FIRST BANCORP /NC/
Form 10-Q
November 09, 2011

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, 2011

Commission File Number 0-15572

FIRST BANCORP
(Exact Name of Registrant as Specified in its Charter)

North Carolina (State or Other Jurisdiction of Incorporation or Organization)	56-1421916 (I.R.S. Employer Identification Number)
341 North Main Street, Troy, North Carolina (Address of Principal Executive Offices)	27371-0508 (Zip Code)
(Registrant's telephone number, including area code)	(910) 576-6171

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ý YES 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). ý 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	ý Accelerated Filer	o Non-Accelerated Filer (Do not check if a smaller reporting company)	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 ý NO

The number of shares of the registrant's Common Stock outstanding on October 31, 2011 was 16,897,382.

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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, 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. Such statements are often characterized by the use of qualifying words (and their derivatives) such as “expect,” “believe,” “estimate,” “plan,” “project,” other statements concerning our opinions or judgment about future events. 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 that could affect the matters discussed in this paragraph, see the “Risk Factors” section of our 2010 Annual Report on Form 10-K.

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Part I. Financial Information
Item 1 - Financial Statements

First Bancorp and Subsidiaries
Consolidated Balance Sheets

($ in thousands-unaudited)	September 30, 2011	December 31, 2010 (audited)	September 30, 2010
ASSETS			
Cash and due from banks, noninterest-bearing	$ 75,772	56,821	51,812
Due from banks, interest-bearing	167,053	154,320	246,771
Federal funds sold	659	861	21,092
Total cash and cash equivalents	243,484	212,002	319,675
Securities available for sale	159,870	181,182	143,047
Securities held to maturity (fair values of $61,512, $53,312, and $54,300)	57,533	54,018	51,661
Presold mortgages in process of settlement	3,823	3,962	3,226
Loans – non-covered	2,058,724	2,083,004	2,096,439
Loans – covered by FDIC loss share agreement	373,824	371,128	413,735
Total loans	2,432,548	2,454,132	2,510,174
Allowance for loan losses – non-covered	(34,397)	(38,275)	(44,999)
Allowance for loan losses – covered	(3,257)	(11,155)	–
Total allowance for loan losses	(37,654)	(49,430)	(44,999)
Net loans	2,394,894	2,404,702	2,465,175
Premises and equipment	69,862	67,741	54,039
Accrued interest receivable	11,568	13,579	13,135
FDIC indemnification asset	120,950	123,719	93,125
Goodwill	65,835	65,835	65,835
Other intangible assets	4,123	4,523	4,742
Other real estate owned – non-covered	32,673	21,081	17,475
Other real estate owned – covered	104,785	94,891	101,389
Other	33,298	31,697	27,813
Total assets	$ 3,302,698	3,278,932	3,360,337
LIABILITIES			
Deposits: Demand - noninterest-bearing	$ 334,109	292,759	290,388
NOW accounts	376,999	292,623	370,654
Money market accounts	506,013	500,360	492,983
Savings accounts	146,977	153,325	154,955
Time deposits of $100,000 or more	751,994	762,990	759,037
Other time deposits	613,312	650,456	683,465
Total deposits	2,729,404	2,652,513	2,751,482
Securities sold under agreements to repurchase	60,498	54,460	68,157

Borrowings	135,759	196,870	158,907
Accrued interest payable	1,938	2,082	2,421
Other liabilities	23,286	28,404	28,415
Total liabilities	2,950,885	2,934,329	3,009,382
Commitments and contingencies	–	–	–
SHAREHOLDERS' EQUITY			
Preferred stock, no par value per share. Authorized: 5,000,000 shares			
Issued and outstanding: 63,500, 65,000, and 65,000 shares	63,500	65,000	65,000
Discount on preferred stock	–	(2,932)	(3,146)
Common stock, no par value per share. Authorized: 40,000,000 shares			
Issued and outstanding: 16,884,617, 16,801,426, and 16,785,750 shares	100,926	99,615	99,303
Common stock warrants	4,592	4,592	4,592
Retained earnings	186,654	183,413	188,028
Accumulated other comprehensive income (loss)	(3,859)	(5,085)	(2,822)
Total shareholders' equity	351,813	344,603	350,955
Total liabilities and shareholders' equity	$ 3,302,698	3,278,932	3,360,337

See 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, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
INTEREST INCOME				
Interest and fees on loans	$ 37,200	36,897	112,471	112,724
Interest on investment securities:				
Taxable interest income	1,421	1,364	4,316	4,473
Tax-exempt interest income	500	414	1,499	1,177
Other, principally overnight investments	107	135	300	463
Total interest income	39,228	38,810	118,586	118,837
INTEREST EXPENSE				
Savings, NOW and money market	1,020	1,541	3,353	5,069
Time deposits of $100,000 or more	2,479	2,991	7,744	9,645
Other time deposits	1,651	2,713	5,587	8,762
Securities sold under agreements to repurchase	46	60	144	244
Borrowings	543	434	1,475	1,333
Total interest expense	5,739	7,739	18,303	25,053
Net interest income	33,489	31,071	100,283	93,784
Provision for loan losses – non-covered	6,441	8,391	21,618	24,017
Provision for loan losses – covered	2,705		9,805	
Total provision for loan losses	9,146	8,391	31,423	24,017
Net interest income after provision for loan losses	24,343	22,680	68,860	69,767
NONINTEREST INCOME				
Service charges on deposit accounts	3,429	3,350	10,038	10,408
Other service charges, commissions and fees	1,657	1,325	4,972	4,080
Fees from presold mortgages	468	404	1,109	1,216
Commissions from sales of insurance and financial products	383	325	1,147	1,087
Gain from acquisition			10,196	
Foreclosed property losses and write-downs – non-covered	(919)	(57)	(2,543)	(108)
Foreclosed property losses and write-downs – covered	(5,176)	(6,335)	(12,693)	(11,830)
FDIC indemnification asset income, net	3,589	5,068	10,455	9,464
Securities gains		1	74	25
Other gains (losses)	55	(124)	38	(154)
Total noninterest income	3,486	3,957	22,793	14,188
NONINTEREST EXPENSES				
Salaries	9,980	8,637	29,385	25,988
Employee benefits	3,086	2,672	9,242	7,745
Total personnel expense	13,066	11,309	38,627	33,733

Net occupancy expense	1,674	1,768	4,944	5,408
Equipment related expenses	1,089	1,044	3,261	3,246
Intangibles amortization	226	219	676	654
Merger expenses	12		606	
Other operating expenses	7,891	6,371	23,800	21,907
Total noninterest expenses	23,958	20,711	71,914	64,948
Income before income taxes	3,871	5,926	19,739	19,007
Income taxes	1,314	2,078	7,081	6,780
Net income	2,557	3,848	12,658	12,227
Preferred stock dividends	(815)	(812)	(2,440)	(2,437)
Accretion of preferred stock discount	(2,474)	(215)	(2,932)	(643)
Net income (loss) available to common shareholders	$ (732)	2,821	7,286	9,147
Earnings (loss) per common share:				
Basic	$ (0.04)	0.17	0.43	0.55
Diluted	(0.04)	0.17	0.43	0.54
Dividends declared per common share	$ 0.08	0.08	0.24	0.24
Weighted average common shares outstanding:				
Basic	16,875,918	16,779,554	16,843,716	16,754,678
Diluted	16,903,031	16,807,135	16,871,010	16,784,032

See 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, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Net income	$2,557	3,848	12,658	12,227
Other comprehensive income (loss):				
Unrealized gains on securities available for sale:				
Unrealized holding gains arising during the period, pretax	259	150	1,646	2,235
Tax benefit	(101)	(58)	(642)	(871)
Reclassification to realized gains	–	(1)	(74)	(25)
Tax expense	–	1	29	10
Postretirement Plans:				
Amortization of unrecognized net actuarial loss	140	164	420	398
Tax expense	(56)	(65)	(168)	(157)
Amortization of prior service cost and transition obligation	9	8	27	26
Tax expense	(4)	(3)	(12)	(11)
Other comprehensive income	247	196	1,226	1,605
Comprehensive income	$2,804	4,044	13,884	13,832

See 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	Preferred Stock Discount	Common Stock Shares	Common Stock Amount	Common Stock Warrants	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Share-holders' Equity
Balances, January 1, 2010	$ 65,000	(3,789)	16,722	$ 98,099	4,592	182,908	(4,427)	342,383
Net income						12,227		12,227
Common stock issued under stock option plans			17	171				171
Common stock issued into dividend reinvestment plan			31	456				456
Cash dividends declared ($0.24 per common share)						(4,026)		(4,026)
Preferred dividends						(2,438)		(2,438)
Accretion of preferred stock discount		643				(643)		–
Tax benefit realized from exercise of nonqualified stock options				36				36
Stock-based compensation			16	541				541
Other comprehensive income							1,605	1,605
Balances, September 30, 2010	$ 65,000	(3,146)	16,786	$ 99,303	4,592	188,028	(2,822)	350,955
Balances, January 1, 2011	$ 65,000	(2,932)	16,801	$ 99,615	4,592	183,413	(5,085)	344,603
Net income						12,658		12,658
	(65,000)							(65,000)

Preferred stock redeemed								
Preferred stock issued	63,500							63,500
Common stock issued under stock option plans			2	30				30
Common stock issued into dividend reinvestment plan			53	638				638
Cash dividends declared ($0.24 per common share)						(4,045)		(4,045)
Preferred dividends						(2,440)		(2,440)
Accretion of preferred stock discount		2,932				(2,932)		–
Stock-based compensation			29	643				643
Other comprehensive income							1,226	1,226
Balances, September 30, 2011	$ 63,500	–	16,885	$ 100,926	4,592	186,654	(3,859)	351,813

See 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, 2011	2010
Cash Flows From Operating Activities		
Net income	$ 12,658	12,227
Reconciliation of net income to net cash provided by operating activities:		
Provision for loan losses	31,423	24,017
Net security premium amortization	1,013	1,096
Purchase accounting accretion and amortization, net	(9,921)	(6,742)
Gain from acquisition	(10,196)	–
Foreclosed property losses and write-downs	15,236	11,938
Gain on securities available for sale	(74)	(25)
Other (gains) losses	(38)	154
Increase in net deferred loan costs	(322)	(488)
Depreciation of premises and equipment	3,302	2,963
Stock-based compensation expense	643	541
Amortization of intangible assets	676	654
Origination of presold mortgages in process of settlement	(53,094)	(60,158)
Proceeds from sales of presold mortgages in process of settlement	53,233	60,899
Decrease in accrued interest receivable	2,011	1,648
Increase in other assets	(12,809)	(10,694)
Decrease in accrued interest payable	(144)	(633)
Decrease in other liabilities	(6,087)	(1,913)
Net cash provided by operating activities	27,510	35,484
Cash Flows From Investing Activities		
Purchases of securities available for sale	(43,146)	(42,284)
Purchases of securities held to maturity	(3,816)	(19,710)
Proceeds from maturities/issuer calls of securities available for sale	66,281	80,225
Proceeds from maturities/issuer calls of securities held to maturity	1,053	2,367
Proceeds from sales of securities available for sale	2,518	–
Net decrease in loans	30,476	51,136
Proceeds from FDIC loss share agreements	59,411	46,433
Proceeds from sales of foreclosed real estate	24,650	16,840
Purchases of premises and equipment	(5,407)	(2,811)
Net cash received (paid) in acquisition	54,037	(170)
Net cash provided by investing activities	186,057	132,026
Cash Flows From Financing Activities		
Net decrease in deposits and repurchase agreements	(109,551)	(175,316)
Repayments of borrowings, net	(65,081)	(17,600)
Cash dividends paid – common stock	(4,039)	(4,016)
Cash dividends paid – preferred stock	(2,582)	(2,438)
Proceeds from issuance of common stock	668	627
Proceeds from issuance of preferred stock	63,500	–
Redemption of preferred stock	(65,000)	–

Tax benefit from exercise of nonqualified stock options	–	36
Net cash used by financing activities	(182,085)	(198,707)
Increase (decrease) in cash and cash equivalents	31,482	(31,197)
Cash and cash equivalents, beginning of period	212,002	350,872
Cash and cash equivalents, end of period	$243,484	319,675
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	$18,447	25,686
Income taxes	13,943	16,238
Non-cash transactions:		
Unrealized gain on securities available for sale, net of taxes	959	1,349
Foreclosed loans transferred to other real estate	60,030	94,949

See notes to consolidated financial statements.

First Bancorp and Subsidiaries
Notes to Consolidated Financial Statements

(unaudited) For the Periods Ended September 30, 2011 and 2010

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, 2011 and 2010 and the consolidated results of operations and consolidated cash flows for the periods ended September 30, 2011 and 2010. All such adjustments were of a normal, recurring nature. Reference is made to the 2010 Annual Report on Form 10-K filed with the SEC for a discussion of accounting policies and other relevant information with respect to the financial statements. The results of operations for the periods ended September 30, 2011 and 2010 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 2010 Annual Report on Form 10-K filed with the SEC contains a description of the accounting policies followed by the Company and discussion of recent accounting pronouncements. The following paragraphs update that information as necessary.

In July 2010, the Financial Accounting Standards Board (FASB) issued guidance that requires an entity to provide more information about the credit quality of its financing receivables, such as aging information, credit quality indicators and troubled debt restructurings, in the disclosures to its financial statements. Both new and existing disclosures must be disaggregated by portfolio segment or class. The disaggregation of information is based on how the entity develops its allowance for credit losses and how it manages its credit exposure. Except for disclosures related to troubled debt restructurings (discussed in next paragraph), the required disclosures became effective for periods ending on or after December 15, 2010. The Company is required to include these disclosures in its interim and annual financial statements. See Note 8 for required disclosures.

In April 2011, the FASB issued guidance to assist creditors with their determination of when a restructuring is a troubled debt restructuring. The determination is based on whether the restructuring constitutes a concession and whether the debtor is experiencing financial difficulties, as both events must be present. This guidance and the new disclosures related to troubled debt restructurings became effective for reporting periods beginning after June 15, 2011. See Note 8 for required disclosures.

In December 2010, the FASB issued amended guidance to modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. Any resulting goodwill impairment should be recorded as a cumulative-effect adjustment to beginning retained earnings upon adoption. Impairments occurring subsequent to adoption should be included in earnings. The amendment was effective for the Company beginning January 1, 2011 and did not impact the Company.

In September 2011, the FASB issued additional amended guidance related to goodwill impairment testing. Guidance now permits an entity to consider qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. This amendment will be effective for the Company on January 1, 2012.

Also in December 2010, the FASB issued amended guidance specifying that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendment also requires that the supplemental pro forma disclosures include a description of the nature and amount of any material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. This amendment is effective for the Company for business combinations for which the acquisition date is on or after January 1, 2011.

In June 2011, the FASB amended the comprehensive income guidance by eliminating the option to present other comprehensive income as a part of the statement of changes in stockholders' equity. The amendment requires consecutive presentation of the statement of net income and other comprehensive income and requires an entity to present reclassification adjustments from other comprehensive income to net income on the face of the financial statements. The amendments will be applicable to the Company on January 1, 2012 and will be applied retrospectively. The Company has consistently followed the new requirements in prior filings.

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, 2010 have been reclassified to conform to the presentation for September 30, 2011. These reclassifications had no effect on net income or shareholders' equity for the periods presented, nor did they materially impact trends in financial information.

Note 4 – Acquisition of Bank of Asheville

On January 21, 2011, the Company announced that First Bank, its banking subsidiary, had entered into a loss share purchase and assumption agreement with the Federal Deposit Insurance Corporation (FDIC), as receiver for The Bank of Asheville, Asheville, North Carolina. Earlier that day, the North Carolina Commissioner of Banks issued an order for the closure of The Bank of Asheville and appointed the FDIC as receiver. According to the terms of the agreement, First Bank acquired substantially all of the assets and liabilities of The Bank of Asheville. All deposits were assumed by First Bank with no losses to any depositor.

The Bank of Asheville operated through five branches in Asheville, North Carolina with total assets of approximately $198 million and 50 employees.

Substantially all of the loans and foreclosed real estate purchased are covered by loss share agreements between the FDIC and First Bank, which afford First Bank significant loss protection. Under the loss share agreements, the FDIC will cover 80% of covered loan and foreclosed real estate losses. The term for loss sharing on residential real estate loans is ten years, while the term for loss sharing on non-residential real estate loans is five years in respect to losses and eight years in respect to loss recoveries. The reimbursable losses from the FDIC are based on the book value of the relevant loan as determined by the FDIC at the date of the transaction. New loans made after that date are not covered by the loss share agreements.

First Bank received a $23.9 million discount on the assets acquired and paid no deposit premium. The acquisition was accounted for under the purchase method of accounting in accordance with relevant accounting guidance. The statement of net assets acquired as of January 21, 2011 and the resulting gain are presented in the following table. The purchased assets and assumed liabilities were recorded at their respective acquisition date fair values, and identifiable intangible assets were recorded at fair value. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition as information relative to closing date fair values becomes available. The Company recorded an estimated receivable from the FDIC in the amount of $42.2 million, which represents the fair value of the FDIC's portion of the losses that are expected to be incurred and reimbursed to the Company.

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An acquisition gain totaling $10.2 million resulted from the acquisition and is included as a component of noninterest income on the statement of income. The amount of the gain is equal to the amount by which the fair value of assets purchased exceeded the fair value of liabilities assumed.

The statement of net assets acquired as of January 21, 2011 and the resulting gain that was recorded are presented in the following table.

($ in thousands)	As Recorded by The Bank of Asheville	Fair Value Adjustments		As Recorded by the Company
Assets				
Cash and cash equivalents	$ 27,297	–		27,297
Securities	4,461	–		4,461
Loans	153,994	(51,726)	(a)	102,268
Core deposit intangible	–	277	(b)	277
FDIC indemnification asset	–	42,218	(c)	42,218
Foreclosed properties	3,501	(2,159)	(d)	1,342
Other assets	1,146	(370)	(e)	776
Total	190,399	(11,760)		178,639
Liabilities				
Deposits	192,284	460	(f)	192,744
Borrowings	4,004	77	(g)	4,081
Other	111	1,447	(h)	1,558
Total	196,399	1,984		198,383
Excess of liabilities received over assets	(6,000)	(13,744)		(19,744)
Less: Asset discount	(23,940)			
Cash received/receivable from FDIC at closing	29,940			29,940
Total gain recorded				$ 10,196

Explanation of Fair Value Adjustments

(a) This estimated adjustment is necessary as of the acquisition date to write down The Bank of Asheville's book value of loans to the estimated fair value as a result of future expected loan losses.

(b) This fair value adjustment represents the value of the core deposit base assumed in the acquisition based on a study performed by an independent consulting firm. This amount was recorded by the Company as an identifiable intangible asset and will be amortized as an expense on a straight-line basis over the average life of the core deposit base, which is estimated to be seven years.

(c) This adjustment is the estimated fair value of the amount that the Company expects to receive from the FDIC under its loss share agreements as a result of future loan losses.

(d) This is the estimated adjustment necessary to write down The Bank of Asheville's book value of foreclosed real estate properties to their estimated fair value as of the acquisition date.

(e) This is an immaterial adjustment made to reflect fair value.

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(f) This fair value adjustment was recorded because the weighted average interest rate of The Bank of Asheville's time deposits exceeded the cost of similar wholesale funding at the time of the acquisition. This amount will be amortized to reduce interest expense on a declining basis over the life of the portfolio of approximately 48 months.

(g) This fair value adjustment was recorded because the interest rates of The Bank of Asheville's fixed rate borrowings exceeded current interest rates on similar borrowings. This amount was realized shortly after the acquisition by prepaying the borrowings at a premium and thus there will be no future amortization related to this adjustment.

(h) This adjustment relates primarily to the estimate of what the Company will owe to the FDIC at the conclusion of the loss share agreements based on a pre-established formula set forth in those agreements that is based on total expected losses in relation to the amount of the discount bid.

The operating results of the Company for the period ended September 30, 2011 include the operating results of the acquired assets and assumed liabilities for the period subsequent to the acquisition date of January 21, 2011 and were not material to the nine month period ended September 30, 2011. Due primarily to the significant amount of fair value adjustments and the FDIC loss share agreements now in place, historical results of The Bank of Asheville are not believed to be relevant to the Company's results, and thus no pro forma information is presented.

Note 5 – Equity-Based Compensation Plans

At September 30, 2011, the Company had the following equity-based compensation plans: the First Bancorp 2007 Equity Plan, the First Bancorp 2004 Stock Option Plan, the First Bancorp 1994 Stock Option Plan, and one plan that was assumed from an acquired entity. The Company's shareholders approved all equity-based compensation plans, except for those assumed from acquired companies. The First Bancorp 2007 Equity Plan became effective upon the approval of shareholders on May 2, 2007. As of September 30, 2011, the First Bancorp 2007 Equity Plan was the only plan that had shares available for future grants.

The First Bancorp 2007 Equity Plan and its predecessor plans, the First Bancorp 2004 Stock Option Plan and the First Bancorp 1994 Stock Option Plan ("Predecessor Plans"), are 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 Predecessor Plans only provided for the ability to grant stock options, whereas the First Bancorp 2007 Equity Plan, in addition to providing for grants of stock options, also allows for grants of other types of equity-based compensation, including stock appreciation rights, restricted stock, restricted performance stock, unrestricted stock, and performance units. Since the First Bancorp 2007 Equity Plan became effective on May 2, 2007, the Company has granted the following stock-based compensation: 1) the grant of 2,250 stock options to each of the Company's non-employee directors on June 1, 2007, 2008, and 2009, 2) the grant of 5,000 incentive stock options to an executive officer on April 1, 2008 in connection with a corporate acquisition, 3) the grant of 262,599 stock options and 81,337 performance units to 19 senior officers on June 17, 2008 (each performance unit represents the right to acquire one share of the Company's common stock upon satisfaction of the vesting conditions), 4) the grant of 29,267 long-term restricted shares of common stock to certain senior executive officers on December 11, 2009, 5) the grant of 1,039 shares of common stock to each of the Company's non-employee directors on June 1, 2010, 6) the grant of 7,259 long-term restricted shares of common stock to certain senior executive officers on February 24, 2011, and 7) the grant of 1,414 shares of common stock to each of the Company's non-employee directors on June 1, 2011.

Prior to the June 17, 2008 grant, stock option grants to employees generally had five-year vesting schedules (20% vesting each year) and had been irregular, usually falling into three categories - 1) to attract and retain new employees, 2) to recognize changes in responsibilities of existing employees, and 3) to periodically reward exemplary performance. Compensation expense associated with these types of grants is recorded pro-ratably over the vesting period. As it relates to directors, until 2010 the Company had historically granted 2,250 vested stock options to each of the Company's non-employee directors in June of each year. In June 2011 and 2010, the Company granted 1,414 common shares and 1,039 common shares, respectively, to each non-employee director, which had approximately the same value as 2,250 stock options. Compensation expense associated with these director grants is recognized on the date of grant since there are no vesting conditions.

The June 17, 2008 grant of a combination of performance units and stock options have both performance conditions (earnings per share targets) and service conditions that must be met in order to vest. The 262,599 stock options and 81,337 performance units represent the maximum number of options and performance units that could have vested if the Company were to achieve specified maximum goals for earnings per share during the three annual performance periods ending on December 31, 2008, 2009, and 2010. Up to one-third of the total number of options and performance units granted are subject to vesting annually as of December 31 of each year beginning in 2010, if (1) the Company achieves specific earnings per share (EPS) goals during the corresponding performance period and (2) the executive or key employee continues employment for a period of two years beyond the corresponding performance period. Compensation expense for this grant is recorded over the various service periods based on the estimated number of options and performance units that are probable to vest. If the awards do not vest, no compensation cost is recognized and any previously recognized compensation cost will be reversed. The Company did not achieve the minimum earnings per share performance goal for 2008 or 2010, and thus two-thirds of the above grant has been permanently forfeited. As a result of the significant acquisition gain realized in June 2009 related to a failed bank acquisition, the Company achieved the EPS goal for 2009 and the related awards will vest on December 31, 2011 for each grantee that remains employed as of that date. The Company recorded compensation expense of $299,000 in each of 2009 and 2010 related to this grant and its expected vesting. Assuming no forfeitures, the Company will record compensation expense of approximately $75,000 in each quarter of 2011 related to this grant.

The December 11, 2009 and February 24, 2011 grants of long-term restricted shares of common stock to senior executives vest in accordance with the minimum rules for long-term equity grants for companies participating in the U.S. Treasury's Troubled Asset Relief Program (TARP). These rules require that the vesting of the stock be tied to repayment of the financial assistance, with a two year minimum vesting period. The Company redeemed 100% of the TARP preferred stock on September 1, 2011. Therefore, the Company re-evaluated the amortization schedule for both grants. The total compensation expense associated with the December 11, 2009 grant was $398,000 and was being initially amortized over a four-year period at approximately $24,500 per quarter. Due to the TARP repayment, the 2009 grant will now fully vest on December 11, 2011. Accordingly, the Company accelerated the expense amortization by recording $74,500 in expense in the third quarter of 2011 and expects to record the remaining expense of $174,000 in the fourth quarter of 2011. The total compensation expense associated with the February 24, 2011 grant was $105,500 and was being initially amortized over a three-year period at approximately $8,800 per quarter. Due to the TARP repayment, the 2011 grant will fully vest on February 24, 2013. Accordingly, the Company accelerated the expense amortization by recording $10,400 in expense in the third quarter of 2011. Thereafter the Company expects to expense $13,700 in each quarter until 2013. See Note 15 for further information related to the Company's participation in the TARP.

Under the terms of the Predecessor Plans and the First Bancorp 2007 Equity Plan, options can have a term of no longer than ten years, and all options granted thus far under these plans have had a term of ten years. The Company's options provide for immediate vesting if there is a change in control (as defined in the plans).

At September 30, 2011, there were 635,309 options outstanding related to the three First Bancorp plans, with exercise prices ranging from $14.35 to $22.12. At September 30, 2011, there were 927,478 shares remaining available for grant under the First Bancorp 2007 Equity Plan. The Company also has a stock option plan as a result of a corporate acquisition. At September 30, 2011, there were 4,788 stock options outstanding in connection with the acquired plan, with option prices ranging from $10.66 to $15.22.

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.

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The Company's equity grants for the nine months ended September 30, 2011 were the issuance of 1) 7,259 shares of long-term restricted stock to certain senior executives on February 24, 2011, at a fair market value of $14.54 per share, which was the closing price of the Company's common stock on that date, and 2) 21,210 shares of common stock to non-employee directors on June 1, 2011 (1,414 shares per director), at a fair market value of $11.39 per share, which was the closing price of the Company's common stock on that date.

The Company's only equity grants for the nine months ended September 30, 2010 were the issuance of 15,585 shares of common stock to non-employee directors on June 1, 2010 (1,039 shares per director). The fair market value of the Company's common stock on the grant date was $15.51 per share, which was the closing price of the Company's common stock on that date.

The Company recorded total stock-based compensation expense of $643,000 and $541,000 for the nine-month periods ended September 30, 2011 and 2010, respectively. Stock-based compensation expense is recorded as "salaries expense" in the Consolidated Statements of Income and as an adjustment to cash flows from operating activities on the Company's Consolidated Statement of Cash Flows. The Company recognized no income tax benefits in the income statement related to stock-based compensation for the nine-month period ended September 30, 2011 and approximately $36,000 in income tax benefits for the same period in 2010.

At September 30, 2011, the Company had $9,000 of unrecognized compensation costs related to unvested stock options that have vesting requirements based solely on service conditions. The cost is expected to be amortized over a weighted-average life of 1.6 years, with $1,500 being expensed in 2011, $6,000 being expensed in 2012, and $1,000 being expensed in 2013.

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 or expirations, and therefore the Company assumes that all options 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 2011 related to all of the Company's stock options outstanding:

	Options Outstanding			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Contractual Term (years)	Aggregate Intrinsic Value
Balance at December 31, 2010	642,413	$ 18.11		
Granted	–	–		
Exercised	(2,300)	13.30		$ 6,949
Forfeited	–	–		
Expired	–	–		
Outstanding at September 30, 2011	640,113	$ 18.13	3.1	$ 0
Exercisable at September 30, 2011	567,167	$ 18.32	2.6	$ 0

The Company received $30,000 and $171,000 as a result of stock option exercises during the nine months ended September 30, 2011 and 2010, respectively. The Company recorded $0 and $36,000 in tax benefits from the exercise of nonqualified stock options during the nine months ended September 30, 2011 and 2010, respectively.

As discussed above, the Company granted 81,337 performance units to 19 senior officers on June 17, 2008. Each performance unit represents the right to acquire one share of the Company's common stock upon satisfaction of the vesting conditions (discussed above). The fair market value of the Company's common stock on the grant date was $16.53 per share. One-third of this grant was forfeited on December 31, 2008 and another one-third was forfeited on December 31, 2010 because the Company failed to meet the minimum performance goal required for vesting. Also, as discussed above, the Company granted 29,267 and 7,259 long-term restricted shares of common stock to certain senior executives on December 11, 2009 and February 24, 2011, respectively.

The following table presents information regarding the activity during 2011 related to the Company's outstanding performance units and restricted stock:

	Nonvested Performance Units		Long-Term Restricted Stock	
	Number of Units	Weighted-Average Grant-Date Fair Value	Number of Units	Weighted-Average Grant-Date Fair Value

Nine months ended September 30, 2011						
Nonvested at the beginning of the period	27,113	$	16.53	29,267	$	13.59
Granted during the period	–		–	7,259		14.54
Vested during the period	–		–	–		–
Forfeited or expired during the period	–		–	–		–
Nonvested at end of period	27,113	$	16.53	36,526	$	13.78

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Note 6 – Earnings Per Common Share

Basic earnings per common share were computed by dividing net income (loss) available to common shareholders by the weighted average common shares outstanding. Diluted earnings per common share includes the potentially dilutive effects of the Company's equity plans and the warrant issued to the U.S. Treasury in connection with the Company's participation in the Treasury's Capital Purchase Program – see Note 15 for additional information. 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,					
	2011			2010		
($ in thousands except per share amounts)	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS						
Net income (loss) available to common shareholders	$(732)	16,875,918	$(0.04)	$2,821	16,779,554	$0.17
Effect of Dilutive Securities	-	27,113		-	27,581	
Diluted EPS per common share	$(732)	16,903,031	$(0.04)	$2,821	16,807,135	$0.17

	For the Nine Months Ended September 30,					
	2011			2010		
($ 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	$7,286	16,843,716	$0.43	$9,147	16,754,678	$0.55
Effect of Dilutive Securities	-	27,294		-	29,354	
Diluted EPS per common share	$7,286	16,871,010	$0.43	$9,147	16,784,032	$0.54

For both the three and nine month periods ended September 30, 2011, there were 545,347 and 542,916 options, respectively, that were antidilutive because the exercise price exceeded the average market price for the period. For the three and nine months ended September 30, 2010, there were 636,252 and 609,252 options, respectively, that were antidilutive because the exercise price exceeded the average market price for the period. In addition, the warrant for 616,308 shares issued to the U.S. Treasury (see Note 15) was antidilutive for the three and nine months ended September 30, 2011 and 2010. Antidilutive options and warrants have been omitted from the calculation of diluted earnings per common share for the respective periods.

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Note 7 – Securities

The book values and approximate fair values of investment securities at September 30, 2011 and December 31, 2010 are summarized as follows:

	September 30, 2011				December 31, 2010			
($ in thousands)	Amortized Cost	Fair Value	Unrealized Gains	Unrealized (Losses)	Amortized Cost	Fair Value	Unrealized Gains	Unrealized (Losses)
Securities available for sale:								
Government-sponsored enterprise securities	$19,512	19,734	222	–	43,432	43,273	214	(373)
Mortgage-backed securities	111,130	115,037	4,446	(539)	104,660	107,460	3,270	(470)
Corporate bonds	13,191	12,806	240	(625)	15,754	15,330	35	(459)
Equity securities	11,988	12,293	343	(38)	14,858	15,119	301	(40)
Total available for sale	$155,821	159,870	5,251	(1,202)	178,704	181,182	3,820	(1,342)
Securities held to maturity:								
State and local governments	$57,533	61,512	3,980	(1)	54,011	53,305	517	(1,223)
Other	–	–	–	–	7	7	–	–
Total held to maturity	$57,533	61,512	3,980	(1)	54,018	53,312	517	(1,223)

Included in mortgage-backed securities at September 30, 2011 were collateralized mortgage obligations with an amortized cost of $1,779,000 and a fair value of $1,844,000. Included in mortgage-backed securities at December 31, 2010 were collateralized mortgage obligations with an amortized cost of $2,644,000 and a fair value of $2,740,000.

The Company owned Federal Home Loan Bank stock with a cost and fair value of $11,894,000 and $14,759,000 at September 30, 2011 and December 31, 2010, respectively, which is included in equity securities above and serves as part of the collateral for the Company's line of credit with the Federal Home Loan Bank. The investment in this stock is a requirement for membership in the Federal Home Loan Bank system.

The following table presents information regarding securities with unrealized losses at September 30, 2011:

($ 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	$ –	–	–	–	–	–
Mortgage-backed securities	39,132	539	–	–	39,132	539
Corporate bonds	5,575	474	2,146	151	7,721	625
Equity securities	11	2	24	36	35	38
State and local governments	284	1	–	–	284	1

Total temporarily impaired securities	$ 45,002	1,016	2,170	187	47,172	1,203

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The following table presents information regarding securities with unrealized losses at December 31, 2010:

(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	$ 18,607	373	–	–	18,607	373
Mortgage-backed securities	21,741	470	–	–	21,741	470
Corporate bonds	7,548	55	2,900	404	10,448	459
Equity securities	3	1	29	39	32	40
State and local governments	35,289	1,223	–	–	35,289	1,223
Total temporarily impaired securities	$ 83,188	2,122	2,929	443	86,117	2,565

In the above tables, all of the non-equity securities that were in an unrealized loss position at September 30, 2011 and December 31, 2010 are bonds that the Company has determined are in a loss position due to interest rate factors, the overall economic downturn in the financial sector, and the broader economy in general. The Company has evaluated the collectability of each of these bonds and has concluded that there is no other-than-temporary impairment. The Company does not intend to sell these securities, and it is more likely than not that the Company will not be required to sell these securities before recovery of the amortized cost. The Company has also concluded that each of the equity securities in an unrealized loss position at September 30, 2011 and December 31, 2010 was in such a position due to temporary fluctuations in the market prices of the securities. The Company's policy is to record an impairment charge for any of these equity securities that remains in an unrealized loss position for twelve consecutive months unless the amount is insignificant.

The aggregate carrying amount of cost-method investments was $11,894,000 and $14,766,000 at September 30, 2011 and December 31, 2010, respectively, which included the Federal Home Loan Bank stock discussed above. The Company determined that none of its cost-method investments were impaired at either period end.

The book values and approximate fair values of investment securities at September 30, 2011, by contractual maturity, are summarized in the table below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

($ in thousands)	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Debt securities				
Due within one year	$ –	–	626	633
Due after one year but within five years	22,508	22,849	1,575	1,665
Due after five years but within ten years	–	–	22,877	24,677
Due after ten years	10,195	9,691	32,455	34,537
Mortgage-backed securities	111,130	115,037	–	–
Total debt securities	143,833	147,577	57,533	61,512
Equity securities	11,988	12,293	–	–

Total securities	$ 155,821	159,870	57,533	61,512

At September 30, 2011 and December 31, 2010, investment securities with book values of $90,399,000 and $75,654,000, respectively, were pledged as collateral for public and private deposits and securities sold under agreements to repurchase.

There were $2,510,000 in sales of securities during the nine months ended September 30, 2011, which resulted in a net gain of $8,000. There were no securities sales during the first nine months of 2010. During the nine months ended September 30, 2011, the Company recorded a net loss of $5,000 related to write-downs of the Company's equity portfolio and recorded a net gain of $71,000 related to the call of several securities. During the nine months ended September 30, 2010, the Company recorded a gain of $25,000 related to the call of several municipal securities.

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Note 8 – 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 First Bank, which afford First Bank significant loss protection. (See the Company's 2010 Annual Report on Form 10-K for more information regarding the Cooperative Bank transaction and Note 4 above for the more information regarding The Bank of Asheville transaction.) Because of the loss protection provided by the FDIC, the risk of the Cooperative Bank and The Bank of Asheville loans and foreclosed real estate 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."

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

($ in thousands)	September 30, 2011		December 31, 2010		September 30, 2010	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
All loans (non-covered and covered):						
Commercial, financial, and agricultural	$ 161,300	7 %	155,016	6 %	160,824	7 %
Real estate – construction, land development & other land loans	370,735	15 %	437,700	18 %	473,446	19 %
Real estate – mortgage – residential (1-4 family) first mortgages	803,688	33 %	802,658	33 %	810,794	32 %
Real estate – mortgage – home equity loans / lines of credit	258,653	11 %	263,529	11 %	266,608	11 %
Real estate – mortgage – commercial and other	756,568	31 %	710,337	29 %	713,794	28 %
Installment loans to individuals	80,309	3 %	83,919	3 %	83,846	3 %
Subtotal	2,431,253	100 %	2,453,159	100 %	2,509,312	100 %
Unamortized net deferred loan costs	1,295		973		862	
Total loans	$ 2,432,548		2,454,132		2,510,174	

As of September 30, 2011, December 31, 2010 and September 30, 2010, net loans include unamortized premiums of $1,065,000, $687,000, and $736,000, respectively, related to acquired loans.

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

($ in thousands)	September 30, 2011		December 31, 2010		September 30, 2010	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Non-covered loans:						
Commercial, financial, and agricultural	$150,252	7 %	150,545	7 %	155,498	7 %
Real estate – construction, land development & other land loans	298,650	14 %	344,939	17 %	370,805	18 %
Real estate – mortgage – residential (1-4 family) first mortgages	637,129	31 %	622,353	30 %	615,681	29 %
Real estate – mortgage – home equity loans / lines of credit	236,578	12 %	246,418	12 %	243,092	12 %
Real estate – mortgage – commercial and other	656,035	32 %	636,197	30 %	629,316	30 %
Installment loans to individuals	78,785	4 %	81,579	4 %	81,185	4 %
Subtotal	2,057,429	100 %	2,082,031	100 %	2,095,577	100 %
Unamortized net deferred loan costs	1,295		973		862	
Total non-covered loans	$2,058,724		2,083,004		2,096,439	

The carrying amount of the covered loans at September 30, 2011 consisted of impaired and nonimpaired purchased loans, 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	$101	637	10,947	22,348	11,048	22,985
Real estate – construction, land development & other land loans	3,866	11,196	68,219	115,021	72,085	126,217
Real estate – mortgage – residential (1-4 family) first mortgages	1,227	2,695	165,332	201,303	166,559	203,998
Real estate – mortgage – home equity loans / lines of credit	130	578	21,945	29,603	22,075	30,181
Real estate – mortgage – commercial and other	3,708	5,539	96,825	123,981	100,533	129,520
Installment loans to individuals	5	7	1,519	1,733	1,524	1,740

Total	$9,037	20,652	364,787	493,989	373,824	514,641

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The carrying amount of the covered loans at December 31, 2010 consisted of impaired and nonimpaired purchased loans, 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	$–	–	4,471	5,272	4,471	5,272
Real estate – construction, land development & other land loans	1,898	3,328	90,863	147,615	92,761	150,943
Real estate – mortgage – residential (1-4 family) first mortgages	–	–	180,305	212,826	180,305	212,826
Real estate – mortgage – home equity loans / lines of credit	–	–	17,111	20,332	17,111	20,332
Real estate – mortgage – commercial and other	2,709	3,594	71,431	93,490	74,140	97,084
Installment loans to individuals	–	–	2,340	2,595	2,340	2,595
Total	$4,607	6,922	366,521	482,130	371,128	489,052

The following table presents information regarding covered purchased nonimpaired loans since December 31, 2009. 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, 2009	$485,572
Principal repayments	(43,801)
Transfers to foreclosed real estate	(75,121)
Loan charge-offs	(7,736)
Accretion of loan discount	7,607
Carrying amount of nonimpaired covered loans at December 31, 2010	366,521
Additions due to acquisition of The Bank of Asheville (at fair value)	84,623
Principal repayments	(33,385)
Transfers to foreclosed real estate	(47,795)
Loan charge-offs	(15,045)
Accretion of loan discount	9,868
Carrying amount of nonimpaired covered loans at September 30, 2011	$364,787

As reflected in the table above, the Company accreted $9,868,000 of the loan discount on purchased nonimpaired loans into interest income during the first nine months of 2011.

The following table presents information regarding all purchased impaired loans since December 31, 2009, substantially all 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.

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($ in thousands) Purchased Impaired Loans	Contractual Principal Receivable	Fair Market Value Adjustment – Write Down (Nonaccretable Difference)	Carrying Amount
Balance at December 31, 2009	$39,293	3,242	36,051
Change due to payments received	(685)	2	(687)
Transfer to foreclosed real estate	(27,569)	(225)	(27,344)
Change due to loan charge-off	(3,149)	(625)	(2,524)
Other	190	(65)	255
Balance at December 31, 2010	$8,080	2,329	5,751
Additions due to acquisition of The Bank of Asheville	38,452	20,807	17,645
Change due to payments received	(1,049)	(358)	(691)
Transfer to foreclosed real estate	(19,881)	(9,308)	(10,573)
Change due to loan charge-off	(4,367)	(1,709)	(2,658)
Other	709	224	485
Balance at September 30, 2011	$21,944	11,985	9,959

Each of the purchased impaired loans is on nonaccrual status and considered to be impaired. 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 nine months ended September 30, 2011 and 2010, the Company received $717,000 and $67,000 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, and other real estate. Nonperforming assets are summarized as follows:

ASSET QUALITY DATA ($ in thousands)	September 30, 2011	December 31, 2010	September 30, 2010
Non-covered nonperforming assets			
Nonaccrual loans	$ 75,013	62,326	80,318
Restructured loans – accruing	11,257	33,677	20,447
Accruing loans > 90 days past due	-	-	–
Total non-covered nonperforming loans	86,270	96,003	100,765
Other real estate	32,673	21,081	17,475
Total non-covered nonperforming assets	$ 118,943	117,084	118,240
Covered nonperforming assets			
Nonaccrual loans (1)	$ 36,536	58,466	75,116
Restructured loans – accruing	16,912	14,359	4,160
Accruing loans > 90 days past due	-	-	–
Total covered nonperforming loans	53,448	72,825	79,276
Other real estate	104,785	94,891	101,389
Total covered nonperforming assets	$ 158,233	167,716	180,665

Total nonperforming assets	$ 277,176	284,800	298,905

(1) At September 30, 2011, December 31, 2010, and September 30, 2010, the contractual balance of the nonaccrual loans covered by FDIC loss share agreements was $65.0 million, $86.2 million, and $103.9 million, respectively.

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The following table presents information related to the Company's impaired loans.

($ in thousands)	As of /for the nine months ended September 30, 2011	As of /for the year ended December 31, 2010	As of /for the nine months ended September 30, 2010
Impaired loans at period end			
Non-covered	$ 86,270	96,003	100,765
Covered	53,448	72,825	79,276
Total impaired loans at period end	$ 139,718	168,828	180,041
Average amount of impaired loans for period			
Non-covered	$ 89,957	89,751	85,126
Covered	65,189	95,373	99,391
Average amount of impaired loans for period – total	$ 155,146	185,124	184,517
Allowance for loan losses related to impaired loans at period end			
Non-covered	$ 5,429	7,613	15,767
Covered	2,287	11,155	–
Allowance for loan losses related to impaired loans - total	$ 7,716	18,768	15,767
Amount of impaired loans with no related allowance at period end			
Non-covered	$ 35,897	42,874	24,473
Covered	43,918	49,991	79,276
Total impaired loans with no related allowance at period end	$ 79,815	92,865	103,749

All of the impaired loans noted in the table above were on nonaccrual status at each respective period end except for those classified as restructured loans (see table above for balances).

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

The following table presents the Company's nonaccrual loans as of September 30, 2011.

($ in thousands)	Non-covered	Covered	Total
Commercial, financial, and agricultural:			
Commercial – unsecured	$ 88	22	110
Commercial – secured	2,216	–	2,216
Secured by inventory and accounts receivable	350	147	497
Real estate – construction, land development & other land loans	26,710	19,091	45,801
Real estate – residential, farmland and multi-family	25,656	11,421	37,077

Real estate – home equity lines of credit	2,825	1,182	4,007
Real estate – commercial	14,563	4,447	19,010
Consumer	2,605	226	2,831
Total	$ 75,013	36,536	111,549

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The following table presents the Company's nonaccrual loans as of December 31, 2010.

($ in thousands)	Non-covered	Covered	Total
Commercial, financial, and agricultural:			
Commercial – unsecured	$ 64	160	224
Commercial – secured	1,566	3	1,569
Secured by inventory and accounts receivable	802	–	802
Real estate – construction, land development & other land loans	22,654	30,847	53,501
Real estate – residential, farmland and multi-family	27,055	19,716	46,771
Real estate – home equity lines of credit	2,201	685	2,886
Real estate – commercial	7,461	7,039	14,500
Consumer	523	16	539
Total	$ 62,326	58,466	120,792

The following table presents an analysis of the payment status of the Company's loans as of September 30, 2011.

($ 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	$72	488	88	40,360	41,008
Commercial - secured	1,159	542	2,216	102,414	106,331
Secured by inventory and accounts receivable	69	5	350	21,782	22,206
Real estate – construction, land development & other land loans	988	906	26,710	225,757	254,361
Real estate – residential, farmland, and multi-family	7,410	2,881	25,656	749,465	785,412
Real estate – home equity lines of credit	2,257	466	2,825	206,451	211,999
Real estate - commercial	1,183	735	14,563	559,978	576,459
Consumer	614	171	2,605	56,263	59,653
Total non-covered	$13,752	6,194	75,013	1,962,470	2,057,429
Unamortized net deferred loan costs					1,295
Total non-covered loans					$2,058,724
Covered loans	$7,191	3,242	36,536	326,855	373,824
Total loans	$20,943	9,436	111,549	2,289,325	2,432,548

The Company had no non-covered or covered loans that were past due greater than 90 days and accruing interest at September 30, 2011.

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The following table presents an analysis of the payment status of the Company's loans as of December 31, 2010.

($ 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	$225	92	64	41,564	41,945
Commercial - secured	1,165	195	1,566	102,657	105,583
Secured by inventory and accounts receivable	100	–	802	21,369	22,271
Real estate – construction, land development & other land loans	2,951	7,022	22,654	270,892	303,519
Real estate – residential, farmland, and multi-family	10,290	2,942	27,055	726,456	766,743
Real estate – home equity lines of credit	496	253	2,201	213,984	216,934
Real estate - commercial	2,581	1,193	7,461	552,020	563,255
Consumer	595	297	523	60,366	61,781
Total non-covered	$18,403	11,994	62,326	1,989,308	2,082,031
Unamortized net deferred loan costs					973
Total non-covered loans					$2,083,004
Total covered loans	$6,713	4,127	58,466	301,822	371,128
Total loans	$25,116	16,121	120,792	2,291,130	2,454,132

The Company had no non-covered or covered loans that were past due greater than 90 days and accruing interest at December 31, 2010.

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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, 2011.

($ in thousands)	Commercial, Financial, and Agricultural	Real Estate – Construction, Land Development, & Other Land Loans	Real Estate – Residential, Farmland, and Multi-family	Real Estate – Home Equity Lines of Credit	Real Estate – Commercial and Other	Consumer	Unallo-cated	Total
As of and for the three months ended September 30, 2011								
Beginning balance	$ 3,905	11,790	12,084	1,849	2,859	1,960	18	34,465
Charge-offs	(102)	(3,937)	(1,349)	(189)	(1,149)	(173)	(179)	(7,078)
Recoveries	15	220	286	10	5	9	24	569
Provisions	161	3,215	1,456	97	1,303	78	131	6,441
Ending balance	$ 3,979	11,288	12,477	1,767	3,018	1,874	(6)	34,397
As of and for the nine months ended September 30, 2011								
Beginning balance	$ 4,731	12,520	11,283	3,634	3,972	1,961	174	38,275
Charge-offs	(1,998)	(13,519)	(6,945)	(953)	(2,529)	(533)	(415)	(26,892)
Recoveries	51	471	579	53	33	112	97	1,396
Provisions	1,195	11,816	7,560	(967)	1,542	334	138	21,618
Ending balance	$ 3,979	11,288	12,477	1,767	3,018	1,874	(6)	34,397
Ending balances as of September 30, 2011: Allowance for loan losses								
Individually evaluated for impairment	$ 145	655	49	–	25	–	–	874
Collectively evaluated for impairment	$ 3,834	10,633	12,428	1,767	2,993	1,874	(6)	33,523
Loans acquired with deteriorated credit quality	$ –	–	–	–	–	–	–	–
Loans receivable as of September 30, 2011:								

Ending balance – total	$ 169,545	254,361	785,412	211,999	576,459	59,653	–	2,057,429
Ending balances as of September 30, 2011: Loans								
Individually evaluated for impairment	$ 2,377	39,651	12,940	528	30,833	17	–	86,346
Collectively evaluated for impairment	$ 167,168	214,710	772,472	211,471	545,626	59,636	–	1,971,083
Loans acquired with deteriorated credit quality	$ –	922	–	–	–	–	–	922

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he following table presents the activity in the allowance for loan losses for non-covered loans for the year ended December 31, 2010.

($ in thousands)	Commercial, Financial, and Agricultural	Real Estate – Construction, Land Development, & Other Land Loans	Real Estate – Residential, Farmland, and Multi-family	Real Estate – Home Equity Lines of Credit	Real Estate – Commercial and Other	Consumer	Unallo -cated	Total
As of and for the year ended December 31, 2010								
Beginning balance	$ 4,992	9,286	10,779	3,228	6,839	1,610	609	37,343
Charge-offs	(4,691)	(15,721)	(6,962)	(2,490)	(2,354)	(1,587)	–	(33,805)
Recoveries	145	130	548	59	38	171	–	1,091
Provisions	4,285	18,825	6,918	2,837	(551)	1,767	(435)	33,646
Ending balance	$ 4,731	12,520	11,283	3,634	3,972	1,961	174	38,275
Ending balances as of December 31, 2010: Allowance for loan losses								
Individually evaluated for impairment	$ 867	3,740	1,070	269	611	–	–	6,557
Collectively evaluated for impairment	$ 3,864	8,780	10,213	3,365	3,361	1,961	174	31,718
Loans acquired with deteriorated credit quality	$ –	–	–	–	–	–	–	–
Loans receivable as of December 31, 2010:								
Ending balance – total	$ 169,799	303,519	766,743	216,934	563,255	61,781	–	2,082,031
Ending balances as of December 31, 2010: Loans								
Individually evaluated for impairment	$ 3,487	64,549	15,786	1,223	25,213	28	–	110,286
Collectively evaluated for impairment	$ 166,312	238,970	750,957	215,711	538,042	61,753	–	1,971,745

Loans acquired with deteriorated credit quality	$ –	1,144	–	–	–	–	–	1,144

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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, 2011.

($ in thousands)		Covered Loans
As of and for the three months ended September 30, 2011		
Beginning balance	$	5,540
Charge-offs		(4,988)
Recoveries		–
Provisions		2,705
Ending balance	$	3,257
As of and for the nine months ended September 30, 2011		
Beginning balance	$	11,155
Charge-offs		(17,703)
Recoveries		–
Provisions		9,805
Ending balance	$	3,257
Ending balances as of September 30, 2011: Allowance for loan losses		
Individually evaluated for impairment	$	3,257
Collectively evaluated for impairment		–
Loans acquired with deteriorated credit quality		–
Loans receivable as of September 30, 2011:		
Ending balance – total	$	373,824
Ending balances as of September 30, 2011: Loans		
Individually evaluated for impairment	$	33,163
Collectively evaluated for impairment		340,661
Loans acquired with deteriorated credit quality		9,037

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The following table presents the activity in the allowance for loan losses for covered loans for the year ended December 31, 2010.

($ in thousands)	Covered Loans
As of and for the year ended December 31, 2010	
Beginning balance	$ –
Charge-offs	(9,761)
Recoveries	–
Provisions	20,916
Ending balance	$ 11,155
Ending balances as of December 31, 2010: Allowance for loan losses	
Individually evaluated for impairment	$ 11,155
Collectively evaluated for impairment	–
Loans acquired with deteriorated credit quality	–
Loans receivable as of December 31, 2010:	
Ending balance – total	$ 371,128
Ending balances as of December 31, 2010: Loans	
Individually evaluated for impairment	$ 72,690
Collectively evaluated for impairment	298,438
Loans acquired with deteriorated credit quality	4,607

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The following table presents the Company's impaired loans as of September 30, 2011.

($ in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Non-covered loans:				
With no related allowance recorded:				
Commercial, financial, and agricultural:				
Commercial - unsecured	$–	–	–	–
Commercial - secured	266	333	–	556
Secured by inventory and accounts receivable	62	538	–	149
Real estate – construction, land development & other land loans	14,037	20,423	–	18,569
Real estate – residential, farmland, and multi-family	6,787	9,090	–	5,737
Real estate – home equity lines of credit	47	300	–	87
Real estate – commercial	14,686	16,513	–	12,500
Consumer	12	39	–	16
Total non-covered impaired loans with no allowance	$35,897	47,236	–	37,614
Total covered impaired loans with no allowance	$43,918	75,366	–	50,362
Total impaired loans with no allowance recorded	$79,815	122,602	–	87,976
Non-covered loans:				
With an allowance recorded:				
Commercial, financial, and agricultural:				
Commercial - unsecured	$88	88	15	170
Commercial - secured	1,950	1,952	413	1,311
Secured by inventory and accounts receivable	288	288	87	349
Real estate – construction, land development & other land loans	15,462	18,597	2,345	17,138
Real estate – residential, farmland, and multi-family	21,351	22,226	1,883	21,993
Real estate – home equity lines of credit	2,778	2,799	106	2,401
Real estate – commercial	5,861	6,159	132	6,760
Consumer	2,595	2,596	448	2,222
Total non-covered impaired loans with allowance	$50,373	54,705	5,429	52,344

Total covered impaired loans with allowance	$9,530	15,129	2,287	14,827
Total impaired loans with an allowance recorded	$59,903	69,834	7,716	67,171

Interest income recorded on non-covered and covered impaired loans during the three and nine months ended September 30, 2011 is considered insignificant.

The related allowance listed above includes both reserves on loans specifically reviewed for impairment and general reserves on impaired loans that were not specifically reviewed for impairment.

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The following table presents the Company's impaired loans as of December 31, 2010.

($ 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	$–	–	–	138
Commercial - secured	902	967	–	758
Secured by inventory and accounts receivable	240	650	–	186
Real estate – construction, land development & other land loans	22,026	26,012	–	15,639
Real estate – residential, farmland, and multi-family	8,269	9,447	–	7,437
Real estate – home equity lines of credit	302	502	–	381
Real estate – commercial	11,115	11,321	–	7,284
Consumer	20	40	–	46
Total non-covered impaired loans with no allowance	$42,874	48,939	–	31,869
Total covered impaired loans with no allowance	$49,991	77,321	–	83,955
Total impaired loans with no allowance recorded	$92,865	126,260	–	115,824
Non-covered loans:				
With an allowance recorded:				
Commercial, financial, and agricultural:				
Commercial - unsecured	$124	124	24	243
Commercial - secured	579	579	88	1,385
Secured by inventory and accounts receivable	1,026	1,026	609	613
Real estate – construction, land development & other land loans	17,540	19,926	3,932	21,362
Real estate – residential, farmland, and multi-family	23,012	23,012	1,820	22,166
Real estate – home equity lines of credit	2,148	2,223	357	1,928
Real estate – commercial	8,013	8,088	497	9,275
Consumer	687	687	286	910
Total non-covered impaired loans with allowance	$53,129	55,665	7,613	57,882
Total covered impaired loans with allowance	$22,834	27,105	11,155	11,418

Total impaired loans with an allowance recorded	$75,963	82,770	18,768	69,300

Interest income recorded on non-covered and covered impaired loans during the year ended December 31, 2010 is considered insignificant.

The related allowance listed above includes both reserves on loans specifically reviewed for impairment and general reserves on impaired loans that were not specifically reviewed for impairment.

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

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The following table presents the Company's recorded investment in loans by credit quality indicators as of September 30, 2011.

($ in thousands)	Credit Quality Indicator (Grouped by Internally Assigned Grade)					
	Pass (Grades 1, 2, & 3)	Weak Pass (Grade 4)	Watch or Standard Loans (Grade 9)	Special Mention Loans (Grade 5)	Classified Loans (Grades 6, 7, & 8)	Total
Non-covered loans:						
Commercial, financial, and agricultural:						
Commercial - unsecured	$12,802	26,856	–	272	1,078	41,008
Commercial - secured	34,569	63,620	1,402	1,966	4,774	106,331
Secured by inventory and accounts receivable	4,421	15,800	96	1,280	609	22,206
Real estate – construction, land development & other land loans	39,900	158,572	5,008	11,118	39,763	254,361
Real estate – residential, farmland, and multi-family	260,911	445,393	8,769	17,314	53,025	785,412
Real estate – home equity lines of credit	134,160	68,408	2,558	2,664	4,209	211,999
Real estate - commercial	149,336	352,647	31,627	12,997	29,852	576,459
Consumer	31,923	24,006	72	91	3,561	59,653
Total	$668,022	1,155,302	49,532	47,702	136,871	2,057,429
Unamortized net deferred loan costs						1,295
Total non-covered loans						$2,058,724
Total covered loans	$71,351	163,177	–	15,770	123,526	373,824
Total loans	$739,373	1,318,479	49,532	63,472	260,397	2,432,548

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The following table presents the Company's recorded investment in loans by credit quality indicators as of December 31, 2010.

($ in thousands)	Credit Quality Indicator (Grouped by Internally Assigned Grade)					
	Pass (Grades 1, 2, & 3)	Weak Pass (Grade 4)	Watch or Standard Loans (Grade 9)	Special Mention Loans (Grade 5)	Classified Loans (Grades 6, 7, & 8)	Total
Non-covered loans:						
Commercial, financial, and agricultural:						
Commercial – unsecured	$14,850	25,992	–	332	771	41,945
Commercial – secured	40,995	55,918	2,100	2,774	3,796	105,583
Secured by inventory and accounts receivable	6,364	14,165	–	873	869	22,271
Real estate – construction, land development & other land loans	66,321	162,147	7,649	14,068	53,334	303,519
Real estate – residential, farmland, and multi-family	302,667	376,187	15,941	22,436	49,512	766,743
Real estate – home equity lines of credit	137,674	68,876	3,001	3,060	4,323	216,934
Real estate – commercial	190,284	301,828	33,706	12,141	25,296	563,255
Consumer	34,600	24,783	140	408	1,850	61,781
Total	$793,755	1,029,896	62,537	56,092	139,751	2,082,031
Unamortized net deferred loan costs						973
Total non-covered loans						$2,083,004
Total covered loans	$38,276	187,526	–	7,579	137,747	371,128
Total loans	$832,031	1,217,422	62,537	63,671	277,498	2,454,132

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 three and nine month periods ended September 30, 2011 related to interest rate reductions combined with restructured amortization schedules. The Company does not 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 non-accrual or accruing based on the loan's payment status. The troubled debt restructurings that are non-accrual are reported within the non-accrual 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 and nine months ended September 30, 2011.

	For the three months ended September 30, 2011		For the nine months ended September 30, 2011	
	Number of Contracts	Outstanding Recorded Investment (as of period end)	Number of Contracts	Outstanding Recorded Investment (as of period end)
Non-covered TDRs – Accruing				
Real estate – construction, land development & other land loans	1	$ 42	1	$ 42
Real estate – residential, farmland, and multi-family	1	735	5	1,645
Real estate - commercial	–	–	2	1,259
Non-covered TDRs - Nonaccrual				
Real estate – construction, land development & other land loans	–	–	1	357
Real estate – residential, farmland, and multi-family	1	262	2	378
Real estate - commercial	–	–	4	1,408
Total non-covered TDRs arising during period	3	$ 1,039	15	$ 5,089
Total covered TDRs arising during period– Accruing	16	$ 1,229	36	$ 4,755
Total covered TDRs arising during period – Nonaccrual	6	635	8	1,472
Total TDRs arising during period	25	$ 2,903	59	$ 11,316

Accruing loans that defaulted during the three and nine months ended September 30, 2011 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 non-accrual status, or has been transferred to other real estate owned.

	For the three months ended September 30, 2011		For the nine months ended September 30, 2011	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Non-covered accruing TDRs that subsequently defaulted				
Real estate – construction, land development & other land loans	1	$ 3,320	7	$ 13,162

Real estate – residential, farmland, and multi-family	2	124	5	1,281
Real estate - commercial	1	254	10	7,005
Total non-covered TDRs that subsequently defaulted	4	$ 3,698	22	$ 21,448
Total accruing covered TDRs that subsequently defaulted	6	$ 2,650	31	$ 13,082
Total accruing TDRs that subsequently defaulted	10	$ 6,348	53	$ 34,530

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Note 9 – Deferred Loan Costs

The amount of loans shown on the Consolidated Balance Sheets includes net deferred loan costs of approximately $1,295,000, $973,000, and $862,000 at September 30, 2011, December 31, 2010, and September 30, 2010, respectively.

Note 10 – 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 2010 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, 2011	December 31, 2010	September 30, 2010
Receivable related to claims submitted, not yet received	$ 13,802	30,201	8,129
Receivable related to future claims on loans	90,258	86,966	81,643
Receivable related to future claims on other real estate owned	16,890	6,552	3,353
FDIC indemnification asset	$ 120,950	123,719	93,125

The following presents a rollforward of the FDIC indemnification asset since December 31, 2010.

($ in thousands)

Balance at December 31, 2010	$ 123,719
Increase related to Bank of Asheville acquisition	42,218
Increase related to unfavorable change in loss estimates	17,998
Increase related to reimbursable expenses	4,258
Cash received	(59,411)
Accretion of loan discount	(7,894)
Other	62
Balance at September 30, 2011	$ 120,950

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Note 11 – Goodwill and Other Intangible Assets

The following is a summary of the gross carrying amount and accumulated amortization of amortizable intangible assets as of September 30, 2011, December 31, 2010, and September 30, 2010 and the carrying amount of unamortized intangible assets as of those same dates. In 2011, the Company recorded a core deposit premium intangible of $277,000 in connection with the acquisition of The Bank of Asheville, which is being amortized on a straight-line basis over the estimated life of the related deposits of seven years.

($ in thousands)	September 30, 2011 Gross Carrying Amount	September 30, 2011 Accumulated Amortization	December 31, 2010 Gross Carrying Amount	December 31, 2010 Accumulated Amortization	September 30, 2010 Gross Carrying Amount	September 30, 2010 Accumulated Amortization
Amortizable intangible assets:						
Customer lists	$678	343	678	298	678	282
Core deposit premiums	7,867	4,079	7,590	3,447	7,590	3,244
Total	$8,545	4,422	8,268	3,745	8,268	3,526
Unamortizable intangible assets:						
Goodwill	$65,835		65,835		65,835	

Amortization expense totaled $226,000 and $219,000 for the three months ended September 30, 2011 and 2010, respectively. Amortization expense totaled $676,000 and $654,000 for the nine months ended September 30, 2011 and 2010, respectively.

The following table presents the estimated amortization expense for the last quarter of calendar year 2011 and for each of the four calendar years ending December 31, 2015 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, 2011	$ 226
2012	892
2013	781
2014	678
2015	622
Thereafter	924
Total	$ 4,123

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Note 12 – Pension Plans

The Company sponsors two defined benefit pension plans – a qualified retirement plan (the "Pension Plan") which is generally available to all employees hired prior to June 19, 2009, and a Supplemental Executive Retirement Plan (the "SERP"), which is for the benefit of certain senior management executives of the Company.

The Company recorded pension expense totaling $816,000 and $806,000 for the three months ended September 30, 2011 and 2010, respectively, related to the Pension Plan and the SERP. The following table contains the components of the pension expense.

	For the Three Months Ended September 30,					
($ in thousands)	2011 Pension Plan	2010 Pension Plan	2011 SERP	2010 SERP	2011 Total Both Plans	2010 Total Both Plans
Service cost – benefits earned during the period	$478	454	99	70	577	524
Interest cost	432	410	102	98	534	508
Expected return on plan assets	(444)	(399)		–	(444)	(399)
Amortization of transition obligation	1	–		–	1	–
Amortization of net (gain)/loss	114	139	26	25	140	164
Amortization of prior service cost	3	4	5	5	8	9
Net periodic pension cost	$584	608	232	198	816	806

The Company recorded pension expense totaling $2,496,000 and $2,372,000 for the nine months ended September 30, 2011 and 2010, respectively, related to the Pension Plan and the SERP. The following table contains the components of the pension expense.

	For the Nine Months Ended September 30,					
($ in thousands)	2011 Pension Plan	2010 Pension Plan	2011 SERP	2010 SERP	2011 Total Both Plans	2010 Total Both Plans
Service cost – benefits earned during the period	$1,434	1,302	345	306	1,779	1,608
Interest cost	1,296	1,166	306	283	1,602	1,449
Expected return on plan assets	(1,332)	(1,109)		–	(1,332)	(1,109)
Amortization of transition obligation	3	2		–	3	2
Amortization of net (gain)/loss	342	337	78	61	420	398
Amortization of prior service cost	9	10	15	14	24	24
Net periodic pension cost	$1,752	1,708	744	664	2,496	2,372

The Company's contributions to the Pension Plan are based on computations by independent actuarial consultants and are intended to provide the Company with the maximum deduction for income tax purposes. The contributions are invested to provide for benefits under the Pension Plan. The Company contributed $2,500,000 to the Pension Plan in the third quarter of 2011 and does not expect any further contributions the remainder of the year.

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

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Note 13 – 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 (loss) for the Company are as follows:

($ in thousands)	September 30, 2011	December 31, 2010	September 30, 2010
Unrealized gain (loss) on securities available for sale	$ 4,047	2,478	4,042
Deferred tax asset (liability)	(1,578)	(966)	(1,576)
Net unrealized gain (loss) on securities available for sale	2,469	1,512	2,466
Additional pension liability	(10,460)	(10,905)	(8,740)
Deferred tax asset	4,132	4,308	3,452
Net additional pension liability	(6,328)	(6,597)	(5,288)
Total accumulated other comprehensive income (loss)	$ (3,859)	(5,085)	(2,822)

Note 14 – Fair Value

The carrying amounts and estimated fair values of financial instruments at September 30, 2011 and December 31, 2010 are as follows:

	September 30, 2011		December 31, 2010	
($ in thousands)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Cash and due from banks, noninterest-bearing	$75,772	75,772	56,821	56,821
Due from banks, interest-bearing	167,053	167,053	154,320	154,320
Federal funds sold	659	659	861	861
Securities available for sale	159,870	159,870	181,182	181,182
Securities held to maturity	57,533	61,512	54,018	53,312
Presold mortgages in process of settlement	3,823	3,823	3,962	3,962
Loans – non-covered, net of allowance	2,024,327	1,979,700	2,044,729	2,020,109
Loans – covered, net of allowance	370,567	370,567	359,973	359,973
FDIC indemnification asset	120,950	120,612	123,719	122,351
Accrued interest receivable	11,568	11,568	13,579	13,579
Deposits	2,729,404	2,733,835	2,652,513	2,657,214
Securities sold under agreements to repurchase	60,498	60,498	54,460	54,460
Borrowings	135,759	104,612	196,870	168,508
Accrued interest payable	1,938	1,938	2,082	2,082

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

Cash and 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 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.

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 estimated based on discounted cash flows or underlying collateral values, where applicable.

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.

Deposits and Securities Sold Under Agreements to Repurchase – The fair value of securities sold under agreements to repurchase and deposits with no stated maturity, such as non-interest-bearing demand deposits, savings, NOW, 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 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.

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 foreclosed properties, 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.

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: Quoted prices for similar instruments in active or non-active markets and model-derived valuations in which all significant inputs are observable in active markets.

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.

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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 September 30, 2011.

($ in thousands)

Description of Financial Instruments	Fair Value at September 30, 2011	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	$19,734	—	19,734	—
Mortgage-backed securities	115,037	—	115,037	—
Corporate bonds	12,806	—	12,806	—
Equity securities	12,293	337	11,956	—
Total available for sale securities	$159,870	337	159,533	—
Nonrecurring				
Impaired loans – covered	$53,448	—	53,448	—
Impaired loans – non-covered	86,270	—	86,270	—
Other real estate – covered	104,785	—	104,785	—
Other real estate – non-covered	32,673	—	32,673	—

The following table summarizes the Company's financial instruments that were measured at fair value on a recurring and nonrecurring basis at December 31, 2010.

($ in thousands)

Description of Financial Instruments	Fair Value at December 31, 2010	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	$43,273	—	43,273	—
Mortgage-backed securities	107,460	—	107,460	—
Corporate bonds	15,330	—	15,330	—
Equity securities	15,119	360	14,759	—
Total available for sale securities	$181,182	360	180,822	—
Nonrecurring				
Impaired loans – covered	$72,825	—	72,825	—
Impaired loans – non-covered	96,003	—	96,003	—
Other real estate – covered	94,891	—	94,891	—
Other real estate – non-covered	21,081	—	21,081	—

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

Securities — When quoted market prices are available in an active market, the securities are classified as Level 1 in the valuation hierarchy. Level 1 securities for the Company include certain equity securities. 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. 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.

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Impaired loans —Fair values for impaired loans in the above table are collateral dependent and are estimated based on underlying collateral values, which are then adjusted for the cost related to liquidation of the collateral.

Other real estate – Other real estate, consisting of properties obtained through foreclosure or in satisfaction of loans, is reported at the lower of cost or fair value, determined on the basis of current appraisals, comparable sales, and other estimates of value obtained principally from independent sources, adjusted for estimated selling costs. 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.

There were no transfers to or from Level 1 and 2 during the three or nine months ended September 30, 2011 or 2010.

For the nine months ended September 30, 2011, the increase in the fair value of securities available for sale was $1,646,000 which is included in other comprehensive income (net of tax expense of $642,000). Fair value measurement methods at September 30, 2011 are consistent with those used in prior reporting periods.

Note 15 – Participation in the U.S. Treasury Capital Purchase Program and Small Business Lending Fund

U.S. Treasury Capital Purchase Program

On January 9, 2009, the Company completed the sale of $65 million of Series A preferred stock to the United States Treasury Department (Treasury) under the Treasury's Capital Purchase Program. The program was designed to attract broad participation by healthy banking institutions to help stabilize the financial system and increase lending for the benefit of the U.S. economy.

Under the terms of the stock purchase agreement, the Treasury received (i) 65,000 shares of fixed rate cumulative perpetual preferred stock with a liquidation value of $1,000 per share and (ii) a warrant to purchase 616,308 shares of the Company's common stock, no par value, in exchange for $65 million. As discussed below, the Company redeemed this preferred stock in the third quarter of 2011, but the warrant remains outstanding.

The Series A preferred stock qualified as Tier 1 capital and pays cumulative dividends at a rate of 5% for the first five years, and 9% thereafter.

The warrant has a 10-year term and is immediately exercisable upon its issuance, with an exercise price equal to $15.82 per share. The Treasury has agreed not to exercise voting power with respect to any shares of common stock issued upon exercise of the warrant.

The Company allocated the $65 million in proceeds to the preferred stock and the common stock warrant based on their relative fair values. To determine the fair value of the preferred stock, the Company used a discounted cash flow model that assumed redemption of the preferred stock at the end of year five. The discount rate utilized was 13% and the estimated fair value was determined to be $36.2 million. The fair value of the common stock warrant was estimated to be $2.8 million using the Black-Scholes option pricing model with the following assumptions:

Expected dividend yield	4.83%
Risk-free interest rate	2.48%

Expected life	10 years
Expected volatility	35.00%
Weighted average fair value	$ 4.47

The aggregate fair value result for both the preferred stock and the common stock warrant was determined to be $39.0 million, with 7% of this aggregate total attributable to the warrant and 93% attributable to the preferred stock. Therefore, the $65 million issuance was allocated with $60.4 million being assigned to the preferred stock and $4.6 million being assigned to the common stock warrant.

The $4.6 million difference between the $65 million face value of the preferred stock and the $60.4 million allocated to it upon issuance was recorded as a discount on the preferred stock. Until the Company redeemed the preferred stock in the third quarter of 2011 (discussed below), the $4.6 million discount was being accreted, using the effective interest method, as a reduction in net income available to common shareholders over a five-year period at approximately $0.8 million to $1.0 million per year.

On September 1, 2011, the Company redeemed the 65,000 shares of outstanding Series A preferred stock from the U.S. Treasury for a redemption price of $65,000,000, plus unpaid dividends. The warrant for the common stock remains outstanding. The Company funded the majority of this transaction by simultaneously issuing Series B preferred stock under the Small Business Lending Fund (see below).

Due to the redemption of the preferred stock, the Company accreted the remaining discount of $2.5 million during the third quarter of 2011, which resulted in total discount accretion for the first nine months of 2011 of $2.9 million. These accretion amounts compare to $0.2 million and $0.6 million recorded for the three and nine month periods in 2010, respectively. Preferred stock discount accretion is deducted from net income in computing "Net income available to common shareholders."

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). 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 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.

The Series B preferred stock qualifies as Tier 1 capital. The dividend rate, as a percentage of the liquidation amount, can fluctuate on a quarterly basis during the first 10 quarters during which the Series B preferred stock is outstanding, based upon changes in the level of "Qualified Small Business Lending" or "QBSL". The dividend rate for the initial dividend period (which ends September 30, 2011) is five percent (5%). Based upon the increase in level of QBSL over the baseline level calculated under the terms of the related purchase agreement, the dividend rate for the second dividend period (which will end on December 31, 2011) is expected to be five percent (5%), subject to confirmation by Treasury. For the third through ninth calendar quarters, the dividend rate may be adjusted to between one percent (1%) and five percent (5%) per annum based upon the increase in QBSL as compared to the baseline. For the tenth calendar quarter through four and one half years after issuance, the dividend rate will be fixed at between one percent (1%) and seven percent (7%) based upon the level of QBSL compared to the baseline. After four and one half years from the issuance, the dividend rate will increase to nine percent (9%) (including a quarterly lending incentive fee of 0.5%). Subject to regulatory approval, the Company is generally permitted to redeem the Series B preferred shares at par plus unpaid dividends.

Based on the Company's QBSL at September 30, 2011, which increased during the quarter then ended, the Company expects its dividend rate to be approximately 4.8% for the fourth quarter of 2011.

There was no discount recorded related to the SBLF preferred stock (because no warrants were issued in connection with this preferred stock issuance), and therefore there will be no future amounts recorded for preferred stock discount accretion.

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Note 16 – Subsequent Event

On October 21, 2011, the Company entered into a Branch Purchase and Assumption Agreement ("The Agreement"). The Agreement, between the Company's subsidiary, First Bank, and Waccamaw Bankshares, Inc., and its subsidiary, Waccamaw Bank, provides for First Bank to acquire eleven branches from Waccamaw Bank, which includes assuming all deposits, selected performing loans, and all premises and equipment. Deposits total approximately $180 million and loans total approximately $98 million.

The Agreement provides for the deposits to be purchased at the following premiums by account type, which was expected at the announcement date to result in a blended premium of approximately 1.5% of total deposits:

- 5.0% for noninterest demand deposit accounts
- 3.5% for negotiable order of withdrawal ("NOW") accounts
- 3.0% for savings accounts
- 1.5% for money market accounts
- 0.0% for certificates of deposit

The Agreement provides for loans to be purchased at par (the amount of principal outstanding and interest receivable) and for premises and equipment to be purchased at net book value. Approximately $31 million of the $98 million in loans being acquired are subject to a provision in the Agreement allowing First Bank to put the loans back to Waccamaw Bank at par value for any reason within 20 months following the closing date of the transaction. The Agreement, which is expected to close during the first quarter of 2012, is subject to regulatory approval and other customary conditions.

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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 valuation of acquired assets 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 non-single family home loans greater than $250,000 that are defined as “impaired loans.” A loan is considered to be impaired when, based on current information and events, it is probable we will be unable to collect all amounts due according to the contractual terms of the loan agreement. 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.

The second component of the allowance model is an estimate of losses for impaired single family home loans, impaired loans less than $250,000, and all loans not considered to be impaired loans. Impaired single family home loans, impaired loans less than $250,000, and loans that we have classified as having normal credit risk are segregated by loan type, and estimated loss percentages are assigned to each loan type, based on the historical losses, current economic conditions, and operational conditions specific to each loan type. Loans that we have risk graded as having more than “standard” risk but not considered to be impaired are segregated between those relationships with outstanding balances exceeding $500,000 and those that are less than that amount. For those loan relationships with outstanding balances exceeding $500,000, we review the attributes of each individual loan and assign any necessary loss reserve based on various factors including payment history, borrower strength, collateral value, and guarantor strength. For loan relationships less than $500,000 with more than standard risk but not considered to be impaired, loss percentages are based on a multiple of the estimated loss rate for loans of a similar loan type with normal risk. The multiples assigned vary by type of loan, depending on risk, and we have consulted with an external credit review firm in assigning those multiples.

The reserve estimated for impaired loans is then added to the reserve estimated for all other loans. This becomes our “allocated allowance.” In addition to the allocated allowance derived from the model, we also evaluate other data such as the ratio of the allowance for loan losses to total loans, net loan growth information, nonperforming asset levels and trends in such data. Based on this additional analysis, we may determine that an additional amount of allowance for loan losses is necessary to reserve for probable losses. This additional amount, if any, is our “unallocated allowance." The sum of the allocated allowance and the unallocated allowance is compared to the actual allowance for loan losses recorded on our books and any adjustment necessary for the recorded allowance to equal the computed allowance is recorded as a provision for loan losses. The provision for loan losses is a direct charge to earnings in the period recorded.

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Loans covered under loss share agreements 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.

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.

We evaluated our goodwill for impairment as of September 30, 2011. Based on this evaluation, we determined the fair value of our community banking operation was approximately $18.50 per common share, or 6% higher, than the $17.08 stated book value of our common stock at the date of valuation. To assist us in computing the fair value of our community banking operation, we engaged a consulting firm who used eight valuation techniques as part of their analysis, which resulted in the conclusion of the $18.50 value.

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 that 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.

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 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.

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

Overview

We reported a net loss available to common shareholders of $0.7 million, or ($0.04) per diluted common share, for the three months ended September 30, 2011 compared to net income available to common shareholders of $2.8 million, or $0.17 per diluted common share, for the same period in 2010. The results for quarter ended September 30, 2011 were negatively impacted by $2.3 million of accelerated accretion of the discount remaining on the preferred stock that was redeemed during the quarter. This stock was originally issued to the U.S. Treasury in January 2009 as part of the program known as TARP. When this preferred stock was redeemed, the remaining discount that was recorded upon the issuance of the stock, which had been on a five year accretion schedule, was immediately accreted as a reduction to net income available to common shareholders.

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For the nine months ended September 30, 2011, net income available to common shareholders amounted to $7.3 million, or $0.43 per diluted common share, compared to $9.1 million, or $0.54 per diluted common share, for the nine months ended September 30, 2010.

Operating results for the nine month period ended September 30, 2011 were impacted by the discount accretion previously discussed, as well as a $10.2 million bargain purchase gain related to the acquisition of The Bank of Asheville in Asheville, North Carolina. This gain resulted from the difference between the purchase price and the acquisition-date fair values of the acquired assets and liabilities. The after-tax impact of this gain was $6.2 million, or $0.37 per diluted common share. The Bank of Asheville was closed by regulatory authorities on January 21, 2011, and First Bank entered into a loss share purchase and assumption agreement on that date with the FDIC to purchase substantially all of its assets and liabilities. At the time we assumed its operations, The Bank of Asheville operated through five branches in Asheville, North Carolina, and had total assets of $198 million, including $161 million in loans and $192 million in deposits.

Note Regarding Components of Earnings

In addition to the gain related to The Bank of Asheville acquisition, our results of operations are significantly affected by the on-going accounting for the two FDIC-assisted failed bank acquisitions that we have completed. In the discussion below, 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.

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 pay off, we record positive adjustments to interest income over the life of the respective loan – also referred to as discount accretion. For 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% due to the corresponding adjustments made to the indemnification asset.

Net Interest Income and Net Interest Margin

Net interest income for the third quarter of 2011 amounted to $33.5 million, a 7.8% increase from the $31.1 million recorded in the third quarter of 2010. Net interest income for the nine months ended September 30, 2011 amounted to $100.3 million, a 6.9% increase from the $93.8 million recorded in the comparable period of 2010. The increases in net interest income have been due to higher net interest margins realized, which were partially offset by lower levels of average earning assets.

Our net interest margin (tax-equivalent net interest income divided by average earnings assets) in the third quarter of 2011 was 4.79%, a 49 basis point increase compared to the 4.30% margin realized in the third quarter of 2010. For the nine month period ended September 30, 2011, our net interest margin was 4.77% compared to 4.27% for the same period in 2010. The higher margins are primarily related to larger amounts of discount accretion on loans purchased in failed bank acquisitions, as well as lower overall funding costs. Our cost of funds has steadily declined from 1.06% in the third quarter of 2010 to 0.78% in the third quarter of 2011. As previously discussed, the amount of discount accretion is offset by a corresponding 80% reduction in indemnification asset income, and therefore the positive impact of the discount accretion on our pretax income is equal to 20% of the amount of the discount accretion.

Provision for Loan Losses and Asset Quality

Our provisions for loan losses remain at elevated levels, primarily due to high unemployment rates and declining property values in our market area that negatively impact collateral dependent real estate loans. Our provision for loan losses for non-covered loans amounted to $6.4 million in the third quarter of 2011 compared to $8.4 million in the third quarter of 2010. For the nine months ended September 30, 2011, the provision for loan losses for non-covered loans was $21.6 million compared to $24.0 million for the comparable period of 2010. The lower provisions for loan losses for non-covered loans in 2011 are primarily due to stabilization in overall loan quality and lower levels of non-covered nonperforming loans.

Our provisions for loan losses for covered loans amounted to $2.7 million and $9.8 million for the three and nine months ended September 30, 2011, whereas we did not record any provisions for loan losses on covered loans in the first nine months of 2010. The 2011 provisions were necessary primarily due to declines in real estate values on collateral dependent loans. As previously discussed, the provision for loan losses related to covered loans is offset by an 80% increase to the FDIC indemnification asset, which increases noninterest income.

Total non-covered nonperforming assets have remained fairly stable over the past five quarter ends, ranging from $117 million to $120 million, or approximately 4.2% of total non-covered assets. Covered nonperforming assets have generally declined over that same period, amounting to $158 million at September 30, 2011 compared to $181 million at September 30, 2010.

Noninterest Income

Total noninterest income was $3.5 million in the third quarter of 2011 compared to $4.0 million for the third quarter of 2010. For the nine months ended September 30, 2011 and 2010, we recorded noninterest income of $22.8 million and $14.2 million, respectively. The significant increase in noninterest income for the nine month period comparison is primarily attributable to the aforementioned bargain purchase gain recorded in the first quarter of 2011 related to The Bank of Asheville transaction.

Noninterest Expenses

Noninterest expenses amounted to $24.0 million in the third quarter of 2011, a 15.7% increase over the $20.7 million recorded in the same period of 2010. Noninterest expenses for the nine months ended September 30, 2011 amounted to $71.9 million, a 10.7% increase from the $64.9 million recorded in the first nine months of 2010. The increases are primarily due to growth of our branch network and additional infrastructure necessary to manage growth and to address increasing compliance obligations and collection activities.

Balance Sheet and Capital

Total assets at September 30, 2011 amounted to $3.3 billion, a 1.7% decrease from a year earlier. Total loans at September 30, 2011 amounted to $2.4 billion, a 3.1% decrease from a year earlier, and total deposits amounted to $2.7 billion at September 30, 2011, a 0.8% decrease from a year earlier.

Excluding acquisition growth, we have generally experienced declines in loans and deposits, which began with the onset of the economic slowdown. Normal loan paydowns and loan foreclosures have exceeded new loan growth, which has provided the liquidity to lessen reliance on high cost deposits. However, for the first time since this trend began, we experienced sequential quarterly growth in our non-covered loan portfolio during the third quarter 2011, which increased $18 million from June 30, 2011 to September 30, 2011. We are actively pursuing lending opportunities in order to improve our asset yields, as well as to potentially decrease the dividend rate on our preferred stock, as discussed in the following paragraph.

On September 1, 2011, we received an investment of $63.5 million in the Company's preferred stock from the U.S. Treasury as part of our participation in the Small Business Lending Fund (SBLF). Simultaneously, we redeemed the $65 million of shares of preferred stock issued to the Treasury in January 2009 under the Capital Purchase Program, a part of the Troubled Asset Relief Program (TARP). The goal of the SBLF is to incentivize healthy banks to make loans to small businesses. Only 36% of the banks in the nation that applied to participate in the SBLF were approved. Depending on our success in making small business loans, the dividend rate on the preferred stock could be reduced from the current 5% to as low as 1% for several years. Based on current loan levels, we expect to pay a rate of approximately 4.8% during the fourth quarter of 2011. As previously discussed, the redemption of the TARP preferred stock resulted in an immediate acceleration of the remaining discount on the preferred stock that was recorded at the time of its issuance. There was no discount recorded related to the SBLF preferred stock (because no warrants were issued in connection with this preferred stock issuance), and therefore there will be no future amounts recorded for preferred stock discount accretion. See Note 15 to the consolidated financial statements for more information.

The Company remains well-capitalized by all regulatory standards, with a Total Risk-Based Capital Ratio of 16.91% compared to the 10.00% minimum to be considered well-capitalized. The Company's tangible common equity to tangible assets ratio was 6.75% at September 30, 2011, an increase of 20 basis points from a year earlier.

Our annualized return on average assets for the three and nine month periods ended September 30, 2011 was (0.09%) and 0.29%, respectively, compared to 0.34% and 0.37% for the comparable periods of 2010. This ratio was calculated by dividing annualized net income available to common shareholders by average assets.

Our annualized return on average common equity for the three and nine month periods ended September 30, 2011 was (1.00%) and 3.38%, respectively, compared to 3.89% and 4.30% for comparable periods of 2010. This ratio was calculated by dividing annualized net income available to common shareholders by average common equity.

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, 2011 amounted to $33,489,000, an increase of $2,418,000, or 7.8% from the $31,071,000 recorded in the third quarter of 2010. Net interest income on a tax-equivalent basis for the three month period ended September 30, 2011 amounted to $33,878,000, an increase of $2,477,000, or 7.9% from the $31,401,000 recorded in the third quarter of 2010. 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)		2011	2010
Net interest income, as reported	$	33,489	31,071
Tax-equivalent adjustment		389	330
Net interest income, tax-equivalent	$	33,878	31,401

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Net interest income for the nine months ended September 30, 2011 amounted to $100,283,000, an increase of $6,499,000, or 6.9%, from the $93,784,000 recorded in the first nine months of 2010. Net interest income on a tax-equivalent basis for the nine months ended September 30, 2011 amounted to $101,445,000, an increase of $6,705,000, or 7.1%, from the $94,740,000 recorded in the first nine months of 2010.

	Nine Months Ended September 30,	
($ in thousands)	2011	2010
Net interest income, as reported	$ 100,283	93,784
Tax-equivalent adjustment	1,162	956
Net interest income, tax-equivalent	$ 101,445	94,740

There are two primary factors that cause changes in the amount of net interest income we record - 1) growth in loans and deposits, 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, 2011, the increase in net interest income over the comparable periods in 2010 was due to a higher net interest margin, which was partially offset by a lower level of earning assets due to a contraction of our balance sheet over the past twelve months.

Our net interest margin in the third quarter of 2011 was 4.79%, a 49 basis point increase from the 4.30% realized in the third quarter of 2010. For the nine month period ended September 30, 2011, our net interest margin was 4.77% compared to 4.27% for the same period in 2010. There have been no changes in the interest rates set by the Federal Reserve since December 2008, and we have been able to lower rates on maturing time deposits that were originated in periods of higher rates. Also, to a lesser degree, we have been able to progressively lower interest rates on various types of savings, NOW and money market accounts. We have also experienced declines in our levels of higher cost deposit accounts, including internet deposits and large denomination time deposits.

Our net interest margin also benefitted from the net accretion of purchase accounting premiums/discounts associated with the Cooperative Bank acquisition in June 2009 and, to a lesser degree, the acquisition of Great Pee Dee Bancorp in April 2008 and the Bank of Asheville in January 2011. For the nine months ended September 30, 2011 and 2010, we recorded $9,921,000 and $6,742,000, respectively, in net accretion of purchase accounting premiums/discounts that increased net interest income. The table below presents the components of these purchase accounting premiums/discounts.

	For the Three Months Ended		For the Nine Months Ended	
($ in thousands)	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Interest income – reduced by premium amortization on loans	$ (116)	(49)	(337)	(147)
Interest income – increased by accretion of loan discount (1)	3,339	1,231	9,868	4,374
Interest expense – reduced by premium amortization of deposits	96	296	279	2,211
Interest expense – reduced by premium amortization of borrowings	37	72	111	304
Impact on net interest income	$ 3,356	1,550	9,921	6,742

(1) Beginning January 1, 2011, indemnification asset income is reduced by 80% of the amount of the accretion of loan discount, and therefore the net effect is that pretax income is positively impacted by 20% of the amounts in this line item. Prior to January 1, 2011, accretion of the loan discount was reported net of the indemnification asset adjustment. All other amounts in this table directly impact pretax income.

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The following tables present net interest income analysis on a tax-equivalent basis.

	For the Three Months Ended September 30,							
	2011				2010			
($ in thousands)	Average Volume	Average Rate		Interest Earned or Paid	Average Volume	Average Rate		Interest Earned or Paid
Assets								
Loans (1)	$2,441,486	6.04	%	$37,200	$2,529,356	5.79	%	$36,897
Taxable securities	163,566	3.45	%	1,421	147,215	3.68	%	1,364
Non-taxable securities (2)	57,577	6.13	%	889	49,261	5.99	%	744
Short-term investments, principally federal funds	145,576	0.29	%	107	168,828	0.32	%	135
Total interest-earning assets	2,808,205	5.60	%	39,617	2,894,660	5.36	%	39,140
Cash and due from banks	74,797				59,914			
Premises and equipment	69,413				54,054			
Other assets	341,343				263,533			
Total assets	$3,293,758				$3,272,161			
Liabilities								
NOW accounts	$364,140	0.20	%	$183	$367,931	0.22	%	$200
Money market accounts	504,851	0.55	%	696	495,324	0.82	%	1,029
Savings accounts	146,576	0.38	%	141	158,109	0.78	%	312
Time deposits >$100,000	757,213	1.30	%	2,479	770,210	1.54	%	2,991
Other time deposits	628,272	1.04	%	1,651	693,422	1.55	%	2,713
Total interest-bearing deposits	2,401,052	0.85	%	5,150	2,484,996	1.16	%	7,245
Securities sold under agreements to repurchase	54,657	0.33	%	46	58,207	0.41	%	60
Borrowings	137,164	1.57	%	543	70,559	2.44	%	434
Total interest-bearing liabilities	2,592,873	0.88	%	5,739	2,613,762	1.17	%	7,739
Non-interest-bearing deposits	323,366				292,362			
Other liabilities	21,944				12,976			
Shareholders’ equity	355,575				353,061			
Total liabilities and shareholders’ equity	$3,293,758				$3,272,161			
Net yield on interest-earning assets and net interest income		4.79	%	$33,878		4.30	%	$31,401
Interest rate spread		4.72	%			4.19	%	
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 $389,000 and $330,000 in 2011 and 2010, 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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	For the Nine Months Ended September 30,							
	2011				2010			
($ in thousands)	Average Volume	Average Rate		Interest Earned or Paid	Average Volume	Average Rate		Interest Earned or Paid
Assets								
Loans (1)	$2,471,804	6.08	%	$112,471	$2,577,640	5.85	%	$112,724
Taxable securities	177,798	3.25	%	4,316	162,635	3.68	%	4,473
Non-taxable securities (2)	57,369	6.20	%	2,661	44,873	6.36	%	2,133
Short-term investments, principally federal funds	134,050	0.30	%	300	181,276	0.34	%	463
Total interest-earning assets	2,841,021	5.64	%	119,748	2,966,424	5.40	%	119,793
Cash and due from banks	72,097				59,126			
Premises and equipment	68,567				54,164			
Other assets	340,877				263,509			
Total assets	$3,322,562				$3,343,223			
Liabilities								
NOW accounts	$346,314	0.23	%	$594	$345,417	0.25	%	$656
Money market accounts	507,711	0.57	%	2,161	512,524	0.90	%	3,442
Savings accounts	153,310	0.52	%	598	156,351	0.83	%	971
Time deposits >$100,000	777,663	1.33	%	7,744	800,834	1.61	%	9,645
Other time deposits	656,074	1.14	%	5,587	735,202	1.59	%	8,762
Total interest-bearing deposits	2,441,072	0.91	%	16,684	2,550,328	1.23	%	23,476
Securities sold under agreements to repurchase	56,599	0.34	%	144	57,637	0.57	%	244
Borrowings	118,486	1.66	%	1,475	84,605	2.11	%	1,333
Total interest-bearing liabilities	2,616,157	0.94	%	18,303	2,692,570	1.24	%	25,053
Non-interest-bearing deposits	326,150				285,166			
Other liabilities	26,873				15,848			
Shareholders’ equity	353,382				349,639			
Total liabilities and shareholders’ equity	$3,322,562				$3,343,223			
Net yield on interest-earning assets and net interest income		4.77	%	$101,445		4.27	%	$94,740
Interest rate spread		4.70	%			4.16	%	
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 $1,162,000 and $956,000 in 2011 and 2010, 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 2011 were $2.441 billion, which was 3.5% less than the average loans outstanding for the third quarter of 2010 ($2.529 billion). Average loans outstanding for the nine months ended September 30, 2011 were $2.472 billion, which was 4.1% less than the average loans outstanding for the nine months ended September 30, 2010 ($2.578 billion). The mix of our loan portfolio remained substantially the same at September 30, 2011 compared to December 31, 2010, with approximately 90% of our loans being real estate loans, 6% being commercial, financial, and agricultural loans, and the remaining 4% 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 2011 were $2.724 billion, which was 1.9% less than the average deposits outstanding for the third quarter of 2010 ($2.777 billion). Average deposits outstanding for the nine months ended September 30, 2011 were $2.767 billion, which was 2.4% less than the average deposits outstanding for the nine months ended September 30, 2010 ($2.835 billion). Generally, we can reinvest funds from deposits at higher yields than the interest rate being paid on those deposits, and therefore increases in deposits typically result in higher amounts of net interest income.

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The lower average loan and deposit balances when comparing the three and nine month periods ended September 30, 2011 to the respective periods of 2010 are a result of declines in loans and deposits that we have experienced over the past twelve months. As a result of the weak economy, we have experienced an increase in loan charge-offs and an increase in foreclosure activity, which have reduced our loan balances. Also, loan demand in most of our market areas remains weak, and the pace of loan principal repayments has exceeded new loan originations. With the negative loan growth experienced, we have been able to lessen our reliance on higher cost sources of funding, including internet deposits and large denomination time deposits, which has resulted in lower deposit balances and a lower average cost of funds.

The yields earned on assets increased in 2011 compared to 2010 primarily as a result of the purchase accounting adjustments previously discussed. The rates paid on liabilities (funding costs) have declined in 2011 compared to 2010, primarily as a result of the maturity and repricing of liabilities that were originated during periods of higher interest rates and our ability to progressively reduce the rates paid on demand deposits. As derived from the above table, in the third quarter of 2011, the average yield on interest-earning assets was 5.60%, a 24 basis point increase from the 5.36% yield in the comparable period of 2010, while the average rate on interest bearing liabilities declined by 29 basis points, from 1.17% in the third quarter of 2010 to 0.88% in the third quarter of 2011.

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

Our provisions for loan losses and nonperforming assets remain at elevated levels, primarily due to high unemployment rates and declining property values in our market area that negatively impact collateral dependent real estate loans. Our total provision for loan losses was $9.1 million for the third quarter of 2011 compared to $8.4 million in the third quarter of 2010. For the nine months ended September 30, 2011 our total provision for loan losses was $31.4 million compared to $24.0 million for the first nine months of 2010. 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.

Our provision for loan losses for non-covered loans amounted to $6.4 million in the third quarter of 2011 compared to $8.4 million in the third quarter of 2010. For the nine months ended September 30, 2011 the provision for loan losses for non-covered loans was $21.6 million compared to $24.0 million for the same period of 2010. The lower provisions for loan losses for non-covered loans in 2011 are primarily due to stabilization in overall loan quality and lower levels of non-covered nonperforming loans.

Our provisions for loan losses for covered loans amounted to $2.7 million and $9.8 million for the three and nine months ended September 30, 2011, respectively, whereas we did not record any provisions for loan losses for covered loans in the first nine months of 2010. The provisions recorded in 2011 were necessary primary as a result of declines in the value of the collateral associated with covered nonaccrual loans. As previously discussed, the provision for loan losses related to covered loans is offset by an 80% increase to the FDIC indemnification asset, which increases noninterest income.

Our non-covered nonperforming assets amounted to $119 million at September 30, 2011, compared to $117 million at December 31, 2010 and $118 million at September 30, 2010. At September 30, 2011, the ratio of non-covered nonperforming assets to total non-covered assets was 4.21%, compared to 4.16% at December 31, 2010, and 4.16% at September 30, 2010. Our outlook for nonperforming non-covered assets is consistent with the recent trend, which is that we do not expect material improvement, nor deterioration, in the near future.

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Our ratio of annualized net charge-offs to average non-covered loans was 1.26% for the third quarter of 2011 compared to 1.06% in the third quarter of 2010. The same ratio for the nine months ended September 30, 2011 was 1.66% compared to 1.04% for the first nine months of 2010.

Our nonperforming assets that are covered by FDIC loss share agreements have generally declined over the past twelve months, amounting to $158 million at September 30, 2011 compared to $168 million at December 31, 2010 and $181 million at September 30, 2010. We continue to submit claims to the FDIC on a regular basis pursuant to the loss share agreements.

Total noninterest income was $3.5 million in the third quarter of 2011 compared to $4.0 million for the third quarter of 2010. For the nine months ended September 30, 2011 and 2010, we recorded noninterest income of $22.8 million and $14.2 million, respectively. The significant increase in noninterest income for the nine month period comparison is primarily attributable to the aforementioned bargain purchase gain recorded in the first quarter of 2011.

Within noninterest income, service charges on deposits declined for the first nine months of 2011 compared to the same period in 2010, amounting to $10.0 million in 2011 compared to $10.4 million in 2010. This decline was primarily attributable to lower overdraft fees, which began declining in the second half of 2010 partially as a result of new regulations that took effect in the third quarter of 2010 that limit our ability to charge overdraft fees. Service charges on deposit accounts recorded in the third quarter of 2011 were approximately the same as they were in the third quarter of 2010. Revenue that was lost in 2010 was substantially replaced by new fees on deposit accounts that took effect April 1, 2011.

Other service charges, commissions and fees amounted to $1.7 million in the third quarter of 2011 compared to $1.3 million in the third quarter of 2010. For the nine months ended September 30, 2011, this line item totaled $5.0 million compared to $4.1 million in the comparable period of 2010. The increases in 2011 are primarily attributable to increased debit card usage by our customers. We earn a small fee each time our customers make a debit card transaction. Because we have less than $10 billion in assets, we are exempt from recently announced regulatory rules limiting this income.

We continue to experience losses and write-downs on our foreclosed properties due to declining property values in our market area. For the third quarter of 2011, these losses amounted to $5.2 million for covered properties compared to $6.3 million in the third quarter of 2010. For the first nine months of 2011, losses on covered properties amounted to $12.7 million compared to $11.8 million for the same period in 2010.

As previously discussed, indemnification asset income is recorded to reflect additional amounts expected to be received from the FDIC due to covered loan and foreclosed property losses arising during the period. For the third quarter of 2011, indemnification asset income totaled $3.6 million compared to $5.1 million the third quarter of 2010. For the nine months ended September 30, 2011, indemnification asset income amounted to $10.5 million compared to $9.5 million for the same period of 2010.

Losses on non-covered foreclosed properties amounted to $0.9 million for the third quarter of 2011 compared to $0.1 million in the third quarter of 2010. For the nine months ended September 30, 2011, losses on non-covered foreclosed properties amounted to $2.5 million compared to $0.1 million for the comparable period of 2010.

Noninterest expenses amounted to $24.0 million in the third quarter of 2011, a 15.7% increase over the $20.7 million recorded in the same period of 2010. Noninterest expenses for the nine months ended September 30, 2011 amounted to $71.9 million, a 10.7% increase from the $64.9 million recorded in the first nine months of 2010.

Personnel expense has increased in 2011 due to employees joining the Company in The Bank of Asheville acquisition, as well as higher employee medical expense due to higher claims. Also, we have progressively built our infrastructure to manage increased compliance burdens, collection activities and overall growth of the Company.

Merger expenses associated with The Bank of Asheville acquisition amounted to $12,000 and $606,000 for the three and nine months ended September 30, 2011.

Factors playing a role in the increased other operating expense line item were – 1) collection expenses on non-covered assets, which amounted to $1.1 million and $2.6 million for the three and nine months ended September 30, 2011, respectively, compared to $0.4 million and $1.4 million for the comparable periods in 2010, 2) fraud losses, which amounted to $0.2 million and $1.0 million for the three and nine months ended September 30, 2011, respectively, compared to a recovery of $0.3 million in the third quarter of 2010 and loss of $0.4 million for the nine months ended September 30, 2010, and 3) overall higher overhead expenses associated with growth in the Company's branch network.

The provision for income taxes was $1.3 million in the third quarter of 2011, an effective tax rate of 33.9%, compared to $2.1 million in the third quarter of 2010, an effective tax rate of 35.1%. For the nine months ended September 30, 2011, our provision for income taxes was $7.1 million, an effective tax rate of 35.8%, compared to $6.8 million, an effective tax rate of 35.7%, for the comparable period of 2010. We expect our effective tax rate to remain at approximately 35% for the foreseeable future.

The Consolidated Statements of Comprehensive Income reflect other comprehensive income of $247,000 and $196,000 during the third quarters of 2011 and 2010, respectively, and other comprehensive income of $1,226,000 and $1,605,000 for the nine months ended September 30, 2011 and 2010, respectively. The primary component of other comprehensive income for the periods presented was changes in unrealized holding gains 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, 2011 amounted to $3.30 billion, a 1.7% decrease from a year earlier. Total loans at September 30, 2011 amounted to $2.39 billion, a 3.1% decrease from a year earlier, and total deposits amounted to $2.73 billion, a 0.8% decrease from a year earlier.

The following table presents information regarding the nature of changes in our loans and deposits for the twelve months ended September 30, 2011 and for the first nine months of 2011.

October 1, 2010 to September 30, 2011	Balance at beginning of period	Internal Growth	Growth from Acquisitions	Balance at end of period	Total percentage growth	Percentage growth, excluding acquisitions
			($ in thousands)			
Loans – Non-covered	$2,096,439	(37,715)		2,058,724	-1.8%	-1.8%
Loans – Covered	413,735	(142,179)	102,268	373,824	-9.6%	-34.4%
Loans - Total	$2,510,174	(179,894)	102,268	2,432,548	-3.1%	-7.2%
Deposits – Noninterest bearing	290,388	24,923	18,798	334,109	15.1%	8.6%
Deposits – NOW	370,654	(25,013)	31,358	376,999	1.7%	-6.7%
Deposits – Money market	492,983	(9,898)	19,150	502,235	1.9%	-2.0%
Deposits – Savings	154,955	(11,190)	3,212	146,977	-5.1%	-7.2%
Deposits – Brokered	94,073	48,202	14,902	157,177	67.1%	51.2%
Deposits – Internet time	53,246	(56,046)	42,920	40,120	-24.7%	-105.3%
Deposits – Time>$100,000	641,970	(88,138)	13,515	567,347	-11.6%	-13.7%
Deposits – Time<$100,000	653,213	(97,662)	48,889	604,440	-7.5%	-15.0%
Total deposits	$2,751,482	(214,822)	192,744	2,729,404	-0.8%	-7.8%
January 1, 2011 to September 30, 2011						
Loans – Non-covered	$2,083,004	(24,280)		2,058,724	-1.2%	-1.2%
Loans – Covered	371,128	(99,572)	102,268	373,824	0.7%	-26.8%
Loans	$2,454,132	(123,852)	102,268	2,432,548	-0.9%	-5.0%
Deposits – Noninterest bearing	$292,759	22,552	18,798	334,109	14.1%	7.7%
Deposits – NOW	292,623	53,018	31,358	376,999	28.8%	18.1%
Deposits – Money market	498,312	(15,227)	19,150	502,235	0.8%	-3.1%
Deposits – Savings	153,325	(9,560)	3,212	146,977	-4.1%	-6.2%
Deposits – Brokered	143,554	(1,279)	14,902	157,177	9.5%	-0.9%
Deposits – Internet time	46,801	(49,601)	42,920	40,120	-14.3%	-106.0%
Deposits – Time>$100,000	602,371	(48,539)	13,515	567,347	-5.8%	-8.1%
Deposits – Time<$100,000	622,768	(67,217)	48,889	604,440	-2.9%	-10.8%
Total deposits	$2,652,513	(115,853)	192,744	2,729,404	2.9%	-4.4%

As derived from the table above, for the twelve months preceding September 30, 2011, our total loans decreased by $78 million, or 3.1%. Over that same period, deposits decreased $22 million, or 0.8%. In January 2011, we acquired approximately $102 million in loans and $193 million in deposits in The Bank of Asheville acquisition. For the first nine months of 2011, non-covered loans decreased $24 million, or 1.2%, while internally generated deposits decreased $116 million, or 4.4%. Since the onset of the economic slowdown, the Company has generally experienced declines in loans and deposits. Normal loan paydowns and loan foreclosures have exceeded new loan growth, which has provided the liquidity to lessen reliance on high cost deposits. However, for the first time since this trend began, we experienced sequential quarterly growth in our non-covered loan portfolio, which increased $18 million from June 30, 2011 to September 30, 2011. We are actively pursuing lending opportunities in order to improve asset yields, as well as to potentially decrease the dividend rate on our preferred stock.

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With the decrease in loans experienced, we have been able to lessen our reliance on higher cost sources of funding, including internet deposits and large denomination time deposits, which has resulted in lower deposit balances.

The mix of our loan portfolio remains substantially the same at September 30, 2011 compared to December 31, 2010. The majority of our real estate loans are personal and commercial loans where real estate provides additional security for the loan.

Note 8 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.

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Nonperforming Assets

Nonperforming assets are defined as nonaccrual loans, restructured loans, loans past due 90 or more days and still accruing interest, and other real estate. As previously discussed, as a result of two FDIC-assisted transactions, we entered into loss share agreements, which afford us significant protection from losses from all loans and other 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 are significantly different from those assets not covered under the loss share agreements. Accordingly, as previously discussed, we present 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."

Nonperforming assets are summarized as follows:

ASSET QUALITY DATA ($ in thousands)	September 30, 2011	December 31, 2010	September 30, 2010
Non-covered nonperforming assets			
Nonaccrual loans	$ 75,013	62,326	80,318
Restructured loans – accruing	11,257	33,677	20,447
Accruing loans >90 days past due	–	–	–
Total non-covered nonperforming loans	86,270	96,003	100,765
Other real estate	32,673	21,081	17,475
Total non-covered nonperforming assets	$ 118,943	117,084	118,240
Covered nonperforming assets (1)			
Nonaccrual loans (2)	$ 36,536	58,466	75,116
Restructured loans – accruing	16,912	14,359	4,160
Accruing loans > 90 days past due	–	–	–
Total covered nonperforming loans	53,448	72,825	79,276
Other real estate	104,785	94,891	101,389
Total covered nonperforming assets	$ 158,233	167,716	180,665
Total nonperforming assets	$ 277,176	284,800	298,905
Asset Quality Ratios – All Assets			
Net charge-offs to average loans - annualized	1.87 %	4.17 %	0.88 %
Nonperforming loans to total loans	5.74 %	6.88 %	7.17 %
Nonperforming assets to total assets	8.39 %	8.69 %	8.90 %
Allowance for loan losses to total loans	1.55 %	2.01 %	1.79 %
Asset Quality Ratios – Based on Non-covered Assets only			
Net charge-offs to average non-covered loans - annualized	1.26 %	3.10 %	1.06 %
Non-covered nonperforming loans to non-covered loans	4.19 %	4.61 %	4.81 %
Non-covered nonperforming assets to total non-covered assets	4.21 %	4.16 %	4.16 %
Allowance for loan losses to non-covered loans	1.67 %	1.84 %	2.15 %

(1) Covered nonperforming assets consist of assets that are included in loss share agreements with the FDIC.
(2) At September 30, 2011, the contractual balance of the nonaccrual loans covered by FDIC loss share agreements was $65.0 million.

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.

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Consistent with the weak economy, we have experienced high levels of loan losses, delinquencies and nonperforming assets. Our non-covered nonperforming assets were $118.9 million at September 30, 2011 compared to $117.1 million at December 31, 2010 and $118.2 million at September 30, 2010.

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, 2011	At December 31, 2010	At September 30, 2010
Commercial, financial, and agricultural	$ 2,798	2,595	3,665
Real estate – construction, land development, and other land loans	47,092	54,781	71,646
Real estate – mortgage – residential (1-4 family) first mortgages	27,346	36,715	45,242
Real estate – mortgage – home equity loans/lines of credit	6,671	8,584	10,220
Real estate – mortgage – commercial and other	24,786	17,578	23,906
Installment loans to individuals	2,856	539	755
Total nonaccrual loans	$ 111,549	120,792	155,434

The following segregates our nonaccrual loans at September 30, 2011 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	$ 169	2,629	2,798
Real estate – construction, land development, and other land loans	19,091	28,001	47,092
Real estate – mortgage – residential (1-4 family) first mortgages	11,269	16,077	27,346
Real estate – mortgage – home equity loans/lines of credit	1,334	5,337	6,671
Real estate – mortgage – commercial and other	4,447	20,339	24,786
Installment loans to individuals	226	2,630	2,856
Total nonaccrual loans	$ 36,536	75,013	111,549

The following segregates our nonaccrual loans at December 31, 2010 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	$ 163	2,432	2,595
Real estate – construction, land development, and other land loans	30,846	23,935	54,781
Real estate – mortgage – residential (1-4 family) first mortgages	16,343	20,372	36,715
Real estate – mortgage – home equity loans/lines of credit	4,059	4,525	8,584
Real estate – mortgage – commercial and other	7,039	10,539	17,578
Installment loans to individuals	16	523	539
Total nonaccrual loans	$ 58,466	62,326	120,792

At September 30, 2011, troubled debt restructurings (covered and non-covered) amounted to $28.2 million, compared to $48.0 million at December 31, 2010, and $24.6 million at September 30, 2010. The decline from December 31, 2010 to September 30, 2011 is primarily a result of troubled debt restructurings that re-defaulted and were placed on nonaccrual status.

Other real estate includes foreclosed, repossessed, and idled properties. Non-covered other real estate has increased over the past year, amounting to $32.7 million at September 30, 2011, $21.1 million at December 31, 2010, and $17.5 million at September 30, 2010. At September 30, 2011, we also held $104.8 million in other real estate that is subject to the loss share agreements with the FDIC. Based on the best information we have available, we believe that the fair values of the items of other real estate, less estimated costs to sell, equal or exceed their respective carrying values at the dates presented. We appraise our other real estate once per year. Our covered other real estate portfolio has a disproportionate amount of properties with appraisals that are obtained in the fourth quarter of the fiscal year. Many appraisals received on covered other real estate in the third quarter of 2011 reflected lower amounts than appraisals on those same properties that were obtained a year earlier. Therefore, we believe there is a heightened risk that we will record additional losses on our covered other real estate in the fourth quarter of 2011.

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The following table presents the detail of all of our other real estate at each period end (covered and non-covered):

($ in thousands)	At September 30, 2011	At December 31, 2010	At September 30, 2010
Vacant land	$ 88,099	81,185	85,280
1-4 family residential properties	37,200	28,146	28,602
Commercial real estate	12,159	6,641	4,982
Other	–	–	–
Total other real estate	$ 137,458	115,972	118,864

The following segregates our other real estate at September 30, 2011 into covered and non-covered:

($ in thousands)	Covered Other Real Estate	Non-covered Other Real Estate	Total Other Real Estate
Vacant land	$ 74,903	13,196	88,099
1-4 family residential properties	21,569	15,631	37,200
Commercial real estate	8,313	3,846	12,159
Other	–	–	–
Total other real estate	$ 104,785	32,673	137,458

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The following table presents geographical information regarding our nonperforming assets at September 30, 2011.

	As of September 30, 2011				
($ in thousands)	Covered	Non-covered	Total	Total Loans	Nonperforming Loans to Total Loans
Nonaccrual Loans and Troubled Debt Restructurings (1)					
Eastern Region (NC)	$45,316	20,023	65,339	$537,000	12.2%
Triangle Region (NC)	–	26,208	26,208	761,000	3.4%
Triad Region (NC)	–	19,424	19,424	384,000	5.1%
Charlotte Region (NC)	–	1,172	1,172	96,000	1.2%
Southern Piedmont Region (NC)	217	2,441	2,658	220,000	1.2%
Western Region (NC)	7,676	4	7,680	76,000	10.1%
South Carolina Region	239	10,801	11,040	153,000	7.2%
Virginia Region	–	4,763	4,763	195,000	2.4%
Other	–	1,434	1,434	11,000	13.0%
Total nonaccrual loans and troubled debt restructurings	$53,448	86,270	139,718	$2,433,000	5.7%
Other Real Estate (1)					
Eastern Region (NC)	$91,789	9,752	101,541		
Triangle Region (NC)	–	8,155	8,155		
Triad Region (NC)	–	6,487	6,487		
Charlotte Region (NC)	–	4,980	4,980		
Southern Piedmont Region (NC)	–	1,047	1,047		
Western Region (NC)	12,682	–	12,682		
South Carolina Region	314	1,729	2,043		
Virginia Region	–	523	523		
Other	–	–	–		
Total other real estate	$104,785	32,673	137,458		

(1) The counties comprising each region are as follows:
Eastern North Carolina Region - New Hanover, Brunswick, Duplin, Dare, Beaufort, 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
Southern Piedmont North Carolina Region - Anson, Richmond, Scotland, Robeson, Bladen, Columbus
Western North Carolina Region - Buncombe
South Carolina Region - Chesterfield, Dillon, Florence, Horry
Virginia Region - Wythe, Washington, Montgomery, Pulaski

Summary of Loan Loss Experience

The allowance for loan losses is created by direct charges to operations. 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 current economic environment has resulted in an increase in our classified and nonperforming assets, which has led to elevated provisions for loan losses. Our total provision for loan losses was $9.1 million for the third quarter of 2011 compared to $8.4 million in the third quarter of 2010. For the nine months ended September 30, 2011 our total provision for loan losses was $31.4 million compared to $24.0 million for the first nine months of 2010. 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.

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Our provision for loan losses for non-covered loans amounted to $6.4 million in the third quarter of 2011 compared to $8.4 million in the third quarter of 2010. For the nine months ended September 30, 2011 the provision for loan losses for non-covered loans was $21.6 million compared to $24.0 million for the comparable period of 2010. The lower provisions for loan losses for non-covered loans in 2011 are primarily due to stabilization in overall loan quality and lower levels of non-covered nonperforming loans.

Our provisions for loan losses for covered loans amounted to $2.7 million and $9.8 million for the three and nine months ended September 30, 2011, respectively, whereas we did not record any provisions for loan losses for covered loans in the first nine months of 2010. The provisions recorded in 2011 were necessary primarily as a result of declines in the value of the collateral associated with covered nonaccrual loans. As previously discussed, the provision for loan losses related to covered loans is offset by an 80% increase to the FDIC indemnification asset, which increases noninterest income.

For the first nine months of 2011, we recorded $43.2 million in net charge-offs, compared to $16.4 million for the comparable period of 2010. The net charge-offs in 2011 included $17.7 million of covered loans and $25.5 million of non-covered loans, whereas in 2010 the entire $16.4 million of net charge-offs related to non-covered loans. The charge-offs in 2011 continue a trend that began in 2010, with charge-offs being concentrated in the construction and land development real estate categories. These types of loans have been impacted the most by the recession and decline in new housing.

The allowance for loan losses amounted to $37.7 million at September 30, 2011, compared to $49.4 million at December 31, 2010 and $45.0 million at September 30, 2010. At September 30, 2011, December 31, 2010, and September 30, 2010, the allowance for loan losses attributable to covered loans was $3.3 million, $11.2 million, and zero, respectively. The allowance for loan losses for non-covered loans amounted to $34.4 million, $38.3 million, and $45.0 million at September 30, 2011, December 31, 2010, and September 30, 2010, respectively. In the fourth quarter of 2010, we recorded partial non-covered loan charge-offs amounting to $8.6 million, which is the primary reason for the decline in the allowance for loan losses for non-covered loans. Prior to the fourth quarter of 2010, we recorded specific reserves on collateral-deficient nonaccrual loans within the allowance for loans losses, but did not record charge-offs until the loans had been foreclosed upon.

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.

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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, additions to the allowance for loan losses that have been charged to expense, and additions that were recorded related to acquisitions.

($ in thousands)	Nine Months Ended September 30, 2011	Twelve Months Ended December 31, 2010	Nine Months Ended September 30, 2010
Loans outstanding at end of period	$ 2,432,548	2,454,132	2,510,174
Average amount of loans outstanding	$ 2,471,804	2,554,401	2,577,640
Allowance for loan losses, at beginning of year	$ 49,430	37,343	37,343
Provision for loan losses	31,423	54,562	24,017
	80,853	91,905	61,360
Loans charged off:			
Commercial, financial, and agricultural	(1,616)	(4,481)	(3,234)
Real estate – construction, land development & other land loans	(24,188)	(22,665)	(5,549)
Real estate – mortgage – residential (1-4 family) first mortgages	(9,344)	(6,032)	(2,706)
Real estate – mortgage – home equity loans / lines of credit	(2,561)	(4,973)	(2,162)
Real estate – mortgage – commercial and other	(5,369)	(2,916)	(1,864)
Installment loans to individuals	(1,517)	(2,499)	(1,677)
Total charge-offs	(44,595)	(43,566)	(17,192)
Recoveries of loans previously charged-off:			
Commercial, financial, and agricultural	43	61	15
Real estate – construction, land development & other land loans	228	113	99
Real estate – mortgage – residential (1-4 family) first mortgages	147	357	240
Real estate – mortgage – home equity loans / lines of credit	334	131	126
Real estate – mortgage – commercial and other	39	33	15
Installment loans to individuals	605	396	336
Total recoveries	1,396	1,091	831
Net charge-offs	(43,199)	(42,475)	(16,361)
Allowance for loan losses, at end of period	$ 37,654	49,430	44,999
Ratios:			
Net charge-offs as a percent of average loans	2.34 %	1.66 %	0.85 %
Allowance for loan losses as a percent of loans at end of period	1.55 %	2.01 %	1.79 %

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The following table discloses the activity in the allowance for loan losses for the nine months ended September 30, 2011, segregated into covered and non-covered. All allowance for loan loss activity in the first nine months of 2010 related to non-covered loans.

	As of September 30, 2011		
($ in thousands)	Covered	Non-covered	Total
Loans outstanding at end of period	$373,824	2,058,724	2,432,548
Average amount of loans outstanding	$420,683	2,051,121	2,471,804
Allowance for loan losses, at beginning of year	$11,155	38,275	49,430
Provision for loan losses	9,805	21,618	31,423
	20,960	59,893	80,853
Loans charged off:			
Commercial, financial, and agricultural	(195)	(1,421)	(1,616)
Real estate – construction, land development & other land loans	(11,240)	(12,948)	(24,188)
Real estate – mortgage – residential (1-4 family) first mortgages	(3,797)	(5,547)	(9,344)
Real estate – mortgage – home equity loans / lines of credit	(868)	(1,693)	(2,561)
Real estate – mortgage – commercial and other	(1,488)	(3,881)	(5,369)
Installment loans to individuals	(115)	(1,402)	(1,517)
Total charge-offs	(17,703)	(26,892)	(44,595)
Recoveries of loans previously charged-off:			
Commercial, financial, and agricultural	–	43	43
Real estate – construction, land development & other land loans	–	228	228
Real estate – mortgage – residential (1-4 family) first mortgages	–	147	147
Real estate – mortgage – home equity loans / lines of credit	–	334	334
Real estate – mortgage – commercial and other	–	39	39
Installment loans to individuals	–	605	605
Total recoveries	–	1,396	1,396
Net charge-offs	(17,703)	(25,496)	(43,199)
Allowance for loan losses, at end of period	$3,257	34,397	37,654

Based on the results of our loan analysis and grading program and our evaluation of the allowance for loan losses at September 30, 2011, there have been no material changes to the allocation of the allowance for loan losses among the various categories of loans since December 31, 2010.

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 our business on an ongoing basis. Our primary internal 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 $402 million line of credit with the Federal Home Loan Bank (of which $89 million was outstanding at September 30, 2011), 2) a $50 million overnight federal funds line of credit with a correspondent bank (none of which was outstanding at September 30, 2011), 3) an approximately $82 million line of credit through the Federal Reserve Bank of Richmond's discount window (none of which was outstanding at September 30, 2011) and 4) a $10 million line of credit with a commercial bank (none of which was outstanding at September 30, 2011). In addition to the outstanding borrowings from the FHLB that reduce the available borrowing capacity of that line of credit, our borrowing capacity was further reduced by $203 million at both September 30, 2011 and December 31, 2010, 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 $252 million at September 30, 2011 compared to $194 million at December 31, 2010.

Our overall liquidity has increased since September 30, 2010. Our loans have decreased $78 million, while our deposits have only decreased by $22 million.

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, 2010, detail of which is presented in Table 18 on page 83 of our 2010 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 in 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 repayment guarantees associated with 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 derivative activities through September 30, 2011, and have no current plans to do so.

Capital Resources

We are regulated by the Board of Governors of the Federal Reserve Board (FED) and are subject to the securities registration and public reporting regulations of the Securities and Exchange Commission. Our banking subsidiary is regulated by the Federal Deposit Insurance Corporation (FDIC) and the North Carolina Office of the Commissioner of Banks. 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.

We must comply with regulatory capital requirements established by the FED and FDIC. 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. These capital standards require us to maintain minimum ratios of “Tier 1” capital to total risk-weighted assets and total capital to risk-weighted assets of 4.00% and 8.00%, respectively. Tier 1 capital is comprised of total shareholders’ equity calculated in accordance with generally accepted accounting principles, excluding accumulated other comprehensive income (loss), less intangible assets, and 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.

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At September 30, 2011, 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, 2011		December 31, 2010		September 30, 2010	
Risk-based capital ratios:						
Tier I capital to Tier I risk adjusted assets	15.66	%	15.31	%	15.48	%
Minimum required Tier I capital	4.00	%	4.00	%	4.00	%
Total risk-based capital to Tier II risk-adjusted assets	16.91	%	16.57	%	16.74	%
Minimum required total risk-based capital	8.00	%	8.00	%	8.00	%
Leverage capital ratios:						
Tier I leverage capital to adjusted most recent quarter average assets	10.26	%	10.28	%	10.25	%
Minimum required Tier I 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, 2011, our bank subsidiary exceeded the minimum ratios established by the FED and FDIC.

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 6.75% at September 30, 2011 compared to 6.52% at December 31, 2010 and 6.55% at September 30, 2010.

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BUSINESS DEVELOPMENT MATTERS

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

- On October 21, 2011, First Bank entered into an agreement to purchase eleven coastal branches from Waccamaw Bank, headquartered in Whiteville, North Carolina. Seven of the branches are in Brunswick County, North Carolina, three branches are in Horry County, South Carolina, and one branch is in Wilmington, North Carolina. Approximately $180 million in deposits and $98 million in performing loans are expected to be acquired in the transaction. This transaction is subject to regulatory approval and is expected to be completed in the first quarter of 2012.

- On November 3, 2011, our Shallotte, North Carolina branch will be holding a grand opening to celebrate First Bank's new facility on Highway 130 – Whiteville Road.

- On December 5, 2011, our Wilmington, North Carolina Hanover Center branch is scheduled to re-open after an extensive renovation.

- We have received regulatory approvals to open a branch in Salem, Virginia and to relocate our branch in Fort Chiswell, Virginia. Both are expected to occur in the spring of 2012.

- On August 25, 2011, we announced a quarterly cash dividend of $0.08 cents per share payable on October 25, 2011 to shareholders of record on September 30, 2011. This is the same dividend rate we declared in the third quarter of 2010.

SHARE REPURCHASES

We did not repurchase any shares of our common stock during the first nine months of 2011. At September 30, 2011, we had approximately 235,000 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 3.74% (realized in 2008) to a high of 4.39% (realized in 2010). During that five year period, the prime rate of interest has ranged from a low of 3.25% (which was also the rate as of September 30, 2011) to a high of 8.25%. 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, 2011, approximately 83% 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 approximately 100% 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, 2011, we had approximately $689 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, 2011 are deposits totaling $1.0 billion comprised of NOW, 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.

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 Federal Reserve has made no changes to interest rates since 2008, and since that time the difference between market driven short-term interest rates and longer-term interest rates has generally widened, with short-term interest rates steadily declining and longer term interest rates not declining by as much. The higher long term interest rate environment enhanced our ability to require higher interest rates on loans. As it relates to funding, 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.

As previously discussed in the section "Net Interest Income," our net interest income was impacted by certain purchase accounting adjustments related to our acquisitions of Cooperative Bank, The Bank of Asheville, and Great Pee Dee Bancorp. 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 $9.9 million and $4.3 million for the first nine months of 2011 and 2010, 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 are paid off, the remaining discount will be accreted into income on an accelerated basis, which in the event of total payoff will result in the remaining discount being entirely accreted into income in the period of the payoff. Each of these factors is difficult to predict and susceptible to volatility.

Based on our most recent interest rate modeling, which assumes no changes in interest rates for 2011 (federal funds rate = 0.25%, prime = 3.25%), we project that our net interest margin for the remainder of 2011 will remain relatively consistent with the net interest margins recently realized. With interest rates having been stable for a relatively long period of time, most of our interest-sensitive assets and interest-sensitive liabilities have been repriced at today's interest rates.

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.

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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.

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Part II. Other Information

Item 1A – Risk Factors

In addition to those risk factors discussed in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2010, we add the following risk factors.

The January 21, 2011 acquisition of all of the deposits and borrowings, and substantially all of the assets, of The Bank of Asheville could adversely affect our financial results and condition if we fail to integrate the acquisition properly.

The acquisition of The Bank of Asheville will require the integration of the businesses of First Bank and The Bank of Asheville. The integration process may result in the loss of key employees, the disruption of ongoing businesses and the loss of customers and their business and deposits. It may also divert management attention and resources from other operations and limit our ability to pursue other acquisitions. There is no assurance that we will realize financial benefits from this acquisition.

The $10.2 million gain we recorded upon the acquisition of The Bank of Asheville is a preliminary amount and could be retroactively decreased.

We accounted for The Bank of Asheville acquisition under the purchase method of accounting, recording the acquired assets and liabilities of The Bank of Asheville at fair value based on preliminary purchase accounting adjustments. Determining the fair value of assets and liabilities, particularly illiquid assets and liabilities, is a complicated process involving a significant amount of judgment regarding estimates and assumptions. Based on the preliminary adjustments made, the fair value of the assets we acquired exceeded the fair value of the liabilities assumed by $10.2 million, which resulted in a gain for our company. Under purchase accounting, we have until one year after the acquisition date to finalize the fair value adjustments, meaning that until then we could materially adjust the preliminary fair value estimates of The Bank of Asheville's assets and liabilities based on new or updated information. Such adjustments could reduce or eliminate the extent by which the assets acquired exceeded the liabilities assumed and would result in a retroactive decrease to the $10.2 million gain that we recorded as of the acquisition date, which would reduce our earnings.

We may incur loan losses related to The Bank of Asheville that are materially greater than we originally projected.

The Bank of Asheville had a significant amount of deteriorating and nonperforming loans that ultimately led to the closure of the bank. When we placed our bid with the FDIC to assume the assets and liabilities of The Bank of Asheville, we estimated an amount of future loan losses that we believed would occur and factored those expected losses into our bid amount. Estimating loan losses on an entire portfolio of loans is a difficult process that is dependent on a significant amount of judgment and estimates, especially for loan portfolios like The Bank of Asheville's with a high concentration of deteriorating and nonperforming loans. If we underestimated the extent of those losses, it will negatively impact us. Within a one year period, if we discover that we materially understated the loan losses inherent in the loan portfolio as of the acquisition date, it will retroactively reduce or eliminate the $10.2 million gain discussed above. Beyond the one year period, or if we determine that losses arose after the acquisition date, the additional losses will be reflected as provisions for loan losses, which would reduce our earnings.

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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	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)	
July 1, 2011 to July 31, 2011				234,667	
August 1, 2011 to August 31, 2011				234,667	
September 1, 2011 to September 30, 2011				234,667	
Total				234,667	(2)

Footnotes to the Above Table

(1) All shares available for repurchase are pursuant to publicly announced share repurchase authorizations. On July 30, 2004, we announced that our Board of Directors had approved the repurchase of 375,000 shares of our common stock. The repurchase authorization does not have an expiration date. There are no plans or programs we have 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 we issued to our employees and directors pursuant to our stock option plans. There were no such exercises during the nine months ended September 30, 2011.

Our issuance of 63,500 shares Series B Senior Non-cumulative Perpetual Preferred Stock to the U.S. Treasury on September 1, 2011 was disclosed in a Current Report on Form 8-K filed September 6, 2011. There were no other unregistered sales of our securities during the three months ended September 30, 2011.

Item 6 - Exhibits

The following exhibits are filed with this report or, as noted, are incorporated by reference. Management contracts, compensatory plans and arrangements are marked with an asterisk (*).

3.a Articles of Incorporation of the Company and amendments thereto were filed as Exhibits 3.a.i through 3.a.v to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2002, and are incorporated herein by reference. Articles of Amendment to the Articles of Incorporation were filed as Exhibits 3.1 and 3.2 to the Company's Current Report on Form 8-K filed on January 13, 2009, and are incorporated herein by reference. Articles of Amendment to the Articles of Incorporation were filed as Exhibit 3.1.b to the Company's Registration Statement on Form S-3D filed on June 29, 2010, and are incorporated herein by reference. Articles of Amendment to the Articles of Incorporation were filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on September 6, 2011, and are incorporated herein by reference.

3.b Amended and Restated Bylaws of the Company were filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on November 23, 2009, and are incorporated herein by reference.

4.a

Form of Common Stock Certificate was filed as Exhibit 4 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999, and is incorporated herein by reference.

4.b Form of Certificate for Series A Preferred Stock was filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed on January 13, 2009, and is incorporated herein by reference.

4.c Warrant for Purchase of Shares of Common Stock was filed as Exhibit 4.2 to the Company's Current Report on Form 8-K filed on January 13, 2009, and is incorporated herein by reference.

4.d Form of Certificate for Series B Preferred Stock was filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed on September 6, 2011, and is incorporated herein by reference.

10.1 Purchase and Assumption Agreement among Federal Deposit Insurance Corporation, Receiver of The Bank of Asheville, Federal Deposit Insurance Corporation and First Bank, dated as of January 21, 2011, was filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 26, 2011, and is incorporated herein by reference.

10.2 Securities Purchase Agreement, dated September 1, 2011, between First Bancorp and the Secretary of the Treasury, with respect to the issuance and sale of Series B Preferred Stock, was filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 6, 2011, and is incorporated herein by reference.

10.3 Repurchase Letter Agreement, dated September 1, 2011, between First Bancorp and the United States Department of the Treasury, with respect to the repurchase and redemption of the Series A Preferred Stock, was filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on September 6, 2011 and is incorporated herein by reference.

10.4 Purchase and Assumption Agreement among Waccamaw Bank and Waccamaw Bankshares, Inc. and First Bank, dated as of October 21, 2011, was filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 26, 2011, and is incorporated herein by reference.

12 Computation of Ratio of Earnings to Fixed Charges.

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, 2011, 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. (1)

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(1) As provided in Rule 406T of Regulation S-T, this information shall not be deemed "filed" for purposes of Section 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934 or otherwise subject to liability under those sections.

Copies of exhibits are available upon written request to: First Bancorp, Anna G. Hollers, Executive Vice President, P.O. Box 508, Troy, NC 27371

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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, 2011	BY:/s/ Jerry L. Ocheltree Jerry L. Ocheltree President (Principal Executive Officer), Treasurer and Director
November 9, 2011	BY:/s/ Anna G. Hollers Anna G. Hollers Executive Vice President, Secretary and Chief Operating Officer
November 9, 2011	BY:/s/ Eric P. Credle Eric P. Credle Executive Vice President and Chief Financial Officer