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)

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

For the quarterly period ended September 30, 2012

OR

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

For the transition period from to

Commission file number 001-12669

SCBT FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

South Carolina	**57-0799315**
(State or other jurisdiction of incorporation)	(IRS Employer Identification No.)
520 Gervais Street	
Columbia, South Carolina	**29201**
(Address of principal executive offices)	(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 x No o

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 x No o

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 o	Accelerated Filer x
Non-Accelerated Filer o	Smaller Reporting Company o

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

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

Class	Outstanding as of October 31, 2012
Common Stock, $2.50 par value	15,123,734

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SCBT Financial Corporation and Subsidiary

September 30, 2012 Form 10-Q

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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, 2012 (Unaudited)	December 31, 2011 (Note 1)	September 30, 2011 (Unaudited)
ASSETS			
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
LIABILITIES AND SHAREHOLDERS EQUITY			
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

Other borrowings	**45,807**	46,683	46,955
Other liabilities	**29,873**	33,186	34,785
Total liabilities	**3,891,308**	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 - $2.50 par value; authorized 40,000,000 shares; 15,114,185, 14,039,422, and 14,004,372 shares issued and outstanding	**37,785**	35,099	35,011
Surplus	**263,569**	233,232	232,314
Retained earnings	**132,798**	116,198	113,752
Accumulated other comprehensive income (loss)	**(228)**	(2,749)	645
Total shareholders equity	**433,924**	381,780	381,722
Total liabilities and shareholders equity	**$ 4,325,232**	$ 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 September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Interest income:				
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 under agreements to resell	**282**	161	**773**	875
Total interest income	**49,535**	45,307	**137,225**	127,893
Interest expense:				
Deposits	**1,970**	3,958	**6,736**	14,335
Federal funds purchased and securities sold 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 losses	**42,866**	32,357	**117,074**	88,348
Noninterest income:				
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, 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
Noninterest expense:				
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
Earnings:				
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

Net income	**$**	**9,063**	$	10,332	**$**	**24,122**	$	17,766
Earnings per common share:								
Basic	**$**	**0.61**	$	0.75	**$**	**1.67**	$	1.30
Diluted	**$**	**0.60**	$	0.74	**$**	**1.66**	$	1.28
Dividends per common share	**$**	**0.17**	$	0.17	**$**	**0.51**	$	0.51
Weighted-average common shares outstanding:								
Basic		**14,920**		13,818		**14,484**		13,613
Diluted		**15,043**		13,884		**14,573**		13,689

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

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SCBT Financial Corporation and Subsidiary

Condensed Consolidated Statements of Comprehensive Income (unaudited)

(Dollars in thousands)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 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 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 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 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.

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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				Accumulated Other	
	Shares	Amount	Shares	Amount	Surplus	Retained Earnings	Comprehensive Income (Loss)	Total
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

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 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)

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*

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.

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.

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.

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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 Peoples	Initial Fair Value Adjustments	Subsequent Fair Value Adjustments	As Recorded by SCBT
Assets				
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 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
Total assets	$ 509,292	$ (17,440)	$ 70	$ 491,922
Liabilities				
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
Total liabilities	447,498	3,459	57	451,014
Net identifiable assets acquired over (under) liabilities assumed	61,794	(20,899)	13	40,908
Goodwill		3,654	(13)	3,641
Net assets acquired over (under) liabilities assumed	$ 61,794	$ (17,245)	$	$ 44,549
Consideration:				
SCBT Financial Corporation common shares issued	1,002,741			
Purchase price per share of the Company s common stock	$ 31.06			
Company common stock issued and cash exchanged for fractional shares	31,160			
Stock options converted	96			
Cash paid for TARP preferred stock	13,293			
Fair value of total consideration transferred	$ 44,549			

Explanation of fair value adjustments

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

(b) Adjustment reflects the fair value adjustments based on the Company s evaluation of the acquired loan portfolio 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

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Note 5 Investment Securities

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2012:				
State and municipal obligations	**$ 16,568**	**$ 1,182**	**$**	**$ 17,750**
December 31, 2011:				
State and municipal obligations	$ 16,569	$ 1,295	$	$ 17,864
September 30, 2011:				
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 Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2012:				
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**
December 31, 2011:				
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
September 30, 2011:				
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)

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Note 5 Investment Securities (Continued)

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2012:				
Federal Home Loan Bank stock	**$ 6,664**	$	$	**$ 6,664**
Investment in unconsolidated subsidiaries	**1,332**			**1,332**
	$ 7,996	$	$	**$ 7,996**
December 31, 2011:				
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
September 30, 2011:				
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.

	Securities Held to Maturity		Securities Available for Sale	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair 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

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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:

	Less Than Twelve Months				Twelve Months or More			
(Dollars in thousands)		**Gross Unrealized Losses**		**Fair Value**		**Gross Unrealized Losses**		**Fair Value**
September 30, 2012:								
Securities Held to Maturity								
State and municipal obligations	**$**		**$**		**$**		**$**	
Securities Available for Sale								
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**	**$**	**28,913**	**$**		**$**	
December 31, 2011:								
Securities Held to Maturity								
State and municipal obligations	$		$		$		$	
Securities Available for Sale								
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
September 30, 2011:								
Securities Held to Maturity								
State and municipal obligations	$		$		$		$	
Securities Available for Sale								
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

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Note 6 Loans and Allowance for Loan Losses

The following is a summary of non-acquired loans:

(Dollars in thousands)	September 30, 2012	December 31, 2011	September 30, 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

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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 at Acquisition	Loans Not Impaired at Acquisition	Total
September 30, 2012:			
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**
December 31, 2011:			
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

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

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Note 6 Loans and Allowance for Loan Losses (Continued)

(Dollars in thousands)	Loans Impaired at Acquisition	Loans Not Impaired at Acquisition	Total
September 30, 2011:			
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:

		April 24, 2012	
(Dollars in thousands)	Loans Impaired at Acquisition	Loans Not Impaired 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

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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 at Acquisition	Loans Not Impaired at Acquisition	Total
September 30, 2012:			
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)**
December 31, 2011:			
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)
September 30, 2011:			
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.

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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 at Acquisition	Loans Not Impaired 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:

	Nine Months Ended	
(Dollars in thousands)	September 30, 2012	September 30, 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.

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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 Loans		Acquired Loans		Total
Three months ended September 30, 2012:						
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**
Three months ended September 30, 2011:						
Balance at beginning of period	$	48,180	$	25,545	$	73,725

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 Loans	Acquired Loans	Total
Nine months ended September 30, 2012:			
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**
Nine months ended September 30, 2011:			
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 & Land Development	Commercial Non-owner Occupied	Commercial Owner Occupied	Consumer Owner Occupied	Home Equity	Commercial & Industrial	Other Income Producing Property	Consumer	Other Loans	Total
September 30, 2012										
Allowance for loan losses:										
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**
Loans:										
Loans individually evaluated for impairment	**$ 12,680**	**$ 7,121**	**$ 18,377**	**$ 2,613**	**$**	**$ 474**	**$ 2,778**	**$**	**$**	**$ 44,043**

Loans collectively evaluated for impairment	**260,926**	**271,814**	**769,246**	**428,212**	**255,677**	**244,811**	**129,054**	**86,729**	**26,840**	**2,473,309**
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 & Land Development	Commercial Non-owner Occupied	Commercial Owner Occupied	Consumer Owner Occupied	Home Equity	Commercial & Industrial	Other Income Producing Property	Consumer	Other Loans	Total
September 30, 2011										
Allowance for loan losses:										
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
Loans:										
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 & Land Development	Commercial Non-owner Occupied	Commercial Owner Occupied	Consumer Owner Occupied	Home Equity	Commercial & Industrial	Other Income Producing Property	Consumer	Other Loans	Total
September 30, 2012										
Allowance for loan losses:										
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**
September 30, 2011										
Allowance for loan losses:										
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 Loans Greater Than or Equal to $1 Million-CBT	Commercial Real Estate	Commercial Real Estate-Construction and Development	Residential Real Estate	Consumer	Commercial and Industrial	Single Pay	Total
September 30, 2012								
Allowance for loan losses:								
Balance, June 30, 2012	**$ 16,871**	**$ 1,812**	**$ 3,238**	**$ 4,415**	**$ 73**	**$ 4,749**	**$ 4,655**	**$ 35,813**
Charge-offs								
Recoveries								
Provision for loan losses before benefit attributable to FDIC loss share agreements	**(1,059)**	**(1,365)**	**(1,744)**	**41**	**16**	**(478)**	**(86)**	**(4,675)**
Benefit attributable to FDIC loss share agreements	**1,006**	**1,296**	**1,415**	**(39)**	**(14)**	**473**	**82**	**4,219**
Total provision for loan losses charged to operations	**(53)**	**(69)**	**(329)**	**2**	**2**	**(5)**	**(4)**	**(456)**
Provision for loan losses recorded through the FDIC loss 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 for impairment	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Loans collectively evaluated for impairment	**$ 15,812**	**$ 447**	**$ 1,494**	**$ 4,456**	**$ 89**	**$ 4,271**	**$ 4,569**	**$ 31,138**
Loans:*								
Loans individually evaluated for impairment	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Loans collectively evaluated 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 Loans Greater Than or Equal to $1 Million-CBT	Commercial Real Estate	Commercial Real Estate-Construction and Development	Residential Real Estate	Consumer	Commercial and Industrial	Single Pay	Total
September 30, 2011								
Allowance for loan losses:								
Balance, June, 2011	$ 16,807	$ 1,318	$	$ 1,926	$	$ 1,929	$ 3,565	$ 25,545
Charge-offs								
Recoveries								
Provision for loan losses before benefit attributable to FDIC loss share agreements	1,752					2,573		4,325

Benefit attributable to FDIC loss share agreements	(1,664)					(2,444)		(4,109)
Total provision for loan losses charged to operations	88					129		216
Provision for loan losses recorded through the FDIC loss share receivable	1,664					2,444		4,109
Balance, September 30, 2011	$ 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
Loans:*								
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.

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

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

- 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:

	Construction & Development			**Commercial Non-owner Occupied**			**Commercial Owner Occupied**		
(Dollars in thousands)	**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

	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:

	Consumer Owner Occupied			**Home Equity**			**Consumer**		
(Dollars in thousands)	**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

	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:

	Total Non-acquired Loans		
(Dollars in thousands)	September 30, 2012	December 31, 2011	September 30, 2011
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**		
	$ 2,517,352	$ 2,470,565	$ 2,461,639

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 or Equal to $1 million-CBT September 30, 2012	December 31, 2011	September 30, 2011	Commercial Real Estate September 30, 2012	December 31, 2011	September 30, 2011	Commercial Real Estate Construction and Development September 30, 2012	December 31, 2011	September 30, 2011
Pass	**$ 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 September 30, 2012	December 31, 2011	September 30, 2011	Consumer September 30, 2012	December 31, 2011	September 30, 2011	Commercial & Industrial September 30, 2012	December 31, 2011	September 30, 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, 2012	December 31, 2011	September 30, 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 September 30, 2012	December 31, 2011	September 30, 2011	Commercial Real Estate Construction and Development September 30, 2012	December 31, 2011	September 30, 2011	Residential Real Estate September 30, 2012	December 31, 2011	September 30, 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

	Consumer			Commercial & Industrial		
	September 30, 2012	**December 31, 2011**	**September 30, 2011**	**September 30, 2012**	**December 31, 2011**	**September 30, 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.

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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 Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans
September 30, 2012						
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**
December 31, 2011						
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
September 30, 2011						
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

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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 Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans
September 30, 2012						
Covered loans:						
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**
Non-covered loans:						
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**
December 31, 2011						
Covered loans:						
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
Non-covered loans:						
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
September 30, 2011						
Covered loans:						

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
Non-covered loans:						
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

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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 Contractual Principal Balance	Recorded Investment With No Allowance	Gross Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
September 30, 2012					
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**
December 31, 2011					
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
September 30, 2011					
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					

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.

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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 September 30, 2012 Average Investment in Impaired Loans	Three Months Ended September 30, 2012 Interest Income Recognized	Three Months Ended September 30, 2011 Average Investment in Impaired Loans	Three Months Ended September 30, 2011 Interest Income 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 September 30, 2012 Average Investment in Impaired Loans	Nine Months Ended September 30, 2012 Interest Income Recognized	Nine Months Ended September 30, 2011 Average Investment in Impaired Loans	Nine Months Ended September 30, 2011 Interest Income 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

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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, 2012	December 31, 2011	September 30, 2011
Commercial non-owner occupied real estate:			
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
Consumer real estate:			
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
Other loans			
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).

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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:

	Three Months Ended September 30, 2012			Three Months Ended September 30, 2011		
(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**
Interest rate modification						
Construction and land development		$	$	3	$ 387	$ 384
Commercial owner occupied	**2**	**4,659**	**4,607**			
Other income producing property				1	46	44
Total interest rate modifications	**2**	**$ 4,659**	**$ 4,607**	4	$ 433	$ 428
Term modification						
Construction and land development				1	2,443	2,443
Total term modifications		$	$	1	$ 2,443	$ 2,443
	2	**$ 4,659**	**$ 4,607**	5	$ 2,876	$ 2,871

	Nine Months Ended September 30, 2012			Nine Months Ended September 30, 2011		
(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**
Interest rate modification						
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						