

SCBT FINANCIAL CORP  
Form 10-Q  
November 09, 2012  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2012

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-12669

## SCBT FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

**South Carolina**  
(State or other jurisdiction of incorporation)

**57-0799315**  
(IRS Employer Identification No.)

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

**29201**  
(Zip Code)

**(800) 277-2175**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

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

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

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**Class**  
Common Stock, \$2.50 par value

**Outstanding as of October 31, 2012**  
15,123,734

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**SCBT Financial Corporation and Subsidiary**

**September 30, 2012 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>2012<br>(Unaudited) | December 31,<br>2011<br>(Note 1) | September 30,<br>2011<br>(Unaudited) |
|--|--------------------------------------|----------------------------------|--------------------------------------|
| <b>ASSETS</b>  |                                      |                                  |                                      |
| Cash and cash equivalents:   |                                      |                                  |                                      |
| Cash and due from banks  | \$ 105,851                           | \$ 129,729                       | \$ 134,942                           |
| Interest-bearing deposits with banks   | 2,341                                | 1,822                            | 1,530                                |
| Federal funds sold and securities purchased under agreements to resell   | 169,872                              | 39,874                           | 22,300                               |
| Total cash and cash equivalents  | 278,064                              | 171,425                          | 158,772                              |
| Investment securities:   |                                      |                                  |                                      |
| Securities held to maturity (fair value of \$17,750, \$17,864, and \$19,872, respectively)   | 16,568                               | 16,569                           | 18,699                               |
| Securities available for sale, at fair value   | 476,023                              | 289,195                          | 281,926                              |
| Other investments  | 7,996                                | 18,292                           | 20,422                               |
| Total investment securities  | 500,587                              | 324,056                          | 321,047                              |
| Loans held for sale  | 71,585                               | 45,809                           | 45,870                               |
| Loans:   |                                      |                                  |                                      |
| Acquired (covered of \$309,034, \$394,495, and \$426,998, respectively; non-covered of \$211,957, \$7,706, and \$8,763, respectively)              | 520,991                              | 402,201                          | 435,761                              |
| Less allowance for acquired loan losses  | (31,138)                             | (31,620)                         | (29,870)                             |
| Non-acquired   | 2,517,352                            | 2,470,565                        | 2,461,639                            |
| Less allowance for non-acquired loan losses  | (46,439)                             | (49,367)                         | (49,110)                             |
| Loans, net   | 2,960,766                            | 2,791,779                        | 2,818,420                            |
| FDIC receivable for loss share agreements  | 174,321                              | 262,651                          | 274,658                              |
| Premises and equipment, net  | 105,579                              | 94,250                           | 90,020                               |
| Other real estate owned (covered of \$47,063, \$65,849, and \$79,740, respectively; non-covered of \$27,484, \$18,022, and \$22,686, respectively) | 74,547                               | 83,871                           | 102,426                              |
| Goodwill   | 66,529                               | 62,888                           | 62,888                               |
| Bank owned life insurance  | 35,785                               | 22,111                           | 21,974                               |
| Core deposit and other intangibles   | 12,862                               | 11,538                           | 12,061                               |
| Other assets   | 44,607                               | 26,179                           | 27,382                               |
| Total assets   | \$ 4,325,232                         | \$ 3,896,557                     | \$ 3,935,518                         |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>   |                                      |                                  |                                      |
| Deposits:  |                                      |                                  |                                      |
| Noninterest-bearing  | \$ 818,633                           | \$ 658,454                       | \$ 653,924                           |
| Interest-bearing   | 2,770,665                            | 2,596,018                        | 2,633,729                            |
| Total deposits   | 3,589,298                            | 3,254,472                        | 3,287,653                            |
| Federal funds purchased and securities sold under agreements to repurchase   | 226,330                              | 180,436                          | 184,403                              |

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|   |                     |              |              |
|---|---------------------|--------------|--------------|
| Other borrowings  | <b>45,807</b>       | 46,683       | 46,955       |
| Other liabilities   | <b>29,873</b>       | 33,186       | 34,785       |
| Total liabilities   | <b>3,891,308</b>    | 3,514,777    | 3,553,796    |
| 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; 15,114,185, 14,039,422, and 14,004,372 shares issued and outstanding |                     |              |              |
|   | <b>37,785</b>       | 35,099       | 35,011       |
| Surplus   | <b>263,569</b>      | 233,232      | 232,314      |
| Retained earnings   | <b>132,798</b>      | 116,198      | 113,752      |
| Accumulated other comprehensive income (loss)   | <b>(228)</b>        | (2,749)      | 645          |
| Total shareholders' equity  | <b>433,924</b>      | 381,780      | 381,722      |
| Total liabilities and shareholders' equity  | <b>\$ 4,325,232</b> | \$ 3,896,557 | \$ 3,935,518 |

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

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## SCBT Financial Corporation and Subsidiary

## Condensed Consolidated Statements of Income (unaudited)

*(Dollars in thousands, except per share data)*

|   | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |            |
|---|-------------------------------------|-----------|------------------------------------|------------|
|   | 2012                                | 2011      | 2012                               | 2011       |
| <b>Interest income:</b>   |                                     |           |                                    |            |
| Loans, including fees   | \$ 46,179                           | \$ 42,912 | \$ 128,076                         | \$ 120,735 |
| Investment securities:  |                                     |           |                                    |            |
| Taxable   | 2,893                               | 2,023     | 7,800                              | 5,621      |
| Tax-exempt  | 181                                 | 211       | 576                                | 662        |
| Federal funds sold and securities purchased<br>under agreements to resell     | 282                                 | 161       | 773                                | 875        |
| Total interest income   | 49,535                              | 45,307    | 137,225                            | 127,893    |
| <b>Interest expense:</b>  |                                     |           |                                    |            |
| Deposits  | 1,970                               | 3,958     | 6,736                              | 14,335     |
| Federal funds purchased and securities sold<br>under agreements to repurchase | 105                                 | 118       | 341                                | 420        |
| Other borrowings  | 550                                 | 551       | 1,666                              | 1,611      |
| Total interest expense  | 2,625                               | 4,627     | 8,743                              | 16,366     |
| Net interest income   | 46,910                              | 40,680    | 128,482                            | 111,527    |
| Provision for loan losses   | 4,044                               | 8,323     | 11,408                             | 23,179     |
| Net interest income after provision for loan<br>losses                        | 42,866                              | 32,357    | 117,074                            | 88,348     |
| <b>Noninterest income:</b>  |                                     |           |                                    |            |
| Service charges on deposit accounts   | 6,169                               | 6,050     | 17,501                             | 16,695     |
| Bankcard services income  | 3,570                               | 2,980     | 10,508                             | 8,684      |
| Mortgage banking income   | 3,526                               | 2,341     | 8,408                              | 4,329      |
| Trust and investment services income  | 1,577                               | 1,453     | 4,617                              | 4,227      |
| Securities gains  |                                     |           | 61                                 | 333        |
| Amortization of FDIC indemnification assets,<br>net                           | (6,623)                             | (3,515)   | (14,226)                           | (7,049)    |
| Gains on acquisitions   |                                     | 11,001    |                                    | 16,529     |
| Other   | 947                                 | 481       | 3,514                              | 1,708      |
| Total noninterest income  | 9,166                               | 20,791    | 30,383                             | 45,456     |
| <b>Noninterest expense:</b>   |                                     |           |                                    |            |
| Salaries and employee benefits  | 18,647                              | 17,345    | 54,957                             | 52,007     |
| OREO expense and loan related   | 3,951                               | 4,118     | 8,782                              | 9,428      |
| Information services expense  | 2,662                               | 2,851     | 8,032                              | 7,696      |
| Net occupancy expense   | 2,621                               | 2,443     | 7,347                              | 7,365      |
| Furniture and equipment expense   | 2,165                               | 2,127     | 6,775                              | 6,266      |
| FDIC assessment and other regulatory charges                                  | 878                                 | 859       | 2,988                              | 3,593      |
| Advertising and marketing   | 736                                 | 824       | 2,046                              | 2,022      |
| Professional fees   | 643                                 | 377       | 2,008                              | 1,311      |
| Merger and conversion related expense   | 568                                 | 1,587     | 2,662                              | 2,794      |
| Amortization of intangibles   | 566                                 | 517       | 1,606                              | 1,468      |
| Other   | 4,594                               | 4,110     | 13,556                             | 12,480     |
| Total noninterest expense   | 38,031                              | 37,158    | 110,759                            | 106,430    |
| <b>Earnings:</b>  |                                     |           |                                    |            |
| Income before provision for income taxes                                      | 14,001                              | 15,990    | 36,698                             | 27,374     |
| Provision for income taxes  | 4,938                               | 5,658     | 12,576                             | 9,608      |



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|  |    |               |    |        |    |               |    |        |
|--|----|---------------|----|--------|----|---------------|----|--------|
| <b>Net income</b>                                  | \$ | <b>9,063</b>  | \$ | 10,332 | \$ | <b>24,122</b> | \$ | 17,766 |
| <b>Earnings per common share:</b>                  |    |               |    |        |    |               |    |        |
| Basic  | \$ | <b>0.61</b>   | \$ | 0.75   | \$ | <b>1.67</b>   | \$ | 1.30   |
| Diluted  | \$ | <b>0.60</b>   | \$ | 0.74   | \$ | <b>1.66</b>   | \$ | 1.28   |
| 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>14,920</b> |    | 13,818 |    | <b>14,484</b> |    | 13,613 |
| Diluted  |    | <b>15,043</b> |    | 13,884 |    | <b>14,573</b> |    | 13,689 |

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

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

|  | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|--|-------------------------------------|-----------|------------------------------------|-----------|
|  | 2012                                | 2011      | 2012                               | 2011      |
| Net income   | \$ 9,063                            | \$ 10,332 | \$ 24,122                          | \$ 17,766 |
| Other comprehensive income (loss):   |                                     |           |                                    |           |
| Unrealized gains on securities:  |                                     |           |                                    |           |
| Unrealized holding gains arising during period   | 2,542                               | 3,658     | 4,325                              | 7,954     |
| Tax effect   | (969)                               | (1,299)   | (1,649)                            | (2,820)   |
| Reclassification adjustment for gains included<br>in net income                          |                                     |           | (61)                               | (333)     |
| Tax effect   |                                     |           | 23                                 | 115       |
| Net of tax amount  | 1,573                               | 2,359     | 2,638                              | 4,916     |
| Unrealized losses on derivative financial<br>instruments qualifying as cash flow hedges: |                                     |           |                                    |           |
| Unrealized holding losses arising during period  | (140)                               | (716)     | (407)                              | (972)     |
| Tax effect   | 53                                  | 254       | 152                                | 344       |
| Reclassification adjustment for amounts<br>included in interest expense                  | 74                                  | 78        | 218                                | 229       |
| Tax effect   | (28)                                | (27)      | (80)                               | (80)      |
| Net of tax amount  | (41)                                | (411)     | (117)                              | (479)     |
| Other comprehensive income, net of tax   | 1,532                               | 1,948     | 2,521                              | 4,437     |
| Comprehensive income   | \$ 10,595                           | \$ 12,280 | \$ 26,643                          | \$ 22,203 |

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, 2012 and 2011***(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, 2010                        |                 | \$     | 12,793,823   | \$ 31,985 | \$ 198,647 | \$ 103,117        | \$ (3,792)                                    | \$ 329,957 |
| Comprehensive income:                             |                 |        |              |           |            |                   |   |            |
| Net income  |                 |        |              |           |            | 17,766            |   | 17,766     |
| Other comprehensive income, net of tax            |                 |        |              |           |            |                   | 4,437   | 4,437      |
| 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 |
| Balance, December 31, 2011                        |                 | \$     | 14,039,422   | \$ 35,099 | \$ 233,232 | \$ 116,198        | \$ (2,749)                                    | \$ 381,780 |
| Comprehensive income:                             |                 |        |              |           |            |                   |   |            |
| Net income  |                 |        |              |           |            | 24,122            |   | 24,122     |
| Other comprehensive income, net of tax            |                 |        |              |           |            |                   | 2,521   | 2,521      |
| Total comprehensive income                        |                 |        |              |           |            |                   |   | 26,643     |
| Cash dividends declared at \$.51 per share        |                 |        |              |           |            | (7,522)           |   | (7,522)    |
| Employee stock purchases                          |                 |        | 12,035       | 30        | 331        |                   |   | 361        |

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|  |               |           |            |            |
|--|---------------|-----------|------------|------------|
| Stock options exercised                                    | 36,681        | 91        | 808        | 899        |
| Restricted stock awards                                    | 42,674        | 106       | (106)      |            |
| Common stock repurchased                                   | (19,368)      | (48)      | (626)      | (674)      |
| Share-based compensation expense                           |               |           | 1,292      | 1,292      |
| Common stock issued for Peoples Bancorporation acquisition | 1,002,741     | 2,507     | 28,638     | 31,145     |
| Balance, September 30, 2012                                | \$ 15,114,185 | \$ 37,785 | \$ 263,569 | \$ 132,798 |
|  |               |           |            | \$ (228)   |
|  |               |           |            | \$ 433,924 |

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

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## SCBT Financial Corporation and Subsidiary

## Condensed Consolidated Statements of Cash Flows (unaudited)

*(Dollars in thousands)*

|   | Nine Months Ended<br>September 30, |           |
|---|------------------------------------|-----------|
|   | 2012                               | 2011      |
| Cash flows from operating activities:   |                                    |           |
| Net income  | \$ 24,122                          | \$ 17,766 |
| Adjustments to reconcile net income to net cash provided by operating activities:   |                                    |           |
| Depreciation and amortization   | 8,976                              | 7,784     |
| Provision for loan losses   | 11,408                             | 23,179    |
| Deferred income taxes   | 3,173                              | 1,907     |
| Other-than-temporary impairment on securities   |                                    | 100       |
| Gain on sale of securities  | (61)                               | (333)     |
| Gains on acquisitions   |                                    | (16,529)  |
| Gains on OREO sales   | (6,961)                            | (2,089)   |
| Share-based compensation expense  | 1,292                              | 1,341     |
| Loss on disposal of premises and equipment  | 2                                  | 61        |
| Amortization of FDIC indemnification asset  | 14,226                             | 7,049     |
| Accretion on acquired loans   | (36,983)                           | (11,905)  |
| Net amortization of investment securities   | 2,671                              | 1,136     |
| OREO write downs  | 13,648                             | 17,739    |
| Net change in:  |                                    |           |
| Loans held for sale   | (25,776)                           | (3,166)   |
| Accrued interest receivable   | 2,682                              | 593       |
| Prepaid assets  | 1,108                              | 2,748     |
| FDIC loss share receivable  | 74,105                             | 68,570    |
| Accrued interest payable  | (1,443)                            | (3,964)   |
| Accrued income taxes  | (9,071)                            | (1,325)   |
| Miscellaneous assets and liabilities  | (40,956)                           | (39,857)  |
| Net cash provided by operating activities   | 36,162                             | 70,805    |
| Cash flows from investing activities:   |                                    |           |
| Proceeds from sales of investment securities available for sale   | 25,359                             | 52,282    |
| Proceeds from maturities and calls of investment securities held to maturity  |                                    | 1,240     |
| Proceeds from maturities and calls of investment securities available for sale  | 73,306                             | 70,222    |
| Proceeds from sales of other investment securities  | 12,429                             | 5,651     |
| Purchases of investment securities available for sale   | (110,081)                          | (108,366) |
| Purchases of other investment securities  |                                    | (1,041)   |
| Net (increase) decrease in customer loans   | 90,835                             | (37,540)  |
| Net cash received from acquisitions   | 10,923                             | 136,716   |
| Purchases of premises and equipment   | (11,509)                           | (12,922)  |
| Proceeds from sale of premises and equipment  | 33                                 | 26        |
| Proceeds from sale of OREO  | 50,884                             | 41,322    |
| Net cash provided by investing activities   | 142,179                            | 147,590   |
| Cash flows from financing activities:   |                                    |           |
| Net decrease in deposits  | (100,243)                          | (257,725) |
| Net increase (decrease) in federal funds purchased and securities sold under agreements to repurchase and other short-term borrowings | 36,352                             | (8,090)   |
| Repayment of FHLB advances and other borrowings   | (875)                              | (59,128)  |
| Common stock issuance   | 361                                | 35,181    |
| Common stock repurchased  | (674)                              | (252)     |

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|  |            |            |
|--|------------|------------|
| Dividends paid on common stock                       | (7,522)    | (7,131)    |
| Stock options exercised                              | 899        | 423        |
| Net cash used in financing activities                | (71,702)   | (296,722)  |
| Net increase (decrease) in cash and cash equivalents | 106,639    | (78,327)   |
| Cash and cash equivalents at beginning of period     | 171,425    | 237,099    |
| Cash and cash equivalents at end of period           | \$ 278,064 | \$ 158,772 |

**Supplemental Disclosures:**

Cash paid for:

|              |           |           |
|--------------|-----------|-----------|
| Interest     | \$ 9,076  | \$ 18,614 |
| Income taxes | \$ 18,216 | \$ 8,240  |

Noncash investing activities:

|  |           |           |
|--|-----------|-----------|
| Transfers of loans to foreclosed properties (covered of \$19,146 and \$33,697, respectively; and non-covered of \$21,185 and \$19,801, respectively) | \$ 40,331 | \$ 53,498 |
|--|-----------|-----------|

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, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

The condensed consolidated balance sheet at December 31, 2011 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) Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the Securities and Exchange Commission (the SEC) on March 9, 2012, 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 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 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 to be collected 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 fair value for the loan or pool of loans, is accreted into interest income over the remaining life of the loan or pool (accretable yield). 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 CBT, commercial real estate, commercial real estate construction and development, residential real estate (including residential real estate junior lien and home equity loans), consumer, commercial and industrial, and single pay. Single pay loans consist of those instruments for which repayment of principal and interest is expected at maturity.

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 flows of the acquired loans.



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**Note 2 Summary of Significant Accounting Policies (Continued)**

Subsequent to the acquisition date, increases in cash flows expected to be received in excess of the Company's initial estimates are reclassified from nonaccretable difference to accretable yield and are accreted into interest income on a level-yield basis over the remaining life of the loan. Decreases in cash flows expected to be collected are recognized as impairment through the provision for loan losses. For acquired loans subject to a loss sharing agreement with the FDIC, the FDIC indemnification asset will be adjusted prospectively in a similar, consistent manner with increases and decreases in expected cash flows.

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 at the acquisition date 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 will offset any recorded provision for loan losses related to acquired loans by recording an increase in the FDIC indemnification asset by the increase in expected cash flow, which is the result of a decrease in expected cash flow of acquired loans. An increase in cash flows on acquired loans results in a decrease in cash flows on the FDIC indemnification asset, which is recognized in the future (over the shorter of the remaining lives of the loans or the eligible loss sharing time periods) as negative accretion through non-interest income.

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 income statement.

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.

**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 2011-04). ASU 2011-04 results in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. ASU 2011-04 became effective for the Company on January 1, 2012 and, aside from new disclosures included in Note 14 Fair Value, did not have a significant impact on the Company's financial statements.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* (ASU 2011-05). ASU 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.

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ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. Except as deferred in ASU 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* ( ASU 2011-12 ), ASU 2011-05 became effective for the Company on January 1, 2012. In connection with the application of ASU 2011-05, the Company's financial statements now include separate statements of comprehensive income. In December 2011, the FASB issued ASU 2011-12. ASU 2011-12 defers changes in ASU No. 2011-05 that relate to the presentation of reclassification adjustments to allow the FASB time to re-deliberate whether to require presentation of such adjustments on the face of the financial statements to show the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income. ASU 2011-12 allows entities to continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU No. 2011-05. All other requirements in ASU No. 2011-05 are not affected by ASU No. 2011-12. ASU 2011-12 became effective for the Company on January 1, 2012 and did not have a significant impact on the Company's financial statements.

In September 2011, the FASB issued ASU No. 2011-08, *Intangibles - Goodwill and Other (Topic 350)* ( ASU 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 became effective for the Company on January 1, 2012 and did not have a significant impact on the Company's financial statements.

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

In December 2011, the FASB issued ASU No. 2011-11, *Balance Sheet (Topic 210) Disclosures about Offsetting Assets and Liabilities* ( ASU 2011-11 ). ASU 2011-11 amends Topic 210 to require an entity to disclose both gross and net information about financial instruments, such as sales and repurchase agreements and reverse sale and repurchase agreements and securities borrowing/lending arrangements, and derivative instruments that are eligible for offset in the statement of financial position and/or subject to a master netting arrangement or similar agreement. ASU 2011-11 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after January 1, 2013 and is not expected to have a significant impact on the Company's financial statements.

**Note 4 Mergers and Acquisitions**

*Savannah Bancorp, Inc. Definitive Agreement*

On August 8, 2012, SCBT entered into an Agreement and Plan of Merger (the Agreement ) with Savannah Bancorp, Inc. ( SAVB ), a bank holding company headquartered in Savannah, Georgia. The Savannah Bank, N.A. and Bryan Bank and Trust are two wholly-owned bank subsidiaries of SAVB. Minis & Company is one of the oldest retail investment advisory firms in the Southeast, and is a wholly-owned subsidiary of SAVB. At June 30, 2012, SAVB reported \$952.2 million in total assets, \$725.3 million in loans and \$818.0 million in deposits. SAVB has a total of eleven branches in Coastal Georgia and South Carolina. The two subsidiary banks will initially become divisions of the Bank, and Minis & Company will become a wholly-owned subsidiary of the Bank.

Under the terms of Agreement, SAVB shareholders will receive aggregate consideration of approximately 1,802,000 shares of SCBT common stock. The stock consideration is based upon a fixed exchange ratio of 0.2503 shares of SCBT common stock for each of the outstanding shares of SAVB common stock, which as of October 24, 2012, totaled 7,199,237 shares. Based on SCBT's closing stock price of \$39.38, as of October 24, 2012, the transaction is valued at approximately \$71.0 million in the aggregate or \$9.86 per SAVB share.

The transaction is subject to regulatory and shareholders' approvals. The transaction is expected to close during the fourth quarter of 2012.

*Peoples Bancorporation Acquisition*

On April 24, 2012, the Company acquired all of the outstanding common stock of Peoples Bancorporation ( Peoples ), a bank holding company based in Easley, South Carolina, in a stock transaction. Peoples common shareholders received 0.1413 shares of the Company's common stock in exchange for each share of Peoples stock, resulting in the Company issuing 1,002,741 common shares at a fair value of \$31.1 million. Peoples' preferred stock (including accrued and unpaid dividend) issued under the U.S. Treasury's Troubled Asset Relief Program ( TARP ) were purchased by the Company for \$13.4 million and retired as part of the merger transaction. In total, the purchase price was approximately \$44.5 million including the value of the outstanding options to purchase common stock assumed in the merger.

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The Peoples transaction was accounted for using the purchase method of accounting and, accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at estimated fair value on the acquisition date. Fair values are preliminary and subject to refinement for up to a year after the closing date of the acquisition. The fair value of assets acquired, excluding goodwill, totaled \$491.9 million, including \$234.2 million in loans, \$175.9 million of investment securities, and \$2.9 million of identifiable intangible assets. The fair value of liabilities assumed were \$451.0 million, including \$435.1 million of deposits.

Goodwill of \$3.6 million was calculated as the excess of the consideration exchanged over the net fair value of identifiable assets acquired.

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

The following table presents the assets acquired and liabilities assumed as of April 24, 2012, as recorded by Peoples on the acquisition date and as adjusted for purchase accounting adjustments.

| (Dollars in thousands)  | As Recorded by<br>Peoples | Initial<br>Fair Value<br>Adjustments | Subsequent<br>Fair Value<br>Adjustments | As Recorded<br>by SCBT |
|---|---------------------------|--------------------------------------|---|------------------------|
| <b>Assets</b>   |                           |                                      |   |                        |
| Cash and cash equivalents   | \$ 24,459                 | \$                                   | \$                                      | \$ 24,459              |
| Investment securities   | 176,334                   | (442)(a)                             |   | 175,892                |
| Loans   | 262,858                   | (28,613)(b)                          |   | 234,245                |
| Premises and equipment  | 10,094                    | 3,240(c)                             | (38)(c)                                 | 13,296                 |
| Intangible assets   |                           | 2,930(d)                             |   | 2,930                  |
| Other real estate owned and repossessed<br>assets                       | 13,257                    | (5,341)(e)                           | 114(e)                                  | 8,030                  |
| Deferred tax asset  | 4,702                     | 11,669(f)                            |   | 16,371                 |
| Other assets  | 17,588                    | (883)(g)                             | (6)                                     | 16,699                 |
| <b>Total assets</b>   | <b>\$ 509,292</b>         | <b>\$ (17,440)</b>                   | <b>\$ 70</b>                            | <b>\$ 491,922</b>      |
| <b>Liabilities</b>  |                           |                                      |   |                        |
| Deposits:   |                           |                                      |   |                        |
| Noninterest-bearing   | \$ 54,884                 | \$                                   | \$                                      | \$ 54,884              |
| Interest-bearing  | 378,781                   | 1,405(h)                             |   | 380,186                |
| Total deposits  | 433,665                   | 1,405                                |   | 435,070                |
| Other borrowings  | 9,542                     |                                      |   | 9,542                  |
| Other liabilities   | 4,291                     | 2,054(i)                             | 57(i)                                   | 6,402                  |
| <b>Total liabilities</b>  | <b>447,498</b>            | <b>3,459</b>                         | <b>57</b>                               | <b>451,014</b>         |
| Net identifiable assets acquired over (under)<br>liabilities assumed    | 61,794                    | (20,899)                             | 13                                      | 40,908                 |
| Goodwill  |                           | 3,654                                | (13)                                    | 3,641                  |
| <b>Net assets acquired over (under) liabilities<br/>assumed</b>         | <b>\$ 61,794</b>          | <b>\$ (17,245)</b>                   | <b>\$</b>                               | <b>\$ 44,549</b>       |
| <b>Consideration:</b>   |                           |                                      |   |                        |
| SCBT Financial Corporation common shares<br>issued                      | 1,002,741                 |                                      |   |                        |
| Purchase price per share of the Company's<br>common stock               | \$ 31.06                  |                                      |   |                        |
| Company common stock issued and cash<br>exchanged for fractional shares | 31,160                    |                                      |   |                        |
| Stock options converted   | 96                        |                                      |   |                        |
| Cash paid for TARP preferred stock                                      | 13,293                    |                                      |   |                        |
| <b>Fair value of total consideration transferred</b>                    | <b>\$ 44,549</b>          |                                      |   |                        |

Explanation of fair value adjustments

(a) Adjustment reflects marking the available-for-sale portfolio to fair value as of the acquisition date.

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- (b) Adjustment reflects the fair value adjustments based on the Company's evaluation of the acquired loan portfolio and excludes the allowance for loan losses recorded by Peoples Bancorporation, Inc.
- (c) Adjustment reflects the fair value adjustments based on the Company's evaluation of the acquired premises and equipment.
- (d) Adjustment reflects the recording of the core deposit intangible on the acquired deposit accounts and other intangibles for non-compete agreements.
- (e) Adjustment reflects the fair value adjustments to OREO based on the Company's evaluation of the acquired OREO portfolio.
- (f) Adjustment to record deferred tax asset related to purchase accounting adjustments at 35.8% income tax rate.
- (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 incremental accrual for SERP termination, other employee related benefits, and other liabilities.

The following table provides a reconciliation of goodwill for the nine months ended September 30, 2012:

**(Dollars in thousands)**

|                                   |    |        |
|-----------------------------------|----|--------|
| Balance, December 31, 2011        | \$ | 62,888 |
| Additions:                        |    |        |
| Goodwill from Peoples acquisition |    | 3,641  |
| Balance, September 30, 2012       | \$ | 66,529 |

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, 2012:</b>      |                   |                              |                               |               |
| State and municipal obligations | \$ 16,568         | \$ 1,182                     | \$                            | \$ 17,750     |
| <b>December 31, 2011:</b>       |                   |                              |                               |               |
| State and municipal obligations | \$ 16,569         | \$ 1,295                     | \$                            | \$ 17,864     |
| <b>September 30, 2011:</b>      |                   |                              |                               |               |
| State and municipal obligations | \$ 18,699         | \$ 1,173                     | \$                            | \$ 19,872     |

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, 2012:</b>           |                   |                              |                               |               |
| Government-sponsored entities debt * | \$ 70,654         | \$ 892                       | \$ (1)                        | \$ 71,545     |
| State and municipal obligations      | 134,813           | 5,264                        | (44)                          | 140,033       |
| Mortgage-backed securities **        | 256,398           | 7,654                        | (82)                          | 263,970       |
| FHLMC preferred stock***             | 148               |                              | (46)                          | 102           |
| Corporate stocks                     | 240               | 133                          |                               | 373           |
|                                      | \$ 462,253        | \$ 13,943                    | \$ (173)                      | \$ 476,023    |
| <b>December 31, 2011:</b>            |                   |                              |                               |               |
| Government-sponsored entities debt * | \$ 48,464         | \$ 1,142                     | \$ (3)                        | \$ 49,603     |
| State and municipal obligations      | 40,780            | 3,208                        | (31)                          | 43,957        |
| Mortgage-backed securities **        | 190,204           | 5,111                        | (6)                           | 195,309       |
| Corporate stocks                     | 241               | 85                           |                               | 326           |
|                                      | \$ 279,689        | \$ 9,546                     | \$ (40)                       | \$ 289,195    |
| <b>September 30, 2011:</b>           |                   |                              |                               |               |
| Government-sponsored entities 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    |

\* - Government-sponsored entities 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 entities; there are no private-label holdings.

\*\*\* Securities issued by the Federal Home Loan Mortgage Corporation ( FHLMC or Freddie Mac )





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, 2012:</b>                |                   |                              |                               |               |
| Federal Home Loan Bank stock              | \$ 6,664          | \$                           | \$                            | \$ 6,664      |
| Investment in unconsolidated subsidiaries | 1,332             | \$                           | \$                            | 1,332         |
|   | \$ 7,996          | \$                           | \$                            | \$ 7,996      |
| <b>December 31, 2011:</b>                 |                   |                              |                               |               |
| Federal Reserve Bank stock                | \$ 7,028          | \$                           | \$                            | 7,028         |
| Federal Home Loan Bank stock              | 9,932             | \$                           | \$                            | 9,932         |
| Investment in unconsolidated subsidiaries | 1,332             | \$                           | \$                            | 1,332         |
|   | \$ 18,292         | \$                           | \$                            | \$ 18,292     |
| <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     |

The Company has determined that the investment in FHLB stock is not other than temporarily impaired as of September 30, 2012 and ultimate recoverability of the par value of these investments is probable.

Effective July 1, 2012, the Bank converted its national charter to a state charter and changed its name from SCBT, National Association to SCBT. In conjunction with the charter conversion, the Bank became a non-member bank of the Federal Reserve and liquidated its entire position in Federal Reserve Bank stock on July 2, 2012, with no gain or loss.

The amortized cost and fair value of debt securities at September 30, 2012 by contractual maturity are detailed below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.

| (Dollars in thousands)                 | Securities<br>Held to Maturity |               | Securities<br>Available for Sale |               |
|--|--------------------------------|---------------|----------------------------------|---------------|
|  | Amortized<br>Cost              | Fair<br>Value | Amortized<br>Cost                | Fair<br>Value |
| Due in one year or less                | \$ 1,311                       | \$ 1,331      | \$ 1,371                         | \$ 1,382      |
| Due after one year through five years  | 701                            | 709           | 11,845                           | 12,066        |
| Due after five years through ten years | 9,051                          | 9,659         | 71,060                           | 73,370        |
| Due after ten years                    | 5,505                          | 6,051         | 377,977                          | 389,205       |
|  | \$ 16,568                      | \$ 17,750     | \$ 462,253                       | \$ 476,023    |



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

Information pertaining to the Company's securities with gross unrealized losses at September 30, 2012, December 31, 2011 and September 30, 2011, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position is as follows:

| (Dollars in thousands)               | Less Than Twelve Months |            | Twelve Months or More   |            |
|--------------------------------------|-------------------------|------------|-------------------------|------------|
|                                      | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value |
| <b>September 30, 2012:</b>           |                         |            |                         |            |
| <b>Securities Held to Maturity</b>   |                         |            |                         |            |
| State and municipal obligations      | \$                      | \$         | \$                      | \$         |
| <b>Securities Available for Sale</b> |                         |            |                         |            |
| Government-sponsored entities debt   | \$ 1                    | \$ 3,979   | \$                      | \$         |
| State and municipal obligations      | 44                      | 5,983      |                         |            |
| Mortgage-backed securities           | 82                      | 18,849     |                         |            |
| FHLMC preferred stock                | 46                      | 102        |                         |            |
|                                      | \$ 173                  | \$ 28,913  | \$                      | \$         |
| <b>December 31, 2011:</b>            |                         |            |                         |            |
| <b>Securities Held to Maturity</b>   |                         |            |                         |            |
| State and municipal obligations      | \$                      | \$         | \$                      | \$         |
| <b>Securities Available for Sale</b> |                         |            |                         |            |
| Government-sponsored entities debt   | \$ 3                    | \$ 5,505   | \$                      | \$         |
| State and municipal obligations      |                         | 420        | 31                      | 724        |
| Mortgage-backed securities           | 6                       | 6,601      |                         |            |
|                                      | \$ 9                    | \$ 12,526  | \$ 31                   | \$ 724     |
| <b>September 30, 2011:</b>           |                         |            |                         |            |
| <b>Securities Held to Maturity</b>   |                         |            |                         |            |
| State and municipal obligations      | \$                      | \$         | \$                      | \$         |
| <b>Securities Available for Sale</b> |                         |            |                         |            |
| Government-sponsored entities debt   | \$ 9                    | \$ 5,502   | \$                      | \$         |
| State and municipal obligations      | 3                       | 675        | 25                      | 476        |
| Mortgage-backed securities           | 6                       | 3,647      |                         |            |
| Corporate stocks                     | 11                      | 14         |                         |            |
|                                      | \$ 29                   | \$ 9,838   | \$ 25                   | \$ 476     |

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>2012 | December 31,<br>2011 | September 30,<br>2011 |
|---|-----------------------|----------------------|-----------------------|
| Non-acquired loans:                             |                       |                      |                       |
| Commercial non-owner occupied real estate:      |                       |                      |                       |
| Construction and land development               | \$ 273,606            | \$ 310,845           | \$ 316,072            |
| Commercial non-owner occupied                   | 278,935               | 299,698              | 304,616               |
| Total commercial non-owner occupied real estate | 552,541               | 610,543              | 620,688               |
| Consumer real estate:                           |                       |                      |                       |
| Consumer owner occupied                         | 430,825               | 391,529              | 394,205               |
| Home equity loans                               | 255,677               | 264,986              | 264,588               |
| Total consumer real estate                      | 686,502               | 656,515              | 658,793               |
| Commercial owner occupied real estate           | 787,623               | 742,890              | 719,791               |
| Commercial and industrial                       | 245,285               | 220,454              | 216,573               |
| Other income producing property                 | 131,832               | 140,693              | 142,325               |
| Consumer  | 86,729                | 85,342               | 84,972                |
| Other loans                                     | 26,840                | 14,128               | 18,497                |
| Total non-acquired loans                        | 2,517,352             | 2,470,565            | 2,461,639             |
| Less allowance for loan losses                  | (46,439)              | (49,367)             | (49,110)              |
| Non-acquired loans, net                         | \$ 2,470,913          | \$ 2,421,198         | \$ 2,412,529          |

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

In accordance with FASB ASC Topic 310-30, the Company aggregated acquired loans that have common risk characteristics into pools of loan categories as described in the table below.

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

| (Dollars in thousands)                                    | Loans Impaired<br>at Acquisition | Loans<br>Not Impaired<br>at Acquisition | Total      |
|---|----------------------------------|---|------------|
| <b>September 30, 2012:</b>                                |                                  |   |            |
| Covered loans:  |                                  |   |            |
| Commercial loans greater than or equal to \$1 million-CBT | \$ 20,312                        | \$ 32,989                               | \$ 53,301  |
| Commercial real estate                                    | 28,698                           | 46,059                                  | 74,757     |
| Commercial real estate construction and development       | 18,415                           | 18,020                                  | 36,435     |
| Residential real estate                                   | 42,481                           | 66,896                                  | 109,377    |
| Consumer  | 1,257                            | 3,700                                   | 4,957      |
| Commercial and industrial                                 | 9,707                            | 15,636                                  | 25,343     |
| Single pay  | 4,694                            | 170                                     | 4,864      |
| Total covered loans                                       | \$ 125,564                       | \$ 183,470                              | \$ 309,034 |
| Non-covered loans:  |                                  |   |            |
| Commercial real estate                                    | 11,202                           | 65,485                                  | 76,687     |
| Commercial real estate construction and development       | 6,582                            | 15,300                                  | 21,882     |
| Residential real estate                                   | 5,734                            | 90,330                                  | 96,064     |
| Consumer  | 1,469                            | 3,699                                   | 5,168      |
| Commercial and industrial                                 | 2,240                            | 9,916                                   | 12,156     |
| Total non-covered loans                                   | 27,227                           | 184,730                                 | 211,957    |
| Total acquired loans                                      | 152,791                          | 368,200                                 | 520,991    |
| Less allowance for loan losses                            | (24,828)                         | (6,310)                                 | (31,138)   |
| Acquired loans, net                                       | \$ 127,963                       | \$ 361,890                              | \$ 489,853 |
| <b>December 31, 2011:</b>                                 |                                  |   |            |
| Covered loans:  |                                  |   |            |
| Commercial loans greater than or equal to \$1 million-CBT | \$ 24,073                        | \$ 36,756                               | \$ 60,829  |
| Commercial real estate                                    | 39,685                           | 67,780                                  | 107,465    |
| Commercial real estate construction and development       | 29,528                           | 21,425                                  | 50,953     |
| Residential real estate                                   | 52,727                           | 76,863                                  | 129,590    |
| Consumer  | 2,669                            | 2,427                                   | 5,096      |
| Commercial and industrial                                 | 14,800                           | 21,702                                  | 36,502     |
| Single pay  | 3,852                            | 208                                     | 4,060      |
| Total covered loans                                       | \$ 167,334                       | \$ 227,161                              | \$ 394,495 |
| Non-covered loans:  |                                  |   |            |
| Commercial real estate                                    | 305                              | 557                                     | 862        |
| Commercial real estate construction and development       | 5                                | 47                                      | 52         |
| Residential real estate                                   | 244                              | 939                                     | 1,183      |
| Consumer  | 2,723                            | 77                                      | 2,800      |

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|                                |            |            |            |
|--------------------------------|------------|------------|------------|
| Commercial and industrial      | 219        | 2,590      | 2,809      |
| Total non-covered loans        | 3,496      | 4,210      | 7,706      |
| Total acquired loans           | 170,830    | 231,371    | 402,201    |
| Less allowance for loan losses | (23,875)   | (7,745)    | (31,620)   |
| Acquired loans, net            | \$ 146,955 | \$ 223,626 | \$ 370,581 |

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

| (Dollars in thousands)                                    | Loans Impaired<br>at Acquisition | Loans<br>Not Impaired<br>at Acquisition | Total      |
|---|----------------------------------|---|------------|
| <b>September 30, 2011:</b>                                |                                  |   |            |
| Covered loans:  |                                  |   |            |
| Commercial loans greater than or equal to \$1 million-CBT | \$ 23,593                        | \$ 39,473                               | \$ 63,066  |
| Commercial real estate                                    | 44,202                           | 71,687                                  | 115,889    |
| Commercial real estate construction and development       | 38,096                           | 22,514                                  | 60,610     |
| Residential real estate                                   | 55,878                           | 78,647                                  | 134,525    |
| Consumer  | 3,074                            | 4,932                                   | 8,006      |
| Commercial and industrial                                 | 16,054                           | 24,906                                  | 40,960     |
| Single pay  | 3,732                            | 210                                     | 3,942      |
| Total covered loans                                       | 184,629                          | 242,369                                 | 426,998    |
| Non-covered loans:  |                                  |   |            |
| Commercial real estate                                    | 300                              | 617                                     | 917        |
| Commercial real estate construction and development       | 28                               | 48                                      | 76         |
| Residential real estate                                   | 250                              | 693                                     | 943        |
| Consumer  | 3,464                            | 302                                     | 3,766      |
| Commercial and industrial                                 | 323                              | 2,738                                   | 3,061      |
| Total non-covered loans                                   | 4,365                            | 4,398                                   | 8,763      |
| Total acquired loans                                      | 188,994                          | 246,767                                 | 435,761    |
| Less allowance for loan losses                            | (25,438)                         | (4,432)                                 | (29,870)   |
| Acquired loans, net                                       | \$ 163,556                       | \$ 242,335                              | \$ 405,891 |

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 Peoples (April 24, 2012) are as follows:

| (Dollars in thousands)              | Loans Impaired<br>at Acquisition | April 24, 2012<br>Loans<br>Not Impaired<br>at Acquisition | Total      |
|-------------------------------------|----------------------------------|---|------------|
| Contractual principal and interest  | \$ 56,940                        | \$ 250,023  | \$ 306,963 |
| Non-accretable difference           | (21,237)                         | (16,560)  | (37,797)   |
| Cash flows expected to be collected | 35,703                           | 233,463   | 269,166    |
| Accretable yield                    | (4,968)                          | (29,953)  | (34,921)   |
| Carrying value                      | \$ 30,735                        | \$ 203,510  | \$ 234,245 |

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 carrying values of acquired loans (impaired and non-impaired) as of September 30, 2012, December 31, 2011, and September 30, 2011 are as follows:

| (Dollars in thousands)              | Loans Impaired<br>at Acquisition | Loans<br>Not Impaired<br>at Acquisition | Total       |
|-------------------------------------|----------------------------------|---|-------------|
| <b>September 30, 2012:</b>          |                                  |   |             |
| Contractual principal and interest  | \$ 255,431                       | \$ 486,661                              | \$ 742,092  |
| Non-accretable difference           | (63,933)                         | (49,822)                                | (113,755)   |
| Cash flows expected to be collected | 191,498                          | 436,839                                 | 628,337     |
| Accretable yield                    | (38,707)                         | (68,639)                                | (107,346)   |
| Carrying value                      | \$ 152,791                       | \$ 368,200                              | \$ 520,991  |
| Allowance for acquired loan losses  | \$ (24,828)                      | \$ (6,310)                              | \$ (31,138) |
| <b>December 31, 2011:</b>           |                                  |   |             |
| Contractual principal and interest  | \$ 382,760                       | \$ 361,726                              | \$ 744,486  |
| Non-accretable difference           | (176,601)                        | (71,084)                                | (247,685)   |
| Cash flows expected to be collected | 206,159                          | 290,642                                 | 496,801     |
| Accretable yield                    | (35,329)                         | (59,271)                                | (94,600)    |
| Carrying value                      | \$ 170,830                       | \$ 231,371                              | \$ 402,201  |
| Allowance for acquired loan losses  | \$ (23,875)                      | \$ (7,745)                              | \$ (31,620) |
| <b>September 30, 2011:</b>          |                                  |   |             |
| Contractual principal and interest  | \$ 407,068                       | \$ 387,106                              | \$ 794,174  |
| Non-accretable difference           | (181,398)                        | (76,826)                                | (258,224)   |
| Cash flows expected to be collected | 225,670                          | 310,280                                 | 535,950     |
| Accretable yield                    | (36,676)                         | (63,513)                                | (100,189)   |
| Carrying value                      | \$ 188,994                       | \$ 246,767                              | \$ 435,761  |
| Allowance for acquired loan losses  | \$ (25,438)                      | \$ (4,432)                              | \$ (29,870) |

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 \$682.3 million at September 30, 2012, of which \$234.8 million was from loans impaired at acquisition and \$447.5 million was from loans not impaired at acquisition. The unpaid principal balance for acquired loans was \$597.7 million at December 31, 2011, of which \$282.6 million was from loans impaired at acquisition and \$315.4 million was from loans not impaired at acquisition. The unpaid principal balance for acquired loans was \$654.8 million at September 30, 2011, of which \$315.5 million was from loans impaired at acquisition and \$339.3 million was from loans not impaired at acquisition.



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

The following are changes in the carrying value of acquired loans during the nine months ended September 30, 2012 and 2011:

| (Dollars in thousands)  | Loans Impaired<br>at Acquisition | Loans<br>Not Impaired<br>at Acquisition | Total      |
|---|----------------------------------|---|------------|
| Balance, December 31, 2011  | \$ 146,955                       | \$ 223,626                              | \$ 370,581 |
| Fair value of acquired loans  | 30,735                           | 203,510                                 | 234,245    |
| Net reductions for payments, foreclosures, and accretion                        | (48,774)                         | (66,681)                                | (115,455)  |
| Change in the allowance for loan losses on acquired loans                       | (953)                            | 1,435                                   | 482        |
| Balance, September 30, 2012, net of allowance for loan losses on acquired loans | \$ 127,963                       | \$ 361,890                              | \$ 489,853 |
| Balance, December 31, 2010  | \$ 143,059                       | \$ 177,979                              | \$ 321,038 |
| Fair value of acquired loans  | 92,541                           | 129,893                                 | 222,434    |
| Net reductions for payments, foreclosures, and accretion                        | (46,606)                         | (61,105)                                | (107,711)  |
| Change in the allowance for loan losses on acquired loans                       | (25,438)                         | (4,432)                                 | (29,870)   |
| Balance, September 30, 2011, net of allowance for loan losses on acquired loans | \$ 163,556                       | \$ 242,335                              | \$ 405,891 |

The following are changes in the carrying amount of accretable difference for acquired impaired and non-impaired loans for the nine months ended September 30, 2012 and 2011:

| (Dollars in thousands)  | September 30,<br>2012 | September 30,<br>2011 |
|---|-----------------------|-----------------------|
| Beginning at beginning of period  | \$ 94,600             | \$ 44,684             |
| Addition from the Habersham acquisition                                       |                       | 28,115                |
| Addition from BankMeridian acquisition  |                       | 21,216                |
| Addition from the Peoples acquisition   | 34,921                |                       |
| Interest income   | (36,156)              | (30,152)              |
| Reclass of nonaccretable difference due to improvement in expected cash flows | 26,399                | 42,273                |
| Other changes, net  | (12,418)              | (5,947)               |
| Balance at end of period  | \$ 107,346            | \$ 100,189            |

On December 13, 2006, the Office of the Comptroller of the Currency ( the OCC ), the Board of Governors of the Federal Reserve System ( the Federal Reserve ), the 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 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 allowance for losses on loans. These agencies may require management to recognize additions to the allowance 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 allowance for losses on loans for future periods may change. The provision for loan losses is charged to expense in an amount necessary to maintain the allowance at an appropriate level.

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

The allowance for loan losses on non-acquired loans 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 factors are applied to the non-acquired loan 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, the Bank 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. Management analyzes the acquired loan pools using various assessments of risk to determine and calculate an expected loss. The expected loss is derived using an estimate of a loss given default based upon the collateral type and/or detailed review by loan officers of loans greater than \$500,000, and the probability of default that is determined based upon historical data at the loan level. Trends are reviewed in terms of accrual status, past due status, and weighted-average grade of the loans within each of the accounting pools. In addition, the relationship between the change in the unpaid principal balance and change in the mark is assessed to correlate the directional consistency of the expected loss for each pool. Offsetting the impact of the provision established for acquired loans covered under FDIC loss share agreements, 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.)

An aggregated analysis of the changes in allowance for loan losses for the three and nine months ended September 30, 2012 and 2011 is as follows:

| (Dollars in thousands)  | Non-acquired<br>Loans |         | Acquired Loans |         | Total     |
|---|-----------------------|---------|----------------|---------|-----------|
| <b>Three months ended September 30, 2012:</b>                             |                       |         |                |         |           |
| Balance at beginning of period  | \$                    | 47,269  | \$             | 35,813  | \$ 83,082 |
| Loans charged-off   |                       | (5,940) |                |         | (5,940)   |
| Recoveries of loans previously charged off                                |                       | 610     |                |         | 610       |
| Net charge-offs   |                       | (5,330) |                |         | (5,330)   |
| Provision for loan losses   |                       | 4,500   |                | (4,675) | (175)     |
| Benefit attributable to FDIC loss share agreements                        |                       |         |                | 4,219   | 4,219     |
| Total provision for loan losses charged to operations                     |                       | 4,500   |                | (456)   | 4,044     |
| Provision for loan losses recorded through the FDIC loss share receivable |                       |         |                | (4,219) | (4,219)   |
| Balance at end of period  | \$                    | 46,439  | \$             | 31,138  | \$ 77,577 |
| <b>Three months ended September 30, 2011:</b>                             |                       |         |                |         |           |
| Balance at beginning of period  | \$                    | 48,180  | \$             | 25,545  | \$ 73,725 |

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|   |           |           |    |         |
|---|-----------|-----------|----|---------|
| Loans charged-off   | (7,858)   |           |    | (7,858) |
| Recoveries of loans previously charged off                                | 681       |           |    | 681     |
| Net charge-offs   | (7,177)   |           |    | (7,177) |
| 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 | \$ 29,870 | \$ | 78,980  |

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

| (Dollars in thousands)  | Non-acquired<br>Loans |          | Acquired Loans |          | Total     |
|---|-----------------------|----------|----------------|----------|-----------|
| <b>Nine months ended September 30, 2012:</b>                              |                       |          |                |          |           |
| Balance at beginning of period  | \$                    | 49,367   | \$             | 31,620   | \$ 80,987 |
| Loans charged-off   |                       | (17,193) |                |          | (17,193)  |
| Recoveries of loans previously charged off                                |                       | 3,075    |                |          | 3,075     |
| Net charge-offs   |                       | (14,118) |                |          | (14,118)  |
| Provision for loan losses   |                       | 11,190   |                | (482)    | 10,708    |
| Benefit attributable to FDIC loss share agreements                        |                       |          |                | 700      | 700       |
| Total provision for loan losses charged to operations                     |                       | 11,190   |                | 218      | 11,408    |
| Provision for loan losses recorded through the FDIC loss share receivable |                       |          |                | (700)    | (700)     |
| Balance at end of period  | \$                    | 46,439   | \$             | 31,138   | \$ 77,577 |
| <b>Nine months ended September 30, 2011:</b>                              |                       |          |                |          |           |
| Balance at beginning of period  | \$                    | 47,512   | \$             |          | \$ 47,512 |
| Loans charged-off   |                       | (21,950) |                |          | (21,950)  |
| Recoveries of loans previously charged off                                |                       | 1,863    |                |          | 1,863     |
| Net charge-offs   |                       | (20,087) |                |          | (20,087)  |
| 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   | \$             | 29,870   | \$ 78,980 |

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, 2012 and 2011.

| (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 | Other Income<br>Producing  |          |          | Other<br>Loans | Total     |
|---|---------------------------------------|-------------------------------------|---------------------------------|-------------------------------|----------------|----------------------------|----------|----------|----------------|-----------|
|   |                                       |                                     |                                 |                               |                | Commercial<br>& Industrial | Property | Consumer |                |           |
| <b>September 30, 2012</b>                   |                                       |                                     |                                 |                               |                |                            |          |          |                |           |
| <b>Allowance for loan losses:</b>           |                                       |                                     |                                 |                               |                |                            |          |          |                |           |
| Balance, June 30, 2012                      | \$ 12,267                             | \$ 5,432                            | \$ 9,476                        | \$ 7,617                      | \$ 3,992       | \$ 3,765                   | \$ 3,410 | \$ 1,064 | \$ 246         | \$ 47,269 |
| Charge-offs                                 | (3,441)                               | (504)                               | (334)                           | (545)                         | (203)          | (270)                      | (84)     | (523)    | (36)           | (5,940)   |
| Recoveries                                  | 187                                   | 126                                 | 24                              | 54                            | 19             | 52                         | 148      |          |                | 610       |
| Provision                                   | 2,480                                 | 556                                 | 393                             | 681                           | 260            | 23                         | 105      | 2        |                | 4,500     |
| Balance, September 30, 2012                 | \$ 11,493                             | \$ 5,610                            | \$ 9,535                        | \$ 7,777                      | \$ 3,843       | \$ 3,774                   | \$ 3,401 | \$ 794   | \$ 212         | \$ 46,439 |
| Loans individually evaluated for impairment | \$ 1,151                              | \$ 676                              | \$ 402                          | \$ 218                        | \$             | \$                         | \$ 125   | \$       | \$             | \$ 2,572  |
| Loans collectively evaluated for impairment | \$ 10,340                             | \$ 4,935                            | \$ 9,134                        | \$ 7,559                      | \$ 3,843       | \$ 3,774                   | \$ 3,276 | \$ 794   | \$ 212         | \$ 43,867 |
| <b>Loans:</b>                               |                                       |                                     |                                 |                               |                |                            |          |          |                |           |
| Loans individually evaluated for impairment | \$ 12,680                             | \$ 7,121                            | \$ 18,377                       | \$ 2,613                      | \$             | \$ 474                     | \$ 2,778 | \$       | \$             | \$ 44,043 |

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|  |                |                |                |                |                |                |                |               |               |                  |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|---------------|---------------|------------------|
| Loans collectively<br>evaluated for impairment | <b>260,926</b> | <b>271,814</b> | <b>769,246</b> | <b>428,212</b> | <b>255,677</b> | <b>244,811</b> | <b>129,054</b> | <b>86,729</b> | <b>26,840</b> | <b>2,473,309</b> |
| Total non-acquired loans                       | \$ 273,606     | \$ 278,935     | \$ 787,623     | \$ 430,825     | \$ 255,677     | \$ 245,285     | \$ 131,832     | \$ 86,729     | \$ 26,840     | \$ 2,517,352     |

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

| (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    |
| 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    | 18,497         | 2,404,235    |
| Total non-acquired loans                    | \$ 316,072                            | \$ 304,616                          | \$ 719,791                      | \$ 394,205                    | \$ 264,588     | \$ 216,573                 | \$ 142,325                            | \$ 84,972 | \$ 18,497      | \$ 2,461,639 |

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, 2012 and 2011.

| (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, 2012</b>         |                                       |                                     |                                 |                               |                |                            |                                       |          |                |           |
| <b>Allowance for loan losses:</b> |                                       |                                     |                                 |                               |                |                            |                                       |          |                |           |
| Balance, December 31, 2011        | \$ 12,373                             | \$ 6,109                            | \$ 10,356                       | \$ 7,453                      | \$ 4,269       | \$ 3,901                   | \$ 3,636                              | \$ 1,145 | \$ 125         | \$ 49,367 |
| Charge-offs                       | (7,073)                               | (1,877)                             | (2,009)                         | (1,850)                       | (1,251)        | (705)                      | (824)                                 | (1,454)  | (150)          | (17,193)  |
| Recoveries                        | 1,213                                 | 222                                 | 2                               | 44                            | 460            | 201                        | 347                                   | 575      | 11             | 3,075     |
| Provision                         | 4,980                                 | 1,156                               | 1,186                           | 2,130                         | 365            | 377                        | 242                                   | 528      | 226            | 11,190    |
| Balance, September 30, 2012       | \$ 11,493                             | \$ 5,610                            | \$ 9,535                        | \$ 7,777                      | \$ 3,843       | \$ 3,774                   | \$ 3,401                              | \$ 794   | \$ 212         | \$ 46,439 |
| <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 |





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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 acquired loans for the three months ended September 30, 2012 and 2011.

| (Dollars in thousands)  | Commercial<br>Loans Greater<br>Than or Equal<br>to \$1 Million-CBT | Commercial<br>Real Estate | Commercial<br>Real Estate-<br>Construction and<br>Development | Residential<br>Real Estate | Consumer  | Commercial<br>and Industrial | Single Pay | Total      |
|---|--|---------------------------|---|----------------------------|-----------|------------------------------|------------|------------|
| <b>September 30, 2012</b>   |  |                           |   |                            |           |                              |            |            |
| <b>Allowance for loan losses:</b>   |  |                           |   |                            |           |                              |            |            |
| Balance, June 30, 2012  | \$ 16,871  | \$ 1,812                  | \$ 3,238  | \$ 4,415                   | \$ 73     | \$ 4,749                     | \$ 4,655   | \$ 35,813  |
| Charge-offs   |  |                           |   |                            |           |                              |            |            |
| Recoveries  |  |                           |   |                            |           |                              |            |            |
| Provision for loan losses before<br>benefit attributable to FDIC<br>loss share agreements | (1,059)  | (1,365)                   | (1,744)   | 41                         | 16        | (478)                        | (86)       | (4,675)    |
| Benefit attributable to FDIC<br>loss share agreements                                     | 1,006  | 1,296                     | 1,415   | (39)                       | (14)      | 473                          | 82         | 4,219      |
| Total provision for loan losses<br>charged to operations                                  | (53)   | (69)                      | (329)   | 2                          | 2         | (5)                          | (4)        | (456)      |
| Provision for loan losses<br>recorded through the FDIC loss<br>share receivable           | (1,006)  | (1,296)                   | (1,415)   | 39                         | 14        | (473)                        | (82)       | (4,219)    |
| Balance, September 30, 2012   | \$ 15,812  | \$ 447                    | \$ 1,494  | \$ 4,456                   | \$ 89     | \$ 4,271                     | \$ 4,569   | \$ 31,138  |
| Loans individually evaluated<br>for impairment  | \$   | \$                        | \$  | \$                         | \$        | \$                           | \$         | \$         |
| Loans collectively evaluated<br>for impairment  | \$ 15,812  | \$ 447                    | \$ 1,494  | \$ 4,456                   | \$ 89     | \$ 4,271                     | \$ 4,569   | \$ 31,138  |
| <b>Loans:*</b>  |  |                           |   |                            |           |                              |            |            |
| Loans individually evaluated<br>for impairment  | \$   | \$                        | \$  | \$                         | \$        | \$                           | \$         | \$         |
| Loans collectively evaluated<br>for impairment  | \$ 53,301  | \$ 151,444                | \$ 58,317   | \$ 205,441                 | \$ 10,125 | \$ 37,499                    | \$ 4,864   | \$ 520,991 |
| Total acquired loans  | \$ 53,301  | \$ 151,444                | \$ 58,317   | \$ 205,441                 | \$ 10,125 | \$ 37,499                    | \$ 4,864   | \$ 520,991 |

\*The carrying value of acquired loans includes a non-accretable difference which is primarily associated with the assessment of credit quality of acquired loans.

| (Dollars in thousands)  | Commercial<br>Loans Greater<br>Than or Equal<br>to \$1 Million-CBT | Commercial<br>Real Estate | Commercial<br>Real Estate-<br>Construction and<br>Development | Residential<br>Real Estate | Consumer | Commercial<br>and Industrial | Single Pay | Total     |
|---|--|---------------------------|---|----------------------------|----------|------------------------------|------------|-----------|
| <b>September 30, 2011</b>   |  |                           |   |                            |          |                              |            |           |
| <b>Allowance for loan losses:</b>   |  |                           |   |                            |          |                              |            |           |
| Balance, June, 2011   | \$ 16,807  | \$ 1,318                  | \$  | \$ 1,926                   | \$       | \$ 1,929                     | \$ 3,565   | \$ 25,545 |
| Charge-offs   |  |                           |   |                            |          |                              |            |           |
| Recoveries  |  |                           |   |                            |          |                              |            |           |
| Provision for loan losses before<br>benefit attributable to FDIC<br>loss share agreements | 1,752  |                           |   |                            |          | 2,573                        |            | 4,325     |

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|   |           |            |           |            |           |           |          |            |         |
|---|-----------|------------|-----------|------------|-----------|-----------|----------|------------|---------|
| 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   | \$ 18,559 | \$ 1,318   | \$ 1,926  | \$ 4,502   | \$ 3,565  | \$ 29,870 |          |            |         |
| Loans individually evaluated for impairment                               | \$        | \$         | \$        | \$         | \$        | \$        | \$       | \$         | \$      |
| Loans collectively evaluated for impairment                               | \$ 18,559 | \$ 1,318   | \$ 1,926  | \$ 4,502   | \$ 3,565  | \$ 29,870 |          |            |         |
| <b>Loans:*</b>  |           |            |           |            |           |           |          |            |         |
| Loans individually evaluated for impairment                               | \$        | \$         | \$        | \$         | \$        | \$        | \$       | \$         | \$      |
| Loans collectively evaluated for impairment                               | 63,066    | 116,806    | 60,686    | 135,468    | 11,772    | 44,021    | 3,942    | 435,761    |         |
| Total acquired loans  | \$ 63,066 | \$ 116,806 | \$ 60,686 | \$ 135,468 | \$ 11,772 | \$ 44,021 | \$ 3,942 | \$ 435,761 |         |

\*The carrying value of acquired loans includes a non-accretable difference which is primarily associated with the assessment of credit quality of acquired loans.

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 acquired loans for the nine months ended September 30, 2012 and 2011.

| (Dollars in thousands)  | Commercial<br>Loans Greater<br>Than or Equal<br>to \$1 Million-CBT | Commercial<br>Real Estate | Commercial<br>Real Estate-<br>Construction and<br>Development | Residential<br>Real Estate | Consumer | Commercial<br>and Industrial | Single Pay | Total     |
|---|--|---------------------------|---|----------------------------|----------|------------------------------|------------|-----------|
| <b>September 30, 2012</b>   |  |                           |   |                            |          |                              |            |           |
| <b>Allowance for loan losses:</b>   |  |                           |   |                            |          |                              |            |           |
| Balance, December 31, 2011  | \$ 16,706  | \$ 1,318                  | \$  | \$ 5,471                   | \$       | \$ 4,564                     | \$ 3,561   | \$ 31,620 |
| Charge-offs   |  |                           |   |                            |          |                              |            |           |
| Recoveries  |  |                           |   |                            |          |                              |            |           |
| Provision for loan losses before<br>benefit attributable to FDIC loss<br>share agreements | (894)  | (871)                     | 1,494   | (1,015)                    | 89       | (293)                        | 1,008      | (482)     |
| Benefit attributable to FDIC<br>loss share agreements                                     | 814  | 819                       | (1,268)   | 1,091                      | (71)     | 271                          | (956)      | 700       |
| Total provision for loan losses<br>charged to operations                                  | (80)   | (52)                      | 226   | 76                         | 18       | (22)                         | 52         | 218       |
| Provision for loan losses<br>recorded through the FDIC loss<br>share receivable           | (814)  | (819)                     | 1,268   | (1,091)                    | 71       | (271)                        | 956        | (700)     |
| Balance, September 30, 2012   | \$ 15,812  | \$ 447                    | \$ 1,494  | \$ 4,456                   | \$ 89    | \$ 4,271                     | \$ 4,569   | \$ 31,138 |
| <b>September 30, 2011</b>   |  |                           |   |                            |          |                              |            |           |
| <b>Allowance for loan losses:</b>   |  |                           |   |                            |          |                              |            |           |
| Balance, December 31, 2010  | \$   | \$                        | \$  | \$                         | \$       | \$                           | \$         | \$        |
| Charge-offs   |  |                           |   |                            |          |                              |            |           |
| Recoveries  |  |                           |   |                            |          |                              |            |           |
| Provision for loan losses before<br>benefit attributable to FDIC loss<br>share agreements | 18,559   | 1,318                     |   | 1,926                      |          | 4,502                        | 3,565      | 29,870    |
| Benefit attributable to FDIC<br>loss share agreements                                     | (17,630)   | (1,252)                   |   | (1,830)                    |          | (4,277)                      | (3,387)    | (28,376)  |
| Total provision for loan losses<br>charged to operations                                  | 929  | 66                        |   | 96                         |          | 225                          | 178        | 1,495     |
| Provision for loan losses<br>recorded through the FDIC loss<br>share receivable           | 17,630   | 1,252                     |   | 1,830                      |          | 4,277                        | 3,387      | 28,376    |
| Balance, September 30, 2011   | \$ 18,559  | \$ 1,318                  | \$  | \$ 1,926                   | \$       | \$ 4,502                     | \$ 3,565   | \$ 29,870 |

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:

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- **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 a loan 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.

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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 commercial loans for non-acquired loans:

| (Dollars in thousands) | Construction & Development |                   |                    | Commercial Non-owner Occupied |                   |                    | Commercial Owner Occupied |                   |                    |
|------------------------|----------------------------|-------------------|--------------------|-------------------------------|-------------------|--------------------|---------------------------|-------------------|--------------------|
|                        | September 30, 2012         | December 31, 2011 | September 30, 2011 | September 30, 2012            | December 31, 2011 | September 30, 2011 | September 30, 2012        | December 31, 2011 | September 30, 2011 |
| Pass                   | \$ 216,801                 | \$ 232,131        | \$ 228,166         | \$ 223,235                    | \$ 231,954        | \$ 233,283         | \$ 716,283                | \$ 656,914        | \$ 635,881         |
| Special mention        | 29,894                     | 33,254            | 40,294             | 34,470                        | 43,733            | 51,241             | 29,565                    | 38,511            | 45,398             |
| Substandard            | 26,867                     | 45,460            | 47,612             | 21,230                        | 24,011            | 20,092             | 41,740                    | 47,465            | 38,512             |
| Doubtful               | 44                         |                   |                    |                               |                   |                    | 35                        |                   |                    |
|                        | \$ 273,606                 | \$ 310,845        | \$ 316,072         | \$ 278,935                    | \$ 299,698        | \$ 304,616         | \$ 787,623                | \$ 742,890        | \$ 719,791         |

| (Dollars in thousands) | Commercial & Industrial |                   |                    | Other Income Producing Property |                   |                    | Commercial Total   |                   |                    |
|------------------------|-------------------------|-------------------|--------------------|---------------------------------|-------------------|--------------------|--------------------|-------------------|--------------------|
|                        | September 30, 2012      | December 31, 2011 | September 30, 2011 | September 30, 2012              | December 31, 2011 | September 30, 2011 | September 30, 2012 | December 31, 2011 | September 30, 2011 |
| Pass                   | \$ 230,317              | \$ 207,063        | \$ 200,996         | \$ 114,409                      | \$ 117,237        | \$ 118,502         | \$ 1,501,045       | \$ 1,445,299      | \$ 1,416,828       |
| Special mention        | 8,996                   | 6,949             | 6,598              | 8,755                           | 11,885            | 11,823             | 111,680            | 134,332           | 155,354            |
| Substandard            | 5,972                   | 6,442             | 8,979              | 8,668                           | 11,571            | 12,000             | 104,477            | 134,949           | 127,195            |
| Doubtful               |                         |                   |                    |                                 |                   |                    | 79                 |                   |                    |
|                        | \$ 245,285              | \$ 220,454        | \$ 216,573         | \$ 131,832                      | \$ 140,693        | \$ 142,325         | \$ 1,717,281       | \$ 1,714,580      | \$ 1,699,377       |

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

| (Dollars in thousands) | Consumer Owner Occupied |                   |                    | Home Equity        |                   |                    | Consumer           |                   |                    |
|------------------------|-------------------------|-------------------|--------------------|--------------------|-------------------|--------------------|--------------------|-------------------|--------------------|
|                        | September 30, 2012      | December 31, 2011 | September 30, 2011 | September 30, 2012 | December 31, 2011 | September 30, 2011 | September 30, 2012 | December 31, 2011 | September 30, 2011 |
| Pass                   | \$ 383,152              | \$ 342,307        | \$ 343,662         | \$ 241,278         | \$ 247,929        | \$ 246,970         | \$ 85,488          | \$ 84,189         | \$ 83,842          |
| Special mention        | 23,556                  | 25,298            | 28,348             | 8,420              | 10,018            | 9,904              | 799                | 682               | 665                |
| Substandard            | 24,117                  | 23,924            | 22,195             | 5,955              | 7,039             | 7,714              | 442                | 471               | 465                |
| Doubtful               |                         |                   |                    | 24                 |                   |                    |                    |                   |                    |
|                        | \$ 430,825              | \$ 391,529        | \$ 394,205         | \$ 255,677         | \$ 264,986        | \$ 264,588         | \$ 86,729          | \$ 85,342         | \$ 84,972          |

| (Dollars in thousands) | Other              |                   |                    | Consumer Total     |                   |                    |
|------------------------|--------------------|-------------------|--------------------|--------------------|-------------------|--------------------|
|                        | September 30, 2012 | December 31, 2011 | September 30, 2011 | September 30, 2012 | December 31, 2011 | September 30, 2011 |
| Pass                   | \$ 26,840          | \$ 14,128         | \$ 18,497          | \$ 736,758         | \$ 688,553        | \$ 692,971         |
| Special mention        |                    |                   |                    | 32,775             | 35,998            | 38,917             |
| Substandard            |                    |                   |                    | 30,514             | 31,434            | 30,374             |
| Doubtful               |                    |                   |                    | 24                 |                   |                    |
|                        | \$ 26,840          | \$ 14,128         | \$ 18,497          | \$ 800,071         | \$ 755,985        | \$ 762,262         |

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

|                        | <b>Total Non-acquired Loans</b> |                              |                               |
|------------------------|---------------------------------|------------------------------|-------------------------------|
| (Dollars in thousands) | <b>September 30,<br/>2012</b>   | <b>December 31,<br/>2011</b> | <b>September 30,<br/>2011</b> |
| Pass                   | \$ 2,237,803                    | \$ 2,133,852                 | \$ 2,109,799                  |
| Special mention        | 144,455                         | 170,330                      | 194,271                       |
| Substandard            | 134,991                         | 166,383                      | 157,569                       |
| Doubtful               | 103                             |                              |                               |
|                        | <b>\$ 2,517,352</b>             | <b>\$ 2,470,565</b>          | <b>\$ 2,461,639</b>           |

At September 30, 2012, the aggregate amount of non-acquired substandard and doubtful loans totaled \$135.1 million. When these loans are combined with non-acquired OREO of \$22.4 million, our non-acquired classified assets (as defined by the state of South Carolina and the FDIC, our primary federal regulators) were \$157.5 million. At December 31, 2011, the amounts were \$166.4 million, \$18.0 million, and \$184.4 million, respectively. At September 30, 2011, the amounts were \$157.6 million, \$22.7 million, and \$180.3 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 covered acquired loans, net of the related discount:

| (Dollars in thousands) | Commercial Loans Greater Than<br>or Equal to \$1 million-CBT |                      |                       | Commercial Real Estate |                      |                       | Commercial Real Estate<br>Construction and Development |                      |                       |
|------------------------|--|----------------------|-----------------------|------------------------|----------------------|-----------------------|--|----------------------|-----------------------|
|                        | September 30,<br>2012  | December 31,<br>2011 | September 30,<br>2011 | September 30,<br>2012  | December 31,<br>2011 | September 30,<br>2011 | September 30,<br>2012                                  | December 31,<br>2011 | September 30,<br>2011 |
| Pass                   | \$ 15,854  | \$ 17,257            | \$ 18,554             | \$ 24,992              | \$ 33,770            | \$ 37,268             | \$ 7,427   | \$ 11,791            | \$ 12,000             |
| Special mention        | 3,462  | 5,164                | 6,234                 | 12,505                 | 22,089               | 23,971                | 4,875  | 5,947                | 7,927                 |
| Substandard            | 33,985   | 38,408               | 38,278                | 37,095                 | 51,108               | 54,150                | 22,639   | 30,566               | 37,903                |
| Doubtful               |  |                      |                       | 165                    | 498                  | 500                   | 1,494  | 2,649                | 2,780                 |
|                        | \$ 53,301  | \$ 60,829            | \$ 63,066             | \$ 74,757              | \$ 107,465           | \$ 115,889            | \$ 36,435  | \$ 50,953            | \$ 60,610             |

|                 | Residential Real Estate |                      |                       | Consumer              |                      |                       | Commercial & Industrial |                      |                       |
|-----------------|-------------------------|----------------------|-----------------------|-----------------------|----------------------|-----------------------|-------------------------|----------------------|-----------------------|
|                 | September 30,<br>2012   | December 31,<br>2011 | September 30,<br>2011 | September 30,<br>2012 | December 31,<br>2011 | September 30,<br>2011 | September 30,<br>2012   | December 31,<br>2011 | September 30,<br>2011 |
| Pass            | \$ 42,101               | \$ 51,223            | \$ 57,168             | \$ 2,437              | \$ 3,123             | \$ 4,002              | \$ 8,231                | \$ 9,007             | \$ 12,667             |
| Special mention | 22,314                  | 19,827               | 19,735                | 703                   | 445                  | 878                   | 4,278                   | 6,963                | 8,357                 |
| Substandard     | 44,529                  | 55,202               | 54,609                | 1,784                 | 1,526                | 2,607                 | 12,779                  | 19,476               | 18,787                |
| Doubtful        | 433                     | 3,338                | 3,013                 | 33                    | 2                    | 519                   | 55                      | 1,056                | 1,149                 |
|                 | \$ 109,377              | \$ 129,590           | \$ 134,525            | \$ 4,957              | \$ 5,096             | \$ 8,006              | \$ 25,343               | \$ 36,502            | \$ 40,960             |

|                 | Single Pay            |                      |                       |
|-----------------|-----------------------|----------------------|-----------------------|
|                 | September 30,<br>2012 | December 31,<br>2011 | September 30,<br>2011 |
| Pass            | \$ 1,881              | \$ 465               | \$ 468                |
| Special mention | 52                    | 62                   | 62                    |
| Substandard     | 2,931                 | 3,533                | 3,412                 |
| Doubtful        |                       |                      |                       |
|                 | \$ 4,864              | \$ 4,060             | \$ 3,942              |

The following table presents the credit risk profile by risk grade of non-covered acquired loans, net of the related discount:

| (Dollars in thousands) | Commercial Real Estate |                      |                       | Commercial Real Estate<br>Construction and Development |                      |                       | Residential Real Estate |                      |                       |
|------------------------|------------------------|----------------------|-----------------------|--|----------------------|-----------------------|-------------------------|----------------------|-----------------------|
|                        | September 30,<br>2012  | December 31,<br>2011 | September 30,<br>2011 | September 30,<br>2012                                  | December 31,<br>2011 | September 30,<br>2011 | September 30,<br>2012   | December 31,<br>2011 | September 30,<br>2011 |
| Pass                   | \$ 60,774              | \$ 799               | \$ 866                | \$ 13,924  | \$ 47                | \$ 48                 | \$ 85,173               | \$ 795               | \$ 765                |
| Special mention        | 5,243                  | 38                   | 37                    | 2,206  |                      |                       | 5,008                   | 22                   |                       |
| Substandard            | 10,670                 | 25                   | 14                    | 5,752  | 5                    | 28                    | 5,883                   | 366                  | 178                   |
| Doubtful               |                        |                      |                       |  |                      |                       |                         |                      |                       |
|                        | \$ 76,687              | \$ 862               | \$ 917                | \$ 21,882  | \$ 52                | \$ 76                 | \$ 96,064               | \$ 1,183             | \$ 943                |

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|                 | Consumer              |                      |                       | Commercial & Industrial |                      |                       |
|-----------------|-----------------------|----------------------|-----------------------|-------------------------|----------------------|-----------------------|
|                 | September 30,<br>2012 | December 31,<br>2011 | September 30,<br>2011 | September 30,<br>2012   | December 31,<br>2011 | September 30,<br>2011 |
| Pass            | \$ 4,699              | \$ 2,378             | \$ 3,125              | \$ 8,813                | \$ 2,201             | \$ 2,363              |
| Special mention | 256                   | 146                  | 207                   | 1,003                   | 332                  | 370                   |
| Substandard     | 213                   | 276                  | 434                   | 2,340                   | 276                  | 328                   |
| Doubtful        |                       |                      |                       |                         |                      |                       |
|                 | \$ 5,168              | \$ 2,800             | \$ 3,766              | \$ 12,156               | \$ 2,809             | \$ 3,061              |

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, covered acquired loans are initially 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 and the allowance for loan losses on covered acquired loans, the Company's risk of loss is mitigated by the FDIC loss share arrangement.



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

The following table presents an aging analysis of past due loans, segregated by class for non-acquired loans, as of September 30, 2012, December 31, 2011, and September 30, 2011:

| (Dollars in thousands)            | 30-59 Days<br>Past Due | 60-89 Days<br>Past Due | 90+ Days<br>Past Due | Total<br>Past<br>Due | Current      | Total<br>Loans |
|-----------------------------------|------------------------|------------------------|----------------------|----------------------|--------------|----------------|
| <b>September 30, 2012</b>         |                        |                        |                      |                      |              |                |
| Commercial real estate:           |                        |                        |                      |                      |              |                |
| Construction and land development | \$ 1,751               | \$ 902                 | \$ 10,789            | \$ 13,442            | \$ 260,164   | \$ 273,606     |
| Commercial non-owner occupied     | 343                    | 1,364                  | 4,253                | 5,960                | 272,975      | 278,935        |
| Commercial owner occupied         | 3,195                  | 2,703                  | 7,137                | 13,035               | 774,588      | 787,623        |
| Consumer real estate:             |                        |                        |                      |                      |              |                |
| Consumer owner occupied           | 1,731                  | 501                    | 5,007                | 7,239                | 423,586      | 430,825        |
| Home equity loans                 | 982                    | 416                    | 597                  | 1,995                | 253,682      | 255,677        |
| Commercial and industrial         | 425                    | 280                    | 384                  | 1,089                | 244,196      | 245,285        |
| Other income producing property   | 441                    | 58                     | 3,746                | 4,245                | 127,587      | 131,832        |
| Consumer                          | 722                    | 161                    | 56                   | 939                  | 85,790       | 86,729         |
| Other loans                       | 80                     | 35                     | 47                   | 162                  | 26,678       | 26,840         |
|                                   | \$ 9,670               | \$ 6,420               | \$ 32,016            | \$ 48,106            | \$ 2,469,246 | \$ 2,517,352   |
| <b>December 31, 2011</b>          |                        |                        |                      |                      |              |                |
| Commercial real estate:           |                        |                        |                      |                      |              |                |
| Construction and land development | \$ 1,056               | \$ 2,793               | \$ 13,176            | \$ 17,025            | \$ 293,820   | \$ 310,845     |
| Commercial non-owner occupied     | 998                    | 539                    | 10,088               | 11,625               | 288,073      | 299,698        |
| Commercial owner occupied         | 2,731                  | 902                    | 12,936               | 16,569               | 726,321      | 742,890        |
| Consumer real estate:             |                        |                        |                      |                      |              |                |
| Consumer owner occupied           | 3,288                  | 762                    | 5,819                | 9,869                | 381,660      | 391,529        |
| Home equity loans                 | 889                    | 360                    | 647                  | 1,896                | 263,090      | 264,986        |
| Commercial and industrial         | 389                    | 142                    | 1,218                | 1,749                | 218,705      | 220,454        |
| Other income producing property   | 192                    | 29                     | 4,185                | 4,406                | 136,287      | 140,693        |
| Consumer                          | 302                    | 130                    | 33                   | 465                  | 84,877       | 85,342         |
| Other loans                       | 97                     | 74                     | 46                   | 217                  | 13,911       | 14,128         |
|                                   | \$ 9,942               | \$ 5,731               | \$ 48,148            | \$ 63,821            | \$ 2,406,744 | \$ 2,470,565   |
| <b>September 30, 2011</b>         |                        |                        |                      |                      |              |                |
| Commercial real estate:           |                        |                        |                      |                      |              |                |
| Construction and land development | \$ 578                 | \$ 3,726               | \$ 14,375            | \$ 18,679            | \$ 297,393   | \$ 316,072     |
| Commercial non-owner occupied     | 779                    | 823                    | 9,017                | 10,619               | 293,997      | 304,616        |
| Commercial owner occupied         | 1,164                  | 1,147                  | 10,586               | 12,897               | 706,894      | 719,791        |
| Consumer real estate:             |                        |                        |                      |                      |              |                |
| Consumer owner occupied           | 855                    | 1,687                  | 5,452                | 7,994                | 386,211      | 394,205        |
| Home equity loans                 | 1,341                  | 193                    | 694                  | 2,228                | 262,360      | 264,588        |
| Commercial and industrial         | 1,165                  | 358                    | 159                  | 1,682                | 214,891      | 216,573        |
| Other income producing property   | 232                    | 411                    | 3,825                | 4,468                | 137,857      | 142,325        |
| Consumer                          | 295                    | 79                     | 40                   | 414                  | 84,558       | 84,972         |
| Other loans                       | 92                     | 33                     | 41                   | 166                  | 18,331       | 18,497         |
|                                   | \$ 6,501               | \$ 8,457               | \$ 44,189            | \$ 59,147            | \$ 2,402,492 | \$ 2,461,639   |



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

The following table presents an aging analysis of past due loans, segregated by class for acquired loans as of September 30, 2012, December 31, 2011, and September 30, 2011:

| (Dollars in thousands)                                    | 30-59 Days<br>Past Due | 60-89 Days<br>Past Due | 90+ Days<br>Past Due | Total<br>Past<br>Due | Current    | Total<br>Loans |
|---|------------------------|------------------------|----------------------|----------------------|------------|----------------|
| <b>September 30, 2012</b>                                 |                        |                        |                      |                      |            |                |
| <b>Covered loans:</b>                                     |                        |                        |                      |                      |            |                |
| Commercial loans greater than or equal to \$1 million-CBT | \$ 3,174               | \$                     | \$ 21,638            | \$ 24,812            | \$ 28,489  | \$ 53,301      |
| Commercial real estate                                    | 3,609                  | 340                    | 14,700               | 18,649               | 56,108     | 74,757         |
| Commercial real estate construction and development       | 2,259                  | 766                    | 13,124               | 16,149               | 20,286     | 36,435         |
| Residential real estate                                   | 3,415                  | 1,131                  | 13,191               | 17,737               | 91,640     | 109,377        |
| Consumer  | 121                    | 76                     | 812                  | 1,009                | 3,948      | 4,957          |
| Commercial and industrial                                 | 586                    | 458                    | 5,088                | 6,132                | 19,211     | 25,343         |
| Single pay  | 1                      | 3                      | 270                  | 274                  | 4,590      | 4,864          |
|   | 13,165                 | 2,774                  | 68,823               | 84,762               | 224,272    | 309,034        |
| <b>Non-covered loans:</b>                                 |                        |                        |                      |                      |            |                |
| Commercial real estate                                    | 681                    | 147                    | 1,146                | 1,974                | 74,713     | 76,687         |
| Commercial real estate construction and development       | 565                    | 153                    | 1,103                | 1,821                | 20,061     | 21,882         |
| Residential real estate                                   | 682                    |                        | 146                  | 828                  | 95,236     | 96,064         |
| Consumer  | 52                     | 24                     | 24                   | 100                  | 5,068      | 5,168          |
| Commercial and industrial                                 | 169                    | 20                     | 44                   | 233                  | 11,923     | 12,156         |
|   | 2,149                  | 344                    | 2,463                | 4,956                | 207,001    | 211,957        |
|   | \$ 15,314              | \$ 3,118               | \$ 71,286            | \$ 89,718            | \$ 431,273 | \$ 520,991     |
| <b>December 31, 2011</b>                                  |                        |                        |                      |                      |            |                |
| <b>Covered loans:</b>                                     |                        |                        |                      |                      |            |                |
| Commercial loans greater than or equal to \$1 million-CBT | \$                     | \$ 990                 | \$ 27,582            | \$ 28,572            | \$ 32,257  | \$ 60,829      |
| Commercial real estate                                    | 3,720                  | 2,422                  | 21,361               | 27,503               | 79,962     | 107,465        |
| Commercial real estate construction and development       | 2,907                  | 1,121                  | 20,704               | 24,732               | 26,221     | 50,953         |
| Residential real estate                                   | 3,218                  | 2,225                  | 14,971               | 20,414               | 109,176    | 129,590        |
| Consumer  | 179                    | 125                    | 423                  | 727                  | 4,369      | 5,096          |
| Commercial and industrial                                 | 1,360                  | 473                    | 9,422                | 11,255               | 25,247     | 36,502         |
| Single pay  | 79                     | 5                      | 2,866                | 2,950                | 1,110      | 4,060          |
|   | 11,463                 | 7,361                  | 97,329               | 116,153              | 278,342    | 394,495        |
| <b>Non-covered loans:</b>                                 |                        |                        |                      |                      |            |                |
| Commercial real estate                                    |                        |                        |                      |                      | 862        | 862            |
| Commercial real estate construction and development       |                        |                        |                      |                      | 52         | 52             |
| Residential real estate                                   | 59                     |                        |                      | 59                   | 1,124      | 1,183          |
| Consumer  | 70                     | 39                     | 129                  | 238                  | 2,562      | 2,800          |
| Commercial and industrial                                 | 50                     | 39                     | 115                  | 204                  | 2,605      | 2,809          |
|   | 179                    | 78                     | 244                  | 501                  | 7,205      | 7,706          |
|   | \$ 11,642              | \$ 7,439               | \$ 97,573            | \$ 116,654           | \$ 285,547 | \$ 402,201     |
| <b>September 30, 2011</b>                                 |                        |                        |                      |                      |            |                |
| <b>Covered loans:</b>                                     |                        |                        |                      |                      |            |                |

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|   |    |        |    |       |    |         |    |         |    |         |    |         |
|---|----|--------|----|-------|----|---------|----|---------|----|---------|----|---------|
| Commercial loans greater than or equal to \$1 million-CBT | \$ | 2,294  | \$ | 1,440 | \$ | 27,287  | \$ | 31,021  | \$ | 32,045  | \$ | 63,066  |
| Commercial real estate                                    |    | 2,582  |    | 1,047 |    | 23,253  |    | 26,882  |    | 89,007  |    | 115,889 |
| Commercial real estate construction and development       |    | 1,604  |    | 676   |    | 27,004  |    | 29,284  |    | 31,326  |    | 60,610  |
| Residential real estate                                   |    | 3,661  |    | 2,609 |    | 14,554  |    | 20,824  |    | 113,701 |    | 134,525 |
| Consumer  |    | 436    |    | 172   |    | 829     |    | 1,437   |    | 6,569   |    | 8,006   |
| Commercial and industrial                                 |    | 1,068  |    | 1,786 |    | 9,010   |    | 11,864  |    | 29,096  |    | 40,960  |
| Single pay  |    | 53     |    | 58    |    | 2,638   |    | 2,749   |    | 1,193   |    | 3,942   |
|   |    | 11,698 |    | 7,788 |    | 104,575 |    | 124,061 |    | 302,937 |    | 426,998 |
| <b>Non-covered loans:</b>                                 |    |        |    |       |    |         |    |         |    |         |    |         |
| Commercial real estate                                    |    |        |    |       |    |         |    |         |    | 917     |    | 917     |
| Commercial real estate construction and development       |    |        |    |       |    | 21      |    | 21      |    | 55      |    | 76      |
| Residential real estate                                   |    | 178    |    |       |    |         |    | 178     |    | 765     |    | 943     |
| Consumer  |    | 55     |    | 57    |    | 107     |    | 219     |    | 3,547   |    | 3,766   |
| Commercial and industrial                                 |    | 55     |    |       |    | 185     |    | 240     |    | 2,821   |    | 3,061   |
|   |    | 288    |    | 57    |    | 313     |    | 658     |    | 8,105   |    | 8,763   |
|   | \$ | 11,986 | \$ | 7,845 | \$ | 104,888 | \$ | 124,719 | \$ | 311,042 | \$ | 435,761 |

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, 2012</b>         |   |  |  |                                 |                      |
| Commercial real estate:           |   |  |  |                                 |                      |
| Construction and land development | \$ 22,233                                     | \$ 9,479                                       | \$ 3,201   | \$ 12,680                       | \$ 1,151             |
| Commercial non-owner occupied     | 11,354  | 4,095  | 3,026  | 7,121                           | 676                  |
| Commercial owner occupied         | 23,148  | 13,021   | 5,356  | 18,377                          | 402                  |
| Consumer real estate:             |   |  |  |                                 |                      |
| Consumer owner occupied           | 2,774   | 1,418  | 1,195  | 2,613                           | 218                  |
| Home equity loans                 |   |  |  |                                 |                      |
| Commercial and industrial         | 550   | 474  |  | 474                             |                      |
| Other income producing property   | 3,529   | 1,668  | 1,110  | 2,778                           | 125                  |
| Consumer                          |   |  |  |                                 |                      |
| Other loans                       |   |  |  |                                 |                      |
| Total impaired loans              | \$ 63,588                                     | \$ 30,155                                      | \$ 13,888  | \$ 44,043                       | \$ 2,572             |
| <b>December 31, 2011</b>          |   |  |  |                                 |                      |
| Commercial real estate:           |   |  |  |                                 |                      |
| Construction and land development | \$ 34,076                                     | \$ 19,521                                      | \$ 5,228   | \$ 24,749                       | \$ 1,646             |
| Commercial non-owner occupied     | 14,269  | 9,704  | 2,336  | 12,040                          | 706                  |
| Commercial owner occupied         | 21,072  | 10,692   | 7,025  | 17,717                          | 1,510                |
| Consumer real estate:             |   |  |  |                                 |                      |
| Consumer owner occupied           | 2,815   | 607  | 1,987  | 2,594                           | 262                  |
| Home equity loans                 |   |  |  |                                 |                      |
| Commercial and industrial         | 1,788   | 1,576  |  | 1,576                           |                      |
| Other income producing property   | 4,393   | 2,132  | 1,243  | 3,375                           | 289                  |
| Consumer                          |   |  |  |                                 |                      |
| Other loans                       |   |  |  |                                 |                      |
| Total impaired loans              | \$ 78,413                                     | \$ 44,232                                      | \$ 17,819  | \$ 62,051                       | \$ 4,413             |
| <b>September 30, 2011</b>         |   |  |  |                                 |                      |
| Commercial real estate:           |   |  |  |                                 |                      |
| Construction and land development | \$ 31,695                                     | \$ 11,839                                      | \$ 8,574   | \$ 20,413                       | \$ 2,384             |
| Commercial non-owner occupied     | 14,770  | 10,675   | 1,062  | 11,737                          | 438                  |
| Commercial owner occupied         | 17,140  | 9,784  | 4,794  | 14,578                          | 439                  |
| Consumer real estate:             |   |  |  |                                 |                      |
| Consumer owner occupied           | 3,423   | 947  | 2,012  | 2,959                           | 278                  |
| Home equity loans                 |   |  |  |                                 |                      |

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|                                 |           |           |           |           |          |
|---------------------------------|-----------|-----------|-----------|-----------|----------|
| Commercial and industrial       | 4,912     | 4,723     |           | 4,723     |          |
| Other income producing property | 3,270     | 2,357     | 637       | 2,994     | 188      |
| Consumer                        |           |           |           |           |          |
| Other loans                     |           |           |           |           |          |
| Total impaired loans            | \$ 75,210 | \$ 40,325 | \$ 17,079 | \$ 57,404 | \$ 3,727 |

Acquired loans are accounted for in pools as shown on pages 14-15 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 non-acquired impaired loans for the three and nine months ended September 30, 2012 and 2011:

| (Dollars in thousands)            | Three Months Ended<br>September 30, 2012   |                               | Three 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 | \$ 15,644                                  | \$ 12                         | \$ 21,087                                  | \$ 46                         |
| Commercial non-owner occupied     | 5,766                                      | 54                            | 11,989                                     | 64                            |
| Commercial owner occupied         | 16,397                                     | 154                           | 10,790                                     | 210                           |
| Consumer real estate:             |  |                               |  |                               |
| Consumer owner occupied           | 2,640                                      | 12                            | 2,370                                      | 18                            |
| Home equity loans                 |  |                               |  |                               |
| Commercial and industrial         | 477  | 1                             | 1,096                                      | 104                           |
| Other income producing property   | 2,820                                      | 4                             | 2,672                                      | 11                            |
| Consumer                          |  |                               |  |                               |
| Other loans                       |  |                               |  |                               |
| Total Impaired Loans              | \$ 43,744                                  | \$ 237                        | \$ 50,004                                  | \$ 453                        |

| (Dollars in thousands)            | Nine Months Ended<br>September 30, 2012    |                               | 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 | \$ 18,785                                  | \$ 63                         | \$ 22,693                                  | \$ 114                        |
| Commercial non-owner occupied     | 8,006                                      | 69                            | 11,546                                     | 89                            |
| Commercial owner occupied         | 16,683                                     | 262                           | 11,413                                     | 301                           |
| Consumer real estate:             |  |                               |  |                               |
| Consumer owner occupied           | 2,530                                      | 54                            | 1,889                                      | 41                            |
| Home equity loans                 |  |                               |  |                               |
| Commercial and industrial         | 1,065                                      | 1                             | 1,085                                      | 104                           |
| Other income producing property   | 3,451                                      | 21                            | 1,903                                      | 26                            |
| Consumer                          |  |                               |  |                               |
| Other loans                       |  |                               |  |                               |
| Total Impaired Loans              | \$ 50,520                                  | \$ 470                        | \$ 50,529                                  | \$ 675                        |

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

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

| (Dollars in thousands)                            | September 30,<br>2012 | December 31,<br>2011 | September 30,<br>2011 |
|---|-----------------------|----------------------|-----------------------|
| <b>Commercial non-owner occupied real estate:</b> |                       |                      |                       |
| Construction and land development                 | \$ 12,717             | \$ 21,347            | \$ 18,542             |
| Commercial non-owner occupied                     | 5,526                 | 10,931               | 10,870                |
| Total commercial non-owner occupied real estate   | 18,243                | 32,278               | 29,412                |
| <b>Consumer real estate:</b>                      |                       |                      |                       |
| Consumer owner occupied                           | 9,929                 | 8,017                | 7,807                 |
| Home equity loans                                 | 518                   | 1,005                | 1,752                 |
| Total consumer real estate                        | 10,447                | 9,022                | 9,559                 |
| Commercial owner occupied real estate             | 11,554                | 15,405               | 11,957                |
| Commercial and industrial                         | 1,349                 | 1,913                | 4,961                 |
| Other income producing property                   | 4,481                 | 5,329                | 5,069                 |
| Consumer  | 221                   | 223                  | 205                   |
| <b>Other loans</b>                                |                       |                      |                       |
| Restructured loans                                | 12,882                | 11,807               | 11,698                |
| Total loans on nonaccrual status                  | \$ 59,177             | \$ 75,977            | \$ 72,861             |

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.

The Bank designates loan modifications as TDRs when it grants a concession to the borrower that it would not otherwise consider due to the borrower experiencing financial difficulty (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. Nonaccrual 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).



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

The following table presents non-acquired loans designated as TDRs segregated by class and type of concession that were restructured during the three and nine months ended September 30, 2012 and 2011:

| (Dollars in thousands)                      | Three Months Ended September 30, 2012 |  |   | Three 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 |
| <b>Interest rate modification</b>           |                                       |  |   |                                       |  |   |
| Construction and land development           |                                       | \$   | \$  | 3                                     | \$ 387   | \$ 384  |
| Commercial owner occupied                   | 2                                     | 4,659  | 4,607   |                                       |  |   |
| Other income producing property             |                                       |  |   | 1                                     | 46   | 44  |
| <b>Total interest rate modifications</b>    | <b>2</b>                              | <b>\$ 4,659</b>                                  | <b>\$ 4,607</b>                                   | <b>4</b>                              | <b>\$ 433</b>                                    | <b>\$ 428</b>                                     |
| <b>Term modification</b>                    |                                       |  |   |                                       |  |   |
| Construction and land development           |                                       |  |   | 1                                     | 2,443  | 2,443   |
| <b>Total term modifications</b>             |                                       | \$   | \$  | 1                                     | \$ 2,443   | \$ 2,443  |
|   | <b>2</b>                              | <b>\$ 4,659</b>                                  | <b>\$ 4,607</b>                                   | <b>5</b>                              | <b>\$ 2,876</b>                                  | <b>\$ 2,871</b>                                   |
| <b>Nine Months Ended September 30, 2012</b> |                                       |  |   |                                       |  |   |
| (Dollars in thousands)                      | 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 |
| <b>Interest rate modification</b>           |                                       |  |   |                                       |  |   |
| Construction and land development           | 1                                     | \$ 165   | \$ 159  | 14                                    | \$ 3,122   | \$ 3,059  |
| Commercial owner occupied                   | 3                                     | 5,102  | 5,047   | 2                                     | 1,334  | 1,302   |
| Consumer owner occupied                     |                                       |  |   | 2                                     | 759  | 743   |
| Other income producing property             |                                       |  |   | 1                                     | 46   | 44  |
| <b>Total interest rate modifications</b>    | <b>4</b>                              | <b>\$ 5,267</b>                                  | <b>\$ 5,206</b>                                   | <b>19</b>                             | <b>\$ 5,261</b>                                  | <b>\$ 5,148</b>                                   |
| <b>Term modification</b>                    |                                       |  |   |                                       |  |   |
| Construction and land development           | 1                                     | 230  | 223   | 1                                     | 2,443  | 2,443   |
| Commercial owner occupied                   |                                       |  |   | 2                                     | 927  | 872   |
| Consumer owner occupied                     |                                       |  |   | 1                                     | 605  | 600   |
| <b>Total term modifications</b>             | <b>1</b>                              | <b>\$ 230</b>                                    | <b>\$ 223</b>                                     | <b>4</b>                              | <b>\$ 3,975</b>                                  | <b>\$ 3,915</b>                                   |
|   | <b>5</b>                              | <b>\$ 5,497</b>                                  | <b>\$ 5,429</b>                                   | <b>23</b>                             | <b>\$ 9,236</b>                                  | <b>\$ 9,063</b>                                   |

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At September 30, 2012, December 31, 2011, and September 30, 2011, the balance of accruing TDRs was \$6.3 million, \$5.8 million, and \$5.1 million, respectively.

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

The following table presents the changes in status of non-acquired loans restructured within the previous 12 months as of September 30, 2012 by type of concession:

| (Dollars in thousands)     | Paying Under<br>Restructured Terms |                        | Converted to Nonaccrual |                        | Foreclosures and Defaults |                        |
|----------------------------|------------------------------------|------------------------|-------------------------|------------------------|---------------------------|------------------------|
|                            | Number<br>of Loans                 | Recorded<br>Investment | Number<br>of Loans      | Recorded<br>Investment | Number<br>of Loans        | Recorded<br>Investment |
| Interest rate modification | 6                                  | \$ 6,014               |                         | \$                     | 1                         | \$ 14                  |
| Term modification          | 2                                  | 664                    |                         |                        |                           |                        |
|                            | 8                                  | \$ 6,678               |                         | \$                     | 1                         | \$ 14                  |

The amount of specific reserve associated with non-acquired restructured loans was \$1.2 million at September 30, 2012, none of which was related to the restructured loans that had subsequently defaulted. The Company had no remaining availability under commitments to lend additional funds on these restructured loans at September 30, 2012.

**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, 2012 and 2011:

| (Dollars in thousands)   | Nine Months Ended     |                       |
|--|-----------------------|-----------------------|
|  | September 30,<br>2012 | September 30,<br>2011 |
| Balance at beginning of period                                 | \$ 262,651            | \$ 212,103            |
| FDIC loss share receivable recorded for Habersham agreement    |                       | 87,418                |
| FDIC loss share receivable recorded for BankMeridian agreement |                       | 50,753                |
| Increase (decrease) in expected losses on loans                | (710)                 | 28,375                |
| Additional losses on OREO                                      | 8,324                 | 11,076                |
| Reimbursable expenses  | 7,055                 | 9,803                 |
| Amortization of discounts and premiums, net                    | (14,226)              | (7,049)               |
| Reimbursements from FDIC                                       | (88,773)              | (117,821)             |
| Balance at end of period                                       | \$ 174,321            | \$ 274,658            |

The FDIC receivable for loss share agreements is measured separately from the related covered assets. At September 30, 2012, the projected cash flows related to the FDIC receivable for losses on assets acquired was approximately \$49.1 million less than the current carrying value. This amount is being recognized as negative accretion (in non-interest income) over the shorter of the underlying asset's remaining life or remaining term of the loss share agreements. In October and November of 2012, the Company expects to receive \$20.6 million from loss share claims filed, including reimbursable expenses.

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Included in the FDIC indemnification asset is an expected true up with the FDIC related to the BankMeridian acquisition. This amount is determined each reporting period and at September 30, 2012, is estimated to be approximately \$2.7 million at the end of the loss share agreement (in ten years). The actual payment will be determined at the end of the loss sharing agreement term for each of the three FDIC-assisted acquisitions and is based on the negative bid, expected losses, intrinsic loss estimate, and assets covered under loss share. There was no true up expected from the CBT or Habersham Bank FDIC-assisted transactions as of September 30, 2012.

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

The following is a summary of information pertaining to OREO at September 30, 2012:

| (Dollars in thousands)          | OREO |          | Covered<br>OREO |          | Total     |
|---------------------------------|------|----------|-----------------|----------|-----------|
| Balance, December 31, 2011      | \$   | 18,022   | \$              | 65,849   | \$ 83,871 |
| Acquired in Peoples acquisition |      | 7,916    |                 |          | 7,916     |
| Additions                       |      | 21,185   |                 | 19,146   | 40,331    |
| Write-downs                     |      | (4,798)  |                 | (8,850)  | (13,648)  |
| Sold                            |      | (14,841) |                 | (29,082) | (43,923)  |
| Balance, September 30, 2012     | \$   | 27,484   | \$              | 47,063   | \$ 74,547 |

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

| (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                            |      | 19,801  |                 | 33,697   | 53,498     |
| Write-downs                          |      | (6,080) |                 | (11,659) | (17,739)   |
| Sold                                 |      | (8,299) |                 | (30,934) | (39,233)   |
| Balance, September 30, 2011          | \$   | 22,686  | \$              | 79,740   | \$ 102,426 |

The covered OREO above is covered pursuant to the FDIC loss share agreements and is presented net of the related fair value discount. At September 30, 2012, there were 599 properties included in OREO, with 129 uncovered and 470 covered by loss share agreement with the FDIC. At September 30, 2011, there were 967 properties in OREO, with 92 uncovered and 875 covered by loss share agreement with the FDIC. For more information regarding the auction of a portion of the Company's covered OREO, see Note 17 to these financial statements.

**Note 9 Deposits**

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

| (Dollars in thousands)           | September 30,<br>2012 | December 31,<br>2011 | September 30,<br>2011 |
|----------------------------------|-----------------------|----------------------|-----------------------|
| Certificates of deposit          | \$ 898,742            | \$ 903,874           | \$ 981,030            |
| Interest-bearing demand deposits | 1,558,458             | 1,432,806            | 1,385,541             |

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|                                      |                     |              |              |
|--------------------------------------|---------------------|--------------|--------------|
| Non-interest bearing demand deposits | <b>818,633</b>      | 658,454      | 653,924      |
| Savings deposits                     | <b>309,770</b>      | 258,644      | 263,981      |
| Other time deposits                  | <b>3,695</b>        | 694          | 3,177        |
| Total deposits                       | \$ <b>3,589,298</b> | \$ 3,254,472 | \$ 3,287,653 |

The aggregate amounts of time deposits in denominations of \$100,000 or more at September 30, 2012, December 31, 2011, and September 30, 2011 were \$375.2 million, \$392.7 million and \$422.5 million, respectively. In July of 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act permanently increased the insurance limit on deposit accounts from \$100,000 to \$250,000. At September 30, 2012, December 31, 2011, and September 30, 2011, the Company had \$109.9 million, \$124.2 million, and \$149.9 million in certificates of deposits greater than \$250,000, respectively. The Company did not have brokered certificates of deposit at September 30, 2012, December 31, 2011 or September 30, 2011.

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 a 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, 2012.

The components of net periodic pension expense recognized during the three and nine months ended September 30, 2012 and 2011 are as follows:

| (Dollars in thousands)         | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |          |
|--------------------------------|-------------------------------------|----------|------------------------------------|----------|
|                                | 2012                                | 2011     | 2012                               | 2011     |
| Interest cost                  | \$ (258)                            | \$ (274) | \$ (774)                           | \$ (822) |
| Expected return on plan assets | 407                                 | 400      | 1,222                              | 1,200    |
| Recognized net actuarial loss  | (267)                               | (137)    | (801)                              | (411)    |
| Net periodic pension expense   | \$ (118)                            | \$ (11)  | \$ (353)                           | \$ (33)  |

The Company contributed \$300,000 and \$900,000 to the pension plan for the three and nine months ended September 30, 2012, respectively, and anticipates making similar additional 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. Employer contributions may be made from current or accumulated net profits. Participants may elect to contribute 1% to 50% of annual base compensation as a before tax contribution. Effective September 1, 2012, employees participating in the plan receive a 100% matching of their 401(k) plan contribution, up to 5% of salary. Prior to September 1, 2012, participating employees received a 50% matching of their 401(k) plan contribution, up to 6% of salary. The Company expensed \$418,000 and \$240,000 for the 401(k) plan during the three months ended September 30, 2012 and 2011, respectively. For the nine months ended September 30, 2012 and 2011, the Company expensed \$1.1 million and \$720,000, respectively.

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.

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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, 2012 and 2011:

| (Dollars and shares in thousands) | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|-----------------------------------|-------------------------------------|-----------|------------------------------------|-----------|
|                                   | 2012                                | 2011      | 2012                               | 2011      |
| Basic earnings per share:         |                                     |           |                                    |           |
| Net income                        | \$ 9,063                            | \$ 10,332 | \$ 24,122                          | \$ 17,766 |
| Weighted-average basic shares     | 14,920                              | 13,818    | 14,484                             | 13,613    |
| Basic earnings per share          | \$ 0.61                             | \$ 0.75   | \$ 1.67                            | \$ 1.30   |
| Diluted earnings per share:       |                                     |           |                                    |           |
| Net income                        | \$ 9,063                            | \$ 10,332 | \$ 24,122                          | \$ 17,766 |
| Weighted-average basic shares     | 14,920                              | 13,818    | 14,484                             | 13,613    |
| Effect of dilutive securities     | 123                                 | 66        | 89                                 | 76        |
| Weighted-average dilutive shares  | 15,043                              | 13,884    | 14,573                             | 13,689    |
| Diluted earnings per share        | \$ 0.60                             | \$ 0.74   | \$ 1.66                            | \$ 1.28   |

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, |                   |
|--------------------------|-------------------------------------|-------------------|------------------------------------|-------------------|
|                          | 2012                                | 2011              | 2012                               | 2011              |
| Number of shares         | 100,326                             | 268,022           | 140,829                            | 256,664           |
| Range of exercise prices | \$31.75 - \$40.99                   | \$26.01 - \$40.99 | \$31.10 - \$40.99                  | \$26.01 - \$40.99 |

**Note 12 Share-Based Compensation**

The Company's 1999, 2004, and 2012 share-based compensation 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.



Table of Contents**Note 12 Share-Based Compensation (Continued)***Stock Options*

With the exception of non-qualified stock options granted to directors under the 1999, 2004, and 2012 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 a year following the grant date, incentive stock options granted under the plans may not be exercised in whole or in part within a year following the date of the grant, as these incentive stock options become exercisable in 25% increments pro ratably 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 1999 plan is closed other than for any options still unexercised and outstanding. No options were granted under the 2004 plan after January 26, 2012, and the 2004 plan is closed other than for any options still unexercised and outstanding. The 2012 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 1,684,000 shares registered under the 2012 plan, of which no more than 817,476 shares can be granted as restricted stock.

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.

| Options  | Number of Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Life (Yrs.) | Aggregate Intrinsic Value (000 \$) |
|--|------------------|---------------------------------|--|------------------------------------|
| Outstanding at January 1, 2012                                 | 370,207          | \$ 30.69                        |  |                                    |
| Granted  | 28,224           | 31.75                           |  |                                    |
| Exercised  | (36,681)         | 24.54                           |  |                                    |
| Expired/Forfeited  | (6,404)          | 31.17                           |  |                                    |
| Outstanding at September 30, 2012                              | 355,346          | 31.40                           | 4.74   | \$ 3,159                           |
| Exercisable at September 30, 2012                              | 283,147          | 31.25                           | 3.87   | \$ 2,559                           |
| Weighted-average fair value of options granted during the year | \$ 11.55         |                                 |  |                                    |

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:

|                     | Nine Months Ended<br>September 30, |         |
|---------------------|------------------------------------|---------|
|                     | 2012                               | 2011    |
| Dividend yield      | 2.10%                              | 2.20%   |
| Expected life       | 6 years                            | 6 years |
| Expected volatility | 46%                                | 44%     |

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|                         |              |       |
|-------------------------|--------------|-------|
| Risk-free interest rate | <b>1.06%</b> | 2.32% |
|-------------------------|--------------|-------|

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

As of September 30, 2012, there was \$619,000 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 1.26 years as of September 30, 2012. The total fair value of shares vested during the nine months ended September 30, 2012 was \$402,000.

*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 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.

Nonvested restricted stock for the nine months ended September 30, 2012 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 Grant-Date Fair Value</b> |
|---------------------------------|---------------|---|
| Nonvested at January 1, 2012    | 171,704       | \$ 30.32                                      |
| Granted                         | 47,666        | 32.27   |
| Vested                          | (34,187)      | 30.30   |
| Forfeited                       | (4,992)       | 32.03   |
| Nonvested at September 30, 2012 | 180,191       | 30.80   |

As of September 30, 2012, there was \$3.9 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 3.89 years as of September 30, 2012. The total fair value of shares vested during the nine months ended September 30, 2012 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, 2012, commitments to extend credit and standby letters of credit totaled \$658.9 million. The Company does not anticipate any material losses as a result of these transactions.

The Company and subsidiary have been named as defendants in various legal actions arising from their normal business activities in which damages in various amounts are claimed. The Company is also exposed to litigation risk related to the prior business activities of banks acquired through whole bank acquisitions as well as banks from which assets were acquired and liabilities assumed in FDIC-assisted transactions. Although the amount of any ultimate liability with respect to such matters cannot be determined, in the opinion of management, any such liability will not have a material effect on the Company's consolidated financial statements.

**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 contracts 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, impaired loans, OREO, 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.

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**Note 14 Fair Value (Continued)**

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.

*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 and The NASDAQ Stock Market, 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 held to maturity are valued at quoted market prices or dealer quotes similar to securities available for sale. The carrying value of FHLB stock approximates fair value based on the redemption provisions.

*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 are 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, 2012, 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,

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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 are considered Level 3 in the fair value hierarchy because management has qualitatively applied a discount due to the size, supply of inventory, and the incremental discounts applied to the appraisals. 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, 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, net of any FDIC indemnification proceeds in the case of covered OREO.



Table of Contents**Note 14 Fair Value (Continued)***Derivative Financial Instruments*

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

*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.

| (Dollars in thousands)              | Fair Value | 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>September 30, 2012:</b>          |            |   |   |  |
| <b>Assets</b>                       |            |   |   |  |
| Securities available for sale:      |            |   |   |  |
| Government-sponsored entities debt  | \$ 71,545  | \$  | \$ 71,545   | \$   |
| State and municipal obligations     | 140,033    |   | 140,033   |  |
| Mortgage-backed securities          | 263,970    |   | 263,970   |  |
| FHLMC preferred stock               | 102        |   | 102   |  |
| Corporate stocks                    | 373        | 348   | 25  |  |
| Total securities available for sale | \$ 476,023 | \$ 348  | \$ 475,675  | \$   |
| <b>Liabilities</b>                  |            |   |   |  |
| Derivative financial instruments    | \$ 1,579   | \$  | \$ 1,579  | \$   |
| <b>December 31, 2011:</b>           |            |   |   |  |
| <b>Assets</b>                       |            |   |   |  |
| Securities available for sale:      |            |   |   |  |
| Government-sponsored entities debt  | \$ 49,603  | \$  | \$ 49,603   | \$   |
| State and municipal obligations     | 43,957     |   | 43,957  |  |
| Mortgage-backed securities          | 195,309    |   | 195,309   |  |
| Corporate stocks                    | 326        | 301   | 25  |  |
| Total securities available for sale | \$ 289,195 | \$ 301  | \$ 288,894  | \$   |
| <b>Liabilities</b>                  |            |   |   |  |
| Derivative financial instruments    | \$ 1,391   | \$  | \$ 1,391  | \$   |
| <b>September 30, 2011:</b>          |            |   |   |  |
| <b>Assets</b>                       |            |   |   |  |

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Securities available for sale:

|                                     |    |         |    |     |    |         |    |
|-------------------------------------|----|---------|----|-----|----|---------|----|
| Government-sponsored entities 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 | \$ |

**Liabilities**

|                                  |    |       |    |  |    |       |    |
|----------------------------------|----|-------|----|--|----|-------|----|
| Derivative financial instruments | \$ | 1,377 | \$ |  | \$ | 1,377 | \$ |
|----------------------------------|----|-------|----|--|----|-------|----|

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**Note 14 Fair Value (Continued)**

*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, 2012.

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.

There were no changes in hierarchy classifications of Level 3 assets or liabilities for the nine months ended September 30, 2012. 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:

| (Dollars in thousands)   | Assets   | Liabilities |
|--|----------|-------------|
| Fair value, January 1, 2011  | \$ 2,034 | \$          |
| Change in unrealized loss recognized in other comprehensive income |          | 95          |
| Total realized losses included in income                           |          |             |
| Other-than-temporary impairment losses recognized in income        |          |             |
| Purchases, issuances and settlements, net                          | (2,129)  |             |
| Transfers in and/or out of level 3                                 |          |             |
| Fair value, September 30, 2011                                     | \$       | \$          |

There were no unrealized losses included in accumulated other comprehensive income related to Level 3 financial assets and liabilities at September 30, 2012 or 2011.

*Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis*

The following table presents assets that were re-measured and reported at fair value during the nine months ended September 30, 2012 and 2011.

| (Dollars in thousands) | Nine Months Ended<br>September 30, 2012 |         | Nine Months Ended<br>September 30, 2011 |         |
|------------------------|---|---------|---|---------|
|                        | Level 2                                 | Level 3 | Level 2                                 | Level 3 |

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Non-acquired impaired loans that were re-measured and reported at fair value through a specific valuation allowance:

|  |    |    |                |    |    |         |
|--|----|----|----------------|----|----|---------|
| Carrying value of impaired loans before specific valuation allowance | \$ | \$ | <b>22,236</b>  | \$ | \$ | 46,061  |
| Specific valuation allowance   |    |    | <b>(4,207)</b> |    |    | (7,401) |
| Fair value   | \$ | \$ | <b>18,029</b>  | \$ | \$ | 38,660  |

Non-acquired OREO re-measured at initial recognition:

|   |    |    |              |    |    |         |
|---|----|----|--------------|----|----|---------|
| Carrying value of foreclosed properties prior to re-measurement | \$ | \$ | <b>6,542</b> | \$ | \$ | 11,102  |
| Charge-offs recognized in the allowance for loan losses         |    |    | <b>(627)</b> |    |    | (2,509) |
| Fair value  | \$ | \$ | <b>5,915</b> | \$ | \$ | 8,593   |

Non-acquired OREO re-measured subsequent to initial recognition:

|   |    |    |                |    |    |         |
|---|----|----|----------------|----|----|---------|
| Carrying value of foreclosed properties prior to re-measurement | \$ | \$ | <b>21,513</b>  | \$ | \$ | 27,688  |
| Write-downs included in non-interest expense                    |    |    | <b>(4,361)</b> |    |    | (5,423) |
| Fair value  | \$ | \$ | <b>17,152</b>  | \$ | \$ | 22,265  |

Table of Contents**Note 14 Fair Value (Continued)***Quantitative Information about Level 3 Fair Value Measurements*

|   | Valuation Technique   | Unobservable Input                               | General Range |
|---|-----------------------|--|---------------|
| <b>Nonrecurring measurements:</b>         |                       |  |               |
| Covered under FDIC loss share agreements: |                       |  |               |
| OREO                                      | Discounted appraisals | Collateral discounts and estimated costs to sell | 0-50%         |
| Non-acquired:                             |                       |  |               |
| Impaired loans                            | Discounted appraisals | Collateral discounts                             | 0-50%         |
| OREO                                      | Discounted appraisals | Collateral discounts and estimated costs to sell | 0-50%         |

*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, 2012, December 31, 2011 and September 30, 2011. 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 FHLB stock approximates fair value based on the 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 37 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

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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.

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

*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.

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

| (Dollars in thousands)   | Carrying Amount | Fair Value | September 30, 2012 |           |           |
|--|-----------------|------------|--------------------|-----------|-----------|
|  |                 |            | Level 1            | Level 2   | Level 3   |
| <b>Financial assets:</b>   |                 |            |                    |           |           |
| Cash and cash equivalents  | \$ 278,064      | \$ 278,064 | \$ 278,064         | \$        | \$        |
| Investment securities  | 500,587         | 501,769    | 8,344              | 493,425   |           |
| Loans, net of allowance for loan losses, and loans held for sale           | 3,032,351       | 3,077,060  |                    | 71,585    | 3,005,475 |
| FDIC receivable for loss share agreements                                  | 174,321         | 104,231    |                    |           | 104,231   |
| Accrued interest receivable  | 10,487          | 10,487     |                    | 10,487    |           |
| <b>Financial liabilities:</b>  |                 |            |                    |           |           |
| Deposits   | 3,589,298       | 3,525,346  |                    | 3,525,346 |           |
| Federal funds purchased and securities sold under agreements to repurchase | 226,330         | 226,330    |                    | 226,330   |           |
| Other borrowings   | 45,807          | 47,826     |                    | 47,826    |           |
| Accrued interest payable   | 1,921           | 1,921      |                    | 1,921     |           |
| Interest rate swap - cash flow hedge                                       | 1,579           | 1,579      |                    | 1,579     |           |
| <b>Off balance sheet financial instruments:</b>                            |                 |            |                    |           |           |
| Commitments to extend credit   |                 | 9,715      |                    | 9,715     |           |
| Standby letters of credit and financial guarantees                         |                 |            |                    |           |           |

| (Dollars in thousands) | Carrying Amount | Fair Value | December 31, 2011 |         |         |
|------------------------|-----------------|------------|-------------------|---------|---------|
|                        |                 |            | Level 1           | Level 2 | Level 3 |

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| <b>Financial assets:</b>   |    |           |    |           |    |         |    |           |
|--|----|-----------|----|-----------|----|---------|----|-----------|
| Cash and cash equivalents  | \$ | 171,425   | \$ | 171,425   | \$ | 171,425 | \$ |           |
| Investment securities  |    | 324,056   |    | 325,351   |    | 18,593  |    | 306,758   |
| Loans, net of allowance for loan losses, and loans held for sale           |    | 2,837,588 |    | 2,859,513 |    |         |    | 45,809    |
| FDIC receivable for loss share agreements                                  |    | 262,651   |    | 202,313   |    |         |    | 202,313   |
| Accrued interest receivable  |    | 11,527    |    | 11,527    |    |         |    | 11,527    |
| <b>Financial liabilities:</b>  |    |           |    |           |    |         |    |           |
| Deposits   |    | 3,254,472 |    | 3,222,547 |    |         |    | 3,222,547 |
| Federal funds purchased and securities sold under agreements to repurchase |    | 180,436   |    | 180,436   |    |         |    | 180,436   |
| Other borrowings   |    | 46,683    |    | 48,915    |    |         |    | 48,915    |
| Accrued interest payable   |    | 2,254     |    | 2,254     |    |         |    | 2,254     |
| Interest rate swap cash flow hedge   |    | 1,391     |    | 1,391     |    |         |    | 1,391     |
| <b>Off balance sheet financial instruments:</b>                            |    |           |    |           |    |         |    |           |
| Commitments to extend credit   |    |           |    | 7,657     |    |         |    | 7,657     |
| Standby letters of credit and financial guarantees                         |    |           |    |           |    |         |    |           |



Table of Contents**Note 15 Accumulated Other Comprehensive Income**

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, 2011   | \$ (7,823)       | \$ 5,934   | \$ (860)            | \$ (2,749) |
| Change in net unrealized gain on securities<br>available for sale                                    |                  | 2,638  |                     | 2,638      |
| Change in unrealized losses on derivative<br>financial instruments qualifying as cash<br>flow hedges |                  |  | (117)               | (117)      |
| Balance at September 30, 2012  | \$ (7,823)       | \$ 8,572   | \$ (977)            | \$ (228)   |

**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 14 to these financial statements.

The Company utilizes the interest rate swap agreement to 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 accumulated other comprehensive income of \$977,000 and \$888,000 at September 30, 2012 and 2011, respectively. The Company recognized a \$1.6 million and a \$1.4 million cash flow hedge liability in other liabilities on the balance sheet at September 30, 2012 and 2011, respectively. There was no ineffectiveness in the cash flow hedge during the nine months ended September 30, 2012 and 2011.

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, 2012 and 2011, the Company was required to provide \$1.6 million and 1.4 million 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.

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**Note 17 Subsequent Events**

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

*Covered OREO Sale*

During the third week of October, the company auctioned 175 properties located in various counties in North Georgia. All of these assets were held in the Company's acquired covered OREO portfolio, and were covered under loss share agreements with the FDIC at 95% in the case of CBT or 80% in the case of Habersham Bank. These assets had a carrying value of approximately \$9.2 million, and would reduce the September 30, 2012 balance by almost 20%. The Company expects some portion of the auctioned assets not to close; however, there is no meaningful way of estimating this fallout.

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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, 2011.

**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, formerly known as SCBT, National Association (the "Bank"), which opened for business in 1934. We operate as NCBT, a division of the Bank, in Mecklenburg County of North 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, 2012, we had approximately \$4.3 billion in assets and 1,136 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, 2012 as compared to the quarter ended September 30, 2011 and also analyzes our financial condition as of September 30, 2012 as compared to December 31, 2011 and September 30, 2011. 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

### *Savannah Bancorporation Acquisition*

On August 8, 2012, SCBT entered into an Agreement and Plan of Merger (the Agreement) with Savannah Bancorp, Inc. (SAVB), of Savannah, Georgia, the bank holding company for The Savannah Bank, N.A. and Bryan Bank and Trust. Minis & Company is one of the oldest retail investment advisory firms in the Southeast, and is a wholly-owned subsidiary of SAVB. See Note 4 Mergers and Acquisitions for further discussion.

On April 24, 2012, the Company completed the acquisition of Peoples Bancorporation, Inc. (Peoples), of Easley, South Carolina, the bank holding company for The Peoples National Bank (PNB), Bank of Anderson (BOA), and Seneca National Bank (SNB). See Note 4 Mergers and Acquisitions for further discussion.

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Effective July 1, 2012, the Bank converted its national charter to a state charter and changed its name from SCBT, National Association to SCBT. In conjunction with the charter conversion, the Bank became a non-member bank of the Federal Reserve and liquidated its entire position in Federal Reserve Bank stock on July 2, 2012.

**Government Actions**

In response to the challenges facing the financial services sector, beginning in 2008 a multitude of new regulatory and governmental actions have been announced, including, among others, the Emergency Economic Stabilization Act of 2008, the Troubled Asset Relief Program (the TARP ), the American Recovery and Reinvestment Act of 2009, the Dodd Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act ), the Jumpstart Our Business Startup Act (the JOBS Act ) and related economic recovery programs.

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 April 5, 2012, the U.S. President signed into law the JOBS Act, which is intended to stimulate economic growth by helping smaller and emerging growth companies access the U.S. capital markets. The JOBS Act amends various provisions of, and adds new sections to, the Securities Act of 1933 and the Securities Exchange Act of 1934, as well as provisions of the Sarbanes-Oxley Act of 2002. The SEC has been directed to issue rules implementing certain JOBS Act amendments. We are currently evaluating the effects that the JOBS Act and the regulations adopted pursuant to the JOBS Act will have on the Company.

In December 2010, the Basel Committee on Banking Supervision, an international forum for cooperation on banking supervisory matters, announced the Basel III capital rules, which set new capital requirements for banking organizations. On June 7, 2012, the Federal Reserve requested comment on three proposed rules that, taken together, would establish an integrated regulatory capital framework implementing the Basel III regulatory capital reforms in the United States. As proposed, the U.S. implementation of Basel III would lead to significantly higher capital requirements and more restrictive leverage and liquidity ratios than those currently in place. If adopted, these new capital requirements are proposed to be phased in over time. Additionally, the proposed U.S. implementation of Basel III contemplates that, for banking organizations with less than \$15 billion in assets, the ability to treat trust preferred securities as tier 1 capital would be phased out over a ten-year period. The ultimate impact of the U.S. implementation of the new capital and liquidity standards on the Company and the Bank is currently being reviewed and is dependent upon the terms of the final regulations, which may differ from the proposed regulations. At this point we cannot determine the ultimate effect that any final regulations, if enacted, would have upon our earnings or financial position. In addition, important questions remain as to how the numerous capital and liquidity mandates of the Dodd Frank Act will be integrated with the requirements of Basel III.

For additional information on recent government actions, please reference PART II, Item 1A, Risk Factors on page 66 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, 2011.

**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, 2011. 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

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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, 2011 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, 2012, December 31, 2011 and September 30, 2011, the balance of goodwill was \$66.5 million, \$62.9 million, and \$62.9 million, respectively. 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.

Our stock price has historically traded above its book value and tangible book value. The lowest trading price during the first nine months of 2012, as reported by the NASDAQ Global Select Market, was \$29.16 per share, and the stock price closed on September 30, 2012 at \$40.28, which is above book value and tangible book value. In the event our stock was 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, 2012, 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 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.

***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, 2011, 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

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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 2009.

***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.

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 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 to the unaudited condensed consolidated financial statements.

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**Results of Operations**

We reported consolidated net income available to common shareholders of \$9.1 million, or diluted earnings per share ( EPS ) of \$0.60, for the third quarter of 2012 as compared to consolidated net income available to common shareholders of \$10.3 million, or diluted EPS of \$0.74, in the comparable period of 2011. This \$1.3 million decrease was the net result of the following items:

- Improved net interest income of \$6.2 million due primarily to improved interest income on the acquired loan portfolio of \$4.8 million, the increase in earning assets from the acquisition of Peoples and reduced interest expense on deposits of \$2.0 million; these were partially offset by reduced interest income on non-acquired loans of \$909,000.
- A decrease in the provision for loan losses by \$4.3 million over the comparable quarter;
- A decrease in non-interest income of \$11.6 million due primarily to the acquisition gain of \$11.0 million from the BankMeridian FDIC-assisted transaction one year ago. Customer-oriented non-interest income increased by \$2.0 million with the largest increase occurring in mortgage banking income (\$1.2 million). Negative accretion on the FDIC indemnification asset increased by \$3.1 million, however, this was partially offset by recoveries on acquired assets of approximately \$186,000 and increases in cash surrender value of bank owned life insurance;
- An increase in non-interest expenses by \$873,000. The increases consisted of \$1.3 million in salaries and benefits, \$178,000 in net occupancy and \$185,000 in professional fees. These increases were offset by a reduction in merger and conversion related costs of \$1.0 million. These increases were due to the continued expansion from acquisitions during the past twelve months; and
- A decrease in the provision for income taxes of \$720,000 due to the lower pre-tax net income.

We believe our asset quality related to non-acquired loans continues to be at manageable levels and improved from the end of 2011 as well as from June 30, 2012. Nonperforming assets in total dollars declined from \$83.1 million at June 30, 2012 to \$81.8 million at September 30, 2012. Compared to the balance of nonperforming assets at September 30, 2011, nonperforming assets decreased \$14.3 million due to a reduction in nonaccrual loans of \$13.7 million. Other real estate owned ( OREO ) showed a slight decrease of \$262,000. During the third quarter of 2012, classified assets declined by \$3.1 million from June 30, 2012 to \$157.5 million at September 30, 2012. Since year end 2011, classified assets have declined by \$26.9 million. Loans 30-89 days past due declined by \$1.2 million to \$9.3 million at September 30, 2012 from the June 30, 2012 level of \$10.5 million. The level of past dues compared to September 30, 2011 was up by approximately \$900,000. Annualized net charge-offs for the third quarter of 2012 was 0.85%, slightly up from the second quarter of 2012(0.77%), but down from the third quarter of 2011 (1.16%).

The allowance for loan losses decreased to 1.84% of total non-acquired loans at September 30, 2012, down from 2.00% at December 31, 2011 and 2.00% at September 30, 2011. The allowance provides 0.78 times coverage of nonperforming loans at September 30, 2012, higher than 0.64 times at December 31, 2011, and 0.67 times at September 30, 2011. During the third quarter of 2012, our non-acquired OREO increased by \$4.4 million from the end of 2011 and decreased slightly by \$262,000 from September 30, 2011 to \$22.4 million at September 30, 2012.

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 loan portfolio resulted in a positive impact to interest income from a reduction in expected credit

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losses, which was partially 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 nine months of 2012. Below is a summary of the third quarter of 2012 assessment of the estimated cash flows of the acquired loan portfolio and the related impact on the indemnification asset:

- The review of the performance of the loan pools during the third quarter resulted in a net increase in the overall cash flow expectations for the acquired loans;
- The negative accretion of the indemnification asset also increased due to the reduced cash flow expected from loss share. This resulted in negative accretion increasing for the Habersham Bank ( Habersham ) and BankMeridian indemnified assets.
- The interest income on acquired loans is expected to increase in the fourth quarter of 2012, due primarily to a full quarter impact of the release attributable to the BankMeridian acquired loan portfolio compared to one-third impact in the third quarter.

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As of September 30, 2012, the Company has not made any changes to the estimated cash flow assumptions or expected losses for the acquired loans from Peoples acquisition on the evaluation of expected cash flows.

Compared to the second quarter of 2012, our non-acquired loan portfolio has increased \$36.1 million or 5.8% annualized, to \$2.5 billion, driven by increases in commercial owner occupied loans of \$24.3 million, or 12.7% annualized, commercial and industrial of \$17.3 million, or 30.3% annualized, and consumer owner occupied of \$10.5 million, or 10.0% annualized. The acquired loan portfolio decreased by \$15.2 million due to the continued decline in the covered acquired loan portfolios from charge offs, transfers to OREO and payoffs. For the period ended September 30, 2012, mortgage loans originated and held for sale in the secondary market increased by \$29.1 million as refinancing activity increased due to the continued low level of 15 and 30 year fixed mortgage interest rates.

Non-taxable equivalent net interest income for the quarter increased \$6.2 million or 15.3% compared to the third quarter of 2011. Non-taxable equivalent net interest margin increased by 5 basis points to 4.95% from the third quarter of 2011 of 4.90% due to the 30 basis point decrease in the rate on interest-bearing liabilities to 34 basis points at September 30, 2012 from 64 basis points at September 30, 2011. This decrease was partially offset by the decline in the yield on non-acquired loans which resulted in earning assets decreasing by 23 basis points to 5.23% at September 30, 2012. Compared to the second quarter of 2012, net interest margin (taxable equivalent) increased by 34 basis points for the third quarter of 2012. Interest earning assets yield increased by 29 basis points from the acquired loan portfolios and interest bearing liabilities yield declined by 4 basis points compared to the second quarter of 2012 from continued decline in interest bearing deposits.

Our quarterly efficiency ratio decreased to 66.9% compared to 68.30% in the second quarter of 2012, and increased from 60.0% in the third quarter of 2011. The decrease in the efficiency ratio compared to the second quarter of 2012 was the result of improved net interest income. The increase in the efficiency ratio over the third quarter of 2011 was the result of much lower noninterest income in 2012 than the third quarter of 2011, which included an acquisition gain from the BankMeridian FDIC-assisted transaction of \$11.0 million. Noninterest expense was up \$1.9 million compared to the second quarter of 2012 and up \$1.9 million compared to the third of 2011, excluding merger and conversion related expenses. Excluding merger and conversion related expenses, the efficiency ratio was 65.9% for the third quarter of 2012, compared to 64.70% for the second quarter of 2012 and 57.4% for the second quarter of 2011.

Diluted EPS decreased to \$0.60 for the third quarter of 2012 from \$0.74 for the comparable period in 2011. Basic EPS decreased to \$0.61 for the third quarter of 2012 from \$0.75 for the comparable period in 2011. The decrease in both diluted and basic EPS reflects the inclusion of the BankMeridian acquisition gain in the third quarter of 2011 offset by improved net interest income and a lower provision for loan losses.

| Selected Figures and Ratios                        | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|--|-------------------------------------|------------|------------------------------------|------------|
|  | 2012                                | 2011       | 2012                               | 2011       |
| Return on average assets (annualized)              | <b>0.83%</b>                        | 1.04%      | <b>0.77%</b>                       | 0.61%      |
| Return on average equity (annualized)              | <b>8.40%</b>                        | 10.76%     | <b>7.87%</b>                       | 6.49%      |
| Return on average tangible equity<br>(annualized)* | <b>10.74%</b>                       | 13.83%     | <b>10.14%</b>                      | 8.59%      |
| Dividend payout ratio **                           | <b>31.97%</b>                       | 48.39%     | <b>37.82%</b>                      | 89.20%     |
| Equity to assets ratio                             | <b>10.03%</b>                       | 9.70%      | <b>10.03%</b>                      | 9.70%      |
| Average shareholders equity (in<br>thousands)      | \$ <b>429,183</b>                   | \$ 380,933 | \$ <b>409,576</b>                  | \$ 365,799 |

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\* - 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 dividend payout ratio below.

- For the three months ended September 30, 2012, return on average assets ( ROAA ), return on average equity ( ROAE ) and return on average tangible equity decreased compared to the same period in 2011. The decreases were driven by a 12.3% decline in net income from the comparable quarter in 2011 and an increase in average assets due to the acquisitions of BankMeridian and Peoples.
- Dividend payout ratio decreased to 31.97% for the three months ended September 30, 2012 compared with 36.48% for the three months ended June 30, 2012 and decreased compared to 48.39% for the three months ended September 30, 2011. The decrease from the comparable period in 2011 reflects the higher net income in the second quarter of 2012 generated by an

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increase in net interest income, non-interest income, and partially offset by higher non-interest expense. 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 10.03% at September 30, 2012 compared with 9.70% at September 30, 2011. The increase in the equity to assets ratio reflects a 9.9% increase in assets as a result of the Peoples and BankMeridian acquisitions and organic growth compared to the 13.7% increase in equity as a result of the Company's retained earnings, which included gains on the BankMeridian acquisition, and the issuance of \$31.2 million in common equity in the Peoples acquisition.
- Quarterly average shareholders' equity increased \$48.2 million, or 12.7%, from the quarter ended September 30, 2011 driven by the gain on the BankMeridian acquisition during the third quarter of 2011 and the issuance of \$31.2 million of equity in the Peoples acquisition during the second quarter of 2012.

**Reconciliation of Non-GAAP to GAAP**

| (Dollars in thousands)                           | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|--|-------------------------------------|------------|------------------------------------|------------|
|  | 2012                                | 2011       | 2012                               | 2011       |
| Return on average tangible equity (non-GAAP)     | <b>10.74%</b>                       | 13.83%     | <b>10.14%</b>                      | 8.59%      |
| Effect to adjust for intangible assets           | <b>-2.34%</b>                       | -3.07%     | <b>-2.27%</b>                      | -2.10%     |
| Return on average equity (GAAP)                  | <b>8.40%</b>                        | 10.76%     | <b>7.87%</b>                       | 6.49%      |
| Adjusted average shareholders' equity (non-GAAP) | \$ <b>349,326</b>                   | \$ 305,973 | \$ <b>331,779</b>                  | \$ 291,433 |
| Average intangible assets                        | <b>79,857</b>                       | 74,960     | <b>77,797</b>                      | 74,366     |
| Average shareholders' equity (GAAP)              | \$ <b>429,183</b>                   | \$ 380,933 | \$ <b>409,576</b>                  | \$ 365,799 |
| Adjusted net income (non-GAAP)                   | \$ <b>9,063</b>                     | \$ 10,668  | \$ <b>25,178</b>                   | \$ 18,719  |
| Amortization of intangibles                      | <b>(566)</b>                        | (517)      | <b>(1,606)</b>                     | (1,468)    |
| Tax effect                                       | <b>200</b>                          | 181        | <b>550</b>                         | 515        |
| Net income (GAAP)                                | \$ <b>8,697</b>                     | \$ 10,332  | \$ <b>24,122</b>                   | \$ 17,766  |

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 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 increased by 8 basis points from the third quarter of 2011, due to the growth in interest earning assets from the Peoples acquisition, an increase in the yield of acquired loans, organic loan growth, and an increase in low cost funding in core deposits and a decline in time deposits. The net interest margin increased by 34 basis points from the second quarter of 2012 to 5.03%. Yields on average earning assets increased on a linked quarter basis while interest bearing liabilities continue to decline by 4 basis points. The yields on our acquired loan portfolios increased by 2.84% from the second quarter of 2012. This was the result of an increase in FDIC-assisted acquired loan interest income from prior period and current period releases of nonaccretable amounts attributable to improved cash flow expectations. Compared to September 30, 2011, the yield on interest earning assets declined by 23 basis points and the rate on interest bearing liabilities declined by 30 basis points to effectively offset each other and resulted in an 8 basis points difference in the net interest margin.

The Company remained in an excess liquidity position during the third quarter of 2012, and the impact represented an estimated 18 basis points reduction in the net interest margin compared to 24 basis points from the second quarter of 2012.

Net interest income increased from the third quarter of 2011 and was driven by a reduced cost of funds and growth in average interest-earning assets due to the Peoples and BankMeridian acquisitions as well as organic growth. Certificates of deposit average

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rates declined by 42 basis points compared to the same quarter one year ago, and declined by 6 basis points from the second quarter of 2012. The year over year decline in interest expense totaled \$2.0 million, as the cost of certificates of deposits dropped and the mix of funding shifted to lower costing transaction accounts. Non-TE net interest income increased from the third quarter of 2011 as a result of a volume increase in interest-earning assets. The cost on interest bearing liabilities decreased by 30 basis points during this period. Acquired loan portfolio balances from the Peoples acquisition and average investment securities were up and contributed to the increase in non-TE net interest income. The increase in interest income was \$6.2 million driven by the higher yield on the FDIC-assisted acquired loan portfolio, the organic loan growth and the addition of the Peoples acquired loan portfolio, and the increase in average investment securities, primarily resulting from the Peoples acquisition.

| (Dollars in thousands)                      | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |            |
|---|-------------------------------------|-----------|------------------------------------|------------|
|   | 2012                                | 2011      | 2012                               | 2011       |
| Non-TE net interest income                  | \$ 46,910                           | \$ 40,680 | \$ 128,482                         | \$ 111,527 |
| Non-TE yield on interest-earning assets     | 5.23%                               | 5.46%     | 5.07%                              | 5.24%      |
| Non-TE rate on interest-bearing liabilities | 0.34%                               | 0.64%     | 0.39%                              | 0.75%      |
| Non-TE net interest margin                  | 4.95%                               | 4.90%     | 4.75%                              | 4.57%      |
| TE net interest margin                      | 5.03%                               | 4.95%     | 4.82%                              | 4.60%      |

Non-TE net interest income increased \$6.2 million, or 15.3%, in the third quarter of 2012 compared to the same period in 2011. Some key highlights are outlined below:

- Average interest-earning assets increased 14.4% to \$3.8 billion in the third quarter of 2012 compared to the same period last year due largely to the acquisitions of Peoples and BankMeridian.
- Non-TE yield on interest-earning assets for the third quarter of 2012 decreased 23 basis points from the comparable period in 2011, but increased by 28 basis points from the second quarter of 2012. 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 2012 decreased 30 basis points from the same period in 2011, and decreased by 4 basis points compared to the second quarter of 2012. The decrease since the third quarter of 2011 and the second quarter of 2012 is a reflection of the certificates of deposits repricing at lower interest rates as well as higher costing certificate balances accounting for a smaller portion of our total deposits.
- TE net interest margin increased by 8 basis points in the third quarter of 2012, compared to the third quarter of 2011. Compared to the second quarter of 2012, TE net interest margin increased by 34 basis points.

**Loans**

Total loans, net of deferred loan costs and fees (excluding mortgage loans held for sale) increased by \$140.9 million, or 4.9%, at September 30, 2012 as compared to the same period in 2011. Acquired covered loans decreased by \$118.4 million due to principal payments, charge offs, and foreclosures. Acquired non-covered loans increased by \$203.7 million due to the Peoples acquisition during the second quarter of 2012. Non-acquired loans or legacy SCBT loans increased by \$55.7 million, or 2.3%, from September 30, 2011 to September 30, 2012. The increase

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was driven by loan growth in commercial owner occupied loans of \$67.8 million, consumer owner occupied loans of \$36.6 million, commercial and industrial of \$28.7 million, and other loans of \$8.4 million. Partially offsetting the growth were reductions in construction and land development loans of \$42.5 million, commercial non-owner occupied of \$25.7 million, home equity of \$8.9 million, and other income producing property loans of \$10.5 million.

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

| (Dollars in thousands)                          | September 30,<br>2012 | % of<br>Total | December 31,<br>2011 | % of<br>Total | September 30,<br>2011 | % of<br>Total |
|---|-----------------------|---------------|----------------------|---------------|-----------------------|---------------|
| Acquired covered loans                          | \$ 309,034            | 10.2%         | \$ 394,495           | 13.7%         | \$ 427,466            | 14.8%         |
| Acquired non-covered loans                      | 211,957               | 7.0%          | 7,706                | 0.3%          | 8,295                 | 0.3%          |
| Non-acquired loans:                             |                       |               |                      |               |                       |               |
| Commercial non-owner occupied real estate:      |                       |               |                      |               |                       |               |
| Construction and land development               | 273,606               | 9.0%          | 310,845              | 10.8%         | 316,072               | 11.0%         |
| Commercial non-owner occupied                   | 278,935               | 9.2%          | 299,698              | 10.4%         | 304,616               | 10.5%         |
| Total commercial non-owner occupied real estate | 552,541               | 18.2%         | 610,543              | 21.2%         | 620,688               | 21.4%         |
| Consumer real estate:                           |                       |               |                      |               |                       |               |
| Consumer owner occupied                         | 430,825               | 14.2%         | 391,529              | 13.7%         | 394,205               | 13.6%         |
| Home equity loans                               | 255,677               | 8.4%          | 264,986              | 9.2%          | 264,588               | 9.1%          |
| Total consumer real estate                      | 686,502               | 22.6%         | 656,515              | 22.9%         | 658,793               | 22.7%         |
| Commercial owner occupied real estate           | 787,623               | 25.9%         | 742,890              | 25.9%         | 719,791               | 24.8%         |
| Commercial and industrial                       | 245,285               | 8.1%          | 220,454              | 7.7%          | 216,573               | 7.5%          |
| Other income producing property                 | 131,832               | 4.3%          | 140,693              | 4.9%          | 142,325               | 4.9%          |
| Consumer non real estate                        | 86,729                | 2.9%          | 85,342               | 3.0%          | 84,972                | 2.9%          |
| Other   | 26,840                | 0.9%          | 14,128               | 0.4%          | 18,471                | 0.5%          |
| Total non-acquired loans                        | 2,517,352             | 82.9%         | 2,470,565            | 86.0%         | 2,461,613             | 85.0%         |
| Total loans (net of unearned income)            | \$ 3,038,343          | 100.0%        | \$ 2,872,766         | 100.0%        | \$ 2,897,374          | 100.0%        |

Note: Loan data excludes mortgage loans held for sale.

Our loan portfolio remains our largest category of interest-earning assets. Non-acquired commercial non-owner occupied real estate loans represented 18.2% of total loans as of September 30, 2012 a decrease from 21.4% of total loans at the end of the same period for 2011 and 21.2% of total loans at December 31, 2011. At September 30, 2012, non-acquired construction and land development loans represented 9.2% of our total loan portfolio, a decrease from 11.0% of our total loan portfolio at September 30, 2011. At September 30, 2012, non-acquired construction and land development loans consisted of \$175.2 million in land and lot loans and \$98.4 million in construction loans, which represented 7.0% and 3.9%, respectively, of our total non-acquired loan portfolio. At December 31, 2011, non-acquired construction and land development loans consisted of \$206.0 million in land and lot loans and \$104.8 million in construction loans, which represented 8.3% and 4.2%, respectively, of our total non-acquired loan portfolio.

| (Dollars in thousands)         | Three Months Ended<br>September 30, |              | Nine Months Ended<br>September 30, |              |
|--------------------------------|-------------------------------------|--------------|------------------------------------|--------------|
|                                | 2012                                | 2011         | 2012                               | 2011         |
| Average total loans            | \$ 2,998,692                        | \$ 2,844,834 | \$ 2,917,828                       | \$ 2,751,693 |
| Interest income on total loans | 45,687                              | 42,734       | 126,987                            | 120,263      |
| Non-TE yield                   | 6.06%                               | 5.96%        | 5.81%                              | 5.84%        |

Interest earned on loans increased \$3.0 million, or 6.9%, in the third quarter of 2012 compared to the third quarter of 2011. Some key highlights for the quarter ended September 30, 2012 are outlined below:

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- Our non-TE yield on total loans increased 10 basis points during the third quarter of 2012 while average total loans increased 5.4%, as compared to the third quarter of 2011. The increase in average total loans was a result of the growth in both non-acquired loans and acquired loans, due to the Peoples acquisition during the second quarter of 2012. The acquired loan portfolio effective yield improved primarily due to the impact of releases in the Habersham and CBT acquired loan portfolios. This resulted in a yield of 12.7%, compared to approximately 12.0% one year ago.
- Acquired covered loans had a balance of \$309.0 million at the end of the third quarter of 2012 compared to \$427.5 million in September of 2011.
- Acquired non-covered loans grew to a balance of \$212.0 million at the end of the third quarter of 2012 compared to \$8.3 million in 2011 due to the loans acquired in the Peoples acquisition.
- Construction and land development loans decreased \$42.5 million, or 13.4%, to \$273.6 million from the ending balance at September 30, 2011. We have continued to reduce the level of these loans in our portfolio given the current economic environment and the risk involved with this type of loan.

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- Commercial non-owner occupied loans decreased \$25.7 million, or 8.4%, to \$278.9 million from the ending balance at September 30, 2011.
- Consumer real estate loans increased \$27.7 million, or 4.4%, to \$686.5 million from the ending balance at September 30, 2011. The increase resulted from a \$36.6 million, or 9.3%, increase in consumer owner occupied loans, partially offset by a \$8.9 million, or 3.4%, decrease in home equity lines of credit ( HELOCs ) from the balance at September 30, 2011.
- Commercial owner occupied loans increased \$67.8 million, or 9.4%, to \$787.6 million from the ending balance at September 30, 2011.
- Commercial and industrial loans increased \$28.7 million, or 13.3%, to \$245.3 million from the ending balance at September 30, 2011.
- Consumer non-real estate loans increased \$1.8 million, or 2.1%, to \$86.7 million from the ending balance at September 30, 2011.
- Commercial loans and HELOCs with interest rate floors locked in above 5.00% had a balance of \$148.7 million, which has helped keep our non-TE yield up.

The balance of mortgage loans held for sale increased \$25.8 million from December 31, 2011 to \$71.6 million at September 30, 2012, and increased by \$25.7 million compared to the balance of mortgage loans held for sale at September 30, 2011 of \$45.9 million. The increase from both December 31, 2011 and September 30, 2011 reflects the increased customer demand for mortgage refinancing that has resulted from the low interest rates in the mortgage market.

### *Investment Securities*

We use investment securities, our second largest category of earning assets, to generate interest income through the deployment 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, 2012, investment securities totaled \$500.6 million, compared to \$324.1 million at December 31, 2011 and \$321.0 million at September 30, 2011. The increase in investment securities from the comparable period of 2011 was primarily the result of the purchase of \$148.0 million of investment securities as well as the acquisition of \$175.9 million in Peoples investment securities partially offset by \$145.1 million in sold, maturing or called securities that were typically purchased in higher interest rate environments. This resulted in average and period-end balances increasing by 64.7% and 55.9%, respectively, from September 30, 2011.

| (Dollars in thousands)                   | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|--|-------------------------------------|------------|------------------------------------|------------|
|  | 2012                                | 2011       | 2012                               | 2011       |
| Average investment securities            | \$ 501,816                          | \$ 304,642 | \$ 431,797                         | \$ 263,458 |
| Interest income on investment securities | 3,074                               | 2,234      | 8,376                              | 6,283      |
| Non-TE yield                             | 2.44%                               | 2.91%      | 2.59%                              | 3.19%      |

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Interest earned on investment securities increased 37.6% in the third quarter of 2012 compared to the third quarter of 2011. The increase resulted largely from the \$197.2 million increase in average investment securities for the third quarter, which was largely the result of purchases of GSEs and mortgage-backed securities as well as the addition of the securities from the Peoples acquisition, partially offset by a 47 basis point decrease in the average yield.

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Our holdings of GSE debt, state and municipal obligations, mortgage-backed securities, and equity securities at September 30, 2012 had fair market values that, on a net basis, exceeded their book values and resulted in an unrealized gain. 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 2012:

| (Dollars in thousands)                | Amortized<br>Cost | Fair<br>Value | Unrealized<br>Gain (Loss) | AAA - A    | BBB      | BB or<br>Lower | Not Rated  |
|---------------------------------------|-------------------|---------------|---------------------------|------------|----------|----------------|------------|
| <b>September 30, 2012</b>             |                   |               |                           |            |          |                |            |
| Government-sponsored<br>entities debt | \$ 70,654         | \$ 71,545     | \$ 891                    | \$ 70,654  |          | \$             | \$         |
| State and municipal<br>obligations    | 151,381           | 157,783       | 6,402                     | 149,473    | 1,407    |                | 501        |
| Mortgage-backed securities *          | 256,398           | 263,970       | 7,572                     |            |          |                | 256,398    |
| FHLMC preferred stock                 | 148               | 102           | (46)                      |            |          |                | 148        |
| Corporate stocks                      | 240               | 373           | 133                       |            |          |                | 240        |
|                                       | \$ 478,821        | \$ 493,773    | \$ 14,952                 | \$ 220,127 | \$ 1,407 | \$             | \$ 257,287 |

\* - 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. 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.

At September 30, 2012, we had 17 securities available for sale in an unrealized loss position, which totaled \$173,000.

During the third quarter of 2012 as compared to the third quarter of 2011, the total number of securities with an unrealized loss position increased by 11 securities, while the total dollar amount of the unrealized loss increased by \$130,000.

All securities available for sale in an unrealized loss position as of September 30, 2012 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 Home Loan Bank of Atlanta ( FHLB ) stock with no readily determinable market value. Prior to July 2, 2012, other investments also included our investment in Federal Reserve Bank stock, which was liquidated for no gain or loss on that date. The amortized cost and fair value of all these securities are equal at September 30, 2012. As of September 30, 2012, the investment in FHLB stock represented approximately \$6.7 million, or 0.2% 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

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institutions. During the third quarter of 2012, the FHLB redeemed approximately \$1.1 million of our investment, at par value.

- Given the expectation that the various FHLBs have a high degree of government support, we have determined that the debt ratings are likely to remain unchanged and the FHLB has the ability to absorb economic losses.
- 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 fourteen consecutive 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 1.47% on August 3, 2012 related to the second quarter 2012.
- Subsequent to September 30, 2012, the FHLB announced a 2.43% dividend for the third quarter of 2012 and will pay the dividend on November 6, 2012. The FHLB also announced plans to redeem excess capital stock on November 19, 2012; however, as of September 30, 2012, our Bank does not currently hold any redeemable excess capital stock.

For the reasons above, we have concluded that our holdings of FHLB stock are not other than temporarily impaired as of September 30, 2012 and ultimate recovery of the par value of this investment is probable.

***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, |              |
|--------------------------------------|-------------------------------------|--------------|------------------------------------|--------------|
|                                      | 2012                                | 2011         | 2012                               | 2011         |
| Average interest-bearing liabilities | \$ 3,070,198                        | \$ 2,884,879 | \$ 2,995,985                       | \$ 2,900,147 |
| Interest expense                     | 2,625                               | 4,627        | 8,743                              | 16,366       |
| Average rate                         | 0.34%                               | 0.64%        | 0.39%                              | 0.75%        |

The average balance of interest-bearing liabilities increased in the third quarter of 2012 compared to the third quarter of 2011. The decrease in interest expense was largely driven by a decline in the average rates on CDs and transaction and money market accounts. Overall, we experienced a 30 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, 2012 grew 6.0% from the same period in 2011.
- Interest-bearing deposits increased 9.2% to \$2.8 billion at September 30, 2012 from the period end balance at September 30, 2011 of \$2.6 billion. This was the result of the addition of \$339.2 million of interest-bearing deposits from Peoples, which was partially offset by a decline in interest-bearing deposits of \$202.3 million from the remaining franchise. The Company continues to monitor and adjust rates paid on deposit products as part of its strategy to manage its net interest margin.

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- The average rate on transaction and money market account deposits for the three months ended September 30, 2012 decreased 23 basis points from the comparable period in 2011, which contributed to a decrease of \$676,000 in interest expense for the second quarter of 2012. The impact of the decrease in rates was partially offset by an increase in volume as the average balance increased \$213.2 million to \$1.5 billion at September 30, 2012 compared to the same quarter in 2011.
- Average certificates of deposit and other time deposits decreased 9.7%, down \$101.1 million from the average balance in the third quarter of 2011. Interest expense on certificates of deposit and other time deposits decreased \$1.2 million mainly as a result of a 42 basis point decrease in the interest rate for the three months ended September 30, 2012 as compared to the same period in 2011.
- A decline in interest rates contributed significantly to a \$2.0 million, or 43.3%, reduction in interest expense on average interest-bearing liabilities for the three months ended September 30, 2012 from the comparable period in 2011.

### *Noninterest-Bearing Deposits*

Noninterest-bearing deposits (or demand deposits) are transaction accounts that provide our Bank with interest-free sources of funds. Average noninterest-bearing deposits increased \$176.7 million, or 27.8%, to \$813.4 million in the third quarter of 2012

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compared to \$636.7 million at September 30, 2011. From the second quarter of 2012, average noninterest-bearing deposits grew \$17.5 million, or 2.2%. Excluding the noninterest-bearing deposits acquired in the Peoples acquisition, period end noninterest-bearing deposits increased \$108.3 million, or 16.6%, from the balance at September 30, 2011.

**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.

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, BankMeridian and Peoples 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, including principal and interest. Our initial estimates of credit losses on loans acquired in the BankMeridian and Peoples acquisitions continue to be adequate, and there is no evidence of additional credit deterioration that would require additional allowance for loan loss as of September 30, 2012, nor changes in the initial valuation estimates of Peoples. 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 for those acquired loans covered by loss sharing agreements. The Peoples acquisition was not part of any loss share agreement with the FDIC, therefore, there is no offset for any additional losses recorded in a provision for loan losses. 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 third quarter of 2012, we decreased the net loan loss reserve by \$4.7 million on certain acquired loan pools due to evidence of improvement in the cash flows in these pools during the quarterly review process, which resulted in a \$456,000 net negative provision for loan losses on acquired loans.

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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, 2012 and 2011:

| (Dollars in thousands)  | Three Months Ended<br>September 30, |                           |           |                       |                           |           |
|---|-------------------------------------|---------------------------|-----------|-----------------------|---------------------------|-----------|
|   | Non-acquired<br>Loans               | 2012<br>Acquired<br>Loans | Total     | Non-acquired<br>Loans | 2011<br>Acquired<br>Loans | Total     |
| Balance at beginning of period  | \$ 47,269                           | \$ 35,813                 | \$ 83,082 | \$ 48,180             | 25,545                    | \$ 73,725 |
| Loans charged-off   | (5,940)                             |                           | (5,940)   | (7,858)               |                           | (7,858)   |
| Recoveries of loans previously<br>charged off   | 610                                 |                           | 610       | 681                   |                           | 681       |
| Net charge-offs   | (5,330)                             |                           | (5,330)   | (7,177)               |                           | (7,177)   |
| Provision for loan losses   | 4,500                               | (4,675)                   | (175)     | 8,107                 | 4,325                     | 12,432    |
| Benefit attributable to FDIC<br>loss share agreements   |                                     | 4,219                     | 4,219     |                       | (4,109)                   | (4,109)   |
| Total provision for loan losses<br>charged to operations  | 4,500                               | (456)                     | 4,044     | 8,107                 | 216                       | 8,323     |
| Provision for loan losses<br>recorded through the FDIC loss<br>share receivable                             |                                     | (4,219)                   | (4,219)   |                       | 4,109                     | 4,109     |
| Balance at end of period  | \$ 46,439                           | \$ 31,138                 | \$ 77,577 | \$ 49,110             | \$ 29,870                 | \$ 78,980 |
| Total non-acquired loans:   |                                     |                           |           |                       |                           |           |
| At period end   | 2,517,352                           |                           |           | \$ 2,461,613          |                           |           |
| Average   | 2,497,478                           |                           |           | 2,444,185             |                           |           |
| Net charge-offs as a percentage<br>of average non-acquired loans<br>(annualized)                            | 0.85%                               |                           |           | 1.16%                 |                           |           |
| Allowance for loan losses as a<br>percentage of period end<br>non-acquired loans                            | 1.84%                               |                           |           | 2.00%                 |                           |           |
| Allowance for loan losses as a<br>percentage of period end<br>non-performing non-acquired<br>loans ( NPLs ) | 78.27%                              |                           |           | 66.95%                |                           |           |

| (Dollars in thousands)  | Nine Months Ended<br>September 30, |                           |           |                       |                           |           |
|---|------------------------------------|---------------------------|-----------|-----------------------|---------------------------|-----------|
|   | Non-acquired<br>Loans              | 2012<br>Acquired<br>Loans | Total     | Non-acquired<br>Loans | 2011<br>Acquired<br>Loans | Total     |
| Balance at beginning of period  | \$ 49,367                          | \$ 31,620                 | \$ 80,987 | \$ 47,512             |                           | \$ 47,512 |
| Loans charged-off   | (17,193)                           |                           | (17,193)  | (21,950)              |                           | (21,950)  |
| Recoveries of loans previously<br>charged off                                   | 3,075                              |                           | 3,075     | 1,863                 |                           | 1,863     |
| Net charge-offs   | (14,118)                           |                           | (14,118)  | (20,087)              |                           | (20,087)  |
| Provision for loan losses   | 11,190                             | (482)                     | 10,708    | 21,685                | 29,870                    | 51,555    |
| Benefit attributable to FDIC<br>loss share agreements                           |                                    | 700                       | 700       |                       | (28,376)                  | (28,376)  |
| Total provision for loan losses<br>charged to operations                        | 11,190                             | 218                       | 11,408    | 21,685                | 1,494                     | 23,179    |
| Provision for loan losses<br>recorded through the FDIC<br>loss share receivable |                                    | (700)                     | (700)     |                       | 28,376                    | 28,376    |

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|  |    |                  |    |               |    |        |    |           |    |        |    |        |
|--|----|------------------|----|---------------|----|--------|----|-----------|----|--------|----|--------|
| Balance at end of period   | \$ | <b>46,439</b>    | \$ | <b>31,138</b> | \$ | 77,577 | \$ | 49,110    | \$ | 29,870 | \$ | 78,980 |
| Total non-acquired loans:  |    |                  |    |               |    |        |    |           |    |        |    |        |
| At period end  | \$ | <b>2,517,352</b> |    |               |    |        | \$ | 2,461,639 |    |        |    |        |
| Average  |    | <b>2,469,977</b> |    |               |    |        |    | 2,374,386 |    |        |    |        |
| Net charge-offs as a percentage of average non-acquired loans (annualized)                         |    |                  |    |               |    |        |    |           |    |        |    |        |
|  |    | <b>0.76%</b>     |    |               |    |        |    | 1.13%     |    |        |    |        |
| Allowance for loan losses as a percentage of period end non-acquired loans                         |    |                  |    |               |    |        |    |           |    |        |    |        |
|  |    | <b>1.84%</b>     |    |               |    |        |    | 2.00%     |    |        |    |        |
| Allowance for loan losses as a percentage of period end non-performing non-acquired loans ( NPLs ) |    |                  |    |               |    |        |    |           |    |        |    |        |
|  |    | <b>78.27%</b>    |    |               |    |        |    | 66.95%    |    |        |    |        |

The allowance for loan losses as a percent of non-acquired loans reflects a decrease due primarily to the decrease in our classified loans, nonaccrual loans, and non-performing loans during the third quarter of 2012 compared to the same quarter in 2011. Sixty-nine percent of the charge-off amount for the third quarter of 2012 is comprised of ten loans ranging from approximately \$122,000 to \$1.3 million. The remainder of the charge-offs were less than \$121,000 per loan for the quarter. Of the total net charge-offs during the quarter, 61.1% or \$3.3 million were construction and land development loans, 7.1% or \$378,000 were commercial non-owner occupied loans, 6.3% or \$334,000 were commercial owner-occupied loans, 12.6% or \$670,000 were consumer owner-occupied loans (including home equity loans), 4.7% or \$251,000 were commercial and industrial loans, and 7.0% or \$375,000 were other consumer loans. We remain aggressive in charging off loans resulting from the decline in the appraised value of the underlying

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collateral (real estate) and the overall concern that borrowers will be unable to meet the contractual payments of principal and interest. Excluding acquired assets, nonperforming loans decreased by \$14.0 million during the third quarter of 2012 compared to the third quarter of 2011 and decreased by \$17.6 million from the fourth quarter of 2011. The ratio of the ALLL to cover these loans increased from 67.0% at September 30, 2011 to 78.3% at September 30, 2012.

We decreased the ALLL compared to the third quarter of 2011 and the fourth quarter of 2011, due primarily to the improvement in asset quality metrics during the third quarter of 2012. 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 decreased by \$1.5 million compared to the balance at September 30, 2011 and by \$1.0 million from December 31, 2011.

The historical loss rates on an overall basis were down on an annualized basis from September 30, 2011 of 1.16% and from December 31, 2011 of 1.08%, but up slightly from the second quarter of 2012 of 0.85%.

Economic risk decreased by 3 basis points during the third quarter of 2012 as compared to fourth quarter of 2011 and third quarter of 2011 due to improved home sales and a decrease in bankruptcies and foreclosures.

Model risk declined 1 basis point from the fourth quarter of 2011 and the third quarter of 2011. 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 over four 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. At September 30, 2012, the overall operational risk declined by 7 basis points from the levels at December 31, 2011 and September 30, 2011. This improvement was due primarily to the improved levels of classified loans and nonaccrual loans in the third quarter of 2012.

On a specific reserve basis, the allowance for loan losses decreased by \$1.8 million from December 31, 2011, and decreased by approximately \$1.2 million from September 30, 2011. The loan balances being evaluated for specific reserves decreased from \$57.4 million at September 30, 2011 to \$44.0 million at September 30, 2012. 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, 2012, the decline in our total nonperforming assets ( NPAs ) was reflective of improvement in the real estate market and economy. The table below summarizes our NPAs for the past five quarters.

| (Dollars in thousands)   | September 30,<br>2012 | June 30,<br>2012 | March 31,<br>2012 | December 31,<br>2011 | September 30,<br>2011 |
|--|-----------------------|------------------|-------------------|----------------------|-----------------------|
| Nonaccrual loans (1)   | \$ 46,295             | \$ 47,940        | \$ 59,278         | \$ 64,170            | \$ 61,163             |
| Accruing loans past due 90 days or more                              | 156                   | 137              | 130               | 926                  | 495                   |
| Restructured loans - nonaccrual                                      | 12,882                | 9,530            | 10,578            | 11,807               | 11,698                |
| Total nonperforming loans  | 59,333                | 57,607           | 69,986            | 76,903               | 73,356                |
| Other real estate owned ( OREO ) (2)                                 | 22,424                | 25,518           | 21,381            | 18,022               | 22,686                |
| Other nonperforming assets (3)                                       |                       |                  | 24                | 24                   | 24                    |
| Total nonperforming assets excluding acquired assets                 | 81,757                | 83,125           | 91,391            | 94,949               | 96,066                |
| Covered OREO (2)   | 47,063                | 53,146           | 61,788            | 65,849               | 79,739                |
| Acquired OREO not covered under loss share                           | 5,059                 | 5,745            |                   |                      |                       |
| Other covered nonperforming assets (3)                               | 57                    | 73               | 215               | 251                  | 347                   |
| Total nonperforming assets including covered assets                  | \$ 133,936            | \$ 142,089       | \$ 153,394        | \$ 161,049           | \$ 176,152            |
| <b>Excluding Acquired Assets</b>                                     |                       |                  |                   |                      |                       |
| Total NPAs as a percentage of total loans and repossessed assets (4) | 3.22%                 | 3.32%            | 3.72%             | 3.82%                | 3.87%                 |
| Total NPAs as a percentage of total assets                           | 1.89%                 | 1.90%            | 2.26%             | 2.44%                | 2.44%                 |
| Total NPLs as a percentage of total loans (4)                        | 2.36%                 | 2.32%            | 2.87%             | 3.11%                | 2.98%                 |
| <b>Including Acquired Assets</b>                                     |                       |                  |                   |                      |                       |
| Total NPAs as a percentage of total loans and repossessed assets (4) | 4.31%                 | 4.55%            | 5.31%             | 5.45%                | 5.91%                 |
| Total NPAs as a percentage of total assets                           | 3.10%                 | 3.25%            | 3.79%             | 4.13%                | 4.48%                 |
| Total NPLs as a percentage of total loans (4)                        | 1.95%                 | 1.89%            | 2.49%             | 2.68%                | 2.55%                 |

(1) Excludes the acquired loans that are contractually past due 90 days or more totaling \$71.3 million, \$71.3 million, \$82.8 million, \$97.6 million, and \$91.6 million as of September 30, 2012, June 30, 2012, March 31, 2012, December 31, 2011, and September 30, 2011, respectively, including the valuation discount. 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).

(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 \$59.3 million, or 2.36% of total loans, a decrease of \$13.7 million or 18.8% from September 30, 2011. The decrease in nonaccrual loans was driven by a decrease in consumer nonaccrual loans of \$2.3 million and a decrease in commercial nonaccrual loans of \$11.4 million. Excluding acquired properties, OREO decreased \$262,000 from September 30, 2011.

Nonaccrual non-acquired loans and restructured loans increased by approximately \$1.7 million during the third quarter of 2012 from the level at June 30, 2012. This increase was the result of additions to nonaccrual and restructured loans.

At September 30, 2012, non-acquired OREO decreased by \$3.1 million from June 30, 2012. At September 30, 2012, non-acquired OREO consisted of 90 properties with an average value of \$249,000, a decrease of \$35,000 from June 30, 2012 when we had 90 properties. In the third quarter of 2012, we added 17 properties with an aggregate value of \$1.7 million into non-acquired OREO, and we sold 17 properties with a basis of \$2.1 million in the quarter. We recorded a net gain on sales of \$19,000 for the quarter. We wrote down OREO properties by \$2.1 million during the third quarter of 2012. Our non-covered OREO balance of \$22.4 million at

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September 30, 2012 is comprised of 16% in the Low Country/Orangeburg region, 51% in the Coastal region, 9% in the Charlotte region, and 7% 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 \$12.3 million, or 0.49%, of total non-acquired loans outstanding at September 30, 2012, compared to \$13.5 million, or 0.55%, of total non-acquired loans outstanding at September 30, 2011, and compared to \$14.4 million, or 0.58% of total non-acquired loans outstanding at December 31, 2011. Potential problem loans have decreased \$3.6 million from the balance of \$15.9 million, or 0.64% of total non-acquired loans outstanding at June 30, 2012. 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, |           |
|---|-------------------------------------|-----------|------------------------------------|-----------|
|   | 2012                                | 2011      | 2012                               | 2011      |
| Service charges on deposit accounts     | \$ 6,169                            | \$ 6,050  | \$ 17,501                          | \$ 16,695 |
| Bankcard services income                | 3,570                               | 2,980     | 10,508                             | 8,684     |
| Mortgage banking income                 | 3,526                               | 2,341     | 8,196                              | 4,329     |
| Trust and investment services income    | 1,577                               | 1,453     | 4,617                              | 4,227     |
| Gain on acquisition                     |                                     | 11,001    |                                    | 16,529    |
| Securities gains                        |                                     | (100)     | 61                                 | 233       |
| Accretion on FDIC indemnification asset | (6,623)                             | (3,515)   | (14,226)                           | (7,049)   |
| Other                                   | 947                                 | 581       | 3,726                              | 1,808     |
| Total noninterest income                | \$ 9,166                            | \$ 20,791 | \$ 30,383                          | \$ 45,456 |

Excluding the \$11.0 million pre-tax gain from the BankMeridian acquisition during the third quarter of 2011, noninterest income decreased 6.4% in the third quarter of 2012 as compared to the same period in 2011. The quarterly decrease in total noninterest income primarily resulted from the following:

- Mortgage banking income increased 50.6%, driven by a \$1.2 million increase in mortgage banking income generated from lower interest rates and increased volume (refinancing) of mortgage banking activity in the secondary market during the third quarter of 2012.

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- Bankcard services income increased 19.8%, largely driven by an increase in debit card income. Debit card income increased 16.6%, or \$402,000, due primarily to a larger customer base than in 2011.
- Other noninterest income increased 63.0%, driven by \$187,000 in recoveries on acquired loans and an \$128,000 increase in the cash surrender value of bank owned life insurance.
- Negative accretion on the FDIC indemnification asset increased \$3.1 million, resulting from decreases in expected cash flows from the FDIC. This decrease in expected cash flows from the FDIC was driven by improvement in the cash flows in certain acquired loan pools during the first nine months of 2012.

Excluding the \$5.5 million pre-tax gain from the Habersham acquisition during the first quarter of 2011 and the \$11.0 million pre-tax gain from the BankMeridian acquisition during the third quarter of 2011, noninterest income increased \$1.5 million or 5.0% during the nine months ended September 30, 2012 as compared to the same period in 2011. The increase in total noninterest income primarily resulted from the following:

- Mortgage banking income increased 92.1%, driven by a \$4.0 million increase in mortgage banking income generated from lower interest rates and increased volume of mortgage banking activity in the secondary market during the first six months of 2012.

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- Bankcard services income increased \$1.8 million or 21.0%, largely driven by an increase in debit card income. Debit card income increased 17.0%, or \$1.2 million, due primarily to a larger customer base than in 2011.
- Service charges on deposit accounts increased 4.8%, driven by a \$398,000 increase in insufficient funds fees and a \$300,000 decrease in charge-offs on automatic overdraft protection fees.
- Other noninterest income increased 99.4%, driven by \$1.3 million in recoveries on acquired loans.
- Negative accretion on the FDIC indemnification asset increased \$7.2 million, resulting from decreases in expected cash flows from the FDIC. This decrease in expected cash flows from the FDIC was driven by improvement in the cash flows in certain acquired loan pools since acquisition.

**Noninterest Expense**

| (Dollars in thousands)                       | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |            |
|--|-------------------------------------|-----------|------------------------------------|------------|
|  | 2012                                | 2011      | 2012                               | 2011       |
| Salaries and employee benefits               | \$ 18,647                           | \$ 17,345 | \$ 54,957                          | \$ 52,007  |
| OREO expense and loan related                | 3,951                               | 4,037     | 8,782                              | 9,428      |
| Information services expense                 | 2,662                               | 2,851     | 8,032                              | 7,696      |
| Net occupancy expense                        | 2,621                               | 2,443     | 7,347                              | 7,365      |
| Furniture and equipment expense              | 2,165                               | 2,127     | 6,775                              | 6,266      |
| FDIC assessment and other regulatory charges | 878                                 | 859       | 2,988                              | 3,593      |
| Business development and staff related       | 878                                 | 802       | 2,319                              | 2,449      |
| Advertising and marketing                    | 736                                 | 824       | 2,046                              | 2,022      |
| Professional fees                            | 643                                 | 458       | 2,008                              | 1,311      |
| Merger-related expense                       | 568                                 | 1,587     | 2,662                              | 2,794      |
| Amortization of intangibles                  | 566                                 | 517       | 1,606                              | 1,468      |
| Other  | 3,716                               | 3,308     | 11,237                             | 10,031     |
| Total noninterest expense                    | \$ 38,031                           | \$ 37,158 | \$ 110,759                         | \$ 106,430 |

Noninterest expense increased \$873,000 or 2.3% in the third quarter of 2012 as compared to the same period in 2011. The quarterly increase in total noninterest expense primarily resulted from the following:

- Salaries and employee benefits expense increased by \$1.3 million or 7.5% driven by the addition of staff from the Peoples acquisition during the second quarter of 2012.
- Net occupancy expense increased \$178,000 or 7.3% driven by an increase in depreciation expense due largely to the Peoples acquisition.
- Information services expense decreased \$189,000 or 15.9% due to a decrease in software expense and outside processing and analysis.
- Professional fees increased by \$185,000 or 40.4% due to increases in consulting, legal, and audit fees.

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- Merger and conversion related expenses decreased by \$1.0 million due to the merger costs related to the BankMeridian acquisition driving merger expense higher in the third quarter of 2011.
- Other expenses increased \$408,000 or 12.3% due primarily to increases in bank card expenses of \$140,000, and a \$210,000 increase in directors and officers insurance driven by the Peoples acquisition.

Noninterest expense increased \$4.3 million or 4.1% during the nine months ended September 30, 2012 as compared to the same period in 2011. The increase in total noninterest expense primarily resulted from the following:

- Salaries and employee benefits expense increased \$3.0 million or 5.7% driven by increases in incentives, merit pay, retirement benefits, and payroll taxes and the addition of the Peoples acquisition during the second quarter of 2012.
- Furniture and equipment expense increased by \$481,000 or 7.6% driven primarily by an increase in depreciation and amortization expense and the addition of the Peoples branches.
- FDIC assessment and other regulatory charges decreased by \$605,000 driven by a lower FDIC assessment due to the change in the method of calculating the assessment.
- Professional fees increased by \$485,000 or 31.8% due to increases in consulting, legal, and audit fees.
- Other expenses increased \$1.2 million driven by an increase of \$641,000 in bank card expense and \$320,000 increase in non-loan related charge offs.

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- OREO expense and loan related cost declined by \$434,000 or 4.7% due primarily to less loss on the disposal of these assets and smaller write-downs on these assets.

**Income Tax Expense**

Our effective income tax rate decreased to 35.3% for the quarter ended September 30, 2012 compared to 35.4% for the quarter ended September 30, 2011. The lower effective tax rate is attributable to tax exempt income on municipal bonds making up a larger percentage of pre-tax net income for the quarter ended September 30, 2012.

Our effective income tax rate decreased to 34.3% for the nine months ended September 30, 2012, as compared to 35.1% for the comparable period of 2011. The lower effective tax rate is attributable to tax exempt income on municipal bonds making up a larger percentage of pre-tax net income for the nine months ended September 30, 2012.

**Capital Resources**

Our ongoing capital requirements have been met primarily through retained earnings, less the payment of cash dividends. Equity increased during the third quarter by net income, or \$9.1 million, less the dividend paid during the quarter of approximately \$2.6 million. As of September 30, 2012, shareholders' equity was \$433.9 million, an increase of \$52.1 million, or 13.7%, from \$381.8 million at December 31, 2011, and an increase of \$52.2 million or 13.7% from \$381.7 million at September 30, 2011. Our equity-to-assets ratio increased to 10.05% at September 30, 2012 from 9.80% at the end of the fourth quarter of 2011 and increased from 9.70% at the end of the comparable period of 2011.

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 Federal Reserve, which are substantially similar to those of the OCC and the FDIC, 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.

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>2012 | December 31,<br>2011 | September 30,<br>2011 |
|-----------------------|----------------------|-----------------------|
|-----------------------|----------------------|-----------------------|

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| <b>SCBT Financial Corporation:</b> |        |        |        |
|------------------------------------|--------|--------|--------|
| Tier 1 risk-based capital          | 13.96% | 14.09% | 13.92% |
| Total risk-based capital           | 15.23% | 15.36% | 15.19% |
| Tier 1 leverage                    | 9.35%  | 9.12%  | 9.04%  |
| <b>SCBT:</b>                       |        |        |        |
| Tier 1 risk-based capital          | 13.80% | 13.88% | 13.74% |
| Total risk-based capital           | 15.07% | 15.15% | 15.01% |
| Tier 1 leverage                    | 9.21%  | 8.99%  | 8.93%  |

Compared to December 31, 2011, our Tier 1 risk-based capital and total risk-based capital have decreased due primarily to risk-weighted assets increasing faster than the increase in capital. The growth in risk-weighted assets, average assets, and capital were generated primarily by the Peoples acquisition. Our Tier 1 risk-based capital and total risk-based capital have increased slightly from September 30, 2011 due to impact of the capital increase as a result of the Peoples acquisition. The Tier 1 leverage ratio has increased compared to December 31, 2011 and September 30, 2011 due to the increase in capital as a result of the issuance of \$31.2 million in common equity in the Peoples acquisition. Our capital ratios are currently well in excess of the minimum standards and continue to be in the well capitalized regulatory classification.

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**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 liquidity management 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.

Our legacy SCBT loan portfolio increased by approximately \$55.7 million, or about 2.3% compared to the balance at September 30, 2011. Our investment securities portfolio increased \$179.5 million during this same time period. Total cash and cash equivalents were \$278.1 million at September 30, 2012 as compared to \$171.4 million at December 31, 2011 and \$158.8 million at September 30, 2011.

At September 30, 2012 and 2011, we had no brokered deposits. Total deposits increased \$301.6 million, or 9.2%, to \$3.6 billion resulting primarily from organic growth and the Peoples acquisition. Excluding deposits acquired in the Peoples acquisition, total deposits decreased \$94.0 million, or 2.9%. Excluding deposits acquired from Peoples, we increased our noninterest-bearing deposit balance by \$108.3 million, or 16.6%, at September 30, 2012 as compared to the balance at September 30, 2011. Federal funds purchased and securities sold under agreements to repurchase increased \$41.9 million, or 22.7%, from the balance at September 30, 2011, and increased \$45.9 million, or 25.4%, from the balance at December 31, 2011. Other borrowings declined by \$1.1 million, or 2.4%, from September 30, 2011. 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.



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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, 2012, our Bank had total federal funds credit lines of \$326.0 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, 2012, our Bank had \$69.4 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, 2012, our Bank had a total FHLB credit facility of \$321.9 million with total outstanding letters of credit consuming \$16.7 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.

Table of Contents**Loss Share**

The following table presents the expected losses on acquired assets covered under loss share agreements as of September 30, 2012:

| (Dollars in thousands) | FDIC<br>Threshold<br>or ILE | Original<br>Estimated<br>Gross Losses | Original<br>Estimated<br>Covered Losses | Losses<br>Incurred *<br>through<br>9/30/2012 | Remaining<br>Estimated<br>Losses<br>for Loans | OREO<br>Mark **<br>9/30/2012 | Projected<br>Total<br>Losses |
|------------------------|-----------------------------|---------------------------------------|---|--|---|------------------------------|------------------------------|
| <b>CBT</b>             | \$ 233,000                  | \$ 340,039                            | \$ 334,082                              | \$ 265,217                                   | \$ 57,911                                     | \$ 15,442                    | \$ 338,570                   |
| <b>Habersham</b>       | 94,000                      | 124,363                               | 119,978                                 | 77,758                                       | 16,105  | 5,762                        | 99,625                       |
| <b>BankMeridian</b>    | 70,827                      | 70,190                                | 67,780                                  | 23,822                                       | 20,279  | 5,451                        | 49,552                       |
| <b>Total</b>           | \$ 397,827                  | \$ 534,592                            | \$ 521,840                              | \$ 366,797                                   | \$ 94,295                                     | \$ 26,655                    | \$ 487,747                   |

\* Claimed or Claimable loans and OREO losses excluding expenses, net of revenues.

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

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 80% of the losses and reimbursable expenses paid. During the fourth quarter of 2011, the losses and reimbursable expenses claimed under the CBT loss share agreement exceeded the \$233.0 million threshold and became reimbursable at 95% rather than the 80% rate.

**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, 2012, 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 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 \$108.4 million at September 30, 2012. Based on these criteria, we had six such credit concentrations at September 30, 2012, 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 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 27A of the Securities Act of 1933 and 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, 2011, 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;

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- **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;
- **Merger integration risk** including potential deposit attrition, higher than expected costs, customer loss and business disruption associated with the integration of Peoples, including, without limitation, potential difficulties in maintaining relationships with key personnel and other integration related-matters;
- **Transaction risk** arising from problems with service or product delivery;
- **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, proscribed practices or ethical standards, including the possibility that regulatory agencies may require higher levels of capital above the current regulatory-mandated minimums, including the impact of the proposed capital rules under Basel III;
- **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 and the technology of outside service providers, as well as the potential impacts of third-party security breaches, subjects us to potential business disruptions or financial losses resulting from deliberate attacks or unintentional events;
- **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 risks could be exacerbated by potential negative economic developments resulting from the expiration of the federal tax reductions, and the implementation of federal spending cuts currently scheduled to go into effect.

All forward-looking statements in this report are based on information available to us as of the date of this report. We undertake no obligation to publicly update or otherwise revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

**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, 2012 from that presented in our Annual Report on Form 10-K for the year ended December 31, 2011.

**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 2012 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**

As of September 30, 2012 and the date of this form 10-Q, we believe that 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 the ordinary course of our business, except for those described below.

*Arnette Lawsuit.* On January 18, 2012, two purported shareholders of Peoples filed a class action lawsuit in the Court of Common Pleas for the Thirteenth Judicial District, State of South Carolina, County of Pickens, captioned *F. Davis Arnette and Mary F. Arnette v. Peoples Bancorporation, Inc.*, Case No. 2012-CP-39-0064 (the Arnette Lawsuit). The Complaint names as defendants Peoples, the members of Peoples board of directors immediately prior to the completion of the merger between SCBT and Peoples (the Director Defendants) and SCBT. The Complaint is brought on behalf of a putative class of shareholders of Peoples common stock and seeks a declaration that it is properly maintainable as a class action. The Complaint alleges that Peoples' directors breached

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their fiduciary duties by failing to maximize shareholder value in connection with the merger between SCBT and Peoples, and also alleges that SCBT aided and abetted those breaches of fiduciary duty. The Complaint seeks declaratory and injunctive relief to prevent the completion of the merger, an accounting to determine damages sustained by the putative class, and costs including plaintiffs' attorneys' and experts' fees. SCBT believes that the claims asserted in the Complaint are without merit and that the proceeding will not have any material adverse effect on the financial condition or operations of SCBT.

On April 17, 2012, SCBT entered into a memorandum of understanding (the "MOU") with plaintiffs and other named defendants regarding the settlement of the Complaint. Under the terms of the MOU, SCBT, Peoples, the Director Defendants and the plaintiffs have agreed to settle the Arnette Lawsuit and release the defendants from all claims relating to the Merger, subject to approval by the Court. If the Court approves the settlement contemplated by the MOU, the Arnette Lawsuit will be dismissed with prejudice. Pursuant to the terms of the MOU, SCBT and Peoples have made available additional information to Peoples shareholders in the Current Report on Form 8-K filed April 18, 2012. In return, the plaintiffs have agreed to the dismissal of the Arnette Lawsuit with prejudice and to withdraw all motions filed in connection with the Arnette Lawsuit. If the MOU is finally approved by the Court, it is anticipated that the MOU will resolve and release all claims in all actions that were or could have been brought challenging any aspect of the Merger, the Merger Agreement and any disclosures made in connection therewith. There can be no assurance that the parties will ultimately enter into a stipulation of settlement or that the Court will approve the settlement, even if the parties were to enter into such stipulation. In such event, the proposed settlement as contemplated by the MOU may be terminated.

*Rational Lawsuit.* On October 11, 2012, a purported shareholder of SAVB filed a lawsuit in the Supreme Court of the State of New York captioned Rational Strategies Fund v. Robert H. Demere, Jr. et al., No. 653566/2012 (the "Rational Lawsuit"), naming SAVB, members of SAVB's board of directors and SCBT as defendants. This lawsuit is purportedly brought on behalf of a putative class of SAVB's common shareholders and seeks a declaration that it is properly maintainable as a class action with the Plaintiff as the proper class representative. The Rational Lawsuit alleges that SAVB, SAVB's directors and SCBT breached duties and/or aided and abetted such breaches by failing to disclose certain material information about the proposed merger between SAVB and SCBT. Among other relief, the Complaint seeks to enjoin the merger. SCBT believes that the claims asserted in the Complaint are without merit and that the proceeding will not have any material adverse effect on the financial condition or operations of SCBT.

**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, 2011, 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, risks and matters described elsewhere in this Form 10-Q and in our other filings with the SEC, and the following:

***We are exposed to the possibility of technology failure and security breach and a disruption in our operations may adversely affect our business.***

We rely on our computer systems and the technology of outside service providers. Our daily operations depend on the operational effectiveness of their technology. We rely on our systems to accurately track and record our assets and liabilities. If our computer systems or outside technology sources become unreliable, fail, or experience a breach of security, our ability to maintain accurate financial records may be impaired, which could materially affect our business operations and financial condition. In addition, a disruption in our operations resulting from failure of transportation and telecommunication systems, loss of power, interruption of other utilities, natural disaster, fire, global climate changes, computer hacking or viruses, failure of technology, terrorist activity or the domestic and foreign response to such activity or other

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events outside of our control could have an adverse impact on the financial services industry as a whole and/or on our business. Our business recovery plan may not be adequate and may not prevent significant interruptions of our operations or substantial losses.

On October 26, 2012, the South Carolina Department of Revenue (the DOR ) announced that certain of its records, including approximately 3.6 million social security numbers, 387,000 credit and debit card numbers and 657,000 business tax filings were exposed in a cyber-attack. We are in the process of evaluating potential impacts of the DOR s security breach with respect to our business, including our security systems, financial records and customers accounts.

### **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 2012:

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| <b>Period</b>              | <b>(a) Total<br/>Number of<br/>Shares (or<br/>Units)<br/>Purchased</b> | <b>(b) Average<br/>Price Paid per<br/>Share (or Unit)</b> | <b>(c) Total<br/>Number of<br/>Shares (or<br/>Units)<br/>Purchased as<br/>Part of Publicly<br/>Announced<br/>Plans or<br/>Programs</b> | <b>(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</b> |
|----------------------------|--|---|--|--|
| July 1 - July 31           | 809*   | \$ 37.04  |  | 147,872  |
| August 1 - August 31       | 7,728*   | 38.78   |  | 147,872  |
| September 1 - September 30 | 408*   | 41.09   |  | 147,872  |
| <b>Total</b>               | <b>8,945</b>   |   |  | <b>147,872</b>   |

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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 the Company 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. MINE SAFETY DISCLOSURES**

Not applicable.

**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, 2012, formatted in eXtensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Income, (iii) Condensed Consolidated Statements of Comprehensive Income, (iv) Condensed Consolidated Statements of Changes in Shareholders' Equity, (v) Condensed Consolidated Statement of Cash Flows and (vi) Notes to Condensed 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 9, 2012

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

Date: November 9, 2012

/s/ John C. Pollok  
John C. Pollok  
Senior Executive Vice President,  
Chief Financial Officer, and  
Chief Operating Officer  
(Principal Financial Officer)

Date: November 9, 2012

/s/ Keith S. Rainwater  
Keith S. Rainwater  
Senior Vice President and  
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   |
| 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, 2012, formatted in eXtensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Income, (iii) Condensed Consolidated Statements of Comprehensive Income, (iv) Condensed Consolidated Statements of Changes in Shareholders' Equity, (v) Condensed Consolidated Statement of Cash Flows and (vi) Notes to Condensed 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.