FIRST BANCORP /NC/
Form 10-K
March 16, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010

Commission File Number 0-15572

FIRST BANCORP

(Exact Name of Registrant as Specified in its Charter)

North Carolina (State of Incorporation)	56-1421916 (I.R.S. Employer Identification Number)
341 North Main Street, Troy, North Carolina (Address of Principal Executive Offices)	27371-0508 (Zip Code)
Registrant’s telephone number, including area code:	(910) 576-6171

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, No Par Value	The Nasdaq Global Select Market

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. o YES x NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. o YES x NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files. o YES o NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to the Form 10-K. o

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
		(Do not check if a smaller reporting company)	

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

The aggregate market value of the Common Stock, no par value, held by non-affiliates of the registrant, based on the closing price of the Common Stock as of June 30, 2010 as reported by The NASDAQ Global Select Market, was approximately $217,318,832.

The number of shares of the registrant's Common Stock outstanding on February 28, 2011 was 16,822,271.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement to be filed pursuant to Regulation 14A are incorporated herein by reference into Part III.

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* Information called for by Part III (Items 10 through 14) is incorporated herein by reference to the Registrant's definitive Proxy Statement for the 2011 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission on or before April 30, 2011.

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FORWARD-LOOKING STATEMENTS

This report contains statements that could be deemed forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act, which statements are inherently subject to risks and uncertainties. Forward-looking statements are statements that include projections, predictions, expectations or beliefs about future events or results or otherwise are not statements of historical fact. 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,” o other statements concerning our opinions or judgment about future events. Factors that could influence the accuracy of such forward-looking statements include, but are not limited to, the financial success or changing strategies of our customers, our level of success in integrating acquisitions, actions of government regulators, the level of market interest rates, and general economic conditions. For additional information that could affect the matters discussed in this paragraph, see the “Risk Factors” section in Item 1A of this report.

PART I

Item 1. Business

General Description

The Company

First Bancorp (the “Company”) is a bank holding company. Our principal activity is the ownership and operation of First Bank (the “Bank”), a state-chartered bank with its main office in Troy, North Carolina. The Company is also the parent to a series of statutory business trusts organized under the laws of the State of Delaware that were created for the purpose of issuing trust preferred debt securities. Our outstanding debt associated with these trusts was $46.4 million at December 31, 2010 and 2009.

The Company was incorporated in North Carolina on December 8, 1983, as Montgomery Bancorp, for the purpose of acquiring 100% of the outstanding common stock of the Bank through a stock-for-stock exchange. On December 31, 1986, the Company changed its name to First Bancorp to conform its name to the name of the Bank, which had changed its name from Bank of Montgomery to First Bank in 1985.

The Bank was organized in 1934 and began banking operations in 1935 as the Bank of Montgomery, named for the county in which it operated. Troy, population 3,500, is located in the center of Montgomery County, approximately 60 miles east of Charlotte, 50 miles south of Greensboro, and 80 miles southwest of Raleigh. As of December 31, 2010, we conducted business from 92 branches covering a geographical area from Little River, South Carolina to the southeast, to Wilmington, North Carolina to the east, to Kill Devil Hills, North Carolina to the northeast, to Radford, Virginia to the north, to Wytheville, Virginia to the northwest, and to Harmony, North Carolina to the west. We also have a loan production office in Blacksburg, which is located in southwestern Virginia and represents our furthest location to the north of Troy. Of the Bank’s 92 branches, 77 are in North Carolina, nine branches are in South Carolina and six branches are in Virginia (where we operate under the name “First Bank of Virginia”). Ranked by assets, the Bank was the fifth largest bank headquartered in North Carolina as of December 31, 2010.

On June 19, 2009, we acquired substantially all of the assets and liabilities of Cooperative Bank, which had been closed earlier that day by regulatory authorities. Cooperative Bank operated through twenty-four branches located primarily in the coastal region of North Carolina. In connection with the acquisition, we assumed assets with a book value of $959 million, including $829 million in loans and $706 million in deposits. The loans and

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foreclosed real estate purchased are covered by loss share agreements between the Federal Deposit Insurance Corporation (FDIC) and First Bank which affords the Bank significant loss protection. We recorded a gain of $67.9 million as a result of this acquisition. Additional information regarding this transaction is contained in Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 2 to the audited consolidated financial statements.

On January 21, 2011, we entered into a purchase and assumption agreement with the FDIC to purchase substantially all of the assets and liabilities of The Bank of Asheville in Asheville, North Carolina. The Bank of Asheville had five branches with approximately $193 million in total assets, including $154 million in loans, and $196 million in liabilities, including $192 million in deposits. Substantially all of the loans and foreclosed real-estate are covered by loss share agreements with the FDIC.

As of December 31, 2010, the Bank had two wholly owned subsidiaries, First Bank Insurance Services, Inc. ("First Bank Insurance") and First Troy SPE, LLC. First Bank Insurance was acquired as an active insurance agency in 1994 in connection with the Company's acquisition of a bank that had an insurance subsidiary. On December 29, 1995, the insurance agency operations of First Bank Insurance were divested. From December 1995 until October 1999, First Bank Insurance was inactive. In October 1999, First Bank Insurance began operations again as a provider of non-FDIC insured investments and insurance products. Currently, First Bank Insurance's primary business activity is the placement of property and casualty insurance coverage. First Troy SPE, LLC, which was organized in December 2009, is a holding entity for certain foreclosed properties.

Our principal executive offices are located at 341 North Main Street, Troy, North Carolina 27371-0508, and our telephone number is (910) 576-6171. Unless the context requires otherwise, references to the "Company" in this annual report on Form 10-K shall mean collectively First Bancorp and its consolidated subsidiaries.

General Business

We engage in a full range of banking activities, with the acceptance of deposits and the making of loans being its most basic activities. We offer deposit products such as checking, savings, NOW and money market accounts, as well as time deposits, including various types of certificates of deposits (CDs) and individual retirement accounts (IRAs). For business customers, we offer repurchase agreements (also called securities sold under agreement to repurchase), which are similar to interest-bearing deposits and allow us to pay interest to business customers without statutory limitations on the number of withdrawals that these customers can make. We provide loans for a wide range of consumer and commercial purposes, including loans for business, agriculture, real estate, personal uses, home improvement and automobiles. We also offers credit cards, debit cards, letters of credit, safe deposit box rentals, bank money orders and electronic funds transfer services, including wire transfers. In addition, we offer internet banking, mobile banking, cash management and bank-by-phone capabilities to our customers, and are affiliated with ATM networks that give our customers access to 61,000 ATMs, with no surcharge fee. In 2007, we introduced remote deposit capture, which provides business customers with a method to electronically transmit checks received from customers into their bank account without having to visit a branch. In 2008, we joined the Certificate of Deposit Account Registry Service (CDARS), which gives our customers the ability to obtain FDIC insurance on deposits of up to $50 million, while continuing to work directly with their local First Bank branch.

Because the majority of our customers are individuals and small to medium-sized businesses located in the counties we serve, management does not believe that the loss of a single customer or group of customers would have a material adverse impact on the Bank. There are no seasonal factors that tend to have any material effect on the Bank's business, and we do not rely on foreign sources of funds or income. Because we operate primarily within the coastal and central Piedmont regions of North Carolina, the economic conditions of those areas could have a material impact on the Company. See additional discussion below in the section entitled "Territory Served and Competition."

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Beginning in 1999, First Bank Insurance began offering non-FDIC insured investment and insurance products, including mutual funds, annuities, long-term care insurance, life insurance, and company retirement plans, as well as financial planning services (the "investments division"). In May 2001, First Bank Insurance added to its product line when it acquired two insurance agencies that specialized in the placement of property and casualty insurance. In October 2003, the "investments division" of First Bank Insurance became a part of the Bank. The primary activity of First Bank Insurance is now the placement of property and casualty insurance products. In February 2010, First Bank Insurance acquired The Insurance Center, Inc., a Troy-based property and casualty insurance agency with approximately 500 customers.

Until April 2010, the Company owned and operated another subsidiary, Montgomery Data Services, Inc. Montgomery Data provided electronic data processing services for the Bank and to other area financial institutions for a fee. In January 2010, Montgomery Data's last external customer terminated its service agreement. Due to the demands of providing service to the Bank, we decided to discontinue servicing third parties and merged the operations of Montgomery Data into the Bank in April 2010. For the years ended December 31, 2010, 2009 and 2008, external customers provided gross revenues of $32,000, $139,000 and $167,000, respectively.

First Bancorp Capital Trust I was organized in October 2002 for the purpose of issuing $20.6 million in debt securities. These debt securities were called by the Company at par on November 7, 2007 and First Bancorp Capital Trust I was dissolved.

First Bancorp Capital Trust II and First Bancorp Capital Trust III were organized in December 2003 for the purpose of issuing $20.6 million in debt securities ($10.3 million was issued from each trust). These borrowings are due on January 23, 2034 and are also structured as trust preferred capital securities in order to qualify as regulatory capital. These debt securities are callable by the Company at par on any quarterly interest payment date beginning on January 23, 2009. The interest rate on these debt securities adjusts on a quarterly basis at a weighted average rate of three-month LIBOR plus 2.70%.

First Bancorp Capital Trust IV was organized in April 2006 for the purpose of issuing $25.8 million in debt securities. These borrowings are due on June 15, 2036 and are structured as trust preferred capital securities, which qualify as capital for regulatory capital adequacy requirements. These debt securities are callable by the Company at par on any quarterly interest payment date beginning on June 15, 2011. The interest rate on these debt securities adjusts on a quarterly basis at a rate of three-month LIBOR plus 1.39%.

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Territory Served and Competition

Our headquarters are located in Troy, Montgomery County, North Carolina. At the end of 2010, we served primarily the south central area of the Piedmont and the eastern coastal regions of North Carolina, with additional operations in northeastern South Carolina and southwestern Virginia. As previously discussed, in January 2011, we acquired a failed bank that operated in Buncombe County, which is in the western part of North Carolina. The following table presents, for each county where we operated as of December 31, 2010; the number of bank branches operated by the Company within the county, the approximate amount of deposits with the Company in the county as of December 31, 2010, our approximate deposit market share at June 30, 2010, and the number of bank competitors located in the county at June 30, 2010.

County	Number of Branches	Deposits (in millions)	Market Share		Number of Competitors
Anson, NC	1	$ 11	3.9	%	5
Beaufort, NC	3	35	3.6	%	6
Bladen, NC	1	24	10.5	%	5
Brunswick, NC	4	89	6.5	%	12
Cabarrus, NC	2	37	1.7	%	11
Carteret, NC	2	31	3.6	%	8
Chatham, NC	2	53	13.8	%	10
Chesterfield, SC	3	60	17.3	%	7
Columbus, NC	2	31	5.0	%	6
Dare, NC	1	10	1.3	%	11
Davidson, NC	3	104	3.9	%	10
Dillon, SC	3	69	25.5	%	3
Duplin, NC	3	114	26.7	%	6
Florence, SC	2	25	1.4	%	14
Guilford, NC	1	59	0.6	%	21
Harnett, NC	3	116	12.7	%	10
Horry, SC	1	4	0.1	%	25
Iredell, NC	2	31	1.5	%	23
Lee, NC	4	182	23.6	%	10
Montgomery, NC	5	102	37.7	%	4
Montgomery, VA	2	50	2.4	%	13
Moore, NC	11	382	26.3	%	11
New Hanover, NC	5	143	4.3	%	20
Onslow, NC	2	52	4.9	%	9
Pulaski, VA	1	26	6.6	%	8
Randolph, NC	4	65	3.8	%	15
Richmond, NC	1	22	4.5	%	6
Robeson, NC	5	188	19.5	%	10
Rockingham, NC	1	31	2.6	%	11
Rowan, NC	2	47	3.5	%	13
Scotland, NC	2	59	17.7	%	6
Stanly, NC	4	84	9.9	%	6
Wake, NC	1	24	0.1	%	30
Washington, VA	1	33	2.4	%	16
Wythe, VA	2	72	12.8	%	11
Brokered & Internet Deposits	-	188			

Total	92	$	2,653

Our branches and facilities are primarily located in small communities whose economies are based primarily on services, manufacturing and light industry. Although our market is predominantly small communities and rural areas, the market area is not dependent on agriculture. Textiles, furniture, mobile homes, electronics, plastic and metal fabrication, forest products, food products, chicken hatcheries, and cigarettes are among the leading manufacturing industries in the trade area. Leading producers of lumber and rugs are located in Montgomery County, North Carolina. The Pinehurst area within Moore County, North Carolina, is a widely known golf resort and retirement area. The High Point, North Carolina, area is widely known for its furniture

market. New Hanover and Brunswick Counties, located in the southeastern coastal region of North Carolina, are popular with tourists and have significant retirement populations. Additionally, several of the communities served by the Company are "bedroom" communities of large cities like Charlotte, Raleigh and Greensboro, while several branches are located in medium-sized cities such as Albemarle, Asheboro, High Point, Southern Pines and Sanford. We also have branches in small communities such as Bennett, Polkton, Vass, and Harmony.

Approximately 14% of our deposit base is in Moore County. Accordingly, material changes in competition, the economy or population of Moore County could materially impact the Company. No other county comprises more than 10% of our deposit base.

We compete in our various market areas with, among others, several large interstate bank holding companies. These large competitors have substantially greater resources than us, including broader geographic markets, higher lending limits and the ability to make greater use of large-scale advertising and promotions. A significant number of interstate banking acquisitions have taken place in the past decade, thus further increasing the size and financial resources of some of our competitors, three of which are among the largest bank holding companies in the nation. In many of our markets, we also compete against banks that have been organized within the past ten to fifteen years. Until recently, these new banks often focused on loan and deposit balance sheet growth, and not necessarily on earnings profitability, which often resulted in them offering more attractive terms on loans and deposits than we were able to offer in light of our profitability goals. Due to capital considerations, most of these banks are no longer seeking balance sheet growth. This has increased our ability to compete for loans, but the same banks continue to offer premium rates on deposits, presumably in an effort to maintain maximum liquidity during these challenging economic times. Moore County, which as noted above comprises a disproportionate share of our deposits, is a particularly competitive market, with at least eleven other financial institutions having a physical presence. See "Supervision and Regulation" below for a further discussion of regulations in our industry that affect competition.

We compete not only against banking organizations, but also against a wide range of financial service providers, including federally and state-chartered savings and loan institutions, credit unions, investment and brokerage firms and small-loan or consumer finance companies. One of the credit unions in our market area is among the largest in the nation. Competition among financial institutions of all types is virtually unlimited with respect to legal ability and authority to provide most financial services. We also experience competition from internet banks, particularly in the area of time deposits.

Despite the competitive market, we believe we have certain advantages over our competition in the areas we serve. We seek to maintain a distinct local identity in each of the communities we serve and we actively sponsor and participate in local civic affairs. Most lending and other customer-related business decisions can be made without delays often associated with larger institutions. Additionally, employment of local managers and personnel in various offices and low turnover of personnel enable us to establish and maintain long-term relationships with individual and corporate customers.

Lending Policy and Procedures

Conservative lending policies and procedures and appropriate underwriting standards are high priorities of the Bank. Loans are approved under our written loan policy, which provides that lending officers, principally branch managers, have authority to approve loans of various amounts up to $350,000, with lending limits varying depending upon the experience of the lender and whether the loan is secured or unsecured. Each of our regional senior lending officers has discretion to approve secured loans of various principal amounts up to $500,000 and together can approve loans up to $4,000,000. Loans above $4,000,000 must be approved by the Executive Committee of the board of directors.

Our board of directors reviews and approves loans that exceed management's lending authority, loans to executive officers, directors, and their affiliates and, in certain instances, other types of loans. New credit

extensions are reviewed daily by our senior management and at least monthly by our board of directors.

We continually monitor our loan portfolio to identify areas of concern and to enable us to take corrective action. Lending officers and the board of directors meet periodically to review past due loans and portfolio quality, while assuring that the Bank is appropriately meeting the credit needs of the communities it serves. Individual lending officers are responsible for pursuing collection of past-due amounts and monitoring any changes in the financial status of borrowers.

We also contract with an independent consulting firm to review new loan originations meeting certain criteria, as well as to assign risk grades to existing credits meeting certain thresholds. The consulting firm's observations, comments, and risk grades, including variances with the Bank's risk grades, are shared with the audit committee of the Company's board of directors and are considered by management in setting Bank policy, as well as in evaluating the adequacy of the allowance for loan losses. The consulting firm also provides training on a periodic basis to our loan officers to keep them updated on current developments in the marketplace. For additional information, see "Allowance for Loan Losses and Loan Loss Experience" under Item 7 below.

Investment Policy and Procedures

We have adopted an investment policy designed to maximize our income from funds not needed to meet loan demand, in a manner consistent with appropriate liquidity and risk objectives. Pursuant to this policy, we may invest in federal, state and municipal obligations, federal agency obligations, public housing authority bonds, industrial development revenue bonds, Federal Home Loan Bank bonds, Fannie Mae bonds, Government National Mortgage Association bonds, Freddie Mac bonds, Small Business Administration bonds, and, to a limited extent, corporate bonds. Except for corporate bonds, our investments must be rated at least Baa by Moody's or BBB by Standard and Poor's. Securities rated below A are periodically reviewed for creditworthiness. We may purchase non-rated municipal bonds only if such bonds are in our general market area and we determine these bonds have a credit risk no greater than the minimum ratings referred to above. Industrial development authority bonds, which normally are not rated, are purchased only if they are judged to possess a high degree of credit soundness to assure reasonably prompt sale at a fair value. We are also authorized by our board of directors to invest a portion of our securities portfolio in high quality corporate bonds, with the amount of such bonds not to exceed 15% of the entire securities portfolio. Prior to purchasing a corporate bond, the Company's management performs due diligence on the issuer of the bond, and the purchase is not made unless we believe that the purchase of the bond bears no more risk to the Company than would an unsecured loan to the same company.

Our investment officer implements the investment policy, monitors the investment portfolio, recommends portfolio strategies and reports to the Company's Investment Committee. The Investment Committee generally meets on a quarterly basis to review investment activity and to assess the overall position of the securities portfolio. The Investment Committee compares our securities portfolio with portfolios of other companies of comparable size. In addition, reports of all purchases, sales, issuer calls, net profits or losses and market appreciation or depreciation of the bond portfolio are reviewed by our board of directors each month. Once a quarter, our interest rate risk exposure is evaluated by our board of directors. Each year, the written investment policy is approved by the board of directors.

Mergers and Acquisitions

As part of our operations, we have pursued an acquisition strategy over the years to augment our internal growth. We regularly evaluate the potential acquisition of, or merger with, various financial institutions. Our acquisitions have generally fallen into one of three categories - 1) an acquisition of a financial institution or branch thereof within a market in which we operate, 2) an acquisition of a financial institution or branch thereof in a market contiguous or nearly contiguous to a market in which we operate, or 3) an acquisition of a company that has products or services that

we do not currently offer. Historically, we have paid for our acquisitions with

cash and/or common stock and any operating income or loss has been fully borne by the Company beginning on the closing date of the acquisition.

In 2009, FDIC-assisted acquisitions began to occur frequently as banking regulators closed problem banks. In FDIC-assisted transactions, the acquiring bank often does not pay any consideration for the failed bank, and in some cases receives cash from the FDIC as part of the transaction. In addition, the acquiring bank usually enters into one or more loss share agreements with the FDIC, which affords the acquiring bank significant loss protection. As discussed below, we completed FDIC-assisted transactions in 2009 and 2011.

We believe that we can enhance our earnings by pursuing these types of acquisition opportunities through any combination or all of the following: 1) achieving cost efficiencies, 2) enhancing the acquiree's earnings or gaining new customers by introducing a more successful banking model with more products and services to the acquiree's market base, 3) increasing customer satisfaction or gaining new customers by providing more locations for the convenience of customers, and 4) leveraging the customer base by offering new products and services. There is also the possibility, especially in a FDIC-assisted transaction, to record a gain on the acquisition date arising from the difference between the purchase price and the acquisition date fair value of the acquired assets and liabilities.

From 2000 to 2010, we completed acquisitions in each of the three categories described above. During that time, we 1) completed four whole-bank traditional acquisitions, with one being in our existing market areas and the other three being in contiguous markets, with total assets exceeding $700 million, 2) purchased ten bank branches from other banks (both in existing market area and in contiguous/nearly contiguous markets) with total assets of approximately $250 million, and 3) acquired three insurance agencies, which provided us with the ability to offer property and casualty insurance coverage.

In addition to the traditional acquisitions discussed above, on June 19, 2009, we acquired substantially all of the assets and liabilities of Cooperative Bank in a FDIC-assisted transaction. Cooperative Bank operated through twenty-one branches in North Carolina and three branches in South Carolina in the same markets in which the Bank was already operating, as well as in several new, mostly contiguous markets. In connection with the acquisition, First Bank assumed assets with a book value of $959 million, including $829 million in loans and $706 million in deposits. The loans and foreclosed real estate purchased are covered by two loss share agreements with the FDIC, which afford First Bank significant loss protection. Under the loss share agreements, the FDIC will cover 80% of covered loan and foreclosed real estate losses up to $303 million and 95% of losses in excess of that amount. The term for loss sharing on residential real estate loans is ten years, while the term for loss sharing on non-residential real estate loans is five years in respect to losses and eight years in respect to loss recoveries. The reimbursable losses from the FDIC are based on the book value of the relevant loan as determined by the FDIC at the date of the transaction. New loans made after that date are not covered by the loss share agreements. We received $25.8 million from the FDIC as result of this acquisition and recorded an acquisition gain of $67.9 million.

There are many factors that we consider when evaluating how much to offer for potential acquisition candidates (including FDIC-assisted transactions) with a few of the more significant factors being projected impact on earnings per share, projected impact on capital, and projected impact on book value and tangible book value. Significant assumptions that affect this analysis include the estimated future earnings stream of the acquisition candidate, estimated credit and other losses to be incurred, the amount of cost efficiencies that can be realized, and the interest rate earned/lost on the cash received/paid. In addition to these primary factors, we also consider other factors including (but not limited to) marketplace acquisition statistics, location of the candidate in relation to our expansion strategy, market growth potential, management of the candidate, potential integration issues (including corporate culture), and the size of the acquisition candidate.

We plan to continue to evaluate acquisition opportunities that could potentially benefit the Company and its shareholders. These opportunities may include acquisitions that do not fit the categories discussed above.

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As previously discussed, in January 2011, we entered into a purchase and assumption agreement with the FDIC to purchase substantially all the assets and liabilities of The Bank of Asheville in Asheville, North Carolina in a FDIC-assisted transaction. See Note 19 to the consolidated financial statements for additional information.

For a further discussion of recent acquisition activity, see "Merger and Acquisition Activity" under Item 7 below.

Employees

As of December 31, 2010, we had 753 full-time and 41 part-time employees. We are not a party to any collective bargaining agreements, and we consider our employee relations to be good.

Supervision and Regulation

As a bank holding company, we are subject to supervision, examination and regulation by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") and the North Carolina Office of the Commissioner of Banks (the "Commissioner"). The Bank is subject to supervision and examination by the FDIC and the Commissioner. For additional information, see also Note 15 to the consolidated financial statements.

Supervision and Regulation of the Company

The Company is a bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended. The Company is also regulated by the Commissioner under the North Carolina Bank Holding Company Act of 1984.

A bank holding company is required to file quarterly reports and other information regarding its business operations and those of its subsidiaries with the Federal Reserve Board. It is also subject to examination by the Federal Reserve Board and is required to obtain Federal Reserve Board approval prior to making certain acquisitions of other institutions or voting securities. The Federal Reserve Board requires the Company to maintain certain levels of capital - see "Capital Resources and Shareholders' Equity." The Federal Reserve Board also has the authority to take enforcement action against any bank holding company that commits any unsafe or unsound practice, or violates certain laws, regulations or conditions imposed in writing by the Federal Reserve Board. The Federal Reserve Board generally prohibits a bank holding company from declaring or paying a cash dividend that would impose undue pressure on the capital of subsidiary banks or would be funded only through borrowing or other arrangements which might adversely affect a bank holding company's financial position. Under the Federal Reserve Board policy, a bank holding company is not permitted to continue its existing rate of cash dividends on its common stock unless its net income is sufficient to fully fund each dividend and its prospective rate of earnings retention appears consistent with its capital needs, asset quality and overall financial condition.

The Commissioner is empowered to regulate certain acquisitions of North Carolina banks and bank holding companies, issue cease and desist orders for violations of North Carolina banking laws, and promulgate rules necessary to effectuate the purposes of the North Carolina Bank Holding Company Act of 1984.

Regulatory authorities have cease and desist powers over bank holding companies and their nonbank subsidiaries where their actions would constitute a serious threat to the safety, soundness or stability of a subsidiary bank. Those authorities may compel holding companies to invest additional capital into banking subsidiaries upon acquisitions or in the event of significant loan losses or rapid growth of loans or deposits.

The United States Congress and the North Carolina General Assembly have periodically considered and adopted legislation that has impacted the Company.

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Supervision and Regulation of the Bank

Federal banking regulations applicable to all depository financial institutions, among other things: (i) provide federal bank regulatory agencies with powers to prevent unsafe and unsound banking practices; (ii) restrict preferential loans by banks to "insiders" of banks; (iii) require banks to keep information on loans to major shareholders and executive officers and (iv) bar certain director and officer interlocks between financial institutions.

As a state-chartered bank, the Bank is subject to the provisions of the North Carolina banking statutes and to regulation by the Commissioner. The Commissioner has a wide range of regulatory authority over the activities and operations of the Bank, and the Commissioner's staff conducts periodic examinations of the Bank and its affiliates to ensure compliance with state banking regulations. Among other things, the Commissioner regulates the merger and consolidation of state-chartered banks, the payment of dividends, loans to officers and directors, recordkeeping, types and amounts of loans and investments, and the establishment of branches. The Commissioner also has cease and desist powers over state-chartered banks for violations of state banking laws or regulations and for unsafe or unsound conduct that is likely to jeopardize the interest of depositors.

The dividends that may be paid by the Bank to the Company are subject to legal limitations under North Carolina law. In addition, regulatory authorities may restrict dividends that may be paid by the Bank or the Company's other subsidiaries. The ability of the Company to pay dividends to its shareholders is largely dependent on the dividends paid to the Company by the Bank.

The FDIC is authorized to approve conversions, mergers, consolidations and assumptions of deposit liability transactions between insured banks and uninsured banks or institutions, and to prevent capital or surplus diminution in such transactions if the resulting, continuing, or assumed bank is an insured nonmember bank. In addition, the FDIC monitors the Bank's compliance with several banking statutes, such as the Depository Institution Management Interlocks Act and the Community Reinvestment Act of 1977. The FDIC also conducts periodic examinations of the Bank to assess its compliance with banking laws and regulations, and it has the power to implement changes to, or restrictions on, the Bank's operations if it finds that a violation is occurring or is threatened.

U.S. Treasury Capital Purchase Program

On October 3, 2008, in response to the financial crises affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions, the Emergency Economic Stabilization Act of 2008 (the "EESA") was signed into law. Pursuant to the EESA, the U.S. Treasury was given the authority to, among other things, purchase up to $700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets.

On October 14, 2008, the Secretary of the U.S. Department of the Treasury announced that the Treasury would purchase equity stakes in a wide variety of banks and thrifts. Under the program, known as the Capital Purchase Program, the Treasury made $250 billion of capital available from EESA to U.S. financial institutions in the form of purchases of preferred stock. In addition to the preferred stock, the Treasury received, from participating financial institutions, warrants to purchase common stock with an aggregate market price equal to 15% of the preferred investment. Participating financial institutions were required to adopt the Treasury's standards for executive compensation and corporate governance for the period during which the Treasury holds equity issued under the Capital Purchase Program.

Although we believed that our capital position was sound, we concluded that the Capital Purchase Program would allow us to raise additional capital on favorable terms in comparison with other available alternatives. Accordingly,

we applied to participate in the Capital Purchase Program. The Treasury approved our application

in December 2008, and we received $65 million in proceeds from the sale of 65,000 shares of cumulative perpetual preferred stock with a liquidation value of $1,000 per share to the Treasury on January 9, 2009. The preferred stock issued to the Treasury pays a dividend of 5% for the first five years and 9% thereafter. As part of the transaction, we also granted the Treasury a ten-year warrant to purchase up to 616,308 shares of our common stock at an exercise price of $15.82.

Under the terms of the Capital Purchase Program, the Treasury's consent will be required for any increase in our dividends paid to common stockholders (above a quarterly dividend of $0.19 per common share) or the Company's redemption, purchase or acquisition of common stock or any trust preferred securities issued by the Company's capital trusts until the third anniversary of the senior preferred share issuance to the Treasury unless prior to such third anniversary the senior preferred shares are redeemed in whole or the Treasury has transferred all of these shares to third parties.

Participants in the Capital Purchase Program were required to accept several compensation-related limitations associated with this Program. Each of our senior executive officers has agreed in writing to accept the compensation standards in existence at that time under the Capital Purchase Program and thereby cap or eliminate some of their contractual or legal rights. The provisions agreed to were as follows:

No Golden Parachute Payments. For purposes of the Capital Purchase Program, "golden parachute payment" was defined to mean a severance payment resulting from involuntary termination of employment or from a bankruptcy event of the employer, which exceeds three times the terminated employee's average annual base salary over the five years prior to termination. Our senior executive officers have agreed to forego all golden parachute payments for as long as two conditions remain true: they remain "senior executive officers" (CEO, CFO and the next three highest-paid executive officers), and the Treasury continues to hold our equity or debt securities issued under the Capital Purchase Program. The period during which the Treasury holds those securities is the "Capital Purchase Program Covered Period."

Recovery of Incentive Compensation if Based on Certain Material Inaccuracies. Our senior executive officers have also agreed to a "clawback provision," which means that we can recover incentive compensation paid during the Capital Purchase Program Covered Period that is later found to have been paid based on materially inaccurate financial statements or other materially inaccurate measurements of performance.

No Compensation Arrangements That Encourage Excessive Risks. During the Capital Purchase Program Covered Period, we are not allowed to enter into compensation arrangements that encourage senior executive officers to take "unnecessary and excessive risks that threaten the value" of the Company. Therefore, the Company's Compensation Committee is required to meet at least once a year with our senior risk officers to review our executive compensation arrangements in light of our risk management policies and practices. Our senior executive officers' written agreements include their obligation to accept any changes in our incentive compensation arrangements resulting from the Compensation Committee's review.

Limit on Federal Income Tax Deductions. During the Capital Purchase Program Covered Period, we are not allowed to take federal income tax deductions for compensation paid to senior executive officers in excess of $500,000 per year, with certain exceptions that do not apply to our senior executive officers.

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009 (the "Stimulus Act") into law. The Stimulus Act modified the compensation-related limitations contained in the Capital Purchase Program and created additional compensation-related limitations. The limitations in the Stimulus Act apply to all participants in the Troubled Asset Relief Program (under which the Capital Purchase Program was created), regardless of when participation commenced. Thus, the newly enacted compensation-related limitations are applicable to the

Company, subject to the Treasury Department's issuance of implementing regulations. The compensation-related limitations applicable to the Company which have been added or modified by the Stimulus Act are as follows:

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No Severance Payments. Under the Stimulus Act, the definition of "golden parachute" was expanded to include any severance payment resulting from termination of employment, except for payments for services performed or benefits accrued. In addition, the Stimulus Act expanded the group of employees to which such restrictions apply. Consequently, under the Stimulus Act, we are prohibited from making any severance payment to our "senior executive officers" (defined in the Stimulus Act as the five highest paid senior executive officers) and our next five most highly compensated employees during the Capital Purchase Program Covered Period.

Recovery of Incentive Compensation if Based on Certain Material Inaccuracies. The Stimulus Act also contains the "clawback provision" discussed above, but extends its application to our next 20 most highly compensated employees.

No Compensation Arrangements That Encourage Earnings Manipulation. In addition to the Capital Purchase Program prohibition on compensation arrangements that encourage unnecessary and excessive risk, the Stimulus Act prohibits us during the Capital Purchase Program Covered Period from entering into compensation arrangements that encourage manipulation of reported earnings to enhance the compensation of any of our employees.

Limit on Incentive Compensation. The Stimulus Act contains a provision that prohibits the payment or accrual of any bonus, retention award or incentive compensation to any of our senior executive officers during the Capital Purchase Program Covered Period, other than awards of long-term restricted stock that (i) do not fully vest during the Capital Purchase Program Covered Period, (ii) have a value not greater than one-third of the total annual compensation of the awardee and (iii) are subject to such other restrictions as determined by the Secretary of the Treasury. The prohibition on bonus, incentive compensation and retention awards does not preclude payments required under written employment contracts entered into on, or prior to, February 11, 2009.

Compensation and Human Resources Committee Functions. The Stimulus Act requires that our Compensation Committee be comprised solely of independent directors and that it meet at least semiannually to discuss and evaluate our employee compensation plans in light of an assessment of any risk posed to us from such compensation plans.

Compliance Certifications. The Stimulus Act also requires a written certification by our Chief Executive Officer and Chief Financial Officer of our compliance with the provisions of the Stimulus Act. These certifications are contained in this Annual Report on Form 10-K.

Treasury Review of Excessive Bonuses Previously Paid. The Stimulus Act directs the Secretary of the Treasury to review all compensation paid to our senior executive officers and the next 20 most highly compensated employees prior to adoption of the Stimulus Act to determine whether any such payments were inconsistent with the purposes of the Capital Purchase Program or the Stimulus Act or were otherwise contrary to the public interest. If the Secretary of the Treasury makes such a finding, the Secretary of the Treasury is directed to negotiate with the Capital Purchase Program recipient and the employee recipient for appropriate reimbursements to the federal government with respect to the compensation.

Say on Pay. Under the Stimulus Act, during the Capital Purchase Program Covered Period, we must include in the proxy statement for our annual meeting of shareholders a non-binding say on pay vote by the shareholders on executive compensation.

Limitation on Luxury Expenditures. The Stimulus Act required us to adopt a company-wide policy regarding excessive or luxury expenditures, such as entertainment expenses, office or facility renovation expenses and transportation services expenses.

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FDIC Insurance

As a member of the FDIC, the Bank's deposits are insured by the FDIC. For this protection, each member bank pays a quarterly statutory assessment, based on its level of deposits, and is subject to the rules and regulations of the FDIC. Based on the specified risk factors, for 2008, the Bank was assigned an assessment rate of 5.1 cents per $100 of assessable deposits, which resulted in annual insurance premium expense of approximately $1.2 million during 2008.

On December 16, 2008, the FDIC raised the deposit insurance assessment rates uniformly for all institutions by 7 cents for every $100 of domestic deposits effective for the first quarter of 2009. On February 27, 2009, the FDIC announced that, commencing in April 2009, its minimum rates would increase to a range of twelve cents to sixteen cents per $100 in deposits. During 2009, we recorded approximately $3.9 million in annual FDIC insurance premium expense (excluding the special assessment discussed below).

The FDIC also announced on February 27, 2009 an interim rule that imposed a one-time special assessment of seven cents per $100 in insured deposits to be collected on September 30, 2009, which resulted in a $1.6 million expense for the Bank that was recorded in the second quarter of 2009 and paid on September 30, 2009. The interim rule also permits the FDIC to impose emergency special assessments from time to time after June 30, 2009 if the FDIC board believes the deposit insurance fund will fall to a level that would adversely affect public confidence in federal deposit insurance. To date, the FDIC has not imposed additional special assessments, but in December 2009, the FDIC did require banks to prepay their estimated insurance premiums for 2010 through 2012, which resulted in the Bank prepaying approximately $16.9 million in premiums. This prepaid amount is being recorded as expense on our books as it is incurred. We recognized approximately $4.4 million in FDIC insurance expense in 2010.

In February 2011, the FDIC announced changes to the deposit insurance program whereby FDIC deposit insurance assessments will be based on average total assets less average tangible equity instead of the previous methodology that was based on deposits. Also new assessment rates were adopted. The new assessment methodology and assessment rates will be effective April 1, 2011. Excluding the impact of any special assessments or future rule changes, we expect this new methodology to reduce our FDIC insurance expense by approximately $1.6 million on an annual basis.

In addition to deposit insurance assessments, the FDIC is authorized to collect assessments against insured deposits to be paid to the Finance Corporation (FICO) to service FICO debt incurred in connection with the resolution of the thrift industry crisis in the 1980s. The FICO assessment rate is adjusted quarterly. The average annual assessment rate in 2010 was 1.04 cents per $100 for insured deposits, which resulted in approximately $297,000 in expense for the Bank for 2010. For the first quarter of 2011, the FICO assessment rate for such deposits will be 1.02 cents per $100 of insured deposits, which is expected to result in expense of approximately $271,000 in 2011.

Pursuant to EESA, in 2008 the maximum deposit insurance amount per depositor was temporarily increased from $100,000 to $250,000 until December 31, 2013. On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (see discussion below) permanently raised the standard maximum deposit insurance amount to $250,000 per depositor. On November 9, 2010 the FDIC issued a final rule under the Dodd-Frank Act that provides unlimited insurance coverage of non-interest bearing transaction accounts from December 31, 2010 through December 31, 2012. An amendment was signed into law in December 2010 to include Interest on Lawyer Trust Accounts (IOLTAs) within the definition of "noninterest-bearing transaction accounts."

Additionally, in 2008, regulatory authorities enacted legislation that enabled the FDIC to establish its Temporary Liquidity Guarantee Program ("TLGP"). The TGLP had two primary components – 1) a transaction account guarantee program ("TAGP"), and 2) a debt guarantee program. Under the TAGP, the FDIC would fully guarantee, until June 30,

2010, all noninterest-bearing transaction accounts, including NOW accounts with

interest rates of 0.50 percent or less and IOLTAs. On April 14, 2010, the FDIC extended the TAGP until December 31, 2010, with a revised interest rate of 0.25 percent or less. Under the debt guarantee program of the TLGP, the FDIC guaranteed certain senior unsecured debt of insured depository institutions, or their qualified holding companies, issued between October 14, 2008 and October 31, 2009. After an initial phase-in period, both programs became elective options for banks during 2009.

We elected to participate in both programs, although we did not utilize the debt guarantee program, which has now expired as it relates to new issuances of debt. The cost of the TAGP was not significant in 2009. In 2010, we recorded approximately $207,000 in expense related to the TAGP. The TAGP program expired on December 31, 2010, but as noted above new FDIC rules provide unlimited FDIC insurance coverage of non-interest bearing transaction accounts from December 31, 2010 through December 31, 2012.

Legislative and Regulatory Developments

Given the ongoing financial crisis and the current presidential administration, legislation that would affect regulation in the banking industry is introduced in most legislative sessions. The most significant recent legislative and regulatory developments impacting the Company were 1) the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, and 2) Automated Overdraft Payment Regulation, each of which is discussed below.

Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

On July 21, 2010, the Dodd-Frank Act became law. The Dodd-Frank Act will have a broad impact on the financial services industry, including significant regulatory and compliance changes including, among other things,

- enhanced authority over troubled and failing banks and their holding companies;
- increased capital and liquidity requirements;
- increased regulatory examination fees;
- specific provisions designed to improve supervision and safety and soundness by imposing restrictions and limitations on the scope and type of banking and financial activities.

In addition, the Dodd-Frank Act establishes a new framework for systemic risk oversight within the financial system that will be enforced by new and existing federal regulatory agencies, including the Financial Stability Oversight Council (FSOC), the FRB, the Office of Comptroller of the Currency, the FDIC, and the Consumer Financial Protection Bureau (CFPB). The following description briefly summarizes aspects of the Dodd-Frank Act that could impact the Company, both currently and prospectively.

Deposit Insurance. The Dodd-Frank Act makes permanent the $250,000 deposit insurance limit for insured deposits. Amendments to the Federal Deposit Insurance Act also revise the assessment base against which an insured depository institution's deposit insurance premiums paid to the FDIC's Deposit Insurance Fund (DIF) will be calculated. Under the amendments, the FDIC assessment base will no longer be the institution's deposit base, but rather its average consolidated total assets less its average tangible equity. The Dodd-Frank Act also changes the minimum designated reserve ratio of the DIF, increasing the minimum from 1.15% to 1.35% of the estimated amount of total insured deposits, and eliminating the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds by September 30, 2020.

Interest on Demand Deposits. The Dodd-Frank Act also provides that, effective one year after the date of its enactment, depository institutions may pay interest on demand deposits. Although we have not determined the ultimate impact of this aspect of the legislation, we expect interest costs associated with demand deposits to increase.

Trust Preferred Securities. The Dodd-Frank Act prohibits bank holding companies from including in their regulatory Tier 1 capital hybrid debt and equity securities issued on or after May 19, 2010. Among the hybrid debt and equity securities included in this prohibition are trust preferred securities, which we have issued in the past in order to raise additional Tier 1 capital and otherwise improve our regulatory capital ratios. Although we may continue to include our existing trust preferred securities as Tier 1 capital, the prohibition on the use of these securities as Tier 1 capital may limit our ability to raise capital in the future.

The Consumer Financial Protection Bureau. The Dodd-Frank Act creates a new, independent Consumer Financial Protection Bureau (CFPB) within the FRB. The CFPB's responsibility is to establish, implement and enforce rules and regulations under certain federal consumer protection laws with respect to the conduct of providers of certain consumer financial products and services. The CFPB has rulemaking authority over many of the statutes that govern products and services banks offer to consumers. In addition, the Dodd-Frank Act permits states to adopt consumer protection laws and regulations that are more stringent than those regulations the CFPB will promulgate and state attorney generals will have the authority to enforce consumer protection rules the CFPB adopts against state-chartered institutions and national banks. Compliance with any such new regulations established by the CFPB and/or states could reduce our revenue, increase our cost of operations, and could limit our ability to expand into certain products and services.

Debit Card Interchange Fees. The Dodd-Frank Act gives the FRB the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over $10 billion and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer. While we are not directly subject to these rules for so long as our assets do not exceed $10 billion, our activities as a debit card issuer may nevertheless be indirectly impacted by the change in the applicable debit card market caused by these regulations, which may require us to match any new lower fee structure implemented by larger financial institutions in order to remain competitive. Such lower fees could impact the revenue we earn from debit interchange fees, which amounted to $2.5 million for 2010.

Increased Capital Standards and Enhanced Supervision. The Dodd-Frank Act requires the federal banking agencies to establish minimum leverage and risk-based capital requirements for banks and bank holding companies. These new standards will be no less strict than existing regulatory capital and leverage standards applicable to insured depository institutions and may, in fact, become higher once the agencies promulgate the new standards. Compliance with heightened capital standards may reduce our ability to generate or originate revenue-producing assets and thereby restrict revenue generation from banking and non-banking operations.

Transactions with Affiliates. The Dodd-Frank Act enhances the requirements for certain transactions with affiliates under Section 23A and 23B of the Federal Reserve Act, including an expansion of the definition of "covered transactions," and an increase in the amount of time for which collateral requirements regarding covered transactions must be maintained.

Transactions with Insiders. The Dodd-Frank Act expands insider transaction limitations through the strengthening of loan restrictions to insiders and the expansion of the types of transactions subject to the various limits, including derivative transactions, repurchase agreements, reverse repurchase agreements and securities lending and borrowing transactions. The Dodd-Frank Act also places restrictions on certain asset sales to and from an insider of an institution, including requirements that such sales be on market terms and, in certain circumstances, receive the approval of the institution's board of directors.

Enhanced Lending Limits. The Dodd-Frank Act strengthens the existing limits on a depository institution's credit exposure to one borrower. Federal banking law currently limits a national bank's ability to extend credit to one person or group of related persons to an amount that does not exceed certain thresholds. The Dodd-Frank Act expands the

scope of these restrictions to include credit exposure arising from derivative transactions, repurchase agreements and securities lending and borrowing transactions. It also will eventually prohibit state-chartered banks from engaging in derivative transactions unless the state lending limit laws take into account

credit exposure to such transactions.

Corporate Governance. The Dodd-Frank Act addresses many corporate governance and executive compensation matters that will affect most U.S. publicly traded companies, including the Company. The Dodd-Frank Act:

- grants shareholders of U.S. publicly traded companies an advisory vote on executive compensation;
- enhances independence requirements for compensation committee members;
- requires companies listed on national securities exchanges to adopt clawback policies for incentive-based compensation plans applicable to executive officers; and
- provides the SEC with authority to adopt proxy access rules that would allow shareholders of publicly traded companies to nominate candidates for election as directors and require such companies to include such nominees in its proxy materials.

Many of the requirements of the Dodd-Frank Act will be subject to implementation over the course of several years. While we do not currently expect the final requirements of the Dodd-Frank Act to have a material adverse impact on the Company, we do expect them to negatively impact our profitability, require changes to certain of our business practices, including limitations on fee income opportunities, and impose more stringent capital, liquidity and leverage requirements upon the Company. These changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements.

Automated Overdraft Payment Regulation

The Federal Reserve and FDIC have recently enacted consumer protection regulations related to automated overdraft payment programs offered by financial institutions. In November 2009, the Federal Reserve amended its Regulation E to prohibit financial institutions, including the Company, from charging consumers fees for paying overdrafts on automated teller machine and one-time debit card transactions, unless a consumer consents, or opts in, to the overdraft service for those types of transactions. The Regulation E amendments also require financial institutions to provide consumers with a notice that explains the financial institution’s overdraft services, including the fees associated with the service and the consumer’s choices. We have completed implementation of the changes as required by the Regulation E amendments, which resulted in a reduction of overdraft fees that we were able to collect during the second half of 2010.

In November 2010, the FDIC supplemented the Regulation E amendments by requiring FDIC-supervised institutions, including the Company, to implement additional changes relating to automated overdraft payment programs by July 1, 2011. The most significant of these changes require financial institutions to monitor overdraft payment programs for “excessive or chronic” customer use and undertake “meaningful and effective” follow-up action with customers that overdraw their accounts more than six times during a rolling 12-month period. The additional guidance also imposes daily limits on overdraft charges, requires institutions to review and modify check-clearing procedures, prominently distinguish account balances from available overdraft coverage amounts and requires increased board and management oversight regarding overdraft payment programs. We have already begun to implement many of the changes required by the FDIC guidance, and we are working to implement the remaining changes in advance of the July 1, 2011 effective date.

Neither the Company nor the Bank can predict what other legislation might be enacted or what other regulations or assessments might be adopted.

See “Capital Resources and Shareholders’ Equity” under Item 7 below for a discussion of regulatory capital requirements.

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Available Information

We maintain a corporate Internet site at www.FirstBancorp.com, which contains a link within the “Investor Relations” section of the site to each of our filings with the Securities and Exchange Commission, including our annual reports on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. These filings are available, free of charge, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. These filings can also be accessed at the Securities and Exchange Commission’s website located at www.sec.gov. Information included on our Internet site is not incorporated by reference into this annual report.

Item 1A. Risk Factors

Difficult market conditions and economic trends have adversely affected our industry and our business.

A general economic downturn began in the latter half of 2007. Dramatic declines in the housing market, with decreasing home prices and increasing delinquencies and foreclosures, have negatively impacted the credit performance of mortgage and construction loans and resulted in significant write-downs of assets by many financial institutions. In addition, the value of real estate collateral supporting many loans has declined and may continue to decline. General downward economic trends, reduced availability of commercial credit and increasing unemployment have negatively impacted the credit performance of commercial and consumer credit, resulting in additional write-downs. We believe that the economic downtrends are largely responsible for the deterioration in loan quality that we experienced over the past three years, including higher levels of loan charge-offs, higher levels of nonperforming assets, and higher provisions for loan losses. Concerns over the stability of the financial markets and the economy have resulted in decreased lending by financial institutions to their customers and to each other. This market turmoil and tightening of credit has led to increased commercial and consumer delinquencies, lack of confidence, increased market volatility and widespread reduction in general business activity. Financial institutions, including us, have experienced a decrease in access to borrowings. The resulting economic pressure on consumers and businesses and the lack of confidence in the financial markets have adversely affected, and may continue to adversely affect, our business, financial condition, results of operations and stock price.

As a result of the foregoing factors, there is a potential for new federal or state laws and regulations regarding lending and funding practices and liquidity standards, and bank regulatory agencies are expected to be very aggressive in responding to concerns and trends identified in examinations. This increased governmental action may increase our costs and limit our ability to pursue certain business opportunities. The FDIC has increased deposit insurance premiums and assessments to restore its deposit insurance funds. We may be required to pay even higher premiums to the FDIC because financial institution failures resulting from the depressed market conditions are expected to increase.

Our ability to assess the creditworthiness of customers and to estimate the losses inherent in our credit exposure is made more complex by these difficult market and economic conditions. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market and economic conditions on us, our customers and the other financial institutions in our market. As a result, we may experience additional increases in foreclosures, delinquencies and customer bankruptcies, as well as more restricted access to funds.

We are vulnerable to the economic conditions within the fairly small geographic region in which we operate.

Like many businesses, our overall success is partially dependent on the economic conditions in the marketplace where we operate. Our marketplace is predominately concentrated in the central Piedmont and coastal regions of North Carolina. As is the case for most of the country, these regions are currently experiencing recessionary economic conditions, which we believe is a factor in our increases in borrower delinquencies, nonperforming assets, and loan losses during 2009 and 2010 compared to recent prior years. If economic conditions in our marketplace worsen, it would likely have an adverse impact on us. In particular, if economic conditions related to real estate values in our marketplace were to worsen, our loan losses would likely increase. At December 31, 2010, approximately 90% of our loans were secured by real estate collateral, which means that additional decreases in real estate values would have an adverse impact on our operations.

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Current levels of unprecedented market volatility may adversely affect the market value of our common stock.

During the economic downturn, the capital and credit markets have experienced volatility and disruption. In some cases, the markets have produced downward pressure on stock prices for certain companies without regard to those companies' underlying financial strength.

The market value of our stock may also be affected by conditions affecting the financial markets generally, including price and trading fluctuations. These conditions may result in (i) volatility in the level of, and fluctuations in, the market prices of stocks generally and, in turn, our stock and (ii) sales of substantial amounts of our stock in the market, in each case that could be unrelated or disproportionate to changes in our operating performance. These broad market fluctuations may adversely affect the market value of our stock.

If our goodwill becomes impaired, we may be required to record a significant charge to earnings.

We have goodwill recorded on our balance sheet as an asset with a carrying value as of December 31, 2010 of $65.8 million. Under generally accepted accounting principles, goodwill is required to be tested for impairment at least annually and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The test for goodwill impairment involves comparing the fair value of a company's reporting units to their respective carrying values. For our company, our community banking operation is our only material reporting unit. The price of our common stock is one of several measures available for estimating the fair value of our community banking operations. For much of 2009 and 2010, the stock market value of our common stock traded below the book value of our company. Subject to the results of other valuation techniques, if this situation persists or worsens, this could indicate that our next test of goodwill will result in a determination that there is impairment. We may be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill is determined, which could have a negative impact on our results of operations.

We may be subject to more stringent capital requirements.

We are each subject to capital adequacy guidelines and other regulatory requirements specifying minimum amounts and types of capital which we must maintain. From time to time, the regulators implement changes to these regulatory capital adequacy guidelines. If we fail to meet these minimum capital guidelines and other regulatory requirements, our financial condition would be materially and adversely affected. In light of proposed changes to regulatory capital requirements contained in the Dodd-Frank Act and the regulatory accords on international banking institutions formulated by the Basel Committee and implemented by the Federal Reserve, we likely will be required to satisfy additional, more stringent, capital adequacy standards. The ultimate impact of the new capital standards on us cannot be determined at this time and will depend on a number of factors, including the treatment and implementation by the U.S. banking regulators. These requirements, however, and any other new regulations, could adversely affect our ability to pay dividends, or could require us to reduce business levels or to raise capital, including in ways that may adversely affect our financial condition or results of operations.

We might be required to raise additional capital in the future, but that capital may not be available or may not be available on terms acceptable to us when it is needed.

We are required to maintain adequate capital levels to support our operations. In the future, we might need to raise additional capital to support growth, absorb loan losses, or meet more stringent capital requirements. Our access to capital markets (excluding the Capital Purchase Program) has remained limited for most of the past two years. Our ability to raise additional capital will depend on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, we cannot be certain of our ability to raise additional capital

in the future if needed or on terms acceptable to us. If we cannot raise additional capital when

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needed, our ability to conduct our business could be materially impaired.

Future issuances of additional equity securities could result in dilution of your ownership.

We may decide from time to time to issue additional equity securities to raise additional capital, support growth, or to make acquisitions. These issuances of our securities could dilute the voting and economic interests of our existing shareholders.

The soundness of other financial institutions could adversely affect us.

Since the middle of 2007, the financial services industry as a whole, as well as the securities markets generally, have been materially adversely affected by substantial declines in the values of nearly all asset classes and by a significant lack of liquidity. Financial institutions in particular have been subject to increased volatility and an overall loss in investor confidence. Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services companies are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, and investment banks. Defaults by, or even rumors or questions about, one or more financial services companies, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. We can make no assurance that any such losses would not materially and adversely affect our business, financial condition or results of operations.

We are subject to extensive regulation, which could have an adverse effect on our operations.

We are subject to extensive regulation and supervision from the North Carolina Commissioner of Banks, the FDIC, and the Federal Reserve Board. This regulation and supervision is intended primarily for the protection of the FDIC insurance fund and our depositors and borrowers, rather than for holders of our equity securities. In the past, our business has been materially affected by these regulations. This trend is likely to continue in the future.

Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on operations, the classification of our assets and determination of the level of the allowance for loan losses. Changes in the regulations that apply to us, or changes in our compliance with regulations, could have a material impact on our operations.

Additionally, the documents that we executed with the Treasury when they purchased the Series A preferred stock allow the Treasury to unilaterally change the terms of the Series A preferred stock or impose additional requirements on us if there is a change in law. For example, the Stimulus Act imposed executive compensation restrictions that went beyond those imposed by the terms of the Capital Purchase Program. Additional changes or requirements could restrict our ability to conduct business, could subject us to additional cost and expense or could change the terms of the senior preferred stock agreement to the detriment of our common shareholders. While it may be possible for us to redeem the senior preferred stock in the event the Treasury imposes any changes or additional requirements that we believe are detrimental, there can be no assurances that our federal regulator will approve such redemption (as is required by law) or that we will have the ability to implement such redemption.

The passage of the Dodd-Frank Act may result in lower revenues and higher costs.

On July 21, 2010, President Obama signed into law the Dodd-Frank Act. The Dodd-Frank Act represents a significant overhaul of many aspects of the regulation of the financial services industry, addressing, among other things, systemic risk, capital adequacy, deposit insurance assessments, consumer financial protection, interchange fees, derivatives,

lending limits, and changes among the bank regulatory agencies. Many of these provisions are

subject to further study, rule making, and the discretion of regulatory bodies, such as the Financial Stability Oversight Council, which will regulate the systemic risk of the financial system. While we do not currently expect the final requirements of the Dodd-Frank Act to have a material adverse impact on the Company, we do expect them to negatively impact our profitability, require changes to certain of our business practices, including limitations on fee income opportunities, and impose more stringent capital, liquidity and leverage requirements upon the Company. These changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements. See "Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010" above for additional information regarding the Dodd-Frank Act.

The provisions of the Dodd-Frank Act restricting bank interchange fees, and any rules promulgated thereunder, may negatively impact our revenues and earnings.

Under the Dodd-Frank Act, the Federal Reserve must adopt rules regarding the interchange fees that may be charged with respect to electronic debit transactions in 2011. The limits to be placed on debit interchange fees may significantly reduce our debit card interchange revenues. Interchange fees, or "swipe" fees, are charges that merchants pay to us and other credit card companies and card-issuing banks for processing electronic payment transactions. The Dodd-Frank Act provides the Federal Reserve with authority over interchange fees received or charged by a card issuer, and requires that fees must be "reasonable and proportional" to the costs of processing such transactions. While we are not directly subject to these rules for so long as our assets do not exceed $10 billion, our activities as a debit card issuer may nevertheless be indirectly impacted by changes in the applicable debit card market caused by these regulations, which may require us to match any new lower fee structures implemented by larger financial institutions in order to remain competitive. Such lower fees could impact the revenue we earn from debit interchange fees, which amounted to $2.5 million for 2010.

Recently enacted consumer protection regulations related to automated overdraft payment programs could adversely affect our business operations, net income and profitability.

The Federal Reserve and FDIC recently enacted consumer protection regulations related to automated overdraft payment programs offered by financial institutions. We have implemented, and are in the process of further implementing, changes to our business practices relating to overdraft payment programs in order to comply with these regulations.

For the years ended December 31, 2010 and 2009, overdraft and insufficient funds fees represented a significant amount of our noninterest fees collected. Implementing the changes required by these regulations will decrease the amount of fees we receive for automated overdraft payment services and adversely impact our noninterest income. Complying with these regulations has resulted in increased operational costs, which may continue to rise. The actual impact of these regulations in future periods could vary due to a variety of factors, including changes in customer behavior, economic conditions and other factors, which could adversely affect our business operations and profitability.

Because of our participation in the Capital Purchase Program, we are subject to restrictions on our ability to declare or pay dividends and repurchase our shares as well as restrictions on compensation paid to our executive officers.

Pursuant to the terms of the securities purchase agreement between our company and the U.S. Treasury, our ability to declare or pay dividends on any of our shares is limited. Specifically, we are unable to declare dividend payments on common stock if we are in arrears on the payment of dividends on the Series A preferred stock issued to the U.S. Treasury. Further, until January 9, 2012, we are not permitted to increase dividends on our common stock above the amount of the last quarterly cash dividend per share declared prior to October 14, 2008 ($0.19 per share) without the U.S. Treasury's approval unless all of the shares of Series A preferred stock have been redeemed or transferred by the

U.S. Treasury to unaffiliated third parties.

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In addition, our ability to repurchase our shares is restricted. The consent of the U.S. Treasury generally is required for us to make any stock repurchase (other than in connection with the administration of any employee benefit plan in the ordinary course of business and consistent with past practice) until January 9, 2012, unless all of the shares of Series A preferred stock have been redeemed or transferred by the U.S. Treasury to unaffiliated third parties. Further, we may not repurchase any shares of our common stock if we are in arrears on the payment of Series A preferred stock dividends.

In addition, pursuant to the terms of the securities purchase agreement between our company and the U.S. Treasury, we agreed to adhere to the U.S. Treasury's standards for executive compensation and corporate governance for the period during which the U.S. Treasury holds the equity securities issued pursuant to the agreement, including the shares of common stock which may be issued upon exercise of the warrant. The EESA that was signed into law on February 17, 2009 contains additional restrictions on executive compensation and standards of corporate governance that go beyond those in the securities purchase agreement. See the section above entitled "U.S. Treasury Capital Purchase Program" for additional discussion of this matter.

We are subject to interest rate risk, which could negatively impact earnings.

Net interest income is the most significant component of our earnings. Our net interest income results from the difference between the yields we earn on our interest-earning assets, primarily loans and investments, and the rates that we pay on our interest-bearing liabilities, primarily deposits and borrowings. When interest rates change, the yields we earn on our interest-earning assets and the rates we pay on our interest-bearing liabilities do not necessarily move in tandem with each other because of the difference between their maturities and repricing characteristics. This mismatch can negatively impact net interest income if the margin between yields earned and rates paid narrows. Interest rate environment changes can occur at any time and are affected by many factors that are outside our control, including inflation, recession, unemployment trends, the Federal Reserve's monetary policy, domestic and international disorder and instability in domestic and foreign financial markets.

Our allowance for loan losses may not be adequate to cover actual losses.

Like all financial institutions, we maintain an allowance for loan losses to provide for probable losses caused by customer loan defaults. The allowance for loan losses may not be adequate to cover actual loan losses, and in this case additional and larger provisions for loan losses would be required to replenish the allowance. Provisions for loan losses are a direct charge against income.

We establish the amount of the allowance for loan losses based on historical loss rates, as well as estimates and assumptions about future events. Because of the extensive use of estimates and assumptions, our actual loan losses could differ, possibly significantly, from our estimate. We believe that our allowance for loan losses is adequate to provide for probable losses, but it is possible that the allowance for loan losses will need to be increased for credit reasons or that regulators will require us to increase this allowance. Either of these occurrences could materially and adversely affect our earnings and profitability.

The value of our investment securities portfolio may be negatively affected by continued disruptions in the securities markets.

The market for some of the investment securities held in our portfolio has become volatile over the past two years. The continuing volatility of securities markets could detrimentally affect the value of our investment securities, including reduced valuations due to the perception of heightened credit and liquidity risks. We can make no assurance that declines in market value related to disruptions in the securities markets will not result in other than temporary impairment of these assets, which would lead to accounting charges that could have a material adverse effect on our

net income and capital levels.

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In the normal course of business, we process large volumes of transactions involving millions of dollars. If our internal controls fail to work as expected, if our systems are used in an unauthorized manner, or if our employees subvert our internal controls, we could experience significant losses.

We process large volumes of transactions on a daily basis and are exposed to numerous types of operational risk. Operational risk includes the risk of fraud by persons inside or outside the Company, the execution of unauthorized transactions by employees, errors relating to transaction processing and systems and breaches of the internal control system and compliance requirements. This risk also includes potential legal actions that could arise as a result of an operational deficiency or as a result of noncompliance with applicable regulatory standards.

We establish and maintain systems of internal operational controls that provide us with timely and accurate information about our level of operational risk. Although not foolproof, these systems have been designed to manage operational risk at appropriate, cost-effective levels. Procedures exist that are designed to ensure that policies relating to conduct, ethics, and business practices are followed. From time to time, losses from operational risk may occur, including the effects of operational errors. We continually monitor and improve our internal controls, data processing systems, and corporate-wide processes and procedures, but there can be no assurance that future losses will not occur.

Our reported financial results are impacted by management’s selection of accounting methods and certain assumptions and estimates.

Our accounting policies and methods are fundamental to the way we record and report our financial condition and results of operations. Our management must exercise judgment in selecting and applying many of these accounting policies and methods so they comply with generally accepted accounting principles and reflect management’s judgment of the most appropriate manner to report our financial condition and results. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which may be reasonable under the circumstances, yet may result in reporting materially different results than would have been reported under a different alternative.

Certain accounting policies are critical to presenting our financial condition and results. They require management to make difficult, subjective or complex judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions or estimates. These critical accounting policies include: the allowance for loan losses; the valuation of goodwill and other intangible assets; and the accounting for FDIC loss share transactions.

There can be no assurance that we will continue to pay cash dividends.

Although we have historically paid cash dividends, there is no assurance that we will continue to pay cash dividends. Future payment of cash dividends, if any, will be at the discretion of our board of directors and will be dependent upon our financial condition, results of operations, capital requirements, economic conditions, and such other factors as the board may deem relevant. As a result of the board of directors’ consideration of these factors, beginning in the first quarter of 2009, our board of directors declared a quarterly dividend of $0.08 per share, which was a decrease from the previous rate of $0.19 per share. The board of directors declared a quarterly dividend of $0.08 per share for each quarter in 2009 and 2010.

As a result of our participation in the Capital Purchase Program, the Treasury’s consent will be required for any dividends paid to common stockholders above a quarterly dividend rate of $0.19 per common share until January 9, 2012, unless prior to then the Series A preferred shares are redeemed in whole or the Treasury has transferred all of these shares to third parties. Also, in the event that we do not pay dividends due on the Series A preferred stock, we are prohibited from paying dividends on our common stock.

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Item 1B. Unresolved Staff Comments

None

Item 2. Properties

The main offices of the Company and the Bank are owned by the Bank and are located in a three-story building in the central business district of Troy, North Carolina. The building houses administrative and bank teller facilities. The Bank's Operations Division, including customer accounting functions, offices for information technology operations, and offices for loan operations, are housed in two one-story steel frame buildings approximately one-half mile west of the main office. Both of these buildings are owned by the Bank. The Company operates 92 bank branches. The Company owns all of its bank branch premises except eight branch offices for which the land and buildings are leased and seven branch offices for which the land is leased but the building is owned. The Company also leases one loan production office. There are no options to purchase or lease additional properties. The Company considers its facilities adequate to meet current needs and believes that lease renewals or replacement properties can be acquired as necessary to meet future needs.

Item 3. Legal Proceedings

Various legal proceedings may arise in the ordinary course of business and may be pending or threatened against the Company and its subsidiaries. However, neither the Company nor any of its subsidiaries is involved in any pending legal proceedings that management believes could have a material effect on the consolidated financial position of the Company.

There were no tax shelter penalties assessed by the Internal Revenue Service against the Company during the year ended December 31, 2010.

PART II

Item 5. Market for the Registrant's Common Stock, Related Shareholder Matters, and Issuer Purchases of Equity Securities

Our common stock trades on The NASDAQ Global Select Market under the symbol FBNC. Table 22, included in "Management's Discussion and Analysis" below, sets forth the high and low market prices of our common stock as traded by the brokerage firms that maintain a market in our common stock and the dividends declared for the periods indicated. We paid a cash dividend of $0.08 per share for each quarter of 2010. For the foreseeable future, it is our current intention to continue to pay cash dividends of $0.08 per share on a quarterly basis. Under the terms of the Company's participation in the U.S. Treasury's Capital Purchase Program, until January 9, 2012, the Company cannot declare a quarterly cash dividend exceeding $0.19 per share without the prior approval of the Treasury. See "Business - Supervision and Regulation" above and Note 15 to the consolidated financial statements for a discussion of other regulatory restrictions on the Company's payment of dividends. As of December 31, 2010, there were approximately 2,700 shareholders of record and another 3,600 shareholders whose stock is held in "street name." There were no sales of unregistered securities during the year ended December 31, 2010.

Additional Information Regarding the Registrant's Equity Compensation Plans

At December 31, 2010, the Company had four equity-based compensation plans, one of which was assumed in a corporate acquisition. The Company's 2007 Equity Plan is the only one of the four plans under which new grants of equity-based awards are possible.

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The following table presents information as of December 31, 2010 regarding shares of the Company's stock that may be issued pursuant to the Company's equity based compensation plans. The table does not include information with respect to shares subject to outstanding options granted under a stock incentive plan assumed by the Company in connection with the acquisition of the company that originally granted those options. Footnote (2) to the table indicates the total number of shares of common stock issuable upon the exercise of options under the assumed plan as of December 31, 2010, and the weighted average exercise price of those options. No additional options may be granted under the assumed plan. At December 31, 2010, the Company had no warrants or stock appreciation rights outstanding under any compensation plans.

	As of December 31, 2010		
	(a)	(b)	(c)
Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders (1)	636,625	$ 18.16	964,004
Equity compensation plans not approved by security holders			
Total (2)	636,625	$ 18.16	964,004

(1) Consists of (A) the Company's 2007 Equity Plan, which is currently in effect; (B) the Company's 2004 Stock Option Plan; and (C) the Company's 1994 Stock Option Plan, each of which was approved by our shareholders.

(2) The table does not include information for stock incentive plans that the Company assumed in connection with mergers and acquisitions of the companies that originally established those plans. As of December 31, 2010, a total of 5,788 shares of common stock were issuable upon exercise under an assumed plan. The weighted average exercise price of those outstanding options is $12.52 per share. No additional options may be granted under the assumed plan.

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Performance Graph

The performance graph shown below compares the Company's cumulative total return to shareholders for the five-year period commencing December 31, 2005 and ending December 31, 2010, with the cumulative total return of the Russell 2000 Index (reflecting overall stock market performance of small-capitalization companies), and an index of banks with between $1 billion and $5 billion in assets, as constructed by SNL Securities, LP (reflecting changes in banking industry stocks). The graph and table assume that $100 was invested on December 31, 2005 in each of the Company's common stock, the Russell 2000 Index, and the SNL Bank Index, and that all dividends were reinvested.

First Bancorp
Comparison of Five-Year Total Return Performances (1)
Five Years Ending December 31, 2010

	Total Return Index Values (1) December 31,					
	2005	2006	2007	2008	2009	2010
First Bancorp	$100.00	112.10	100.64	102.24	79.56	89.16
Russell 2000	100.00	118.37	116.51	77.15	98.11	124.46
SNL Index-Banks between $1 billion and $5 billion	100.00	115.72	84.29	69.91	50.11	56.81

Notes:

(1) Total return indices were provided from an independent source, SNL Securities LP, Charlottesville, Virginia, and assume initial investment of $100 on December 31, 2005, reinvestment of dividends, and changes in market values. Total return index numerical values used in this example are for illustrative purposes only.

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Issuer Purchases of Equity Securities

Pursuant to authorizations by the Company's board of directors, the Company has from time to time repurchased shares of common stock in private transactions and in open-market purchases. The most recent board authorization was announced on July 30, 2004 and authorized the repurchase of 375,000 shares of the Company's stock. The Company did not repurchase any shares of its common stock during the quarter ended December 31, 2010. Under the terms of the Company's participation in the U.S. Treasury's Capital Purchase Program, the Treasury's consent is required for any stock repurchases prior to January 9, 2012, unless the Company has redeemed the Series A preferred stock in whole, or the Treasury has transferred all of these shares to third parties.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (2)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs (1)
Month #1 (October 1, 2010 to October 31, 2010)				234,667
Month #2 (November 1, 2010 to November 30, 2010)				234,667
Month #3 (December 1, 2010 to December 31, 2010)				234,667
Total				234,667

Footnotes to the Above Table

(1) All shares available for repurchase are pursuant to publicly announced share repurchase authorizations. On July 30, 2004, the Company announced that its board of directors had approved the repurchase of 375,000 shares of the Company's common stock. The repurchase authorization does not have an expiration date. Subject to the restrictions discussed above related to the Company's participation in the U.S. Treasury's Capital Purchase Program, there are no plans or programs the Company has determined to terminate prior to expiration, or under which the Company does not intend to make further purchases.

(2) The table above does not include shares that were used by option holders to satisfy the exercise price of the call options issued by the Company to its employees and directors pursuant to the Company's stock option plans. There were no such exercises during the three months ended December 31, 2010.

Item 6. Selected Consolidated Financial Data

Table 1 on page 69 of this report sets forth the selected consolidated financial data for the Company.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis is intended to assist readers in understanding our results of operations and changes in financial position for the past three years. This review should be read in conjunction with the consolidated financial statements and accompanying notes beginning on page 87 of this report and the supplemental financial data contained in Tables 1 through 22 included with this discussion and analysis.

Overview - 2010 Compared to 2009

Net income was significantly lower in 2010 than in 2009 primarily due to a gain that resulted from the Cooperative Bank acquisition in June 2009. Most items of income and expense were higher in 2010 than in 2009 as a result of the Cooperative acquisition, which impacted the Company for twelve months in 2010 compared to six months in 2009 beginning with the June acquisition date. In 2010, our provision for loan losses increased significantly due to deterioration of asset quality, which we believe was primarily caused by the recessionary economic environment, including its unfavorable effect on real estate values.

Financial Highlights ($ in thousands except per share data)	2010	2009	Change
Earnings			
Net interest income	$ 127,354	107,096	18.9 %
Provision for loan losses	54,562	20,186	170.3 %
Noninterest income	29,106	89,518	-67.5 %
Noninterest expenses	86,956	78,551	10.7 %
Income before income taxes	14,942	97,877	-84.7 %
Income tax expense	4,960	37,618	-86.8 %
Net income	9,982	60,259	-83.4 %
Preferred stock dividends and accretion	(4,107)	(3,972)	
Net income available to common shareholders	$ 5,875	56,287	-89.6 %
Net income per common share			
Basic	$ 0.35	3.38	-89.6 %
Diluted	0.35	3.37	-89.6 %
At Year End			
Assets	$ 3,278,932	3,545,356	-7.5 %
Loans	2,454,132	2,652,865	-7.5 %
Deposits	2,652,513	2,933,108	-9.6 %
Ratios			
Return on average assets	0.18 %	1.82 %	
Return on average common equity	2.05 %	22.55 %	
Net interest margin (taxable-equivalent)	4.39 %	3.81 %	

The following is a more detailed discussion of our results for 2010 compared to 2009:

For the year ended December 31, 2010, we reported net income available to common shareholders of $5.9 million compared to $56.3 million reported for 2009. Earnings per diluted common share were $0.35 for the year ended December 31, 2010 compared to $3.37 for 2009. In the second quarter of 2009, we realized a $67.9 million gain

related to the acquisition of a failed bank. The after-tax impact of this gain was $41.1 million, or $2.46 per diluted common share.

Earnings reported for 2010 were impacted by write-downs of foreclosed properties that were assumed in our failed bank acquisition and also by higher provisions for loan losses related both to loans acquired in the 2009 failed bank acquisition and to our legacy loans (loans not obtained in the failed bank acquisition).

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We note that the comparability of certain income statement line items between 2010 and 2009 is affected by the post-acquisition accounting for the FDIC-assisted transaction. In the discussion below, the term "covered" is used to describe assets included as part of FDIC loss share agreements, which generally result in the FDIC reimbursing the Company for 80% of losses incurred.

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

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

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

Total assets at December 31, 2010 amounted to $3.3 billion, a 7.5% decrease from a year earlier. Total loans at December 31, 2010 amounted to $2.5 billion, a 7.5% decrease from a year earlier, and total deposits amounted to $2.7 billion at December 31, 2010, a 9.6% decrease from a year earlier. The contraction of our balance sheet has been primarily a result of weak loan demand, which has allowed us to lessen our reliance on higher cost sources of funding.

We experienced a general decline in loans during 2010. Loans declined approximately $199 million, or 7.5%, in 2010. We continue to originate and renew a significant amount of loans each month, but normal paydowns of loans and loan foreclosures exceeded new loan growth.

Our deposits declined $281 million, or 9.6%, in 2010. The decrease was primarily associated with time deposits, which are generally our highest cost source of funds. We also experienced a $70 million decrease in our NOW accounts during 2010, primarily as a result of the expiration of certain provisions of the FDIC transaction account guarantee program. Brokered deposits remained at a low level at December 31, 2010, comprising just 5.4% of total deposits, with internet deposits comprising an additional 1.8%.

Net interest income for the year ended December 31, 2010 amounted to $127.4 million, an 18.9% increase from 2009. The increases in net interest income were primarily due to 1) a higher net interest margin, and 2) the higher average balances of loans and deposits realized from the June 2009 failed bank acquisition.

Our net interest margin (tax-equivalent net interest income divided by average earnings assets) for 2010 was 4.39% compared to 3.81% for 2009. During 2010, there were no changes in the interest rates set by the Federal Reserve, and we were able to continue to lower rates on our deposits, especially on maturing time deposits that were originated in periods of higher interest rates. Also positively impacting net interest income were purchase accounting adjustments, primarily related to our failed bank acquisition in 2009, including adjustments to loan interest income previously discussed. See "Net Interest Income" below for additional discussion.

The current economic environment, including its unfavorable effect on real estate values, has resulted in an increase in our loan losses and nonperforming assets, which has led to significantly higher provisions for loan

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losses. Our provision for loan losses amounted to $54.6 million for 2010 compared to $20.2 million recorded in 2009. In 2010, our provision for loan losses was comprised of $33.6 million in provisions related to non-covered loans and $20.9 million related to covered loans, whereas in prior years the provision only related to non-covered loans.

We recorded $33.6 million and $20.2 million in provision for loan losses during 2010 and 2009, respectively, for non-covered loans. The higher provisions for loan losses were necessary primarily as a result of higher levels of classified and nonperforming assets and the impact of declining real estate values on our collateral dependent real estate loans.

We recorded $20.9 million in provision for loan losses during 2010 related to covered loans that experienced credit quality deterioration. The credit quality deterioration primarily related to collateral dependent loans for which we received updated appraisals during the fourth quarter of 2010 that reflected lower valuations.

Net loan charge-offs for 2010 were $42.5 million compared to $12.1 million in 2009. Net charge-offs increased primarily as a result of declines in real estate values. In 2010, net charge-offs were also impacted by charge-offs of covered loans and the recording of partial charge-offs of non-covered loans, neither of which occurred during 2009. We recorded approximately $9.8 million in charge-offs of covered loans in 2010 compared to none in 2009. Also, we recorded partial charge-offs of non-covered loans amounting to $8.6 million during the fourth quarter of 2010. Previously, we recorded specific reserves on collateral-deficient nonaccrual loans within the allowance for loan losses, but did not record the charge-offs until the loans were foreclosed upon.

Our non-covered nonperforming assets at December 31, 2010 amounted to $117 million compared to $92 million at December 31, 2009. At December 31, 2010, the ratio of non-covered nonperforming assets to total non-covered assets was 4.16% compared to 3.10% at December 31, 2009.

Our covered nonperforming assets at December 31, 2010 amounted to $168 million compared to $165 million at December 31, 2009.

Noninterest income for the year ended December 31, 2010 amounted to $29.1 million compared to $89.5 million for 2009. In 2009, we recorded a $67.9 million bargain purchase gain in connection with the acquisition of a failed bank. In 2010, we recorded $35.5 million in write-downs and losses on foreclosed property, the majority of which related to the market deterioration of foreclosed properties associated with the failed bank acquisition. We recorded $41.8 million in indemnification asset income related to higher than anticipated claims that we will be able to make with the FDIC under the loss share agreements, primarily relating to loan losses and foreclosed property losses and write-downs.

Noninterest expenses for the year ended December 31, 2010 amounted to $87.0 million, a 10.7% increase from the $78.6 million recorded in 2009. Incremental operating expenses associated with the failed bank acquisition were the primary reason for the increases in 2010. Included in other operating expenses for 2010 are approximately $2.6 million in costs (net of FDIC reimbursements) associated with collection activities on loans and foreclosed properties covered by FDIC loss share agreements, compared to $0.8 million in 2009.

Our effective tax rate was 33.2% and 38.4% for the years ended December 31, 2010 and 2009, respectively. The lower effective tax rate in 2010 was primarily due to increased investment holdings of tax-exempt municipal securities.

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Overview - 2009 Compared to 2008

Net income was significantly higher in 2009 than in 2008 due to a gain that resulted from the acquisition of a failed bank in June 2009. Most items of income and expense were higher in 2009 than in 2008 as a result of the failed bank acquisition, as discussed below. Our provision for loan losses was not impacted by the acquisition, but increased significantly due to deterioration of asset quality, which we believe was primarily caused by the recessionary economic environment, including its unfavorable effect on real estate values.

Financial Highlights ($ in thousands except per share data)		2009		2008		Change	
Earnings							
Net interest income	$	107,096		86,559		23.7	%
Provision for loan losses		20,186		9,880		104.3	%
Noninterest income		89,518		20,657		333.4	%
Noninterest expenses		78,551		62,211		26.3	%
Income before income taxes		97,877		35,125		178.7	%
Income tax expense		37,618		13,120		186.7	%
Net income		60,259		22,005		173.8	%
Preferred stock dividends and accretion		(3,972	)	—			
Net income available to common shareholders	$	56,287		22,005		155.8	%
Net income per common share							
Basic	$	3.38		1.38		144.9	%
Diluted		3.37		1.37		146.0	%
At Year End							
Assets	$	3,545,356		2,750,567		28.9	%
Loans		2,652,865		2,211,315		20.0	%
Deposits		2,933,108		2,074,791		41.4	%
Ratios							
Return on average assets		1.82	%	0.89	%		
Return on average common equity		22.55	%	10.44	%		
Net interest margin (taxable-equivalent)		3.81	%	3.74	%		

The following is a more detailed discussion of our results for 2009 compared to 2008:

For the year ended December 31, 2009, we reported net income available to common shareholders of $56.3 million compared to $22.0 million reported for 2008. Earnings per diluted common share were $3.37 for the year ended December 31, 2009 compared to $1.37 for 2008.

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

We also recorded preferred stock dividends and accretion related to our issuance of preferred stock to the U.S. Treasury, which reduced net income available to common shareholders and earnings per diluted common share. For

the year ended December 31, 2009, total preferred stock dividends of $4 million reduced our net income available to common shareholders.

Total assets at December 31, 2009, including the impact of the Cooperative acquisition, amounted to $3.5 billion, 28.9% higher than a year earlier. Total loans at December 31, 2009 amounted to $2.7 billion, a 20.0% increase from a year earlier, and total deposits amounted to $2.9 billion at December 31, 2009, a 41.4% increase

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from a year earlier.

Excluding the effects of the Cooperative acquisition, we experienced a general decline in loans and an increase in deposits during 2009. Excluding the impact of Cooperative, loans declined approximately 4% in 2009. We continued to originate and renew a significant amount of loans each month, but normal paydowns of loans exceeded new loan growth. Excluding the impact of Cooperative, we experienced deposit growth of approximately 7% in 2009. Additionally, we steadily lowered our levels of brokered deposits and internet deposits subsequent to the Cooperative acquisition. Brokered deposits comprised just 2.6% of total deposits at December 31, 2009, with internet deposits comprising an additional 4.4%.

Net interest income for the year ended December 31, 2009 amounted to $107.1 million, a 23.7% increase from 2008. The increases in net interest income were primarily due to 1) the higher average balances of loans and deposits previously discussed, and 2) a higher net interest margin.

Our net interest margin (tax-equivalent net interest income divided by average earnings assets) for 2009 was 3.81% compared to 3.74% for 2008. During 2009, there were no changes in the interest rates set by the Federal Reserve, and we were able to lower rates on most of our deposits, especially maturing time deposits that had been originated in periods of higher interest rates.

The depressed economic environment, including its unfavorable effect on real estate values, resulted in an increase in our loan losses and nonperforming assets, which led to significantly higher provisions for loan losses. Our provision for loan losses amounted to $20.2 million for 2009 compared to $9.9 million recorded in 2008. The increase in the provision for loan losses was solely attributable to our non-covered loan portfolio, which excludes loans assumed from Cooperative that are subject to loss share agreements with the FDIC.

Our non-covered nonperforming assets at December 31, 2009 amounted to $92 million compared to $35 million at December 31, 2008. At December 31, 2009, the ratio of non-covered nonperforming assets to total non-covered assets was 3.10% compared to 1.29% at December 31, 2008.

Our ratio of annualized net charge-offs to average non-covered loans was 0.56% for 2009 compared to 0.24% for 2008.

Noninterest income for the year ended December 31, 2009 amounted to $89.5 million compared to $20.7 million for 2008. The primary reason for the increase was the $67.9 million gain realized from the Cooperative acquisition that occurred in June 2009, as discussed above.

Noninterest expenses for the year ended December 31, 2009 amounted to $78.6 million, a 26.3% increase from the $62.2 million recorded in 2008. Incremental operating expenses associated with the Cooperative acquisition were the primary reason for the increase in 2009. Additionally, FDIC insurance expense amounted to $5.5 million for the year ended December 31, 2009, compared to $1.2 million for 2008. Included in the $5.5 million in FDIC insurance expense for 2009 was $1.6 million related to a special assessment that was levied by the FDIC on all banks in the second quarter of 2009. Also, during 2009, we recorded $1.3 million in acquisition related expenses.

Our effective tax rate was 36%-38% for each of the years ended December 31, 2009 and 2008.

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Outlook for 2011

We expect the banking industry, particularly in our region, to continue to face significant challenges in 2011. While there has been some favorable national economic data reported in recent months, we continue to be negatively impacted by very unfavorable economic statistics in our region. These include unemployment rates, housing starts, home prices, and the number of personal and business bankruptcies. We believe that the Carolinas and Virginia may have been relatively late to experience the downturn in the national economy and that this region is lagging the rest of the country in recovery. Thus we believe that our loan losses will continue to remain at elevated levels compared to historical norms for the foreseeable future. We also expect that the weak economy will continue to result in low loan demand.

We believe that regulatory reform will negatively impact our earnings. The regulatory climate is not favorable for banks. Rules limiting fees that can be charged by banks began to take effect in the second half of 2010 and more are expected in 2011. While some of these rules exempt banks like us that are less than $10 billion in size, we do not believe that a two-tiered fee system will be practical and that the fees will migrate to those permitted for the banks in excess of $10 billion due to competitive pressures. Also we expect additional overhead costs will be necessary to comply with all of the new regulations expected to arise directly or indirectly from the Dodd-Frank Act.

We also do not expect to experience expansion in our net interest margin like we did in 2010, which was driven primarily by a drop in our funding costs. In 2010, our average cost of deposits declined from 1.79% to 1.07% primarily as a result of maturities of time deposits that had been originated during periods of higher interest rates that were either renewed at lower interest rates or were withdrawn from our bank. With most of our existing time deposits now having been renewed in the current low interest rate environment, there is little opportunity to meaningfully lower our funding costs.

In 2009 we acquired a failed bank with approximately $959 million in assets (Cooperative Bank). This acquisition resulted in significant volatility to our earnings in both 2009 and 2010 primarily as a result of a bargain purchase gain recorded in 2009 that increased earnings and write-downs of foreclosed properties in 2010 that negatively impacted earnings. While we expect the Cooperative Bank acquisition to eventually be accretive to earnings on a consistent basis, we believe that it may continue to add volatility to our reported earnings in 2011. The volatility may be positive to earnings, which would most likely occur if the credit quality of the acquired loans improves, or negative to earnings, which would most likely occur if the credit quality of the acquired loans deteriorates or if the properties we have foreclosed on decline in value.

In January 2011, we acquired another failed bank with approximately $193 million in total assets (Bank of Asheville). While this transaction was smaller than the one in 2009, it could also result in earnings volatility in 2011, especially if the results of our valuation of its assets and liabilities indicate that a bargain purchase gain should be recorded.

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Critical Accounting Policies

The accounting principles we follow and our methods of applying these principles conform with accounting principles generally accepted in the United States of America and with general practices followed by the banking industry. Certain of these principles involve a significant amount of judgment and may involve the use of estimates based on our best assumptions at the time of the estimation. The allowance for loan losses, intangible assets, and the valuation of acquired assets are three policies we have identified as being more sensitive in terms of judgments and estimates, taking into account their overall potential impact to our consolidated financial statements.

Allowance for Loan Losses

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

Our determination of the adequacy of the allowance is based primarily on a mathematical model that estimates the appropriate allowance for loan losses. This model has two components. The first component involves the estimation of losses on non-single family home loans greater than $250,000 that are defined as “impaired loans.” A loan is considered to be impaired when, based on current information and events, it is probable we will be unable to collect all amounts due according to the contractual terms of the loan agreement. The estimated valuation allowance is the difference, if any, between the loan balance outstanding and the value of the impaired loan as determined by either 1) an estimate of the cash flows that we expect to receive from the borrower discounted at the loan’s effective rate, or 2) in the case of a collateral-dependent loan, the fair value of the collateral.

The second component of the allowance model is an estimate of losses for impaired single family home loans, impaired loans less than $250,000, and all loans not considered to be impaired loans. Impaired single family home loans, impaired loans less than $250,000, and loans that we have classified as having normal credit risk are segregated by loan type, and estimated loss percentages are assigned to each loan type, based on the historical losses, current economic conditions, and operational conditions specific to each loan type.   Loans that we have risk graded as having more than “standard” risk but not considered to be impaired are segregated between those relationships with outstanding balances exceeding $500,000 and those that are less than that amount. For those loan relationships with outstanding balances exceeding $500,000, we review the attributes of each individual loan and assign any necessary loss reserve based on various factors including payment history, borrower strength, collateral value, and guarantor strength. For loan relationships less than $500,000 with more than standard risk but not considered to be impaired, loss percentages are based on a multiple of the estimated loss rate for loans of a similar loan type with normal risk. The multiples assigned vary by type of loan, depending on risk, and we have consulted with an external credit review firm in assigning those multiples.

The reserve estimated for impaired loans is then added to the reserve estimated for all other loans. This becomes our “allocated allowance.” In addition to the allocated allowance derived from the model, we also evaluate other data such as the ratio of the allowance for loan losses to total loans, net loan growth information, nonperforming asset levels and trends in such data. Based on this additional analysis, we may determine that an additional amount of allowance for loan losses is necessary to reserve for probable losses. This additional amount, if any, is our “unallocated allowance.” The sum of the allocated allowance and the unallocated allowance is compared to the actual allowance for loan losses recorded on our books and any adjustment necessary for the recorded allowance to equal the computed allowance is recorded as a provision for loan losses. The provision for loan losses is a direct charge to earnings in the period recorded.

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

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

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

Intangible Assets

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

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

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

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

assumptions.

At our last goodwill impairment evaluation as of October 31, 2010, we determined the fair value of our

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community banking operation was approximately $18.25 per common share, or 6% higher, than the $17.28 stated book value of our common stock at the date of valuation. To assist us in computing the fair value of our community banking operation, we engaged a consulting firm who used eight valuation techniques as part of their analysis, which resulted in the conclusion of the $18.25 value.

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

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

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

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

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

Merger and Acquisition Activity

We completed the following acquisitions during 2008 and 2009 – there were no significant acquisitions in 2010. The results of each acquired company/branch are included in our financial statements beginning on their respective acquisition dates.

(a) On April 1, 2008, we completed the acquisition of Great Pee Dee Bancorp, Inc. (Great Pee Dee). Great Pee Dee was the parent company of Sentry Bank and Trust (Sentry), a South Carolina community bank with one branch in Florence, South Carolina and two branches in Cheraw, South Carolina. Great Pee Dee had $211 million in total assets as of the date of acquisition. This acquisition represented a natural extension of our market area, with Sentry's Cheraw offices being in close proximity to our Rockingham, North Carolina branch and Sentry's Florence office being in close proximity to our existing branches in Dillon and Latta, South Carolina. Our primary reason for the acquisition was to expand into a contiguous market with facilities, operations and experienced staff in place. The terms of the agreement called for shareholders of Great Pee Dee to receive 1.15 shares of First Bancorp stock for each share of Great Pee Dee stock they owned. The transaction resulted in the issuance of 2,059,091 shares of our common stock that were valued at approximately $37.0 million and the assumption of employee stock options with a fair market value of approximately $0.6 million. The value of the stock issued was determined using a Company stock price of $17.98,

which was the average of the daily closing price of our stock for the five trading days closest to the July 12, 2007 announcement of the execution of the

definitive merger agreement. The value of the employee stock options assumed was determined using the Black-Scholes option-pricing model. The operating results of Great Pee Dee are included in our financial statements beginning on the April 1, 2008 acquisition date.

As a result of this acquisition, we recorded approximately $847,000 in an intangible asset related to the core deposit base that is being amortized on a straight-line basis over the weighted average life of the core deposit base, which was estimated to be 7.4 years. Additionally, we recorded approximately $16.3 million in goodwill that is not being systematically amortized, but rather is subject to an annual impairment test. We agreed to a purchase price that resulted in recognition of goodwill primarily due to the reasons noted above, as well as the generally positive earnings of Great Pee Dee.

(b) On June 19, 2009, we announced that First Bank, our banking subsidiary, had entered into a purchase and assumption agreement with the Federal Deposit Insurance Corporation (FDIC), as receiver for Cooperative Bank, Wilmington, North Carolina. According to the terms of the agreement, First Bank acquired all deposits (except certain brokered deposits) and borrowings, and substantially all of the assets of Cooperative Bank and its subsidiary, Lumina Mortgage. The loans and foreclosed real estate purchased are covered by two loss share agreements between the FDIC and First Bank, which afford First Bank significant loss protection. Under the loss share agreements, the FDIC will cover 80% of covered loan and foreclosed real estate losses up to $303 million and 95% of losses in excess of that amount. The term for loss sharing on residential real estate loans is ten years, while the term for loss sharing on non-residential real estate loans is five years in respect to losses and eight years in respect to loss recoveries. The reimbursable losses from the FDIC are based on the book value of the relevant loan as determined by the FDIC at the date of the transaction.

Cooperative Bank operated through twenty-one branches in North Carolina and three branches in South Carolina, with assets totaling approximately $959 million and approximately 200 employees. This acquisition represented a natural extension of our market area with most of Cooperative‘s offices being in close proximity to our existing branches in the coastal regions of North and South Carolina.

We received a $123 million discount on the assets acquired and paid no deposit premium, which, after applying estimates of purchase accounting fair market value adjustments to the acquired assets and assumed deposits, resulted in a gain of $67.9 million.

As a result of this acquisition, we recorded approximately $3.8 million in an intangible asset related to the core deposit base that is being amortized on a straight-line basis over the weighted average life of the core deposit base, which was estimated to be 8 years.

See Note 2 and Note 6 to the consolidated financial statements for additional information regarding intangible assets.

On January 21, 2011, we entered into a purchase and assumption agreement with the FDIC to purchase substantially all the assets and liabilities of The Bank of Asheville in Asheville, North Carolina in a FDIC-assisted transaction. Since this acquisition occurred after December 31, 2010, no financial results from this acquisition are included in our consolidated financial statements for the year ended December 31, 2010. See Note 19 to the financial statements for additional information.

FDIC Indemnification Asset

As previously discussed, on June 19, 2009, we acquired substantially all of the assets and liabilities of Cooperative Bank in a FDIC-assisted transaction. The loans and foreclosed real estate purchased are covered by two loss share agreements with the FDIC, which afford First Bank significant loss protection. Under the loss share agreements, the

FDIC will cover 80% of covered loan and foreclosed real estate losses up to $303 million and 95% of losses in excess of that amount. The carrying value of this receivable at each period end is the sum

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of: 1) actual claims that have been submitted to the FDIC for reimbursement that have not yet been received and 2) our estimated amount of loan and other real estate losses covered by the agreements multiplied by the FDIC reimbursement percentage.

At December 31, 2010 and 2009, the FDIC indemnification asset was comprised of the following components:

($ in thousands)		December 31, 2010	December 31, 2009
Receivable related to claims submitted, not yet received	$	30,201	20,646
Receivable related to future claims on loans		86,966	121,823
Receivable related to future claims on other real estate owned		6,552	752
FDIC indemnification asset	$	123,719	143,221

As of the acquisition date, based on the losses inherent in the covered assets, we estimated that we would receive payments from the FDIC totaling $185.1 million, which was recorded as “FDIC Indemnification Asset.” For the one year period beginning after the acquisition date, as required by relevant accounting standards, we adjusted changes in our fair value estimates retroactively to the acquisition date. Since that time, we have recorded adjustments to the indemnification asset as discussed below.

The FDIC indemnification asset has been adjusted upwards in the following circumstances:

1) Deterioration of credit quality of covered loans – As of the acquisition date, we recorded the acquired loans on our books at a fair value that was $227.9 million less than the contractual amounts due from the borrowers, which was our estimate of the loan losses inherent in the portfolio. As the credit quality of this portfolio changes and better information is obtained about likely losses, some loans have better repayment expectations than we originally projected and some loans have worse repayment expectations than originally projected. For loans with worse repayment expectations, we record provisions for loan losses with corresponding increases to the FDIC indemnification asset by recording noninterest income in proportion to the reimbursement percentage. In 2010, we recorded provisions for loan losses on covered loans amounting to $20.9 million, which resulted in an adjustment to the FDIC indemnification asset of $16.7 million. There were no such adjustments in 2009.

2) Write-downs and losses on foreclosed properties – When we foreclose on delinquent borrowers, we initially record the foreclosed property at the lower of book or fair value (based on appraisals), with any deficiency recorded as a charge-off. Subsequent to the foreclosure, we periodically order updated appraisals and if the appraisal indicates a fair value lower than our carrying value, we must write the property down. Also, we sell foreclosed properties that frequently result in losses. Each of these situations results in the company recording losses on other real estate owned with a corresponding increase to the FDIC indemnification asset by recording noninterest income in proportion to the reimbursement percentage. In 2010, we recorded losses and write downs on covered foreclosed properties amounting to $34.5 million, which resulted in an adjustment to the FDIC indemnification asset of $27.6 million. There were no such adjustments in 2009.

3) Expenses incurred related to collection activities on covered assets – As a result of our collection efforts, we incur expenses such as legal fees, property taxes and appraisal costs. Many of these expenses are reimbursable by the FDIC. These expenses are recorded as “other” noninterest expenses and a corresponding increase is made to increase the FDIC indemnification asset by reducing the gross collection expenses by the amount expected to be reimbursed by the FDIC for eligible expenses. In 2010, we incurred $5.5 million in gross collection expenses related to covered assets and reduced that amount by $2.9 million in FDIC reimbursements. In 2009, we incurred $2.1 million in gross collection expenses related to covered assets and reduced that amount by $1.3 million in FDIC reimbursements.

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The FDIC indemnification asset has been adjusted downwards in the following circumstances:

1) Receipt of cash from the FDIC related to claims submitted – On at least a quarterly basis, we submit eligible loss share claims to the FDIC. After reviewing and approving the claims, the FDIC wires us cash, which reduces the amount of the FDIC indemnification asset. In 2010 and 2009, we received $25.8 million and $40.5 million in FDIC reimbursements, respectively.

2) Accretion of discount on acquired loans – As noted above, we recorded the acquired loans on our books at a fair value that was $227.9 million less than the contractual amounts due from the borrowers (the "discount"), which was our estimate of the loan losses inherent in the portfolio. As the credit quality of this portfolio changes and better information is obtained about likely losses, some loans have better repayment expectations than we originally projected and some loans have worse repayment expectations than originally projected. For loans with improved repayment expectations, we are systematically reducing the discount over the life of the loan as it repays. For some loans, we have received complete payoffs at the contractual balance and the discount must be reduced to zero. When we reduce/accrete the discount, we do so by recognizing interest income in that same amount. Because the expected losses on loans with improved repayment expectations becomes less than the original estimate, so does our expected reimbursement from the FDIC. Accordingly, we reduce the FDIC indemnification asset by the corresponding reimbursement percentage. In 2010 and 2009, we recorded discount accretion of $7.6 million and $1.5 million, respectively, which resulted in a reduction of FDIC indemnification asset of $6.1 million and $1.2 million respectively.

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

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

The following presents a rollforward of the FDIC indemnification asset since the date of the Cooperative Bank acquisition.

($ in thousands)

Balance at June 19, 2009	$185,112
Decrease related to favorable change in loss estimates	(1,516)
Increase related to reimbursable expenses	1,300
Cash received	(40,500)
Accretion of loan discount	(1,175)
Balance at December 31, 2009	143,221
Increase related to unfavorable change in loss estimates	30,419
Increase related to reimbursable expenses	2,900

Cash received	(46,721)
Accretion of loan discount	(6,100)
Balance at December 31, 2010	$123,719

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ANALYSIS OF RESULTS OF OPERATIONS

Net interest income, the “spread” between earnings on interest-earning assets and the interest paid on interest-bearing liabilities, constitutes the largest source of our earnings. Other factors that significantly affect operating results are the provision for loan losses, noninterest income such as service fees and noninterest expenses such as salaries, occupancy expense, equipment expense and other overhead costs, as well as the effects of income taxes.

Net Interest Income

Net interest income on a reported basis amounted to $127,354,000 in 2010, $107,096,000 in 2009, and $86,559,000 in 2008. For internal purposes and in the discussion that follows, we evaluate our net interest income on a tax-equivalent basis by adding the tax benefit realized from tax-exempt securities to reported interest income. Net interest income on a tax-equivalent basis amounted to $128,670,000 in 2010, $107,914,000 in 2009, and $87,217,000 in 2008. Management believes that analysis of net interest income on a tax-equivalent basis is useful and appropriate because it allows a comparison of net interest amounts in different periods without taking into account the different mix of taxable versus non-taxable investments that may have existed during those periods. The following is a reconciliation of reported net interest income to tax-equivalent net interest income.

		Year ended December 31,		
($ in thousands)		2010	2009	2008
Net interest income, as reported	$	127,354	107,096	86,559
Tax-equivalent adjustment		1,316	818	658
Net interest income, tax-equivalent	$	128,670	107,914	87,217

Table 2 analyzes net interest income on a tax-equivalent basis. Our net interest income on a tax-equivalent basis increased by 19.2% in 2010 and 23.7% in 2009. There are two primary factors that cause changes in the amount of net interest income we record - 1) growth in loans and deposits, and 2) our net interest margin (tax-equivalent net interest income divided by average interest-earning assets). In 2009 and 2010, higher average loan and deposit balances increased net interest income. Also, the positive effects of the increased balances were enhanced by a higher net interest margin realized in 2009 and 2010.

Although loans and deposits outstanding decreased during calendar year 2010, the average balances of loans and deposits were both higher in 2010 than they were in 2009. Also, 2009 had higher average balances of loans and deposits than 2008. The higher average loan and deposit balances for both annual comparisons were a result of the Cooperative Bank acquisition that occurred in mid-2009. The loans and deposits acquired in this acquisition impacted loan and deposit balances outstanding for all twelve months of 2010 and for the six month period subsequent to the June 2009 acquisition.

As illustrated in Table 3, the higher average loan and deposit balances positively impacted net interest income in both 2010 and 2009. In both years, the positive impact on net interest income of growth in interest-earning assets, primarily loans, more than offset the higher interest expense associated with the higher average balances of interest-bearing liabilities. In 2010, growth in interest-earning assets resulted in an increase in interest income of $6.1 million, while higher amounts of interest-bearing liabilities only resulted in $0.5 million in increased interest expense. In 2009, growth in interest-earning assets resulted in an increase in interest income of $25.3 million, while growth in interest-bearing liabilities only resulted in $12.6 million in higher interest expense. As a result, higher average balances of loans and deposits resulted in an increase in tax-equivalent net interest income of $5.6 million in 2010 and $12.7 million in 2009.

Table 3 also illustrates the impact that changes in the rates that we earned/paid had on our net interest income in 2009 and 2010. Beginning in late 2007 and throughout 2008, the Federal Reserve reduced interest rates

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significantly as a result of recessionary conditions. While there have been no changes in interest rates set by the Federal Reserve since 2008, we were able to lower our deposit pricing throughout 2009 and 2010 (see discussion below). In 2009, the impact of lower interest rates resulted in a reduction of interest expense of $25.0 million, due mostly to the ability to reprice time deposits at lower levels, while our interest income only declined by $17.0 million. Thus, the impact of overall lower rates resulted in an $8.0 million increase in net interest income. In 2010, we continued to reduce the interest rates we paid on deposits, particularly for maturing time deposits that were originated in periods of higher interest rates, which resulted in a reduction of interest expense of $17.5 million. Lower interest rates reduced our interest income by only $2.3 million, thus resulting in a $15.2 million increase in net interest income. The overall impact of the higher average loan/deposit balances and the change in rates was an increase in tax-equivalent net interest income of approximately $20.7 million in both 2009 and 2010.

We measure the spread between the yield on our earning assets and the cost of our funding primarily in terms of the ratio entitled "net interest margin" which is defined as tax-equivalent net interest income divided by average earning assets. Our net interest margin increased 58 basis points in 2010 to 4.39% from 3.81% in 2009 and 3.74% in 2008.

From September 2007 to December 2008, the Federal Reserve reduced interest rates by a total of 500 basis points. When interest rates are lowered, our net interest margin generally declines, at least temporarily, because generally our assets that reprice when interest rates change reprice downward immediately by the full amount of the interest rate change, while most of our liabilities that are subject to adjustment reprice at a lag to the rate change and typically not to the full extent of the rate change. Our net interest margin declined from 4.18% in 2006 to 4.00% in 2007 to 3.74% in 2008.

In 2009 and 2010, our net interest margin increased, primarily as a result of the Federal Reserve making no changes to interest rates. With interest rates at stabilized lower levels, we were able to reprice many of our maturing time deposits, which had been originated in periods of higher interest rates, at lower rates. We were also able to generally decrease the rates we paid on other types of deposits as a result of declining short-term interest rates in the marketplace and an increase in liquidity that lessened our need to offer premium interest rates.

For the reasons discussed above, in 2010 and 2009 the yields we realized on our interest-earning assets decreased by a smaller amount than did the rates we paid on our interest-bearing liabilities. As derived from Table 2, in 2010, the yield realized on average earning assets decreased by only five basis points from 2009 (from 5.53% to 5.48%) while the average rate paid on interest-bearing liabilities decreased by 76 basis points (from 1.96% to 1.20%). In 2009, the yield realized on average earning assets decreased by only 85 basis points from 2008 (from 6.38% to 5.53%) while the average rate paid on interest-bearing liabilities decreased by 108 basis points (from 3.04% to 1.96%). The difference in these changes in 2010 and 2009 positively impacted our net interest margin.

In addition to the factors noted above, in 2008, 2009, and 2010, our net interest income was impacted by certain purchase accounting adjustments related to our acquisitions of Cooperative Bank and Great Pee Dee. In our Cooperative Bank acquisition, we assumed a loan portfolio that had interest rates that were generally consistent with interest rates in our loan portfolio. However, as a result of the efforts to attract deposits and maintain sufficient liquidity in the period prior to the bank's closing, Cooperative Bank's time deposits had interest rates that were significantly higher than the existing market rate for time deposits. Accounting regulations required us to record a premium on those deposits and amortize the premium as a reduction to interest expense over the life of the deposit portfolio in order to reduce the yield on those deposits to a market rate of interest. In addition, as discussed in "Critical Accounting Policies" above, we are accreting the initial discount recorded on nonimpaired Cooperative loans over the lives of the loans. Less significant interest income and expense purchase accounting adjustments were also recorded in 2008, 2009, and 2010 related to our 2008 acquisition of Great Pee Dee. The following tables present the purchase accounting adjustments made in 2008, 2009, and 2010 that impacted net interest income.

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($ in thousands)	Year Ended December 31, 2010		
	Cooperative	Great Pee Dee	Total
Interest income – reduced by premium amortization on loans	$ –	(196)	(196)
Interest income – increased by accretion of loan discount	7,607	–	7,607
Interest expense – reduced by premium amortization of deposits	(2,211)	–	(2,211)
Interest expense – reduced by premium amortization of borrowings	–	(341)	(341)
Impact on net interest income	$ 9,818	145	9,963

($ in thousands)	Year Ended December 31, 2009		
	Cooperative	Great Pee Dee	Total
Interest income – reduced by premium amortization on loans	$ –	(196)	(196)
Interest income – increased by accretion of loan discount	1,469	–	1,469
Interest expense – reduced by premium amortization of deposits	(3,711)	(200)	(3,911)
Interest expense – reduced by premium amortization of borrowings	–	(464)	(464)
Impact on net interest income	$ 5,180	468	5,648

($ in thousands)	Year Ended December 31, 2008		
	Cooperative	Great Pee Dee	Total
Interest income – reduced by premium amortization on loans	$ –	(147)	(147)
Interest income – increased by accretion of loan discount	–	–	–
Interest expense – reduced by premium amortization of deposits	–	(898)	(898)
Interest expense – reduced by premium amortization of borrowings	–	(347)	(347)
Impact on net interest income	$ –	1,098	1,098

The following table presents the purchase accounting entries that we expect to record in 2011.

	Cooperative	Great Pee Dee	Total
Interest income – reduced by premium amortization on loans	$ –	(192)	(192)

Interest income – increased by accretion of loan discount	See note below	–	–
Interest expense – reduced by premium amortization of deposits	–	–	–
Interest expense – reduced by premium amortization of borrowings	–	(144)	(144)
Impact on net interest income	See note below	(48)	(48)

We cannot determine the amount of interest income, if any, to be recognized from the accretion of the loan discount on Cooperative loans because it is reliant on our ongoing assessment of the repayment period of the loans, which is impacted by any changes in expected credit losses related to the loans.

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

Provision for Loan Losses

The provision for loan losses charged to operations is an amount sufficient to bring the allowance for loan losses to an estimated balance considered appropriate to absorb probable losses inherent in our loan portfolio. Management's determination of the adequacy of the allowance is based on the level of loan growth, an evaluation of the portfolio, current economic conditions, historical loan loss experience and other risk factors.

The current economic environment which began in late 2007 has resulted in declines in real estate values and increases in loan delinquencies, loan losses and nonperforming assets, which has led to significantly higher provisions for loan losses. Our provision for loan losses was $54,562,000 in 2010, compared to $20,186,000 in

2009 and $9,880,000 in 2008. In 2010, our provision for loan losses was comprised of $33.6 million in provisions related to non-covered loans and $20.9 million related to covered loans, whereas in prior years the provision only related to non-covered loans.

We recorded $33.6 million and $20.2 million in provision for loan losses related to non-covered loans for the year-ended December 31, 2010 and 2009, respectively. The higher provisions were necessary primarily as a result of higher levels of classified and nonperforming assets and the impact of declining real estate value on our collateral dependent real estate loans.

In 2010, we recorded $20.9 million in provision for loan losses related to covered loans that experienced credit quality deterioration. The credit quality deterioration primarily related to collateral dependent loans for which we received updated appraisals during the fourth quarter of 2010 that reflected lower valuations. Because this provision for loan losses related to covered loans, the FDIC indemnification asset was adjusted upwards by recording noninterest income of $16.7 million, or 80% of the amount of the provision.

Net charge-offs for the years ended December 31, 2010, 2009, and 2008, were $42.5 million, $12.1 million, and $5.1 million, respectively. Net charge-offs were impacted in 2010 by $9.8 million in charge-offs of covered loans and $8.6 million in partial charge-offs of non-covered loans, with no corresponding charge-offs of those types recorded in prior periods. The charge-offs of covered loans were primarily a result of declining collateral values on collateral dependent loans. As it relates to partial charge-offs, previously we recorded specific reserves on collateral-deficient nonaccrual loans within the allowance for loan losses, but did not record charge-offs until the loans had been foreclosed upon.

In 2010, for both our covered and non-covered loans, our provision for loan losses and net charge-offs were concentrated in loans classified as “real estate – construction, land development & other land loans.” This category of loans is primarily comprised of land acquisition and development loans and other types of lot loans. These types of loans have been particularly hard hit by the decline in real estate development and property values. As can be seen in Table 10, although we have reduced our exposure to this category of loans, we continue to have exposure to this sector and future significant losses could result.

Non-covered nonperforming assets at December 31, 2010 amounted to $117 million compared to $92 million and $35 million at December 31, 2009 and 2008, respectively. At December 31, 2010, the ratio of non-covered nonperforming assets to total non-covered assets was 4.16% compared to 3.10% and 1.29% at December 31, 2009 and 2008, respectively.

See the section entitled “Allowance for Loan Losses and Loan Loss Experience” below for a more detailed discussion of the allowance for loan losses. The allowance is monitored and analyzed regularly in conjunction with our loan analysis and grading program, and adjustments are made to maintain an adequate allowance for loan losses.

Noninterest Income

Our noninterest income amounted to $29,106,000 in 2010, $89,518,000 in 2009, and $20,657,000 in 2008.

As shown in Table 4, core noninterest income excludes gains from acquisitions, foreclosed property write-downs and losses, indemnification asset income, and other miscellaneous gains and losses. Core noninterest income amounted to $22,131,000 in 2010, a 1.2% increase from $21,870,000 in 2009. The 2009 core noninterest income of $21,870,000 was 6.6% higher than the $20,515,000 recorded in 2008.

See Table 4 and the following discussion for an understanding of the components of noninterest income.

Service charges on deposit accounts in 2010 amounted to $13,422,000, a 3.1% decrease compared to $13,854,000 recorded in 2009. The $13,854,000 recorded in 2009 was 2.4% more than the 2008 amount of

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$13,535,000. Legislation that became effective on July 1, 2010 reduced our fees earned on overdrafts in 2010. The legislation prohibits us from charging an overdraft fee for paying automated teller machine (ATM) and one-time debit card transactions that overdraw a consumer's account, unless the consumer affirmatively consents, or opts in, to the institution's payment of overdrafts for these transactions. The increase in service charges in 2009 was due to a larger customer base as a result of the Cooperative acquisition.

Other service charges, commissions and fees amounted to $5,388,000 in 2010, an 11.1% increase from the $4,848,000 earned in 2009. The 2009 amount of $4,848,000 was a 10.4% increase from the $4,392,000 recorded in 2008. This category of noninterest income includes items such as electronic payment processing revenue (which includes fees related to credit card transactions by merchants and customers and fees earned from debit card transactions), ATM charges, safety deposit box rentals, fees from sales of personalized checks, and check cashing fees. The growth in this category for both years was primarily due to the increased acceptance and popularity of debit cards (for which we earn income for each use by our customers) and the overall growth in our total customer base, including growth achieved from corporate acquisitions.

In 2011, we expect our service charges on deposit accounts and our other service charge category to be negatively impacted by new rules governing overdraft fees and debit card interchange income. However, we plan to introduce new fees to mitigate the impact of those declines. The net overall effect of these changes on the other service charges, commissions and fees line item is difficult to predict, but our current expectation is for a decline in this category of income.

Fees from presold mortgages amounted to $1,813,000 in 2010, $1,505,000 in 2009, and $869,000 in 2008. The increase in fees since 2008 has been a result of high mortgage refinance activity due to lower interest rates.

Commissions from sales of insurance and financial products amounted to $1,476,000 in 2010, $1,524,000 in 2009, and $1,552,000 in 2008. This line item includes commissions we receive from three sources - 1) sales of credit life insurance associated with new loans, 2) commissions from the sales of investment, annuity, and long-term care insurance products, and 3) commissions from the sale of property and casualty insurance.
The following table presents the contribution of each of the three sources to the total amount recognized in this line item:

($ in thousands)		2010	2009	2008
Commissions earned from:				
Sales of credit life insurance	$	107	281	294
Sales of investments, annuities, and long term care insurance		531	503	474
Sales of property and casualty insurance		838	740	784
Total	$	1,476	1,524	1,552

Data processing fees amounted to $32,000 in 2010, $139,000 in 2009, and $167,000 in 2008. As noted earlier, Montgomery Data was merged into the Bank in April 2010. Montgomery Data had historically made its excess data processing capabilities available to area financial institutions for a fee. In January 2010, the last remaining customer terminated its service agreement with Montgomery Data. We do not expect any third party data processing fee income for the foreseeable future.

Noninterest income not considered to be "core" amounted to a net gain of $6,975,000 in 2010, a net gain of $67,648,000 in 2009, and a net gain of $142,000 in 2008. The components of non-core noninterest income are shown in Table 4.

In 2010, we recorded $35.5 million in write-downs and losses on foreclosed properties, of which $34.5

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million related to write-downs on covered foreclosed properties. Subsequent to the Cooperative acquisition in June 2009, we ordered appraisals on a majority of the acquired loans and foreclosed real estate. The appraisal values indicated that our initial fair value estimates of the failed bank's assets were too low. Accordingly, as required by applicable accounting standards, during the second half of 2009, we retroactively wrote these assets up to the higher appraised values and the bargain purchase gain was increased from the originally stated $54 million to $68 million. During 2010, most significantly during the fourth quarter of 2010, we obtained appraisals on a majority of our covered foreclosed properties, which included many of the same properties appraised in the prior year. The appraised values were significantly lower than the values from a year earlier. Accordingly, we wrote the assets down in 2010. Consistent with the other failed bank accounting adjustments discussed earlier, the bottom line impact to pretax income of these write-downs was 20% of the gross write-downs. As of December 31, 2010, approximately 91% of the amount of covered foreclosed properties had supporting appraisal valuations that were less than 6 months old.

Indemnification asset income for 2010 amounted to $41.8 million (with no corresponding amounts in prior periods), which primarily relates to upward adjustments to the amount expected to be received from the FDIC under loss share agreements as a result of higher than anticipated loan losses and foreclosed property losses and write-downs, as follows ($ in millions):

Higher expected FDIC claims for covered loans experiencing a deterioration in quality	$20.9	
Lower expected FDIC claims for covered loans experiencing principal paydowns/payoffs	(3.2	)
Foreclosed property losses and write-downs - covered	34.5	
Total adjustment to expected FDIC loss-share claims	52.2	
Expected reimbursement rate	80	%
Indemnification asset income	$41.8	

The line item "Other gains (losses)" was positively impacted in 2010 by the sale of our merchant credit card processing portfolio, which resulted in a gain of $850,000.

In 2009, as previously discussed, we realized a gain of $67,894,000 from the acquisition of Cooperative Bank in June 2009.

Noninterest Expenses

Noninterest expenses for 2010 were $86,956,000, compared to $78,551,000 in 2009 and $62,211,000 in 2008. Table 5 presents the components of our noninterest expense during the past three years.

As reflected in the amounts noted above, noninterest expenses increased 10.7% in 2010 and 26.3% in 2009. The increases in noninterest expenses over the past three years have occurred in almost every line item of expense and have been primarily a result of our significant growth. Due to acquisition and internal growth, over the past three years our number of bank branches has increased from 70 to 92, and the number of full time equivalent employees has increased from 614 at December 31, 2007 to 774 at December 31, 2010. Additionally, from December 31, 2007 to December 31, 2010, the amount of loans outstanding increased 29.6% and deposits increased 44.3%.

Total personnel expense increased by approximately $3.7 million, or 8.9%, in 2010. Salaries expense increased $4.3 million during 2010, due primarily to a full year of salaries relating to employees assumed in the June 2009 Cooperative acquisition. The increase in salary expense was partially offset by lower health care expenses of $0.4 million and lower pension expense in 2010 of $0.6 million. We self-insure our employees' health care expense; therefore, incurred health care costs directly impact the expense we record. After a very unfavorable year in health care costs in 2009, our expense declined modestly in 2010. Pension expense decreased during 2010 primarily due to

investment gains experienced by the pension plan's assets in 2009.

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In 2009, employee benefits expense increased by approximately $3.5 million, or 48.1%. The primary reasons for the increase in this line item relate to higher health care expense and higher pension expense. In 2009 employee health care expense increased to $3.7 million compared to $2.1 million in 2008 as a result higher claims. Pension expense also increased during 2009, amounting to $3.7 million in 2009 compared to $2.3 million in 2008. This increase was primarily a result of investment losses experienced by the pension plan's assets in 2008. In order to manage this expense, effective June 2009, we stopped adding new participants to our pension plan.

In 2009, as a result of the acquisition of Cooperative Bank we incurred approximately $1.3 million in acquisition expenses, primarily consisting of professional fees.

FDIC deposit insurance expense has generally increased over the past few years. In 2008, 2009, and 2010, we incurred approximately $1.2 million, $5.5 million, and $4.4 million, respectively, in FDIC deposit insurance premium expense. The $5.5 million in FDIC insurance expense for 2009 included a special assessment, which applied to all banks, of $1.6 million and was recorded in the second quarter of 2009. As noted above, excluding the impact of any special assessments, we expect our FDIC insurance expense to decline by approximately $1.6 million on an annual basis beginning April 1, 2011 as a result of a change in the FDIC's assessment methodology.

Due to higher levels of delinquencies and foreclosures, including covered assets, we recorded $4.8 million in repossession and collection expenses in 2010, compared to $1.7 million in 2009. See Note 16 to the consolidated financial statements for additional detail.

Our ratio of noninterest expense to average assets was 2.61% in 2010 compared to 2.54% in 2009 and 2.50% in 2008. Our efficiency ratio (noninterest expense divided by the sum of tax-equivalent net interest income plus noninterest income) was 55.11% in 2010 compared to 39.79% in 2009 and 57.67% in 2008. For both of the ratios described in this paragraph, a lower ratio is more favorable than a higher ratio, as they generally indicate the amount of expenditures required to produce additional amounts of income. The significantly lower efficiency ratio in 2009 was a result of the acquisition gain related to Cooperative that amounted to $67.9 million.

Income Taxes

The provision for income taxes was $4,960,000 in 2010, $37,618,000 in 2009, and $13,120,000 in 2008.

Table 6 presents the components of tax expense and the related effective tax rates. The effective tax rate for 2010 was 33.2% compared to 38.4% in 2009 and 37.4% in 2008. The lower effective tax rate in 2010 was primarily due to increased investment holdings of tax-exempt municipal securities.   In 2009, due to the acquisition of Cooperative Bank we recorded a gain of $67.9 million, which resulted in a $26.8 million increase in the provision for income taxes. We expect our effective tax rate to be approximately 35% in 2011.

Stock-Based Compensation

We recorded stock-based compensation expense of $640,000, $449,000 and $143,000 for the years ended December 31, 2010, 2009, and 2008, respectively.

On June 1, 2010, we granted 1,039 shares of common stock to each of our non-employee directors. On June 1 of 2008 and 2009, we made stock-based grants of 2,250 options to each of our non-employee directors. In 2008, in addition to the annual director grant, our board of directors approved a grant of incentive-based stock awards to 19 senior officers under the First Bancorp 2007 Equity Plan. In 2009, our board of directors approved a grant of long-term restricted stock to certain senior executives under the 2007 Equity Plan. Both grants are discussed in the following paragraphs.

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On June 17, 2008, 262,599 stock options and 81,337 performance units were awarded to 19 senior officers under the 2007 Equity Plan. Each performance unit represents the right to receive one share of First Bancorp common stock upon satisfaction of the vesting conditions. This grant has both performance conditions (earnings per share targets) and service conditions that must be met in order to vest. The 262,599 stock options and 81,337 performance units represented the maximum amount of options and performance units that could have vested if the Company were to achieve specified maximum goals for earnings per share during the three annual performance periods ending on December 31, 2008, 2009, and 2010. Up to one-third of the total number of options and performance units granted will vest annually as of December 31 of each year beginning in 2010, if (1) the Company achieves specific EPS goals during the corresponding performance period and (2) the award recipient continues employment for a period of two years beyond the corresponding performance period. Compensation expense for this grant will be recorded over the various service periods based on the estimated number of options and performance units that are probable to vest. If the awards do not vest, no compensation cost will be recognized and any previously recognized compensation cost will be reversed. We did not achieve the minimum earnings per share performance goal for 2008 or 2010, and thus two-thirds of the above grant has been permanently forfeited. As a result of the significant gain realized in June 2009 related to the Cooperative Bank acquisition, the EPS goal for 2009 was met. Accordingly, we recorded compensation expense of $298,000 in 2009 and 2010. We expect to record compensation expense of approximately $75,000 on a quarterly basis through the vesting period of December 31, 2011.

On December 11, 2009, the board of directors granted 29,267 long-term restricted shares of common stock to certain senior executives. This restricted stock vests in accordance with the minimum rules for long-term equity grants for companies participating in the United States Treasury’s Troubled Asset Relief Program (TARP). These rules require that the vesting of the stock be tied to repayment of the financial assistance. For each 25% of total financial assistance repaid, 25% of the total long-term restricted stock may become transferrable. The total compensation expense associated with this grant was $398,000 and is being initially amortized over a four year period. The amount of compensation expense recorded in 2009 in connection with this grant was insignificant. We recorded total compensation expense of $99,000 in 2010.

Excluding the incentive grants noted above, our stock-based compensation expense related to options currently outstanding is insignificant. We expect to continue an annual equity grant to each of our non-employee directors in 2011. The 2010 annual equity grant resulted in us recording an expense of $242,000 ($148,000 after-tax).

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ANALYSIS OF FINANCIAL CONDITION AND CHANGES IN FINANCIAL CONDITION

Overview

Over the past two years, our total assets have increased from $2.8 billion at December 31, 2008 to $3.3 billion at December 31, 2010. Changes in our loans and deposit balances occur as a result of organic growth or decline, as well as acquisitions. During the second quarter of 2009, we acquired Cooperative Bank under a purchase and assumption agreement with the FDIC. The following table presents detailed information regarding the nature of changes in our loans and deposits in 2009 and 2010:

($ in thousands)	Balance at beginning of period	Internal growth (1)	Growth from Acquisitions	Balance at end of period	Total percentage growth	Internal percentage growth (1)
2010						
Loans	$2,652,865	(198,733)	–	2,454,132	-7.5%	-7.5%
Deposits – Noninterest bearing	$272,422	20,337	–	292,759	7.5%	7.5%
Deposits – NOW	362,366	(69,743)	–	292,623	-19.2%	-19.2%
Deposits – Money market	496,940	1,372	–	498,312	0.3%	0.3%
Deposits – Savings	149,338	3,987	–	153,325	2.7%	2.7%
Deposits – Brokered time	76,332	67,222	–	143,554	88.1%	88.1%
Deposits – Internet time	128,024	(81,223)	–	46,801	-63.4%	-63.4%
Deposits – Time >$100,000 - retail	704,128	(101,757)	–	602,371	-14.5%	-14.5%
Deposits – Time <$100,000 - retail	743,558	(120,790)	–	622,768	-16.2%	-16.2%
Total deposits	$2,933,108	(280,595)	–	2,652,513	-9.6%	-9.6%
2009						
Loans	$2,211,315	(159,554)	601,104	2,652,865	20.0%	-7.2%
Deposits – Noninterest bearing	$229,478	7,720	35,224	272,422	18.7%	3.4%
Deposits – NOW	198,775	131,576	32,015	362,366	82.3%	66.2%
Deposits – Money market	340,739	110,444	45,757	496,940	45.8%	32.4%
Deposits – Savings	125,240	2,855	21,243	149,338	19.2%	2.3%
Deposits – Brokered time	78,569	(45,180)	42,943	76,332	-2.8%	-57.5%
Deposits – Internet time	5,206	(38,854)	161,672	128,024	n/a	n/a
Deposits – Time >$100,000 - retail	520,198	35,826	148,104	704,128	35.4%	6.9%
Deposits – Time <$100,000 - retail	576,586	(58,131)	225,103	743,558	29.0%	-10.1%
Total deposits	$2,074,791	146,256	712,061	2,933,108	41.4%	7.0%

(1) Excludes the impact of acquisitions in the year of the acquisition.

As derived from the table above, in 2009 our loans increased by $442 million, or 20.0%, which was due to our acquisition of Cooperative Bank on June 19, 2009, which resulted in an increase in loans of $601 million. Excluding the impact of the acquisition, loans declined $160 million, or 7.2%, in 2009 – see discussion below.

During 2009, deposits increased $858 million, or 41.4%, of which $146 million was internal growth and $712 million was from the Cooperative Bank acquisition. We primarily attribute the 2009 internal growth to customers shifting money to banks from other non-FDIC insured sources. Deposit growth in NOW accounts for 2009 was impacted by a $65 million deposit received during the last week of the year.

The deposit portfolio assumed from Cooperative Bank had a high concentration of time deposits, comprising approximately 81% of total deposits compared to our recent historical average of 55%-57%. Time deposits are generally our bank's most expensive funding source. Additionally, Cooperative Bank's time deposits were more heavily concentrated in brokered time deposits and time deposits gathered by placing interest rates on internet

websites. Prior to the Cooperative acquisition, we had $66 million in brokered deposits and $7 million in internet deposits. The acquisition brought us an additional $43 million in brokered deposits and $162 million in internet deposits.

After experiencing a 7.2% decline in loans in 2009 (excluding acquired loans), we experienced a decline in loans of 7.5% in 2010. Although we originated and renewed a significant amount of loans each month, normal paydowns of loans and loan foreclosures exceeded new loan growth during the year. We believe internally generated loans declined due to lower loan demand in the recessionary economy, as well as an initiative that we began in 2008 to require generally higher loan interest rates to better compensate us for our risk. Also, we have de-emphasized certain types of lending, most notably acquisition and development land loans and non-owner occupied commercial real estate. Overall, loan demand remains weak in most of our market areas.

In 2010, we experienced a decline in deposits of 9.6%, with most of the decline occurring in retail time deposits. Retail time deposits are generally a high cost source of funds for us and during 2009 and 2010, we decided not to match promotional time deposit interest rates being offered by several of our local competitors, which we felt were too high compared to alternative funding sources, and consequently we experienced a loss of internally generated time deposits.

In 2010, our level of time deposits gathered from internet posting services declined from $128 million to $47 million. Substantially all of our internet deposits were assumed in the Cooperative acquisition in 2009. Prior to its closing, Cooperative was prohibited from originating or renewing brokered deposits and accordingly, they enhanced liquidity by offering relatively high interest rates on internet posting services. As these time deposits have matured, the internet depositors, mostly credit unions, have elected not to renew the time deposits at the interest rates we have proposed. In 2010, we replaced most of the lost internet deposits with brokered deposits, which had more favorable interest rates. As a result, our brokered deposits increased from $76 million at December 31, 2009 to $144 million at December 31, 2010. We expect this trend to continue in 2011. Despite our increased usage of brokered deposits, brokered deposits comprised just 5.4% of total deposits at December 31, 2010, with internet deposits comprising an additional 1.8%.

We also experienced a $70 million decrease in our NOW accounts during 2010, primarily as a result of two depositors who withdrew their funds in the last week of the year in anticipation of the expiration of certain provisions of the FDIC transaction account guarantee program. This program previously provided unlimited FDIC insurance for interest bearing transaction accounts earning interest rates up to 0.25%.

Our overall liquidity declined slightly during 2010 compared to 2009. We experienced a $281 million decline in deposits, while loans decreased just $199 million. To help offset these declines, we increased our borrowings by approximately $20 million during 2010. Our liquid assets (cash and securities) as a percentage of our total deposits and borrowings decreased from 17.8% at December 31, 2009 to 15.4% at December 31, 2010.

Our capital ratios improved in 2010. All of our capital ratios have continually exceeded the regulatory thresholds for “well-capitalized” status for all periods covered by this report.

Due to the recessionary economic environment that began in 2007, our asset quality ratios have worsened. Our non-covered nonperforming assets to total non-covered assets ratio was 4.16% at December 31, 2010 compared to 3.10% at December 31, 2009, and 1.29% at December 31, 2008. For the year ended December 31, 2010, our ratio of net charge-offs to average non-covered loans was 1.55% compared to 0.56% for 2009, and 0.24% for 2008.

Distribution of Assets and Liabilities

Table 7 sets forth the percentage relationships of significant components of our balance sheet at December 31, 2010, 2009, and 2008.

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In 2008, loans comprised 80% of total assets while deposits comprised 76% of total assets. In 2009, primarily as a result of the general decline in loan balances (excluding acquired loans) and the increases in deposits, the percentage of loans to total assets decreased to 74%, while the percentage of deposits to total assets increased to 82%. In 2010, our balance sheet distribution remained relatively stable in comparison to 2009. The decline in retail time deposits less than $100,000 ("other time deposits") discussed earlier resulted in other time deposits declining from 23% to 20% of total liabilities and shareholders' equity and also contributed to the decline in short term investments from 8% of total assets to 5%.

Securities

Information regarding our securities portfolio as of December 31, 2010, 2009, and 2008 is presented in Tables 8 and 9.

The composition of the investment securities portfolio reflects our investment strategy of maintaining an appropriate level of liquidity while providing a relatively stable source of income. The investment portfolio also provides a balance to interest rate risk and credit risk in other categories of the balance sheet while providing a vehicle for the investment of available funds, furnishing liquidity, and supplying securities to pledge as required collateral for certain deposits.

Total securities amounted to $235.2 million, $214.2 million, and $187.2 million at December 31, 2010, 2009, and 2008, respectively. In 2009, we experienced higher cash balances as a result of deposit growth that exceeded loan growth. We invested a portion of this cash in investment securities, which resulted in higher securities balances in 2009 compared to 2008. In 2010, we decided to invest a portion of our excess cash balances into securities. In 2009, the majority of our purchases were mortgage-backed securities issued by the Government National Mortgage Association (Ginnie Mae), which are 100% guaranteed by the United States government and carry a zero percent weighting for risk-based capital purposes. In 2010, we primarily purchased 1) Small Business Administration (SBA) loan pools that are 100% guaranteed by the United States government and carry a zero percent weighting for risk-based capital purposes and 2) general obligation municipal bonds of select municipalities located within our general market areas. In general, we prefer to invest in short-to-medium term investments in order to provide liquidity and manage interest rate risk.

The majority of our "government-sponsored enterprise" securities are issued by the Federal Home Loan Bank and carry one maturity date, often with an issuer call feature. At December 31, 2010, of the $43 million in carrying value of government-sponsored enterprise securities, $32 million were issued by the Federal Home Loan Bank system and the other $11 million were issued by the Federal Farm Credit Bank system.

Our $107 million of mortgage-backed securities have all been issued by either Freddie Mac, Fannie Mae, Ginnie Mae, or the SBA, each of which are government-sponsored corporations. We have no "private label" mortgage-backed securities. Mortgage-backed securities vary in their repayment in correlation with the underlying pools of home mortgage loans.

Included in mortgage-backed securities at December 31, 2010 were collateralized mortgage obligations ("CMOs") with an amortized cost of $2.6 million and a fair value of $2.7 million. The CMOs that we have invested in are substantially all "early tranche" portions of the CMOs, which minimizes our long-term interest rate risk.

At December 31, 2010, our $15.3 million investment in corporate bonds was comprised of the following:

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($ in thousands) Issuer	S&P Issuer Ratings (1)	Maturity Date	Amortized Cost	Market Value
First Citizens Bancorp (South Carolina) Bond	Not Rated	4/1/15	$2,996	2,978
Bank of America Trust Preferred Security	BB	12/11/26	2,046	2,017
Wells Fargo Trust Preferred Security	A-	1/15/27	2,559	2,553
Bank of America Trust Preferred Security	BB	4/15/27	5,053	5,044
First Citizens Bancorp (North Carolina) Trust Preferred Security	BB	3/1/28	2,100	2,088
First Citizens Bancorp (South Carolina) Trust Preferred Security	Not Rated	6/15/34	1,000	650
Total investment in corporate bonds			$15,754	15,330

(1) The ratings are as of January 24, 2011.

Substantially all of our investment in equity securities at each year end was comprised of capital stock in the Federal Home Loan Bank of Atlanta (FHLB). The FHLB requires us to purchase their stock in order to borrow from them. The amount they require us to invest is based on our level of borrowings from them. At December 31, 2010, our investment in capital stock of the FHLB amounted to $14.8 million of our total investment in equity securities of $15.1 million. Until February 27, 2009, the FHLB redeemed their stock at par as borrowings were repaid. On February 27, 2009, the FHLB announced that they would no longer automatically redeem their stock when loans are repaid. Instead, they stated that they would evaluate whether they would repurchase stock on a quarterly basis. During the second half of 2010, the FHLB repurchased $1.8 million of their stock from the Company.

The fair value of securities held to maturity, which we carry at amortized cost, was $706,000 less than the carrying value at December 31, 2010 and $534,000 more than the carrying value at December 31, 2009. Our $54.0 million in securities held to maturity are comprised almost entirely of municipal bonds issued by state and local governments throughout our market area. The denominations of the bonds do not exceed $2,000,000 and we have no significant concentration of bond holdings from one government entity, with the single largest exposure to any one entity being $3,500,000. Management evaluated any unrealized losses on individual securities at each year end and determined them to be of a temporary nature and caused by fluctuations in market interest rates, not by concerns about the ability of the issuers to meet their obligations.

At December 31, 2010, 2009, and 2008, a net unrealized gain of $2,478,000, $1,832,000, and $273,000, respectively, was included in the carrying value of securities classified as available for sale. During those three years, interest rates have generally declined, which typically increases the value of our investment securities. Management evaluated any unrealized losses on individual securities at each year end and determined them to be of a temporary nature and caused by fluctuations in market interest rates and the overall economic environment, not by concerns about the ability of the issuers to meet their obligations. Net unrealized gains, net of applicable deferred income taxes, of $1,512,000, $1,117,000, and $167,000 have been reported as part of a separate component of shareholders' equity (accumulated other comprehensive income) as of December 31, 2010, 2009, and 2008, respectively.

The weighted average taxable-equivalent yield for the securities available for sale portfolio was 3.14% at December 31, 2010. The expected weighted average life of the available for sale portfolio using the call date for above-market callable bonds, the maturity date for all other non-mortgage-backed securities, and the expected life for mortgage-backed securities, was 4.3 years.

The weighted average taxable-equivalent yield for the securities held to maturity portfolio was 5.73% at December 31, 2010. The expected weighted average life of the held to maturity portfolio using the call date for above-market callable bonds and the maturity date for all other securities, was 9.0 years.

As of December 31, 2010 and 2009, we own no investment securities of any one issuer, other than Ginnie Mae, which is a government-sponsored corporation, in which aggregate book values and market values exceeded 10% of shareholders' equity.

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Loans

Table 10 provides a summary of the loan portfolio composition of our total loans at each of the past five year ends.

As previously discussed, in our acquisition of Cooperative Bank, we entered into loss share agreements with the FDIC, which afford us significant protection from losses on all loans and other real estate acquired in the acquisition. Because of the loss protection provided by the FDIC, the financial risk of the Cooperative Bank loans is significantly different from those assets not covered under the loss share agreements. Accordingly, we present separately loans subject to the FDIC loss share agreements as "covered loans" and loans that are not subject to the loss share agreements as "non-covered loans." Table 10a presents a breakout of covered and non-covered loans as of December 31, 2010.

The loan portfolio is the largest category of our earning assets and is comprised of commercial loans, real estate mortgage loans, real estate construction loans, and consumer loans. We restrict virtually all of our lending to our 36 county market area, which is located in central and eastern North Carolina, four counties in southern Virginia and five counties in northeastern South Carolina. The diversity of the region's economic base has historically provided a stable lending environment.

In 2010, loans outstanding decreased $198.7 million, or 7.5% to $2.45 billion. The decline was mainly due to loan payoffs and loan foreclosures exceeding new loan growth as demand in most of our market areas remains weak.

In 2009, net loans outstanding increased $441.6 million, or 20.0% to $2.65 billion. All of the loan growth in 2009 was assumed in the acquisition of Cooperative Bank in June 2009, as non-covered loans declined by $159.6 million in 2009.

The great majority of our loan growth over the years has been real estate mortgage loans, with loans secured by real estate consistently comprising 86% to 90% of our outstanding loan balances. Except for real estate construction, land development and other land loans, the majority of our "real estate" loans are personal and commercial loans where cash flow from the borrower's occupation or business is the primary repayment source, with the real estate pledged providing a secondary repayment source.

Table 10 indicates that the two types of loans that have had the largest variances in the amount outstanding as a percent of total loans have been construction/land development loans and residential mortgage loans. In 2005 we expanded our branch network to what was then the fast-growing southeast coast of North Carolina, which had a high demand for construction and land development loans. In 2008, due to recessionary conditions, particularly in the new housing market, loan demand for these types of loans weakened and we tightened our loan underwriting criteria for these types of loans, which reduced growth. Due to economic conditions, for the past two years we have made very few new acquisition and land development loans, and we expect this trend to continue.

From 2006 to 2008, our level of residential mortgage loans generally declined as we experienced higher growth in other loan categories. Due to the Cooperative transaction in 2009, our percentage of residential loans increased significantly because Cooperative's loan portfolio was heavily concentrated in residential mortgages.

Table 11 provides a summary of scheduled loan maturities over certain time periods, with fixed rate loans and adjustable rate loans shown separately. Approximately 27% of our accruing loans outstanding at December 31, 2010 mature within one year and 70% of total loans mature within five years. As of December 31, 2010, the percentages of variable rate loans and fixed rate loans as compared to total performing loans were 46% and 54%, respectively. We intentionally make a blend of fixed and variable rate loans so as to reduce interest rate risk.

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Nonperforming Assets

Nonperforming assets include nonaccrual loans, troubled debt restructurings, loans past due 90 or more days and still accruing interest, and other real estate. As a matter of policy we place all loans that are past due 90 or more days on nonaccrual basis, and thus there were no loans at any of the past five year ends that were 90 days past due and still accruing interest.

Nonaccrual loans are loans on which interest income is no longer being recognized or accrued because management has determined that the collection of interest is doubtful. Placing loans on nonaccrual status negatively impacts earnings because (i) interest accrued but unpaid as of the date a loan is placed on nonaccrual status is reversed and deducted from interest income, (ii) future accruals of interest income are not recognized until it becomes probable that both principal and interest will be paid and (iii) principal charged-off, if appropriate, may necessitate additional provisions for loan losses that are charged against earnings. In some cases, where borrowers are experiencing financial difficulties, loans may be restructured to provide terms significantly different from the originally contracted terms.

Table 12 summarizes our nonperforming assets at the dates indicated. Because of the loss protection provided by the FDIC, we present separately nonperforming assets subject to the loss share agreements as “covered” and nonperforming assets that are not subject to the loss share agreements as “non-covered.”

Table 12a presents our nonperforming assets at December 31, 2010 by general geographic region and further segregated into “covered” nonperforming assets and “non-covered” nonperforming assets. The majority of our nonperforming assets are located in the Eastern North Carolina region, which has experienced the most negative effects of the recession of any of our regions.

Due largely to the recessionary economic conditions that began in late 2007 and continued to worsen throughout 2010, we have experienced increases in our nonperforming assets. Our total nonperforming assets were also significantly impacted by the Cooperative acquisition.

Non-covered nonperforming loans totaled $96.0 million, $83.5 million, and $30.6 million, as of December 31, 2010, 2009, and 2008, respectively. Total non-covered nonperforming loans as a percentage of total non-covered loans amounted to 4.61%, 3.91%, and 1.38%, at December 31, 2010, 2009, and 2008, respectively.

At December 31, 2010, 2009, and 2008, non-covered troubled debt restructurings amounted to $33.7 million, $21.3 million, and $4.0 million, respectively. The increases in 2010 and 2009 were the result of our working with borrowers experiencing financial difficulties by modifying certain loan terms. The 2009 increase was also impacted by our analysis of the Federal Reserve’s October 2009 guidance related to real estate loan workouts, which provided clarification of situations involving borrowers that should be reported as troubled debt restructurings.

We also had $14.4 million of covered troubled debt restructurings at December 31, 2010 compared to none in the prior year. The increase in 2010 was the result of our continued efforts to help borrowers experiencing financial difficulties by modifying certain loan terms.

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

	At December 31, 2010 (1)	At December 31, 2009 (1)
Commercial, financial, and agricultural	$ 2,595	4,033
Real estate – construction, land development, and other land loans	54,781	80,669
Real estate – mortgage – residential (1-4 family) first mortgages	36,715	48,424
Real estate – mortgage – home equity loans/lines of credit	8,584	16,951
Real estate – mortgage – commercial and other	17,578	28,476
Installment loans to individuals	539	1,569
Total nonaccrual loans	$ 120,792	180,122

(1) Includes both covered and non-covered loans.

The following segregates our nonaccrual loans at December 31, 2010 into covered and non-covered loans, as classified for regulatory purposes:

	Covered Nonaccrual Loans	Non-covered Nonaccrual Loans	Total Nonaccrual Loans
Commercial, financial, and agricultural	$ 163	2,432	2,595
Real estate – construction, land development, and other land loans	30,846	23,935	54,781
Real estate – mortgage – residential (1-4 family) first mortgages	16,343	20,372	36,715
Real estate – mortgage – home equity loans/lines of credit	4,059	4,525	8,584
Real estate – mortgage – commercial and other	7,039	10,539	17,578
Installment loans to individuals	16	523	539
Total nonaccrual loans	$ 58,466	62,326	120,792

The following segregates our nonaccrual loans at December 31, 2009 into covered and non-covered loans, as classified for regulatory purposes:

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

Installment loans to individuals		269	1,300	1,569
Total nonaccrual loans	$	117,916	62,206	180,122

The tables above indicate that covered nonaccrual loans declined from $117.9 million at December 31, 2009 to $58.5 million at December 31, 2010. This decrease was primarily a result of many of the nonaccrual loans at December 31, 2009 being foreclosed upon in 2010 and their balances being transferred to other real estate. As discussed below, covered other real estate increased from $47.4 million at December 31, 2009 to $94.9 million at December 31, 2010.

If the nonaccrual and restructured loans as of December 31, 2010, 2009 and 2008 had been current in accordance with their original terms and had been outstanding throughout the period (or since origination if held for part of the period), gross interest income in the amounts of approximately $8,136,000, $9,800,000 and $1,930,000 for nonaccrual loans and $1,943,000, $1,200,000 and $310,000 for restructured loans would have been recorded for 2010, 2009, and 2008, respectively. Interest income on such loans that was actually collected and included in net income in 2010, 2009, and 2008 amounted to approximately $3,195,000, $2,147,000 and $826,000 for nonaccrual loans (prior to their being placed on nonaccrual status), and $1,342,000, $866,000, and $155,000 for restructured loans, respectively. At December 31, 2010 and 2009, we had no commitments to lend additional funds to debtors whose loans were nonperforming.

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Management routinely monitors the status of certain large loans that, in management's opinion, have credit weaknesses that could cause them to become nonperforming loans. In addition to the nonperforming loan amounts discussed above, management believes that an estimated $5 million of non-covered loans and $18 million of covered loans that were performing in accordance with their contractual terms at December 31, 2010 have the potential to develop problems depending upon the particular financial situations of the borrowers and economic conditions in general. Management has taken these potential problem loans into consideration when evaluating the adequacy of the allowance for loan losses at December 31, 2010 (see discussion below).

Loans classified for regulatory purposes as loss, doubtful, substandard, or special mention that have not been disclosed in the problem loan amounts and the potential problem loan amounts discussed above do not represent or result from trends or uncertainties that management reasonably expects will materially impact future operating results, liquidity, or capital resources, or represent material credits about which management is aware of any information that causes management to have serious doubts as to the ability of such borrowers to comply with the loan repayment terms.

Other real estate includes foreclosed, repossessed, and idled properties. Non-covered other real estate has increased over the past three years, amounting to $21.1 million at December 31, 2010, $8.8 million at December 31, 2009, and $4.8 million at December 31, 2008. At December 31, 2010 and 2009, we also held $94.9 million and $47.4 million, respectively, in other real estate that is subject to the loss share agreement with the FDIC. We believe that the fair values of the items of other real estate, less estimated costs to sell, equal or exceed their respective carrying values at the dates presented. As noted earlier, as of December 31, 2010, approximately 91% of the amount of covered foreclosed properties had supporting appraisal valuations that were less than 6 months old.

The following table presents the detail of our other real estate at each of the past two year ends:

	At December 31, 2010 (1)	At December 31, 2009 (1)
Vacant land	$ 81,185	44,078
1-4 family residential properties	28,146	10,004
Commercial real estate	6,641	2,141
Other	–	–
Total other real estate	$ 115,972	56,223

(1) Includes both covered and non-covered real estate.

The following segregates our other real estate at December 31, 2010 into covered and non-covered:

	Covered Other Real Estate	Non-covered Other Real Estate	Total Other Real Estate
Vacant land	$ 72,878	8,307	81,185
1-4 family residential properties	18,691	9,455	28,146
Commercial real estate	3,322	3,319	6,641
Other	–	–	–
Total other real estate	$ 94,891	21,081	115,972

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The following segregates our other real estate at December 31, 2009 into covered and non-covered:

	Covered Other Real Estate	Non-covered Other Real Estate	Total Other Real Estate
Vacant land	$ 40,836	3,242	44,078
1-4 family residential properties	6,171	3,833	10,004
Commercial real estate	423	1,718	2,141
Other	–	–	–
Total other real estate	$ 47,430	8,793	56,223

Allowance for Loan Losses and Loan Loss Experience

The allowance for loan losses is created by direct charges to operations (known as a "provision for loan losses" for the period in which the charge is taken). Losses on loans are charged against the allowance in the period in which such loans, in management's opinion, become uncollectible. The recoveries realized during the period are credited to this allowance. We consider our procedures for recording the amount of the allowance for loan losses and the related provision for loan losses to be a critical accounting policy. See the heading "Critical Accounting Policies" above for further discussion.

The factors that influence management's judgment in determining the amount charged to operating expense include past loan loss experience, composition of the loan portfolio, evaluation of probable inherent losses and current economic conditions.

We use a loan analysis and grading program to facilitate our evaluation of probable inherent loan losses and the adequacy of our allowance for loan losses. In this program, risk grades are assigned by management and tested by an independent third party consulting firm. The testing program includes an evaluation of a sample of new loans, loans we identify as having potential credit weaknesses, loans past due 90 days or more, loans originated by new loan officers, nonaccrual loans and any other loans identified during previous regulatory and other examinations.

We strive to maintain our loan portfolio in accordance with what management believes are conservative loan underwriting policies that result in loans specifically tailored to the needs of our market areas. Every effort is made to identify and minimize the credit risks associated with such lending strategies. We have no foreign loans, few agricultural loans and do not engage in significant lease financing or highly leveraged transactions. Commercial loans are diversified among a variety of industries. The majority of loans captioned in the tables discussed below as "real estate" loans are personal and commercial loans where real estate provides additional security for the loan. Collateral for virtually all of these loans is located within our principal market area.

The allowance for loan losses amounted to $49.4 million at December 31, 2010 compared to $37.3 million at December 31, 2009 and $29.3 million at December 31, 2008. At December 31, 2010, $11.2 million of the allowance for loan losses is attributable to covered loans that have exhibited credit quality deterioration due to lower collateral valuations, while the allowance for loan losses for non-covered loans amounted to $38.3 million. For all prior periods, the entire allowance for loan losses is attributable to non-covered loans.

The ratio of the allowance for non-covered loan losses to non-covered loans was 1.84%, 1.75%, and 1.32% as of December 31, 2010, 2009, and 2008, respectively. The increasing allowance percentage has been necessary due to the higher level of delinquencies and classified and nonperforming loans.

Table 13 sets forth the allocation of the allowance for loan losses at the dates indicated. The amount of the unallocated portion of the allowance for loan losses did not vary materially at any of the past three year ends. The allowance for loan losses is available to absorb losses in all categories. Table 13a segregates the allocation of the allowance for loan losses as of December 31, 2010 into covered and non-covered categories.

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Management considers the allowance for loan losses adequate to cover probable loan losses on the loans outstanding as of each reporting date. It must be emphasized, however, that the determination of the allowance using our procedures and methods rests upon various judgments and assumptions about economic conditions and other factors affecting loans. No assurance can be given that we will not in any particular period sustain loan losses that are sizable in relation to the amount reserved or that subsequent evaluations of the loan portfolio, in light of conditions and factors then prevailing, will not require significant changes in the allowance for loan losses or future charges to earnings.

In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses and losses on foreclosed real estate. Such agencies may require us to recognize additions to the allowance based on the examiners' judgments about information available to them at the time of their examinations.

For the years indicated, Table 14 summarizes our balances of loans outstanding, average loans outstanding, and a detailed rollforward of the allowance for loan losses. In addition to the increases to the allowance for loan losses related to normal provisions, the increase in the dollar amount of the allowance for loan losses in 2008 was also affected by amounts recorded to provide for loans assumed in corporate acquisitions. In 2008, we added $3,158,000 to the allowance for loan losses related to approximately $184 million in loans assumed in the acquisition of Great Pee Dee in April 2008.

Table 14a presents a detailed rollforward of the 2010 activity for the allowance for loan losses segregated into covered and non-covered activity.

Net loan charge-offs of non-covered loans amounted to $32.7 million in 2010, $12.1 million in 2009, and $5.1 million in 2008. The higher amounts in 2010 and 2009 reflect the impact of deteriorating loan quality that has been impacted by the recessionary economic conditions. Also in 2010, we recorded $8.6 million in partial charge-offs of non-covered loans. Previously, we recorded specific reserves on collateral-deficient nonaccrual loans within the allowance for loans losses, but did not record charge-offs until the loans had been foreclosed upon. Net non-covered charge-offs as a percentage of average non-covered loans represented 1.55%, 0.56%, and 0.24%, during 2010, 2009, and 2008, respectively.

We recorded $9.8 million in charge-offs of covered loans during 2010, primarily related to collateral dependent loans for which we received updated appraisals that reflected lower valuations.

Deposits and Securities Sold Under Agreements to Repurchase

At December 31, 2010, deposits outstanding amounted to $2.653 billion, a decrease of $281 million, or 9.6%, from December 31, 2009. Approximately $237 million, or 84%, of the decline in deposits is attributable to decreases in time deposits. We also experienced a $70 million decrease in our NOW accounts during 2010, primarily as a result of two depositors who withdrew their funds during the last week of the year in anticipation of the expiration of certain provisions of the FDIC transaction account guarantee program.

In 2009, deposits grew from $2.075 billion to $2.933 billion, an increase of $858 million, or 41.4%, from December 31, 2008. Approximately $146 million, or 17%, of the deposit growth in 2009 was internally generated, while the remaining $712 million, or 83%, resulted from the acquisition of Cooperative Bank in June 2009.

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The nature of our deposit growth is illustrated in the table on page 51. The following table reflects the mix of our deposits at each of the past three year ends:

	2010		2009		2008	
Noninterest-bearing deposits	11	%	9	%	11	%
NOW deposits	11	%	12	%	10	%
Money market deposits	19	%	17	%	16	%
Savings deposits	6	%	5	%	6	%
Brokered deposits	5	%	3	%	4	%
Internet deposits	2	%	4	%	0	%
Time deposits > $100,000 - retail	23	%	24	%	25	%
Time deposits < $100,000 - retail	23	%	26	%	28	%
Total deposits	100	%	100	%	100	%
Securities sold under agreements to repurchase as a percent of total deposits	2	%	2	%	3	%

The deposit mix remained relatively consistent from 2008 to 2010. The percentages for retail time deposits have declined because we have chosen not to match certain promotional time deposit interest rates being offered by several of our local competitors, which we felt were too high compared to alternative funding sources. Instead of matching the high interest rates, in 2008, we began utilizing brokered time deposits because they had interest rates meaningfully lower than rates in the local marketplace at that time. We increased our holding of brokered deposits in 2010 as our level of internet time deposits declined due to our offering lower interest rates upon renewal. We ended 2010 with a total of $144 million in brokered time deposits compared to $76 million in 2009. We ended 2010 with a total of $47 million in internet time deposits compared to $128 million in 2009.

We routinely engage in activities designed to grow and retain deposits, such as (1) emphasizing relationship banking to new and existing customers, where borrowers are encouraged and normally expected to maintain deposit accounts with us, (2) pricing deposits at rate levels that will attract and/or retain deposits, and (3) continually working to identify and introduce new products that will attract customers or enhance our appeal as a primary provider of financial services.

Table 15 presents the average amounts of our deposits and the average yield paid for those deposits for the years ended December 31, 2010, 2009, and 2008.

As of December 31, 2010, we held approximately $763.0 million in time deposits of $100,000 or more. Table 16 is a maturity schedule of time deposits of $100,000 or more as of December 31, 2010. This table shows that 85% of our time deposits greater than $100,000 mature within one year.

At each of the past three year ends, we have no deposits issued through foreign offices, nor do we believe that we held any deposits by foreign depositors.

Borrowings

We had borrowings outstanding of $196.9 million at December 31, 2010 compared to $176.8 million at December 31, 2009 and $367.3 million at December 31, 2008. Borrowings declined from 2008 to 2009 primarily as a result of low loan growth and strong deposit growth that provided funds to progressively pay down our borrowings during 2009. Our lower level of borrowings continued for most of 2010 until late in the year when we obtained borrowings to offset a portion of the liquidity decline we experienced as a result of a decrease in deposits. Table 2 shows that average borrowings were $79.8 million in 2010 compared to $151.2 million in 2009 and $226.5 million in 2008.

At December 31, 2010, the Company had four sources of readily available borrowing capacity – 1) an approximately $399 million line of credit with the FHLB, of which $62 million was outstanding at December 31, 2010 and $130 million was outstanding at December 31, 2009, 2) a $50 million overnight federal funds line of

credit with a correspondent bank, of which $33 million was outstanding at December 31, 2010 and none was outstanding at December 31, 2009, 3) an approximately $88 million line of credit through the Federal Reserve Bank of Richmond's (FRB) discount window, of which $55 million was outstanding at December 31, 2010 and none was outstanding at December 31, 2009, and 4) a $10 million holding company line of credit with a commercial bank (none of which was outstanding at December 31, 2010 or 2009).

Our line of credit with the FHLB can be structured as either short-term or long-term borrowings, depending on the particular funding or liquidity need, and is secured by our FHLB stock and a blanket lien on most of our real estate loan portfolio. As of December 31, 2010, $20 million of the $62 million outstanding with the FHLB were overnight borrowings (daily renewable) with a weighted-average interest rate of 0.47%, with the remaining $42 million outstanding having a weighted average interest rate of 1.67% and maturity dates ranging from August 2011 to December 2013. For the year ended December 31, 2010, the average amount of FHLB borrowings outstanding was approximately $32 million and had a weighted average interest rate for the year of 2.99%. The maximum amount of short-term FHLB borrowings outstanding at any month-end during 2010 was $80 million.

In addition to the outstanding borrowings from the FHLB that reduce the available borrowing capacity of the line of credit, the borrowing capacity was further reduced by $203 million and $170 million at December 31, 2010 and 2009, respectively, as a result of the pledging letters of credit backed by the FHLB for public deposits at each of those dates.

In January 2010, we received the results of a collateral audit from the FHLB. Based primarily on a finding that we were not keeping certain original loan documents, but were instead imaging them and shredding the original documents, a significant portion of our collateral pledged to the FHLB was deemed to be ineligible for pledging purposes. As a result, our borrowing availability with the FHLB was reduced from $687 million at December 31, 2009 to approximately $335 million immediately after the audit. We have changed our document retention procedures and expect our borrowing availability to gradually increase as we make new loans and renew existing ones. As discussed above, our FHLB borrowing availability was $399 million at December 31, 2010.

Our correspondent bank relationship allows us to purchase up to $50 million in federal funds on an overnight, unsecured basis (federal funds purchased). We had $33 million outstanding under this line at December 31, 2010 with a weighted average interest rate of 0.65%. We had no borrowings outstanding at December 31, 2009 and $35 million borrowings outstanding under this line at December 31, 2008. For the year ended December 31, 2010, the average amount of federal funds purchased outstanding was approximately $0.4 million and had a weighted average interest rate for the year of 0.72%. The maximum amount of federal funds purchased outstanding at any month-end during 2010 was $33 million.

We also have a line of credit with the FRB discount window. This line is secured by a blanket lien on a portion of our commercial and consumer loan portfolio (excluding real estate loans). Based on the collateral that we owned as of December 31, 2010, the available line of credit was approximately $88 million. At December 31, 2010, we had $55 million in borrowings outstanding under this line. At December 31, 2009 and 2008, we had no borrowings outstanding under this line. For the year ended December 31, 2010, the average amount outstanding under this line was approximately $0.7 million and had a weighted average interest rate for the year of 0.63%. The maximum amount of FRB borrowings outstanding at any month-end during 2010 was $55 million.

At December 31, 2010 and 2009, we had a $10 million and $20 million, respectively, holding company line of credit with a correspondent bank that was secured by 100% of the common stock of our bank subsidiary. This line of credit expires and is subject to renewal in February of each year. The line of credit was not drawn at December 31, 2010 or 2009. At the February 2010 renewal, the limit on the line of credit was reduced from $20 million to $10 million due to the correspondent bank's desire to reduce its exposure in this line of business.

In addition to the lines of credit described above, in which we had $150 million and $130 million outstanding

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as of December 31, 2010, and 2009, respectively, we also had a total of $46.4 million in trust preferred security debt outstanding at December 31, 2010 and 2009. We have initiated three trust preferred security issuances since 2002 totaling $67.0 million, with one of those issuances for $20.6 million being redeemed in 2007. These borrowings each have 30 year final maturities and were structured in a manner that allows them to qualify as capital for regulatory capital adequacy requirements. We may call these debt securities at par on any quarterly interest payment date five years after their issue date. We issued $20.6 million of this debt on October 29, 2002 (which we called in 2007), an additional $20.6 million on December 19, 2003, and $25.8 million on April 13, 2006. The interest rate on these debt securities adjusts on a quarterly basis at a rate of three-month LIBOR plus 2.70% for the securities issued in 2003, and three-month LIBOR plus 1.39% for the securities issued in 2006.

Liquidity, Commitments, and Contingencies

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

As noted above, in addition to internally generated liquidity sources, we currently (March 2011) have the ability to obtain borrowings from the following four sources – 1) an approximately $399 million line of credit with the FHLB, 2) a $50 million overnight federal funds line of credit with a correspondent bank, 3) an approximately $88 million line of credit through the FRB’s discount window and 4) a holding company line of credit with a limit of $10 million.

Our overall liquidity decreased during 2010 compared to 2009. Our loans decreased by $199 million, while our deposits decreased by over $280 million. As a result, our liquid assets (cash and securities) as a percentage of our total deposits and borrowings decreased from 17.8% at December 31, 2009 to 15.4% at December 31, 2010.

We continue to believe our liquidity sources, including unused lines of credit, are at an acceptable level and remain adequate to meet our operating needs in the foreseeable future. We will continue to monitor our liquidity position carefully and will explore and implement strategies to increase liquidity if deemed appropriate.

In the normal course of business we have various outstanding contractual obligations that will require future cash outflows. In addition, there are commitments and contingent liabilities, such as commitments to extend credit, that may or may not require future cash outflows.

Table 18 reflects our contractual obligations and other commercial commitments outstanding as of December 31, 2010. Any of our $62 million in outstanding borrowings with the FHLB may be accelerated immediately by the FHLB in certain circumstances, including material adverse changes in our condition or if our qualifying collateral is less than the amount required under the terms of the borrowing agreement.

In the normal course of business there are various outstanding commitments and contingent liabilities such as commitments to extend credit, which are not reflected in the financial statements. As of December 31, 2010, we have outstanding unfunded loan and credit card commitments of $300.9 million, of which $262.9 million were at variable rates and $38.0 million were at fixed rates. Included in outstanding loan commitments were unfunded commitments of $208.3 million on revolving credit plans, of which $178.3 million were at variable rates and $30.1 million were at fixed rates.

At December 31, 2010 and 2009, we had $7.5 million and $7.6 million, respectively, in standby letters of credit outstanding. We had no carrying amount for these standby letters of credit at either of those dates. The

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nature of the standby letters of credit is that of a guarantee made on behalf of our customers to suppliers of the customers to guarantee payments owed to the supplier by the customer. The standby letters of credit are generally for terms of one year, at which time they may be renewed for another year if both parties agree. The payment of the guarantees would generally be triggered by a continued nonpayment of an obligation owed by the customer to the supplier. The maximum potential amount of future payments (undiscounted) we could be required to make under the guarantees in the event of nonperformance by the parties to whom credit or financial guarantees have been extended is represented by the contractual amount of the financial instruments discussed above. In the event that we are required to honor a standby letter of credit, a note, already executed by the customer, becomes effective providing repayment terms and any collateral. Over the past ten years, we have had to honor one standby letter of credit, which was repaid by the borrower without any loss to us. We expect any draws under existing commitments to be funded through normal operations.

It has been our experience that deposit withdrawals are generally replaced with new deposits, thus not requiring any net cash outflow. Based on that assumption, management believes that it can meet its contractual cash obligations and existing commitments from normal operations.

We are not involved in any legal proceedings that, in management's opinion, could have a material effect on the consolidated financial position of the Company.

Capital Resources and Shareholders' Equity

Shareholders' equity at December 31, 2010 amounted to $344.6 million compared to $342.4 million at December 31, 2009. The two basic components that typically have the largest impact on our shareholders' equity are net income, which increases shareholders' equity, and dividends declared, which decreases shareholders' equity. Additionally, any stock issuances can significantly increase shareholders' equity.

In 2010, the most significant factors that impacted our equity were net income of $10.0 million, which increased equity, while common stock dividends declared of $5.4 million and preferred stock dividends declared of $3.3 million reduced equity. See the Consolidated Statements of Shareholders' Equity within the consolidated financial statements for disclosure of other less significant items affecting shareholders' equity.

In 2009, the most significant item that impacted our equity was our issuance of $65 million in preferred stock to the U.S. Treasury in connection with our participation in the Treasury's Capital Purchase Program (see below). In addition, other significant factors were net income of $60.3 million, which increased equity, while common stock dividends declared of $5.3 million and preferred stock dividends declared of $3.2 million reduced equity. See the consolidated financial statements for other less significant factors that impacted equity in 2009.

In connection with our participation in the U.S. Treasury's Capital Purchase Program, in January 2009 we issued $65 million in preferred stock and $4.6 million in common stock warrants. We recorded a discount on the issuance of the preferred stock of $4.6 million, of which we amortized $0.8 million and $0.9 million in 2009 and 2010, respectively, as a reduction of retained earnings. Our issuance of the preferred stock to the U.S. Treasury has several restrictions and is generally assumed to be only a temporary source of capital, as it is expected that banks will redeem the preferred stock when they are able to do so.

We participated in the Capital Purchase Program for several reasons – 1) the capital markets were effectively closed, 2) without access to capital, our growth potential was limited, and 3) to provide an extra capital cushion in light of the worsening economy. In addition, the capital was offered by the government on attractive financial terms, with the 5% dividend being the most significant. By contrast, the market dividend rate for similar types of bank preferred stock was over 12%. In hindsight, we believe our participation turned out to be the correct decision, as it provided the

capital we needed to bid on failed banks through FDIC assisted transactions and it also continues to serve as insurance against an economy that continues to struggle. In light of continued economic concerns, we have no immediate plans to redeem this stock. As we gain confidence in the economic

recovery, we may elect to redeem this stock in installments. The favorable dividend rate of 5% is in effect for another three years before it increases to 9%. In addition to earnings, a common stock offering is a way that many banks have increased shareholders' equity. While we do not rule out the possibility of a common stock offering to provide proceeds for redemption of the preferred stock, we do not have any current plans for an offering.

As previously noted, common stock dividends for 2009 amounted to $5.3 million, or $0.32 per share. This was a reduction from the 2008 amount of $12.2 million, or $0.76 per share. In February 2009, after careful deliberation, we reluctantly decided that it was necessary to reduce the Company's quarterly dividend from $0.19 per share to $0.08 per share. This decision was made in order to conserve capital amid worsening economic conditions. We made no changes to the dividend rate in 2010 due to the economic uncertainty that continues in our markets.

In 2008, net income of $22.0 million increased equity, while dividends declared of $12.2 million reduced equity. We also issued $37.6 million in common stock in our acquisition of Great Pee Dee. See the consolidated financial statements for other less significant factors that impacted equity in 2008.

We are not aware of any recommendations of regulatory authorities or otherwise which, if they were to be implemented, would have a material effect on our liquidity, capital resources, or operations.

The Company and the Bank must comply with regulatory capital requirements established by the FRB and the FDIC. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. These capital standards require the Company and the Bank to maintain minimum ratios of "Tier 1" capital to total risk-weighted assets ("Tier I Capital Ratio") and total capital to risk-weighted assets ("Total Capital Ratio") of 4.00% and 8.00%, respectively. Tier 1 capital is comprised of total shareholders' equity, excluding unrealized gains or losses from the securities available for sale, less intangible assets, and total capital is comprised of Tier 1 capital plus certain adjustments, the largest of which for the Company and the Bank is the allowance for loan losses. Risk-weighted assets refer to the on- and off-balance sheet exposures of the Company and the Bank, adjusted for their related risk levels using formulas set forth in FRB and FDIC regulations.

In addition to the risk-based capital requirements described above, the Company and the Bank are subject to a leverage capital requirement, which calls for a minimum ratio of Tier 1 capital (as defined above) to quarterly average total assets ("Leverage Ratio) of 3.00% to 5.00%, depending upon the institution's composite ratings as determined by its regulators. The FRB has not advised us of any requirement specifically applicable to the Company.

Table 21 presents our regulatory capital ratios as of December 31, 2010, 2009, and 2008. Our capital ratios increased significantly in 2009, primarily as a result of the preferred stock issuance discussed above. All of our capital ratios have significantly exceeded the minimum regulatory thresholds for all periods covered by this report.

In addition to the minimum capital requirements described above, the regulatory framework for prompt corrective action also contains specific capital guidelines for a bank's classification as "well capitalized." The specific guidelines are as follows – Tier I Capital Ratio of at least 6.00%, Total Capital Ratio of at least 10.00%, and a Leverage Ratio of at least 5.00%. If a bank falls below "well capitalized" status in any of these three ratios, it must ask for FDIC permission to originate or renew brokered deposits. The Bank's regulatory ratios exceeded the threshold for "well-capitalized" status at December 31, 2010, 2009, and 2008 – see Note 15 to the consolidated financial statements for a table that presents the Bank's regulatory ratios.

In addition to shareholders' equity, we have supplemented our capital in past years with trust preferred security

debt issuances, which because of their structure qualify as regulatory capital. This was necessary in past years because our balance sheet growth outpaced the growth rate of our capital. Additionally, we have frequently purchased bank branches over the years that resulted in our recording intangible assets, which negatively impacted regulatory capital ratios. As discussed in "Borrowings" above, we have issued a total of $67.0 million in trust preferred securities since 2002, with the most recent issuance being a $25.8 million issuance that occurred in April 2006. We currently have $46.4 million in trust preferred securities outstanding.

Our goal is to maintain our capital ratios at levels no less than the "well-capitalized" thresholds set for banks. At December 31, 2010, our total risk-based capital ratio was 16.57% compared to the 10.00% "well-capitalized" threshold.

In addition to regulatory capital ratios, we also closely monitor our ratio of tangible common equity to tangible assets ("TCE Ratio"). Our TCE ratio was 6.52% at December 31, 2010 compared to 5.94% at December 31, 2009.

See "Supervision and Regulation" under "Business" above and Note 15 to the consolidated financial statements for discussion of other matters that may affect our capital resources.

Off-Balance Sheet Arrangements and Derivative Financial Instruments

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

Derivative financial instruments include futures, forwards, interest rate swaps, options contracts, and other financial instruments with similar characteristics. We have not engaged in derivatives activities through December 31, 2010 and have no current plans to do so.

Return on Assets and Equity

Table 20 shows return on assets (net income available to common shareholders divided by average total assets), return on common equity (net income available to common shareholders divided by average common shareholders' equity), dividend payout ratio (dividends per share divided by net income per common share) and shareholders' equity to assets ratio (average total shareholders' equity divided by average total assets) for each of the years in the three-year period ended December 31, 2010.

Interest Rate Risk (Including Quantitative and Qualitative Disclosures About Market Risk – Item 7A.)

Net interest income is our most significant component of earnings. Notwithstanding changes in volumes of loans and deposits, our level of net interest income is continually at risk due to the effect that changes in general market interest rate trends have on interest yields earned and paid with respect to our various categories of earning assets and interest-bearing liabilities. It is our policy to maintain portfolios of earning assets and interest-bearing liabilities with maturities and repricing opportunities that will afford protection, to the extent practical, against wide interest rate fluctuations. Our exposure to interest rate risk is analyzed on a regular basis by management using standard GAP reports, maturity reports, and an asset/liability software model that simulates future levels of interest income and expense based on current interest rates, expected future interest rates, and various intervals of "shock" interest rates. Over the years, we have been able to maintain a fairly consistent yield on average earning assets (net interest margin). Over the past five calendar years, our net interest margin has ranged from a low of 3.74% (realized in 2008) to a high of 4.39% (realized in 2010). During that five year period, the prime rate of interest has ranged from a low of 3.25% (which was the rate as of December 31, 2010) to a high of 8.25%. The consistency of the net interest margin is aided by the relatively low level of long-term

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interest rate exposure that we maintain. At December 31, 2010, approximately 84% of our interest-earning assets are subject to repricing within five years (because they are either adjustable rate assets or they are fixed rate assets that mature) and substantially all of our interest-bearing liabilities reprice within five years.

Table 17 sets forth our interest rate sensitivity analysis as of December 31, 2010, using stated maturities for all fixed rate instruments except mortgage-backed securities (which are allocated in the periods of their expected payback) and securities and borrowings with call features that are expected to be called (which are shown in the period of their expected call). As illustrated by this table, at December 31, 2010, we had $923 million more in interest-bearing liabilities that are subject to interest rate changes within one year than earning assets. This generally would indicate that net interest income would experience downward pressure in a rising interest rate environment and would benefit from a declining interest rate environment. However, this method of analyzing interest sensitivity only measures the magnitude of the timing differences and does not address earnings, market value, or management actions. Also, interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. In addition to the effects of "when" various rate-sensitive products reprice, market rate changes may not result in uniform changes in rates among all products. For example, included in interest-bearing liabilities subject to interest rate changes within one year at December 31, 2010 are deposits totaling $946 million comprised of NOW, savings, and certain types of money market deposits with interest rates set by management. These types of deposits historically have not repriced with, or in the same proportion, as general market indicators.

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

From September 2007 to December 2008, in response to the declining economy, the Federal Reserve announced a series of interest rate reductions with rate cuts totaling 500 basis points and rates reaching historic lows. As noted above, our net interest margin is negatively impacted, at least in the short-term, by reductions in interest rates. In addition to the initial normal decline in net interest margin that we experience when interest rates are reduced (as discussed above), the cumulative impact of the magnitude of 500 basis points in interest rate cuts has continued to negatively impact our net interest margin, primarily due to our inability to cut a large portion of our interest-bearing deposits by any significant amount due to their already near-zero interest rate. Also, for many of our deposit products, including time deposits that have recently matured, we have been unable to lower the interest rates we pay our customers by the full 500 basis point interest rate decrease due to competitive pressures. The impact of the declining rate environment was mitigated by an initiative we began in late 2007 to add interest rate floors to our adjustable rate loans. At December 31, 2010, adjustable rate loans totaling $793 million (73% of all adjustable rate loans) had reached their contractual floors and no longer subjected us to risk in the event of further rate cuts. In 2009 and 2010, our net interest margin improved as the Federal Reserve made no changes to interest rates. As a result, we were able to reprice many of our maturing time deposits, which had been originated in periods of higher interest rates, at lower rates. We were also able to generally decrease the rates we paid on other types of deposits as a result of declining short-term interest rates in the marketplace and an increase in liquidity that lessened our need to offer premium interest rates. Our net interest margin increased throughout 2009 and 2010. Our net interest margin was 4.39% for 2010, a 58 basis point increase from the 3.81% margin realized in 2009.

As previously discussed in the section "Net Interest Income," our net interest income was impacted by certain purchase accounting adjustments related to our acquisitions of Cooperative Bank and Great Pee Dee. The purchase

accounting adjustments related to the Great Pee Dee premium amortization on loans and the premium amortizations on deposits and borrowings for both Cooperative and Great Pee Dee were based on amortization schedules and were thus systematic and predictable. The accretion of the loan discount on Cooperative, which amounted to $7.6 million in 2010, is less predictable and could be materially different among periods. This is because of the magnitude of the discount that was initially recorded ($228 million) and the fact that the accretion being recorded is dependent on both the credit quality of the acquired loans and the impact of any accelerated loan repayments, including payoffs. If the credit quality of the loans declines, some, or all, of the remaining discount will cease to be accreted into income. If the underlying loans experience accelerated paydowns or are paid off, the remaining discount will be accreted into income on an accelerated basis, which in the event of total payoff will result in the remaining discount being entirely accreted into income in the period of the payoff. Each of these factors is difficult to predict and susceptible to volatility. Our net interest margin on a core basis, excluding the interest accretion, was 4.13% for the year 2010 and 4.33% for the fourth quarter of 2010.

Based on our most recent interest rate modeling, which assumes no changes in interest rates for 2011 (federal funds rate = 0.25%, prime = 3.25%), we project that our 2011 net interest margin, on a core basis, will remain relatively stable in 2011. With interest rates having been stable for a relatively long period of time, most of our interest-sensitive assets and interest-sensitive liabilities have been repriced at today's interest rates. We expect a decline in loans in 2011 (although not to the magnitude experienced in 2010) that will reduce interest income slightly.

We have no market risk sensitive instruments held for trading purposes, nor do we maintain any foreign currency positions. Table 19 presents the expected maturities of our other than trading market risk sensitive financial instruments. Table 19 also presents the estimated fair values of market risk sensitive instruments as estimated in accordance with relevant accounting guidance. Our assets and liabilities have estimated fair values that do not materially differ from their carrying amounts.

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

Inflation

Because the assets and liabilities of a bank are primarily monetary in nature (payable in fixed determinable amounts), the performance of a bank is affected more by changes in interest rates than by inflation. Interest rates generally increase as the rate of inflation increases, but the magnitude of the change in rates may not be the same. The effect of inflation on banks is normally not as significant as its influence on those businesses that have large investments in plant and inventories. During periods of high inflation, there are normally corresponding increases in the money supply, and banks will normally experience above average growth in assets, loans and deposits. Also, general increases in the price of goods and services will result in increased operating expenses.

Current Accounting Matters

We prepare our consolidated financial statements and related disclosures in conformity with standards established by, among others, the Financial Accounting Standards Board (the "FASB"). Because the information needed by users of financial reports is dynamic, the FASB frequently issues new rules and proposes new rules for companies to apply in reporting their activities. See Note 1(t) to our consolidated financial statements for a discussion of recent rule proposals and changes.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

The information responsive to this Item is found in Item 7 under the caption "Interest Rate Risk."

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Table 1 Selected Consolidated Financial Data

($ in thousands, except per share and nonfinancial data)	Year Ended December 31,				
	2010	2009	2008	2007	2006
Income Statement Data					
Interest income	$159,261	155,991	147,862	148,942	129,207
Interest expense	31,907	48,895	61,303	69,658	54,671
Net interest income	127,354	107,096	86,559	79,284	74,536
Provision for loan losses	54,562	20,186	9,880	5,217	4,923
Net interest income after provision	72,792	86,910	76,679	74,067	69,613
Noninterest income	29,106	89,518	20,657	17,217	14,310
Noninterest expense	86,956	78,551	62,211	56,324	53,198
Income before income taxes	14,942	97,877	35,125	34,960	30,725
Income taxes	4,960	37,618	13,120	13,150	11,423
Net income	9,982	60,259	22,005	21,810	19,302
Preferred stock dividends and accretion	(4,107)	(3,972)	—	—	—
Net income available to common shareholders	5,875	56,287	22,005	21,810	