FIRST BANCORP /NC/
Form 10-Q
May 10, 2012

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 March 31, 2012

Commission File Number 0-15572

FIRST BANCORP

(Exact Name of Registrant as Specified in its Charter)

North Carolina 56-1421916

(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
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)

£ Large Accelerated Filer	S Accelerated Filer	£ Non-Accelerated Filer (Do not check if a smaller reporting company)	£ 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 April 30, 2012 was 16,949,941.

INDEX

FIRST BANCORP AND SUBSIDIARIES

	Page
Part I. Financial Information	
Item 1 - Financial Statements	
Consolidated Balance Sheets - March 31, 2012 and March 31, 2011 (With Comparative Amounts at December 31, 2011)	4
Consolidated Statements of Income - For the Periods Ended March 31, 2012 and 2011	5
Consolidated Statements of Comprehensive Income - For the Periods Ended March 31, 2012 and 2011	6
Consolidated Statements of Shareholders' Equity - For the Periods Ended March 31, 2012 and 2011	7
Consolidated Statements of Cash Flows - For the Periods Ended March 31, 2012 and 2011	8
Notes to Consolidated Financial Statements	9
Item 2 – Management's Discussion and Analysis of Consolidated Results of Operations and Financial Condition	38
Item 3 – Quantitative and Qualitative Disclosures About Market Risk	61
Item 4 – Controls and Procedures	63
Part II. Other Information	
Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds	64
Item 6 – Exhibits	64
Signatures	66

Index

FORWARD-LOOKING STATEMENTS

Part I of this report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995, which statements are inherently subject to risks and uncertainties. Forward-looking statements are statements that include projections, predictions, expectations or beliefs about future events or results or otherwise are not statements of historical fact. Such statements are often characterized by the use of qualifying words (and their derivatives) such as “expect,” “believe,” “estimate,” “plan,” “project,” or other statements concerning our opinions or judgment about future events. Our actual results may differ materially from those anticipated in any forward-looking statements, as they will depend on many factors about which we are unsure, including many factors which are beyond our control. Factors that could influence the accuracy of such forward-looking statements include, but are not limited to, the financial success or changing strategies of our customers, our level of success in integrating acquisitions, actions of government regulators, the level of market interest rates, and general economic conditions. For additional information about factors that could affect the matters discussed in this paragraph, see the “Risk Factors” section of our 2011 Annual Report on Form 10-K.

Index

Part I. Financial Information

Item 1 - Financial Statements

First Bancorp and Subsidiaries

Consolidated Balance Sheets

($ in thousands-unaudited)	March 31, 2012	December 31, 2011(audited)	March 31, 2011
ASSETS			
Cash and due from banks, noninterest-bearing	$58,001	80,341	59,985
Due from banks, interest-bearing	234,137	135,218	182,445
Federal funds sold	1,203	608	14,590
Total cash and cash equivalents	293,341	216,167	257,020
Securities available for sale	159,182	182,626	192,382
Securities held to maturity (fair values of $61,226, $62,754, and $58,526)	57,066	57,988	57,433
Presold mortgages in process of settlement	7,003	6,090	2,696
Loans – non-covered	2,094,524	2,069,152	2,045,998
Loans – covered by FDIC loss share agreement	342,100	361,234	440,212
Total loans	2,436,624	2,430,386	2,486,210
Allowance for loan losses – non-covered	(46,455)	(35,610)	(35,773)
Allowance for loan losses – covered	(6,372)	(5,808)	(7,002)
Total allowance for loan losses	(52,827)	(41,418)	(42,775)
Net loans	2,383,797	2,388,968	2,443,435
Premises and equipment	72,343	69,975	67,879
Accrued interest receivable	10,969	11,779	12,958
FDIC indemnification asset	113,405	121,677	140,937
Goodwill	65,835	65,835	65,835
Other intangible assets	3,675	3,897	4,575
Other real estate owned – non-covered	36,838	37,023	26,961
Other real estate owned – covered	79,535	85,272	95,868
Other assets	54,017	43,177	34,484
Total assets	$3,337,006	3,290,474	3,402,463
LIABILITIES			
Deposits: Noninterest bearing checking accounts	$371,293	335,833	332,168
Interest bearing checking accounts	468,691	423,452	349,677
Money market accounts	526,684	513,832	516,045
Savings accounts	157,619	146,481	161,869
Time deposits of $100,000 or more	738,839	753,233	806,735

Other time deposits	567,933	582,206	677,947
Total deposits	2,831,059	2,755,037	2,844,441
Securities sold under agreements to repurchase	—	17,105	72,951
Borrowings	133,894	133,925	108,833
Accrued interest payable	1,659	1,872	2,328
Other liabilities	31,963	37,385	24,520
Total liabilities	2,998,575	2,945,324	3,053,073
Commitments and contingencies			
SHAREHOLDERS' EQUITY			
Preferred stock, no par value per share. Authorized: 5,000,000 shares			
Issued and outstanding: 63,500, 63,500, and 65,000 shares	63,500	63,500	65,000
Discount on preferred stock	—	—	(2,703)
Common stock, no par value per share. Authorized: 40,000,000 shares			
Issued and outstanding: 16,937,641, 16,909,820 and 16,824,489 shares	105,068	104,841	104,581
Retained earnings	178,195	185,491	187,401
Accumulated other comprehensive income (loss)	(8,332)	(8,682)	(4,889)
Total shareholders' equity	338,431	345,150	349,390
Total liabilities and shareholders' equity	$3,337,006	3,290,474	3,402,463

See notes to consolidated financial statements.

Page 4

Index

First Bancorp and Subsidiaries

Consolidated Statements of Income

($ in thousands, except share data-unaudited)	Three Months Ended March 31, 2012	2011
INTEREST INCOME		
Interest and fees on loans	$35,042	36,807
Interest on investment securities:		
Taxable interest income	1,258	1,432
Tax-exempt interest income	493	500
Other, principally overnight investments	139	90
Total interest income	36,932	38,829
INTEREST EXPENSE		
Savings, checking and money market	849	1,230
Time deposits of $100,000 or more	2,175	2,604
Other time deposits	1,269	2,169
Securities sold under agreements to repurchase	4	50
Borrowings	544	462
Total interest expense	4,841	6,515
Net interest income	32,091	32,314
Provision for loan losses – non-covered	18,557	7,570
Provision for loan losses – covered	2,998	3,773
Total provision for loan losses	21,555	11,343
Net interest income after provision for loan losses	10,536	20,971
NONINTEREST INCOME		
Service charges on deposit accounts	2,847	2,645
Other service charges, commissions and fees	2,192	1,915
Fees from presold mortgage loans	411	295
Commissions from sales of insurance and financial products	383	355
Gain from acquisition	—	10,196
Foreclosed property losses and write-downs – non-covered	(688)	(1,353)
Foreclosed property losses and write-downs – covered	(4,547)	(4,934)
FDIC indemnification asset income, net	4,105	5,040
Securities gains	452	14
Other gains	194	20
Total noninterest income	5,349	14,193
NONINTEREST EXPENSES		
Salaries	10,174	9,711
Employee benefits	3,914	3,202
Total personnel expense	14,088	12,913
Net occupancy expense	1,681	1,672

Equipment related expenses	1,170	1,062
Intangibles amortization	223	224
Acquisition expenses	—	351
Other operating expenses	7,213	8,821
Total noninterest expenses	24,375	25,043
Income (loss) before income taxes	(8,490)	10,121
Income taxes (benefit)	(3,308)	3,746
Net income (loss)	(5,182)	6,375
Preferred stock dividends	(760)	(813)
Accretion of preferred stock discount	—	(229)
Net income (loss) available to common shareholders	$(5,942)	5,333
Earnings (loss) per common share:		
Basic	$(0.35)	0.32
Diluted	(0.35)	0.32
Dividends declared per common share	$0.08	0.08
Weighted average common shares outstanding:		
Basic	16,924,616	16,813,941
Diluted	16,924,650	16,841,787

See notes to consolidated financial statements.

Index

First Bancorp and Subsidiaries

Consolidated Statements of Comprehensive Income

($ in thousands-unaudited)	Three Months Ended March 31, 2012	2011
Net income (loss)	$(5,182)	6,375
Other comprehensive income (loss):		
Unrealized gains on securities available for sale:		
Unrealized holding gains arising during the period, pretax	717	190
Tax benefit	(280)	(74)
Reclassification to realized gains	(452)	(14)
Tax expense	176	5
Postretirement Plans:		
Amortization of unrecognized net actuarial loss	301	140
Tax expense	(117)	(56)
Amortization of prior service cost and transition obligation	9	9
Tax expense	(4)	(4)
Other comprehensive income	350	196
Comprehensive income (loss)	$(4,832)	6,571

See notes to consolidated financial statements.

Index

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	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Share-holders' Equity
Balances, January 1, 2011	$65,000	(2,932)	16,801	$104,207	183,413	(5,085)	344,603
Net income					6,375		6,375
Common stock issued under stock option plans			2	31			31
Common stock issued into dividend reinvestment plan			14	210			210
Cash dividends declared ($0.08 per common share)					(1,345)		(1,345)
Preferred dividends					(813)		(813)
Accretion of preferred stock discount		229			(229)		—
Stock-based compensation			7	133			133
Other comprehensive income						196	196
Balances, March 31, 2011	$65,000	(2,703)	16,824	$104,581	187,401	(4,889)	349,390
Balances, January 1, 2012	$63,500	—	16,910	$104,841	185,491	(8,682)	345,150
Net income (loss)					(5,182)		(5,182)
Common stock issued into dividend reinvestment plan			18	209			209
Repurchases of common stock			—	(2)			(2)
Cash dividends declared ($0.08 per common share)					(1,354)		(1,354)
Preferred dividends					(760)		(760)
Stock-based compensation			10	20			20
Other comprehensive income						350	350
Balances, March 31, 2012	$63,500	—	16,938	$105,068	178,195	(8,332)	338,431

See notes to consolidated financial statements.

Index
First Bancorp and Subsidiaries

Consolidated Statements of Cash Flows

($ in thousands-unaudited)	Three Months Ended March 31, 2012	2011
Cash Flows From Operating Activities		
Net income (loss)	$(5,182)	6,375
Reconciliation of net income to net cash provided by operating activities:		
Provision for loan losses	21,555	11,343
Net security premium amortization	456	412
Purchase accounting accretion and amortization, net	(2,525)	(2,500)
Gain from acquisition	—	(10,196)
Foreclosed property losses and write-downs	5,235	6,287
Gain on securities available for sale	(452)	(14)
Other gains	(194)	(20)
Increase in net deferred loan costs	(60)	(207)
Depreciation of premises and equipment	1,133	1,092
Stock-based compensation expense	20	133
Amortization of intangible assets	223	224
Origination of presold mortgages in process of settlement	(19,422)	(20,082)
Proceeds from sales of presold mortgages in process of settlement	18,509	21,348
Decrease in accrued interest receivable	810	621
Increase in other assets	(15,846)	(4,281)
Increase (decrease) in accrued interest payable	(213)	246
Decrease in other liabilities	(5,080)	(5,280)
Net cash provided (used) by operating activities	(1,033)	5,501
Cash Flows From Investing Activities		
Purchases of securities available for sale	(9,000)	(21,817)
Purchases of securities held to maturity	—	(3,232)
Proceeds from sales of securities available for sale	9,641	2,518
Proceeds from maturities/issuer calls of securities available for sale	23,125	11,469
Proceeds from maturities/issuer calls of securities held to maturity	860	686
Net decrease (increase) in loans	(23,828)	35,368
Proceeds from FDIC loss share agreements	13,247	31,214
Proceeds from sales of foreclosed real estate	10,653	6,772
Purchases of premises and equipment	(3,501)	(1,214)
Net cash received in acquisition	—	54,037
Net cash provided by investing activities	21,197	115,801
Cash Flows From Financing Activities		
Net increase in deposits and repurchase agreements	58,950	17,713
Repayments of borrowings, net	—	(92,081)
Cash dividends paid – common stock	(1,353)	(1,344)
Cash dividends paid – preferred stock	(794)	(813)

Proceeds from issuance of common stock	209	241
Repurchase of common stock	(2)	—
Net cash provided (used) by financing activities	57,010	(76,284)
Increase in cash and cash equivalents	77,174	45,018
Cash and cash equivalents, beginning of period	216,167	212,002
Cash and cash equivalents, end of period	$293,341	257,020
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	$5,054	6,269
Income taxes	5,275	8,200
Non-cash transactions:		
Unrealized gain on securities available for sale, net of taxes	161	107
Foreclosed loans transferred to other real estate	9,966	19,441

See notes to consolidated financial statements.

Index

First Bancorp and Subsidiaries

Notes to Consolidated Financial Statements

(*unaudited)* For the Periods Ended March 31, 2012 and 2011

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 March 31, 2012 and 2011 and the consolidated results of operations and consolidated cash flows for the periods ended March 31, 2012 and 2011. All such adjustments were of a normal, recurring nature. Reference is made to the 2011 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 March 31, 2012 and 2011 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 2011 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. During the first quarter of 2012, there were no new standards or guidance issued by the regulatory authorities relevant to the Company.

Note 3 – Reclassifications

Certain amounts reported in the period ended March 31, 2011 have been reclassified to conform to the presentation for March 31, 2012. 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 - Pending

On October 21, 2011, the Company entered into a Branch Purchase and Assumption Agreement (“The Agreement”) with Waccamaw Bankshares, Inc., and its subsidiary, Waccamaw Bank. The Agreement 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 a premium that varies by account type. The estimated blended premium is approximately 1.5% of total deposits.

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 is subject to regulatory approval and other customary conditions. No assurance can be provided that this Agreement will be approved.

Note 5 – Equity-Based Compensation Plans

At March 31, 2012, 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 March 31, 2012, the First Bancorp 2007 Equity Plan was the only plan that had shares available for future grants.

The First Bancorp 2007 Equity Plan is intended to serve as a means to attract, retain and motivate key employees and directors and to associate the interests of the plans' participants with those of the Company and its shareholders. The First Bancorp 2007 Equity Plan allows for both grants of stock options and other types of equity-based compensation, including stock appreciation rights, restricted stock, restricted performance stock, unrestricted stock, and performance units.

Recent equity grants to employees have either had performance vesting conditions, service vesting conditions, or both. Compensation expense for these grants is recorded over the various service periods based on the estimated number of equity grants that are probable to vest. No compensation cost is recognized for grants that do not vest and any previously recognized compensation cost will be reversed. As it relates to director equity grants, the Company grants common shares, valued at approximately $242,000 on the date of the grant, to each non-employee director in June of each year. Compensation expense associated with these director grants is recognized on the date of grant since there are no vesting conditions.

The Company granted long-term restricted shares of common stock to certain senior executives on February 24, 2011 and February 23, 2012 with a two year minimum vesting period. The total compensation expense associated with the February 24, 2011 grant was $105,500 and the grant will fully vest on February 24, 2013. The Company recorded $12,400 in the first quarter of 2012 and will record $9,700 in each subsequent quarter of 2012. The total compensation expense associated with the February 23, 2012 grant was $89,700 and the grant will fully vest on February 23, 2014. The Company recorded $3,700 in the first quarter of 2012 and will record $11,200 in each subsequent quarter of 2012.

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 March 31, 2012, there were 476,624 options outstanding related to the three First Bancorp plans, with exercise prices ranging from $14.35 to $22.12. At March 31, 2012, there were 896,709 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 March 31, 2012, 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.

The Company's equity grants for the three months ended March 31, 2012 were the issuance of 9,559 shares of long-term restricted stock to certain senior executives on February 23, 2012, at a fair market value of $10.96 per share, which was the closing price of the Company's common stock on that date.

The Company's equity grants for the three months ended March 31, 2011 were the issuance of 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.

The Company recorded total stock-based compensation expense of $20,000 and $133,000 for the three-month periods ended March 31, 2012 and 2011, respectively, which relates to the employee grants discussed above and is recorded as “salaries expense.” Stock based compensation is reflected as an adjustment to cash flows from operating activities on the Company’s Consolidated Statement of Cash Flows. The Company recognized $8,000 and $48,000 of income tax benefits related to stock based compensation expense in the income statement for the three months ended March 31, 2012 and 2011, respectively.

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

The following table presents information regarding the activity for the first three months of 2012 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, 2011	493,850	$ 18.92		
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Expired	(12,438)	18.71		
Outstanding at March 31, 2012	481,412	$ 18.92	3.4	$ 656
Exercisable at March 31, 2012	479,412	$ 18.92	3.4	$ 656

The Company did not have any stock option exercises during the three months ended March 31, 2012 and received $31,000 as a result of stock option exercises during the three months ended March 31, 2011. The Company recorded no tax benefits from the exercise of nonqualified stock options during the three months ended March 31, 2012 or 2011.

As discussed above, the Company granted 7,259 and 9,559 long-term restricted shares of common stock to certain senior executives on February 24, 2011 and February 23, 2012, respectively.

Index

The following table presents information regarding the activity during 2012 related to the Company's outstanding restricted stock:

	Long-Term Restricted Stock	
	Number of Units	Weighted-Average Grant-Date Fair Value
Nonvested at December 31, 2011	7,259	$ 14.54
Granted during the period	9,559	$ 10.96
Vested during the period	—	—
Forfeited or expired during the period	(2,474)	12.55
Nonvested at March 31, 2012	14,344	$ 12.50

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 number of common shares outstanding during the period. Diluted earnings per common share is computed by assuming the issuance of common shares for all potentially dilutive common shares outstanding during the reporting period. Currently, the Company's potentially dilutive common stock issuances relate to grants under the Company's equity-based compensation plans, including stock options and restricted stock. 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 March 31,					
	2012			2011		
($ in thousands except per share amounts)	Income (Numer-ator)	Shares (Denom-inator)	Per Share Amount	Income (Numer-ator)	Shares (Denom-inator)	Per Share Amount
Basic EPS						
Net income (loss) available to common shareholders	$(5,942)	16,924,616	$(0.35)	$5,333	16,813,941	$0.32
Effect of Dilutive Securities	—	34		—	27,846	
Diluted EPS per common share	$(5,942)	16,924,650	$(0.35)	$5,333	16,841,787	$0.32

For the three months ended March 31, 2012 and 2011, there were 384,231 and 515,916 options, respectively, that were antidilutive because the exercise price exceeded the average market price for the period. Antidilutive options have been omitted from the calculation of diluted earnings per share for the respective periods.

Index
Note 7 – Securities

The book values and approximate fair values of investment securities at March 31, 2012 and December 31, 2011 are summarized as follows:

($ in thousands)	March 31, 2012 Amortized Cost	Fair Value	Unrealized Gains	(Losses)	December 31, 2011 Amortized Cost	Fair Value	Unrealized Gains	(Losses)
Securities available for sale:								
Government-sponsored enterprise securities	$23,507	23,591	104	(20)	34,511	34,665	170	(13)
Mortgage-backed securities	107,330	111,069	3,831	(92)	120,032	124,105	4,164	(91)
Corporate bonds	13,186	13,137	284	(333)	13,189	12,488	279	(980)
Equity securities	10,998	11,385	419	(32)	10,998	11,368	409	(39)
Total available for sale	$155,021	159,182	4,638	(477)	178,730	182,626	5,022	(1,126)
Securities held to maturity:								
State and local governments	$57,066	61,226	4,162	(2)	57,988	62,754	4,766	—
Total held to maturity	$57,066	61,226	4,162	(2)	57,988	62,754	4,766	—

Included in mortgage-backed securities at March 31, 2012 were collateralized mortgage obligations with an amortized cost of $805,000 and a fair value of $829,000. Included in mortgage-backed securities at December 31, 2011 were collateralized mortgage obligations with an amortized cost of $1,462,000 and a fair value of $1,515,000. All of the Company’s mortgage-backed securities, including collateralized mortgage obligations, were issued by government-sponsored corporations.

The Company owned Federal Home Loan Bank (FHLB) stock with a cost and fair value of $10,904,000 at both March 31, 2012 and December 31, 2011, which is included in equity securities above and serves as part of the collateral for the Company’s line of credit with the FHLB. The investment in this stock is a requirement for membership in the FHLB system.

The following table presents information regarding securities with unrealized losses at March 31, 2012:

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

Government-sponsored enterprise securities	$ 2,980	20	—	—	2,980	20
Mortgage-backed securities	13,628	91	3,300	1	16,928	92
Corporate bonds	2,020	18	2,978	315	4,998	333
Equity securities	—	—	28	32	28	32
State and local governments	510	2	—	—	510	2
Total temporarily impaired securities	$ 19,138	131	6,306	348	25,444	479

Page 13

Index

The following table presents information regarding securities with unrealized losses at December 31, 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	$ 8,984	16	—	—	8,984	16
Mortgage-backed securities	14,902	61	9,302	30	24,204	91
Corporate bonds	4,588	458	2,773	522	7,361	980
Equity securities	4	2	22	37	26	39
State and local governments	—	—	—	—	—	—
Total temporarily impaired securities	$ 28,478	537	12,097	589	40,575	1,126

In the above tables, all of the non-equity securities that were in an unrealized loss position at March 31, 2012 and December 31, 2011 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 March 31, 2012 and December 31, 2011 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 $10,904,000 at March 31, 2012 and December 31, 2011, respectively, which was the FHLB stock discussed above. The Company determined that none of its cost-method investments were impaired at either period end.

The book values and approximate fair values of investment securities at March 31, 2012, 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	$ 3,007	3,073	675	686
Due after one year but within five years	23,497	23,602	2,549	2,768
Due after five years but within ten years	—	—	27,296	31,611

Due after ten years	10,189	10,053	26,546	26,161
Mortgage-backed securities	107,330	111,069	—	—
Total debt securities	144,023	147,797	57,066	61,226
Equity securities	10,998	11,385	—	—
Total securities	$ 155,021	159,182	57,066	61,226

At March 31, 2012 investment securities with a book value of $27,626,000 were pledged as collateral for public deposits. At December 31, 2011, investment securities with a book value of $47,418,000 were pledged as collateral for public and private deposits and securities sold under agreements to repurchase.

There were $9,641,000 in sales of securities during the three months ended March 31, 2012, which resulted in a net gain of $446,000. There were $2,518,000 in sales during the three months ended March 31, 2011, which resulted in a net gain of $8,000. During the three months ended March 31, 2012 and 2011, the Company recorded a net gain of $6,000 and $11,000, respectively, related to the call of municipal securities. Also, during the three

Index

months ended March 31, 2011, the Company recorded a net loss of $5,000 related to write-downs of the Company's equity portfolio.

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 the Company's banking subsidiary, First Bank, which afford First Bank significant loss protection. (See the Company's 2011 Annual Report on Form 10-K for more information regarding these transactions.) 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)	March 31, 2012		December 31, 2011		March 31, 2011	
	Amount	Percentage	Amount	Percentage	Amount	Percer
All loans (non-covered and covered):						
Commercial, financial, and agricultural	$159,496	7 %	162,099	7 %	162,868	7 %
Real estate – construction, land development & other land loans	355,709	15 %	363,079	15 %	434,566	18 %
Real estate – mortgage – residential (1-4 family) first mortgages	812,878	33 %	805,542	33 %	804,278	32 %
Real estate – mortgage – home equity loans / lines of credit	255,955	10 %	256,509	11 %	267,515	11 %
Real estate – mortgage – commercial and other	775,610	32 %	762,895	31 %	733,087	29 %
Installment loans to individuals	75,636	3 %	78,982	3 %	82,716	3 %
Subtotal	2,435,284	100%	2,429,106	100%	2,485,030	100%
Unamortized net deferred loan costs	1,340		1,280		1,180	
Total loans	$2,436,624		2,430,386		2,486,210	

As of March 31, 2012, December 31, 2011 and March 31, 2011, net loans include unamortized premiums of $833,000, $949,000, and $1,298,000, respectively, related to acquired loans.

Index

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

($ in thousands)	March 31, 2012		December 31, 2011		March 31, 2011	
	Amount	Percentage	Amount	Percentage	Amount	Percen
Non-covered loans:						
Commercial, financial, and agricultural	$151,148	7 %	152,627	8 %	146,838	7 %
Real estate – construction, land development & other land loans	287,833	14 %	290,983	14 %	330,389	16 %
Real estate – mortgage – residential (1-4 family) first mortgages	659,946	31 %	646,616	31 %	622,108	30 %
Real estate – mortgage – home equity loans / lines of credit	233,915	11 %	233,171	11 %	241,443	12 %
Real estate – mortgage – commercial and other	685,734	33 %	666,882	32 %	624,699	31 %
Installment loans to individuals	74,608	4 %	77,593	4 %	79,341	4 %
Subtotal	2,093,184	100%	2,067,872	100%	2,044,818	100%
Unamortized net deferred loan costs	1,340		1,280		1,180	
Total non-covered loans	$2,094,524		2,069,152		2,045,998	

The carrying amount of the covered loans at March 31, 2012 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	$69	150	8,279	10,513	8,348	10,663
Real estate – construction, land development & other land loans	1,881	3,985	65,995	114,241	67,876	118,226
Real estate – mortgage – residential (1-4 family) first mortgages	841	1,926	152,091	182,035	152,932	183,961
Real estate – mortgage – home equity loans / lines of credit	16	311	22,024	27,724	22,040	28,035
Real estate – mortgage – commercial and other	2,392	4,167	87,484	118,559	89,876	122,726
Installment loans to individuals	3	5	1,025	1,121	1,028	1,126
Total	$5,202	10,544	336,898	454,193	342,100	464,737

Index

The carrying amount of the covered loans at December 31, 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	$69	319	9,403	11,736	9,472	12,055
Real estate – construction, land development & other land loans	3,865	8,505	68,231	115,489	72,096	123,994
Real estate – mortgage – residential (1-4 family) first mortgages	1,214	2,639	157,712	189,436	158,926	192,075
Real estate – mortgage – home equity loans / lines of credit	127	577	23,211	29,249	23,338	29,826
Real estate – mortgage – commercial and other	2,585	4,986	93,428	125,450	96,013	130,436
Installment loans to individuals	4	6	1,385	1,583	1,389	1,589
Total	$7,864	17,032	353,370	472,943	361,234	489,975

The following table presents information regarding covered purchased nonimpaired loans since December 31, 2010. 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, 2010	366,521
Additions due to acquisition of The Bank of Asheville (at fair value)	84,623
Principal repayments	(40,576)
Transfers to foreclosed real estate	(53,999)
Loan charge-offs	(14,797)
Accretion of loan discount	11,598
Carrying amount of nonimpaired covered loans at December 31, 2011	$353,370
Principal repayments	(12,082)
Transfers to foreclosed real estate	(4,535)
Loan charge-offs	(2,433)
Accretion of loan discount	2,578
Carrying amount of nonimpaired covered loans at March 31, 2012	$336,898

As reflected in the table above, the Company accreted $2,578,000 of the loan discount on purchased nonimpaired loans into interest income during the first quarter of 2012. As of March 31, 2012, there was remaining loan discount of $86,093,000 related to purchased nonimpaired loans. If these loans continue to be repaid by the borrowers, the Company will accrete the remaining loan discount into interest income over the lives of the respective loans. In such circumstances, a corresponding entry to reduce the indemnification asset will be recorded amounting to 80% of the loan discount accretion, which reduces noninterest income.

The following table presents information regarding all purchased impaired loans since December 31, 2010, 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.

Index

($ in thousands)	Contractual Principal Receivable	Fair Market Value Adjustment – Write Down (Nonaccretable Difference)	Carrying Amount
Purchased Impaired Loans			
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	(1,620)	(327)	(1,293)
Transfer to foreclosed real estate	(19,881)	(9,308)	(10,573)
Change due to loan charge-off	(7,522)	(4,193)	(3,329)
Other	807	224	583
Balance at December 31, 2011	$ 18,316	9,532	8,784
Change due to payments received	(238)	(96)	(142)
Transfer to foreclosed real estate	(7,334)	(3,477)	(3,857)
Change due to loan charge-off	(109)	(109)	—
Other	(1,391)	(1,808)	417
Balance at March 31, 2012	$ 9,244	4,042	5,202

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 first quarter of 2012 and 2011, the Company received no payments that exceeded the initial carrying amount of the purchased impaired loans.

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)*	March 31, 2012	December 31, 2011	March 31, 2011
Non-covered nonperforming assets			
Nonaccrual loans	$ 69,665	73,566	69,250
Restructured loans - accruing	10,619	11,720	19,843
Accruing loans > 90 days past due	—	—	—
Total non-covered nonperforming loans	80,284	85,286	89,093
Other real estate	36,838	37,023	26,961
Total non-covered nonperforming assets	$ 117,122	122,309	116,054

Covered nonperforming assets			
Nonaccrual loans (1)	$ 42,369	41,472	56,862
Restructured loans - accruing	13,158	14,218	16,238
Accruing loans > 90 days past due	—	—	—
Total covered nonperforming loans	55,527	55,690	73,100
Other real estate	79,535	85,272	95,868
Total covered nonperforming assets	$ 135,062	140,962	168,968
Total nonperforming assets	$ 252,184	263,271	285,022

(1) At March 31, 2012, December 31, 2011, and March 31, 2011, the contractual balance of the nonaccrual loans covered by FDIC loss share agreements was $68.3 million, $69.0 million, and $106.5 million, respectively.

Index

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

($ in thousands)	As of /for the three months ended March 31, 2012	As of /for the year ended December 31, 2011	As of /for the three months ended March 31, 2011
Impaired loans at period end			
Non-covered	$ 80,284	85,286	89,093
Covered	55,527	55,690	73,100
Total impaired loans at period end	$ 135,811	140,976	162,193
Average amount of impaired loans for period			
Non-covered	$ 82,788	89,023	92,548
Covered	55,609	63,289	72,962
Average amount of impaired loans for period – total	$ 138,397	152,312	165,510
Allowance for loan losses related to impaired loans at period end			
Non-covered	$ 11,662	5,804	6,289
Covered	5,308	5,106	6,206
Allowance for loan losses related to impaired loans - total	$ 16,970	10,910	12,495
Amount of impaired loans with no related allowance at period end			
Non-covered	$ 16,717	35,721	40,169
Covered	36,756	43,702	57,785
Total impaired loans with no related allowance at period end	$ 53,473	79,423	97,954

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 on previous page 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 March 31, 2012.

($ in thousands)	Non-covered	Covered	Total
Commercial, financial, and agricultural:			
Commercial – unsecured	$ 30	—	30

Commercial – secured	1,751	24	1,775
Secured by inventory and accounts receivable	822	—	822
Real estate – construction, land development & other land loans	20,469	19,002	39,471
Real estate – residential, farmland and multi-family	25,819	10,898	36,717
Real estate – home equity lines of credit	2,909	938	3,847
Real estate – commercial	15,017	11,497	26,514
Consumer	2,848	10	2,858
Total	$ 69,665	42,369	112,034

Index

The following table presents the Company's nonaccrual loans as of December 31, 2011.

($ in thousands)	Non-covered	Covered	Total
Commercial, financial, and agricultural:			
Commercial - unsecured	$ 452	—	452
Commercial - secured	2,190	358	2,548
Secured by inventory and accounts receivable	588	102	690
Real estate – construction, land development & other land loans	22,772	21,204	43,976
Real estate – residential, farmland and multi-family	25,430	11,050	36,480
Real estate – home equity lines of credit	3,161	1,068	4,229
Real estate - commercial	16,203	7,459	23,662
Consumer	2,770	231	3,001
Total	$ 73,566	41,472	115,038

The following table presents an analysis of the payment status of the Company's loans as of March 31, 2012.

($ 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	$178	82	30	37,459	37,749
Commercial - secured	1,222	130	1,751	107,088	110,191
Secured by inventory and accounts receivable	33	—	822	21,415	22,270
Real estate – construction, land development & other land loans	923	219	20,469	222,150	243,761
Real estate – residential, farmland, and multi-family	7,886	2,439	25,819	773,061	809,205
Real estate – home equity lines of credit	314	210	2,909	204,897	208,330
Real estate - commercial	948	545	15,017	588,775	605,285
Consumer	433	181	2,848	52,931	56,393
Total non-covered	$11,937	3,806	69,665	2,007,776	2,093,184
Unamortized net deferred loan costs					1,340
Total non-covered loans					$2,094,524

Covered loans	$7,014	2,274	42,369	290,443	342,100
Total loans	$18,951	6,080	112,034	2,298,219	2,436,624

The Company had no non-covered or covered loans that were past due greater than 90 days and accruing interest at March 31, 2012.

Index

The following table presents an analysis of the payment status of the Company’s loans as of December 31, 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	$67	591	452	37,668	38,778
Commercial - secured	672	207	2,190	108,682	111,751
Secured by inventory and accounts receivable	247	—	588	20,993	21,828
Real estate – construction, land development & other land loans	1,250	1,411	22,772	221,372	246,805
Real estate – residential, farmland, and multi-family	9,751	4,259	25,430	756,215	795,655
Real estate – home equity lines of credit	1,126	237	3,161	202,912	207,436
Real estate - commercial	2,620	1,006	16,203	567,354	587,183
Consumer	657	286	2,770	54,723	58,436
Total non-covered	$16,390	7,997	73,566	1,969,919	2,067,872
Unamortized net deferred loan costs					1,280
Total non-covered loans					$2,069,152
Covered loans	$6,511	3,388	41,472	309,863	361,234
Total loans	$22,901	11,385	115,038	2,279,782	2,430,386

The Company had no non-covered or covered loans that were past due greater than 90 days and accruing interest at December 31, 2011.

Index

The following table presents the activity in the allowance for loan losses for non-covered loans for the three months ended March 31, 2012.

($ 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
Beginning balance	$ 3,780	11,306	13,532	1,690	3,414	1,872	16	35,610
Charge-offs	(1,318)	(2,678)	(2,091)	(451)	(1,365)	(352)	—	(8,255)
Recoveries	16	188	194	34	41	70	—	543
Provisions	2,476	7,603	3,734	859	3,647	236	2	18,557
Ending balance	$ 4,954	16,419	15,369	2,132	5,737	1,826	18	46,455

Ending balances: Allowance for loan losses

Individually evaluated for impairment $ 869