Ameris Bancorp
Form 10-Q
November 09, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

OR

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

Commission File Number: 001-13901

AMERIS BANCORP

(Exact name of registrant as specified in its charter)

GEORGIA	**58-1456434**
(State of incorporation)	**(IRS Employer ID No.)**

310 FIRST STREET, S.E., MOULTRIE, GA 31768

(Address of principal executive offices)

(229) 890-1111

(Registrant s telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 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. Yes x No ¨

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

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act). Yes ¨ No x

There were 23,819,144 shares of Common Stock outstanding as of October 31, 2012.

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AMERIS BANCORP

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Item 1. Financial Statements.

AMERIS BANCORP AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)

	September 30, 2012 (Unaudited)	December 31, 2011 (Audited)	September 30, 2011 (Unaudited)
Assets			
Cash and due from banks	$ 57,289	$ 65,528	$ 55,761
Federal funds sold and interest bearing accounts	66,872	229,042	170,349
Investment securities available for sale, at fair value	361,051	339,967	340,839
Other investments	7,003	9,878	11,089
Mortgage loans held for sale	29,021	11,563	8,867
Loans	1,439,862	1,332,086	1,368,895
Covered loans	546,234	571,489	595,428
Less: allowance for loan losses	25,901	35,156	35,238
Loans, net	1,960,195	1,868,419	1,929,085
Foreclosed assets	37,325	46,680	50,866
Covered foreclosed assets	88,895	78,617	81,907
Total foreclosed assets	126,220	125,297	132,773
FDIC indemnification asset	198,440	242,394	239,719
Premises and equipment, net	75,609	73,124	71,848
Cash value of bank owned life insurance	50,087		
Intangible assets, net	3,404	3,250	3,471
Goodwill	956	956	956
Other assets	13,236	24,889	45,622
Total assets	$ 2,949,383	$ 2,994,307	$ 3,010,379
Liabilities and Stockholders Equity			
Liabilities			
Deposits:			
Noninterest-bearing	$ 464,503	$ 395,347	$ 354,434
Interest-bearing	2,115,614	2,196,219	2,274,458
Total deposits	2,580,117	2,591,566	2,628,892
Securities sold under agreements to repurchase	17,404	37,665	13,180
Other borrowings		20,000	21,000
Other liabilities	10,387	9,037	10,616
Subordinated deferrable interest debentures	42,269	42,269	42,269
Total liabilities	2,650,177	2,700,537	2,715,957

Commitments and contingencies

Stockholders Equity			
Preferred stock, stated value $1,000; 5,000,000 shares authorized; 52,000 shares issued	51,207	50,727	50,572
Common stock, par value $1; 100,000,000 shares authorized; 25,155,318, 25,087,468 and 25,078,968 issued	25,155	25,087	25,079
Capital surplus	164,182	166,639	166,385
Retained earnings	62,156	54,852	54,530
Accumulated other comprehensive income	7,337	7,296	8,687
Treasury stock, at cost, 1,336,174 shares	(10,831)	(10,831)	(10,831)
Total stockholders equity	299,206	293,770	294,422
Total liabilities and stockholders equity	$ 2,949,383	$ 2,994,307	$ 3,010,379

See notes to unaudited consolidated financial statements.

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AMERIS BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Dollars in Thousands, Except Per Share Data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
Interest income				
Interest and fees on loans	$ 29,165	$ 31,633	$ 88,981	$ 93,480
Interest on taxable securities	2,017	2,672	6,513	7,904
Interest on nontaxable securities	365	330	1,104	964
Interest on deposits in other banks and federal funds sold	104	153	342	500
Total interest income	31,651	34,788	96,940	102,848
Interest expense				
Interest on deposits	3,005	6,431	10,724	20,631
Interest on other borrowings	408	555	1,370	1,461
Total interest expense	3,413	6,986	12,094	22,092
Net interest income	28,238	27,802	84,846	80,756
Provision for loan losses	6,540	7,552	26,647	23,710
Net interest income after provision for loan losses	21,698	20,250	58,199	57,046
Noninterest income				
Service charges on deposit accounts	5,121	4,666	14,277	13,598
Mortgage banking activity	3,740	707	8,221	1,533
Other service charges, commissions and fees	331	392	1,044	907
Gain on acquisitions		26,867	20,037	26,867
Gain on sale of securities				238
Other noninterest income	639	1,090	2,391	2,746
Total noninterest income	9,831	33,722	45,970	45,889
Noninterest expense				
Salaries and employee benefits	13,766	10,029	37,337	29,293
Equipment and occupancy expenses	3,340	3,203	9,555	8,685
Amortization of intangible assets	364	277	996	782
Data processing and telecommunications expenses	2,599	2,817	7,429	7,665
Advertising and marketing expenses	421	189	1,134	501
Other non-interest expenses	8,320	12,748	33,228	26,088
Total noninterest expense	28,810	29,263	89,679	73,014
Income before income tax expense	2,719	24,709	14,490	29,921
Applicable income tax expense	816	8,249	4,727	9,969

Net income	$ 1,903	$ 16,460	$ 9,763	$ 19,952
Preferred stock dividends	827	817	2,459	2,422
Net income available to common shareholders	$ 1,076	$ 15,643	$ 7,304	$ 17,530
Other comprehensive income				
Unrealized holding gain (loss) arising during period on investment securities available for sale, net of tax	(228)	2,803	1,017	4,791
Reclassification adjustment for gains included in earnings, net of tax				(154)
Unrealized loss on cash flow hedges arising during period, net of tax	(240)	(1,526)	(976)	(2,154)
Other comprehensive income	(468)	1,277	41	2,483
	$ 608	$ 16,920	$ 7,345	$ 20,013
Basic earnings per share	$ 0.05	$ 0.67	$ 0.31	$ 0.75
Diluted earnings per share	$ 0.04	$ 0.66	$ 0.30	$ 0.74
Weighted Average Common Shares Outstanding				
Basic	23,819	23,438	23,800	23,439
Diluted	23,973	23,559	23,954	23,530

See notes to unaudited consolidated financial statements.

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AMERIS BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(Dollars in Thousands, Except Per Share Data)

(Unaudited)

	Nine Months Ended September 30, 2012		Nine Months Ended September 30, 2011	
	Shares	**Amount**	**Shares**	**Amount**
PREFERRED STOCK				
Balance at beginning of period	52,000	$ 50,727	52,000	$ 50,121
Accretion of fair value of warrant		480		451
Issued at end of period	**52,000**	**$ 51,207**	**52,000**	**$ 50,572**
COMMON STOCK				
Issued at beginning of period	25,087,468	$ 25,087	24,982,911	$ 24,983
Issuance of restricted shares	67,450	67	125,075	125
Cancellation of restricted shares			(32,650)	(33)
Proceeds from exercise of stock options	400	1	3,632	4
Issued at end of period	**25,155,318**	**$ 25,155**	**25,078,968**	**$ 25,079**
CAPITAL SURPLUS				
Balance at beginning of period		$ 166,639		$ 165,930
Repurchase of warrants		(2,670)		
Stock-based compensation		278		522
Proceeds from exercise of stock options		2		25
Issuance of restricted shares		(67)		(125)
Cancellation of restricted shares				33
Balance at end of period		**$ 164,182**		**$ 166,385**
RETAINED EARNINGS				
Balance at beginning of period		$ 54,852		$ 37,000
Net income		9,763		19,952
Dividends on preferred shares		(1,979)		(1,971)
Accretion of fair value of warrant		(480)		(451)
Balance at end of period		**$ 62,156**		**$ 54,530**
ACCUMULATED OTHER COMPREHENSIVE INCOME, NET OF TAX				
Unrealized gains on securities and derivatives:				
Balance at beginning of period		$ 7,296		$ 6,204
Other comprehensive income		41		2,483
Balance at end of period		**$ 7,337**		**$ 8,687**
TREASURY STOCK				
Balance at beginning of period		$ 10,831		$ 10,831
Purchase of treasury shares				
Balance at end of period		**$ 10,831**		**$ 10,831**

TOTAL STOCKHOLDERS EQUITY	**$ 299,206**	**$ 294,422**

See notes to unaudited consolidated financial statements.

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AMERIS BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

(Unaudited)

	Nine Months Ended September 30, 2012	2011
Cash Flows From Operating Activities:		
Net income	$ 9,763	$ 19,952
Adjustments reconciling net income to net cash provided by operating activities:		
Depreciation	3,585	3,248
Net (gains) losses on sale or disposal of premises and equipment	163	(148)
Net losses or write-downs on sale of other real estate owned	9,048	9,962
Provision for loan losses	26,647	23,710
Gain on acquisitions	(20,037)	(26,867)
Amortization of intangible assets	996	782
Net change in mortgage loans held for sale	(17,458)	(8,867)
Net gains on securities available for sale		(238)
Change in other prepaids, deferrals and accruals, net	16,236	14,104
Net cash provided by operating activities	28,943	35,638
Cash Flows From Investing Activities, net of effect of business combinations:		
Net decrease in federal funds sold and interest bearing deposits	162,170	95,983
Proceeds from maturities of securities available for sale	82,623	59,655
Purchase of securities available for sale	(89,787)	(116,228)
Proceeds from sales of securities available for sale	27,563	89,345
Purchase bank owned life insurance	(50,000)	
Net (increase) decrease in loans	(53,660)	49,071
Proceeds from sales of other real estate owned	57,443	36,885
Proceeds from sales of premises and equipment	409	1,115
Purchases of premises and equipment	(6,642)	(9,573)
Decrease in FDIC indemnification asset	96,608	20,519
Net cash proceeds received from FDIC-assisted acquisitions	220,516	38,017
Net cash provided by investing activities	447,243	264,789
Cash Flows From Financing Activities, net of effect of business combinations:		
Net decrease in deposits	(429,185)	(218,522)
Net decrease in securities sold under agreements to repurchase	(20,261)	(55,004)
Decrease in other borrowings	(30,334)	(43,495)
Dividends paid preferred stock	(1,979)	(1,971)
Repurchase of warrants	(2,670)	
Proceeds from exercise of stock options	4	
Net cash used in financing activities	(484,425)	(318,992)
Net decrease in cash and due from banks	$ (8,239)	$ (18,565)
Cash and due from banks at beginning of period	65,528	74,326

Cash and due from banks at end of period	$ 57,289	$ 55,761
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	$ 13,699	$ 23,456
Income taxes	$ 52	$ 2,198

See notes to unaudited consolidated financial statements.

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AMERIS BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

(Unaudited)

NOTE 1 BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Ameris Bancorp (the Company or Ameris) is a financial holding company headquartered in Moultrie, Georgia. Ameris conducts substantially all of its operations through its wholly-owned banking subsidiary, Ameris Bank (the Bank). At September 30, 2012, the Bank operated 66 branches in select markets in Georgia, Alabama, Florida and South Carolina. Our business model capitalizes on the efficiencies of a large financial services company while still providing the community with the personalized banking service expected by our customers. We manage our Bank through a balance of decentralized management responsibilities and efficient centralized operating systems, products and loan underwriting standards. Ameris Board of Directors and senior managers establish corporate policy, strategy and administrative policies. Within Ameris established guidelines and policies, the banker closest to the customer responds to the differing needs and demands of his or her unique market.

The accompanying unaudited consolidated financial statements for Ameris have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and Regulation S-X. Accordingly, the financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statement presentation. The interim consolidated financial statements included herein are unaudited, but reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of the consolidated financial position and results of operations for the interim periods presented. All significant intercompany accounts and transactions have been eliminated in consolidation. The results of operations for the period ended September 30, 2012 are not necessarily indicative of the results to be expected for the full year. These financial statements should be read in conjunction with the financial statements and notes thereto and the report of our registered independent public accounting firm included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011.

Newly Adopted Accounting Pronouncements

ASU 2011-04 *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04). ASU 2011-04 generally represents clarifications of Topic 820, but also includes some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. ASU 2011-04 results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements. ASU 2011-04 is to be applied prospectively and is effective during interim and annual periods beginning after December 15, 2011 for public companies. It did not have a material impact on the Company s results of operations, financial position or disclosures.

ASU 2011-05 *Amendments to Topic 220, Comprehensive Income* (ASU 2011-05). ASU 2011-05 grants an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. ASU 2011-05 does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. For public entities, ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, and is to be adopted retrospectively. It did not have a material impact on the Company s results of operations, financial position or disclosures.

ASU 2011-08 *Intangibles Goodwill and Other (Topic 350) Testing Goodwill for Impairment* (ASU 2011-08). ASU 2011-08 grants an entity the option to assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. This conclusion can be used as a basis for determining whether it is necessary to perform the two-step goodwill impairment test required in Topic 350. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. It is not expected to have a material impact on the Company s results of operations, financial position or disclosures.

Fair Value of Financial Instruments

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company s various financial instruments. In cases where quoted market prices are not available, fair value is based on discounted cash flows or other valuation techniques. These techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. The accounting standard for disclosures about the fair value of financial instruments excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

The Company has elected to record mortgage loans held for sale at fair value in order to eliminate the complexities and inherent difficulties of achieving hedge accounting and to better align reported results with the underlying economic changes in value of the loans and related hedge instruments. This election impacts the timing and recognition of origination fees and costs, as well as servicing value, which are now recognized in earnings at the time of origination. Interest income on mortgage loans held for sale is recorded on an accrual basis in the consolidated statement of income under the heading Interest income Interest and fees on loans . The servicing value is included in the fair value of the Interest Rate Lock Commitments (IRLCs) with borrowers. The mark-to-market adjustments related to loans held for sale and the associated economic hedges are captured in mortgage banking activities.

The fair value hierarchy describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments and other accounts recorded based on their fair value:

Cash and Due From Banks, Federal Funds Sold and Interest-Bearing Accounts: The carrying amount of cash and due from banks, federal funds sold and interest-bearing accounts approximates fair value.

Investment Securities Available for Sale: The fair value of securities available for sale is determined by various valuation methodologies. Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Level 2 securities include mortgage-backed securities issued by government sponsored enterprises and municipal bonds. The level 2 fair value pricing is provided by an independent third-party and is based upon similar securities in an active market. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and include certain residual municipal securities and other less liquid securities.

Other Investments: Federal Home Loan Bank (FHLB) stock is included in other investments at its original cost basis, as cost approximates fair value and there is no ready market for such investments.

Mortgage Loans Held for Sale: The fair value of mortgage loans held for sale is determined on outstanding commitments from third party investors in the secondary markets and are classified within Level 2 of the valuation hierarchy.

Loans: The carrying amount of variable-rate loans that reprice frequently and have no significant change in credit risk approximates fair value. The fair value of fixed-rate loans is estimated based on discounted contractual cash flows, using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality. The fair value of impaired loans is estimated based on discounted expected future cash flows or underlying collateral values, where applicable. A loan is determined to be impaired if the Company believes it is probable that all principal and interest amounts due according to the terms of the loan will not be collected as scheduled. The fair value of impaired loans is determined in accordance with accounting standards and generally results in a specific reserve established through a charge to the provision for loan losses. Losses on impaired loans are charged to the allowance when management believes the uncollectability of a loan is confirmed. Management has determined that the majority of impaired loans are Level 2 assets due to the extensive use of market appraisals. To the extent that market appraisals or other methods do not produce reliable determinations of fair value, these assets are deemed to be Level 3.

Other Real Estate Owned: The fair value of other real estate owned (OREO) is determined using certified appraisals that value the property at its highest and best uses by applying traditional valuation methods common to the industry. The Company does not hold any OREO for profit purposes and all other real estate is actively marketed for sale. In most cases, management has determined that additional write-downs are required beyond what is calculable from the appraisal to carry the property at levels that would attract buyers. Because this additional write-down is not based on observable inputs, management has determined that other real estate owned should be classified as Level 3.

Covered Assets: Covered assets include loans and other real estate owned on which the majority of losses would be covered by loss-sharing agreements with the Federal Deposit Insurance Corporation (the FDIC). Management initially valued these assets at fair value using mostly unobservable inputs and, as such, has classified these assets as Level 3.

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Intangible Assets and Goodwill: Intangible assets consist of core deposit premiums acquired in connection with business combinations and are based on the established value of acquired customer deposits. The core deposit premium is initially recognized based on a valuation performed as of the consummation date and is amortized over an estimated useful life of three to ten years. Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets acquired in a business combination. Goodwill and other intangible assets deemed to have an indefinite useful life are not amortized but instead are subject to an annual review for impairment.

FDIC Indemnification Asset: Because the FDIC will reimburse the Company for certain acquired loans should the Company experience a loss, an indemnification asset is recorded at fair value at the acquisition date. The indemnification asset is recognized at the same time as the indemnified loans and measured on the same basis, subject to collectability or contractual limitations. The shared- loss agreements on the acquisition date reflect the reimbursements expected to be received from the FDIC, using an appropriate discount rate which reflects counterparty credit risk and other uncertainties. The shared-loss agreements continue to be measured on the same basis as the related indemnified loans, and the loss-share receivable is impacted by changes in estimated cash flows associated with these loans.

Deposits: The carrying amount of demand deposits, savings deposits and variable-rate certificates of deposit approximates fair value. The fair value of fixed-rate certificates of deposit is estimated based on discounted contractual cash flows using interest rates currently offered for certificates with similar maturities.

Securities Sold under Agreements to Repurchase and Other Borrowings: The carrying amount of variable rate borrowings and securities sold under repurchase agreements approximates fair value. The fair value of fixed rate other borrowings is estimated based on discounted contractual cash flows using the current incremental borrowing rates for similar borrowing arrangements.

Subordinated Deferrable Interest Debentures: The carrying amount of the Company s variable rate trust preferred securities approximates fair value.

Off-Balance-Sheet Instruments: Because commitments to extend credit and standby letters of credit are typically made using variable rates and have short maturities, the carrying value and fair value are immaterial for disclosure.

Derivatives: The Company has entered into derivative financial instruments to manage interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of the derivatives. This analysis reflects the contractual terms of the derivative, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The fair value of the derivatives are determined using the market standard methodology of netting the discounted future fixed cash receipts and the discounted expected variable cash payments. The variable cash payments are based on an expectation of future interest rates (forward curves derived from observable market interest rate curves).

The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty s nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting any applicable credit enhancements such as collateral postings, thresholds, mutual puts and guarantees.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself or the counterparty. However, as of September 30, 2012, December 31, 2011 and September 30, 2011, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustment is not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuation in its entirety is classified in Level 2 of the fair value hierarchy.

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The carrying amount and estimated fair value of the Company s financial instruments, not shown elsewhere in these financial instruments, were as follows:

	Carrying Amount	Fair Value Measurements at September 30, 2012 Using: Level 1	Level 2	Level 3	Total
	(Dollars in Thousands)				
Financial assets:					
Loans, net	$ 1,960,195	$	$ 1,989,786	$	$ 1,989,786
Financial liabilities:					
Deposits	2,580,117		2,581,465		2,581,465
Other borrowings					

	December 31, 2011 Carrying Amount	Fair Value	September 30, 2011 Carrying Amount	Fair Value
	(Dollars in Thousands)			
Financial assets:				
Loans, net	$ 1,868,419	$ 1,877,320	$ 1,929,085	$ 1,907,017
Financial liabilities:				
Deposits	2,591,566	2,593,113	2,628,892	2,629,974
Other borrowings	20,000	20,936	21,000	20,814

The following table presents the fair value measurements of assets and liabilities measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall as of September 30, 2012 and 2011 and December 31, 2011 (dollars in thousands):

	Fair Value Measurements on a Recurring Basis As of September 30, 2012 Fair Value	Level 1	Level 2	Level 3
U.S. government agencies	$ 8,895	$	$ 8,895	$
State, county and municipal securities	111,742	6,932	104,810	
Corporate debt securities	11,495		9,495	2,000
Mortgage backed securities	228,919	1,965	226,954	
Mortgage loans held for sale	29,021		29,021	
Total recurring assets at fair value	$ 390,072	$ 8,897	$ 379,175	$ 2,000
Derivative financial instruments	$ 3,233	$	$ 3,233	
Total recurring liabilities at fair value	$ 3,233	$	$ 3,233	$

	Fair Value Measurements on a Recurring Basis As of December 31, 2011 Fair Value	Level 1	Level 2	Level 3
U.S. government agencies	$ 14,937	$	$ 14,937	$
State, county and municipal securities	79,133	2,966	76,167	
Corporate debt securities	11,401		9,401	2,000
Mortgage backed securities	234,496	3,302	231,194	
Derivative financial instruments	(2,049)		(2,049)	

Total recurring assets at fair value	$ 337,918	$ 6,268	$ 329,650	$ 2,000

	Fair Value Measurements on a Recurring Basis As of September 30, 2011			
	Fair Value	**Level 1**	**Level 2**	**Level 3**
U.S. government agencies	$ 20,309	$	$ 20,309	$
State, county and municipal securities	71,682	6,552	65,130	
Corporate debt securities	11,528		9,528	2,000
Mortgage backed securities	237,320	6,044	231,276	
Total recurring assets at fair value	$ 340,839	$ 12,596	$ 326,243	$ 2,000

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The following table is a presentation of the valuation methodologies used for instruments measured at fair value on a nonrecurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy as of September 30, 2012 and 2011 and December 31, 2011 (dollars in thousands):

	Fair Value Measurements on a Nonrecurring Basis As of September 30, 2012			
	Fair Value	Level 1	Level 2	Level 3
Impaired loans carried at fair value	$ 50,437	$	$ 50,437	$
Other real estate owned	37,325			37,325
Covered loans	546,234			546,234
Covered other real estate owned	88,895			88,895
Total non-recurring assets at fair value	$ 722,891	$	$ 50,437	$ 672,454

	Fair Value Measurements on a Nonrecurring Basis As of December 31, 2011			
	Fair Value	Level 1	Level 2	Level 3
Impaired loans carried at fair value	$ 70,296	$	$ 70,296	$
Other real estate owned	46,680			46,680
Covered loans	571,489			571,489
Covered other real estate owned	78,617			78,617
Total nonrecurring assets at fair value	$ 767,082	$	$ 70,296	$ 696,786

	Fair Value Measurements on a Nonrecurring Basis As of September 30, 2011			
	Fair Value	Level 1	Level 2	Level 3
Impaired loans carried at fair value	$ 58,648	$	$ 58,648	$
Other real estate owned	50,866			50,866
Covered loans	595,428			595,428
Covered other real estate owned	81,907			81,907
Total nonrecurring assets at fair value	$ 786,849	$	$ 58,648	$ 728,201

Below is the Company s reconciliation of Level 3 assets as of September 30, 2012 (dollars in thousands):

	Investment Securities Available for Sale	Other Real Estate Owned	Covered Loans	Covered Other Real Estate
Beginning balance January 1, 2012	$ 2,000	$ 46,680	$ 571,489	$ 78,617
Total gains/(losses) included in net income		(9,048)		
Purchases, sales, issuances, and settlements, net		(21,008)	15,281	(30,258)
Transfers in or out of Level 3		20,701	(40,536)	40,536
Ending balance September 30, 2012				