VANTAGESOUTH BANCSHARES, INC.
Form 10-Q
November 13, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2013

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _________ TO ___________

Commission File Number 000-36009

VANTAGESOUTH BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

Delaware	45-2915089
(State or other jurisdiction of Incorporation or organization)	(IRS Employer Identification Number)

3600 Glenwood Avenue, Suite 300
Raleigh, North Carolina 27612
(Address of principal executive offices)
(Zip Code)
(919) 659-9000
(Registrant’s telephone number, including area code)

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 ý 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 (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ý No ¨

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company x

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, $0.001 par value, 46,037,808 shares outstanding as of November 12, 2013

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Part I. Financial Information

Item 1. Financial Statements

VANTAGESOUTH BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS (Unaudited)

(Dollars in thousands, except share data)	September 30, 2013	December 31, 2012*
Assets		
Cash and due from banks	$37,681	$15,735
Interest-earning deposits with banks	47,954	7,978
Federal funds sold	—	26,750
Investment securities available for sale, at fair value	403,900	136,311
Investment securities held to maturity	208	180
Loans held for sale	7,349	16,439
Loans	1,353,360	763,416
Allowance for loan losses	(7,034)	(3,998)
Net loans	1,346,326	759,418
Federal Home Loan Bank stock, at cost	8,029	2,307
Premises and equipment, net	42,306	17,351
Bank-owned life insurance	32,896	19,976
Foreclosed assets	11,806	5,837
Deferred tax asset, net	55,692	36,659
Goodwill	26,254	26,254
Other intangible assets, net	6,113	2,376
Accrued interest receivable and other assets	19,557	11,654
Total assets	$2,046,071	$1,085,225
Liabilities		
Deposits:		
Non-interest demand	$208,736	$71,613
Interest-bearing demand	339,973	188,843
Money market and savings	458,214	260,966
Time	615,616	351,800
Total deposits	1,622,539	873,222
Short-term borrowings	100,500	7,500
Long-term debt	75,880	19,864
Accrued interest payable and other liabilities	16,143	10,698
Total liabilities	1,815,062	911,284
Stockholders’ Equity		
Preferred stock, series A, no par value, 5,000,000 shares authorized, 24,900 shares issued and outstanding at September 30, 2013 and December 31, 2012	24,833	24,657
Preferred stock, series B, no par value, 17,949 issued and outstanding at September 30, 2013	17,776	—
Common stock, $0.001 par value, 75,000,000 shares authorized, 46,037,808 and 35,754,247 shares issued and outstanding at September 30, 2013 and December 31, 2012	46	36

Common stock warrants	1,457	1,325
Additional paid-in capital	188,658	147,510
Retained earnings (accumulated deficit)	760	(1,405)
Accumulated other comprehensive income (loss)	(2,521)	1,818
Total stockholders' equity	231,009	173,941
Total liabilities and stockholders' equity	$2,046,071	$1,085,225

* Derived from audited consolidated financial statements.

See accompanying Notes to Consolidated Financial Statements.

VANTAGESOUTH BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
For the Three Months Ended September 30, 2013 and 2012 (Successor), the Nine Months Ended September 30, 2013 (Successor), the Period from February 1 to September 30, 2012 (Successor), and the Period from January 1 to January 31, 2012 (Predecessor)

(Dollars in thousands, except per share data)	Successor Company Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Successor Company Nine Months Ended September 30, 2013	Period from February 1 to September 30, 2012	Predecessor Company Period from January 1 to January 31, 2012
Interest income					
Loans	$20,348	$10,810	$51,421	$28,819	$3,807
Investment securities	1,846	1,036	4,666	2,862	395
Federal funds sold and interest-earning deposits	33	16	70	65	4
Total interest income	22,227	11,862	56,157	31,746	4,206
Interest expense					
Deposits	1,621	1,320	4,542	3,777	530
Short-term borrowings	46	3	100	9	—
Long-term debt	654	274	1,237	786	103
Total interest expense	2,321	1,597	5,879	4,572	633
Net interest income	19,906	10,265	50,278	27,174	3,573
Provision for loan losses	1,280	1,077	4,712	3,991	195
Net interest income after provision for loan losses	18,626	9,188	45,566	23,183	3,378
Non-interest income					
Service charges and fees on deposit accounts	1,512	523	3,552	1,429	194
Mortgage banking	310	1,127	1,797	2,393	225
Government-guaranteed lending	1,525	776	3,702	1,342	98
Bank-owned life insurance	324	215	829	552	70
Gain on sales of available for sale securities	—	483	1,215	648	—
Gain on acquisition	—	—	7,809	—	—
Other	866	208	1,759	830	70
Total non-interest income	4,537	3,332	20,663	7,194	657
Non-interest expense					
Salaries and employee benefits	10,034	5,648	27,034	14,661	1,737
Occupancy and equipment	2,497	1,385	6,452	3,547	396
Data processing	1,105	644	2,824	1,683	212
FDIC deposit insurance premiums	423	205	1,050	711	141
Professional services	598	800	2,009	1,925	144
Foreclosed asset expenses	201	251	463	641	11
Other loan related expense	909	419	2,162	1,171	162
Merger and conversion costs	477	547	14,039	1,050	78
Other	2,438	1,241	6,456	3,467	355
Total non-interest expense	18,682	11,140	62,489	28,856	3,236
Income before income taxes	4,481	1,380	3,740	1,521	799

Income tax expense (benefit)	2,997	95	(206)	(160)	270
Net income	1,484	1,285	3,946	1,681	529
Dividends and accretion on preferred stock	708	367	1,782	978	122
Net income available to common stockholders	$776	$918	$2,164	$703	$407
Net income per common share					
Basic	$0.02	$0.03	$0.05	$0.02	$0.01
Diluted	$0.02	$0.03	$0.05	$0.02	$0.01
Weighted average common shares outstanding					
Basic	46,021,308	35,725,915	42,602,944	35,723,057	35,511,770
Diluted	46,213,216	35,924,425	42,755,223	35,878,990	35,534,050

See accompanying Notes to Consolidated Financial Statements.

VANTAGESOUTH BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)
For the Three Months Ended September 30, 2013 and 2012 (Successor), the Nine Months Ended September 30, 2013 (Successor), the Period from February 1 to September 30, 2012 (Successor), and the Period from January 1 to January 31, 2012 (Predecessor)

(Dollars in thousands)	Successor Company Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Successor Company Nine Months Ended September 30, 2013	Period from February 1 to September 30, 2012	Predecessor Company Period from January 1 to January 31, 2012
Net income	$1,484	$1,285	$3,946	$1,681	$529
Other comprehensive income (loss):					
Securities available for sale:					
Unrealized holding gains (losses) on available for sale securities	1,115	1,989	(9,389)	3,121	1,008
Tax effect	(430)	(767)	3,621	(1,203)	(520)
Reclassification of gains on sales of securities recognized in earnings	—	(483)	(1,215)	(648)	—
Tax effect	—	186	468	250	—
Net of tax amount	685	925	(6,515)	1,520	488
Cash flow hedges:					
Unrealized gains (losses) on cash flow hedges	(514)	(444)	3,537	(444)	—
Tax effect	199	171	(1,361)	171	—
Net of tax amount	(315)	(273)	2,176	(273)	—
Total other comprehensive income (loss)	370	652	(4,339)	1,247	488
Comprehensive income (loss)	$1,854	$1,937	$(393)	$2,928	$1,017

See accompanying Notes to Consolidated Financial Statements.

VANTAGESOUTH BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (Unaudited)
For the Nine Months Ended September 30, 2013 (Successor)

(Dollars in thousands)	Preferred Stock, Series A Shares	Preferred Stock, Series A Amount	Preferred Stock, Series B Shares	Preferred Stock, Series B Amount	Common Stock Shares	Common Stock Amount	Common Stock Warrants	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Stockholders' Equity
Balance at December 31, 2012	24,900	$24,657	—	$—	35,754,247	$36	$1,325	$147,510	$(1,405)	$1,818	$173,941
Net income	—	—	—	—	—	—	—	—	3,946	—	3,946
Other comprehensive loss	—	—	—	—	—	—	—	—	—	(4,339)	(4,339)
Stock-based compensation	—	—	—	—	—	—	—	634	—	—	634
Stock options exercised	—	—	—	—	24,880	—	—	99	—	—	99
Acquisition of ECB Bancorp, Inc.	—	—	17,949	17,553	10,311,911	10	132	40,620	—	—	58,315
Restricted stock, canceled for tax withholding	—	—	—	—	(53,230)	—	—	(205)	—	—	(205)
Accretion of discount on preferred stock	—	176	—	223	—	—	—	—	(399)	—	—
Preferred stock dividends	—	—	—	—	—	—	—	—	(1,382)	—	(1,382)
Balance at September 30, 2013	24,900	$24,833	17,949	$17,776	46,037,808	$46	$1,457	$188,658	$760	$(2,521)	$231,009

See accompanying Notes to Consolidated Financial Statements.

VANTAGESOUTH BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
For the Nine Months Ended September 30, 2013 (Successor), the Period from February 1 to September 30, 2012 (Successor), and the Period from January 1 to January 31, 2012 (Predecessor)

(Dollars in thousands)	Successor Company Nine Months Ended September 30, 2013	Period from February 1 to September 30, 2012	Predecessor Company Period from January 1 to January 31, 2012
Cash flows from operating activities			
Net income	$3,946	$1,681	$529
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	1,773	907	103
Stock-based compensation	634	24	4
Provision for loan losses	4,712	3,991	195
Accretion on purchased loans	(15,376)	(10,887)	(1,592)
Amortization of core deposit intangible	569	298	28
Amortization of premium on time deposits	(2,307)	(2,127)	(311)
Accretion of discount on long-term debt	45	98	12
Gain on acquisition	(7,809)	—	—
Gain on mortgage loan commitments	(428)	(546)	(159)
Gain on sales of loans held for sale	(4,373)	(1,563)	(20)
Originations of loans held for sale	(158,380)	(79,425)	(6,340)
Proceeds from sales of loans held for sale	185,241	74,305	9,018
Increase in cash surrender value of bank-owned life insurance	(671)	(477)	(62)
Deferred income taxes	(206)	(160)	270
Gain on sale of available for sale securities	(1,215)	(648)	—
Net amortization of premiums on available for sale securities	1,500	516	25
Net loss on disposal of foreclosed assets	11	62	17
Valuation adjustments on foreclosed assets	415	471	—
Gains from change in fair value of interest rate swaps	(103)	(147)	(2)
Change in assets and liabilities:			
(Increase) decrease in accrued interest receivable	180	(1,227)	(34)
(Increase) decrease in other assets	5,291	143	3,143
Increase (decrease) in accrued interest payable	(150)	(260)	(106)
Increase (decrease) in other liabilities	2,683	712	(2,606)
Net cash provided by (used in) operating activities	15,982	(14,259)	2,112
Cash flows from investing activities			
Purchases of securities available for sale	(190,198)	(60,020)	(2,658)
Proceeds from maturities and repayments of securities available for sale	26,725	29,617	2,158
Proceeds from sales of securities available for sale	174,326	50,291	—
Loan originations and principal collections, net	(130,645)	(15,674)	542
Proceeds from sales of loans	2,595	10,862	9,635
Purchases of premises and equipment	(2,137)	(1,552)	(269)
Proceeds from disposal of foreclosed assets	4,838	2,735	2,940
Net cash received in acquisition of ECB Bancorp, Inc.	24,009	—	—

Proceeds from (purchases of) Federal Home Loan Bank stock	(2,572)	7,604	123
Net cash provided by (used in) investing activities	(93,059)	23,863	12,471
Cash flows from financing activities			
Net increase (decrease) in deposits	15,510	(786)	(30,032)
Proceeds from issuance of short-term borrowings, net	55,716	—	—
Proceeds from issuance of long-term debt, net	42,511	(5,000)	5,000
Proceeds from exercise of stock options	99	—	—
Restricted stock, canceled for tax withholding	(205)	—	—
Repurchase of Community Bank of Rowan common stock from directors	—	(7)	—
Proceeds from issuance of Legacy VantageSouth Bank common stock to directors	—	14	—
Dividends paid on preferred stock	(1,382)	(2,290)	—
Net cash provided by (used in) financing activities	112,249	(8,069)	(25,032)
Net change in cash and cash equivalents	35,172	1,535	(10,449)
Cash and cash equivalents, beginning of period	50,463	36,023	46,472
Cash and cash equivalents, end of period	$85,635	$37,558	$36,023

(Dollars in thousands)	Successor Company Nine Months Ended September 30, 2013	Period from February 1 to September 30, 2012	Predecessor Company Period from January 1 to January 31, 2012
SUPPLEMENTAL DISCLOSURES:			
Cash payments for:			
Interest	$7,967	$6,861	$1,038
Income taxes	—	—	—
Noncash investing activities:			
Transfers of loans to foreclosed assets	$4,860	$1,821	$35
Change in fair value of securities available for sale, net of tax	(6,515)	1,520	488
Change in fair value of cash flow hedge, net of tax	2,176	(273)	—
Acquisition:			
Assets acquired	$855,996	$—	$—
Liabilities assumed	789,873	—	—
Other equity interests acquired	17,686	—	—
Purchase price	40,628	—	—
Gain on acquisition	7,809	—	—

See accompanying Notes to Consolidated Financial Statements.

VANTAGESOUTH BANCSHARES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share amounts)

NOTE A – BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of VantageSouth Bancshares, Inc. (the "Company") and its wholly-owned subsidiary, VantageSouth Bank (formerly known as Crescent State Bank). On July 22, 2013, the Company changed its name from Crescent Financial Bancshares, Inc. ("Crescent") to VantageSouth Bancshares, Inc. and transferred the listing of its common stock to the NYSE MKT, LLC under the ticker symbol "VSB." The interim unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). They do not include all of the information and footnotes required by such accounting principles for complete financial statements, and therefore should be read in conjunction with the audited consolidated financial statements and accompanying footnotes in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 (the "Company's 2012 Form 10-K").

In the opinion of management, all adjustments necessary for a fair presentation of the financial position and results of operations for the periods presented have been included, and all intercompany transactions have been eliminated in consolidation. Results of operations for the nine months ended September 30, 2013 are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2013. The consolidated balance sheet as of December 31, 2012 has been derived from the audited consolidated financial statements contained in the Company's 2012 Form 10-K. A description of the significant accounting policies followed by the Company are as set forth in Note B of the Notes to Consolidated Financial Statements in the Company's 2012 Form 10-K.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

These consolidated financial statements have been retrospectively adjusted for the change in reporting entity described below. Therefore, historical results of operations presented in these consolidated financial statements for the three months ended September 30, 2012, the predecessor period from January 1 to January 31, 2012 and the successor period from February 1 to September 30, 2012, are significantly different from the Company's quarterly consolidated financial statements included in the Form 10-Q for the quarterly period ended September 30, 2012.

Merger of Entities Under Common Control and Change in Reporting Entity

On November 30, 2012, the Company completed the merger of VantageSouth Bank ("Legacy VantageSouth") into Crescent State Bank in a share exchange. All outstanding Legacy VantageSouth shares of common stock were converted into Crescent's shares at a 5.3278 exchange ratio for a total transaction value of approximately $35,000. The Company re-branded its wholly-owned banking subsidiary as VantageSouth Bank immediately following the merger.

The merger of Legacy VantageSouth into Crescent State Bank was a merger of commonly-controlled companies and was accounted for in a manner similar to a pooling of interests transaction. Thus, the Company's financial statements were retrospectively adjusted to combine the financial condition and results of operations of Crescent and Legacy VantageSouth from the date the two companies became commonly controlled by Piedmont Community Bank Holdings, Inc. ("Piedmont"). Due to the application of push-down accounting to Legacy VantageSouth's books on February 1, 2012, which was the date that Piedmont purchased the bank's remaining non-controlling equity interests, periods prior to this date are denoted as "Predecessor Company" and periods after this date are denoted as "Successor Company."

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VANTAGESOUTH BANCSHARES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share amounts)

Change in Accounting Estimate

Due to rapidly declining loss rates in the Company's loan portfolio and in peer loan portfolios in recent quarters, in the second quarter of 2013, the Company expanded the time period of historical losses it uses to determine reserve rates for loans evaluated collectively in its allowance for loan losses model from two to three years. The Company believes that this change was necessary to maintain an adequate allowance for loan losses based on its evaluation of portfolio risk and market conditions. Because the Company has not yet experienced significant charge-offs and has not completed a full credit cycle on its non-acquired loan portfolio, trailing three-year peer loss rates are used as a proxy for charge-off rates on the Company's non-acquired loan portfolio. This change in accounting estimate to expand the historical loss period from two to three years increased the non-acquired allowance for loan losses by $168 in the second quarter of 2013. For purchased non-impaired loans, the Company uses trailing three-year historical loss rates on its own loan portfolio (including historical losses on all acquired banks). The expansion of the historical loss period on the purchased non-impaired portfolio had no impact on the allowance for loan losses on this portfolio since the remaining acquisition accounting discount exceeded the required reserve using either approach in the second quarter of 2013.

Recently Adopted and Issued Accounting Standards

In February 2013, the Financial Accounting Standards Board ("FASB") issued ASU 2013-02 - Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The amendments in this update require an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. The amendments were effective for periods beginning after December 15, 2012. Adoption of this update did not have a material impact on the Company’s financial position or results of operations.

In July 2012, the FASB issued ASU 2012-02, Intangibles – Goodwill and Other (Topic 350) – Testing Indefinite-Lived Intangible Assets for Impairment. The amendments in this update give entities the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that an indefinite-lived intangible asset, other than goodwill, is impaired. If, after assessing the totality of events or circumstances, an entity determines it is more likely than not that an indefinite-lived intangible asset is impaired, then the entity must perform the quantitative impairment test. Permitting an entity to assess qualitative factors when testing indefinite-lived intangible assets for impairment results in guidance that is similar to the goodwill impairment testing guidance in ASU 2011-08. The amendments were effective beginning January 1, 2013. Adoption of this update did not have a material impact on the Company’s financial position or results of operations.

In September 2011, the FASB issued ASU No. 2011-08, Intangibles — Goodwill and Other, to amend FASB Accounting Standards Codification (“ASC”) Topic 350, Testing Goodwill for Impairment. The amendments in the update permit an entity to first 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 as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. The amendments were effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Adoption of this update did not have a material impact on the Company’s financial position or results of operations.

In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income, to amend FASB ASC Topic 220, Comprehensive Income. The amendments in this update eliminate the option to present components of other comprehensive income as part of the statement of changes in stockholders’ equity and will require them to be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The single statement format would include the traditional income statement and the components and total other comprehensive income as well as total comprehensive income. In the two statement approach, the first statement would be the traditional income statement which would immediately be followed by a separate statement which includes the components of other comprehensive income, total other comprehensive income and total comprehensive income. The amendments in this update were effective for the first interim or annual period beginning after December 15, 2011. Adoption of this update did not have a material impact on the Company’s financial position or results of operations.

(Dollars in thousands, except per share amounts)

In May 2011, the FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, to amend ASC Topic 820, Fair Value Measurement. The amendments in this update result in common fair value measurement and disclosure requirements in GAAP and IFRS. Some of the amendments clarify the application of existing fair value measurement requirements and others change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. Many of the previous fair value requirements are not changed by this standard. The amendments in this update were effective during interim and annual periods beginning after December 15, 2011. Adoption of this update did not have a material impact on the Company’s financial position or results of operations.

NOTE B – PER SHARE RESULTS

Basic and diluted net income per share are computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during each period. Diluted net income per share reflects the potential dilution that could occur if common stock options and warrants were exercised, resulting in the issuance of common stock that then shared in the net income of the Company.

Basic and diluted net income per share have been computed based upon net income available to common stockholders as presented in the accompanying consolidated statements of operations divided by the weighted average number of common shares outstanding or assumed to be outstanding as summarized below.

	Successor Company Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Successor Company Nine Months Ended September 30, 2013	Period from February 1 to September 30, 2012	Predecessor Company Period from January 1 to January 31, 2012
Weighted average number of common shares	46,021,308	35,725,915	42,602,944	35,723,057	35,511,770
Effect of dilutive stock options and warrants	191,908	198,510	152,279	155,933	22,280
Weighted average number of common shares and dilutive potential common shares	46,213,216	35,924,425	42,755,223	35,878,990	35,534,050
Anti-dilutive stock options	112,475	107,236	112,475	109,763	240,384
Anti-dilutive warrant	514,693	—	514,693	—	833,705

NOTE C – MERGERS AND ACQUISITIONS

On April 1, 2013, the Company completed the merger of ECB Bancorp, Inc. ("ECB") with and into the Company (the "ECB merger"). The ECB merger was completed pursuant to an Agreement and Plan of Merger dated as of September 25, 2012 (the "Merger Agreement"). Immediately following the ECB merger, The East Carolina Bank, a wholly-owned subsidiary of ECB, was merged with and into VantageSouth Bank. Upon the closing of the ECB merger, each outstanding share of ECB common stock was converted into the right to receive 3.55 shares of common stock of the Company. The aggregate merger consideration consisted of 10,311,911 shares of the Company’s common stock. Based upon the $3.94 per share closing price of the Company’s common stock on March 28, 2013, the transaction value was $40,628. Following the ECB merger, Piedmont owned approximately 70 percent of the Company's outstanding common stock.

Pursuant to the Merger Agreement, the Company agreed to exchange each share of ECB's Fixed Rate Cumulative Perpetual Preferred Stock, Series A, into one share of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series B. At the closing of the ECB merger, the Company also issued a warrant to purchase 514,693.2 shares of the Company's common stock to the U.S. Department of the Treasury ("Treasury") in exchange for the warrant issued by ECB to Treasury on January 16, 2009 to purchase 144,984 shares of ECB's common stock. The warrant issuance reflects the exchange ratio associated with the ECB merger.

The following table presents the ECB assets acquired, liabilities assumed and other equity interests as of April 1, 2013 as well as the calculation of the transaction purchase price and gain on acquisition. The Company has a one-year measurement period from the acquisition date to finalize the recorded fair values of net assets acquired. Therefore, the acquisition gain may change if initial fair value estimates are revised within the measurement period.

VANTAGESOUTH BANCSHARES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share amounts)

	As Reported by ECB at April 1, 2013	Initial Fair Value Adjustments		Measurement Period Adjustments		As Reported by the Company at April 1, 2013
Assets:						
Cash and cash equivalents	$24,008	$—		$—		$24,008
Investment securities available for sale	289,058	301	(a)	—		289,359
Loans held for sale	3,857	9,790	(b)	(248	) (m)	13,399
Loans, net	483,474	(30,420	) (c)	—		453,054
Federal Home Loan Bank stock, at cost	3,150	—		—		3,150
Premises and equipment, net	25,633	(1,177	) (d)	135	(m)	24,591
Bank-owned life insurance	12,249	—		—		12,249
Foreclosed assets	7,090	(717	) (e)	—		6,373
Deferred tax asset, net	6,986	9,082	(f)	271	(m)	16,339
Other intangible assets, net	—	4,307	(g)	—		4,307
Other assets	10,423	(665	) (h)	(591	) (m)	9,167
Total assets	865,928	(9,499	)	(433	)	855,996
Liabilities:						
Deposits	$731,926	$4,188	(i)	$—		$736,114
Short-term borrowings	34,284	—		—		34,284
Long-term debt	16,000	460	(j)	—		16,460
Other liabilities	2,867	148	(k)	—		3,015
Total liabilities	785,077	4,796		—		789,873
Net assets acquired	80,851	(14,295	)	(433	)	66,123
Other equity interests:						
Preferred stock	17,660	(107	) (l)	—		17,553
Common stock warrant	878	(745	) (l)	—		133
Total other equity interests	18,538	(852	)	—		17,686
Gain on acquisition						7,809
Purchase price						$40,628

Explanation of fair value adjustments
(a) Adjustment reflects opening fair value of securities portfolio, which was established as the new book basis of the portfolio.
(b) Adjustment reflect the reclassification of the fair value of certain loans identified by management as being held for sale at acquisition.
(c) Adjustment reflects the estimated lifetime credit losses on the loan portfolio, the present value of the differences between contractual interest rates and market interest rates, and a reclassification of certain loans that were identified as held for sale at acquisition.
(d) Adjustment reflects fair value adjustments on certain acquired branch offices as well as certain software and computer equipment.
(e) Adjustment reflects the write down of certain foreclosed assets based on current estimates of property values given current market conditions and additional discounts based on the Company's planned disposition strategy.
(f) Adjustment reflects the tax impact of acquisition accounting fair value adjustments.
(g) Adjustment reflects the fair value of the acquired core deposit intangible.
(h) Adjustment reflects the impact of fair value adjustments on other assets, which include the write down of certain unusable prepaid expenses and the elimination of accrued interest on purchased credit-impaired loans.

(i) Adjustment reflects the fair value premium on time deposits, which was calculated by discounting future contractual interest payments at a current market interest rate.
(j) Adjustment reflects the fair value premium on FHLB advances, which was calculated by discounting future contractual interest payments at a current market interest rate. This fair value premium is also consistent with the prepayment penalty the FHLB would charge to terminate the advance.
(k) Adjustment reflects the impact of fair value adjustments on other liabilities, which primarily includes the accrual of a preferred stock dividend at acquisition.
(l) Amount reflects the adjustment to record other equity interests at fair value. The fair value of preferred stock issued to Treasury was estimated using by discounting future contractual dividend payments at a current market interest rate for preferred stocks of issuers with similar risk. The assumed liquidation date of the preferred stock was February 15, 2014, which is the date the dividend resets from 5 to 9 percent. The fair value of the common stock warrant issued to Treasury was estimated using a Black Scholes option pricing model assuming a warrant life through the dividend reset date.

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(m) Adjustments reflect changes to acquisition date fair values of certain assets based on additional information received post-acquisition within the measurement period. Measurement period adjustments included tax-effected adjustments to reduce the estimated fair value of a non-marketable investment, to reduce the fair value of certain distressed loans held for sale, and to increase the fair value of a bank-owned office.

The table below presents pro forma information as if the Company's acquisition of ECB had occurred at the beginning of the earliest period presented, which was January 1, 2012. In addition to the ECB merger, adjustments have also been made to balances reported in these consolidated financial statements for the impact of push-down accounting to Legacy VantageSouth's financial results prior to the actual push-down accounting date of February 1, 2012. The pro forma financial information is not indicative of the results of operations that would have occurred had the transaction been effected on the assumed date.

	Three Months Ended September 30,	Nine Months Ended September 30,	
	2012	2013	2012
Net interest income	$19,069	$58,295	56,568
Net income (loss)	$3,921	$(3,768)	7,995
Net income (loss) available to common stockholders	$3,287	$(5,815)	6,098
Net income (loss) per common share - basic	$0.07	$(0.13)	0.13
Net income (loss) per common share - diluted	$0.07	$(0.13)	0.13
Weighted average basic common shares outstanding	45,842,851	45,938,197	45,816,088
Weighted average diluted common shares outstanding	46,046,923	45,938,197	45,958,767

ECB was merged into the Company on April 1, 2013, and the combined organization began operating as a single reporting segment on the merger date.

NOTE D – INVESTMENT SECURITIES

The following tables summarize the amortized cost, gross unrealized gains and losses, and fair value of investment securities available for sale and held to maturity by major classification.

	September 30, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
U.S. government-sponsored enterprise securities	$14,822	$—	$106	$14,716
SBA-guaranteed securities	68,749	34	614	68,169
Residential mortgage-backed securities (MBS)	222,523	113	8,133	214,503
Corporate bonds	97,518	1,546	527	98,537

Commercial MBS	5,968	82	—	6,050
Municipal obligations - non-taxable	600	1	—	601
Other debt securities	253	—	—	253
Marketable equity securities	677	394	—	1,071
Total securities available for sale	$411,110	$2,170	$9,380	$403,900
Securities held to maturity:				
Corporate bonds	$208	$288	$—	$496

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	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
Residential MBS	$76,249	$574	$46	$76,777
Corporate bonds	30,861	1,697	50	32,508
Commercial MBS	6,612	273	—	6,885
Municipal obligations – non-taxable	15,492	709	—	16,201
Municipal obligations – taxable	2,583	142	—	2,725
Other debt securities	1,083	74	—	1,157
Marketable equity securities	37	21	—	58
Total securities available for sale	$132,917	$3,490	$96	$136,311
Securities held to maturity:				
Corporate bonds	$180	$230	$—	$410

The following tables summarize gross unrealized losses and fair values, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2013						
U.S. government-sponsored enterprise securities	$14,716	$106	$—	$—	$14,716	$106
SBA-guaranteed securities	61,297	614	—	—	61,297	614
Residential MBS	209,097	8,133	—	—	209,097	8,133
Corporate bonds	38,063	527	—	—	38,063	527
Total temporarily impaired securities	$323,173	$9,380	$—	$—	$323,173	$9,380
December 31, 2012						
Residential MBS	$28,802	$46	$—	$—	$28,802	$46
Corporate bonds	2,013	50	—	—	2,013	50
Total temporarily impaired securities	$30,815	$96	$—	$—	$30,815	$96

All residential MBSs in the investment portfolio as of September 30, 2013 and December 31, 2012 were issued and backed by government-sponsored enterprises ("GSEs"). Unrealized losses on investment securities as of September 30, 2013 related to 65 residential MBSs issued by GSEs, 14 investment grade corporate bonds, two GSE securities, and 24 SBA-guaranteed securities. Unrealized losses on investment securities at December 31, 2012 related to 9 residential MBSs issued by GSEs and 2 investment grade corporate bonds. As of September 30, 2013 and December 31, 2012, none of the securities had been in an unrealized loss position for more than a twelve month period. The increase in gross unrealized losses since year end 2012 was primarily due to increases in long-term market interest rates in the second quarter of 2013 which negatively affected values of fixed income securities. The Company had $527 in total unrealized losses on corporate bonds, which were the only securities in a loss position that were not issued or guaranteed by a U.S. government agency or GSE. These corporate bonds were all issued by large national or international financial institutions, and the Company does not believe the recent unrealized losses on these bonds were due to issuer-related credit events.

The securities in an unrealized loss position as of September 30, 2013 continue to perform and are expected to perform through maturity, and the issuers have not experienced significant adverse events that would call into question their ability to repay these debt obligations according to contractual terms. Further, because the Company does not intend to sell these investments and does not believe that it will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, unrealized losses on such securities were not considered to represent other-than-temporary impairment as of September 30, 2013.

As of September 30, 2013, the Company held no individual investment securities with an aggregate book value greater than 10 percent of total stockholders’ equity. As of September 30, 2013 and December 31, 2012, investment securities with carrying values of $197,910 and $50,685, respectively, were pledged to secure public deposits, borrowings and for other purposes required or permitted by law.

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The amortized cost and fair values of securities available for sale, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	September 30, 2013		December 31, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities available for sale:				
Due within one year	$1,282	$1,284	$13,327	$13,420
Due after one year through five years	183,277	183,229	78,671	81,064
Due after five years through ten years	158,304	152,479	24,039	24,669
Due after ten years	67,570	65,837	16,843	17,100
Equity securities	677	1,071	37	58
	$411,110	$403,900	$132,917	$136,311
Securities held to maturity:				
Due after five years through ten years	$208	$496	$180	$410

The following table summarizes securities gains (losses) for the periods presented.

	Successor Company Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Successor Company Nine Months Ended September 30, 2013	Period from February 1 to September 30, 2012	Predecessor Company Period from January 1 to January 31, 2012
Gross gains on sales of securities available for sale	$—	$483	$1,249	$755	$—
Gross losses on sales of securities available for sale	—	—	(34)	(107)	—
Total securities gains	$—	$483	$1,215	$648	$—

NOTE E – LOANS AND ALLOWANCE FOR LOAN LOSSES

The following table summarizes the Company's loans by type.

	September 30, 2013	December 31, 2012
Commercial:		
Commercial real estate	$650,722	$392,955
Commercial and industrial	237,648	98,701
Construction and development	147,214	72,566
Consumer:		
Residential real estate	188,032	125,277
Construction and development	28,306	6,203
Home equity	93,342	63,486
Other consumer	8,900	4,325
Gross loans	1,354,164	763,513
Less:		

Deferred loan fees	(804)	(97)
Allowance for loan losses	(7,034)	(3,998)
Net loans	$1,346,326	$759,418

As of September 30, 2013 and December 31, 2012, loans with a recorded investment of $374,402 and $237,560, respectively, were pledged to secure borrowings or available lines of credit with correspondent banks.

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Purchased Credit-Impaired Loans

Loans for which it is probable at acquisition that all contractually required payments will not be collected are considered purchased credit-impaired ("PCI") loans. The following table relates to PCI loans acquired in the ECB merger and summarizes the contractually required payments, which includes principal and interest, expected cash flows to be collected, and the fair value of acquired PCI loans at the ECB merger date.

	April 1, 2013
Contractually required payments	$61,801
Nonaccretable difference	(11,433)
Cash flows expected to be collected at acquisition	50,368
Accretable yield	(4,242)
Fair value of PCI loans at acquisition	$46,126

The following table summarizes changes in accretable yield, or income expected to be collected, related to all of the Company's PCI loans for the periods presented.

	Successor Company Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Successor Company Nine Months Ended September 30, 2013	Period from February 1 to September 30, 2012	Predecessor Company Period from January 1 to January 31, 2012
Balance, beginning of period	$26,088	$28,088	$27,632	$28,144	$29,645
Loans purchased	—	—	4,242	—	—
Accretion of income	(3,131)	(3,736)	(10,467)	(10,228)	(1,389)
Reclassifications from nonaccretable difference	3,858	3,775	6,504	10,771	—
Other, net	(773)	(1,590)	(1,869)	(2,150)	(112)
Balance, end of period	$26,042	$26,537	$26,042	$26,537	$28,144

Purchased Non-impaired Loans

Purchased non-impaired loans are also recorded at fair value at acquisition, and the related fair value discount or premium is recognized as an adjustment to yield over the remaining life of each loan. The following table relates to purchased non-impaired loans acquired in the ECB merger and provides the contractually required payments, fair value, and estimate of contractual cash flows not expected to be collected at the ECB merger date.

	April 1, 2013
Contractually required payments	$499,963
Fair value of acquired loans at acquisition	$406,928
Contractual cash flows not expected to be collected	$10,098

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Allowance for Loan Losses

The following tables summarize the activity in the allowance for loan losses for the periods presented.

	Successor Company Commercial Real Estate	Commercial and Industrial	Commercial Construction	Residential Real Estate	Consumer Construction	Home Equity	Other Consumer	Total
Three months ended September 30, 2013:								
Beginning balance	$3,069	$ 1,355	$ 999	$852	$ 34	$86	$ 30	$6,425
Charge-offs	—	(64)	(361)	(85)	—	(131)	(28)	(669)
Recoveries	4	7	(38)	17	—	4	4	(2)
Provision for loan losses	(98)	231	559	418	9	130	31	1,280
Ending balance	$2,975	$ 1,529	$ 1,159	$1,202	$ 43	$89	$ 37	$7,034
Nine months ended September 30, 2013:								
Beginning balance	$1,524	$ 798	$ 597	$940	$ 18	$85	$ 36	$3,998
Charge-offs	(14)	(141)	(478)	(509)	—	(433)	(246)	(1,821)
Recoveries	22	15	9	79	—	9	11	145
Provision for loan losses	1,443	857	1,031	692	25	428	236	4,712
Ending balance	$2,975	$ 1,529	$ 1,159	$1,202	$ 43	$89	$ 37	$7,034
Three months ended September 30, 2012:								
Beginning balance	$921	$ 585	$ 376	$756	$ 28	$356	$ 21	$3,043
Charge-offs	—	(131)	(84)	(154)	—	(692)	(114)	(1,175)
Recoveries	—	12	102	78	2	—	7	201
Provision for loan losses	109	98	54	6	(2)	692	120	1,077
Ending balance	$1,030	$ 564	$ 448	$686	$ 28	$356	$ 34	$3,146
2012 Successor Period:								
Beginning balance	$505	$ 218	$ 305	$155	$ 28	$51	$ 15	$1,277
Charge-offs	—	(249)	(389)	(226)	(11)	(1,411)	(138)	(2,424)
Recoveries	—	18	117	153	7	—	7	302
Provision for loan losses	525	577	415	604	4	1,716	150	3,991
Ending balance	$1,030	$ 564	$ 448	$686	$ 28	$356	$ 34	$3,146

	Predecessor Company Commercial Real Estate	Residential Real Estate	Construction	Commercial	Consumer	Total
2012 Predecessor Period:						

Beginning balance	$663	$601	$534	$324	$9	$2,131
Charge-offs	—	—	(1)	—	—	(1)
Recoveries	—	—	—	2	—	2
Provision for loan losses	48	26	98	21	2	195
Ending balance	$711	$627	$631	$347	$11	$2,327

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The following tables summarize the ending allowance for loans losses and the recorded investment in loans by portfolio segment and impairment method.

	September 30, 2013							
	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Residential Real Estate	Consumer Construction	Home Equity	Other Consumer	Total
Allowance for loan losses:								
Ending balance:								
Individually evaluated for impairment	$—	$ 2	$ —	$—	$ —	$—	$ —	$2
Collectively evaluated for impairment	1,728	1,527	687	490	43	89	25	4,589
Purchased credit-impaired	1,247	—	472	712	—	—	12	2,443
Total	$2,975	$ 1,529	$ 1,159	$1,202	$ 43	$89	$ 37	$7,034
Loans:								
Ending balance:								
Individually evaluated for impairment	$3,424	$ 358	$ 1,312	$744	$ —	$449	$ —	$6,287
Collectively evaluated for impairment	533,783	225,436	110,114	161,072	26,174	91,514	8,472	1,156,565
Purchased credit-impaired	113,515	11,854	35,788	26,216	2,132	1,379	428	191,312
Total	$650,722	$ 237,648	$ 147,214	$188,032	$ 28,306	$93,342	$ 8,900	$1,354,164

	December 31, 2012							
	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Residential Real Estate	Consumer Construction	Home Equity	Other Consumer	Total
Allowance for loan losses:								
Ending balance:								
Individually evaluated for impairment	$14	$—	$ 8	$9	$ —	$14	$ 1	$46
Collectively evaluated for impairment	1,067	798	322	379	18	71	19	2,674
Purchased credit-impaired	443	—	267	552	—	—	16	1,278

Total	$1,524	$798	$ 597	$940	$ 18	$85	$ 36	$3,998
Loans:								
Ending balance:								
Individually evaluated for impairment	$1,697	$—	$ 415	$1,452	$ —	$1,342	$ 224	$5,130
Collectively evaluated for impairment	266,001	85,356	31,741	100,794	5,392	62,101	3,891	555,276
Purchased credit-impaired	125,257	13,345	40,410	23,031	811	43	210	203,107
Total	$392,955	$98,701	$ 72,566	$125,277	$ 6,203	$63,486	$ 4,325	$763,513

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The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. The Company uses the following general definitions for risk ratings:

- Pass. These loans range from superior quality with minimal credit risk to loans requiring heightened management attention but that are still an acceptable risk and continue to perform as contracted.

- Special Mention. Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

- Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

- Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

The following tables summarize the risk category of loans by class of loans.

	Pass	Special Mention	Substandard	Doubtful	Total
September 30, 2013					
Non-Acquired Loans					
Commercial:					
Real estate	$255,136	$7,850	$2,254	$—	$265,240
Commercial and industrial	139,213	2,221	2,576	—	144,010
Construction and development	75,197	401	254	93	75,945
Consumer:					
Residential real estate	72,898	1,613	923	—	75,434
Construction and development	4,812	75	—	—	4,887
Home equity	16,914	52	113	—	17,079
Other consumer	1,856	29	—	—	1,885
Total	$566,026	$12,241	$6,120	$93	$584,480
Acquired Loans					
Commercial:					
Real estate	$315,539	$41,012	$28,931	$—	$385,482
Commercial and industrial	86,496	3,909	3,186	47	93,638
Construction and development	40,242	23,264	6,821	942	71,269
Consumer:					
Residential real estate	93,166	11,642	7,743	47	112,598
Construction and development	20,846	1,157	1,416	—	23,419
Home equity	70,171	2,908	3,184	—	76,263

Other consumer	6,492	344	179	—	7,015
Total	$632,952	$84,236	$51,460	$1,036	$769,684

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	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2012					
Non-Acquired Loans					
Commercial:					
Real estate	$135,144	$285	$514	$—	$135,943
Commercial and industrial	70,334	1,223	216	—	71,773
Construction and development	17,673	—	626	—	18,299
Consumer:					
Residential real estate	46,608	336	406	—	47,350
Construction and development	1,182	77	—	—	1,259
Home equity	10,676	52	115	—	10,843
Other consumer	1,525	7	—	—	1,532
Total	$283,142	$1,980	$1,877	$—	$286,999
Acquired Loans					
Commercial:					
Real estate	$200,494	$41,426	$15,092	$—	$257,012
Commercial and industrial	24,461	1,201	1,266	—	26,928
Construction and development	26,117	20,976	6,791	383	54,267
Consumer:					
Residential real estate	63,620	7,240	7,029	38	77,927
Construction and development	3,941	549	454	—	4,944
Home equity	48,579	1,989	2,075	—	52,643
Other consumer	2,422	138	233	—	2,793
Total	$369,634	$73,519	$32,940	$421	$476,514

The following tables summarize the past due status of the loan portfolio (excluding PCI loans) based on contractual terms.

	30-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans
September 30, 2013					
Non-Acquired Loans					
Commercial:					
Real estate	$345	$191	$536	$264,704	$265,240
Commercial and industrial	1,164	122	1,286	142,724	144,010
Construction and development	340	—	340	75,605	75,945
Consumer:					
Residential real estate	741	539	1,280	74,154	75,434
Construction and development	214	—	214	4,673	4,887
Home equity	—	113	113	16,966	17,079
Other consumer	37	—	37	1,848	1,885
Total	$2,841	$965	$3,806	$580,674	$584,480
Acquired Loans					

Commercial:					
Real estate	$2,707	$1,733	$4,440	$267,526	$271,966
Commercial and industrial	718	250	968	80,817	81,785
Construction and development	41	919	960	34,521	35,481
Consumer:					
Residential real estate	1,473	692	2,165	84,218	86,383
Construction and development	82	259	341	20,946	21,287
Home equity	1,268	975	2,243	72,640	74,883
Other consumer	68	120	188	6,399	6,587
Total	$6,357	$4,948	$11,305	$567,067	$578,372

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	30-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans
December 31, 2012					
Non-Acquired Loans					
Commercial:					
Real estate	$1,454	$208	$1,662	$134,281	$135,943
Commercial and industrial	616	30	646	71,127	71,773
Construction and development	—	74	74	18,225	18,299
Consumer:					
Residential real estate	653	406	1,059	46,291	47,350
Construction and development	—	—	—	1,259	1,259
Home equity	—	115	115	10,728	10,843
Other Consumer	90	—	90	1,442	1,532
Total	$2,813	$833	$3,646	$283,353	$286,999
Acquired Loans					
Commercial:					
Real estate	$744	$1,249	$1,993	$129,762	$131,755
Commercial and industrial	262	—	262	13,321	13,583
Construction and development	326	156	482	13,375	13,857
Consumer:					
Residential real estate	942	669	1,611	53,285	54,896
Construction and development	83	70	153	3,980	4,133
Home equity	1,200	597	1,797	50,803	52,600
Other Consumer	114	223	337	2,246	2,583
Total	$3,671	$2,964	$6,635	$266,772	$273,407

The following table summarizes the recorded investment of loans on nonaccrual status and loans greater than 90 days past due and accruing (excluding PCI loans) by class.

	September 30, 2013		December 31, 2012	
	Nonaccrual	Loans Greater Than 90 Days Past Due and Accruing	Nonaccrual	Loans Greater Than 90 Days Past Due and Accruing
Non-Acquired Loans				
Commercial:				
Commercial real estate	$480	$—	$514	$—
Commercial and industrial	1,276	—	44	—
Construction and development	246	—	74	—
Consumer:				
Residential real estate	664	—	510	—
Home equity	113	—	115	—
Other consumer	—	—	—	—
Total	$2,779	$—	$1,257	$—

Acquired Loans				
Commercial:				
Commercial real estate	$3,393	$—	$1,249	$—
Commercial and industrial	1,160	—	20	—
Construction and development	1,295	—	409	—
Consumer:				
Residential real estate	1,733	—	1,332	—
Construction and development	320	—	70	—
Home equity	1,942	—	1,435	—
Other consumer	123	—	223	—
Total	$9,966	$—	$4,738	$—

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The following table provides information on impaired loans, which excludes PCI loans and loans evaluated collectively as a homogeneous group.

	Recorded Investment With a Recorded Allowance	Recorded Investment With no Recorded Allowance	Total	Related Allowance	Unpaid Principal Balance
September 30, 2013					
Non-Acquired Loans					
Commercial:					
Commercial real estate	$—	$480	$480	$—	$519
Commercial and industrial	20	—	20	2	21
Construction and development	—	246	246	—	255
Consumer:					
Residential real estate	—	478	478	—	553
Other consumer	—	—	—	—	—
Total	20	1,204	1,224	2	1,348
Acquired Loans					
Commercial:					
Commercial real estate	—	2,944	2,944	—	3,001
Commercial and industrial	—	338	338	—	338
Construction and development	—	1,066	1,066	—	1,216
Consumer:					
Residential real estate	—	266	266	—	293
Home equity	—	449	449	—	487
Other consumer	—	—	—	—	—
Total	—	5,063	5,063	—	5,335
Total impaired loans	$20	$6,267	$6,287	$2	$6,683
December 31, 2012					
Non-Acquired Loans					
Commercial:					
Commercial real estate	$208	$306	$514	$14	$519
Construction and development	40	—	40	8	70
Consumer:					
Residential real estate	406	—	406	6	449
Home equity	115	—	115	14	115
Other consumer	—	—	—	—	—
Total	769	306	1,075	42	1,153
Acquired Loans					
Commercial:					
Commercial real estate	—	1,183	1,183	—	1,183
Construction and development	—	375	375	—	558
Consumer:					
Residential real estate	350	696	1,046	3	1,156
Home equity	38	1,189	1,227	—	2,057

Other consumer	224	—	224	1	224
Total	612	3,443	4,055	4	5,178
Total impaired loans	$1,381	$3,749	$5,130	$46	$6,331

No interest income was recorded on impaired loans during the period in which they were impaired for the three and nine months ended September 30, 2013, three months ended September 30, 2012, or during the 2012 Successor and 2012 Predecessor Periods.

There were no new restructured loans during the three or nine months ended September 30, 2013.

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NOTE F – COMMITMENTS AND CONTINGENCIES

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the maximum exposure the Company has in particular classes of financial instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer’s creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company, upon extension of credit is based on a credit evaluation of the borrower. Collateral obtained varies but may include real estate, equipment, stocks, bonds, and certificates of deposit.

The following table is a summary of the contractual amount of the Company’s exposure to off-balance sheet commitments.

	September 30, 2013	December 31, 2012
Commitments to extend credit	$325,156	$156,580
Financial standby letters of credit	9,771	4,415
Capital commitment to private investment funds	1,744	175

The reserve for unfunded commitments was $284 and $112 as of September 30, 2013 and December 31, 2012, respectively, which was recorded in other liabilities on the consolidated balance sheets.

NOTE G – DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments to manage its interest rate risk. These instruments carry varying degrees of credit, interest rate, and market or liquidity risks. Derivative instruments are recognized as either assets or liabilities on the balance sheet and are measured at fair value. Subsequent changes in the fair value of derivatives are recognized in other comprehensive income for effective hedges, and changes in fair value are recognized in earnings for all other derivatives.

Derivative Instruments Related to FHLB Advances

In May 2013, the Company entered into a series of forward starting interest rate swaps on $75,000 of forecasted short-term FHLB advances to reduce its exposure to variability in interest payments attributable to changes in LIBOR. Beginning on the respective effective date, these interest rate swaps will exchange the 90-day LIBOR component of future variable rate interest on short-term borrowings with fixed interest rates ranging from 1.65 to 1.72 percent. Each 90-day FHLB advance, or other short-term borrowing, will be executed to correspond to the effective dates of the respective interest rate swaps and will continue to be rolled for the term of each respective swap. These interest rate swaps are expected to be highly effective and are accounted for as cash flow hedges with the change in fair value recognized in other comprehensive income ("OCI"). The purpose of these cash flow hedges is to better position the Company's balance sheet for a potentially rising interest rate environment.

The following table summarizes key terms of each swap.

	Notional Amount	Effective Date	Maturity Date	Fixed Rate	
Swap 1	$25,000	April 6, 2015	April 5, 2020	1.650	%
Swap 2	25,000	May 5, 2015	May 5, 2020	1.683	%
Swap 3	25,000	June 5, 2015	June 5, 2020	1.720	%
	$75,000				

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Derivative Instruments Related to Trust Preferred Securities

In August 2003, $8,000 in trust preferred securities ("TRUPs") were issued through Crescent Financial Capital Trust I (the "Trust"). The Trust invested the total proceeds from the sale of its TRUPs in junior subordinated deferrable interest debentures issued by Crescent, which fully and unconditionally guarantees the TRUPs. The TRUPs were adjusted to fair value in connection with Piedmont's acquisition of Crescent, and as of September 30, 2013 and December 31, 2012, their carrying value was $5,544, and $5,497, respectively.

The TRUPs pay cumulative cash distributions quarterly at an annual contract rate, reset quarterly, equal to three-month LIBOR plus 3.10 percent. The dividends paid to holders of the TRUPs, which are recorded as interest expense, are deductible for income tax purposes. Crescent elected to defer interest payments on its TRUPs beginning with the payment due April 7, 2011. Under the terms of the indenture governing the junior subordinated debentures, Crescent was able to defer payments of interest for up to 20 consecutive quarterly periods without default or penalty. In the second quarter of 2012, the Company received approval from the Federal Reserve Bank of Richmond to resume interest payments on its TRUPs and paid all accrued deferred interest plus current interest on the quarterly payment date of July 7, 2012.

In June 2009, Crescent entered into two interest rate contracts which swapped the variable rate payments for fixed payments. These instruments consisted of a three-year and four-year swap, each for one-half of the notional amount of the TRUPs for fixed rates of 5.49 percent and 5.97 percent, respectively. The three-year swap matured in July 2012 and the four-year swap matured in July 2013. Due to the deferral of interest payments on the TRUPs beginning in April 2011, the remaining interest rate swap no longer qualified for cash flow hedge accounting and was therefore marked to fair value through earnings.

In May 2012, the Company entered into an interest rate cap contract which began in July 2012. This derivative financial instrument caps the interest rate on the the full $8,000 notional amount of the TRUPs at 3.57 percent through July 2017. In the event that the variable rate on the TRUPs exceeds the cap rate, the counterparty would pay the Company the difference between the variable rate due to the holders of the debentures and the cap rate. This interest rate cap contract is classified as a cash flow hedge. Therefore, the change in fair value of the cap is recognized in OCI.

Derivative Instruments Related to Subordinated Term Loan

In September 2008, Crescent entered into an unsecured subordinated term loan agreement in the amount of $7,500. The agreement requires the Bank to make quarterly payments of interest at an annual contract rate, reset quarterly, equal to three-month LIBOR plus 4.00 percent. The subordinated term loan was adjusted to estimated fair value in with Piedmont's acquisition of Crescent, and as of September 30, 2013 and December 31, 2012, the carrying value was $6,937 and $6,867, respectively.

In June 2009, Crescent entered into two interest rate contracts which swapped the variable rate payments for fixed payments. These instruments consisted of a three-year and four-year swap, each for one-half of the notional amount of the subordinated debt for fixed rates of 6.39 percent and 6.87 percent, respectively. The three-year swap matured in June 2012 and the four-year swap matured in July 2013. Beginning at Piedmont's acquisition of Crescent, the Company no longer designated these interest rate swaps as qualifying for hedge accounting and therefore began to mark them to fair value through earnings.

In May 2012, the Company entered into an interest rate cap which began in July 2012. This derivative financial instrument caps the interest rate on the the full $7,500 notional amount of the subordinated term loan at 4.47 percent through July 2017. In the event that the variable rate on the subordinated term loan exceeds the cap rate, the counterparty would pay the Company the difference between the variable rate due on the subordinated term loan and the cap rate. This interest rate cap contract is classified as a cash flow hedge. Therefore, the change in fair value of the cap is recognized in OCI.

Loan Commitments

Related to its mortgage banking business, the Company enters into interest rate lock commitments with customers and commitments to sell mortgages to investors under best-efforts contracts. The interest rate lock commitments are entered into to manage the interest rate risk associated with the best-efforts contracts and are considered derivative financial instruments.

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The following table summarizes the balance sheet location and fair value amounts of derivative instruments.

	Balance Sheet Location	September 30, 2013 Notional Amount	September 30, 2013 Fair Value	December 31, 2012 Notional Amount	December 31, 2012 Fair Value
FHLB advances:					
Interest rate swaps	Other assets	$75,000	$3,210	$—	$—
Trust preferred securities:					
Interest rate swap	Other liabilities	$—	$—	$4,000	$(54)
Interest rate cap	Other assets	8,000	207	8,000	109
Subordinated term loan:					
Interest rate swap	Other liabilities	$—	$—	$3,750	$(49)
Interest rate cap	Other assets	7,500	193	7,500	101
Loan commitments:					
Interest rate lock commitments	Other assets	$17,450	$367	$44,156	$795
			$3,977		$902

The following table summarizes activity in accumulated OCI related to cash flow hedges for the periods presented.

	Successor Company Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Successor Company Nine Months Ended September 30, 2013	Period from February 1 to September 30, 2012	Predecessor Company Period from January 1 to January 31, 2012
Accumulated OCI resulting from cash flow hedges at beginning of period, net of tax	$2,224	$—	$(267)	$—	$—
Other comprehensive income recognized, net of tax	(315)	(273)	2,176	(273)	—
Accumulated OCI resulting from cash flow hedges at end of period, net of tax	$1,909	$(273)	$1,909	$(273)	$—

The Company monitors the credit risk of the counterparties to the interest rate swaps and caps.

NOTE H – FAIR VALUE MEASUREMENTS

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For example, investment securities available for sale are recorded at fair value on a recurring basis. Additionally, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, impaired loans and certain other assets. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets. The following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

Investment Securities. Investment securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market exchange prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include marketable equity securities traded on an active exchange, such as the New York Stock Exchange. Level 2 securities include mortgage-backed securities and collateralized mortgage obligations, both issued by government sponsored entities, private label mortgage-backed securities, municipal bonds and corporate debt securities.

Derivatives. Derivative instruments include interest rate swaps and caps and are valued on a recurring basis using models developed by third-party providers. This type of derivative is classified as Level 2 within the hierarchy.

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Loans. Loans are not recorded at fair value on a recurring basis. However, certain loans are determined to be impaired, and those loans are charged down to estimated fair value. The fair value of impaired loans that are collateral dependent is based on collateral value. For impaired loans that are not collateral dependent, estimated value is based on either an observable market price, if available, or the present value of expected future cash flows. Those impaired loans not requiring a charge-off represent loans for which the estimated fair value exceeds the recorded investments in such loans. When the fair value of an impaired loan is based on an observable market price or a current appraised value with no adjustments, the Company records the impaired loan as nonrecurring Level 2. When an appraised value is not available, or the Company determines the fair value of the collateral is further impaired below the appraised value, and there is no observable market price, the impaired loan is classified as nonrecurring Level 3.

Interest Rate Lock Commitments. The fair value of interest rate lock commitments is based on servicing rate premium, origination income net of origination costs, fall out rates and changes in loan pricing between the commitment date and period end. There have been no changes in valuation techniques during the nine months ended September 30, 2013. Interest rate lock commitments are measured at fair value on a recurring basis and are classified as Level 3. The following table provides the components of the change in fair value of interest rate lock commitments for the periods presented.

Interest Rate Lock Commitments	Successor Company Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Successor Company Nine Months Ended September 30, 2013	Period from February 1 to September 30, 2012	Predecessor Company Period from January 1 to January 31, 2012
Balance at beginning of period	$648	$603	$795	$268	$212
Issuances	213	865	2,403	1,681	134
Settlements	(494)	(654)	(2,831)	(1,135)	(78)
Balance at end of period	$367	$814	$367	$814	$268

The difference between the gross issuances and settlements for the period is included in mortgage banking income within non-interest income.

Foreclosed Assets. Foreclosed assets are adjusted to fair value upon transfer of loans to foreclosed assets. Subsequently, foreclosed assets are carried at lower of cost or net realizable value. Fair value is based upon independent market prices, appraised values of the collateral or management’s estimation of the value of the collateral. Given the lack of observable market prices for identical properties and market discounts applied to appraised values, the Company classifies foreclosed assets as nonrecurring Level 3.

The following tables summarize information about assets and liabilities measured at fair value.

		Fair Value Measurements at September 30, 2013		
Description	Assets/(Liabilities) Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available for sale:				

U.S. government-sponsored enterprise securities	$ 14,716	$—	$14,716	$—
SBA-guaranteed securities	68,169	—	68,169	—
Residential MBS	214,503	—	214,503	—
Corporate bonds	98,537	—	98,537	—
Commercial MBS	6,050	—	6,050	—
Municipal obligations – non-taxable	601	—	601	—
Other debt securities	253	—	253	—
Marketable equity securities	1,071	1,071	—	—
Impaired loans	6,285	—	—	6,285
Foreclosed assets	11,806	—	—	11,806
Interest rate lock commitments	367	—	—	367
Derivative assets	3,610	—	3,610	—

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Description	Assets/(Liabilities) Measured at Fair Value	Fair Value Measurements at December 31, 2012 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available for sale:				
Residential MBS	$ 76,777	$—	$76,777	$—
Corporate bonds	32,508	—	32,508	—
Commercial MBS	6,885	—	6,885	—
Municipal obligations – non-taxable	16,201	—	16,201	—
Municipal obligations – taxable	2,725	—	2,725	—
Other debt securities	1,157	—	1,157	—
Marketable equity securities	58	58	—	—
Impaired loans	5,084	—	—	5,084
Foreclosed assets	5,837	—	—	5,837
Interest rate lock commitments	795	—	—	795
Derivative assets	210	—	210	—
Derivative liabilities	(103)	—	(103)	—

Quantitative Information about Level 3 Fair Value Measurements

The table below outlines the valuation techniques, unobservable inputs, and the range of quantitative inputs used in the valuations. No changes have been mode to any of these factors from December 31, 2012.

	Valuation Technique	Unobservable Input	Range
Recurring measurements:			
Interest rate lock commitments	Pricing model	Pull through rates	80-85%
Nonrecurring measurements:			
Impaired loans	Discounted appraisals	Collateral discounts	15-50%
Foreclosed assets	Discounted appraisals	Collateral discounts	15-50%

The significant unobservable input used in the fair value measurement of the Company’s interest rate lock commitments is the closing ratio (or pull through rate), which represents the percentage of loans currently in a lock position which management estimates will ultimately close. Generally, the fair value of an interest rate lock commitment is positive (negative) if the prevailing interest rate is lower (higher) than the interest rate lock commitment rate. Therefore, an increase in the pull through rates (i.e., higher percentage of loans estimated to close) will result in the fair value of the interest rate lock commitments increasing in a gain position, or decreasing in a loss position. The pull through ratio is largely dependent on the loan processing stage that a loan is currently in and the change in prevailing interest rates from the time of the rate lock. The pull through rate is computed based on historical internal data and the ratio is periodically reviewed by the Company’s mortgage banking division.

Due to the nature of the Company’s business, a significant portion of its assets and liabilities consist of financial instruments. Accordingly, the estimated fair values of these financial instruments are disclosed. Quoted market prices, if available, are utilized as an estimate of the fair value of financial instruments. The fair value of such instruments has been derived based on assumptions with respect to future economic conditions, the amount and timing of future cash flows and estimated discount rates. Different assumptions could significantly affect these estimates. Accordingly, the net amounts ultimately collected could be materially different from the estimates presented below. In addition, these estimates are only indicative of the values of individual financial instruments and should not be considered an indication of the fair value of the Company taken as a whole.

Cash and Cash Equivalents. The carrying amounts for cash and cash equivalents are equal to fair value.

Investment Securities Available for Sale. See discussion related to fair value estimates for securities available for sale in the fair value hierarchy section above. There have been no changes in valuation techniques for the nine months ended September 30, 2013.

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Investment Securities Held to Maturity. The fair value of the one corporate bond classified as held to maturity is estimated based on recent issuance yields on subordinated debt from companies with a similar credit and liquidity profile. Due to the non-marketable nature of this bond, it is classified as Level 3.

Loans Held For Sale. The fair value of mortgage loans held for sale is based on commitments on hand from investors within the secondary market for loans with similar characteristics. There have been no changes in valuation techniques for the nine months ended September 30, 2013.

Loans. Expected cash flows are forecasted over the remaining life of each loan and are discounted to present value at current market interest rates for similar loans considering loan collateral type and credit quality. There have been no changes in valuation techniques for the nine months ended September 30, 2013.

Federal Home Loan Bank Stock. Given the option to redeem this stock at par through the FHLB, the carrying value of FHLB stock approximates fair value. There have been no changes in valuation techniques for the nine months ended September 30, 2013.

Bank-Owned Life Insurance. Bank-owned life insurance investments are recorded at their cash surrender value, or the amount that can be realized upon surrender. Therefore, carrying value approximates fair value.

Deposits. The fair value of demand deposits, savings, money market and NOW accounts represents the amount payable on demand. The fair value of time deposits is estimated by calculating the present value of cash flows on the time deposit portfolio discounted using interest rates currently offered for instruments of similar remaining maturities. There have been no changes in valuation techniques for the nine months ended September 30, 2013.

Short-term Borrowings and Long-term Debt. The fair value of short-term borrowings and long-term debt are based upon the discounted value when using current rates at which borrowings of similar maturity could be obtained. There have been no changes in valuation techniques for the nine months ended September 30, 2013.

Accrued Interest Receivable and Accrued Interest Payable. The carrying amounts of accrued interest receivable and payable approximate fair value due to the short maturities of these instruments. There have been no changes in valuation techniques for the nine months ended September 30, 2013.

Derivative Instruments. See discussion related to fair value estimates for derivative instruments in the fair value hierarchy section above. There have been no changes in valuation techniques for the nine months ended September 30, 2013.

The following tables summarize the carrying amounts and estimated fair values of the Company's financial instruments.

	September 30, 2013				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	$85,635	$85,635	$85,635	$—	$—
Investment securities available for sale	403,900	403,900	1,071	402,829	—
Investment securities held to maturity	208	496	—	—	496
Loans held for sale	7,349	7,349	—	7,349	—

Loans, net	1,346,326	1,338,988	—	—	1,338,988
Federal Home Loan Bank stock	8,029	8,029	—	8,029	—
Bank-owned life insurance	32,896	32,896	—	32,896	—
Derivative assets	3,977	3,977	—	3,977	—
Accrued interest receivable	4,974	4,974	—	4,974	—
Financial liabilities:					
Deposits	1,622,539	1,626,505	—	1,626,505	—
Short-term borrowings	100,500	100,647	—	—	100,647
Long-term debt	75,880	75,894	—	—	75,894
Accrued interest payable	650	650	—	650	—

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	December 31, 2012				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	$50,463	$50,463	$50,463	$—	$—
Investment securities available for sale	136,311	136,311	58	136,253	—
Investment securities held to maturity	180	410	—	—	410
Loans held for sale	16,439	16,439	—	16,439	—
Loans, net	759,418	763,572	—	—	763,572
Federal Home Loan Bank stock	2,307	2,307	—	2,307	—
Bank-owned life insurance	19,976	19,976	—	19,976	—
Derivative assets	1,005	1,005	—	1,005	—
Accrued interest receivable	5,154	5,154	—	5,154	—
Financial liabilities:					
Deposits	873,222	876,674	—	876,674	—
Short-term borrowings	7,500	7,456	—	—	7,456
Long-term debt	19,864	19,821	—	—	19,821
Derivative liabilities	103	103	—	103	—
Accrued interest payable	476	476	—	476	—

NOTE I - CUMULATIVE PERPETUAL PREFERRED STOCK

Series A Preferred Stock

Pursuant to the Treasury’s TARP Capital Purchase Program, Crescent issued $24,900 in Fixed Rate Cumulative Perpetual Preferred Stock, Series A (“Series A Preferred Stock”), on January 9, 2009. In addition, Crescent provided a warrant to the Treasury to purchase 833,705 shares of its common stock at an exercise price of $4.48 per share. This warrant was immediately exercisable and expires ten years from the date of issuance. The Series A Preferred Stock is non-voting, other than having class voting rights on certain matters, and pays cumulative dividends quarterly at a rate of 5 percent per annum for the first five years and 9 percent per annum thereafter. The Series A Preferred Stock is redeemable at the option of the Company subject to regulatory approval.

The Company assigned a fair value to both the Series A Preferred Stock and common stock warrant in acquisition accounting in connection with Piedmont's acquisition of Crescent. These securities represent other equity interests that were recorded at estimated fair value. The Series A Preferred Stock was valued based on forecasting expected cash flows with an assumed repayment date and discounting these cash flows based on current market yields for preferred stock with similar risk. For purposes of the discount rate, the Company used the market yield on an index of publicly traded preferred stocks adjusted for a liquidity factor. The Series A Preferred Stock was assigned a fair value of $24,400 at acquisition, and the discount between this value and the $24,900 redemption value is being accreted as a reduction to retained earnings over a two-year period.

The common stock warrants were valued at $1.59 per share, or $1,325 in the aggregate, at acquisition using a Black-Scholes option pricing model. Assumptions used in the Black-Scholes option pricing model were as follows:

Risk-free interest rate*	0.31	%
Expected life of warrants	2 years	

Expected dividend yield	—	%
Expected volatility	65.10	%

* The risk-free interest rate was based on the market yield for two-year U.S. Treasury securities as of the acquisition date.

In the second quarter of 2012, the Company received approval from the Federal Reserve Bank of Richmond to resume payment of preferred dividends on its Series A Preferred Stock. Crescent had deferred dividend payments with the payment due February 15, 2011, but the Company paid all deferred cumulative preferred dividends of approximately $1,600 plus then-current dividends on the quarterly payment date of May 15, 2012. The Company is current on all Series A Preferred Stock dividend payments.

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Series B Preferred Stock

Pursuant to the ECB Merger Agreement, the Company agreed to exchange each share of ECB's Fixed Rate Cumulative Perpetual Preferred Stock, Series A, into one share of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series B ("Series B Preferred Stock"). The redemption value of the Series B Preferred Stock is $17,949. At the closing of the ECB merger, the Company also issued a warrant to purchase 514,693.2 shares of the Company's common stock to the Treasury in exchange for the warrant issued by ECB to Treasury on January 16, 2009 to purchase 144,984 shares of ECB's common stock. The warrant issuance reflects the exchange ratio associated with the ECB merger. This warrant was immediately exercisable and expires ten years from the date of issuance. The Series B Preferred Stock is non-voting, other than having class voting rights on certain matters, and pays cumulative dividends quarterly at a rate of 5 percent per annum for the first five years and 9 percent per annum thereafter. The Series B Preferred Stock is redeemable at the option of the Company subject to regulatory approval.

The Company assigned a fair value to both the Series B Preferred Stock and common stock warrant in acquisition accounting. These securities represent other equity interests that were recorded at estimated fair value. The Series B Preferred Stock was valued based on forecasting expected cash flows with an assumed repayment date and discounting these cash flows based on current market yields for preferred stock with similar risk. For purposes of the discount rate, the Company used the market yield on an index of publicly traded preferred stocks adjusted for a liquidity factor. The Series B Preferred Stock was assigned a fair value of $17,553 at acquisition, and the discount between this value and the $17,949 redemption value is being accreted as a reduction to retained earnings over the expected life.

The common stock warrant was valued at $0.26 per share, or $132 in the aggregate, at acquisition using a Black-Scholes option pricing model. Assumptions used in the Black-Scholes option pricing model were as follows:

Risk-free interest rate*	0.14	%
Expected life of warrants	10.5 months	
Expected dividend yield	—	
Expected volatility	42.97	%

* The risk-free interest rate was based on the market yield for one-year U.S. Treasury securities as of the ECB acquisition date.

NOTE J - CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table summarizes the activity in accumulated other comprehensive income (loss), net of tax, for the periods presented.

	Investment Securities Available For Sale	Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2013	$2,085	$(267)	$1,818
Other comprehensive income (loss) before reclassifications, net of tax	(5,768)	2,176	(3,592)
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	(747)	—	(747)
Net other comprehensive income (loss) during period	(6,515)	2,176	(4,339)

Balance at September 30, 2013	$(4,430)	$1,909	$(2,521)
Balance at July 1, 2013	$(5,115)	$2,224	$(2,891)
Other comprehensive income (loss) before reclassifications, net of tax	685	(315)	370
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	—	—	—
Net other comprehensive income (loss) during period	685	(315)	370
Balance at September 30, 2013	$(4,430)	$1,909	$(2,521)

VANTAGESOUTH BANCSHARES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share amounts)

Amounts reclassified from accumulated other comprehensive are included in the consolidated statements of operations as follows.

Accumulated Other Comprehensive Income Component	Amount Reclassified		Line Item Within Statement of Operations
	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013	
Investment securities available for sale:			
Gross reclassification	$—	$(1,215)	Gain on sale of available for sale securities
Income tax expense	—	468	Income taxes
Reclassification, net of tax	$—	$(747)	

NOTE K - SUBORDINATED DEBT ISSUANCE

In August 2013, the Company issued an aggregate of $38,050 of subordinated notes to accredited investors. The notes bear interest, payable on the 1st of January and July of each year, at a fixed interest rate of 7.625 percent per year. The notes mature in August 2023 and qualify as Tier 2 capital for the Company's regulatory purposes, subject to a phase out of the capital qualification five years prior to maturity. The notes are not convertible into common stock or preferred stock, and the notes are not callable by the Company or subject to prepayment at the option of the holders.

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

VantageSouth Bancshares, Inc. (the “Company”), is a bank holding company incorporated under the laws of Delaware in 2011. On July 22, 2013, the Company changed its name from Crescent Financial Bancshares, Inc. ("Crescent") to VantageSouth Bancshares, Inc. and transferred the listing of its common stock to the NYSE MKT, LLC under the ticker symbol "VSB." The Company conducts its business operations primarily through its commercial bank subsidiary, VantageSouth Bank (formerly known as Crescent State Bank). The Company is a subsidiary of Piedmont Community Bank Holdings, Inc. ("Piedmont"), and its headquarters are located in Raleigh, North Carolina. VantageSouth Bank (the "Bank") was incorporated in 1998 as a North Carolina-chartered commercial bank and operates forty-six banking offices in central and eastern North Carolina.

Management’s discussion and analysis is intended to assist readers in understanding and evaluating the financial condition and consolidated results of operations of the Company. This discussion and analysis includes descriptions of significant transactions, trends and other factors affecting the Company’s operating results for the three and nine months ended September 30, 2013 and 2012 as well as the financial condition of the Company as of September 30, 2013 and December 31, 2012. Because of the separate reporting for predecessor and successor periods in 2012, the Company's results of operations between these periods and the nine months ended September 30, 2013 are not comparable. This discussion and analysis should be read in conjunction with the unaudited consolidated financial statements and accompanying notes included in this report.

ECB Bancorp, Inc. Merger

On April 1, 2013, the Company completed the merger of ECB Bancorp, Inc. ("ECB") with and into the Company (the "ECB merger"). The ECB merger was completed pursuant to an Agreement and Plan of Merger dated as of September 25, 2012 (the "Merger Agreement"). Immediately following the ECB merger, The East Carolina Bank, a wholly-owned subsidiary of ECB, was merged with and into VantageSouth Bank. Upon the closing of the ECB merger, each outstanding share of ECB common stock was converted into the right to receive 3.55 shares of common stock of the Company. The aggregate merger consideration consisted of approximately 10,312,186 shares of the Company’s common stock. Based upon the $3.94 per share closing price of the Company’s common stock on March 28, 2013, the transaction value was $40.6 million. Following the ECB merger, Piedmont owned approximately 70 percent of the Company's outstanding common stock.

Pursuant to the Merger Agreement, the Company agreed to exchange each share of ECB’s Fixed Rate Cumulative Perpetual Preferred Stock, Series A, into one share of the Company’s Fixed Rate Cumulative Perpetual Preferred Stock, Series B. At the closing of the ECB merger, the Company also issued a warrant to purchase 514,693.2 shares of the Company’s common stock to the U.S. Department of the Treasury (“Treasury”) in exchange for the warrant issued by ECB to Treasury on January 16, 2009 to purchase 144,984 shares of ECB’s common stock. The warrant issuance reflected the exchange ratio associated with the ECB merger.

In connection with the ECB merger, the Company applied the acquisition method of accounting to ECB's balance sheet. Therefore, all acquired assets and liabilities were adjusted to fair value, and the historical allowance for loan losses was eliminated. The Company recorded a one-time acquisition gain of $7.8 million in the second quarter of 2013, which reflected the amount by which the fair value of acquired net assets exceeded the combined purchase price and fair value of other equity interests. The Company has a one-year measurement period from the acquisition date to finalize the recorded fair values of net assets acquired. The acquisition gain may change if initial fair value estimates are revised within the measurement period. Measurement period adjustments in the third quarter of 2013, which were retrospectively reflected in the Company's results of operations in the second quarter of 2013, reduced the previously reported gain on acquisition by $433 thousand. This amount included tax-effected adjustments to reduce the estimated fair value of a non-marketable investment, to reduce the fair value of certain distressed loans held for sale, and to increase the fair value of a bank-owned office. The acquisition of ECB increased the Company's total assets by 43 percent, deposits by 44 percent, and stockholders' equity by 29 percent at the merger date. Therefore, the Company's results of operations and financial position were significantly impacted in 2013 by the ECB merger.

Merger of Entities Under Common Control and Change in Reporting Entity

On November 30, 2012, the Company completed the merger of VantageSouth Bank ("Legacy VantageSouth") into Crescent State Bank in a share exchange. All outstanding Legacy VantageSouth shares of common stock were converted into the Company's shares at a 5.3278 exchange ratio for a total transaction value of approximately $35.0 million. The Company re-branded its wholly-owned banking subsidiary as VantageSouth Bank immediately following the merger.

The merger of Legacy VantageSouth into VantageSouth Bancshares, Inc. was a merger of commonly-controlled companies and was accounted for in a manner similar to a pooling of interests transaction. Thus, the Company's financial statements were retrospectively adjusted to combine the financial condition and the results of operations of Crescent and Legacy VantageSouth from the date the two companies became commonly controlled by Piedmont. Due to the application of push-down accounting to Legacy VantageSouth's books on February 1, 2012, which was the date that Piedmont purchased the bank's remaining non-controlling equity interests, periods prior to this date are denoted as "Predecessor Company" and periods after this date are denoted as "Successor Company."

Executive Summary

The following is a summary of the Company’s financial results and significant events in the third quarter of 2013:

- Net income was $1.5 million in third quarter of 2013 compared to $3.3 million in the second quarter of 2013 and $1.3 million in third quarter of 2012.

- Earnings in the third quarter of 2013 were negatively impacted by a $1.2 million income tax charge in connection with recently enacted decreases in North Carolina corporate income tax rates which are effective in future tax years.

- In August 2013, the Company placed $38.05 million in 10-year subordinated notes at a fixed rate of 7.625 percent to further strengthen and diversify its regulatory capital position.

- Operating earnings, which exclude securities gains, a one-time acquisition gain, merger and conversion costs, and a non-recurring income tax adjustment, improved to $3.0 million in the third quarter of 2013 from $2.8 million in second quarter 2013 and $1.4 million in third quarter 2012.

- Pre-tax, pre-provision operating earnings totaled $6.2 million in the third quarter of 2013, an increase from $6.0 million in the second quarter of 2013 and $2.5 million in the third quarter of 2012.

- Annualized net loan growth was 9 percent in the third quarter of 2013 while loan originations and commitments totaled $207.4 million in the third quarter.

- Net interest margin totaled 4.39 percent in the third quarter of 2013 compared to 4.67 percent in the second quarter of 2013 and 4.49 percent in the third quarter of 2012.

- Government-guaranteed, small business lending income improved to $1.5 million in the third quarter of 2013 from $1.1 million in the second quarter of 2013 and $776 thousand in the third quarter of 2012 while loan originations by this group totaled $34.5 million in the third quarter.

- Operating non-interest expenses were cut by $1.0 million from the second quarter of 2013 to the third quarter of 2013, which was in line with targeted cost savings following the ECB acquisition.

Non-GAAP Financial Measures

Statements included in this management's discussion and analysis include non-GAAP financial measures and should be read along with the accompanying tables which provide a reconciliation of non-GAAP financial measures to GAAP financial measures. The Company's management uses these non-GAAP financial measures, including: (i) net operating earnings (loss); (ii) pre-tax, pre-provision operating earnings; (iii) operating non-interest income, (iv) operating non-interest expense, (v) operating efficiency ratio, (vi) adjusted allowance for loan losses to loans; and (vii) tangible common equity, in its analysis of the Company's performance. The adjusted allowance for loan losses non-GAAP reconciliation is presented within the allowance for loan losses section of management's Analysis of Financial Condition below. The tangible common equity non-GAAP reconciliations, which include tangible book value per share and the tangible common equity to tangible assets ratio, are presented within the capital section of management's Analysis of Financial Condition below.

(Dollars in thousands)	Successor Company Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Successor Company Nine Months Ended September 30, 2013	Period from February 1 to September 30, 2012	Predecessor Company Period from January 1 to January 31, 2012
OPERATING EARNINGS					
Net income (GAAP)	$1,484	$1,285	$3,946	$1,681	$529
Securities gains	—	(483)	(1,215)	(648)	—
Gain on acquisition	—	—	(7,809)	—	—
Merger and conversion costs	477	547	14,039	1,050	78
Income tax effect of adjustments	(172)	33	(4,793)	(153)	(30)
Deferred tax asset revaluation from reduction in state income tax rates	1,218	—	1,218	—	—
Net operating earnings (Non-GAAP)	3,007	1,382	5,386	1,930	577
Dividends and accretion on preferred stock	708	367	1,782	978	122
Net operating earnings available to common stockholders (Non-GAAP)	$2,299	$1,015	$3,604	$952	$455
OPERATING EARNINGS PER COMMON SHARE					
Basic (Non-GAAP)	$0.05	$0.03	$0.08	$0.03	$0.01
Diluted (Non-GAAP)	$0.05	$0.03	$0.08	$0.03	$0.01
PRE-TAX, PRE-PROVISION OPERATING EARNINGS					
Net income (GAAP)	$1,484	$1,285	$3,946	$1,681	$529
Provision for loan losses	1,280	1,077	4,712	3,991	195
Income tax expense (benefit)	2,997	95	(206)	(160)	270
Pre-tax, pre-provision income	5,761	2,457	8,452	5,512	994
Securities gains	—	(483)	(1,215)	(648)	—
Gain on acquisition	—	—	(7,809)	—	—
Merger and conversion costs	477	547	14,039	1,050	78
Pre-tax, pre-provision operating earnings (Non-GAAP)	$6,238	$2,521	$13,467	$5,914	$1,072
OPERATING NON-INTEREST INCOME					
Non-interest income (GAAP)	$4,537	$3,332	$20,663	$7,194	$657
Gain on acquisition	—	—	(7,809)	—	—
Operating non-interest income (Non-GAAP)	$4,537	$3,332	$12,854	$7,194	$657

OPERATING NON-INTEREST EXPENSE					
Non-interest expense (GAAP)	$18,682	$11,140	$62,489	$28,856	$3,236
Merger and conversion costs	(477)	(547)	(14,039)	(1,050)	(78)
Operating non-interest expense (Non-GAAP)	$18,205	$10,593	$48,450	$27,806	$3,158
OPERATING EFFICIENCY RATIO					
Efficiency ratio (GAAP)	76.43%	81.93%	88.09%	83.96%	76.50%
Effect to adjust for gain on acquisition	—%	—%	10.90%	—	—
Effect to adjust for merger and conversion costs	(1.95)%	(4.02)%	(22.24)%	(3.06)%	(1.84)%
Operating efficiency ratio (Non-GAAP)	74.48%	77.91%	76.75%	80.90%	74.66%

Management believes that non-GAAP financial measures provide additional useful information that allows readers to evaluate the ongoing performance of the Company without regard to transactional activities. Non-GAAP financial measures should not be considered as an alternative to any measure of performance or financial condition as promulgated under GAAP, and investors should consider the Company's performance and financial condition as reported under GAAP and all other relevant information when assessing the performance or financial condition of the Company. Non-GAAP financial measures have limitations as analytical tools, and investors should not consider them in isolation or as a substitute for analysis of the Company's results or financial condition as reported under GAAP.

Analysis of Results of Operations

3Q 2013 compared to 3Q 2012

Net income was $1.5 million in the third quarter of 2013 compared to $1.3 million in the third quarter of 2012. After preferred stock dividends and accretion, net income available to common stockholders was $776 thousand, or $0.02 per common share, in the third quarter of 2013 compared to net income of $918 thousand, or $0.03 per common share, in the third quarter of 2012. Net operating earnings, which exclude securities gains, merger and conversion costs, and a non-recurring income tax charge, improved to $3.0 million in third quarter 2013 from $1.4 million in the third quarter of 2012 as the Company improved its financial performance following the ECB merger by increasing net interest income, lowering provision for loan losses, increasing non-interest income, and by reducing its operating efficiency ratio. Similarly, pre-tax, pre-provision operating earnings increased to $6.2 million in the third quarter of 2013 from $2.5 million in the third quarter of 2012.

Year-to-Date

Net income was $3.9 million in the first nine months of 2013 while net income was $1.7 million in the 2012 Successor Period and $529 thousand in the 2012 Predecessor Period. After dividends and accretion on preferred stock, net income available to common stockholders was $2.2 million, or $0.05 per common share, in the first nine months of 2013, while net income attributable to common stockholders was $703 thousand, or $0.02 per common share, in the 2012 Successor Period, and $407 thousand, or $0.01 per common share, in the 2012 Predecessor Period.

Net Interest Income

3Q 2013 compared to 3Q 2012

Net interest income was $19.9 million in the third quarter of 2013 compared to $10.3 million in the third quarter of 2012. The increase in net interest income was the result of a significant increase in earning assets from organic business activity and the ECB merger. Average earning assets increased from $916.7 million in the third quarter of 2012 to $1.80 billion in the third quarter of 2013. Over this period, average loan balances increased by $639.2 million, of which $466.5 million was from acquired ECB loans, and average investment securities balances increased by $218.0 million. In addition, average deposits increased by $796.3 million, of which $736.1 million was from the ECB merger.

The Company's net interest margin declined from 4.49 percent in the third quarter of 2012 to 4.39 percent in the third quarter of 2013. The reduction in net interest margin was due to a reduction in yields on interest-earning assets partially offset by lower costs on interest-bearing liabilities. The yield on earning assets declined from 5.18 percent in the third quarter of 2012 to 4.90 percent in the third quarter of 2013, which reflected lower loan yields and lower yields on investment securities. The decrease in loan yields was a product of lower prevailing market loan rates on new loan originations partially offset by a favorable impact from acquisition accounting fair value adjustments. Securities yields declined as the Company reinvested principal paydowns and proceeds from sales at lower current market rates.

The cost of interest-bearing liabilities declined from 0.83 percent in the third quarter of 2012 to 0.59 percent in the third quarter of 2013, which primarily reflected a lower cost of deposits as the Company adjusted interest rates it pays on certain checking and money market accounts in the second quarter of 2013 and incorporated the ECB deposit base. The Company also increased its level of short-term borrowings in the form of Federal Home Loan Bank ("FHLB") advances which lowered overall funding costs. These reductions were partially offset by an increase in the cost of long-term debt from the issuance of $38.05 million in 10-year subordinated notes at a fixed rate of 7.625 percent. These subordinated notes were issued to further strengthen and diversify the Company's regulatory capital position.

Income accretion on purchased loans totaled $5.7 million in the third quarter of 2013, which consisted of $3.1 million of accretion on purchased credit-impaired ("PCI") loans and $2.5 million of accretion income on purchased non-impaired loans. PCI loan accretion represents all interest income recorded for those loans in the period while accretion income on purchased non-impaired loans represents accretion of the fair value discount on the effective yield method, which increased interest income above contractual yields. Accretion income on purchased non-impaired loans included $895 thousand of accelerated accretion in the third quarter of 2013 due to principal prepayments. Time deposit fair value amortization totaled $857 thousand, and net amortization of short-term borrowings and long-term debt totaled $18 thousand, which reduced interest expense. Acquisition accounting amortization reduced the Company's cost of interest-bearing liabilities by 0.22 percent in the third quarter of 2013.

Year-to-Date

Net interest income in the first nine months of 2013 totaled $50.3 million while net interest income totaled $27.2 million in the 2012 Successor Period and $3.6 million in the 2012 Predecessor Period. Average earning assets totaled $1.50 billion in the first nine months of 2013, which was a significant increase from $934.4 million in the 2012 Successor Period and $934.3 million in the 2012 Predecessor Period. The increase in average interest-earning assets was primarily the result of assets acquired in the ECB merger as well as organic loan growth.

Net interest margin was 4.47 percent in the first nine months of 2013, which was an increase from 4.41 percent in the 2012 Successor Period but a decline from 4.55 percent in the 2012 Predecessor Period. The increase in net interest margin from the 2012 Successor Period was primarily due to a reduction in the cost of interest-bearing liabilities which fell from 0.88 percent in the 2012 Successor Period to 0.60 percent in the first nine months of 2013. Declining yields on interest-earning assets partially offset the improvement in the cost of interest-bearing liabilities due to the origination of new loans at lower current market rates and the reinvestment of principal paydowns and proceeds from sales of securities at lower current market rates. The average yield on loans decreased from 6.04 percent in the 2012 Successor Period and 6.15 percent in the 2012 Predecessor Period to 5.96 percent in the first nine months of 2013, and the average yield on investment securities declined from 2.69 percent in the 2012 Successor Period and 2.74 percent in the 2012 Predecessor Period to 2.05 percent in the first nine months of 2013.

Income accretion on purchased loans totaled $15.4 million in the first nine months of 2013, which consisted of $10.5 million of accretion on PCI loans and $4.9 million of accretion income on purchased non-impaired loans. Time deposit fair value amortization totaled $2.3 million, which reduced interest expense, while net accretion of short-term borrowings and long-term debt totaled $45 thousand, which increased interest expense. Time deposit amortization, net of accretion on short-term borrowings and long-term debt reduced the Company's cost of interest-bearing liabilities by 0.22 percent in the first nine months of 2013. Income accretion on purchased loans totaled $10.9 million and $1.6 million in the 2012 Successor Period and 2012 Predecessor Period, respectively. Net amortization of fair value premiums on interest-bearing liabilities in the 2012 Successor Period and 2012 Predecessor Period totaled $2.0 million and $298 thousand, respectively, which reduced the Company's cost of interest-bearing liabilities by 0.39 percent and 0.45 percent, respectively.

The following table summarizes the major components of net interest income and the related yields and costs for the periods presented.

3Q 2013 compared to 3Q 2012

(Dollars in thousands)	Three months ended September 30, 2013 Average Balance	Interest*	Yield/Cost*		Three months ended September 30, 2012 Average Balance	Interest*	Yield/Cost*	
Assets								
Loans (1)	$1,361,340	$20,348	5.93	%	$722,177	$10,810	5.95	%
Investment securities (2)	381,684	1,849	1.92		163,655	1,115	2.71	
Federal funds and other	55,984	33	0.23		30,844	16	0.21	
Total interest-earning assets	1,799,008	22,230	4.90	%	916,676	11,941	5.18	%
Non-interest-earning assets	220,220				132,347			
Total assets	$2,019,228				$1,049,023			
Liabilities and Equity								
Interest-bearing demand	$335,653	156	0.18	%	$135,786	102	0.30	%
Money market and savings	475,985	332	0.28		244,619	357	0.58	
Time	627,874	1,133	0.72		362,733	862	0.95	
Total interest-bearing deposits	1,439,512	1,621	0.45		743,138	1,321	0.71	
Short-term borrowings	72,068	46	0.25		1,500	3	0.80	
Long-term debt	62,347	654	4.16		22,802	274	4.78	
Total interest-bearing liabilities	1,573,927	2,321	0.59	%	767,440	1,598	0.83	%
Noninterest-bearing deposits	203,427				103,535			
Other liabilities	10,714				6,457			
Total liabilities	1,788,068				877,432			
Stockholders’ equity	231,160				171,591			
Total liabilities and stockholders’ equity	$2,019,228				$1,049,023			
Net interest income, taxable equivalent		$19,909				$10,343		
Interest rate spread (3)			4.31	%			4.35	%
Tax equivalent net interest margin (4)			4.39	%			4.49	%
Percentage of average interest-earning assets to average interest-bearing liabilities			114.30	%			119.45	%

* Taxable equivalent basis

(1) Loans include loans held for sale and nonaccrual loans.

(2) Yields related to investment securities exempt from income taxes are stated on a taxable-equivalent basis assuming a federal income tax rates of 34.0 percent. The taxable-equivalent adjustment was $3 thousand, and $79 thousand for the 2013 and 2012 periods, respectively.

(3) Net interest spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

(4) Net interest margin represents annualized net interest income divided by average interest-earning assets.

Year-to-Date

(Dollars in thousands)	Successor Company Nine Months Ended September 30, 2013 Average Balance	Interest*	Yield/Cost*		Period from February 1 to September 30, 2012 Average Balance	Interest*	Yield/Cost*		Predecessor Company Period from January 1 to January 31, 2012 Average Balance	Interest*	Yield/Cost*	
Assets												
Loans (1)	$1,153,455	$51,421	5.96	%	$719,196	$28,819	6.04	%	$730,387	$3,807	6.15	%
Investment securities (2)	307,458	4,715	2.05		170,856	3,056	2.69		180,220	419	2.74	
Federal funds and other	43,109	70	0.22		44,388	65	0.22		23,719	4	0.20	
Total interest-earning assets	1,504,022	56,206	5.00	%	934,440	31,940	5.15	%	934,326	4,230	5.35	%
Non interest-earning assets	192,570				125,252				134,240			
Total assets	$1,696,592				$1,059,692				$1,068,566			
Liabilities and Equity												
Interest-bearing demand	$284,178	478	0.22	%	$145,764	$420	0.43	%	$172,363	$108	0.74	%
Money market and savings	408,529	1,021	0.33		231,133	991	0.65		184,716	96	0.61	
Time	537,188	3,043	0.76		377,754	2,367	0.94		404,999	326	0.95	
Total interest-bearing deposits	1,229,895	4,542	0.49		754,651	3,778	0.75		762,078	530	0.82	
Short-term borrowings	45,857	100	0.29		2,917	9	0.46		968	—	—	
Long-term debt	43,670	1,237	3.79		23,134	786	5.12		24,217	103	5.02	
Total interest-bearing liabilities	1,319,422	5,879	0.60	%	780,702	4,573	0.88	%	787,263	633	0.95	%
Non interest-bearing deposits	154,619				101,370				107,156			
Other liabilities	8,661				6,637				4,184			
Total liabilities	1,482,702				888,709				898,603			
Stockholders' equity	213,890				170,983				169,963			
Total liabilities and stockholders' equity	$1,696,592				$1,059,692				$1,068,566			
		$50,327				$27,367				$3,597		

Net interest income, taxable equivalent			
Interest rate spread (3)	4.40 %	4.27 %	4.40 %
Tax equivalent net interest margin (4)	4.47 %	4.41 %	4.55 %
Percentage of average interest-earning assets to average interest-bearing liabilities	113.99 %	119.69 %	118.68 %
* Taxable equivalent basis			

(1) Loans include loans held for sale in addition to nonaccrual loans.

(2) Yields related to investment securities exempt from income taxes are stated on a taxable-equivalent basis assuming a federal income tax rates of 34.0 percent. The taxable-equivalent adjustment was $49 thousand, $194 thousand, and $24 thousand for 2013 and the 2012 Successor and Predecessor Periods, respectively.

(3) Net interest spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

(4) Net interest margin represents annualized net interest income divided by average interest-earning assets.

The Company has not included a standard table for the year-to-date period presenting the variances between the periods caused by changes in interest rates versus changes in volumes because of the incomparability of the periods, which is due to the difference in the number of days in each period and the difference in the basis of accounting between the periods.

Provision for Loan Losses

3Q 2013 compared to 3Q 2012

Provision for loan losses was $1.3 million in the third quarter of 2013 compared to $1.1 million in the third quarter of 2012. Annualized net loan charge-offs were 0.20 percent of average loans in the third quarter of 2013 compared to 0.44 percent in the third quarter of 2012. The allowance for loan and lease losses ("ALLL") and related provision were calculated separately for non-acquired loans, purchased non-impaired loans, and PCI loans. In the third quarter of 2013, the non-acquired loan provision was $253 thousand, purchased non-impaired loan provision was $670 thousand, and PCI loan provision was $357 thousand.

The following table summarizes the changes in the ALLL for each loan category in 3Q 2013 and 3Q 2012.

(Dollars in thousands)	Non-Acquired	Purchased Non-Impaired	Purchased Credit-Impaired	Total
3Q 2013:				
Balance at July 1, 2013	$4,339	$—	$ 2,086	$6,425
Net charge-offs	(1)	(670)	—	(671)
Provision for loan losses	253	670	357	1,280
Balance at September 30, 2013	$4,591	$—	$ 2,443	$7,034
3Q 2012:				
Balance at July 1, 2012	$1,637	$634	$ 772	$3,043
Net charge-offs	—	(974)	—	(974)
Provision for loan losses	516	426	135	1,077
Balance at September 30, 2012	$2,153	$86	$ 907	$3,146

The increase in provision for loan losses in the third quarter of 2013 compared to the prior year third quarter was primarily due to impairments on certain of the Company's PCI loan pools, which generated provision of $357 thousand in the third quarter of 2013 compared to $135 thousand in the prior year third quarter, and higher provision on purchased non-impaired loans. The higher provision on purchased loans was partially offset by lower provision on the non-acquired loan portfolio.

The ALLL was $7.0 million, or 0.52 percent of total loans as of September 30, 2013, compared to $6.4 million, or 0.49 percent of total loans as of June 30, 2013, and $3.1 million, or 0.43 percent of total loans as of September 30, 2012. Adjusted ALLL, which includes the ALLL and net acquisition accounting fair value adjustments for acquired loans, represented 3.05 percent of total loans as of September 30, 2013 compared to 3.72 percent as of June 30, 2013 and 2.86 percent as of September 30, 2012.

Nonperforming loans as a percentage of total loans was 1.40 percent as of September 30, 2013, which was an increase from 1.14 percent as of June 30, 2013 and a decline from 1.90 percent as of September 30, 2012. Total nonperforming assets (which include nonaccrual loans, loans past due 90 days or more and still accruing, and foreclosed assets) as a percentage of total assets was 1.50 percent as of September 30, 2013, which was an increase from 1.33 percent as of June 30, 2013 and a reduction from 1.97 percent as of September 30, 2012. The decline in the nonperforming assets ratio over the past year was due to the ECB merger as well as the Company's continuing efforts to resolve legacy problem assets while maximizing value. These resolution efforts have included a combination of asset sales through various channels and successful loan workout plans.

Loans acquired with evidence of credit deterioration since origination are accounted for as PCI loans. Subsequent to acquisition of these loans, estimates of cash flows expected to be collected are updated each reporting period based on assumptions regarding default rates, loss severities, and other factors that reflect current market conditions. If the Company has probable decreases in cash flows expected to be collected (other than due to decreases in interest rates), the provision for loan losses is charged, resulting in an increase to the allowance for loan losses. If there are probable and significant increases in cash flows expected to be collected, the Company will first reverse any previously established allowance for loan losses and then increase interest income as a prospective yield adjustment over the remaining life of the loans.

Results of the Company's third quarter 2013 cash flow re-estimation for PCI loans are summarized as follows.

(Dollars in thousands)	Impairment	Cash Flow Improvement	New Yield	Previous Yield
Loan pools with cash flow improvement	$(439)	$826	8.41%	7.08%
Loan pools with impairment	796	—	6.47%	6.51%
Total	$357	$826	7.02%	6.68%

The third quarter of 2013 cash flow re-estimation indicated a total improvement in the present value of estimated cash flows on PCI loan pools of $469 thousand. The $826 thousand of estimated cash flow improvement on related loan pools will be recorded as additional interest income as a prospective yield adjustment over the remaining life of the loans. The $357 thousand impairment was recorded as provision expense in the third quarter of 2013. The pool-level impairment and cash flow improvement were calculated as the difference between the pool-level recorded investment and the net present value of estimated cash flows at the time of the cash flow re-estimation.

Year-to-Date

Provision for loan losses was $4.7 million in the first nine months of 2013 while provision for loan losses totaled $4.0 million in the 2012 Successor Period and $195 thousand in the 2012 Predecessor Period. The following table summarizes the changes in ALLL for each loan category in the nine months ended September 30, 2013.

(Dollars in thousands)	Non-Acquired	Purchased Non-Impaired	Purchased Credit-Impaired	Total
Balance at January 1, 2013	$2,665	$55	$ 1,278	$3,998
Net charge-offs	(119)	(1,557)	—	(1,676)
Provision for loan losses	2,045	1,502	1,165	4,712
Balance at September 30, 2013	$4,591	$—	$ 2,443	$7,034

Non-Interest Income

The following table provides a summary of non-interest income for the periods presented.

(Dollars in thousands)	Successor Company Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Successor Company Nine Months Ended September 30, 2013	Period from February 1 to September 30, 2012	Predecessor Company Period from January 1 to January 31, 2012
Service charges and fees on deposit accounts	$1,512	$523	$3,552	$1,429	$194
Mortgage banking	310	1,127	1,797	2,393	225
Government-guaranteed lending	1,525	776	3,702	1,342	98
Bank-owned life insurance	324	215	829	552	70
Gain on sales of available for sale securities	—	483	1,215	648	—
Gain on acquisition	—	—	7,809	—	—
Other	866	208	1,759	830	70

Total non-interest income	$4,537	$3,332	$20,663	$7,194	$657

3Q 2013 compared to 3Q 2012

Non-interest income totaled $4.5 million in the third quarter of 2013, which was an increase from $3.3 million in the third quarter of 2012. The increase was primarily the result of higher income from the Company's government-guaranteed, small business lending program, higher income from service charges and fees on deposit accounts and higher income on bank-owned life insurance. These increases were partially offset by a reduction in mortgage banking income.

Government-guaranteed, small business lending income, which includes gains on sales of the guaranteed portion of certain SBA loans originated by the Company as well as servicing fees on previously sold SBA loans, increased by $749 thousand. The Company sells the guaranteed portion of certain SBA loans in the secondary market without recourse and recognizes gains as those loans are sold at a premium. Service charges and fees on deposit accounts increased by $989 thousand primarily due to the addition of deposit accounts acquired in the ECB merger. Mortgage banking income decreased by $817 thousand due to several factors, including an increase in long-term interest rates which significantly reduced refinancing activities as well as declining profit margins on loans sold to investors. In an effort to improve its future mortgage banking performance, the Company hired a veteran mortgage production manager in the third quarter, hired FHA and VA mortgage underwriters (which generally produce higher margin loans) and reduced headcount and cut costs in the mortgage business.

Year-to-Date

Non-interest income totaled $20.7 million in the first nine months of 2013 while non-interest income totaled $7.2 million in the 2012 Successor Period and $657 thousand in the 2012 Predecessor Period. Non-interest income in the current year-to-date period included a one-time acquisition gain of $7.8 million related to the ECB merger. Securities gains totaled $1.2 million in the first nine months of 2013 as the Company recognized gains upon selling the majority of its municipal bonds for balance sheet management and tax purposes. Additionally, service charges and fees on deposits, mortgage banking income, government-guaranteed, small business lending income, and bank-owned life insurance income totaled $3.6 million, $1.8 million, $3.7 million, and $829 thousand, respectively, in the first nine months of 2013.

Non-Interest Expense

The following table provides a summary of non-interest expense for the periods presented.

(Dollars in thousands)	Successor Company Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Successor Company Nine Months Ended September 30, 2013	Period from February 1 to September 30, 2012	Predecessor Company Period from January 1 to January 31, 2012
Salaries and employee benefits	$10,034	$5,648	$27,034	$14,661	$1,737
Occupancy and equipment	2,497	1,385	6,452	3,547	396
Data processing	1,105	644	2,824	1,683	212
FDIC deposit insurance premiums	423	205	1,050	711	141
Professional services	598	800	2,009	1,925	144
Foreclosed asset expenses	201	251	463	641	11

Other loan-related expense	909	419	2,162	1,171	162
Merger and conversion costs	477	547	14,039	1,050	78
Other	2,438	1,241	6,456	3,467	355
Total non-interest expense	$18,682	$11,140	$62,489	$28,856	$3,236

3Q 2013 compared to 3Q 2012

Non-interest expense totaled $18.7 million in the third quarter of 2013 which was a significant increase from $11.1 million in the third quarter of 2012. The increase in expenses was primarily due to increases in salaries and employee benefits, occupancy and equipment, data processing, and other non-interest expense categories due to the ECB merger which added employees, branch and other facilities, and equipment to the Company's expense base. The Company's operating efficiency ratio, which excludes non-recurring merger and conversion costs, improved from 77.9 percent in the third quarter of 2012 to 74.5 percent in the third quarter of 2013. Much of the improvement in the operating efficiency ratio was due to increased scale and operating leverage provided by the ECB merger combined with cost cutting measures implemented during the second and third quarters of 2013 which are expected to continue to benefit the Company going forward. For example, full time equivalent employees for the combined Company decreased from 520 at the ECB merger date to 474 as of September 30, 2013.

Year-to-Date

Non-interest expense totaled $62.5 million in the first nine months of 2013 while non-interest expense totaled $28.9 million in the 2012 Successor Period and $3.2 million in the 2012 Predecessor Period. Expenses in the first nine months of 2013 were significantly impacted by ECB merger and system conversion costs, which totaled $14.0 million, as well as a higher general expense run rate following the ECB merger. The Company's operating efficiency ratio was 76.7 percent in the first nine months of 2013 compared to 80.9 percent in the 2012 Successor Period and 74.7 percent in the 2012 Predecessor Period.

Income Taxes

The Company’s income tax expense was $3.0 million in the third quarter of 2013 compared to $95 thousand in the third quarter of 2012. Income tax expense in the third quarter of 2013 included a $1.2 million charge as a result of recently enacted decreases in North Carolina corporate income tax rates which are effective in future tax years. Taxable income is calculated using pre-tax net income adjusted for non-taxable municipal investment income, bank-owned life insurance income, and non-deductible merger costs. The Company’s income tax benefit was $206 thousand in the first nine months of 2013. The income tax benefit was $160 thousand in the 2012 Successor Period, and income tax expense was $270 thousand in the 2012 Predecessor Period.

Based on the Company's analysis of positive and negative evidence regarding future realization of its deferred tax assets, which included an evaluation of historical and forecasted pre-tax earnings, net operating loss carryforward periods, merger costs and savings, asset quality trends, capital levels, and potential tax planning strategies, the Company determined that there was sufficient positive evidence to indicate that it would likely realize the full value of its deferred tax assets over time and therefore it was determined that no valuation allowance on its deferred tax assets was needed as of September 30, 2013.

Analysis of Financial Condition

Total assets were $2.05 billion as of September 30, 2013, which was an increase of $960.8 million from total assets as of December 31, 2012. The ECB merger provided $856.0 million of asset growth in the year-to-date period. Earning assets totaled $1.82 billion, or 89 percent of total assets, as of September 30, 2013 compared to $953.2 million, or 88 percent of total assets, as of December 31, 2012. Earning assets as of September 30, 2013 consisted of $1.35 billion in gross loans, $7.3 million in loans held for sale, $412.1 million in investment securities, including FHLB stock, and $48.0 million in federal funds sold and interest-earning deposits with correspondent banks. Deposits were $1.62 billion as of September 30, 2013, which was an increase of $749.3 million from deposits as of December 31, 2012. The ECB merger provided $736.1 million of deposit growth in the year-to-date period. Short-term borrowings increased by $93.0 million in the year-to-date period while long-term debt increased by $56.0 million. Stockholders' equity increased by $57.1 million, which was primarily due to $66.1 million of net assets acquired in the ECB merger, partially offset by a decline in accumulated other comprehensive income (loss).

Since the ECB merger significantly impacted each major component of the Company's balance sheet, the following table has been provided to summarize the year-to-date changes in major balance sheet components including and excluding the acquired ECB balances.

(Dollars in thousands)	September 30, 2013	December 31, 2012	YTD Change	Acquired ECB Balances April 1, 2013	YTD Change Excluding Acquired ECB Balances
Cash and cash equivalents	$85,635	$50,463	$35,172	$24,008	$11,164
Investment securities available for sale	403,900	136,311	267,589	289,359	(21,770)
Loans held for sale	7,349	16,439	(9,090)	13,399	(22,489)
Loans	1,353,360	763,416	589,944	453,054	136,890
Allowance for loan losses	(7,034)	(3,998)	(3,036)	—	(3,036)
Other assets	202,861	122,594	80,267	76,176	4,091
Total assets	$2,046,071	$1,085,225	$960,846	$855,996	$104,850
Deposits	$1,622,539	$873,222	$749,317	$736,114	$13,203
Short-term borrowings	100,500	7,500	93,000	34,284	58,716
Long-term debt	75,880	19,864	56,016	16,460	39,556
Other liabilities	16,143	10,698	5,445	3,015	2,430
Total liabilities	1,815,062	911,284	903,778	789,873	113,905
Stockholders' equity (1)	231,009	173,941	57,068	66,123	(9,055)
Total liabilities and stockholders' equity	$2,046,071	$1,085,225	$960,846	$855,996	$104,850

(1) Acquired ECB stockholders' equity balance includes an acquisition gain of $7.8 million which was recorded in earnings in the second quarter of 2013.

Investment Securities

The amortized cost and fair value of the available-for-sale securities portfolio was $411.1 million and $403.9 million, respectively, as of September 30, 2013 compared to $132.9 million and $136.3 million, respectively, as of December 31, 2012. Excluding acquired ECB investments, available for sale securities declined by $21.8 million year-to-date through September 30, 2013, which partially funded the Company's core loan growth. The Company also drew down its investment portfolio to properly manage its liquidity and interest rate risk position following the ECB merger.

Marketable investment securities are accounted for as available for sale and are recorded at fair value with unrealized gains and losses charged to accumulated other comprehensive income. The investment securities portfolio as of September 30, 2013 consisted of U.S. government-sponsored enterprise ("GSE") securities, securities guaranteed by the U.S. Small Business Administration ("SBA"), residential mortgage-backed securities (“MBS”), which were all issued by GSEs, investment grade corporate bonds, investment grade commercial MBS issued by financial institutions, investment grade non-taxable municipal obligations, and the common stock of other financial services companies. As of September 30, 2013 and December 31, 2012, the securities portfolio had $2.2 million and $3.5 million, respectively, of unrealized gains and $9.4 million and $96 thousand, respectively, of unrealized losses. None of these securities had been in an unrealized loss position for more than twelve months at either date.

The following table summarizes the amortized cost and fair value of the securities portfolio.

(Dollars in thousands)	September 30, 2013 Amortized Cost	Fair Value	December 31, 2012 Amortized Cost	Fair Value
U.S. government-sponsored enterprise securities	$14,822	$14,716	$—	$—
SBA-guaranteed securities	68,749	68,169	—	—
Residential MBS	222,523	214,503	76,249	76,777
Corporate bonds	97,518	98,537	30,861	32,508
Commercial MBS	5,968	6,050	6,612	6,885
Municipal obligations – non-taxable	600	601	15,492	16,201
Municipal obligations – taxable	—	—	2,583	2,725
Other debt securities	253	253	1,083	1,157
Marketable equity securities	677	1,071	37	58
Total securities available for sale	$411,110	$403,900	$132,917	$136,311

The following table summarizes debt securities in the investment portfolio as of September 30, 2013, segregated by major category with ranges of maturities and average yields.

	September 30, 2013			
(Dollars in thousands)	Amortized Cost	Fair Value	Weighted Average Yield (1)	
U.S. government-sponsored enterprise securities:				
One to five years	$14,822	$14,716	1.11	%
Total	14,822	14,716	1.11	
SBA-guaranteed securities:				
One to five years	7,817	7,822	(1.48	)
Five to ten years	17,563	17,159	2.07	
After ten years	43,369	43,188	1.97	
Total	68,749	68,169	1.60	
Residential MBS (2):				
Within one year	282	284	0.36	
One to five years	71,011	69,556	1.56	
Five to ten years	127,629	122,615	2.11	
After ten years	23,601	22,048	2.60	
Total	222,523	214,503	1.98	
Corporate bonds:				
Within one year	1,000	1,000	9.14	
One to five years	83,406	84,832	2.20	
Five to ten years	13,112	12,705	2.34	
Total	97,518	98,537	2.29	
Commercial MBS (2):				
One to five years	5,968	6,050	2.35	
Total	5,968	6,050	2.35	
Municipal obligations - non-taxable:				
After ten years	600	601	6.44	
Total	600	601	6.44	
Other debt securities:				
One to five years	253	253	1.69	
Total	253	253	1.69	
Total debt securities	$410,433	$402,829	1.97	

(1) Yields are calculated on a taxable equivalent basis using the statutory federal income tax rate of 34 percent. Yields are calculated based on the amortized cost of the securities.

(2) Mortgage-backed securities, which are not due at a single maturity date, have been included in maturity groupings based on weighted average maturities anticipating future prepayments.

The Company also owned $8.0 million and $2.3 million of FHLB stock as of September 30, 2013 and December 31, 2012, respectively. This stock is recorded at cost and is classified separately from investment securities on the consolidated balance sheets.

Loans

The primary goal of the Company's lending function is to help clients achieve their financial goals by providing quality loan products that are fair to the client and profitable to the Company. In addition to the importance placed on client knowledge and continuous involvement with clients, the Company's lending process incorporates the standards of a consistent company-wide credit culture and an in-depth knowledge of our local markets. Furthermore, the Company employs strict underwriting criteria governing the degree of assumed risk and the diversity of the loan portfolio. In this context, the Company strives to meet the credit needs of businesses and consumers in its markets while pursuing a balanced strategy of loan profitability, loan growth, and loan quality.

Loans, net of deferred loan fees, totaled $1.35 billion as of September 30, 2013, which was an increase of $589.9 million from December 31, 2012. Excluding acquired ECB loans, core loan growth was $136.9 million on a year-to-date basis. The Company has generated robust net loan growth to date in 2013 which was driven by loan originations totaling $364.5 million. The composition of the Company’s loan portfolio as of September 30, 2013 was as follows: 48.1 percent commercial real estate loans, 17.5 percent commercial and industrial loans, 10.9 percent commercial construction and land development loans, 13.9 percent residential real estate loans, 2.1 percent consumer construction and land development loans, 6.9 percent home equity loans and lines of credit, and consumer loans at 0.7 percent. The composition of the loan portfolio as of December 31, 2012 was as follows: 51.5 percent commercial real estate loans, 12.9 percent commercial and industrial loans, 9.5 percent commercial construction and land development loans, 16.4 percent residential real estate loans, 0.8 percent consumer construction and land development loans, 8.3 percent home equity loans and lines of credit, and consumer loans at 0.6 percent.

For each acquired loan portfolio, the Company made fair value adjustments by projecting expected future principal and interest cash flows over the remaining life of each loan and then discounting those cash flows based on then-current market rates for similar loans. Because acquired loans are marked to fair value and the legacy allowance for loan losses is eliminated at acquisition, the Company believes an analysis of the loan portfolio carrying value and unpaid borrower principal balances ("UPB") is important in evaluating the portfolio.

The following table summarizes the UPB and carrying amounts of the loan portfolio by type.

	September 30, 2013				December 31, 2012			
(Dollars in thousands)	UPB	Carrying Amount	% of UPB		UPB	Carrying Amount	% of UPB	
Commercial:								
Commercial real estate	$667,216	$650,722	97.5	%	$402,031	$392,955	97.7	%
Commercial and industrial	242,708	237,648	97.9	%	100,893	98,701	97.8	%
Construction and development	155,752	147,214	94.5	%	79,081	72,566	91.8	%
Consumer:								
Residential real estate	193,412	188,032	97.2	%	128,980	125,277	97.1	%
Construction and development	30,099	28,306	94.0	%	6,457	6,203	96.1	%
Home equity	98,538	93,342	94.7	%	66,634	63,486	95.3	%
Consumer	9,299	8,900	95.7	%	4,382	4,325	98.7	%
Total	$1,397,024	$1,354,164	96.9	%	$788,458	$763,513	96.8	%

Acquired loans increased from $476.5 million as of December 31, 2012 to $769.7 million as of September 30, 2013 due to the ECB merger while non-acquired loans increased from $287.0 million as of December 31, 2012 to $584.5 million as of September 30, 2013. As the portfolio mix becomes more heavily weighted toward non-acquired loans, the portfolio more closely reflects the Company's current underwriting standards and its portfolio allocation strategy.

The following table summarizes the scheduled maturities of loans separated by fixed and variable rate loans.

	September 30, 2013							
(Dollars in thousands)	Commercial Real Estate	Commercial Construction and Development	Commercial and Industrial	Residential Real Estate	Consumer Construction	Home Equity	Consumer	Total
Fixed Rate: (1)								
1 year or less	$37,240	$ 10,069	$16,664	$11,936	$ 5,290	$213	$1,871	$83,283

1-5 years	326,739	27,867	51,110	70,518	12,788	4,035	4,595	497,652
After 5 years	75,148	3,526	12,712	23,261	686	264	539	116,136
Total	439,127	41,462	80,486	105,715	18,764	4,512	7,005	697,071
Variable Rate: (1)								
1 year or less	34,205	66,444	91,508	9,995	8,356	1,802	728	213,038
1-5 years	139,649	29,907	43,453	16,153	1,186	8,629	825	239,802
After 5 years	37,741	9,401	22,201	56,169	—	78,399	342	204,253
Total	211,595	105,752	157,162	82,317	9,542	88,830	1,895	657,093
Total loans	$650,722	$ 147,214	$237,648	$188,032	$ 28,306	$93,342	$8,900	$1,354,164

(1) Loan maturities are presented based on the final contractual maturity of each loan and do not reflect contractual principal payments prior to maturity on amortizing loans.

Nonperforming Assets

Loans are considered past due when the contractual amounts due with respect to principal and interest are not received within 30 days of the contractual due date. Loans are generally classified as nonaccrual if they are past due for a period of 90 days or more, unless such loans are well secured and in the process of collection. If a loan or a portion of a loan is classified as doubtful or as partially charged off, the loan is generally classified as nonaccrual. Loans that are on a current payment status or past due less than 90 days may also be classified as nonaccrual if repayment in full of principal and/or interest is in doubt. Loans may be returned to accrual status when all principal and interest amounts contractually due are reasonably assured of repayment within an acceptable period of time, and there is a sustained period of repayment performance of interest and principal by the borrower in accordance with the contractual terms.

PCI loans with common risk characteristics are grouped in pools at acquisition. These loans are evaluated for accrual status at the pool level rather than the individual loan level and performance is based on management's ability to reasonably estimate the amount and timing of future cash flows rather than a borrower's ability to repay contractual loan amounts. Since management is able to reasonably estimate the amount and timing of future cash flows on the Company's PCI loan pools, none of these loans have been identified as nonaccrual. However, PCI loans included in pools are identified as nonperforming if they become past due 90 days or more.

While a loan is classified as nonaccrual and the future collectability of the recorded loan balance is doubtful, collections of interest and principal are generally applied as a reduction to the principal outstanding, except in the case of loans with scheduled amortizations where the payment is generally applied to the oldest payment due. When the future collectability of the recorded loan balance is expected, interest income may be recognized on a cash basis. In the case where a nonaccrual loan had been partially charged off, recognition of interest on a cash basis is limited to that which would have been recognized on the recorded loan balance at the contractual interest rate. Receipts in excess of that amount are recorded as recoveries to the allowance for loan losses until prior charge-offs have been fully recovered.

Assets acquired as a result of foreclosure are recorded at estimated fair value in other real estate (or foreclosed assets). Any excess of cost over estimated fair value at the time of foreclosure is charged to the allowance for loan losses. Valuations are periodically performed on these properties, and any subsequent write-downs are charged to earnings. Routine maintenance and other holding costs are included in non-interest expense.

A loan is classified as a troubled debt restructuring (“TDR”) by the Company when certain modifications are made to the loan terms and concessions are granted to the borrowers due to financial difficulty experienced by those borrowers. The Company grants concessions by (1) reduction of the stated interest rate for the remaining original life of the debt or (2) extension of the maturity date at a stated interest rate lower than the current market rate for new debt with similar risk. The Company does not generally grant concessions through forgiveness of principal or accrued interest.

The Company’s policy with respect to accrual of interest on loans restructured in a TDR follows relevant supervisory guidance. That is, if a borrower has demonstrated performance under the previous loan terms and shows capacity to perform under the restructured loan terms, continued accrual of interest at the restructured interest rate is likely. If a borrower was materially delinquent on payments prior to the restructuring but shows the capacity to meet the restructured loan terms, the loan will likely continue as nonaccrual until there is demonstrated performance under new terms. Lastly, if the borrower does not perform under the restructured terms, the loan is placed on non-accrual status. The Company closely monitors these loans and ceases accruing interest on them if management believes that the borrowers may not continue performing based on the restructured note terms.

Nonperforming loans as a percentage of total loans was 1.40 percent as of September 30, 2013, which was a decline from 1.67 percent as of December 31, 2012 and 1.90 percent as of September 30, 2012. Total nonperforming assets as a percentage of total assets as of September 30, 2013 totaled 1.50 percent, which was a decline from 1.71 percent as of December 31, 2012 and 1.97 percent as of September 30, 2012. The decline in nonperforming assets was due to the ECB merger and the Company's continuing efforts to resolve legacy problem assets while maximizing value. These resolution efforts have included a combination of asset sales through various channels and successful loan workout plans.

The following table summarizes the Company's nonperforming assets.

(Dollars in thousands)	September 30, 2013	December 31, 2012
Nonaccrual loans	$12,745	$5,995
Accruing loans past due 90 days or more (1)	6,166	6,775
Foreclosed assets	11,806	5,837
Total nonperforming assets	$30,717	$18,607
Restructured loans not included above	$542	$104

(1) Balances are comprised of PCI loans past due 90 days or more that are grouped in pools which accrue interest based on pool yields.

The following table summarizes the Company’s nonperforming loans by type.

	September 30, 2013		December 31, 2012	
(Dollars in thousands)	Carrying Value	% of Loans in Category	Carrying Value	% of Loans in Category
Commercial:				
Commercial real estate	$6,909	1.06 %	$5,162	1.31 %
Commercial and industrial	2,912	1.23 %	366	0.37 %
Construction and development	3,534	2.40 %	2,863	3.95 %
Consumer:				
Residential real estate	2,676	1.42 %	2,382	1.90 %
Construction and development	586	2.07 %	224	3.61 %
Home equity	2,171	2.33 %	1,550	2.44 %
Consumer	123	1.38 %	223	5.16 %
Total nonperforming loans	$18,911	1.40 %	$12,770	1.67 %

Allowance for Loan Losses

The ALLL and related provision are calculated for the Company's following three portfolio categories: non-acquired loans, purchased non-impaired loans, and PCI loans. The following description of the Company's ALLL methodology primarily relates to non-acquired and purchased non-impaired loans.

The ALLL is established through periodic charges to earnings in the form of a provision for loan losses. Increases to the ALLL occur as a result of provisions charged to operations and recoveries of amounts previously charged off, and decreases to the ALL occur when loans are charged off. Management evaluates the adequacy of the ALLL on at least a quarterly basis. For non-acquired loans, the evaluation of the adequacy of the ALLL includes both loans evaluated collectively for impairment and loans evaluated individually for impairment. The determination of loss rates on loans collectively evaluated for impairment involves considerations of peer loan loss experience as well as certain qualitative factors such as current loan quality and delinquency levels and trends, loan growth, loan portfolio composition, prevailing economic conditions, the loan review function, and other relevant factors. Because the Company has not yet experienced significant charge-offs on the non-acquired loan portfolio, trailing three-year peer loss rates are used as a proxy for charge-off rates on the Company's non-acquired loan portfolio. For purchased non-impaired loans, the evaluation of the adequacy of the ALLL also includes both loans evaluated collectively for impairment and loans evaluated individually for impairment and involves considerations of historical loan loss experience as well as certain qualitative factors such as current loan quality and delinquency levels and trends, loan growth, loan portfolio composition, prevailing economic conditions, the loan review function, and other relevant factors. The Company uses trailing three-year historical loss rates on its own portfolio (including loss rates for all acquired banks) plus qualitative factors to determine appropriate loss rates for loans evaluated collectively.

The Company utilizes an internal grading system to assign the degree of inherent risk on each loan in the portfolio. The risk grade is initially assigned by the lending officer and reviewed by the credit administration function. The internal risk grading system is reviewed and tested periodically by the loan review function. The Company's ALLL model uses the internal loan grading system to segment each category of loans by risk grade. Calculated loss rates are weighted more heavily for higher risk loans.

A loan is considered individually impaired, based on current information and events, if it is probable that the Company will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Reserves, or charge-offs, on individually impaired loans that are collateral dependent are based on the fair value of the underlying collateral, less an estimate of selling costs, while reserves, or charge-offs, on loans that are not collateral dependent are based on either an observable market price, if available, or the present value of expected future cash flows discounted at the historical effective interest rate.

The following table presents the allocation of the ALLL for the periods presented.

(Dollars in thousands)	September 30, 2013 Amount	September 30, 2013 % of Total Allowance		December 31, 2012 Amount	December 31, 2012 % of Total Allowance	
Commercial:						
Commercial real estate	$2,975	42.29	%	$1,524	38.12	%
Commercial and industrial	1,529	21.74		798	19.96	
Construction and development	1,159	16.48		597	14.93	
Consumer:						
Residential real estate	1,202	17.09		940	23.51	
Construction and development	43	0.61		18	0.45	
Home equity	89	1.27		85	2.13	
Consumer	37	0.53		36	0.90	
Total allowance for loan losses	$7,034	100.01	%	$3,998	100.00	%

The following table summarizes changes in the ALLL for the periods presented.

(Dollars in thousands)	Successor Company Three Months Ended September 30, 2013		Three Months Ended September 30, 2012	Successor Company Nine Months Ended September 30, 2013	Period from February 1 to September 30, 2012	Predecessor Company Period from January 1 to January 31, 2012
ALLL, beginning of period	$6,425		$3,043	$3,998	$1,277	$2,131
Charge-offs:						
Commercial:						
Commercial real estate	—		—	14	—	—
Commercial and industrial	64		131	141	249	—
Construction and development	361		84	478	389	1
Consumer:						
Residential real estate	85		154	509	226	—
Construction and development	—		—	—	11	—
Home equity	131		692	433	1,411	—
Consumer	28		114	246	138	—
Total charge-offs	669		1,175	1,821	2,424	1
Recoveries:						
Commercial:						
Commercial real estate	4		—	22	—	—
Commercial and industrial	7		12	15	18	2
Construction and development	(38	)	102	9	117	—

Consumer:					
Residential real estate	17	78	79	153	—
Construction and development	—	2	—	7	—
Home equity	4	—	9	—	—
Consumer	4	7	11	7	—
Total recoveries	(2)	201	145	302	2
Net charge-offs	671	974	1,676	2,122	(1)
Provision for loan losses	1,280	1,077	4,712	3,991	195
ALLL, end of period	$7,034	$3,146	$7,034	$3,146	$2,327
Net charge-offs to average loans (annualized)	0.20 %	0.54 %	0.19 %	0.44 %	— %

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The ALLL to total loans was 0.52 percent as of September 30, 2013, which was a slight decrease from 0.52 percent as of December 31, 2012. However, including acquisition accounting fair value discounts, the adjusted ALLL increased from 2.70 percent as of December 31, 2012 to 3.05 percent as of September 30, 2013. The increase in adjusted ALLL was primarily due to the fair value adjustments applied to acquired ECB loans. The following non-GAAP reconciliation provides a calculation of the adjusted ALLL and the related adjusted ALLL as a percentage of total loans for the periods presented.

(Dollars in thousands)	September30, 2013		December 31, 2012	
Allowance for loan losses (GAAP)	$7,034		$3,998	
Net acquisition accounting fair value discounts to loans	34,264		16,633	
Adjusted allowance for loan losses	41,298		20,631	
Loans	$1,353,360		$763,416	
Adjusted allowance for loan losses to loans (Non-GAAP)	3.05	%	2.70	%

Deposits

Total deposits as of September 30, 2013 were $1.62 billion, which was an increase of $749.3 million from December 31, 2012. This increase was primarily due to acquired ECB deposits totaling $736.1 million at merger. The remaining increase in deposits, excluding the ECB merger, was $13.2 million. As of September 30, 2013 and December 31, 2012, the Company had outstanding time deposits under $100 thousand of $285.0 million and $198.1 million, respectively, and time deposits over $100 thousand of $330.6 million and $153.7 million, respectively.

The composition of the deposit portfolio, by category, as of September 30, 2013 was as follows: 37.9 percent in time deposits, 28.2 percent in money market and savings, 21.0 percent in interest-bearing demand deposits, and 12.9 percent in non-interest bearing demand deposit. The composition of the deposit portfolio, by category, as of December 31, 2012 was as follows: 40.3 percent in time deposits, 29.9 percent in money market and savings, 21.6 percent in interest-bearing demand deposits, and 8.2 percent in non-interest bearing demand deposits.

The following table summarizes the average balances outstanding and average interest rates for each major category of deposits for the periods presented.

	Three Months Ended September 30, 2013					Three Months Ended September 30, 2012				
(Dollars in thousands)	Average Balance	% of Total		Average Rate		Average Balance	% of Total		Average Rate	
Non-interest demand	$203,427	12.39	%	—	%	$103,535	12.24	%	—	%
Interest-bearing demand	335,653	20.43		0.18		135,786	16.04		0.30	
Money market and savings	475,985	28.97		0.28		244,619	28.89		0.58	
Time deposits	627,874	38.21		0.72		362,733	42.83		0.95	
Total average deposits	$1,642,939	100.00		0.39		$846,673	100.00		0.62	

The overall mix of average deposits shifted somewhat in the periods presented above as time deposits declined as a proportion of total average deposits while interest-bearing demand deposits increased. The Company believes its deposit product offerings are properly structured to attract and retain core low-cost deposit relationships. The average cost of deposits decreased to 0.39 percent in the third quarter of 2013 from 0.62 percent in the third quarter of 2012 as the Company adjusted interest rates it pays on certain checking and money market accounts in the current quarter and incorporated the ECB deposit base.

Short-Term Borrowings and Long-Term Debt

The Company uses short-term borrowings and long-term debt to provide both funding and, to a lesser extent, regulatory capital. Short-term borrowings totaled $100.5 million and $7.5 million as of September 30, 2013 and December 31, 2012, respectively, and consisted of FHLB advances maturing within twelve months. Long-term debt as of both September 30, 2013 and December 31, 2012 consisted of $6.9 million in a subordinated term loan issued to a non-affiliated financial institution, and $5.5 million in junior subordinated debt issued in the form of trust preferred securities. As of September 30, 2013, long-term debt also included $38.1 million in 10-year subordinated notes issued in August 2013. In addition, the Company had outstanding long-term FHLB advances of $25.0 million and $7.5 million as of September 30, 2013 and December 31, 2012, respectively. The increase in total borrowings was used to fund a portion of the Company's year-to-date loan growth and allowed the Company to hedge the interest rates on short-term FHLB advances, which was intended to partially offset the risk of rising interest rates on the investment securities portfolio.

Stockholders’ Equity

Total stockholders’ equity was $231.0 million as of September 30, 2013, which was an increase of $57.1 million from December 31, 2012. This increase was primarily due to net assets acquired in the ECB merger of $66.1 million. In addition, stock-based compensation was $634 thousand and stock options exercised totaled $99 thousand, both of which increased stockholders' equity. Partially offsetting the increase in stockholders' equity was a net loss for the year-to-date period, excluding the acquisition gain, and a $4.3 million decline in accumulated other comprehensive income. The decline in accumulated other comprehensive income was largely due to rising long-term interest rates in the second quarter of 2013, which reduced the value of the investment securities portfolio and created an unrealized loss position. The unrealized losses on securities available for sale were partially offset by the increasing value of the cash flow hedge on forecasted short-term FHLB advances that the Company entered into in the second quarter of 2013. This cash flow hedge was intended to protect stockholders' equity against the risk of rising interest rates on the investment securities portfolio. Dividends and accretion on preferred stock totaled $1.8 million in the first nine months of 2013, which decreased stockholders' equity.

Liquidity

Liquidity management involves the ability to fund the needs and requirements of depositors and borrowers, paying operating expenses and ensuring compliance with regulatory liquidity requirements. To ensure the Company is positioned to meet immediate and future cash demands, it relies on internal analysis of liquidity, knowledge of current economic and market trends and forecasts of future conditions. Investment portfolio principal payments and maturities, loan principal payments, deposit growth, brokered deposit sources, and available borrowings from the FHLB, the Federal Reserve Bank, and various federal funds lines from correspondent banks are the primary sources of liquidity for the Company. The primary uses of liquidity are repayments of borrowings, deposit maturities and withdrawals, disbursements of loan proceeds, and investment purchases.

As of September 30, 2013, liquid assets (which include cash and due from banks, interest-earning deposits with banks, federal funds sold and investment securities available for sale) totaled $489.5 million, which represented 24 percent of total assets and 30 percent of total deposits. Supplementing this on-balance sheet liquidity, the Company has available off-balance sheet liquidity in the form of lines of credit from various correspondent banks which totaled $233.3 million as of September 30, 2013. As of September 30, 2013, outstanding commitments for undisbursed lines of credit and letters of credit totaled $334.9 million and outstanding capital commitments to a private investment fund were $1.7 million. Management believes that the aggregate liquidity position of the Company is sufficient to meet deposit maturities and withdrawals, borrowing commitments, loan funding requirements, and operating expenses. Core deposits (total deposits less brokered deposits), one of the Company's most stable sources of liquidity, together with common equity capital funded $1.72 billion, or 84 percent, of total assets as of September 30, 2013 compared with $939.8 million, or 87 percent, of total assets as of December 31, 2012.

Contractual Obligations

The following table presents the Company's significant fixed and determinable contractual obligations by payment date. The payment amounts represent those amounts contractually due to the recipient. The table excludes liabilities recorded where management cannot reasonably estimate the timing of any payments that may be required in connection with these liabilities.

	September 30, 2013				
(Dollars in thousands)	1 Year or Less	1 to 3 Years	3 to 5 Years	More Than 5 Years	Total
Time deposits	$328,152	$220,220	$67,244	$—	$615,616
Short-term borrowings	100,500	—	—	—	100,500
Long-term debt	—	22,308	3,042	50,530	75,880
Operating leases	3,281	5,562	5,107	9,726	23,676
Total contractual obligations	$431,933	$248,090	$75,393	$60,256	$815,672

Capital

The maintenance of appropriate levels of capital is a management priority and is monitored on a regular basis. The Company's principal goals related to the maintenance of capital are to provide adequate capital to support the Company's risk profile, provide financial flexibility to support future growth and client needs, comply with relevant laws, regulations, and supervisory guidance, and provide a competitive return to stockholders.

Banking regulators have defined capital into the following components: (1) Tier 1 capital, which includes common stockholders' equity and qualifying preferred equity, and (2) Tier 2 capital, which includes a portion of the allowance for loan losses, certain qualifying long-term debt and preferred stock which does not qualify as Tier 1 capital. Minimum capital levels are regulated by risk-based capital adequacy guidelines which require a financial institution to maintain capital as a percent of its assets and certain off-balance sheet items adjusted for predefined credit risk factors (risk-adjusted assets). A financial institution is required to maintain, at a minimum, Tier 1 capital as a percentage of risk-adjusted assets of 4.0 percent and combined Tier 1 and Tier 2 capital as a percentage of risk-adjusted assets of 8.0 percent. In addition to the risk-based guidelines, federal regulations require the Bank to maintain a minimum leverage ratio (Tier 1 capital as a percentage of tangible assets) of 4.0 percent. The following table summarizes the calculation of the Bank's regulatory capital ratios.

(Dollars in thousands)	September 30, 2013		Regulatory Minimum		Well Capitalized Requirement	
Tier 1 capital	$194,198					
Tier 2 capital	14,433					
Total capital	$208,631					
Average assets for leverage ratio	$1,951,051					
Risk-adjusted assets	$1,648,453					
Regulatory capital ratios:						
Tier 1 leverage	9.95	%	4.00	%	5.00	%
Tier 1 risk-based capital	11.78	%	4.00	%	6.00	%
Total risk-based capital	12.66	%	8.00	%	10.00	%

VantageSouth Bancshares, Inc. is not required to report regulatory capital ratios since Piedmont is the top-tier holding company in the organization. If the Company were to report consolidated regulatory capital ratios calculated consistently with federal regulations for bank holding companies, its tier 1 leverage, tier 1 risk-based capital, and total risk-based capital ratios would have been 8.30 percent, 9.83 percent and 12.99 percent, respectively, as of September 30, 2013.

The Company's tangible book value per common share was $3.39 as of September 30, 2013 compared to $3.37 as of December 31, 2012. Tangible common equity to tangible assets was 7.75 percent as of September 30, 2013 compared to 11.42 percent as of December 31, 2012. The following table presents the calculation of tangible book value per common share and tangible common equity to tangible assets, which are non-GAAP financial metrics.

(Dollars in thousands)	September 30, 2013	December 31, 2012
Total stockholders' equity	$231,009	$173,941
Less: Series A preferred stock	24,833	24,657
Less: Series B preferred stock	17,776	—
Less: Goodwill and other intangible assets, net	32,367	28,630
Tangible common equity	$156,033	$120,654
Common shares outstanding	46,037,808	35,754,247
Tangible book value per common share	$3.39	$3.37
Total assets	$2,046,071	$1,085,225
Less: Goodwill and other intangible assets, net	32,367	28,630
Tangible assets	$2,013,704	$1,056,595
Tangible common equity to tangible assets	7.75 %	11.42 %

Forward-Looking Information

This quarterly report on Form 10-Q contains certain “forward-looking statements” that represent management’s judgments concerning the future and are subject to risks and uncertainties that could cause the Company’s actual operating results and financial position to differ materially from those projected in the forward-looking statements. Such forward-looking statements can be identified by the use of forward-looking terminology such as “may,” “will,” “anticipate,” “should,” “would,” “project,” “future,” “strategy,” “believe,” “contemplate,” “expect,” “estimate,” “continue,” “ir other similar words and expressions of the future. Risks and other factors that could influence the estimates include risks associated with the ownership by Piedmont of a majority of the Company’s voting power, including interests of Piedmont differing from other stockholders or any change in management, strategic direction, business plan, or operations, our management’s ability to successfully integrate the Company’s business and execute its business plan across new and diverse markets in eastern North Carolina and elsewhere, greater than expected costs or difficulties related to the integration of acquired companies, local economic conditions affecting retail and commercial real estate, disruptions in the credit markets, particularly in light of continued economic uncertainty in the European Union, continued political unrest and instability in the Middle East; changes in interest rates, adverse developments in the real estate market affecting the value and marketability of collateral securing loans made by the Bank, the failure of assumptions underlying loan loss and other reserves, competition and the risk of new and changing regulation, including, but not limited to recent proposals that would change capital standards and asset risk-weighting for financial institutions. Additional factors that could cause actual results to differ materially are discussed in the Company’s filings with the Securities and Exchange Commission, including without limitation its Annual Report on Form 10-K. The forward-looking statements in this Quarterly Report on Form 10-Q speak only as of the date hereof, and the Company does not assume any obligation to update such forward-looking statements, except as may otherwise be required by law.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company intends to reach its strategic financial objectives through the effective management of market risk. Like many financial institutions, the Company’s most significant market risk exposure is interest rate risk. The Company's primary goal in managing interest rate risk is to minimize the effect that changes in market interest rates have on earnings and capital. This is accomplished through the active management of the balance sheet. The goal of these activities is to structure the maturity and repricing of assets and liabilities to produce stable net interest income despite changing interest rates. The Company's overall interest rate risk position is maintained within a series of policies approved by the Board of Directors and guidelines established and monitored by the Bank’s Asset/Liability Committee (“ALCO”).

To measure, monitor, and report on interest rate risk, the Company begins with two models: (1) net interest income ("NII") at risk, which measures the impact on NII over the next twelve months to immediate changes in interest rates and (2) net economic value of equity ("EVE"), which measures the impact on the present value of net assets to immediate changes in interest rates. NII at risk is designed to measure the potential short-term impact of changes in interest rates on NII. EVE is a long-term measure of interest rate risk to the Company's balance sheet, or equity. Finally, gap analysis, which is the difference between the amount of balance sheet assets and liabilities repricing within a specified time period, is used as a secondary measurement of the Company's interest rate risk position. All of these models are subject to ALCO guidelines and are monitored regularly.

In calculating NII at risk, the Company begins with a base amount of NII that is projected over the next twelve and twenty-four months, assuming that the balance sheet is static and the yield curve remains unchanged over the period. The current yield curve is then “shocked,” or moved immediately, ±1.0 percent, ±2.0 percent, ±3.0 percent and ±4.0 percent in a parallel fashion, or at all points along the yield curve. New twelve-month NII projections are then developed using the same balance sheet but with the new yield curves, and these results are compared to the base scenario. The Company also performs yield curve twist scenarios to evaluate potential NII at risk under different scenarios such as a flattening yield curve, a steepening curve, and others that management deems necessary.

EVE at risk is based on the change in the present value of all assets and liabilities under different interest rate scenarios. The present value of existing cash flows with the current yield curve serves as the base case. The Company then applies an immediate parallel shock to that yield curve of ±1.0 percent, ±2.0 percent, ±3.0 percent and ±4.0 percent and recalculates the cash flows and related present values.

Key assumptions used in the models described above include the timing of cash flows, the maturity and repricing of assets and liabilities, changes in market conditions, and interest-rate sensitivities of the Company's non-maturity deposits with respect to interest rates paid and the level of balances. These assumptions are inherently uncertain and, as a result, the models cannot precisely calculate future NII or predict the impact of changes in interest rates on NII and EVE. Actual results could differ from simulated results due to the timing, magnitude and frequency of changes in interest rates and market conditions, changes in spreads and management strategies, among other factors. Projections of NII are assessed as part of the Company's forecasting process.

NII and EVE Analysis. The following table presents the estimated exposure to NII for the next twelve months due to immediate changes in interest rates and the estimated exposure to EVE due to immediate changes in interest rates. All information is presented as of September 30, 2013.

	September 30, 2013	
	Estimated Exposure to NII	Estimated Exposure to EVE
Immediate change in interest rates:		
+ 4.0%	14.71 %	8.27 %
+ 3.0%	10.41	6.76
+ 2.0%	5.71	4.70
+ 1.0%	1.13	2.38
No change	—	—
- 1.0%	(1.51)	(2.84)

While the measures presented in the table above are not a prediction of future NII or EVE valuations, they do suggest that if all other variables remained constant, immediate increases in interest rates at all points on the yield curve may produce higher NII in the short term. Other important factors that impact the levels of NII are balance sheet size and mix, interest rate spreads, the slope of the yield curve, the speed of interest rates changes, and management actions taken in response to the preceding conditions.

Item 4. Controls and Procedures

The Company’s management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company’s disclosure controls and procedures as of September 30, 2013. Based on that evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by the Company in the reports filed or submitted by it under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and to provide reasonable assurance that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company’s management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in the Company’s internal controls over financial reporting during the period covered by this Quarterly Report that have materially affected, or are reasonably likely to materially affect, these internal controls.

Part II. Other Information

Item 1. Legal Proceedings

The Company is involved in legal proceedings which arise in the ordinary course of business, none of which are considered material.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2012, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

3.1	Certificate of Amendment to the Amended and Restated Certificate of Incorporation. (1)
4.1	Form of Subordinated Note Certificate. (2)
10.1	Form of Subordinated Note Purchase Agreement. (2)
31.1	Certification of Principal Executive Officer pursuant to Rule 13a – 14(a).
31.2	Certification of Principal Financial Officer pursuant to Rule 13a – 14(a).
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.

(1) Incorporated by reference to Exhibit 3.2 to the Quarterly Report on Form 10-Q filed with the SEC on August 6, 2013.
(2) Incorporated by reference to corresponding exhibit to the Current Report on Form 8-K filed with the SEC on August 15, 2013.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

		VANTAGESOUTH BANCSHARES, INC.	
Date:	November 13, 2013	By:	/s/ Scott M. Custer Scott M. Custer Chief Executive Officer
Date:	November 13, 2013	By:	/s/ Terry S. Earley Terry S. Earley Executive Vice President and Chief Financial Officer