

FIRST BANCORP /NC/
Form 10-Q
November 09, 2010

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, 2010

Commission File Number 0-15572

FIRST BANCORP

(Exact Name of Registrant as Specified in its Charter)

NORTH CAROLINA
(STATE OF OTHER JURASDICTION 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. x
YES o NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). o
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

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company” in Rule 12b-2 of the Exchange Act. (Check one)

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

- YES NO

The number of shares of the registrant's Common Stock outstanding on October 31, 2010 was 16,797,070.

INDEX
FIRST BANCORP AND SUBSIDIARIES

	Page
Part I. Financial Information	
Item 1 - Financial Statements	
<u>Consolidated Balance Sheets - September 30, 2010 and September 30, 2009 (With Comparative Amounts at December 31, 2009)</u>	4
<u>Consolidated Statements of Income - For the Periods Ended September 30, 2010 and 2009</u>	5
<u>Consolidated Statements of Comprehensive Income - For the Periods Ended September 30, 2010 and 2009</u>	6
<u>Consolidated Statements of Shareholders' Equity - For the Periods Ended September 30, 2010 and 2009</u>	7
<u>Consolidated Statements of Cash Flows - For the Periods Ended September 30, 2010 and 2009</u>	8
<u>Notes to Consolidated Financial Statements</u>	9
<u>Item 2 – Management’s Discussion and Analysis of Consolidated Results of Operations and Financial Condition</u>	29
<u>Item 3 – Quantitative and Qualitative Disclosures About Market Risk</u>	50
<u>Item 4 – Controls and Procedures</u>	51
Part II. Other Information	
<u>Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds</u>	52
<u>Item 6 – Exhibits</u>	52
<u>Signatures</u>	54

Index

FORWARD-LOOKING STATEMENTS

Part I of this report contains statements that could be deemed 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,” or 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 2009 Annual Report on Form 10-K.

IndexPart I. Financial Information
Item 1 - Financial StatementsFirst Bancorp and Subsidiaries
Consolidated Balance Sheets

(\$ in thousands-unaudited)	September 30, 2010	December 31, 2009 (audited)	September 30, 2009
ASSETS			
Cash and due from banks, noninterest-bearing	\$51,812	60,071	43,667
Due from banks, interest-bearing	246,771	283,175	232,877
Federal funds sold	21,092	7,626	7,548
Total cash and cash equivalents	319,675	350,872	284,092
Securities available for sale	143,047	179,755	168,860
Securities held to maturity (fair values of \$54,300, \$34,947, and \$28,692)	51,661	34,413	27,747
Presold mortgages in process of settlement	3,226	3,967	8,420
Loans – non-covered	2,096,439	2,132,843	2,147,615
Loans – covered by FDIC loss share agreements	413,735	520,022	578,485
Total loans	2,510,174	2,652,865	2,726,100
Less: Allowance for loan losses	(44,999)	(37,343)	(34,444)
Net loans	2,465,175	2,615,522	2,691,656
Premises and equipment	54,039	54,159	52,868
Accrued interest receivable	13,135	14,783	15,163
FDIC loss share receivable	93,125	143,221	187,029
Goodwill	65,835	65,835	65,835
Other intangible assets	4,742	5,113	5,330
Other	146,677	77,716	18,494
Total assets	\$3,360,337	3,545,356	3,525,494
LIABILITIES			
Deposits: Demand - noninterest-bearing	\$290,388	272,422	268,097
NOW accounts	370,654	362,366	264,267
Money market accounts	492,983	496,940	477,092
Savings accounts	154,955	149,338	142,391
Time deposits of \$100,000 or more	759,037	816,540	883,784
Other time deposits	683,465	835,502	886,009
Total deposits	2,751,482	2,933,108	2,921,640
Securities sold under agreements to repurchase	68,157	64,058	58,209
Borrowings	158,907	176,811	176,927
Accrued interest payable	2,421	3,054	3,688
Other liabilities	28,415	25,942	28,648

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Total liabilities	3,009,382	3,202,973	3,189,112
Commitments and contingencies			
SHAREHOLDERS' EQUITY			
Preferred stock, no par value per share. Authorized: 5,000,000 shares			
Issued and outstanding: 65,000 shares	65,000	65,000	65,000
Discount on preferred stock	(3,146)	(3,789)	(3,990)
Common stock, no par value per share. Authorized: 40,000,000, 20,000,000, and 20,000,000 shares			
Issued and outstanding: 16,785,750, 16,722,423, and 16,671,983 shares	99,303	98,099	97,745
Common stock warrants	4,592	4,592	4,592
Retained earnings	188,028	182,908	179,988
Accumulated other comprehensive income (loss)	(2,822)	(4,427)	(6,953)
Total shareholders' equity	350,955	342,383	336,382
Total liabilities and shareholders' equity	\$3,360,337	3,545,356	3,525,494

See notes to consolidated financial statements

Index

First Bancorp and Subsidiaries
Consolidated Statements of Income

(\$ in thousands, except share data-unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
INTEREST INCOME				
Interest and fees on loans	\$36,897	41,404	112,724	107,596
Interest on investment securities:				
Taxable interest income	1,364	1,650	4,473	5,112
Tax-exempt interest income	414	232	1,177	576
Other, principally overnight investments	135	188	463	293
Total interest income	38,810	43,474	118,837	113,577
INTEREST EXPENSE				
Savings, NOW and money market	1,541	2,355	5,069	6,476
Time deposits of \$100,000 or more	2,991	5,020	9,645	14,586
Other time deposits	2,713	4,794	8,762	13,756
Securities sold under agreements to repurchase	60	198	244	599
Borrowings	434	597	1,333	2,097
Total interest expense	7,739	12,964	25,053	37,514
Net interest income	31,071	30,510	93,784	76,063
Provision for loan losses	8,391	5,200	24,017	13,611
Net interest income after provision for loan losses	22,680	25,310	69,767	62,452
NONINTEREST INCOME				
Service charges on deposit accounts	3,350	3,811	10,408	10,035
Other service charges, commissions and fees	1,325	1,216	4,048	3,542
Fees from presold mortgages	404	395	1,216	847
Commissions from sales of insurance and financial products	325	333	1,087	1,164
Data processing fees	–	38	32	103
Gain from acquisition	–	–	–	67,894
Securities gains (losses)	1	6	25	(113)
Other gains (losses)	(1,448)	(58)	(2,628)	(209)
Total noninterest income	3,957	5,741	14,188	83,263
NONINTEREST EXPENSES				
Salaries	8,637	8,549	25,988	21,662
Employee benefits	2,672	2,901	7,745	8,166
Total personnel expense	11,309	11,450	33,733	29,828
Net occupancy expense	1,768	2,070	5,408	4,283
Equipment related expenses	1,044	1,013	3,246	2,979
Intangibles amortization	219	218	654	414
Acquisition expenses	–	290	–	1,082
Other operating expenses	6,371	5,912	21,907	17,507

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Total noninterest expenses	20,711	20,953	64,948	56,093
Income before income taxes	5,926	10,098	19,007	89,622
Income taxes	2,078	3,716	6,780	34,631
Net income	3,848	6,382	12,227	54,991
Preferred stock dividends and accretion	1,027	995	3,080	2,958
Net income available to common shareholders	\$2,821	5,387	9,147	52,033
Earnings per common share:				
Basic	\$0.17	0.32	0.55	3.13
Diluted	0.17	0.32	0.54	3.12
Dividends declared per common share	\$0.08	0.08	0.24	0.24
Weighted average common shares outstanding:				
Basic	16,779,554	16,664,544	16,754,678	16,636,646
Diluted	16,807,135	16,805,770	16,784,032	16,674,649

See notes to consolidated financial statements.

Index

First Bancorp and Subsidiaries
Consolidated Statements of Comprehensive Income

(\$ in thousands-unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net income	\$3,848	6,382	12,227	54,991
Other comprehensive income (loss):				
Unrealized gains (losses) on securities available for sale:				
Unrealized holding gains (losses) arising during the period, pretax	150	2,484	2,235	1,180
Tax benefit (expense)	(58)	(969)	(871)	(460)
Reclassification to realized (gains) losses	(1)	(6)	(25)	113
Tax expense (benefit)	1	2	10	(44)
Postretirement Plans:				
Amortization of unrecognized net actuarial loss	164	217	398	652
Tax expense	(65)	(85)	(157)	(254)
Amortization of prior service cost and transition obligation	8	9	26	27
Tax expense	(3)	(3)	(11)	(11)
Other comprehensive income (loss)	196	1,649	1,605	1,203
Comprehensive income	\$4,044	8,031	13,832	56,194

See notes to consolidated financial statements.

Index

First Bancorp and Subsidiaries
Consolidated Statements of Shareholders' Equity

(In thousands, except per share - unaudited)	Common Stock				Common Stock Warrants	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Share- holders' Equity
	Preferred Stock	Preferred Stock Discount	Shares	Amount				
Balances, January 1, 2009	\$		16,574	\$96,072	–	131,952	(8,156)	219,868
Net income						54,991		54,991
Preferred stock issued	65,000	(4,592)						60,408
Common stock warrants issued					4,592			4,592
Common stock issued under stock option plans			36	335				335
Common stock issued into dividend reinvestment plan			62	879				879
Cash dividends declared (\$0.24 per common share)						(3,997)		(3,997)
Preferred dividends accrued						(2,356)		(2,356)
Accretion of preferred stock discount		602				(602)		–
Tax benefit realized from exercise of nonqualified stock options				73				73
Stock-based compensation				386				386
Other comprehensive income							1,203	1,203
Balances, September 30, 2009	\$65,000	(3,990)	16,672	\$97,745	4,592	179,988	(6,953)	336,382
	\$65,000	(3,789)	16,722	\$98,099	4,592	182,908	(4,427)	342,383

Balances, January 1,
2010

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 accrued						(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

See notes to consolidated financial statements.

Index

First Bancorp and Subsidiaries

Consolidated Statements of Cash Flows

(\$ in thousands-unaudited)	Nine Months Ended September 30,	
	2010	2009
Cash Flows From Operating Activities		
Net income	\$12,227	54,991
Reconciliation of net income to net cash provided by operating activities:		
Provision for loan losses	24,017	13,611
Net security premium amortization	1,096	722
Net purchase accounting adjustments	(6,742)	(2,473)
Loss (gain) on securities	(25)	113
Other (gains) losses	2,628	(67,685)
Increase in net deferred loan costs	(488)	(186)
Depreciation of premises and equipment	2,963	2,652
Stock-based compensation expense	541	386
Amortization of intangible assets	654	414
Origination of presold mortgages in process of settlement	(60,158)	(65,523)
Proceeds from sales of presold mortgages in process of settlement	60,899	60,775
Decrease in accrued interest receivable	1,648	716
Decrease (increase) in other assets	(1,230)	17,710
Decrease in accrued interest payable	(633)	(3,072)
Increase (decrease) in other liabilities	(1,913)	6,671
Net cash provided by operating activities	35,484	19,822
Cash Flows From Investing Activities		
Purchases of securities available for sale	(42,284)	(69,616)
Purchases of securities held to maturity	(19,710)	(13,435)
Proceeds from maturities/issuer calls of securities available for sale	80,225	112,648
Proceeds from maturities/issuer calls of securities held to maturity	2,367	1,626
Net decrease in loans	51,136	72,784
Proceeds from FDIC loss share agreements	46,433	–
Proceeds from sales of foreclosed real estate	16,840	3,633
Purchases of premises and equipment	(2,811)	(3,036)
Net cash paid for acquisition	(170)	–
Net cash received in acquisition	–	91,696
Net cash provided by investing activities	132,026	196,300
Cash Flows From Financing Activities		
Net increase (decrease) in deposits and repurchase agreements	(175,316)	134,129
Repayments of borrowings, net	(17,600)	(349,465)
Cash dividends paid – common stock	(4,016)	(5,809)
Cash dividends paid – preferred stock	(2,438)	(1,952)
Proceeds from issuance of preferred stock and common stock warrants	–	65,000
Proceeds from issuance of common stock	627	1,214
Tax benefit from exercise of nonqualified stock options	36	73
Net cash used by financing activities	(198,707)	(156,810)

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Increase (decrease) in cash and cash equivalents	(31,197)	59,312
Cash and cash equivalents, beginning of period	350,872	224,780
Cash and cash equivalents, end of period	\$319,675	284,092
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$25,686	40,586
Income taxes	16,238	10,592
Non-cash transactions:		
Unrealized gain on securities available for sale, net of taxes	1,349	789
Foreclosed loans transferred to other real estate	94,949	5,151

See notes to consolidated financial statements.

Index

First Bancorp and Subsidiaries
Notes to Consolidated Financial Statements

(unaudited)

For the Periods Ended September 30, 2010 and 2009

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, 2010 and 2009 and the consolidated results of operations and consolidated cash flows for the periods ended September 30, 2010 and 2009. All such adjustments were of a normal, recurring nature. Reference is made to the 2009 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, 2010 and 2009 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 2009 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 June 2009, the Financial Accounting Standards Board (“FASB”) issued guidance that removed the concept of a special purpose entity (SPE) from previous accounting guidance. The amended guidance limits the circumstances in which a financial asset should be derecognized when the transferor has not transferred the entire financial asset by taking into consideration the transferor’s continuing involvement. The guidance requires that a transferor recognize and initially measure at fair value all assets obtained (including a transferor’s beneficial interest) and liabilities incurred as a result of a transfer of financial assets accounted for as a sale. The concept of a qualifying SPE is no longer applicable. The guidance was effective for all interim and annual periods beginning after November 15, 2009. The adoption of this guidance on January 1, 2010 did not have a material impact on the Company’s consolidated statements.

In January 2010, new guidance was issued by the FASB requiring improved disclosures about fair value measurements. The guidance requires entities to disclose significant transfers in and out of fair value hierarchy levels, and the reasons for the transfers, and to present information about purchases, sales, issuances and settlements separately in the reconciliation of fair value measurements using significant unobservable inputs (Level 3). Additionally, the guidance clarifies that a reporting entity should provide fair value measurements for each class of assets and liabilities and disclose the inputs and valuation techniques used for fair value measurements using significant other observable inputs (Level 2) and significant unobservable inputs (Level 3). The Company has applied the new disclosure requirements as of January 1, 2010, except for the disclosures about purchases, sales, issuances and settlements in the Level 3 reconciliation, which will be effective for interim and annual periods beginning after December 15, 2010. The adoption of this guidance has not had and is not expected to have a material impact on the Company’s consolidated financial statements.

In February 2010, the FASB issued new guidance related to subsequent events. The amendment removed the requirement to disclose the date through which subsequent events have been evaluated, and became effective immediately upon issuance and is to be applied prospectively. The adoption of this guidance did not have a material impact on the Company’s consolidated financial statements.

Index

In April 2010, the FASB issued new guidance related to accounting for acquired troubled loans that are subsequently modified. The guidance provides that if these loans meet the criteria to be accounted for within a pool, modifications to one or more of these loans does not result in the removal of the modified loan from the pool even if the modification would otherwise be considered a troubled debt restructuring. The pool of assets in which the loan is included will continue to be considered for impairment. The amendments do not apply to loans not meeting the criteria to be accounted for within a pool. These amendments are effective for modifications of loans accounted for within pools occurring in the first interim or annual period ending on or after July 15, 2010. The adoption of these amendments had no impact on the Company's consolidated financial statements.

In July 2010, the FASB issued guidance that will require an entity to provide more information about the credit quality of its financing receivables, such as aging information and credit quality indicators, 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. The required disclosures are effective for periods ending on or after December 15, 2010. The Company will provide all required disclosures beginning with the Annual Report on Form 10-K for the year ended December 31, 2010.

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which significantly changes the regulation of financial institutions and the financial services industry. The Dodd-Frank Act includes several provisions that will affect how community banks, thrifts, and small bank and thrift holding companies will be regulated in the future. Among other things, these provisions abolish the Office of Thrift Supervision and transfer its functions to the other federal banking agencies, relax rules regarding interstate branching, allow financial institutions to pay interest on business checking accounts, change the scope of federal deposit insurance coverage, and impose new capital requirements on bank and thrift holding companies. The Dodd-Frank Act also establishes the Bureau of Consumer Financial Protection as an independent entity within the Federal Reserve, which will be given the authority to promulgate consumer protection regulations applicable to all entities offering consumer financial services or products, including banks. Additionally, the Dodd-Frank Act includes a series of provisions covering mortgage loan origination standards affecting originator compensation, minimum repayment standards, and pre-payments. Management is actively reviewing the provisions of the Dodd-Frank Act and assessing its probable impact on our business, financial condition, and results of operations.

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, 2009 have been reclassified to conform to the presentation for September 30, 2010. These reclassifications had no effect on net income or shareholders' equity for the periods presented, nor did they materially impact trends in financial information.

Note 4 – Equity-Based Compensation Plans

At September 30, 2010, 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, 2010, the First Bancorp 2007 Equity Plan was the only plan that had shares available for future grants.

Index

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, and 5) the grant of 1,039 shares of common stock to each of the Company’s non-employee directors on June 1, 2010.

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 2010, the Company granted 1,039 common shares 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 has both performance conditions (earnings per share (EPS) 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 EPS 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 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 EPS performance goal for 2008, and thus one-third of the above grant was permanently forfeited. As a result of a significant acquisition gain realized in June 2009 related to a failed bank acquisition, the Company achieved the EPS goal for 2009 and recorded compensation expense of \$300,000 in 2009 and \$225,000 for the first nine months of 2010. Assuming no forfeitures, the Company will record compensation expense of approximately \$75,000 in the last quarter of 2010 and approximately \$300,000 in 2011 as a result of the vesting of the 2009 performance period awards. The Company does not believe that the EPS goals for 2010 will be met, and thus no compensation expense has been recorded related to that performance period.

The December 11, 2009 grant of 29,267 long-term restricted shares of common stock to senior executives vests 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. For each 25% of total financial assistance repaid, 25% of the total long-term restricted stock may become transferrable. The total compensation expense associated with this grant was \$398,000 and is being initially amortized over a four year period, with approximately \$25,000 being expensed in each quarter of 2010-2013. See

Note 13 for further information related to the Company's participation in the TARP.

Index

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, 2010, there were 728,645 options outstanding related to the three First Bancorp plans, with exercise prices ranging from \$14.35 to \$22.12. At September 30, 2010, there were 849,356 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, 2010, there were 5,788 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 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's only equity grants for the nine months ended September 30, 2009 were grants of 27,000 options to non-employee directors on June 1, 2009 (2,250 options per director). The per share weighted-average fair value of these options was \$6.06 on the date of the grant using the following assumptions:

	Nine months ended September 30, 2009
Expected dividend yield	2.23%
Risk-free interest rate	3.28%
Expected life	7 years
Expected volatility	46.32%

The Company recorded stock-based compensation expense of \$100,000 and \$75,000 for the three-month periods ended September 30, 2010 and September 30, 2009, respectively. For the nine-month periods ended September 30, 2010 and September 30, 2009, the Company recorded stock-based compensation expense of \$541,000 and \$386,000, respectively. Approximately \$242,000 of the expense for the nine months ended September 30, 2010 relates to the June 1, 2010 director grants and is classified as "other operating expenses." The remaining 2010 expense is classified as "personnel expense" on the Consolidated Statements of Income with approximately \$224,000 (\$74,500 each quarter) relating to the June 17, 2008 grants to 19 senior officers and \$75,000 (\$25,000 each quarter) relating to the vesting of the restricted stock awards granted in December 2009. Of the \$386,000 in expense that was recorded in the nine month period ended September 30, 2009, approximately \$224,000 (\$74,500 each quarter) relates to the June 17, 2008 officer grants and is classified as "personnel expense" on the Consolidated Statements of Income, while \$162,000 relates

to the June 1, 2009 director grants and is classified as “other operating expenses.” Stock-based compensation expense is reflected as an adjustment to cash flows from operating activities on the Company’s Consolidated Statement of Cash Flows. The Company recognized income tax benefits in the income statement related to stock-based compensation in the amount of \$39,000 and \$29,000 for the three month periods ended September 30, 2010 and 2009, respectively. The Company recognized income tax benefits in the income statement related to stock-

Index

based compensation in the amount of \$211,000 and \$150,000 for the nine month periods ended September 30, 2010 and 2009, respectively.

At September 30, 2010, the Company had \$31,000 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 2.1 years, with \$18,000 being expensed in 2010, \$6,000 being expensed in each of 2011 and 2012, and \$1,000 being expensed in 2013. At September 30, 2010, the Company had \$1.2 million in unrecognized compensation expense associated with the June 17, 2008 award grant that has both performance conditions and service conditions. Based on the performance conditions, the Company believes that only the 2009 performance awards will ultimately vest, and therefore, the Company expects to record \$75,000 in each quarter of 2010 and 2011.

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.

The following table presents information regarding the activity for the first nine months of 2010 related to all of the Company's stock options outstanding:

	Number of Shares	Options Outstanding		Aggregate Intrinsic Value
		Weighted-Average Exercise Price	Weighted-Average Contractual Term (years)	
Balance at December 31, 2009	753,116	\$ 17.73		
Granted	–	–		
Exercised	(18,667)	10.46		\$ 97,940
Forfeited	–	–		
Expired	–	–		
Outstanding at September 30, 2010	734,449	\$ 17.91	4.4	\$ 9,487
Exercisable at September 30, 2010	572,467	\$ 18.27	3.5	\$ 9,487

The Company received \$171,000 and \$335,000 as a result of stock option exercises during the nine months ended September 30, 2010 and 2009, respectively. The Company recorded \$36,000 in associated tax benefits from the exercise of nonqualified stock options during the nine months ended September 30, 2010 compared to \$73,000 in the comparable period of 2009.

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 because the Company failed to meet the minimum performance goal required for vesting. Also, as discussed above, the Company granted 29,267 long-term restricted shares of common stock to certain senior executives on December 11, 2009.

Index

The following table presents information regarding the activity during 2010 related to the Company's outstanding performance units and restricted stock:

Nine months ended September 30, 2010	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
Nonvested at the beginning of the period	54,225	\$ 16.53	29,267	\$ 13.59
Granted during the period	–	–	–	–
Vested during the period	–	–	–	–
Forfeited or expired during the period	–	–	–	–
Nonvested at end of period	54,225	\$ 16.53	29,267	\$ 13.59

Note 5 – Earnings Per Common Share

Basic earnings per common share were computed by dividing net income 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 13 for additional information. The following is a reconciliation of the numerators and denominators used in computing basic and diluted earnings per common share:

(\$ in thousands except per share amounts)	Income (Numerator)	For the Three Months Ended September 30,			Income (Numerator)	Shares (Denominator)	Per Share Amount
		2010	Per Share Amount	2009			
Basic EPS							
Net income available to common shareholders	\$2,821	16,779,554	\$0.17	\$5,387	16,664,544	\$0.32	
Effect of Dilutive Securities	-	27,581		-	141,226		
Diluted EPS per common share	\$2,821	16,807,135	\$0.17	\$5,387	16,805,770	\$0.32	

(\$ in thousands except per share amounts)	Income (Numerator)	For the Nine Months Ended September 30,			Income (Numerator)	Shares (Denominator)	Per Share Amount
		2010	Per Share Amount	2009			
Basic EPS							
Net income available to common shareholders	\$9,147	16,754,678	\$0.55	\$52,033	16,636,646	\$3.13	
Effect of Dilutive Securities	-	29,354		-	38,003		

Diluted EPS per common share	\$9,147	16,784,032	\$0.54	\$52,033	16,674,649	\$3.12
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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. For the three and

Index

nine month periods ended September 30, 2009, there were 265,730 and 704,018 options, respectively, that were antidilutive because the exercise price exceeded the average market price for the period. In addition, the warrant issued to the U.S. Treasury (see Note 13) was anti-dilutive for the three and nine months ended September 30, 2010 and 2009. Antidilutive options and warrants have been omitted from the calculation of diluted earnings per share for the respective period.

Note 6 – Securities

The book values and approximate fair values of investment securities at September 30, 2010 and December 31, 2009 are summarized as follows:

(\$ in thousands)	September 30, 2010				December 31, 2009			
	Amortized Cost	Fair Value	Unrealized Gains	Unrealized (Losses)	Amortized Cost	Fair Value	Unrealized Gains	Unrealized (Losses)
Securities available for sale:								
Government-sponsored enterprise securities	\$ 16,028	16,267	239	–	36,106	36,518	412	–
Mortgage-backed securities	91,783	95,457	3,674	–	109,430	111,797	2,423	(56)
Corporate bonds	15,759	15,587	234	(406)	15,769	14,436	–	(1,333)
Equity securities	15,435	15,736	342	(41)	16,618	17,004	417	(31)
Total available for sale	\$ 139,005	143,047	4,489	(447)	177,923	179,755	3,252	(1,420)
Securities held to maturity:								
State and local governments	\$ 51,654	54,293	2,639	–	34,394	34,928	612	(78)
Other	7	7	–	–	19	19	–	–
Total held to maturity	\$ 51,661	54,300	2,639	–	34,413	34,947	612	(78)

Included in mortgage-backed securities at September 30, 2010 were collateralized mortgage obligations with an amortized cost of \$3,414,000 and a fair value of \$3,555,000. Included in mortgage-backed securities at December 31, 2009 were collateralized mortgage obligations with an amortized cost of \$5,413,000 and a fair value of \$5,601,000.

The Company owned Federal Home Loan Bank stock with a cost and fair value of \$15,336,000 and \$16,519,000 at September 30, 2010 and December 31, 2009, 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, 2010:

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

		Losses		Unrealized Losses		Unrealized Losses
Government-sponsored enterprise securities	\$-	-	-	-	-	-
Mortgage-backed securities	-	-	-	-	-	-
Corporate bonds	2,040	11	5,472	395	7,512	406
Equity securities	-	-	30	41	30	41
State and local governments	-	-	-	-	-	-
Total temporarily impaired securities	\$2,040	11	5,502	436	7,542	447

Index

The following table presents information regarding securities with unrealized losses at December 31, 2009:

(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	9,575	56	–	–	9,575	56
Corporate bonds	1,609	224	12,827	1,109	14,436	1,333
Equity securities	17	10	27	21	44	31
State and local governments	5,821	77	230	1	6,051	78
Total temporarily impaired securities	\$17,022	367	13,084	1,131	30,106	1,498

In the above tables, all of the non-equity securities that were in an unrealized loss position at September 30, 2010 and December 31, 2009 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, 2010 and December 31, 2009 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 remain in an unrealized loss position for twelve consecutive months unless the amount is insignificant.

The aggregate carrying amount of cost-method investments was \$15,343,000 and \$16,538,000 at September 30, 2010 and December 31, 2009, 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, 2010, 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	\$–	–	148	156
Due after one year but within five years	16,028	16,267	1,638	1,699
Due after five years but within ten years	2,995	3,042	13,509	14,428
Due after ten years	12,764	12,545	36,366	38,017
Mortgage-backed securities	91,783	95,457	–	–
Total debt securities	123,570	127,311	51,661	54,300

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Equity securities	15,435	15,736	–	–
Total securities	\$ 139,005	143,047	51,661	54,300

At September 30, 2010 and December 31, 2009, investment securities with book values of \$90,018,000 and \$85,438,000, respectively, were pledged as collateral for public and private deposits and securities sold under agreements to repurchase.

There were no securities sales during the nine months ended September 30, 2010 or 2009. During the nine months ended September 30, 2010, the Company recorded a gain of \$25,000 related to the call of three municipal securities.

Index

During the nine months ended September 30, 2009, the Company recorded losses of \$113,000 related to write-downs of the Company's equity portfolio.

Note 7 – Loans and Asset Quality Information

On June 19, 2009 the Company acquired substantially all of the assets and liabilities of Cooperative Bank. (See the Company's 2009 Annual Report on Form 10-K for more information regarding this transaction.) The loans and foreclosed real estate that were acquired in this transaction are covered by loss share agreements between the FDIC and the Company's banking subsidiary, 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 up to \$303 million and 95% of losses that exceed that amount. Because of the loss protection provided by the FDIC, the risk of the Cooperative Bank 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, 2010		December 31, 2009		September 30, 2009	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
All loans (non-covered and covered):						
Commercial, financial, and agricultural	\$160,824	7 %	\$173,611	7 %	\$175,062	6 %
Real estate – construction, land development & other land loans	473,446	19 %	551,714	21 %	630,358	23 %
Real estate – mortgage – residential (1-4 family) first mortgages	810,794	32 %	849,875	32 %	831,103	31 %
Real estate – mortgage – home equity loans / lines of credit	266,608	11 %	270,054	10 %	275,753	10 %
Real estate – mortgage – commercial and other	713,794	28 %	718,723	27 %	722,008	27 %
Installment loans to individuals	83,846	3 %	88,514	3 %	91,395	3 %
Subtotal	2,509,312	100 %	2,652,491	100 %	2,725,679	100 %
Unamortized net deferred loan costs	862		374		421	
Total loans	\$2,510,174		\$2,652,865		\$2,726,100	

As of September 30, 2010, December 31, 2009, and September 30, 2009, net loans include an unamortized premium of \$736,000, \$883,000 and \$932,000, respectively, on loans acquired from Great Pee Dee Bancorp ("Great Pee Dee").

Index

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

(\$ in thousands)	September 30, 2010		December 31, 2009		September 30, 2009	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Non-covered loans:						
Commercial, financial, and agricultural	\$ 155,498	7 %	\$ 164,225	8 %	\$ 165,842	8 %
Real estate – construction, land development & other land loans	370,805	18 %	408,458	19 %	418,437	19 %
Real estate – mortgage – residential (1-4 family) first mortgages	615,681	29 %	594,470	28 %	589,712	27 %
Real estate – mortgage – home equity loans / lines of credit	243,092	12 %	247,995	11 %	249,650	12 %
Real estate – mortgage – commercial and other	629,316	30 %	632,985	30 %	637,713	30 %
Installment loans to individuals	81,185	4 %	84,336	4 %	85,840	4 %
Subtotal	2,095,577	100 %	2,132,469	100 %	2,147,194	100 %
Unamortized net deferred loan costs	862		374		421	
Total non-covered loans	\$ 2,096,439		\$ 2,132,843		\$ 2,147,615	

The carrying amount of the covered loans at September 30, 2010 consisted of impaired and nonimpaired purchased loans, as follows:

(\$ in thousands)	Impaired Purchased Loans	Nonimpaired Purchased Loans	Total Covered Loans	Unpaid Principal Balance
Covered loans:				
Commercial, financial, and agricultural	\$–	5,326	5,326	6,491
Real estate – construction, land development & other land loans	4,602	98,039	102,641	166,289
Real estate – mortgage – residential (1-4 family) first mortgages	–	195,113	195,113	229,965
Real estate – mortgage – home equity loans / lines of credit	–	23,516	23,516	26,755
Real estate – mortgage – commercial and other	3,232	81,246	84,478	108,894
Installment loans to individuals	–	2,661	2,661	2,952
Total	\$ 7,834	405,901	413,735	541,346

The carrying amount of covered loans at December 31, 2009 was as follows:

(\$ in thousands)

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	Impaired Purchased Loans	Nonimpaired Purchased Loans	Total Covered Loans	Unpaid Principal Balance
Covered loans:				
Commercial, financial, and agricultural	\$—	9,386	9,386	12,406
Real estate – construction, land development & other land loans	29,479	113,777	143,256	254,897
Real estate – mortgage – residential (1-4 family) first mortgages	–	255,405	255,405	329,141
Real estate – mortgage – home equity loans / lines of credit	–	22,059	22,059	24,504
Real estate – mortgage – commercial and other	4,971	80,767	85,738	108,908
Installment loans to individuals	–	4,178	4,178	4,673
Total	\$34,450	485,572	520,022	734,529

Index

The following table presents information regarding purchased nonimpaired loans at the Cooperative Bank acquisition date of June 19, 2009 and changes from that date to September 30, 2010. The amounts include principal only and do not reflect accrued interest as of the date of the acquisition or beyond.

(\$ in thousands)

Contractual loan principal payments receivable	\$738,182
Fair market value adjustment	(194,460)
Fair value of purchased nonimpaired loans at June 19, 2009	543,722
Principal repayments	(45,670)
Transfers to foreclosed real estate	(13,949)
Accretion of loan discount	1,469
Carrying amount of nonimpaired Cooperative Bank loans at December 31, 2009	485,572
Principal repayments	(30,876)
Transfers to foreclosed real estate	(53,169)
Accretion of loan discount	4,374
Carrying amount of nonimpaired Cooperative Bank loans at September 30, 2010	\$405,901

As reflected in the table above, the Company accreted \$4,374,000 of the loan discount on purchased nonimpaired loans into interest income during the first nine months of 2010 in order to recognize the difference between the initial recorded investment and the loans' expected repayment amounts.

The following table presents information regarding purchased impaired loans at the Cooperative Bank acquisition date of June 19, 2009 and changes from that date to September 30, 2010. The Company has applied the cost recovery method to all purchased impaired loans at the acquisition date of June 19, 2009 due to the uncertainty as to the timing of expected cash flows as reflected in the following table.

(\$ in thousands)

Contractually required principal payments receivable	\$90,776
Nonaccretable difference	(33,394)
Present value of cash flows expected to be collected	57,382
Accretable difference	—
Fair value of purchased impaired loans at June 19, 2009	57,382
Transfer to foreclosed real estate	(22,932)
Carrying amount of impaired Cooperative Bank loans at December 31, 2009	34,450
Principal repayments	(482)
Transfer to foreclosed real estate	(26,042)
Change due to loan-charge-off	(320)
Other	228
Carrying amount of impaired Cooperative Bank loans at September 30, 2010	\$7,834

Index

The following table presents information regarding all purchased impaired loans, which includes the Company's acquisition of Great Pee Dee on April 1, 2008, and the Company's acquisition of certain assets and liabilities of Cooperative Bank on June 19, 2009:

(\$ in thousands)	Contractual Principal Receivable	Fair Market Value Adjustment – Write Down (Nonaccretable Difference)	Carrying Amount
Purchased Impaired Loans			
As of April 1, 2008 Great Pee Dee acquisition date	\$ 7,663	4,695	2,968
Additions due to borrower advances	663	–	663
Change due to payments received	(510)	–	(510)
Change due to legal discharge of debt	(102)	(102)	–
Balance at December 31, 2008	7,714	4,593	3,121
Additions due to acquisition of Cooperative Bank	90,776	33,394	57,382
Change due to payments received	(822)	(150)	(672)
Transfer to foreclosed real estate	(31,102)	(7,817)	(23,285)
Change due to loan charge-off	(27,273)	(26,778)	(495)
Balance at December 31, 2009	39,293	3,242	36,051
Change due to payments received	(678)	–	(678)
Transfer to foreclosed real estate	(26,042)	–	(26,042)
Change due to loan charge-off	(945)	(625)	(320)
Other	(59)	(286)	227
Balance at September 30, 2010	\$ 11,569	2,331	9,238

Each of the purchased impaired loans are 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. Through September 30, 2010, the Company has received \$67,000 in payments that exceeded the initial carrying amount of the purchased impaired loans. These payments were recorded as interest income.

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, 2010	December 31, 2009	September 30, 2009
Non-covered nonperforming assets			
Nonaccrual loans	\$ 80,318	62,206	51,015
Restructured loans	20,447	21,283	6,963
Accruing loans >90 days past due	–	–	–
Total non-covered nonperforming loans	100,765	83,489	57,978
Other real estate	17,475	8,793	7,549
Total non-covered nonperforming assets	\$ 118,240	92,282	65,527
Covered nonperforming assets (1)			

Nonaccrual loans (2)	\$75,116	117,916	122,308
Restructured loans	4,160	–	–
Accruing loans > 90 days past due	–	–	–
Total covered nonperforming loans	79,276	117,916	122,308
Other real estate	101,389	47,430	10,439
Total covered nonperforming assets	\$180,665	165,346	132,747
Total nonperforming assets	\$298,905	257,628	198,274

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

(2) At September 30, 2010, the contractual balance of the nonaccrual loans covered by FDIC loss share agreements was \$103.9 million.

Index

The following table presents information related to impaired loans, as defined by relevant accounting standards.

	As of /for the nine months ended September 30, 2010	As of /for the year ended December 31, 2009	As of /for the nine months ended September 30, 2009
(\$ in thousands)			
Impaired loans at period end			
Non-covered	\$ 100,765	55,574	35,771
Covered	79,276	94,746	71,083
Total impaired loans at period end	\$ 180,041	150,320	106,854
Average amount of impaired loans for period			
Non-covered	\$ 85,126	36,171	25,805
Covered	99,391	34,161	32,116
Average amount of impaired loans for period – total	\$ 184,517	70,332	57,921
Allowance for loan losses related to impaired loans at period end (1)			
	\$ 15,767	9,717	6,360
Amount of impaired loans with no related allowance at period end			
Non-covered	\$ 24,473	30,236	14,143
Covered	79,276	94,746	71,083
Total impaired loans with no related allowance at period end	\$ 103,749	124,982	85,226

(1) Relates entirely to non-covered loans.

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 previous table above for balances).

Index

Note 8 – Deferred Loan Costs

The amount of loans shown on the Consolidated Balance Sheets includes net deferred loan costs of approximately \$862,000, \$374,000, and \$421,000 at September 30, 2010, December 31, 2009, and September 30, 2009, respectively.

Note 9 – 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, 2010, December 31, 2009, and September 30, 2009 and the carrying amount of unamortized intangible assets as of those same dates. The Company recorded \$284,000 in customer lists intangibles in connection with the acquisition of an insurance agency in February 2010.

(\$ in thousands)	September 30, 2010		December 31, 2009		September 30, 2009	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets:						
Customer lists	\$678	282	394	241	394	234
Core deposit premiums	7,590	3,244	7,590	2,630	7,590	2,420
Total	\$8,268	3,526	7,984	2,871	7,984	2,654
Unamortizable intangible assets:						
Goodwill	\$65,835		65,835		65,835	

Amortization expense totaled \$219,000 and \$218,000 for the three months ended September 30, 2010 and 2009, respectively. Amortization expense totaled \$654,000 and \$414,000 for the nine months ended September 30, 2010 and 2009, respectively.

The following table presents the estimated amortization expense for the last quarter of 2010 and for each of the four calendar years ending December 31, 2014 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,	
2010	\$ 220
2011	864
2012	853
2013	742
2014	639
Thereafter	1,425
Total	\$ 4,743

Index

Note 10 – Pension Plans

The Company sponsors two defined benefit pension plans – a qualified retirement plan (the “Pension Plan”) which is generally available to all employees, 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 \$806,000 and \$937,000 for the three months ended September 30, 2010 and 2009, respectively, related to the Pension Plan and the SERP. The following table contains the components of the pension expense.

(\$ in thousands)	For the Three Months Ended September 30,					
	2010 Pension Plan	2009 Pension Plan	2010 SERP	2009 SERP	2010 Total Both Plans	2009 Total Both Plans
Service cost – benefits earned during the period	\$454	422	70	116	524	538
Interest cost	410	340	98	82	508	422
Expected return on plan assets	(399)	(250)	–	–	(399)	(250)
Amortization of transition obligation	–	1	–	–	–	1
Amortization of net (gain)/loss	139	191	25	27	164	218
Amortization of prior service cost	4	3	5	5	9	8
Net periodic pension cost	\$608	707	198	230	806	937

The Company recorded pension expense totaling \$2,372,000 and \$2,810,000 for the nine months ended September 30, 2010 and 2009, respectively, related to the Pension Plan and the SERP. The following table contains the components of the pension expense.

(\$ in thousands)	For the Nine Months Ended September 30,					
	2010 Pension Plan	2009 Pension Plan	2010 SERP	2009 SERP	2010 Total Both Plans	2009 Total Both Plans
Service cost – benefits earned during the period	\$1,302	1,266	306	348	1,608	1,614
Interest cost	1,166	1,020	283	246	1,449	1,266
Expected return on plan assets	(1,109)	(749)	–	–	(1,109)	(749)
Amortization of transition obligation	2	3	–	–	2	3
Amortization of net (gain)/loss	337	571	61	81	398	652
Amortization of prior service cost	10	9	14	15	24	24
Net periodic pension cost	\$1,708	2,120	664	690	2,372	2,810

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 has contributed \$2,500,000 to the Pension Plan in 2010. During 2009, the Company amended the Pension Plan to prohibit new entrants into the plan.

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

Index

Note 11 – 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:

	September 30, 2010	December 31, 2009	September 30, 2009
Unrealized gain (loss) on securities available for sale	\$4,042	1,832	1,567
Deferred tax asset (liability)	(1,576)	(715)	(611)
Net unrealized gain (loss) on securities available for sale	2,466	1,117	956
Additional pension liability	(8,740)	(9,164)	(13,014)
Deferred tax asset	3,452	3,620	5,105
Net additional pension liability	(5,288)	(5,544)	(7,909)
Total accumulated other comprehensive income (loss)	\$(2,822)	(4,427)	(6,953)

Note 12 – Fair Value

The carrying amounts and estimated fair values of financial instruments at September 30, 2010 and December 31, 2009 are as follows:

(\$ in thousands)	September 30, 2010		December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Cash and due from banks, noninterest-bearing	\$51,812	51,812	60,071	60,071
Due from banks, interest-bearing	246,771	246,771	283,175	283,175
Federal funds sold	21,092	21,092	7,626	7,626
Securities available for sale	143,047	143,047	179,755	179,755
Securities held to maturity	51,661	54,300	34,413	34,947
Presold mortgages in process of settlement	3,226	3,226	3,967	3,967
Loans, net of allowance	2,465,175	2,481,001	2,615,522	2,583,289
FDIC loss share receivable	93,125	92,433	143,221	141,253
Accrued interest receivable	13,135	13,135	14,783	14,783
Deposits	2,751,482	2,757,247	2,933,108	2,942,539
Securities sold under agreements to repurchase	68,157	68,157	64,058	64,058
Borrowings	158,907	131,461	176,811	141,176
Accrued interest payable	2,421	2,421	3,054	3,054

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.

Index

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 Loss Share Receivable – 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 standard 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.

Index

The following table summarizes the Company's assets and liabilities that were measured at fair value at September 30, 2010.

(\$ in thousands)

	Fair Value at Sept. 30, 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	\$ 16,267	\$—	\$ 16,267	\$ —
Mortgage-backed securities	95,457	—	95,457	—
Corporate bonds	15,587	—	15,587	—
Equity securities	15,736	400	15,336	—
Total available for sale securities	143,047	400	142,647	—
Nonrecurring				
Impaired loans – covered	\$ 79,276	\$—	\$ 79,276	\$ —
Impaired loans – non-covered	100,765	—	100,765	—
Other real estate – covered	101,389	—	101,389	—
Other real estate – non-covered	17,475	—	17,475	—

The following table summarizes the Company's assets and liabilities that were measured at fair value at December 31, 2009.

(\$ in thousands)

	Fair Value at Dec. 31, 2009	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	\$ 36,518	\$—	\$ 36,518	\$ —
Mortgage-backed securities	111,797	—	111,797	—
Corporate bonds	14,436	—	14,436	—
Equity securities	17,004	485	16,519	—
Total available for sale securities	179,755	485	179,270	—
Nonrecurring				
Impaired loans – covered	\$ 94,746	\$—	\$ 94,746	\$ —
Impaired loans – non-covered	45,857	—	45,857	—
Other real estate – covered	47,430	—	47,430	—

Other real estate – non-covered	8,793	—	8,793	—
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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,

Index

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.

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, 2010.

For the nine months ended September 30, 2010, the increase in the fair value of securities available for sale was \$2,210,000 which is included in other comprehensive income (net of tax expense of \$861,000). For the nine months ended September 30, 2009, the increase in the fair value of securities available for sale was \$1,293,000 which is included in other comprehensive income (net of tax benefit of \$504,000). Fair value measurement methods at September 30, 2010 are consistent with those used in prior reporting periods.

Index

Note 13 – Participation in the 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.

The preferred stock qualifies as Tier 1 capital and will pay cumulative dividends at a rate of 5% for the first five years, and 9% thereafter. Subject to regulatory approval, the Company is generally permitted to redeem the preferred shares at par plus unpaid dividends.

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. The \$4.6 million discount will be accreted, using the effective interest method, as a reduction in net income available to common shareholders over the next four years at approximately \$0.8 million to \$1.0 million per year.

For the first nine months of 2010 and 2009, the Company accrued approximately \$2,438,000 and \$2,356,000, respectively, in preferred dividend payments and accreted \$643,000 and \$602,000, respectively, of the discount on the preferred stock. These amounts are deducted from net income in computing “Net income available to common shareholders.”

Note 14 – Subsequent Event

On October 28, 2010, the Company completed the purchase from the FDIC of premises and equipment in the amount of \$12.8 million related to Cooperative Bank. In accordance with the purchase and assumption agreement, the Company had been renting the Cooperative Bank facilities from the FDIC since June 2009.

Index

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

CRITICAL ACCOUNTING POLICIES

We follow and apply accounting principles that 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/or use of estimates based on our best assumptions at the time of the estimation. We have identified three policies as being more sensitive in terms of judgments and estimates, taking into account their overall potential impact on our consolidated financial statements – 1) the allowance for loan losses, 2) intangible assets, and 3) valuation of acquired assets.

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 loans 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 all loans not considered to be impaired loans. Loans that we have classified as having “standard” 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.

Index

Loans covered under loss share agreements with the FDIC 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 result in a reversal of any previously recorded provision for loan losses and related allowance for loan losses, or prospective adjustment to the accretable yield if no provision for loan losses had been recorded. Proportional adjustments are also recorded to the FDIC receivable under the loss share agreements.

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 acquisitions 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 currently our only material reporting unit). At our last evaluation, the fair value of our community banking operation exceeded its carrying value, including goodwill. 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.

Index

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 Acquired Loans

We consider the determination of the initial fair value of loans acquired in the June 19, 2009, FDIC-assisted transaction with Cooperative Bank, the initial fair value of the related FDIC loss share receivable, and the subsequent discount accretion of the purchased loans to involve a high degree of judgment and complexity. The carrying values of the acquired loans and the FDIC loss share receivable reflect management's best estimate of the amount to be realized on each of these assets. We determined current fair value accounting estimates of the 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 loss share receivable 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, the amount that we recorded as the fair values for the loans was 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 initially applied the cost recovery method permitted by relevant accounting guidance 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 have elected to accrete the discount 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

Net income available to common shareholders for the three and nine months ended September 30, 2010 amounted to \$2.8 million, or \$0.17 per diluted common share, and \$9.1 million, or \$0.54 per diluted common, respectively. For the three and nine months ended September 30, 2009, we reported earnings of \$5.4 million, or \$0.32 per diluted common share, and \$52.0 million, or \$3.12 per diluted common share, respectively.

In the second quarter of 2009, we realized a \$67.9 million gain related to the acquisition of Cooperative Bank in Wilmington, North Carolina. This gain resulted from the difference between the purchase price and the acquisition date fair value of the acquired assets and liabilities. The after-tax impact of this gain was \$41.1 million, or \$2.46 per diluted common share.

Index

Net Interest Income and Net Interest Margin

Net interest income for the third quarter of 2010 amounted to \$31.1 million, a 1.8% increase over the third quarter of 2009. This increase was due to a higher net interest margin, which was partially offset by a lower level of earning assets due to a contraction of the balance sheet over the past twelve months (see below).

Net interest income for the nine months ended September 30, 2010 amounted to \$93.8 million, a 23.3% increase over the comparable period of 2009. This increase was due to a higher net interest margin, as well as balance sheet growth realized from the June 2009 Cooperative Bank acquisition, which had approximately \$900 million in assets on the date of acquisition.

Our net interest margin (tax-equivalent net interest income divided by average earnings assets) in the third quarter of 2010 was 4.30%, a 47 basis point increase from the 3.83% margin realized in the third quarter of 2009. For the nine months ended September 30, 2010, our net interest margin was 4.27%, a 51 basis point increase compared to 3.76% for the comparable period of 2009. The primary reason for the higher net interest margins in 2010 is that we have been able to lower rates on maturing time deposits that were originated in periods of higher interest rates. Also, we have experienced declines in our levels of higher cost deposit accounts.

Provision for Loan Losses and Asset Quality

Our provision for loan losses amounted to \$8.4 million in the third quarter of 2010 compared to \$8.0 million in the second quarter of 2010 and \$5.2 million in the third quarter of 2009. Our provision for loan losses for the nine months ended September 30, 2010 was \$24.0 million compared to \$13.6 million for the comparable period in 2009. The higher provisions for loan losses are a result of higher levels of classified and nonperforming assets and the impact of declining real estate values on the our collateral dependent real estate loans.

Our non-covered nonperforming assets (which excludes assets covered by loss share agreements with the FDIC) amounted to \$118 million at September 30, 2010, compared to \$108 million at June 30, 2010 and \$66 million at September 30, 2009. At September 30, 2010, the ratio of non-covered nonperforming assets to total non-covered assets was 4.16%, compared to 3.89% at June 30, 2010, and 2.23% at September 30, 2009.

Our ratio of annualized net charge-offs to average non-covered loans was 1.06% for the third quarter of 2010 compared to 1.04% in the second quarter of 2010 and 0.72% in the third quarter of 2009.

Noninterest Income

Total noninterest income was \$4.0 million in the third quarter of 2010 compared to \$5.7 million for the third quarter of 2009. The decline in 2010 was primarily a result of a \$0.5 million decline in service charges on deposits and \$1.4 million in other losses (primarily write-downs, as described below). The decline in service charges on deposits is primarily due to lower insufficient fund fee charges, which declined during the third quarter of 2010 as a result of fewer instances of customers overdrawing their accounts. This was partially a result of new regulations that took effect in the third quarter of 2010 that limit our ability make overdraft loans and charge overdraft fees unless the customer has opted-in for such protection.

Total noninterest income for the nine months ended September 30, 2010 was \$14.2 million, compared to \$83.3 million for the nine months ended September 30, 2009. The year-to-date period in 2009 includes the \$67.9 million gain discussed above related to the June 2009 acquisition of Cooperative Bank. Most other categories of noninterest income increased as a result of the larger customer base that resulted from the Cooperative Bank acquisition.

For the three and nine months ended September 30, 2010, we recorded \$1.3 million and \$2.5 million, respectively, in write-downs (net of FDIC reimbursable amounts) on foreclosed properties covered by FDIC loss

Index

sharing agreements, which is included in “Other gains (losses)” in the accompanying schedules. The write-downs were necessary as a result of updated appraisals obtained on foreclosed real estate properties during the respective periods.

Noninterest Expenses

Noninterest expenses amounted to \$20.7 million in the third quarter of 2010, a 1.2% decrease from the \$21.0 million recorded in the same period of 2009. Noninterest expenses for the nine months ended September 30, 2010 amounted to \$64.9 million, a 15.8% increase from the \$56.1 million recorded in the first nine months of 2009. This increase is attributable to incremental operating expenses associated with the Cooperative Bank acquisition that occurred in the second quarter of 2009. Included in other operating expenses for the first nine months of 2010 are approximately \$1.8 million in costs (net of FDIC reimbursements) associated with collection activities on loans and foreclosed properties covered by FDIC loss sharing agreements, compared to \$0.1 million for the first nine months of 2009.

Balance Sheet and Capital

Total assets at September 30, 2010 amounted to \$3.4 billion, a 4.7% decrease from a year earlier. Total loans at September 30, 2010 amounted to \$2.5 billion, a 7.9% decrease from a year earlier, and total deposits amounted to \$2.8 billion at September 30, 2010, a 5.8% decrease from a year earlier. The contraction of our balance sheet has been primarily a result of weak loan demand, which has allowed us to lessen our reliance on higher cost sources of funding, including internet and large denomination time deposits.

We continue to experience a general decline in loans, with loans decreasing approximately \$143 million, or 5.4%, since December 31, 2009. Although we originate and renew a significant amount of loans each month, normal paydowns of loans are exceeding new loan growth. Overall, loan demand remains weak in most of our market areas.

Our deposits declined by \$182 million, or 6.2%, during the first nine months of 2010. This decrease was primarily associated with time deposits, which are generally the highest cost source of funds for us. Brokered deposits remained at a low level at September 30, 2010, comprising just 3.4% of total deposits, with internet deposits comprising an additional 1.9%.

We remain well-capitalized by all regulatory standards with a Total Risk-Based Capital Ratio of 16.74%. (See “Capital Resources” below for comparisons of our capital ratios with prior periods and regulatory minimums.) Our tangible common equity to tangible assets ratio was 6.55% at September 30, 2010, an increase of 75 basis points from a year earlier. We continue to have outstanding \$65 million in preferred stock that was issued to the US Treasury in January 2009.

Our annualized return on average assets for the three and nine month periods ended September 30, 2010 was 0.34% and 0.37%, respectively, compared to 0.61% and 2.35% for the comparable periods of 2009. 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, 2010 was 3.89% and 4.30%, respectively, compared to 7.86% and 22.85% for the comparable periods of 2009. 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, 2010 amounted to \$31,071,000, an increase of \$561,000, or 1.8%, from the \$30,510,000 recorded in the third quarter of 2009. Net interest income on a tax-

Index

equivalent basis for the three month period ended September 30, 2010 amounted to \$31,401,000, an increase of \$670,000, or 2.2%, from the \$30,731,000 recorded in the third quarter of 2009. 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.

(\$ in thousands)	Three Months Ended September 30,	
	2010	2009
Net interest income, as reported	\$ 31,071	30,510
Tax-equivalent adjustment	330	221
Net interest income, tax-equivalent	\$ 31,401	30,731

Net interest income for the nine months ended September 30, 2010 amounted to \$93,784,000, an increase of \$17,721,000, or 23.3%, from the \$76,063,000 recorded in the first nine months of 2009. Net interest income on a tax-equivalent basis for the nine months ended September 30, 2010 amounted to \$94,740,000, an increase of \$18,106,000, or 23.6%, from the \$76,634,000 recorded in the first nine months of 2009.

(\$ in thousands)	Nine Months Ended September 30,	
	2010	2009
Net interest income, as reported	\$ 93,784	76,063
Tax-equivalent adjustment	956	571
Net interest income, tax-equivalent	\$ 94,740	76,634

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 months ended September 30, 2010, the increase in net interest income was due to a higher net interest margin, which was partially offset by a lower level of earning assets due to a contraction of the balance sheet over the past twelve months.

For the nine months ended September 30, 2010, the increase in net interest income was due to a higher net interest margin, as well as balance sheet growth realized from the June 2009 Cooperative Bank acquisition.

Our net interest margin in the third quarter of 2010 was 4.30%, a 47 basis point increase from the 3.83% realized in the third quarter of 2009. Our net interest margin for the nine months ended September 30, 2010 was 4.27% compared to 3.76% for the nine months ended September 30, 2009. 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 core deposit accounts.

Our net interest margin has benefitted from purchase accounting adjustments associated with the Cooperative Bank acquisition and, to a lesser degree, the acquisition of Great Pee Dee Bancorp in 2008. For the nine months ended September 30, 2010 and 2009, we recorded \$6,742,000 and \$2,473,000, respectively, in net positive purchase accounting adjustments that increased net interest income. The table below presents the components of the purchase accounting adjustments.

Index

(\$ in thousands)	For the Three Months Ended		For the Nine Months Ended	
	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2010	Sept. 30, 2009
Interest income – reduced by premium amortization on loans	\$(49)	(49)	(147)	(147)
Interest income – increased by accretion of loan discount	1,231	–	4,374	–
Interest expense – reduced by premium amortization of deposits (1)	296	2,072	2,211	2,272
Interest expense – reduced by premium amortization of borrowings	72	116	304	348
Impact on net interest income	\$1,550	2,139	6,742	2,473

(1) At September 30, 2010, the premium on deposits has been fully amortized.

The following table presents net interest income analysis on a tax-equivalent basis.

(\$ in thousands)	For the Three Months Ended September 30, 2010		For the Three Months Ended September 30, 2009		Interest Earned or Paid	
	Average Volume	Average Rate	Average Volume	Average Rate		
Assets						
Loans (1)	\$2,529,356	5.79 %	\$36,897	\$2,763,178	5.94 %	\$41,404
Taxable securities	147,215	3.68 %	1,364	172,339	3.80 %	1,650
Non-taxable securities (2)	49,261	5.99 %	744	25,030	7.18 %	453
Short-term investments	168,828	0.32 %	135	219,653	0.34 %	188
Total interest-earning assets	2,894,660	5.36 %	39,140	3,180,200	5.50 %	43,695
Cash and due from banks	59,914			42,827		
Premises and equipment	54,054			52,930		
Other assets	263,533			249,855		
Total assets	\$3,272,161			\$3,525,812		
Liabilities						
NOW accounts	\$367,931	0.22 %	\$200	\$268,555	0.35 %	\$239
Money market accounts	495,324	0.82 %	1,029	468,153	1.49 %	1,755
Savings accounts	158,109	0.78 %	312	146,145	0.98 %	361
Time deposits >\$100,000	770,210	1.54 %	2,991	864,907	2.30 %	5,020
Other time deposits	693,422	1.55 %	2,713	907,096	2.10 %	4,794
Total interest-bearing deposits	2,484,996	1.16 %	7,245	2,654,856	1.82 %	12,169
Securities sold under agreements to repurchase	58,207	0.41 %	60	54,557	1.44 %	198
Borrowings	70,559	2.44 %	434	177,386	1.34 %	597
Total interest-bearing liabilities	2,613,762	1.17 %	7,739	2,886,799	1.78 %	12,964
Non-interest-bearing deposits	292,362			268,444		
Other liabilities	12,976			33,606		
Shareholders' equity	353,061			336,963		

Total liabilities and shareholders' equity	\$3,272,161		\$3,525,812	
Net yield on interest-earning assets and net interest income	4.30	%	\$31,401	3.83 % \$30,731
Interest rate spread	4.19	%		3.67 %
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 \$330,000 and \$221,000 in 2010 and 2009, 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.

Index

(\$ in thousands)	For the Nine Months Ended September 30,						Interest Earned or Paid
	Average Volume	Average Rate	Interest Earned or Paid	Average Volume	Average Rate	Interest Earned or Paid	
Assets							
Loans (1)	\$2,577,640	5.85	% \$112,724	\$2,405,030	5.98	% \$107,596	
Taxable securities	162,635	3.68	% 4,473	166,459	4.11	% 5,112	
Non-taxable securities (2)	44,873	6.36	% 2,133	20,382	7.52	% 1,147	
Short-term investments	181,276	0.34	% 463	131,363	0.30	% 293	
Total interest-earning assets	2,966,424	5.40	% 119,793	2,723,234	5.60	% 114,148	
Cash and due from banks	59,126			39,377			
Premises and equipment	54,164			52,460			
Other assets	263,509			140,901			
Total assets	\$3,343,223			\$2,955,972			
Liabilities							
NOW accounts	\$345,417	0.25	% \$656	\$232,051	0.29	% \$496	
Money market accounts	512,524	0.90	% 3,442	408,665	1.59	% 4,869	
Savings accounts	156,351	0.83	% 971	132,737	1.12	% 1,111	
Time deposits >\$100,000	800,834	1.61	% 9,645	709,301	2.75	% 14,586	
Other time deposits	735,202	1.59	% 8,762	697,446	2.64	% 13,756	
Total interest-bearing deposits	2,550,328	1.23	% 23,476	2,180,200	2.14	% 34,818	
Securities sold under agreements to repurchase	57,637	0.57	% 244	53,545	1.50	% 599	
Borrowings	84,605	2.11	% 1,333	142,664	1.97	% 2,097	
Total interest-bearing liabilities	2,692,570	1.24	% 25,053	2,376,409	2.11	% 37,514	
Non-interest-bearing deposits	285,166			248,166			
Other liabilities	15,848			26,940			
Shareholders' equity	349,639			304,457			
Total liabilities and shareholders' equity	\$3,343,223			\$2,955,972			
Net yield on interest-earning assets and net interest income		4.27	% \$94,740		3.76	% \$76,634	
Interest rate spread		4.16	%		3.49	%	
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 \$956,000 and \$571,000 in 2010 and 2009, 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 2010 were \$2.529 billion, which was 8.5% less than the average loans outstanding for the third quarter of 2009 (\$2.763 billion). Average loans outstanding for the nine months ended September 30, 2010 were \$2.578 billion, which was 7.2% higher than the average loans outstanding for the nine months ended September 30, 2009 (\$2.405 billion). The mix of our loan portfolio remained substantially the same at September 30, 2010 compared to December 31, 2009, with approximately 91% of our loans being real estate loans, 6% being commercial, financial, and agricultural loans, and the remaining 3% 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 deposits outstanding for the third quarter of 2010 were \$2.777 billion, which was 5.0% less than the average deposits outstanding for the third quarter of 2009 (\$2.923 billion). Average deposits outstanding for the nine

Index

months ended September 30, 2010 were \$2.835 billion, which was 16.8% higher than the average deposits outstanding for the nine months ended September 30, 2009 (\$2.428 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.

The increase in average loan and deposit balances for the nine months ended September 30, 2010 compared to the comparable period in 2009 is a result of the acquisition of Cooperative Bank. On June 19, 2009, we acquired most of the assets and liabilities of Cooperative Bank, including approximately \$601 million in loans and \$712 million in deposits. Thus, average balances for the nine months ended September 30, 2009 were only partially impacted by the Cooperative acquisition, whereas in 2010, the average balances of Cooperative loans and deposits are fully reflected.

The lower average loan and deposit balances when comparing the third quarter of 2010 to the third quarter of 2009 are a result of declines in loans and deposits that we have experienced over the past twelve months. 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 and rates paid on liabilities (funding costs) have both declined in 2010 compared to 2009, primarily as a result of the maturity and repricing of assets and liabilities that were originated during periods of higher interest rates. Due largely to a steep interest rate yield curve and our continued initiative to require generally higher loan interest rates to better compensate us for our risk, our funding costs have declined by a greater amount than our asset yields have decreased, which has resulted in a higher net interest margins in 2010 compared to 2009. As derived from the above table, in the third quarter of 2010, the average yield on interest-earning assets was 5.36%, a fourteen basis point decline from the 5.50% yield in the comparable period of 2009, while the average rate on interest bearing liabilities declined by 61 basis points, from 1.78% in the third quarter of 2009 to 1.17% in the third quarter of 2010.

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

Our provision for loan losses amounted to \$8,391,000 in the third quarter of 2010 versus \$5,200,000 in the third quarter of 2009. The provision for loan losses for the nine months ended September 30, 2010 was \$24,017,000 compared to \$13,611,000 recorded in the first nine months of 2009. The higher provisions for loan losses in 2010 are a result of higher levels of classified and nonperforming assets and the impact of declining real estate values on our collateral-dependent real estate loans. The increases in the provisions for loan losses are primarily attributable to the Company's "non-covered" loan portfolio, which excludes loans assumed from Cooperative Bank that are subject to loss share agreements with the FDIC and which were written down to estimated fair market value in connection with initially recording the acquisition.

Our non-covered nonperforming assets were \$118.2 million at September 30, 2010 compared to \$92.3 million at December 31, 2009 and \$65.5 million at September 30, 2009. At September 30, 2010, the ratio of non-covered nonperforming assets to total non-covered assets was 4.16%, compared to 3.10% at December 31, 2009, and 2.23% at September 30, 2009.

Our ratio of annualized net charge-offs to average non-covered loans was 1.06% for the third quarter of 2010 compared to 0.72% in the third quarter of 2009. Our ratio of annualized net charge-offs to average non-covered loans was 1.04% for the nine months ended September 30, 2010 compared to 0.52% for the comparable period of 2009.

Our nonperforming assets that are covered by FDIC loss share agreements have increased from \$133 million at September 30, 2009 to \$165 million at December 31, 2009, 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.

Index

Total noninterest income was \$4.0 million in the third quarter of 2010 compared to \$5.7 million for the third quarter of 2009. The decline in 2010 was primarily a result of a \$0.5 million decline in service charges on deposits and \$1.4 million in other losses (primarily write-downs, as described below). The decline in service charges on deposits is primarily due to lower insufficient fund fee charges, which declined during the third quarter of 2010 as a result of fewer instances of customers overdrawing their accounts. This was partially a result of new regulations that took effect in the third quarter of 2010 that limit our ability to make overdraft loans and charge overdraft fees unless the customer has opted-in for such protection.

Total noninterest income for the nine months ended September 30, 2010 was \$14.2 million, compared to \$83.3 million for the nine months ended September 30, 2009. The year-to-date period in 2009 includes a \$67.9 million gain related to the June 2009 acquisition of Cooperative Bank. Most other categories of noninterest income increased as a result of the larger customer base that resulted from the Cooperative Bank acquisition.

For the three and nine months ended September 30, 2010, we recorded \$1.3 million and \$2.5 million, respectively, in write-downs (net of FDIC reimbursable amounts) on foreclosed properties covered by FDIC loss sharing agreements, which is included in "Other gains (losses)" in the consolidated statements of income. The write-downs were necessary as a result of updated appraisals obtained on foreclosed real estate properties during the respective periods.

Noninterest expenses amounted to \$20.7 million in the third quarter of 2010, a 1.2% decrease over the \$21.0 million recorded in the same period of 2009. Noninterest expenses for the nine months ended September 30, 2010 amounted to \$64.9 million, a 15.8% increase from the \$56.1 million recorded in the first nine months of 2009. The increase for the nine month period in 2010 compared to 2009 is primarily attributable to incremental operating expenses associated with the Cooperative Bank acquisition that occurred late in the second quarter of 2009. Included in other noninterest expenses for the first nine months of 2010 are approximately \$1.8 million in costs (net of FDIC reimbursements) associated with collection activities on loans and foreclosed properties covered by FDIC loss sharing agreements, compared to \$0.1 million in the first nine months of 2009.

The provision for income taxes was \$2.1 million in the third quarter of 2010, an effective tax rate of 35.1%, compared to \$3.7 million in the third quarter of 2009, an effective tax rate of 36.8%. For the nine months ended September 30, 2010, our provision for income taxes was \$6.8 million, an effective tax rate of 35.7%, compared to \$34.6 million, an effective tax rate of 38.6%, for the comparable period of 2009. The decline in our effective tax rate was a result of purchases of tax-exempt securities during 2010. We currently expect our effective tax rate to remain at approximately 36% for the foreseeable future.

The Consolidated Statements of Comprehensive Income reflect other comprehensive income of \$0.2 million and \$1.6 million for the three and nine month periods ended September 30, 2010, respectively, and other comprehensive income of \$1.6 million and \$1.2 million for the three and nine month periods ended September 30, 2009, 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.

FINANCIAL CONDITION

Total assets at September 30, 2010 amounted to \$3.4 billion, a 4.7% decrease from a year earlier. Total loans at September 30, 2010 amounted to \$2.5 billion, a 7.9% decrease from a year earlier, and total deposits amounted to \$2.8 billion at September 30, 2010, a 5.8% decrease from a year earlier.

Index

The following table presents information regarding the nature of our changes in our levels of loans and deposits for the twelve months ended September 30, 2010 and for the first nine months of 2010.

October 1, 2009 to September 30, 2010	Balance at beginning of period	Internal Growth	Growth from Acquisitions (\$ in thousands)	Balance at end of period	Total percentage growth	Percentage growth, excluding acquisitions	
Loans	\$2,726,100	(215,926)		2,510,174	-7.9	%	-7.9 %
Deposits – Noninterest bearing	\$268,097	22,291		290,388	8.3	%	8.3 %
Deposits – NOW	264,267	106,387		370,654	40.3	%	40.3 %
Deposits – Money market	477,092	15,891		492,983	3.3	%	3.3 %
Deposits – Savings	142,391	12,564		154,955	8.8	%	8.8 %
Deposits – Brokered time	122,634	(28,561)		94,073	-23.3	%	-23.3 %
Deposits – Internet time	158,680	(105,434)		53,246	-66.4	%	-66.4 %
Deposits – Time>\$100,000	706,343	(64,373)		641,970	-9.1	%	-9.1 %
Deposits – Time<\$100,000	782,136	(128,923)		653,213	-16.5	%	-16.5 %
Total deposits	\$2,921,640	(170,158)		2,751,482	-5.8	%	-5.8 %
January 1, 2010 to September 30, 2010							
Loans	\$2,652,865	(142,691)		2,510,174	-5.4	%	-5.4 %
Deposits – Noninterest bearing	\$272,422	17,966		290,388	6.6	%	6.6 %
Deposits – NOW	362,366	8,288		370,654	2.3	%	2.3 %
Deposits – Money market	496,940	(3,957)		492,983	-0.8	%	-0.8 %
Deposits – Savings	149,338	5,617		154,955	3.8	%	3.8 %
Deposits – Brokered time	76,332	17,741		94,073	23.2	%	23.2 %
Deposits – Internet time	128,024	(74,778)		53,246	-58.4	%	-58.4 %
Deposits – Time>\$100,000	704,128	(62,158)		641,970	-8.8	%	-8.8 %
Deposits – Time<\$100,000	743,558	(90,345)		653,213	-12.2	%	-12.2 %
Total deposits	\$2,933,108	(181,626)		2,751,482	-6.2	%	-6.2 %

As derived from the table above, for the twelve months preceding September 30, 2010, our loans decreased by \$216 million, or 7.9%. Over that same period, deposits decreased \$170 million, or 5.8%. For the first nine months of 2010, loans decreased \$143 million, or 5.4%, while deposits decreased by \$182 million, or 6.2%. We believe loans have declined due to lower loan demand in the recessionary economy, as well as an initiative we began in 2008 to require generally higher loan interest rates to better compensate us for our risk. 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, 2010 compared to December 31, 2009. The majority of our real estate loans are personal and commercial loans where real estate provides additional security for the loan.

Index

The following table presents the mix of our loan portfolio at the dates noted. Note 7 to the consolidated financial statements presents additional detailed information regarding our mix of loans, including a break-out between loans covered by FDIC loss sharing agreements and non-covered loans.

(\$ in thousands)	September 30, 2010			December 31, 2009			September 30, 2009		
	Amount	Percentage		Amount	Percentage		Amount	Percentage	
Commercial, financial, and agricultural	\$ 160,824	7	%	\$ 173,611	7	%	\$ 175,062	6	%
Real estate – construction, land development & other land loans	473,446	19	%	551,714	21	%	630,358	23	%
Real estate – mortgage – residential (1-4 family) first mortgages	810,794	32	%	849,875	32	%	831,103	31	%
Real estate – mortgage – home equity loans / lines of credit	266,608	11	%	270,054	10	%	275,753	10	%
Real estate – mortgage – commercial and other	713,794	28	%	718,723	27	%	722,008	27	%
Installment loans to individuals	83,846	3	%	88,514	3	%	91,395	3	%
Subtotal	2,509,312	100	%	2,652,491	100	%	2,725,679	100	%
Unamortized net deferred loan costs	862			374			421		
Total loans	\$ 2,510,174			\$ 2,652,865			\$ 2,726,100		

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, in our acquisition of Cooperative Bank, we entered into loss sharing agreements with the FDIC, which afford us significant protection from losses from all loans and other real estate acquired in the acquisition.

Because of the loss protection provided by the FDIC, the financial risk of the Cooperative Bank loans and foreclosed real estate are significantly different from those assets not covered under the loss share agreements. Accordingly, 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.”

Index

Nonperforming assets are summarized as follows:

ASSET QUALITY DATA (\$ in thousands)	September 30, 2010	December 31, 2009	September 30, 2009
Non-covered nonperforming assets			
Nonaccrual loans	\$ 80,318	62,206	51,015
Restructured loans	20,447	21,283	6,963
Accruing loans >90 days past due	–	–	–
Total non-covered nonperforming loans	100,765	83,489	57,978
Other real estate	17,475	8,793	7,549
Total non-covered nonperforming assets	\$ 118,240	92,282	65,527
Covered nonperforming assets (1)			
Nonaccrual loans (2)	\$ 75,116	117,916	122,308
Restructured loans	4,160	–	–
Accruing loans > 90 days past due	–	–	–
Total covered nonperforming loans	79,276	117,916	122,308
Other real estate	101,389	47,430	10,439
Total covered nonperforming assets	\$ 180,665	165,346	132,747
Total nonperforming assets	\$ 298,905	257,628	198,274

Asset Quality Ratios – All Assets

Net charge-offs to average loans - annualized	0.88	%	0.54	%	0.57	%
Nonperforming loans to total loans	7.17	%	7.59	%	6.61	%
Nonperforming assets to total assets	8.90	%	7.27	%	5.62	%
Allowance for loan losses to total loans	1.79	%	1.41	%	1.26	%
Allowance for loan losses to nonperforming loans	24.99	%	18.54	%	19.11	%

Asset Quality Ratios – Based on Non-covered Assets only

Net charge-offs to average non-covered loans - annualized	1.06	%	0.69	%	0.72	%
Non-covered nonperforming loans to non-covered loans	4.81	%	3.91	%	2.70	%
Non-covered nonperforming assets to total non-covered assets	4.16	%	3.10	%	2.23	%
Allowance for loan losses to non-covered loans	2.15	%	1.75	%	1.60	%
Allowance for loan losses to non-covered nonperforming loans	44.66	%	44.73	%	59.41	%

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

(2) At September 30, 2010, the contractual balance of the nonaccrual loans covered by FDIC loss share agreements was \$103.9 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.

Consistent with the recessionary economy, we have experienced increases in loan losses, delinquencies and nonperforming assets, as well as declines in collateral values. Our total nonperforming assets were also significantly impacted by the Cooperative Bank acquisition. Our non-covered nonperforming assets were \$118.2 million at

September 30, 2010 compared to \$92.3 million at December 31, 2009 and \$65.5 million at September 30, 2009. Our ratio of annualized net charge-offs to average non-covered loans was 1.06% for the third quarter of 2010 compared to 0.72% in the third quarter of 2009. Our ratio of annualized net charge-offs to average loans was 1.04% for the nine months ended September 30, 2010 compared to 0.52% for the comparable period of 2009.

Index

The following is the composition by loan type of all of our nonaccrual loans at each period end, including both covered and non-covered loans:

	At September 30, 2010	At December 31, 2009	At September 30, 2009
(\$ in thousands)			
Commercial, financial, and agricultural	\$ 3,665	4,033	2,982
Real estate – construction, land development, and other land loans	71,646	80,669	105,703
Real estate – mortgage – residential (1-4 family) first mortgages	45,242	48,424	37,869
Real estate – mortgage – home equity loans/lines of credit	10,220	16,951	5,647
Real estate – mortgage – commercial and other	23,906	28,476	19,793
Installment loans to individuals	755	1,569	1,329
Total nonaccrual loans	\$ 155,434	180,122	173,323

The following segregates our nonaccrual loans at September 30, 2010 into covered and non-covered loans:

	Covered Nonaccrual Loans	Non-covered Nonaccrual Loans	Total Nonaccrual Loans
(\$ in thousands)			
Commercial, financial, and agricultural	\$ 979	2,686	3,665
Real estate – construction, land development, and other land loans	32,841	38,805	71,646
Real estate – mortgage – residential (1-4 family) first mortgages	23,422	21,820	45,242
Real estate – mortgage – home equity loans/lines of credit	4,609	5,611	10,220
Real estate – mortgage – commercial and other	13,231	10,675	23,906
Installment loans to individuals	34	721	755
Total nonaccrual loans	\$ 75,116	80,318	155,434

The following is the composition of our nonaccrual loans at December 31, 2009:

	Covered Nonaccrual Loans	Non-covered Nonaccrual Loans	Total Nonaccrual Loans
(\$ in thousands)			
Commercial, financial, and agricultural	\$ 263	3,770	4,033
Real estate – construction, land development, and other land loans	54,023	26,646	80,669
Real estate – mortgage – residential (1-4 family) first mortgages	31,315	17,109	48,424
Real estate – mortgage – home equity loans/lines of credit	13,451	3,500	16,951
Real estate – mortgage – commercial and other	18,595	9,881	28,476
Installment loans to individuals	269	1,300	1,569
Total nonaccrual loans	\$ 117,916	62,206	180,122

At September 30, 2010, troubled debt restructurings amounted to \$24.6 million, compared to \$21.3 million at December 31, 2009, and \$7.0 million at September 30, 2009. This increase was the result of our working with borrowers experiencing financial difficulties by modifying certain loan terms. The increase between September 30, 2009 and December 31, 2009 was also impacted by our analysis of the Federal Reserve's October 2009 guidance related to real estate loan workouts, which provided clarification of situations involving borrowers that should be reported as troubled debt restructurings.

Other real estate includes foreclosed, repossessed, and idled properties. Non-covered other real estate has increased since September 30, 2009, amounting to \$17.5 million at September 30, 2010, \$8.8 million at December 31, 2009, and \$7.5 million at September 30, 2009. At September 30, 2010, we also held \$101.4 million in other real estate that is subject to loss share agreements with the FDIC. 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.

Index

The following table presents the detail of our other real estate at each period end, including both covered and non-covered real estate:

	At September 30, 2010	At December 31, 2009	At September 30, 2009
(\$ in thousands)			
Vacant land	\$85,280	44,078	9,611
1-4 family residential properties	28,602	10,004	6,506
Commercial real estate	4,982	2,141	1,811
Other	—	—	60
Total other real estate	\$118,864	56,223	17,988

The following segregates our other real estate at September 30, 2010 into covered and non-covered:

	Covered Other Real Estate	Non-covered Other Real Estate	Total Other Real Estate
(\$ in thousands)			
Vacant land	\$78,862	6,418	85,280
1-4 family residential properties	20,941	7,661	28,602
Commercial real estate	1,586	3,396	4,982
Other	—	—	—
Total other real estate	\$101,389	17,475	118,864

Index

The following table presents geographical information regarding our nonperforming assets at September 30, 2010.

(\$ in thousands)	As of September 30, 2010				Nonperforming	
	Covered	Non-covered	Total	Total Loans	Loans to	Total Loans
Nonaccrual loans and Troubled Debt Restructurings (1)						
Eastern Region (NC)	\$ 78,981	31,202	110,183	\$ 681,000	16.2	%
Triangle Region (NC)	–	24,452	24,452	764,000	3.2	%
Triad Region (NC)	–	15,533	15,533	404,000	3.8	%
Charlotte Region (NC)	–	7,854	7,854	106,000	7.4	%
Southern Piedmont Region (NC)	5	2,445	2,450	217,000	1.1	%
South Carolina Region	290	12,937	13,227	155,000	8.5	%
Virginia Region	–	4,876	4,876	170,000	2.9	%
Other	–	1,466	1,466	12,000	12.2	%
Total nonaccrual loans and troubled debt restructurings	\$ 79,276	100,765	180,041	\$ 2,509,000	7.2	%
Other Real Estate (1)						
Eastern Region (NC)	\$ 101,322	2,968	104,290			
Triangle Region (NC)	–	5,027	5,027			
Triad Region (NC)	–	5,533	5,533			
Charlotte Region (NC)	–	1,920	1,920			
Southern Piedmont Region (NC)	–	183	183			
South Carolina Region	67	1,769	1,836			
Virginia Region	–	75	75			
Other	–	–	–			
Total other real estate	\$ 101,389	17,475	118,864			

(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

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

South Carolina Region - Chesterfield, Dillon, Florence, Horry

Virginia Region - Wythe, Washington, Montgomery, Pulaski

Charlotte North Carolina Region - Iredell, Cabarrus, Rowan

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.

Our provision for loan losses amounted to \$8.4 million in the third quarter of 2010 compared to \$5.2 million in the third quarter of 2009. The provision for loan losses for the nine month period ended September 30, 2010 was \$24.0 million compared to \$13.6 million recorded in the first nine months of 2009. The higher 2010 amounts were due to negative trends in asset quality as previously discussed.

Index

In the third quarter of 2010, we recorded \$5.6 million in net charge-offs, which amounted to 1.06% annualized net charge-offs to average non-covered loans, compared to \$3.9 million (0.72%) in the third quarter of 2009. For the nine month periods ended September 30, 2010 and 2009, our annualized net charge-offs to average non-covered loans ratios were 1.04% and 0.52%, respectively. Our ratio of non-covered nonperforming assets to total non-covered assets was 4.16% at September 30, 2010 compared to 2.23% at September 30, 2009.

At September 30, 2010, the allowance for loan losses amounted to \$45.0 million compared to \$37.3 million at December 31, 2009 and \$34.4 million at September 30, 2009. The allowance for loan losses as a percentage of total non-covered loans was 2.15% at September 30, 2010, 1.75% at December 31, 2009, and 1.60% at September 30, 2009.

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.

Index

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.

	Nine Months Ended September 30, 2010	Twelve Months Ended December 31, 2009	Nine Months Ended September 30, 2009
(\$ in thousands)			
Loans outstanding at end of period	\$2,510,174	2,652,865	2,726,100
Non-covered loans outstanding at end of period	\$2,096,439	2,132,843	2,147,615
Covered loans outstanding at end of period	\$413,735	520,022	578,485
Average amount of non-covered loans outstanding	\$2,108,267	2,160,225	2,182,045
Allowance for loan losses, at beginning of year	\$37,343	29,256	29,256
Provision for loan losses	24,017	20,186	13,611
	61,360	49,442	42,867
Loans charged off:			
Commercial, financial, and agricultural	(3,234)	(2,143)	(1,664)
Real estate – construction, land development & other land loans	(5,549)	(1,716)	(581)
Real estate – mortgage – residential (1-4 family) first mortgages	(2,706)	(4,617)	(4,079)
Real estate – mortgage – home equity loans / lines of credit	(2,162)	(1,824)	(761)
Real estate – mortgage – commercial and other	(1,864)	(516)	(349)
Installment loans to individuals	(1,677)	(1,973)	(1,454)
Total charge-offs	(17,192)	(12,789)	(8,888)
Recoveries of loans previously charged-off:			
Commercial, financial, and agricultural	15	18	14
Real estate – construction, land development & other land loans	99	9	4
Real estate – mortgage – residential (1-4 family) first mortgages	240	184	73
Real estate – mortgage – home equity loans / lines of credit	126	66	31
Real estate – mortgage – commercial and other	15	129	123
Installment loans to individuals	336	284	220
Total recoveries	831	690	465
Net charge-offs	(16,361)	(12,099)	(8,423)
Allowance for loan losses, at end of period	\$44,999	37,343	34,444
Ratios:			
Net charge-offs as a percent of average non-covered loans	1.04	% 0.56	% 0.52
Allowance for loan losses as a percent of non-covered loans at end of period	2.15	% 1.75	% 1.60

Index

Based on the results of our loan analysis and grading program and our evaluation of the allowance for loan losses at September 30, 2010, there have been no material changes to the allocation of the allowance for loan losses among the various categories of loans since December 31, 2009.

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 \$415 million line of credit with the Federal Home Loan Bank (of which \$52 million was outstanding at September 30, 2010), 2) a \$50 million overnight federal funds line of credit with a correspondent bank (of which \$20 million was outstanding at September 30, 2010), 3) an approximately \$91 million line of credit through the Federal Reserve Bank of Richmond's discount window (of which \$40 million was outstanding at September 30, 2010) and 4) a \$10 million line of credit with a commercial bank (none of which was outstanding at September 30, 2010). 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 September 30, 2010 and \$170 million at December 31, 2009, 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 \$251 million at September 30, 2010 compared to \$541 million at December 31, 2009. The primary reason for the decline in the available lines of credit is explained in the following paragraph.

In January 2010, we received the results of a collateral audit from the FHLB. Based primarily on a finding that we were not keeping certain original loan documents, but were instead imaging them and shredding the original documents, a significant portion of our collateral pledged to the FHLB was deemed to be ineligible for pledging purposes. As a result, our FHLB borrowing availability was reduced from the \$687 million disclosed in our 2009 Annual Report on Form 10-K to approximately \$330 million. In the third quarter of 2010, our borrowing availability increased to \$415 million, primarily as a result of a new collateral audit performed by the FHLB.

In February 2010, our line of credit with a commercial bank was renewed for a one year period with a \$10 million limit compared to the prior limit of \$20 million. The reduction in the line of credit was due to the correspondent bank's desire to reduce its exposure in this line of business.

Our overall liquidity has improved over the past 12 months, with our liquid assets (cash and securities) as a percentage of our total deposits and borrowings increasing from 15.2% at September 30, 2009 to 17.3% at September 30, 2010.

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, 2009, detail of which is presented in Table 18 on page 73 of our 2009 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.

In October 2010, issues regarding bank mortgage foreclosure processes, including the use of “robo-signers,” were widely reported in the media. We have evaluated our foreclosure processes, and we do not believe that we have any exposure to these issues.

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, 2010, and have no current plans to do so.

Index

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.

At September 30, 2010, 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.

	Sept. 30, 2010		June 30, 2010		Dec. 31, 2009		Sept. 30, 2009	
Risk-based capital ratios:								
Tier I capital to Tier I risk adjusted assets	15.48	%	15.17	%	13.88	%	13.34	%
Minimum required Tier I capital	4.00	%	4.00	%	4.00	%	4.00	%
Total risk-based capital to Tier II risk-adjusted assets								
Total risk-based capital to Tier II risk-adjusted assets	16.74	%	16.43	%	15.14	%	14.59	%
Minimum required total risk-based capital	8.00	%	8.00	%	8.00	%	8.00	%
Leverage capital ratios:								
Tier I leverage capital to adjusted most recent quarter average assets								
Tier I leverage capital to adjusted most recent quarter average assets	10.25	%	10.04	%	9.30	%	9.18	%
Minimum required Tier I leverage capital	4.00	%	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, 2010, 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 6.55% at September 30, 2010 compared to 5.94% at December 31, 2009 and 5.80% at September 30, 2009.

Index

BUSINESS DEVELOPMENT MATTERS

The following is a list of business development and other miscellaneous matters affecting First Bancorp and First Bank, our bank subsidiary, since January 1, 2010 that have not previously been discussed. In Virginia, First Bank does business as “First Bank of Virginia.”

- Our bank subsidiary, First Bank, held 75th anniversary celebrations throughout the branch network in August. First Bank opened for business in Troy, North Carolina in 1935.
- We opened a bank branch in Christiansburg, Virginia on May 24, 2010. This branch is our sixth in southwestern Virginia.
- During the second quarter of 2010, our data processing subsidiary, Montgomery Data Services, was merged into First Bank. Montgomery Data Services had ceased providing data processing services to banks other than First Bank earlier in the year, and we decided we no longer desired to offer these services to other banks.
- On February 11, 2010, our insurance subsidiary, First Bank Insurance Services, acquired The Insurance Center, Inc., a Montgomery County, NC-based property and casualty insurance agency with over 500 customers.
- On August 24, 2010, we announced a quarterly cash dividend of \$0.08 cents per share payable on October 25, 2010 to shareholders of record on September 30, 2010. This is the same dividend rate we declared in the third quarter of 2009.

SHARE REPURCHASES

We did not repurchase any shares of our common stock during the first nine months of 2010. At September 30, 2010, 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. However, as a result of our participation in the U.S. Treasury’s Capital Purchase Program, we are prohibited from buying back stock without the permission of the Treasury until the preferred stock issued under that program is redeemed. See also Part II, Item 2 “Unregistered Sales of Equity Securities and Use of Proceeds.”

Index

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 4.33% (realized in 2005). During that five year period, the prime rate of interest has ranged from a low of 3.25% (which was the rate as of September 30, 2010) to a high of 8.25%. Our net interest margin for the three and nine month periods ended September 30, 2010 was 4.30% and 4.27%, respectively. The consistency of our net interest margin is aided by the relatively low level of long-term interest rate exposure that we maintain. At September 30, 2010, approximately 85% of our interest-earning assets are subject to repricing within five years (because they are either adjustable rate assets or they are fixed rate assets that mature) and substantially all of our interest-bearing liabilities reprice within five years.

Using stated maturities for all 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, 2010, we had \$979 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, 2010 are deposits totaling \$1.02 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.

From September 2007 to December 2008, in response to the declining economy, the Federal Reserve announced a series of interest rate reductions with rate cuts totaling 500 basis points and rates reaching historic lows. As noted above, our net interest margin is negatively impacted, at least in the short-term, by reductions in interest rates. In

Index

addition to the initial normal decline in net interest margin that we experience when interest rates are reduced (as discussed above), the cumulative impact of the magnitude of 500 basis points in interest rate cuts has continued to negatively impact our net interest margin, primarily due to our inability to cut a large portion of our interest-bearing deposits by any significant amount due to their already near-zero interest rate. Also, for many of our deposit products, including time deposits that have recently matured, we have been unable to lower the interest rates we pay our customers by the full 500 basis point interest rate decrease due to competitive pressures. The impact of the declining rate environment was mitigated by an initiative we began in late 2007 to add interest rate floors to our adjustable rate loans and to require generally higher loan interest rates to better compensate us for our risk. The net impact of those factors was that our net interest margin steadily declined for most of 2008. In 2009, the Federal Reserve made no changes to the interest rates, which resulted in our net interest margin increasing as we were able to renew matured time deposits at lower rates with only a minimal decrease in our asset yields. As a result, our net interest margin increased steadily for five consecutive quarters, from 3.68% for the three month period ended March 31, 2009 to 4.35% for the three month period ended June 30, 2010, and was 4.30% for the three months ended September 30, 2010.

Based on our most recent interest rate modeling, which assumes no changes in interest rates for 2010, we project our net interest margin for the remainder of 2010 will remain relatively consistent with the net interest margins recently realized. We expect lower deposit yields as higher yielding time deposits continue to mature, while we expect asset yields to decline as a result of lower average loan balances and higher levels of nonaccrual loan balances.

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

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

Item 4. Controls and Procedures

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

Index

Part II. Other Information

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, 2010 to July 31, 2010				234,667
August 1, 2010 to August 31, 2010				234,667
September 1, 2010 to September 30, 2010				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. Subject to the restrictions discussed above related to our participation in the U.S. Treasury's Capital Purchase Program, 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 occurring during the three month period ended September 30, 2010.

There were no unregistered sales of our securities during the nine months ended September 30, 2010.

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.

- 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.

Index

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.

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

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

Index

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, 2010

By: /s/ Jerry L. Ocheltree
Jerry L. Ocheltree
President
(Principal Executive Officer),
Treasurer and Director

November 9, 2010

By: /s/ Anna G. Hollers
Anna G. Hollers
Executive Vice President, Secretary
and Chief Operating Officer

November 9, 2010

By: /s/ Eric P. Credle
Eric P. Credle
Executive Vice President
and Chief Financial Officer