UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2013

Commission File Number 0-15572

FIRST BANCORP

(Exact Name of Registrant as Specified in its Charter)

North Carolina (State or Other Jurisdiction of Incorporation or Organization)	56-1421916 (I.R.S. Employer Identification Number)

341 North Main Street, Troy, North Carolina	27371-0508
(Address of Principal Executive Offices)	(Zip Code)
(Registrant's telephone number, including area code)	(910) 576-6171

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

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

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

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

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

The number of shares of the registrant's Common Stock outstanding on April 30, 2013 was 19,669,302.

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FIRST BANCORP AND SUBSIDIARIES

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FORWARD-LOOKING STATEMENTS

Part I of this report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995, which statements are inherently subject to risks and uncertainties. Forward-looking statements are statements that include projections, predictions, expectations or beliefs about future events or results or otherwise are not statements of historical fact. Further, forward-looking statements are intended to speak only as of the date made. Such statements are often characterized by the use of qualifying words (and their derivatives) such as “expect,” “believe,” “estimate,” “plan,” “project,” or other statement concerning our opinions or judgment about future events. Our actual results may differ materially from those anticipated in any forward-looking statements, as they will depend on many factors about which we are unsure, including many factors which are beyond our control. Factors that could influence the accuracy of such forward-looking statements include, but are not limited to, the financial success or changing strategies of our customers, our level of success in integrating acquisitions, actions of government regulators, the level of market interest rates, and general economic conditions. For additional information about factors that could affect the matters discussed in this paragraph, see the “Risk Factors” section of our 2012 Annual Report on Form 10-K.

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Part I. Financial Information

Item 1 - Financial Statements

First Bancorp and Subsidiaries

Consolidated Balance Sheets

($ in thousands-unaudited)	March 31, 2013	December 31, 2012 (audited)	March 31, 2012
ASSETS			
Cash and due from banks, noninterest-bearing	$73,205	96,588	58,001
Due from banks, interest-bearing	242,890	144,919	234,137
Federal funds sold	249	—	1,203
Total cash and cash equivalents	316,344	241,507	293,341
Securities available for sale	170,214	167,352	159,182
Securities held to maturity (fair values of $60,758, $61,496, and $61,226)	55,649	56,064	57,066
Presold mortgages in process of settlement	4,584	8,490	7,003
Loans – non-covered	2,132,683	2,094,143	2,094,524
Loans – covered by FDIC loss share agreement	263,468	282,314	342,100
Total loans	2,396,151	2,376,457	2,436,624
Allowance for loan losses – non-covered	(44,761)	(41,643)	(46,455)
Allowance for loan losses – covered	(5,028)	(4,759)	(6,372)
Total allowance for loan losses	(49,789)	(46,402)	(52,827)
Net loans	2,346,362	2,330,055	2,383,797
Loans held for sale	—	30,393	—
Premises and equipment	77,823	74,371	72,343
Accrued interest receivable	9,737	10,201	10,969
FDIC indemnification asset	100,594	102,559	113,405
Goodwill	65,835	65,835	65,835
Other intangible assets	3,495	3,108	3,675
Foreclosed real estate – non-covered	20,115	26,285	36,838
Foreclosed real estate – covered	30,156	47,290	79,535
Bank-owned life insurance	28,065	27,857	2,219
Other assets	51,972	53,543	51,798
Total assets	$3,280,945	3,244,910	3,337,006
LIABILITIES			
Deposits: Noninterest bearing checking accounts	$429,202	413,195	371,293
Interest bearing checking accounts	539,270	519,573	468,691

Money market accounts	575,766	556,354	526,684
Savings accounts	166,510	158,578	157,619
Time deposits of $100,000 or more	649,714	664,330	738,839
Other time deposits	497,105	509,330	567,933
Total deposits	2,857,567	2,821,360	2,831,059
Borrowings	46,394	46,394	133,894
Accrued interest payable	1,118	1,299	1,659
Other liabilities	18,634	19,740	31,963
Total liabilities	2,923,713	2,888,793	2,998,575
Commitments and contingencies			
SHAREHOLDERS' EQUITY			
Preferred stock, no par value per share. Authorized: 5,000,000 shares			
Series B issued & outstanding: 63,500, 63,500, and 63,500 shares	63,500	63,500	63,500
Series C, convertible, issued & outstanding: 728,706, 728,706, and 0 shares	7,287	7,287	—
Common stock, no par value per share. Authorized: 40,000,000 shares			
Issued & outstanding: 19,669,302, 19,669,302, and 16,937,641 shares	131,896	131,877	105,068
Retained earnings	154,911	153,629	178,195
Accumulated other comprehensive income (loss)	(362)	(176)	(8,332)
Total shareholders' equity	357,232	356,117	338,431
Total liabilities and shareholders' equity	$3,280,945	3,244,910	3,337,006

See accompanying notes to consolidated financial statements.

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First Bancorp and Subsidiaries

Consolidated Statements of Income (Loss)

($ in thousands, except share data-unaudited)	Three Months Ended March 31, 2013	2012
INTEREST INCOME		
Interest and fees on loans	$33,551	35,042
Interest on investment securities:		
Taxable interest income	905	1,258
Tax-exempt interest income	479	493
Other, principally overnight investments	154	139
Total interest income	35,089	36,932
INTEREST EXPENSE		
Savings, checking and money market accounts	510	849
Time deposits of $100,000 or more	1,613	2,175
Other time deposits	789	1,269
Securities sold under agreements to repurchase	—	4
Borrowings	256	544
Total interest expense	3,168	4,841
Net interest income	31,921	32,091
Provision for loan losses – non-covered	5,771	18,557
Provision for loan losses – covered	5,378	2,998
Total provision for loan losses	11,149	21,555
Net interest income after provision for loan losses	20,772	10,536
NONINTEREST INCOME		
Service charges on deposit accounts	2,935	2,847
Other service charges, commissions and fees	2,175	2,192
Fees from presold mortgage loans	747	411
Commissions from sales of insurance and financial products	399	383
Bank-owned life insurance income	208	11
Foreclosed property gains (losses and write-downs) – non-covered	758	(688)
Foreclosed property losses and write-downs – covered	(4,616)	(4,547)
FDIC indemnification asset income, net	4,897	4,105
Securities gains	—	452
Other gains (losses)	(395)	183
Total noninterest income	7,108	5,349
NONINTEREST EXPENSES		
Salaries	10,677	10,174
Employee benefits	2,627	3,914
Total personnel expense	13,304	14,088
Net occupancy expense	1,674	1,681

Equipment related expenses	1,088	1,170
Intangibles amortization	199	223
Other operating expenses	6,959	7,213
Total noninterest expenses	23,224	24,375
Income (loss) before income taxes	4,656	(8,490)
Income tax expense (benefit)	1,556	(3,308)
Net income (loss)	3,100	(5,182)
Preferred stock dividends	(245)	(760)
Net income (loss) available to common shareholders	$2,855	(5,942)
Earnings (loss) per common share:		
Basic	$0.15	(0.35)
Diluted	0.14	(0.35)
Dividends declared per common share	$0.08	0.08
Weighted average common shares outstanding:		
Basic	19,669,302	16,924,616
Diluted	20,409,760	16,924,616

See accompanying notes to consolidated financial statements.

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First Bancorp and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

($ in thousands-unaudited)	Three Months Ended March 31, 2013	2012
Net income (loss)	$ 3,100	(5,182)
Other comprehensive income (loss):		
Unrealized gains on securities available for sale:		
Unrealized holding gains (losses) arising during the period, pretax	(308)	717
Tax (expense) benefit	120	(280)
Reclassification to realized gains	—	(452)
Tax expense	—	176
Postretirement Plans:		
Amortization of unrecognized net actuarial loss	3	301
Tax expense	(1)	(117)
Amortization of prior service cost and transition obligation	—	9
Tax expense	—	(4)
Other comprehensive income (loss)	(186)	350
Comprehensive income (loss)	$ 2,914	(4,832)

See accompanying notes to consolidated financial statements.

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First Bancorp and Subsidiaries

Consolidated Statements of Shareholders' Equity

(In thousands, except per share - unaudited)	Preferred Stock	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Share-holders' Equity
Balances, January 1, 2012	$63,500	16,910	$104,841	185,491	(8,682)	345,150
Net income (loss)				(5,182)		(5,182)
Common stock issued into dividend reinvestment plan		18	209			209
Repurchases of common stock		—	(2)			(2)
Cash dividends declared ($0.08 per common share)				(1,354)		(1,354)
Preferred dividends				(760)		(760)
Stock-based compensation		10	20			20
Other comprehensive income					350	350
Balances, March 31, 2012	$63,500	16,938	$105,068	178,195	(8,332)	338,431
Balances, January 1, 2013	$70,787	19,669	$131,877	153,629	(176)	356,117
Net income				3,100		3,100
Cash dividends declared ($0.08 per common share)				(1,573)		(1,573)
Preferred dividends				(245)		(245)
Stock-based compensation		—	19			19
Other comprehensive income (loss)					(186)	(186)
Balances, March 31, 2013	$70,787	19,669	$131,896	154,911	(362)	357,232

See accompanying notes to consolidated financial statements.

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First Bancorp and Subsidiaries

Consolidated Statements of Cash Flows

($ in thousands-unaudited)	Three Months Ended March 31, 2013	2012
Cash Flows From Operating Activities		
Net income (loss)	$3,100	(5,182)
Reconciliation of net income (loss) to net cash provided (used) by operating activities:		
Provision for loan losses	11,149	21,555
Net security premium amortization	620	456
Purchase accounting accretion and amortization, net	(3,551)	(2,525)
Foreclosed property losses and write-downs, net	3,858	5,235
Gain on securities available for sale	—	(452)
Other losses (gains)	395	(194)
Decrease (increase) in net deferred loan costs	1	(60)
Depreciation of premises and equipment	1,121	1,133
Stock-based compensation expense	19	20
Amortization of intangible assets	199	223
Origination of presold mortgages in process of settlement	(26,675)	(19,422)
Proceeds from sales of presold mortgages in process of settlement	30,581	18,509
Decrease in accrued interest receivable	464	810
Increase in other assets	(3,233)	(15,846)
Decrease in accrued interest payable	(208)	(213)
Decrease in other liabilities	(816)	(5,080)
Net cash provided (used) by operating activities	17,024	(1,033)
Cash Flows From Investing Activities		
Purchases of securities available for sale	(13,084)	(9,000)
Proceeds from sales of securities available for sale	—	9,641
Proceeds from maturities/issuer calls of securities available for sale	9,359	23,125
Proceeds from maturities/issuer calls of securities held to maturity	350	860
Net increase in loans	(13,713)	(23,828)
Proceeds from FDIC loss share agreements	6,899	13,247
Proceeds from sales of foreclosed real estate	25,669	10,653
Purchases of premises and equipment	(3,152)	(3,501)
Proceeds from loans held for sale	30,393	—
Net cash received in acquisition	38,315	—
Net cash provided by investing activities	81,036	21,197
Cash Flows From Financing Activities		
Net increase (decrease) in deposits	(21,118)	58,950
Cash dividends paid – common stock	(1,573)	(1,353)
Cash dividends paid – preferred stock	(532)	(794)
Proceeds from issuance of common stock	—	209
Repurchase of common stock	—	(2)
Net cash provided (used) by financing activities	(23,223)	57,010

Increase in cash and cash equivalents	74,837	77,174
Cash and cash equivalents, beginning of period	241,507	216,167
Cash and cash equivalents, end of period	$316,344	293,341
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	$3,322	5,054
Income taxes	—	5,275
Non-cash transactions:		
Unrealized gain (loss) on securities available for sale, net of taxes	(188)	161
Foreclosed loans transferred to other real estate	3,354	9,966

See accompanying notes to consolidated financial statements.

First Bancorp and Subsidiaries

Notes to Consolidated Financial Statements

(*unaudited)* For the Periods Ended March 31, 2013 and 2012

Note 1 - Basis of Presentation

In the opinion of the Company, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the consolidated financial position of the Company as of March 31, 2013 and 2012 and the consolidated results of operations and consolidated cash flows for the periods ended March 31, 2013 and 2012. All such adjustments were of a normal, recurring nature. Reference is made to the 2012 Annual Report on Form 10-K filed with the SEC for a discussion of accounting policies and other relevant information with respect to the financial statements. The results of operations for the periods ended March 31, 2013 and 2012 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 2012 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.

The Comprehensive Income topic was amended in June 2011. The amendment eliminated the option to present other comprehensive income as a part of the statement of changes in stockholders' equity and required consecutive presentation of the statement of net income and other comprehensive income. The amendments were applicable to the Company January 1, 2012 and have been applied retrospectively. In December 2011, the topic was further amended to defer the effective date of presenting reclassification adjustments from other comprehensive income to net income on the face of the financial statements while the Financial Accounting Standards Board (FASB) redeliberated the presentation requirements for the reclassification adjustments. In February 2013, the FASB further amended the Comprehensive Income topic clarifying the conclusions from such redeliberations. Specifically, the amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments do require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, in certain circumstances an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. The amendments were effective for the Company on a prospective basis for reporting periods beginning after December

15, 2012. These amendments did not have a material effect on the Company's financial statements.

In October 2012, the Business Combinations topic was amended to address the subsequent accounting for an indemnification asset resulting from a government-assisted acquisition of a financial institution. The guidance indicates that when a reporting entity records an indemnification asset as a result of a government-assisted acquisition of a financial institution involving an indemnification agreement, the indemnification asset should be subsequently measured on the same basis as the asset subject to indemnification. Any amortization of changes in value should be limited to any contractual limitations on the amount and the term of the indemnification agreement. The amendments should be applied prospectively to any new indemnification assets acquired and to changes in expected cash flows of existing indemnification assets occurring on or after the date of adoption. Prior periods would not be adjusted. The amendments were effective for 2013 and did not have a material effect on the Company's financial statements.

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

Note 3 – Reclassifications

Certain amounts reported in the period ended March 31, 2012 have been reclassified to conform to the presentation for March 31, 2013. These reclassifications had no effect on net income or shareholders' equity for the periods presented, nor did they materially impact trends in financial information.

Note 4 – Acquisition

On March 22, 2013, the Company completed the purchase of two branches from Four Oaks Bank & Trust Company located in Southern Pines and Rockingham, North Carolina. The Company acquired $57 million in deposits and $16 million in loans. The Company purchased the Rockingham branch building, but did not purchase the Southern Pines branch building and instead transferred the acquired accounts to one of the Company's nearby existing branches. The primary reason for this acquisition was to increase the Company's presence in existing market areas. The Company paid a deposit premium for the branches of approximately $586,000, which is the amount of the identifiable intangible asset associated with the fair value of the core deposit base. The intangible asset is being amortized as expense on a straight-line basis over a seven year period. The operations of the two branches are included in the accompanying Consolidated Statements of Income (Loss) beginning on the acquisition date of March 22, 2013. Historical pro forma information is not presented due to the immateriality of the transaction.

Note 5 – Equity-Based Compensation Plans

At March 31, 2013, the Company had the following equity-based compensation plans: the First Bancorp 2007 Equity Plan, the First Bancorp 2004 Stock Option Plan, and the First Bancorp 1994 Stock Option Plan. The Company's shareholders approved all equity-based compensation plans. The First Bancorp 2007 Equity Plan became effective upon the approval of shareholders on May 2, 2007. As of March 31, 2013, the First Bancorp 2007 Equity Plan was the only plan that had shares available for future grants.

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

Recent equity grants to employees have either had performance vesting conditions, service vesting conditions, or both. Compensation expense for these grants is recorded over the various service periods based on the estimated number of equity grants that are probable to vest. No compensation cost is recognized for grants that do not vest and any previously recognized compensation cost will be reversed. As it relates to director equity grants, the Company grants common shares, valued at approximately $16,000 to each non-employee director (currently 13 in total) in June of each year. Compensation expense associated with these director grants is recognized on the date of grant since there are no vesting conditions.

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

The Company granted long-term restricted shares of common stock to certain senior executives on February 23, 2012 with a two year minimum vesting period. The total compensation expense associated with this grant was $89,700 and the grant will fully vest on February 23, 2014. The Company recorded $11,200 and $3,700 in stock option expense during the three months ended March, 31, 2013 and 2012, respectively, and expects to record $11,200 in stock option expense each quarter thereafter until the awards vest.

The Company granted long-term restricted shares of common stock to certain senior executives on February 24, 2011 with a two year minimum vesting period. The total compensation expense associated with this grant was $105,500 and the grant fully vested on February 24, 2013. The Company recorded $6,500 and $10,350 in stock option expense during the three months ended March 31, 2013 and 2012, respectively.

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

At March 31, 2013, there were 521,613 options outstanding related to the three First Bancorp plans, with exercise prices ranging from $9.76 to $22.12. At March 31, 2013, there were 758,731 shares remaining available for grant under the First Bancorp 2007 Equity Plan.

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

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

The Company had no equity grants for the three months ended March 31, 2013.

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

The Company recorded total stock-based compensation expense of $19,000 and $20,000 for the three-month periods ended March 31, 2013 and 2012, respectively, which relates to the employee grants discussed above and is recorded as "salaries expense." Stock based compensation is reflected as an adjustment to cash flows from operating activities on the Company's Consolidated Statement of Cash Flows. The Company recognized $7,000 and $8,000 of income tax benefits related to stock based compensation expense in the income statement for the three months ended March 31, 2013 and 2012, respectively.

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

The following table presents information regarding the activity for the first three months of 2013 related to all of the Company's stock options outstanding:

	Options Outstanding			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Contractual Term (years)	Aggregate Intrinsic Value
Balance at December 31, 2012	521,613	$ 17.80		
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Expired	—	—		
Outstanding at March 31, 2013	521,613	$ 17.80	3.7	$ 279,750
Exercisable at March 31, 2013	445,613	$ 19.15	2.7	$ —

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The Company did not have any stock option exercises during the three months ended March 31, 2013 or 2012. The Company recorded no tax benefits from the exercise of nonqualified stock options during the three months ended March 31, 2013 or 2012.

Note 6 – Earnings Per Common Share

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

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

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

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

($ in thousands except per share amounts)	For the Three Months Ended March 31, 2013 Income (Numer-ator)	Shares (Denom-inator)	Per Share Amount	2012 Income (Numer-ator)	Shares (Denom-inator)	Per Share Amount
Basic EPS						
Net income (loss) available to common shareholders	$2,855	19,669,302	$0.15	$(5,942)	16,924,616	$(0.35)

Effect of Dilutive Securities	58	740,458		—	—	
Diluted EPS per common share	$2,913	20,409,760	$0.14	$(5,942)	16,924,616	$(0.35)

For the three months ended March 31, 2013 and 2012, there were 351,863 and 384,231 options, respectively, that were antidilutive because the exercise price exceeded the average market price for the period. Antidilutive options have been omitted from the calculation of diluted earnings per share for the respective periods.

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Note 7 – Securities

The book values and approximate fair values of investment securities at March 31, 2013 and December 31, 2012 are summarized as follows:

	March 31, 2013				December 31, 2012			
	Amortized	Fair	Unrealized		Amortized	Fair	Unrealized	
($ in thousands)	Cost	Value	Gains	(Losses)	Cost	Value	Gains	(Losses)
Securities available for sale:								
Government-sponsored enterprise securities	$11,500	11,588	88	—	11,500	11,596	96	—
Mortgage-backed securities	147,749	150,773	3,577	(553)	143,539	146,926	3,717	(330)
Corporate bonds	3,998	3,865	67	(200)	3,998	3,813	75	(260)
Equity securities	3,985	3,988	23	(20)	5,026	5,017	16	(25)
Total available for sale	$167,232	170,214	3,755	(773)	164,063	167,352	3,904	(615)
Securities held to maturity:								
State and local governments	$55,649	60,758	5,109	—	56,064	61,496	5,432	—

Included in mortgage-backed securities at March 31, 2013 were collateralized mortgage obligations with an amortized cost of $282,000 and a fair value of $295,000. Included in mortgage-backed securities at December 31, 2012 were collateralized mortgage obligations with an amortized cost of $381,000 and a fair value of $396,000. All of the Company's mortgage-backed securities, including collateralized mortgage obligations, were issued by government-sponsored corporations.

The Company owned Federal Home Loan Bank (FHLB) stock with a cost and fair value of $3,894,000 at March 31, 2013 and $4,934,000 at December 31, 2012, which is included in equity securities above and serves as part of the collateral for the Company's line of credit with the FHLB. The investment in this stock is a requirement for membership in the FHLB system. Periodically the FHLB recalculates the Company's required level of holdings, and the Company either buys more stock or the FHLB redeems a portion of the stock at cost.

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

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

		Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government-sponsored enterprise securities	$ —	—	—	—	—	—
Mortgage-backed securities	35,219	553	—	—	35,219	553
Corporate bonds	—	—	800	200	800	200
Equity securities	—	—	24	20	24	20
State and local governments	—	—	—	—	—	—
Total temporarily impaired securities	$ 35,219	553	824	220	36,043	773

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

($ in thousands)	Securities in an Unrealized Loss Position for Less than 12 Months		Securities in an Unrealized Loss Position for More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government-sponsored enterprise securities	$ —	—	—	—	—	—
Mortgage-backed securities	26,330	330	—	—	26,330	330
Corporate bonds	—	—	740	260	740	260
Equity securities	—	—	30	25	30	25
State and local governments	—	—	—	—	—	—
Total temporarily impaired securities	$ 26,330	330	770	285	27,100	615

In the above tables, all of the non-equity securities that were in an unrealized loss position at March 31, 2013 and December 31, 2012 are bonds that the Company has determined are in a loss position due to interest rate factors, the overall economic downturn in the financial sector, and the broader economy in general. The Company has evaluated the collectability of each of these bonds and has concluded that there is no other-than-temporary impairment. The Company does not intend to sell these securities, and it is more likely than not that the Company will not be required to sell these securities before recovery of the amortized cost. The Company has also concluded that each of the equity securities in an unrealized loss position at March 31, 2013 and December 31, 2012 was in such a position due to temporary fluctuations in the market prices of the securities. The Company's policy is to record an impairment charge for any of these equity securities that remains in an unrealized loss position for twelve consecutive months unless the amount is insignificant.

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The aggregate carrying amount of cost-method investments was $3,894,000 and $4,934,000 at March 31, 2013 and December 31, 2012, respectively, which was the FHLB stock discussed above. The Company determined that none of its cost-method investments were impaired at either period end.

The book values and approximate fair values of investment securities at March 31, 2013, by contractual maturity, are summarized in the table below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities Available for Sale		Securities Held to Maturity	
($ in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Debt securities				
Due within one year	$ —	—	—	—
Due after one year but within five years	14,498	14,653	5,610	6,121
Due after five years but within ten years	—	—	33,627	36,758
Due after ten years	1,000	800	16,412	17,879
Mortgage-backed securities	147,749	150,773	—	—
Total debt securities	163,247	166,226	55,649	60,758
Equity securities	3,985	3,988	—	—
Total securities	$ 167,232	170,214	55,649	60,758

At March 31, 2013 and December 31, 2012 investment securities with carrying values of $101,094,000 and $78,519,000, respectively, were pledged as collateral for public and private deposits.

The Company recorded no gains or losses on securities during the three months ended March 31, 2013. There were $9,641,000 in sales of securities during the three months ended March 31, 2012, which resulted in a net gain of $446,000. During the three months ended March 31, 2012, the Company recorded a net gain of $6,000 related to the call of municipal securities.

Note 8 – Loans and Asset Quality Information

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

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

($ in thousands)	March 31, 2013		December 31, 2012		March 31, 2012	
	Amount	Percentage	Amount	Percentage	Amount	Perce
All loans (non-covered and covered):						
Commercial, financial, and agricultural	$162,074	7%	160,790	7%	159,496	7%
Real estate – construction, land development & other land loans	293,918	12%	298,458	13%	355,709	15%
Real estate – mortgage – residential (1-4 family) first mortgages	831,467	35%	815,281	34%	812,878	33%
Real estate – mortgage – home equity loans / lines of credit	236,222	10%	238,925	10%	255,955	10%
Real estate – mortgage – commercial and other	803,875	33%	789,746	33%	775,610	32%
Installment loans to individuals	67,272	3%	71,933	3%	75,636	3%
Subtotal	2,394,828	100%	2,375,133	100%	2,435,284	100
Unamortized net deferred loan costs	1,323		1,324		1,340	
Total loans	$2,396,151		2,376,457		2,436,624	

As of March 31, 2013, December 31, 2012 and March 31, 2012, net loans include unamortized premiums of $368,000, $485,000, and $833,000, respectively, related to acquired loans.

At December 31, 2012, the Company also had $30 million classified as “loans held for sale” that are not included in the loan balances disclosed above or in the disclosures presented in the remainder of Note 8. In the fourth quarter of 2012, the Company identified approximately $68 million of non-covered higher risk loans that it targeted for sale to a third-party investor. Based on an offer to purchase these loans received prior to year-end, the Company wrote the loans down by approximately $38 million to their estimated liquidation value of approximately $30 million and reclassified them as “loans held for sale.” The sale of the loans was completed in January 2013 with the Company receiving sales proceeds of approximately $30 million.

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

($ in thousands)	March 31, 2013		December 31, 2012		March 31, 2012	
	Amount	Percentage	Amount	Percentage	Amount	Perce
Non-covered loans:						
Commercial, financial, and agricultural	$157,235	7%	155,273	7%	151,148	7%
Real estate – construction, land development & other land loans	253,275	12%	251,569	12%	287,833	14%
Real estate – mortgage – residential (1-4 family) first mortgages	700,429	33%	679,401	33%	659,946	31%
Real estate – mortgage – home equity loans / lines of credit	217,567	10%	219,443	11%	233,915	11%
Real estate – mortgage – commercial and other	736,314	35%	715,973	34%	685,734	33%
Installment loans to individuals	66,540	3%	71,160	3%	74,608	4%
Subtotal	2,131,360	100%	2,092,819	100%	2,093,184	100
Unamortized net deferred loan costs	1,323		1,324		1,340	
Total non-covered loans	$2,132,683		2,094,143		2,094,524	

The carrying amount of the covered loans at March 31, 2013 consisted of impaired and nonimpaired purchased loans, as follows:

($ in thousands)	Impaired Purchased Loans – Carrying Value	Impaired Purchased Loans – Unpaid Principal Balance	Nonimpaired Purchased Loans – Carrying Value	Nonimpaired Purchased Loans - Unpaid Principal Balance	Total Covered Loans – Carrying Value	Total Covered Loans – Unpaid Principal Balance
Covered loans:						
Commercial, financial, and agricultural	$70	144	4,769	6,782	4,839	6,926
Real estate – construction, land development & other land loans	1,571	2,587	39,072	75,283	40,643	77,870
Real estate – mortgage – residential (1-4 family) first mortgages	773	1,895	130,265	155,901	131,038	157,796
Real estate – mortgage – home equity loans / lines of credit	16	55	18,639	23,289	18,655	23,344
Real estate – mortgage – commercial and other	2,296	4,093	65,265	87,109	67,561	91,202
Installment loans to individuals	—	—	732	776	732	776
Total	$4,726	8,774	258,742	349,140	263,468	357,914

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The carrying amount of the covered loans at December 31, 2012 consisted of impaired and nonimpaired purchased loans, as follows:

($ in thousands)	Impaired Purchased Loans – Carrying Value	Impaired Purchased Loans – Unpaid Principal Balance	Nonimpaired Purchased Loans – Carrying Value	Nonimpaired Purchased Loans - Unpaid Principal Balance	Total Covered Loans – Carrying Value	Total Covered Loans – Unpaid Principal Balance
Covered loans:						
Commercial, financial, and agricultural	$71	148	5,446	7,009	5,517	7,157
Real estate – construction, land development & other land loans	1,575	2,594	45,314	82,676	46,889	85,270
Real estate – mortgage – residential (1-4 family) first mortgages	794	1,902	135,086	161,416	135,880	163,318
Real estate – mortgage – home equity loans / lines of credit	16	56	19,466	24,431	19,482	24,487
Real estate – mortgage – commercial and other	2,369	4,115	71,404	94,502	73,773	98,617
Installment loans to individuals	—	—	773	828	773	828
Total	$4,825	8,815	277,489	370,862	282,314	379,677

The following table presents information regarding covered purchased nonimpaired loans since December 31, 2011. The amounts include principal only and do not reflect accrued interest as of the date of the acquisition or beyond.

($ in thousands)	
Carrying amount of nonimpaired covered loans at December 31, 2011	$353,370
Principal repayments	(51,582)
Transfers to foreclosed real estate	(30,181)
Loan charge-offs	(10,584)
Accretion of loan discount	16,466
Carrying amount of nonimpaired covered loans at December 31, 2012	277,489
Principal repayments	(14,595)
Transfers to foreclosed real estate	(2,701)
Loan charge-offs	(5,109)
Accretion of loan discount	3,658
Carrying amount of nonimpaired covered loans at March 31, 2013	$258,742

As reflected in the table above, the Company accreted $3,658,000 of the loan discount on purchased nonimpaired loans into interest income during the first quarter of 2013. As of March 31, 2013, there was remaining loan discount of $41,531,000 related to purchased performing loans. If these loans continue to be repaid by the borrowers, the Company will accrete the remaining loan discount into interest income over the covered lives of the respective loans. In such circumstances, a corresponding entry to reduce the indemnification asset will be recorded amounting to 80% of the loan discount accretion, which reduces noninterest income. At March 31, 2013, the Company also had $22,197,000 of loan discount related to purchased nonperforming loans. It is not expected that this amount will be accreted, as it represents estimated losses on these loans.

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The following table presents information regarding all purchased impaired loans since December 31, 2011, substantially all of which are covered loans. The Company has applied the cost recovery method to all purchased impaired loans at their respective acquisition dates due to the uncertainty as to the timing of expected cash flows, as reflected in the following table.

($ in thousands)	Contractual Principal Receivable	Fair Market Value Adjustment – Write Down (Nonaccretable Difference)	Carrying Amount
Purchased Impaired Loans			
Balance at December 31, 2011	$ 18,316	9,532	8,784
Change due to payments received	(355)	44	(399)
Transfer to foreclosed real estate	(7,636)	(3,487)	(4,149)
Change due to loan charge-off	(359)	(531)	172
Other	(1,151)	(1,568)	417
Balance at December 31, 2012	8,815	3,990	4,825
Change due to payments received	(41)	58	(99)
Balance at March 31, 2013	$ 8,774	4,048	4,726

Each of the purchased impaired loans is on nonaccrual status and considered to be impaired. Because of the uncertainty of the expected cash flows, the Company is accounting for each purchased impaired loan under the cost recovery method, in which all cash payments are applied to principal. Thus, there is no accretable yield associated with the above loans. During the first quarter of 2013 and 2012, the Company received no payments that exceeded the initial carrying amount of the purchased impaired loans.

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

ASSET QUALITY DATA *($ in thousands)*	March 31, 2013	December 31, 2012	March 31, 2012
Non-covered nonperforming assets			
Nonaccrual loans	$ 38,917	33,034	69,665
Restructured loans - accruing	24,378	24,848	10,619
Accruing loans > 90 days past due	—	—	—

Total non-covered nonperforming loans	63,295	57,882	80,284
Nonperforming loans held for sale	—	21,938	—
Foreclosed real estate	20,115	26,285	36,838
Total non-covered nonperforming assets	$ 83,410	106,105	117,122
Covered nonperforming assets			
Nonaccrual loans (1)	$ 51,221	33,491	42,369
Restructured loans - accruing	10,582	15,465	13,158
Accruing loans > 90 days past due	—	—	—
Total covered nonperforming loans	61,803	48,956	55,527
Foreclosed real estate	30,156	47,290	79,535
Total covered nonperforming assets	$ 91,959	96,246	135,062
Total nonperforming assets	$ 175,369	202,351	252,184

(1) At March 31, 2013, December 31, 2012, and March 31, 2012, the contractual balance of the nonaccrual loans covered by FDIC loss share agreements was $94.8 million, $64.4 million, and $68.3 million, respectively.

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

($ in thousands)	As of /for the three months ended March 31, 2013	As of /for the year ended December 31, 2012	As of /for the three months ended March 31, 2012
Impaired loans at period end			
Non-covered	$ 63,295	57,882	80,284
Covered	61,803	48,956	55,527
Total impaired loans at period end	$ 125,098	106,838	135,811
Average amount of impaired loans for period			
Non-covered	$ 60,589	85,198	82,788
Covered	55,380	54,773	55,609
Average amount of impaired loans for period – total	$ 115,969	139,971	138,397
Allowance for loan losses related to impaired loans at period end			
Non-covered	$ 5,920	5,051	11,662
Covered	3,861	3,509	5,308
Allowance for loan losses related to impaired loans - total	$ 9,781	8,560	16,970
Amount of impaired loans with no related allowance at period end			
Non-covered	$ 8,573	12,049	16,717
Covered	44,848	35,196	36,756
Total impaired loans with no related allowance at period end	$ 53,421	47,245	53,473

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

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

The following table presents the Company's nonaccrual loans as of March 31, 2013.

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

Commercial – unsecured	$ 26	189	215
Commercial – secured	2,382	3	2,385
Secured by inventory and accounts receivable	23	239	262
Real estate – construction, land development & other land loans	7,118	18,447	25,565
Real estate – residential, farmland and multi-family	13,551	14,674	28,225
Real estate – home equity lines of credit	1,479	521	2,000
Real estate – commercial	13,428	17,084	30,512
Consumer	910	64	974
Total	$ 38,917	51,221	90,138

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The following table presents the Company’s nonaccrual loans as of December 31, 2012.

($ in thousands)	Non-covered	Covered	Total
Commercial, financial, and agricultural:			
Commercial - unsecured	$ 307	150	457
Commercial - secured	2,398	3	2,401
Secured by inventory and accounts receivable	17	59	76
Real estate – construction, land development & other land loans	6,354	11,698	18,052
Real estate – residential, farmland and multi-family	9,629	10,712	20,341
Real estate – home equity lines of credit	1,622	465	2,087
Real estate - commercial	9,885	10,342	20,227
Consumer	2,822	62	2,884
Total	$ 33,034	33,491	66,525

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

($ in thousands)	30-59 Days Past Due	60-89 Days Past Due	Nonaccrual Loans	Current	Total Loans Receivable
Non-covered loans					
Commercial, financial, and agricultural:					
Commercial - unsecured	$73	127	26	34,888	35,114
Commercial - secured	948	242	2,382	113,026	116,598
Secured by inventory and accounts receivable	141	19	23	19,826	20,009
Real estate – construction, land development & other land loans	1,554	1,871	7,118	210,159	220,702
Real estate – residential, farmland, and multi-family	8,158	1,343	13,551	815,221	838,273
Real estate – home equity lines of credit	521	381	1,479	197,755	200,136
Real estate - commercial	1,770	618	13,428	632,916	648,732
Consumer	364	126	910	50,396	51,796
Total non-covered	$13,529	4,727	38,917	2,074,187	2,131,360
Unamortized net deferred loan costs					1,323
Total non-covered loans					$2,132,683
Covered loans	$9,226	2,797	51,221	200,224	263,468

Total loans	$22,755	7,524	90,138	2,274,411	2,396,151

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

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

($ in thousands)	30-59 Days Past Due	60-89 Days Past Due	Nonaccrual Loans	Current	Total Loans Receivable
Non-covered loans					
Commercial, financial, and agricultural:					
Commercial - unsecured	$91	10	307	35,278	35,686
Commercial - secured	1,020	220	2,398	110,074	113,712
Secured by inventory and accounts receivable	52	4	17	21,270	21,343
Real estate – construction, land development & other land loans	490	263	6,354	211,001	218,108
Real estate – residential, farmland, and multi-family	9,673	2,553	9,629	797,584	819,439
Real estate – home equity lines of credit	976	320	1,622	197,962	200,880
Real estate - commercial	4,326	1,131	9,885	612,598	627,940
Consumer	462	219	2,822	52,208	55,711
Total non-covered	$17,090	4,720	33,034	2,037,975	2,092,819
Unamortized net deferred loan costs					1,324
Total non-covered loans					$2,094,143
Covered loans	$6,564	3,417	33,491	238,842	282,314
Total loans	$23,654	8,137	66,525	2,276,817	2,376,457

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

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

($ in thousands)	Commercial, Financial, and Agricultural	Real Estate – Construction, Land Development, & Other Land Loans	Real Estate – Residential, Farmland, and Multi-family	Real Estate – Home Equity Lines of Credit	Real Estate – Commercial and Other	Consumer	Unallo-cated	Tota
As of and for the three months ended March 31, 2013								
Beginning balance	$4,687	12,856	14,082	1,884	5,247	1,939	948	41,6
Charge-offs	(824)	(823)	(797)	(624)	(540)	(528)	(659)	(4,7
Recoveries	19	593	546	58	789	137	—	2,14
Provisions	1,067	2,231	1,454	722	218	243	(164)	5,77
Ending balance	$4,949	14,857	15,285	2,040	5,714	1,791	125	44,7
Ending balances as of March 31, 2013: Allowance for loan losses								
Individually evaluated for impairment	$190	520	259	—	1,155	—	—	2,12
Collectively evaluated for impairment	$4,759	14,337	15,026	2,040	4,559	1,791	125	42,6
Loans acquired with deteriorated credit quality	$—	—	—	—	—	—	—	—
Loans receivable as of March 31, 2013:								
Ending balance – total	$171,721	220,702	838,273	200,136	648,732	51,796	—	2,13
Ending balances as of March 31, 2013: Loans								
Individually evaluated for impairment	$1,088	5,115	2,257	—	17,560	—	—	26,0
Collectively evaluated for impairment	$170,633	215,587	836,016	200,136	631,172	51,796	—	2,10
Loans acquired with deteriorated credit quality	$—	—	—	—	—	—	—	—

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

($ in thousands)	Commercial, Financial, and Agricultural	Real Estate – Construction, Land Development, & Other Land Loans	Real Estate – Residential, Farmland, and Multi-family	Real Estate – Home Equity Lines of Credit	Real Estate – Commercial and Other	Consumer	Unallo-cated	Total
As of and for the year ended December 31, 2012								
Beginning balance	$3,780	11,306	13,532	1,690	3,414	1,872	16	35,6
Charge-offs	(4,912)	(19,312)	(20,879)	(3,287)	(16,616)	(1,539)	—	(66,5
Recoveries	354	986	430	209	333	273	—	2,58
Provisions	5,465	19,876	20,999	3,272	18,116	1,333	932	69,9
Ending balance	$4,687	12,856	14,082	1,884	5,247	1,939	948	41,6
Ending balances as of December 31, 2012: Allowance for loan losses								
Individually evaluated for impairment	$—	—	50	—	957	—	—	1,00
Collectively evaluated for impairment	$4,687	12,856	14,032	1,884	4,290	1,939	948	40,6
Loans acquired with deteriorated credit quality	$—	—	—	—	—	—	—	—
Loans receivable as of December 31, 2012:								
Ending balance – total	$170,741	218,108	819,439	200,880	627,940	55,711	—	2,09
Ending balances as of December 31, 2012: Loans								
Individually evaluated for impairment	$—	4,276	1,705	—	15,040	—	—	21,0
Collectively evaluated for impairment	$170,741	213,832	817,734	200,880	612,900	55,711	—	2,07
Loans acquired with deteriorated credit quality	$—	—	—	—	—	—	—	—

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

($ in thousands)	Commercial, Financial, and Agricultural	Real Estate – Construction, Land Development & Other Land Loans	Real Estate – Residential, Farmland, and Multi-family	Real Estate – Home Equity Lines of Credit	Real Estate – Commercial and Other	Consumer	Unallo-cated	Total
As of and for the three months ended March 31, 2012								
Beginning balance	$3,780	11,306	13,532	1,690	3,414	1,872	16	35,61
Charge-offs	(1,318)	(2,678)	(2,091)	(451)	(1,365)	(352)	—	(8,25
Recoveries	16	188	194	34	41	70	—	543
Provisions	2,476	7,603	3,734	859	3,647	236	2	18,55
Ending balance	$4,954	16,419	15,369	2,132	5,737	1,826	18	46,45
Ending balances as of March 31, 2012: Allowance for loan losses								
Individually evaluated for impairment	$869	3,473	1,926	406	1,885	—	—	8,559
Collectively evaluated for impairment	$4,085	12,946	13,443	1,726	3,852	1,826	18	37,89
Loans acquired with deteriorated credit quality	$—	—	—	—	—	—	—	—
Loans receivable as of March 31, 2012:								
Ending balance – total	$170,210	243,761	809,205	208,330	605,285	56,393	—	2,093
Ending balances as of March 31, 2012: Loans								
Individually evaluated for impairment	$1,011	24,746	14,366	1,331	25,263	—	—	66,71
Collectively evaluated for impairment	$169,199	219,015	794,839	206,999	580,022	56,393	—	2,026
Loans acquired with deteriorated credit quality	$—	—	—	—	—	—	—	—

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The following table presents the activity in the allowance for loan losses for covered loans for the three months ended March 31, 2013.

($ in thousands)	Covered Loans
As of and for the three months ended March 31, 2013	
Beginning balance	$ 4,759
Charge-offs	(5,109)
Recoveries	—
Provisions	5,378
Ending balance	$ 5,028
Ending balances as of March 31, 2013: Allowance for loan losses	
Individually evaluated for impairment	$ 4,656
Collectively evaluated for impairment	372
Loans acquired with deteriorated credit quality	17
Loans receivable as of March 31, 2013:	
Ending balance – total	$ 263,468
Ending balances as of March 31, 2013: Loans	
Individually evaluated for impairment	$ 87,661
Collectively evaluated for impairment	175,807
Loans acquired with deteriorated credit quality	4,726

The following table presents the activity in the allowance for loan losses for covered loans for the year ended December 31, 2012.

($ in thousands)	Covered Loans
As of and for the year ended December 31, 2012	
Beginning balance	$ 5,808
Charge-offs	(10,728)
Recoveries	—
Provisions	9,679
Ending balance	$ 4,759
Ending balances as of December 31, 2012: Allowance for loan losses	

Individually evaluated for impairment	$ 4,459
Collectively evaluated for impairment	300
Loans acquired with deteriorated credit quality	17
Loans receivable as of December 31, 2012:	
Ending balance – total	$ 282,314
Ending balances as of December 31, 2012: Loans	
Individually evaluated for impairment	$ 74,914
Collectively evaluated for impairment	207,400
Loans acquired with deteriorated credit quality	4,825

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

($ in thousands)	Covered Loans
As of and for the three months ended March, 31 2012	
Beginning balance	$ 5,808
Charge-offs	(2,434)
Recoveries	—
Provisions	2,998
Ending balance	$ 6,372
Ending balances as of March 31, 2012: Allowance for loan losses	
Individually evaluated for impairment	$ 6,372
Collectively evaluated for impairment	—
Loans acquired with deteriorated credit quality	98
Loans receivable as of March 31, 2012:	
Ending balance – total	$ 342,100
Ending balances as of March 31, 2012: Loans	
Individually evaluated for impairment	$ 49,244
Collectively evaluated for impairment	292,856
Loans acquired with deteriorated credit quality	5,202

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

($ in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Non-covered loans with no related allowance recorded:				
Commercial, financial, and agricultural:				
Commercial - unsecured	$ —	—	—	—
Commercial - secured	—	—	—	—
Secured by inventory and accounts receivable	—	—	—	—
Real estate – construction, land development & other land loans	1,550	1,552	—	2,914
Real estate – residential, farmland, and multi-family	—	—	—	799
Real estate – home equity lines of credit	—	—	—	—
Real estate – commercial	7,023	8,062	—	6,598
Consumer	—	—	—	—
Total non-covered impaired loans with no allowance	$ 8,573	9,614	—	10,311
Total covered impaired loans with no allowance	$ 44,848	89,224	—	40,022
Total impaired loans with no allowance recorded	$ 53,421	98,838	—	50,333
Non-covered loans with an allowance recorded:				
Commercial, financial, and agricultural:				
Commercial - unsecured	$ 26	27	5	167
Commercial - secured	2,382	2,761	368	2,390
Secured by inventory and accounts receivable	23	49	6	20
Real estate – construction, land development & other land loans	7,764	9,631	1,790	5,849
Real estate – residential, farmland, and multi-family	28,334	28,668	2,283	26,096
Real estate – home equity lines of credit	1,501	1,984	90	1,573
Real estate – commercial	13,782	15,851	1,239	12,317
Consumer	910	1,257	139	1,866
Total non-covered impaired loans with allowance	$ 54,722	60,228	5,920	50,278
Total covered impaired loans with allowance	$ 16,955	21,499	3,861	15,358
Total impaired loans with an allowance recorded	$ 71,677	81,727	9,781	65,636

Interest income recorded on non-covered and covered impaired loans during the three months ended March 31, 2013 is considered insignificant.

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

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The following table presents the Company's impaired loans as of December 31, 2012.

($ in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Non-covered loans with no related allowance recorded:				
Commercial, financial, and agricultural:				
Commercial – unsecured	$ —	—	—	—
Commercial - secured	—	—	—	87
Secured by inventory and accounts receivable	—	—	—	5
Real estate – construction, land development & other land loans	4,277	4,305	—	8,600
Real estate – residential, farmland, and multi-family	1,597	1,618	—	2,692
Real estate – home equity lines of credit	—	—	—	64
Real estate – commercial	6,175	6,851	—	12,724
Consumer	—	—	—	2
Total non-covered impaired loans with no allowance	$ 12,049	12,774	—	24,174
Total covered impaired loans with no allowance	$ 35,196	71,413	—	39,372
Total impaired loans with no allowance recorded	$ 47,245	84,187	—	63,546
Non-covered loans with an allowance recorded:				
Commercial, financial, and agricultural:				
Commercial - unsecured	$ 307	386	58	221
Commercial - secured	2,398	2,762	436	2,304
Secured by inventory and accounts receivable	17	43	4	548
Real estate – construction, land development & other land loans	3,934	5,730	1,213	12,199
Real estate – residential, farmland, and multi-family	23,859	25,844	1,955	27,186
Real estate – home equity lines of credit	1,645	2,120	96	2,901
Real estate – commercial	10,851	13,048	936	12,863
Consumer	2,822	2,858	353	2,802
Total non-covered impaired loans with allowance	$ 45,833	52,791	5,051	61,024
Total covered impaired loans with allowance	$ 13,760	18,271	3,509	15,401
Total impaired loans with an allowance recorded	$ 59,593	71,062	8,560	76,425

Interest income recorded on non-covered and covered impaired loans during the year ended December 31, 2012 is considered insignificant.

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

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

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

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

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

($ in thousands)	Credit Quality Indicator (Grouped by Internally Assigned Gr					
	Pass (Grades 1, 2, & 3)	Weak Pass (Grade 4)	Watch or Standard Loans (Grade 9)	Special Mention Loans (Grade 5)	Classified Loans (Grades 6, 7, & 8)	Nonac Loans
Non-covered loans:						
Commercial, financial, and agricultural:						
Commercial - unsecured	$6,305	26,924	10	1,031	818	26
Commercial - secured	29,627	76,964	599	4,026	3,000	2,382
Secured by inventory and accounts receivable	2,161	15,527	239	1,944	115	23
Real estate – construction, land development & other land loans	28,271	163,409	2,071	12,048	7,785	7,118
Real estate – residential, farmland, and multi-family	247,629	508,051	5,706	37,949	25,387	13,55
Real estate – home equity lines of credit	123,195	65,816	1,710	5,583	2,353	1,479
Real estate - commercial	100,279	482,189	17,008	23,591	12,237	13,42
Consumer	25,619	23,544	73	1,021	629	910
Total	$563,086	1,362,424	27,416	87,193	52,324	38,91
Unamortized net deferred loan costs						
Total non-covered loans						
Total covered loans	$37,521	105,397	—	9,375	59,954	51,22
Total loans	$600,607	1,467,821	27,416	96,568	112,278	90,13

At March 31, 2013, there was an insignificant amount of loans that were graded "8" with an accruing status.

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The following table presents the Company's recorded investment in loans by credit quality indicators as of December 31, 2012.

($ in thousands)	Credit Quality Indicator (Grouped by Internally Assigned Gr					
	Pass (Grades 1, 2, & 3)	Weak Pass (Grade 4)	Watch or Standard Loans (Grade 9)	Special Mention Loans (Grade 5)	Classified Loans (Grades 6, 7, & 8)	Nonac Loans
Non-covered loans:						
Commercial, financial, and agricultural:						
Commercial - unsecured	$10,283	24,031	10	472	583	307
Commercial - secured	32,196	72,838	1,454	3,676	1,150	2,398
Secured by inventory and accounts receivable	2,344	18,126	248	491	117	17
Real estate – construction, land development & other land loans	31,582	163,588	3,830	9,045	3,709	6,354
Real estate – residential, farmland, and multi-family	249,313	499,922	7,154	29,091	24,330	9,629
Real estate – home equity lines of credit	125,310	66,412	2,160	3,526	1,850	1,622
Real estate - commercial	123,814	449,316	21,801	14,050	9,074	9,885
Consumer	27,826	23,403	77	954	629	2,822
Total	$602,668	1,317,636	36,734	61,305	41,442	33,03
Unamortized net deferred loan costs						
Total non-covered loans						
Total covered loans	$42,935	124,451	—	7,569	73,868	33,49
Total loans	$645,603	1,442,087	36,734	68,874	115,310	66,52

At December 31, 2012, there was an insignificant amount of loans that were graded "8" with an accruing status.

Troubled Debt Restructurings

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

The vast majority of the Company’s troubled debt restructurings modified during the period ended March 31, 2013 related to interest rate reductions combined with restructured amortization schedules. The Company does not grant principal forgiveness.

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

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The following table presents information related to loans modified in a troubled debt restructuring during the three months ended March 31, 2013 and 2012.

($ in thousands)	For the three months ended March 31, 2013		
	Number of Contracts	Pre-Modification Restructured Balances	Post-Modification Restructured Balances
Non-covered TDRs – Accruing			
Real estate – residential, farmland, and multi-family	6	$ 508	$ 508
Real estate – commercial	1	61	61
Consumer	1	14	14
Non-covered TDRs - Nonaccrual			
Real estate – residential, farmland, and multi-family	3	209	209
Total non-covered TDRs arising during period	11	792	792
Total covered TDRs arising during period– Accruing	1	$ 47	$ 40
Total covered TDRs arising during period – Nonaccrual	—	—	—
Total TDRs arising during period	12	$ 839	$ 832

($ in thousands)	For the three months ended March 31, 2012		
	Number of Contracts	Pre-Modification Restructured Balances	Post-Modification Restructured Balances
Non-covered TDRs – Accruing	—	—	—
Non-covered TDRs - Nonaccrual	—	—	—
Total non-covered TDRs arising during period	—	—	—
Total covered TDRs arising during period– Accruing	3	$ 2,098	$ 2,098
Total covered TDRs arising during period – Nonaccrual	—	—	—
Total TDRs arising during period	3	$ 2,098	$ 2,098

There was one non-covered accruing restructured loan that was modified in the previous 12 months and that defaulted during the three months ended March 31, 2013 totaling $0.3 million. There was also one covered accruing restructured loan that was modified in the previous 12 months and that defaulted during the three months ended March 31, 2013 totaling $3.5 million. There were no non-covered or covered accruing restructured loans that were modified in the previous 12 months and that defaulted during the three months ended March 31, 2012. The Company considers a loan to have defaulted when it becomes 90 or more days delinquent under the modified terms, has been transferred to nonaccrual status, or has been transferred to foreclosed real estate.

Note 9 – Deferred Loan Costs

The amount of loans shown on the Consolidated Balance Sheets includes net deferred loan costs of approximately $1,323,000, $1,324,000, and $1,340,000 at March 31, 2013, December 31, 2012, and March 31, 2012, respectively.

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Note 10 – FDIC Indemnification Asset

The FDIC indemnification asset is the estimated amount that the Company will receive from the FDIC under loss share agreements associated with two FDIC-assisted failed bank acquisitions. See page 40 of the Company's 2012 Annual Report on Form 10-K for a detailed explanation of this asset.

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

($ in thousands)	March 31, 2013	December 31, 2012	March 31, 2012
Receivable related to loss claims incurred, not yet reimbursed	$ 41,701	33,040	8,828
Receivable related to estimated future claims on loans	53,054	62,044	85,859
Receivable related to estimated future claims on foreclosed real estate	5,839	7,475	18,718
FDIC indemnification asset	$ 100,594	102,559	113,405

The following presents a rollforward of the FDIC indemnification asset since December 31, 2012.

($ in thousands)	
Balance at December 31, 2012	$ 102,559
Increase related to unfavorable changes in loss estimates	7,570
Increase related to reimbursable expenses	1,287
Cash received	(6,899)
Accretion of loan discount	(2,926)
Other	(997)
Balance at March 31, 2013	$ 100,594

Note 11 – Goodwill and Other Intangible Assets

The following is a summary of the gross carrying amount and accumulated amortization of amortizable intangible assets as of March 31, 2013, December 31, 2012, and March 31, 2012 and the carrying amount of unamortized intangible assets as of those same dates. In the first quarter of 2013, the Company recorded a core deposit premium intangible of $586,000 in connection with the acquisition of two branches, which is being amortized on a straight-line basis over the estimated life of the related deposits of seven years.

	March 31, 2013	December 31, 2012	March 31, 2012

($ in thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets:						
Customer lists	$678	428	678	417	678	372
Core deposit premiums	8,560	5,316	7,974	5,128	7,867	4,499
Total	$9,238	5,744	8,652	5,545	8,545	4,871
Unamortizable intangible assets:						
Goodwill	$65,835		65,835		65,835	

Amortization expense totaled $199,000 and $223,000 for the three months ended March 31, 2013 and 2012, respectively.

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The following table presents the estimated amortization expense for the last three quarters of calendar year 2013 and for each of the four calendar years ending December 31, 2017 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
April 1 to December 31, 2013	$ 661
2014	777
2015	721
2016	654
2017	404
Thereafter	278
Total	$ 3,495

Note 12 – Pension Plans

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

The Company recorded pension income totaling $149,000 for the three months ended March 31, 2013, which primarily related to investment income from the Pension Plan's assets. For the three months ended March 31, 2012, the Company recorded pension expense totaling $1,039,000 related to the Pension Plan and the SERP. The following table contains the components of the pension (income) expense.

	For the Three Months Ended March 31,					
	2013	2012	2013	2012	2013 Total	2012 Total
($ in thousands)	Pension Plan	Pension Plan	SERP	SERP	Both Plans	Both Plans
Service cost – benefits earned during the period	$—	604	—	94	—	698
Interest cost	372	436	67	87	439	523
Expected return on plan assets	(591)	(492)	—	—	(591)	(492)
Amortization of transition obligation	—	1	—	—	—	1
Amortization of net (gain)/loss	3	267	—	34	3	301
Amortization of prior service cost	—	3	—	5	—	8
Net periodic pension cost	$(216)	819	67	220	(149)	1,039

The Company's contributions to the Pension Plan are based on computations by independent actuarial consultants and are intended to be deductible for income tax purposes. The contributions are invested to provide for benefits under the Pension Plan. The Company expects that it will contribute $1,500,000 to the Pension Plan in 2013.

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

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Note 13 – Comprehensive Income (Loss)

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

($ in thousands)	March 31, 2013	December 31, 2012	March 31, 2012
Unrealized gain (loss) on securities available for sale	$ 2,982	3,290	4,161
Deferred tax asset (liability)	(1,163)	(1,283)	(1,624)
Net unrealized gain (loss) on securities available for sale	1,819	2,007	2,537
Additional pension liability	(3,576)	(3,579)	(17,968)
Deferred tax asset	1,395	1,396	7,099
Net additional pension liability	(2,181)	(2,183)	(10,869)
Total accumulated other comprehensive income (loss)	$ (362)	(176)	(8,332)

The following table discloses the changes in accumulated other comprehensive income (loss) for the three months ended March 31, 2013 (all amounts are net of tax).

($ in thousands)	Unrealized Gain (Loss) on Securities Available for Sale	Additional Pension Liability	Total
Beginning balance at January 1, 2013	$ 2,007	(2,183)	(176)
Other comprehensive income (loss) before reclassifications	(188)	—	(188)
Amounts reclassified from accumulated other comprehensive income	—	2	2
Net current-period other comprehensive income (loss)	(188)	2	(186)
Ending balance at March 31, 2013	$ 1,819	(2,181)	(362)

Note 14 – Fair Value

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

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

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

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

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The following table summarizes the Company's financial instruments that were measured at fair value on a recurring and nonrecurring basis at March 31, 2013. The impaired loans shown below are those in which the value is based on the underlying collateral value.

($ in thousands)

Description of Financial Instruments	Fair Value at March 31, 2013	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	$ 11,588	—	11,588	—
Mortgage-backed securities	150,773	—	150,773	—
Corporate bonds	3,865	—	3,865	—
Equity securities	3,988	—	3,988	—
Total available for sale securities	$ 170,214	—	170,214	—
Nonrecurring				
Impaired loans – covered	$ 23,608	—	—	23,608
Impaired loans – non-covered	17,634	—	—	17,634
Foreclosed real estate – covered	30,156	—	—	30,156
Foreclosed real estate – non-covered	20,115	—	—	20,115

The following table summarizes the Company's financial instruments that were measured at fair value on a recurring and nonrecurring basis at December 31, 2012.

($ in thousands)

Description of Financial Instruments	Fair Value at December 31, 2012	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	$ 11,596	—	11,596	—
Mortgage-backed securities	146,926	—	146,926	—
Corporate bonds	3,813	—	3,813	—
Equity securities	5,017	—	5,017	—
Total available for sale securities	$ 167,352	—	167,352	—
Nonrecurring				
Impaired loans – covered	$ 12,234	—	—	12,234

Impaired loans – non-covered	21,021	—	—	21,021
Foreclosed real estate – covered	47,290	—	—	47,290
Foreclosed real estate – non-covered	26,285	—	—	26,285

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

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

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

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

Foreclosed real estate – Foreclosed real estate, consisting of properties obtained through foreclosure or in satisfaction of loans, is reported at the lower of cost or fair value, based on a current appraisal that is generally prepared using an income or market valuation approach and conducted by an independent, licensed third party appraiser, adjusted for estimated selling costs (Level 3). At the time of foreclosure, any excess of the loan balance over the fair value of the real estate held as collateral is treated as a charge against the allowance for loan losses. For any real estate valuations subsequent to foreclosure, any excess of the real estate recorded value over the fair value of the real estate is treated as a foreclosed real estate write-down on the Consolidated Statements of Income (Loss). In December 2012, the Company recorded a write-down of $10.6 million related to its non-covered foreclosed properties. This write-down reduced the carrying value of these properties by approximately 29% beyond their standard carrying value as described above. This write-down was recorded because of management's intent to dispose of these properties in an expedited manner and accept sales prices lower than prior practice.

For Level 3 assets and liabilities measured at fair value on a recurring or non-recurring basis as of March 31, 2013, the significant unobservable inputs used in the fair value measurements were as follows:

($ in thousands)

Description	Fair Value at March 31, 2013	Valuation Technique	Significant Unobservable Inputs	General Range of Significant Unobservable Input Values
Impaired loans – covered	$ 23,608	Appraised value	Discounts to reflect current market conditions, ultimate collectability, and estimated costs to sell	0-10%
Impaired loans – non-covered	17,634	Appraised value	Discounts to reflect current market conditions, ultimate collectability, and estimated costs to sell	0-25%
Foreclosed real estate – covered	30,156	Appraised value	Discounts to reflect current market conditions and estimated costs to sell	0-10%
Foreclosed real estate – non-covered	20,115	Appraised value		0-40%

Discounts to reflect current market conditions, abbreviated holding period and estimated costs to sell

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For Level 3 assets and liabilities measured at fair value on a recurring or non-recurring basis as of December 31, 2012, the significant unobservable inputs used in the fair value measurements were as follows:

($ in thousands)

Description	Fair Value at December 31, 2012	Valuation Technique	Significant Unobservable Inputs	General Range of Significant Unobservable Input Values
Impaired loans – covered	$ 12,234	Appraised value	Discounts to reflect current market conditions, ultimate collectability, and estimated costs to sell	0-49%
Impaired loans – non-covered	21,021	Appraised value	Discounts to reflect current market conditions, ultimate collectability, and estimated costs to sell	0-21%
Foreclosed real estate – covered	47,290	Appraised value	Discounts to reflect current market conditions and estimated costs to sell	0-29%
Foreclosed real estate – non-covered	26,285	Appraised value	Discounts to reflect current market conditions, abbreviated holding period and estimated costs to sell	0-40%

Transfers of assets or liabilities between levels within the fair value hierarchy are recognized when an event or change in circumstances occurs. There were no transfers between Level 1 and Level 2 for assets or liabilities measured on a recurring basis during the three months ended March 31, 2013 or 2012.

For the three months ended March 31, 2013, the decrease in the fair value of securities available for sale was $308,000, which is included in other comprehensive income (net of tax benefit of $120,000). For the three months ended March 31, 2012, the increase in the fair value of securities available for sale was $265,000, which is included in other comprehensive loss (net of tax expense of $104,000). Fair value measurement methods at March 31, 2013 and 2012 are consistent with those used in prior reporting periods.

The carrying amounts and estimated fair values of financial instruments at March 31, 2013 and December 31, 2012 are as follows:

($ in thousands)	March 31, 2013	December 31, 2012

	Level in Fair Value Hierarchy	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Cash and due from banks, noninterest-bearing	Level 1	$73,205	73,205	96,588	96,588
Due from banks, interest-bearing	Level 1	242,890	242,890	144,919	144,919
Federal funds sold	Level 1	249	249	—	—
Securities available for sale	Level 2	170,214	170,214	167,352	167,352
Securities held to maturity	Level 2	55,649	60,758	56,064	61,496
Presold mortgages in process of settlement	Level 1	4,584	4,584	8,490	8,490
Loans – non-covered, net of allowance	Level 3	2,087,922	2,035,916	2,052,500	1,998,620
Loans – covered, net of allowance	Level 3	258,440	258,440	277,555	277,555
Loans held for sale	Level 2	—	—	30,393	30,393
Accrued interest receivable	Level 1	9,737	9,737	10,201	10,201
FDIC indemnification asset	Level 3	100,594	98,818	102,559	100,396
Bank-owned life insurance	Level 1	27,193	27,193	27,857	27,857
Deposits	Level 2	2,857,567	2,860,592	2,821,360	2,823,989
Borrowings	Level 2	46,394	20,457	46,394	20,981
Accrued interest payable	Level 2	1,118	1,118	1,299	1,299

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

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

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

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

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

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

Deposits - The fair value of deposits with no stated maturity, such as noninterest-bearing checking accounts, savings accounts, interest-bearing checking accounts, and money market accounts, is equal to the amount payable on demand as of the valuation date. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered 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 deferred income taxes, prepaid expense accounts, income taxes currently payable and other various accrued expenses. In addition, the income tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

Note 15 – Shareholders' Equity Transactions

Small Business Lending Fund

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

Under the terms of the stock purchase agreement, the Treasury received 63,500 shares of non-cumulative perpetual preferred stock with a liquidation value of $1,000 per share, in exchange for $63.5 million.

The Series B preferred stock qualifies as Tier 1 capital. The dividend rate, as a percentage of the liquidation amount, can fluctuate on a quarterly basis during the first 10 quarters during which the Series B preferred stock is outstanding, based upon changes in the level of "Qualified Small Business Lending" or "QSBL". For the first nine quarters after issuance, the dividend rate can range from one percent (1%) to five percent (5%) per annum based upon the increase in QSBL as compared to the baseline. For quarters subsequent to the issuance in 2011, the Company has paid a dividend rate ranging from 3.0% to 5.0%. Based upon an increase in the level of QSBL over the baseline level calculated under the terms of the related purchase agreement, the dividend rate for the next dividend period (which will end on June 30, 2013) is expected to be 1.0%, subject to confirmation by Treasury. For the tenth calendar quarter through four and one half years after issuance, the dividend rate will be fixed at between one percent (1%) and seven percent (7%) based upon the level of QSBL compared to the baseline. After four and one half years from the issuance, the dividend rate will increase to nine percent (9%). Subject to regulatory approval, the Company is generally permitted to redeem the Series B preferred shares at par plus unpaid dividends.

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For the first three months of 2013 and 2012, the Company accrued approximately $187,000 and $760,000 in preferred dividend payments for the Series B Preferred Stock, respectively. This amount is deducted from net income in computing "Net income available to common shareholders."

Stock Issuance

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

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

During the first quarter of 2013, the Company accrued approximately $58,000 in preferred dividend payments for the Series C Preferred Stock.

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

Critical Accounting Policies

The accounting principles we follow and our methods of applying these principles conform with accounting principles generally accepted in the United States of America and with general practices followed by the banking industry. Certain of these principles involve a significant amount of judgment and may involve the use of estimates based on our best assumptions at the time of the estimation. The allowance for loan losses, intangible assets, and the fair value and discount accretion of loans acquired in FDIC-assisted transactions

are three policies we have identified as being more sensitive in terms of judgments and estimates, taking into account their overall potential impact to our consolidated financial statements.

Allowance for Loan Losses

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

Our determination of the adequacy of the allowance is based primarily on a mathematical model that estimates the appropriate allowance for loan losses. This model has two components. The first component involves the estimation of losses on “impaired loans” that are individually evaluated. 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. A loan is individually evaluated for an appropriate valuation allowance if the loan balance is above a prescribed evaluation threshold (which varies based on credit quality, accruing status, and type of collateral) and the loan is determined to be impaired. The estimated valuation allowance is the difference, if any, between the loan balance outstanding and the value of the impaired loan as determined by either 1) an estimate of the cash flows that we expect to receive from the borrower discounted at the loan’s effective rate, or 2) in the case of a collateral-dependent loan, the fair value of the collateral.

The second component of the allowance model is an estimate of losses for impaired loans collectively evaluated and all loans not considered to be impaired loans. Impaired loans collectively evaluated and loans not considered to be impaired 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. For impaired loans collectively evaluated and loans 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.

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

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

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

Intangible Assets

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

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

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

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

In our October 2012 goodwill impairment evaluation, we determined the fair value of our community banking operation was approximately $17.20 per common share, or 5% higher, than the $16.43 stated book value of our common stock at the date of valuation. To assist us in computing the fair value of our community banking operation, we engaged a consulting firm that used various valuation techniques as part of its analysis, which resulted in the conclusion of the $17.20 value.

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

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

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

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

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

FDIC Indemnification Asset

The FDIC indemnification asset is the estimated amount that the Company will receive from the FDIC under loss share agreements associated with two FDIC-assisted failed bank acquisitions. See page 40 of the Company's 2012 Annual Report on Form 10-K for a detailed explanation of this asset.

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

($ in thousands)

At March 31, 2013	Cooperative Single Family Loss Share Loans	Cooperative Non-Single Family Loss Share Loans	Bank of Asheville Single Family Loss Share Loans	Bank of Asheville Non-Single Family Loss Share Loans	Total
Expiration of loss share agreement	6/19/2019	6/19/2014	1/21/2021	1/21/2016	
Nonaccrual covered loans					
Unpaid principal balance	$ 15,992	71,039	1,022	6,779	94,832
Carrying value prior to loan discount*	15,881	46,325	885	5,061	68,152
Loan discount	3,088	11,999	497	1,347	16,931
Net carrying value	12,793	34,326	388	3,714	51,221
Allowance for loan losses	2,125	870	17	—	3,012
Indemnification asset recorded	4,170	10,295	411	1,078	15,954
All other covered loans					
Unpaid principal balance	141,358	59,049	13,830	48,845	263,082
Carrying value prior to loan discount*	141,230	55,412	13,802	48,600	259,044

Loan discount	20,031	8,803	4,411	13,552	46,797
Net carrying value	121,199	46,609	9,391	35,048	212,247
Allowance for loan losses	451	1,565	—	—	2,016
Indemnification asset recorded	16,025	7,042	3,529	10,842	37,438
All covered loans					
Unpaid principal balance	157,350	130,088	14,852	55,624	357,914
Carrying value prior to loan discount*	157,111	101,737	14,687	53,661	327,196
Loan discount	23,119	20,802	4,908	14,899	63,728
Net carrying value	133,992	80,935	9,779	38,762	263,468
Allowance for loan losses	2,576	2,435	17	—	5,028
Indemnification asset recorded	20,195	17,337	3,940	11,920	53,392
			Present Value Adjustment		(338)
* Reflects partial charge-offs		Total indemnification asset recorded related to loans			$53,054

As noted in the table above, our commercial loss share agreement related to Cooperative Bank's non-single family loans expires in June 2014. As it relates to that portion of covered loans, we expect accelerated amounts of loan discount accretion and corresponding indemnification asset expense until the expiration date as the loss share attributes of the loan portfolio are resolved.

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Current Accounting Matters

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

RESULTS OF OPERATIONS

Overview

Net income available to common shareholders for the first quarter of 2013 amounted to $2.9 million, or $0.14 per diluted common share, compared to a net loss available to common shareholders of $5.9 million, or ($0.35) per diluted common share, reported in the first quarter of 2012. The higher earnings in 2013 were primarily a result of a lower provision for loan losses.

Net Interest Income and Net Interest Margin

Net interest income for the first quarter of 2013 amounted to $31.9 million in the first quarter of 2013 compared to $32.1 million in the first quarter of 2012.

Our net interest margin (tax-equivalent net interest income divided by average earning assets) in the first quarter of 2013 was 4.69% compared to 4.59% for the first quarter of 2012. The higher margin was primarily a result of a higher amount of discount accretion on loans purchased in failed bank acquisitions, as well as lower overall funding costs. The 4.69% net interest margin realized in the first quarter of 2013 was a 32 basis point decrease from the 5.01% margin realized in the fourth quarter of 2012. The decrease in margin was due primarily to a lower amount of loan discount accretion recognized during the first quarter of 2013 in comparison to the fourth quarter of 2012. Loan discount accretion amounted to $3.7 million in the first quarter of 2013, $6.0 million in the fourth quarter of 2012 and $2.6 million in the first quarter of 2012.

Our cost of funds has steadily declined from 0.67% in the first quarter of 2012 to 0.45% in the first quarter of 2013.

Provision for Loan Losses and Asset Quality

We recorded total provisions for loan losses of $11.1 million in the first quarter of 2013 compared to $21.6 million for the first quarter of 2012. The decrease in 2013 was primarily the result of an elevated provision for loan losses on non-covered loans recorded in the first quarter of 2012 – see explanation of the terms “covered” and “non-covered” in the section below entitled “Note Regarding Components of Earnings.”

Total non-covered nonperforming assets amounted to $83.4 million at March 31, 2013 (2.79% of total non-covered assets), which compares to $106.1 million at December 31, 2012 and $117.1 million at March 31, 2012. The decrease in 2013 was due primarily to a combination of loan sales and foreclosed property write-downs that occurred in the fourth quarter of 2012 and the first quarter of 2013, as discussed in the following paragraph.

In the fourth quarter of 2012, we identified approximately $68 million of non-covered higher-risk loans that we targeted for sale to a third-party investor. Based on an offer to purchase these loans that was received in December, we wrote the loans down by approximately $38 million in the fourth quarter of 2012 to their estimated liquidation value of approximately $30 million and reclassified them as “loans held for sale.” The sale of these loans was completed on January 23, 2013. Of the $68 million in loans targeted for sale, approximately $38.2 million had been classified as nonaccrual loans, and $10.5 million had been classified as accruing troubled debt restructurings. Additionally, in the fourth quarter of 2012, we recorded write-downs totaling $10.6 million on substantially all of our non-covered foreclosed properties in connection with efforts to accelerate the sale of these assets.

Non-covered nonaccrual loans increased from $33.0 million at December 31, 2012 to $38.9 million at March 31, 2013 due primarily to four larger credits that deteriorated during the first quarter of 2013. Non-covered foreclosed real estate decreased from $26.3 million at December 31, 2012 to $20.1 million at March 31, 2013 as a result of strong sales activity during the quarter, which was consistent with our intent discussed above to accelerate the disposition of foreclosed properties.

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Total covered nonperforming assets have steadily declined in the past year, amounting to $92.0 million at March 31, 2013 compared to $135.1 million at March 31, 2012. Within this category, foreclosed real estate declined from $79.5 million at March 31, 2012 to $30.2 million at March 31, 2013. The Company is experiencing increased property sales activity, particularly along the North Carolina coast, which is where most of our covered foreclosed properties are located. Covered nonaccrual loans increased from $33.5 million at December 31, 2012 to $51.2 million at March 31, 2013, due primarily to several large loans that deteriorated during the quarter.

Noninterest Income

Total noninterest income for the three months ended March 31, 2013 was $7.1 million compared to $5.3 million for the comparable period of 2012.

Core noninterest income for the first quarter of 2013 was $6.5 million, an increase of 10.6% over the $5.8 million reported for the first quarter of 2012. Core noninterest income includes i) service charges on deposit accounts, ii) other service charges, commissions, and fees, iii) fees from presold mortgages, iv) commissions from financial product sales, and v) bank-owned life insurance income. The largest component of the increase in core noninterest income was in the amount of fees from presold mortgages we recorded. The increase in these fees was due to high mortgage loan refinancing activity, as well as increased volume resulting from additional mortgage loan personnel that the Company has added in recent quarters.

Noncore components of noninterest income resulted in net gains of $0.6 million in the first quarter of 2013 compared to net losses of $0.5 million in the first quarter of 2012. The largest variance related to non-covered foreclosed property gains/losses, which amounted to a gain of $0.8 million in the first quarter of 2013 compared to a loss of $0.7 million in 2012. Also in 2013, we recorded “other losses” of $0.4 million related to the sale of a parcel of property that the Company had previously held for a future branch.

Noninterest Expenses

Noninterest expenses amounted to $23.2 million in the first quarter of 2013, a 4.7% decrease from the $24.4 million recorded in the first quarter of 2012. The decrease primarily relates to a decline in pension expense as a result of freezing the Company’s two defined benefit pension plans on December 31, 2012. Pension expense was $1.0 million in the first quarter of 2012 compared to income of $0.1 million in the first quarter of 2013, which related to investment income from the pension plan’s assets.

Balance Sheet and Capital

Total assets at March 31, 2013 amounted to $3.3 billion, a 1.7% decrease from a year earlier. Total loans at March 31, 2013 amounted to $2.4 billion, a 1.6% decrease from a year earlier, and total deposits amounted to $2.9 billion at March 31, 2013, a 0.9% increase from a year earlier.

The decrease in loans over the past year was a result of the loan sale previously discussed, as well as the progressive decline in the amount of covered loans. Partially offsetting the decrease was internal loan growth, as well as loans added in a branch acquisition discussed in the following paragraph. As it relates to deposits, the Company has experienced strong growth in transaction oriented deposits, while time deposits have declined.

As previously reported, during the first quarter of 2013, we completed the acquisition of two branches from Four Oaks Bank & Trust Company, which resulted in the addition of $16 million in loans and $57 million in deposits. Excluding the acquired growth, the Company's non-covered loans increased by $22 million, representing annualized growth of 4.3%.

We remain well-capitalized by all regulatory standards, with a Total Risk-Based Capital Ratio at March 31, 2013 of 16.82% compared to the 10.00% minimum to be considered well-capitalized. Our tangible common equity to tangible assets ratio was 6.76% at March 31, 2013, an increase of 47 basis points from a year earlier, which is primarily due to the Company's capital raise that occurred in the fourth quarter of 2012.

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Note Regarding Components of Earnings

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

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

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

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

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 March 31, 2013 amounted to $31.9 million, a decrease of $0.2 million, or 0.5%, from the $32.1 million recorded in the first quarter of 2012. Net interest income on a tax-equivalent basis for the three month period ended March 31, 2013 amounted to $32.3 million, a decrease of $0.2 million, or 0.6%, from the $32.5 million recorded in the first quarter of 2012. We believe that analysis of net interest income on a tax-equivalent basis is useful and appropriate because it allows a comparison of net interest income amounts in different periods without taking into account the different mix of taxable versus non-taxable investments that may have existed during those periods.

	Three Months Ended March 31,	
($ in thousands)	2013	2012
Net interest income, as reported	$ 31,921	32,091
Tax-equivalent adjustment	372	387
Net interest income, tax-equivalent	$ 32,293	32,478

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

For the three months ended March 31, 2013, the slightly lower net interest income compared to the same period of 2012 was due to a decline in interest-earning assets (primarily average loan balances), which was partially offset by a slightly higher net interest margin (see discussion below).

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

	For the Three Months Ended March 31, 2013			2012		
($ in thousands)	Average Volume	Average Rate	Interest Earned or Paid	Average Volume	Average Rate	Interest Earned or Paid
Assets						
Loans (1)	$2,382,861	5.71%	$33,551	$2,430,893	5.80%	$35,042
Taxable securities	164,284	2.23%	905	166,327	3.04%	1,258
Non-taxable securities (2)	55,948	6.17%	851	57,596	6.15%	880
Short-term investments, principally federal funds	187,652	0.33%	154	192,156	0.29%	139
Total interest-earning assets	2,790,745	5.15%	35,461	2,846,972	5.27%	37,319
Cash and due from banks	81,081			58,754		
Premises and equipment	75,255			71,698		
Other assets	281,382			324,648		
Total assets	$3,228,463			$3,302,072		
Liabilities						
Interest bearing checking	$520,936	0.13%	$162	$438,413	0.19%	$206
Money market deposits	560,203	0.22%	306	521,008	0.41%	528
Savings deposits	162,403	0.10%	42	152,868	0.30%	115
Time deposits >$100,000	653,930	1.00%	1,613	744,860	1.17%	2,175
Other time deposits	496,029	0.65%	789	574,882	0.89%	1,269
Total interest-bearing deposits	2,393,501	0.49%	2,912	2,432,031	0.71%	4,293
Securities sold under agreements to repurchase	—	—%	—	6,706	0.24%	4
Borrowings	46,394	2.24%	256	130,534	1.68%	544
Total interest-bearing liabilities	2,439,895	0.53%	3,168	2,569,271	0.76%	4,841
Noninterest bearing checking	409,744			347,480		
Other liabilities	19,462			37,127		
Shareholders' equity	359,362			348,194		
Total liabilities and shareholders' equity	$3,228,463			$3,302,072		
Net yield on interest-earning assets and net interest income		4.69%	$32,293		4.59%	$32,478
Interest rate spread		4.62%			4.51%	
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 $372,000 and $387,000 in 2013 and 2012, 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 first quarter of 2013 were $2.383 billion, which was 2.0% less than the average loans outstanding for the first quarter of 2012 ($2.431 billion). The lower amount of average loans outstanding in 2013 is primarily due to 1) the sale of approximately $68 million in non-covered higher-risk loans during January 2013 and 2) the resolution of $79 million in covered loans within our "covered loan" portfolio since March 31, 2012. Resolution of covered loans includes foreclosure, charge-off, or repayment. Partially offsetting these decreases was internal loan growth, as well as loans added in a branch acquisition.

The mix of our loan portfolio remained substantially the same at March 31, 2013 compared to December 31, 2012, with approximately 90% of our loans being real estate loans, 7% 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 total deposits outstanding for the first quarter of 2013 were $2.803 billion, which was 0.9% greater than the average deposits outstanding for the first quarter of 2012 ($2.779 billion). We experienced strong growth in our transaction deposit accounts, which we define as noninterest bearing checking, interest bearing checking, money market and savings. Average transaction deposit accounts increased from $1.46 billion at March 31, 2012 to $1.65 billion at March 31, 2013, representing growth of $194 million, or 13.3%. With the lower amount of loans and the growth of our transaction deposit accounts, we were able to lessen our reliance on higher cost sources of funding, including time deposits and borrowings. Average time deposits declined from $1.32 billion at March 31, 2012 to $1.15 billion at March 31, 2013, a decrease of $170 million, or 12.9%. Average borrowings decreased from $131 million in the first quarter of 2012 to $46 million in the first quarter of 2013. The favorable change in the funding mix resulted in our average cost of interest bearing liabilities decreasing from 0.76% in the first quarter of 2012 to 0.53% in the first quarter of 2013. Our total cost of funds, which includes noninterest bearing checking accounts at a zero percent cost, was 0.45% in the first quarter of 2013 compared to 0.67% in the first quarter of 2012.

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

Our net interest margin (tax-equivalent net interest income divided by average earning assets) for the first quarter of 2013 was 4.69% compared to 4.59% for the first quarter of 2012. The higher margin was primarily a result of a higher amount of discount accretion on loans purchased in failed bank acquisitions (see discussion below), as well as the lower overall funding costs just discussed.

Our net interest margin benefitted from the net accretion of purchase accounting premiums/discounts associated with the Cooperative acquisition in June 2009 and, to a lesser degree, the acquisition of The Bank of Asheville in January 2011. For the three months ended March 31, 2013 and 2012, we recorded $3,551,000 and $2,525,000, respectively, in net accretion of purchase accounting premiums/discounts that increased net interest income. The following table presents the detail of the purchase accounting adjustments that impacted net interest income.

$ in thousands	For the Three Months Ended March 31, 2013	March 31, 2012
Interest income – reduced by premium amortization on loans	$ (116)	(116)
Interest income – increased by accretion of loan discount	3,658	2,578
Interest expense – reduced by premium amortization of deposits	9	33
Interest expense – reduced by premium amortization of borrowings	—	30
Impact on net interest income	$ 3,551	2,525

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

We recorded total provisions for loan losses of $11.1 million in the first quarter of 2013 compared to $21.6 million for the first quarter of 2012. As discussed below, the decrease in 2013 was primarily the result of an elevated provision for loan losses on non-covered loans recorded in the first quarter of 2012 – see explanation of the terms "covered" and "non-covered" in the section above entitled "Note Regarding Components of Earnings."

Our provision for loan losses on non-covered loans amounted to $5.8 million in the first quarter of 2013 compared to $18.6 million in the first quarter of 2012. The decrease was primarily due to a high provision for loan losses recorded in the first quarter of 2012 that resulted from an internal review that applied more conservative assumptions to estimate the probable losses associated with some of our nonperforming loan relationships, which we believed could lead to a more timely resolution of the related credits. Many of these same loans were sold to a third party investor in January 2013.

Our provision for loan losses on covered loans amounted to $5.4 million in the first quarter of 2013 compared to $3.0 million in the first quarter of 2012. The increase was primarily the result of several large credits that deteriorated during the first quarter of 2013 and were placed on nonaccrual status.

Total noninterest income was $7.1 million in the first quarter of 2013 compared to $5.3 million for the first quarter of 2012.

As presented in the table below, core noninterest income for the first quarter of 2013 was $6.5 million, an increase of 10.6% over the $5.8 million reported for the first quarter of 2012. Core noninterest income includes i) service charges on deposit accounts, ii) other service charges, commissions, and fees, iii) fees from presold mortgages, iv) commissions from financial product sales, and v) bank-owned life insurance income.

The following table presents our core noninterest income for the three month periods ending March 31, 2013 and 2012, respectively.

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$ in thousands	For the Three Months Ended March 31, 2013	March 31, 2012
Service charges on deposit accounts	$ 2,935	2,847
Other service charges, commissions, and fees	2,175	2,192
Fees from presold mortgages	747	411
Commissions from sales of insurance and financial products	399	383
Bank-owned life insurance income	208	11
Core noninterest income	$ 6,464	5,844

Most categories of core noninterest income remained relatively stable for the first three months of 2013 compared to the same period in 2012. However, fees from presold mortgages experienced a significant increase, amounting to $0.7 million in the first quarter of 2013 compared to $0.4 million in the first quarter of 2012. The increase in these fees was due to high mortgage loan refinancing activity, as well as increased volume from additional mortgage loan personnel we have added in recent quarters.

Bank-owned life insurance income was $208,000 in the first quarter of 2013 compared to $11,000 in the first quarter of 2012. The increase was due to the purchase of $25 million in bank-owned life insurance in April 2012.

Within the noncore components of noninterest income, we recorded a net gain of $0.8 million from the sale of non-covered foreclosed properties during the first quarter of 2013 compared to a net loss from sales and write-downs that amounted to $0.7 million during the first quarter of 2012.

For the first quarter of 2013, we recorded losses of $4.6 million on covered foreclosed properties compared to losses of $4.5 million for the comparable period of 2012. We continue to experience losses and write-downs on our covered foreclosed properties due to declining property values in our market area.

As previously discussed, indemnification asset income is recorded to reflect additional amounts expected to be received from the FDIC due to covered loan and foreclosed property losses arising during the period. For the first quarter of 2013, indemnification asset income totaled $4.9 million compared to $4.1 million for the first quarter of 2012. The increase was primarily related to the higher provision for loan losses on covered loans.

During the first quarter of 2012, we recorded $0.5 million in gains on sales of approximately $9.6 million in available for sale securities. There were no gains or losses on securities during the first three months of 2013.

During the first quarter of 2013, we recorded “other losses” of $0.4 million related to the sale of a parcel of property that we had previously held for a future branch. We decided not to use the property for a branch and disposed of the property.

Noninterest expenses amounted to $23.2 million in the first quarter of 2013, a 4.7% decrease over the $24.4 million recorded in the same period of 2012.

Personnel expense for the three months ended March 31, 2013 amounted to $13.3 million, a 5.7% decrease from the $14.1 million recorded in the first quarter of 2012. Within this line item, salaries expense was $10.7 million for the first quarter of 2013 compared to $10.2 million in the first quarter of 2012. Salaries expense for the fourth quarter of 2012 was $10.6 million. The increase in salaries expense has been primarily associated with the hiring of additional key employees in order to build our infrastructure to prepare for future growth.

Also within the line item “personnel expense” is employee benefits expense, which was $2.6 million in the first quarter of 2013 compared to $3.9 million in the first quarter of 2012. The decrease primarily relates to a decline in pension expense as a result of freezing the Company’s two defined benefit plans on December 31, 2012. Pension expense was $1.0 million in the first quarter of 2012 compared to income of $0.1 million in the first quarter of 2013, which related to investment income from the pension plan’s assets.

The combined amount of occupancy and equipment expense did not vary materially when comparing the first quarter of 2013 to the first quarter of 2012, amounting to approximately $2.8 million in each quarter.

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Other noninterest expenses amounted to $7.0 million for the first quarter of 2013 compared to $7.2 million in the first quarter of 2012. Two of the largest categories of expense within this line item are collection expenses and FDIC insurance expense, both of which remained stable in the first quarter of 2013 compared to the first quarter of 2012. Collection expenses on non-covered assets amounted to $0.6 million for each of the three months ended March 31, 2013 and 2012. Collection expenses on covered assets (net of FDIC reimbursement) amounted to approximately $0.6 million for the first quarter of 2013 and $0.5 million for the first quarter of 2012.

FDIC insurance expense amounted to $0.7 million for each of the three months ended March 31, 2013 and 2012.

In the first quarter of 2012, we recorded severance expenses of $0.4 million as an "other noninterest expense."

For the first quarter of 2013, the provision for income taxes was $1.6 million, an effective tax rate of 33.4%. We recorded an income tax benefit of $3.3 million for the first quarter of 2012 due to the net loss reported for the period.

We accrued preferred stock dividends of $0.2 million and $0.8 million for the three months ended March 31, 2013 and 2012, respectively. These amounts are deducted from net income in computing "net income available to common shareholders." The decrease in preferred dividends in 2013 is a result of a favorable dividend rate change related to the SBLF preferred stock that was issued in September 2011. The dividend rate can range from 1% to 5% per anum based upon changes in the level of "Qualified Small Business Lending" ("QSBL"). We have been able to continually increase our levels of QSBL since 2011 and as such, our dividend rate has steadily decreased to 1.18% in the first quarter of 2013 compared to 4.79% in the first quarter of 2012. Based upon recent increases in the level of QSBL, we expect our preferred stock dividend rate to be at an annualized rate of 1.0% for the majority of 2013.

The Consolidated Statements of Comprehensive Income (Loss) reflect other comprehensive loss of $186,000 during the first quarter of 2013 compared to other comprehensive income of $350,000 during the first quarter of 2012. The primary component of other comprehensive income (loss) for the periods presented was changes in unrealized holding gains (losses) of our available for sale securities. Our available for sale securities portfolio is predominantly comprised of fixed rate bonds that generally increase in value when market yields for fixed rate bonds decrease and decline in value when market yields for fixed rate bonds increase. Management has evaluated any unrealized losses on individual securities at each period end and determined that there is no other-than-temporary impairment.

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FINANCIAL CONDITION

Total assets at March 31, 2013 amounted to $3.28 billion, 1.7% lower than a year earlier. Total loans at March 31, 2013 amounted to $2.40 billion, a 1.7% decrease from a year earlier, and total deposits amounted to $2.86 billion, a 0.9% increase from a year earlier.

The following table presents information regarding the nature of our growth for the twelve months ended March 31, 2013 and for the first quarter of 2013.

April 1, 2012 to March 31, 2013	Balance at beginning of period	Internal Growth, net (1)	Growth from Acquisitions	Loans Transferred to Held for Sale	Balance at end of period	Total percentage growth	Internal percentage growth (1)
		($ in thousands)					
Loans – Non-covered	$2,094,524	89,967	16,425	(68,233)	2,132,683	1.8%	4.3%
Loans – Covered	342,100	(78,632)	—	—	263,468	-23.0%	-23.0%
Total loans	$2,436,624	11,335	16,425	(68,233)	2,396,151	-1.7%	0.5%
Deposits – Noninterest bearing checking	$371,293	51,054	6,855	—	429,202	15.6%	13.8%
Deposits – Interest bearing checking	468,691	62,888	7,691	—	539,270	15.1%	13.4%
Deposits – Money market	522,350	39,866	5,876	—	568,092	8.8%	7.6%
Deposits – Savings	157,619	7,187	1,704	—	166,510	5.6%	4.6%
Deposits – Brokered	158,117	(40,000)	—	—	118,117	-25.3%	-25.3%
Deposits – Internet time	27,955	(20,266)	—	—	7,689	-72.5%	-72.5%
Deposits – Time>$100,000	561,162	(55,514)	27,099	—	532,747	-5.1%	-9.9%
Deposits – Time<$100,000	563,872	(85,456)	17,524	—	495,940	-12.0%	-15.2%
Total deposits	$2,831,059	(40,241)	66,749	—	2,857,567	0.9%	-1.4%
January 1, 2013 to March 31, 2013							
Loans – Non-covered	$2,094,143	22,115	16,425	—	2,132,683	1.8%	1.1%
Loans – Covered	282,314	(18,846)	—	—	263,468	-6.7%	-6.7%
Total loans	$2,376,457	3,269	16,425	—	2,396,151	0.8%	0.1%
Deposits – Noninterest bearing checking	$413,195	9,442	6,565	—	429,202	3.9%	2.3%
Deposits – Interest bearing checking	519,573	12,039	7,658	—	539,270	3.8%	2.3%
Deposits – Money market	551,209	15,011	1,872	—	568,092	3.1%	2.7%
Deposits – Savings	158,578	6,351	1,581	—	166,510	5.0%	4.0%
Deposits – Brokered	130,836	(12,719)	—	—	118,117	-9.7%	-9.7%
Deposits – Internet time	10,060	(2,371)	—	—	7,689	-23.6%	-23.6%
Deposits – Time>$100,000	530,015	(21,470)	24,202	—	532,747	0.5%	-4.1%
Deposits – Time<$100,000	507,894	(27,410)	15,456	—	495,940	-2.4%	-5.4%
Total deposits	$2,821,360	(21,127)	57,334	—	2,857,567	1.3%	-0.7%

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

As derived from the table above, for the twelve months preceding March 31, 2013, our total loans declined $40 million, or 1.7%. Over that period, we experienced internal growth in our non-covered loan portfolio of $90 million, or 4.3%. Also, impacting growth was the March 2013 acquisition of two branches with approximately $16 million in loans (see Note 4 for more information). Partially offsetting the growth in non-covered loans was the write-down and reclassification of approximately $68 million in non-covered higher-risk loans to “loans held for sale” during the fourth quarter of 2012. Also offsetting growth in total loans were normal loan pay-downs, foreclosures, and loan charge-offs of our covered loans, which declined by $79 million at March 31, 2013 compared to a year earlier. We continue to pursue lending opportunities in order to improve our asset yields.

For the first three months of 2013, we experienced internal growth in our non-covered loan portfolio of $22 million, or 1.1%. As noted above, we also acquired $16 million in growth during the quarter from the purchase of two branches. These increases were partially offset by a decline in our covered loans of $19 million.

The mix of our loan portfolio remains substantially the same at March 31, 2013 compared to December 31, 2012. The majority of our real estate loans are personal and commercial loans where real estate provides additional security for the loan.

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Note 8 to the consolidated financial statements presents additional detailed information regarding our mix of loans, including a break-out between loans covered by FDIC loss share agreements and non-covered loans.

For the three and twelve month periods ended March 31, 2013, we experienced strong internal growth in transaction deposit accounts, which has allowed us to reduce our allowance on higher cost time deposits. Our level of deposits was also impacted by the August 2012 purchase of a branch with $9 million in deposits and the March 2013 purchase of two branches with $57 million in deposits.

Nonperforming Assets

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

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

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Nonperforming assets are summarized as follows:

ASSET QUALITY DATA *($ in thousands)*	As of/for the quarter ended March 31, 2013	As of/for the quarter ended December 31, 2012	As of/for the quarter ended March 31, 2012
Non-covered nonperforming assets			
Nonaccrual loans	$ 38,917	33,034	69,665
Restructured loans – accruing	24,378	24,848	10,619
Accruing loans >90 days past due	—	—	—
Total non-covered nonperforming loans	63,295	57,882	80,284
Nonperforming loans held for sale	—	21,938	—
Foreclosed real estate	20,115	26,285	36,838
Total non-covered nonperforming assets	$ 83,410	106,105	117,122
Covered nonperforming assets (1)			
Nonaccrual loans (2)	$ 51,221	33,491	42,369
Restructured loans – accruing	10,582	15,465	13,158
Accruing loans > 90 days past due	—	—	—
Total covered nonperforming loans	61,803	48,956	55,527
Foreclosed real estate	30,156	47,290	79,535
Total covered nonperforming assets	$ 91,959	96,246	135,062
Total nonperforming assets	$ 175,369	202,351	252,184
Asset Quality Ratios – All Assets			
Net charge-offs to average loans - annualized	1.32%	7.76%	1.68%
Nonperforming loans to total loans	5.22%	4.50%	5.57%
Nonperforming assets to total assets	5.35%	6.24%	7.56%
Allowance for loan losses to total loans	2.08%	1.95%	2.17%
Allowance for loan losses to nonperforming loans	39.80%	43.43%	38.90%
Asset Quality Ratios – Based on Non-covered Assets only			
Net charge-offs to average non-covered loans - annualized	0.51%	8.09%	1.49%
Non-covered nonperforming loans to non-covered loans	2.97%	2.76%	3.83%
Non-covered nonperforming assets to total non-covered assets	2.79%	3.64%	4.02%
Allowance for loan losses to non-covered loans	2.10%	1.99%	2.22%
Allowance for loan losses to non-covered nonperforming loans	70.72%	71.94%	57.86%

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

(2) At March 31, 2013, the contractual balance of the nonaccrual loans covered by FDIC loss share agreements was $94.8 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 weak economy in our market area, we have experienced high levels of loan losses, delinquencies and nonperforming assets compared to our historical averages.

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

($ in thousands)	At March 31, 2013	At December 31, 2012	At March 31, 2012
Commercial, financial, and agricultural	$ 2,866	2,946	2,487
Real estate – construction, land development, and other land loans	26,657	19,468	44,230
Real estate – mortgage – residential (1-4 family) first mortgages	21,067	14,733	25,784
Real estate – mortgage – home equity loans/lines of credit	2,987	3,128	6,168
Real estate – mortgage – commercial and other	35,590	23,378	30,367
Installment loans to individuals	971	2,872	2,998
Total nonaccrual loans	$ 90,138	66,525	112,034

The following segregates our nonaccrual loans at March 31, 2013 into covered and non-covered loans, as classified for regulatory purposes:

($ in thousands)	Covered Nonaccrual Loans	Non-covered Nonaccrual Loans	Total Nonaccrual Loans
Commercial, financial, and agricultural	$ 681	2,185	2,866
Real estate – construction, land development, and other land loans	18,447	8,210	26,657
Real estate – mortgage – residential (1-4 family) first mortgages	11,946	9,121	21,067
Real estate – mortgage – home equity loans/lines of credit	764	2,223	2,987
Real estate – mortgage – commercial and other	19,323	16,267	35,590
Installment loans to individuals	60	911	971
Total nonaccrual loans	$ 51,221	38,917	90,138

The following segregates our nonaccrual loans at December 31, 2012 into covered and non-covered loans, as classified for regulatory purposes:

($ in thousands)	Covered Nonaccrual Loans	Non-covered Nonaccrual Loans	Total Nonaccrual Loans
Commercial, financial, and agricultural	$ 212	2,734	2,946
Real estate – construction, land development, and other land loans	11,698	7,770	19,468
Real estate – mortgage – residential (1-4 family) first mortgages	9,691	5,042	14,733
Real estate – mortgage – home equity loans/lines of credit	702	2,426	3,128
Real estate – mortgage – commercial and other	11,127	12,251	23,378
Installment loans to individuals	61	2,811	2,872
Total nonaccrual loans	$ 33,491	33,034	66,525

Troubled debt restructurings (TDRs) are accruing loans for which we have granted concessions to the borrower as a result of the borrower's financial difficulties. At March 31, 2013, total TDRs (covered and non-covered) amounted to $35.0 million, compared to $40.3 million at December 31, 2012, and $23.8 million at March 31, 2012. The decline from December 31, 2012 to March 31, 2013 is primarily a result of TDRs that re-defaulted during the quarter and were placed on nonaccrual status.

Non-covered TDRs amounted to $24.4 million at March 31, 2013, compared to $24.8 million at December 31, 2012, and $10.6 million at March 31, 2012. As part of a routine regulatory exam that concluded in the third quarter of 2012, we reclassified approximately $30 million of performing loans to TDR status during the second and third quarters of 2012. Other than reclassifying these loans to a nonperforming asset category for disclosure purposes, the reclassifications did not impact our financial statements. Also, in December 2012, the Company reclassified approximately $10.5 million (written down to a liquidation value of $5.0 million) of accruing TDRs to the "nonperforming loans held for sale" category as discussed earlier.

Covered TDRs amounted to $10.6 million at March 31, 2013, compared to $15.5 million at December 31, 2012, and $13.2 million at March 31, 2012. The decrease in 2013 was primarily due to several large loans that deteriorated during the quarter and were placed on nonaccrual status.

Foreclosed real estate includes primarily foreclosed properties. Non-covered foreclosed real estate has decreased over the past year, amounting to $20.1 million at March 31, 2013, $26.3 million at December 31, 2012, and $36.8 million at March 31, 2012. The decrease from March 31, 2012 to December 31, 2012 was due to write-downs of $10.6 million that we recorded in the fourth quarter of 2012. We recorded write-downs on substantially all of our non-covered foreclosed properties in connection with efforts to accelerate the sale of these assets. The $10.6 million in write-downs represented approximately 29% of the total carrying value of the properties. The decrease from December 31, 2012 to March 31, 2013 was the result of strong sales activity during the quarter, which was consistent with our intent to accelerate the disposition of foreclosed properties.

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At March 31, 2013, we also held $30.2 million in foreclosed real estate that is subject to the loss share agreements with the FDIC, which is a decline from $47.3 million at December 31, 2012 and $79.5 million at March 31, 2012. The decreases are due to increased property sales activity, particularly along the North Carolina coast, which is where most of our covered foreclosed properties are located.

We believe that the fair values of the items of foreclosed real estate, less estimated costs to sell, equal or exceed their respective carrying values at the dates presented.

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

($ in thousands)	At March 31, 2013	At December 31, 2012	At March 31, 2012
Vacant land	$ 30,229	48,838	72,625
1-4 family residential properties	11,713	15,808	31,306
Commercial real estate	8,329	8,929	12,442
Total foreclosed real estate	$ 50,271	73,575	116,373

The following segregates our foreclosed real estate at March 31, 2013 into covered and non-covered:

($ in thousands)	Covered Foreclosed Real Estate	Non-covered Foreclosed Real Estate	Total Foreclosed Real Estate
Vacant land	$ 19,714	10,515	30,229
1-4 family residential properties	5,354	6,359	11,713
Commercial real estate	5,088	3,241	8,329
Total foreclosed real estate	$ 30,156	20,115	50,271

The following segregates our foreclosed real estate at December 31, 2012 into covered and non-covered:

($ in thousands)	Covered Foreclosed Real Estate	Non-covered Foreclosed Real Estate	Total Foreclosed Real Estate
Vacant land	$ 36,742	12,096	48,838
1-4 family residential properties	5,620	10,188	15,808
Commercial real estate	4,928	4,001	8,929
Total foreclosed real estate	$ 47,290	26,285	73,575

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The following table presents geographical information regarding our nonperforming assets at March 31, 2013.

($ in thousands)	As of March 31, 2013 Covered	Non-covered	Total	Total Loans	Nonperforming Loans to Total Loans
Nonaccrual loans and Troubled Debt Restructurings (1)					
Eastern Region (NC)	$53,212	13,864	67,076	$505,000	13.3%
Triangle Region (NC)	—	14,439	14,439	772,000	1.9%
Triad Region (NC)	—	16,392	16,392	373,000	4.4%
Charlotte Region (NC)	—	3,060	3,060	90,000	3.4%
Southern Piedmont Region (NC)	627	4,511	5,138	235,000	2.2%
Western Region (NC)	6,105	4	6,109	63,000	9.7%
South Carolina Region	1,859	6,738	8,597	127,000	6.8%
Virginia Region	—	3,728	3,728	220,000	1.7%
Other	—	559	559	11,000	5.1%
Total nonaccrual loans and troubled debt restructurings	$61,803	63,295	125,098	$2,396,000	5.2%
Foreclosed Real Estate (1)					
Eastern Region (NC)	$22,228	4,648	26,876		
Triangle Region (NC)	—	5,299	5,299		
Triad Region (NC)	—	4,521	4,521		
Charlotte Region (NC)	—	1,250	1,250		
Southern Piedmont Region (NC)	—	1,464	1,464		
Western Region (NC)	7,875	—	7,875		
South Carolina Region	53	2,624	2,677		
Virginia Region	—	309	309		
Other	—	—	—		
Total foreclosed real estate	$30,156	20,115	50,271		

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

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

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

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

Charlotte North Carolina Region - Iredell, Cabarrus, Rowan

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

Western North Carolina Region - Buncombe

South Carolina Region - Chesterfield, Dillon, Florence, Horry

Virginia Region - Wythe, Washington, Montgomery, Pulaski, Roanoke

Summary of Loan Loss Experience

The allowance for loan losses is created by direct charges to operations. Losses on loans are charged against the allowance in the period in which such loans, in management's opinion, become uncollectible. The recoveries realized during the period are credited to this allowance.

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

The current economic environment has resulted in elevated levels of classified and nonperforming assets, which has led to higher provisions for loan losses compared to historical averages. Our total provision for loan losses was $11.1 million for the first quarter of 2013 compared to $21.6 million in the first quarter of 2012. The total provision for loan losses is comprised of provisions for loan losses for non-covered loans and provisions for loan losses for covered loans, as discussed in the following paragraphs.

The provision for loan losses on non-covered loans amounted to $5.8 million in the first quarter of 2013 compared to $18.6 million in the first quarter of 2012. The decrease was primarily due to a high provision for loan losses recorded in the first quarter of 2012 attributable to refinements to our loan loss model and internal control changes that resulted in a realignment of departmental responsibilities for determining our allowance for loan losses. As a result of the changes, an internal review of selected nonperforming loan relationships was conducted, which applied more conservative assumptions to estimate the probable losses. We believed that the additional reserves established could lead to a more timely resolution of the related credits. Many of these same loans were sold to a third party investor in January 2013 as is discussed below.

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The $5.8 million provision for loan losses on non-covered loans recorded in the first quarter of 2013 was impacted by higher levels of loans classified as special mention or classified at March 31, 2013 compared to December 31, 2012 – see Note 8 to the consolidated financial statements for detail. During the first quarter of 2013, non-covered loans classified as special mention increased from $61 million to $87 million, while classified loans increased from $41 million to $52 million. We believe those increases were primarily due to more conservative judgments being applied to loan grading than was the prior practice, as opposed to any significant deterioration in overall loan quality. As can also be seen in Note 8, the amount of non-covered loans that were past due 30-59 days has decreased from $17.1 million at December 31, 2012 to $13.5 million at March 31, 2013, while loans 60-89 days past due have remained unchanged at $4.7 million.

The provision for loan losses on covered loans amounted to $5.4 million in the first quarter of 2013 compared to $3.0 million in the first quarter of 2012. The increase was primarily the result of several large credits that deteriorated during the first quarter of 2013 and were placed on nonaccrual status. Because of the FDIC loss-share agreements in place for these loans, the FDIC indemnification asset was adjusted upwards by 80% for the amount of the provision.

For the first three months of 2013, we recorded $7.8 million in net charge-offs, compared to $10.1 million for the comparable period of 2012. The net charge-offs in 2013 included $5.1 million of covered loans and $2.7 million of non-covered loans, whereas in 2012 net charge-offs included $2.4 million of covered loans and $7.7 million of non-covered loans. The charge-offs in 2013 continue a trend that began in 2010, with charge-offs being concentrated in the construction and land development real estate categories. These types of loans have been impacted the most by the recession and decline in new housing.

The allowance for loan losses amounted to $49.8 million at March 31, 2013, compared to $46.4 million at December 31, 2012 and $52.8 million at March 31, 2012. At March 31, 2013, December 31, 2012, and March 31, 2012, the allowance for loan losses attributable to covered loans was $5.0 million, $4.8 million, and $6.4 million, respectively. The allowance for loan losses for covered loans is attributable to covered loans that have exhibited credit quality deterioration due to lower collateral valuations. The allowance for loan losses for non-covered loans amounted to $44.8 million, $41.6 million, and $46.5 million at March 31, 2013, December 31, 2012, and March 31, 2012, respectively. The increase in the allowance for losses for non-covered loans at March 31, 2013 is primarily the result of higher levels of classified loans.

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

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

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

($ in thousands)	Three Months Ended March 31, 2013	Twelve Months Ended December 31, 2012 (1)	Three Months Ended March 31, 2012
Loans outstanding at end of period	$ 2,396,151	2,376,457	2,436,624
Average amount of loans outstanding	$ 2,382,861	2,436,997	2,430,893
Allowance for loan losses, at beginning of year	$ 46,402	41,418	41,418
Provision for loan losses	11,149	79,672	21,555
	57,551	121,090	62,973
Loans charged off:			
Commercial, financial, and agricultural	(1,431)	(5,000)	(911)
Real estate – construction, land development & other land loans	(4,782)	(28,613)	(3,702)
Real estate – mortgage – residential (1-4 family) first mortgages	(653)	(15,490)	(2,158)
Real estate – mortgage – home equity loans / lines of credit	(746)	(5,921)	(864)
Real estate – mortgage – commercial and other	(1,763)	(20,317)	(2,111)
Installment loans to individuals	(529)	(1,932)	(943)
Total charge-offs	(9,904)	(77,273)	(10,689)
Recoveries of loans previously charged-off:			
Commercial, financial, and agricultural	23	152	18
Real estate – construction, land development & other land loans	605	1,281	322
Real estate – mortgage – residential (1-4 family) first mortgages	526	91	48
Real estate – mortgage – home equity loans / lines of credit	66	440	48
Real estate – mortgage – commercial and other	787	318	25
Installment loans to individuals	135	303	82
Total recoveries	2,142	2,585	543
Net charge-offs	(7,762)	(74,688)	(10,146)
Allowance for loan losses, at end of period	$ 49,789	46,402	52,827
Ratios:			
Net charge-offs as a percent of average loans (annualized)	1.32%	3.06%	1.68%
Allowance for loan losses as a percent of loans at end of period	2.08%	1.95%	2.17%

(1) In the table above, for the twelve months ended December 31, 2012, loan charge-offs include $37.8 million in charge-offs related to loans that the Company held for sell as of year end (and subsequently sold in January 2013).

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The following table discloses the activity in the allowance for loan losses for the three months ended March 31, 2013, segregated into covered and non-covered.

($ in thousands)	As of March 31, 2013 Covered	Non-covered	Total
Loans outstanding at end of period	$263,468	2,132,683	2,396,151
Average amount of loans outstanding	$272,891	2,109,970	2,382,861
Allowance for loan losses, at beginning of year	$4,759	41,643	46,402
Provision for loan losses	5,378	5,771	11,149
	10,137	47,414	57,551
Loans charged off:			
Commercial, financial, and agricultural	(608)	(823)	(1,431)
Real estate – construction, land development & other land loans	(2,999)	(1,783)	(4,782)
Real estate – mortgage – residential (1-4 family) first mortgages	(258)	(395)	(653)
Real estate – mortgage – home equity loans / lines of credit	(21)	(725)	(746)
Real estate – mortgage – commercial and other	(1,223)	(540)	(1,763)
Installment loans to individuals	0	(529)	(529)
Total charge-offs	(5,109)	(4,795)	(9,904)
Recoveries of loans previously charged-off:			
Commercial, financial, and agricultural	—	23	23
Real estate – construction, land development & other land loans	—	605	605
Real estate – mortgage – residential (1-4 family) first mortgages	—	526	526
Real estate – mortgage – home equity loans / lines of credit	—	66	66
Real estate – mortgage – commercial and other	—	787	787
Installment loans to individuals	—	135	135
Total recoveries	—	2,142	2,142
Net charge-offs	(5,109)	(2,653)	(7,762)
Allowance for loan losses, at end of period	$5,028	44,761	49,789

The following table discloses the activity in the allowance for loan losses for the three months ended March 31, 2012, segregated into covered and non-covered.

($ in thousands)	As of March 31, 2012 Covered	Non-covered	Total
Loans outstanding at end of period	$342,100	2,094,524	2,436,624
Average amount of loans outstanding	$351,667	2,079,226	2,430,893
Allowance for loan losses, at beginning of year	$5,808	35,610	41,418
Provision for loan losses	2,998	18,557	21,555
	8,806	54,167	62,973
Loans charged off:			

Commercial, financial, and agricultural	(29)	(882)	(911)
Real estate – construction, land development & other land loans	(1,024)	(2,678)	(3,702)
Real estate – mortgage – residential (1-4 family) first mortgages	(694)	(1,464)	(2,158)
Real estate – mortgage – home equity loans / lines of credit	(89)	(775)	(864)
Real estate – mortgage – commercial and other	(453)	(1,658)	(2,111)
Installment loans to individuals	(145)	(798)	(943)
Total charge-offs	(2,434)	(8,255)	(10,689)
Recoveries of loans previously charged-off:			
Commercial, financial, and agricultural	—	18	18
Real estate – construction, land development & other land loans	—	322	322
Real estate – mortgage – residential (1-4 family) first mortgages	—	48	48
Real estate – mortgage – home equity loans / lines of credit	—	48	48
Real estate – mortgage – commercial and other	—	25	25
Installment loans to individuals	—	82	82
Total recoveries	—	543	543
Net charge-offs	(2,434)	(7,712)	(10,146)
Allowance for loan losses, at end of period	$6,372	46,455	52,827

Based on the results of our loan analysis and grading program and our evaluation of the allowance for loan losses at March 31, 2013, there have been no material changes to the allocation of the allowance for loan losses among the various categories of loans since December 31, 2012.

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Liquidity, Commitments, and Contingencies

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

In addition to internally generated liquidity sources, we have the ability to obtain borrowings from the following three sources - 1) an approximately $352 million line of credit with the Federal Home Loan Bank (of which none was outstanding at March 31, 2013), 2) a $50 million overnight federal funds line of credit with a correspondent bank (none of which was outstanding at March 31, 2013), and 3) an approximately $87 million line of credit through the Federal Reserve Bank of Richmond's discount window (none of which was outstanding at March 31, 2013). In addition to the outstanding borrowings from the FHLB that reduce the available borrowing capacity of that line of credit, our borrowing capacity was reduced by $143 million and $203 million at March 31, 2013 and 2012, respectively, 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 $346 million at March 31, 2013 compared to $367 million at December 31, 2012.

Our overall liquidity has increased since March 31, 2012, primarily as a result of our deposit growth. Our liquid assets (cash and securities) as a percentage of our total deposits and borrowings increased from 17.2% at March 31, 2012 to 18.7% at March 31, 2013.

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, 2012, detail of which is presented in Table 18 on page 85 of our 2012 Annual Report on Form 10-K.

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

Off-Balance Sheet Arrangements and Derivative Financial Instruments

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

Derivative financial instruments include futures, forwards, interest rate swaps, options contracts, and other financial instruments with similar characteristics. We have not engaged in derivative activities through March 31, 2013, and have no current plans to do so.

Capital Resources

We are regulated by the Board of Governors of the Federal Reserve Board (FED) and are subject to the securities registration and public reporting regulations of the Securities and Exchange Commission. Our banking subsidiary is regulated by the Federal Deposit Insurance Corporation (FDIC) and the North Carolina Office of the Commissioner of Banks. We are not aware of any recommendations of regulatory authorities or otherwise which, if they were to be implemented, would have a material effect on our liquidity, capital resources, or operations.

We must comply with regulatory capital requirements established by the FED and FDIC. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Our capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. These capital standards require us to maintain minimum ratios of “Tier 1” capital to total risk-weighted assets and total capital to risk-weighted assets of 4.00% and 8.00%, respectively. Tier 1 capital is comprised of total shareholders’ equity calculated in accordance with generally accepted accounting principles, excluding accumulated other comprehensive income (loss), less intangible assets, and total capital is comprised of Tier 1 capital plus certain adjustments, the largest of which is our allowance for loan losses. Risk-weighted assets refer to our on- and off-balance sheet exposures, adjusted for their related risk levels using formulas set forth in FED and FDIC regulations.

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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 March 31, 2013, 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.

	March 31, 2013	December 31, 2012	March 31, 2012
Risk-based capital ratios:			
Tier I capital to Tier I risk adjusted assets	15.56%	15.41%	15.07%
Minimum required Tier I capital	4.00%	4.00%	4.00%
Total risk-based capital to Tier II risk-adjusted assets	16.82%	16.67%	16.34%
Minimum required total risk-based capital	8.00%	8.00%	8.00%
Leverage capital ratios:			
Tier I leverage capital to adjusted most recent quarter average assets	10.55%	10.24%	9.97%
Minimum required Tier I leverage capital	4.00%	4.00%	4.00%

Our bank subsidiary is also subject to capital requirements similar to those discussed above. The bank subsidiary's capital ratios do not vary materially from our capital ratios presented above. At March 31, 2013, 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 6.76% at March 31, 2013 compared to 6.81% at December 31, 2012 and 6.29% at March 31, 2012.

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BUSINESS DEVELOPMENT MATTERS

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

- On March 25, 2013, the Company reported that it had completed the acquisition of approximately $16 million in loans and $57 million in deposits from two branches of Four Oaks Bank & Trust Company located in Rockingham and Southern Pines, North Carolina. The accounts of the Southern Pines branch have been transferred to a nearby branch of First Bank, while the Rockingham branch remains open as a branch of First Bank.

- On March 15, 2013, the Company announced a quarterly cash dividend of $0.08 cents per share payable on April 25, 2013 to shareholders of record on March 31, 2013. This is the same dividend rate as the Company declared in the first quarter of 2012.

SHARE REPURCHASES

We did not repurchase any shares of our common stock during the first three months of 2013. At March 31, 2013, we had approximately 214,000 shares available for repurchase under existing authority from our board of directors. We may repurchase these shares in open market and privately negotiated transactions, as market conditions and our liquidity warrants, subject to compliance with applicable regulations. See also Part II, Item 2 “Unregistered Sales of Equity Securities and Use of Proceeds.”

Item 3 – Quantitative and Qualitative Disclosures About Market Risk

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

Net interest income is our most significant component of earnings. Notwithstanding changes in volumes of loans and deposits, our level of net interest income is continually at risk due to the effect that changes in general market interest rate trends have on interest yields earned and paid with respect to our various categories of earning assets and interest-bearing liabilities. It is our policy to maintain portfolios of earning assets and interest-bearing liabilities with maturities and repricing opportunities that will afford protection, to the extent practical, against wide interest rate fluctuations. Our exposure to interest rate risk is analyzed on a regular basis by management using standard GAP reports, maturity reports, and an asset/liability software model that simulates future levels of interest income and expense based on current interest rates, expected future interest rates, and various intervals of "shock" interest rates. Over the years, we have been able to maintain a fairly consistent yield on average earning assets (net interest margin). Over the past five calendar years, our net interest margin has ranged from a low of 3.74% (realized in 2008) to a high of 4.78% (realized in 2012). During that five year period, the prime rate of interest has ranged from a low of 3.25% (which was the rate as of March 31, 2013) to a high of 5.25% (which was the rate as of March 31, 2008). The consistency of the net interest margin is aided by the relatively low level of long-term interest rate exposure that we maintain. At March 31, 2013, approximately 75% of our interest-earning assets are subject to repricing within five years (because they are either adjustable rate assets or they are fixed rate assets that mature) and substantially all of our interest-bearing liabilities reprice within five years.

Using stated maturities for all fixed rate instruments except mortgage-backed securities (which are allocated in the periods of their expected payback) and securities and borrowings with call features that are expected to be called (which are shown in the period of their expected call), at March 31, 2013, we had approximately $730 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 March 31, 2013 are deposits totaling $1.3 billion comprised of checking, savings, and certain types of money market deposits with interest rates set by management. These types of deposits historically have not repriced with, or in the same proportion, as general market indicators.

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

The general discussion in the foregoing paragraph applies most directly in a "normal" interest rate environment in which longer term maturity instruments carry higher interest rates than short term maturity instruments, and is less applicable in periods in which there is a "flat" interest rate curve. A "flat yield curve" means that short-term interest rates are substantially the same as long-term interest rates. Due to the prolonged negative economic environment, the Federal Reserve has taken steps to suppress long-term interest rates in an effort to boost the housing market, increase employment, and stimulate the economy. In the marketplace, longer-term interest rates have decreased, while short-term rates have remained relatively stable. For example, from April 1, 2012 to March 31, 2013, the interest rate on three-month treasury bills remained stable, but the interest rate for seven-year treasury notes decreased by 37 basis points. This has resulted in a "flattening" of the yield curve and is an unfavorable interest rate environment for many banks, including the Company, as short-term interest rates generally drive our deposit pricing and longer-term interest rates generally drive loan pricing. When these rates converge, the profit spread we realize between loan yields and deposit rates narrows, which reduces our net interest margin.

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

As previously discussed in the section "Net Interest Income," our net interest income was impacted by certain purchase accounting adjustments related primarily to our acquisitions of Cooperative Bank and The Bank of Asheville. The purchase accounting adjustments related to the premium amortization on loans, deposits and borrowings are based on amortization schedules and are thus systematic and predictable. The accretion of the loan discount on loans acquired from Cooperative Bank and The Bank of Asheville, which amounted to $3.7 million and $2.6 million for the first quarters of 2013 and 2012, respectively, is less predictable and could be materially different among periods. This is because of the magnitude of the discounts that were initially recorded ($280 million in total) and the fact that the accretion being recorded is dependent on both the credit quality of the acquired loans and the impact of any accelerated loan repayments, including payoffs. If the credit quality of the loans declines, some, or all, of the remaining discount will cease to be accreted into income. If the underlying loans experience accelerated paydowns or improved performance expectations, the remaining discount will be accreted into income on an accelerated basis. In the event of total payoff, the remaining discount will be entirely accreted into income in the period of the payoff. Each of these factors is difficult to predict and susceptible to volatility.

Based on our most recent interest rate modeling, which assumes no changes in interest rates for 2013 (federal funds rate = 0.25%, prime = 3.25%), we project that our net interest margin for the remainder of 2013 will experience some compression. We expect loan yields to continue to trend downwards, while many of our deposit products already have interest rates near zero.

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

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

Item 4 – Controls and Procedures

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

Part II. Other Information

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

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (2)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
January 1, 2013 to January 31, 2013	—	—	—	214,241
February 1, 2013 to February 28, 2013	—	—	—	214,241
March 1, 2013 to March 31, 2013	—	—	—	214,241
Total	—	—	—	214,241

Footnotes to the Above Table

(1)

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

(2) The table above does not include shares that were used by option holders to satisfy the exercise price of the call options issued by the Company to its employees and directors pursuant to the Company's stock option plans. There were no such exercises during the three months ended March 31, 2013.

There were no unregistered sales of our securities during the three months ended March 31, 2013.

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Item 6 - Exhibits

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

3.a	Articles of Incorporation of the Company and amendments thereto were filed as Exhibits 3.a.i through 3.a.v to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2002, and are incorporated herein by reference. Articles of Amendment to the Articles of Incorporation were filed as Exhibits 3.1 and 3.2 to the Company’s Current Report on Form 8-K filed on January 13, 2009, and are incorporated herein by reference. Articles of Amendment to the Articles of Incorporation were filed as Exhibit 3.1.b to the Company’s Registration Statement on Form S-3D filed on June 29, 2010, and are incorporated herein by reference. Articles of Amendment to the Articles of Incorporation were filed as Exhibit 3.1 to the Company’s Current Report on Form 8-K filed on September 6, 2011, and are incorporated herein by reference. Articles of Amendment to the Articles of Incorporation were filed as Exhibit 3.1 to the Company’s Current Report on Form 8-K filed on December 26, 2012, and are incorporated herein by reference.
3.b	Amended and Restated Bylaws of the Company were filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on November 23, 2009, and are incorporated herein by reference.
4.a	Form of Common Stock Certificate was filed as Exhibit 4 to the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 1999, and is incorporated herein by reference.
4.b	Form of Certificate for Series B Preferred Stock was filed as Exhibit 4.1 to the Company’s Current Report on Form 8-K filed on September 6, 2011, and is incorporated herein by reference.
4.c	Form of Certificate for Series C Preferred Stock was filed as Exhibit 4.1 to the Company’s Current Report on Form 8-K filed on December 26,2012, and is incorporated herein by reference.
10	Loan Purchase Agreement By and Between First Bank and Violet Portfolio, LLC dated as of January 23, 2013 was filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K filed on January 24, 2013, and is incorporated herein by reference.
12	Computation of Ratio of Earnings to Fixed Charges.
31.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
31.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.

32.1 Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101 The following financial information from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, formatted in eXtensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income (Loss), (iii) the Consolidated Statements of Comprehensive Income (Loss), (iv) the Consolidated Statements of Shareholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements. (1)

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

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

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

May 10, 2013 BY:/s/ Richard H. Moore
Richard H. Moore
President
(Principal Executive Officer),
Treasurer and Director

May 10, 2013 BY:/s/ Anna G. Hollers
Anna G. Hollers
Executive Vice President,
Secretary
and Chief Operating Officer

May 10, 2013 BY:/s/ Eric P. Credle
Eric P. Credle
Executive Vice President
and Chief Financial Officer