

SCBT FINANCIAL CORP
Form 10-Q
August 09, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

OR

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 001-12669

SCBT FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

South Carolina
(State or other jurisdiction of incorporation)

57-0799315
(IRS Employer Identification No.)

520 Gervais Street
Columbia, South Carolina
(Address of principal executive offices)

29201
(Zip Code)

(800) 277-2175

(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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (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 No

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

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

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

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Class
Common Stock, \$2.50 par value

Outstanding as of July 31, 2011
13,995,219

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SCBT Financial Corporation and Subsidiary

June 30, 2011 Form 10-Q

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****SCBT Financial Corporation and Subsidiary****Condensed Consolidated Balance Sheets***(Dollars in thousands, except par value)*

| | June 30, 2011 (Unaudited) | December 31, 2010 (Note 1) | June 30, 2010 (Unaudited) |
|---|---------------------------------|----------------------------------|---------------------------------|
| ASSETS | | | |
| Cash and cash equivalents: | | | |
| Cash and due from banks | \$ 87,319 | \$ 83,449 | \$ 72,574 |
| Interest-bearing deposits with banks | 1,088 | 416 | 182 |
| Federal funds sold and securities purchased under agreements to resell | 160,660 | 153,234 | 114,269 |
| Total cash and cash equivalents | 249,067 | 237,099 | 187,025 |
| Investment securities: | | | |
| Securities held to maturity (fair value of \$19,834, \$20,150 and \$20,584, respectively) | 19,100 | 19,941 | 20,092 |
| Securities available for sale, at fair value | 209,956 | 197,374 | 251,644 |
| Other investments | 20,427 | 20,597 | 22,181 |
| Total investment securities | 249,483 | 237,912 | 293,917 |
| Loans held for sale | 17,956 | 42,704 | 22,724 |
| Loans: | | | |
| Acquired | 367,491 | 321,038 | 413,549 |
| Non-acquired | 2,405,613 | 2,296,200 | 2,227,442 |
| Less allowance for loan losses | (61,875) | (47,512) | (46,167) |
| Loans, net | 2,711,229 | 2,569,726 | 2,594,824 |
| FDIC receivable for loss share agreements | 299,200 | 212,103 | 265,890 |
| Other real estate owned (covered of \$74,591, \$69,317, and \$31,750, respectively; and non-covered of \$24,900, \$17,264, and \$9,803, respectively) | 99,491 | 86,581 | 41,553 |
| Premises and equipment, net | 90,529 | 87,381 | 84,206 |
| Goodwill | 62,888 | 62,888 | 62,888 |
| Other assets | 60,092 | 58,397 | 65,619 |
| Total assets | \$ 3,839,935 | \$ 3,594,791 | \$ 3,618,646 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | |
| Deposits: | | | |
| Noninterest-bearing | \$ 598,112 | \$ 484,838 | \$ 465,594 |
| Interest-bearing | 2,607,716 | 2,519,310 | 2,546,273 |
| Total deposits | 3,205,828 | 3,004,148 | 3,011,867 |
| Federal funds purchased and securities sold under agreements to repurchase | 187,550 | 191,017 | 177,281 |
| Other borrowings | 46,275 | 46,978 | 62,557 |
| Other liabilities | 29,177 | 22,691 | 32,338 |
| Total liabilities | 3,468,830 | 3,264,834 | 3,284,043 |
| Shareholders' equity: | | | |

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| | | | |
|--|---------------------|--------------|--------------|
| Preferred stock - \$.01 par value; authorized 10,000,000 shares; no shares issued and outstanding | | | |
| Common stock - \$2.50 par value; authorized 40,000,000 shares; 13,987,686, 12,793,823 and 12,773,855 shares issued and outstanding | 34,969 | 31,985 | 31,935 |
| Surplus | 231,640 | 198,647 | 197,305 |
| Retained earnings | 105,799 | 103,117 | 105,115 |
| Accumulated other comprehensive income (loss) | (1,303) | (3,792) | 248 |
| Total shareholders' equity | 371,105 | 329,957 | 334,603 |
| Total liabilities and shareholders' equity | \$ 3,839,935 | \$ 3,594,791 | \$ 3,618,646 |

The Accompanying Notes are an Integral Part of the Financial Statements.

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SCBT Financial Corporation and Subsidiary

Condensed Consolidated Statements of Income (unaudited)

(Dollars in thousands, except per share data)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|-----------|------------------------------|-----------|
| | 2011 | 2010 | 2011 | 2010 |
| Interest income: | | | | |
| Loans, including fees | \$ 40,994 | \$ 35,994 | \$ 77,824 | \$ 70,167 |
| Investment securities: | | | | |
| Taxable | 1,741 | 2,740 | 3,598 | 5,254 |
| Tax-exempt | 235 | 164 | 450 | 429 |
| Federal funds sold and securities purchased under agreements to resell | 361 | 214 | 714 | 466 |
| Total interest income | 43,331 | 39,112 | 82,586 | 76,316 |
| Interest expense: | | | | |
| Deposits | 4,661 | 7,077 | 10,378 | 14,132 |
| Federal funds purchased and securities sold under agreements to repurchase | 142 | 184 | 302 | 337 |
| Other borrowings | 527 | 691 | 1,059 | 2,056 |
| Total interest expense | 5,330 | 7,952 | 11,739 | 16,525 |
| Net interest income | 38,001 | 31,160 | 70,847 | 59,791 |
| Provision for loan losses | 4,215 | 12,509 | 14,856 | 33,287 |
| Net interest income after provision for loan losses | 33,786 | 18,651 | 55,991 | 26,504 |
| Noninterest income: | | | | |
| Gains on acquisitions | | | 5,528 | 98,081 |
| Service charges on deposit accounts | 5,615 | 5,582 | 10,645 | 10,105 |
| Bankcard services income | 3,045 | 2,348 | 5,704 | 4,147 |
| Trust and investment services income | 1,525 | 1,187 | 2,774 | 1,971 |
| Mortgage banking income | 1,125 | 1,267 | 1,988 | 2,111 |
| Securities gains | 10 | | 333 | |
| Other-than-temporary impairment losses | | (675) | | (6,261) |
| Accretion on FDIC indemnification asset | (3,133) | 567 | (3,534) | 936 |
| Other | 605 | 752 | 1,227 | 1,559 |
| Total noninterest income | 8,792 | 11,028 | 24,665 | 112,649 |
| Noninterest expense: | | | | |
| Salaries and employee benefits | 18,016 | 15,263 | 34,662 | 29,016 |
| OREO expense and loan related | 2,777 | 825 | 5,310 | 555 |
| Net occupancy expense | 2,346 | 1,907 | 4,922 | 4,280 |
| Information services expense | 2,503 | 2,157 | 4,845 | 4,528 |
| Furniture and equipment expense | 2,181 | 1,937 | 4,139 | 3,573 |
| FDIC assessment and other regulatory charges | 1,255 | 1,227 | 2,734 | 2,550 |
| Merger-related expense | 598 | 964 | 1,207 | 4,872 |
| Advertising and marketing | 289 | 1,028 | 1,198 | 1,615 |
| Amortization of intangibles | 505 | 432 | 951 | 781 |
| Professional fees | 501 | 616 | 934 | 1,173 |
| Federal Home Loan Bank advances prepayment fee | | | | 3,189 |
| Other | 4,077 | 2,628 | 8,370 | 5,432 |
| Total noninterest expense | 35,048 | 28,984 | 69,272 | 61,564 |
| Earnings: | | | | |
| Income before provision for income taxes | 7,530 | 695 | 11,384 | 77,589 |
| Provision for income taxes | 2,612 | 120 | 3,950 | 28,053 |

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| | | | | | | | | |
|--|----|---------------|----|--------|----|---------------|----|--------|
| Net income | \$ | 4,918 | \$ | 575 | \$ | 7,434 | \$ | 49,536 |
| Earnings per common share: | | | | | | | | |
| Basic | \$ | 0.36 | \$ | 0.05 | \$ | 0.55 | \$ | 3.93 |
| Diluted | \$ | 0.35 | \$ | 0.05 | \$ | 0.55 | \$ | 3.90 |
| Dividends per common share | \$ | 0.17 | \$ | 0.17 | \$ | 0.34 | \$ | 0.34 |
| Weighted-average common shares outstanding: | | | | | | | | |
| Basic | | 13,805 | | 12,612 | | 13,500 | | 12,599 |
| Diluted | | 13,886 | | 12,738 | | 13,582 | | 12,713 |

The Accompanying Notes are an Integral Part of the Financial Statements.

Table of Contents**SCBT Financial Corporation and Subsidiary****Condensed Consolidated Statements of Changes in Shareholders Equity (unaudited)****Six Months Ended June 30, 2011 and 2010***(Dollars in thousands, except per share data)*

| | Preferred Stock | Common Stock | | | Retained | Accumulated Other | |
|--|-----------------|---------------|-----------|------------|------------|-------------------|------------|
| | Shares | Amount | Shares | Amount | Earnings | Comprehensive | Total |
| | | | | | | Income (Loss) | |
| Balance, December 31, 2009 | | \$ 12,739,533 | \$ 31,849 | \$ 196,437 | \$ 59,915 | \$ (5,382) | \$ 282,819 |
| Comprehensive income: | | | | | | | |
| Net income | | | | | 49,536 | | 49,536 |
| Change in net unrealized gain on securities available for sale, net of tax | | | | | | 6,153 | 6,153 |
| Change in unrealized losses on derivative financial instruments qualifying as cash flow hedges, net of tax | | | | | | (523) | (523) |
| Total comprehensive income | | | | | | | 55,166 |
| Cash dividends declared at \$.34 per share | | | | | (4,336) | | (4,336) |
| Employee stock purchases | | 5,294 | 13 | 129 | | | 142 |
| Stock options exercised | | 11,782 | 30 | 196 | | | 226 |
| Restricted stock awards | | 22,698 | 57 | (57) | | | |
| Common stock repurchased | | (5,452) | (14) | (184) | | | (198) |
| Share-based compensation expense | | | | 784 | | | 784 |
| Balance, June 30, 2010 | | \$ 12,773,855 | \$ 31,935 | \$ 197,305 | \$ 105,115 | \$ 248 | \$ 334,603 |
| Balance, December 31, 2010 | | \$ 12,793,823 | \$ 31,985 | \$ 198,647 | \$ 103,117 | \$ (3,792) | \$ 329,957 |
| Comprehensive income: | | | | | | | |
| Net income | | | | | 7,434 | | 7,434 |
| Change in net unrealized gain on securities available for sale, net of tax | | | | | | 2,557 | 2,557 |
| Change in unrealized losses on derivative financial instruments qualifying as cash flow hedges, net of tax | | | | | | (68) | (68) |
| Total comprehensive income | | | | | | | 9,923 |
| Cash dividends declared at \$.34 per share | | | | | (4,752) | | (4,752) |
| Employee stock purchases | | 5,540 | 14 | 161 | | | 175 |
| Stock options exercised | | 11,550 | 29 | 184 | | | 213 |
| Restricted stock awards | | 52,680 | 132 | (132) | | | |
| Common stock repurchased | | (4,939) | (13) | (146) | | | (159) |
| Share-based compensation expense | | | | 909 | | | 909 |
| Common stock issued in private placement offering | | 1,129,032 | 2,822 | 32,017 | | | 34,839 |
| Balance, June 30, 2011 | | \$ 13,987,686 | \$ 34,969 | \$ 231,640 | \$ 105,799 | \$ (1,303) | \$ 371,105 |

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The Accompanying Notes are an Integral Part of the Financial Statements.

Table of Contents**SCBT Financial Corporation and Subsidiary****Condensed Consolidated Statements of Cash Flows (unaudited)***(Dollars in thousands)*

| | Six Months Ended June 30, | |
|---|--------------------------------------|-------------|
| | 2011 | 2010 |
| Cash flows from operating activities: | | |
| Net income | \$ 7,434 | \$ 49,536 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 5,093 | 4,316 |
| Provision for loan losses | 14,856 | 33,287 |
| Deferred income taxes | (105) | (3,884) |
| Other-than-temporary impairment on securities | | 6,261 |
| Gain on sale of securities | (333) | |
| Gain on acquisition | (5,528) | (98,081) |
| Share-based compensation expense | 909 | 784 |
| Loss on disposal of premises and equipment | 48 | 36 |
| Federal Home Loan Bank advances prepayment fee | | 3,189 |
| Accretion on FDIC indemnification asset | 3,534 | (918) |
| Accretion on loans covered under FDIC loss share agreements | (6,526) | 2,337 |
| Net amortization of investment securities | 689 | 358 |
| Net change in: | | |
| Loans held for sale | 24,747 | (5,161) |
| Accrued interest receivable | 1,377 | 2,379 |
| Prepaid assets | 2,559 | 1,835 |
| FDIC loss share receivable | (3,213) | |
| Accrued interest payable | (2,682) | (3,931) |
| Accrued income taxes | 1,381 | 24,929 |
| Miscellaneous assets and liabilities | 6,332 | (136) |
| Net cash provided by operating activities | 50,572 | 17,136 |
| Cash flows from investing activities: | | |
| Proceeds from sales of investment securities available for sale | 52,282 | |
| Proceeds from maturities and calls of investment securities held to maturity | 840 | 1,445 |
| Proceeds from maturities and calls of investment securities available for sale | 40,670 | 49,083 |
| Proceeds from sales of other investment securities | 3,396 | 49 |
| Purchases of investment securities available for sale | (43,568) | (24,685) |
| Purchases of other investment securities | (630) | |
| Net increase in customer loans | (22,379) | (5,234) |
| Net cash received from acquisition | 91,281 | 306,298 |
| Purchases of premises and equipment | (7,889) | (4,497) |
| Proceeds from sale of premises and equipment | 2 | |
| Net cash provided by investing activities | 114,005 | 322,459 |
| Cash flows from financing activities: | | |
| Net decrease in deposits | (138,970) | (101,277) |
| Net increase (decrease) in federal funds purchased and securities sold under agreements to repurchase and other short-term borrowings | (5,618) | 13,992 |
| Repayment of FHLB advances | (38,338) | (166,027) |
| Common stock issuance | 35,014 | 142 |
| Common stock repurchased | (159) | (198) |
| Dividends paid on common stock | (4,751) | (4,336) |
| Stock options exercised | 213 | 226 |

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| | | |
|--|------------|------------|
| Net cash used in financing activities | (152,609) | (257,478) |
| Net increase in cash and cash equivalents | 11,968 | 82,117 |
| Cash and cash equivalents at beginning of period | 237,099 | 104,908 |
| Cash and cash equivalents at end of period | \$ 249,067 | \$ 187,025 |

Supplemental Disclosures:

Cash paid for:

| | | |
|--------------|-----------|-----------|
| Interest | \$ 13,445 | \$ 16,277 |
| Income taxes | \$ 2,540 | \$ 6,324 |

Noncash investing activities:

| | | |
|---|-----------|-----------|
| Transfers of loans to foreclosed properties (covered of \$16,002 and \$11,587, respectively; and non-covered of \$8,696 and \$11,684, respectively) | \$ 24,698 | \$ 23,271 |
|---|-----------|-----------|

The Accompanying Notes are an Integral Part of the Financial Statements.

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SCBT Financial Corporation and Subsidiary

Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1 Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain prior period information has been reclassified to conform to the current period presentation, and these reclassifications had no impact on net income or equity as previously reported. Operating results for the six months ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

The condensed consolidated balance sheet at December 31, 2010, has been derived from the audited financial statements at that date, but does not include all of the information and disclosures required by accounting principles generally accepted in the United States for complete financial statements.

Note 2 Summary of Significant Accounting Policies

The information contained in the consolidated financial statements and accompanying notes included in SCBT Financial Corporation's (the Company or SCBT) Annual Report on Form 10-K for the year ended December 31, 2010, as filed with the Securities and Exchange Commission (the SEC) on March 16, 2011, should be referenced when reading these unaudited condensed consolidated financial statements.

Business Combinations, Method of Accounting for Loans Acquired, and FDIC Indemnification Asset

The Company accounts for its acquisitions under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 805, *Business Combinations*, which requires the use of the acquisition method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. No allowance for loan losses related to the acquired loans is recorded on the acquisition date because the fair value of the loans acquired incorporates assumptions regarding credit risk. Loans acquired are recorded at fair value in accordance with the fair value methodology prescribed in FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, exclusive of the loss share agreements with the Federal Deposit Insurance Corporation (the FDIC). The fair value estimates associated with the loans include estimates related to expected prepayments and the amount and timing of undiscounted expected principal, interest and other cash flows.

Acquired credit-impaired loans are accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality, found in FASB ASC Topic 310-30, *Receivables - Loans and Debt Securities Acquired with Deteriorated Credit Quality*, formerly American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 03-3, *Accounting for Certain Loans or Debt Securities*

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Acquired in a Transfer, and initially measured at fair value, which includes estimated future credit losses expected to be incurred over the life of the loans. Loans acquired in business combinations with evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected are considered to be credit impaired. Evidence of credit quality deterioration as of purchase dates may include information such as past-due and nonaccrual status, borrower credit scores and recent loan to value percentages. The Company considers expected prepayments and estimates the amount and timing of undiscounted expected principal, interest and other cash flows for each loan or pool of loans meeting the criteria above, and determines the excess of the loan's scheduled contractual principal and contractual interest payments over all cash flows expected at acquisition as an amount that should not be accreted (nonaccretable difference). The remaining amount, representing the excess of the loan's or pool's cash flows expected to be collected over the amount deemed paid for the loan or pool of loans, is accreted into interest income over the remaining life of the loan or pool (accretable yield). The Company records a discount on these loans at acquisition to record them at their realizable cash flows. In accordance with FASB ASC Topic 310-30, the Company aggregated loans that have common risk characteristics into pools within the following loan categories: commercial loans greater than or equal to \$1 million, commercial real estate, commercial real estate construction and development, residential real estate, residential real estate junior lien, home equity, consumer, commercial and industrial, and single pay.

Loans acquired through business combinations that do not meet the specific criteria of FASB ASC Topic 310-30, but for which a discount is attributable at least in part to credit quality, are also accounted for under this guidance. As a result, related discounts are recognized subsequently through accretion based on the expected cash flow of the acquired loans.

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Note 2 Summary of Significant Accounting Policies (continued)

Pursuant to an AICPA letter dated December 18, 2009, the AICPA summarized the view of the SEC regarding the accounting in subsequent periods for discount accretion associated with loan receivables acquired in a business combination or asset purchase. Regarding the accounting for such loan receivables, that in the absence of further standard setting, the AICPA understands that the SEC would not object to an accounting policy based on contractual cash flows (FASB ASC Topic 310-20 approach) or an accounting policy based on expected cash flows (FASB ASC Topic 310-30 approach). Management believes the approach using expected cash flows is a more appropriate option to follow in accounting for the fair value discount.

Subsequent to the acquisition date, increases in cash flows expected to be received in excess of the Company's initial investment in the loans should be accreted into interest income on a level-yield basis over the life of the loan. Decreases in cash flows expected to be collected should be recognized as impairment through the provision for loan losses. The FDIC indemnification asset will be adjusted in a similar, consistent manner with increases and decreases in expected cash flows, through the income statement in non-interest income.

The FDIC indemnification asset is measured separately from the related covered asset as it is not contractually embedded in the assets and is not transferable with the assets should the Company choose to dispose of them. Fair value was estimated using projected cash flows related to the loss sharing agreements based on the expected reimbursements for losses and the applicable loss sharing percentages. These expected reimbursements do not include reimbursable amounts related to future covered expenditures. These cash flows were discounted to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC.

The Company incurs expenses related to the assets indemnified by the FDIC and, pursuant to the loss share agreement, certain costs are reimbursable by the FDIC and are included in monthly and quarterly claims made by the Company. The estimates of reimbursements are netted against these covered expenses in the statements of income.

Note 3 Recent Accounting and Regulatory Pronouncements

The enactment of the *Dodd-Frank Wall Street Reform and Consumer Protection Act* (the *Dodd-Frank Act*) will result in expansive changes in many areas affecting the financial services industry in general and the Company in particular. The legislation provides broad economic oversight, consumer financial services protection, investor protection, rating agency reform and derivative regulatory reform. Various corporate governance requirements will result in expanded proxy disclosures and shareholder rights. Additional provisions address the mortgage industry in an effort to strengthen lending practices. Deposit insurance reform will result in permanent FDIC protection for up to \$250,000 of deposits and will require the FDIC's Deposit Insurance Fund to maintain 1.35 percent of insured deposits with the burden for closing any shortfall falling to banks with more than \$10.0 billion in assets. Provisions within the Dodd-Frank Act will prohibit institutions that had more than \$15 billion in assets on December 31, 2009 from including trust preferred securities (TRUPs) as Tier 1 capital beginning in 2013. One third will be phased out over the next two years ending in 2015. Financial institutions with less than \$15 billion in total assets, such as the Company, may continue to count their pre-May 19, 2010, TRUPs as Tier 1 capital, but may not issue new capital TRUPs. The Dodd-Frank Act also requires new limits on interchange transaction fees that banks receive from merchants via card networks like Visa, Inc. and MasterCard, Inc. when a customer uses a debit card. In June 2011, the Federal Reserve approved a final debit card interchange rule in accordance with the Dodd-Frank Act. The final rule caps an issuer's base fee at 21 cents per transaction and allows an additional 5 basis point charge per transaction to help cover fraud losses. Although the rule technically does not apply to institutions with less than \$10 billion in assets, such as the Bank, the price controls may affect institutions with less than \$10 billion in assets, such as the Bank, which could be pressured by the marketplace to lower their own interchange rates. We believe that regulations promulgated under the Dodd-Frank Act also will ultimately impose significant new compliance costs

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associated with the new regulations. We will continue to monitor the regulations as they are implemented and will review our policies, products and procedures to insure full compliance but also attempt to minimize any negative impact on our operations. On July 21, 2011, the Federal Reserve's Final Rule repealing Regulation Q, which prohibited Federal Reserve banks from paying interest on demand deposits, became effective. As a result of this repeal, our Bank may incur increased interest costs for funding in the form of interest payments on demand deposit accounts.

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Note 3 Recent Accounting and Regulatory Pronouncements (continued)

Effective December 31, 2010, SCBT adopted certain of the key provisions of Accounting Standards Update (ASU) No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, (ASU 2010-20). ASU 2010-20 amends ASC 310 by requiring more robust and disaggregated disclosures about the credit quality of an entity's financing receivables and its allowance for credit losses. The objective of enhancing these disclosures is to improve financial statement users' understanding of (1) the nature of an entity's credit risk associated with its financing receivables and (2) the entity's assessment of that risk in estimating its allowance for credit losses as well as changes in the allowance and reasons for those changes. The new and amended disclosures in the ASU were effective December 31, 2010, and are included in Note 6 Loans and Allowance for Loan Losses. The disclosure for the activity in the allowance for credit losses for each period became effective for the first quarter of 2011. In January 2011, the FASB issued ASU No. 2011-01, *Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20*. The amendments in ASU 2011-01 temporarily delayed the effective date of the disclosures about troubled debt restructurings in ASU 2010-20 for public entities. In April 2011, the FASB issued ASU 2011-02, *Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. The update provides additional guidance to assist creditors in determining whether a restructuring of a receivable meets the criteria to be considered a TDR, both for purposes of recording impairment and disclosing TDRs. A restructuring of a credit arrangement constitutes a TDR if the restructuring constitutes a concession, and the debtor is experiencing financial difficulties. The

clarifications for classification apply to all restructurings occurring on or after January 1, 2011. The measurement of impairment for those newly identified TDRs will be applied prospectively beginning in the third quarter of 2011. The related disclosures which were previously deferred will be required for the interim reporting period ending September 30, 2011. The impact of adoption for SCBT is the inclusion of additional disclosures in SCBT's consolidated financial statements.

Note 4 Mergers and Acquisitions

Generally, acquisitions are accounted for under the acquisition method of accounting in accordance with FASB ASC 805, *Business Combinations*. Both the purchased assets and liabilities assumed are recorded at their respective acquisition date fair values. Determining the fair value of assets and liabilities, especially the loan portfolio and foreclosed real estate, is a complicated process involving significant judgment regarding methods and assumptions used to calculate estimated fair values. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition as additional information regarding the closing date fair values becomes available.

Habersham Bank Acquisition

On February 18, 2011, the Company's wholly-owned subsidiary, SCBT, N.A. (the Bank), entered into a purchase and assumption (P&A) agreement with loss share arrangements with the FDIC to purchase certain assets and assume substantially all of the deposits and certain liabilities of Habersham, a full service Georgia state-chartered community bank headquartered in Clarkesville, Georgia. Habersham operated eight branches in the northeast region of Georgia.

Pursuant to the P&A agreement, the Bank received a discount of \$38.3 million on the assets acquired and did not pay the FDIC a premium to assume all customer deposits. Most of the loans and foreclosed real estate purchased are covered by a loss share agreement between the FDIC and the Bank. Under this loss share agreement, the FDIC has agreed to cover 80% of loan and foreclosed real estate losses. Gains and recoveries on covered assets will offset losses, or be paid to the FDIC, at the applicable loss share percentage at the time of recovery. The loss sharing agreement applicable to single family residential mortgage loans provides for FDIC loss sharing and Bank reimbursement to the FDIC for ten

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years. The loss share agreement applicable to commercial loans provides for FDIC loss sharing for five years and Bank reimbursement to the FDIC for eight years. As of the date of acquisition, we calculated the amount of such reimbursements that we expect to receive from the FDIC using the present value of anticipated cash flows from the covered assets based on the credit adjustments estimated for each pool of loans and the estimated losses on foreclosed assets. In accordance with FASB ASC Topic 805, the FDIC indemnification asset was initially recorded at its fair value, and is measured separately from the loan assets and foreclosed assets because the loss sharing agreements are not contractually embedded in them or transferable with them in the event of disposal. The balance of the FDIC indemnification asset increases and decreases as the expected and actual cash flows from the covered assets fluctuate, as loans are paid off or impaired and as loans and foreclosed assets are sold. There are no contractual interest rates on this contractual receivable from the FDIC; however, a discount was recorded against the initial balance of the FDIC indemnification asset in conjunction with the fair value measurement as this receivable will be collected over the term of the loss sharing agreement. This discount will be accreted to non-interest income over future periods.

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Note 4 Mergers and Acquisitions (continued)

The Bank did not immediately acquire the real estate, banking facilities, furniture or equipment of Habersham as a part of the P&A agreement. However, the Bank had the option to purchase the real estate and furniture and equipment from the FDIC. The term of this option expired on May 19, 2011. On May 19, 2011, the Bank notified the FDIC that it planned to acquire four bank facilities with an appraised value of approximately \$6.7 million. In addition, the Bank notified the FDIC that it plans to purchase approximately \$362,000 of furniture or equipment related to five locations being retained by the Bank. The Bank will settle this purchase along with other settlement items identified no later than February 17, 2012, and currently has a payable of \$4.3 million as of June 30, 2011. These five banking facilities include both leased and owned locations. In June of 2011, the Bank closed 3 bank branches and converted the operating system of the acquired Georgia franchise.

As of June 30, 2011, there have been no adjustments or changes to the initial fair values related to the Habersham acquisition. The purchase accounting adjustments and the loss sharing arrangement with the FDIC significantly impact the effects of the acquired entity on the ongoing operations of the Company. Disclosure of pro forma financial information is also made more difficult by the troubled nature of Habersham prior to the date of the combination.

As of June 30, 2011, noninterest income included a pre-tax gain of \$5.5 million which resulted from the acquisition of Habersham. The amount of the gain was equal to the amount by which the fair value of assets acquired exceeded the fair value of liabilities assumed, and resulted from the discount bid on the assets acquired and the impact of the FDIC loss share agreement, both of which are attributable to the troubled nature of Habersham prior to the acquisition. The Company recognized \$598,000 and \$1.2 million in merger-related expense during the three months and six months ended June 30, 2011.

Table of Contents**Note 4 Mergers and Acquisitions (continued)**

The following table presents the assets acquired and liabilities assumed as of February 18, 2011, as recorded by Habersham on the acquisition date and as adjusted for purchase accounting adjustments.

| (Dollars in thousands) | As Recorded by Habersham | Balances Kept by FDIC | Balances Acquired from FDIC | Fair Value Adjustments | As Recorded by SCBT |
|---|-----------------------------|-----------------------------|-----------------------------------|---------------------------|------------------------|
| Assets | | | | | |
| Cash and cash equivalents | \$ 31,924 | \$ (4) | \$ 31,920 | \$ | \$ 31,920 |
| Investment securities | 65,018 | (3,582) | 61,436 | (566)(a) | 60,870 |
| Loans | 212,828 | 9,039 | 221,867 | (94,414)(b) | 127,453 |
| Premises and equipment | 16,915 | (16,915) | | | |
| Intangible assets | | | | 3,262(c) | 3,262 |
| FDIC receivable for loss sharing agreement | | | | 87,418(d) | 87,418 |
| Other real estate owned and repossessed assets | 42,024 | (616) | 41,408 | (26,915)(e) | 14,493 |
| Other assets | 14,446 | (11,227) | 3,219 | | 3,219 |
| Total assets | \$ 383,155 | \$ (23,305) | \$ 359,850 | \$ (31,215) | \$ 328,635 |
| Liabilities | | | | | |
| Deposits: | | | | | |
| Noninterest-bearing | \$ 76,205 | \$ (5) | \$ 76,200 | \$ | \$ 76,200 |
| Interest-bearing | 263,246 | | 263,246 | 1,203(f) | 264,449 |
| Total deposits | 339,451 | (5) | 339,446 | 1,203 | 340,649 |
| Other borrowings | 39,433 | (6) | 39,427 | 344(g) | 39,771 |
| Other liabilities | 2,819 | (1,710) | 1,109 | | 1,109 |
| Total liabilities | 381,703 | (1,721) | 379,982 | 1,547 | 381,529 |
| Net assets acquired over liabilities assumed | \$ 1,452 | \$ (21,584) | \$ (20,132) | \$ (32,762) | \$ (52,894) |
| Excess of assets acquired over liabilities assumed | \$ 1,452 | \$ (21,584) | \$ (20,132) | | |
| Aggregate fair value adjustments | | | | \$ (32,762) | |
| Cash received from the FDIC | | | | | \$ 59,360 |
| Cash due to FDIC | | | | | (938) |
| Total | | | | | 58,422 |
| Gain on acquisition (noninterest income) | | | | | \$ 5,528 |

Explanation of fair value adjustments

Adjustment reflects:

- (a) Adjustment reflects marking the available-for-sale portfolio to fair value as of the acquisition date.
- (b) Adjustment reflects the fair value adjustments based on the Company's evaluation of the acquired loan portfolio.
- (c) Adjustment reflects the recording of the core deposit intangible on the acquired deposit accounts.

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- (d) Adjustment reflects the estimated fair value of payments the Company will receive from the FDIC under the loss share agreements.
- (e) Adjustment reflects the fair value adjustments to OREO based on the Company's evaluation of the acquired OREO portfolio.
- (f) Adjustment arises since the rates on interest-bearing deposits are higher than rates available on similar deposits as of the acquisition date.
- (g) Adjustment reflects the prepayment fee paid when Federal Home Loan Bank (FHLB) advances were completely paid off in February 2011.

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Note 4 Mergers and Acquisitions (continued)

Community Bank and Trust Acquisition

On January 29, 2010, the Bank entered into a P&A agreement, including loss share arrangements, with the FDIC to purchase certain assets and assume substantially all of the deposits and certain liabilities of CBT, a full service Georgia state-chartered community bank headquartered in Cornelia, Georgia. CBT operated 38 locations, including 36 branches, one loan production office and one trust office in the northeast region of Georgia.

Pursuant to the P&A agreement, the Bank received a discount of \$158.0 million on the assets acquired and did not pay the FDIC a premium to assume all customer deposits. The loans and foreclosed real estate purchased are covered by a loss share agreement between the FDIC and the Bank. Under this loss share agreement, the FDIC has agreed to cover 80% of loan and foreclosed real estate losses up to \$233.0 million and 95% of losses that exceed that amount. Gains and recoveries on covered assets will offset losses, or be paid to the FDIC, at the applicable loss share percentage at the time of recovery. The loss sharing agreement applicable to single family residential mortgage loans provides for FDIC loss sharing and Bank reimbursement to the FDIC for ten years. The loss share agreement applicable to commercial loans provides for FDIC loss sharing for five years and Bank reimbursement to the FDIC for eight years. The loss share agreement applicable to single family loans provides for FDIC loss sharing for ten years and Bank reimbursement to the FDIC for ten years. As of the date of acquisition, we calculated the amount of such reimbursements that we expect to receive from the FDIC using the present value of anticipated cash flows from the covered assets based on the credit adjustments estimated for each pool of loans and the estimated losses on foreclosed assets. In accordance with FASB ASC Topic 805, the FDIC indemnification asset was initially recorded at its fair value, and is measured separately from the loan assets and foreclosed assets because the loss sharing agreements are not contractually embedded in them or transferable with them in the event of disposal. The balance of the FDIC indemnification asset increases and decreases as the expected and actual cash flows from the covered assets fluctuate, as loans are paid off or impaired and as loans and foreclosed assets are sold. There are no contractual interest rates on this contractual receivable from the FDIC; however, a discount was recorded against the initial balance of the FDIC indemnification asset in conjunction with the fair value measurement as this receivable will be collected over the term of the loss sharing agreements. This discount will be accreted to non-interest income over future periods.

The Bank did not immediately acquire the real estate, banking facilities, furniture or equipment of CBT as a part of the P&A agreement. However, on October 27, 2010, the Bank acquired seven bank facilities with an appraised value of approximately \$10.9 million. In addition, the Bank purchased approximately \$700,000 of furniture or equipment related to 27 locations retained by the Bank. In late May and early June of 2010, the Bank closed 10 bank branches, 1 trust office, and converted the operating system of the acquired Georgia franchise.

There were no adjustments or changes to the initial fair values related to the CBT acquisition within the one year time frame from the date of acquisition. The purchase accounting adjustments and the loss sharing arrangement with the FDIC will significantly impact the effects of the acquired entity on the ongoing operations of the Company.

For the year ended December 31, 2010, noninterest income included a pre-tax gain of \$98.1 million as a result of the acquisition of CBT. The amount of the gain was equal to the amount by which the fair value of assets acquired exceeded the fair value of liabilities assumed, and resulted from the discount bid on the assets acquired and the impact of the FDIC loss share agreement, both of which are attributable to the troubled nature of CBT prior to the acquisition. The Company recognized \$5.5 million in merger-related expense during the twelve months ended December 31, 2010.

Table of Contents**Note 4 Mergers and Acquisitions (continued)**

The following table presents the assets acquired and liabilities assumed as of January 29, 2010, as recorded by CBT on the acquisition date and as adjusted for purchase accounting adjustments.

| (Dollars in thousands) | As Recorded by CBT | Balances Kept by FDIC | Balances Acquired from FDIC | Fair Value Adjustments | As Recorded by SCBT |
|---|-----------------------|-----------------------------|-----------------------------------|---------------------------|------------------------|
| Assets | | | | | |
| Cash and cash equivalents | \$ 80,615 | \$ (12) | \$ 80,603 | \$ | \$ 80,603 |
| Investment securities | 116,270 | (10,046) | 106,224 | (613)(a) | 105,611 |
| Loans | 828,223 | (56,725) | 771,498 | (312,033)(b) | 459,465 |
| Premises and equipment | 24,063 | (24,015) | 48 | | 48 |
| Intangible assets | | | | 8,535(c) | 8,535 |
| FDIC receivable for loss sharing agreement | | | | 276,789(d) | 276,789 |
| Other real estate owned and repossessed assets | 46,271 | 4,852 | 51,123 | (25,194)(e) | 25,929 |
| Other assets | 26,414 | (18,541) | 7,873 | | 7,873 |
| Total assets | \$ 1,121,856 | \$ (104,487) | \$ 1,017,369 | \$ (52,516) | \$ 964,853 |
| Liabilities | | | | | |
| Deposits: | | | | | |
| Noninterest-bearing | \$ 107,617 | \$ (11,602) | \$ 96,015 | \$ | \$ 96,015 |
| Interest-bearing | 907,288 | 311 | 907,599 | 4,892(f) | 912,491 |
| Total deposits | 1,014,905 | (11,291) | 1,003,614 | 4,892 | 1,008,506 |
| Other borrowings | 80,250 | | 80,250 | 2,316(g) | 82,566 |
| Other liabilities | 10,748 | (3,614) | 7,134 | 194(h) | 7,328 |
| Total liabilities | 1,105,903 | (14,905) | 1,090,998 | 7,402 | 1,098,400 |
| Net assets acquired over liabilities assumed | \$ 15,953 | \$ (89,582) | \$ (73,629) | \$ (59,918) | \$ (133,547) |
| Excess of assets acquired over liabilities assumed | \$ 15,953 | \$ (89,582) | \$ (73,629) | | |
| Aggregate fair value adjustments | | | | \$ (59,918) | |
| Cash received from the FDIC | | | | | \$ 225,695 |
| Cash due from FDIC | | | | | 5,933 |
| Total | | | | | 231,628 |
| Gain on acquisition (noninterest income) | | | | | \$ 98,081 |

Explanation of fair value adjustments

Adjustment reflects:

- (a) Adjustment reflects marking the available-for-sale portfolio to fair value as of the acquisition date.
- (b) Adjustment reflects the fair value adjustments based on the Company's evaluation of the acquired loan portfolio.

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- (c) Adjustment reflects the recording of the core deposit intangible on the acquired deposit accounts.
- (d) Adjustment reflects the estimated fair value of payments the Company will receive from the FDIC under the loss share agreements.
- (e) Adjustment reflects the fair value adjustments to OREO based on the Company's evaluation of the acquired OREO portfolio.
- (f) Adjustment arises since the rates on interest-bearing deposits are higher than rates available on similar deposits as of the acquisition date.
- (g) Adjustment reflects the prepayment penalty paid when FHLB advances were completely paid off in early February 2010.
- (h) Adjustment reflects the fair value of leases assumed.

Table of Contents**Note 5 Investment Securities**

The following is the amortized cost and fair value of investment securities held to maturity:

| (Dollars in thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---------------------------------|-------------------|------------------------------|-------------------------------|---------------|
| June 30, 2011: | | | | |
| State and municipal obligations | \$ 19,100 | \$ 734 | \$ | \$ 19,834 |
| December 31, 2010: | | | | |
| State and municipal obligations | \$ 19,941 | \$ 227 | \$ (18) | \$ 20,150 |
| June 30, 2010: | | | | |
| State and municipal obligations | \$ 20,092 | \$ 506 | \$ (14) | \$ 20,584 |

The following is the amortized cost and fair value of investment securities available for sale:

| (Dollars in thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|-------------------|------------------------------|-------------------------------|---------------|
| June 30, 2011: | | | | |
| Government-sponsored enterprises debt * | \$ 57,729 | \$ 1,085 | \$ | \$ 58,814 |
| State and municipal obligations | 38,893 | 1,621 | (137) | 40,377 |
| Mortgage-backed securities ** | 106,968 | 3,427 | (19) | 110,376 |
| Corporate stocks | 255 | 139 | (5) | 389 |
| | \$ 203,845 | \$ 6,272 | \$ (161) | \$ 209,956 |
| December 31, 2010: | | | | |
| Government-sponsored enterprises debt * | \$ 69,854 | \$ 844 | \$ (164) | \$ 70,534 |
| State and municipal obligations | 39,749 | 680 | (425) | 40,004 |
| Mortgage-backed securities ** | 83,045 | 1,752 | (357) | 84,440 |
| Trust preferred (collateralized debt obligations) | 2,324 | | (290) | 2,034 |
| Corporate stocks | 256 | 106 | | 362 |
| | \$ 195,228 | \$ 3,382 | \$ (1,236) | \$ 197,374 |
| June 30, 2010: | | | | |
| Government-sponsored enterprises debt * | \$ 111,383 | \$ 1,909 | \$ (2) | \$ 113,290 |
| State and municipal obligations | 40,495 | 1,330 | (373) | 41,452 |
| Mortgage-backed securities ** | 85,789 | 4,998 | | 90,787 |
| Trust preferred (collateralized debt obligations) | 5,883 | | (123) | 5,760 |
| Corporate stocks | 285 | 89 | (19) | 355 |
| | \$ 243,835 | \$ 8,326 | \$ (517) | \$ 251,644 |

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* - Government-sponsored enterprises holdings are comprised of debt securities offered by Federal Home Loan Mortgage Corporation (FHLMC) or Freddie Mac, Federal National Mortgage Association (FNMA) or Fannie Mae, FHLB, and Federal Farm Credit Banks (FFCB).

** - All of the mortgage-backed securities are issued by government-sponsored enterprises; there are no private-label holdings.

Table of Contents**Note 5 Investment Securities (continued)**

The following is the amortized cost and fair value of other investment securities:

| (Dollars in thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|-------------------|------------------------------|-------------------------------|---------------|
| June 30, 2011: | | | | |
| Federal Reserve Bank stock | \$ 6,617 | \$ | \$ | \$ 6,617 |
| Federal Home Loan Bank stock | 12,478 | | | 12,478 |
| Investment in unconsolidated subsidiaries | 1,332 | | | 1,332 |
| | \$ 20,427 | \$ | \$ | \$ 20,427 |
| December 31, 2010: | | | | |
| Federal Reserve Bank stock | \$ 5,987 | \$ | \$ | \$ 5,987 |
| Federal Home Loan Bank stock | 13,278 | | | 13,278 |
| Investment in unconsolidated subsidiaries | 1,332 | | | 1,332 |
| | \$ 20,597 | \$ | \$ | \$ 20,597 |
| June 30, 2010: | | | | |
| Federal Reserve Bank stock | \$ 5,987 | \$ | \$ | \$ 5,987 |
| Federal Home Loan Bank stock | 14,862 | | | 14,862 |
| Investment in unconsolidated subsidiaries | 1,332 | | | 1,332 |
| | \$ 22,181 | \$ | \$ | \$ 22,181 |

The Company has determined that the investment in Federal Reserve Bank stock and FHLB stock is not other than temporarily impaired as of June 30, 2011 and ultimate recoverability of the par value of these investments is probable. See Other Investments under Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations.

The amortized cost and fair value of debt securities at June 30, 2011 by contractual maturity are detailed below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.

| (Dollars in thousands) | Securities Held to Maturity | | Securities Available for Sale | |
|--|--------------------------------|---------------|----------------------------------|---------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Due in one year or less | \$ | \$ | \$ 5 | \$ 5 |
| Due after one year through five years | 662 | 671 | 6,438 | 6,513 |
| Due after five years through ten years | 5,778 | 6,003 | 52,925 | 54,007 |
| Due after ten years | 12,660 | 13,160 | 144,477 | 149,431 |
| | \$ 19,100 | \$ 19,834 | \$ 203,845 | \$ 209,956 |

Table of Contents**Note 5 Investment Securities (continued)**

Information pertaining to the Company's securities available for sale with gross unrealized losses at June 30, 2011, December 31, 2010 and June 30, 2010, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position is as follows:

| (Dollars in thousands) | Less Than Twelve Months | | Twelve Months or More | |
|---|-------------------------------|---------------|-------------------------------|---------------|
| | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value |
| June 30, 2011: | | | | |
| Securities Held to Maturity | | | | |
| State and municipal obligations | \$ | \$ | \$ | \$ |
| Securities Available for Sale | | | | |
| State and municipal obligations | \$ 55 | \$ 3,927 | \$ 82 | \$ 913 |
| Mortgage-backed securities | 19 | 7,910 | | |
| Corporate stocks | 5 | 20 | | |
| | \$ 79 | \$ 11,857 | \$ 82 | \$ 913 |
| December 31, 2010: | | | | |
| Securities Held to Maturity | | | | |
| State and municipal obligations | \$ 18 | \$ 3,050 | \$ | \$ |
| Securities Available for Sale | | | | |
| Government-sponsored enterprises debt | \$ 164 | \$ 26,138 | \$ | \$ |
| State and municipal obligations | 229 | 12,402 | 196 | 1,350 |
| Mortgage-backed securities | 357 | 31,547 | | |
| Trust preferred (collateralized debt obligations) | | | 290 | 2,034 |
| | \$ 750 | \$ 70,087 | \$ 486 | \$ 3,384 |
| June 30, 2010: | | | | |
| Securities Held to Maturity | | | | |
| State and municipal obligations | \$ | \$ | \$ 14 | \$ 808 |
| Securities Available for Sale | | | | |
| Government-sponsored enterprises debt | \$ 2 | \$ 2,574 | \$ | \$ |
| State and municipal obligations | 55 | 2,563 | 319 | 4,322 |
| Trust preferred (collateralized debt obligations) | | | 122 | 2,450 |
| Corporate stocks | 19 | 150 | | |
| | \$ 76 | \$ 5,287 | \$ 441 | \$ 6,772 |

Table of Contents**Note 6 Loans and Allowance for Loan Losses**

The following is a summary of non-acquired loans:

| (Dollars in thousands) | June 30, 2011 | December 31, 2010 | June 30, 2010 |
|---|------------------|----------------------|------------------|
| Non-acquired loans: | | | |
| Commercial non-owner occupied real estate: | | | |
| Construction and land development | \$ 338,288 | 391,987 | \$ 422,866 |
| Commercial non-owner occupied | 306,698 | 320,203 | 308,980 |
| Total commercial non-owner occupied real estate | 644,986 | 712,190 | 731,846 |
| Consumer real estate: | | | |
| Consumer owner occupied | 367,910 | 325,470 | 307,398 |
| Home equity loans | 263,667 | 263,961 | 251,951 |
| Total consumer real estate | 631,577 | 589,431 | 559,349 |
| Commercial owner occupied real estate | 669,223 | 578,587 | 502,795 |
| Commercial and industrial | 215,901 | 202,987 | 212,863 |
| Other income producing property | 133,152 | 124,431 | 126,004 |
| Consumer | 80,072 | 67,768 | 63,133 |
| Other loans | 30,702 | 20,806 | 31,452 |
| Total non-acquired loans | 2,405,613 | 2,296,200 | 2,227,442 |
| Less, allowance for loan losses | (48,180) | (47,512) | (46,167) |
| Non-acquired loans, net | \$ 2,357,433 | \$ 2,248,688 | \$ 2,181,275 |

In accordance with FASB ASC Topic 310-30, the Company aggregated acquired loans that have common risk characteristics into pools within the following loan categories: commercial loans greater than or equal to \$1 million, commercial real estate, commercial real estate construction and development, residential real estate, residential real estate junior lien, home equity, consumer, commercial and industrial, and single pay. Substantially all of the acquired loans are covered under FDIC loss share agreements.

Table of Contents**Note 6 Loans and Allowance for Loan Losses (continued)**

The Company's acquired loan portfolio is comprised of the following balances net of related discount:

| (Dollars in thousands) | Loans Impaired at Acquisition | June 30, 2011 Loans Not Impaired at Acquisition | Total |
|---|----------------------------------|--|------------|
| Acquired loans: | | | |
| Commercial loans greater than or equal to \$1 million | \$ 25,740 | \$ 40,994 | \$ 66,734 |
| Commercial real estate | 37,035 | 47,893 | 84,928 |
| Commercial real estate - construction and development | 32,465 | 18,685 | 51,150 |
| Residential real estate | 53,119 | 61,919 | 115,038 |
| Residential real estate - junior lien | 1,265 | 1,314 | 2,579 |
| Home equity | 479 | 930 | 1,409 |
| Consumer | 8,281 | 3,440 | 11,721 |
| Commercial and industrial | 10,764 | 20,808 | 31,572 |
| Single pay | 2,031 | 329 | 2,360 |
| Total acquired loans | \$ 171,179 | \$ 196,312 | \$ 367,491 |
| Less, allowance for loan losses | (13,695) | | (13,695) |
| Acquired loans, net | \$ 157,484 | \$ 196,312 | \$ 353,796 |

| (Dollars in thousands) | Loans Impaired at Acquisition | December 31, 2010 Loans Not Impaired at Acquisition | Total |
|---|----------------------------------|--|------------|
| Acquired loans: | | | |
| Commercial loans greater than or equal to \$1 million | \$ 32,744 | \$ 51,544 | \$ 84,288 |
| Commercial real estate | 21,302 | 45,326 | 66,628 |
| Commercial real estate - construction and development | 15,262 | 17,050 | 32,312 |
| Residential real estate | 45,299 | 42,246 | 87,545 |
| Residential real estate - junior lien | 2,100 | 1,573 | 3,673 |
| Home equity | 496 | 1,023 | 1,519 |
| Consumer | 5,879 | 5,036 | 10,915 |
| Commercial and industrial | 10,821 | 13,921 | 24,742 |
| Single pay | 9,156 | 260 | 9,416 |
| Total acquired loans | \$ 143,059 | \$ 177,979 | \$ 321,038 |

Table of Contents**Note 6 Loans and Allowance for Loan Losses (continued)**

| (Dollars in thousands) | Loans Impaired at Acquisition | June 30, 2010 Loans Not Impaired at Acquisition | Total |
|---|----------------------------------|--|------------|
| Acquired loans: | | | |
| Commercial loans greater than or equal to \$1 million | \$ 48,441 | \$ 55,821 | \$ 104,262 |
| Commercial real estate | 28,913 | 51,869 | 80,782 |
| Commercial real estate construction and development | 29,967 | 19,497 | 49,464 |
| Residential real estate | 62,241 | 48,217 | 110,458 |
| Residential real estate junior lien | 2,172 | 2,167 | 4,339 |
| Home equity | 645 | 1,199 | 1,844 |
| Consumer | 9,501 | 7,795 | 17,296 |
| Commercial and industrial | 12,649 | 16,615 | 29,264 |
| Single pay | 15,069 | 771 | 15,840 |
| Total acquired loans | \$ 209,598 | \$ 203,951 | \$ 413,549 |

Contractual loan payments receivable, estimates of amounts not expected to be collected, other fair value adjustments and the resulting fair values of acquired loans impaired and non-impaired at the acquisition date for Habersham (February 18, 2011) are as follows:

| (Dollars in thousands) | Loans Impaired at Acquisition | February 18, 2011 Loans Not Impaired at Acquisition | Total |
|-------------------------------------|----------------------------------|--|------------|
| Contractual principal and interest | \$ 132,386 | \$ 135,500 | \$ 267,886 |
| Non-accretable difference | (68,996) | (43,322) | (112,318) |
| Cash flows expected to be collected | 63,390 | 92,178 | 155,568 |
| Accretable yield | (8,747) | (19,368) | (28,115) |
| Carrying value | \$ 54,643 | \$ 72,810 | \$ 127,453 |

Table of Contents**Note 6 Loans and Allowance for Loan Losses (continued)**

Contractual loan payments receivable, estimates of amounts not expected to be collected, other fair value adjustments and the resulting fair values of acquired loans impaired and non-impaired as of June 30, 2011, December 31, 2010, and June 30, 2010 - refined are as follows:

| (Dollars in thousands) | Loans Impaired at Acquisition | June 30, 2011 Loans Not Impaired at Acquisition | Total |
|-------------------------------------|----------------------------------|--|------------|
| Contractual principal and interest | \$ 378,806 | \$ 317,924 | \$ 696,730 |
| Non-accretable difference | (173,183) | (63,997) | (237,180) |
| Cash flows expected to be collected | 205,623 | 253,927 | 459,550 |
| Accretable yield | (34,444) | (57,615) | (92,059) |
| Carrying value | \$ 171,179 | \$ 196,312 | \$ 367,491 |

| (Dollars in thousands) | Loans Impaired at Acquisition | December 31, 2010 Loans Not Impaired at Acquisition | Total |
|-------------------------------------|----------------------------------|--|------------|
| Contractual principal and interest | \$ 301,080 | \$ 303,153 | \$ 604,233 |
| Non-accretable difference | (140,723) | (97,788) | (238,511) |
| Cash flows expected to be collected | 160,357 | 205,365 | 365,722 |
| Accretable yield | (17,298) | (27,386) | (44,684) |
| Carrying value | \$ 143,059 | \$ 177,979 | \$ 321,038 |

| (Dollars in thousands) | Loans Impaired at Acquisition | June 30, 2010 Loans Not Impaired at Acquisition | Total |
|-------------------------------------|----------------------------------|--|------------|
| Contractual principal and interest | \$ 421,213 | \$ 322,513 | \$ 743,726 |
| Non-accretable difference | (208,981) | (102,054) | (311,035) |
| Cash flows expected to be collected | 212,232 | 220,459 | 432,691 |
| Accretable yield | (2,634) | (16,508) | (19,142) |
| Carrying value | \$ 209,598 | \$ 203,951 | \$ |