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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2015

Commission File Number 0-15572

FIRST BANCORP

(Exact Name of Registrant as Specified in its Charter)

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

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

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

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

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

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

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

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

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FIRST BANCORP AND SUBSIDIARIES

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FORWARD-LOOKING STATEMENTS

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

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Part I. Financial Information

Item 1 - Financial Statements

First Bancorp and Subsidiaries

Consolidated Balance Sheets

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

Savings accounts	187,607	180,317	178,260
Time deposits of $100,000 or more	381,895	470,066	503,125
Other time deposits	308,566	350,388	369,631
Total deposits	2,707,753	2,695,906	2,679,012
Borrowings	176,394	116,394	116,394
Accrued interest payable	588	686	695
Other liabilities	16,932	17,698	14,695
Total liabilities	2,901,667	2,830,684	2,810,796
Commitments and contingencies			
SHAREHOLDERS' EQUITY			
Preferred stock, no par value per share. Authorized: 5,000,000 shares			
Series B issued & outstanding: 31,500, 63,500, and 63,500 shares	31,500	63,500	63,500
Series C, convertible, issued & outstanding: 728,706, 728,706, and 728,706 shares	7,287	7,287	7,287
Common stock, no par value per share. Authorized: 40,000,000 shares			
Issued & outstanding: 19,785,314, 19,709,881, and 19,705,381 shares	133,211	132,532	132,440
Retained earnings	199,886	184,958	179,656
Accumulated other comprehensive income (loss)	(710)	(578)	1,932
Total shareholders' equity	371,174	387,699	384,815
Total liabilities and shareholders' equity	$3,272,841	3,218,383	3,195,611

See accompanying notes to consolidated financial statements.

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First Bancorp and Subsidiaries

Consolidated Statements of Income

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

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

See accompanying notes to consolidated financial statements.

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First Bancorp and Subsidiaries

Consolidated Statements of Comprehensive Income

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

See accompanying notes to consolidated financial statements.

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First Bancorp and Subsidiaries

Consolidated Statements of Shareholders' Equity

(In thousands, except per share - unaudited)	Preferred	Common Stock		Retained	Accumulated Other Comprehensive	Total Share-holders'
	Stock	Shares	Amount	Earnings	Income (Loss)	Equity
Balances, January 1, 2014	$ 70,787	19,680	$ 132,099	167,136	1,900	371,922
Net income				17,901		17,901
Cash dividends declared ($0.24 per common share)				(4,730)		(4,730)
Preferred dividends				(651)		(651)
Stock-based compensation		25	341			341
Other comprehensive income (loss)					32	32
Balances, September 30, 2014	$ 70,787	19,705	$ 132,440	179,656	1,932	384,815
Balances, January 1, 2015	$ 70,787	19,710	$ 132,532	184,958	(578)	387,699
Net income				20,237		20,237
Preferred stock redeemed (Series B)	(32,000)					(32,000)
Stock option exercises		2	32			32
Cash dividends declared ($0.24 per common share)				(4,743)		(4,743)
Preferred dividends				(566)		(566)
Stock-based compensation		73	647			647
Other comprehensive income (loss)					(132)	(132)
Balances, September 30, 2015	$ 38,787	19,785	$ 133,211	199,886	(710)	371,174

See accompanying notes to consolidated financial statements.

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First Bancorp and Subsidiaries

Consolidated Statements of Cash Flows

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

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

See accompanying notes to consolidated financial statements.

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First Bancorp and Subsidiaries

Notes to Consolidated Financial Statements

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

Note 1 - Basis of Presentation

In the opinion of the Company, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the consolidated financial position of the Company as of September 30, 2015 and 2014 and the consolidated results of operations and consolidated cash flows for the periods ended September 30, 2015 and 2014. All such adjustments were of a normal, recurring nature. Reference is made to the 2014 Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") for a discussion of accounting policies and other relevant information with respect to the financial statements. The results of operations for the periods ended September 30, 2015 and 2014 are not necessarily indicative of the results to be expected for the full year. The Company has evaluated all subsequent events through the date the financial statements were issued.

Note 2 – Accounting Policies

Note 1 to the 2014 Annual Report on Form 10-K filed with the SEC contains a description of the accounting policies followed by the Company and discussion of recent accounting pronouncements. The following paragraphs update that information as necessary.

In January 2014, the Financial Accounting Standards Board ("FASB") amended the Equity Method and Joint Ventures topic of the Accounting Standards Codification. The amendments provide criteria that must be met in order to apply a proportional amortization method to Low-Income Housing Tax Credit investments and provide guidance on the method used to amortize the investment, the impairment approach, and the eligibility criteria for entities that have other arrangements (e.g., loans) with the limited liability entity. The amendments were effective for the Company on January 1, 2015 for new investments in qualified affordable housing projects. These amendments did not have a material effect on the Company's financial statements.

In January 2014, the FASB amended the Receivables topic of the Accounting Standards Codification. The amendments are intended to resolve diversity in practice with respect to when a creditor should reclassify a collateralized consumer mortgage loan to other real estate owned ("OREO"). In addition, the amendments require a creditor to reclassify a collateralized consumer mortgage loan to OREO upon obtaining legal title to the real estate collateral, or the borrower voluntarily conveying all interest in the real estate property to the lender to satisfy the loan through a deed in lieu of foreclosure or similar legal agreement. The amendments were effective for the Company on January 1, 2015. In implementing this guidance, assets that are reclassified from real estate to loans are measured at the carrying value of the real estate at the date of adoption. Assets reclassified from loans to real estate are measured at the lower of the net amount of the loan receivable or the fair value of the real estate less costs to sell at the date of adoption. These amendments did not have a material effect on the Company's financial statements.

In May 2014, the FASB issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance will be effective for the Company for interim and annual reporting periods beginning after December 15, 2017. The Company can apply the guidance using either a full retrospective approach or a modified retrospective approach. The Company does not expect these amendments to have a material effect on its financial statements.

In June 2014, the FASB issued guidance which makes limited amendments to the guidance on accounting for certain repurchase agreements. The new guidance (1) requires entities to account for repurchase-to-maturity transactions as secured borrowings (rather than as sales with forward repurchase agreements), (2) eliminates accounting guidance on linked repurchase financing transactions, and (3) expands disclosure requirements related to certain transfers of financial assets that are accounted for as sales and certain transfers (specifically, repos, securities lending transactions, and repurchase-to-maturity transactions) accounted for as secured borrowings. The amendments were effective for the Company on January 1, 2015. These amendments did not have a material effect on the Company's financial statements.

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In June 2014, the FASB issued guidance which clarifies that performance targets associated with stock compensation should be treated as a performance condition and should not be reflected in the grant date fair value of the stock award. The amendments will be effective for the Company for fiscal years that begin after December 15, 2015. The Company will apply the guidance to all stock awards granted or modified after the amendments are effective. The Company does not expect these amendments to have a material effect on its financial statements.

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

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

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

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

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

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

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

Note 3 – Reclassifications

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

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Note 4 – Equity-Based Compensation Plans

At September 30, 2015, the Company had the following equity-based compensation plans: the First Bancorp 2014 Equity Plan, the First Bancorp 2007 Equity Plan, and the First Bancorp 2004 Stock Option Plan. The Company's shareholders approved all equity-based compensation plans. The First Bancorp 2014 Equity Plan became effective upon the approval of shareholders on May 8, 2014. As of September 30, 2015, the First Bancorp 2014 Equity Plan was the only plan that had shares available for future grants.

The First Bancorp 2014 Equity Plan is intended to serve as a means to attract, retain and motivate key employees and directors and to associate the interests of the plans' participants with those of the Company and its shareholders. The First Bancorp 2014 Equity Plan allows for both grants of stock options and other types of equity-based compensation, including stock appreciation rights, restricted stock, restricted performance stock, unrestricted stock, and performance units.

Recent equity grants to employees have either had performance vesting conditions, service vesting conditions, or both. Compensation expense for these grants is recorded over the various service periods based on the estimated number of equity grants that are probable to vest. No compensation cost is recognized for grants that do not vest and any previously recognized compensation cost will be reversed.

As it relates to director equity grants, the Company grants common shares, valued at approximately $16,000 to each non-employee director (currently eight in total) in June of each year. Compensation expense associated with these director grants is recognized on the date of grant since there are no vesting conditions. On June 1, 2015, the Company granted 8,176 shares of common stock to non-employee directors (1,022 shares per director), at a fair market value of $15.75 per share, which was the closing price of the Company's common stock on that date. On June 2, 2014, the Company granted 10,065 shares of common stock to non-employee directors (915 shares per director), at a fair market value of $17.60 per share, which was the closing price of the Company's common stock on that date.

Pursuant to an employment agreement, the Company granted the chief executive officer 75,000 non-qualified stock options and 40,000 shares of restricted stock during the third quarter of 2012. The option award would have fully vested on December 31, 2014 if the Company achieved a certain earnings target for 2014. The Company did not achieve the applicable target, and therefore, the option award was forfeited as of December 31, 2014. No compensation expense was recognized for the option award. The restricted stock award will vest in full on December 31, 2015, if the Company achieves a certain earnings target in 2015, and will be forfeited if the applicable target is not achieved. Based on current conditions, the Company has concluded that it is not probable that the restricted stock award will vest, and thus no compensation expense has been recorded.

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

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

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

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

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

Under the terms of the predecessor plans and the First Bancorp 2014 Equity Plan, options can have a term of no longer than ten years, and all options granted thus far under these plans have had a term of ten years. The Company's options provide for immediate vesting under certain conditions if there is a change in control (as defined in the plans).

At September 30, 2015, there were 128,464 options outstanding under the Company's three option plans, with exercise prices ranging from $14.35 to $22.04. At September 30, 2015, there were 916,141 shares remaining available for grant under the First Bancorp 2014 Equity Plan.

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

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

The Company recorded total stock-based compensation expense of $150,000 and $23,000 for the three months ended September 30, 2015 and 2014, respectively, and $554,000 and $248,000 for the nine months ended September 30, 2015 and 2014, respectively. Of the $554,000 in expense that was recorded in 2015, approximately $129,000 related to the June 1, 2015 director grants, which is classified as "other operating expenses" in the Consolidated Statements of Income. The remaining $425,000 in expense relates to the employee grants discussed above and is recorded as "salaries expense." Stock based compensation is reflected as an adjustment to cash flows from operating activities on the

Company’s Consolidated Statement of Cash Flows. The Company recognized $216,000 and $97,000 of income tax benefits related to stock based compensation expense in the income statement for the nine months ended September 30, 2015 and 2014, respectively.

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

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

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

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

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

	Long-Term Restricted Stock	
	Number of Units	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2015	45,219	$ 10.68
Granted during the period	65,618	17.28
Vested during the period	—	—
Forfeited or expired during the period	—	—

Nonvested at September 30, 2015	110,837	$ 14.59

Note 5 – Earnings Per Common Share

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

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

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

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

	For the Three Months Ended September 30,					
	2015			2014		
($ in thousands except per share amounts)	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS						
Net income available to common shareholders	$6,868	19,781,789	$ 0.35	$5,362	19,705,514	$ 0.27
Effect of Dilutive Securities	58	731,170		58	732,225	
Diluted EPS per common share	$6,926	20,512,959	$ 0.34	$5,420	20,437,739	$ 0.27

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

For both the three and nine months ended September 30, 2015, there were 52,500 options that were antidilutive because the exercise price exceeded the average market price for the period, and thus are not included in the calculation to determine the effect of dilutive securities. For both the three and nine months ended September 30, 2014, there were 93,000 options that were anti-dilutive. Also, for both the three and nine months ended September 30, 2014, the Company excluded 75,000 options that had an exercise price below the average market price for the period, but had performance vesting requirements that the Company concluded were not probable to vest.

Note 6 – Securities

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

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

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

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

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

The following table presents information regarding securities with unrealized losses at December 31, 2014:

($ in thousands)	Securities in an Unrealized Loss Position for Less than 12 Months		Securities in an Unrealized Loss Position for More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government-sponsored enterprise securities	$ 5,489	11	2,953	47	8,442	58
Mortgage-backed securities	69,985	318	33,557	1,104	103,542	1,422
Corporate bonds	—	—	865	135	865	135
Equity securities	—	—	17	13	17	13
State and local governments	—	—	—	—	—	—
Total temporarily impaired securities	$ 75,474	329	37,392	1,299	112,866	1,628

In the above tables, all of the non-equity securities that were in an unrealized loss position at September 30, 2015 and December 31, 2014 are bonds that the Company has determined are in a loss position due primarily to interest rate factors and not credit quality concerns. The Company has evaluated the collectability of each of these bonds and has concluded that there is no other-than-temporary impairment. The Company does not intend to sell these securities, and it is more likely than not that the Company will not be required to sell these securities before recovery of the amortized cost. The Company has also concluded that each of the equity securities in an unrealized loss position at September 30, 2015 and December 31, 2014 was in such a position due to temporary fluctuations in the market prices of the securities. The Company’s policy is to record an impairment charge for any of these equity securities that remains in an unrealized loss position for twelve consecutive months unless the amount is insignificant.

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The book values and approximate fair values of investment securities at September 30, 2015, by contractual maturity, are summarized in the table below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities Available for Sale		Securities Held to Maturity	
($ in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Debt securities				
Due within one year	$ —	—	772	780
Due after one year but within five years	27,789	27,850	12,734	13,446
Due after five years but within ten years	20,223	20,088	37,320	39,847
Due after ten years	5,000	4,860	1,435	1,425
Mortgage-backed securities	126,508	125,836	107,787	107,360
Total debt securities	179,520	178,634	160,048	162,858
Equity securities	88	131	—	—
Total securities	$ 179,608	178,765	160,048	162,858

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

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

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

Note 7 – Loans and Asset Quality Information

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

On July 1, 2014, one of the Company's loss share agreements with the FDIC expired. The agreement that expired related to the non-single family assets of Cooperative Bank, a failed bank acquisition in 2009. Accordingly, the remaining balances associated with these loans and foreclosed real estate were transferred from the covered portfolio to the non-covered portfolio on July 1, 2014. The Company will bear all future losses on this portfolio of loans and foreclosed real estate. Immediately prior to the transfer to non-covered status, the loans in this portfolio had a carrying value of $39.7 million and the foreclosed real estate in this portfolio had a carrying value of $3.0 million. Of the $39.7 million in loans that lost loss share protection, approximately $9.7 million were on nonaccrual status and $2.1 million were classified as accruing troubled debt restructurings as of July 1, 2014. Additionally, approximately $1.7 million in allowance for loan losses associated with this portfolio of loans was transferred to the allowance for loan losses for non-covered loans on July 1, 2014.

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

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

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

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

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

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

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

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The carrying amount of the covered loans at December 31, 2014 consisted of impaired and nonimpaired purchased loans (as determined on the date of the acquisition), as follows:

($ in thousands)	Impaired Purchased Loans – Carrying Value	Impaired Purchased Loans – Unpaid Principal Balance	Nonimpaired Purchased Loans – Carrying Value	Nonimpaired Purchased Loans - Unpaid Principal Balance	Total Covered Loans – Carrying Value	Total Covered Loans – Unpaid Principal Balance
Covered loans:						
Commercial, financial, and agricultural	$66	123	1,617	1,661	1,683	1,784
Real estate – construction, land development & other land loans	309	534	5,235	6,471	5,544	7,005
Real estate – mortgage – residential (1-4 family) first mortgages	362	1,298	89,408	104,678	89,770	105,976
Real estate – mortgage – home equity loans / lines of credit	12	19	12,791	15,099	12,803	15,118
Real estate – mortgage – commercial and other	1,201	3,209	16,593	17,789	17,794	20,998
Total	$1,950	5,183	125,644	145,698	127,594	150,881

The following table presents information regarding covered purchased nonimpaired loans since December 31, 2013. The amounts include principal only and do not reflect accrued interest as of the date of the acquisition or beyond.

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

As reflected in the table above, the Company accreted $3,897,000 of the loan discount on purchased nonimpaired loans into interest income during the first nine months of 2015. As of September 30, 2015, there was remaining loan discount of $14,151,000 related to purchased accruing loans. If these loans continue to be repaid by the borrowers, the Company will accrete the remaining loan discount into interest income over the covered lives of the respective loans. In such circumstances, a corresponding entry to reduce the indemnification asset will be recorded amounting to approximately 80% of the loan discount accretion, which reduces noninterest income. At September 30, 2015, the Company also had $2,043,000 of loan discount related to purchased nonaccruing loans. It is not expected that a significant amount of this discount will be accreted, as it represents estimated losses on these loans.

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The following table presents information regarding all purchased impaired loans since December 31, 2013, the majority of which are covered loans. The Company has applied the cost recovery method to all purchased impaired loans at their respective acquisition dates due to the uncertainty as to the timing of expected cash flows, as reflected in the following table.

($ in thousands)	Contractual Principal Receivable	Fair Market Value Adjustment – Write Down (Nonaccretable Difference)	Carrying Amount
Purchased Impaired Loans			
Balance at December 31, 2013	$ 6,263	3,121	3,142
Change due to payments received	(599)	227	(826)
Change due to loan charge-off	(2)	29	(31)
Other	197	(115)	312
Balance at December 31, 2014	$ 5,859	3,262	2,597
Change due to payments received	(330)	55	(385)
Transfer to foreclosed real estate	(431)	(336)	(95)
Other	(3)	(3)	—
Balance at September 30, 2015	$ 5,095	2,978	2,117

Because of the uncertainty of the expected cash flows, the Company is accounting for each purchased impaired loan under the cost recovery method, in which all cash payments are applied to principal. Thus, there is no accretable yield associated with the above loans. During the first nine months of 2015 and 2014, the Company received $56,000 and $179,000, respectively, in payments that exceeded the initial carrying amount of the purchased impaired loans, which is included in the loan discount accretion amount discussed previously.

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

ASSET QUALITY DATA *($ in thousands)*	September 30, 2015	December 31, 2014	September 30, 2014
Non-covered nonperforming assets			
Nonaccrual loans	$ 42,347	$ 50,066	$ 53,620
Restructured loans - accruing	29,250	35,493	31,501

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

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

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

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

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

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

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

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

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

($ in thousands)	30-59 Days Past Due	60-89 Days Past Due	Nonaccrual Loans	Current	Total Loans Receivable
Non-covered loans					
Commercial, financial, and agricultural:					
Commercial - unsecured	$734	—	470	49,325	50,529
Commercial - secured	772	73	2,253	114,989	118,087
Secured by inventory and accounts receivable	366	—	84	33,177	33,627
Real estate – construction, land development & other land loans	938	90	5,374	269,002	275,404
Real estate – residential, farmland, and multi-family	5,404	1,948	21,936	822,084	851,372
Real estate – home equity lines of credit	996	332	2,110	199,180	202,618
Real estate - commercial	4,013	234	9,762	785,182	799,191
Consumer	379	239	358	42,525	43,501
Total non-covered	$13,602	2,916	42,347	2,315,464	2,374,329
Unamortized net deferred loan costs					765
Total non-covered loans					$2,375,094
Covered loans	$340	751	5,373	100,145	106,609
Total loans	$13,942	3,667	47,720	2,415,609	2,481,703

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

The following table presents an analysis of the payment status of the Company's loans as of December 31, 2014.

($ in thousands)	30-59 Days Past Due	60-89 Days Past Due	Nonaccrual Loans	Current	Total Loans Receivable
Non-covered loans					
Commercial, financial, and agricultural:					
Commercial - unsecured	$191	35	187	36,871	37,284
Commercial - secured	1,003	373	2,927	102,671	106,974
Secured by inventory and accounts receivable	30	225	454	21,761	22,470
Real estate – construction, land development & other land loans	1,950	139	7,891	247,535	257,515
Real estate – residential, farmland, and multi-family	11,272	3,218	24,459	807,884	846,833
Real estate – home equity lines of credit	1,585	352	2,573	194,067	198,577
Real estate - commercial	3,738	996	11,070	738,981	754,785
Consumer	695	131	505	41,865	43,196
Total non-covered	$20,464	5,469	50,066	2,191,635	2,267,634
Unamortized net deferred loan costs					946
Total non-covered loans					$2,268,580
Covered loans	$4,385	964	10,508	111,737	127,594
Total loans	$24,849	6,433	60,574	2,303,372	2,396,174

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

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

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

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

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

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

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The following table presents the activity in the allowance for loan losses for non-covered loans for the three and nine months ended September 30, 2014.

($ in thousands)	Commercial, Financial, and Agricultural	Real Estate – Construction, Land Development, & Other Land Loans	Real Estate – Residential, Farmland, and Multi-family	Real Estate – Home Equity Lines of Credit	Real Estate – Commercial and Other	Consumer	Unallo-cated	Tota
As of and for the three months ended September 30, 2014								
Beginning balance	$8,948	7,414	11,132	3,755	9,212	906	599	41,
Charge-offs	(840)	(470)	(874)	(116)	(987)	(463)	—	(3,
Recoveries	32	40	111	7	14	128	—	332
Transfer from covered category	36	813	51	—	833	4	—	1,7
Provisions	1,185	(574)	(194)	49	971	343	(501)	1,2
Ending balance	$9,361	7,223	10,226	3,695	10,043	918	98	41,
As of and for the nine months ended September 30, 2014								
Beginning balance	$7,432	12,966	15,142	1,838	5,524	1,513	(152)	44,
Charge-offs	(3,506)	(1,704)	(2,505)	(619)	(1,876)	(1,262)	—	(11
Recoveries	81	349	290	18	135	361	—	1,2
Transfer from covered category	36	813	51	—	833	4	—	1,7
Provisions	5,318	(5,201)	(2,752)	2,458	5,427	302	250	5,8
Ending balance	$9,361	7,223	10,226	3,695	10,043	918	98	41,
Ending balances as of September 30, 2014: Allowance for loan losses								
Individually evaluated for impairment	$381	513	1,771	—	229	20	—	2,9
Collectively evaluated for impairment	$8,980	6,710	8,455	3,695	9,814	898	98	38,
Loans acquired with deteriorated credit quality	$—	—	—	—	—	—	—	—
Loans receivable as of September 30, 2014:								
Ending balance – total	$170,648	266,419	860,218	198,977	752,108	43,741	—	2,2
Unamortized net deferred loan costs								730
Total non-covered loans								$2,2
Ending balances as of September 30, 2014: Loans								

Individually evaluated for impairment	$972	8,613	24,233	481	20,128	34	—	54,
Collectively evaluated for impairment	$169,676	257,806	835,985	198,496	731,316	43,707	—	2,2
Loans acquired with deteriorated credit quality	$—	—	—	—	664	—	—	66

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

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

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

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

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

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

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

Loans receivable as of December 31, 2014:

Ending balance – total	$ 127,594

Ending balances as of December 31, 2014: Loans

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

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The following table presents the activity in the allowance for loan losses for covered loans for the three and nine months ended September 30, 2014.

($ in thousands)	Covered Loans
As of and for the three months ended September 30, 2014	
Beginning balance	$ 3,830
Charge-offs	(195)
Recoveries	463
Transferred to non-covered	(1,737)
Provisions	206
Ending balance	$ 2,567
As of and for the nine months ended September 30, 2014	
Beginning balance	$ 4,242
Charge-offs	(5,865)
Recoveries	3,010
Transferred to non-covered	(1,737)
Provisions	2,917
Ending balance	$ 2,567
Ending balances as of September 30, 2014: Allowance for loan losses	
Individually evaluated for impairment	$ 1,537
Collectively evaluated for impairment	1,003
Loans acquired with deteriorated credit quality	27
Loans receivable as of September 30, 2014:	
Ending balance – total	$ 133,249
Ending balances as of September 30, 2014: Loans	
Individually evaluated for impairment	$ 11,258
Collectively evaluated for impairment	119,953
Loans acquired with deteriorated credit quality	2,038

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

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

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

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The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2014.

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

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

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

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

Numerical Risk Grade	Description
Pass:	
1	Loans with virtually no risk, including cash secured loans.
2	Loans with documented significant overall financial strength, including non-cash secured or unsecured loans that have no minor or major exceptions to the lending guidelines.
3	Loans with documented satisfactory overall financial strength, including non-cash secured or unsecured loans that have no major exceptions to the lending guidelines. If unsecured, loans would include support of a strong guarantor or co-maker.
4	Loans to borrowers with acceptable financial condition, including non-cash secured or unsecured loans that have minor or major exceptions to the lending guidelines, but the exceptions are properly mitigated. Primary or secondary source of repayment is sufficient and if secured, loan would include the support of a satisfactory guarantor or co-maker.
Watch or Standard:	
9	Existing loans that meet the guidelines for a Risk Graded 5 loan, except the collateral coverage is sufficient to satisfy the debt with no risk of loss under reasonable circumstances.
Special Mention:	
5	Existing loans with major exceptions that cannot be mitigated. Potential for loss is possible.
Classified:	
6	Loans that have a well-defined weakness that may jeopardize the liquidation of the debt if deficiencies are not corrected. Loss is not only possible, but probable.
7	Loans that have a well-defined weakness that make the collection or liquidation improbable. Loss appears imminent, but the exact amount and timing is uncertain.
8	Loans that are considered uncollectible and are in the process of being charged-off. This grade is a temporary grade assigned for administrative purposes until the charge-off is completed.

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

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

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

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

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

At December 31, 2014, there was an insignificant amount of loans that were graded “8” with an accruing status.

Troubled Debt Restructurings

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

The vast majority of the Company's troubled debt restructurings modified during the periods ended September 30, 2015 and 2014 related to interest rate reductions combined with restructured amortization schedules. The Company does not generally grant principal forgiveness.

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

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

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