 2015, the FASB issued guidance that will require debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. This update affects disclosures related to debt issuance costs but does not affect existing recognition and measurement guidance for these items. The amendments will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In April 2015, the FASB issued guidance which provides a practical expedient that permits the Company to measure defined benefit plan assets and obligations using the month-end that is closest to the Company's fiscal year-end. The amendments will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In June 2015, the FASB issued amendments to clarify the Accounting Standards Codification, correct unintended application of guidance, and make minor improvements that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The amendments were effective upon issuance (June 12, 2015) for amendments that do not have transition guidance. Amendments that are subject to transition guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. The Company does not expect these amendments to have a material effect on its financial statements.

In August 2015, the FASB issued amendments to the Interest topic of the Accounting Standards Codification to clarify the SEC staff's position on presenting and measuring debt issuance costs incurred in connection with line-of-credit arrangements. The amendments were effective upon issuance. The Company does not expect these amendments to have a material effect on its financial statements.

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

Note 3 – Reclassifications

Certain amounts reported in the period ended September 30, 2014 have been reclassified to conform to the presentation for September 30, 2015. These reclassifications had no effect on net income or shareholders' equity for the periods presented, nor did they materially impact trends in financial information.

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Note 4 – Equity-Based Compensation Plans

At September 30, 2015, 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, 2015, 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.

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 eight in total) in June of each year. Compensation expense associated with these director grants is recognized on the date of grant since there are no vesting conditions. On June 1, 2015, the Company granted 8,176 shares of common stock to non-employee directors (1,022 shares per director), at a fair market value of $15.75 per share, which was the closing price of the Company's common stock on that date. On June 2, 2014, the Company granted 10,065 shares of common stock to non-employee directors (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.

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 would have fully vested on December 31, 2014 if the Company achieved a certain earnings target for 2014. The Company did not achieve the applicable target, and therefore, the option award was forfeited as of December 31, 2014. No compensation expense was recognized for the option award. The restricted stock award will vest in full on December 31, 2015, if the Company achieves a certain earnings target in 2015, and will be forfeited if the applicable target is not achieved. Based on current conditions, the Company has concluded that it is not probable that the restricted stock award will vest, and thus no compensation expense has been recorded.

In 2014, the Company's Compensation Committee determined that seven of the Company's senior officers would receive 50% of the bonus earned under the Company's annual incentive plan in shares of restricted stock, instead of being exclusively cash, which had been the Company's prior practice. This resulted in the Company granting a total of 14,882 shares of restricted common stock to those officers on February 24, 2015. The shares vest annually in one-third increments beginning on December 31, 2015. The total compensation expense associated with this grant was $258,000, which is being recorded over the vesting period. The Company recorded $23,300 and $69,800 in compensation expense during the three and nine months ended September 30, 2015 related to these grants.

Also, on February 24, 2015, the Company granted a total of 30,404 shares of restricted common stock to eleven senior officers. The shares vest annually in one-third increments beginning on December 31, 2015. The total compensation expense associated with this grant was $527,000, which is being recorded over the vesting period. The Company recorded $80,500 and $241,500 in compensation expense during the three and nine months ended September 30, 2015 related to these grants.

On April 10, 2015, the Company granted a total of 14,425 shares of restricted common stock to five employees. The shares vest three years from the date of the grant on April 10, 2018. The total compensation expense associated with this grant was $249,000, which is being recorded over the vesting period. The Company recorded $20,700 and $41,400 in compensation expense during the three and nine months ended September 30, 2015 related to these grants.

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In September 2015, the Company granted a total of 5,907 shares of restricted common stock to three employees. The shares vest three years from the date of the grant. The total compensation expense associated with this grant was $100,005, which is being recorded over the vesting period. The Company recorded $2,800 in compensation expense during the three months ended September 30, 2015 related to these grants.

Based on the Company's performance in 2013, the Company granted 15,657 shares of restricted common stock to the chief executive officer on February 11, 2014 with a two year minimum vesting period. The total compensation expense associated with this grant was $278,200 and the grant will fully vest on January 1, 2016. One third of this value was expensed during each of 2013 and 2014, with the remaining one third being expensed in 2015. The Company recorded $23,200 and $69,600 in compensation expense during each of the three and nine months ended September 30, 2015 and 2014.

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 under certain conditions if there is a change in control (as defined in the plans).

At September 30, 2015, there were 128,464 options outstanding under the Company's three option plans, with exercise prices ranging from $14.35 to $22.04. At September 30, 2015, there were 916,141 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 recorded total stock-based compensation expense of $150,000 and $23,000 for the three months ended September 30, 2015 and 2014, respectively, and $554,000 and $248,000 for the nine months ended September 30, 2015 and 2014, respectively. Of the $554,000 in expense that was recorded in 2015, approximately $129,000 related to the June 1, 2015 director grants, which is classified as "other operating expenses" in the Consolidated Statements of Income. The remaining $425,000 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 Statement of Cash Flows. The Company recognized $216,000 and $97,000 of income tax benefits related to stock based compensation expense in the income statement for the nine months ended September 30, 2015 and 2014, 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 awards granted without performance conditions will become vested.

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The following table presents information regarding the activity for the first nine months of 2015 related to the Company's stock options outstanding:

	Options Outstanding			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Contractual Term (years)	Aggregate Intrinsic Value
Balance at January 1, 2015	179,102	$ 18.55		
Granted	—	—		
Exercised	(2,250)	14.35		
Forfeited	—	—		
Expired	(48,388)	20.07		
Outstanding at September 30, 2015	128,464	$ 18.05	2.0	$ 70,000
Exercisable at September 30, 2015	128,464	$ 18.05	2.0	$ 70,000

During the nine months ended September 30, 2015, the Company received $32,000 as a result of stock option exercises. The Company did not have any stock option exercises during the nine months ended September 30, 2014. The Company recorded no tax benefits from the exercise of nonqualified stock options during the nine months ended September 30, 2015 or 2014.

The following table presents information regarding the activity the first nine months of 2015 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, 2015	45,219	$ 10.68
Granted during the period	65,618	17.28
Vested during the period	—	—
Forfeited or expired during the period	—	—

Nonvested at September 30, 2015	110,837	$ 14.59

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.

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.

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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,					
	2015			2014		
($ in thousands except per share amounts)	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS						
Net income available to common shareholders	$6,868	19,781,789	$ 0.35	$5,362	19,705,514	$ 0.27
Effect of Dilutive Securities	58	731,170		58	732,225	
Diluted EPS per common share	$6,926	20,512,959	$ 0.34	$5,420	20,437,739	$ 0.27

	For the Nine Months Ended September 30,					
	2015			2014		
($ in thousands except per share amounts)	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS						
Net income available to common shareholders	$19,671	19,760,807	$ 1.00	$17,250	19,697,426	$ 0.88
Effect of Dilutive Securities	175	731,166		175	734,410	
Diluted EPS per common share	$19,846	20,491,973	$ 0.97	$17,425	20,431,836	$ 0.85

For both the three and nine months ended September 30, 2015, there were 52,500 options that were antidilutive because the exercise price exceeded the average market price for the period, and thus are not included in the calculation to determine the effect of dilutive securities. For both the three and nine months ended September 30, 2014, there were 93,000 options that were anti-dilutive. Also, for both 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 concluded were not probable to vest.

Note 6 – Securities

The book values and approximate fair values of investment securities at September 30, 2015 and December 31, 2014 are summarized as follows:

	September 30, 2015				December 31, 2014			
	Amortized	Fair	Unrealized		Amortized	Fair	Unrealized	
($ in thousands)	Cost	Value	Gains	(Losses)	Cost	Value	Gains	(Losses)
Securities available for sale:								
Government-sponsored enterprise securities	$27,789	27,850	69	(8)	27,546	27,521	33	(58)
Mortgage-backed securities	126,508	125,836	520	(1,192)	130,073	129,510	751	(1,314)
Corporate bonds	25,223	24,948	4	(279)	1,000	865	—	(135)
Equity securities	88	131	54	(11)	89	122	46	(13)
Total available for sale	$179,608	178,765	647	(1,490)	158,708	158,018	830	(1,520)
Securities held to maturity:								
Mortgage-backed securities	$107,787	107,360	—	(427)	124,924	124,861	45	(108)
State and local governments	52,261	55,498	3,258	(21)	53,763	57,550	3,787	—
Total held to maturity	$160,048	162,858	3,258	(448)	178,687	182,411	3,832	(108)

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Included in mortgage-backed securities at September 30, 2015 were collateralized mortgage obligations with an amortized cost of $56,000 and a fair value of $57,000. Included in mortgage-backed securities at December 31, 2014 were collateralized mortgage obligations with an amortized cost of $108,000 and a fair value of $111,000. All of the Company's mortgage-backed securities, including the collateralized mortgage obligations, were issued by government-sponsored corporations.

The following table presents information regarding securities with unrealized losses at September 30, 2015:

($ in thousands)	Securities in an Unrealized Loss Position for Less than 12 Months		Securities in an Unrealized Loss Position for More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government-sponsored enterprise securities	$ —	—	2,991	8	2,991	8
Mortgage-backed securities	141,334	685	31,578	934	172,912	1,619
Corporate bonds	21,991	219	940	60	22,931	279
Equity securities	—	—	22	11	22	11
State and local governments	829	21	—	—	829	21
Total temporarily impaired securities	$ 164,154	925	35,531	1,013	199,685	1,938

The following table presents information regarding securities with unrealized losses at December 31, 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	$ 5,489	11	2,953	47	8,442	58
Mortgage-backed securities	69,985	318	33,557	1,104	103,542	1,422
Corporate bonds	—	—	865	135	865	135
Equity securities	—	—	17	13	17	13
State and local governments	—	—	—	—	—	—
Total temporarily impaired securities	$ 75,474	329	37,392	1,299	112,866	1,628

In the above tables, all of the non-equity securities that were in an unrealized loss position at September 30, 2015 and December 31, 2014 are bonds that the Company has determined are in a loss position due primarily to interest rate factors and not credit quality concerns. The Company has evaluated the collectability of each of these bonds and has concluded that there is no other-than-temporary impairment. The Company does not intend to sell these securities, and it is more likely than not that the Company will not be required to sell these securities before recovery of the amortized cost. The Company has also concluded that each of the equity securities in an unrealized loss position at September 30, 2015 and December 31, 2014 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.

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The book values and approximate fair values of investment securities at September 30, 2015, 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	$ —	—	772	780
Due after one year but within five years	27,789	27,850	12,734	13,446
Due after five years but within ten years	20,223	20,088	37,320	39,847
Due after ten years	5,000	4,860	1,435	1,425
Mortgage-backed securities	126,508	125,836	107,787	107,360
Total debt securities	179,520	178,634	160,048	162,858
Equity securities	88	131	—	—
Total securities	$ 179,608	178,765	160,048	162,858

At September 30, 2015 and December 31, 2014 investment securities with carrying values of $135,652,000 and $100,113,000, respectively, were pledged as collateral for public deposits.

The Company recorded insignificant losses on securities during the three and nine month periods ended September 30, 2015. During the nine months ended September 30, 2014, the Company sold approximately $47,473,000 in securities and recorded a net gain of $786,000 related to the sale.

The aggregate carrying amount of cost-method investments was $15,468,000 and $6,016,000 at September 30, 2015 and December 31, 2014, respectively, which is recorded within the line item “other assets” on the Company’s Consolidated Balance Sheets. These investments are comprised of both Federal Home Loan Bank (“FHLB”) stock and Federal Reserve Bank of Richmond (“FRB”) stock. The FHLB stock had a cost and fair value of $8,421,000 at September 30, 2015 and $6,016,000 at December 31, 2014, and serves as part of the collateral for the Company’s line of credit with the FHLB and is also a requirement for membership in the FHLB system. 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 FRB stock had a cost and fair value of $7,047,000 at September 30, 2015. The Company was required to purchase this stock when it became a member of the Federal Reserve System in the second quarter of 2015. The Company determined that neither stock was impaired at either period end.

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 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 in 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.

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

($ in thousands)	September 30, 2015		December 31, 2014		September 30, 20	
	Amount	Percentage	Amount	Percentage	Amount	Perc
All loans (non-covered and covered):						
Commercial, financial, and agricultural	$199,630	8%	$160,878	7%	$165,215	7%
Real estate – construction, land development & other land loans	294,426	12%	288,148	12%	298,091	13
Real estate – mortgage – residential (1-4 family) first mortgages	770,691	31%	789,871	33%	806,954	33
Real estate – mortgage – home equity loans / lines of credit	224,639	9%	223,500	9%	224,553	9%
Real estate – mortgage – commercial and other	944,432	38%	882,127	37%	879,122	36
Installment loans to individuals	47,120	2%	50,704	2%	51,425	2%
Subtotal	2,480,938	100%	2,395,228	100%	2,425,360	10
Unamortized net deferred loan costs	765		946		730	
Total loans	$2,481,703		$2,396,174		$2,426,090	

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

($ in thousands)	September 30, 2015		December 31, 2014		September 30, 20	
	Amount	Percentage	Amount	Percentage	Amount	Perc
Non-covered loans:						
Commercial, financial, and agricultural	$198,624	9%	$159,195	7%	$162,994	7%
Real estate – construction, land development & other land loans	290,465	12%	282,604	13%	292,401	13
Real estate – mortgage – residential (1-4 family) first mortgages	692,431	29%	700,101	31%	714,879	31
Real estate – mortgage – home equity loans / lines of credit	213,435	9%	210,697	9%	211,477	9%
Real estate – mortgage – commercial and other	932,254	39%	864,333	38%	858,935	38
Installment loans to individuals	47,120	2%	50,704	2%	51,425	2%
Subtotal	2,374,329	100%	2,267,634	100%	2,292,111	10
Unamortized net deferred loan costs	765		946		730	
Total non-covered loans	$2,375,094		$2,268,580		$2,292,841	

The carrying amount of the covered loans at September 30, 2015 consisted of impaired and nonimpaired purchased loans (as determined on the date of acquisition), as follows:

($ in thousands)	Impaired Purchased	Impaired Purchased	Nonimpaired Purchased	Nonimpaired Purchased	Total Covered	Total Covered

	Loans – Carrying Value	Loans – Unpaid Principal Balance	Loans – Carrying Value	Loans - Unpaid Principal Balance	Loans – Carrying Value	Loans – Unpaid Principal Balance
Covered loans:						
Commercial, financial, and agricultural	$59	116	947	975	1,006	1,091
Real estate – construction, land development & other land loans	297	522	3,664	3,912	3,961	4,434
Real estate – mortgage – residential (1-4 family) first mortgages	109	636	78,151	91,570	78,260	92,206
Real estate – mortgage – home equity loans / lines of credit	8	15	11,196	12,912	11,204	12,927
Real estate – mortgage – commercial and other	1,047	3,154	11,131	11,871	12,178	15,025
Total	$1,520	4,443	105,089	121,240	106,609	125,683

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The carrying amount of the covered loans at December 31, 2014 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	$66	123	1,617	1,661	1,683	1,784
Real estate – construction, land development & other land loans	309	534	5,235	6,471	5,544	7,005
Real estate – mortgage – residential (1-4 family) first mortgages	362	1,298	89,408	104,678	89,770	105,976
Real estate – mortgage – home equity loans / lines of credit	12	19	12,791	15,099	12,803	15,118
Real estate – mortgage – commercial and other	1,201	3,209	16,593	17,789	17,794	20,998
Total	$1,950	5,183	125,644	145,698	127,594	150,881

The following table presents information regarding covered purchased nonimpaired loans since December 31, 2013. 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, 2013	$207,167
Principal repayments	(50,183)
Transfers to foreclosed real estate	(5,061)
Transfers to non-covered loans due to expiration of loss-share agreement	(38,987)
Net loan (charge-offs) / recoveries	(3,301)
Accretion of loan discount	16,009
Carrying amount of nonimpaired covered loans at December 31, 2014	125,644
Principal repayments	(25,051)
Transfers to foreclosed real estate	(1,129)
Net loan (charge-offs) / recoveries	1,728
Accretion of loan discount	3,897
Carrying amount of nonimpaired covered loans at September 30, 2015	$105,089

As reflected in the table above, the Company accreted $3,897,000 of the loan discount on purchased nonimpaired loans into interest income during the first nine months of 2015. As of September 30, 2015, there was remaining loan discount of $14,151,000 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 covered 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, 2015, the Company also had $2,043,000 of loan discount related to purchased nonaccruing loans. It is not expected that a significant amount of this discount will be accreted, as it represents estimated losses on these loans.

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The following table presents information regarding all purchased impaired loans since December 31, 2013, 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, 2013	$ 6,263	3,121	3,142
Change due to payments received	(599)	227	(826)
Change due to loan charge-off	(2)	29	(31)
Other	197	(115)	312
Balance at December 31, 2014	$ 5,859	3,262	2,597
Change due to payments received	(330)	55	(385)
Transfer to foreclosed real estate	(431)	(336)	(95)
Other	(3)	(3)	—
Balance at September 30, 2015	$ 5,095	2,978	2,117

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 2015 and 2014, the Company received $56,000 and $179,000, 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, 2015	December 31, 2014	September 30, 2014
Non-covered nonperforming assets			
Nonaccrual loans	$ 42,347	$ 50,066	$ 53,620
Restructured loans - accruing	29,250	35,493	31,501

Accruing loans > 90 days past due	—	—	—
Total non-covered nonperforming loans	71,597	85,559	85,121
Foreclosed real estate	9,304	9,771	11,705
Total non-covered nonperforming assets	$ 80,901	$ 95,330	$ 96,826
Covered nonperforming assets			
Nonaccrual loans (1)	$ 5,373	$ 10,508	$ 10,478
Restructured loans - accruing	3,825	5,823	6,273
Accruing loans > 90 days past due	—	—	—
Total covered nonperforming loans	9,198	16,331	16,751
Foreclosed real estate	1,569	2,350	3,237
Total covered nonperforming assets	$ 10,767	$ 18,681	$ 19,988
Total nonperforming assets	$ 91,668	$ 114,011	$ 116,814

(1) At September 30, 2015, December 31, 2014, and September 30, 2014, the contractual balance of the nonaccrual loans covered by FDIC loss share agreements was $10.1 million, $16.0 million, and $16.3 million, respectively.

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

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.

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The following table presents the Company's nonaccrual loans as of September 30, 2015.

($ in thousands)	Non-covered	Covered	Total
Commercial, financial, and agricultural:			
Commercial – unsecured	$ 470	22	492
Commercial – secured	2,253	—	2,253
Secured by inventory and accounts receivable	84	23	107
Real estate – construction, land development & other land loans	5,374	60	5,434
Real estate – residential, farmland and multi-family	21,936	3,270	25,206
Real estate – home equity lines of credit	2,110	362	2,472
Real estate – commercial	9,762	1,636	11,398
Consumer	358	—	358
Total	$ 42,347	5,373	47,720

The following table presents the Company's nonaccrual loans as of December 31, 2014.

($ in thousands)	Non-covered	Covered	Total
Commercial, financial, and agricultural:			
Commercial – unsecured	$ 187	1	188
Commercial – secured	2,927	—	2,927
Secured by inventory and accounts receivable	454	103	557
Real estate – construction, land development & other land loans	7,891	1,140	9,031
Real estate – residential, farmland and multi-family	24,459	7,785	32,244
Real estate – home equity lines of credit	2,573	278	2,851
Real estate – commercial	11,070	1,201	12,271
Consumer	505	—	505
Total	$ 50,066	10,508	60,574

The following table presents an analysis of the payment status of the Company's loans as of September 30, 2015.

($ 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	$734	—	470	49,325	50,529
Commercial - secured	772	73	2,253	114,989	118,087
Secured by inventory and accounts receivable	366	—	84	33,177	33,627
Real estate – construction, land development & other land loans	938	90	5,374	269,002	275,404
Real estate – residential, farmland, and multi-family	5,404	1,948	21,936	822,084	851,372
Real estate – home equity lines of credit	996	332	2,110	199,180	202,618
Real estate - commercial	4,013	234	9,762	785,182	799,191
Consumer	379	239	358	42,525	43,501
Total non-covered	$13,602	2,916	42,347	2,315,464	2,374,329
Unamortized net deferred loan costs					765
Total non-covered loans					$2,375,094
Covered loans	$340	751	5,373	100,145	106,609
Total loans	$13,942	3,667	47,720	2,415,609	2,481,703

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The Company had no non-covered or covered loans that were past due greater than 90 days and accruing interest at September 30, 2015.

The following table presents an analysis of the payment status of the Company's loans as of December 31, 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	$191	35	187	36,871	37,284
Commercial - secured	1,003	373	2,927	102,671	106,974
Secured by inventory and accounts receivable	30	225	454	21,761	22,470
Real estate – construction, land development & other land loans	1,950	139	7,891	247,535	257,515
Real estate – residential, farmland, and multi-family	11,272	3,218	24,459	807,884	846,833
Real estate – home equity lines of credit	1,585	352	2,573	194,067	198,577
Real estate - commercial	3,738	996	11,070	738,981	754,785
Consumer	695	131	505	41,865	43,196
Total non-covered	$20,464	5,469	50,066	2,191,635	2,267,634
Unamortized net deferred loan costs					946
Total non-covered loans					$2,268,580
Covered loans	$4,385	964	10,508	111,737	127,594
Total loans	$24,849	6,433	60,574	2,303,372	2,396,174

The Company had no non-covered or covered loans that were past due greater than 90 days and accruing interest at December 31, 2014.

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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, 2015.

($ 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	Tot
As of and for the three months ended September 30, 2015								
Beginning balance	$5,564	5,016	9,641	3,167	4,723	948	1,096	30
Charge-offs	(523)	(574)	(1,949)	(31)	(198)	(369)	—	(3
Recoveries	387	625	98	43	140	84	—	1,
Provisions	(185)	(1,105)	1,341	(565)	249	216	316	26
Ending balance	$5,243	3,962	9,131	2,614	4,914	879	1,412	28
As of and for the nine months ended September 30, 2015								
Beginning balance	$8,391	6,470	9,720	3,731	9,045	841	147	38
Charge-offs	(3,550)	(2,532)	(4,362)	(594)	(2,147)	(1,222)	—	(1
Recoveries	735	942	270	88	535	275	—	2,
Provisions	(333)	(918)	3,503	(611)	(2,519)	985	1,265	1,
Ending balance	$5,243	3,962	9,131	2,614	4,914	879	1,412	28
Ending balances as of September 30, 2015: Allowance for loan losses								
Individually evaluated for impairment	$135	250	1,575	—	449	—	—	2,
Collectively evaluated for impairment	$5,108	3,712	7,556	2,614	4,465	879	1,412	25
Loans acquired with deteriorated credit quality	$—	—	—	—	—	—	—	—
Loans receivable as of September 30, 2015:								
Ending balance – total	$202,243	275,404	851,372	202,618	799,191	43,501	—	2,
Unamortized net deferred loan costs								76
Total non-covered loans								$2,
Ending balances as of September 30, 2015: Loans								
Individually evaluated for impairment	$986	4,685	23,599	—	16,655	—	—	45
Collectively evaluated for impairment	$201,257	270,719	827,773	202,618	781,939	43,501	—	2,

Loans acquired with deteriorated credit quality	$—	—	—	—	597	—	—	59

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The following table presents the activity in the allowance for loan losses for non-covered loans for the year ended December 31, 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	Tota
As of and for the year ended December 31, 2014								
Beginning balance	$7,432	12,966	15,142	1,838	5,524	1,513	(152)	44,
Charge-offs	(4,039)	(2,148)	(4,417)	(912)	(3,048)	(1,724)	—	(16
Recoveries	140	398	331	45	181	451	—	1,5
Transfer from covered category	36	813	51	—	833	4	—	1,7
Provisions	4,822	(5,559)	(1,387)	2,760	5,555	597	299	7,0
Ending balance	$8,391	6,470	9,720	3,731	9,045	841	147	38,
Ending balances as of December 31, 2014: Allowance for loan losses								
Individually evaluated for impairment	$211	415	1,686	—	165	—	—	2,4
Collectively evaluated for impairment	$8,180	6,055	8,034	3,731	8,880	841	147	35,
Loans acquired with deteriorated credit quality	$—	—	—	—	—	—	—	—
Loans receivable as of December 31, 2014:								
Ending balance – total	$166,728	257,515	846,833	198,577	754,785	43,196	—	2,2
Unamortized net deferred loan costs								94
Total non-covered loans								$2,2
Ending balances as of December 31, 2014: Loans								
Individually evaluated for impairment	$784	7,991	20,263	476	20,263	7	—	53,
Collectively evaluated for impairment	$165,944	249,524	733,875	198,101	733,875	43,189	—	2,2
Loans acquired with deteriorated credit quality	$—	—	—	—	647	—	—	64

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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	Tota
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,
Charge-offs	(840)	(470)	(874)	(116)	(987)	(463)	—	(3,
Recoveries	32	40	111	7	14	128	—	332
Transfer from covered category	36	813	51	—	833	4	—	1,7
Provisions	1,185	(574)	(194)	49	971	343	(501)	1,2
Ending balance	$9,361	7,223	10,226	3,695	10,043	918	98	41,
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,
Charge-offs	(3,506)	(1,704)	(2,505)	(619)	(1,876)	(1,262)	—	(11
Recoveries	81	349	290	18	135	361	—	1,2
Transfer from covered category	36	813	51	—	833	4	—	1,7
Provisions	5,318	(5,201)	(2,752)	2,458	5,427	302	250	5,8
Ending balance	$9,361	7,223	10,226	3,695	10,043	918	98	41,
Ending balances as of September 30, 2014: Allowance for loan losses								
Individually evaluated for impairment	$381	513	1,771	—	229	20	—	2,9
Collectively evaluated for impairment	$8,980	6,710	8,455	3,695	9,814	898	98	38,
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	—	2,2
Unamortized net deferred loan costs								730
Total non-covered loans								$2,2
Ending balances as of September 30, 2014: Loans								

Individually evaluated for impairment	$972	8,613	24,233	481	20,128	34	—	54,
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	—	—	66

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

($ in thousands)	Covered Loans
As of and for the three months ended September 30, 2015	
Beginning balance	$ 1,935
Charge-offs	(84)
Recoveries	1,730
Provisions	(1,681)
Ending balance	$ 1,900
As of and for the nine months ended September 30, 2015	
Beginning balance	$ 2,281
Charge-offs	(1,200)
Recoveries	2,928
Provisions	(2,109)
Ending balance	$ 1,900
Ending balances as of September 30, 2015: Allowance for loan losses	
Individually evaluated for impairment	$ 466
Collectively evaluated for impairment	1,391
Loans acquired with deteriorated credit quality	43
Loans receivable as of September 30, 2015:	
Ending balance – total	$ 106,609
Ending balances as of September 30, 2015: Loans	
Individually evaluated for impairment	$ 5,197
Collectively evaluated for impairment	99,892
Loans acquired with deteriorated credit quality	1,520

The following table presents the activity in the allowance for loan losses for covered loans for the year ended December 31, 2014.

($ in thousands)	Covered Loans
As of and for the year ended December 31, 2014	
Beginning balance	$ 4,242
Charge-offs	(6,948)

Recoveries	3,616
Transferred to non-covered	(1,737)
Provisions	3,108
Ending balance	$ 2,281

Ending balances as of December 31, 2014: Allowance for loan losses

Individually evaluated for impairment	$ 1,161
Collectively evaluated for impairment	1,046
Loans acquired with deteriorated credit quality	74

Loans receivable as of December 31, 2014:

Ending balance – total	$ 127,594

Ending balances as of December 31, 2014: Loans

Individually evaluated for impairment	$ 11,484
Collectively evaluated for impairment	114,160
Loans acquired with deteriorated credit quality	1,950

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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

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The following table presents loans individually evaluated for impairment by class of loans as of September 30, 2015.

($ 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	$ 271	311	—	102
Commercial - secured	92	95	—	56
Secured by inventory and accounts receivable	—	—	—	—
Real estate – construction, land development & other land loans	3,729	7,090	—	4,716
Real estate – residential, farmland, and multi-family	9,466	10,839	—	9,548
Real estate – home equity lines of credit	—	—	—	119
Real estate – commercial	12,531	14,149	—	15,731
Consumer	—	—	—	2
Total non-covered impaired loans with no allowance	$ 26,089	32,484	—	30,274
Total covered impaired loans with no allowance	$ 3,742	7,380	—	5,701
Total impaired loans with no allowance recorded	$ 29,831	39,864	—	35,975
Non-covered loans with an allowance recorded:				
Commercial, financial, and agricultural:				
Commercial - unsecured	$ 148	155	43	139
Commercial - secured	475	496	92	538
Secured by inventory and accounts receivable	—	—	—	—
Real estate – construction, land development & other land loans	956	1,002	250	1,363
Real estate – residential, farmland, and multi-family	14,133	14,526	1,575	14,194
Real estate – home equity lines of credit	—	—	—	—
Real estate – commercial	4,721	4,793	449	3,608
Consumer	—	—	—	—
Total non-covered impaired loans with allowance	$ 20,433	20,972	2,409	19,842
Total covered impaired loans with allowance	$ 2,975	3,268	509	3,874
Total impaired loans with an allowance recorded	$ 23,408	24,240	2,918	23,716

Interest income recorded on non-covered and covered impaired loans during the nine months September 30, 2015 was insignificant.

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The following table presents loans individually evaluated for impairment by class of loans as of December 31, 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	$ 33	35	—	20
Commercial - secured	5	6	—	95
Secured by inventory and accounts receivable	—	—	—	—
Real estate – construction, land development & other land loans	6,877	7,944	—	6,430
Real estate – residential, farmland, and multi-family	9,165	10,225	—	7,776
Real estate – home equity lines of credit	476	498	—	388
Real estate – commercial	17,409	20,786	—	11,911
Consumer	7	10	—	7
Total non-covered impaired loans with no allowance	$ 33,972	39,504	—	26,627
Total covered impaired loans with no allowance	$ 8,097	12,081	—	16,986
Total impaired loans with no allowance recorded	$ 42,069	51,585	—	43,613
Non-covered loans with an allowance recorded:				
Commercial, financial, and agricultural:				
Commercial - unsecured	$ 140	143	47	142
Commercial - secured	606	612	164	550
Secured by inventory and accounts receivable	—	—	—	15
Real estate – construction, land development & other land loans	1,114	3,243	415	1,487
Real estate – residential, farmland, and multi-family	14,845	15,257	1,686	14,418
Real estate – home equity lines of credit	—	—	—	4
Real estate – commercial	3,501	3,530	165	6,420
Consumer	—	—	—	8
Total non-covered impaired loans with allowance	$ 20,206	22,785	2,477	23,044
Total covered impaired loans with allowance	$ 5,220	5,719	1,229	8,513
Total impaired loans with an allowance recorded	$ 25,426	28,504	3,706	31,557

Interest income recorded on non-covered and covered impaired loans during the year ended December 31, 2014 was insignificant.

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The Company tracks credit quality based on its internal risk ratings. Upon origination a loan is assigned an initial risk grade, which is generally based on several factors such as the borrower's credit score, the loan-to-value ratio, the debt-to-income ratio, etc. Loans that are risk-graded as substandard during the origination process are declined. After loans are initially graded, they are monitored 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	Loans with virtually no risk, including cash secured loans.
2	Loans with documented significant overall financial strength, including non-cash secured or unsecured loans that have no minor or major exceptions to the lending guidelines.
3	Loans with documented satisfactory overall financial strength, including non-cash secured or unsecured loans that have no major exceptions to the lending guidelines. If unsecured, loans would include support of a strong guarantor or co-maker.
4	Loans to borrowers with acceptable financial condition, including non-cash secured or unsecured loans that have minor or major exceptions to the lending guidelines, but the exceptions are properly mitigated. Primary or secondary source of repayment is sufficient and if secured, loan would include the support of a satisfactory guarantor or co-maker.
Watch or Standard:	
9	Existing 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.
Special Mention:	
5	Existing loans with major exceptions that cannot be mitigated. Potential for loss is possible.
Classified:	
6	Loans that have a well-defined weakness that may jeopardize the liquidation of the debt if deficiencies are not corrected. Loss is not only possible, but probable.
7	Loans that have a well-defined weakness that make the collection or liquidation improbable. Loss appears imminent, but the exact amount and timing is uncertain.
8	Loans that are considered uncollectible and are in the process of being charged-off. This grade is a temporary grade assigned for administrative purposes until the charge-off is completed.

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The following table presents the Company's recorded investment in loans by credit quality indicators as of September 30, 2015.

($ in thousands)	Credit Quality Indicator (Grouped by Internally Assigned Gr					
	Pass (Grades 1, 2, & 3)	Pass – Acceptable/ Average (Grade 4)	Watch or Standard Loans (Grade 9)	Special Mention Loans (Grade 5)	Classified Loans (Grades 6, 7, & 8)	Nonac Loans
Non-covered loans:						
Commercial, financial, and agricultural:						
Commercial - unsecured	$28,490	19,737	—	1,161	671	470
Commercial - secured	54,927	55,401	32	3,224	2,250	2,253
Secured by inventory and accounts receivable	13,154	19,525	—	273	591	84
Real estate – construction, land development & other land loans	96,745	151,784	679	12,355	8,467	5,374
Real estate – residential, farmland, and multi-family	213,179	535,203	4,420	44,175	32,459	21,93
Real estate – home equity lines of credit	129,421	60,464	1,412	5,067	4,144	2,110
Real estate - commercial	281,428	461,060	8,102	26,880	11,959	9,762
Consumer	29,371	12,841	52	400	479	358
Total	$846,715	1,316,015	14,697	93,535	61,020	42,34
Unamortized net deferred loan costs						
Total non-covered loans						
Total covered loans	$12,332	61,065	253	8,505	19,081	5,373
Total loans	$859,047	1,377,080	14,950	102,040	80,101	47,72

At September 30, 2015, there was an insignificant amount of loans that were graded "8" with an accruing status.

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The following table presents the Company's recorded investment in loans by credit quality indicators as of December 31, 2014.

($ in thousands)	Credit Quality Indicator (Grouped by Internally Assigned Gr					
	Pass (Grades 1, 2, & 3)	Pass – Acceptable/ Average (Grade 4)	Watch or Standard Loans (Grade 9)	Special Mention Loans (Grade 5)	Classified Loans (Grades 6, 7, & 8)	Nonac Loans
Non-covered loans:						
Commercial, financial, and agricultural:						
Commercial - unsecured	$17,856	15,649	5	1,356	2,231	187
Commercial - secured	32,812	62,361	62	4,481	4,331	2,927
Secured by inventory and accounts receivable	10,815	9,928	—	767	506	454
Real estate – construction, land development & other land loans	87,806	135,072	771	13,066	12,909	7,891
Real estate – residential, farmland, and multi-family	221,581	520,790	4,536	40,993	34,474	24,45
Real estate – home equity lines of credit	122,528	62,642	1,135	5,166	4,533	2,573
Real estate - commercial	223,197	465,395	9,057	30,318	15,748	11,07
Consumer	25,520	15,614	54	855	648	505
Total	$742,115	1,287,451	15,620	97,002	75,380	50,06
Unamortized net deferred loan costs						
Total non-covered loans						
Total covered loans	$14,349	70,989	632	10,503	20,613	10,50
Total loans	$756,464	1,358,440	16,252	107,505	95,993	60,57

At December 31, 2014, 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, 2015 and 2014 related to interest rate reductions combined with restructured amortization schedules. The Company does not generally grant principal forgiveness.

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

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The following table presents information related to loans modified in a troubled debt restructuring during the three months ended September 30, 2015 and 2014.

($ in thousands)	For the three months ended September 30, 2015			For the three months ended September 30, 2014		
	Number of Contracts	Pre-Modification Restructured Balances	Post-Modification Restructured Balances	Number of Contracts	Pre-Modification Restructured Balances	Post-Modification Restructured Balances
Non-covered TDRs – Accruing						
Commercial, financial, and agricultural:						
Commercial – unsecured	—	$ —	$ —	—	$ —	$ —
Commercial – secured	—	—	—	—	—	—
Secured by inventory and accounts receivable	—	—	—	—	—	—
Real estate – construction, land development & other land loans	1	235	235	—	—	—
Real estate – residential, farmland, and multi-family	1	21	21	1	36	36
Real estate – home equity lines of credit	—	—	—	—	—	—
Real estate – commercial	1	390	390	—	—	—
Consumer	—	—	—	—	—	—
Non-covered TDRs – Nonaccrual						
Commercial, financial, and agricultural:						
Commercial – unsecured	—	—	—	—	—	—
Commercial – secured	—	—	—	1	15	15
Secured by inventory and accounts receivable	—	—	—	—	—	—
Real estate – construction, land development & other land loans	2	495	495	—	—	—
Real estate – residential, farmland, and multi-family	1	95	95	3	275	275
Real estate – home equity lines of credit	—	—	—	—	—	—
Real estate – commercial	—	—	—	—	—	—
Consumer	—	—	—	—	—	—
Total non-covered TDRs arising during period	6	1,236	1,236	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	6	$ 1,236	$ 1,236	8	$ 1,156	$ 1,138

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The following table presents information related to loans modified in a troubled debt restructuring during the nine months ended September 30, 2015 and 2014.

($ in thousands)	For the nine months ended September 30, 2015			For the nine months ended September 30, 2014		
	Number of Contracts	Pre-Modification Restructured Balances	Post-Modification Restructured Balances	Number of Contracts	Pre-Modification Restructured Balances	Post-Modification Restructured Balances
Non-covered TDRs – Accruing						
Commercial, financial, and agricultural:						
Commercial – unsecured	1	$ 8	$ 8	—	$ —	$ —
Commercial – secured	—	—	—	—	—	—
Secured by inventory and accounts receivable	—	—	—	—	—	—
Real estate – construction, land development & other land loans	1	235	235	—	—	—
Real estate – residential, farmland, and multi-family	3	286	286	8	784	784
Real estate – home equity lines of credit	—	—	—	—	—	—
Real estate – commercial	2	441	441	—	—	—
Consumer	—	—	—	—	—	—
Non-covered TDRs – Nonaccrual						
Commercial, financial, and agricultural:						
Commercial – unsecured	—	—	—	—	—	—
Commercial – secured	—	—	—	1	15	15
Secured by inventory and accounts receivable	—	—	—	—	—	—
Real estate – construction, land development & other land loans	2	495	495	—	—	—
Real estate – residential, farmland, and multi-family	5	400	400	7	713	713
Real estate – home equity lines of credit	—	—	—	—	—	—
Real estate – commercial	—	—	—	—	—	—
Consumer	—	—	—	—	—	—
Total non-covered TDRs arising during period	14	1,865	1,865	16	1,512	1,512
Total covered TDRs arising during period– Accruing	2	$ 139	$ 139	3	$ 928	$ 912
Total covered TDRs arising during period – Nonaccrual	—	—	—	7	860	827
Total TDRs arising during period	16	$ 2,004	$ 2,004	26	$ 3,300	$ 3,251

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Accruing restructured loans that were modified in the previous 12 months and that defaulted during the three months ended September 30, 2015 and 2014 are presented in the table below. The Company considers a loan to have defaulted when it becomes 90 or more days delinquent under the modified terms, has been transferred to nonaccrual status, or has been transferred to foreclosed real estate.

($ in thousands)	For the three months ended September 30, 2015			For the three months ended September 30, 2014		
	Number of Contracts	Recorded Investment		Number of Contracts	Recorded Investment	
Non-covered accruing TDRs that subsequently defaulted						
Commercial, financial, and agricultural:						
Commercial – unsecured	—	$	—	—	$	—
Real estate – construction, land development & other land loans	—		—	—		—
Real estate – residential, farmland, and multi-family	1		152	—		—
Real estate – commercial	—		—	—		—
Total non-covered TDRs that subsequently defaulted	1	$	152	—	$	—
Total accruing covered TDRs that subsequently defaulted	—	$	—	—	$	—
Total accruing TDRs that subsequently defaulted	1	$	152	—	$	—

Accruing restructured loans that were modified in the previous 12 months and that defaulted during the nine months ended September 30, 2015 and 2014 are presented in the table below.

($ in thousands)	For the nine months ended September 30, 2015			For the nine months ended September 30, 2014		
	Number of Contracts	Recorded Investment		Number of Contracts	Recorded Investment	
Non-covered accruing TDRs that subsequently defaulted						
Commercial, financial, and agricultural:						
Commercial – unsecured	1	$	7	—	$	—
Real estate – construction, land development & other land loans	—		—	1		5
Real estate – residential, farmland, and multi-family	2		186	—		—
Real estate – commercial	—		—	1		71
Total non-covered TDRs that subsequently defaulted	3	$	193	2	$	76
Total accruing covered TDRs that subsequently defaulted	—	$	—	—	$	—
Total accruing TDRs that subsequently defaulted	3	$	193	2	$	76

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Note 8 – Deferred Loan Costs

The amount of loans shown on the Consolidated Balance Sheets includes net deferred loan costs of approximately $765,000, $946,000, and $730,000 at September 30, 2015, December 31, 2014, and September 30, 2014, respectively.

Note 9 – FDIC Indemnification Asset

The FDIC indemnification asset is the estimated amount that the Company will receive from the FDIC under loss share agreements associated with two FDIC-assisted failed bank acquisitions. See page 40 of the Company's 2014 Annual Report on Form 10-K for a detailed explanation of this asset.

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

($ in thousands)	September 30, 2015	December 31, 2014	September 30, 2014
Receivable (payable) related to loss claims incurred (recoveries), not yet reimbursed, net	$(2,427)	6,899	5,957
Receivable related to estimated future claims on loans	9,522	14,933	17,932
Receivable related to estimated future claims on foreclosed real estate	554	737	1,439
FDIC indemnification asset	$7,649	22,569	25,328

Included in the receivable related to loss claims incurred, not yet reimbursed, at December 31, 2014, was $1.2 million related to two claims involving the same borrower. The FDIC initially denied both claims because the FDIC disagreed with the collection strategy that the Company undertook. During the second quarter of 2015, the Company and the FDIC reached an agreement to resolve this matter, as follows. One of the two claims amounting to $324,000 was accepted by the FDIC and the related loan remains subject to the loss share agreement, which provides that any future recoveries realized prior to June 30, 2017 are to be split on an 80%/20% basis with the FDIC (the FDIC receives 80%). For the other claim amounting to $886,000, the FDIC paid the Company $480,000 and the related loan was removed from the provisions of the loss share agreement. This will result in the Company retaining 100% of any future recoveries. As a result of this negotiated agreement, during the second quarter of 2015, the Company wrote off the $406,000 portion of the claim not being reimbursed by the FDIC, which is reflected in the "Other gains (losses)" line item in the Consolidated Statements of Income.

The following presents a rollforward of the FDIC indemnification asset since December 31, 2014.

($ in thousands)	
Balance at December 31, 2014	$22,569
Decrease related to favorable changes in loss estimates	(2,526)
Increase related to reimbursable expenses	1,031
Cash received	(8,758)
Decrease related to accretion of loan discount	(4,558)
Decrease related to settlement of disputed claims	(406)
Other	297
Balance at September 30, 2015	$7,649

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Note 10 – Goodwill and Other Intangible Assets

The following is a summary of the gross carrying amount and accumulated amortization of amortizable intangible assets as of September 30, 2015, December 31, 2014, and September 30, 2014 and the carrying amount of unamortized intangible assets as of those same dates.

	September 30, 2015		December 31, 2014		September 30, 2014	
($ in thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets:						
Customer lists	$ 678	539	678	505	678	495
Core deposit premiums	8,560	7,183	8,560	6,675	8,560	6,491
Total	$ 9,238	7,722	9,238	7,180	9,238	6,986
Unamortizable intangible assets:						
Goodwill	$ 65,835		65,835		65,835	

Amortization expense totaled $181,000 and $194,000 for the three months ended September 30, 2015 and 2014, respectively. Amortization expense totaled $541,000 and $582,000 for the nine months ended September 30, 2015 and 2014, respectively.

The following table presents the estimated amortization expense for the last quarter of calendar year 2015 and for each of the four calendar years ending December 31, 2019 and the estimated amount amortizable thereafter. These estimates are subject to change in future periods to the extent management determines it is necessary to make adjustments to the carrying value or estimated useful lives of amortized intangible assets.

($ in thousands)	Estimated Amortization Expense
October 1 to December 31, 2015	$ 180
2016	654
2017	404
2018	129
2019	122
Thereafter	27
Total	$ 1,516

Note 11 – Pension Plans

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

The Company recorded pension income totaling $300,000 and $264,000 for the three months ended September 30, 2015 and 2014, respectively, which primarily related to investment income from the Pension Plan's assets. The following table contains the components of the pension income.

	For the Three Months Ended September 30,					
($ in thousands)	2015 Pension Plan	2014 Pension Plan	2015 SERP	2014 SERP	2015 Total Both Plans	2014 Total Both Plans
Service cost – benefits earned during the period	$—	—	36	69	36	69
Interest cost	341	365	52	53	393	418
Expected return on plan assets	(713)	(695)	—	—	(713)	(695)
Amortization of transition obligation	—	—	—	—	—	—
Amortization of net (gain)/loss	—	—	(16)	(56)	(16)	(56)
Amortization of prior service cost	—	—	—	—	—	—
Net periodic pension cost (income)	$(372)	(330)	72	66	(300)	(264)

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The Company recorded pension income totaling $855,000 and $791,000 for the nine months ended September 30, 2015 and 2014, respectively, which primarily related to investment income from the Pension Plan's assets. The following table contains the components of the pension income.

	For the Nine Months Ended September 30,					
	2015	2014	2015	2014	2015 Total	2014 Total
($ in thousands)	Pension Plan	Pension Plan	SERP	SERP	Both Plans	Both Plans
Service cost – benefits earned during the period	$—	—	164	204	164	204
Interest cost	1,023	1,096	154	159	1,177	1,255
Expected return on plan assets	(2,133)	(2,084)	—	—	(2,133)	(2,084)
Amortization of transition obligation	—	—	—	—	—	—
Amortization of net (gain)/loss	—	—	(63)	(166)	(63)	(166)
Amortization of prior service cost	—	—	—	—	—	—
Net periodic pension cost (income)	$(1,110)	(988)	255	197	(855)	(791)

The Company's contributions to the Pension Plan are based on computations by independent actuarial consultants and are intended to be deductible for income tax purposes. The contributions are invested to provide for benefits under the Pension Plan. The Company does not expect to contribute to the Pension Plan in 2015.

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

Note 12 – Comprehensive Income

Comprehensive income is defined as the change in equity during a period for non-owner transactions and is divided into net income and other comprehensive income. Other comprehensive income includes revenues, expenses, gains, and losses that are excluded from earnings under current accounting standards. The components of accumulated other comprehensive income for the Company are as follows:

($ in thousands)	September 30, 2015	December 31, 2014	September 30, 2014
Unrealized gain (loss) on securities available for sale	$ (843)	(691)	(1,803)
Deferred tax asset (liability)	329	270	704
Net unrealized gain (loss) on securities available for sale	(514)	(421)	(1,099)
Additional pension asset (liability)	(320)	(257)	4,969

Deferred tax asset (liability)	124	100	(1,938)
Net additional pension asset (liability)	(196)	(157)	3,031
Total accumulated other comprehensive income (loss)	$ (710)	(578)	1,932

The following table discloses the changes in accumulated other comprehensive income (loss) for the nine months ended September 30, 2015 (all amounts are net of tax).

($ in thousands)	Unrealized Gain (Loss) on Securities Available for Sale	Additional Pension Asset (Liability)	Total
Beginning balance at January 1, 2015	$ (421)	(157)	(578)
Other comprehensive income (loss) before reclassifications	(94)	—	(94)
Amounts reclassified from accumulated other comprehensive income	1	(39)	(38)
Net current-period other comprehensive income (loss)	(93)	(39)	(132)
Ending balance at September 30, 2015	$ (514)	(196)	(710)

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The following table discloses the changes in accumulated other comprehensive income (loss) for the nine months ended September 30, 2014 (all amounts are net of tax).

($ in thousands)	Unrealized Gain (Loss) on Securities Available for Sale	Additional Pension Asset (Liability)	Total
Beginning balance at January 1, 2014	$ (1,232)	3,132	1,900
Other comprehensive income (loss) before reclassifications	613	—	613
Amounts reclassified from accumulated other comprehensive income	(480)	(101)	(581)
Net current-period other comprehensive income (loss)	133	(101)	32
Ending balance at September 30, 2014	$ (1,099)	3,031	1,932

Note 13 – Fair Value

Relevant accounting guidance establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value:

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

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

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

The following table summarizes the Company's financial instruments that were measured at fair value on a recurring and nonrecurring basis at September 30, 2015.

($ in thousands)

Description of Financial Instruments	Fair Value at September 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring				
Securities available for sale:				
Government-sponsored enterprise securities	$ 27,850	—	27,850	—
Mortgage-backed securities	125,836	—	125,836	—
Corporate bonds	24,948	—	24,948	—
Equity securities	131	—	131	—
Total available for sale securities	$ 178,765	—	178,765	—
Nonrecurring				
Impaired loans – covered	$ 2,466	—	—	2,466
Impaired loans – non-covered	18,415	—	—	18,415
Foreclosed real estate – covered	1,569	—	—	1,569
Foreclosed real estate – non-covered	9,304	—	—	9,304

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The following table summarizes the Company’s financial instruments that were measured at fair value on a recurring and nonrecurring basis at December 31, 2014.

($ in thousands)

Description of Financial Instruments	Fair Value at December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring				
Securities available for sale:				
Government-sponsored enterprise securities	$ 27,521	—	27,521	—
Mortgage-backed securities	129,510	—	129,510	—
Corporate bonds	865	—	865	—
Equity securities	122	—	122	—
Total available for sale securities	$ 158,018	—	158,018	—
Nonrecurring				
Impaired loans – covered	$ 3,991	—	—	3,991
Impaired loans – non-covered	18,035	—	—	18,035
Foreclosed real estate – covered	2,350	—	—	2,350
Foreclosed real estate – non-covered	9,771	—	—	9,771

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

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

The Company reviews the pricing methodologies utilized by the bond accounting provider to ensure the fair value determination is consistent with the applicable accounting guidance and that the investments are properly classified in the fair value hierarchy. Further, the Company validates the fair values for a sample of securities in the portfolio by comparing the fair values provided by the bond accounting provider to prices from other independent sources for the same or similar securities. The Company analyzes unusual or significant variances and conducts additional research with the portfolio manager, if necessary, and takes appropriate action based on its findings.

Impaired loans — Fair values for impaired loans in the above tables are measured on a non-recurring basis are based on the underlying collateral values securing the loans, adjusting for estimated selling costs, or the net present value of the cash flows expected to be received for such loans. Collateral may be in the form of real estate or business assets including equipment, inventory and accounts receivable. The vast majority of the collateral is real estate. The value of real estate collateral is determined using an income or market valuation approach based on an appraisal conducted by an independent, licensed third party appraiser (Level 3). The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable borrower’s financial statements if not considered significant. Likewise, values for inventory and accounts receivable collateral are based on borrower financial statement balances or aging reports on a discounted basis as appropriate (Level 3). Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Consolidated Statements of Income.

Foreclosed real estate – Foreclosed real estate, consisting of properties obtained through foreclosure or in satisfaction of loans, is reported at the lower of cost or fair value. Fair value is measured on a non-recurring basis and is based upon independent market prices or current appraisals that are generally prepared using an income or market valuation approach and conducted by an independent, licensed third party appraiser, adjusted for estimated selling costs (Level 3). At the time of foreclosure, any excess of the loan balance over the fair value of the real estate held as collateral is treated as a charge against the allowance for loan losses. For any real estate valuations subsequent to foreclosure, any excess of the real estate recorded value over the fair value of the real estate is treated as a foreclosed real estate write-down on the Consolidated Statements of Income.

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For Level 3 assets and liabilities measured at fair value on a recurring or non-recurring basis as of September 30, 2015, the significant unobservable inputs used in the fair value measurements were as follows:

($ in thousands)

Description	Fair Value at September 30, 2015	Valuation Technique	Significant Unobservable Inputs	General Range of Significant Unobservable Input Values
Impaired loans – covered	$ 2,466	Appraised value; PV of expected cash flows	Discounts to reflect current market conditions, ultimate collectability, and estimated costs to sell	0-10%
Impaired loans – non-covered	18,415	Appraised value; PV of expected cash flows	Discounts to reflect current market conditions, ultimate collectability, and estimated costs to sell	0-10%
Foreclosed real estate – covered	1,569	Appraised value; independent market prices	Discounts to reflect current market conditions and estimated costs to sell	0-10%
Foreclosed real estate – non-covered	9,304	Appraised value; independent market prices	Discounts to reflect current market conditions, abbreviated holding period and estimated costs to sell	0-40%

For Level 3 assets and liabilities measured at fair value on a recurring or non-recurring basis as of December 31, 2014, the significant unobservable inputs used in the fair value measurements were as follows:

($ in thousands)

Description	Fair Value at December 31, 2014	Valuation Technique	Significant Unobservable Inputs	General Range of Significant Unobservable Input Values
Impaired loans – covered	$ 3,991	Appraised value; PV of expected cash flows	Discounts to reflect current market conditions, ultimate collectability, and estimated costs to sell	0-10%
Impaired loans – non-covered	18,035	Appraised value; PV of expected cash flows	Discounts to reflect current market conditions, ultimate collectability, and estimated costs to sell	0-10%
Foreclosed real estate – covered	2,350	Appraised value; independent market prices	Discounts to reflect current market conditions and estimated costs to sell	0-10%
Foreclosed real estate – non-covered	9,771	Appraised value; independent market prices	Discounts to reflect current market conditions, abbreviated holding period and estimated costs to sell	0-40%

Transfers of assets or liabilities between levels within the fair value hierarchy are recognized when an event or change in circumstances occurs. There were no transfers between Level 1 and Level 2 for assets or liabilities measured on a recurring basis during the three or nine months ended September 30, 2015 or 2014.

For the nine months ended September 30, 2015, the decrease in the fair value of securities available for sale was $153,000, which is included in other comprehensive income (loss) (net of tax benefit of $60,000). For the nine months ended September 30, 2014, the increase in the fair value of securities available for sale was $218,000, which is included in other comprehensive income (net of tax expense of $85,000). Fair value measurement methods at September 30, 2015 and 2014 are consistent with those used in prior reporting periods.

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The carrying amounts and estimated fair values of financial instruments at September 30, 2015 and December 31, 2014 are as follows:

($ in thousands)	Level in Fair Value Hierarchy	September 30, 2015 Carrying Amount	September 30, 2015 Estimated Fair Value	December 31, 2014 Carrying Amount	December 31, 2014 Estimated Fair Value
Cash and due from banks, noninterest-bearing	Level 1	$52,788	52,788	81,068	81,068
Due from banks, interest-bearing	Level 1	165,271	165,271	171,248	171,248
Federal funds sold	Level 1	730	730	768	768
Securities available for sale	Level 2	178,765	178,765	158,018	158,018
Securities held to maturity	Level 2	160,048	162,858	178,687	182,411
Presold mortgages in process of settlement	Level 1	3,150	3,150	6,019	6,019
Total loans, net of allowance	Level 3	2,451,648	2,442,464	2,355,548	2,328,244
Accrued interest receivable	Level 1	9,008	9,008	8,920	8,920
FDIC indemnification asset	Level 3	7,649	7,541	22,569	21,856
Bank-owned life insurance	Level 1	56,557	56,557	55,421	55,421
Deposits	Level 2	2,707,753	2,707,338	2,695,906	2,696,153
Borrowings	Level 2	176,394	168,091	116,394	105,407
Accrued interest payable	Level 2	588	588	686	686

Fair value methods and assumptions are set forth below for the Company’s financial instruments.

Cash and Amounts Due from Banks, Federal Funds Sold, Presold Mortgages in Process of Settlement, Accrued Interest Receivable, and Accrued Interest Payable - The carrying amounts approximate their fair value because of the short maturity of these financial instruments.

Available for Sale and Held to Maturity Securities - Fair values are provided by a third-party and are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments or matrix pricing.

Loans - For nonimpaired loans, fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial, financial and agricultural, real estate construction, real estate mortgages and installment loans to individuals. Each loan category is further segmented into fixed and variable interest rate terms. The fair value for each category is determined by discounting scheduled future cash flows using current interest rates offered on loans with similar risk characteristics. Fair values for impaired loans are primarily based on estimated proceeds expected upon liquidation of the collateral or the present value of expected cash flows. Fair value for nonimpaired and impaired loans is presented net of the respective allowance for loan losses.

FDIC Indemnification Asset – Fair value is equal to the FDIC reimbursement rate of the expected losses to be incurred and reimbursed by the FDIC and then discounted over the estimated period of receipt.

Bank-Owned Life Insurance – The carrying value of life insurance approximates fair value because this investment is carried at cash surrender value, as determined by the issuer.

Deposits - The fair value of deposits with no stated maturity, such as noninterest-bearing checking accounts, savings accounts, interest-bearing checking accounts, and money market accounts, is equal to the amount payable on demand as of the valuation date. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered in the marketplace for deposits of similar remaining maturities.

Borrowings - The fair value of borrowings is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered by the Company's lenders for debt of similar remaining maturities.

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

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

Note 14 – Shareholders' Equity Transactions

Small Business Lending Fund

On September 1, 2011, the Company completed the sale of $63.5 million of Series B Preferred Stock to the Secretary of the Treasury under the Small Business Lending Fund ("SBLF Stock"). The fund was established under the Small Business Jobs Act of 2010 that was created to encourage lending to small businesses by providing capital to qualified community banks with assets of less than $10 billion.

Under the terms of the stock purchase agreement, the Treasury received 63,500 shares of non-cumulative perpetual preferred stock with a liquidation value of $1,000 per share, in exchange for $63.5 million. On June 25, 2015, the Company redeemed $32 million (32,000 shares) of the outstanding SBLF Stock. The shares were redeemed at their liquidation value of $1,000 per share plus accrued dividends. As of September 30, 2015, the Company continued to have outstanding $31.5 million (31,500 shares) of SBLF Stock. See Note 15 for disclosure regarding a subsequent redemption of the remainder of the SBLF Stock.

The SBLF Stock qualified as Tier 1 capital. The dividend rate, as a percentage of the liquidation amount, fluctuated on a quarterly basis during the first 10 quarters during which the SBLF Stock was outstanding, based upon changes in the level of "Qualified Small Business Lending" or "QSBL". For the first nine quarters after issuance, the dividend rate could range from one percent (1%) to five percent (5%) per annum based upon the increase in QSBL as compared to the baseline. For the tenth calendar quarter through four and one half years after issuance (the "temporary fixed rate period"), the dividend rate was fixed at between one percent (1%) and seven percent (7%) based upon the level of the issuer's QSBL compared to the baseline. After four and one half years from the issuance, the dividend rate would increase to nine percent (9%). For quarters subsequent to the issuance in 2011, the Company was able to continually increase its level of small business lending and as a result, the dividend rate steadily decreased from 5.0% in 2011 to 1.0% in early 2013. From that point through redemption of the SBLF Stock, the Company was in the "temporary fixed rate period," in which the dividend rate was fixed at 1%.

For the three months ended September 30, 2015 and 2014, the Company accrued approximately $79,000 and $159,000, respectively, in preferred dividend payments for the Series B Preferred Stock. For the nine months ended September 30, 2015 and 2014, the Company accrued approximately $391,000 and $476,000, respectively, in preferred dividend payments for the SBLF Stock. This amount is deducted from net income in computing “Net income available to common shareholders.”

Series C Preferred Stock

On December 21, 2012, the Company issued 2,656,294 shares of its common stock and 728,706 shares of the Company’s Series C Preferred Stock to certain accredited investors, each at the price of $10.00 per share, pursuant to a private placement transaction. Net proceeds from this sale of common and preferred stock were $33.8 million and were used to strengthen and remove risk from the Company’s balance sheet in anticipation of a planned disposition of certain classified loans and write-down of foreclosed real estate.

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The Series C Preferred Stock qualifies as Additional Tier 1 capital and is Convertible Perpetual Preferred Stock, with dividend rights equal to the Company's Common Stock. Each share of Series C Preferred Stock will automatically convert into one share of Common Stock on the date the holder of Series C Preferred Stock transfers any shares of Series C Preferred Stock to a non-affiliate of the holder in certain permissible transfers. The Series C Preferred Stock is non-voting, except in limited circumstances.

The Series C Preferred Stock pays a dividend per share equal to that of the Company's common stock. During each of the third quarters of 2015 and 2014, the Company accrued approximately $58,000 in preferred dividend payments for the Series C Preferred Stock. During each of the first nine months of 2015 and 2014, the Company accrued approximately $175,000 in preferred dividend payments for the Series C Preferred Stock.

Note 15 – Subsequent Event

On October 16, 2015, the Company redeemed the remaining $31.5 million (31,500 shares) of the outstanding SBLF Stock. The shares were redeemed at their liquidation value of $1,000 per share plus accrued dividends. With this redemption, the Company has redeemed all of its SBLF Stock.

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

Critical Accounting Policies

The accounting principles we follow and our methods of applying these principles conform with accounting principles generally accepted in the United States of America and with general practices followed by the banking industry. Certain of these principles involve a significant amount of judgment and may involve the use of estimates based on our best assumptions at the time of the estimation. The allowance for loan losses, intangible assets, and the fair value and discount accretion of loans acquired in FDIC-assisted transactions are three policies we have identified as being more sensitive in terms of judgments and estimates, taking into account their overall potential impact to our consolidated financial statements.

Allowance for Loan Losses

Due to the estimation process and the potential materiality of the amounts involved, we have identified the accounting for the allowance for loan losses and the related provision for loan losses as an accounting policy critical to our consolidated financial statements. The provision for loan losses charged to operations is an amount sufficient to bring the allowance for loan losses to an estimated balance considered adequate to absorb losses inherent in the portfolio.

Our determination of the adequacy of the allowance is based primarily on a mathematical model that estimates the appropriate allowance for loan losses. This model has two components. The first component involves the estimation of losses on individually evaluated “impaired loans”. A loan is considered to be impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. A loan is specifically evaluated for an appropriate valuation allowance if the loan balance is above a prescribed evaluation threshold (which varies based on credit quality, accruing status, troubled debt restructured status, and type of collateral) and the loan is determined to be impaired. Factors considered by management in determining impairment include payment status, borrowers’ financial data, cash flow, and various other factors. The estimated valuation allowance is the difference, if any, between the loan balance outstanding and the value of the impaired loan as determined by either 1) an estimate of the cash flows that we expect to receive from the borrower discounted at the loan’s effective rate, or 2) in the case of a collateral-dependent loan, the fair value of the collateral, less selling costs.

The second component of the allowance model is an estimate of losses for all loans not considered to be impaired loans (“general reserve loans”). General reserve loans are segregated into pools by loan type and risk grade, and estimated loss percentages are assigned to each loan pool, based on historical losses adjusted for any environmental factors used to reflect changes in the collectability of the portfolio not captured by the historical loss data. Loss percentages are based on a migration analysis in which loss rates are calculated based on an analysis of losses incurred on similar loan types and risk grades over the preceding three years.

The reserves estimated for individually evaluated impaired loans are then added to the reserve estimated for general reserve loans. This becomes our "allocated allowance." The allocated allowance is compared to the actual allowance for loan losses recorded on our books and any adjustment necessary for the recorded allowance to absorb losses inherent in the portfolio is recorded as a provision for loan losses. The provision for loan losses is a direct charge to earnings in the period recorded. Any remaining difference between the allocated allowance and the actual allowance for loan losses recorded on our books is our "unallocated allowance."

Loans covered under loss share agreements (referred to as "covered loans") are recorded at fair value at acquisition date. Therefore, amounts deemed uncollectible at acquisition date become a part of the fair value calculation and are excluded from the allowance for loan losses. Subsequent decreases in the amount expected to be collected result in a provision for loan losses with a corresponding increase in the allowance for loan losses. Subsequent increases in the amount expected to be collected are accreted into income over the life of the loan. Proportional adjustments are also recorded to the FDIC indemnification asset.

Although we use the best information available to make evaluations, future material adjustments may be necessary if economic, operational, or other conditions change. In addition, various regulatory agencies, as an integral part of their examination process, periodically review our allowance for loan losses. Such agencies may require us to recognize additions to the allowance based on the examiners' judgment about information available to them at the time of their examinations.

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For further discussion, see “Nonperforming Assets” and “Summary of Loan Loss Experience” below.

Intangible Assets

Due to the estimation process and the potential materiality of the amounts involved, we have also identified the accounting for intangible assets as an accounting policy critical to our consolidated financial statements.

When we complete an acquisition transaction, the excess of the purchase price over the amount by which the fair market value of assets acquired exceeds the fair market value of liabilities assumed represents an intangible asset. We must then determine the identifiable portions of the intangible asset, with any remaining amount classified as goodwill. Identifiable intangible assets associated with these acquisitions are generally amortized over the estimated life of the related asset, whereas goodwill is tested annually for impairment, but not systematically amortized. Assuming no goodwill impairment, it is beneficial to our future earnings to have a lower amount assigned to identifiable intangible assets and higher amount of goodwill as opposed to having a higher amount considered to be identifiable intangible assets and a lower amount classified as goodwill.

The primary identifiable intangible asset we typically record in connection with a whole bank or bank branch acquisition is the value of the core deposit intangible, whereas when we acquire an insurance agency, the primary identifiable intangible asset is the value of the acquired customer list. Determining the amount of identifiable intangible assets and their average lives involves multiple assumptions and estimates and is typically determined by performing a discounted cash flow analysis, which involves a combination of any or all of the following assumptions: customer attrition/runoff, alternative funding costs, deposit servicing costs, and discount rates. We typically engage a third party consultant to assist in each analysis. For the whole bank and bank branch transactions recorded to date, the core deposit intangibles have generally been estimated to have a life ranging from seven to ten years, with an accelerated rate of amortization. For insurance agency acquisitions, the identifiable intangible assets related to the customer lists were determined to have a life of ten to fifteen years, with amortization occurring on a straight-line basis.

Subsequent to the initial recording of the identifiable intangible assets and goodwill, we amortize the identifiable intangible assets over their estimated average lives, as discussed above. In addition, on at least an annual basis, goodwill is evaluated for impairment by comparing the fair value of our reporting units to their related carrying value, including goodwill (our community banking operation is our only material reporting unit). If the carrying value of a reporting unit were ever to exceed its fair value, we would determine whether the implied fair value of the goodwill, using a discounted cash flow analysis, exceeded the carrying value of the goodwill. If the carrying value of the goodwill exceeded the implied fair value of the goodwill, an impairment loss would be recorded in an amount equal to that excess. Performing such a discounted cash flow analysis would involve the significant use of estimates and assumptions.

In our 2014 goodwill impairment evaluation, we engaged a consulting firm that used various valuation techniques to assist us in concluding that our goodwill was not impaired. A similar analysis will be performed in the fourth quarter of 2015.

We review identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Our policy is that an impairment loss is recognized, equal to the difference between the asset's carrying amount and its fair value, if the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset. Estimating future cash flows involves the use of multiple estimates and assumptions, such as those listed above.

Fair Value and Discount Accretion of Loans Acquired in FDIC-Assisted Transactions

We consider the determination of the initial fair value of loans acquired in FDIC-assisted transactions, the initial fair value of the related FDIC indemnification asset, and the subsequent discount accretion of the purchased loans to involve a high degree of judgment and complexity. We determine fair value accounting estimates of newly assumed assets and liabilities in accordance with relevant accounting guidance. However, the amount that we realize on these assets could differ materially from the carrying value reflected in our financial statements, based upon the timing of collections on the acquired loans in future periods. To the extent the actual values realized for the acquired loans are different from the estimates, the FDIC indemnification asset will generally be impacted in an offsetting manner due to the loss-sharing support from the FDIC.

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Because of the inherent credit losses associated with the acquired loans in a failed bank acquisition, the amount that we record as the fair values for the loans is generally less than the contractual unpaid principal balance due from the borrowers, with the difference being referred to as the "discount" on the acquired loans. We have applied the cost recovery method of accounting to all purchased impaired loans due to the uncertainty as to the timing of expected cash flows. This will generally result in the recognition of interest income on these impaired loans only when the cash payments received from the borrower exceed the recorded net book value of the related loans.

For nonimpaired purchased loans, we accrete the discount over the lives of the loans in a manner consistent with the guidance for accounting for loan origination fees and costs.

FDIC Indemnification Asset

The FDIC indemnification asset is the estimated amount that the Company will receive from the FDIC under loss share agreements associated with two FDIC-assisted failed bank acquisitions. See page 40 of the Company's 2014 Annual Report on Form 10-K for a detailed explanation of this asset.

The following table presents additional information regarding our covered loans, loan discounts, allowances for loan losses and the corresponding FDIC indemnification asset:

($ in thousands) At September 30, 2015	Cooperative Single Family Loss Share Loans	Bank of Asheville Single Family Loss Share Loans	Bank of Asheville Non-Single Family Loss Share Loans	Total
Expiration of loss share agreement	6/30/2019	3/31/2021	3/31/2016	
Nonaccrual covered loans				
Unpaid principal balance	$ 3,425	802	5,846	10,073
Carrying value prior to loan discount*	3,236	642	3,538	7,416
Loan discount	397	402	1,244	2,043
Net carrying value	2,839	240	2,294	5,373
Allowance for loan losses	101	6	28	135
Indemnification asset recorded	308	247	253	808
All other covered loans				
Unpaid principal balance	91,016	7,062	17,532	115,610
Carrying value prior to loan discount*	90,885	6,983	17,519	115,387
Loan discount	12,224	1,266	661	14,151

Net carrying value	78,661	5,717	16,858	101,236	
Allowance for loan losses	1,327	55	383	1,765	
Indemnification asset recorded	7,596	933	194	8,723	
All covered loans					
Unpaid principal balance	94,441	7,864	23,378	125,683	
Carrying value prior to loan discount*	94,121	7,625	21,057	122,803	
Loan discount	12,621	1,668	1,905	16,194	
Net carrying value	81,500	5,957	19,152	106,609	
Allowance for loan losses	1,428	61	411	1,900	
Indemnification asset recorded	7,904	1,180	447	9,531	**
Foreclosed Properties					
Net carrying value	913	—	656	1,569	
Indemnification asset recorded	399	—	155	554	
For the Nine Months Ended September 30, 2015					
Loan discount accretion recognized	1,520	638	1,739	3,897	
Indemnification asset expense associated with the loan discount accretion recognized	2,198	540	1,820	4,558	

* Reflects partial charge-offs
** A present value adjustment of $9 reduces the carrying value of this asset to $9,522

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Current Accounting Matters

See Note 2 to the Consolidated Financial Statements above for information about accounting standards that we have recently adopted.

RESULTS OF OPERATIONS

Net income available to common shareholders for the third quarter of 2015 amounted to $6.9 million, or $0.34 per diluted common share, compared to the $5.4 million, or $0.27 per diluted common share, recorded in the third quarter of 2014. The higher earnings were primarily the result of a lower provision for loan losses.

For the nine months ended September 30, 2015, net income available to common shareholders amounted to $19.7 million, or $0.97 per diluted common share, compared to the $17.3 million, or $0.85 per diluted common share, for the nine months ended September 30, 2014. The higher earnings were primarily the result of a lower provision for loan losses.

Net Interest Income and Net Interest Margin

Net interest income for the third quarter of 2015 amounted to $30.4 million, a 3.1% decrease from the $31.3 million recorded in the third quarter of 2014. Net interest income for the first nine months of 2015 amounted to $89.7 million, a 10.9% decrease from the $100.7 million recorded in the comparable period of 2014.

Our net interest margin (tax-equivalent net interest income divided by average earning assets) in the third quarter of 2015 was 4.14% compared to 4.30% for the third quarter of 2014. For the nine month period ended September 30, 2015, the Company’s net interest margin was 4.16% compared to 4.69% for the same period in 2014. The lower margins in 2015 compared to 2014 were primarily due to lower amounts of discount accretion on loans purchased in failed-bank acquisitions – see additional discussion below. Loan discount accretion amounted to $1.2 million in the third quarter of 2015 and $2.6 million in the third quarter of 2014. For the first nine months of 2015, loan discount accretion amounted to $3.9 million compared to $13.8 million for the first nine months of 2014. The lower amount of accretion is due to the continued winding down of the unaccreted discount amount that resulted from failed-bank acquisitions in 2009 and 2011.

We continue to experience lower loan yields due to the prolonged low interest rate environment, but began to invest our excess cash balances into higher yielding investment securities late in the fourth quarter of 2014, which has partially offset the lower loan yields. Investment securities totaled $339 million at September 30, 2015 compared to $207 million at September 30, 2014.

Our cost of funds has steadily declined from 0.28% in the third quarter of 2014 to 0.24% in the third quarter of 2015, which has had a positive impact on our net interest margin.

Provision for Loan Losses and Asset Quality

We recorded negative total provisions for loan losses (reduction of the allowance for loan losses) of $1.4 million in the third quarter of 2015 compared to provisions for loan losses of $1.5 million in the third quarter of 2014. For the nine months ended September 30, 2015, we recorded negative total provisions for loan losses of $0.7 million compared to provision for loan losses of $8.7 million for the same period of 2014. As discussed below, the provisions for loan losses related to both non-covered and covered loan portfolios – see explanation of the terms "non-covered" and "covered" in the section below entitled "Note Regarding Components of Earnings."

The provision for loan losses on non-covered loans amounted to $0.3 million in the third quarter of 2015 compared to $1.3 million in the third quarter of 2014. For the first nine months of 2015, the provision for loan losses on non-covered loans amounted to $1.4 million compared to $5.8 million for the same period of 2014. The lower provisions recorded in 2015 were primarily a result of continued favorable credit quality trends and generally improving economic trends.

We recorded a negative provision for loan losses on covered loans (reduction of allowance for loan losses) of $1.7 million in the third quarter of 2015 compared to a $0.2 million provision for loan losses in the third quarter of 2014. For the nine months ended September 30, 2015, we recorded a negative provision for loan losses on covered loans of $2.1 million compared to a $2.9 million provision for loan losses in the comparable period of 2014. The negative provisions in 2015 primarily resulted from lower levels of covered nonperforming loans, declining levels of total covered loans, and net loan recoveries (recoveries, net of charge-offs) of $1.6 million and $1.7 million that were realized during the three and nine months ended September 30, 2015, respectively.

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Total non-covered nonperforming assets have declined in the past year, amounting to $80.9 million at September 30, 2015 (2.56% of total non-covered assets), $95.3 million at December 31, 2014 (3.09% of total non-covered assets), and $96.8 million at September 30, 2014 (3.17% of total non-covered assets). The decline in non-covered nonperforming assets is primarily due to on-going resolution of nonperforming assets and improving credit quality.

Total covered nonperforming assets have also declined in the past year, amounting to $10.8 million at September 30, 2015, $18.7 million at December 31, 2014 and $20.0 million at September 30, 2014. Over the past twelve months, the Company has resolved a significant amount of covered loans and has experienced strong property sales along the North Carolina coast, which is where most of our covered assets are located.

Noninterest Income

Total noninterest income was $3.5 million and $4.6 million for the three months ended September 30, 2015 and September 30, 2014, respectively. For the nine months ended September 30, 2015, noninterest income amounted to $13.0 million compared to $9.9 million for the nine months ended September 30, 2014.

Core noninterest income for the third quarter of 2015 was $7.3 million, a decrease of 6.2% from the $7.8 million reported for the third quarter of 2014. For the first nine months of 2015, core noninterest income amounted to $21.9 million, a 5.1% decrease from the $23.1 million recorded in the comparable period of 2014. Core noninterest income includes i) service charges on deposit accounts, ii) other service charges, commissions, and fees, iii) fees from presold mortgages, iv) commissions from financial product sales, and v) bank-owned life insurance income. The primary reason for the decrease in core noninterest income in 2015 was lower service charges on deposit accounts, which is discussed further in the section entitled “Components of Earnings.”

Noncore components of noninterest income resulted in a net decrease to income of $3.8 million in the third quarter of 2015 compared to a net decrease to income of $3.2 million in the third quarter of 2014. For the nine months ended September 30, 2015 and 2014, the Company recorded net decreases to income of $8.8 million and $13.2 million, respectively, related to the noncore components of noninterest income. The largest variances in noncore noninterest income related to gains (losses) on covered foreclosed properties and indemnification asset income (expense) – see discussion in the section entitled “Components of Earnings.”

Noninterest Expenses

Noninterest expenses amounted to $24.6 million in the third quarter of 2015 compared to $25.9 million recorded in the third quarter of 2014. Noninterest expenses for the nine months ended September 30, 2015 amounted to $72.6

million compared to $74.3 million recorded in the first nine months of 2014. The decreases in 2015 were mainly due to decreases in miscellaneous items of other operating expense. Also, included in noninterest expenses for the three and nine months ended September 30, 2014 were $0.9 million in charges related to the closure and consolidation of nine bank branches. Salaries expense has risen slightly in 2015 as a result of the hiring of additional staff to drive growth, as well as higher incentive compensation expense related to the Company’s performance.

Balance Sheet and Capital

Total assets at September 30, 2015 amounted to $3.3 billion, a 2.4% increase from a year earlier. Total loans at September 30, 2015 amounted to $2.5 billion, a 2.3% increase from a year earlier, and total deposits amounted to $2.7 billion at September 30, 2015, a 1.1% increase from a year earlier.

Investment securities totaled $338.8 million at September 30, 2015 compared to $207.1 million at September 30, 2014. Over the past 12 months, we have used a portion of our excess cash balances to purchase investment securities.

Non-covered loans amounted to $2.4 billion at September 30, 2015, an increase of $82.3 million from September 30, 2014. Non-covered loans increased $76.1 million, or 13.1% on an annualized basis, during the third quarter of 2015 as a result of ongoing internal initiatives to drive loan growth. Loans covered by FDIC loss share agreements amounted to $106.6 million at September 30, 2015 compared to $133.2 million at September 30, 2014 and are expected to continue to decline as those loans continue to pay down.

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The increase in total deposits at September 30, 2015 compared to September 30, 2014 was primarily due increases in checking, money market and savings accounts, which were partially offset by decreases in retail time deposits (“other time deposits > $100,000” and “other time deposits” in the accompanying tables) and brokered deposits. Time deposits are generally one of our most expensive funding sources, and thus the shift from this category has benefited our overall cost of funds.

On June 25, 2015, the Company redeemed $32 million (32,000 shares) of the outstanding Non-Cumulative Perpetual Preferred Stock, Series B (“SBLF Stock”) that had been issued to the United States Secretary of the Treasury in September 2011 related to the Company’s participation in the Small Business Lending Fund. On October 16, 2015, the remaining $31.5 million of SBLF Stock was redeemed, which ended the Company’s participation in the Small Business Lending Fund.

We remain well-capitalized by all regulatory standards, with a Total Risk-Based Capital Ratio at September 30, 2015 of 15.99% compared to the 10.00% minimum to be considered well-capitalized. Our tangible common equity to tangible assets ratio was 8.27% at September 30, 2015, an increase of 41 basis points from a year earlier.

Note Regarding Components of Earnings

Our results of operation are significantly affected by the on-going accounting for two FDIC-assisted failed bank acquisitions. In the discussion above and elsewhere in this document, the term “covered” is used to describe assets included as part of FDIC loss share agreements, which generally result in the FDIC reimbursing the Company for 80% of losses incurred on those assets. The term “non-covered” refers to the Company’s legacy assets, which are not included in any type of loss share arrangement.

For covered loans that deteriorate in terms of repayment expectations, we record immediate allowances through the provision for loan losses. For covered loans that experience favorable changes in credit quality compared to what was expected at the acquisition date, including loans that payoff, we record positive adjustments to interest income over the life of the respective loan – also referred to as loan discount accretion. For covered foreclosed properties that are sold at gains or losses or that are written down to lower values, we record the gains/losses within noninterest income.

The adjustments discussed above are recorded within the income statement line items noted without consideration of the FDIC loss share agreements. Because favorable changes in covered assets result in lower expected FDIC claims, and unfavorable changes in covered assets result in higher expected FDIC claims, the FDIC indemnification asset is adjusted to reflect those expectations. The net increase or decrease in the indemnification asset is reflected within noninterest income.

The adjustments noted above can result in volatility within individual income statement line items. Because of the FDIC loss share agreements and the associated indemnification asset, pretax income resulting from amounts recorded as provisions for loan losses on covered loans, discount accretion, and losses from covered foreclosed properties is generally only impacted by 20% of these amounts due to the corresponding adjustments made to the indemnification asset.

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Components of Earnings

Net interest income is the largest component of earnings, representing the difference between interest and fees generated from earning assets and the interest costs of deposits and other funds needed to support those assets. Net interest income for the three month period ended September 30, 2015 amounted to $30.4 million, a decrease of $1.0 million, or 3.1%, from the $31.3 million recorded in the third quarter of 2014. Net interest income on a tax-equivalent basis for the three month period ended September 30, 2015 amounted to $30.8 million, a decrease of $0.9 million, or 2.9%, from the $31.7 million recorded in the third quarter of 2014. We believe that analysis of net interest income on a tax-equivalent basis is useful and appropriate because it allows a comparison of net interest income amounts in different periods without taking into account the different mix of taxable versus non-taxable investments that may have existed during those periods.

	Three Months Ended September 30,	
($ in thousands)	2015	2014
Net interest income, as reported	$ 30,386	31,343
Tax-equivalent adjustment	419	378
Net interest income, tax-equivalent	$ 30,805	31,721

Net interest income for the nine month period ended September 30, 2015 amounted to $89.7 million, a decrease of $11.0 million, or 10.9%, from the $100.7 million recorded in the first nine months of 2014. Net interest income on a tax-equivalent basis for the nine month period ended September 30, 2015 amounted to $90.9 million, a decrease of $10.9 million, or 10.7%, from the $101.8 million recorded in the comparable period of 2014.

	Nine Months Ended September 30,	
($ in thousands)	2015	2014
Net interest income, as reported	$ 89,694	100,686
Tax-equivalent adjustment	1,211	1,126
Net interest income, tax-equivalent	$ 90,905	101,812

There are two primary factors that cause changes in the amount of net interest income we record - 1) changes in our loans and deposits balances, and 2) our net interest margin (tax-equivalent net interest income divided by average interest-earning assets).

For the three and nine months ended September 30, 2015, the lower net interest income compared to the same periods of 2014 was primarily due to a lower net interest margin (see discussion below).

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The following tables present net interest income analysis on a tax-equivalent basis for the periods indicated.

	For the Three Months Ended September 30,					
	2015			2014		
($ in thousands)	Average Volume	Average Rate	Interest Earned or Paid	Average Volume	Average Rate	Interest Earned or Paid
Assets						
Loans (1)	$2,453,580	4.83%	$29,863	$2,428,475	5.23%	$32,019
Taxable securities	314,816	2.10%	1,670	128,415	2.00%	646
Non-taxable securities (2)	52,299	6.63%	874	53,859	6.25%	848
Short-term investments, principally federal funds	130,943	0.43%	142	313,956	0.30%	239
Total interest-earning assets	2,951,638	4.38%	32,549	2,924,705	4.58%	33,752
Cash and due from banks	60,261			84,643		
Premises and equipment	75,127			76,305		
Other assets	157,489			141,307		
Total assets	$3,244,515			$3,226,960		
Liabilities						
Interest bearing checking	$568,901	0.06%	$81	$532,813	0.06%	$81
Money market deposits	578,751	0.13%	187	553,033	0.11%	160
Savings deposits	186,745	0.05%	24	177,087	0.05%	22
Time deposits >$100,000	395,597	0.66%	657	533,345	0.79%	1,058
Other time deposits	316,005	0.39%	308	379,605	0.43%	408
Total interest-bearing deposits	2,045,999	0.24%	1,257	2,175,883	0.32%	1,729
Borrowings	177,026	1.09%	487	116,773	1.03%	302
Total interest-bearing liabilities	2,223,025	0.31%	1,744	2,292,656	0.35%	2,031
Noninterest bearing checking	634,672			537,413		
Other liabilities	17,319			11,340		
Shareholders’ equity	369,499			385,551		
Total liabilities and shareholders’ equity	$3,244,515			$3,226,960		
Net yield on interest-earning assets and net interest income		4.14%	$30,805		4.30%	$31,721
Interest rate spread		4.07%			4.23%	
Average prime rate		3.25%			3.25%	

(1) Average loans include nonaccruing loans, the effect of which is to lower the average rate shown.

(2) Includes tax-equivalent adjustments of $419,000 and $378,000 in 2015 and 2014, respectively, to reflect the tax benefit that we receive related to tax-exempt securities, which carry interest rates lower than similar taxable investments due to their tax exempt status. This amount has been computed assuming a 39% tax rate and is reduced by the related nondeductible portion of interest expense.

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($ in thousands)	For the Nine Months Ended September 30, 2015 Average Volume	Average Rate	Interest Earned or Paid	2014 Average Volume	Average Rate	Interest Earned or Paid
Assets						
Loans (1)	$2,411,462	4.89%	$88,257	$2,442,069	5.61%	$102,481
Taxable securities	302,640	2.07%	4,693	161,675	2.09%	2,523
Non-taxable securities (2)	52,525	6.58%	2,586	53,917	6.29%	2,537
Short-term investments, principally federal funds	154,753	0.45%	523	245,038	0.32%	590
Total interest-earning assets	2,921,380	4.40%	96,059	2,902,699	4.98%	108,131
Cash and due from banks	63,563			83,071		
Premises and equipment	75,531			76,901		
Other assets	152,311			159,115		
Total assets	$3,212,785			$3,221,786		
Liabilities						
Interest bearing checking	$563,279	0.06%	$245	$532,409	0.06%	$241
Money market deposits	569,589	0.12%	528	554,363	0.11%	467
Savings deposits	183,909	0.05%	69	175,273	0.05%	66
Time deposits >$100,000	420,939	0.71%	2,236	561,003	0.81%	3,413
Other time deposits	328,823	0.40%	977	397,159	0.43%	1,283
Total interest-bearing deposits	2,066,539	0.26%	4,055	2,220,207	0.33%	5,470
Borrowings	138,152	1.06%	1,099	93,647	1.21%	849
Total interest-bearing liabilities	2,204,691	0.31%	5,154	2,313,854	0.37%	6,319
Noninterest bearing checking	605,892			514,445		
Other liabilities	16,745			12,650		
Shareholders' equity	385,457			380,837		
Total liabilities and shareholders' equity	$3,212,785			$3,221,786		
Net yield on interest-earning assets and net interest income		4.16%	$90,905		4.69%	$101,812
Interest rate spread		4.09%			4.62%	
Average prime rate		3.25%			3.25%	

(1) Average loans include nonaccruing loans, the effect of which is to lower the average rate shown.

(2) Includes tax-equivalent adjustments of $1,211,000 and $1,126,000 in 2015 and 2014, respectively, to reflect the tax benefit that we receive related to tax-exempt securities, which carry interest rates lower than similar taxable investments due to their tax exempt status. This amount has been computed assuming a 39% tax rate and is reduced by the related nondeductible portion of interest expense.

Average loans outstanding for the third quarter of 2015 were $2.454 billion, which was 1.0% higher than the average loans outstanding for the third quarter of 2014 ($2.428 billion). Average loans for the nine months ended September 30, 2015 were $2.411 billion, which was 1.3% less than the average loans outstanding for the nine months ended September 30, 2014 ($2.442 billion). The relatively unchanged average loan balances in 2015 were primarily a result of declines in our covered loan portfolio offsetting organic loan growth in our non-covered loan portfolio. The average loan balance for the third quarter of 2015 was positively impacted by the $76 million in growth in our non-covered loans experienced during the quarter.

The mix of our loan portfolio remained substantially the same at September 30, 2015 compared to December 31, 2014, with approximately 91% of our loans being real estate loans, 7% being commercial, financial, and agricultural loans, and the remaining 2% being consumer installment loans. The majority of our real estate loans are personal and commercial loans where real estate provides additional security for the loan.

Average total deposits outstanding for the third quarter of 2015 were $2.681 billion, which was 1.2% less than the average deposits outstanding for the third quarter of 2014 ($2.713 billion). Average deposits outstanding for the nine months ended September 30, 2015 were $2.672 billion, which was 2.3% less than the average deposits outstanding for the nine months ended September 30, 2014 ($2.735 billion).

Average transaction deposit accounts (noninterest bearing checking, interest bearing checking, money market and savings accounts) increased from $1.776 billion for the first nine months of 2014 to $1.923 billion for the first nine months of 2015, representing growth of $147 million, or 8.2%. With the growth of our transaction deposit accounts, we were able to further reduce our reliance on higher cost sources of funding, especially time deposits. Average time deposits declined from $958 million for the first nine months of 2014 to $750 million for the first nine months of 2015, a decrease of $208 million, or 21.8%. This favorable change in funding mix was largely responsible for our average cost of interest bearing liabilities decreasing from 0.37% in the first nine months of 2014 to 0.31% in the first nine months of 2015. Our total cost of funds, which includes noninterest bearing checking accounts at a zero percent cost, was 0.25% for the first nine months of 2015 compared to 0.30% in the first nine months of 2014.

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See additional information regarding changes in the Company's loans and deposits in the section below entitled "Financial Condition."

Our net interest margin (tax-equivalent net interest income divided by average earning assets) for the third quarter of 2015 was 4.14% compared to 4.30% for the third quarter of 2014. For the nine month period ended September 30, 2015, our net interest margin was 4.16% compared to 4.69% for the same period in 2014. The lower margins were primarily a result of a lower amount of discount accretion on loans purchased in failed-bank acquisitions (see discussion below).

We continue to experience lower loan yields in 2015 due to the prolonged low interest rate environment, but began to invest our excess cash balances into higher yielding investment securities late in the fourth quarter of 2014, which has partially offset the lower loan yields.

Our net interest margin benefitted from the net accretion of purchase accounting premiums/discounts associated with the Cooperative acquisition that occurred in June 2009 and the acquisition of The Bank of Asheville in January 2011. For the three months ended September 30, 2015 and 2014, we recorded $1,205,000 and $2,577,000, respectively, in net accretion of purchase accounting premiums/discounts that increased net interest income. For the nine months ended September 30, 2015 and 2014, we recorded $3,897,000 and $13,745,000, respectively, in net accretion of purchase accounting premiums/discounts. The following table presents the detail of the purchase accounting adjustments that impacted net interest income.

$ in thousands	For the Three Months Ended Sept. 30, 2015	For the Three Months Ended Sept. 30, 2014	For the Nine Months Ended Sept. 30, 2015	For the Nine Months Ended Sept. 30, 2014
Interest income – reduced by premium amortization on loans	$ —	—	—	(98)
Interest income – increased by accretion of loan discount	1,205	2,577	3,897	13,836
Interest expense – reduced by premium amortization of deposits	—	—	—	7
Impact on net interest income	$ 1,205	2,577	3,897	13,745

See additional information regarding net interest income in the section entitled "Interest Rate Risk."

The decrease in discount accretion in 2015 is due to the unaccreted discount amount that resulted from aforementioned acquisitions continuing to wind down. Unaccreted loan discount has declined from $39.6 million at December 31, 2013 to $16.2 million at September 30, 2015.

We recorded total negative provisions for loan losses (reduction of allowance for loan losses) of $1.4 million in the third quarter of 2015 compared to total provisions for loan losses of $1.5 million in the third quarter of 2014. For the nine months ended September 30, 2015, we recorded total negative provisions for loan losses of $0.7 million compared to total provisions for loan losses of $8.7 million for the same period of 2014. As discussed below, we record provisions for loan losses related to both non-covered and covered loan portfolios – see explanation of the terms "non-covered" and "covered" in the section below entitled "Note Regarding Components of Earnings."

Our provision for loan losses on non-covered loans amounted to $0.3 million in the third quarter of 2015 compared to $1.3 million in the third quarter of 2014. For the first nine months of 2015, the provision for loan losses on non-covered loans amounted to $1.4 million compared to $5.8 million for the same period of 2014. The lower provisions recorded in 2015 were primarily a result of continued favorable credit quality trends and generally improving economic trends.

We recorded a negative provision for loan losses on covered loans (reduction of allowance for loan losses) of $1.7 million in the third quarter of 2015 compared to a $0.2 million provision for loan losses in the third quarter of 2014. For the nine months ended September 30, 2015, we recorded a negative provision for loan losses on covered loans of $2.1 million compared to a $2.9 million provision for loan losses in the comparable period of 2014. The negative provisions in 2015 primarily resulted from lower levels of covered nonperforming loans, net loan recoveries (recoveries, net of charge-offs), and declining levels of total covered loans.

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Total noninterest income was $3.5 million and $4.6 million for the three month periods ended September 30, 2015 and 2014, respectively. For the nine months ended September 30, 2015, noninterest income amounted to $13.0 million compared to $9.9 million for the nine months ended September 30, 2014.

As presented in the table below, core noninterest income for the third quarter of 2015 was $7.3 million, a decrease of 6.2% from the $7.8 million reported for the third quarter of 2014. For the first nine months of 2015, core noninterest income amounted to $21.9 million, a 5.1% decrease from the $23.1 million recorded in the comparable period of 2014. As noted above, core noninterest income includes i) service charges on deposit accounts, ii) other service charges, commissions, and fees, iii) fees from presold mortgages, iv) commissions from financial product sales, and v) bank-owned life insurance income.

The following table presents our core noninterest income for the three and nine month periods ending September 30, 2015 and 2014 respectively.

$ in thousands	For the Three Months Ended Sept. 30, 2015	For the Three Months Ended Sept. 30, 2014	For the Nine Months Ended Sept. 30, 2015	For the Nine Months Ended Sept. 30, 2014
Service charges on deposit accounts	$ 2,951	3,426	8,724	10,445
Other service charges, commissions, and fees	2,778	2,538	8,091	7,467
Fees from presold mortgages	481	807	2,020	2,204
Commissions from sales of insurance and financial products	691	685	1,917	1,985
Bank-owned life insurance income	382	311	1,136	956
Core noninterest income	$ 7,283	7,767	21,888	23,057

As shown in the table above, service charges on deposit accounts declined from $3.4 million in the third quarter of 2014 to $3.0 million in the third quarter of 2015. For the nine months ended September 30, 2015, service charges on deposit accounts amounted to $8.7 million, which is a $1.7 million decrease from the $10.4 million recorded in the comparable period of 2014. After the elimination of free checking for most customers with low balances in late 2013 which resulted in a strong increase in service charges in the first quarter of 2014, monthly fees earned on deposit accounts gradually declined thereafter as a result of more customers meeting the requirements to have the monthly service charge waived. Fewer instances of fees earned from customers overdrawing their accounts have also significantly impacted this line item.

Other service charges, commissions, and fees increased in 2015 compared to 2014, primarily as a result of higher debit card interchange fees. We earn a small fee each time a customer uses a debit card to make a purchase. Due to the growth in checking accounts and increased customer usage of debit cards, we have experienced increases in this line item. Interchange income from credits cards has also increased due to growth in the number and usage of credit cards, which we believe is a result of increased promotion of this product.

Fees from presold mortgages have declined in 2015 compared to 2014. These fees amounted to $0.5 million the third quarter of 2015 compared to the $0.8 million recorded in the third quarter of 2014. For the nine months ended September 30, 2015 and 2014, fees from presold mortgages amounted to $2.0 million and $2.2 million, respectively. The decline in the third quarter of 2015 was primarily due to our decision to hold for investment approximately $15 million more loans in 2015 compared to 2014 that met secondary mortgage market specifications in order to realize interest income.

Commissions from sales of insurance and financial products were consistent among the periods presented. These commissions amounted to approximately $0.7 million for each of the three months ended September 30, 2015 and 2014. For the nine months ended September 30, 2015, commissions from sales of insurance and financial products amounted to $1.9 million compared to $2.0 million in the comparable period of 2014.

Bank-owned life insurance income amounted to $0.4 million in the third quarter of 2015 compared to $0.3 million in the third quarter of 2014. For the nine months ended September 30, 2015, bank-owned life insurance income amounted to $1.1 million compared to $1.0 million for the nine months ended September 30, 2014. The increases in 2015 are a result of additional purchases of bank-owned life insurance in the third quarter of 2014.

Within the noncore components of noninterest income, we recorded net losses on non-covered foreclosed properties of $0.9 million and $0.8 million in the three months ended September 30, 2015 and 2014, respectively, and net losses of $1.9 million and $1.5 million for the nine months ended September 30, 2015 and 2014, respectively. We continue to actively pursue disposal of our foreclosed properties and, in some cases, we have been willing to accept reasonable levels of losses in order to do so.

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We recorded losses on covered foreclosed properties of $0.1 million during the three months ended September 30, 2015 compared to gains on covered foreclosed properties of $0.8 million during the three months ended September 30, 2014. During the nine months ended September 30, 2015 and 2014, we recorded gains of $0.4 million and losses of $2.5 million, respectively. Losses on covered foreclosed properties have generally been lower as we are holding significantly lower levels of covered foreclosed properties and we have seen recovery in property values, particularly along the coast of North Carolina, which is where most of our foreclosed properties are located.

Indemnification asset income (expense) is recorded to reflect additional (decreased) amounts expected to be received from the FDIC during the period related to covered assets. The three primary items that result in recording indemnification asset income (expense) are 1) income from loan discount accretion, which results in indemnification expense, 2) provisions for loan losses on covered loans, which result in indemnification income and 3) foreclosed property gains (losses) on covered assets, which also result in indemnification expense (income). In the third quarter of 2015, we recorded $2.9 million in indemnification asset expense compared to $3.2 million in indemnification asset expense in the third quarter of 2014. For the nine months ended September 30, 2015, indemnification asset expense amounted to $7.1 million compared to $9.7 million in indemnification asset expense for the same period of 2014. These variances are primarily due to lower indemnification asset expense associated with the lower loan discount accretion income recorded in the three and nine months ended September 30, 2015, as shown in the following table:

($ in millions)	For the Three Months Ended		For the Nine Months Ended	
	Sept. 30, 2015	Sept. 30, 2014	Sept. 30, 2015	Sept. 30, 2014
Indemnification asset expense associated with loan discount accretion income	$(1.4)	(2.6)	(4.6)	(13.0)
Indemnification asset income (expense) associated with loan losses (recoveries), net	(1.4)	0.0	(2.0)	1.7
Indemnification asset income (expense) associated with foreclosed property losses (gains), net	0.0	(0.6)	(0.3)	2.0
Other sources of indemnification asset income (expense)	(0.1)	—	(0.2)	(0.4)
Total indemnification asset income (expense)	$(2.9)	(3.2)	(7.1)	(9.7)

Securities gains/losses were insignificant for the three and nine months ended September 30, 2015 and were also insignificant for the three months ended September 30, 2104. For the nine month period ended September 30, 2014, we recorded $0.8 million in gains on sales of approximately $47.5 million in available for sale securities.

We recorded other gains of approximately $30,000 for each of the three month periods ended September 30, 2015 and 2014. We recorded other losses amounting to $0.2 million and $0.3 million for first nine months of 2015 and 2014, respectively. For 2015, the primary component of this line item is the $0.4 million write-off of a FDIC claim associated with a dispute settlement (see Note 9 for additional discussion), whereas in 2014, the net loss related primarily to losses on sales of vacated branch buildings.

Noninterest expenses amounted to $24.6 million in the third quarter of 2015, a 5.1% decline from the $25.9 million recorded in the third quarter of 2014. Noninterest expenses for the nine months ended September 30, 2015 amounted to $72.6 million, a decline of 2.2% from the $74.3 million recorded in the first nine months of 2014.

Personnel expense (salaries and employee benefits expense) was $14.6 million for the third quarter of 2015 compared to $14.3 million in the third quarter of 2014. For the nine months ended September 30, 2015 and 2014, personnel expense amounted to $42.2 million and $41.9 million respectively. The increases in 2015 are primarily as a result of the hiring of additional staff to drive growth, higher incentive compensation expense related to the Company's performance, and expense associated with retention-related grants of common stock made to certain officers in 2015.

The combined amount of occupancy and equipment expense decreased slightly when comparing 2015 to 2014, amounting to $2.7 million and $2.8 million in the third quarters of 2015 and 2014, respectively, and $8.3 million and $8.5 million in the first nine months of 2015 and 2014, respectively. The declines in 2015 are primarily the result of the closure of nine branches in the fourth quarter of 2014.

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Other operating expenses amounted to $7.1 million for the third quarter of 2015 compared to $8.6 million in the third quarter of 2014, and $21.6 million in the first nine months of 2015 compared to $23.3 million in the first nine months of 2014. The declines in 2015 are primarily due to – 1) $0.9 million in charges recorded in the third quarter of 2014 associated with the announced closure and consolidation of nine bank branches and 2) lower deposit insurance premium expense due to lower deposit insurance premium rates.

For the third quarter of 2015, the provision for income taxes was $3.7 million, an effective tax rate of 34.5%, compared to $3.0 million for the same period of 2014, which is an effective tax rate of 34.6%. For the first nine months of 2015, the provision for income taxes was $10.6 million, an effective tax rate of 34.4%, compared to $9.7 million for the same period of 2014, which was an effective tax rate of 35.1%. The slightly lower provisions in 2015 are due to higher amounts of non-taxable income and a decline in the statutory income tax rate in North Carolina.

We accrued total preferred stock dividends of $0.1 million and $0.2 million in the three month periods ended September 30, 2015 and 2014, respectively. For the first nine months of 2015 and 2014, we accrued preferred stock dividends of $0.6 million and $0.7 million, respectively. These amounts are deducted from net income in computing "net income available to common shareholders." Preferred dividends related to our Series B Preferred Stock and our Series C Preferred Stock. Our Series B Preferred Stock relates to $63.5 million in preferred stock that was issued to the U.S. Treasury in September 2011 in connection with our participation in the Small Business Lending Fund. From the September 2011 issuance date until December 31, 2013, the dividend rate on this stock was subject to fluctuation between 1% and 5% per anum based upon changes in the level of our "Qualified Small Business Lending" ("QSBL"). We were able to continually increase our levels of QSBL such that our dividend rate decreased to approximately 1.0% by the first quarter of 2013 and remained at that level through December 31, 2013, at which point the dividend rate became fixed at 1.0%. In June 2015, we redeemed $32.0 million of the Series B Preferred Stock, which reduced the amount of preferred stock dividends we accrued during the third quarter of 2015. In October 2015, we redeemed the remaining $31.5 million (31,500 shares) of the outstanding SBLF Stock. Our Series C Preferred Stock relates to the December 2012 issuance of 728,706 shares of preferred stock that pay dividends at the same rate as we pay to holders of our common stock.

The Consolidated Statements of Comprehensive Income reflect other comprehensive income of $349,000 for the third quarter of 2015 compared to other comprehensive loss of $86,000 for the third quarter of 2014. For the nine months ended September 30, 2015 and 2014, we recorded other comprehensive loss of $132,000 and other comprehensive income of $32,000, respectively. The primary component of other comprehensive income for the periods presented was changes in unrealized holding gains (losses) of our available for sale securities. Our available for sale securities portfolio is predominantly comprised of fixed rate bonds that generally increase in value when market yields for fixed rate bonds decrease and decline in value when market yields for fixed rate bonds increase. Management has evaluated any unrealized losses on individual securities at each period end and determined that there is no other-than-temporary impairment.

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FINANCIAL CONDITION

Total assets at September 30, 2015 amounted to $3.27 billion, a 2.4% increase from a year earlier. Total loans at September 30, 2015 amounted to $2.48 billion, a 2.3% increase from a year earlier, and total deposits amounted to $2.71 billion, a 1.1% increase from a year earlier.

The following table presents information regarding the nature of changes in our levels of loans and deposits for the twelve months ended September 30, 2015 and for the first nine months of 2015.

October 1, 2014 to September 30, 2015	Balance at beginning of period	Internal Growth, net (1)	Growth from Acquisitions	Balance at end of period	Total percentage growth	Internal percentage growth (1)
Loans – Non-covered	$2,292,841	82,253	—	2,375,094	3.6%	3.6%
Loans – Covered	133,249	(26,640)	—	106,609	-20.0%	-20.0%
Total loans	2,426,090	55,613	—	2,481,703	2.3%	2.3%
Deposits – Noninterest bearing checking	$540,349	94,938	—	635,287	17.6%	17.6%
Deposits – Interest bearing checking	538,815	71,093	—	609,908	13.2%	13.2%
Deposits – Money market	545,137	36,507	—	581,644	6.7%	6.7%
Deposits – Savings	178,260	9,347	—	187,607	5.2%	5.2%
Deposits – Brokered	99,169	(52,477)	—	46,692	-52.9%	-52.9%
Deposits – Internet time	1,967	(1,967)	—	—	-100.0%	-100.0%
Deposits – Time>$100,000	406,276	(68,062)	—	338,214	-16.8%	-16.8%
Deposits – Time<$100,000	369,039	(60,638)	—	308,401	-16.4%	-16.4%
Total deposits	$2,679,012	28,741	—	2,707,753	1.1%	1.1%
January 1, 2015 to September 30, 2015						
Loans – Non-covered	$2,268,580	106,514	—	2,375,094	4.7%	4.7%
Loans – Covered	127,594	(20,985)	—	106,609	-16.4%	-16.4%
Total loans	$2,396,174	85,529	—	2,481,703	3.6%	3.6%
Deposits – Noninterest bearing checking	$560,230	75,057	—	635,287	13.4%	13.4%
Deposits – Interest bearing checking	583,903	26,005	—	609,908	4.5%	4.5%
Deposits – Money market	548,255	33,389	—	581,644	6.1%	6.1%
Deposits – Savings	180,317	7,290	—	187,607	4.0%	4.0%
Deposits – Brokered	88,375	(41,683)	—	46,692	-47.2%	-47.2%
Deposits – Internet time	747	(747)	—	—	-100.0%	-100.0%
Deposits – Time>$100,000	384,127	(45,913)	—	338,214	-12.0%	-12.0%
Deposits – Time<$100,000	349,952	(41,551)	—	308,401	-11.9%	-11.9%
Total deposits	$2,695,906	11,847	—	2,707,753	0.4%	0.4%

(1)

Excludes the impact of acquisitions in the year of acquisition, but includes growth or declines in acquired operations after the date of acquisition.

As derived from the table above, for the twelve months ended September 30, 2015, total loans increased $55.6 million, or 2.3%, with internal non-covered loan growth of $82 million, or 3.6%, which was partially offset by a decline in covered loans of $27 million. For the first nine months of 2015, total loans increased $85.5 million, or 3.6%, with internal non-covered loan growth of $107 million, or 4.7%, which was partially offset by a decline in covered loans of $21 million. Over the past year and especially in the third quarter of 2015, we have seen positive results of loan growth initiatives at the Company. An improving economy has also contributed to the loan growth. Covered loans related to FDIC-assisted transactions continue to decline as those loans pay down or are otherwise resolved.

The mix of our loan portfolio remains substantially the same at September 30, 2015 compared to December 31, 2014. The majority of our real estate loans are personal and commercial loans where real estate provides additional security for the loan.

Note 7 to the Consolidated Financial Statements presents additional detailed information regarding our mix of loans, including a break-out between loans covered by FDIC loss share agreements and non-covered loans. Additionally, the section above titled “FDIC Indemnification Asset” contains detail of our covered loans and foreclosed properties segregated by each of the three remaining loss share agreements.

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For both the nine and twelve month periods ended September 30, 2015, we experienced net increases in total deposits, with declines in time deposits being offset by growth in transaction account balances (checking, money market, and savings). Time deposits are price sensitive, and with the growth experienced in our transaction accounts, we did not aggressively price our time deposits, nor renew maturing brokered deposits. Also impacting the mix of deposits is that some customers are shifting their funds from time deposits into transaction accounts at our company, which do not pay a materially lower interest rate, while being more liquid.

We obtained new borrowings of $60 million in the second quarter of 2015 from a low cost funding source in order to enhance our cash position and in anticipation of future loan growth. The average life of these new borrowings was approximately two years with a weighted average interest rate of 1.17%. Total borrowings at September 30, 2015 amounted to $176.4 million compared to $116.4 million a year earlier.

Nonperforming Assets

Nonperforming assets include nonaccrual loans, troubled debt restructurings, loans past due 90 or more days and still accruing interest, nonperforming loans held for sale, and foreclosed real estate. As previously discussed, as a result of two FDIC-assisted transactions, we entered into loss share agreements that afford us significant protection from losses from all loans and foreclosed real estate acquired in those acquisitions.

Because of the loss protection provided by the FDIC, the financial risk of the acquired loans and foreclosed real estate is significantly different from the risk associated with assets not covered under the loss share agreements. Accordingly, we present separately nonperforming assets subject to the loss share agreements as “covered” nonperforming assets, and nonperforming assets that are not subject to the loss share agreements as “non-covered.”

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Nonperforming assets are summarized as follows:

ASSET QUALITY DATA *($ in thousands)*	As of/for the quarter ended September 30, 2015	As of/for the quarter ended December 31, 2014	As of/for the quarter ended September 30, 2014
Non-covered nonperforming assets			
Nonaccrual loans	$ 42,347	50,066	53,620
Restructured loans – accruing	29,250	35,493	31,501
Accruing loans >90 days past due	—	—	—
Total non-covered nonperforming loans	71,597	85,559	85,121
Foreclosed real estate	9,304	9,771	11,705
Total non-covered nonperforming assets	$ 80,901	95,330	96,826
Covered nonperforming assets (1)			
Nonaccrual loans	$ 5,373	10,508	10,478
Restructured loans – accruing	3,825	5,823	6,273
Accruing loans > 90 days past due	—	—	—
Total covered nonperforming loans	9,198	16,331	16,751
Foreclosed real estate	1,569	2,350	3,237
Total covered nonperforming assets	$ 10,767	18,681	19,988
Total nonperforming assets	$ 91,668	114,011	116,814
Asset Quality Ratios – All Assets			
Net charge-offs to average loans - annualized	0.10%	0.82%	0.51%
Nonperforming loans to total loans	3.26%	4.25%	4.20%
Nonperforming assets to total assets	2.80%	3.54%	3.66%
Allowance for loan losses to total loans	1.21%	1.70%	1.82%
Allowance for loan losses to nonperforming loans	37.20%	39.87%	43.32%
Asset Quality Ratios – Based on Non-covered Assets only			
Net charge-offs to average non-covered loans - annualized	0.38%	0.78%	0.60%
Non-covered nonperforming loans to non-covered loans	3.01%	3.77%	3.71%
Non-covered nonperforming assets to total non-covered assets	2.56%	3.09%	3.17%
Allowance for loan losses to non-covered loans	1.19%	1.69%	1.81%
Allowance for loan losses to non-covered nonperforming loans	39.32%	44.82%	48.83%

(1) Covered nonperforming assets consist of assets that are included in loss share agreements with the FDIC.

We have reviewed the collateral for our nonperforming assets, including nonaccrual loans, and have included this review among the factors considered in the evaluation of the allowance for loan losses discussed below.

Consistent with the weak economy experienced in much of our market associated with the onset of the recession in 2008, we experienced higher levels of loan losses, delinquencies and nonperforming assets compared to our historical averages. While economic conditions have improved recently and our asset quality has steadily improved, we continue to have elevated levels of losses and nonperforming assets.

As shown in the table above, at September 30, 2015, total nonaccrual loans (covered and non-covered) amounted to $47.7 million, compared to $60.6 million at December 31, 2014 and $64.1 million at September 30, 2014. Non-covered nonaccrual loans were $42.3 million, $50.1 million, and $53.6 million at September 30, 2015, December 31, 2014 and September 30, 2014, respectively. Nonaccrual loans decreased during the first nine months of 2015 as we continue to focus on resolving our problem assets.

“Restructured loans – accruing”, or troubled debt restructurings (“TDRs”), are accruing loans for which we have granted concessions to the borrower as a result of the borrower’s financial difficulties. As seen in the table above “Asset Quality Data”, at September 30, 2015, total TDRs (covered and non-covered) amounted to $33.1 million, compared to $41.3 million at December 31, 2014 and $37.8 million at September 30, 2014.

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Foreclosed real estate includes primarily foreclosed properties. Non-covered foreclosed real estate has decreased over the past year, amounting to $9.3 million at September 30, 2015, $9.8 million at December 31, 2014, and $11.7 million at September 30, 2014.

At September 30, 2015, we also held $1.6 million in foreclosed real estate that is subject to the loss share agreements with the FDIC, which is a decline from $2.4 million at December 31, 2014 and $3.2 million at September 30, 2014. The decline is primarily due to increased property sales activity, particularly along the North Carolina coast, which is where most of our covered foreclosed properties are located.

The following is the composition, by loan type, of all of our nonaccrual loans (covered and non-covered) at each period end, as classified for regulatory purposes:

($ in thousands)	At September 30, 2015	At December 31, 2014	At September 30, 2014
Commercial, financial, and agricultural	$ 2,914	3,575	4,307
Real estate – construction, land development, and other land loans	6,471	10,079	13,158
Real estate – mortgage – residential (1-4 family) first mortgages	21,182	26,916	24,286
Real estate – mortgage – home equity loans/lines of credit	3,263	4,214	4,018
Real estate – mortgage – commercial and other	13,616	15,190	17,664
Installment loans to individuals	274	600	665
Total nonaccrual loans	$ 47,720	60,574	64,098

The following segregates our nonaccrual loans at September 30, 2015 into covered and non-covered loans, as classified for regulatory purposes:

($ in thousands)	Covered Nonaccrual Loans	Non-covered Nonaccrual Loans	Total Nonaccrual Loans
Commercial, financial, and agricultural	$ 23	2,891	2,914
Real estate – construction, land development, and other land loans	60	6,411	6,471
Real estate – mortgage – residential (1-4 family) first mortgages	3,083	18,099	21,182
Real estate – mortgage – home equity loans/lines of credit	377	2,886	3,263
Real estate – mortgage – commercial and other	1,830	11,786	13,616
Installment loans to individuals	—	274	274
Total nonaccrual loans	$ 5,373	42,347	47,720

The following segregates our nonaccrual loans at December 31, 2014 into covered and non-covered loans, as classified for regulatory purposes:

($ in thousands)	Covered Nonaccrual Loans	Non-covered Nonaccrual Loans	Total Nonaccrual Loans
Commercial, financial, and agricultural	$ 104	3,471	3,575
Real estate – construction, land development, and other land loans	1,140	8,939	10,079
Real estate – mortgage – residential (1-4 family) first mortgages	7,724	19,192	26,916
Real estate – mortgage – home equity loans/lines of credit	339	3,875	4,214
Real estate – mortgage – commercial and other	1,201	13,989	15,190
Installment loans to individuals	—	600	600
Total nonaccrual loans	$ 10,508	50,066	60,574

The tables above indicate declines in most categories of nonaccrual loans. The decreases reflect stabilization in most of our market areas and our increased focus on the resolution of our nonperforming assets.

We believe that the fair values of the items of foreclosed real estate, less estimated costs to sell, equal or exceed their respective carrying values at the dates presented. The following table presents the detail of all of our foreclosed real estate at each period end (covered and non-covered):

($ in thousands)	At September 30, 2015	At December 31, 2014	At September 30, 2014
Vacant land	$ 4,546	4,964	6,989
1-4 family residential properties	4,106	2,878	3,008
Commercial real estate	2,221	4,279	4,945
Total foreclosed real estate	$ 10,873	12,121	14,942

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The following segregates our foreclosed real estate at September 30, 2015 into covered and non-covered:

($ in thousands)	Covered Foreclosed Real Estate	Non-covered Foreclosed Real Estate	Total Foreclosed Real Estate
Vacant land	$ 552	3,994	4,546
1-4 family residential properties	642	3,464	4,106
Commercial real estate	375	1,846	2,221
Total foreclosed real estate	$ 1,569	9,304	10,873

The following segregates our foreclosed real estate at December 31, 2014 into covered and non-covered:

($ in thousands)	Covered Foreclosed Real Estate	Non-covered Foreclosed Real Estate	Total Foreclosed Real Estate
Vacant land	$ 639	4,325	4,964
1-4 family residential properties	866	2,012	2,878
Commercial real estate	845	3,434	4,279
Total foreclosed real estate	$ 2,350	9,771	12,121

The following table presents geographical information regarding our nonperforming assets at September 30, 2015.

	As of September 30, 2015				
($ in thousands)	Covered	Non-covered	Total	Total Loans	Nonperforming Loans to Total Loans
Nonaccrual loans and Troubled Debt Restructurings (1)					
Eastern Region (NC)	$6,055	15,370	21,425	$636,000	3.4%
Triangle Region (NC)	—	20,750	20,750	737,000	2.8%
Triad Region (NC)	—	15,421	15,421	332,000	4.6%
Charlotte Region (NC)	—	1,731	1,731	98,000	1.8%
Southern Piedmont Region (NC)	90	7,308	7,398	263,000	2.8%
Western Region (NC)	3,024	—	3,024	82,000	3.7%
South Carolina Region	29	2,811	2,840	112,000	2.5%
Virginia Region	—	8,206	8,206	200,000	4.1%
Other	—	—	—	22,000	0.0%
Total nonaccrual loans and troubled debt restructurings	$9,198	71,597	80,795	$2,482,000	3.3%
Foreclosed Real Estate (1)					
Eastern Region (NC)	$913	1,607	2,520		
Triangle Region (NC)	—	3,180	3,180		

Triad Region (NC)	—	1,373	1,373
Charlotte Region (NC)	—	883	883
Southern Piedmont Region (NC)	—	1,011	1,011
Western Region (NC)	656	—	656
South Carolina Region	—	952	952
Virginia Region	—	298	298
Other	—	—	—
Total foreclosed real estate	1,569	9,304	10,873

(1) The counties comprising each region are as follows:

Eastern North Carolina Region - New Hanover, Brunswick, Duplin, Dare, Beaufort, Pitt, Onslow, Carteret

Triangle North Carolina Region - Moore, Lee, Harnett, Chatham, Wake

Triad North Carolina Region - Montgomery, Randolph, Davidson, Rockingham, Guilford, Stanly

Charlotte North Carolina Region - Iredell, Cabarrus, Rowan, Mecklenburg

Southern Piedmont North Carolina Region - Anson, Richmond, Scotland, Robeson, Bladen, Columbus, Cumberland

Western North Carolina Region - Buncombe

South Carolina Region - Chesterfield, Dillon, Florence

Virginia Region - Wythe, Washington, Montgomery, Roanoke

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Summary of Loan Loss Experience

The allowance for loan losses is created by direct charges to operations (known as a “provision for loan losses” for the period in which the charge is taken). Losses on loans are charged against the allowance in the period in which such loans, in management’s opinion, become uncollectible. The recoveries realized during the period are credited to this allowance.

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

The weak economic environment that began in 2008 resulted in elevated levels of classified and nonperforming assets, which generally led to higher provisions for loan losses compared to historical averages. While we are seeing signs of a recovering economy in most of our market areas, it has been a gradual improvement. Although we continue to have an elevated level of past due and adversely classified assets compared to historic averages, we believe the severity of the loss rate inherent in our current inventory of classified loans is less than in recent years.

We recorded a negative total provision for loan losses (reduction of the allowance for loan losses) of $1.4 million for the third quarter of 2015 compared to a provision for loan losses of $1.5 million for the third quarter of 2014. For the nine months ended September 30, 2015, we recorded a negative total provision for loan losses of $0.7 million compared to a provision for loan losses of $8.7 million for the same period of 2014. The total provision for loan losses is comprised of provisions for loan losses for non-covered loans and provisions for loan losses for covered loans, as discussed in the following paragraphs.

The provision for loan losses on non-covered loans amounted to $0.3 million and $1.3 million in the third quarters of 2015 and 2014, respectively, and $1.4 million and $5.8 million for the first nine months of 2015 and 2014, respectively. The lower provision in 2015 was primarily the result of improved credit quality trends and generally improving economic trends, as discussed in the following paragraph.

Non-covered loan growth for the first nine months of 2015 was $107 million compared to almost no growth for the first nine months of 2014, which resulted in a larger incremental provision for the loan losses attributable to loan growth. However, offsetting this larger incremental provision were favorable trends in our asset quality. As shown in a table within Note 7 to the Consolidated Financial Statements, our total non-covered classified and nonaccrual loans decreased from $125 million at December 31, 2014 to $103 million at September 30, 2015. Additionally, our allowance for loan loss model utilizes the net charge-offs experienced in the most recent years as a significant component of estimating the current allowance for loan losses that is necessary. Thus, older years (and parts thereof) systematically age out and are excluded from the analysis as time goes on. Periods of high net charge-offs we experienced during the peak of the recession are now dropping out of the analysis and being replaced by the more modest levels of net charge-offs now being experienced. The third quarter of 2015 marked our eleventh consecutive quarter of annualized net charge-offs related to non-covered loans being less than 1.00%, whereas at the peak of the recession that ratio was frequently over 1.00%. In the near term, we expect that net charge-offs experienced in the next few quarters will continue to be less than those experienced in the recessionary periods that are dropping out of the analysis, and for that reason we expect our resulting provisions for loan losses to be favorably impacted.

We recorded negative provisions for loan losses on covered loans (reduction of the allowance for loan losses) of $1.7 million and $2.1 million during the three and nine months ended September 30, 2015, respectively, compared to provisions for loan losses of $0.2 million and $2.9 million for the same respective periods of 2014. The negative provisions in 2015 primarily resulted from lower levels of covered nonperforming loans, declining levels of total covered loans, and net loan recoveries (recoveries, net of charge-offs).

For the first nine months of 2015, we recorded $9.8 million in net charge-offs, compared to $13.1 million for the comparable period of 2014. The net charge-offs in 2015 included $1.7 million of net covered loan recoveries and $11.6 million of net non-covered loan charge-offs, whereas in 2014 net charge-offs included $2.9 million in net charge-offs of covered loans and $10.2 million in net charge-offs of non-covered loans.

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The allowance for loan losses amounted to $30.1 million at September 30, 2015, compared to $40.6 million at December 31, 2014 and $44.1 million at September 30, 2014. The allowance for loan losses for non-covered loans was $28.2 million, $38.3 million, and $41.6 million at September 30, 2015, December 31, 2014, and September 30, 2014 respectively. The ratio of our allowance for non-covered loans to total non-covered loans has declined from 1.81% at September 30, 2014 to 1.19% at September 30, 2015 as a result of the factors discussed above that impacted our provision for loan losses on non-covered loans.

At September 30, 2015, December 31, 2014, and September 30, 2014, the allowance for loan losses attributable to covered loans was $1.9 million, $2.3 million, and $2.6 million, respectively.

We believe our reserve levels are adequate to cover probable loan losses on the loans outstanding as of each reporting date. It must be emphasized, however, that the determination of the reserve using our procedures and methods rests upon various judgments and assumptions about economic conditions and other factors affecting loans. No assurance can be given that we will not in any particular period sustain loan losses that are sizable in relation to the amounts reserved or that subsequent evaluations of the loan portfolio, in light of conditions and factors then prevailing, will not require significant changes in the allowance for loan losses or future charges to earnings. See "Critical Accounting Policies – Allowance for Loan Losses" above.

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

For the periods indicated, the following table summarizes our balances of loans outstanding, average loans outstanding, changes in the allowance for loan losses arising from charge-offs and recoveries, and additions to the allowance for loan losses that have been charged to expense.

($ in thousands)	Nine Months Ended September 30, 2015	Twelve Months Ended December 31, 2014	Nine Months Ended September 30, 2014
Loans outstanding at end of period	$ 2,481,703	2,396,174	2,426,090
Average amount of loans outstanding	$ 2,411,462	2,434,331	2,442,069
Allowance for loan losses, at beginning of year	$ 40,626	48,505	48,505
Provision for loan losses	(737)	10,195	8,719
	39,889	58,700	57,224
Loans charged off:			

Commercial, financial, and agricultural	(2,885)	(5,179)	(4,387)
Real estate – construction, land development & other land loans	(3,232)	(6,071)	(5,531)
Real estate – mortgage – residential (1-4 family) first mortgages	(4,110)	(4,050)	(2,421)
Real estate – mortgage – home equity loans / lines of credit	(772)	(1,607)	(1,131)
Real estate – mortgage – commercial and other	(2,610)	(4,405)	(2,419)
Installment loans to individuals	(1,998)	(1,924)	(1,448)
Total charge-offs	(15,607)	(23,236)	(17,337)
Recoveries of loans previously charged-off:			
Commercial, financial, and agricultural	781	149	80
Real estate – construction, land development & other land loans	3,063	3,363	2,924
Real estate – mortgage – residential (1-4 family) first mortgages	551	646	451
Real estate – mortgage – home equity loans / lines of credit	129	100	68
Real estate – mortgage – commercial and other	928	446	356
Installment loans to individuals	321	458	365
Total recoveries	5,773	5,162	4,244
Net charge-offs	(9,834)	(18,074)	(13,093)
Allowance for loan losses, at end of period	$ 30,055	40,626	44,131
Ratios:			
Net charge-offs as a percent of average loans (annualized)	0.55%	0.74%	0.72%
Allowance for loan losses as a percent of loans at end of period	1.21%	1.70%	1.82%

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The following table discloses the activity in the allowance for loan losses for the nine months ended September 30, 2015, segregated into covered and non-covered.

($ in thousands)	Nine Months Ended September 30, 2015		
	Covered	Non-covered	Total
Loans outstanding at end of period	$ 106,609	2,375,094	2,481,703
Average amount of loans outstanding	$ 116,964	2,294,498	2,411,462
Allowance for loan losses, at beginning of year	$ 2,281	38,345	40,626
Provision (reversal) for loan losses	(2,109)	1,372	(737)
	172	39,717	39,889
Loans charged off:			
Commercial, financial, and agricultural	(111)	(2,774)	(2,885)
Real estate – construction, land development & other land loans	(559)	(2,673)	(3,232)
Real estate – mortgage – residential (1-4 family) first mortgages	(185)	(3,925)	(4,110)
Real estate – mortgage – home equity loans / lines of credit	(45)	(727)	(772)
Real estate – mortgage – commercial and other	(300)	(2,310)	(2,610)
Installment loans to individuals	—	(1,998)	(1,998)
Total charge-offs	(1,200)	(14,407)	(15,607)
Recoveries of loans previously charged-off:			
Commercial, financial, and agricultural	85	696	781
Real estate – construction, land development & other land loans	2,119	944	3,063
Real estate – mortgage – residential (1-4 family) first mortgages	310	241	551
Real estate – mortgage – home equity loans / lines of credit	25	104	129
Real estate – mortgage – commercial and other	382	546	928
Installment loans to individuals	7	314	321
Total recoveries	2,928	2,845	5,773
Net (charge-offs)/recoveries	1,728	(11,562)	(9,834)
Allowance for loan losses, at end of period	$ 1,900	28,155	30,055

The following table discloses the activity in the allowance for loan losses for the nine months ended September 30, 2014, segregated into covered and non-covered.

($ in thousands)	Nine Months Ended September 30, 2014		
	Covered	Non-covered	Total
Loans outstanding at end of period	$ 133,249	2,292,841	2,426,090
Average amount of loans outstanding	$ 177,741	2,264,328	2,442,069
Allowance for loan losses, at beginning of year	$ 4,242	44,263	48,505
Provision for loan losses	2,917	5,802	8,719
Transfer of covered allowance for loan losses to non-covered status	(1,737)	1,737	—

	5,422	51,802	57,224
Loans charged off:			
Commercial, financial, and agricultural	(1,086)	(3,301)	(4,387)
Real estate – construction, land development & other land loans	(3,715)	(1,816)	(5,531)
Real estate – mortgage – residential (1-4 family) first mortgages	(558)	(1,863)	(2,421)
Real estate – mortgage – home equity loans / lines of credit	(74)	(1,057)	(1,131)
Real estate – mortgage – commercial and other	(430)	(1,989)	(2,419)
Installment loans to individuals	(2)	(1,446)	(1,448)
Total charge-offs	(5,865)	(11,472)	(17,337)
Recoveries of loans previously charged-off:			
Commercial, financial, and agricultural	2	78	80
Real estate – construction, land development & other land loans	2,560	364	2,924
Real estate – mortgage – residential (1-4 family) first mortgages	244	207	451
Real estate – mortgage – home equity loans / lines of credit	—	68	68
Real estate – mortgage – commercial and other	204	152	356
Installment loans to individuals	—	365	365
Total recoveries	3,010	1,234	4,244
Net charge-offs	(2,855)	(10,238)	(13,093)
Allowance for loan losses, at end of period	$ 2,567	41,564	44,131

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Based on the results of our loan analysis and grading program and our evaluation of the allowance for loan losses at September 30, 2015, there have been no material changes to the allocation of the allowance for loan losses among the various categories of loans since December 31, 2014.

Liquidity, Commitments, and Contingencies

Our liquidity is determined by our ability to convert assets to cash or acquire alternative sources of funds to meet the needs of our customers who are withdrawing or borrowing funds, and to maintain required reserve levels, pay expenses and operate the Company on an ongoing basis. Our primary liquidity sources are net income from operations, cash and due from banks, federal funds sold and other short-term investments. Our securities portfolio is comprised almost entirely of readily marketable securities, which could also be sold to provide cash.

In addition to internally generated liquidity sources, we have the ability to obtain borrowings from the following four sources - 1) an approximately $582 million line of credit with the FHLB (of which $130 million was outstanding at September 30, 2015), 2) a $50 million overnight federal funds line of credit with a correspondent bank (of which none was outstanding at September 30, 2015), 3) a $35 million federal funds line of credit with a correspondent bank (of which none was outstanding at September 30, 2015), and 4) an approximately $94 million line of credit through the Federal Reserve Bank of Richmond’s discount window (of which none was outstanding at September 30, 2015). In addition to the outstanding borrowings from the FHLB that reduce the available borrowing capacity of that line of credit, our borrowing capacity was reduced by $193 million at both September 30, 2015 and September 30, 2014 as a result of our pledging letters of credit for public deposits at each of those dates. Unused and available lines of credit amounted to $438 million at September 30, 2015 compared to $288 million at December 31, 2014.

Our overall liquidity has remained relatively stable since September 30, 2014. Our liquid assets (cash and securities) as a percentage of our total deposits and borrowings were 19.7% at September 30, 2014, 21.2% at December 31, 2014 and 19.4% at September 30, 2015.

We believe our liquidity sources, including unused lines of credit, are at an acceptable level and remain adequate to meet our operating needs in the foreseeable future. We will continue to monitor our liquidity position carefully and will explore and implement strategies to increase liquidity if deemed appropriate.

The amount and timing of our contractual obligations and commercial commitments has not changed materially since December 31, 2014, detail of which is presented in Table 18 on page 88 of our 2014 Annual Report on Form 10-K.

We are not involved in any legal proceedings that, in our opinion, could have a material effect on our consolidated financial position.

Off-Balance Sheet Arrangements and Derivative Financial Instruments

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

Derivative financial instruments include futures, forwards, interest rate swaps, options contracts, and other financial instruments with similar characteristics. We have not engaged in significant derivative activities through September 30, 2015, and have no current plans to do so.

Capital Resources

We are regulated by the Board of Governors of the Federal Reserve System (the “FED”) and are subject to the securities registration and public reporting regulations of the SEC. Our banking subsidiary is regulated by the North Carolina Office of the Commissioner of Banks and until April 22, 2015, our bank subsidiary was also regulated by the Federal Deposit Insurance Corporation (“FDIC”). Effective April 22, 2015, our bank subsidiary became a member of the FED, and therefore, the Federal Reserve Bank replaced the FDIC as our bank’s primary federal regulator. We are not aware of any recommendations of regulatory authorities or otherwise which, if they were to be implemented, would have a material effect on our liquidity, capital resources, or operations.

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We must comply with regulatory capital requirements established by the FED. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Our capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The FED has approved the final rules implementing the Basel Committee on Banking Supervision capital guidelines, referred to a "Basel III." The final rules established a new "Common Equity Tier 1" ratio; new higher capital ratio requirements, including a capital conservation buffer; narrowed the definitions of capital; imposed new operating restrictions on banking organizations with insufficient capital buffers; and increased the risk weighting of certain assets. The final rules became effective January 1, 2015 for the Company. The capital conservation buffer requirement will be phased in beginning January 1, 2016, at 0.625% of risk weighted assets, increasing each year until fully implemented at 2.5% in January 1, 2019.

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

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

At September 30, 2015, our capital ratios exceeded the regulatory minimum ratios discussed above. The following table presents our capital ratios and the regulatory minimums discussed above for the periods indicated.

	September 30, 2015 (Based on Basel III)	December 31, 2014 (Pre-Basel III)	September 30, 2014 (Pre-Basel III)
Risk-based capital ratios:			
Common Equity Tier 1 to Tier 1 risk weighted assets	11.33%	n/a	n/a

Minimum required Common Equity Tier 1 capital	4.50%	n/a	n/a
Tier I capital to Tier 1 risk weighted assets	14.76%	16.35%	16.01%
Minimum required Tier 1 capital	6.00%	4.00%	4.00%
Total risk-based capital to Tier II risk weighted assets	15.99%	17.60%	17.27%
Minimum required total risk-based capital	8.00%	8.00%	8.00%
Leverage capital ratios:			
Tier 1 capital to quarterly average total assets	11.31%	11.61%	11.39%
Minimum required Tier 1 leverage capital	4.00%	4.00%	4.00%

Our bank subsidiary is also subject to capital requirements similar to those discussed above. The bank subsidiary's capital ratios do not vary materially from our capital ratios presented above. At September 30, 2015, our bank subsidiary exceeded the minimum ratios established by the regulatory authorities.

In the table above, the declines in our capital ratios at September 30, 2015 are as a result of the Company redeeming $32 million in Series B Preferred Stock in June 2015. See Note 14 to the Consolidated Financial Statements for additional discussion.

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In addition to regulatory capital ratios, we also closely monitor our ratio of tangible common equity to tangible assets ("TCE Ratio"). Our TCE ratio was 8.27% at September 30, 2015 compared to 7.90% at December 31, 2014 and 7.86% at September 30, 2014.

BUSINESS DEVELOPMENT MATTERS

The following is a list of business development and other miscellaneous matters affecting the Company and First Bank, our bank subsidiary.

- On September 15, 2015, the Company announced a quarterly cash dividend of $0.08 per share payable on October 23, 2015 to shareholders of record on September 30, 2015. This is the same dividend rate as the Company declared in the third quarter of 2014.

- On October 19, 2015, the Company opened a full-service branch located at 2939 Village Drive in Fayetteville, North Carolina. The Company previously had a loan production office in Fayetteville, North Carolina.

SHARE REPURCHASES

We did not repurchase any shares of our common stock during the first nine months of 2015. At September 30, 2015, we had approximately 214,000 shares available for repurchase under existing authority from our board of directors. We may repurchase these shares in open market and privately negotiated transactions, as market conditions and our liquidity warrants, subject to compliance with applicable regulations. See also Part II, Item 2 "Unregistered Sales of Equity Securities and Use of Proceeds."

Item 3 – Quantitative and Qualitative Disclosures About Market Risk

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

Net interest income is our most significant component of earnings. Notwithstanding changes in volumes of loans and deposits, our level of net interest income is continually at risk due to the effect that changes in general market interest rate trends have on interest yields earned and paid with respect to our various categories of earning assets and interest-bearing liabilities. It is our policy to maintain portfolios of earning assets and interest-bearing liabilities with maturities and repricing opportunities that will afford protection, to the extent practical, against wide interest rate fluctuations. Our exposure to interest rate risk is analyzed on a regular basis by management using standard GAP reports, maturity reports, and an asset/liability software model that simulates future levels of interest income and expense based on current interest rates, expected future interest rates, and various intervals of “shock” interest rates. Over the years, we have been able to maintain a fairly consistent yield on average earning assets (net interest margin). Over the past five calendar years, our net interest margin has ranged from a low of 4.39% (realized in 2010) to a high of 4.92% (realized in 2013). During that five year period, the prime rate of interest has consistently remained at 3.25% (which was the rate as of September 30, 2015). The consistency of the net interest margin is aided by the relatively low level of long-term interest rate exposure that we maintain. At September 30, 2015, approximately 76% of our interest-earning assets are subject to repricing within five years (because they are either adjustable rate assets or they are fixed rate assets that mature) and substantially all of our interest-bearing liabilities reprice within five years.

Using stated maturities for all fixed rate instruments except mortgage-backed securities (which are allocated in the periods of their expected payback) and securities and borrowings with call features that are expected to be called (which are shown in the period of their expected call), at September 30, 2015, we had approximately $876 million more in interest-bearing liabilities that are subject to interest rate changes within one year than earning assets. This generally would indicate that net interest income would experience downward pressure in a rising interest rate environment and would benefit from a declining interest rate environment. However, this method of analyzing interest sensitivity only measures the magnitude of the timing differences and does not address earnings, market value, or management actions. Also, interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. In addition to the effects of “when” various rate-sensitive products reprice, market rate changes may not result in uniform changes in rates among all products. For example, included in interest-bearing liabilities subject to interest rate changes within one year at September 30, 2015 are deposits totaling $1.4 billion comprised of checking, savings, and certain types of money market deposits with interest rates set by management. These types of deposits historically have not repriced with, or in the same proportion, as general market indicators.

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Overall, we believe that in the near term (twelve months), net interest income will not likely experience significant downward pressure from rising interest rates. Similarly, we would not expect a significant increase in near term net interest income from falling interest rates. Generally, when rates change, our interest-sensitive assets that are subject to adjustment reprice immediately at the full amount of the change, while our interest-sensitive liabilities that are subject to adjustment reprice at a lag to the rate change and typically not to the full extent of the rate change. In the short-term (less than six months), this results in us being asset-sensitive, meaning that our net interest income benefits from an increase in interest rates and is negatively impacted by a decrease in interest rates. However, in the twelve-month horizon, the impact of having a higher level of interest-sensitive liabilities lessens the short-term effects of changes in interest rates.

The general discussion in the foregoing paragraph applies most directly in a “normal” interest rate environment in which longer-term maturity instruments carry higher interest rates than short-term maturity instruments, and is less applicable in periods in which there is a “flat” interest rate curve. A “flat yield curve” means that short-term interest rates are substantially the same as long-term interest rates. As a result of the prolonged fragile economic environment that continued into 2014, the Federal Reserve took steps to suppress long-term interest rates in an effort to boost the housing market, increase employment, and stimulate the economy, which resulted in a flat interest rate curve. A flat interest rate curve is an unfavorable interest rate environment for many banks, including the Company, as short-term interest rates generally drive our deposit pricing and longer-term interest rates generally drive loan pricing. When these rates converge, the profit spread we realize between loan yields and deposit rates narrows, which pressures our net interest margin.

While there have been periods in the last few years that the yield curve has steepened somewhat, it currently remains relatively flat. This flat yield curve and the intense competition for high-quality loans in our market areas have limited our ability to charge higher rates on loans, and thus we continue to experience downward pressure on our loan yields and net interest margin.

As it relates to deposits, the Federal Reserve has made no changes to the short term interest rates it sets directly since 2008, and since that time we have been able to reprice many of our maturing time deposits at lower interest rates. We were also able to generally decrease the rates we paid on other categories of deposits as a result of declining short-term interest rates in the marketplace and an increase in liquidity that lessened our need to offer premium interest rates. However, as short-term rates are already near zero, it is unlikely that we will be able to continue the trend of reducing our funding costs in the same proportion as experienced in recent years.

As previously discussed in the section “Net Interest Income,” our net interest income has been impacted by certain purchase accounting adjustments related primarily to our acquisitions of Cooperative Bank and The Bank of Asheville. The purchase accounting adjustments related to the premium amortization on loans, deposits and borrowings are based on amortization schedules and are thus systematic and predictable. The accretion of the loan discount on loans acquired from Cooperative Bank and The Bank of Asheville, which amounted to $1.2 million and $2.6 million for the third quarters of 2015 and 2014, respectively, and $3.9 million and $13.8 million for the first nine months of 2015 and 2014, respectively, is less predictable and could be materially different among periods. This is because of the magnitude of the discounts that were initially recorded ($280 million in total) and the fact that the accretion being recorded is dependent on both the credit quality of the acquired loans and the impact of any accelerated loan repayments, including payoffs. If the credit quality of the loans declines, some, or all, of the remaining discount will cease to be accreted into income. If the underlying loans experience accelerated paydowns or improved performance expectations, the remaining discount will be accreted into income on an accelerated basis. In the event of total payoff, the remaining discount will be entirely accreted into income in the period of the payoff. Each of these factors is difficult to predict and susceptible to volatility. However, with the remaining loan discount on accruing loans having naturally declined since inception, amounting to $16.2 million at September 30, 2015, we expect that loan discount accretion, and the related indemnification asset expense associated with the accretion, will continue to decline in 2015. If that occurs, our net interest margin will be negatively impacted and our noninterest income will be positively impacted (due to the lower indemnification asset expense).

Based on our most recent interest rate modeling, which assumes no changes in interest rates for 2015 (federal funds rate = 0.25%, prime = 3.25%), we project that our net interest margin for the remainder of 2015 will experience some compression. We expect loan yields to continue to trend downwards, while many of our deposit products already have interest rates near zero.

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We have no market risk sensitive instruments held for trading purposes, nor do we maintain any foreign currency positions.

See additional discussion regarding net interest income, as well as discussion of the changes in the annual net interest margin in the section entitled "Net Interest Income" above.

Item 4 – Controls and Procedures

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

Part II. Other Information

Item 1 – Legal Proceedings

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

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

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (2)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
July 1, 2015 to July 31, 2015	—	—	—	214,241
August 1, 2015 to August 31, 2015	—	—	—	214,241
September 1, 2015 to September 30, 2015	—	—	—	214,241
Total	—	—	—	214,241

Footnotes to the Above Table

(1) All shares available for repurchase are pursuant to publicly announced share repurchase authorizations. On July 30, 2004, the Company announced that its board of directors had approved the repurchase of 375,000 shares of the Company’s common stock. The repurchase authorization does not have an expiration date. There are no plans or programs the Company has determined to terminate prior to expiration, or under which we do not intend to make further purchases.

(2) The table above does not include shares that were used by option holders to satisfy the exercise price of the call options issued by the Company to its employees and directors pursuant to the Company’s stock option plans. There were no such exercises during the three months ended September 30, 2015.

There were no unregistered sales of our securities during the three months ended September 30, 2015.

Item 6 - Exhibits

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

31.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.

31.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
32.1	Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following financial information from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, formatted in eXtensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Shareholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements.

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

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SIGNATURES

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

FIRST BANCORP

November 9, 2015 BY:/s/ Richard H. Moore
Richard H. Moore
President
(Principal Executive Officer),
Treasurer and Director

November 9, 2015 BY:/s/ Eric P. Credle
Eric P. Credle
Executive Vice President
and Chief Financial Officer