

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

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

OR

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

For the transition period from _____ to _____

Commission file number 001-12669

SCBT FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

South Carolina
(State or other jurisdiction of incorporation)

57-0799315
(IRS Employer Identification No.)

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

29201
(Zip Code)

(800) 277-2175

(Registrant's telephone number, including area code)

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

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

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

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Class	Outstanding as of April 30, 2012
Common Stock, \$2.50 par value	15,071,898

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SCBT Financial Corporation and Subsidiary

March 31, 2012 Form 10-Q

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

	March 31, 2012 (Unaudited)	December 31, 2011 (Note 1)	March 31, 2011 (Unaudited)
ASSETS			
Cash and cash equivalents:			
Cash and due from banks	\$ 329,942	\$ 129,729	\$ 129,293
Interest-bearing deposits with banks	1,870	1,822	1,325
Federal funds sold and securities purchased under agreements to resell	71,410	39,874	282,006
Total cash and cash equivalents	403,222	171,425	412,624
Investment securities:			
Securities held to maturity (fair value of \$17,664, \$17,864, and \$20,189, respectively)	16,568	16,569	19,730
Securities available for sale, at fair value	322,588	289,195	189,654
Other investments	18,292	18,292	23,823
Total investment securities	357,448	324,056	233,207
Loans held for sale	34,706	45,809	10,755
Loans:			
Acquired	369,144	402,201	417,894
Less allowance for acquired loan losses	(34,355)	(31,620)	(25,833)
Non-acquired	2,437,314	2,470,565	2,348,309
Less allowance for non-acquired loan losses	(47,607)	(49,367)	(48,164)
Loans, net	2,724,496	2,791,779	2,692,206
FDIC receivable for loss share agreements	231,331	262,651	303,795
Other real estate owned (covered of \$61,788, \$65,849, and \$77,286, respectively; and non-covered of \$21,381, \$18,022, and \$19,816, respectively)	83,169	83,871	97,102
Premises and equipment, net	93,209	94,250	87,326
Goodwill	62,888	62,888	62,888
Other assets	55,874	59,828	62,963
Total assets	\$ 4,046,343	\$ 3,896,557	\$ 3,962,866
LIABILITIES AND SHAREHOLDERS EQUITY			
Deposits:			
Noninterest-bearing	\$ 757,777	\$ 658,454	\$ 606,135
Interest-bearing	2,598,860	2,596,018	2,713,415
Total deposits	3,356,637	3,254,472	3,319,550
Federal funds purchased and securities sold under agreements to repurchase	235,412	180,436	206,560
Other borrowings	46,397	46,683	46,587
Other liabilities	21,390	33,186	24,119
Total liabilities	3,659,836	3,514,777	3,596,816

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Shareholders' equity:

Preferred stock - \$.01 par value; authorized 10,000,000 shares; no shares issued and outstanding

Common stock - \$2.50 par value; authorized 40,000,000 shares;

14,052,177, 14,039,422, and 13,958,824 shares issued and outstanding

	35,130	35,099	34,897
Surplus	233,422	233,232	230,826
Retained earnings	120,837	116,198	103,262
Accumulated other comprehensive loss	(2,882)	(2,749)	(2,935)
Total shareholders' equity	386,507	381,780	366,050
Total liabilities and shareholders' equity	\$ 4,046,343	\$ 3,896,557	\$ 3,962,866

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

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

	Three Months Ended March 31,	
	2012	2011
Interest income:		
Loans, including fees	\$ 39,777	\$ 36,828
Investment securities:		
Taxable	2,036	1,858
Tax-exempt	195	216
Federal funds sold and securities purchased under agreements to resell	212	353
Total interest income	42,220	39,255
Interest expense:		
Deposits	2,494	5,717
Federal funds purchased and securities sold under agreements to repurchase	126	160
Other borrowings	562	532
Total interest expense	3,182	6,409
Net interest income	39,038	32,846
Provision for loan losses	2,723	10,641
Net interest income after provision for loan losses	36,315	22,205
Noninterest income:		
Service charges on deposit accounts	5,447	5,030
Bankcard services income	3,320	2,659
Mortgage banking income	1,830	863
Trust and investment services income	1,397	1,249
Gains on acquisitions		5,528
Securities gains		323
Amortization of FDIC indemnification assets, net	(3,233)	(401)
Other	712	622
Total noninterest income	9,473	15,873
Noninterest expense:		
Salaries and employee benefits	18,048	16,646
OREO expense and loan related	2,716	2,517
Information services expense	2,468	2,341
Net occupancy expense	2,248	2,576
Furniture and equipment expense	2,239	1,957
Merger-related expense	96	609
FDIC assessment and other regulatory charges	1,037	1,479
Advertising and marketing	757	909
Amortization of intangibles	500	446
Professional fees	633	449
Other	4,477	4,295
Total noninterest expense	35,219	34,224
Earnings:		
Income before provision for income taxes	10,569	3,854
Provision for income taxes	3,541	1,338
Net income	\$ 7,028	\$ 2,516
Earnings per common share:		
Basic	\$ 0.51	\$ 0.19
Diluted	\$ 0.50	\$ 0.19

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Dividends per common share	\$	0.17	\$	0.17
Weighted-average common shares outstanding:				
Basic		13,883		13,185
Diluted		13,951		13,273

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

	Three Months Ended March 31,	
	2012	2011
Net income	\$ 7,028	\$ 2,516
Other comprehensive income (loss):		
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) arising during period	(326)	1,526
Tax effect	124	(538)
Reclassification adjustment for gains included in net income		(323)
Tax effect		112
Net of tax amount	(202)	777
Unrealized gains (losses) on derivative financial instruments qualifying as cash flow hedges:		
Unrealized holding gains arising during period	41	50
Tax effect	(19)	(19)
Reclassification adjustment for losses included in interest expense	71	75
Tax effect	(24)	(26)
Net of tax amount	69	80
Other comprehensive income (loss), net of tax	(133)	857
Comprehensive income	\$ 6,895	\$ 3,373

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, 2012 and 2011***(Dollars in thousands, except per share data)*

	Preferred Stock		Common Stock		Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount				
Balance, December 31, 2010		\$	12,793,823	\$ 31,985	\$ 198,647	\$ 103,117	\$ (3,792)	\$ 329,957
Comprehensive income (loss):								
Net income						2,516		2,516
Other comprehensive income, net of tax							857	857
Total comprehensive income								3,373
Cash dividends declared at \$.17 per share						(2,371)		(2,371)
Stock options exercised			3,050	8	62			70
Restricted stock awards			37,106	92	(92)			
Common stock repurchased			(4,187)	(10)	(127)			(137)
Share-based compensation expense					474			474
Common stock issued in private placement offering			1,129,032	2,822	31,862			34,684
Balance, March 31, 2011		\$	13,958,824	\$ 34,897	\$ 230,826	\$ 103,262	\$ (2,935)	\$ 366,050
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)			

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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

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

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SCBT Financial Corporation and Subsidiary

Condensed Consolidated Statements of Cash Flows (unaudited)

(Dollars in thousands)

	Three Months Ended March 31,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 7,028	\$ 2,516
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,754	2,481
Provision for loan losses	2,723	10,641
Deferred income taxes	110	937
Gain on sale of securities		(323)
Gains on acquisitions		(5,528)
Share-based compensation expense	428	474
Loss on disposal of premises and equipment	1	31
Amortization of FDIC indemnification asset	3,233	401
Accretion on acquired loans	(9,110)	1,604
Net amortization of investment securities	572	398
Net change in:		
Loans held for sale	11,103	31,949
Accrued interest receivable	2,274	726
Prepaid assets	546	844
FDIC loss share receivable	28,088	(4,675)
Accrued interest payable	(566)	(1,848)
Accrued income taxes	(1,268)	374
Miscellaneous assets and liabilities	(7,653)	3,225
Net cash provided by operating activities	40,263	44,227
Cash flows from investing activities:		
Proceeds from sales of investment securities available for sale		52,092
Proceeds from maturities and calls of investment securities held to maturity		210
Proceeds from maturities and calls of investment securities available for sale	16,066	18,859
Purchases of investment securities available for sale	(50,357)	(3,744)
Purchases of other investment securities		(630)
Net (increase) decrease in customer loans	73,671	(7,174)
Net cash received from acquisition		91,281
Purchases of premises and equipment	(2,114)	(1,969)
Proceeds from sale of premises and equipment	10	
Net cash provided by investing activities	37,276	148,925
Cash flows from financing activities:		
Net increase (decrease) in deposits	102,164	(25,247)
Net increase in federal funds purchased and securities sold under agreements to repurchase and other short-term borrowings	54,976	13,712
Repayment of FHLB advances and other borrowings	(286)	(38,338)
Common stock issuance		34,684
Common stock repurchased	(219)	(137)
Dividends paid on common stock	(2,389)	(2,371)
Stock options exercised	12	70
Net cash provided by (used in) financing activities	154,258	(17,627)
Net increase in cash and cash equivalents	231,797	175,525
Cash and cash equivalents at beginning of period	171,425	237,099

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Cash and cash equivalents at end of period	\$	403,222	\$	412,624
Supplemental Disclosures:				
Cash paid for:				
Interest	\$	3,749	\$	7,281
Income taxes	\$	4,799	\$	
Noncash investing activities:				
Transfers of loans to foreclosed properties (covered of \$14,491 and \$1,365, respectively; and non-covered of \$7,858 and \$7,867, respectively)	\$	22,349	\$	9,232

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

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SCBT Financial Corporation and Subsidiary

Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1 Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain prior period information has been reclassified to conform to the current period presentation, and these reclassifications had no impact on net income or equity as previously reported. Operating results for the three months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

The condensed consolidated balance sheet at December 31, 2011 has been derived from the audited financial statements at that date but does not include all of the information and disclosures required by accounting principles generally accepted in the United States for complete financial statements.

Note 2 Summary of Significant Accounting Policies

The information contained in the consolidated financial statements and accompanying notes included in SCBT Financial Corporation's (the Company or SCBT) Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the Securities and Exchange Commission (the SEC) on March 9, 2012, should be referenced when reading these unaudited condensed consolidated financial statements.

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

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

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

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

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

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Note 2 Summary of Significant Accounting Policies (Continued)

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

The FDIC indemnification asset is measured separately from the related covered asset as it is not contractually embedded in the assets and is not transferable with the assets should the Company choose to dispose of them. Fair value was estimated at the acquisition date using projected cash flows related to the loss sharing agreements based on the expected reimbursements for losses and the applicable loss sharing percentages. These expected reimbursements do not include reimbursable amounts related to future covered expenditures. These cash flows were discounted to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC. The Company will offset any recorded provision for loan losses related to acquired loans by recording an increase in the FDIC indemnification asset by the increase in expected cash flow, which is the result of a decrease in expected cash flow of acquired loans. An increase in cash flows on acquired loans results in a decrease in cash flows on the FDIC indemnification asset, which is recognized in the future as negative accretion through non-interest income.

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

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

Note 3 Recent Accounting and Regulatory Pronouncements

In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS* (ASU 2011-04). ASU 2011-04 results in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. ASU 2011-04 became effective for the Company on January 1, 2012 and, aside from new disclosures included in Note 14 Fair Value, did not have a significant impact on the Company's financial statements.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* (ASU 2011-05). ASU 2011-05 requires an entity to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. Except as

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

In September 2011, the FASB issued ASU No. 2011-08, *Intangibles - Goodwill and Other* (Topic 350) (ASU 2011-08). ASU 2011-08 allows companies to waive comparing the fair value of a reporting unit to its carrying amount in assessing the recoverability of goodwill if, based on qualitative factors, it is not more likely than not that the fair value of a reporting unit is less than its carrying amount. ASU 2011-08 became effective for the Company on January 1, 2012 and did not have a significant impact on the Company's financial statements.

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Note 3 Recent Accounting and Regulatory Pronouncements (Continued)

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

Note 4 Mergers and Acquisitions

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

Peoples Bancorporation Merger

On April 24, 2012, the Company completed the previously announced merger with Peoples Bancorporation, Inc. (Peoples), of Easley, South Carolina, the bank holding company for The Peoples National Bank (PNB), Bank of Anderson (BOA), and Seneca National Bank (SNB). See Note 17 Subsequent Events for additional information on the Peoples merger.

BankMeridian Acquisition

On July 29, 2011, SCBT, N.A. (the Bank), a wholly-owned subsidiary of the Company, entered into a purchase and assumption (P&A) agreement with loss share arrangements with the FDIC to purchase certain assets and assume substantially all of the deposits and certain liabilities of BankMeridian, N.A., a full service community bank headquartered in Columbia, South Carolina. BankMeridian operated three branches in total in Columbia, Spartanburg, and Hilton Head, South Carolina.

Pursuant to the P&A agreement, the Bank received a discount of \$30.8 million on the assets acquired and did not pay the FDIC a premium to assume all customer deposits. Most of the loans and foreclosed real estate purchased are covered by a loss share agreement between the FDIC and the Bank. Under this loss share agreement, the FDIC has agreed to cover 80% of loan and foreclosed real estate losses. Gains and recoveries on covered assets will offset losses, or be paid to the FDIC, at the applicable loss share percentage at the time of recovery. The loss sharing agreement applicable to single family assets (loans and OREO) provides for FDIC loss sharing and Bank reimbursement to the FDIC for ten years. The loss share agreement applicable to commercial assets (loans and OREO) provides for FDIC loss sharing for five years and Bank reimbursement to the FDIC for eight years. As of the date of acquisition, we calculated the amount of such reimbursements that we expect to

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

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

As of March 31, 2012, there have been no adjustments or changes to the initial fair values related to the BankMeridian acquisition. The purchase accounting adjustments and the loss sharing arrangement with the FDIC significantly impact the effects of the acquired entity on the ongoing operations of the Company. Additionally, disclosure of pro forma financial information is made difficult by the troubled nature of BankMeridian prior to the date of the combination. Accordingly, no pro forma financial information has been presented.

During the third quarter of 2011, noninterest income included a pre-tax gain of \$11.0 million which resulted from the acquisition of BankMeridian. The amount of the gain was equal to the amount by which the fair value of assets acquired exceeded the fair value of liabilities assumed, and resulted from the discount bid on the assets acquired and the impact of the FDIC loss share agreement, both of which are attributable to the troubled nature of BankMeridian prior to the acquisition. The Company recognized \$776,000 in merger-related expense from the BankMeridian acquisition during the year ended December 31, 2011. The Company

Included in the initial fair value of the FDIC indemnification asset recognized below is an expected true up with the FDIC, where there is an estimated payment to the FDIC of approximately \$1.0 million at the end of the loss share agreement (in ten years). The actual payment will be determined at the end of the loss sharing agreement term and is based on the negative bid, expected losses, intrinsic loss estimate, and assets covered under loss share. This true up estimate will be eliminated if the actual losses were to exceed management's current estimate by an additional \$7.6 million.

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

(Dollars in thousands)	As Recorded by BankMeridian	Balances Kept by FDIC	Balances Acquired from FDIC	Fair Value Adjustments	As Recorded by SCBT
Assets					
Cash and cash equivalents	\$ 28,363	\$ 23	\$ 28,386	\$	\$ 28,386
Investment securities	35,671	(77)	35,594	(242)(a)	35,352
Loans	145,290	9,021	154,311	(59,330)(b)	94,981
Premises and equipment	1,320	(1,316)	4	15(c)	19
Intangible assets				551(d)	551
FDIC receivable for loss sharing agreement				50,753(e)	50,753
Other real estate owned and repossessed assets	13,932	669	14,601	(9,775)(f)	4,826
Other assets	1,126	492	1,618	(761)(g)	857
Total assets	\$ 225,702	\$ 8,812	\$ 234,514	\$ (18,789)	\$ 215,725
Liabilities					
Deposits:					
Noninterest-bearing	\$ 12,431	\$ (12)	\$ 12,419	\$	\$ 12,419
Interest-bearing	192,551	(4,609)	187,942	220(h)	188,162
Total deposits	204,982	(4,621)	200,361	220	200,581
Other borrowings	20,000		20,000	790(i)	20,790

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Other liabilities	1,016	(142)	874			874
Total liabilities	225,998	(4,763)	221,235	1,010		222,245
Net assets acquired over (under) liabilities assumed	\$ (296)	\$ 13,575	\$ 13,279	\$ (19,799)		\$ (6,520)
Excess of assets acquired over (under) liabilities assumed	\$ (296)	\$ 13,575	\$ 13,279			
Aggregate fair value adjustments				\$ (19,799)		
Cash received from the FDIC					\$	17,050
Cash due from FDIC						471
Total						17,521
Gain on acquisition (noninterest income), July 29, 2011					\$	11,001

Explanation of fair value adjustments

Adjustment reflects:

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

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Note 4 Mergers and Acquisition(Continued)

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

Habersham Bank Acquisition

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

Pursuant to the P&A agreement, the Bank received a discount of \$38.3 million on the assets acquired and did not pay the FDIC a premium to assume all customer deposits. Most of the loans and foreclosed real estate purchased are covered by a loss share agreement between the FDIC and the Bank. Under this loss share agreement, the FDIC has agreed to cover 80% of loan and foreclosed real estate losses. Gains and recoveries on covered assets will offset losses, or be paid to the FDIC, at the applicable loss share percentage at the time of recovery. The loss sharing agreement applicable to single family assets (loans and OREO) provides for FDIC loss sharing and Bank reimbursement to the FDIC for ten years. The loss share agreement applicable to commercial assets (loans and OREO) provides for FDIC loss sharing for five years and Bank reimbursement to the FDIC for eight years. As of the date of acquisition, we calculated the amount of such reimbursements that we expect to receive from the FDIC using the present value of anticipated cash flows from the covered assets based on the credit adjustments estimated for each pool of loans and the estimated losses on foreclosed assets. In accordance with FASB ASC Topic 805, the FDIC indemnification asset was initially recorded at its fair value, and is measured separately from the loan assets and foreclosed assets because the loss sharing agreements are not contractually embedded in them or transferable with them in the event of disposal. The balance of the FDIC indemnification asset increases and decreases as the expected and actual cash flows from the covered assets fluctuate, as loans are paid off or impaired and as loans and foreclosed assets are sold. There are no contractual interest rates on this contractual receivable from the FDIC; however, a discount was recorded against the initial balance of the FDIC indemnification asset in conjunction with the fair value measurement as this receivable will be collected over the term of the loss sharing agreement. This discount will be accreted to non-interest income over future periods.

There have been no adjustments or changes to the initial fair values related to the Habersham acquisition within the one year time frame from the date of acquisition. The purchase accounting adjustments and the loss sharing arrangement with the FDIC significantly impact the effects of the acquired entity on the ongoing operations of the Company. Additionally, disclosure of pro forma financial information is made more difficult by the troubled nature of Habersham prior to the date of the combination. Accordingly, no pro forma financial information has been presented.

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For the first quarter of 2011, noninterest income included a pre-tax gain of \$5.5 million which resulted from the acquisition of Habersham. The amount of the gain was equal to the amount by which the fair value of assets acquired exceeded the fair value of liabilities assumed, and resulted from the discount bid on the assets acquired and the impact of the FDIC loss share agreement, both of which are attributable to the troubled nature of Habersham prior to the acquisition. The Company recognized \$2.6 million in merger-related expense related to the Habersham acquisition, including lease termination payments related to branch consolidations, during the year ended December 31, 2011.

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

There is no expected true up included in the initial fair value of the FDIC indemnification asset recognized for this acquisition. This is the result of the amount of the negative bid, the expected losses, intrinsic loss estimate, and the assets covered under loss share. This true up estimate can result in a needed true up, if the expected losses were to decline by more than \$15.4 million.

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

(Dollars in thousands)	As Recorded by Habersham	Balances Kept by FDIC	Balances Acquired from FDIC	Fair Value Adjustments	As Recorded by SCBT
Assets					
Cash and cash equivalents	\$ 31,924	\$ (4)	\$ 31,920	\$	\$ 31,920
Investment securities	65,018	(3,582)	61,436	(566)(a)	60,870
Loans	212,828	9,039	221,867	(94,414)(b)	127,453
Premises and equipment	16,915	(16,915)			
Intangible assets				3,262(c)	3,262
FDIC receivable for loss sharing agreement				87,418(d)	87,418
Other real estate owned and repossessed assets	42,024	(616)	41,408	(26,915)(e)	14,493
Other assets	14,446	(11,227)	3,219		3,219
Total assets	\$ 383,155	\$ (23,305)	\$ 359,850	\$ (31,215)	\$ 328,635
Liabilities					
Deposits:					
Noninterest-bearing	\$ 76,205	\$ (5)	\$ 76,200	\$	\$ 76,200
Interest-bearing	263,246		263,246	1,203(f)	264,449
Total deposits	339,451	(5)	339,446	1,203	340,649
Other borrowings	39,433	(6)	39,427	344(g)	39,771
Other liabilities	2,819	(1,710)	1,109		1,109
Total liabilities	381,703	(1,721)	379,982	1,547	381,529
Net assets acquired over (under) liabilities assumed	\$ 1,452	\$ (21,584)	\$ (20,132)	\$ (32,762)	\$ (52,894)
Excess of assets acquired over (under) liabilities assumed	\$ 1,452	\$ (21,584)	\$ (20,132)		
Aggregate fair value adjustments				\$ (32,762)	
Cash received from the FDIC					\$ 59,360
Cash due to FDIC					(938)
Total					58,422
Gain on acquisition (noninterest income), February 18, 2011					\$ 5,528

Explanation of fair value adjustments

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Adjustment reflects:

- (a) Adjustment reflects marking the available-for-sale portfolio to fair value as of the acquisition date.
- (b) Adjustment reflects the fair value adjustments based on the Company's evaluation of the acquired loan portfolio.
- (c) Adjustment reflects the recording of the core deposit intangible on the acquired deposit accounts.
- (d) Adjustment reflects the estimated fair value of payments the Company will receive from the FDIC under the loss share agreements.
- (e) Adjustment reflects the fair value adjustments to OREO based on the Company's evaluation of the acquired OREO portfolio.

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

(f) Adjustment arises since the rates on interest-bearing deposits are higher than rates available on similar deposits as of the acquisition date.

(g) Adjustment reflects the prepayment fee paid when Federal Home Loan Bank (FHLB) advances were completely paid off in February 2011.

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, 2012:				
State and municipal obligations	\$ 16,568	\$ 1,096	\$	\$ 17,664
December 31, 2011:				
State and municipal obligations	\$ 16,569	\$ 1,295	\$	\$ 17,864
March 31, 2011:				
State and municipal obligations	\$ 19,730	\$ 459	\$	\$ 20,189

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, 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
December 31, 2011:				
Government-sponsored entities debt *	\$ 48,464	\$ 1,142	\$ (3)	\$ 49,603
State and municipal obligations	40,780	3,208	(31)	43,957
Mortgage-backed securities **	190,204	5,111	(6)	195,309
Corporate stocks	241	85		326
	\$ 279,689	\$ 9,546	\$ (40)	\$ 289,195
March 31, 2011:				
Government-sponsored entities debt *	\$ 56,987	\$ 646	\$ (115)	\$ 57,518
State and municipal obligations	38,688	1,139	(261)	39,566
Mortgage-backed securities **	90,186	2,038	(235)	91,989

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Corporate stocks	443	138	581
	\$ 186,304	\$ 3,961	\$ (611) 189,654

* - 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.

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

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
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
December 31, 2011:				
Federal Reserve Bank stock	\$ 7,028	\$	\$	\$ 7,028
Federal Home Loan Bank stock	9,932			9,932
Investment in unconsolidated subsidiaries	1,332			1,332
	\$ 18,292	\$	\$	\$ 18,292
March 31, 2011:				
Federal Reserve Bank stock	\$ 6,617	\$	\$	\$ 6,617
Federal Home Loan Bank stock	15,874			15,874
Investment in unconsolidated subsidiaries	1,332			1,332
	\$ 23,823	\$	\$	\$ 23,823

The Company has determined that the investment in Federal Reserve Bank stock and FHLB stock is not other than temporarily impaired as of March 31, 2012 and ultimate recoverability of the par value of these investments is probable.

The amortized cost and fair value of debt securities at March 31, 2012 by contractual maturity are detailed below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.

(Dollars in thousands)	Securities Held to Maturity		Securities Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 840	\$ 856	\$ 299	\$ 301
Due after one year through five years	401	409	14,323	14,481
Due after five years through ten years	7,467	7,943	49,673	51,346
Due after ten years	7,860	8,456	249,113	256,460
	\$ 16,568	\$ 17,664	\$ 313,408	\$ 322,588

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

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

(Dollars in thousands)	Less Than Twelve Months		Twelve Months or More	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
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
December 31, 2011:				
Securities Held to Maturity				
State and municipal obligations	\$	\$	\$	\$
Securities Available for Sale				
Government-sponsored entities debt	\$ 3	\$ 5,505	\$	\$
State and municipal obligations	1	420	31	724
Mortgage-backed securities	5	6,601		
	\$ 9	\$ 12,526	\$ 31	\$ 724
March 31, 2011:				
Securities Held to Maturity				
State and municipal obligations	\$	\$	\$	\$
Securities Available for Sale				
Government-sponsored entities debt	\$ 115	\$ 16,750	\$	\$
State and municipal obligations	113	4,535	148	1,398
Mortgage-backed securities	235	23,333		
	\$ 463	\$ 44,618	\$ 148	\$ 1,398

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, 2012	December 31, 2011	March 31, 2011
Non-acquired loans:			
Commercial non-owner occupied real estate:			
Construction and land development	\$ 294,865	310,845	\$ 370,442
Commercial non-owner occupied	284,044	299,698	332,773
Total commercial non-owner occupied real estate	578,909	610,543	703,215
Consumer real estate:			
Consumer owner occupied	407,697	391,529	339,948
Home equity loans	258,054	264,986	263,331
Total consumer real estate	665,751	656,515	603,279
Commercial owner occupied real estate	744,441	742,890	606,795
Commercial and industrial	216,083	220,454	206,348
Other income producing property	130,177	140,693	131,909
Consumer	85,350	85,342	73,464
Other loans	16,603	14,128	23,299
Total non-acquired loans	2,437,314	2,470,565	2,348,309
Less allowance for loan losses	(47,607)	(49,367)	(48,164)
Non-acquired loans, net	\$ 2,389,707	\$ 2,421,198	\$ 2,300,145

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. Substantially all of the acquired loans are covered under FDIC loss share agreements.

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

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

(Dollars in thousands)	Loans Impaired at Acquisition	Loans Not Impaired at Acquisition	Total
March 31, 2012:			
Acquired loans:			
Commercial loans greater than or equal to \$1 million-CBT	\$ 21,956	\$ 34,360	\$ 56,316
Commercial real estate	35,554	65,243	100,797
Commercial real estate - construction and development	24,535	19,804	44,339
Residential real estate	46,300	70,059	116,359
Residential real estate - junior lien	1,293	1,396	2,689
Home equity	3,566	6,575	10,141
Consumer	4,227	4,356	8,583
Commercial and industrial	8,645	15,875	24,520
Single pay	5,226	174	5,400
Total 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
December 31, 2011:			
Acquired loans:			
Commercial loans greater than or equal to \$1 million-CBT	\$ 24,073	\$ 36,756	\$ 60,829
Commercial real estate	39,991	68,337	108,328
Commercial real estate - construction and development	29,533	21,472	51,005
Residential real estate	51,057	73,365	124,422
Residential real estate - junior lien	1,383	1,458	2,841
Home equity	530	857	1,387
Consumer	5,392	4,627	10,019
Commercial and industrial	15,019	24,291	39,310
Single pay	3,852	208	4,060
Total acquired loans	\$ 170,830	\$ 231,371	\$ 402,201
Less allowance for loan losses	(23,875)	(7,745)	(31,620)
Acquired loans, net	\$ 146,955	\$ 223,626	\$ 370,581
March 31, 2011:			
Acquired loans:			
Commercial loans greater than or equal to \$1 million-CBT	\$ 34,658	\$ 45,697	\$ 80,355
Commercial real estate	29,438	61,256	90,694
Commercial real estate - construction and development	38,453	23,044	61,497
Residential real estate	54,876	67,789	122,665
Residential real estate - junior lien	1,832	1,318	3,150
Home equity	285	697	982
Consumer	9,696	3,504	13,200
Commercial and industrial	13,287	21,114	34,401
Single pay	10,588	362	10,950
Total acquired loans	\$ 193,113	\$ 224,781	\$ 417,894
Less allowance for loan losses	(25,833)		(25,833)
Acquired loans, net	\$ 167,280	\$ 224,781	\$ 392,061

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 BankMeridian (July 29, 2011) are as follows:

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

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

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

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

Contractual loan payments receivable, estimates of amounts not expected to be collected, other fair value adjustments and the resulting fair values of acquired loans (impaired and non-impaired) as of March 31, 2012, December 31, 2011, and March 31, 2011 are as follows:

(Dollars in thousands)	Loans Impaired at Acquisition	Loans Not Impaired at Acquisition	Total
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)
December 31, 2011:			
Contractual principal and interest	\$ 382,760	\$ 361,726	\$ 744,486
Non-accretable difference	(176,601)	(71,084)	(247,685)
Cash flows expected to be collected	206,159	290,642	496,801
Accretable yield	(35,329)	(59,271)	(94,600)
Carrying value	\$ 170,830	\$ 231,371	\$ 402,201
Allowance for acquired loan losses	\$ (23,875)	\$ (7,745)	\$ (31,620)
March 31, 2011:			
Contractual principal and interest	\$ 379,900	\$ 396,419	\$ 776,319
Non-accretable difference	(163,785)	(101,067)	(264,852)
Cash flows expected to be collected	216,115	295,352	511,467
Accretable yield	(23,002)	(70,571)	(93,573)
Carrying value	\$ 193,113	\$ 224,781	\$ 417,894
Allowance for acquired loan losses	\$ (25,833)	\$	\$ (25,833)

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 \$540.4 million at March 31, 2012, \$597.7 million at December 31, 2011 and \$673.7 million at March 31, 2011.

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

The following are changes in the carrying value of acquired loans during the periods ended March 31, 2012 and 2011:

(Dollars in thousands)	Loans Impaired at Acquisition	Loans Not Impaired at Acquisition	Total
Balance, December 31, 2011	\$ 146,955	\$ 223,626	\$ 370,581
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 31, 2012, net of allowance for loan losses on acquired loans	\$ 125,590	\$ 209,199	\$ 334,789
Balance, December 31, 2010	\$ 143,059	\$ 177,979	\$ 321,038
Fair value of acquired loans	54,643	72,810	127,453
Net reductions for payments, foreclosures, and accretion	(4,589)	(26,008)	(30,597)
Change in the allowance for loan losses on acquired loans	(25,833)		(25,833)
Balance, March 31, 2011, net of allowance for loan losses on acquired loans	\$ 167,280	\$ 224,781	\$ 392,061

The following are changes in the carrying amount of accretable difference for purchased impaired and non-impaired loans for the period ended March 31, 2012 and 2011:

(Dollars in thousands)	Three Months Ended March 31, 2012	March 31, 2011
Beginning balance, December 31	\$ 94,600	\$ 44,684
Addition from the Habersham acquisition		28,115
Interest income	(9,110)	(7,127)
Reclass of nonaccretable difference due to improvement in expected cash flows	8,270	36,200
Other changes, net	(7,610)	(8,299)
Ending balance, March 31	\$ 86,150	\$ 93,573

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

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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 a specific reserve is evaluated on impaired loans greater than \$250,000. Loans that are determined to be impaired are provided a specific reserve, if necessary, and are excluded from the calculation of the general reserves.

In determining the acquisition date fair value of purchased loans, and in subsequent accounting, SCBT generally aggregates purchased loans into pools of loans with common risk characteristics. Expected cash flows at the acquisition date in excess of the fair value of loans are recorded as interest income over the life of the loans using a level yield method if the timing and amount of the future cash flows of the pool is reasonably estimable. Subsequent to the acquisition date, increases in cash flows over those expected at the acquisition date are recognized as interest income prospectively. Decreases in expected cash flows after the acquisition date are recognized by recording an allowance for loan losses. Management analyzes the acquired loan pools using various assessments of risk to determine and calculate an expected loss. The expected loss is derived using an estimate of a loss given default based upon the collateral type and/or detailed review by loan officers of loans greater than \$500,000, and the probability of default that is determined based upon historical data at the loan level. Trends are reviewed in terms of accrual status, past due status, and weighted-average grade of the loans within each of the accounting pools. In addition, the relationship between the change in the unpaid principal balance and change in the mark is assessed to correlate the directional consistency of the expected loss for each pool. Offsetting the impact of the provision established for acquired loans covered under FDIC loss share agreements, the receivable from the FDIC is adjusted to reflect the indemnified portion of the post-acquisition exposure with a corresponding credit to the provision for loan losses. (For further discussion of the Company's allowance for loan losses on acquired loans, see Note 2 Summary of Significant Accounting Policies and Note 4 Mergers and Acquisitions.)

An aggregated analysis of the changes in allowance for loan losses for the three months ended March 31, 2012 and 2011 is as follows:

(Dollars in thousands)	Non-acquired Loans		Acquired Loans		Total
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
Three months ended March 31, 2011:					
Balance at beginning of period	\$	47,512	\$	\$	47,512

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Loans charged-off	(9,322)		(9,322)
Recoveries of loans previously charged off	625		625
Net charge-offs	(8,697)		(8,697)
Provision for loan losses	9,349	25,833	35,182
Benefit attributable to FDIC loss share agreements		(24,541)	(24,541)
Total provision for loan losses charged to operations	9,349	1,292	10,641
Provision for loan losses recorded through the FDIC loss share receivable		24,541	24,541
Balance at end of period	\$ 48,164	\$ 25,833	\$ 73,997

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 non-acquired loans for the periods ended March 31, 2012 and March 31, 2011.

(Dollars in thousands)	Construction & Land Development	Commercial Non-owner Occupied	Commercial Owner Occupied	Consumer Owner Occupied	Home Equity	Commercial & Industrial	Other Income Producing Property	Consumer	Other Loans	Total
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

(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
March 31, 2011										
Allowance for loan losses:										
Balance, December 31, 2010	\$ 14,242	\$ 6,428	\$ 7,814	\$ 6,060	\$ 4,424	\$ 4,313	\$ 2,834	\$ 1,191	\$ 206	\$ 47,512
Charge-offs	(4,538)	(1,236)	(729)	(1,314)	(511)	(229)	(499)	(105)	(161)	(9,322)
Recoveries	90	20	1	34	58	79	134	40	169	625
Provision	4,336	1,105	890	1,408	506	232	718	142	12	9,349
	\$ 14,130	\$ 6,317	\$ 7,976	\$ 6,188	\$ 4,477	\$ 4,395	\$ 3,187	\$ 1,268	\$ 226	\$ 48,164

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Balance, March 31, 2011										
Loans individually evaluated for impairment	\$ 594	\$ 866	\$ 446	\$ 21	\$	\$	\$ 163	\$	\$	\$ 2,090
Loans collectively evaluated for impairment	\$ 13,536	\$ 5,451	\$ 7,530	\$ 6,167	\$ 4,477	\$ 4,395	\$ 3,024	\$ 1,268	\$ 226	\$ 46,074
Loans:										
Loans individually evaluated for impairment	\$ 23,107	\$ 11,882	\$ 10,314	\$ 1,997	\$	\$ 1,117	\$ 1,239	\$	\$	\$ 49,656
Loans collectively evaluated for impairment	347,335	320,891	596,481	337,951	263,331	205,231	130,670	73,464	23,299	2,298,653
Total non-acquired loans	\$ 370,442	\$ 332,773	\$ 606,795	\$ 339,948	\$ 263,331	\$ 206,348	\$ 131,909	\$ 73,464	\$ 23,299	\$ 2,348,309

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Note 6 Loans and Allowance for Loan Losses (Continued)

The following tables present a disaggregated analysis of activity in the allowance for loan losses and loan balances for acquired loans for the periods ended March 31, 2012 and March 31, 2011.

(Dollars in thousands)	Commercial Loans Greater Than or Equal to \$1 Million-CB	Commercial Real Estate Development Real Estate	Commercial Real Estate- Construction and Real Estate	Residential Real Estate- Junior Liens	Residential Real Estate- Home Equity	Consumer and Industrial	Commercial and Industrial Single Pay	Total		
Allowance for loan losses:										
March 31, 2012										
Balance, December 31, 2011	\$ 16,706	\$ 1,318	\$ 5,026	\$ 445	\$	\$ 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	(1,158)	1	21	10	19	1,567	2,735
Benefit attributable to FDIC loss share agreements	(138)	(69)	(1,666)	1,100	(1)	(20)	(9)	(18)	(1,489)	(2,310)
Total provision for loan losses charged to operations	7	4	391	(58)	0	1	1	1	78	425
Provision for loan losses recorded through the FDIC loss share receivable	138	69	1,666	(1,100)	1	20	9	18	1,489	2,310
Balance, March 31, 2012	\$ 16,851	\$ 1,391	\$ 2,057	\$ 3,868	\$ 446	\$ 21	\$ 10	\$ 4,583	\$ 5,128	\$ 34,355
Loans individually evaluated for impairment	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Loans collectively evaluated for impairment	\$ 16,851	\$ 1,391	\$ 2,057	\$ 3,868	\$ 446	\$ 21	\$ 10	\$ 4,583	\$ 5,128	\$ 34,355
Loans:*										
Loans individually evaluated for impairment	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Loans collectively evaluated for impairment	\$ 56,316	\$ 100,797	\$ 44,339	\$ 116,359	\$ 2,689	\$ 10,141	\$ 8,583	\$ 24,520	\$ 5,400	\$ 369,144
Total acquired loans	\$ 56,316	\$ 100,797	\$ 44,339	\$ 116,359	\$ 2,689	\$ 10,141	\$ 8,583	\$ 24,520	\$ 5,400	\$ 369,144

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

(Dollars in thousands)	Commercial Loans Greater Than or Equal to \$1 Million-CB	Commercial Real Estate Development Real Estate	Commercial Real Estate- Construction and Real Estate	Residential Real Estate- Junior Liens	Residential Real Estate- Home Equity	Consumer and Industrial	Commercial and Industrial Single Pay	Total
Allowance for loan losses:								

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March 31, 2011

Balance, December 31, 2010	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$										
Charge-offs																				
Recoveries																				
Provision for loan losses																				
before benefit attributable to																				
FDIC loss share agreements	19,084				462			1,234	5,053	25,833										
Benefit attributable to FDIC																				
loss share agreements	(18,130)				(439)			(1,172)	(4,800)	(24,541)										
Total provision for loan																				
losses charged to operations	954				23			62	253	1,292										
Provision for loan losses																				
recorded through the FDIC																				
loss share receivable	18,130				439			1,172	4,800	24,541										
Balance, March 31, 2011	\$	19,084	\$	\$	\$	462	\$	\$	1,234	\$	5,053	\$	25,833							
Loans individually evaluated																				
for impairment	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$										
Loans collectively evaluated																				
for impairment	\$	19,084	\$	\$	\$	462	\$	\$	1,234	\$	5,053	\$	25,833							
Loans:*																				
Loans individually evaluated																				
for impairment	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$										
Loans collectively evaluated																				
for impairment		80,355	90,694	61,497	122,665	3,150	982	13,200	34,401	10,950	417,894									
Total acquired loans	\$	80,355	\$	90,694	\$	61,497	\$	122,665	\$	3,150	\$	982	\$	13,200	\$	34,401	\$	10,950	\$	417,894

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

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Note 6 Loans and Allowance for Loan Losses (Continued)

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:

(Dollars in thousands)	Construction & Development		Commercial Non-owner Occupied			Commercial Owner Occupied			
	March 31, 2012	December 31, 2011	March 31, 2011	March 31, 2012	December 31, 2011	March 31, 2011	March 31, 2012	December 31, 2011	March 31, 2011
Pass									