

SCBT FINANCIAL CORP  
Form 10-Q  
November 08, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended September 30, 2011**

**OR**

**o 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                          | Outstanding as of October 31, 2011 |
|--------------------------------|------------------------------------|
| Common Stock, \$2.50 par value | 14,014,513                         |

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**SCBT Financial Corporation and Subsidiary**

**September 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)*

|                                                                                                                                                        | September 30,<br>2011<br>(Unaudited) | December 31,<br>2010<br>(Note 1) | September 30,<br>2010<br>(Unaudited) |
|--------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|----------------------------------|--------------------------------------|
| <b>ASSETS</b>                                                                                                                                          |                                      |                                  |                                      |
| Cash and cash equivalents:                                                                                                                             |                                      |                                  |                                      |
| Cash and due from banks                                                                                                                                | \$ 134,939                           | \$ 83,449                        | \$ 81,462                            |
| Interest-bearing deposits with banks                                                                                                                   | 1,530                                | 416                              | 928                                  |
| Federal funds sold and securities purchased under agreements to resell                                                                                 | 22,300                               | 153,234                          | 90,800                               |
| Total cash and cash equivalents                                                                                                                        | 158,769                              | 237,099                          | 173,190                              |
| Investment securities:                                                                                                                                 |                                      |                                  |                                      |
| Securities held to maturity<br>(fair value of \$19,872, \$20,150 and \$21,058, respectively)                                                           | 18,699                               | 19,941                           | 19,941                               |
| Securities available for sale, at fair value                                                                                                           | 281,926                              | 197,374                          | 227,137                              |
| Other investments                                                                                                                                      | 20,422                               | 20,597                           | 21,116                               |
| Total investment securities                                                                                                                            | 321,047                              | 237,912                          | 268,194                              |
| Loans held for sale                                                                                                                                    | 45,870                               | 42,704                           | 49,586                               |
| Loans:                                                                                                                                                 |                                      |                                  |                                      |
| Acquired                                                                                                                                               | 418,045                              | 321,038                          | 369,272                              |
| Less allowance for acquired loan losses                                                                                                                | (12,123)                             |                                  |                                      |
| Non-acquired                                                                                                                                           | 2,461,613                            | 2,296,200                        | 2,258,353                            |
| Less allowance for non-acquired loan losses                                                                                                            | (49,110)                             | (47,512)                         | (46,657)                             |
| Loans, net                                                                                                                                             | 2,818,425                            | 2,569,726                        | 2,580,968                            |
| FDIC receivable for loss share agreements                                                                                                              | 274,658                              | 212,103                          | 267,486                              |
| Other real estate owned (covered of \$79,740, \$69,317, and \$47,365, respectively; and non-covered of \$22,686, \$17,264, and \$15,657, respectively) | 102,426                              | 86,581                           | 63,022                               |
| Premises and equipment, net                                                                                                                            | 90,020                               | 87,381                           | 86,396                               |
| Goodwill                                                                                                                                               | 62,888                               | 62,888                           | 62,888                               |
| Other assets                                                                                                                                           | 61,415                               | 58,397                           | 61,134                               |
| Total assets                                                                                                                                           | \$ 3,935,518                         | \$ 3,594,791                     | \$ 3,612,864                         |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>                                                                                                             |                                      |                                  |                                      |
| Deposits:                                                                                                                                              |                                      |                                  |                                      |
| Noninterest-bearing                                                                                                                                    | \$ 653,923                           | \$ 484,838                       | \$ 472,753                           |
| Interest-bearing                                                                                                                                       | 2,633,729                            | 2,519,310                        | 2,547,393                            |
| Total deposits                                                                                                                                         | 3,287,652                            | 3,004,148                        | 3,020,146                            |
| Federal funds purchased and securities sold under agreements to repurchase                                                                             | 184,403                              | 191,017                          | 163,905                              |
| Other borrowings                                                                                                                                       | 46,955                               | 46,978                           | 62,183                               |
| Other liabilities                                                                                                                                      | 34,786                               | 22,691                           | 31,435                               |
| Total liabilities                                                                                                                                      | 3,553,796                            | 3,264,834                        | 3,277,669                            |

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## Shareholders' equity:

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;

14,004,372, 12,793,823 and 12,779,463 shares issued and outstanding

|                                               |              |              |              |
|-----------------------------------------------|--------------|--------------|--------------|
|                                               | 35,011       | 31,985       | 31,949       |
| Surplus                                       | 232,314      | 198,647      | 197,885      |
| Retained earnings                             | 113,752      | 103,117      | 104,730      |
| Accumulated other comprehensive income (loss) | 645          | (3,792)      | 631          |
| Total shareholders' equity                    | 381,722      | 329,957      | 335,195      |
| Total liabilities and shareholders' equity    | \$ 3,935,518 | \$ 3,594,791 | \$ 3,612,864 |

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

Table of Contents**SCBT Financial Corporation and Subsidiary****Condensed Consolidated Statements of Income (unaudited)***(Dollars in thousands, except per share data)*

|                                                                            | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |            |
|----------------------------------------------------------------------------|-------------------------------------|-----------|------------------------------------|------------|
|                                                                            | 2011                                | 2010      | 2011                               | 2010       |
| <b>Interest income:</b>                                                    |                                     |           |                                    |            |
| Loans, including fees                                                      | \$ 42,912                           | \$ 36,233 | \$ 120,735                         | \$ 106,400 |
| Investment securities:                                                     |                                     |           |                                    |            |
| Taxable                                                                    | 2,023                               | 2,526     | 5,621                              | 7,780      |
| Tax-exempt                                                                 | 211                                 | 243       | 662                                | 672        |
| Federal funds sold and securities purchased under agreements to resell     | 161                                 | 247       | 875                                | 713        |
| Total interest income                                                      | 45,307                              | 39,249    | 127,893                            | 115,565    |
| <b>Interest expense:</b>                                                   |                                     |           |                                    |            |
| Deposits                                                                   | 3,958                               | 7,374     | 14,335                             | 21,507     |
| Federal funds purchased and securities sold under agreements to repurchase | 118                                 | 226       | 420                                | 490        |
| Other borrowings                                                           | 551                                 | 638       | 1,611                              | 2,766      |
| Total interest expense                                                     | 4,627                               | 8,238     | 16,366                             | 24,763     |
| Net interest income                                                        | 40,680                              | 31,011    | 111,527                            | 90,802     |
| Provision for loan losses                                                  | 8,323                               | 10,328    | 23,179                             | 43,615     |
| Net interest income after provision for loan losses                        | 32,357                              | 20,683    | 88,348                             | 47,187     |
| <b>Noninterest income:</b>                                                 |                                     |           |                                    |            |
| Gains on acquisitions                                                      | 11,001                              |           | 16,529                             | 98,081     |
| Service charges on deposit accounts                                        | 6,050                               | 5,683     | 16,695                             | 15,788     |
| Bankcard services income                                                   | 2,980                               | 2,397     | 8,684                              | 6,617      |
| Mortgage banking income                                                    | 2,341                               | 1,934     | 4,329                              | 4,031      |
| Trust and investment services income                                       | 1,453                               | 1,199     | 4,227                              | 3,170      |
| Securities gains                                                           |                                     |           | 333                                |            |
| Other-than-temporary impairment losses                                     | (100)                               | (479)     | (100)                              | (6,740)    |
| Accretion (amortization) of FDIC indemnification asset                     | (3,515)                             | 530       | (7,049)                            | 1,466      |
| Other                                                                      | 581                                 | 566       | 1,808                              | 2,065      |
| Total noninterest income                                                   | 20,791                              | 11,830    | 45,456                             | 124,478    |
| <b>Noninterest expense:</b>                                                |                                     |           |                                    |            |
| Salaries and employee benefits                                             | 17,345                              | 15,274    | 52,007                             | 44,289     |
| OREO expense and loan related                                              | 4,118                               | 1,861     | 9,428                              | 2,416      |
| Information services expense                                               | 2,851                               | 2,157     | 7,696                              | 6,684      |
| Net occupancy expense                                                      | 2,443                               | 2,046     | 7,365                              | 6,326      |
| Furniture and equipment expense                                            | 2,127                               | 1,963     | 6,266                              | 5,537      |
| Merger-related expense                                                     | 1,587                               | 566       | 2,794                              | 5,438      |
| FDIC assessment and other regulatory charges                               | 859                                 | 1,354     | 3,593                              | 3,904      |
| Advertising and marketing                                                  | 824                                 | 614       | 2,022                              | 2,229      |
| Amortization of intangibles                                                | 517                                 | 432       | 1,468                              | 1,212      |
| Professional fees                                                          | 377                                 | 495       | 1,311                              | 1,668      |
| Federal Home Loan Bank advances prepayment fee                             |                                     |           |                                    | 3,189      |
| Other                                                                      | 4,110                               | 3,170     | 12,480                             | 8,604      |
| Total noninterest expense                                                  | 37,158                              | 29,932    | 106,430                            | 91,496     |
| <b>Earnings:</b>                                                           |                                     |           |                                    |            |
| Income before provision for income taxes                                   | 15,990                              | 2,581     | 27,374                             | 80,169     |
| Provision for income taxes                                                 | 5,658                               | 794       | 9,608                              | 28,846     |

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|                                                    |    |               |    |        |    |               |    |        |
|----------------------------------------------------|----|---------------|----|--------|----|---------------|----|--------|
| <b>Net income</b>                                  | \$ | <b>10,332</b> | \$ | 1,787  | \$ | <b>17,766</b> | \$ | 51,323 |
| <b>Earnings per common share:</b>                  |    |               |    |        |    |               |    |        |
| Basic                                              | \$ | <b>0.75</b>   | \$ | 0.14   | \$ | <b>1.30</b>   | \$ | 4.07   |
| Diluted                                            | \$ | <b>0.74</b>   | \$ | 0.14   | \$ | <b>1.28</b>   | \$ | 4.04   |
| Dividends per common share                         | \$ | <b>0.17</b>   | \$ | 0.17   | \$ | <b>0.51</b>   | \$ | 0.51   |
| <b>Weighted-average common shares outstanding:</b> |    |               |    |        |    |               |    |        |
| Basic                                              |    | <b>13,818</b> |    | 12,620 |    | <b>13,613</b> |    | 12,609 |
| Diluted                                            |    | <b>13,884</b> |    | 12,711 |    | <b>13,689</b> |    | 12,715 |

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)****Nine Months Ended September 30, 2011 and 2010***(Dollars in thousands, except per share data)*

|                                                                                                            | Preferred Stock |               | Common Stock |           | Surplus    | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total      |
|------------------------------------------------------------------------------------------------------------|-----------------|---------------|--------------|-----------|------------|-------------------|-----------------------------------------------|------------|
|                                                                                                            | Shares          | Amount        | Shares       | Amount    |            |                   |                                               |            |
| Balance, December 31, 2009                                                                                 |                 | \$ 12,739,533 |              | \$ 31,849 | \$ 196,437 | \$ 59,915         | \$ (5,382)                                    | \$ 282,819 |
| Comprehensive income:                                                                                      |                 |               |              |           |            |                   |                                               |            |
| Net income                                                                                                 |                 |               |              |           |            | 51,323            |                                               | 51,323     |
| Change in net unrealized gain on securities available for sale, net of tax                                 |                 |               |              |           |            |                   | 6,742                                         | 6,742      |
| Change in unrealized losses on derivative financial instruments qualifying as cash flow hedges, net of tax |                 |               |              |           |            |                   | (729)                                         | (729)      |
| Total comprehensive income                                                                                 |                 |               |              |           |            |                   |                                               | 57,336     |
| Cash dividends declared at \$.51 per share                                                                 |                 |               |              |           |            | (6,508)           |                                               | (6,508)    |
| Employee stock purchases                                                                                   |                 |               | 10,097       | 25        | 278        |                   |                                               | 303        |
| Stock options exercised                                                                                    |                 |               | 12,587       | 32        | 208        |                   |                                               | 240        |
| Restricted stock awards                                                                                    |                 |               | 22,698       | 57        | (57)       |                   |                                               |            |
| Common stock repurchased                                                                                   |                 |               | (5,452)      | (14)      | (184)      |                   |                                               | (198)      |
| Share-based compensation expense                                                                           |                 |               |              |           | 1,203      |                   |                                               | 1,203      |
| Balance, September 30, 2010                                                                                |                 | \$ 12,779,463 |              | \$ 31,949 | \$ 197,885 | \$ 104,730        | \$ 631                                        | \$ 335,195 |
| Balance, December 31, 2010                                                                                 |                 | \$ 12,793,823 |              | \$ 31,985 | \$ 198,647 | \$ 103,117        | \$ (3,792)                                    | \$ 329,957 |
| Comprehensive income:                                                                                      |                 |               |              |           |            |                   |                                               |            |
| Net income                                                                                                 |                 |               |              |           |            | 17,766            |                                               | 17,766     |
| Change in net unrealized gain on securities available for sale, net of tax                                 |                 |               |              |           |            |                   | 4,916                                         | 4,916      |
| Change in unrealized losses on derivative financial instruments qualifying as cash flow hedges, net of tax |                 |               |              |           |            |                   | (479)                                         | (479)      |
| Total comprehensive income                                                                                 |                 |               |              |           |            |                   |                                               | 22,203     |
| Cash dividends declared at \$.51 per share                                                                 |                 |               |              |           |            | (7,131)           |                                               | (7,131)    |
| Employee stock purchases                                                                                   |                 |               | 11,673       | 29        | 313        |                   |                                               | 342        |
| Stock options exercised                                                                                    |                 |               | 24,102       | 60        | 363        |                   |                                               | 423        |
| Restricted stock awards                                                                                    |                 |               | 54,080       | 136       | (136)      |                   |                                               |            |
| Common stock repurchased                                                                                   |                 |               | (8,338)      | (21)      | (231)      |                   |                                               | (252)      |
| Share-based compensation expense                                                                           |                 |               |              |           | 1,341      |                   |                                               | 1,341      |
| Common stock issued in private placement offering                                                          |                 |               | 1,129,032    | 2,822     | 32,017     |                   |                                               | 34,839     |
| Balance, September 30, 2011                                                                                |                 | \$ 14,004,372 |              | \$ 35,011 | \$ 232,314 | \$ 113,752        | \$ 645                                        | \$ 381,722 |

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)*

|                                                                                                                                       | Nine Months Ended<br>September 30, |           |
|---------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|-----------|
|                                                                                                                                       | 2011                               | 2010      |
| Cash flows from operating activities:                                                                                                 |                                    |           |
| Net income                                                                                                                            | \$ 17,766                          | \$ 51,323 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities:                                           |                                    |           |
| Depreciation and amortization                                                                                                         | 7,784                              | 6,769     |
| Provision for loan losses                                                                                                             | 23,179                             | 43,615    |
| Deferred income taxes                                                                                                                 | 1,907                              | (4,413)   |
| Other-than-temporary impairment on securities                                                                                         | 100                                | 6,740     |
| Gain on sale of securities                                                                                                            | (333)                              |           |
| Gains on acquisitions                                                                                                                 | (16,529)                           | (98,081)  |
| Share-based compensation expense                                                                                                      | 1,341                              | 1,203     |
| Loss on disposal of premises and equipment                                                                                            | 61                                 | 36        |
| Federal Home Loan Bank advances prepayment fee                                                                                        |                                    | 3,189     |
| Amortization (accretion) on FDIC indemnification asset                                                                                | 7,049                              | (1,466)   |
| Accretion on acquired loans                                                                                                           | (11,905)                           | 1,622     |
| Net amortization of investment securities                                                                                             | 1,136                              | 590       |
| Net change in:                                                                                                                        |                                    |           |
| Loans held for sale                                                                                                                   | (3,166)                            | (32,023)  |
| Accrued interest receivable                                                                                                           | 593                                | 2,820     |
| Prepaid assets                                                                                                                        | 2,748                              | 3,055     |
| FDIC loss share receivable                                                                                                            | 68,570                             | 10,769    |
| Accrued interest payable                                                                                                              | (3,964)                            | (5,072)   |
| Accrued income taxes                                                                                                                  | (1,325)                            | 25,742    |
| Miscellaneous assets and liabilities                                                                                                  | 17,112                             | (19,391)  |
| Net cash provided by (used in) operating activities                                                                                   | 112,124                            | (2,973)   |
| 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                                                          | 1,240                              | 1,595     |
| Proceeds from maturities and calls of investment securities available for sale                                                        | 70,222                             | 92,176    |
| Proceeds from sales of other investment securities                                                                                    | 5,651                              | 1,113     |
| Purchases of investment securities available for sale                                                                                 | (108,366)                          | (43,143)  |
| Purchases of other investment securities                                                                                              | (1,041)                            |           |
| Net increase in customer loans                                                                                                        | (37,540)                           | (989)     |
| Net cash received from acquisition                                                                                                    | 136,716                            | 306,298   |
| Purchases of premises and equipment                                                                                                   | (12,922)                           | (20,876)  |
| Proceeds from sale of premises and equipment                                                                                          | 26                                 | 45        |
| Net cash provided by investing activities                                                                                             | 106,268                            | 336,219   |
| Cash flows from financing activities:                                                                                                 |                                    |           |
| Net decrease in deposits                                                                                                              | (257,725)                          | (92,998)  |
| Net increase (decrease) in federal funds purchased and securities sold under agreements to repurchase and other short-term borrowings | (8,090)                            | 224       |
| Repayment of FHLB advances                                                                                                            | (59,128)                           | (166,027) |
| Common stock issuance                                                                                                                 | 35,181                             | 303       |
| Common stock repurchased                                                                                                              | (252)                              | (198)     |
| Dividends paid on common stock                                                                                                        | (7,131)                            | (6,508)   |
| Stock options exercised                                                                                                               | 423                                | 240       |

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|                                                      |            |            |
|------------------------------------------------------|------------|------------|
| Net cash used in financing activities                | (296,722)  | (264,964)  |
| Net increase (decrease) in cash and cash equivalents | (78,330)   | 68,282     |
| Cash and cash equivalents at beginning of period     | 237,099    | 104,908    |
| Cash and cash equivalents at end of period           | \$ 158,769 | \$ 173,190 |

**Supplemental Disclosures:**

Cash paid for:

|              |           |           |
|--------------|-----------|-----------|
| Interest     | \$ 18,614 | \$ 29,835 |
| Income taxes | \$ 8,240  | \$ 6,324  |

**Noncash investing activities:**

|                                                                                                                                                      |           |           |
|------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------|
| Transfers of loans to foreclosed properties (covered of \$22,038 and \$30,643, respectively; and non-covered of \$19,801 and \$20,629, respectively) | \$ 41,839 | \$ 51,272 |
|------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------|

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 nine months ended September 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, net of the expected reimbursement from the FDIC through the loss share agreement. 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 also adjusted for reimbursable expenses through non-interest expense.

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**

In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS* (ASU No. 2011-04). ASU No. 2011-04 results in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. ASU 2011-04 is effective for interim and annual reporting periods beginning after December 15, 2011. Adoption of ASU 2011-04 is not expected to have a significant impact on the Company's financial statement disclosures.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* (ASU No. 2011-05). ASU No. 2011-05 requires an entity to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. ASU 2011-05 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2011, with early adoption permitted. Management is evaluating the impact of this ASU on the Company's consolidated financial statements.

In September 2011, the FASB issued ASU No 2011-08, Intangibles – Goodwill and Other (Topic 350) ( ASU No. 2011-08 ). ASU 2011-08 allows companies to waive comparing the fair value of a reporting unit to its carrying amount in assessing the recoverability of goodwill if, based on qualitative factors, it is not more likely than not that the fair value of a reporting unit is less than its carrying amount. ASU 2011-08 will be effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Management is evaluating the impact of this ASU on the Company's consolidated financial statements.

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**Note 3 Recent Accounting and Regulatory Pronouncements (continued)**

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 has resulted in permanent FDIC protection for up to \$250,000 of certain 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 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 Tier 1 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 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 the payment of interest on demand deposits, became effective. As a result of this repeal, our Bank has the option of offering interest bearing demand deposits, and may incur increased interest costs for funding if we elect to offer such deposit accounts.

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 are 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 and the identification of three additional TDRs for a total of \$1.1 million.

**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

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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.

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**Note 4 Mergers and Acquisitions (continued)**

*BankMeridian Acquisition*

On July 29, 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 BankMeridian, N.A., a full service community bank headquartered in Columbia, South Carolina. BankMeridian operated 3 branches in total in Columbia, Spartanburg, and Hilton Head, South Carolina.

Pursuant to the P&A agreement, SCBT, N.A. received a discount of \$30.8 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 SCBT, N.A. 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 assets (loans and OREO) provides for FDIC loss sharing and Bank reimbursement to the FDIC for ten years. The loss share agreement applicable to commercial assets (loans and OREO) 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.

The Bank did not immediately acquire the real estate, banking facilities, furniture or equipment of BankMeridian as a part of the P&A agreement. However, the Bank has the option to purchase the real estate and furniture and equipment from the FDIC. The term of this option expired approximately 90 days from the date of the acquisition. In September of 2011, the Bank consolidated the main BankMeridian location in Columbia into the Bank's main Columbia location, and opted to not acquire this facility. The Bank also plans to consolidate its Spartanburg and Hilton Head locations into the locations assumed in the BankMeridian transaction during the fourth quarter of 2011. The result of these actions will be no additional branch locations for the Bank.

As of September 30, 2011, there have been no adjustments or changes to the initial fair values related to the BankMeridian 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. Additionally, disclosure of pro forma financial information is made more difficult by the troubled nature of BankMeridian prior to the date of the combination. Accordingly, no pro forma financial information has been presented.

During the three months and nine months ended September 30, 2011, noninterest income included a pre-tax gain of \$11.0 million which resulted from the acquisition of BankMeridian. 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 BankMeridian prior to the acquisition. The Company recognized \$578,000 in merger-related expense from the BankMeridian acquisition during the three months and nine months ended September 30, 2011.

Included in the initial fair value of the FDIC indemnification asset recognized below is an expected true up with the FDIC, where there is an estimated payment to the FDIC of approximately \$1.0 million at the end of the loss share agreement (in 10 years). The actual payment will be determined at the end of the loss sharing agreement term and is based on the negative bid, expected losses, intrinsic loss estimate, and assets covered under loss share. This true up estimate will be eliminated if the actual losses were to exceed management's current estimate by an additional \$10.0 million.

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

The following table presents the assets acquired and liabilities assumed as of July 29, 2011, as recorded by BankMeridian on the acquisition date and as adjusted for purchase accounting adjustments.

| (Dollars in thousands)                                     | As Recorded by<br>BankMeridian | Balances<br>Kept by<br>FDIC | Balances<br>Acquired<br>from FDIC | Fair Value<br>Adjustments | As Recorded<br>by SCBT |
|------------------------------------------------------------|--------------------------------|-----------------------------|-----------------------------------|---------------------------|------------------------|
| <b>Assets</b>                                              |                                |                             |                                   |                           |                        |
| Cash and cash equivalents                                  | \$ 28,363                      | \$ 23                       | \$ 28,386                         | \$                        | \$ 28,386              |
| Investment securities                                      | 35,671                         | (77)                        | 35,594                            | (242)(a)                  | 35,352                 |
| Loans                                                      | 145,290                        | 9,021                       | 154,311                           | (59,330)(b)               | 94,981                 |
| Premises and equipment                                     | 1,320                          | (1,316)                     | 4                                 | 15(c)                     | 19                     |
| Intangible assets                                          |                                |                             |                                   | 551(d)                    | 551                    |
| FDIC receivable for loss sharing agreement                 |                                |                             |                                   | 50,753(e)                 | 50,753                 |
| Other real estate owned and repossessed assets             | 13,932                         | 669                         | 14,601                            | (9,775)(f)                | 4,826                  |
| Other assets                                               | 1,126                          | 492                         | 1,618                             | (761)(g)                  | 857                    |
| Total assets                                               | \$ 225,702                     | \$ 8,812                    | \$ 234,514                        | \$ (18,789)               | \$ 215,725             |
| <b>Liabilities</b>                                         |                                |                             |                                   |                           |                        |
| Deposits:                                                  |                                |                             |                                   |                           |                        |
| Noninterest-bearing                                        | \$ 12,431                      | \$ (12)                     | \$ 12,419                         | \$                        | \$ 12,419              |
| Interest-bearing                                           | 192,551                        | (4,609)                     | 187,942                           | 220(h)                    | 188,162                |
| Total deposits                                             | 204,982                        | (4,621)                     | 200,361                           | 220                       | 200,581                |
| Other borrowings                                           | 20,000                         |                             | 20,000                            | 790(i)                    | 20,790                 |
| Other liabilities                                          | 1,016                          | (142)                       | 874                               |                           | 874                    |
| Total liabilities                                          | 225,998                        | (4,763)                     | 221,235                           | 1,010                     | 222,245                |
| Net assets acquired over (under) liabilities assumed       | \$ (296)                       | \$ 13,575                   | \$ 13,279                         | \$ (19,799)               | \$ (6,520)             |
| Excess of assets acquired over (under) liabilities assumed | \$ (296)                       | \$ 13,575                   | \$ 13,279                         |                           |                        |
| Aggregate fair value adjustments                           |                                |                             |                                   | \$ (19,799)               |                        |
| Cash received from the FDIC                                |                                |                             |                                   |                           | \$ 17,050              |
| Cash due from FDIC                                         |                                |                             |                                   |                           | 471                    |
| Total                                                      |                                |                             |                                   |                           | 17,521                 |
| Gain on acquisition (noninterest income)                   |                                |                             |                                   |                           | \$ 11,001              |

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 fair value adjustments based on the Company's evaluation of the acquired premises and equipment.

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

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**Note 4 Mergers and Acquisitions (continued)**

*Habersham Bank Acquisition*

On February 18, 2011, the Bank entered into a 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 Bank ( 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 assets (loans and OREO) provides for FDIC loss sharing and Bank reimbursement to the FDIC for ten years. The loss share agreement applicable to commercial assets (loans and OREO) 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.

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 \$6.4 million as of September 30, 2011. These five banking facilities include both leased and owned locations. In June of 2011, the Bank closed 3 branches and converted the operating system of the acquired Georgia franchise.

As of September 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. Additionally, disclosure of pro forma financial information is made more difficult by the troubled nature of BankMeridian prior to the date of the combination. Accordingly, no pro forma financial information has been presented.

For the nine months ended September 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 \$239,000 and \$1.4 million in merger-related expense related to the Habersham acquisition during the three months and nine months ended September 30, 2011.

There is no expected true up included in the initial fair value of the FDIC indemnification asset recognized for this acquisition. This is the result of the amount of the negative bid, the expected losses, intrinsic loss estimate, and the assets covered under loss share. This true up estimate can result in a needed true up if the expected losses were to decline by more than \$26.0 million.

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<br>by Habersham | Balances<br>Kept by<br>FDIC | Balances<br>Acquired<br>from FDIC | Fair Value<br>Adjustments | As Recorded<br>by SCBT |
|------------------------------------------------------------|-----------------------------|-----------------------------|-----------------------------------|---------------------------|------------------------|
| <b>Assets</b>                                              |                             |                             |                                   |                           |                        |
| 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             |
| <b>Liabilities</b>                                         |                             |                             |                                   |                           |                        |
| 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 (under) liabilities assumed       | \$ 1,452                    | \$ (21,584)                 | \$ (20,132)                       | \$ (32,762)               | \$ (52,894)            |
| Excess of assets acquired over (under) 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 assets (loans and OREO) provides for FDIC loss sharing and Bank reimbursement to the FDIC for ten years. The loss share agreement applicable to commercial assets (loans and OREO) 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.

Currently, there is no true up expected with the CBT acquisition, given the level of expected losses. Expected losses and cash flow are measured and evaluated each quarter, and can result in a need true up .

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<br>by CBT | Balances<br>Kept by<br>FDIC | Balances<br>Acquired<br>from FDIC | Fair Value<br>Adjustments | As Recorded<br>by SCBT |
|-------------------------------------------------------|-----------------------|-----------------------------|-----------------------------------|---------------------------|------------------------|
| <b>Assets</b>                                         |                       |                             |                                   |                           |                        |
| 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<br>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             |
| <b>Liabilities</b>                                    |                       |                             |                                   |                           |                        |
| 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<br>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.
- (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 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<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
|---------------------------------|-------------------|------------------------------|-------------------------------|---------------|
| <b>September 30, 2011:</b>      |                   |                              |                               |               |
| State and municipal obligations | \$ 18,699         | \$ 1,173                     | \$                            | \$ 19,872     |
| <b>December 31, 2010:</b>       |                   |                              |                               |               |
| State and municipal obligations | \$ 19,941         | \$ 227                       | \$ (18)                       | \$ 20,150     |
| <b>September 30, 2010:</b>      |                   |                              |                               |               |
| State and municipal obligations | \$ 19,941         | \$ 1,117                     | \$                            | \$ 21,058     |

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

| (Dollars in thousands)                            | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
|---------------------------------------------------|-------------------|------------------------------|-------------------------------|---------------|
| <b>September 30, 2011:</b>                        |                   |                              |                               |               |
| Government-sponsored enterprises debt *           | \$ 60,017         | \$ 1,312                     | \$ (9)                        | \$ 61,320     |
| State and municipal obligations                   | 40,605            | 2,871                        | (28)                          | 43,448        |
| Mortgage-backed securities **                     | 171,280           | 5,581                        | (6)                           | 176,855       |
| Corporate stocks                                  | 255               | 59                           | (11)                          | 303           |
|                                                   | \$ 272,157        | \$ 9,823                     | \$ (54)                       | \$ 281,926    |
| <b>December 31, 2010:</b>                         |                   |                              |                               |               |
| 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    |
| <b>September 30, 2010:</b>                        |                   |                              |                               |               |
| Government-sponsored enterprises debt *           | \$ 94,971         | \$ 2,042                     | \$ (8)                        | \$ 97,005     |
| State and municipal obligations                   | 38,672            | 2,382                        | (155)                         | 40,899        |
| Mortgage-backed securities **                     | 79,125            | 4,349                        | (23)                          | 83,451        |
| Trust preferred (collateralized debt obligations) | 5,360             | 237                          | (154)                         | 5,443         |
| Corporate stocks                                  | 285               | 88                           | (34)                          | 339           |
|                                                   | \$ 218,413        | \$ 9,098                     | \$ (374)                      | \$ 227,137    |

\* - 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<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
|-------------------------------------------|-------------------|------------------------------|-------------------------------|---------------|
| <b>September 30, 2011:</b>                |                   |                              |                               |               |
| Federal Reserve Bank stock                | \$ 7,028          | \$                           | \$                            | \$ 7,028      |
| Federal Home Loan Bank stock              | 12,062            |                              |                               | 12,062        |
| Investment in unconsolidated subsidiaries | 1,332             |                              |                               | 1,332         |
|                                           | \$ 20,422         | \$                           | \$                            | \$ 20,422     |
| <b>December 31, 2010:</b>                 |                   |                              |                               |               |
| 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     |
| <b>September 30, 2010:</b>                |                   |                              |                               |               |
| Federal Reserve Bank stock                | \$ 5,987          | \$                           | \$                            | \$ 5,987      |
| Federal Home Loan Bank stock              | 13,797            |                              |                               | 13,797        |
| Investment in unconsolidated subsidiaries | 1,332             |                              |                               | 1,332         |
|                                           | \$ 21,116         | \$                           | \$                            | \$ 21,116     |

The Company has determined that the investment in Federal Reserve Bank stock and FHLB stock is not other than temporarily impaired as of September 30, 2011 and ultimate recoverability of the par value of these investments is probable.

The amortized cost and fair value of debt securities at September 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)                 | Amortized<br>Cost | Securities<br>Held to Maturity<br>Fair<br>Value | Amortized<br>Cost | Securities<br>Available for Sale<br>Fair<br>Value |
|----------------------------------------|-------------------|-------------------------------------------------|-------------------|---------------------------------------------------|
| Due in one year or less                | \$                | \$                                              | \$ 4              | \$ 4                                              |
| Due after one year through five years  | 662               | 672                                             | 11,738            | 11,891                                            |
| Due after five years through ten years | 5,377             | 5,680                                           | 60,445            | 62,133                                            |
| Due after ten years                    | 12,661            | 13,520                                          | 199,971           | 207,898                                           |
|                                        | \$ 18,699         | \$ 19,872                                       | \$ 272,157        | \$ 281,926                                        |

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

Information pertaining to the Company's securities with gross unrealized losses at September 30, 2011, December 31, 2010 and September 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<br>Unrealized<br>Losses | Fair<br>Value | Gross<br>Unrealized<br>Losses | Fair<br>Value |
| <b>September 30, 2011:</b>                        |                               |               |                               |               |
| <b>Securities Held to Maturity</b>                |                               |               |                               |               |
| State and municipal obligations                   | \$                            | \$            | \$                            | \$            |
| <b>Securities Available for Sale</b>              |                               |               |                               |               |
| Government-sponsored enterprises debt             | \$                            | 9             | \$                            | 5,502         |
| State and municipal obligations                   |                               | 3             |                               | 675           |
| Mortgage-backed securities                        |                               | 6             |                               | 3,647         |
| Corporate stocks                                  |                               | 11            |                               | 14            |
|                                                   | \$                            | 29            | \$                            | 9,838         |
|                                                   |                               |               | \$                            | 25            |
|                                                   |                               |               | \$                            | 476           |
| <b>December 31, 2010:</b>                         |                               |               |                               |               |
| <b>Securities Held to Maturity</b>                |                               |               |                               |               |
| State and municipal obligations                   | \$                            | 18            | \$                            | 3,050         |
| <b>Securities Available for Sale</b>              |                               |               |                               |               |
| Government-sponsored enterprises debt             | \$                            | 164           | \$                            | 26,138        |
| State and municipal obligations                   |                               | 229           |                               | 12,402        |
| Mortgage-backed securities                        |                               | 357           |                               | 31,547        |
| Trust preferred (collateralized debt obligations) |                               |               |                               | 290           |
|                                                   | \$                            | 750           | \$                            | 70,087        |
|                                                   |                               |               | \$                            | 486           |
|                                                   |                               |               | \$                            | 3,384         |
| <b>September 30, 2010:</b>                        |                               |               |                               |               |
| <b>Securities Held to Maturity</b>                |                               |               |                               |               |
| State and municipal obligations                   | \$                            | \$            | \$                            | \$            |
| <b>Securities Available for Sale</b>              |                               |               |                               |               |
| Government-sponsored enterprises debt             | \$                            | 8             | \$                            | 6,392         |
| State and municipal obligations                   |                               | 1             |                               | 321           |
| Mortgage-backed securities                        |                               | 23            |                               | 1,685         |
| Trust preferred (collateralized debt obligations) |                               |               |                               | 154           |
| Corporate stocks                                  |                               | 34            |                               | 134           |
|                                                   | \$                            | 66            | \$                            | 8,532         |
|                                                   |                               |               | \$                            | 308           |
|                                                   |                               |               | \$                            | 4,838         |

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

The following is a summary of non-acquired loans:

| (Dollars in thousands)                          | September 30,<br>2011 | December 31,<br>2010 | September 30,<br>2010 |
|-------------------------------------------------|-----------------------|----------------------|-----------------------|
| Non-acquired loans:                             |                       |                      |                       |
| Commercial non-owner occupied real estate:      |                       |                      |                       |
| Construction and land development               | \$ 316,072            | 391,987              | \$ 402,256            |
| Commercial non-owner occupied                   | 304,616               | 320,203              | 322,050               |
| Total commercial non-owner occupied real estate | 620,688               | 712,190              | 724,306               |
| Consumer real estate:                           |                       |                      |                       |
| Consumer owner occupied                         | 394,205               | 325,470              | 314,933               |
| Home equity loans                               | 264,588               | 263,961              | 256,934               |
| Total consumer real estate                      | 658,793               | 589,431              | 571,867               |
| Commercial owner occupied real estate           | 719,791               | 578,587              | 547,151               |
| Commercial and industrial                       | 216,573               | 202,987              | 203,903               |
| Other income producing property                 | 142,325               | 124,431              | 127,868               |
| Consumer                                        | 84,972                | 67,768               | 61,669                |
| Other loans                                     | 18,471                | 20,806               | 21,589                |
| Total non-acquired loans                        | 2,461,613             | 2,296,200            | 2,258,353             |
| Less allowance for loan losses                  | (49,110)              | (47,512)             | (46,657)              |
| Non-acquired loans, net                         | \$ 2,412,503          | \$ 2,248,688         | \$ 2,211,696          |

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<br>at Acquisition | September 30, 2011<br>Loans<br>Not Impaired<br>at Acquisition | Total      |
|-------------------------------------------------------|----------------------------------|---------------------------------------------------------------|------------|
| Acquired loans:                                       |                                  |                                                               |            |
| Commercial loans greater than or equal to \$1 million | \$ 12,744                        | \$ 39,472                                                     | \$ 52,216  |
| Commercial real estate                                | 44,502                           | 72,023                                                        | 116,525    |
| Commercial real estate construction and development   | 38,124                           | 22,561                                                        | 60,685     |
| Residential real estate                               | 54,272                           | 76,545                                                        | 130,817    |
| Residential real estate junior lien                   | 954                              | 1,491                                                         | 2,445      |
| Home equity                                           | 474                              | 891                                                           | 1,365      |
| Consumer                                              | 6,538                            | 5,234                                                         | 11,772     |
| Commercial and industrial                             | 14,326                           | 27,513                                                        | 41,839     |
| Single pay                                            | 171                              | 210                                                           | 381        |
| Total acquired loans                                  | \$ 172,105                       | \$ 245,940                                                    | \$ 418,045 |
| Less allowance for loan losses                        | (8,930)                          | (3,193)                                                       | (12,123)   |
| Acquired loans, net                                   | \$ 163,175                       | \$ 242,747                                                    | \$ 405,922 |

| (Dollars in thousands)                                | Loans Impaired<br>at Acquisition | December 31, 2010<br>Loans<br>Not Impaired<br>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 |

There was no allowance for loan losses.

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

| (Dollars in thousands)                                | September 30, 2010               |                                         |            |
|-------------------------------------------------------|----------------------------------|-----------------------------------------|------------|
|                                                       | Loans Impaired<br>at Acquisition | Loans<br>Not Impaired<br>at Acquisition | Total      |
| Acquired loans:                                       |                                  |                                         |            |
| Commercial loans greater than or equal to \$1 million | \$ 42,873                        | \$ 51,532                               | \$ 94,405  |
| Commercial real estate                                | 25,684                           | 47,512                                  | 73,196     |
| Commercial real estate construction and development   | 25,183                           | 17,983                                  | 43,166     |
| Residential real estate                               | 55,539                           | 44,867                                  | 100,406    |
| Residential real estate junior lien                   | 2,023                            | 1,702                                   | 3,725      |
| Home equity                                           | 533                              | 1,003                                   | 1,536      |
| Consumer                                              | 7,206                            | 5,982                                   | 13,188     |
| Commercial and industrial                             | 11,596                           | 14,940                                  | 26,536     |
| Single pay                                            | 12,473                           | 641                                     | 13,114     |
| Total acquired loans                                  | \$ 183,110                       | \$ 186,162                              | \$ 369,272 |

There was no allowance for loan losses.

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 BankMeridian (July 29, 2011) are as follows:

| (Dollars in thousands)              | July 29, 2011                    |                                         |            |
|-------------------------------------|----------------------------------|-----------------------------------------|------------|
|                                     | Loans Impaired<br>at Acquisition | Loans<br>Not Impaired<br>at Acquisition | Total      |
| Contractual principal and interest  | \$ 98,774                        | \$ 87,869                               | \$ 186,643 |
| Non-accretable difference           | (52,671)                         | (17,775)                                | (70,446)   |
| Cash flows expected to be collected | 46,103                           | 70,094                                  | 116,197    |
| Accretable yield                    | (8,468)                          | (12,748)                                | (21,216)   |
| Carrying value                      | \$ 37,635                        | \$ 57,346                               | \$ 94,981  |

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)              | February 18, 2011                |                                         |            |
|-------------------------------------|----------------------------------|-----------------------------------------|------------|
|                                     | Loans Impaired<br>at Acquisition | Loans<br>Not Impaired<br>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)   |

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|                |    |        |    |        |    |         |
|----------------|----|--------|----|--------|----|---------|
| 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 September 30, 2011, December 31, 2010, and September 30, 2010 are as follows:

| (Dollars in thousands)              | September 30, 2011               |                                         |            |
|-------------------------------------|----------------------------------|-----------------------------------------|------------|
|                                     | Loans Impaired<br>at Acquisition | Loans<br>Not Impaired<br>at Acquisition | Total      |
| Contractual principal and interest  | \$ 407,068                       | \$ 387,106                              | \$ 794,174 |
| Non-accretable difference           | (207,217)                        | (80,846)                                | (288,063)  |
| Cash flows expected to be collected | 199,851                          | 306,260                                 | 506,111    |
| Accretable yield                    | (36,676)                         | (63,513)                                | (100,189)  |
| Carrying value                      | \$ 163,175                       | \$ 242,747                              | \$ 405,922 |

| (Dollars in thousands)              | December 31, 2010                |                                         |            |
|-------------------------------------|----------------------------------|-----------------------------------------|------------|
|                                     | Loans Impaired<br>at Acquisition | Loans<br>Not Impaired<br>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)              | September 30, 2010               |                                         |            |
|-------------------------------------|----------------------------------|-----------------------------------------|------------|
|                                     | Loans Impaired<br>at Acquisition | Loans<br>Not Impaired<br>at Acquisition | Total      |
| Contractual principal and interest  | \$ 337,364                       | \$ 292,389                              | \$ 629,753 |
| Non-accretable difference           | (139,976)                        | (86,311)                                | (226,287)  |
| Cash flows expected to be collected | 197,388                          | 206,078                                 | 403,466    |
| Accretable yield                    | (14,278)                         | (19,916)                                | (34,194)   |
| Carrying value                      | \$ 183,110                       | \$ 186,162                              | \$ 369,272 |

Income on acquired loans that are not impaired at the acquisition date is recognized in the same manner as loans impaired at the acquisition date. A portion of the fair value discount on acquired non-impaired loans has been ascribed as an accretable yield that is accreted into interest income over the estimated remaining life of the loans. The remaining nonaccretable difference represents cash flows not expected to be collected.

The unpaid principal balance for acquired loans was \$644.1 million at September 30, 2011, \$519.2 million at December 31, 2010 and \$604.9 million at September 30, 2010.



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

The following are changes in the carrying value of acquired loans at the acquisition date during the periods ended September 30, 2011 and 2010:

| (Dollars in thousands)                                                             | Loans Impaired<br>at Acquisition | Loans<br>Not Impaired<br>at Acquisition | Total      |
|------------------------------------------------------------------------------------|----------------------------------|-----------------------------------------|------------|
| Balance, December 31, 2010                                                         | \$ 143,059                       | \$ 177,979                              | \$ 321,038 |
| Fair value of acquired loans                                                       | 92,541                           | 129,893                                 | 222,434    |
| Reductions for payments and foreclosures                                           | (63,495)                         | (61,932)                                | (125,427)  |
| Change in the allowance for loan losses on<br>acquired loans                       | (8,930)                          | (3,193)                                 | (12,123)   |
| Balance, September 30, 2011, net of<br>allowance for loan losses on acquired loans | \$ 163,175                       | \$ 242,747                              | \$ 405,922 |
| Balance, December 31, 2009                                                         | \$                               | \$                                      | \$         |
| Fair value of acquired loans                                                       | 233,236                          | 226,229                                 | 459,465    |
| Reductions for payments and foreclosures                                           | (50,126)                         | (40,067)                                | (90,193)   |
| Balance, September 30, 2010                                                        | \$ 183,110                       | \$ 186,162                              | \$ 369,272 |

The following are changes in the carrying amount of accretable difference for purchased impaired and non-impaired loans for the period ended September 30, 2011:

**(Dollars in thousands)**

|                                                        |            |
|--------------------------------------------------------|------------|
| Beginning balance December 31, 2010                    | \$ 44,684  |
| Addition from the Habersham acquisition                | 28,115     |
| Addition from the BankMeridian acquisition             | 21,216     |
| Interest income                                        | (30,152)   |
| Improved cash flows affecting nonaccretable difference | 42,273     |
| Other changes, net                                     | (5,947)    |
| Ending balance, September 30, 2011                     | \$ 100,189 |

On December 13, 2006, the OCC, Federal Reserve, FDIC, and other regulatory agencies collectively revised the banking agencies' 1993 policy statement on the allowance for loan and lease losses to ensure consistency with generally accepted accounting principles in the United States and more recent supervisory guidance. Our loan loss policy adheres to the interagency guidance.

The allowance for loan losses is based upon estimates made by management. We maintain an allowance for loan losses at a level that we believe is appropriate to cover estimated credit losses on individually evaluated loans that are determined to be impaired as well as estimated credit losses inherent in the remainder of our loan portfolio. Arriving at the allowance involves a high degree of management judgment and results in a range of estimated losses. We regularly evaluate the adequacy of the allowance through our internal risk rating system, outside credit review, and regulatory agency examinations to assess the quality of the loan portfolio and identify problem loans. The evaluation process also includes our analysis of current economic conditions, composition of the loan portfolio, past due and nonaccrual loans, concentrations of credit, lending policies and procedures, and historical loan loss experience. While management uses available information to recognize losses on loans, future

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additions to the allowance may be necessary based on, among other factors, changes in economic conditions in our markets. In addition, regulatory agencies, as an integral part of their examination process, periodically review our allowances for losses on loans. These agencies may require management to recognize additions to the allowances based on their judgments about information available to them at the time of their examination. Because of these and other factors, it is possible that the allowances for losses on loans may change. The provision for loan losses is charged to expense in an amount necessary to maintain the allowance at an appropriate level.

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

The allowance consists of general and specific reserves. The general reserves are determined by applying loss percentages to the portfolio that are based on historical loss experience for each class of loans and management's evaluation and risk grading of the loan portfolio. Additionally, the general economic and business conditions affecting key lending areas, credit quality trends, collateral values, loan volumes and concentrations, seasoning of the loan portfolio, the findings of internal and external credit reviews and results from external bank regulatory examinations are included in this evaluation. Currently, these adjustments are applied to the portfolio when estimating the level of reserve required. The specific reserves are determined on a loan-by-loan basis based on management's evaluation of our exposure for each credit, given the current payment status of the loan and the value of any underlying collateral. These are loans classified by management as doubtful or substandard. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. Generally, the need for a specific reserve is evaluated on impaired loans greater than \$250,000. Loans that are determined to be impaired are provided a specific reserve, if necessary, and are excluded from the calculation of the general reserves.

In determining the acquisition date fair value of purchased loans, and in subsequent accounting, SCBT generally aggregates purchased loans into pools of loans with common risk characteristics. Expected cash flows at the acquisition date in excess of the fair value of loans are recorded as interest income over the life of the loans using a level yield method if the timing and amount of the future cash flows of the pool is reasonably estimable. Subsequent to the acquisition date, increases in cash flows over those expected at the acquisition date are recognized as interest income prospectively. Decreases in expected cash flows after the acquisition date are recognized by recording an allowance for loan losses. Evidence of credit quality deterioration for the loan pools may include information such as increased past-due and nonaccrual levels and migration in the pools to lower loan grades. Offsetting the impact of the provision established for the loan, the receivable from the FDIC is adjusted to reflect the indemnified portion of the post-acquisition exposure with a corresponding credit to the provision for loan losses. (For further discussion of the Company's allowance for loan losses on acquired loans, see Note 2 Summary of Significant Accounting Policies and Note 4 Mergers and Acquisitions.)

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

An aggregated analysis of the changes in allowance for loan losses for the three and nine months ended September 30 is as follows:

| (Dollars in thousands)                                                    | Non-acquired<br>Loans | Acquired Loans | Total     |
|---------------------------------------------------------------------------|-----------------------|----------------|-----------|
| <b>Three months ended September 30, 2011:</b>                             |                       |                |           |
| Balance at beginning of period                                            | \$ 48,180             | \$ 13,695      | \$ 61,875 |
| Loans charged-off                                                         | (7,858)               | (5,897)        | (13,755)  |
| Recoveries of loans previously charged off                                | 681                   |                | 681       |
| Net charge-offs                                                           | (7,177)               | (5,897)        | (13,074)  |
| Provision for loan losses                                                 | 8,107                 | 4,325          | 12,432    |
| Benefit attributable to FDIC loss share agreements                        |                       | (4,109)        | (4,109)   |
| Total provision for loan losses charged to operations                     | 8,107                 | 216            | 8,323     |
| Provision for loan losses recorded through the FDIC loss share receivable |                       | 4,109          | 4,109     |
| Balance at end of period                                                  | \$ 49,110             | \$ 12,123      | \$ 61,233 |
| <b>Three months ended September 30, 2010:</b>                             |                       |                |           |
| Balance at beginning of period                                            | \$ 46,167             | \$             | \$ 46,167 |
| Loans charged-off                                                         | (10,852)              |                | (10,852)  |
| Recoveries of loans previously charged off                                | 1,014                 |                | 1,014     |
| Net charge-offs                                                           | (9,838)               |                | (9,838)   |
| Provision for loan losses                                                 | 10,328                |                | 10,328    |
| Balance at end of period                                                  | \$ 46,657             | \$             | \$ 46,657 |
| <b>Nine months ended September 30, 2011:</b>                              |                       |                |           |
| Balance at beginning of period                                            | \$ 47,512             | \$             | \$ 47,512 |
| Loans charged-off                                                         | (21,950)              | (17,747)       | (39,697)  |
| Recoveries of loans previously charged off                                | 1,863                 |                | 1,863     |
| Net charge-offs                                                           | (20,087)              | (17,747)       | (37,834)  |
| Provision for loan losses                                                 | 21,685                | 29,870         | 51,555    |
| Benefit attributable to FDIC loss share agreements                        |                       | (28,376)       | (28,376)  |
| Total provision for loan losses charged to operations                     | 21,685                | 1,494          | 23,179    |
| Provision for loan losses recorded through the FDIC loss share receivable |                       | 28,376         | 28,376    |
| Balance at end of period                                                  | \$ 49,110             | \$ 12,123      | \$ 61,233 |
| <b>Nine months ended September 30, 2010:</b>                              |                       |                |           |
| Balance at beginning of period                                            | \$ 37,488             | \$             | \$ 37,488 |
| Loans charged-off                                                         | (36,395)              |                | (36,395)  |
| Recoveries of loans previously charged off                                | 1,949                 |                | 1,949     |
| Net charge-offs                                                           | (34,446)              |                | (34,446)  |
| Provision for loan losses                                                 | 43,615                |                | 43,615    |
| Balance at end of period                                                  | \$ 46,657             | \$             | \$ 46,657 |



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## Note 6 Loans and Allowance for Loan Losses (continued)

The following tables present a disaggregated analysis of activity in the allowance for loan losses and loan balances for non-acquired loans for the three months ended September 30, 2011 and September 30, 2010.

| (Dollars in thousands)                      | Construction<br>& Land<br>Development | Commercial<br>Non-owner<br>Occupied | Commercial<br>Owner<br>Occupied | Consumer<br>Owner<br>Occupied | Home<br>Equity | Commercial<br>& Industrial | Other Income<br>Producing<br>Property | Consumer  | Other<br>Loans | Total        |
|---------------------------------------------|---------------------------------------|-------------------------------------|---------------------------------|-------------------------------|----------------|----------------------------|---------------------------------------|-----------|----------------|--------------|
| <b>September 30, 2011</b>                   |                                       |                                     |                                 |                               |                |                            |                                       |           |                |              |
| <b>Allowance for loan losses:</b>           |                                       |                                     |                                 |                               |                |                            |                                       |           |                |              |
| Balance, June 30, 2011                      | \$ 13,548                             | \$ 6,271                            | \$ 8,357                        | \$ 6,401                      | \$ 4,403       | \$ 4,299                   | \$ 3,089                              | \$ 1,528  | \$ 284         | \$ 48,180    |
| Charge-offs                                 | (2,440)                               | (1,052)                             | (1,125)                         | (739)                         | (1,054)        | (452)                      | (477)                                 | (40)      | (479)          | (7,858)      |
| Recoveries                                  | 161                                   | 5                                   | 149                             |                               | 10             | 132                        | 210                                   |           | 14             | 681          |
| Provision                                   | 3,059                                 | 1,255                               | 813                             | 881                           | 1,001          | 254                        | 325                                   | 170       | 349            | 8,107        |
| Balance, September 30, 2011                 | \$ 14,328                             | \$ 6,479                            | \$ 8,194                        | \$ 6,543                      | \$ 4,360       | \$ 4,233                   | \$ 3,147                              | \$ 1,658  | \$ 168         | \$ 49,110    |
| <b>Loans:</b>                               |                                       |                                     |                                 |                               |                |                            |                                       |           |                |              |
| Loans individually evaluated for impairment | \$ 2,384                              | \$ 438                              | \$ 439                          | \$ 278                        | \$             | \$                         | \$ 188                                | \$        | \$             | \$ 3,727     |
| Loans collectively evaluated for impairment | \$ 11,944                             | \$ 6,041                            | \$ 7,755                        | \$ 6,265                      | \$ 4,360       | \$ 4,233                   | \$ 2,959                              | \$ 1,658  | \$ 168         | \$ 45,383    |
| <b>Loans:</b>                               |                                       |                                     |                                 |                               |                |                            |                                       |           |                |              |
| Loans individually evaluated for impairment | \$ 20,413                             | \$ 11,737                           | \$ 14,578                       | \$ 2,959                      | \$             | \$ 4,723                   | \$ 2,994                              | \$        | \$             | \$ 57,404    |
| Loans collectively evaluated for impairment | 295,659                               | 292,879                             | 705,213                         | 391,246                       | 264,588        | 211,850                    | 139,331                               | 84,972    | 18,471         | 2,404,209    |
| Total non-acquired loans                    | \$ 316,072                            | \$ 304,616                          | \$ 719,791                      | \$ 394,205                    | \$ 264,588     | \$ 216,573                 | \$ 142,325                            | \$ 84,972 | \$ 18,471      | \$ 2,461,613 |
| (Dollars in thousands)                      | Construction<br>& Land<br>Development | Commercial<br>Non-owner<br>Occupied | Commercial<br>Owner<br>Occupied | Consumer<br>Owner<br>Occupied | Home<br>Equity | Commercial<br>& Industrial | Other Income<br>Producing<br>Property | Consumer  | Other<br>Loans | Total        |
| <b>September 30, 2010</b>                   |                                       |                                     |                                 |                               |                |                            |                                       |           |                |              |
| <b>Allowance for loan losses:</b>           |                                       |                                     |                                 |                               |                |                            |                                       |           |                |              |
| Balance, June 30, 2010                      | \$ 13,415                             | \$ 6,996                            | \$ 7,094                        | \$ 5,663                      | \$ 4,224       | \$ 4,073                   | \$ 2,886                              | \$ 1,345  | \$ 471         | \$ 46,167    |
| Charge-offs                                 | (5,463)                               | (1,493)                             | (376)                           | (1,131)                       | (394)          | (314)                      | (990)                                 | (108)     | (583)          | (10,852)     |
| Recoveries                                  | 211                                   | 26                                  | 24                              | 69                            | 21             | 460                        | 10                                    | 34        | 159            | 1,014        |
| Provision                                   | 4,678                                 | 651                                 | 1,273                           | 1,413                         | 621            | 123                        | 1,200                                 | 90        | 279            | 10,328       |
| Balance, September 30, 2010                 | \$ 12,841                             | \$ 6,180                            | \$ 8,015                        | \$ 6,014                      | \$ 4,472       | \$ 4,342                   | \$ 3,106                              | \$ 1,361  | \$ 326         | \$ 46,657    |
| <b>Loans:</b>                               |                                       |                                     |                                 |                               |                |                            |                                       |           |                |              |
| Loans individually evaluated for impairment | \$ 1,740                              | \$ 878                              | \$ 435                          | \$                            | \$             | \$ 206                     | \$ 578                                | \$        | \$             | \$ 3,837     |
| Loans collectively evaluated for impairment | \$ 11,101                             | \$ 5,302                            | \$ 7,580                        | \$ 6,014                      | \$ 4,472       | \$ 4,136                   | \$ 2,528                              | \$ 1,361  | \$ 326         | \$ 42,820    |
| <b>Loans:</b>                               |                                       |                                     |                                 |                               |                |                            |                                       |           |                |              |
| Loans individually evaluated for impairment | \$ 27,198                             | \$ 9,210                            | \$ 6,952                        | \$ 434                        | \$             | \$ 2,032                   | \$ 4,586                              | \$        | \$             | \$ 50,412    |
| Loans collectively evaluated for impairment | 375,058                               | 312,840                             | 540,199                         | 314,499                       | 256,934        | 201,871                    | 123,282                               | 61,669    | 21,589         | 2,207,941    |

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|                          |    |         |    |         |    |         |    |         |    |         |    |         |    |         |    |        |    |        |    |           |
|--------------------------|----|---------|----|---------|----|---------|----|---------|----|---------|----|---------|----|---------|----|--------|----|--------|----|-----------|
| Total non-acquired loans | \$ | 402,256 | \$ | 322,050 | \$ | 547,151 | \$ | 314,933 | \$ | 256,934 | \$ | 203,903 | \$ | 127,868 | \$ | 61,669 | \$ | 21,589 | \$ | 2,258,353 |
|--------------------------|----|---------|----|---------|----|---------|----|---------|----|---------|----|---------|----|---------|----|--------|----|--------|----|-----------|

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

The following tables present a disaggregated analysis of activity in the allowance for loan losses for non-acquired loans for the nine months ended September 30, 2011 and September 30, 2010.

| (Dollars in thousands)            | Construction<br>& Land<br>Development | Commercial<br>Non-owner<br>Occupied | Commercial<br>Owner<br>Occupied | Consumer<br>Owner<br>Occupied | Home<br>Equity | Commercial<br>& Industrial | Other Income<br>Producing<br>Property | Other<br>Consumer | Loans  | Total     |
|-----------------------------------|---------------------------------------|-------------------------------------|---------------------------------|-------------------------------|----------------|----------------------------|---------------------------------------|-------------------|--------|-----------|
| <b>September 30, 2011</b>         |                                       |                                     |                                 |                               |                |                            |                                       |                   |        |           |
| <b>Allowance for loan losses:</b> |                                       |                                     |                                 |                               |                |                            |                                       |                   |        |           |
| Balance, December 31, 2010        | \$ 14,242                             | \$ 6,428                            | \$ 7,814                        | \$ 6,060                      | \$ 4,424       | \$ 4,313                   | \$ 2,834                              | \$ 1,191          | \$ 206 | \$ 47,512 |
| Charge-offs                       | (9,217)                               | (2,808)                             | (2,157)                         | (2,692)                       | (1,808)        | (900)                      | (1,320)                               | (156)             | (892)  | (21,950)  |
| Recoveries                        | 391                                   | 43                                  | 157                             | 106                           | 101            | 241                        | 372                                   | 59                | 393    | 1,863     |
| Provision                         | 8,912                                 | 2,816                               | 2,380                           | 3,069                         | 1,643          | 579                        | 1,261                                 | 564               | 461    | 21,685    |
| Balance, September 30, 2011       | \$ 14,328                             | \$ 6,479                            | \$ 8,194                        | \$ 6,543                      | \$ 4,360       | \$ 4,233                   | \$ 3,147                              | \$ 1,658          | \$ 168 | \$ 49,110 |

| (Dollars in thousands)            | Construction<br>& Land<br>Development | Commercial<br>Non-owner<br>Occupied | Commercial<br>Owner<br>Occupied | Consumer<br>Owner<br>Occupied | Home<br>Equity | Commercial<br>& Industrial | Other Income<br>Producing<br>Property | Other<br>Consumer | Other<br>Loans | Total     |
|-----------------------------------|---------------------------------------|-------------------------------------|---------------------------------|-------------------------------|----------------|----------------------------|---------------------------------------|-------------------|----------------|-----------|
| <b>September 30, 2010</b>         |                                       |                                     |                                 |                               |                |                            |                                       |                   |                |           |
| <b>Allowance for loan losses:</b> |                                       |                                     |                                 |                               |                |                            |                                       |                   |                |           |
| Balance, December 31, 2009        | \$ 9,169                              | \$ 5,792                            | \$ 5,978                        | \$ 4,635                      | \$ 3,751       | \$ 4,330                   | \$ 2,375                              | \$ 1,258          | \$ 200         | \$ 37,488 |
| Charge-offs                       | (14,755)                              | (2,557)                             | (2,267)                         | (3,700)                       | (1,931)        | (7,346)                    | (2,287)                               | (308)             | (1,244)        | (36,395)  |
| Recoveries                        | 613                                   | 30                                  | 55                              | 83                            | 39             | 601                        | 10                                    | 122               | 396            | 1,949     |
| Provision                         | 17,814                                | 2,915                               | 4,249                           | 4,996                         | 2,613          | 6,757                      | 3,008                                 | 289               | 974            | 43,615    |
| Balance, September 30, 2010       | \$ 12,841                             | \$ 6,180                            | \$ 8,015                        | \$ 6,014                      | \$ 4,472       | \$ 4,342                   | \$ 3,106                              | \$ 1,361          | \$ 326         | \$ 46,657 |

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

The following tables present a disaggregated analysis of activity in the allowance for loan losses and loan balances for acquired loans for the three months and nine months ended September 30, 2011. As of September 30, 2010, no provision had been made for acquired loans.

| (Dollars in thousands)                                                              | Commercial<br>Loans Greater<br>Than or Equal<br>to \$1 Million | Commercial<br>Real Estate<br>Real Estate | Commercial<br>Real Estate-<br>Construction and<br>Development | Residential<br>Real Estate-<br>Real Estate | Residential<br>Real Estate-<br>Junior Lien | Home Equity | Consumer | Commercial<br>and Industrial | Single Pay | Total     |
|-------------------------------------------------------------------------------------|----------------------------------------------------------------|------------------------------------------|---------------------------------------------------------------|--------------------------------------------|--------------------------------------------|-------------|----------|------------------------------|------------|-----------|
| <b>Allowance for loan losses:</b>                                                   |                                                                |                                          |                                                               |                                            |                                            |             |          |                              |            |           |
| <b>For the three months ended September 30, 2011:</b>                               |                                                                |                                          |                                                               |                                            |                                            |             |          |                              |            |           |
| Balance, June 30, 2011                                                              | \$ 10,913                                                      | \$ 1,318                                 | \$                                                            | \$ 1,464                                   | \$                                         | \$          | \$       | \$                           | \$         | \$ 13,695 |
| Charge-offs                                                                         | (4,931)                                                        | (281)                                    |                                                               | (432)                                      |                                            |             |          | (253)                        |            | (5,897)   |
| Recoveries                                                                          |                                                                |                                          |                                                               |                                            |                                            |             |          |                              |            |           |
| Provision for loan losses before benefit attributable to FDIC loss share agreements | 1,752                                                          |                                          |                                                               |                                            |                                            |             |          | 2,573                        |            | 4,325     |
| Benefit attributable to FDIC loss share agreements                                  | (1,664)                                                        |                                          |                                                               |                                            |                                            |             |          | (2,444)                      |            | (4,109)   |
| Total provision for loan losses charged to operations                               | 88                                                             |                                          |                                                               |                                            |                                            |             |          | 129                          |            | 216       |
| Provision for loan losses recorded through the FDIC loss share receivable           | 1,664                                                          |                                          |                                                               |                                            |                                            |             |          | 2,444                        |            | 4,109     |
| Balance, September 30, 2011                                                         | \$ 7,734                                                       | \$ 1,037                                 | \$                                                            | \$ 1,032                                   | \$                                         | \$          | \$       | \$ 2,320                     | \$         | \$ 12,123 |
| <b>For the nine months ended September 30, 2011</b>                                 |                                                                |                                          |                                                               |                                            |                                            |             |          |                              |            |           |
| Balance, December 31, 2010                                                          | \$                                                             | \$                                       | \$                                                            | \$                                         | \$                                         | \$          | \$       | \$                           | \$         | \$        |
| Charge-offs                                                                         | (10,825)                                                       | (281)                                    |                                                               | (432)                                      | (462)                                      |             |          | (2,182)                      | (3,565)    | (17,747)  |
| Recoveries                                                                          |                                                                |                                          |                                                               |                                            |                                            |             |          |                              |            |           |
| Provision for loan losses before benefit attributable to FDIC loss share agreements | 18,559                                                         | 1,318                                    |                                                               | 1,464                                      | 462                                        |             |          | 4,502                        | 3,565      | 29,870    |
| Benefit attributable to FDIC loss share agreements                                  | (17,630)                                                       | (1,252)                                  |                                                               | (1,391)                                    | (439)                                      |             |          | (4,277)                      | (3,387)    | (28,376)  |
| Total provision for loan losses charged to operations                               | 929                                                            | 66                                       |                                                               | 73                                         | 23                                         |             |          | 225                          | 178        | 1,495     |
| Provision for loan losses recorded through the FDIC loss share receivable           | 17,630                                                         | 1,252                                    |                                                               | 1,391                                      | 439                                        |             |          | 4,277                        | 3,387      | 28,376    |
| Balance, September 30, 2011                                                         | \$ 7,734                                                       | \$ 1,037                                 | \$                                                            | \$ 1,032                                   | \$                                         | \$          | \$       | \$ 2,320                     | \$         | \$ 12,123 |

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|                                                |    |       |    |       |    |       |    |    |    |       |    |    |        |
|------------------------------------------------|----|-------|----|-------|----|-------|----|----|----|-------|----|----|--------|
| Loans individually<br>evaluated for impairment | \$ | \$    | \$ | \$    | \$ | \$    | \$ | \$ | \$ | \$    |    |    |        |
| Loans collectively<br>evaluated for impairment | \$ | 7,734 | \$ | 1,037 | \$ | 1,032 | \$ | \$ | \$ | 2,320 | \$ | \$ | 12,123 |

### Loans:

|                                                |    |        |         |        |         |       |       |        |        |     |         |
|------------------------------------------------|----|--------|---------|--------|---------|-------|-------|--------|--------|-----|---------|
| Loans individually<br>evaluated for impairment | \$ | \$     | \$      | \$     | \$      | \$    | \$    | \$     | \$     | \$  |         |
| Loans collectively<br>evaluated for impairment |    | 52,216 | 116,525 | 60,685 | 130,817 | 2,445 | 1,365 | 11,772 | 41,839 | 381 | 418,045 |

|                      |    |        |    |         |    |        |    |         |    |       |    |       |    |        |    |        |    |     |    |         |
|----------------------|----|--------|----|---------|----|--------|----|---------|----|-------|----|-------|----|--------|----|--------|----|-----|----|---------|
| Total acquired loans | \$ | 52,216 | \$ | 116,525 | \$ | 60,685 | \$ | 130,817 | \$ | 2,445 | \$ | 1,365 | \$ | 11,772 | \$ | 41,839 | \$ | 381 | \$ | 418,045 |
|----------------------|----|--------|----|---------|----|--------|----|---------|----|-------|----|-------|----|--------|----|--------|----|-----|----|---------|

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## Note 6 Loans and Allowance for Loan Losses (continued)

As part of the on-going monitoring of the credit quality of the Company's loan portfolio, management tracks certain credit quality indicators including trends related to (i) the level of classified loans, (ii) net charge-offs, (iii) non-performing loans (see details below) and (iv) the general economic conditions of the markets that we serve.

The Company utilizes a risk grading matrix to assign a risk grade to each of its loans. A description of the general characteristics of the risk grades is as follows:

- **Pass** These loans range from minimal credit risk to average however still acceptable credit risk.
- **Special mention** A special mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or the institution's credit position at some future date.
- **Substandard** A substandard loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness, or weaknesses, that may jeopardize the liquidation of the debt. A substandard loan is characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.
- **Doubtful** A doubtful loan has all of the weaknesses inherent in one classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of the currently existing facts, conditions and values, highly questionable and improbable.

The following table presents the credit risk profile by risk grade of commercial loans for non-acquired loans:

|                        | Construction & Development |                   |                    | Commercial Non-owner Occupied |                   |                    | Commercial Owner Occupied |                   |                    |
|------------------------|----------------------------|-------------------|--------------------|-------------------------------|-------------------|--------------------|---------------------------|-------------------|--------------------|
|                        | September 30, 2011         | December 31, 2010 | September 30, 2010 | September 30, 2011            | December 31, 2010 | September 30, 2010 | September 30, 2011        | December 31, 2010 | September 30, 2010 |
| (Dollars in thousands) |                            |                   |                    |                               |                   |                    |                           |                   |                    |
| Pass                   | \$ 228,166                 | \$ 284,708        | \$ 282,211         | \$ 233,283                    | \$ 258,698        | \$ 267,919         | \$ 635,881                | \$ 503,367        | \$ 465,304         |
| Special mention        | 40,294                     | 40,463            | 42,844             | 51,241                        | 37,487            | 33,408             | 45,398                    | 38,204            | 47,095             |
| Substandard            | 47,612                     | 66,816            | 77,201             | 20,092                        | 24,018            | 20,502             | 38,512                    | 36,785            | 34,748             |
| Doubtful               |                            |                   |                    |                               |                   | 221                |                           | 231               | 4                  |
|                        | \$ 316,072                 | \$ 391,987        | \$ 402,256         | \$ 304,616                    | \$ 320,203        | \$ 322,050         | \$ 719,791                | \$ 578,587        | \$ 547,151         |

  

|  | Commercial & Industrial |                   |                    | Other Income Producing Property |                   |                    | Commercial Total   |                   |                    |
|--|-------------------------|-------------------|--------------------|---------------------------------|-------------------|--------------------|--------------------|-------------------|--------------------|
|  | September 30, 2011      | December 31, 2010 | September 30, 2010 | September 30, 2011              | December 31, 2010 | September 30, 2010 | September 30, 2011 | December 31, 2010 | September 30, 2010 |

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|                 |    |                |    |         |    |         |    |                |    |         |    |         |    |                  |    |           |    |           |
|-----------------|----|----------------|----|---------|----|---------|----|----------------|----|---------|----|---------|----|------------------|----|-----------|----|-----------|
| Pass            | \$ | <b>200,996</b> | \$ | 190,608 | \$ | 188,994 | \$ | <b>118,502</b> | \$ | 101,441 | \$ | 102,557 | \$ | <b>1,416,828</b> | \$ | 1,338,822 | \$ | 1,306,985 |
| Special mention |    | <b>6,598</b>   |    | 8,104   |    | 8,258   |    | <b>11,823</b>  |    | 10,074  |    | 10,625  |    | <b>155,354</b>   |    | 134,332   |    | 142,230   |
| Substandard     |    | <b>8,979</b>   |    | 4,275   |    | 6,651   |    | <b>12,000</b>  |    | 12,872  |    | 14,611  |    | <b>127,195</b>   |    | 144,766   |    | 153,713   |
| Doubtful        |    |                |    |         |    |         |    |                |    | 44      |    | 75      |    |                  |    | 275       |    | 300       |
|                 | \$ | <b>216,573</b> | \$ | 202,987 | \$ | 203,903 | \$ | <b>142,325</b> | \$ | 124,431 | \$ | 127,868 | \$ | <b>1,699,377</b> | \$ | 1,618,195 | \$ | 1,603,228 |

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

The following table presents the credit risk profile by risk grade of consumer loans for non-acquired loans at September 30:

| (Dollars in thousands) | Consumer Owner Occupied |                   |                    | Home Equity        |                   |                    | Consumer           |                   |                    |
|------------------------|-------------------------|-------------------|--------------------|--------------------|-------------------|--------------------|--------------------|-------------------|--------------------|
|                        | September 30, 2011      | December 31, 2010 | September 30, 2010 | September 30, 2011 | December 31, 2010 | September 30, 2010 | September 30, 2011 | December 31, 2010 | September 30, 2010 |
| Pass                   | \$ 343,662              | \$ 289,168        | \$ 282,381         | \$ 246,970         | \$ 248,261        | \$ 241,720         | \$ 83,842          | \$ 66,775         | \$ 60,764          |
| Special mention        | 28,348                  | 17,919            | 13,215             | 9,904              | 7,794             | 8,631              | 665                | 532               | 321                |
| Substandard            | 22,195                  | 18,383            | 19,297             | 7,714              | 7,906             | 6,583              | 465                | 461               | 511                |
| Doubtful               |                         |                   | 40                 |                    |                   |                    |                    |                   | 73                 |
|                        | \$ 394,205              | \$ 325,470        | \$ 314,933         | \$ 264,588         | \$ 263,961        | \$ 256,934         | \$ 84,972          | \$ 67,768         | \$ 61,669          |

|                 | September 30, 2011 | Other<br>December 31, 2010 | September 30, 2010 | September 30, 2011 | Consumer Total<br>December 31, 2010 | September 30, 2010 |
|-----------------|--------------------|----------------------------|--------------------|--------------------|-------------------------------------|--------------------|
| Pass            | \$ 18,471          | \$ 20,806                  | \$ 21,589          | \$ 692,945         | \$ 625,010                          | \$ 606,454         |
| Special mention |                    |                            |                    | 38,917             | 26,245                              | 22,167             |
| Substandard     |                    |                            |                    | 30,374             | 26,750                              | 26,391             |
| Doubtful        |                    |                            |                    |                    |                                     | 113                |
|                 | \$ 18,471          | \$ 20,806                  | \$ 21,589          | \$ 762,236         | \$ 678,005                          | \$ 655,125         |

The following table presents the credit risk profile by risk grade of total non-acquired loans at September 30:

|                 | September 30, 2011 | Total Non-acquired Loans<br>December 31, 2010 | September 30, 2010 |
|-----------------|--------------------|-----------------------------------------------|--------------------|
| Pass            | \$ 2,109,773       | \$ 1,963,832                                  | \$ 1,913,443       |
| Special mention | 194,271            | 160,577                                       | 164,397            |
| Substandard     | 157,569            | 171,516                                       | 180,104            |
| Doubtful        |                    | 275                                           | 409                |
|                 | \$ 2,461,613       | \$ 2,296,200                                  | \$ 2,258,353       |

At September 30, 2011, the aggregate amount of non-acquired substandard and doubtful loans totaled \$157.6 million. When these loans are combined with non-acquired OREO of \$22.7 million, our non-acquired classified assets (as defined by our primary federal regulator, the Office of the Comptroller of the Currency (the OCC)) were \$180.3 million. At December 31, 2010, the amounts were \$171.8 million, \$17.3 million, and \$189.1 million, respectively. At September 30, 2010, the amounts were \$180.5 million, \$15.7 million, and \$199.2 million, respectively.

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## Note 6 Loans and Allowance for Loan Losses (continued)

The following table presents the credit risk profile by risk grade of acquired loans, net of the related discount at September 30:

| (Dollars in thousands) | Commercial Loans Greater Than<br>or Equal to \$1 million |                      |                  | Commercial Real Estate |                      |                  | Commercial Real Estate<br>Construction and Development |                      |                  |
|------------------------|----------------------------------------------------------|----------------------|------------------|------------------------|----------------------|------------------|--------------------------------------------------------|----------------------|------------------|
|                        | Sept 30,<br>2011                                         | December 31,<br>2010 | Sept 30,<br>2010 | Sept 30,<br>2011       | December 31,<br>2010 | Sept 30,<br>2010 | Sept 30,<br>2011                                       | December 31,<br>2010 | Sept 30,<br>2010 |
| Pass                   | \$ 17,994                                                | \$ 26,395            | \$ 27,775        | \$ 37,997              | \$ 29,506            | \$ 33,286        | \$ 12,047                                              | \$ 11,897            | \$ 15,778        |
| Special mention        | 6,040                                                    | 10,317               | 7,825            | 23,938                 | 10,048               | 11,135           | 7,927                                                  | 3,218                | 3,226            |
| Substandard            | 28,182                                                   | 46,952               | 57,184           | 54,090                 | 26,696               | 28,404           | 37,931                                                 | 16,877               | 23,340           |
| Doubtful               |                                                          | 624                  | 1,621            | 500                    | 378                  | 371              | 2,780                                                  | 320                  | 822              |
|                        | \$ 52,216                                                | \$ 84,288            | \$ 94,405        | \$ 116,525             | \$ 66,628            | \$ 73,196        | \$ 60,685                                              | \$ 32,312            | \$ 43,166        |

| (Dollars in thousands) | Residential Real Estate |                      |                  | Residential Real Estate<br>Junior Lien |                      |                  | Home Equity      |                      |                  |
|------------------------|-------------------------|----------------------|------------------|----------------------------------------|----------------------|------------------|------------------|----------------------|------------------|
|                        | Sept 30,<br>2011        | December 31,<br>2010 | Sept 30,<br>2010 | Sept 30,<br>2011                       | December 31,<br>2010 | Sept 30,<br>2010 | Sept 30,<br>2011 | December 31,<br>2010 | Sept 30,<br>2010 |
| Pass                   | \$ 55,089               | \$ 42,807            | \$ 49,976        | \$ 1,508                               | \$ 2,219             | \$ 2,410         | \$ 895           | \$ 1,069             | \$ 1,275         |
| Special mention        | 19,147                  | 10,470               | 11,525           | 269                                    | 93                   | 84               | 216              | 156                  | 190              |
| Substandard            | 53,674                  | 33,112               | 36,445           | 596                                    | 1,112                | 971              | 254              | 294                  | 71               |
| Doubtful               | 2,907                   | 1,156                | 2,460            | 72                                     | 249                  | 260              |                  |                      |                  |
|                        | \$ 130,817              | \$ 87,545            | \$ 100,406       | \$ 2,445                               | \$ 3,673             | \$ 3,725         | \$ 1,365         | \$ 1,519             | \$ 1,536         |

| (Dollars in thousands) | Consumer         |                      |                  | Commercial & Industrial |                      |                  | Single Pay       |                      |                  |
|------------------------|------------------|----------------------|------------------|-------------------------|----------------------|------------------|------------------|----------------------|------------------|
|                        | Sept 30,<br>2011 | December 31,<br>2010 | Sept 30,<br>2010 | Sept 30,<br>2011        | December 31,<br>2010 | Sept 30,<br>2010 | Sept 30,<br>2011 | December 31,<br>2010 | Sept 30,<br>2010 |
| Pass                   | \$ 7,127         | \$ 7,401             | \$ 9,263         | \$ 14,712               | \$ 10,482            | \$ 12,299        | \$ 98            | \$ 258               | \$ 380           |
| Special mention        | 1,084            | 528                  | 593              | 8,551                   | 3,389                | 3,491            | 62               | 65                   |                  |
| Substandard            | 3,041            | 2,828                | 3,143            | 17,429                  | 10,503               | 9,752            | 221              | 8,877                | 12,096           |
| Doubtful               | 520              | 158                  | 189              | 1,147                   | 368                  | 994              |                  | 216                  | 638              |
|                        | \$ 11,772        | \$ 10,915            | \$ 13,188        | \$ 41,839               | \$ 24,742            | \$ 26,536        | \$ 381           | \$ 9,416             | \$ 13,114        |

The risk grading of acquired loans is determined utilizing a loan's contractual balance, while the amount recorded in the financial statements and reflected above is the carrying value. In an FDIC assisted acquisition, acquired loans are recorded at their fair value, including a credit discount due to the high concentration of substandard and doubtful loans. In addition to the credit discount, the Company's risk of loss is mitigated because of the FDIC loss share arrangement.

An aging analysis of past due loans, segregated by class for non-acquired loans, as of September 30, 2011 was as follows:

| (Dollars in thousands) | 30-59 Days<br>Past Due | 60-89 Days<br>Past Due | 90+ Days<br>Past Due<br>and Accruing | Total<br>Past<br>Due | Nonaccruals | Current | Total<br>Loans |
|------------------------|------------------------|------------------------|--------------------------------------|----------------------|-------------|---------|----------------|
|------------------------|------------------------|------------------------|--------------------------------------|----------------------|-------------|---------|----------------|

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|                                   |    |       |    |       |    |     |    |       |    |        |    |           |    |           |
|-----------------------------------|----|-------|----|-------|----|-----|----|-------|----|--------|----|-----------|----|-----------|
| Commercial real estate:           |    |       |    |       |    |     |    |       |    |        |    |           |    |           |
| Construction and land development | \$ | 578   | \$ | 473   | \$ | 383 | \$ | 1,434 | \$ | 25,087 | \$ | 289,551   | \$ | 316,072   |
| Commercial non-owner occupied     |    | 779   |    | 818   |    |     |    | 1,597 |    | 11,272 |    | 291,747   |    | 304,616   |
| Commercial owner occupied         |    | 1,150 |    | 348   |    |     |    | 1,498 |    | 14,653 |    | 703,640   |    | 719,791   |
|                                   |    |       |    |       |    |     |    |       |    |        |    |           |    |           |
| Consumer real estate:             |    |       |    |       |    |     |    |       |    |        |    |           |    |           |
| Consumer owner occupied           |    | 847   |    | 552   |    | 34  |    | 1,433 |    | 9,819  |    | 382,953   |    | 394,205   |
| Home equity loans                 |    | 1,307 |    | 80    |    | 1   |    | 1,388 |    | 1,752  |    | 261,448   |    | 264,588   |
|                                   |    |       |    |       |    |     |    |       |    |        |    |           |    |           |
| Commercial and industrial         |    | 517   |    | 229   |    | 4   |    | 750   |    | 4,961  |    | 210,862   |    | 216,573   |
| Other income producing property   |    | 232   |    |       |    |     |    | 232   |    | 4,704  |    | 137,389   |    | 142,325   |
| Consumer                          |    | 263   |    | 73    |    | 32  |    | 368   |    | 205    |    | 84,399    |    | 84,972    |
| Other loans                       |    | 92    |    | 33    |    | 41  |    | 166   |    | 408    |    | 17,897    |    | 18,471    |
|                                   |    |       |    |       |    |     |    |       |    |        |    |           |    |           |
|                                   | \$ | 5,765 | \$ | 2,606 | \$ | 495 | \$ | 8,866 | \$ | 72,861 | \$ | 2,379,886 | \$ | 2,461,613 |

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

An aging analysis of past due loans, segregated by class for non-acquired loans, as of December 31, 2010 was as follows:

| (Dollars in thousands)            | 30-59 Days<br>Past Due | 60-89 Days<br>Past Due | 90+ Days<br>Past Due<br>and Accruing | Total<br>Past<br>Due | Nonaccruals | Current      | Total<br>Loans |
|-----------------------------------|------------------------|------------------------|--------------------------------------|----------------------|-------------|--------------|----------------|
| <b>Commercial real estate:</b>    |                        |                        |                                      |                      |             |              |                |
| Construction and land development | \$ 3,304               | \$ 1,133               | \$                                   | \$ 4,437             | \$ 28,390   | \$ 359,160   | \$ 391,987     |
| Commercial non-owner occupied     | 779                    | 240                    |                                      | 1,019                | 10,073      | 309,111      | 320,203        |
| Commercial owner occupied         | 1,063                  | 453                    |                                      | 1,516                | 13,056      | 564,015      | 578,587        |
| <b>Consumer real estate:</b>      |                        |                        |                                      |                      |             |              |                |
| Consumer owner occupied           | 1,626                  | 1,086                  | 16                                   | 2,728                | 7,176       | 315,566      | 325,470        |
| Home equity loans                 | 725                    | 79                     | 14                                   | 818                  | 2,517       | 260,626      | 263,961        |
| Commercial and industrial         | 622                    | 98                     |                                      | 720                  | 1,282       | 200,985      | 202,987        |
| Other income producing property   | 806                    | 103                    | 18                                   | 927                  | 6,356       | 117,148      | 124,431        |
| Consumer                          | 597                    | 175                    | 33                                   | 805                  | 176         | 66,787       | 67,768         |
| Other loans                       | 35                     | 16                     | 37                                   | 88                   |             | 20,718       | 20,806         |
|                                   | \$ 9,557               | \$ 3,383               | \$ 118                               | \$ 13,058            | \$ 69,026   | \$ 2,214,116 | \$ 2,296,200   |

An aging analysis of past due loans, segregated by class for non-acquired loans, as of September 30, 2010 was as follows:

| (Dollars in thousands)            | 30-59 Days<br>Past Due | 60-89 Days<br>Past Due | 90+ Days<br>Past Due<br>and Accruing | Total<br>Past<br>Due | Nonaccruals | Current    | Total<br>Loans |
|-----------------------------------|------------------------|------------------------|--------------------------------------|----------------------|-------------|------------|----------------|
| <b>Commercial real estate:</b>    |                        |                        |                                      |                      |             |            |                |
| Construction and land development | \$ 3,547               | \$ 876                 | \$ 21                                | \$ 4,444             | \$ 34,307   | \$ 363,505 | \$ 402,256     |
| Commercial non-owner occupied     | 769                    | 31                     |                                      | 800                  | 8,740       | 312,510    | 322,050        |
| Commercial owner occupied         | 1,391                  | 185                    |                                      | 1,576                | 8,754       | 536,821    | 547,151        |
| <b>Consumer real estate:</b>      |                        |                        |                                      |                      |             |            |                |
| Consumer owner occupied           | 1,917                  | 460                    | 119                                  | 2,496                | 7,610       | 304,827    | 314,933        |
| Home equity loans                 | 1,057                  | 165                    |                                      | 1,222                | 1,162       | 254,550    | 256,934        |
| Commercial and industrial         | 938                    | 33                     | 114                                  | 1,085                | 2,852       | 199,966    | 203,903        |
|                                   | 333                    | 185                    |                                      | 518                  | 6,713       | 120,637    | 127,868        |

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|                                 |           |          |        |           |           |              |              |
|---------------------------------|-----------|----------|--------|-----------|-----------|--------------|--------------|
| Other income producing property |           |          |        |           |           |              |              |
| Consumer                        | 438       | 101      | 14     | 553       | 305       | 60,811       | 61,669       |
| Other loans                     | 380       |          | 51     | 431       |           | 21,158       | 21,589       |
|                                 | \$ 10,770 | \$ 2,036 | \$ 319 | \$ 13,125 | \$ 70,443 | \$ 2,174,785 | \$ 2,258,353 |

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

An aging analysis of past due loans, segregated by class for acquired loans as of September 30, 2011 was as follows:

| (Dollars in thousands)                                | 30-59 Days<br>Past Due | 60-89 Days<br>Past Due | 90+ Days<br>Past Due<br>and Accruing | Total<br>Past<br>Due | Nonaccruals | Current    | Total<br>Loans |
|-------------------------------------------------------|------------------------|------------------------|--------------------------------------|----------------------|-------------|------------|----------------|
| Commercial loans greater than or equal to \$1 million | \$ 2,294               | \$ 1,440               | \$ 17,666                            | \$ 21,400            | \$          | \$ 30,816  | \$ 52,216      |
| Commercial real estate                                | 2,575                  | 1,045                  | 23,224                               | 26,844               |             | 89,681     | 116,525        |
| Commercial real estate construction and development   | 1,604                  | 675                    | 27,025                               | 29,304               |             | 31,381     | 60,685         |
| Residential real estate                               | 3,631                  | 2,483                  | 14,365                               | 20,479               |             | 110,338    | 130,817        |
| Residential real estate junior lien                   | 136                    | 82                     | 99                                   | 317                  |             | 2,128      | 2,445          |
| Home equity                                           | 21                     |                        | 33                                   | 54                   |             | 1,311      | 1,365          |
| Consumer                                              | 491                    | 229                    | 936                                  | 1,656                |             | 10,116     | 11,772         |
| Commercial and industrial                             | 1,093                  | 1,697                  | 8,242                                | 11,032               |             | 30,807     | 41,839         |
| Single pay                                            | 7                      | 3                      | 121                                  | 131                  |             | 250        | 381            |
|                                                       | \$ 11,852              | \$ 7,654               | \$ 91,711                            | \$ 111,217           | \$          | \$ 306,828 | \$ 418,045     |

An aging analysis of past due loans, segregated by class for acquired loans, as of December 31, 2010 was as follows:

| (Dollars in thousands)                                | 30-59 Days<br>Past Due | 60-89 Days<br>Past Due | 90+ Days<br>Past Due<br>and Accruing | Total<br>Past<br>Due | Nonaccruals | Current    | Total<br>Loans |
|-------------------------------------------------------|------------------------|------------------------|--------------------------------------|----------------------|-------------|------------|----------------|
| Commercial loans greater than or equal to \$1 million | \$ 3,993               | \$                     | \$ 30,220                            | \$ 34,213            | \$          | \$ 50,075  | \$ 84,288      |
| Commercial real estate                                | 1,067                  | 458                    | 14,240                               | 15,765               |             | 50,864     | 66,629         |
| Commercial real estate construction and development   | 1,197                  | 499                    | 10,915                               | 12,611               |             | 19,702     | 32,313         |
| Residential real estate                               | 2,508                  | 1,397                  | 20,077                               | 23,982               |             | 63,563     | 87,545         |
| Residential real estate junior lien                   | 165                    | 59                     | 863                                  | 1,087                |             | 2,586      | 3,673          |
| Home equity                                           | 15                     | 56                     | 101                                  | 172                  |             | 1,347      | 1,519          |
| Consumer                                              | 614                    | 323                    | 1,303                                | 2,240                |             | 8,675      | 10,915         |
| Commercial and industrial                             | 1,533                  | 470                    | 6,986                                | 8,989                |             | 15,753     | 24,742         |
| Single pay                                            |                        |                        | 8,900                                | 8,900                |             | 516        | 9,416          |
|                                                       | \$ 11,092              | \$ 3,262               | \$ 93,605                            | \$ 107,959           | \$          | \$ 213,081 | \$ 321,040     |

An aging analysis of past due loans, segregated by class for acquired loans, as of September 30, 2010 was as follows:

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| (Dollars in thousands)                                | 30-59 Days<br>Past Due | 60-89 Days<br>Past Due | 90+ Days<br>Past Due<br>and Accruing | Total<br>Past<br>Due | Nonaccruals | Current    | Total<br>Loans |
|-------------------------------------------------------|------------------------|------------------------|--------------------------------------|----------------------|-------------|------------|----------------|
| Commercial loans greater than or equal to \$1 million | \$ 3,058               | \$ 3,807               | \$ 31,218                            | \$ 38,083            | \$          | \$ 56,322  | \$ 94,405      |
| Commercial real estate                                | 2,778                  | 3,357                  | 16,023                               | 22,158               |             | 51,038     | 73,196         |
| Commercial real estate construction and development   | 2,370                  | 2,525                  | 16,006                               | 20,901               |             | 22,265     | 43,166         |
| Residential real estate                               | 5,730                  | 3,571                  | 23,265                               | 32,566               |             | 67,840     | 100,406        |
| Residential real estate junior lien                   | 253                    | 176                    | 503                                  | 932                  |             | 2,793      | 3,725          |
| Home equity                                           | 41                     | 91                     | 29                                   | 161                  |             | 1,375      | 1,536          |
| Consumer                                              | 884                    | 349                    | 1,778                                | 3,011                |             | 10,177     | 13,188         |
| Commercial and industrial                             | 2,290                  | 1,322                  | 6,495                                | 10,107               |             | 16,429     | 26,536         |
| Single pay                                            | 7                      | 4,788                  | 7,579                                | 12,374               |             | 740        | 13,114         |
|                                                       | \$ 17,411              | \$ 19,986              | \$ 102,896                           | \$ 140,293           | \$          | \$ 228,979 | \$ 369,272     |

Acquired loans that are past due continue to accrue accretable yield under the accretion method of accounting and therefore are not considered to be nonaccrual.

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

The following is a summary of information pertaining to impaired non-acquired loans:

| (Dollars in thousands)                   | Unpaid<br>Contractual<br>Principal<br>Balance | Recorded<br>Investment<br>With No<br>Allowance | Gross<br>Recorded<br>Investment<br>With<br>Allowance | Total<br>Recorded<br>Investment | Related<br>Allowance |
|------------------------------------------|-----------------------------------------------|------------------------------------------------|------------------------------------------------------|---------------------------------|----------------------|
| <b>September 30, 2011</b>                |                                               |                                                |                                                      |                                 |                      |
| <b>Commercial real estate:</b>           |                                               |                                                |                                                      |                                 |                      |
| <b>Construction and land development</b> |                                               |                                                |                                                      |                                 |                      |
|                                          | \$ 31,695                                     | \$ 11,839                                      | \$ 8,574                                             | \$ 20,413                       | \$ 2,384             |
| <b>Commercial non-owner occupied</b>     | 14,770                                        | 10,675                                         | 1,062                                                | 11,737                          | 438                  |
| <b>Commercial owner occupied</b>         | 17,140                                        | 9,784                                          | 4,794                                                | 14,578                          | 439                  |
| <b>Consumer real estate:</b>             |                                               |                                                |                                                      |                                 |                      |
| <b>Consumer owner occupied</b>           | 3,423                                         | 947                                            | 2,012                                                | 2,959                           | 278                  |
| <b>Home equity loans</b>                 |                                               |                                                |                                                      |                                 |                      |
| <b>Commercial and industrial</b>         | 4,912                                         | 4,723                                          |                                                      | 4,723                           |                      |
| <b>Other income producing property</b>   | 3,270                                         | 2,357                                          | 637                                                  | 2,994                           | 188                  |
| <b>Consumer Other loans</b>              |                                               |                                                |                                                      |                                 |                      |
| <b>Total impaired loans</b>              | \$ 75,210                                     | \$ 40,325                                      | \$ 17,079                                            | \$ 57,404                       | \$ 3,727             |
| <b>December 31, 2010</b>                 |                                               |                                                |                                                      |                                 |                      |
| <b>Commercial real estate:</b>           |                                               |                                                |                                                      |                                 |                      |
| <b>Construction and land development</b> | \$ 29,656                                     | \$ 13,362                                      | \$ 9,719                                             | \$ 23,081                       | \$ 1,718             |
| <b>Commercial non-owner occupied</b>     | 12,902                                        | 5,824                                          | 5,124                                                | 10,948                          | 1,444                |
| <b>Commercial owner occupied</b>         | 11,279                                        | 5,353                                          | 5,394                                                | 10,747                          | 830                  |
| <b>Consumer real estate:</b>             |                                               |                                                |                                                      |                                 |                      |
| <b>Consumer owner occupied</b>           | 1,725                                         |                                                | 1,540                                                | 1,540                           | 80                   |
| <b>Home equity loans</b>                 |                                               |                                                |                                                      |                                 |                      |
| <b>Commercial and industrial</b>         | 1,145                                         |                                                | 1,144                                                | 1,144                           | 36                   |
| <b>Other income producing property</b>   | 4,402                                         | 2,246                                          | 907                                                  | 3,153                           | 28                   |
| <b>Consumer Other loans</b>              |                                               |                                                |                                                      |                                 |                      |
| <b>Total impaired loans</b>              | \$ 61,109                                     | \$ 26,785                                      | \$ 23,828                                            | \$ 50,613                       | \$ 4,136             |
| <b>September 30, 2010</b>                |                                               |                                                |                                                      |                                 |                      |
| <b>Commercial real estate:</b>           |                                               |                                                |                                                      |                                 |                      |
| <b>Construction and land development</b> | \$ 39,373                                     | \$ 16,105                                      | \$ 11,093                                            | \$ 27,198                       | \$ 1,740             |
| <b>Commercial non-owner occupied</b>     | 11,172                                        | 6,623                                          | 2,587                                                | 9,210                           | 878                  |
| <b>Commercial owner occupied</b>         | 7,443                                         | 2,709                                          | 4,243                                                | 6,952                           | 435                  |
| <b>Consumer real estate:</b>             |                                               |                                                |                                                      |                                 |                      |
| <b>Consumer owner occupied</b>           | 612                                           | 434                                            |                                                      | 434                             |                      |
| <b>Home equity loans</b>                 |                                               |                                                |                                                      |                                 |                      |

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|                                 |           |           |           |           |          |
|---------------------------------|-----------|-----------|-----------|-----------|----------|
| Commercial and industrial       | 7,848     | 1,693     | 339       | 2,032     | 206      |
| Other income producing property | 5,182     | 1,651     | 2,935     | 4,586     | 578      |
| Consumer                        |           |           |           |           |          |
| Other loans                     |           |           |           |           |          |
| Total impaired loans            | \$ 71,630 | \$ 29,215 | \$ 21,197 | \$ 50,412 | \$ 3,837 |

Acquired loans are accounted for in pools as shown on page 18 rather than being individually evaluated for impairment; therefore, the table above only pertains to non-acquired loans.

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

The following summarizes the average investment in non-acquired impaired loans and interest income recognized on impaired loans for the three and nine months ended September 30, 2011:

| (Dollars in thousands)            | Three Months Ended<br>September 30, 2011   |                               | Nine Months Ended<br>September 30, 2011    |                               |
|-----------------------------------|--------------------------------------------|-------------------------------|--------------------------------------------|-------------------------------|
|                                   | Average<br>Investment in<br>Impaired Loans | Interest Income<br>Recognized | Average<br>Investment in<br>Impaired Loans | Interest Income<br>Recognized |
| Commercial real estate:           |                                            |                               |                                            |                               |
| Construction and land development | \$ 21,087                                  | \$ 46                         | \$ 22,693                                  | \$ 114                        |
| Commercial non-owner occupied     | 11,989                                     | 64                            | 11,546                                     | 89                            |
| Commercial owner occupied         | 10,790                                     | 210                           | 11,413                                     | 301                           |
| Consumer real estate:             |                                            |                               |                                            |                               |
| Consumer owner occupied           | 2,370                                      | 18                            | 1,889                                      | 41                            |
| Home equity loans                 |                                            |                               |                                            |                               |
| Commercial and industrial         | 1,096                                      | 104                           | 1,085                                      | 104                           |
| Other income producing property   | 2,672                                      | 11                            | 1,903                                      | 26                            |
| Consumer                          |                                            |                               |                                            |                               |
| Other loans                       |                                            |                               |                                            |                               |
| Total Impaired Loans              | \$ 50,004                                  | \$ 453                        | \$ 50,529                                  | \$ 675                        |

The following is a summary of information pertaining to non-acquired nonaccrual loans by class, including restructured loans:

| (Dollars in thousands)                          | September 30,<br>2011 | December 31,<br>2010 | September 30,<br>2010 |
|-------------------------------------------------|-----------------------|----------------------|-----------------------|
| Commercial non-owner occupied real estate:      |                       |                      |                       |
| Construction and land development               | \$ 18,542             | \$ 27,207            | \$ 34,038             |
| Commercial non-owner occupied                   | 10,870                | 8,407                | 8,740                 |
| Total commercial non-owner occupied real estate | 29,412                | 35,614               | 42,778                |
| Consumer real estate:                           |                       |                      |                       |
| Consumer owner occupied                         | 7,807                 | 6,865                | 7,610                 |
| Home equity loans                               | 1,752                 | 2,517                | 1,162                 |
| Total consumer real estate                      | 9,559                 | 9,382                | 8,772                 |
| Commercial owner occupied real estate           | 11,957                | 10,499               | 6,204                 |
| Commercial and industrial                       | 4,961                 | 1,282                | 2,852                 |
| Other income producing property                 | 5,069                 | 5,708                | 6,053                 |
| Consumer                                        | 205                   | 176                  | 305                   |
| Other loans                                     |                       |                      |                       |
| Restructured loans                              | 11,698                | 6,365                | 3,479                 |
| Total loans on nonaccrual status                | \$ 72,861             | \$ 69,026            | \$ 70,443             |

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In the course of resolving delinquent loans, the Bank may choose to restructure the contractual terms of certain loans. Any loans that are modified are reviewed by the Bank to determine if a troubled debt restructuring ( TDR or restructured loan ) has occurred. A TDR is a modification in which the Bank grants a concession to a borrower that it would not otherwise consider due to economic or legal reasons related to a borrower's financial difficulties. The concessions granted on TDRs generally include terms to reduce the interest rate, extend the term of the debt obligation, or modify the payment structure on the debt obligation.

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

SCBT designates loan modifications as TDRs when, for economic or legal reasons related to the borrower's financial difficulties, it grants a concession to the borrower that it would not otherwise consider (ASC Topic 310.40). Loans on nonaccrual status at the date of modification are initially classified as nonaccrual TDRs. Loans on accruing status at the date of concession are initially classified as accruing TDRs if the note is reasonably assured of repayment and performance is expected in accordance with its modified terms. Such loans may be designated as nonaccrual loans subsequent to the concession date if reasonable doubt exists as to the collection of interest or principal under the restructuring agreement. TDRs are returned to accruing status when there is economic substance to the restructuring, there is documented credit evaluation of the borrower's financial condition, the remaining balance is reasonably assured of repayment in accordance with its modified terms, and the borrower has demonstrated sustained repayment performance in accordance with the modified terms for a reasonable period of time (generally a minimum of six months).

The following table presents restructured non-acquired loans segregated by class and type of concession for the three months and nine months ended September 30, 2011:

|                                   | Three Months Ended September 30, 2011 |                                                  |                                                   | Nine Months Ended September 30, 2011 |                                                  |                                                   |
|-----------------------------------|---------------------------------------|--------------------------------------------------|---------------------------------------------------|--------------------------------------|--------------------------------------------------|---------------------------------------------------|
|                                   | Number of loans                       | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Number of loans                      | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| Interest rate modification        |                                       |                                                  |                                                   |                                      |                                                  |                                                   |
| Construction and land development | 3                                     | \$ 387                                           | \$ 384                                            | 14                                   | \$ 3,122                                         | \$ 3,059                                          |
| Commercial owner occupied         |                                       |                                                  |                                                   | 2                                    | 1,334                                            | 1,302                                             |
| Consumer owner occupied           |                                       |                                                  |                                                   | 2                                    | 759                                              | 743                                               |
| Other income producing property   | 1                                     | 46                                               | 44                                                | 1                                    | 46                                               | 44                                                |
| Total interest rate modifications | 4                                     | \$ 433                                           | \$ 428                                            | 19                                   | \$ 5,261                                         | \$ 5,148                                          |
| Term modification                 |                                       |                                                  |                                                   |                                      |                                                  |                                                   |
| Construction and land development | 1                                     | \$ 2,443                                         | \$ 2,443                                          | 1                                    | \$ 2,443                                         | \$ 2,443                                          |
| Commercial owner occupied         |                                       |                                                  |                                                   | 2                                    | 927                                              | 872                                               |
| Consumer owner occupied           |                                       |                                                  |                                                   | 1                                    | 605                                              | 600                                               |
| Total term modifications          | 1                                     | \$ 2,443                                         | \$ 2,443                                          | 4                                    | \$ 3,975                                         | \$ 3,915                                          |
| Total restructured loans          | 5                                     | \$ 2,876                                         | \$ 2,871                                          | 23                                   | \$ 9,236                                         | \$ 9,063                                          |

The following table presents the changes in status of non-acquired loans restructured within the previous 12 months as of September 30, 2011 by type of concession:

Converted to Non-accrual

Foreclosure/Default

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|                            | Paying Under Restructured<br>Terms |                        |                    |                        |                    |                        |                    |                        |
|----------------------------|------------------------------------|------------------------|--------------------|------------------------|--------------------|------------------------|--------------------|------------------------|
|                            | Number of<br>loans                 | Recorded<br>Investment | Number of<br>loans | Recorded<br>Investment | Number of<br>loans | Recorded<br>Investment | Number of<br>loans | Recorded<br>Investment |
| Interest rate modification | 23                                 | \$ 7,080               | 4                  | \$ 1,857               | 2                  | \$ 708                 |                    |                        |
| Term modification          | 6                                  | 4,561                  |                    |                        |                    |                        |                    |                        |
| Forgiveness of principal   | 1                                  | 594                    |                    |                        | 1                  | 146                    |                    |                        |
|                            | <b>30</b>                          | <b>\$ 12,235</b>       | <b>4</b>           | <b>\$ 1,857</b>        | <b>3</b>           | <b>\$ 854</b>          |                    |                        |

The amount of specific reserve associated with non-acquired restructured loans was \$1.7 million at September 30, 2011. The Company had \$63,000 in remaining availability under commitments to lend additional funds on these restructured loans at September 30, 2011. At September 30, 2011, there were no specific reserves related to the restructured loans that had subsequently defaulted.

There were no loans modified as troubled debt restructurings within the previous 12 months for which there was a payment default during the three and nine months ended September 30, 2011.

As a result of the adoption of ASU 2011-02, SCBT identified three additional TDRs for a total of \$1.1 million. There were no specific reserves associated with these loans as of September 30, 2011.

Table of Contents**Note 7 Receivable from FDIC for Loss Share Agreements**

The following table provides changes in the receivable from the FDIC for the periods ended September 30, 2011 and September 30, 2010:

(Dollars in thousands)

|                                                                |    |           |
|----------------------------------------------------------------|----|-----------|
| Balance, December 31, 2010                                     | \$ | 212,103   |
| FDIC loss share receivable recorded for Habersham agreement    |    | 87,418    |
| FDIC loss share receivable recorded for BankMeridian agreement |    | 50,753    |
| Increase in expected losses on indemnified assets              |    | 28,375    |
| Claimable losses on OREO covered under loss share agreements   |    | 11,076    |
| Reimbursable expenses claimed                                  |    | 9,803     |
| Accretion of discounts and premiums, net                       |    | (7,049)   |
| Reimbursements from FDIC                                       |    | (117,821) |
| Balance, September 30, 2011                                    | \$ | 274,658   |

(Dollars in thousands)

|                                                       |    |          |
|-------------------------------------------------------|----|----------|
| Balance, December 31, 2009                            | \$ |          |
| FDIC loss share receivable recorded for CBT agreement |    | 276,789  |
| Accretion of discounts and premiums, net              |    | 1,466    |
| Reimbursable expenses claimed                         |    | 2,033    |
| Reimbursements from FDIC                              |    | (12,802) |
| Balance, September 30, 2010                           | \$ | 267,486  |

The FDIC receivable for loss share agreements is measured separately from the related covered assets and is initially recorded at fair value. The fair value was estimated using projected cash flows related to the loss share agreements based on the expected reimbursements for losses and the applicable loss share percentages. At September 30, 2011, the Company estimated that \$19.6 million was currently receivable from the FDIC.

Table of Contents**Note 8 Other Real Estate Owned**

The following is a summary of information pertaining to OREO at September 30, 2011 and September 30, 2010:

| (Dollars in thousands)               | OREO      | Covered<br>OREO | Total      |
|--------------------------------------|-----------|-----------------|------------|
| Balance, December 31, 2010           | \$ 17,264 | \$ 69,317       | \$ 86,581  |
| Acquired in Habersham acquisition    |           | 14,493          | 14,493     |
| Acquired in BankMeridian acquisition |           | 4,826           | 4,826      |
| Additions, net                       | 19,801    | 33,697          | 53,498     |
| Writedowns                           | (6,080)   | (11,659)        | (17,739)   |
| Sold                                 | (8,299)   | (30,934)        | (39,233)   |
| Balance, September 30, 2011          | \$ 22,686 | \$ 79,740       | \$ 102,426 |

| (Dollars in thousands)      | OREO      | Covered<br>OREO | Total     |
|-----------------------------|-----------|-----------------|-----------|
| Balance, December 31, 2009  | \$ 3,102  | \$              | \$ 3,102  |
| Acquired in CBT Acquisition |           | 25,876          | 25,876    |
| Additions                   | 20,629    | 30,643          | 51,272    |
| Writedowns                  | (1,687)   |                 | (1,687)   |
| Sold                        | (6,387)   | (9,154)         | (15,541)  |
| Balance, September 30, 2010 | \$ 15,657 | \$ 47,365       | \$ 63,022 |

The covered OREO above is covered pursuant to the FDIC loss share agreements which are discussed in Note 4 Mergers and Acquisition, and is presented net of the related fair value discount.

**Note 9 Deposits**

The Company's total deposits are comprised of the following:

| (Dollars in thousands)           | September 30,<br>2011 | December 31,<br>2010 | September 30,<br>2010 |
|----------------------------------|-----------------------|----------------------|-----------------------|
| Certificates of deposit          | \$ 955,019            | \$ 1,129,892         | \$ 1,209,462          |
| Interest-bearing demand deposits | 1,385,541             | 1,186,260            | 1,134,632             |
| Demand deposits                  | 653,923               | 484,838              | 472,753               |
| Savings deposits                 | 263,981               | 202,054              | 199,227               |
| Other time deposits              | 29,188                | 1,104                | 4,072                 |
| Total deposits                   | \$ 3,287,652          | \$ 3,004,148         | \$ 3,020,146          |

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The aggregate amounts of time deposits in denominations of \$100,000 or more at September 30, 2011, December 31, 2010, and September 30, 2010 were \$422.5 million, \$530.8 million and \$568.5 million, respectively. In July of 2010, the Dodd-Frank Act permanently increased the insurance limit on deposit accounts from \$100,000 to \$250,000. At September 30, 2011, December 31, 2010, and September 30, 2010, SCBT had \$149.9 million, \$177.5 million, and \$214.6 million in certificates of deposits greater than \$250,000, respectively. The Company did not have brokered certificates of deposit at September 30, 2011, December 31, 2010, and September 30, 2010.

Table of Contents**Note 10 Retirement Plans**

The Company and the Bank provide certain retirement benefits to their employees in the form of a non-contributory defined benefit pension plan and an employees' savings plan. The non-contributory defined benefit pension plan covers all employees hired on or before December 31, 2005, who have attained age 21, and who have completed one year of eligible service. Employees hired on or after January 1, 2006 are not eligible to participate in the non-contributory defined benefit pension plan. On this date, a new benefit formula applies only to participants who have not attained age 45 or who do not have five years of service.

Effective July 1, 2009, the Company suspended the accrual of benefits for pension plan participants under the non-contributory defined benefit plan. The pension plan remained suspended as of September 30, 2011.

The components of net periodic pension expense recognized during the three and nine months ended September 30 are as follows:

| (Dollars in thousands)                 | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |          |
|----------------------------------------|-------------------------------------|---------|------------------------------------|----------|
|                                        | 2011                                | 2010    | 2011                               | 2010     |
| Service cost                           | \$                                  | \$      | \$                                 | \$       |
| Interest cost                          | 274                                 | 270     | 822                                | 810      |
| Expected return on plan assets         | (400)                               | (377)   | (1,200)                            | (1,131)  |
| Amortization of prior service cost     |                                     |         |                                    |          |
| Recognized net actuarial loss          | 137                                 | 65      | 411                                | 195      |
| Net periodic pension expense (benefit) | \$ 11                               | \$ (42) | \$ 33                              | \$ (126) |

The Company contributed \$304,000 and \$760,000 to the pension plan for the three and nine months ended September 30, 2011 and anticipates making similar additional quarterly contributions during the remainder of the year.

Electing employees are eligible to participate in the employees' savings plan, under the provisions of Internal Revenue Code Section 401(k), after attaining age 21. Plan participants elect to contribute portions of their annual base compensation as a before tax contribution. The Company matched 50% of these contributions up to a 6% employee contribution for employees hired before January 1, 2006 who were age 45 and higher with five or more vesting years of service. The Company matched 100% of these contributions up to a 6% employee contribution for current employees under age 45 or with less than five years of service. Employees hired on January 1, 2006 or thereafter will not participate in the defined benefit pension plan, but are eligible to participate in the employees' savings plan, and until April 1, 2009, the Company matched 100% of the employees' contributions up to 6% of salary. Effective April 1, 2009, the Company temporarily suspended the employer match contribution to all participants in the plan. Effective January 1, 2010, the Company reinstated an employer match so that participating employees, as defined above, would receive a 50% match of their 401(k) plan contributions, up to 4% of salary.

Employees can enter the savings plan on or after the first day of each month. The employee may enter into a salary deferral agreement at any time to select an alternative deferral amount or to elect not to defer in the plan. If the employee does not elect an investment allocation, the plan administrator will select a retirement-based portfolio according to the employee's number of years until normal retirement age. The plan's investment valuations are generally provided on a daily basis.



Table of Contents**Note 11 Earnings Per Share**

Basic earnings per share are calculated by dividing net income available to common shareholders by the weighted-average shares of common stock outstanding during each period, excluding non-vested shares. The Company's diluted earnings per share are based on the weighted-average shares of common stock outstanding during each period plus the maximum dilutive effect of common stock issuable upon exercise of stock options or vesting of restricted shares. The weighted-average number of shares and equivalents are determined after giving retroactive effect to stock dividends and stock splits.

The following table sets forth the computation of basic and diluted earnings per share for the three and nine months ended September 30:

| (Dollars and shares in thousands)  | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |           |
|------------------------------------|-------------------------------------|----------|------------------------------------|-----------|
|                                    | 2011                                | 2010     | 2011                               | 2010      |
| <b>Basic earnings per share:</b>   |                                     |          |                                    |           |
| Net income                         | \$ 10,332                           | \$ 1,787 | \$ 17,766                          | \$ 51,323 |
| Weighted-average basic shares      | 13,818                              | 12,620   | 13,613                             | 12,609    |
| Basic earnings per share           | \$ 0.75                             | \$ 0.14  | \$ 1.30                            | \$ 4.07   |
| <b>Diluted earnings per share:</b> |                                     |          |                                    |           |
| Net income                         | \$ 10,332                           | \$ 1,787 | \$ 17,766                          | \$ 51,323 |
| Weighted-average basic shares      | 13,818                              | 12,620   | 13,613                             | 12,609    |
| Effect of dilutive securities      | 66                                  | 91       | 76                                 | 106       |
| Weighted-average dilutive shares   | 13,884                              | 12,711   | 13,689                             | 12,715    |
| Diluted earnings per share         | \$ 0.74                             | \$ 0.14  | \$ 1.28                            | \$ 4.04   |

The calculation of diluted earnings per share excludes outstanding stock options that have exercise prices greater than the average market price of the common shares for the period as follows:

| (Dollars in thousands)   | Three Months Ended<br>September 30, |                      | Nine Months Ended<br>September 30, |                 |
|--------------------------|-------------------------------------|----------------------|------------------------------------|-----------------|
|                          | 2011                                | 2010                 | 2011                               | 2010            |
| Number of shares         | 268,022                             | 225,511              | 256,664                            | 125,942         |
| Range of exercise prices | \$26.01 -<br>\$40.99                | \$26.01 -<br>\$40.99 | \$26.01 -<br>\$40.99               | \$26.01-\$40.99 |

**Note 12 Share-Based Compensation**

The Company's 1999 and 2004 stock option programs are long-term retention programs intended to attract, retain, and provide incentives for key employees and non-employee directors in the form of incentive and non-qualified stock options and restricted stock.

*Stock Options*

With the exception of non-qualified stock options granted to directors under the 1999 and 2004 plans, which in some cases may be exercised at any time prior to expiration and in some other cases may be exercised at intervals less than one year following the grant date, incentive stock options granted under the plans may not be exercised in whole or in part within one year following the date of the grant, as these incentive stock options become exercisable in 25% increments pro rata over the four-year period following the grant date. The options are granted at an exercise price at least equal to the fair value of the common stock at the date of grant and expire ten years from the date of grant. No options were granted under the 1999 plan after January 2, 2004, and the plan is closed other than for any options still unexercised and outstanding. The 2004 plan is the only plan from which new share-based compensation grants may be issued. It is the Company's policy to grant options out of the 661,500 shares registered under the 2004 plan.

Table of Contents**Note 12 Share-Based Compensation (continued)**

Activity in the Company's stock option plans is summarized in the following table. All information has been retroactively adjusted for stock dividends and stock splits.

| <b>Options</b>                                                    | <b>Number of<br/>Shares</b> | <b>Weighted-<br/>Average<br/>Exercise<br/>Price</b> | <b>Weighted-<br/>Average<br/>Remaining<br/>Contractual<br/>Life (Yrs.)</b> | <b>Aggregate<br/>Intrinsic<br/>Value (000 \$)</b> |
|-------------------------------------------------------------------|-----------------------------|-----------------------------------------------------|----------------------------------------------------------------------------|---------------------------------------------------|
| Outstanding at January 1, 2011                                    | 386,207                     | \$ 29.02                                            |                                                                            |                                                   |
| Granted                                                           | 27,542                      | 32.05                                               |                                                                            |                                                   |
| Exercised                                                         | (19,251)                    | 17.98                                               |                                                                            |                                                   |
| Expired/Forfeited                                                 | (1)                         | 11.39                                               |                                                                            |                                                   |
| Outstanding at September 30, 2011                                 | 394,497                     | 29.77                                               | 4.79                                                                       | \$ 321                                            |
| Exercisable at September 30, 2011                                 | 309,669                     | 29.25                                               | 3.83                                                                       | \$ 321                                            |
| Weighted-average fair value of<br>options granted during the year | \$ 11.65                    |                                                     |                                                                            |                                                   |

The fair value of options is estimated at the date of grant using the Black-Scholes option pricing model and expensed over the options' vesting periods. The following weighted-average assumptions were used in valuing options issued:

|                         | <b>Nine Months Ended<br/>September 30,</b> |             |
|-------------------------|--------------------------------------------|-------------|
|                         | <b>2011</b>                                | <b>2010</b> |
| Dividend yield          | <b>2.20%</b>                               | 2.00%       |
| Expected life           | <b>6 years</b>                             | 6 years     |
| Expected volatility     | <b>44%</b>                                 | 50%         |
| Risk-free interest rate | <b>2.32%</b>                               | 2.73%       |

As of September 30, 2011, there was \$754,000 of total unrecognized compensation cost related to nonvested stock option grants under the plans. The cost is expected to be recognized over a weighted-average period of 1.28 years as of September 30, 2011. The total fair value of shares vested during the nine months ended September 30, 2011 was \$453,000.

*Restricted Stock*

The Company from time-to-time also grants shares of restricted stock to key employees and non-employee directors. These awards help align the interests of these employees and directors with the interests of the shareholders of the Company by providing economic value directly related to increases in the value of the Company's stock. The value of the stock awarded is established as the fair market value of the stock at the time of

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the grant. The Company recognizes expenses, equal to the total value of such awards, ratably over the vesting period of the stock grants. Restricted stock grants to employees typically cliff vest after four years. On occasion, grants of restricted stock will cliff vest over a longer period, such as seven or ten years. Grants to non-employee directors typically vest within a 12-month period.

Table of Contents**Note 12 Share-Based Compensation (continued)**

Nonvested restricted stock for the nine months ended September 30, 2011 is summarized in the following table. All information has been retroactively adjusted for stock dividends and stock splits.

| <b>Restricted Stock</b>         | <b>Shares</b> | <b>Weighted-Average<br/>Grant-Date<br/>Fair Value</b> |
|---------------------------------|---------------|-------------------------------------------------------|
| Nonvested at January 1, 2011    | 150,629       | \$ 30.74                                              |
| Granted                         | 54,078        | 32.09                                                 |
| Vested                          | (27,724)      | 36.19                                                 |
| Forfeited                       |               |                                                       |
| Nonvested at September 30, 2011 | 176,983       | 30.30                                                 |

As of September 30, 2011, there was \$3.7 million of total unrecognized compensation cost related to nonvested restricted stock granted under the plans. This cost is expected to be recognized over a weighted-average period of 4.0 years as of September 30, 2011. The total fair value of shares vested during the nine months ended September 30, 2011 was \$1.0 million.

**Note 13 Commitments and Contingent Liabilities**

In the normal course of business, the Company makes various commitments and incurs certain contingent liabilities, which are not reflected in the accompanying financial statements. The commitments and contingent liabilities include guarantees, commitments to extend credit, and standby letters of credit. At September 30, 2011, commitments to extend credit and standby letters of credit totaled \$772.5 million. The Company does not anticipate any material losses as a result of these transactions.

**Note 14 Fair Value**

FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States, and enhances disclosures about fair value measurements. FASB ASC 820 clarifies that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions.

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Available for sale securities and derivative financial instruments are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, loans held for investment 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.

FASB ASC 820 establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

|         |                                                                                                                                    |
|---------|------------------------------------------------------------------------------------------------------------------------------------|
| Level 1 | Observable inputs such as quoted prices in active markets;                                                                         |
| Level 2 | Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and                     |
| Level 3 | Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions. |

The following is a description of valuation methodologies used for assets recorded at fair value.

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**Note 14 Fair Value (continued)**

*Investment Securities*

Securities available for sale are valued on a recurring basis at quoted market prices where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable securities. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange or U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities and debentures issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets. Securities held to maturity are valued at quoted market prices or dealer quotes similar to securities available for sale. The carrying value of Federal Reserve Bank stock and FHLB stock approximates fair value based on their redemption provisions.

Pooled trust preferred securities were Level 3 securities under the three-tier fair value hierarchy because of an absence of observable inputs for these and similar securities in the debt markets. The Company determined that (1) there were few observable transactions and market quotations available and they were not reliable for purposes of determining fair value at December 31, 2010 and September 30, 2010, and (2) an income valuation approach technique (present value technique) that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs was equally or more representative of fair value than the market approach valuation technique used at prior measurement dates. This income valuation approach requires numerous steps in determining fair value. These steps included estimating credit quality of the collateral, generating asset defaults, forecasting cash flows for underlying collateral, and determining losses given default assumption.

*Mortgage Loans Held for Sale*

Mortgage loans held for sale are carried at the lower of cost or market value. The fair values of mortgage loans held for sale are based on commitments on hand from investors within the secondary market for loans with similar characteristics. As such, the fair value adjustments for mortgage loans held for sale is nonrecurring Level 2.

*Loans*

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan may be considered impaired and an allowance for loan losses may be established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment using estimated fair value methodologies. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At September 30, 2011, substantially all of the impaired loans were evaluated based on the fair value of the collateral because such loans were considered collateral dependent. Impaired loans, where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company considers the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company

considers the impaired loan as nonrecurring Level 3.

*Other Real Estate Owned ( OREO )*

Typically non-covered OREO, consisting of properties obtained through foreclosure or in satisfaction of loans, is reported at fair value, determined on the basis of current appraisals, comparable sales, and other estimates of value obtained principally from independent sources, adjusted for estimated selling costs (Level 2). However, both non-covered and covered OREO would be considered Level 3 in the fair value hierarchy because management has qualitatively applied a discount due to the size and over supply of inventory in north Georgia and the incremental discounts applied to the appraisals in other markets. At the time of foreclosure, any excess of the loan balance over the fair value of the real estate held as collateral is treated as a charge against the allowance for loan losses. Gains or losses on sale and generally any subsequent adjustments to the value are recorded as a component of OREO expense.

*Derivative Financial Instruments*

Fair value is estimated using pricing models of derivatives with similar characteristics, thus classifying the derivatives within Level 2 of the fair value hierarchy (see Note 16 Derivative Financial Instruments for additional information).

Table of Contents**Note 14 Fair Value (continued)***Assets and Liabilities Recorded at Fair Value on a Recurring Basis*

The tables below present the recorded amount of assets and liabilities measured at fair value on a recurring basis.

|                                                   | Fair Value<br>September 30,<br>2011 | Quoted Prices<br>In Active<br>Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|---------------------------------------------------|-------------------------------------|-------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
| <b>(Dollars in thousands)</b>                     |                                     |                                                                               |                                                           |                                                    |
| <b>Assets</b>                                     |                                     |                                                                               |                                                           |                                                    |
| Securities available for sale:                    |                                     |                                                                               |                                                           |                                                    |
| Government-sponsored enterprises debt             | \$ 61,320                           | \$                                                                            | \$ 61,320                                                 | \$                                                 |
| State and municipal obligations                   | 43,448                              |                                                                               | 43,448                                                    |                                                    |
| Mortgage-backed securities                        | 176,855                             |                                                                               | 176,855                                                   |                                                    |
| Corporate stocks                                  | 303                                 | 278                                                                           | 25                                                        |                                                    |
| Total securities available for sale               | \$ 281,926                          | \$ 278                                                                        | \$ 281,648                                                | \$                                                 |
| <b>Liabilities</b>                                |                                     |                                                                               |                                                           |                                                    |
| Derivative financial instruments                  | \$ 1,377                            | \$                                                                            | \$ 1,377                                                  | \$                                                 |
| <b>(Dollars in thousands)</b>                     |                                     |                                                                               |                                                           |                                                    |
| <b>Assets</b>                                     |                                     |                                                                               |                                                           |                                                    |
| Securities available for sale:                    |                                     |                                                                               |                                                           |                                                    |
| Government-sponsored enterprises debt             | \$ 70,534                           | \$                                                                            | \$ 70,534                                                 | \$                                                 |
| State and municipal obligations                   | 40,004                              |                                                                               | 40,004                                                    |                                                    |
| Mortgage-backed securities                        | 84,440                              |                                                                               | 84,440                                                    |                                                    |
| Trust preferred (collateralized debt obligations) | 2,034                               |                                                                               |                                                           | 2,034                                              |
| Corporate stocks                                  | 362                                 | 337                                                                           | 25                                                        |                                                    |
| Total securities available for sale               | \$ 197,374                          | \$ 337                                                                        | \$ 195,003                                                | \$ 2,034                                           |
| <b>Liabilities</b>                                |                                     |                                                                               |                                                           |                                                    |
| Derivative financial instruments                  | \$ 635                              | \$                                                                            | \$ 635                                                    | \$                                                 |

Table of Contents**Note 14 Fair Value (continued)**

|                                                   |    | <b>Fair Value<br/>September 30,<br/>2010</b> | <b>Quoted Prices<br/>In Active<br/>Markets<br/>for Identical<br/>Assets<br/>(Level 1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
|---------------------------------------------------|----|----------------------------------------------|-------------------------------------------------------------------------------------------|----------------------------------------------------------------------|--------------------------------------------------------------|
| <b>(Dollars in thousands)</b>                     |    |                                              |                                                                                           |                                                                      |                                                              |
| <b>Assets</b>                                     |    |                                              |                                                                                           |                                                                      |                                                              |
| Securities available for sale:                    |    |                                              |                                                                                           |                                                                      |                                                              |
| Government-sponsored enterprises debt             | \$ | 97,005                                       | \$                                                                                        | 97,005                                                               | \$                                                           |
| State and municipal obligations                   |    | 40,899                                       |                                                                                           | 40,899                                                               |                                                              |
| Mortgage-backed securities                        |    | 83,451                                       |                                                                                           | 83,451                                                               |                                                              |
| Trust preferred (collateralized debt obligations) |    | 5,443                                        |                                                                                           |                                                                      | 5,443                                                        |
| Corporate stocks                                  |    | 339                                          | 304                                                                                       | 35                                                                   |                                                              |
| Total securities available for sale               | \$ | 227,137                                      | \$ 304                                                                                    | \$ 221,390                                                           | \$ 5,443                                                     |
| <b>Liabilities</b>                                |    |                                              |                                                                                           |                                                                      |                                                              |
| Derivative financial instruments                  | \$ | 1,151                                        | \$                                                                                        | 1,151                                                                | \$                                                           |

*Changes in Level 1, 2 and 3 Fair Value Measurements*

There were no transfers between the fair value hierarchy levels during the nine months ended September 30, 2011.

When a determination is made to classify a financial instrument within Level 3 of the valuation hierarchy, the determination is based upon the significance of the unobservable factors to the overall fair value measurement. However, since Level 3 financial instruments typically include, in addition to the unobservable or Level 3 components, observable components (that is, components that are actively quoted and can be validated to external sources), the gains and losses below include changes in fair value due in part to observable factors that are part of the valuation methodology.

A reconciliation of the beginning and ending balances of Level 3 assets and liabilities recorded at fair value on a recurring basis for the nine months ended September 30, 2011 is as follows:

| <b>(Dollars in thousands)</b>                                      | <b>Pooled Trust<br/>Preferred Securities</b> |
|--------------------------------------------------------------------|----------------------------------------------|
| Fair value, January 1, 2011                                        | \$ 2,034                                     |
| Change in unrealized loss recognized in other comprehensive income | 95                                           |
| Other-than-temporary impairment losses recognized in income        |                                              |
| Sales                                                              | (2,129)                                      |
| Transfers in and/or out of level 3                                 |                                              |
| Fair value, September 30, 2011                                     | \$                                           |

Total unrealized gains (losses), net of tax, included in accumulated other  
comprehensive income related to level 3 financial assets and liabilities still on  
the consolidated balance sheet at September 30, 2011 \$

Table of Contents**Note 14 Fair Value (continued)***Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis*

The tables below present the recorded amount of assets and liabilities measured at fair value on a nonrecurring basis.

| (Dollars in thousands)                    | Fair Value<br>September 30,<br>2011 | Quoted Prices<br>In Active<br>Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|-------------------------------------------|-------------------------------------|-------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
| Covered under FDIC loss share agreements: |                                     |                                                                               |                                                           |                                                    |
| OREO                                      | \$ 79,740                           | \$                                                                            | \$                                                        | \$ 79,740                                          |
| Non-acquired:                             |                                     |                                                                               |                                                           |                                                    |
| Impaired loans                            | 33,748                              |                                                                               | 22,990                                                    | 10,758                                             |
| OREO                                      | 22,686                              |                                                                               |                                                           | 22,686                                             |

| (Dollars in thousands)                    | Fair Value<br>December 31,<br>2010 | Quoted Prices<br>In Active<br>Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|-------------------------------------------|------------------------------------|-------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
| Covered under FDIC loss share agreements: |                                    |                                                                               |                                                           |                                                    |
| OREO                                      | \$ 69,317                          | \$                                                                            | \$                                                        | \$ 69,317                                          |
| Non-acquired:                             |                                    |                                                                               |                                                           |                                                    |
| Impaired loans                            | 33,740                             |                                                                               | 18,525                                                    | 15,215                                             |
| OREO                                      | 17,264                             |                                                                               |                                                           | 17,264                                             |

| (Dollars in thousands)                    | Fair Value<br>September 30,<br>2010 | Quoted Prices<br>In Active<br>Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|-------------------------------------------|-------------------------------------|-------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
| Covered under FDIC loss share agreements: |                                     |                                                                               |                                                           |                                                    |
| OREO                                      | \$ 47,365                           | \$                                                                            | \$                                                        | \$ 47,365                                          |
| Non-acquired:                             |                                     |                                                                               |                                                           |                                                    |
| Impaired loans                            | 38,689                              |                                                                               | 26,600                                                    | 12,089                                             |
| OREO                                      | 15,657                              |                                                                               |                                                           | 15,657                                             |



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**Note 14 Fair Value (continued)**

*Fair Value of Financial Instruments*

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those models are significantly affected by the assumptions used, including the discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. The use of different methodologies may have a material effect on the estimated fair value amounts. The fair value estimates presented herein are based on pertinent information available to management as of September 30, 2011, December 31, 2010 and September 30, 2010. Such amounts have not been revalued for purposes of these consolidated financial statements since those dates and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

*Cash and Cash Equivalents* The carrying amount is a reasonable estimate of fair value.

*Investment Securities* Securities held to maturity are valued at quoted market prices or dealer quotes. The carrying value of Federal Reserve Bank stock and FHLB stock approximates fair value based on their redemption provisions. The carrying value of the Company's investment in unconsolidated subsidiaries approximates fair value. See Note 5 Investment Securities for additional information, as well as page 42 regarding fair value.

*Loans* For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (e.g., one-to-four family residential) and other consumer loans are estimated using discounted cash flow analyses based on the Company's current rates offered for new loans of the same type, structure and credit quality. Fair values for other loans (e.g., commercial real estate and investment property mortgage loans, commercial and industrial loans) are estimated using discounted cash flow analyses, using interest rates currently being offered by the Company for loans with similar terms to borrowers of similar credit quality. Fair values for non-performing loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

*FDIC Receivable for Loss Share Agreements* The fair value is estimated based on discounted future cash flows using current discount rates.

*Deposit Liabilities* The fair values disclosed for demand deposits (e.g., interest and non-interest bearing checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts, and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

*Federal Funds Purchased and Securities Sold Under Agreements to Repurchase* The carrying amount of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings maturing within ninety days approximate their fair values.

*Other Borrowings* The fair value of other borrowings is estimated using discounted cash flow analysis on the Company's current incremental borrowing rates for similar types of instruments.

*Accrued Interest* The carrying amounts of accrued interest approximate fair value.

*Commitments to Extend Credit, Standby Letters of Credit and Financial Guarantees* The fair values of commitments to extend credit are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair values of guarantees and letters of credit are based on fees currently charged for similar agreements or on the estimated costs to terminate them or otherwise settle the obligations with the counterparties at the reporting date.

Table of Contents**Note 14 Fair Value (continued)**

The estimated fair value, and related carrying amount, of the Company's financial instruments are as follows:

|                                                                            | September 30,<br>2011 |               | December 31,<br>2010 |               | September 30,<br>2010 |               |
|----------------------------------------------------------------------------|-----------------------|---------------|----------------------|---------------|-----------------------|---------------|
| (Dollars in thousands)                                                     | Carrying<br>Amount    | Fair<br>Value | Carrying<br>Amount   | Fair<br>Value | Carrying<br>Amount    | Fair<br>Value |
| <b>Financial assets:</b>                                                   |                       |               |                      |               |                       |               |
| Cash and cash equivalents                                                  | \$ 158,769            | \$ 158,769    | \$ 237,099           | \$ 237,099    | \$ 173,190            | \$ 173,190    |
| Investment securities                                                      | 321,047               | 322,220       | 237,912              | 238,121       | 268,194               | 269,311       |
| Loans, net of allowance for loan losses, and loans held for sale           | 2,864,295             | 2,809,749     | 2,612,430            | 2,551,032     | 2,630,554             | 2,528,842     |
| FDIC receivable for loss share agreements                                  | 274,658               | 222,806       | 212,103              | 212,103       | 267,486               | 267,486       |
| Accrued interest receivable                                                | 12,875                | 12,875        | 11,711               | 11,711        | 13,014                | 13,014        |
| <b>Financial liabilities:</b>                                              |                       |               |                      |               |                       |               |
| Deposits                                                                   | 3,287,652             | 3,294,308     | 3,004,148            | 3,014,795     | 3,020,146             | 3,034,736     |
| Federal funds purchased and securities sold under agreements to repurchase | 184,403               | 184,403       | 191,017              | 191,017       | 163,905               | 163,905       |
| Other borrowings                                                           | 46,955                | 42,567        | 46,978               | 46,978        | 62,183                | 53,259        |
| Accrued interest payable                                                   | 2,673                 | 2,673         | 4,858                | 4,858         | 5,011                 | 5,011         |
| Interest rate swap cash flow hedge                                         | 1,377                 | 1,377         | 635                  | 635           | 1,151                 | 1,511         |
| <b>Off balance sheet financial instruments:</b>                            |                       |               |                      |               |                       |               |
| Commitments to extend credit                                               |                       | (9,719)       |                      | (13,787)      |                       | (13,036)      |
| Standby letters of credit and financial guarantees                         |                       |               |                      |               |                       |               |

**Note 15 Accumulated Other Comprehensive Income**

The components of the change in other comprehensive income and the related tax effects were as follows:

|                                                                | 2011              |               | September 30,<br>2011   |                   | 2010          |          | Net of<br>Tax<br>Amount |
|----------------------------------------------------------------|-------------------|---------------|-------------------------|-------------------|---------------|----------|-------------------------|
| (Dollars in thousands)                                         | Pre-tax<br>Amount | Tax<br>Effect | Net of<br>Tax<br>Amount | Pre-tax<br>Amount | Tax<br>Effect |          |                         |
| Change in net unrealized gain on securities available for sale | \$ 7,622          | \$ (2,706)    | 4,916                   | \$ 10,452         | \$ (3,710)    | \$ 6,742 |                         |
| Noncredit portion of other-than-temporary impairment losses:   |                   |               |                         |                   |               |          |                         |

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|                                                                                                |          |            |          |          |            |          |
|------------------------------------------------------------------------------------------------|----------|------------|----------|----------|------------|----------|
| Total other-than-temporary impairment losses                                                   |          |            |          | (6,740)  | 2,292      | (4,448)  |
| Less, reclassification adjustment for portion included in net income                           |          |            |          | 6,740    | (2,292)    | 4,448    |
| Net noncredit portion of other-than-temporary impairment losses                                |          |            |          |          |            |          |
| Change in unrealized losses on derivative financial instruments qualifying as cash flow hedges | (743)    | 264        | (479)    | (1,130)  | 401        | (729)    |
| Other comprehensive income                                                                     | \$ 6,879 | \$ (2,442) | \$ 4,437 | \$ 9,322 | \$ (3,309) | \$ 6,013 |

Table of Contents**Note 15 Accumulated Other Comprehensive Income (continued)**

The components of accumulated other comprehensive income, net of tax, were as follows:

| (Dollars in thousands)                                                                                   | Benefit<br>Plans | Unrealized Gains<br>on Securities<br>Available<br>for Sale | Cash Flow<br>Hedges | Total      |
|----------------------------------------------------------------------------------------------------------|------------------|------------------------------------------------------------|---------------------|------------|
| Balance at December 31, 2010                                                                             | \$ (4,816)       | \$ 1,433                                                   | \$ (409)            | \$ (3,792) |
| Change in net unrealized gain on securities<br>available for sale                                        |                  | 4,916                                                      |                     | 4,916      |
| Reclassification of noncredit other-than-temporary<br>impairment losses on available-for-sale securities |                  |                                                            |                     |            |
| Change in unrealized losses on derivative financial<br>instruments qualifying as cash flow hedges        |                  |                                                            | (479)               | (479)      |
| Balance at September 30, 2011                                                                            | \$ (4,816)       | \$ 6,349                                                   | \$ (888)            | \$ 645     |

**Note 16 Derivative Financial Instruments**

The Company is exposed to interest rate risk in the course of its business operations and manages a portion of this risk through the use of a derivative financial instrument, in the form of an interest rate swap (cash flow hedge). The Company accounts for its interest rate swap in accordance with FASB ASC 815, Derivatives and Hedging, which requires that all derivatives be recognized as assets or liabilities in the balance sheet at fair value. For more information regarding the fair value of the Company's derivative financial instruments, see Note 15 to these financial statements. The only type of derivative currently used by the Company is an interest rate swap agreement.

The Company utilizes the interest rate swap agreement to essentially convert a portion of its variable-rate debt to a fixed rate (cash flow hedge). For derivatives designated as hedging exposure to variable cash flows of a forecasted transaction (cash flow hedge), the effective portion of the derivative's gain or loss is initially reported as a component of other comprehensive income and subsequently reclassified into earnings when the forecasted transaction affects earnings or when the hedge is terminated. The ineffective portion of the gain or loss is reported in earnings immediately. For derivatives that are not designated as hedging instruments, changes in the fair value of the derivatives are recognized in earnings immediately.

In applying hedge accounting for derivatives, the Company establishes a method for assessing the effectiveness of the hedging derivative and a measurement approach for determining any ineffective aspect of the hedge upon the inception of the hedge.

*Cash Flow Hedge of Interest Rate Risk*

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During 2009, the Company entered into a forward starting interest rate swap agreement with a notional amount of \$8.0 million to manage interest rate risk due to periodic rate resets on its junior subordinated debt issued by SCBT Capital Trust II, an unconsolidated subsidiary of the Company established for the purpose of issuing trust preferred securities. The Company hedges the variable rate cash flows of subordinated debt against future interest rate increases by using an interest rate swap to effectively fix the rate on the debt beginning on June 15, 2010, at which time the debt contractually converted from a fixed interest rate to a variable interest rate. This hedge expires on June 15, 2019. The notional amount on which the interest payments are based will not be exchanged. This derivative contract calls for the Company to pay a fixed rate of 4.06% on \$8.0 million notional amount and receive a variable rate of three-month LIBOR on the \$8.0 million notional amount.

The Company recognized an after-tax unrealized loss on its cash flow hedge in other comprehensive income of \$888,000 and \$729,000 for the nine months ended September 30, 2011 and 2010, respectively. The Company recognized a \$1.4 million and a \$1.2 million cash flow hedge liability in other liabilities on the balance sheet at September 30, 2011 and 2010, respectively. There was no ineffectiveness in the cash flow hedge during the nine months ended September 30, 2011 and 2010.

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**Note 16 Derivative Financial Instruments (continued)**

Credit risk related to the derivative arises when amounts receivable from the counterparty (derivative dealer) exceed those payable. The Company controls the risk of loss by only transacting with derivative dealers that are national market makers whose credit ratings are strong. Each party to the interest rate swap is required to provide collateral in the form of cash or securities to the counterparty when the counterparty's exposure to a mark-to-market replacement value exceeds certain negotiated limits. These limits are typically based on current credit ratings and vary with ratings changes. As of September 30, 2011 and 2010, SCBT was required to provide \$1.4 million and \$750,000 of collateral, respectively, which is included in cash and cash equivalents on the balance sheet as interest-bearing deposits with banks. Also, the Company has a netting agreement with the counterparty.

**Note 17 Subsequent Events**

The Company has evaluated subsequent events for accounting and disclosure purposes through the date the financial statements are issued.

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**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Management's Discussion and Analysis of Financial Condition and Results of Operations relates to the financial statements contained in this Quarterly Report beginning on page 1. For further information, refer to Management's Discussion and Analysis of Financial Condition and Results of Operations appearing in the Annual Report on Form 10-K for the year ended December 31, 2010.

**Overview**

We are a bank holding company headquartered in Columbia, South Carolina, and were incorporated under the laws of South Carolina in 1985. We provide a wide range of banking services and products to our customers through our wholly-owned bank subsidiary, SCBT, N.A. (the "Bank"), a national bank that opened for business in 1934. We operate as NCBT, a division of the Bank, in Mecklenburg County of North Carolina, BankMeridian, a division of the Bank, in South Carolina, and Community Bank & Trust ("CBT"), a division of the Bank, in northeast Georgia. We do not engage in any significant operations other than the ownership of our banking subsidiary.

At September 30, 2011, we had approximately \$3.9 billion in assets and 1,079 full-time equivalent employees. Through the Bank, we provide our customers with checking accounts, NOW accounts, savings and time deposits of various types, brokerage services and alternative investment products such as annuities and mutual funds, trust and asset management services, business loans, agriculture loans, real estate loans, personal use loans, home improvement loans, automobile loans, credit cards, letters of credit, home equity lines of credit, safe deposit boxes, bank money orders, wire transfer services, correspondent banking services, and use of ATM facilities.

We have pursued, and continue to pursue, a growth strategy that focuses on organic growth, supplemented by acquisition of select financial institutions, branches, or failed bank assets and liabilities in certain market areas.

The following discussion describes our results of operations for the quarter ended September 30, 2011 as compared to the quarter ended September 30, 2010 and also analyzes our financial condition as of September 30, 2011 as compared to December 31, 2010 and September 30, 2010. Like most financial institutions, we derive most of our income from interest we receive on our loans and investments. Our primary source of funds for making these loans and investments is our deposits, on which we may pay interest. Consequently, one of the key measures of our success is the amount of our net interest income, or the difference between the income on our interest-earning assets, such as loans and investments, and the expense on our interest-bearing liabilities, such as deposits. Another key measure is the spread between the yield we earn on these interest-earning assets and the rate we pay on our interest-bearing liabilities.

Of course, there are risks inherent in all loans, so we maintain an allowance for loan losses (sometimes referred to as "ALLL") to absorb probable losses on existing loans that may become uncollectible. We establish and maintain this allowance by charging a provision for loan losses against our operating earnings. In the following section, we have included a detailed discussion of this process.

In addition to earning interest on our loans and investments, we earn income through fees and other expenses we charge to our customers. We describe the various components of this noninterest income, as well as our noninterest expense, in the following discussion.

The following section also identifies significant factors that have affected our financial position and operating results during the periods included in the accompanying financial statements. We encourage you to read this discussion and analysis in conjunction with the financial statements and the related notes and the other statistical information also included in this report.

## Recent Events

### *Purchase and Assumption Agreement BankMeridian*

On July 29, 2011, the Company 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 BankMeridian, N.A. ( BankMeridian ), a full service community bank headquartered in Columbia, South Carolina. BankMeridian operated three branches in Columbia, Hilton Head, and Spartanburg. In September of 2011, we closed the Columbia branch. During the fourth quarter of 2011, we will be converting the operating systems of BankMeridian. Please reference Note 4 Mergers and Acquisitions in the unaudited condensed consolidated financial statements within PART I, Item 1 Financial Statements.

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*Branch closings and consolidation*

During the third quarter of 2011, the Company announced that it would be closing or consolidating ten branches, located primarily in northeast Georgia. The Company has recorded approximately \$750,000 in costs related to these activities in the third quarter, and expects to incur approximately \$400,000 of additional costs during the fourth quarter. The expected annual cost savings beginning in 2012 is approximately \$3.0 million.

*Purchase and Assumption Agreement Habersham Bank*

On February 18, 2011, the Bank entered into a 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 Bank ( Habersham ), a full service Georgia state-chartered community bank headquartered in Clarkesville, Georgia. Habersham operated eight branches in the northeast region of Georgia. In June of 2011, we closed three Habersham branches and four CBT branches and converted the operating system of the acquired franchise. Please reference Note 4 Mergers and Acquisitions in the unaudited condensed consolidated financial statements within PART I, Item 1 Financial Statements.

*Private Placement*

The Company entered into a Securities Purchase Agreement, effective as of February 18, 2011 (the Purchase Agreement ), with accredited institutional investors (collectively, the Purchasers ), pursuant to which the Company sold a total of 1,129,032 shares of its common stock at a purchase price of \$31.00 per share (the Private Placement ). The proceeds to the Company from the Private Placement were \$34.8 million, net of approximately \$160,000 in issuance costs. The Private Placement was completed on February 18, 2011 and was contingent on a successful bid for Habersham.

The Private Placement was made pursuant to the Purchase Agreement and was exempt from registration under the Securities Act of 1933 pursuant to Section 4(2) thereof and Rule 506 of Regulation D promulgated there under. All purchasers in the Private Placement were accredited investors, as defined in Rule 501(a) of Regulation D.

**Government Actions**

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act ) limits 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 may 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. 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 the payment of interest on demand deposits, became effective. As a result of this repeal, our Bank has the option of offering interest bearing demand deposits, and may incur increased interest costs for funding if we elect to offer such deposit accounts.

On September 21, 2011, the Federal Reserve's Federal Open Market Committee ( FOMC ) announced that, in order to support a stronger economic recovery and to help ensure that inflation, over time, is at levels consistent with its statutory mandate, it had decided to extend the average maturity of its holdings of securities. In addition, the FOMC announced that it intended to purchase, by the end of June 2012, \$400 billion of Treasury securities with remaining maturities of 3 years or less in order to put downward pressure on longer-term interest rates and help make broader financial conditions more accommodative. Further, to help support conditions in mortgage markets, the FOMC announced that it intends to now reinvest in agency mortgage-backed securities the principal payments from its holdings of agency debt and agency mortgage-backed securities.

For additional information on recent government actions, please reference PART II, Item 1A, Risk Factors on page 71 of this Form 10-Q and the caption "Government Actions" within PART I, Item 1 Business in our Annual Report on Form 10-K for the year ended December 31, 2010.

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**Critical Accounting Policies**

We have established various accounting policies that govern the application of accounting principles generally accepted in the United States in the preparation of our financial statements. Significant accounting policies are described in Note 1 to the audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2010. These policies may involve significant judgments and estimates that have a material impact on the carrying value of certain assets and liabilities. Different assumptions made in the application of these policies could result in material changes in our financial position and results of operations.

***Allowance for Loan Losses***

The allowance for loan losses reflects the estimated losses that will result from the inability of our bank's borrowers to make required loan payments. In determining an appropriate level for the allowance, we identify portions applicable to specific loans as well as providing amounts that are not identified with any specific loan but are derived with reference to actual loss experience, loan types, loan volumes, economic conditions, and industry standards. Changes in these factors may cause our estimate of the allowance to increase or decrease and result in adjustments to the provision for loan losses. See Note 6 Loans and Allowance for Loan Losses in this 10-Q, Provision for Loan Losses and Nonperforming Assets in this MD&A and Allowance for Loan Losses in Note 1 to the audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2010 for further detailed descriptions of our estimation process and methodology related to the allowance for loan losses.

***Goodwill and Other Intangible Assets***

Goodwill represents the excess of the purchase price over the sum of the estimated fair values of the tangible and identifiable intangible assets acquired less the estimated fair value of the liabilities assumed. As of September 30, 2011, December 31, 2010 and September 30, 2010, the balance of goodwill was \$62.9 million. Goodwill has an indefinite useful life and is evaluated for impairment annually or more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. The goodwill impairment analysis is a two-step test. The first step, used to identify potential impairment, involves comparing each reporting unit's estimated fair value to its carrying value, including goodwill. If the estimated fair value of a reporting unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value exceeds estimated fair value, there is an indication of potential impairment and the second step is performed to measure the amount of impairment.

If required, the second step involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated impairment. The implied fair value of goodwill is determined in a manner similar to the amount of goodwill calculated in a business combination, by measuring the excess of the estimated fair value of the reporting unit, as determined in the first step, over the aggregate estimated fair values of the individual assets, liabilities and identifiable intangibles as if the reporting unit was being acquired in a business combination. If the implied fair value of goodwill exceeds the carrying value of goodwill assigned to the reporting unit, there is no impairment. If the carrying value of goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss cannot exceed the carrying value of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted. Management has determined that the Company has one reporting unit.

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Our stock price has historically traded above its book value and tangible book value. However, during the third quarter of 2011, our stock price traded below book value, but always above tangible book value. The lowest price during the quarter the stock traded was \$24.54, and the stock price closed on September 30, 2011 at \$24.68, below book value. In the event our stock were to consistently trade below its book value during the reporting period, we would consider performing an evaluation of the carrying value of goodwill as of the reporting date. Such a circumstance would be one factor in our evaluation that could result in an eventual goodwill impairment charge. We evaluated the carrying value of goodwill as of April 30, 2011, our annual test date, and determined that no impairment charge was necessary. Additionally, should our future earnings and cash flows decline and/or discount rates increase, an impairment charge to goodwill and other intangible assets may be required.

Core deposit intangibles, included in other assets in the condensed consolidated balance sheets, consist of costs that resulted from the acquisition of deposits from other financial institutions or the estimated fair value of these assets acquired through business combinations. Core deposit intangibles represent the estimated value of long-term deposit relationships acquired in these transactions. These costs are amortized over the estimated useful lives of the deposit accounts acquired on a method that we believe reasonably approximates the anticipated benefit stream from the accounts. The estimated useful lives are periodically reviewed for reasonableness.

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***Income Taxes and Deferred Tax Assets***

Income taxes are provided for the tax effects of the transactions reported in the accompanying consolidated financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of available-for-sale securities, allowance for loan losses, accumulated depreciation, net operating loss carryforwards, accretion income, deferred compensation, intangible assets, and pension plan and post-retirement benefits. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. The Company files a consolidated federal income tax return with its subsidiary.

The Company recognizes interest and penalties accrued relative to unrecognized tax benefits in its respective federal or state income taxes accounts. As of December 31, 2010, there were no accruals for uncertain tax positions and no accruals for interest and penalties. The Company and its subsidiary file a consolidated United States federal income tax return, as well as income tax returns for its subsidiary in the state of South Carolina, Georgia, and North Carolina. The Company's filed income tax returns are no longer subject to examination by taxing authorities for years before 2008.

***Other-Than-Temporary Impairment ( OTTI )***

We evaluate securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) the outlook for receiving the contractual cash flows of the investments, (4) the anticipated outlook for changes in the general level of interest rates, and (5) our intent and ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value or for a debt security whether it is more-likely-than-not that the Company will be required to sell the debt security prior to recovering its fair value. For further discussion of the Company's evaluation of securities for other-than-temporary impairment, see Note 5 to the unaudited condensed consolidated financial statements.

***Other Real Estate Owned ( OREO )***

OREO, consisting of properties obtained through foreclosure or through a deed in lieu of foreclosure in satisfaction of loans or through reclassification of former branch sites, is reported at the lower of cost or fair value, determined on the basis of current appraisals, comparable sales, and other estimates of value obtained principally from independent sources, adjusted for estimated selling costs. Management also considers other factors, including changes in absorption rates, length of time the property has been on the market and anticipated sales values, which have resulted in adjustments to the collateral value estimates indicated in certain appraisals. At the time of foreclosure or initial possession of collateral, any excess of the loan balance over the fair value of the real estate held as collateral is treated as a charge against the allowance for loan losses. For acquired OREO, the loan is transferred into OREO at its fair value not to exceed the carrying value of the loan at foreclosure. Subsequent adjustments to this value are described below.

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Subsequent declines in the fair value of OREO below the new cost basis are recorded through valuation adjustments. Significant judgments and complex estimates are required in estimating the fair value of other real estate, and the period of time within which such estimates can be considered current is significantly shortened during periods of market volatility. In response to market conditions and other economic factors, management may utilize liquidation sales as part of its problem asset disposition strategy. As a result of the significant judgments required in estimating fair value and the variables involved in different methods of disposition, the net proceeds realized from sales transactions could differ significantly from appraisals, comparable sales, and other estimates used to determine the fair value of other real estate. Management reviews the value of other real estate each quarter and adjusts the values as appropriate. Revenue and expenses from OREO operations as well as gains or losses on sales and any subsequent adjustments to the value are recorded as OREO expense and loan related expense, a component of non-interest expense, and, for covered OREO, offset with an increase in the FDIC indemnification asset.

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

We account for 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.

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 Acquired in a Transfer*, and initially measured at fair value, which includes estimated

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future credit losses expected to be incurred over the life of the loans. Loans acquired in business combinations with evidence of credit deterioration are considered impaired. 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.

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 transferrable with them in the event of disposal.

For further discussion of the Company's loan accounting and acquisitions, see Note 2 Summary of Significant Accounting Policies, Note 4 Mergers and Acquisitions to the unaudited condensed consolidated financial statements and Note 6 Loans and Allowance for Loan Losses.

**Results of Operations**

We reported consolidated net income available to common shareholders of \$10.3 million, or diluted earnings per share (EPS) of \$0.74, for the third quarter of 2011 as compared to consolidated net income available to common shareholders of \$1.8 million, or diluted EPS of \$0.14, in the comparable period of 2010. This \$8.5 million increase was the net result of the following items:

- Improved net interest income of \$9.7 million due primarily to the improved yields of acquired loans and reduced interest expense in both deposits and other borrowings;
- Improved provision for loan losses which decreased by \$2.2 million over the comparable quarter for the non-acquired SCBT loan portfolio;
- Increase in non-interest income of \$9.0 million due primarily to the \$11.0 million pre-tax gain from the BankMeridian acquisition, offset by the negative accretion on the CBT indemnification asset. All other categories of non-interest income showed improvement; offset by a
- Increase in non-interest expenses by \$7.2 million, with \$423,000 of this from the addition of BankMeridian; excluding BankMeridian expenses, the increases consisted of \$1.9 million in salaries and benefits; \$2.3 million related to OREO and loan related expenses; \$1.0 million in merger-related expenses; and \$1.1 million in other expenses; offset by a \$536,000 decline in the FDIC assessment and other regulatory charges.

We believe our asset quality related to non-acquired loans continues to be at manageable levels despite the increase of nonperforming assets in total dollars to \$96.1 million from \$93.7 million at June 30, 2011, and from \$86.4 million at September 30, 2010. As a percentage of total assets (excluding covered assets) total NPAs increased to 2.44% at September 30, 2011 compared to 2.39% at September 30, 2010. Non-acquired nonperforming assets increased 11.1% from the third quarter of 2010. Net charge-offs as a percentage of average loans decreased to 1.16% from 1.74% in the third quarter of 2010 and increased from 0.71% in the second quarter of 2011.

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Non-acquired loans 30-89 past due decreased by \$4.5 million from September 30, 2010 amount of \$12.9 million, a decline of 35%, to \$8.4 million. This was a decrease of \$3.1 million from the balance at June 30, 2011 of \$11.5 million. In addition, the level of classified loans decreased by \$22.9 million, or 12.7%, from \$180.5 million at September 30, 2010 to \$157.6 million at September 30, 2011. These loans also declined by \$6.3 million from the \$163.9 million at June 30, 2011.

The allowance for loan losses remained consistent with June 30, 2011 at 2.00% of total non-acquired loans at September 30, 2011, and declined from 2.07% at September 30, 2010. Our allowance provides 0.67 times coverage of nonperforming loans at September 30, 2011, higher from 0.66 times at September 30, 2010, and down from 0.70 times at June 30, 2011. During the third quarter of 2011, our OREO not covered under FDIC loss share agreements increased by \$7.0 million from the third quarter of 2010, and decreased by \$2.2 million from June 30, 2011.

The Company performs ongoing assessments of the estimated cash flows of its acquired loan portfolios. Increases in cash flow expectations result in a favorable adjustment to interest income over the remaining life of the related loans, and decreases in cash flow expectations result in an immediate recognition of a provision for loans losses, in both cases, net of any adjustments to the receivable from the FDIC for loss sharing. These ongoing assessments of the acquired CBT loan portfolio resulted in a positive impact to interest income from a reduction in expected credit losses, which was largely offset by a charge to noninterest income for the impact of reduced cash flows from the FDIC under the loss share agreement during the first quarter of 2011. During the third quarter of 2011, the Company assessed the estimated cash flows and determined the following impact to the acquired loan portfolio and related impact on the indemnification asset:

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- The review of the performance of the loan pools during the third quarter resulted in an increase in the overall loss expectation for three pools by \$4.3 million;
- Principally as a result of the credit loss increase, there was approximately a \$216,000 increase in the provision for loan losses for the quarter, net of the FDIC reimbursement of 95%; and
- There was no improvement in any pools during the quarter

As of September 30, 2011, the Company has not made any changes to the estimated cash flow assumptions or expected losses for the acquired Habersham or BankMeridian assets based on its evaluation of expected cash flows.

Compared to the third quarter of 2010, our loan portfolio has increased 9.6% to \$2.9 billion, driven by growth in all loan categories except construction / land development and commercial non-owner occupied loans. Excluding the acquired loan portfolio, our loans grew by 9.0% or \$203.3 million from the third quarter of 2010. The largest increases within the non-acquired loan portfolio occurred in commercial owner occupied by \$172.6 million, or 31.6%, consumer owner occupied by \$79.3 million, or 25.2%, consumer by \$23.3 million, or 37.8%, other income producing property by \$14.5 million, or 11.3%, and commercial and industrial by \$12.7 million, or 6.2%. For the three months ended September 30, 2011, mortgage loans originated and sold in the secondary market grew by \$27.9 million as refinancing activity and home sales improved seasonally.

Non-taxable equivalent net interest income for the quarter increased 31.2%. Non-taxable equivalent net interest margin increased by 95 basis points to 4.88% from the third quarter of 2010 of 3.93% and by 26 basis points from the most recent quarter June 30, 2011, due to improved expected cash flows of interest income on acquired loans over the expected remaining life of these loans and reduced interest expense on both time deposits and other borrowings. Excess liquidity resulting from the FDIC-assisted acquisition of Habersham and BankMeridian and continued gathering of core deposits continues to compress the net interest margin. The effect (reduction) on our net interest margin was estimated to be 6 basis points during the third quarter of 2011, a decrease of 23 basis points from the second quarter of 2011. Our quarterly efficiency ratio decreased to 60.0% compared to 74.3% in the second quarter of 2011. The decrease in the efficiency ratio reflects higher noninterest income due to \$11.0 million pre-tax gain recorded from the BankMeridian acquisition offset by the decrease in the accretion on the FDIC indemnification asset and improved net interest income offset by increased noninterest expense.

Diluted EPS increased to \$0.74 for the third quarter of 2011 from \$0.14 for the comparable period in 2010. Basic EPS increased to \$0.75 for the third quarter of 2011 from \$0.14 for the comparable period in 2010. The increase in both diluted and basic EPS reflects the increase in net interest income, decrease in the provision for loan losses, and increase in noninterest income offset by the increase in noninterest expense.

| Selected Figures and Ratios                        | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |        |
|----------------------------------------------------|-------------------------------------|---------|------------------------------------|--------|
|                                                    | 2011                                | 2010    | 2011                               | 2010   |
| Return on average assets (annualized)              | <b>1.04%</b>                        | 0.19%   | <b>61.00%</b>                      | 1.90%  |
| Return on average equity (annualized)              | <b>10.76%</b>                       | 2.11%   | <b>6.49%</b>                       | 20.41% |
| Return on average tangible equity<br>(annualized)* | <b>13.83%</b>                       | 3.15%   | <b>8.59%</b>                       | 26.43% |
| Dividend payout ratio **                           | <b>48.39%</b>                       | 378.10% | <b>89.20%</b>                      | 12.75% |

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|                                            |    |         |       |         |       |         |       |         |       |
|--------------------------------------------|----|---------|-------|---------|-------|---------|-------|---------|-------|
| Equity to assets ratio                     |    |         | 9.70% |         | 9.28% |         | 9.70% |         | 9.28% |
| Average shareholders equity (in thousands) | \$ | 380,933 | \$    | 336,015 | \$    | 365,799 | \$    | 336,250 |       |

\* - Ratio is a non-GAAP financial measure. The section titled Reconciliation of Non-GAAP to GAAP below provides a table that reconciles non-GAAP measures to GAAP measures.

\*\* - See explanation of the change in dividend payout ratio below.

- For the three months ended September 30, 2011, return on average assets ( ROAA ), return on average equity ( ROAE ) and return on average tangible equity increased compared to the same quarter in 2010. The increase was driven by a 478.2% increase in net income from the comparable quarter in 2010 partially offset by an increase in average assets due to the acquisitions of Habersham and BankMeridian.
- Dividend payout ratio decreased to 48.39% for the three months ended September 30, 2011 compared with 94.45% for the three months ended June 30, 2011 and 378.1% for the three months ended September 30, 2010. The decrease from the comparable period in 2010 reflects the higher net income in the second quarter of 2011 generated by a decrease in the provision for loan losses and improved net interest income, offset by a decrease in noninterest income primarily due to the negative accretion on the FDIC indemnification asset, an increase in noninterest expense related to OREO and loan related

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expenses and the addition of Habersham. The dividend payout ratio is calculated by dividing total dividends paid during the quarter by the total net income reported in the prior quarter.

- Equity to assets ratio increased to 9.70% at September 30, 2011 compared with 9.66% at June 30, 2011 and 9.28% at September 30, 2010. The increase in the equity to assets ratio reflects an 8.9% increase in assets as a result of the Habersham and BankMeridian acquisitions compared to the 13.9% increase in equity as a result of the private placement and gains on the Habersham and BankMeridian acquisitions.
- Average shareholders' equity increased \$44.9 million, or 13.4%, from third quarter ended September 30, 2010 driven by the private placement offering and the gains on the Habersham acquisition during the first quarter of 2011 and the BankMeridian acquisition during the third quarter of 2011.

## Reconciliation of Non-GAAP to GAAP

| (Dollars in thousands)                           | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|--------------------------------------------------|-------------------------------------|------------|------------------------------------|------------|
|                                                  | 2011                                | 2010       | 2011                               | 2010       |
| Return on average tangible equity (non-GAAP)     | 13.83%                              | 3.15%      | 8.59%                              | 26.43%     |
| Effect to adjust for intangible assets           | -3.07%                              | -1.04%     | -2.10%                             | -6.02%     |
| Return on average equity (GAAP)                  | 10.76%                              | 2.11%      | 6.49%                              | 20.41%     |
| Adjusted average shareholders' equity (non-GAAP) | \$ 305,973                          | \$ 262,768 | \$ 291,433                         | \$ 263,518 |
| Average intangible assets                        | 74,960                              | 73,247     | 74,366                             | 72,732     |
| Average shareholders' equity (GAAP)              | \$ 380,933                          | \$ 336,015 | \$ 365,799                         | \$ 336,250 |
| Adjusted net income (non-GAAP)                   | \$ 10,668                           | \$ 2,086   | \$ 18,719                          | \$ 52,099  |
| Amortization of intangibles                      | (517)                               | (432)      | (1,468)                            | (1,212)    |
| Tax effect                                       | 181                                 | 133        | 515                                | 436        |
| Net income (GAAP)                                | \$ 10,332                           | \$ 1,787   | \$ 17,766                          | \$ 51,323  |

The return on average tangible equity is a non-GAAP financial measure. It excludes the effect of the average balance of intangible assets and adds back the after-tax amortization of intangibles to GAAP basis net income. Management believes that this non-GAAP tangible measure provides additional useful information, particularly since this measure is widely used by industry analysts following companies with prior merger and acquisition activities. Non-GAAP 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 measures have limitations as analytical tools, and investors should not consider them in isolation or as a substitute for analysis of our results or financial condition as reported under GAAP.

## Net Interest Income and Margin

## Summary

Our taxable equivalent ( TE ) net interest margin grew from the third quarter of 2010 and from the second quarter of 2011, primarily from deployment of excess liquidity to fund the BankMeridian acquisition and the continued reduction in interest expense in deposits (especially time deposits) and other borrowings. There was some improvement in yields of covered loans related mostly in the CBT acquired portfolio. The improved yield was substantially offset by the negative accretion on the indemnification asset recognized in noninterest income, from reduced expected cash flows under the loss share agreements ( LSA ). Non-TE and TE net interest margin increased by 26 basis points from the quarter ended June 30, 2011. Both non-TE and TE net interest margin increased by 95 basis points from the quarter ended September 30, 2010.

SCBT remained in an excess liquidity position during the third quarter of 2011, and the impact represented an estimated six basis points reduction in the net interest margin compared to 29 basis points from the second quarter of 2011. The improvement in linked quarter net interest margin was also the result of our continued reduction in deposit pricing. The rate earned on interest earning assets grew by 17 basis points from the second quarter of 2011, while interest bearing liabilities declined by 9 basis points. While the average balance of total non-acquired loans (excluding mortgage loans held for sale) increased \$202.8 million from the third quarter of 2010, the yield earned

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on these assets declined by 46 basis points. On a linked quarter, non-acquired loan growth was \$56.0 million from the second quarter of 2011, while the rate earned on these assets declined by 6 basis points.

Net interest income increased from the third quarter of 2010 and was driven primarily by reduced yield on interest bearing liabilities including deposits and other borrowings, and the deployment of a large portion of our excess liquidity. Certificates of deposit average rates declined by 65 basis points compared to the same quarter one year ago, and declined by 9 basis points from the second quarter of 2011. The result was a decline in interest expense of \$3.6 million. Non-TE net interest income increased from the third quarter of 2010 as a result of a volume increase in interest-earning assets as well as a 46 basis point increase in the average yield. Loan volume was up as well as investment securities. The increase in interest income was \$6.1 million driven by the increase in loan volume from the BankMeridian and Habersham acquisitions, organic loan growth, as well as improved yields on the acquired loan portfolio.

| (Dollars in thousands)                      | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|---------------------------------------------|-------------------------------------|-----------|------------------------------------|-----------|
|                                             | 2011                                | 2010      | 2011                               | 2010      |
| Non-TE net interest income                  | \$ 40,680                           | \$ 31,011 | \$ 111,645                         | \$ 90,802 |
| Non-TE yield on interest-earning assets     | 5.44%                               | 4.98%     | 5.22%                              | 5.00%     |
| Non-TE rate on interest-bearing liabilities | 0.64%                               | 1.16%     | 0.75%                              | 1.19%     |
| Non-TE net interest margin                  | 4.88%                               | 3.93%     | 4.56%                              | 3.93%     |
| TE net interest margin                      | 4.93%                               | 3.98%     | 4.60%                              | 3.97%     |

Non-TE net interest income increased \$9.7 million, or 31.2%, in the third quarter of 2011 compared to the same period in 2010. Some key highlights are outlined below:

- Average interest-earning assets increased 5.7% to \$3.3 billion in the third quarter of 2011 compared to the same period last year due largely to the acquisitions of Habersham and BankMeridian.
- Non-TE yield on interest-earning assets for the third quarter of 2011 increased 46 basis points from the comparable period in 2010, and by 17 basis points from the second quarter of 2011. The yield on a portion of our earning assets adjusts simultaneously, but to varying degrees of magnitude, with changes in the general level of interest rates.
- The average cost of interest-bearing liabilities for the third quarter of 2011 decreased 52 basis points from the same period in 2010, and decreased by 9 basis points compared to the second quarter of 2011. The decrease since the third quarter of 2010 and the second quarter 2011 is a reflection of the impact of average yields on certificates of deposits repricing lower.
- TE net interest margin increased by 95 basis points in the third quarter of 2011, compared to the third quarter of 2010. Compared to the second quarter of 2011, TE net interest margin increased by 26 basis points.

**Loans**

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Total loans, net of deferred loan costs and fees, (excluding mortgage loans held for sale) increased by \$252.0 million, or 9.6%, at September 30, 2011 as compared to the same period in 2010. Acquired loans increased by \$48.8 million. The increase from the addition of loans acquired in the Habersham and BankMeridian acquisitions was partially offset by the decline in acquired CBT loans. Non-acquired loans or legacy SCBT loans increased by \$203.3 million, or 9.0%, at September 30, 2011 as compared to the same period in 2010. The increase was driven by loan growth in commercial owner occupied loans of \$172.6 million, consumer owner occupied loans of \$79.3 million, consumer non-real estate of \$23.3 million, other income producing property of \$14.5 million, commercial and industrial of \$12.7 million, and home equity loans of \$7.7 million. Offsetting the growth were reductions in construction and land development loans of \$86.2 million, commercial non-owner occupied of \$17.4 million, and other loans of \$3.1 million.

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The following table presents a summary of the loan portfolio by category:

| (Dollars in thousands)                          | September 30,<br>2011 | % of<br>Total | December 31,<br>2010 | % of<br>Total | September 30,<br>2010 | % of<br>Total |
|-------------------------------------------------|-----------------------|---------------|----------------------|---------------|-----------------------|---------------|
| Acquired loans                                  | \$ 418,045            | 14.5%         | \$ 321,038           | 12.3%         | \$ 369,272            | 14.1%         |
| Non-acquired loans:                             |                       |               |                      |               |                       |               |
| Commercial non-owner occupied real estate:      |                       |               |                      |               |                       |               |
| Construction and land development               | 316,072               | 11.0%         | 391,987              | 15.0%         | 402,256               | 15.3%         |
| Commercial non-owner occupied                   | 304,616               | 10.6%         | 320,203              | 12.2%         | 322,050               | 12.3%         |
| Total commercial non-owner occupied real estate | 620,688               | 21.6%         | 712,190              | 27.2%         | 724,306               | 27.6%         |
| Consumer real estate:                           |                       |               |                      |               |                       |               |
| Consumer owner occupied                         | 394,205               | 13.7%         | 325,470              | 12.4%         | 314,933               | 12.0%         |
| Home equity loans                               | 264,588               | 9.2%          | 263,961              | 10.1%         | 256,934               | 9.8%          |
| Total consumer real estate                      | 658,793               | 22.9%         | 589,431              | 22.5%         | 571,867               | 21.8%         |
| Commercial owner occupied real estate           | 719,791               | 25.0%         | 578,587              | 22.1%         | 547,151               | 20.8%         |
| Commercial and industrial                       | 216,573               | 7.5%          | 202,987              | 7.8%          | 203,903               | 7.8%          |
| Other income producing property                 | 142,325               | 4.9%          | 124,431              | 4.8%          | 127,868               | 4.9%          |
| Consumer non real estate                        | 84,972                | 3.0%          | 67,768               | 2.6%          | 61,669                | 2.3%          |
| Other                                           | 18,471                | 0.5%          | 20,806               | 0.7%          | 21,589                | 0.7%          |
| Total non-acquired loans                        | 2,461,613             | 85.5%         | 2,296,200            | 87.7%         | 2,258,353             | 85.9%         |
| Total loans (net of unearned income)            | \$ 2,879,658          | 100.0%        | \$ 2,617,238         | 100.0%        | \$ 2,627,625          | 100.0%        |

Note: Loan data excludes mortgage loans held for sale.

Loans are our largest category of earning assets. During 2010 and the first nine months of 2011, we acquired loans that equated to 14.5% of the total loan portfolio. Due to the addition of acquired loans, the percentage of all the other loan categories decreased even though most loan portfolio's increased in dollars, such as commercial owner-occupied, consumer owner occupied loans and home equity loans. Non-acquired commercial non-owner occupied real estate loans represented 21.6% of total loans as of September 30, 2011 a decrease from 27.6% of total loans at the end of the same period for 2010 and 27.2% of total loans at year ended December 31, 2010. At September 30, 2011, non-acquired construction and land development loans represented 11.0% of our total loan portfolio, a decrease from 15.3% of our total loan portfolio at September 30, 2010. At September 30, 2011, non-acquired construction and land development loans consisted of \$219.3 million in land and lot loans and \$96.7 million in construction loans, which represented 8.9% and 3.9%, respectively, of our total non-acquired loan portfolio. At December 31, 2010, non-acquired construction and land development loans consisted of \$251.5 million in land and lot loans and \$140.5 million in construction loans, which represented 11.0% and 6.1%, respectively, of our total non-acquired loan portfolio.

| (Dollars in thousands)         | Three Months Ended<br>September 30, |              | Nine Months Ended<br>September 30, |              |
|--------------------------------|-------------------------------------|--------------|------------------------------------|--------------|
|                                | 2011                                | 2010         | 2011                               | 2010         |
| Average total loans            | \$ 2,856,150                        | \$ 2,646,691 | \$ 2,762,178                       | \$ 2,587,306 |
| Interest income on total loans | 42,734                              | 35,860       | 120,263                            | 105,708      |
| Non-TE yield                   | 5.94%                               | 5.38%        | 5.82%                              | 5.46%        |

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Interest earned on loans increased \$6.9 million, or 19.2%, in the third quarter of 2011 compared to the third quarter of 2010. Some key highlights for the quarter ended September 30, 2011 are outlined below:

- Our non-TE yield on total loans increased 56 basis points during the third quarter of 2011 while average total loans increased 7.9%, as compared to the third quarter of 2010. The increase in average total loans was a result of the growth in both non-acquired loans and acquired loans, as we acquired Habersham during the first quarter of 2011 and BankMeridian during the third quarter of 2011. The acquired loan portfolio effective yield improved due to improved cash flows and reduced credit loss expectations. This resulted in a yield of 10.4%, compared to approximately 5.0% one year ago.
- Acquired loans had a balance of \$418.0 million at the end of the third quarter of 2011 compared to \$369.3 million in 2010.
- Construction and land development loans decreased \$86.2 million, or 21.4%, to \$316.1 million from the ending balance at September 30, 2010. We have continued to reduce the level of these loans in our portfolio given the current economic environment and the risk involved.

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- Commercial non-owner occupied loans decreased \$17.4 million, or 5.4%, to \$304.6 million from the ending balance at September 30, 2010.
- Consumer real estate loans increased \$86.9 million, or 15.2%, to \$658.8 million from the ending balance at September 30, 2010. The increase resulted from a \$79.3 million, or 25.2%, in consumer owner occupied loans and a \$7.7 million, or 3.0%, increase in home equity lines of credit ( HELOCs ) from the balance at September 30, 2010.
- Commercial owner occupied loans increased \$172.6 million, or 31.6%, to \$719.8 million from the ending balance at September 30, 2010.
- Other income producing property loans increased \$14.5 million, or 11.3%, to \$142.3 million from the ending balance at September 30, 2010.
- Consumer non-real estate loans increased \$23.3 million, or 37.8%, to \$85.0 million from the ending balance at September 30, 2010.
- Commercial loans and HELOCs with interest rate floors locked in above 5.00% had a balance of \$229.5 million which has helped keep our non-TE yield up even as interest rates have declined since September 30, 2010.

The balance of mortgage loans held for sale increased \$3.2 million from December 31, 2010 to \$45.9 million at September 30, 2011, and decreased by \$3.7 million compared to the balance of mortgage loans held for sale at September 30, 2010 of \$49.6 million. The decrease is a reflection of the decline in customer demand for mortgage refinancing compared to activity in 2010.

### *Investment Securities*

We use investment securities, our second largest category of earning assets, to generate interest income through the employment of excess funds, to provide liquidity, to fund loan demand or deposit liquidation, and to pledge as collateral for public funds deposits and repurchase agreements. At September 30, 2011, investment securities totaled \$321.0 million, compared to \$237.9 million at December 31, 2010 and \$268.2 million at September 30, 2010. The increase in investment securities from the comparable period of 2010 was primarily the result of the net addition of \$63.0 million of investment securities as well as the acquisition of \$35.4 million in BankMeridian securities partially offset by the sale of \$44.7 million in securities during the fourth quarter of 2010. This resulted in average and period-end balances increasing by 7.8% and 19.7%, respectively, from September 30, 2010.

| (Dollars in thousands)                   | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|------------------------------------------|-------------------------------------|------------|------------------------------------|------------|
|                                          | 2011                                | 2010       | 2011                               | 2010       |
| Average investment securities            | \$ 304,642                          | \$ 282,622 | \$ 263,458                         | \$ 290,017 |
| Interest income on investment securities | 2,234                               | 2,769      | 6,283                              | 8,452      |
| Non-TE yield                             | 2.91%                               | 3.89%      | 3.19%                              | 3.90%      |

Interest earned on investment securities decreased 19.3% in the third quarter of 2011 compared to the third quarter of 2010. The decrease resulted largely from a 98 basis point decrease in the average yield partially offset by \$22.0 million increase in average investment securities for

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the third quarter, which was largely the result of the addition of the BankMeridian investment securities.

Our holdings of GSE debt, state and municipal obligations, mortgage-backed securities, and equity securities at September 30, 2011 had fair market values that, on a net basis, exceeded their book values and result in an unrealized gain. During the first quarter of 2011, we sold our position in MMCAPs I A, our remaining trust preferred security (collateralized debt obligations) for a realized loss of \$194,000. The following table provides a summary of the credit ratings for our investment portfolio (including held-to-maturity and available-for-sale securities) at the end of the third quarter of 2011:

| (Dollars in thousands)                | Amortized<br>Cost | Fair<br>Value | Other<br>Comprehensive<br>Income | AAA - A    | BBB      | BB or<br>Lower | Not Rated |
|---------------------------------------|-------------------|---------------|----------------------------------|------------|----------|----------------|-----------|
| <b>September 30, 2011:</b>            |                   |               |                                  |            |          |                |           |
| Government-sponsored enterprises debt | \$ 60,017         | \$ 61,320     | \$ 1,303                         | \$ 60,017  | \$       | \$             | \$        |
| State and municipal obligations       | 59,304            | 63,320        | 2,843                            | 55,027     | 3,108    |                | 1,169     |
| Mortgage-backed securities *          | 171,280           | 176,855       | 5,575                            |            |          |                |           |
| Corporate stocks                      | 255               | 303           | 48                               |            |          |                | 255       |
|                                       | \$ 290,856        | \$ 301,798    | \$ 9,769                         | \$ 115,044 | \$ 3,108 | \$             | \$ 1,424  |

\* - Agency mortgage-backed securities ( MBS ) are guaranteed by the issuing GSE as to the timely payments of principal and interest. Except for Government National Mortgage Association ( GNMA ) securities, which have the full faith and credit backing of the United States Government, the GSE alone is responsible for making payments on this guaranty. While the rating agencies have not rated any of the MBS issued, senior debt securities issued by GSEs are rated consistently as Triple-A, by at least one of the nationally recognized credit rating agencies. Most market participants consider agency MBS as carrying an implied AAA rating because of the guarantees of timely payments and selection criteria of mortgages backing the securities. We do not own any private label mortgage-backed securities.

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At September 30, 2011, we had seven securities available for sale in an unrealized loss position, which totaled \$54,000.

During the third quarter of 2011 as compared to the third quarter of 2010, the total number of securities with an unrealized loss position decreased by six securities, while the total dollar amount of the unrealized loss decreased by \$320,000.

All securities available for sale in an unrealized loss position as of September 30, 2011 continue to perform as scheduled. We have evaluated the cash flows and determined that all contractual cash flows should be received; therefore impairment is temporary because we have the ability to hold these securities within the portfolio until the maturity or until the value recovers and we believe that it is not likely that we will be required to sell these securities prior to recovery. We continue to monitor all of these securities with a high degree of scrutiny. There can be no assurance that we will not conclude in future periods that conditions existing at that time indicate some or all of these securities are other than temporarily impaired, which would require a charge to earnings in such periods. Any charges for OTTI related to securities available-for-sale would not impact cash flow, tangible capital or liquidity.

Although securities classified as available for sale may be sold from time to time to meet liquidity or other needs, it is not our normal practice to trade this segment of the investment securities portfolio. While management generally holds these assets on a long-term basis or until maturity, any short-term investments or securities available for sale could be converted at an earlier point, depending partly on changes in interest rates and alternative investment opportunities.

**Other Investments**

Other investment securities include primarily our investments in Federal Reserve Bank stock and Federal Home Loan Bank of Atlanta ( FHLB ) stock, each with no readily determinable market value. The amortized cost and fair value of all these securities are equal at September 30, 2011. As of September 30, 2011, the investment in FHLB stock represented approximately \$12.1 million, or 0.3% as a percentage of total assets. The following factors have been evaluated and considered in determining the carrying amount of the FHLB stock:

- We evaluate ultimate recoverability of the par value.
- We currently have sufficient liquidity or have access to other sources of liquidity to meet all operational needs in the foreseeable future, and would not have the need to dispose of this stock below the recorded amount.
- Historically, the FHLB does not allow for discretionary purchases or sales of this stock. Redemptions of the stock occur at the discretion of the FHLB, subsequent to the maturity or redemption of outstanding advances held by the member institutions. During the third quarter of 2011, the FHLB redeemed approximately \$2.0 million of our investment, at par value.
- We have reviewed the assessments by rating agencies, which concluded that debt ratings are unlikely to change and that the FHLB has the ability to absorb economic losses, given the expectation that the various FHLBanks have a very high degree of government support.
- Our holdings of FHLB stock are not intended for the receipt of dividends or stock growth, but for the purpose and right to receive advances, or funding. We deem the FHLB's process of determining after each quarter end whether it will pay a dividend and, if so, the amount, as essentially similar to standard practice by most dividend-paying companies. Based on the FHLB's performance over the past ten consecutive

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quarters, starting with the second quarter 2009, the FHLB has announced a dividend payment after each quarter's performance, with the most recent dividend payment of 0.76% on August 16, 2011 related to the second quarter 2011.

- Subsequent to September 30, 2011, the FHLB announced a 0.80% dividend for the third quarter of 2011 and will pay the dividend on November 3, 2011. The FHLB also announced plans to redeem excess capital stock on November 10, 2011.

For the reasons above, we have concluded that our holdings of FHLB stock are not other than temporarily impaired as of September 30, 2011 and ultimate recovery of the par value of this investment is probable.

Table of Contents***Interest-Bearing Liabilities***

Interest-bearing liabilities include interest-bearing transaction accounts, savings deposits, CDs, other time deposits, federal funds purchased, and other borrowings. Interest-bearing transaction accounts include NOW, HSA, IOLTA, and Market Rate checking accounts.

| (Dollars in thousands)               | Three Months Ended<br>September 30, |              | Nine Months Ended<br>September 30, |              |
|--------------------------------------|-------------------------------------|--------------|------------------------------------|--------------|
|                                      | 2011                                | 2010         | 2011                               | 2010         |
| Average interest-bearing liabilities | \$ 2,883,186                        | \$ 2,812,247 | \$ 2,900,069                       | \$ 2,779,943 |
| Interest expense                     | 4,627                               | 8,238        | 16,366                             | 24,763       |
| Average rate                         | 0.64%                               | 1.16%        | 0.75%                              | 1.19%        |

The average balance of interest-bearing liabilities increased in the third quarter of 2011 compared to the third quarter of 2010. The decrease in interest expense was largely driven by a decline in the average rates on CDs and other time deposits. Overall, we experienced a 52 basis point decrease in the average rate on all interest-bearing liabilities. Some key highlights are outlined below:

- Average interest-bearing deposits for the three months ended September 30, 2011 grew 3.8% from the same period in 2010.
- Interest-bearing deposits grew 3.4% to \$2.6 billion at September 30, 2011 from the period end balance at September 30, 2010, resulting largely from a \$169.3 million, or 6.4%, increase related to the Habersham acquisition and a \$75.9 million, or 2.9% increase related to the BankMeridian acquisition. Excluding the acquisitions, interest-bearing deposits decreased by \$158.9 million resulting largely from the decreases in both small and large denomination CDs by a total of \$349.5 million, and offset by an increase in money market deposits of \$114.8 million.
- The average rate on transaction and money market account deposits for the three months ended September 30, 2011 decreased 41 basis points from the comparable period in 2010, which contributed to a decrease of \$878,000 in interest expense for the third quarter of 2011. The impact of the decrease in rates was partially offset by an increase in volume as the average balance increased \$239.9 million to \$1.3 billion at September 30, 2011 compared to the same quarter in 2010.
- Average certificates and other time deposits decreased 16.7%, down \$209.0 million from the average balance in the third quarter of 2010. Interest expense on certificates and other time deposits decreased \$2.5 million mainly as a result of a 65 basis point decrease in the interest rate for the three months ended September 30, 2011 as compared to the same period in 2010.
- Other borrowings decreased 24.1%, down \$15.0 million from the average balance in the third quarter of 2010. We repaid the entire balance of the subordinated term loan in the fourth quarter of 2010.
- A decline in interest rates contributed significantly to a \$3.6 million, or 43.8%, reduction in interest expense on average interest-bearing liabilities for the three months ended September 30, 2011 from the comparable period in 2010.

***Noninterest-Bearing Deposits***

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Noninterest-bearing deposits (or demand deposits) are transaction accounts that provide our Bank with interest-free sources of funds. Average noninterest-bearing deposits increased \$163.1 million, or 34.4%, to \$636.9 million in the third quarter of 2011 compared to \$473.8 million at September 30, 2010. From the second quarter of 2011, average noninterest-bearing deposits grew \$26.8 million, or 4.4%. Excluding deposits acquired in the Habersham and BankMeridian acquisitions, period end noninterest-bearing deposits increased \$121.7 million, or 25.7%, from the balance at September 30, 2010.

### **Provision for Loan Losses and Nonperforming Assets**

We have established an allowance for loan losses through a provision for loan losses charged to expense. The ALLL represents an amount we believe will be adequate to absorb probable losses on existing loans that may become uncollectible. We assess the adequacy of the ALLL by using an internal risk rating system, independent credit reviews, and regulatory agency examinations all of which evaluate the quality of the loan portfolio and seek to identify problem loans. Based on this analysis, management and the board of directors consider the current allowance to be adequate. Nevertheless, our evaluation is inherently subjective as it requires estimates that are susceptible to significant change. Actual losses may vary from our estimates, and there is a possibility that charge-offs in future periods could exceed the ALLL as estimated at any point in time.

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In addition, regulatory agencies, as an integral part of the examination process, periodically review our Bank's ALLL. Such agencies may require additions to the ALLL based on their judgments about information available to them at the time of their examination.

Loans acquired in the CBT, Habersham, and BankMeridian acquisitions were recorded at their acquisition date fair value, which was based on expected cash flows and included an estimation of expected future loan losses. Our initial estimates of credit losses on loans acquired in the Habersham and BankMeridian acquisitions continue to be adequate, and there is no evidence of additional credit deterioration that would require additional loan loss reserves as of September 30, 2011, nor changes in our initial valuation estimates. Under current accounting principles, information regarding our estimate of loan fair values may be adjusted for a period of up to one year as we continue to refine our estimate of expected future cash flows in the acquired portfolio. If we determine that losses arise after the acquisition date, generally the additional losses will be reflected as a provision for loan losses, and offset with an increase in the FDIC indemnification asset. See Note 2 in the notes to the unaudited condensed consolidated financial statements for further discussion of the method of accounting for acquired loans.

During the first quarter of 2011, we established a loan loss reserve of \$25.8 million on four CBT loan pools due to evidence of additional credit deterioration subsequent to initial fair valuation, which resulted in a \$1.3 million net provision for loan losses. The review of the performance of the loan pools during the third quarter resulted in an increase in the overall loss expectation for the pools by \$4.3 million, which resulted in a net provision for loan losses of \$216,000 for the quarter.

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The following table presents a summary of the changes in the ALLL for the three and nine months ended September 30, 2011 and 2010:

| (Dollars in thousands)                                                                             | Three Months Ended<br>September 30, |                           |           |                 |
|----------------------------------------------------------------------------------------------------|-------------------------------------|---------------------------|-----------|-----------------|
|                                                                                                    | Non-acquired<br>Loans               | 2011<br>Acquired<br>Loans | Total     | 2010<br>Total * |
| Balance at beginning of period                                                                     | \$ 48,180                           | \$ 13,695                 | \$ 61,875 | \$ 46,167       |
| Loans charged-off                                                                                  | (7,858)                             | (5,897)                   | (13,755)  | (10,852)        |
| Recoveries of loans previously charged off                                                         | 681                                 |                           | 681       | 1,014           |
| Net charge-offs                                                                                    | (7,177)                             | (5,897)                   | (13,074)  | (9,838)         |
| Provision for loan losses on non-acquired loans                                                    | 8,107                               | 4,325                     | 12,432    | 10,328          |
| Benefit attributable to FDIC loss share agreements                                                 |                                     | (4,109)                   | (4,109)   |                 |
| Total provision for loan losses charged to operations                                              | 8,107                               | 216                       | 8,323     | 10,328          |
| Provision for loan losses recorded through the FDIC loss share receivable                          |                                     | 4,109                     | 4,109     |                 |
| Balance at end of period                                                                           | \$ 49,110                           | \$ 12,123                 | \$ 61,233 | \$ 46,657       |
| Total non-acquired loans:                                                                          |                                     |                           |           |                 |
| At period end                                                                                      | \$ 2,461,613                        |                           |           | \$ 2,258,353    |
| Average                                                                                            | 2,444,185                           |                           |           | 2,241,376       |
| Net charge-offs as a percentage of average non-acquired loans (annualized)                         | 1.16%                               |                           |           | 1.74%           |
| Allowance for loan losses as a percentage of period end non-acquired loans                         | 2.00%                               |                           |           | 2.07%           |
| Allowance for loan losses as a percentage of period end non-performing non-acquired loans ( NPLs ) | 66.95%                              |                           |           | 65.94%          |

| (Dollars in thousands)                                                    | Nine Months Ended<br>September 30, |                           |           |                 |
|---------------------------------------------------------------------------|------------------------------------|---------------------------|-----------|-----------------|
|                                                                           | Non-acquired<br>Loans              | 2011<br>Acquired<br>Loans | Total     | 2010<br>Total * |
| Balance at beginning of period                                            | \$ 47,512                          | \$                        | \$ 47,512 | \$ 37,488       |
| Loans charged-off                                                         | (21,950)                           | (17,747)                  | (39,697)  | (36,395)        |
| Recoveries of loans previously charged off                                | 1,863                              |                           | 1,863     | 1,949           |
| Net charge-offs                                                           | (20,087)                           | (17,747)                  | (37,834)  | (34,446)        |
| Provision for loan losses on non-acquired loans                           | 21,685                             | 29,870                    | 51,555    | 43,615          |
| Benefit attributable to FDIC loss share agreements                        |                                    | (28,376)                  | (28,376)  |                 |
| Total provision for loan losses charged to operations                     | 21,685                             | 1,494                     | 23,179    | 43,615          |
| Provision for loan losses recorded through the FDIC loss share receivable |                                    | 28,376                    | 28,376    |                 |
| Balance at end of period                                                  | \$ 49,110                          | \$ 12,123                 | \$ 61,233 | \$ 46,657       |
| Total non-acquired loans:                                                 |                                    |                           |           |                 |
| At period end                                                             | \$ 2,461,613                       |                           |           | \$ 2,258,353    |
| Average                                                                   | 2,374,381                          |                           |           | 2,208,533       |

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|                                                                                                    |        |        |
|----------------------------------------------------------------------------------------------------|--------|--------|
| Net charge-offs as a percentage of average non-acquired loans (annualized)                         | 1.13%  | 2.09%  |
| Allowance for loan losses as a percentage of period end non-acquired loans                         | 2.00%  | 2.07%  |
| Allowance for loan losses as a percentage of period end non-performing non-acquired loans ( NPLs ) | 66.95% | 65.94% |

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\* As of September 30, 2010, there was no allowance for loans covered under loss share agreements.

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The provision for loan losses as a percent of average non-acquired loans reflects a decrease due primarily to the decrease in our classified loans during the third quarter of 2011 compared to the same quarter in 2010. Forty-six percent of the charge-off amount for the third quarter of 2011 is comprised of 10 loans ranging from approximately \$195,000 to \$564,000. The remainder of the charge-offs were less than \$183,000 per loan for the quarter. Of the total net charge-offs during the quarter, 31.8% or \$2.3 million were construction and land development loans, 13.6% or \$976,000 were commercial owner-occupied loans, 24.8% or \$1.8 million were consumer owner-occupied loans (including home equity loans), 4.5% or \$320,000 were commercial and industrial loans, 14.6% or \$1.0 million were commercial non-owner occupied loans, and 3.7% or \$267,000 were other income producing property loans. We remain aggressive in charging off loans resulting from the decline in the appraised value of the underlying collateral (real estate) and the overall concern that borrowers will be unable to meet the contractual payments of principal and interest. Additionally, there continues to be concern about the economy as a whole and the market conditions throughout certain regions of the Southeast. Excluding covered assets, nonperforming loans increased by \$2.6 million during the third quarter compared to the third quarter of 2010. The ratio of the ALLL to cover these loans increased from 65.9% at September 30, 2010 to 67.0% at September 30, 2011.

We increased the ALLL compared to the third quarter of 2010 due primarily to the increase in the non-acquired loan portfolio over the past twelve months. On a general basis, we consider three-year historical loss rates on all loan portfolios, except residential lot loans where two-year historical loss rates are applied. We also consider economic risk, model risk and operational risk when determining the ALLL. All of these factors are reviewed and adjusted each reporting period to account for management's assessment of loss within the loan portfolio. Overall, the general reserve increased \$2.6 million compared to the balance at September 30, 2010 and by \$1.2 million from June 30, 2011.

The historical loss rates on an overall basis increased from September 30, 2010 due to the increase in loan losses in the third quarter of 2011 when compared to the removal of much lower historical loss rates in our rolling averages. This resulted in an increase of 35 basis points in the ALLL, given the rise in losses throughout the portfolio. Compared to the second quarter of 2011, the increase was 6 basis points.

Economic risk decreased by 4 basis points during the third quarter of 2011 as compared to 2010 due to the decline in unemployment and improved home sales. Compared to the second quarter of 2011, economic risk remained consistent due to the relatively flat trend in unemployment.

Model risk remained consistent with the second quarter of 2011 and declined 3 basis points compared to the third quarter of 2010. This risk comes from the fact that our ALLL model is not all-inclusive. Risk inherent with new products, new markets, and timeliness of information are examples of this type of exposure. Management has reduced this factor since our model has been used for three years, and we believe more adequately addresses this inherent risk in our loan portfolio.

Operational risk consists of the underwriting, documentation, closing and servicing associated with any loan. This risk is managed through policies and procedures, portfolio management reports, best practices and the approval process. The risk factors evaluated include the following: exposure outside our deposit footprint, changes in underwriting standards, levels of past due loans, loan growth, supervisory loan to value exceptions, results of external loan reviews, our centralized loan documentation process and significant loan concentrations. We believe that the overall operational risk has declined by 22 basis points during the third quarter of 2011 compared to the third quarter of 2010, and by 1 basis point from the second quarter of 2011. This improvement was due primarily to the decrease in 30-89 days past due loans, improved levels of classified loans, reduced exposure outside of the depository footprint, lower exposure to certain loan concentrations and the decrease in supervisory loan to value exceptions given the increase in capital thus far in 2011.

On a specific reserve basis, the allowance for loan losses decreased slightly by \$303,000 from June 30, 2011, and decreased by approximately \$109,000 from September 30, 2010. The loan balances being evaluated for specific reserves increased from \$50.4 million at September 30,

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2010 to \$57.4 million at September 30, 2011. Our practice, generally, is that once a specific reserve is established for a loan, a charge off occurs in the quarter subsequent to the establishment of the specific reserve.

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During the three months ended September 30, 2011, the growth in our total nonperforming assets ( NPAs ) was reflective of the continued pressure on the real estate market and economy, along with acquired NPAs. The table below summarizes our NPAs.

| (Dollars in thousands)                                               | September 30,<br>2011 | June 30,<br>2011 | March 31,<br>2011 | December 31,<br>2010 | September 30,<br>2010 |
|----------------------------------------------------------------------|-----------------------|------------------|-------------------|----------------------|-----------------------|
| Nonaccrual loans (1)                                                 | \$ 61,163             | \$ 57,806        | \$ 58,870         | \$ 62,661            | \$ 66,964             |
| Accruing loans past due 90 days or more                              | 495                   | 94               | 339               | 118                  | 319                   |
| Restructured loans - nonaccrual                                      | 11,698                | 10,880           | 11,168            | 6,365                | 3,479                 |
| Total nonperforming loans                                            | 73,356                | 68,780           | 70,377            | 69,144               | 70,762                |
| Other real estate owned ( OREO ) (2)                                 | 22,686                | 24,900           | 19,816            | 17,264               | 15,657                |
| Other nonperforming assets (3)                                       | 24                    | 50               | 575               | 50                   | 12                    |
| Total nonperforming assets excluding covered assets                  | 96,066                | 93,730           | 90,768            | 86,458               | 86,431                |
| Covered OREO (2)                                                     | 79,740                | 74,591           | 77,286            | 69,317               | 47,365                |
| Other covered nonperforming assets (3)                               | 347                   | 408              | 308               | 19                   | 9                     |
| Total nonperforming assets including covered assets                  | \$ 176,153            | \$ 168,729       | \$ 168,362        | \$ 155,794           | \$ 133,805            |
| <b>Excluding Acquired Assets</b>                                     |                       |                  |                   |                      |                       |
| Total NPAs as a percentage of total loans and repossessed assets (4) | 3.87%                 | 3.86%            | 3.83%             | 3.74%                | 3.80%                 |
| Total NPAs as a percentage of total assets                           | 2.44%                 | 2.44%            | 2.29%             | 2.41%                | 2.39%                 |
| Total NPLs as a percentage of total loans (4)                        | 2.98%                 | 2.86%            | 3.00%             | 3.01%                | 3.13%                 |
| <b>Including Acquired Assets</b>                                     |                       |                  |                   |                      |                       |
| Total NPAs as a percentage of total loans and repossessed assets (4) | 5.91%                 | 5.87%            | 5.88%             | 5.76%                | 4.97%                 |
| Total NPAs as a percentage of total assets                           | 4.48%                 | 4.39%            | 4.25%             | 4.33%                | 3.70%                 |
| Total NPLs as a percentage of total loans (4)                        | 2.55%                 | 2.48%            | 2.54%             | 2.64%                | 2.69%                 |

(1) Contractually past due acquired loans are considered to be performing due to the application of the accretion method under FASB ASC Topic 310-30. (For further discussion of the Company's application of the accretion method, see *Business Combinations, Method of Accounting for Loans Acquired, and FDIC Indemnification Asset* under Note 2 Summary of Significant Accounting Policies.) Excludes the acquired loans that are contractually past due 90 days or more totaling \$91.6 million, \$89.9 million, \$110.7 million, \$93.6 million, and \$102.9 million as of September 30, 2011, June 30, 2011, March 31, 2011, December 31, 2010, and September 30, 2010, respectively, including the valuation discount.

(2) Includes certain real estate acquired as a result of foreclosure and property not intended for bank use.

(3) Consists of non-real estate foreclosed assets, such as repossessed vehicles.

(4) Loan data excludes mortgage loans held for sale.

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Excluding the acquired loans, total nonaccrual loans, including restructured loans, were \$72.9 million, or 2.98% of total loans, an increase of \$2.4 million, or 3.4%, from September 30, 2010. The increase in nonaccrual loans was driven by an increase in consumer nonaccrual loans of \$2.7 million and a decrease in commercial nonaccrual loans of \$.3 million. Excluding covered properties, OREO increased \$7.0 million from September 30, 2010.

Nonaccrual non-acquired loans and restructured loans increased by approximately \$4.2 million during the third quarter of 2011 from the level at June 30, 2011. This increase was the result of four large loans moving to nonaccrual totaling more than \$7.8 million and smaller balance loans returning to accrual status with timely payments partially offsetting this increase.

At September 30, 2011, non-covered OREO decreased by \$2.2 million from June 30, 2011. In addition, three larger properties were written down by \$2.4 million resulting from the evaluation of each asset. At September 30, 2011, non-covered OREO consisted of 92 properties with an average value of \$247,000, a decrease of \$40,000 from June 30, 2011, when we had 87 properties. In the third quarter of 2011, we added 28 properties with an aggregate value of \$3.7 million into non-covered OREO, and we sold 23 properties with a basis of \$2.7 million in that same quarter. We recorded a net loss of \$35,000 for the quarter. Our non-covered OREO balance of \$22.7 million, at September 30, 2011, is comprised of 8% in the Low Country region, 20% in the

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Georgetown/Myrtle Beach region, 39% in the Beaufort (Hilton Head) region, 10% in the Charlotte region and 6% in the Upstate (Greenville) region.

Overall, we continue to believe that the loan portfolio remains manageable in terms of charge-offs and NPAs as a percentage of total loans. Given the industry-wide rise in credit costs, we have taken additional proactive measures to identify problem loans including in-house and independent review of larger transactions. Our policy for evaluating problem loans includes obtaining new certified real estate appraisals as needed. We continue to monitor and review frequently the overall asset quality within the loan portfolio.

**Potential Problem Loans**

Potential problem loans (excluding acquired loans), which are not included in nonperforming loans, amounted to approximately \$13.5 million, or 0.55%, of total non-acquired loans outstanding at September 30, 2011, compared to \$18.0 million, or 0.80%, of total non-acquired loans outstanding at September 30, 2010 and compared to \$19.6 million, or 0.85% of total non-acquired loans outstanding at December 31, 2010. Potential problem loans represent those loans where information about possible credit problems of the borrowers has caused management to have serious concern about the borrower's ability to comply with present repayment terms.

**Noninterest Income**

| (Dollars in thousands)                       | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |            |
|----------------------------------------------|-------------------------------------|-----------|------------------------------------|------------|
|                                              | 2011                                | 2010      | 2011                               | 2010       |
| Gain on acquisition                          | \$ 11,001                           | \$ 5,683  | \$ 16,529                          | \$ 98,081  |
| Service charges on deposit accounts          | 6,050                               | 2,397     | 16,695                             | 15,788     |
| Bankcard services income                     | 2,980                               | 1,934     | 8,684                              | 6,617      |
| Mortgage banking income                      | 2,341                               | 1,199     | 4,329                              | 4,031      |
| Trust and investment services income         | 1,453                               |           | 4,227                              | 3,170      |
| Securities gains                             |                                     |           | 333                                |            |
| Total other-than-temporary impairment losses | (100)                               | (479)     | (100)                              | (6,740)    |
| Accretion on FDIC indemnification asset      | (3,515)                             | 530       | (7,049)                            | 1,466      |
| Other                                        | 581                                 | 566       | 1,808                              | 2,065      |
| Total noninterest income                     | \$ 20,791                           | \$ 11,830 | \$ 45,456                          | \$ 124,478 |

Noninterest income increased 75.7% in the third quarter of 2011 as compared to the same period in 2010. The quarterly increase in total noninterest income primarily resulted from the following:

- The FDIC-assisted acquisition of BankMeridian resulted in a pre-tax gain of \$11.0 million.

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- Bankcard services income increased 24.3%, largely driven by an increase in debit card income from legacy SCBT. Legacy SCBT bankcard services income, excluding BankMeridian, increased 24.3%, or \$583,000, due primarily to a larger customer base than in 2010.
- Mortgage banking income increased 21.0%, driven by a \$407,000 increase in mortgage banking income generated from legacy SCBT, due to lower interest rates and increased volume of mortgage banking activity in the secondary market during the third quarter of 2011.
- Accretion on the FDIC indemnification asset decreased \$4.0 million, resulting from a decrease in expected cash flows, which was first identified in the first quarter of 2011. This decrease in expected cash flows from the FDIC was driven by improvement in the cash flows in certain acquired loan pools during the quarter.

Noninterest income decreased 63.5% during the nine months ended September 30, 2011 as compared to the same period in 2010. The decrease in total noninterest expense primarily resulted from the following:

- The pre-tax gains from the FDIC-assisted acquisitions of Habersham in the first quarter of 2011 and BankMeridian in the third quarter of 2011 were \$5.5 million and \$11.0 million, respectively, compared to the \$98.1 million pre-tax gain from the FDIC-assisted acquisition of CBT in the first quarter of 2010.

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- Service charges on deposit accounts increased \$907,000, primarily resulting from a \$687,000 increase in legacy SCBT service charges, due primarily to a larger number of accounts.
- Bankcard services income increased 31.2%, largely driven by an increase in debit card and foreign ATM income (income from ATMs outside of the SCBT network) from legacy SCBT. Legacy SCBT bankcard services income increased 30.4%, or \$2.0 million, due primarily to a larger customer base than in 2010.
- Trust and investment services income increased 33.3%, mostly driven by a \$927,000 increase in investment services fees generated from legacy SCBT, due to additional wealth management personnel and a larger customer base.
- Securities gains of \$527,000 from the sale of most of the securities acquired in the Habersham transaction were partially offset by \$194,000 loss resulting from the sale of the MMCAPs I A security, the Company's only remaining pooled trust preferred collateralized debt obligation.
- Impairment losses of \$100,000 were recognized in earnings during the nine months ended September 30, 2011, compared to the same period in 2010, when a \$6.7 million impairment loss was recorded related primarily to pooled trust preferred securities.
- Accretion on the FDIC indemnification asset decreased \$8.5 million, resulting from a decrease in expected cash flows. The decrease in expected cash flows from the FDIC was driven by improvement in the cash flows in certain loan pools during the nine months ended September 30, 2011.

## Noninterest Expense

| (Dollars in thousands)                         | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|------------------------------------------------|-------------------------------------|-----------|------------------------------------|-----------|
|                                                | 2011                                | 2010      | 2011                               | 2010      |
| Salaries and employee benefits                 | \$ 17,345                           | \$ 15,274 | \$ 52,007                          | \$ 44,289 |
| OREO expense and loan related                  | 4,118                               | 1,861     | 9,428                              | 2,416     |
| Information services expense                   | 2,851                               | 2,157     | 7,696                              | 6,684     |
| Net occupancy expense                          | 2,443                               | 2,046     | 7,365                              | 6,326     |
| Furniture and equipment expense                | 2,127                               | 1,963     | 6,266                              | 5,537     |
| Merger-related expense                         | 1,587                               | 566       | 2,794                              | 5,438     |
| FDIC assessment and other regulatory charges   | 859                                 | 1,354     | 3,593                              | 3,904     |
| Advertising and marketing                      | 824                                 | 614       | 2,022                              | 2,229     |
| Business development and staff related         | 771                                 | 916       | 2,449                              | 2,518     |
| Amortization of intangibles                    | 517                                 | 432       | 1,468                              | 1,212     |
| Professional fees                              | 377                                 | 495       | 1,311                              | 1,668     |
| Federal Home Loan Bank advances prepayment fee |                                     |           |                                    | 3,189     |
| Other                                          | 3,339                               | 2,254     | 10,033                             | 6,086     |
| Total noninterest expense                      | \$ 37,158                           | \$ 29,932 | \$ 106,432                         | \$ 91,496 |

Noninterest expense increased 24.1% in the third quarter of 2011 as compared to the same period in 2010. The quarterly increase in total noninterest expense primarily resulted from the following:

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- Salaries and employee benefits expense increased 13.6%, driven by \$1.9 million increase in legacy SCBT expenses and approximately \$200,000 in costs related to the addition of the BankMeridian franchise.
- OREO expense and loan related expense increased 121.3%, mostly driven by \$2.4 million in write downs on three legacy SCBT properties, to estimated realizable values, located on the coast of South Carolina.
- Information services expense increased by 32.2%, or \$694,000, due to the growth in customers throughout the franchise and the addition of Habersham.
- Merger-related expenses increased 180.4% due to the FDIC-assisted acquisition of BankMeridian during the third quarter of 2011 as well as expenses related to the Habersham acquisition which occurred in the first quarter of 2011.
- Other expense increased 48.1%, driven mainly by \$1.1 million increase in legacy SCBT expenses. We experienced increases in business development and new loan production, as well as higher cost in bankcard expenses.
- Partially offsetting these increases was a decrease in the FDIC assessment and other regulatory charges of 36.6%, or \$495,000 due to the change in methodology for how the assessment is calculated.

Noninterest expense increased 16.3% during the nine months ended September 30, 2011 as compared to the same period in 2010. The increase in total noninterest expense primarily resulted from the following:

- Salaries and employee benefits expense increased 17.4%, driven mainly by the addition of employees throughout the Company. Full-time equivalent employees are up 8.4% from 995 at September 30, 2010.

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- Information services expense increased by \$1.0 million, or 15%, due to continued organic growth in our company and the Habersham acquisition.
- OREO expense and loan related expense increased 290.2%, mostly driven by \$6.4 million in write downs of legacy SCBT property to estimated realizable values during 2011 compared to \$1.9 million in write downs in 2010.
- Other expense increased 65.0%, driven mainly by \$3.6 million increase in legacy SCBT expenses and \$305,000 in Habersham and BankMeridian related cost. We experienced increases in business development and new loan production, as well as higher cost in bankcard expenses and trust and investment services expense.
- Partially offsetting these increases were decreases in merger-related expenses of 48.6%, or \$2.6 million, and a decline of \$3.2 million related to the FHLB prepayment fee paid in the first quarter of 2010.

**Income Tax Expense**

Our effective income tax rate increased to 35.4% for the quarter ended September 30, 2011 compared to 30.8% for the quarter ended September 30, 2010. The higher effective tax rate is attributable to the increase in pre-tax earnings driven by the \$11.0 million pre-tax gain on acquisition from the BankMeridian transaction. This caused tax exempt income to become a smaller proportion of net income in 2011 than in 2010, thereby increasing the effective rate.

Our effective income tax rate decreased to 35.1% for the nine months ended September 30, 2011, as compared to 36.0% for the comparable period of 2010. The lower effective tax rate in 2011 is attributable to lower pre-tax earnings driven by the \$5.5 million and \$11.0 million pre-tax acquisition gains recorded on the Habersham and BankMeridian acquisitions in comparison to the \$98.1 million pre-tax acquisition gain recorded on the CBT acquisition. This caused tax exempt income to become a greater proportion of net income in 2011 than in 2010, thereby decreasing the effective rate.

**Capital Resources**

Our ongoing capital requirements have been met primarily through retained earnings, less the payment of cash dividends and additional common equity raised during 2011. As of September 30, 2011, shareholders' equity was \$381.7 million, an increase of \$51.8 million, or 15.7%, from \$330.0 million at December 31, 2010, and an increase of \$46.5 million or 13.9% from \$335.2 at September 30, 2010. The increase in shareholders' equity largely resulted from \$34.8 million proceeds from the Private Placement during the first quarter of 2011. Our equity-to-assets ratio increased to 9.70% at September 30, 2011 from 9.66% at the end of the second quarter of 2011 and 9.28% at the end of the comparable period of 2010.

We are subject to certain risk-based capital guidelines. Certain ratios measure the relationship of capital to a combination of balance sheet and off-balance sheet risks. The values of both balance sheet and off-balance sheet items are adjusted to reflect credit risk. Under the guidelines promulgated by the Board of Governors of the Federal Reserve System, which are substantially similar to those of the OCC, Tier 1 risk-based capital must be at least 4% of risk-weighted assets, while total risk-based capital must be at least 8% of risk-weighted assets.

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In conjunction with the risk-based capital ratios, the regulatory agencies have also prescribed a leverage capital ratio for assessing capital adequacy.

The Company's capital adequacy ratios for the following periods are reflected below:

|                                    | September 30,<br>2011 | December 31,<br>2010 | September 30,<br>2010 |
|------------------------------------|-----------------------|----------------------|-----------------------|
| <b>SCBT Financial Corporation:</b> |                       |                      |                       |
| Tier 1 risk-based capital          | 13.92%                | 13.34%               | 13.36%                |
| Total risk-based capital           | 15.19%                | 14.60%               | 15.27%                |
| Tier 1 leverage                    | 9.04%                 | 8.48%                | 8.50%                 |
| <b>SCBT, N.A.:</b>                 |                       |                      |                       |
| Tier 1 risk-based capital          | 13.74%                | 13.71%               | 13.13%                |
| Total risk-based capital           | 15.01%                | 14.43%               | 15.03%                |
| Tier 1 leverage                    | 8.93%                 | 8.38%                | 8.41%                 |

Compared to December 31, 2010, our Tier 1 risk-based capital, total risk-based capital, and Tier 1 leverage ratio have increased due primarily to the impact of the proceeds from the Private Placement and the gains related to the FDIC-assisted acquisitions of Habersham and BankMeridian. Compared to September 30, 2010, our total risk-based capital ratio has decreased due to the increase in risk-weighted assets and the impact of repaying \$14.8 million of subordinated indebtedness that qualified as total risk-based capital. Our Tier 1 risk-based capital and Tier 1 leverage ratio increased as compared to September 30, 2010 due primarily to the impact of the capital raise and the gains related to the FDIC-assisted acquisitions of Habersham and BankMeridian.

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These fluctuations are consistent with what management expected given the CBT, Habersham, and BankMeridian acquisitions. Our capital ratios are currently well in excess of the minimum standards and continue to be in the well capitalized regulatory classification.

**Liquidity**

Liquidity refers to our ability to generate sufficient cash to meet our financial obligations, which arise primarily from the withdrawal of deposits, extension of credit and payment of operating expenses. Our Asset Liability Management Committee (ALCO) is charged with monitoring these policies, which are designed to ensure acceptable composition of asset/liability mix. Two critical areas of focus for ALCO are interest rate sensitivity and liquidity risk management. We have employed our funds in a manner to provide liquidity from both assets and liabilities sufficient to meet our cash needs.

Asset liquidity is maintained by the maturity structure of loans, investment securities and other short-term investments. Management has policies and procedures governing the length of time to maturity on loans and investments. Normally, changes in the earning asset mix are of a longer-term nature and are not utilized for day-to-day corporate liquidity needs.

Our liabilities provide liquidity on a day-to-day basis. Daily liquidity needs are met from deposit levels or from our use of federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings. We engage in routine activities to retain deposits intended to enhance our liquidity position. These routine activities include various measures, such as the following:

- Emphasizing relationship banking to new and existing customers, where borrowers are encouraged and normally expected to maintain deposit accounts with our Bank,
- Pricing deposits, including certificates of deposit, at rate levels that will attract and/or retain balances of deposits that will enhance our Bank's asset/liability management and net interest margin requirements, and
- Continually working to identify and introduce new products that will attract customers or enhance our Bank's appeal as a primary provider of financial services.

On February 18, 2011, we acquired Habersham Bank in an FDIC-assisted deal which provided approximately \$91.3 million in cash and cash equivalents. Deposits in the amount of \$340.0 million were also assumed. Of this amount, \$76.2 million were in the form of highly liquid transaction accounts. Certificates of deposit and interest-bearing deposits comprised \$264.4 million of total deposits, or 77.6%. In accordance with the P&A Agreement and the desire to lower our cost of funds, we decided to lower rates on all time deposits for depositors who had no other relationship with us other than their time deposit products. As anticipated, we experienced approximately \$120.7 million in run-off of time deposit account balances between the acquisition date and September 30, 2011. Our liquidity position could continue to be affected by potential run-off of deposits in these northeast Georgia markets.

On July 29, 2011, we acquired BankMeridian in an FDIC-assisted deal which provided approximately \$45.4 million in cash and cash equivalents. Deposits in the amount of \$200.6 million were also assumed. Of this amount, \$12.4 million were in the form of highly liquid

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transaction accounts. Certificates of deposit and interest-bearing deposits comprised \$188.2 million of total deposits, or 93.8%. In accordance with the P&A Agreement and the desire to lower our cost of funds, we decided to lower rates on all time deposits for depositors who had no other relationship with us other than their time deposit products. As anticipated, we experienced approximately \$104.3 million in run-off of time deposit account balances between the acquisition date and September 30, 2011. Our liquidity position could continue to be affected by potential run-off of the BankMeridian deposits.

The FDIC-assisted acquisitions of Habersham and BankMeridian had a significant impact upon our liquidity position, initially increasing our excess liquidity. These excess liquidity balances were managed downward through the anticipated run-off of higher costing time deposit balances and the repayment of FHLB advances following each transaction.

Excluding the Habersham and BankMeridian acquisitions, our legacy SCBT loan portfolio increased by approximately \$203.3 million, or about 9.0% compared to the balance at September 30, 2010. Our investment securities portfolio also increased \$52.8 million during this same time period. We also increased our liquidity position in February 2011 with the sale of 1,129,032 shares of our common stock in the Private Placement, resulting in net proceeds of \$34.8 million. Total cash and cash equivalents were \$158.8 million at September 30, 2011 as compared to \$237.1 million at December 31, 2010 and \$173.2 million at September 30, 2010.

At September 30, 2011 and 2010, we had no brokered deposits. Total deposits increased \$267.5 million, or 8.9%, to \$3.3 billion resulting primarily from the Habersham and BankMeridian acquisitions; excluding Habersham and BankMeridian, total deposits decreased \$37.2 million, or 1.2%. Excluding Habersham, we increased our noninterest-bearing deposit balance by \$121.7 million, or 25.7%, at September 30, 2011 as compared to the balance at September 30, 2010. Federal funds purchased and securities sold under agreements to repurchase increased \$20.5 million, or 12.5%, from the balance at September 30, 2010; and decreased \$6.6

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million, or 3.5%, from the balance at December 31, 2010. Other borrowings declined by \$15.2 million, or 24.5%, from September 30, 2010 due primarily to the repayment of the \$15.0 million subordinated term loan during the fourth quarter of 2010. During the first and third quarters of 2011, we repaid the FHLB \$38.3 million and \$20.8 million for the FHLB advances acquired in the FDIC-assisted acquisitions of Habersham and BankMeridian, respectively. To the extent that we employ other types of non-deposit funding sources, typically to accommodate retail and correspondent customers, we continue to emphasize shorter maturities of such funds. Our approach may provide an opportunity to sustain a low funding rate or possibly lower our cost of funds but could also increase our cost of funds if interest rates rise.

Our ongoing philosophy is to remain in a liquid position taking into account our current composition of earning assets, asset quality, capital position, and operating results. Our liquid earning assets include federal funds sold, balances at the Federal Reserve Bank, reverse repurchase agreements, and/or other short-term investments. Cyclical and other economic trends and conditions can disrupt our Bank's desired liquidity position at any time. We expect that these conditions would generally be of a short-term nature. Under such circumstances, our Bank's federal funds sold position and any balances at the Federal Reserve Bank serve as the primary sources of immediate liquidity. At September 30, 2011, our Bank had total federal funds credit lines of \$194.0 million with no outstanding advances. If additional liquidity were needed, the Bank would turn to short-term borrowings as an alternative immediate funding source and would consider other appropriate actions such as promotions to increase core deposits or the sale of a portion of our investment portfolio. At September 30, 2011, our Bank had \$76.3 million of credit available at the Federal Reserve Bank's Discount Window, but had no outstanding advances as of the end of the quarter. In addition, we could draw on additional alternative immediate funding sources from lines of credit extended to us from our correspondent banks and/or the FHLB. At September 30, 2011, our Bank had a total FHLB credit facility of \$246.8 million with total outstanding letters of credit consuming \$56.3 million and no outstanding advances. We believe that our liquidity position continues to be adequate and readily available.

Our contingency funding plan incorporates several potential stages based on liquidity levels. Also, we review on at least an annual basis our liquidity position and our contingency funding plans with our principal banking regulator. The Bank maintains various wholesale sources of funding. If our deposit retention efforts were to be unsuccessful, our Bank would utilize these alternative sources of funding. Under such circumstances, depending on the external source of funds, our interest cost would vary based on the range of interest rates charged to our Bank. This could increase our Bank's cost of funds, impacting net interest margins and net interest spreads.

**Loss Share**

The following table presents the expected losses on acquired assets covered under loss share agreements as of September 30, 2011:

| (Dollars in thousands) | Original<br>Estimated<br>Losses | Losses to<br>Date *<br>through<br>9/30/2011 | Remaining<br>Estimated<br>Losses<br>for Loans | Projected<br>Total Losses<br>Before<br>OREO Mark | OREO<br>Mark **<br>9/30/2011 | Projected<br>Total<br>Losses | FDIC<br>Threshold<br>or ILE |
|------------------------|---------------------------------|---------------------------------------------|-----------------------------------------------|--------------------------------------------------|------------------------------|------------------------------|-----------------------------|
| <b>CBT</b>             | \$ 340,039                      | \$ 195,332                                  | \$ 119,682                                    | \$ 315,014                                       | \$ 33,932                    | \$ 348,946                   | \$ 233,000                  |
| <b>Habersham</b>       | 124,363                         | 57,152                                      | 57,951                                        | 115,103                                          | 12,481                       | 127,584                      | 94,000                      |
| <b>BankMeridian</b>    | 70,190                          |                                             | 60,415                                        | 60,415                                           | 9,775                        | 70,190                       | 70,827                      |
| <b>Total</b>           | \$ 534,592                      | \$ 252,484                                  | \$ 238,048                                    | \$ 490,532                                       | \$ 56,188                    | \$ 546,720                   | \$ 397,827                  |

\* Excludes expenses, net of revenues.

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\*\* Represents the estimated losses on OREO at period end. These losses have been recognized to record OREO at fair value. These losses are claimable from the FDIC upon sale or receipt of a valid appraisal.

As of September 30, 2011, all losses claimed by SCBT for the covered assets are reimbursable by the FDIC at eighty percent of the losses and reimbursable expenses paid. Once the losses and reimbursable expenses claimed under the CBT loss share agreement exceed the \$233.0 million threshold, the reimbursement rate will increase to ninety-five percent of the loss and reimbursable expenses paid. Under the Habersham and BankMeridian loss share agreements, all losses (whether or not they exceed the intrinsic loss estimate ( ILE )) are reimbursable by the FDIC at eighty percent of the losses and reimbursable expenses paid.

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**Deposit and Loan Concentrations**

We have no material concentration of deposits from any single customer or group of customers. We have no significant portion of our loans concentrated within a single industry or group of related industries. Furthermore, we attempt to avoid making loans that, in an aggregate amount, exceed 10% of total loans to a multiple number of borrowers engaged in similar business activities. As of September 30, 2011, there were no aggregated loan concentrations of this type. We do not believe there are any material seasonal factors that would have a material adverse effect on us. We do not have foreign loans or deposits.

**Concentration of Credit Risk**

We consider concentrations of credit to exist when, pursuant to regulatory guidelines, the amounts loaned to a multiple number of borrowers engaged in similar business activities which would cause them to be similarly impacted by general economic conditions represent 25% of total risk-based capital, or \$95.2 million at September 30, 2011. Based on these criteria, we had six such credit concentrations at September 30, 2011, including loans to borrowers engaged in other activities related to real estate, loans to religious organizations, loans to lessors of nonresidential buildings (except mini-warehouses), loans to lessors of residential buildings, loans to offices of physicians (except mental health specialists) and loans to other holding companies (except bank holding companies).

**Cautionary Note Regarding Any Forward-Looking Statements**

*Statements included in Management's Discussion and Analysis of Financial Condition and Results of Operations which are not historical in nature are intended to be, and are hereby identified as, forward-looking statements for purposes of the safe harbor provided by Section 21E of the Securities and Exchange Act of 1934. The words may, will, anticipate, should, would, believe, contemplate, expect, estimate, continue, may, and intend, as well as other similar words and expressions of the future, are intended to identify forward-looking statements. We caution readers that forward-looking statements are estimates reflecting our judgment based on current information, and are subject to certain risks and uncertainties that could cause actual results to differ materially from anticipated results. Such risks and uncertainties include, among others, the matters described in Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2010, the matters described in Part II, Item 1A. Risk Factors of this Quarterly Report on Form 10-Q, and the following:*

- **Credit risk** associated with an obligor's failure to meet the terms of any contract with the Bank or otherwise fail to perform as agreed;
- **Interest rate risk** involving the effect of a change in interest rates on both the Bank's earnings and the market value of the portfolio equity;
- **Liquidity risk** affecting our Bank's ability to meet its obligations when they come due;
- **Price risk** focusing on changes in market factors that may affect the value of financial instruments which are marked-to-market periodically;
- **Transaction risk** arising from problems with service or product delivery;

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- **Compliance risk** involving risk to earnings or capital resulting from violations of or nonconformance with laws, rules, regulations, prescribed practices, or ethical standards;
- **Regulatory change risk** resulting from new laws, rules, regulations, prescribed practices or ethical standards;
- **Strategic risk** resulting from adverse business decisions or improper implementation of business decisions;
- **Reputation risk** that adversely affects earnings or capital arising from negative public opinion;
- **Terrorist activities risk** that result in loss of consumer confidence and economic disruptions;
- **Cybersecurity risk** related to our dependence on internal computer systems as well as the technology of outside service providers subjects us to business disruptions or financial losses resulting from deliberate attacks or unintentional events;
- **Merger integration risk** including potential deposit attrition, higher than expected costs, customer loss and business disruption associated with the integration of CBT, Habersham, and BankMeridian, including, without limitation, potential difficulties in maintaining relationships with key personnel and other integration related-matters;
- **Noninterest income risk** resulting from the effect of final rules amending Regulation E that prohibit financial institutions from charging consumer fees for paying overdrafts on ATM and one-time debit card transactions, unless the consumer consents or opts-in to the overdraft service for those types of transactions; and
- **Economic downturn risk** resulting in changes in the credit markets, greater than expected non-interest expenses, excessive loan losses and other factors, which could cause actual results to differ materially from future results expressed or implied by such forward-looking statements.

### Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have no material changes in our quantitative and qualitative disclosures about market risk as of September 30, 2011 from that presented in our Annual Report on Form 10-K for the year ended December 31, 2010.

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**Item 4. CONTROLS AND PROCEDURES**

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of management, including our President and Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Management necessarily applied its judgment in the process of reviewing these controls and procedures, which, by their nature, can provide only reasonable assurance regarding management's control objectives. Based upon this evaluation, our President and Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report.

There have been no significant changes in our internal controls over financial reporting that occurred during the third quarter of 2011 that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

The design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

**PART II OTHER INFORMATION**

**Item 1. LEGAL PROCEEDINGS**

To the best of our knowledge, we are not a party to, nor is any of our property the subject of, any pending material proceeding other than those that may occur in our ordinary course of business.

**Item 1A. RISK FACTORS**

Investing in shares of our common stock involves certain risks, including those identified and described in Item 1A. of our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, as well as cautionary statements contained in this Form 10-Q, including those under the caption "Cautionary Note Regarding Any Forward-Looking Statements" set forth in Part I, Item 2 of this Form 10-Q and risks and matters described elsewhere in this Form 10-Q and in our other filings with the SEC.

**Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

(a) and (b) not applicable

## (c) Issuer Purchases of Registered Equity Securities:

In February 2004, we announced a stock repurchase program with no formal expiration date to repurchase up to 250,000 shares of our common stock. There are 147,872 shares that may yet be purchased under that program. The following table reflects share repurchase activity during the third quarter of 2011:

| Period                     | (a) Total<br>Number of<br>Shares (or<br>Units)<br>Purchased | (b) Average<br>Price Paid per<br>Share (or Unit) | (c) Total<br>Number of<br>Shares (or<br>Units)<br>Purchased as<br>Part of Publicly<br>Announced<br>Plans or<br>Programs | (d) Maximum<br>Number (or<br>Approximate<br>Dollar Value) of<br>Shares (or<br>Units) that May<br>Yet Be<br>Purchased<br>Under the Plans<br>or Programs |
|----------------------------|-------------------------------------------------------------|--------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|
| July 1 - July 31           |                                                             | \$                                               |                                                                                                                         | 147,872                                                                                                                                                |
| August 1 - August 31       |                                                             |                                                  |                                                                                                                         | 147,872                                                                                                                                                |
| September 1 - September 30 | 3,399*                                                      | 27.57                                            |                                                                                                                         | 147,872                                                                                                                                                |
| Total                      | 3,399                                                       |                                                  |                                                                                                                         | 147,872                                                                                                                                                |

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\* These shares were repurchased under arrangements, authorized by our stock-based compensation plans and Board of Directors, whereby officers or directors may sell previously owned shares to SCBT in order to pay for the exercises of stock options or for income taxes owed on vesting shares of restricted stock. These shares are not purchased under the plan to repurchase 250,000 shares announced in February 2004.

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**Item 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**Item 4. (REMOVED AND RESERVED)**

**Item 5. OTHER INFORMATION**

Not applicable.

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**Item 6. EXHIBITS**

|              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|--------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Exhibit 31.1 | Rule 13a-14(a) Certification of Principal Executive Officer                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Exhibit 31.2 | Rule 13a-14(a) Certification of Principal Financial Officer                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Exhibit 32   | Section 1350 Certifications of Principal Executive Officer and Principal Financial Officer                                                                                                                                                                                                                                                                                                                                                                                                |
| Exhibit 101  | The following financial statements from the Quarterly Report on Form 10-Q of SCBT Financial Corporation for the quarter ended September 30, 2011, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income (Loss), (iv) Consolidated Statement of Cash Flows and (v) Notes to Consolidated Financial Statements.(1) |

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(1) As provided in Rule 406T of Regulation S-T, this information shall not be deemed filed for purposes of Section 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934 or otherwise subject to liability under those sections.

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.

SCBT FINANCIAL CORPORATION  
(Registrant)

Date: November 8, 2011

/s/ Robert R. Hill, Jr.  
Robert R. Hill, Jr.  
President and Chief Executive Officer

Date: November 8, 2011

/s/ Donald E. Pickett  
Donald E. Pickett  
Executive Vice President and  
Chief Financial Officer (Principal Accounting Officer)

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**Exhibit Index**

| <b>Exhibit No.</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|--------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Exhibit 31.1       | Rule 13a-14(a) Certification of Principal Executive Officer                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Exhibit 31.2       | Rule 13a-14(a) Certification of Principal Financial Officer                                                                                                                                                                                                                                                                                                                                                                                                                               |
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