FIRST BANCORP /NC/
Form 10-Q
May 12, 2014

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, 2014

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)

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. ý YES ¨ 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 ¨ NO

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

¨ Large Accelerated Filer ý Accelerated Filer ¨ Non-Accelerated Filer ¨ Smaller Reporting Company

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

The number of shares of the registrant's Common Stock outstanding on April 30, 2014 was 19,695,316.

INDEX

FIRST BANCORP AND SUBSIDIARIES

Index

FORWARD-LOOKING STATEMENTS

Part I of this report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995, which statements are inherently subject to risks and uncertainties. Forward-looking statements are statements that include projections, predictions, expectations or beliefs about future events or results or otherwise are not statements of historical fact. 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 2013 Annual Report on Form 10-K.

Index

Part I. Financial Information

Item 1 - Financial Statements

First Bancorp and Subsidiaries

Consolidated Balance Sheets

($ in thousands-unaudited)	March 31, 2014	December 31, 2013 (audited)	March 31, 2013
ASSETS			
Cash and due from banks, noninterest-bearing	$219,779	83,881	73,205
Due from banks, interest-bearing	163,489	136,644	242,890
Federal funds sold	821	2,749	249
Total cash and cash equivalents	384,089	223,274	316,344
Securities available for sale	180,190	173,041	170,214
Securities held to maturity (fair values of $57,192, $56,700, and $60,758)	53,937	53,995	55,649
Presold mortgages in process of settlement	4,587	5,422	4,584
Loans – non-covered	2,256,726	2,252,885	2,132,683
Loans – covered by FDIC loss share agreement	190,551	210,309	263,468
Total loans	2,447,277	2,463,194	2,396,151
Allowance for loan losses – non-covered	(44,706)	(44,263)	(44,761
Allowance for loan losses – covered	(3,421)	(4,242)	(5,028
Total allowance for loan losses	(48,127)	(48,505)	(49,789
Net loans	2,399,150	2,414,689	2,346,362
Premises and equipment	76,970	77,448	77,823
Accrued interest receivable	8,990	9,649	9,737
FDIC indemnification asset	35,504	48,622	100,594
Goodwill	65,835	65,835	65,835
Other intangible assets	2,640	2,834	3,495
Foreclosed real estate – non-covered	11,740	12,251	20,115
Foreclosed real estate – covered	19,504	24,497	30,156
Bank-owned life insurance	44,367	44,040	28,065
Other assets	27,320	29,473	51,972
Total assets	$3,314,823	3,185,070	3,280,945
LIABILITIES			
Deposits: Noninterest bearing checking accounts	$511,612	482,650	429,202
Interest bearing checking accounts	550,702	557,413	539,270
Money market accounts	557,346	551,335	575,766

Savings accounts	177,744	169,023	166,510
Time deposits of $100,000 or more	584,481	564,527	649,714
Other time deposits	404,839	426,071	497,105
Total deposits	2,786,724	2,751,019	2,857,567
Borrowings	136,394	46,394	46,394
Accrued interest payable	758	879	1,118
Other liabilities	14,860	14,856	18,634
Total liabilities	2,938,736	2,813,148	2,923,713
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 728,706 shares	7,287	7,287	7,287
Common stock, no par value per share. Authorized: 40,000,000 shares			
Issued & outstanding: 19,695,316, 19,679,659, and 19,669,302 shares	132,215	132,099	131,896
Retained earnings	171,021	167,136	154,911
Accumulated other comprehensive income (loss)	2,064	1,900	(362
Total shareholders' equity	376,087	371,922	357,232
Total liabilities and shareholders' equity	$3,314,823	3,185,070	3,280,945

See accompanying notes to consolidated financial statements.

Page 4

Index

First Bancorp and Subsidiaries

Consolidated Statements of Income

($ in thousands, except share data-unaudited)	Three Months Ended March 31,	
	2014	2013
INTEREST INCOME		
Interest and fees on loans	$36,086	33,551
Interest on investment securities:		
Taxable interest income	1,001	905
Tax-exempt interest income	470	479
Other, principally overnight investments	119	154
Total interest income	37,676	35,089
INTEREST EXPENSE		
Savings, checking and money market accounts	252	510
Time deposits of $100,000 or more	1,183	1,613
Other time deposits	456	789
Borrowings	250	256
Total interest expense	2,141	3,168
Net interest income	35,535	31,921
Provision for loan losses – non-covered	3,365	5,771
Provision for loan losses – covered	210	5,378
Total provision for loan losses	3,575	11,149
Net interest income after provision for loan losses	31,960	20,772
NONINTEREST INCOME		
Service charges on deposit accounts	3,573	2,935
Other service charges, commissions and fees	2,367	2,175
Fees from presold mortgage loans	607	747
Commissions from sales of insurance and financial products	594	399
Bank-owned life insurance income	327	208
Foreclosed property gains (losses) – non-covered	(156)	758
Foreclosed property gains (losses) – covered	(2,117)	(4,616)
FDIC indemnification asset income (expense), net	(4,916)	4,897
Other gains (losses)	19	(395)
Total noninterest income	298	7,108
NONINTEREST EXPENSES		
Salaries	11,648	10,677
Employee benefits	2,311	2,627
Total personnel expense	13,959	13,304
Net occupancy expense	1,880	1,674
Equipment related expenses	928	1,088
Intangibles amortization	194	199

Other operating expenses	6,590	6,959
Total noninterest expenses	23,551	23,224
Income before income taxes	8,707	4,656
Income tax expense	3,031	1,556
Net income	5,676	3,100
Preferred stock dividends	(217)	(245)
Net income available to common shareholders	$5,459	2,855
Earnings per common share:		
Basic	$0.28	0.15
Diluted	0.27	0.14
Dividends declared per common share	$0.08	0.08
Weighted average common shares outstanding:		
Basic	19,688,183	19,669,302
Diluted	20,424,475	20,409,760

See accompanying notes to consolidated financial statements.

Index

First Bancorp and Subsidiaries

Consolidated Statements of Comprehensive Income

($ in thousands-unaudited)	Three Months Ended March 31, 2014	2013
Net income	$ 5,676	3,100
Other comprehensive income (loss):		
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period, pretax	303	(308)
Tax (expense) benefit	(118)	120
Postretirement Plans:		
Amortization of unrecognized net actuarial (gain) loss	(54)	3
Tax expense (benefit)	33	(1)
Other comprehensive income (loss)	164	(186)
Comprehensive income	$ 5,840	2,914

See accompanying notes to consolidated financial statements.

Index

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, 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
Balances, January 1, 2014	$70,787	19,680	$132,099	167,136	1,900	371,922
Net income				5,676		5,676
Cash dividends declared ($0.08 per common share)				(1,574)		(1,574)
Preferred dividends				(217)		(217)
Stock-based compensation		15	116			116
Other comprehensive income (loss)					164	164
Balances, March 31, 2014	$70,787	19,695	$132,215	171,021	2,064	376,087

See accompanying notes to consolidated financial statements.

Index
First Bancorp and Subsidiaries

Consolidated Statements of Cash Flows

($ in thousands-unaudited)	Three Months Ended March 31, 2014	2013
Cash Flows From Operating Activities		
Net income	$5,676	3,100
Reconciliation of net income to net cash provided by operating activities:		
Provision for loan losses	3,575	11,149
Net security premium amortization	493	620
Purchase accounting accretion and amortization, net	(6,362)	(3,551)
Foreclosed property losses and write-downs, net	2,273	3,858
Other losses (gains)	(19)	395
Decrease in net deferred loan costs	169	1
Depreciation of premises and equipment	1,157	1,121
Stock-based compensation expense	23	19
Amortization of intangible assets	194	199
Origination of presold mortgages in process of settlement	(19,110)	(26,675)
Proceeds from sales of presold mortgages in process of settlement	20,073	30,581
Decrease in accrued interest receivable	659	464
Decrease (increase) in other assets	5,469	(3,233)
Decrease in accrued interest payable	(121)	(208)
Increase (decrease) in other liabilities	43	(816)
Net cash provided by operating activities	14,192	17,024
Cash Flows From Investing Activities		
Purchases of securities available for sale	(13,474)	(13,084)
Proceeds from maturities/issuer calls of securities available for sale	6,194	9,359
Proceeds from maturities/issuer calls of securities held to maturity	—	350
Net decrease (increase) in loans	13,646	(13,713)
Proceeds from FDIC loss share agreements	9,384	6,899
Proceeds from sales of foreclosed real estate	7,739	25,669
Purchases of premises and equipment	(783)	(3,152)
Proceeds from loans held for sale	—	30,393
Net cash received in acquisition	—	38,315
Net cash provided by investing activities	22,706	81,036
Cash Flows From Financing Activities		
Net increase (decrease) in deposits	35,708	(21,118)
Net increase in borrowings	90,000	—
Cash dividends paid – common stock	(1,574)	(1,573)
Cash dividends paid – preferred stock	(217)	(532)
Net cash provided (used) by financing activities	123,917	(23,223)
Increase in cash and cash equivalents	160,815	74,837

Cash and cash equivalents, beginning of period	223,274	241,507
Cash and cash equivalents, end of period	$384,089	316,344
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	$2,262	3,322
Income taxes	—	—
Non-cash transactions:		
Unrealized gain (loss) on securities available for sale, net of taxes	185	(188)
Foreclosed loans transferred to other real estate	4,508	3,354

See accompanying notes to consolidated financial statements.

First Bancorp and Subsidiaries

Notes to Consolidated Financial Statements

*(unaudited)*For the Periods Ended March 31, 2014 and 2013

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, 2014 and 2013 and the consolidated results of operations and consolidated cash flows for the periods ended March 31, 2014 and 2013. All such adjustments were of a normal, recurring nature. Reference is made to the 2013 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, 2014 and 2013 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 2013 Annual Report on Form 10-K filed with the SEC contains a description of the accounting policies followed by the Company and discussion of recent accounting pronouncements. The following paragraphs update that information as necessary.

In July 2013, the FASB issued guidance to eliminate the diversity in practice regarding presentation of unrecognized tax benefits in the statement of financial position. Under the clarified guidance, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, will be presented in the financial statements as a reduction to a deferred tax asset unless certain criteria are met. The requirements should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The amendments became effective for the Company for reporting periods beginning after December 15, 2013 and did not have a material effect on its financial statements.

In January 2014, the FASB amended the Investments—Equity Method and Joint Ventures topic to address accounting for investments in qualified affordable housing projects. If certain conditions are met, the amendments permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects by amortizing the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizing the net investment performance in the income statement as a component of income tax expense (benefit). If those conditions are not met, the investment should be accounted for as an equity method investment or a cost method investment in accordance with existing accounting guidance. The amendments will be effective for the Company for interim and annual reporting periods beginning after December 15, 2014 and should be applied retrospectively for all periods presented. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In January 2014, the FASB amended the Receivables – Troubled Debt Restructurings by Creditors subtopic to address the reclassification of consumer mortgage loans collateralized by residential real estate upon foreclosure. The amendments clarify the criteria for concluding that an in substance repossession or foreclosure has occurred, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan. The amendments will be effective for the Company for interim and annual reporting periods beginning after December 15, 2014. Companies are allowed to use either a modified retrospective transition method or a prospective transition method when adopting this update. Early adoption is permitted. 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 March 31, 2013 have been reclassified to conform to the presentation for March 31, 2014. These reclassifications had no effect on net income or shareholders’ equity for the periods presented, nor did they materially impact trends in financial information.

Index

Note 4 – Equity-Based Compensation Plans

At March 31, 2014, 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, 2014, 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 12 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.

Based on the Company's performance in 2013, the Company granted long-term restricted shares of 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 2013. The Company recorded $23,200 in compensation expense during the three months ended March 31, 2014 and expects to record $23,200 in compensation expense each quarter thereafter until the award vests.

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 $58,900 and the grant fully vested on February 23, 2014. The Company recorded $600 and $11,200 in compensation expense related to this grant during the three months ended March, 31, 2014 and 2013, respectively.

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, 2014, there were 463,102 options outstanding related to the three First Bancorp plans, with exercise prices ranging from $9.76 to $22.12. At March 31, 2014, there were 745,881 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.

Index

The Company’s equity grants for the three months ended March 31, 2014 were the issuance of 15,657 shares of long-term restricted stock to the chief executive officer on February 11, 2014, at a fair market value of $17.77 per share, which was the closing price of the Company’s common stock on that date.

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

The Company recorded total stock-based compensation expense of $23,800 and $19,200 for the three-month periods ended March 31, 2014 and 2013, 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 $9,300 and $7,500 of income tax benefits related to stock based compensation expense in the income statement for the three months ended March 31, 2014 and 2013, 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 2014 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 January 1, 2014	463,102	$ 17.95		
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Expired	—	—		
Outstanding at March 31, 2014	463,102	$ 17.95	2.8	$1,091,000
Exercisable at March 31, 2014	388,102	$ 19.54	1.8	$391,000

The Company did not have any stock option exercises during the three months ended March 31, 2014 or 2013. The Company recorded no tax benefits from the exercise of nonqualified stock options during the three months ended March 31, 2014 or 2013.

Index

The following table presents information regarding the activity the first three months of 2014 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, 2014	45,374	$ 9.90
Granted during the period	15,657	17.77
Vested during the period	(5,374)	14.54
Forfeited or expired during the period	—	—
Nonvested at March 31, 2014	55,657	$ 12.01

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.

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, 2014 Income (Numer-ator)	Shares (Denom-inator)	Per Share Amount	2013 Income (Numer-ator)	Shares (Denom-inator)	Per Share Amount
Basic EPS						
Net income available to common shareholders	$5,459	19,688,183	$ 0.28	$2,855	19,669,302	$ 0.15
Effect of Dilutive Securities	58	736,292		58	740,458	
Diluted EPS per common share	$5,517	20,424,475	$ 0.27	$2,913	20,409,760	$ 0.14

For the three months ended March 31, 2014, there were 255,229 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. Also, for the three months ended March 31, 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 has concluded are not probable to vest. For the three months ended March 31, 2013, there were 351,863 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.

Index
Note 6 – Securities

The book values and approximate fair values of investment securities at March 31, 2014 and December 31, 2013 are summarized as follows:

	March 31, 2014				December 31, 2013			
	Amortized	Fair	Unrealized		Amortized	Fair	Unrealized	
($ in thousands)	Cost	Value	Gains	(Losses)	Cost	Value	Gains	(Losses)
Securities available for sale:								
Government-sponsored enterprise securities	$22,435	22,296	34	(173)	18,432	18,245	32	(219)
Mortgage-backed securities	149,366	148,081	1,277	(2,562)	148,646	147,187	1,415	(2,874)
Corporate bonds	3,999	3,675	36	(360)	3,999	3,598	44	(445)
Equity securities	6,107	6,138	43	(12)	3,984	4,011	40	(13)
Total available for sale	$181,907	180,190	1,390	(3,107)	175,061	173,041	1,531	(3,551)
Securities held to maturity:								
State and local governments	$53,937	57,192	3,255	—	53,995	56,700	2,709	(4)

Included in mortgage-backed securities at March 31, 2014 were collateralized mortgage obligations with an amortized cost of $174,000 and a fair value of $180,000. Included in mortgage-backed securities at December 31, 2013 were collateralized mortgage obligations with an amortized cost of $192,000 and a fair value of $200,000. 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 $6,016,000 at March 31, 2014 and $3,894,000 at December 31, 2013, 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, 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	Fair Value	

		Unrealized Losses		Unrealized Losses	Fair Value	Unrealized Losses
Government-sponsored enterprise securities	$ 12,262	173	—	—	12,262	173
Mortgage-backed securities	62,049	1,175	24,496	1,387	86,545	2,562
Corporate bonds	—	—	640	360	640	360
Equity securities	—	—	22	12	22	12
State and local governments	—	—	—	—	—	—
Total temporarily impaired securities	$ 74,311	1,348	25,158	1,759	99,469	3,107

The following table presents information regarding securities with unrealized losses at December 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	$ 12,212	219	—	—	12,212	219
Mortgage-backed securities	64,937	1,675	17,979	1,199	82,916	2,874
Corporate bonds	—	—	555	445	555	445
Equity securities	—	—	22	13	22	13
State and local governments	992	4	—	—	992	4
Total temporarily impaired securities	$ 78,141	1,898	18,556	1,657	96,697	3,555

Index

In the above tables, all of the non-equity securities that were in an unrealized loss position at March 31, 2014 and December 31, 2013 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, 2014 and December 31, 2013 was in such a position due to temporary fluctuations in the market prices of the securities. The Company's policy is to record an impairment charge for any of these equity securities that remains in an unrealized loss position for twelve consecutive months unless the amount is insignificant.

The aggregate carrying amount of cost-method investments was $6,016,000 and $3,894,000 at March 31, 2014 and December 31, 2013, 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, 2014, 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	21,499	21,413	7,481	8,074
Due after five years but within ten years	3,935	3,918	37,579	39,791
Due after ten years	1,000	640	8,877	9,327
Mortgage-backed securities	149,366	148,081	—	—
Total debt securities	175,800	174,052	53,937	57,192
Equity securities	6,107	6,138	—	—
Total securities	$181,907	180,190	53,937	57,192

At March 31, 2014 and December 31, 2013 investment securities with carrying values of $82,120,000 and $79,838,000, respectively, were pledged as collateral for public deposits.

The Company recorded no gains or losses on securities during the three month periods ended March 31, 2014 or 2013.

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."

Index

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

($ in thousands)	March 31, 2014		December 31, 2013		March 31, 2013	
	Amount	Percentage	Amount	Percentage	Amount	Perc
All loans (non-covered and covered):						
Commercial, financial, and agricultural	$170,209	7%	$168,469	7%	$162,074	7%
Real estate – construction, land development & other land loans	296,141	12%	305,246	12%	293,918	12
Real estate – mortgage – residential (1-4 family) first mortgages	829,671	34%	838,862	34%	831,467	35
Real estate – mortgage – home equity loans / lines of credit	229,167	9%	227,907	9%	236,222	10
Real estate – mortgage – commercial and other	857,327	35%	855,249	35%	803,875	33
Installment loans to individuals	64,003	3%	66,533	3%	67,272	3%
Subtotal	2,446,518	100%	2,462,266	100%	2,394,828	10
Unamortized net deferred loan costs	759		928		1,323	
Total loans	$2,447,277		$2,463,194		$2,396,151	

As of March 31, 2014, December 31, 2013 and March 31, 2013, net loans include unamortized premiums of $49,000, $98,000, and $368,000, respectively, related to acquired loans.

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

($ in thousands)	March 31, 2014		December 31, 2013		March 31, 2013	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Non-covered loans:						
Commercial, financial, and agricultural	$ 167,443					