SCBT FINANCIAL CORP
Form 10-Q
May 09, 2013
Table of Contents

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 March 31, 2013

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 April 30, 2013**
Common Stock, $2.50 par value	17,024,115

Table of Contents

SCBT Financial Corporation and Subsidiary

March 31, 2013 Form 10-Q

INDEX

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)

	March 31, 2013 (Unaudited)	December 31, 2012 (Note 1)	March 31, 2012 (Unaudited)
ASSETS			
Cash and cash equivalents:			
Cash and due from banks	**$ 227,326**	$ 185,708	$ 329,942
Interest-bearing deposits with banks	**5,743**	16,018	1,870
Federal funds sold and securities purchased under agreements to resell	**262,800**	179,004	71,410
Total cash and cash equivalents	**495,869**	380,730	403,222
Investment securities:			
Securities held to maturity (fair value of $15,555, $16,553, and $17,664, respectively)	**14,598**	15,440	16,568
Securities available for sale, at fair value	**510,852**	534,883	322,588
Other investments	**7,805**	9,768	18,292
Total investment securities	**533,255**	560,091	357,448
Loans held for sale	**50,449**	65,279	34,706
Loans:			
Acquired (covered of $257,066, $282,728, and $363,051, respectively; non-covered of $738,189, $792,014, and $6,093, respectively)	**995,255**	1,074,742	369,144
Less allowance for acquired loan losses	**(31,277)**	(32,132)	(34,355)
Non-acquired	**2,604,298**	2,571,003	2,437,314
Less allowance for non-acquired loan losses	**(41,669)**	(44,378)	(47,607)
Loans, net	**3,526,607**	3,569,235	2,724,496
FDIC receivable for loss share agreements	**124,340**	146,171	231,331
Premises and equipment, net	**110,792**	115,583	93,209
Goodwill	**100,487**	100,487	62,888
Other real estate owned (covered of $34,244, $34,257, and $61,788, respectively; non-covered of $36,446, $32,248, and $21,381, respectively)	**70,690**	66,505	83,169
Bank owned life insurance	**43,008**	42,737	22,233
Core deposit and other intangibles	**24,180**	25,199	11,038
Other assets	**62,252**	64,296	22,603
Total assets	**$ 5,141,929**	$ 5,136,313	$ 4,046,343
LIABILITIES AND SHAREHOLDERS EQUITY			
Deposits:			
Noninterest-bearing	**$ 1,002,662**	$ 981,963	$ 757,777
Interest-bearing	**3,216,694**	3,316,397	2,598,860
Total deposits	**4,219,356**	4,298,360	3,356,637
Federal funds purchased and securities sold under agreements to repurchase	**328,701**	238,621	235,412

Other borrowings		**54,638**		54,897		46,397
Other liabilities		**25,023**		36,886		21,390
Total liabilities		**4,627,718**		4,628,764		3,659,836
Shareholders equity:						
Preferred stock - $.01 par value; authorized 10,000,000 shares; no shares issued and outstanding						
Common stock - $2.50 par value; authorized 40,000,000 shares; 17,017,904, 16,937,464, and 14,052,177 shares issued and outstanding		**42,545**		42,344		35,130
Surplus		**329,636**		328,843		233,422
Retained earnings		**143,573**		135,986		120,837
Accumulated other comprehensive income (loss)		**(1,543)**		376		(2,882)
Total shareholders equity		**514,211**		507,549		386,507
Total liabilities and shareholders equity	**$**	**5,141,929**	$	5,136,313	$	4,046,343

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

1

Table of Contents

SCBT Financial Corporation and Subsidiary

Condensed Consolidated Statements of Income (unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended March 31, 2013	2012
Interest income:		
Loans, including fees	**$ 52,384**	$ 39,777
Investment securities:		
Taxable	**2,161**	2,036
Tax-exempt	**1,206**	195
Federal funds sold and securities purchased under agreements to resell	**418**	212
Total interest income	**56,169**	42,220
Interest expense:		
Deposits	**1,559**	2,494
Federal funds purchased and securities sold under agreements to repurchase	**136**	126
Other borrowings	**673**	562
Total interest expense	**2,368**	3,182
Net interest income	**53,801**	39,038
Provision for loan losses	**1,060**	2,723
Net interest income after provision for loan losses	**52,741**	36,315
Noninterest income:		
Service charges on deposit accounts	**5,761**	5,447
Bankcard services income	**3,893**	3,320
Mortgage banking income	**3,395**	1,830
Trust and investment services income	**2,314**	1,397
Amortization of FDIC indemnification assets, net	**(7,171)**	(3,233)
Other	**1,331**	712
Total noninterest income	**9,523**	9,473
Noninterest expense:		
Salaries and employee benefits	**23,252**	18,048
Information services expense	**3,192**	2,468
OREO expense and loan related	**3,102**	2,716
Net occupancy expense	**2,932**	2,248
Furniture and equipment expense	**2,572**	2,239
Merger and conversion related expense	**1,963**	96
FDIC assessment and other regulatory charges	**1,224**	1,037
Bankcard expense	**1,164**	902
Amortization of intangibles	**1,034**	500
Advertising and marketing	**842**	757
Professional fees	**691**	633
Other	**4,473**	3,575
Total noninterest expense	**46,441**	35,219
Earnings:		
Income before provision for income taxes	**15,823**	10,569
Provision for income taxes	**5,174**	3,541
Net income	**$ 10,649**	$ 7,028
Earnings per common share:		
Basic	**$ 0.64**	$ 0.51
Diluted	**$ 0.63**	$ 0.50
Dividends per common share	**$ 0.18**	$ 0.17

Weighted-average common shares outstanding:		
Basic	**16,769**	13,883
Diluted	**16,936**	13,951

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 March 31, 2013	2012
Net income	**$ 10,649**	$ 7,028
Other comprehensive income (loss):		
Unrealized losses on securities:		
Unrealized holding losses arising during period	**(3,203)**	(326)
Tax effect	**1,221**	124
Net of tax amount	**(1,982)**	(202)
Unrealized gains on derivative financial instruments qualifying as cash flow hedges:		
Unrealized holding gains arising during period	**29**	41
Tax effect	**(11)**	(19)
Reclassification adjustment for amounts included in interest expense	**73**	71
Tax effect	**(28)**	(24)
Net of tax amount	**63**	69
Other comprehensive loss, net of tax	**(1,919)**	(133)
Comprehensive income	**$ 8,730**	$ 6,895

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)

Three months ended March 31, 2013 and 2012

(Dollars in thousands, except per share data)

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2011		$	14,039,422	$ 35,099	$ 233,232	$ 116,198	$ (2,749)	$ 381,780
Comprehensive income (loss):								
Net income						7,028		7,028
Other comprehensive loss, net of tax							(133)	(133)
Total comprehensive income								6,895
Cash dividends declared at $.17 per share						(2,389)		(2,389)
Stock options exercised			606	1	11			12
Restricted stock awards			19,314	48	(48)			
Common stock repurchased			(7,165)	(18)	(201)			(219)
Share-based compensation expense					428			428
Balance, March 31, 2012		$	14,052,177	$ 35,130	$ 233,422	$ 120,837	$ (2,882)	$ 386,507
Balance, December 31, 2012		$	16,937,464	$ 42,344	$ 328,843	$ 135,986	$ 376	$ 507,549
Comprehensive income (loss):								
Net income						10,649		10,649
Other comprehensive loss, net of tax							(1,919)	(1,919)
Total comprehensive income								8,730
Cash dividends declared at $.18 per share						(3,062)		(3,062)
Stock options exercised			18,211	45	471			516
Restricted stock awards			68,308	171	(171)			
Common stock repurchased			(6,079)	(15)	(290)			(305)

Share-based compensation expense			783			783
Balance, March 31, 2013	$ 17,017,904	$ 42,545	$ 329,636	$ 143,573	$ (1,543)	$ 514,211

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

Table of Contents

SCBT Financial Corporation and Subsidiary

Condensed Consolidated Statements of Cash Flows (unaudited)

(Dollars in thousands)

	Three Months Ended March 31, 2013	2012
Cash flows from operating activities:		
Net income	**$ 10,649**	$ 7,028
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**3,500**	2,754
Provision for loan losses	**1,060**	2,723
Deferred income taxes	**2,212**	110
Gains on OREO sales	**(2,582)**	(2,317)
Share-based compensation expense	**783**	428
Loss on disposal of premises and equipment	**5**	1
Amortization of FDIC indemnification asset	**7,171**	3,233
Accretion on acquired loans	**(23,370)**	(9,110)
Net amortization of investment securities	**1,246**	572
OREO write downs	**2,570**	8,876
Net change in:		
Loans held for sale	**14,830**	11,103
Accrued interest receivable	**(2,480)**	2,274
Prepaid assets	**(949)**	546
FDIC loss share receivable	**14,660**	28,088
Accrued interest payable	**(585)**	(566)
Accrued income taxes	**5,379**	(1,268)
Miscellaneous assets and liabilities	**(11,726)**	(8,398)
Net cash provided by operating activities	**22,373**	46,077
Cash flows from investing activities:		
Proceeds from maturities and calls of investment securities held to maturity	**843**	
Proceeds from maturities and calls of investment securities available for sale	**56,888**	16,066
Proceeds from sales of other investment securities	**1,963**	
Purchases of investment securities available for sale	**(37,283)**	(50,357)
Net decrease in customer loans	**54,021**	51,321
Purchases of premises and equipment	**(2,936)**	(2,114)
Proceeds from sale of premises and equipment		10
Proceeds from sale of OREO	**11,356**	16,536
Net cash provided by investing activities	**84,852**	31,462
Cash flows from financing activities:		
Net increase (decrease) in deposits	**(79,004)**	102,164
Net increase in federal funds purchased and securities sold under agreements to repurchase	**90,080**	54,976
Repayment of other borrowings	**(311)**	(286)
Common stock repurchased	**(305)**	(219)
Dividends paid on common stock	**(3,062)**	(2,389)
Stock options exercised	**516**	12
Net cash provided by financing activities	**7,914**	154,258
Net increase in cash and cash equivalents	**115,139**	231,797
Cash and cash equivalents at beginning of period	**380,730**	171,425
Cash and cash equivalents at end of period	**$ 495,869**	$ 403,222

Supplemental Disclosures:

Cash paid for:				
Interest	**$**	**2,811**	$	3,749
Income taxes	**$**	**564**	$	4,799
Noncash investing activities:				
Transfers of loans to foreclosed properties (covered of $6,186 and $14,491, respectively; and non-covered of $10,542 and $7,569, respectively)	**$**	**16,728**	$	22,060

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

Table of Contents

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 three months ended March 31, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

The condensed consolidated balance sheet at December 31, 2012 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 (SCBT or the Company) Annual Report on Form 10-K for the year ended December 31, 2012, as filed with the Securities and Exchange Commission (the SEC) on March 4, 2013, should be referenced when reading these unaudited condensed consolidated financial statements. Unless otherwise mentioned or unless the context requires otherwise, references herein to SCBT, the Company we, us, our or similar references mean SCBT Financial Corporation and its consolidated subsidiaries.

Subsequent Events

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

Note 3 Recent Accounting and Regulatory Pronouncements

In February 2013, the FASB issued ASU 2013-02, *Comprehensive Income (Topic 220) Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* (ASU 2013-02). The ASU amends Topic 220 to require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. ASU 2013-02 became effective for the Company on January 1, 2013 and did not have a significant impact on the Company s financial statements.

In January 2013, the FASB issued ASU 2013-01, *Balance Sheet (Topic 210) Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities* (ASU 2013-01). The ASU amends ASU 2011-11 to clarify that the scope applies to derivatives, repurchase and reverse repurchase agreements, and securities borrowing and lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to master netting or similar arrangements. Other types of financial assets and liabilities subject to master netting or similar arrangements are not subject to the disclosure requirements in ASU 2011-11. ASU 2013-01 became effective for the Company on January 1, 2013 and did not have a significant impact on the Company s financial statements.

In October 2012, the FASB issued ASU No. 2012-06, *Business Combinations (Topic 805) Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution* (ASU 2012-06). ASU 2012-06 amends Subtopic 805-20 to require subsequent measurement of an indemnification asset to be on the same basis as the indemnified asset or liability, subject to any contractual limitations on its amount and, for an indemnification asset that is not subsequently measured at its fair value, management s assessment of the collectability of the indemnification asset. ASU 2012-06 became effective for the Company on January 1, 2013 and did not have a significant impact on the Company s financial statements.

Table of Contents

Note 4 Mergers and Acquisitions

First Financial Holdings, Inc. Acquisition

On February 19, 2013, the Company entered into an Agreement and Plan of Merger (the Agreement) with First Financial Holdings, Inc. (First Financial), a bank holding company headquartered in Charleston, South Carolina. First Federal Bank (First Federal) is a wholly-owned bank subsidiary of First Financial. Other First Financial subsidiaries include First Southeast 401(k) Fiduciaries, Inc., a registered investment advisor, and First Southeast Investor Services, Inc., a registered broker-dealer. At March 31, 2013, First Financial reported $3.2 billion in total assets, $2.4 billion in loans and $2.6 billion in deposits. First Federal has a total of 66 branches that serve individuals and businesses throughout coastal South Carolina, Florence and Greenville, South Carolina and Wilmington, North Carolina. Pursuant to the terms of the Agreement, First Financial will merge with and into SCBT Financial Corporation, with SCBT Financial Corporation as the surviving entity in the merger. In addition, First Federal will merge with and into the Company s bank subsidiary, SCBT (SCBT Bank or the Bank), with the Bank as the surviving entity. The other subsidiaries of First Financial are expected to become subsidiaries of SCBT Financial Corporation.

Under the terms of the Agreement, First Financial common shareholders will receive aggregate consideration of approximately 7,002,384 shares of SCBT common stock. The common stock consideration is based upon a fixed exchange ratio of 0.4237 shares of SCBT common stock for each of the outstanding shares of FFCH common stock, and each outstanding share of First Financial Fixed Rate Cumulative Perpetual Preferred Stock, Series A ("First Financial Preferred Stock"), will be converted into the right to receive one share of preferred stock of SCBT, to be designated Series A Fixed Rate Cumulative Perpetual Preferred Stock and having such rights, preferences and privileges as are not materially less favorable than the rights, preferences and privileges of the First Financial Preferred Stock.

The transaction is subject to regulatory approvals, the affirmative vote of both SCBT Financial Corporation s and First Financial s shareholders, and other customary closing conditions. The transaction is expected to close during the third quarter of 2013.

The Savannah Bancorp, Inc. Acquisition

On December 13, 2012, the Company acquired all of the outstanding common stock of The Savannah Bancorp, Inc. (Savannah), a bank holding company based in Savannah, Georgia, in a stock transaction. Savannah common shareholders received 0.2503 shares of the Company s common stock in exchange for each share of Savannah stock, resulting in the Company issuing 1,802,137 common shares. In total, the purchase price was $68.9 million including the value of in the money outstanding stock options totaling $63,000.

The Savannah transaction was accounted for using the acquisition 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.

Table of Contents

Note 4 Mergers and Acquisitions (Continued)

The following table presents the assets acquired and liabilities assumed as of December 13, 2012, as recorded by Savannah on the acquisition date and initial and subsequent fair value adjustments.

(Dollars in thousands)	As Recorded by Savannah	Fair Value Adjustments	Subsequent Fair Value Adjustments	As Recorded by SCBT
Assets				
Cash and cash equivalents	$ 86,244	$	$	$ 86,244
Investment securities	75,460	(1,288)(a)	31(a)	74,203
Loans	660,555	(59,196)(b)		601,359
Premises and equipment	12,555	(1,843)(c)	(264)(c)	10,448
Intangible assets	3,357	9,546(d)	15(d)	12,918
Other real estate owned and repossessed assets	13,934	(5,315)(e)	264(e)	8,883
Bank owned life insurance	6,705			6,705
Deferred tax asset	(790)	39,143(f)	(128)(f)	38,225
Other assets	8,497	(2,348)(g)		6,149
Total assets	$ 866,517	$ (21,301)	$ (82)	$ 845,134
Liabilities				
Deposits:				
Noninterest-bearing	$ 129,902	$	$	$ 129,902
Interest-bearing	619,198	2,530(h)		621,728
Total deposits	749,100	2,530		751,630
Federal funds purchased and securities sold under agreements to repurchase	13,491			13,491
Other borrowings	30,613	(232)(i)		30,381
Other liabilities	8,026	6,657(j)	(311)(j)	14,372
Total liabilities	801,230	8,955	(311)	809,874
Net identifiable assets acquired over (under) liabilities assumed	65,287	(30,256)	229	35,260
Goodwill		33,886	(229)	33,657
Net assets acquired over liabilities assumed	$ 65,287	$ 3,630	$	$ 68,917
Consideration:				
SCBT Financial Corporation common shares issued	1,802,137			
Purchase price per share of the Company s common stock	$ 38.20			
Company common stock issued and cash exchanged for fractional shares	68,854			
Cash paid for stock options outstanding	63			
Fair value of total consideration transferred	$ 68,917			

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 Savannah.

(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 and customer lists.

(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 fair value 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 prepayment fee paid when FHLB advances were completely paid off in December of 2012 and the fair value adjustment based on the Company s evaluation of the junior subordinated debt.

(j) Adjustment reflects the incremental accrual for employee related benefits, asset sale termination fee and other liabilities.

Table of Contents

Note 4 Mergers and Acquisitions (Continued)

Peoples Bancorporation, Inc. Acquisition

On April 24, 2012, the Company acquired all of the outstanding common stock of Peoples Bancorporation, Inc. (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 $44.5 million including the value of in the money outstanding stock options totaling $96,000.

The Peoples transaction was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at fair value on the acquisition date.

The following table presents the assets acquired and liabilities assumed as of April 24, 2012, as recorded by Peoples on the acquisition date and initial and subsequent fair value 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	3,202(c)		13,296
Intangible assets		2,930(d)		2,930
Other real estate owned and repossessed assets	13,257	(5,153)(e)		8,104
Deferred tax asset	4,702	11,766(f)	64(f)	16,532
Other assets	17,588	(883)(g)		16,705
Total assets	$ 509,292	$ (17,193)	$ 64	$ 492,163
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	2,475(i)	178(i)	6,944
Total liabilities	447,498	3,880	178	451,556
Net identifiable assets acquired over (under) liabilities assumed	61,794	(21,073)	(114)	40,607
Goodwill		3,828	114	3,942
	$ 61,794	$ (17,245)	$	$ 44,549

Net assets acquired over (under) liabilities assumed			
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	
Cash paid for stock options outstanding		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 fair value adjustments at 35.8% income tax rate.

Table of Contents

Note 4 Mergers and Acquisitions (Continued)

(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.

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
March 31, 2013:				
State and municipal obligations	**$ 14,598**	**$ 957**	**$**	**$ 15,555**
December 31, 2012:				
State and municipal obligations	$ 15,440	$ 1,113	$	$ 16,553
March 31, 2012:				
State and municipal obligations	$ 16,568	$ 1,096	$	$ 17,664

Table of Contents

Note 5 Investment Securities (Continued)

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
March 31, 2013:				
Government-sponsored entities debt *	**$ 71,408**	**$ 515**	**$ (121)**	**$ 71,802**
State and municipal obligations	**144,979**	**4,308**	**(391)**	**148,896**
Mortgage-backed securities **	**283,348**	**6,585**	**(191)**	**289,742**
Corporate stocks	**241**	**172**	**(1)**	**412**
	$ 499,976	**$ 11,580**	**$ (704)**	**$ 510,852**
December 31, 2012:				
Government-sponsored entities debt *	$ 87,584	$ 965	$ (31)	$ 88,518
State and municipal obligations	147,201	5,647	(49)	152,799
Mortgage-backed securities **	285,800	7,489	(102)	293,187
Corporate stocks	241	139	(1)	379
	$ 520,826	$ 14,240	$ (183)	$ 534,883
March 31, 2012:				
Government-sponsored entities debt *	$ 65,505	$ 985	$ (112)	$ 66,378
State and municipal obligations	39,099	2,942	(33)	42,008
Mortgage-backed securities **	208,564	5,301	(56)	213,809
Corporate stocks	240	154	(1)	393
	$ 313,408	$ 9,382	$ (202)	$ 322,588

* - 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.

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
March 31, 2013:				
Federal Home Loan Bank stock	**$ 6,163**	**$**	**$**	**$ 6,163**
Investment in unconsolidated subsidiaries	**1,642**			**1,642**
	$ 7,805	**$**	**$**	**$ 7,805**
December 31, 2012:				
Federal Home Loan Bank stock	$ 8,126	$	$	$ 8,126
Investment in unconsolidated subsidiaries	1,642			1,642
	$ 9,768	$	$	$ 9,768
March 31, 2012:				
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

The Company has determined that the investment in FHLB stock is not other than temporarily impaired as of March 31, 2013 and ultimate recoverability of the par value of these investments is probable.

Table of Contents

Note 5 Investment Securities (Continued)

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 March 31, 2013 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	$ 1,924	$ 1,955	$ 3,946	$ 3,981
Due after one year through five years	345	369	13,669	14,011
Due after five years through ten years	8,927	9,523	111,773	114,088
Due after ten years	3,402	3,708	370,588	378,772
	$ 14,598	$ 15,555	$ 499,976	$ 510,852

Table of Contents

Note 5 Investment Securities (Continued)

Information pertaining to the Company s securities with gross unrealized losses at March 31, 2013, December 31, 2012 and March 31, 2012, 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**
March 31, 2013:								
Securities Held to Maturity								
State and municipal obligations	**$**		**$**		**$**		**$**	
Securities Available for Sale								
Government-sponsored entities debt	**$**	**121**	**$**	**27,852**	**$**		**$**	
State and municipal obligations		**391**		**27,502**				
Mortgage-backed securities		**191**		**26,765**				
Corporate Stocks		**1**		**9**				
	$	**704**	**$**	**82,128**	**$**		**$**	
December 31, 2012:								
Securities Held to Maturity								
State and municipal obligations	$		$		$		$	
Securities Available for Sale								
Government-sponsored entities debt	$	31	$	4,963	$		$	
State and municipal obligations		49		9,602				
Mortgage-backed securities		102		13,709				
Corporate stocks		1		9				
	$	183	$	28,283	$		$	
March 31, 2012:								
Securities Held to Maturity								
State and municipal obligations	$		$		$		$	
Securities Available for Sale								
Government-sponsored entities debt	$	112	$	15,516	$		$	
State and municipal obligations		18		381		15		486
Mortgage-backed securities		56		8,367				
Corporate stocks						1		9
	$	186	$	24,264	$	16	$	495

Management evaluates securities for other-than-temporary impairment (OTTI) 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) the intent and ability of the Company to retain its 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. As part of the Company s evaluation of its intent and ability to hold investments for a period of time sufficient to allow for any anticipated recovery in the market, the Company considers its investment strategy, cash flow needs, liquidity position, capital adequacy and interest rate risk position. The Company does not currently intend to sell the securities within the portfolio and it is not more-likely-than-not that the Company will be required to sell the debt securities; therefore, management does not consider these investments to be other-than-temporarily impaired at March 31, 2013. Management continues to monitor all of these securities with a high degree of scrutiny. There can be no assurance that the Company will not conclude in future periods that conditions existing at that time indicate some or all of these securities may be sold or are other than temporarily impaired, which would require a charge to earnings in such periods.

Table of Contents

Note 6 Loans and Allowance for Loan Losses

The following is a summary of non-acquired loans:

(Dollars in thousands)	March 31, 2013	December 31, 2012	March 31, 2012
Non-acquired loans:			
Commercial non-owner occupied real estate:			
Construction and land development	**$ 273,488**	$ 273,420	$ 294,865
Commercial non-owner occupied	**298,707**	290,071	284,044
Total commercial non-owner occupied real estate	**572,195**	563,491	578,909
Consumer real estate:			
Consumer owner occupied	**443,134**	434,503	407,697
Home equity loans	**249,356**	255,284	258,054
Total consumer real estate	**692,490**	689,787	665,751
Commercial owner occupied real estate	**796,139**	784,152	744,441
Commercial and industrial	**291,308**	279,763	216,083
Other income producing property	**131,776**	133,713	130,177
Consumer	**93,997**	86,934	85,350
Other loans	**26,393**	33,163	16,603
Total non-acquired loans	**2,604,298**	2,571,003	2,437,314
Less allowance for loan losses	**(41,669)**	(44,378)	(47,607)
Non-acquired loans, net	**$ 2,562,629**	$ 2,526,625	$ 2,389,707

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 majority of the acquired loans are accounted for in accordance with FASB ASC Topic 310-30.

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
March 31, 2013:			
FASB ASC Topic 310-30 acquired loans:			
Covered loans:			
Commercial loans greater than or equal to $1 million-CBT	**$ 19,433**	**$ 28,677**	**$ 48,110**
Commercial real estate	**17,648**	**35,324**	**52,972**
Commercial real estate construction and development	**11,690**	**15,967**	**27,657**
Residential real estate	**37,091**	**60,681**	**97,772**
Consumer	**776**	**3,069**	**3,845**
Commercial and industrial	**7,682**	**14,296**	**21,978**
Single pay	**4,560**	**172**	**4,732**
Total covered loans	**$ 98,880**	**$ 158,186**	**$ 257,066**
Non-covered loans:			
Commercial real estate	**49,391**	**244,875**	**294,266**
Commercial real estate construction and development	**27,431**	**54,971**	**82,402**
Residential real estate	**39,027**	**199,231**	**238,258**
Consumer	**1,416**	**7,907**	**9,323**
Commercial and industrial	**2,884**	**40,822**	**43,706**
Total non-covered loans	**120,149**	**547,806**	**667,955**
Total FASB ASC Topic 310-30 acquired loans	**219,029**	**705,992**	**925,021**
Total FASB ASC Topic 310-20 acquired loans (non-covered)		**70,234**	**70,234**
Total acquired loans	**219,029**	**776,226**	**995,255**
Less allowance for loan losses	**(26,302)**	**(4,975)**	**(31,277)**
Acquired loans, net	**$ 192,727**	**$ 771,251**	**$ 963,978**
December 31, 2012:			
FASB ASC Topic 310-30 acquired loans:			
Covered loans:			
Commercial loans greater than or equal to $1 million-CBT	$ 19,483	$ 30,201	$ 49,684
Commercial real estate	22,946	40,016	62,962
Commercial real estate construction and development	15,107	17,468	32,575
Residential real estate	39,050	65,761	104,811
Consumer	948	3,376	4,324
Commercial and industrial	8,281	15,319	23,600
Single pay	4,599	173	4,772
Total covered loans	$ 110,414	$ 172,314	$ 282,728
Non-covered loans:			

Commercial real estate	53,259	256,703	309,962
Commercial real estate construction and development	32,975	64,901	97,876
Residential real estate	40,585	209,731	250,316
Consumer	1,672	9,689	11,361
Commercial and industrial	3,064	46,220	49,284
Total non-covered loans	131,555	587,244	718,799
Total FASB ASC Topic 310-30 acquired loans	241,969	759,558	1,001,527
Total FASB ASC Topic 310-20 acquired loans (non-covered)		73,215	73,215
Total acquired loans	241,969	832,773	1,074,742
Less allowance for loan losses	(24,988)	(7,144)	(32,132)
Acquired loans, net	$ 216,981	$ 825,629	$ 1,042,610

Table of Contents

Note 6 Loans and Allowance for Loan Losses (Continued)

(Dollars in thousands)	Loans Impaired at Acquisition	Loans Not Impaired at Acquisition	Total
March 31, 2012:			
FASB ASC Topic 310-30 acquired loans:			
Covered loans:			
Commercial loans greater than or equal to $1 million-CBT	$ 21,956	$ 34,360	$ 56,316
Commercial real estate	35,202	64,632	99,834
Commercial real estate construction and development	24,513	19,743	44,256
Residential real estate	50,816	77,394	128,210
Consumer	2,057	4,088	6,145
Commercial and industrial	8,570	14,320	22,890
Single pay	5,226	174	5,400
Total covered loans	$ 148,340	$ 214,711	$ 363,051
Non-covered loans:			
Commercial real estate	353	610	963
Commercial real estate construction and development	22	61	83
Residential real estate	342	637	979
Consumer	2,170	268	2,438
Commercial and industrial	75	1,555	1,630
Total non-covered loans	2,962	3,131	6,093
Total FASB ASC Topic 310-30 acquired loans	151,302	217,842	369,144
Less allowance for loan losses	(25,712)	(8,643)	(34,355)
Acquired loans, net	$ 125,590	$ 209,199	$ 334,789

Contractual loan payments receivable, estimates of amounts not expected to be collected, other fair value adjustments and the resulting fair values of FASB ASC Topic 310-30 acquired loans impaired and non-impaired at the acquisition date for Savannah (December 13, 2012) are as follows:

	December 13, 2012 FASB ASC Topic 310-30 Loans		
(Dollars in thousands)	Loans Impaired at Acquisition	Loans Not Impaired at Acquisition	Total
Contractual principal and interest	$ 155,582	$ 483,293	$ 638,875
Non-accretable difference	(37,492)	(9,460)	(46,952)
Cash flows expected to be collected	118,090	473,833	591,923
Accretable yield	(8,615)	(51,466)	(60,081)
Carrying value	$ 109,475	$ 422,367	$ 531,842

The table above excludes $69.5 million ($74.9 million in contractual principal less a $5.4 million fair value adjustment) in acquired loans at fair value as of the acquisition date that will be accounted for under FASB ASC Topic 310-20. These loans are primarily commercial and consumer lines of credit for which the entire discount will be accreted into interest income.

Table of Contents

Note 6 Loans and Allowance for Loan Losses (Continued)

Contractual loan payments receivable, estimates of amounts not expected to be collected, other fair value adjustments and the resulting fair values of acquired loans impaired and non-impaired at the acquisition date for Peoples (April 24, 2012) are as follows:

	April 24, 2012		
	FASB ASC Topic 310-30 Loans		
(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

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 March 31, 2013, December 31, 2012, and March 31, 2012 are as follows:

	FASB ASC Topic 310-30 Loans		
(Dollars in thousands)	**Loans Impaired at Acquisition**	**Loans Not Impaired at Acquisition**	**Total**
March 31, 2013:			
Contractual principal and interest	**$ 336,815**	**$ 846,617**	**$ 1,183,432**
Non-accretable difference	**(68,127)**	**(40,763)**	**(108,890)**
Cash flows expected to be collected	**268,688**	**805,854**	**1,074,542**
Accretable yield	**(49,659)**	**(99,862)**	**(149,521)**
Carrying value	**$ 219,029**	**$ 705,992**	**$ 925,021**
Allowance for acquired loan losses	**$ (26,302)**	**$ (4,975)**	**$ (31,277)**
December 31, 2012:			
Contractual principal and interest	$ 376,894	$ 926,153	$ 1,303,047
Non-accretable difference	(86,514)	(54,157)	(140,671)
Cash flows expected to be collected	290,380	871,996	1,162,376
Accretable yield	(48,411)	(112,438)	(160,849)
Carrying value	$ 241,969	$ 759,558	$ 1,001,527
Allowance for acquired loan losses	$ (24,988)	$ (7,144)	$ (32,132)
March 31, 2012:			
Contractual principal and interest	$ 282,499	$ 329,796	$ 612,295
Non-accretable difference	(100,477)	(56,524)	(157,001)
Cash flows expected to be collected	182,022	273,272	455,294
Accretable yield	(30,720)	(55,430)	(86,150)
Carrying value	$ 151,302	$ 217,842	$ 369,144
Allowance for acquired loan losses	$ (25,712)	$ (8,643)	$ (34,355)

The table above excludes $70.2 million ($75.2 million in contractual principal less a $4.9 million discount) in acquired loans at carrying value as of March 31, 2013 accounted for under FASB ASC Topic 310-20. The table above excludes $73.2 million ($78.5 million in contractual principal less a $5.3 million discount) in acquired loans at carrying value as of December 31, 2012 accounted for under FASB ASC Topic 310-20.

Table of Contents

Note 6 Loans and Allowance for Loan Losses (Continued)

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 $1.2 billion, $1.3 billion, and $540.4 million at March 31, 2013, December 31, 2012 and March 31, 2012, respectively.

The following are changes in the carrying value of acquired loans during the three months ended March 31, 2013 and 2012:

	FASB ASC Topic 310-30 Loans		
(Dollars in thousands)	**Loans Impaired at Acquisition**	**Loans Not Impaired at Acquisition**	**Total**
Balance, December 31, 2012	**$ 216,981**	**$ 752,414**	**$ 969,395**
Net reductions for payments, foreclosures, and accretion	**(22,940)**	**(53,566)**	**(76,506)**
Change in the allowance for loan losses on acquired loans	**(1,314)**	**2,169**	**855**
Balance, March 31, 2013, net of allowance for loan losses on acquired loans	**$ 192,727**	**$ 701,017**	**$ 893,744**
Balance, December 31, 2011	$ 146,955	$ 223,626	$ 370,581
Net reductions for payments, foreclosures, and accretion	(19,528)	(13,529)	(33,057)
Change in the allowance for loan losses on acquired loans	(1,837)	(898)	(2,735)
Balance, March 30, 2012, net of allowance for loan losses on acquired loans	$ 125,590	$ 209,199	$ 334,789

The following are changes in the carrying amount of accretable difference for acquired impaired and non-impaired loans for the three months ended March 31, 2013 and 2012:

	Three Months Ended March 31,	
(Dollars in thousands)	**2013**	**2012**
Beginning at beginning of period	**$ 160,849**	$ 94,600
Interest income	**(21,712)**	(9,110)
Reclass of nonaccretable difference due to improvement in expected cash flows	**13,812**	8,270
Other changes, net	**(3,428)**	(7,610)
Balance at end of period	**$ 149,521**	$ 86,150

On December 13, 2006, the FDIC, Federal Reserve, OCC, 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 allowances for losses on loans. These agencies may require management to recognize additions to the allowances based on their judgments about information available to them at the time of their examination. Because of these and other factors, it is possible that the allowances for losses on loans may change. The provision for loan losses is charged to expense in an amount necessary to maintain the allowance at an appropriate level.

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 adjustments 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 specific reserve is evaluated on impaired loans greater than $250,000, and once a specific reserve is established for a loan, a charge off of that amount occurs in the quarter subsequent to the establishment of the specific reserve. Loans that are determined to be impaired are provided a specific reserve, if necessary, and are excluded from the calculation of the general reserves.

In determining the acquisition date fair value of purchased loans, and in subsequent accounting, SCBT generally aggregates purchased loans into pools of loans with common risk characteristics. Expected cash flows at the acquisition date in excess of the fair value of loans are recorded as interest income over the life of the loans using a level yield method if the timing and amount of the future cash flows of the pool is reasonably estimable. Subsequent to the acquisition date, increases in cash flows over those expected at the acquisition date are reclassified from the non-accretable difference to accretable yield and 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 an expected loss. The expected loss is derived based upon 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 Business Combinations and method of Accounting for Loans Acquired in our Annual Report on Form 10-K for the year ended December 31, 2012.)

An aggregated analysis of the changes in allowance for loan losses is as follows:

(Dollars in thousands)	Non-acquired Loans	Acquired Loans	Total
Three months ended March 31, 2013:			
Balance at beginning of period	$ 44,378	$ 32,132	$ 76,510
Loans charged-off	(4,607)		(4,607)
Recoveries of loans previously charged off	1,045		1,045
Net charge-offs	(3,562)		(3,562)
Provision for loan losses	853	(855)	(2)
Benefit attributable to FDIC loss share agreements		1,062	1,062
Total provision for loan losses charged to operations	853	207	1,060
Provision for loan losses recorded through the FDIC loss share receivable		(1,062)	(1,062)
Balance at end of period	$ 41,669	$ 31,277	$ 72,946

Three months ended March 31, 2012:			
Balance at beginning of period	$ 49,367	$ 31,620	$ 80,987
Loans charged-off	(5,698)		(5,698)
Recoveries of loans previously charged off	1,640		1,640
Net charge-offs	(4,058)		(4,058)
Provision for loan losses	2,298	2,735	5,033
Benefit attributable to FDIC loss share agreements		(2,310)	(2,310)
Total provision for loan losses charged to operations	2,298	425	2,723
Provision for loan losses recorded through the FDIC loss share receivable		2,310	2,310
Balance at end of period	$ 47,607	$ 34,355	$ 81,962

Note 6 Loans and Allowance for Loan Losses (Continued)

The following tables present a disaggregated analysis of activity in the allowance for loan losses and loan balances for non-acquired loans:

(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
Three months ended March 31, 2013:										
Allowance for loan losses:										
Balance, December 31, 2012	**$ 10,836**	**$ 4,921**	**$ 8,743**	**$ 6,568**	**$ 3,626**	**$ 4,939**	**$ 3,747**	**$ 781**	**$ 217**	**$ 44,378**
Charge-offs	**(2,197)**		**(695)**	**(150)**	**(197)**	**(324)**	**(339)**	**(705)**		**(4,607)**
Recoveries	**258**	**254**	**10**	**89**	**72**	**99**	**9**	**254**		**1,045**
Provision	**339**	**96**	**150**	**16**	**35**	**71**	**42**	**104**		**853**
Balance, March 31, 2013	**$ 9,236**	**$ 5,271**	**$ 8,208**	**$ 6,523**	**$ 3,536**	**$ 4,785**	**$ 3,459**	**$ 434**	**$ 217**	**$ 41,669**
Loans individually evaluated for impairment	**$ 1,027**	**$ 2,059**	**$ 623**	**$ 200**	**$**	**$ 84**	**$ 809**	**$**	**$**	**$ 4,802**
Loans collectively evaluated for impairment	**$ 8,209**	**$ 3,212**	**$ 7,585**	**$ 6,323**	**$ 3,536**	**$ 4,701**	**$ 2,650**	**$ 434**	**$ 217**	**$ 36,867**
Loans:										
Loans individually evaluated for impairment	**$ 12,057**	**$ 4,861**	**$ 17,629**	**$ 1,177**	**$**	**$ 1,934**	**$ 4,040**	**$**	**$**	**$ 41,698**
Loans collectively evaluated for impairment	**261,431**	**293,846**	**778,510**	**441,957**	**249,356**	**289,374**	**127,736**	**93,997**	**26,393**	**2,562,600**
Total non-acquired loans	**$ 273,488**	**$ 298,707**	**$ 796,139**	**$ 443,134**	**$ 249,356**	**$ 291,308**	**$ 131,776**	**$ 93,997**	**$ 26,393**	**$ 2,604,298**
Three months ended March 31, 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	(1,010)	(1,002)	(1,495)	(446)	(500)	(330)	(455)	(409)	(51)	(5,698)
Recoveries	780	16	1	12	181	110	273	256	11	1,640
Provision	455	539	409	548	83	69	63	83	49	2,298
Balance, March 31, 2012	$ 12,598	$ 5,662	$ 9,271	$ 7,567	$ 4,033	$ 3,750	$ 3,517	$ 1,075	$ 134	$ 47,607
Loans individually evaluated for impairment	$ 2,052	$ 528	$ 294	$ 644	$	$	$ 322	$	$	$ 3,840
Loans collectively evaluated for impairment	$ 10,546	$ 5,134	$ 8,977	$ 6,923	$ 4,033	$ 3,750	$ 3,195	$ 1,075	$ 134	$ 43,767
Loans:										
Loans individually evaluated for impairment	$ 22,641	$ 8,017	$ 16,895	$ 4,004	$	$ 884	$ 4,686	$	$	$ 57,127
Loans collectively evaluated for impairment	272,224	276,027	727,546	403,693	258,054	215,199	125,491	85,350	16,603	2,380,187
Total non-acquired loans	$ 294,865	$ 284,044	$ 744,441	$ 407,697	$ 258,054	$ 216,083	$ 130,177	$ 85,350	$ 16,603	$ 2,437,314

Table of Contents

Note 6 Loans and Allowance for Loan Losses (Continued)

The following tables present a disaggregated analysis of activity in the allowance for loan losses and loan balances for acquired loans:

(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	FASB ASC Topic 310-20 Loans	Total
Three months ended March 31, 2013:									
Allowance for loan losses:									
Balance, December 31, 2012	$ 15,408	$ 1,517	$ 1,628	$ 4,616	$ 96	$ 4,305	$ 4,562	$	$ 32,132
Charge-offs									
Recoveries									
Provision for loan losses before benefit attributable to FDIC loss share agreements	(452)	(675)	856	(55)	(7)	(522)			(855)
Benefit attributable to FDIC loss share agreements	429	526	(686)	290	7	496			1,062
Total provision for loan losses charged to operations	(23)	(149)	170	235		(26)			207
Provision for loan losses recorded through the FDIC loss share receivable	(429)	(526)	686	(290)	(7)	(496)			(1,062)
Balance, March 31, 2013	$ 14,956	$ 842	$ 2,484	$ 4,561	$ 89	$ 3,783	$ 4,562	$	$ 31,277
Loans individually evaluated for impairment	$	$	$	$	$	$	$	$	$
Loans collectively evaluated for impairment	$ 14,956	$ 842	$ 2,484	$ 4,561	$ 89	$ 3,783	$ 4,562	$	$ 31,277
Loans:*									
Loans individually evaluated for impairment	$	$	$	$	$	$	$	$	$
Loans collectively evaluated for impairment	48,110	347,238	110,059	336,030	13,168	65,684	4,732	70,234	995,255
Total acquired loans	$ 48,110	$ 347,238	$ 110,059	$ 336,030	$ 13,168	$ 65,684	$ 4,732	$ 70,234	$ 995,255
Three months ended March 31, 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	145	73	2,057	(1,136)	10	19	1,567		2,735
Benefit attributable to FDIC loss share agreements	(138)	(69)	(1,666)	1,079	(9)	(18)	(1,489)		(2,310)

Total provision for loan losses charged to operations	7	4	391	(57)	1	1	78		425
Provision for loan losses recorded through the FDIC loss share receivable	138	69	1,666	(1,079)	9	18	1,489		2,310
Balance, March 31, 2012	$ 16,851	$ 1,391	$ 2,057	$ 4,335	$ 10	$ 4,583	$ 5,128	$	$ 34,355
Loans individually evaluated for impairment	$	$	$	$	$	$	$	$	$
Loans collectively evaluated for impairment	$ 16,851	$ 1,391	$ 2,057	$ 4,335	$ 10	$ 4,583	$ 5,128	$	$ 34,355
Loans:*									
Loans individually evaluated for impairment	$	$	$	$	$	$	$	$	$
Loans collectively evaluated for impairment	56,316	100,797	44,339	129,189	8,583	24,520	5,400		369,144
Total acquired loans	$ 56,316	$ 100,797	$ 44,339	$ 129,189	$ 8,583	$ 24,520	$ 5,400	$	$ 369,144

* The carrying value of FASB ASC Topic 310-30 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)

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

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

- Pass These loans range from minimal credit risk to average however still acceptable credit risk.

- Special mention A special mention loan has potential weaknesses that deserve management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or the institution s credit position at some future date.

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

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

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

	Construction & Development			**Commercial Non-owner Occupied**			**Commercial Owner Occupied**		
(Dollars in thousands)	**March 31, 2013**	**December 31, 2012**	**March 31, 2012**	**March 31, 2013**	**December 31, 2012**	**March 31, 2012**	**March 31, 2013**	**December 31, 2012**	**March 31, 2012**
Pass	**$ 221,162**	$ 215,793	$ 219,893	**$ 242,738**	$ 232,714	$ 223,277	**$ 735,463**	$ 716,578	$ 666,023
Special mention	**29,006**	31,670	33,009	**36,901**	38,473	39,576	**28,262**	31,800	33,166
Substandard	**23,320**	25,957	41,963	**19,068**	18,884	21,191	**32,414**	35,774	45,252
Doubtful									
	$ 273,488	$ 273,420	$ 294,865	**$ 298,707**	$ 290,071	$ 284,044	**$ 796,139**	$ 784,152	$ 744,441

	Commercial & Industrial			**Other Income Producing Property**			**Commercial Total**		
	March 31, 2013	**December 31, 2012**	**March 31, 2012**	**March 31, 2013**	**December 31, 2012**	**March 31, 2012**	**March 31, 2013**	**December 31, 2012**	**March 31, 2012**

Pass	**$ 270,759**	$ 265,148	$ 199,147	**$ 112,843**	$ 114,809	$ 110,120	**$ 1,582,965**	$ 1,545,042	$ 1,418,460
Special mention	**11,400**	8,626	10,964	**9,596**	9,324	9,151	**115,165**	119,893	125,866
Substandard	**9,149**	5,989	5,972	**9,337**	9,580	10,906	**93,288**	96,184	125,284
Doubtful									
	$ 291,308	$ 279,763	$ 216,083	**$ 131,776**	$ 133,713	$ 130,177	**$ 1,791,418**	$ 1,761,119	$ 1,669,610

Table of Contents

Note 6 Loans and Allowance for Loan Losses (Continued)

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

	Consumer Owner Occupied			Home Equity			Consumer		
(Dollars in thousands)	March 31, 2013	December 31, 2012	March 31, 2012	March 31, 2013	December 31, 2012	March 31, 2012	March 31, 2013	December 31, 2012	March 31, 2012
Pass	**$ 397,998**	$ 388,822	$ 359,701	**$ 235,428**	$ 241,184	$ 240,251	**$ 92,698**	$ 85,517	$ 84,223
Special mention	**23,410**	24,515	24,079	**8,150**	7,837	11,357	**869**	897	703
Substandard	**21,148**	21,166	23,917	**5,754**	6,239	6,446	**430**	519	424
Doubtful	**578**			**24**	24			1	
	$ 443,134	$ 434,503	$ 407,697	**$ 249,356**	$ 255,284	$ 258,054	**$ 93,997**	$ 86,934	$ 85,350

	Other			Consumer Total		
	March 31, 2013	December 31, 2012	March 31, 2012	March 31, 2013	December 31, 2012	March 31, 2012
Pass	**$ 26,393**	$ 33,163	$ 16,603	**$ 752,517**	$ 748,686	$ 700,778
Special mention				**32,429**	33,249	36,139
Substandard				**27,332**	27,924	30,787
Doubtful				**602**	25	
	$ 26,393	$ 33,163	$ 16,603	**$ 812,880**	$ 809,884	$ 767,704

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

	Total Non-acquired Loans		
(Dollars in thousands)	March 31, 2013	December 31, 2012	March 31, 2012
Pass	**$ 2,335,482**	$ 2,293,728	$ 2,119,238
Special mention	**147,594**	153,142	162,005
Substandard	**120,620**	124,108	156,071
Doubtful	**602**	25	
	$ 2,604,298	$ 2,571,003	$ 2,437,314

At March 31, 2013, the aggregate amount of non-acquired substandard and doubtful loans totaled $121.2 million. When these loans are combined with non-acquired OREO of $19.7 million, our non-acquired classified assets (as defined by the state of South Carolina and the FDIC, our primary federal regulators) were $140.9 million. At December 31, 2012, the amounts were $124.1 million, $19.1 million, and $143.2 million, respectively. At March 31, 2012, the amounts were $156.1 million, $21.4 million, and $177.5 million, respectively.

Table of Contents

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 (this table should be read in conjunction with the allowance for acquired loan losses table found on page 21):

	Commercial Loans Greater Than or Equal to $1 million-CBT			**Commercial Real Estate**			**Commercial Real Estate Construction and Development**		
(Dollars in thousands)	**March 31, 2013**	**December 31, 2012**	**March 31, 2012**	**March 31, 2013**	**December 31, 2012**	**March 31, 2012**	**March 31, 2013**	**December 31, 2012**	**March 31, 2012**
Pass	**$ 14,505**	$ 14,355	$ 15,947	**$ 21,208**	$ 22,687	$ 31,213	**$ 7,042**	$ 7,134	$ 9,168
Special mention	**3,476**	3,470	4,665	**10,078**	10,609	21,412	**2,702**	3,474	7,079
Substandard	**30,129**	31,859	35,704	**21,539**	29,501	46,774	**17,168**	21,154	25,331
Doubtful				**147**	165	435	**745**	813	2,678
	$ 48,110	$ 49,684	$ 56,316	**$ 52,972**	$ 62,962	$ 99,834	**$ 27,657**	$ 32,575	$ 44,256

	Residential Real Estate			**Consumer**			**Commercial & Industrial**		
	March 31, 2013	**December 31, 2012**	**March 31, 2012**	**March 31, 2013**	**December 31, 2012**	**March 31, 2012**	**March 31, 2013**	**December 31, 2012**	**March 31, 2012**
Pass	**$ 37,403**	$ 41,907	$ 48,349	**$ 1,912**	$ 2,215	$ 2,797	**$ 7,710**	$ 8,073	$ 6,552
Special mention	**18,984**	20,915	25,117	**536**	574	764	**3,816**	3,744	4,529
Substandard	**40,990**	41,963	51,572	**1,397**	1,534	2,317	**10,422**	11,753	11,242
Doubtful	**395**	26	3,172		1	267	**30**	30	567
	$ 97,772	$ 104,811	$ 128,210	**$ 3,845**	$ 4,324	$ 6,145	**$ 21,978**	$ 23,600	$ 22,890

	Single Pay		
	March 31, 2013	**December 31, 2012**	**March 31, 2012**
Pass	**$ 60**	$ 57	$ 730
Special mention	**51**	52	56
Substandard	**4,621**	4,663	4,614
Doubtful			
	$ 4,732	$ 4,772	$ 5,400

The following table presents the credit risk profile by risk grade of non-covered acquired loans, net of the related discount (this table should be read in conjunction with the allowance for acquired loan losses table found on page 21):

	Commercial Real Estate			**Commercial Real Estate Construction and Development**			**Residential Real Estate**		
(Dollars in thousands)	**March 31, 2013**	**December 31, 2012**	**March 31, 2012**	**March 31, 2013**	**December 31, 2012**	**March 31, 2012**	**March 31, 2013**	**December 31, 2012**	**March 31, 2012**
Pass	**$ 162,681**	$ 274,721	$ 923	**$ 30,563**	$ 80,008	$ 79	**$ 147,347**	$ 213,069	$ 766
Special mention	**51,828**	11,670	40	**16,293**	4,268		**32,752**	17,324	
Substandard	**79,757**	23,571		**35,398**	13,600	4	**58,074**	19,923	213
Doubtful				**148**			**85**		
	$ 294,266	$ 309,962	$ 963	**$ 82,402**	$ 97,876	$ 83	**$ 238,258**	$ 250,316	$ 979

	Consumer	**Commercial & Industrial**	**FASB ASC Topic 310-20 Loans**

	March 31, 2013	December 31, 2012	March 31, 2012	March 31, 2013	December 31, 2012	March 31, 2012	March 31, 2013	December 31, 2012	March 31, 2012
Pass	**$ 8,302**	$ 10,712	$ 1,920	**$ 32,419**	$ 45,973	$ 1,027	**$ 52,840**	$ 71,174	$
Special mention	**398**	209	160	**6,940**	1,549	515	**10,877**	574	
Substandard	**623**	440	358	**4,347**	1,762	88	**6,517**	1,467	
Doubtful									
	$ 9,323	$ 11,361	$ 2,438	**$ 43,706**	$ 49,284	$ 1,630	**$ 70,234**	$ 73,215	$

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:

(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans
March 31, 2013						
Commercial real estate:						
Construction and land development	**$ 121**	**$ 176**	**$ 7,609**	**$ 7,906**	**$ 265,582**	**$ 273,488**
Commercial non-owner occupied	**699**	**85**	**4,236**	**5,020**	**293,687**	**298,707**
Commercial owner occupied	**2,138**	**1,482**	**7,708**	**11,328**	**784,811**	**796,139**
Consumer real estate:						
Consumer owner occupied	**1,631**	**516**	**3,425**	**5,572**	**437,562**	**443,134**
Home equity loans	**1,035**	**66**	**354**	**1,455**	**247,901**	**249,356**
Commercial and industrial	**302**	**970**	**703**	**1,975**	**289,333**	**291,308**
Other income producing property	**907**	**9**	**2,351**	**3,267**	**128,509**	**131,776**
Consumer	**384**	**12**	**66**	**462**	**93,535**	**93,997**
Other loans	**56**	**22**	**24**	**102**	**26,291**	**26,393**
	$ 7,273	**$ 3,338**	**$ 26,476**	**$ 37,087**	**$ 2,567,211**	**$ 2,604,298**
December 31, 2012						
Commercial real estate:						
Construction and land development	$ 812	$ 701	$ 10,435	$ 11,948	$ 261,472	$ 273,420
Commercial non-owner occupied	1,013	572	3,605	5,190	284,881	290,071
Commercial owner occupied	1,141	40	9,827	11,008	773,144	784,152
Consumer real estate:						
Consumer owner occupied	1,433	241	4,045	5,719	428,784	434,503
Home equity loans	735	170	395	1,300	253,984	255,284
Commercial and industrial	1,187	513	549	2,249	277,514	279,763
Other income producing property	322	278	3,253	3,853	129,860	133,713
Consumer	364	151	112	627	86,307	86,934
Other loans	49	41	36	126	33,037	33,163
	$ 7,056	$ 2,707	$ 32,257	$ 42,020	$ 2,528,983	$ 2,571,003
March 31, 2012						
Commercial real estate:						
Construction and land development	$ 2,192	$ 866	$ 17,237	$ 20,295	$ 274,570	$ 294,865
Commercial non-owner occupied	166	359	5,615	6,140	277,904	284,044
Commercial owner occupied	1,126	403	13,730	15,259	729,182	744,441
Consumer real estate:						
Consumer owner occupied	1,850	178	4,838	6,866	400,831	407,697
Home equity loans	485	392	644	1,521	256,533	258,054
Commercial and industrial	235	88	957	1,280	214,803	216,083
Other income producing property	636	236	3,910	4,782	125,395	130,177
Consumer	299	59	81	439	84,911	85,350
Other loans	50	52	69	171	16,432	16,603
	$ 7,039	$ 2,633	$ 47,081	$ 56,753	$ 2,380,561	$ 2,437,314

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:

(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans
March 31, 2013						
Covered loans:						
Commercial loans greater than or equal to $1 million-CBT	$	$	$ 22,667	$ 22,667	$ 25,443	$ 48,110
Commercial real estate	2,675	737	7,089	10,501	42,471	52,972
Commercial real estate construction and development	2,927	371	7,842	11,140	16,517	27,657
Residential real estate	2,831	878	9,254	12,963	84,809	97,772
Consumer	78	137	648	863	2,982	3,845
Commercial and industrial	280	515	3,987	4,782	17,196	21,978
Single pay	51		4,123	4,174	558	4,732
	8,842	2,638	55,610	67,090	189,976	257,066
Non-covered loans:						
Commercial real estate	4,427	1,236	7,779	13,442	280,824	294,266
Commercial real estate construction and development	4,779	1,025	5,533	11,337	71,065	82,402
Residential real estate	1,627	4,590	9,813	16,030	222,228	238,258
Consumer	84	39	23	146	9,177	9,323
Commercial and industrial	126	553	404	1,083	42,623	43,706
FASB ASC Topic 310-20 loans	453	741	400	1,594	68,640	70,234
	11,496	8,184	23,952	43,632	694,557	738,189
	$ 20,338	$ 10,822	$ 79,562	$ 110,722	$ 884,533	$ 995,255
December 31, 2012						
Covered loans:						
Commercial loans greater than or equal to $1 million-CBT	$ 922	$ 993	$ 22,471	$ 24,386	$ 25,298	$ 49,684
Commercial real estate	3,154	1,536	12,162	16,852	46,110	62,962
Commercial real estate construction and development	1,381	220	11,615	13,216	19,359	32,575
Residential real estate	2,502	2,636	12,328	17,466	87,345	104,811
Consumer	67	19	687	773	3,551	4,324
Commercial and industrial	739	190	4,870	5,799	17,801	23,600
Single pay	1	3,256	62	3,319	1,453	4,772
	8,766	8,850	64,195	81,811	200,917	282,728
Non-covered loans:						
Commercial real estate	2,712	770	5,326	8,808	301,154	309,962
Commercial real estate construction and development	1,595	1,353	7,103	10,051	87,825	97,876
Residential real estate	5,109	2,193	5,987	13,289	237,027	250,316
Consumer	114	57	49	220	11,141	11,361
Commercial and industrial	529	97	277	903	48,381	49,284
FASB ASC Topic 310-20 loans	388	111	148	647	72,568	73,215
	10,447	4,581	18,890	33,918	758,096	792,014
	$ 19,213	$ 13,431	$ 83,085	$ 115,729	$ 959,013	$ 1,074,742
March 31, 2012						

Covered loans:						
Commercial loans greater than or equal to $1 million-CBT	$ 2,507	$ 1,639	$ 23,743	$ 27,889	$ 28,427	$ 56,316
Commercial real estate	882	382	19,893	21,157	78,677	99,834
Commercial real estate construction and development	945	412	16,030	17,387	26,869	44,256
Residential real estate	3,961	1,535	13,427	18,923	109,287	128,210
Consumer	105	250	936	1,291	4,854	6,145
Commercial and industrial	554	355	5,057	5,966	16,924	22,890
Single pay			3,669	3,669	1,731	5,400
	8,954	4,573	82,755	96,282	266,769	363,051
Non-covered loans:						
Commercial real estate					963	963
Commercial real estate construction and development					83	83
Residential real estate	166			166	813	979
Consumer	63	30	76	169	2,269	2,438
Commercial and industrial	2		10	12	1,618	1,630
	231	30	86	347	5,746	6,093
	$ 9,185	$ 4,603	$ 82,841	$ 96,629	$ 272,515	$ 369,144

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 Contractual Principal Balance	Recorded Investment With No Allowance	Gross Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
March 31, 2013					
Commercial real estate:					
Construction and land development	**$ 22,813**	**$ 8,327**	**$ 3,730**	**$ 12,057**	**$ 1,027**
Commercial non-owner occupied	**7,832**	**2,675**	**2,186**	**4,861**	**2,059**
Commercial owner occupied	**21,450**	**13,138**	**4,491**	**17,629**	**623**
Consumer real estate:					
Consumer owner occupied	**1,238**		**1,177**	**1,177**	**200**
Home equity loans					
Commercial and industrial	**3,105**	**1,596**	**338**	**1,934**	**84**
Other income producing property	**4,700**	**1,308**	**2,732**	**4,040**	**809**
Consumer					
Other loans					
Total impaired loans	**$ 61,138**	**$ 27,044**	**$ 14,654**	**$ 41,698**	**$ 4,802**
December 31, 2012					
Commercial real estate:					
Construction and land development	$ 21,350	$ 8,659	$ 4,890	$ 13,549	$ 1,573
Commercial non-owner occupied	7,564	3,148	2,196	5,344	411
Commercial owner occupied	23,566	15,698	4,514	20,212	648
Consumer real estate:					
Consumer owner occupied	2,040		1,954	1,954	213
Home equity loans					
Commercial and industrial	2,595	464	1,319	1,783	1,030
Other income producing property	4,656	1,382	3,011	4,393	1,004
Consumer					
Other loans					
Total impaired loans	$ 61,771	$ 29,351	$ 17,884	$ 47,235	$ 4,879
March 31, 2012					
Commercial real estate:					
Construction and land development	$ 29,648	$ 17,166	$ 5,819	$ 22,985	$ 2,044
Commercial non-owner occupied	10,637	5,731	2,086	7,817	528
Commercial owner occupied	20,841	12,308	4,442	16,750	275
Consumer real estate:					
Consumer owner occupied	4,315	882	3,122	4,004	644
Home equity loans					
Commercial and industrial	1,035	884		884	

Other income producing property	5,784	2,290	2,397	4,687	349
Consumer					
Other loans					
Total impaired loans	$ 72,260	$ 39,261	$ 17,866	$ 57,127	$ 3,840

Acquired loans are accounted for in pools as shown on page 21 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:

(Dollars in thousands)	Three Months Ended March 31, 2013 Average Investment in Impaired Loans	Three Months Ended March 31, 2013 Interest Income Recognized	Three Months Ended March 31, 2012 Average Investment in Impaired Loans	Three Months Ended March 31, 2012 Interest Income Recognized
Commercial real estate:				
Construction and land development	**$ 12,790**	**$ 18**	$ 24,009	$ 17
Commercial non-owner occupied	**5,168**	**1**	10,362	
Commercial owner occupied	**18,038**	**48**	17,888	44
Consumer real estate:				
Consumer owner occupied	**1,941**	**5**	2,974	22
Home equity loans				
Commercial and industrial	**1,438**		1,526	
Other income producing property	**4,237**	**8**	3,514	13
Consumer				
Other loans				
Total Impaired Loans	**$ 43,612**	**$ 80**	$ 60,273	$ 96

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

(Dollars in thousands)	March 31, 2013	December 31, 2012	March 31, 2012
Commercial non-owner occupied real estate:			
Construction and land development	**$ 10,218**	$ 11,961	$ 19,811
Commercial non-owner occupied	**4,363**	4,780	6,986
Total commercial non-owner occupied real estate	**14,581**	16,741	26,797
Consumer real estate:			
Consumer owner occupied	**8,200**	8,025	7,316
Home equity loans	**1,520**	1,835	1,156
Total consumer real estate	**9,720**	9,860	8,472
Commercial owner occupied real estate	**11,351**	14,146	14,622
Commercial and industrial	**2,133**	2,152	1,561
Other income producing property	**5,058**	5,405	6,070
Consumer	**102**	83	214
Other loans			
Restructured loans	**13,636**	13,151	12,121
Total loans on nonaccrual status	**$ 56,581**	$ 61,538	$ 69,857

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

Table of Contents

Note 6 Loans and Allowance for Loan Losses (Continued)

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).

The following table presents non-acquired loans designated as TDRs segregated by class and type of concession that were restructured during the three months ended March 31, 2013 and 2012:

	Three Months Ended March 31, 2013			**Three Months Ended March 31, 2012**		
(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	$ 164
Commercial owner occupied				1	443	443
Consumer owner occupied	**1**	**124**	**124**	1	1,151	1,148
Total interest rate modifications	**1**	**$ 124**	**$ 124**	3	$ 1,759	$ 1,755
Term modification						
Construction and land development				1	230	230
Commercial and industrial	**1**	**696**	**338**			
Total term modifications	**1**	**$ 696**	**$ 338**	1	$ 230	$ 230
	2	**$ 820**	**$ 462**	4	$ 1,989	$ 1,985

At March 31, 2013, December 31, 2012, and March 31, 2012, the balance of accruing TDRs was $5.0 million, $6.3 million, and $6.1 million, respectively.

The following table presents the changes in status of non-acquired loans restructured within the previous 12 months as of March 31, 2013 by type of concession:

	Paying Under Restructured Terms			Converted to Nonaccrual			Foreclosures and Defaults		
(Dollars in thousands)	Number of Loans		Recorded Investment	Number of Loans		Recorded Investment	Number of Loans		Recorded Investment
Interest rate modification	4	$	1,514		$			$	
Term modification	4		5,388						
	8	$	6,902		$			$	

The amount of specific reserve associated with non-acquired restructured loans was $1.2 million at March 31, 2013, 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 March 31, 2013.

Table of Contents

Note 7 FDIC Indemnification Asset

The following table provides changes in FDIC indemnification asset:

	Three Months Ended	
(Dollars in thousands)	**March 31, 2013**	**March 31, 2012**
Balance at beginning of period	**$ 146,171**	$ 262,651
Increase (decrease) in expected losses on loans	**(1,062)**	2,310
Additional losses on OREO	**841**	6,779
Reimbursable expenses	**1,097**	2,674
Amortization of discounts and premiums, net	**(7,171)**	(3,233)
Reimbursements from FDIC	**(15,536)**	(39,850)
Balance at end of period	**$ 124,340**	$ 231,331

The FDIC indemnification asset is measured separately from the related covered assets. At March 31, 2013, the projected cash flows related to the FDIC indemnification asset for losses on assets acquired were approximately $47.3 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. Subsequent to March 31, 2013, the Company expects to receive $13.0 million from loss share claims filed, including reimbursable expenses.

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 March 31, 2013, was estimated to be approximately $3.7 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 March 31, 2013.

Note 8 Other Real Estate Owned

The following is a summary of information pertaining to OREO at March 31, 2013:

(Dollars in thousands)	**OREO**	**Covered OREO**	**Total**
Balance, December 31, 2012	**$ 32,248**	**$ 34,257**	**$ 66,505**
Additions	**10,542**	**6,186**	**16,728**
Write-downs	**(1,599)**	**(971)**	**(2,570)**
Sold	**(4,745)**	**(5,228)**	**(9,973)**
Balance, March 31, 2013	**$ 36,446**	**$ 34,244**	**$ 70,690**

The following is a summary of information pertaining to OREO at March 31, 2012:

(Dollars in thousands)	OREO	Covered OREO	Total
Balance, December 31, 2011	$ 18,022	$ 65,849	$ 83,871
Additions	7,569	14,491	22,060
Write-downs	(1,288)	(7,255)	(8,543)
Sold	(2,922)	(11,297)	(14,219)
Balance, March 31, 2012	$ 21,381	$ 61,788	$ 83,169

The covered OREO above is covered pursuant to the FDIC loss share agreements and is presented net of the related fair value discount. At March 31, 2013, there were 403 properties included in OREO, with 172 uncovered and 231 covered by loss share agreement with the FDIC. At March 31, 2012, there were 856 properties in OREO, with 92 uncovered and 764 covered by loss share agreement with the FDIC. The increase in uncovered OREO is primarily the result of the acquisition of Peoples and Savannah.

Table of Contents

Note 9 Deposits

The Company s total deposits are comprised of the following:

(Dollars in thousands)		March 31, 2013		December 31, 2012		March 31, 2012
Certificates of deposit	**$**	**1,007,746**	$	1,062,842	$	844,027
Interest-bearing demand deposits		**1,847,689**		1,911,673		1,473,986
Non-interest bearing demand deposits		**1,002,662**		981,963		757,777
Savings deposits		**359,282**		341,103		278,968
Other time deposits		**1,977**		779		1,879
Total deposits	**$**	**4,219,356**	$	4,298,360	$	3,356,637

The aggregate amounts of time deposits in denominations of $100,000 or more at March 31, 2013, December 31, 2012, and March 31, 2012 were $433.4 million, $464.6 million and $362.4 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 March 31, 2013, December 31, 2012, and March 31, 2012, the Company had $136.0 million, $129.6 million, and $126.9 million in certificates of deposits greater than $250,000, respectively. At March 31, 2013 and December 31, 2012, the Company had $4.8 million and $13.0 million in traditional, out-of-market brokered deposits. The Company did not have brokered certificates of deposit at March 31, 2012.

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 March 31, 2013.

The components of net periodic pension expense recognized during the three months ended March 31, 2013 and 2012 are as follows:

(Dollars in thousands)	Three Months Ended March 31, 2013	2012

Interest cost	**$**	**(250)**	$	(258)
Expected return on plan assets		**430**		421
Recognized net actuarial loss		**(301)**		(267)
Net periodic pension expense	**$**	**(121)**	$	(104)

The Company contributed $300,000 to the pension plan for the three months ended March 31, 2013, 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 $500,000 and $325,000 for the 401(k) plan during the three months ended March 31, 2013 and 2012, respectively.

Table of Contents

Note 10 Retirement Plans (Continued)

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.

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.

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 months ended March 31, 2013 and 2012:

	Three Months Ended March 31,	
(Dollars and shares in thousands)	**2013**	**2012**
Basic earnings per share:		
Net income	**$ 10,649**	$ 7,028
Weighted-average basic shares	**16,769**	13,883
Basic earnings per share	**$ 0.64**	$ 0.51
Diluted earnings per share:		
Net income	**$ 10,649**	$ 7,028
Weighted-average basic shares	**16,769**	13,883
Effect of dilutive securities	**167**	68
Weighted-average dilutive shares	**16,936**	13,951
Diluted earnings per share	**$ 0.63**	$ 0.50

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 March 31, 2013	2012
Number of shares	**21,361**	216,268
Range of exercise prices	**$41.45-$41.45**	$31.10 - $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 or restricted stock units (RSUs).

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 s)
Outstanding at January 1, 2013	340,140	$ 31.79		
Granted	23,007	41.45		
Exercised	(18,211)	28.34		
Expired/Forfeited	(1,444)	22.13		
Outstanding at March 31, 2013	343,492	32.66	4.99	$ 6,095
Exercisable at March 31, 2013	280,629	32.04	4.18	$ 5,153
Weighted-average fair value of options granted during the year	$ 15.66			

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:

	Three Months Ended March 31, 2013	2012
Dividend yield	**1.70%**	2.10%
Expected life	**6 years**	6 years

Expected volatility	**42%**	46%
Risk-free interest rate	**1.02%**	1.06%

As of March 31, 2013, there was $759,000 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 1.70 years as of March 31, 2013. The total fair value of shares vested during the three months ended March 31, 2013 was $397,000.

Table of Contents

Note 12 Share-Based Compensation (Continued)

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. Grants to non-employee directors typically vest within a 12-month period.

Nonvested restricted stock for the three months ended March 31, 2013 is summarized in the following table. All information has been retroactively adjusted for stock dividends and stock splits.

Restricted Stock	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2013	172,847	$ 30.84
Granted	68,308	41.45
Vested	(4,523)	32.34
Nonvested at March 31, 2013	236,632	33.87

As of March 31, 2013, there was $5.9 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 3.59 years as of March 31, 2013. The total fair value of shares vested during the three months ended March 31, 2013 was $146,000.

Restricted Stock Units

The Company from time-to-time also grants performance RSUs to key employees. These awards help align the interests of these employees with the interests of the shareholders of the Company by providing economic value directly related to the performance of the Company. Performance RSU grants contain a three year performance period. The Company communicates threshold, target, and maximum performance RSU awards and performance targets to the applicable key employees at the beginning of a performance period. Dividends are not paid in respect to the awards during the performance period. The value of the RSUs awarded is established as the fair market value of the stock at the time of the grant. The Company recognizes expenses on a straight-line basis typically over three years based upon the probable performance target that will be met. For the three months ended March 31, 2013, the Company accrued at the target RSU award level, or for 70.9% of the RSUs granted, based on Management s expectations of performance.

Nonvested RSUs for the three months ended March 31, 2013 is summarized in the following table.

Restricted Stock Units	**Shares**	**Weighted-Average Grant-Date Fair Value**
Nonvested at January 1, 2013		$
Granted	36,876	50.45
Nonvested at March 31, 2013	36,876	50.45

As of March 31, 2013, there was $1.2 million of total unrecognized compensation cost related to nonvested RSUs granted under the plan. This cost is expected to be recognized over a weighted-average period of 2.75 years as of March 31, 2013.

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 March 31, 2013, commitments to extend credit and standby letters of credit totaled $923.5 million. The Company does not anticipate any material losses as a result of these transactions.

The Company has been named as defendant in various legal actions, arising from its 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.

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. The Level 3 security is an unrated single-issue private placement bond that was acquired in the Savannah transaction. This security is considered a Level 3 because there is not an active market for the security. Management considers the credit quality of the underlying issuer in determining the fair value of the security.

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.

Table of Contents

Note 14 Fair Value (Continued)

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 March 31, 2013, substantially all of the impaired loans were evaluated based on the fair value of the collateral because such loans were considered collateral dependent. Impaired loans, where an allowance is established based on the fair value of collateral, require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company considers the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company considers the impaired loan as nonrecurring Level 3.

Other Real Estate Owned (OREO)

Typically non-covered OREO, consisting of properties obtained through foreclosure or in satisfaction of loans, is reported at fair value, determined on the basis of current appraisals, comparable sales, and other estimates of value obtained principally from independent sources, adjusted for estimated selling costs (Level 2). However, both non-covered and covered OREO 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.

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).

Table of Contents

Note 14 Fair Value (Continued)

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

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

(Dollars in thousands)	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2013:				
Assets				
Derivative financial instruments	**$ 290**	**$**	**$ 290**	**$**
Securities available for sale:				
Government-sponsored entities debt	**71,802**		**71,802**	
State and municipal obligations	**148,897**		**145,083**	**3,814**
Mortgage-backed securities	**289,741**		**289,741**	
Corporate stocks	**412**	**387**	**25**	
Total securities available for sale	**510,852**	**387**	**506,651**	**3,814**
	$ 511,142	**$ 387**	**$ 506,941**	**$ 3,814**
Liabilities				
Derivative financial instruments	**$ 1,692**	**$**	**$ 1,692**	**$**
December 31, 2012:				
Assets				
Derivative financial instruments	$ 312	$	$ 312	$
Securities available for sale:				
Government-sponsored entities debt	88,518		88,518	
State and municipal obligations	152,799		148,948	3,851
Mortgage-backed securities	293,187		293,187	
Corporate stocks	379	354	25	
Total securities available for sale	534,883	354	530,678	3,851
	$ 535,195	$ 354	$ 530,990	$ 3,851
Liabilities				
Derivative financial instruments	$ 1,813	$	$ 1,813	$
March 31, 2012:				
Assets				
Securities available for sale:				
Government-sponsored entities debt	$ 66,378	$	$ 66,378	$
State and municipal obligations	42,008		42,008	
Mortgage-backed securities	213,809		213,809	
Corporate stocks	393	368	25	
Total securities available for sale	$ 322,588	$ 368	$ 322,220	$
Liabilities				
Derivative financial instruments	$ 1,280	$	$ 1,280	$

Table of Contents

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 three months ended March 31, 2013 and 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 three months ended March 31, 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 three months ended March 31, 2013 is as follows:

(Dollars in thousands)	Assets	Liabilities
Fair value, January 1, 2013	$ 3,851	$
Change in unrealized loss recognized in other comprehensive income		
Total realized losses included in income		
Other-than-temporary impairment losses recognized in income		
Purchases, issuances and settlements, net	(37)	
Transfers in and/or out of level 3		
Fair value, March 31, 2013	$ 3,814	$

There were no unrealized losses included in accumulated other comprehensive income related to Level 3 financial assets and liabilities at March 31, 2013 or 2012.

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

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

Quoted Prices In Active	Significant

(Dollars in thousands)	Fair Value	Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2013:				
OREO	**$ 29,508**	**$**	**$**	**$ 29,508**
Non-acquired impaired loans	**4,418**			**4,418**
December 31, 2012:				
OREO	$ 66,505	$	$	$ 66,505
Non-acquired impaired loans	42,356			42,356
March 31, 2012:				
OREO	$ 37,961	$	$	$ 37,961
Non-acquired impaired loans	5,491			5,491

Table of Contents

Note 14 Fair Value (Continued)

Quantitative Information about Level 3 Fair Value Measurements

Recurring Measurements

The recurring level 3 security is an unrated single-issue private placement bond acquired in the Savannah transaction. Management reviewed the financial statements of the underlying issuer as of the acquisition date, December 13, 2012, to determine the fair value discount of less than one percent and periodically monitored the issuer s credit quality for signs of impairment. Subsequent to March 31, 2013, the issuer paid off the security for $3.8 million and the Company realized a $31,000 gain on the payoff of the security.

	Valuation Technique	Unobservable Input	General Range
Nonrecurring measurements:			
Impaired loans	Discounted appraisals	Collateral discounts	0-25%
OREO	Discounted appraisals	Collateral discounts and estimated costs to sell	0-25%

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 March 31, 2013, December 31, 2012 and March 31, 2012. 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 analyses, using interest rates currently being offered by the Company for loans with similar terms to borrowers of similar credit quality. Fair values for non-performing loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

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

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

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

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

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

Table of Contents

Note 14 Fair Value (Continued)

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	Level 1	Level 2	Level 3
March 31, 2013					
Financial assets:					
Cash and cash equivalents	$ 495,869	$ 495,869	$ 495,869	$	$
Investment securities	533,255	534,212	8,192	522,206	3,814
Loans, net of allowance for loan losses, and loans held for sale	3,577,056	3,601,445		50,449	3,550,996
FDIC receivable for loss share agreements	124,340	86,049			86,049
Accrued interest receivable	10,669	10,669		3,068	7,601
Interest rate swap non-designated hedge	290	290		290	
Financial liabilities:					