

SCBT FINANCIAL CORP  
Form 10-Q  
May 10, 2011  
[Table of Contents](#)

**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, 2011

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:

Edgar Filing: SCBT FINANCIAL CORP - Form 10-Q

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

**Outstanding as of April 30, 2011**  
13,972,145

---

Table of Contents

**SCBT Financial Corporation and Subsidiary**

**March 31, 2011 Form 10-Q**

**INDEX**

	<b>Page</b>
<b><u>PART I FINANCIAL INFORMATION</u></b>	
<u>Item 1.</u>	<u>Financial Statements</u>
	<u>Condensed Consolidated Balance Sheets at March 31, 2011, December 31, 2010 and March 31, 2010</u>
	1
	<u>Condensed Consolidated Statements of Income for the Three Months Ended March 31, 2011 and 2010</u>
	2
	<u>Condensed Consolidated Statements of Changes in Shareholders' Equity for the Three Months Ended March 31, 2011 and 2010</u>
	3
	<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2011 and 2010</u>
	4
	<u>Notes to Condensed Consolidated Financial Statements</u>
	5-40
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
	41-59
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
	60
<u>Item 4.</u>	<u>Controls and Procedures</u>
	60
<b><u>PART II OTHER INFORMATION</u></b>	
<u>Item 1.</u>	<u>Legal Proceedings</u>
	61
<u>Item 1A.</u>	<u>Risk Factors</u>
	61
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
	61
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>
	61
<u>Item 4.</u>	<u>(Removed and Reserved)</u>
	61
<u>Item 5.</u>	<u>Other Information</u>
	61
<u>Item 6.</u>	<u>Exhibits</u>
	62

---

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, 2011 (Unaudited)	December 31, 2010 (Note 1)	March 31, 2010 (Unaudited)
<b>ASSETS</b>			
Cash and cash equivalents:			
Cash and due from banks	\$ 129,293	\$ 83,449	\$ 60,675
Interest-bearing deposits with banks	1,325	416	171
Federal funds sold and securities purchased under agreements to resell	282,006	153,234	177,251
Total cash and cash equivalents	412,624	237,099	238,097
Investment securities:			
Securities held to maturity (fair value of \$20,189, \$20,150 and \$21,062, respectively)	19,730	19,941	20,403
Securities available for sale, at fair value	189,654	197,374	268,372
Other investments	23,823	20,597	22,181
Total investment securities	233,207	237,912	310,956
Loans held for sale	10,755	42,704	15,925
Loans:			
Covered under FDIC loss share agreements	417,796	321,038	438,807
Not covered under FDIC loss share agreements	2,348,309	2,296,200	2,175,242
Less allowance for loan losses	(73,997)	(47,512)	(41,397)
Loans, net	2,692,108	2,569,726	2,572,652
FDIC receivable for loss share agreements	303,795	212,103	277,158
Other real estate owned (covered of \$77,286, \$69,317, and \$32,076, respectively; and non-covered of \$19,816, \$17,264, and \$9,319, respectively)	97,102	86,581	41,395
Premises and equipment, net	87,326	87,381	72,079
Goodwill	62,888	62,888	62,888
Other assets	63,061	58,397	74,034
Total assets	\$ 3,962,866	\$ 3,594,791	\$ 3,665,184
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>			
Deposits:			
Noninterest-bearing	\$ 606,135	\$ 484,838	\$ 457,412
Interest-bearing	2,713,415	2,519,310	2,537,702
Total deposits	3,319,550	3,004,148	2,995,114
Federal funds purchased and securities sold under agreements to repurchase	206,560	191,017	237,669
Other borrowings	46,587	46,978	62,929
Other liabilities	24,119	22,691	34,706
Total liabilities	3,596,816	3,264,834	3,330,418
Shareholders' equity:			

Edgar Filing: SCBT FINANCIAL CORP - Form 10-Q

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; 13,958,824, 12,793,823 and 12,750,774 shares issued and outstanding	<b>34,897</b>	31,985	31,877
Surplus	<b>230,826</b>	198,647	196,793
Retained earnings	<b>103,262</b>	103,117	106,713
Accumulated other comprehensive loss	<b>(2,935)</b>	(3,792)	(617)
Total shareholders' equity	<b>366,050</b>	329,957	334,766
Total liabilities and shareholders' equity	<b>\$ 3,962,866</b>	\$ 3,594,791	\$ 3,665,184

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,	
	2011	2010
<b>Interest income:</b>		
Loans, including fees	\$ 36,828	\$ 34,173
Investment securities:		
Taxable	1,858	2,514
Tax-exempt	216	265
Federal funds sold and securities purchased under agreements to resell	353	252
Total interest income	39,255	37,204
<b>Interest expense:</b>		
Deposits	5,717	7,055
Federal funds purchased and securities sold under agreements to repurchase	160	165
Other borrowings	532	1,353
Total interest expense	6,409	8,573
Net interest income	32,846	28,631
Provision for loan losses	10,641	20,778
Net interest income after provision for loan losses	22,205	7,853
<b>Noninterest income:</b>		
Gain on acquisition	5,528	98,081
Service charges on deposit accounts	5,030	4,523
Bankcard services income	2,659	1,799
Trust and investment services income	1,249	784
Mortgage banking income	863	844
Securities gains	323	
Total other-than-temporary impairment losses		(5,586)
Portion of impairment losses recognized in other comprehensive loss		
Net impairment losses recognized in earnings		(5,586)
Accretion (amortization) of FDIC indemnification asset	(401)	369
Other	622	807
Total noninterest income	15,873	101,621
<b>Noninterest expense:</b>		
Salaries and employee benefits	16,646	13,753
Net occupancy expense	2,576	2,373
OREO expense and loan related	2,533	(270)
Information services expense	2,341	2,371
Furniture and equipment expense	1,957	1,636
FDIC assessment and other regulatory charges	1,479	1,323
Advertising and marketing	909	587
Amortization of intangibles	446	349
Professional fees	433	557
Federal Home Loan Bank advances prepayment fee		3,189
Merger-related expense	609	3,908
Other	4,295	2,804
Total noninterest expense	34,224	32,580
<b>Earnings:</b>		
Income before provision for income taxes	3,854	76,894
Provision for income taxes	1,338	27,933

Edgar Filing: SCBT FINANCIAL CORP - Form 10-Q

<b>Net income</b>		<b>2,516</b>		48,961
<b>Earnings per common share:</b>				
Basic	\$	<b>0.19</b>	\$	3.89
Diluted	\$	<b>0.19</b>	\$	3.86
Dividends per common share	\$	<b>0.17</b>	\$	0.17
<b>Weighted-average common shares outstanding:</b>				
Basic		<b>13,185</b>		12,591
Diluted		<b>13,273</b>		12,696

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, 2011 and 2010***(Dollars in thousands, except per share data)*

	Preferred Stock		Common Stock		Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount				
Balance, December 31, 2009		\$	12,739,533	\$ 31,849	\$ 196,437	\$ 59,915	\$ (5,382)	\$ 282,819
Comprehensive income:								
Net income						48,961		48,961
Change in net unrealized gain on securities available for sale, net of tax							4,892	4,892
Change in unrealized losses on derivative financial instruments qualifying as cash flow hedges, net of tax							(127)	(127)
Total comprehensive income								53,726
Cash dividends declared at \$.17 per share						(2,163)		(2,163)
Stock options exercised			1,740	4	44			48
Restricted stock awards			11,171	28	(28)			
Common stock repurchased			(1,670)	(4)	(42)			(46)
Share-based compensation expense					382			382
Balance, March 31, 2010		\$	12,750,774	\$ 31,877	\$ 196,793	\$ 106,713	\$ (617)	\$ 334,766
Balance, December 31, 2010		\$	12,793,823	\$ 31,985	\$ 198,647	\$ 103,117	\$ (3,792)	\$ 329,957
Comprehensive income:								
Net income						2,516		2,516
Change in net unrealized gain on securities available for sale, net of tax							777	777
Change in unrealized losses on derivative financial instruments qualifying as cash flow hedges, net of tax							80	80
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

Edgar Filing: SCBT FINANCIAL CORP - Form 10-Q

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)*

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 2,516	\$ 48,961
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,481	1,887
Provision for loan losses	10,641	20,778
Deferred income taxes	937	31,096
Other-than-temporary impairment on securities		5,586
Gain on sale of securities	(323)	
Gain on acquisition	(5,528)	(98,081)
Share-based compensation expense	474	382
Loss on disposal of premises and equipment	31	42
Federal Home Loan Bank advances prepayment fee		3,189
(Accretion) amortization of FDIC indemnification asset	401	(369)
Accretion on loans covered under FDIC loss share agreements	1,604	1,029
Net amortization of investment securities	398	171
Net change in:		
Loans held for sale	31,949	1,639
Accrued interest receivable	726	121
Prepaid assets	844	467
FDIC loss share receivable	(4,675)	
Accrued interest payable	(1,848)	(3,028)
Accrued income taxes	374	(4,904)
Miscellaneous assets and liabilities	3,225	(11,577)
Net cash provided by (used in) operating activities	44,227	(2,611)
<b>Cash flows from investing activities:</b>		
Proceeds from sales of investment securities available for sale	52,092	
Proceeds from maturities and calls of investment securities held to maturity	210	1,135
Proceeds from maturities and calls of investment securities available for sale	18,859	14,828
Purchases of investment securities available for sale	(3,743)	(8,315)
Purchases of other investment securities	(630)	
Net (increase) decrease in customer loans	(7,174)	31,784
Net cash received from acquisition	91,280	306,298
Purchases of premises and equipment	(1,969)	(1,711)
Net cash provided by investing activities	148,925	344,019
<b>Cash flows from financing activities:</b>		
Net decrease in deposits	(25,247)	(118,031)
Net increase in federal funds purchased and securities sold under agreements to repurchase and other short-term borrowings	13,712	74,809
Repayment of FHLB advances	(38,338)	(162,836)
Common stock issuance	34,684	
Common stock repurchased	(137)	(46)
Dividends paid on common stock	(2,371)	(2,163)
Stock options exercised	70	48
Net cash used in financing activities	(17,627)	(208,219)
Net increase in cash and cash equivalents	175,525	133,189

Edgar Filing: SCBT FINANCIAL CORP - Form 10-Q

Cash and cash equivalents at beginning of period		<b>237,099</b>		104,908
Cash and cash equivalents at end of period	\$	<b>412,624</b>	\$	238,097

**Supplemental Disclosures:**

Cash paid for:

Interest	\$	<b>7,281</b>	\$	11,601
Income taxes	\$		\$	4,871

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, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

The condensed consolidated balance sheet at December 31, 2010, has been derived from the audited financial statements at that date, but does not include all of the information and disclosures required by accounting principles generally accepted in the United States for complete financial statements.

**Note 2 Summary of Significant Accounting Policies**

The information contained in the consolidated financial statements and accompanying notes included in SCBT Financial Corporation's (the Company or SCBT) Annual Report on Form 10-K for the year ended December 31, 2010, as filed with the Securities and Exchange Commission (the SEC) on March 16, 2011, should be referenced when reading these unaudited condensed consolidated financial statements.

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

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

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

## Edgar Filing: SCBT FINANCIAL CORP - Form 10-Q

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

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

Table of Contents

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

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

Subsequent to the acquisition date, increases in cash flows expected to be received in excess of the Company's initial investment in the loans should be accreted into interest income on a level-yield basis over the life of the loan. Decreases in cash flows expected to be collected should be recognized as impairment through the provision for loan losses. The FDIC indemnification asset will be adjusted 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 using projected cash flows related to the loss sharing agreements based on the expected reimbursements for losses and the applicable loss sharing percentages. These expected reimbursements do not include reimbursable amounts related to future covered expenditures. These cash flows were discounted to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC.

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

**Note 3 Recent Accounting Pronouncements**

The enactment of the *Dodd-Frank Wall Street Reform and Consumer Protection Act* (the *Dodd-Frank Act*) will result in expansive changes in many areas affecting the financial services industry in general and the Company in particular. The legislation provides broad economic oversight, consumer financial services protection, investor protection, rating agency reform and derivative regulatory reform. Various corporate governance requirements will result in expanded proxy disclosures and shareholder rights. Additional provisions address the mortgage industry in an effort to strengthen lending practices. Deposit insurance reform will result in permanent FDIC protection for up to \$250,000 of deposits and will require the FDIC's Deposit Insurance Fund to maintain 1.35 percent of insured deposits with the burden for closing any shortfall falling to banks with more than \$10.0 billion in assets. Provisions within the *Dodd-Frank Act* will prohibit institutions that had more than \$15 billion in assets on December 31, 2009 from including trust preferred securities (TRUPs) as Tier 1 capital beginning in 2013. One third will be phased out over the next two years ending in 2015. Financial institutions with less than \$15 billion in total assets, such as the Company, may continue to count their pre-May 19, 2010, TRUPs as Tier 1 capital, but may not issue new capital TRUPs. Another provision of the legislation gives the Federal Reserve Board the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over \$10.0 billion and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer. While SCBT would not be subject to the interchange fee restrictions, this provision could negatively impact non-interest income if the reductions that are required of larger banks cause industry-wide reductions of interchange fees.

## Edgar Filing: SCBT FINANCIAL CORP - Form 10-Q

Effective December 31, 2010, SCBT adopted certain of the key provisions of Accounting Standards Update ( ASU ) No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, ( ASU 2010-20 ). ASU 2010-20 amends ASC 310 by requiring more robust and disaggregated disclosures about the credit quality of an entity s financing receivables and its allowance for credit losses. The objective of enhancing these disclosures is to improve financial statement users understanding of (1) the nature of an entity s credit risk associated with its financing receivables and (2) the entity s assessment of that risk in estimating its allowance for credit losses as well as changes in the allowance and reasons for those changes. Most of the new and amended disclosures in the ASU are effective December 31, 2010, and are included in Note 5 Loans and Allowance for Loan Losses. The disclosure for the activity in the allowance for credit losses for each period will be effective for the first quarter of 2011. In January 2011, the FASB issued ASU No. 2011-01, *Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20*. The amendments in ASU 2011-01 temporarily delay the effective date of the disclosures about troubled debt restructurings in ASU 2010-20 for public entities. The impact of adoption for SCBT is the inclusion of additional disclosures in SCBT s consolidated financial statements.



Table of Contents

**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.

*Habersham Bank Acquisition*

On February 18, 2011, the Company's wholly-owned subsidiary, SCBT, N.A. (the *Bank*), entered into a purchase and assumption (P&A) agreement with loss share arrangements with the FDIC to purchase certain assets and assume substantially all of the deposits and certain liabilities of 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 residential mortgage loans provides for FDIC loss sharing and Bank reimbursement to the FDIC for ten years. The loss share agreement applicable to commercial loans provides for FDIC loss sharing for five years and Bank reimbursement to the FDIC for eight years. As of the date of acquisition, we calculated the amount of such reimbursements that we expect to receive from the FDIC using the present value of anticipated cash flows from the covered assets based on the credit adjustments estimated for each pool of loans and the estimated losses on foreclosed assets. In accordance with FASB ASC Topic 805, the FDIC indemnification asset was initially recorded at its fair value, and is measured separately from the loan assets and foreclosed assets because the loss sharing agreements are not contractually embedded in them or transferable with them in the event of disposal. The balance of the FDIC indemnification asset increases and decreases as the expected and actual cash flows from the covered assets fluctuate, as loans are paid off or impaired and as loans and foreclosed assets are sold. There are no contractual interest rates on this contractual receivable from the FDIC; however, a discount was recorded against the initial balance of the FDIC indemnification asset in conjunction with the fair value measurement as this receivable will be collected over the term of the loss sharing agreement. This discount will be accreted to non-interest income over future periods.

The Bank did not immediately acquire the real estate, banking facilities, furniture or equipment of Habersham as a part of the P&A agreement. However, the Bank has the option to purchase the real estate and furniture and equipment from the FDIC. The term of this option expires approximately 90 days from the date of the acquisition.

As of March 31, 2011, there have been no adjustments or changes to the initial fair values related to the Habersham acquisition. The purchase accounting adjustments and the loss sharing arrangement with the FDIC will significantly impact the effects of the acquired entity on the ongoing operations of the Company. Disclosure of pro forma financial information is also made more difficult by the troubled nature of Habersham prior to the date of the combination. The Company has omitted pro forma information related to the Habersham acquisition because of the pervasive federal assistance in the transaction.

## Edgar Filing: SCBT FINANCIAL CORP - Form 10-Q

As of March 31, 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 \$609,000 in merger-related expense during the three months ended March 31, 2011.

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

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

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

Explanation of fair value adjustments

Adjustment reflects:

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

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

## Edgar Filing: SCBT FINANCIAL CORP - Form 10-Q

- (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.
- (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.

Table of Contents

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

*Community Bank and Trust Acquisition*

On January 29, 2010, the Bank entered into a P&A agreement, including loss share arrangements, with the FDIC to purchase certain assets and assume substantially all of the deposits and certain liabilities of CBT, a full service Georgia state-chartered community bank headquartered in Cornelia, Georgia. CBT operated 38 locations, including 36 branches, one loan production office and one trust office in the northeast region of Georgia.

Pursuant to the P&A agreement, the Bank received a discount of \$158.0 million on the assets acquired and did not pay the FDIC a premium to assume all customer deposits. The loans and foreclosed real estate purchased are covered by a loss share agreement between the FDIC and the Bank. Under this loss share agreement, the FDIC has agreed to cover 80% of loan and foreclosed real estate losses up to \$233.0 million and 95% of losses that exceed that amount. Gains and recoveries on covered assets will offset losses, or be paid to the FDIC, at the applicable loss share percentage at the time of recovery. The loss sharing agreement applicable to single family residential mortgage loans provides for FDIC loss sharing and Bank reimbursement to the FDIC for ten years. The loss share agreement applicable to commercial loans provides for FDIC loss sharing for five years and Bank reimbursement to the FDIC for eight years. The loss share agreement applicable to single family loans provides for FDIC loss sharing for ten years and Bank reimbursement to the FDIC for ten years. As of the date of acquisition, we calculated the amount of such reimbursements that we expect to receive from the FDIC using the present value of anticipated cash flows from the covered assets based on the credit adjustments estimated for each pool of loans and the estimated losses on foreclosed assets. In accordance with FASB ASC Topic 805, the FDIC indemnification asset was initially recorded at its fair value, and is measured separately from the loan assets and foreclosed assets because the loss sharing agreements are not contractually embedded in them or transferable with them in the event of disposal. The balance of the FDIC indemnification asset increases and decreases as the expected and actual cash flows from the covered assets fluctuate, as loans are paid off or impaired and as loans and foreclosed assets are sold. There are no contractual interest rates on this contractual receivable from the FDIC; however, a discount was recorded against the initial balance of the FDIC indemnification asset in conjunction with the fair value measurement as this receivable will be collected over the term of the loss sharing agreements. This discount will be accreted to non-interest income over future periods.

The Bank did not immediately acquire the real estate, banking facilities, furniture or equipment of CBT as a part of the P&A agreement. However, the Bank had the option to purchase the real estate, furniture and equipment from the FDIC. The term of this option expired on April 29, 2010. On April 28, 2010, the Bank notified the FDIC that it planned to acquire seven bank facilities with an appraised value of approximately \$10.9 million. In addition, the Bank notified the FDIC that it plans to purchase approximately \$700,000 of furniture or equipment related to 27 locations being retained by the Bank. On October 27, 2010, the Bank settled the purchase of the assets above and settled other items that related to the January 29, 2010 acquisition, with a net payment to the FDIC of \$3.9 million. There was no income statement or equity impact of this settlement on the financial statements of the Bank. These 27 banking facilities include both leased and owned locations. In late May and early June of 2010, the Bank closed 10 bank branches, 1 trust office, and converted the operating system of the acquired Georgia franchise.

There have been no adjustments or changes to the initial fair values related to the CBT acquisition within the one year time frame from the date of acquisition. The purchase accounting adjustments and the loss sharing arrangement with the FDIC will significantly impact the effects of the acquired entity on the ongoing operations of the Company. Disclosure of pro forma financial information is also made more difficult by the troubled nature of CBT prior to the date of the combination. The Company has omitted pro forma information related to the CBT acquisition because of the pervasive federal assistance in the transaction.

## Edgar Filing: SCBT FINANCIAL CORP - Form 10-Q

As of December 31, 2010, noninterest income included a pre-tax gain of \$98.1 million which resulted from the acquisition of CBT. The amount of the gain was equal to the amount by which the fair value of assets acquired exceeded the fair value of liabilities assumed, and resulted from the discount bid on the assets acquired and the impact of the FDIC loss share agreement, both of which are attributable to the troubled nature of CBT prior to the acquisition. The Company recognized \$5.5 million in merger-related expense during the twelve months ended December 31, 2010.

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

The following table presents the assets acquired and liabilities assumed as of January 29, 2010, as recorded by CBT on the acquisition date and as adjusted for purchase accounting adjustments.

(Dollars in thousands)	As Recorded by CBT	Balances Kept by FDIC	Balances Acquired from FDIC	Fair Value Adjustments	As Recorded by SCBT
<b>Assets</b>					
Cash and cash equivalents	\$ 80,615	\$ (12)	\$ 80,603	\$	\$ 80,603
Investment securities	116,270	(10,046)	106,224	(613)(a)	105,611
Loans	828,223	(56,725)	771,498	(312,033)(b)	459,465
Premises and equipment	24,063	(24,015)	48		48
Intangible assets				8,535(c)	8,535
FDIC receivable for loss sharing agreement				276,789(d)	276,789
Other real estate owned and repossessed assets	46,271	4,852	51,123	(25,194)(e)	25,929
Other assets	26,414	(18,541)	7,873		7,873
Total assets	\$ 1,121,856	\$ (104,487)	\$ 1,017,369	\$ (52,516)	\$ 964,853
<b>Liabilities</b>					
Deposits:					
Noninterest-bearing	\$ 107,617	\$ (11,602)	\$ 96,015	\$	\$ 96,015
Interest-bearing	907,288	311	907,599	4,892(f)	912,491
Total deposits	1,014,905	(11,291)	1,003,614	4,892	1,008,506
Other borrowings	80,250		80,250	2,316(g)	82,566
Other liabilities	10,748	(3,614)	7,134	194(h)	7,328
Total liabilities	1,105,903	(14,905)	1,090,998	7,402	1,098,400
Net assets acquired over liabilities assumed	\$ 15,953	\$ (89,582)	\$ (73,629)	\$ (59,918)	\$ (133,547)
Excess of assets acquired over liabilities assumed	\$ 15,953	\$ (89,582)	\$ (73,629)		
Aggregate fair value adjustments				\$ (59,918)	
Cash received from the FDIC					\$ 225,695
Cash due from FDIC					5,933
Total					231,628
Gain on acquisition (noninterest income)					\$ 98,081

Explanation of fair value adjustments

Adjustment reflects:

- (a) Adjustment reflects marking the available-for-sale portfolio to fair value as of the acquisition date.
- (b) Adjustment reflects the fair value adjustments based on the Company's evaluation of the acquired loan portfolio.
- (c) Adjustment reflects the recording of the core deposit intangible on the acquired deposit accounts.

Edgar Filing: SCBT FINANCIAL CORP - Form 10-Q

- (d) Adjustment reflects the estimated fair value of payments the Company will receive from the FDIC under the loss share agreements.
- (e) Adjustment reflects the fair value adjustments to OREO based on the Company's evaluation of the acquired OREO portfolio.
- (f) Adjustment arises since the rates on interest-bearing deposits are higher than rates available on similar deposits as of the acquisition date.
- (g) Adjustment reflects the prepayment penalty paid when FHLB advances were completely paid off in early February 2010.
- (h) Adjustment reflects the fair value of leases assumed.



Table of Contents**Note 5 Investment Securities**

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>March 31, 2011:</b>				
State and municipal obligations	\$ 19,730	\$ 459	\$	\$ 20,189
<b>December 31, 2010:</b>				
State and municipal obligations	\$ 19,941	\$ 227	\$ (18)	\$ 20,150
<b>March 31, 2010:</b>				
State and municipal obligations	\$ 20,403	\$ 669	\$ (10)	\$ 21,062

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
<b>March 31, 2011:</b>				
Government-sponsored enterprises 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
Equity securities	443	138		581
	\$ 186,304	\$ 3,961	\$ (611)	\$ 189,654
<b>December 31, 2010:</b>				
Government-sponsored enterprises debt *	\$ 69,854	\$ 844	\$ (164)	\$ 70,534
State and municipal obligations	39,749	680	(425)	40,004
Mortgage-backed securities **	83,045	1,752	(357)	84,440
Trust preferred (collateralized debt obligations)	2,324		(290)	2,034
Equity securities	256	106		362
	\$ 195,228	\$ 3,382	\$ (1,236)	\$ 197,374
<b>March 31, 2010:</b>				
Government-sponsored enterprises debt *	\$ 119,575	\$ 626	\$ (182)	\$ 120,019
State and municipal obligations	40,505	1,414	(363)	41,556
Mortgage-backed securities **	95,575	4,538	(8)	100,105
Trust preferred (collateralized debt obligations)	6,576		(280)	6,296
Equity securities	285	114	(3)	396
	\$ 262,516	\$ 6,692	\$ (836)	\$ 268,372

Edgar Filing: SCBT FINANCIAL CORP - Form 10-Q

\* - Government-sponsored enterprises holdings are comprised of debt securities offered by Federal Home Loan Mortgage Corporation ( FHLMC ) or Freddie Mac, Federal National Mortgage Association ( FNMA ) or Fannie Mae, FHLB, and Federal Farm Credit Banks ( FFCB ).

\*\* - All of the mortgage-backed securities are issued by government-sponsored enterprises; there are no private-label holdings.

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

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>March 31, 2011:</b>				
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
<b>December 31, 2010:</b>				
Federal Reserve Bank stock	\$ 5,987	\$	\$	\$ 5,987
Federal Home Loan Bank stock	13,278			13,278
Investment in unconsolidated subsidiaries	1,332			1,332
	\$ 20,597	\$	\$	\$ 20,597
<b>March 31, 2010:</b>				
Federal Reserve Bank stock	\$ 5,987	\$	\$	\$ 5,987
Federal Home Loan Bank stock	14,862			14,862
Investment in unconsolidated subsidiaries	1,332			1,332
	\$ 22,181	\$	\$	\$ 22,181

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, 2011 and ultimate recoverability of the par value of these investments is probable. See "Other Investments" under Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The amortized cost and fair value of debt securities at March 31, 2011 by contractual maturity are detailed below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.

(Dollars in thousands)	Securities Held to Maturity		Securities Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 130	\$ 131	\$	\$
Due after one year through five years	260	262	6,389	6,475
Due after five years through ten years	6,680	6,849	43,174	43,535
Due after ten years	12,660	12,947	136,741	139,644
	\$ 19,730	\$ 20,189	\$ 186,304	\$ 189,654



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

Information pertaining to the Company's securities available for sale with gross unrealized losses at March 31, 2011, December 31, 2010 and March 31, 2010, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position is as follows:

(Dollars in thousands)	Less Than Twelve Months		Twelve Months or More					
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value				
<b>March 31, 2011:</b>								
<b>Securities Held to Maturity</b>								
State and municipal obligations	\$	\$	\$	\$				
<b>Securities Available for Sale</b>								
Government-sponsored enterprises debt	\$	115	\$	16,750	\$	\$		
State and municipal obligations		113		4,535		148	1,398	
Mortgage-backed securities		235		23,333				
Equity securities	\$	463	\$	44,618	\$	148	\$	1,398
<b>December 31, 2010:</b>								
<b>Securities Held to Maturity</b>								
State and municipal obligations	\$	18	\$	3,050	\$	\$		
<b>Securities Available for Sale</b>								
Government-sponsored enterprises debt	\$	164	\$	26,138	\$	\$		
State and municipal obligations		229		12,402		196	1,350	
Mortgage-backed securities		357		31,547				
Trust preferred (collateralized debt obligations)						290	2,034	
	\$	750	\$	70,087	\$	486	\$	3,384
<b>March 31, 2010:</b>								
<b>Securities Held to Maturity</b>								
State and municipal obligations	\$		\$		\$	10	\$	812
<b>Securities Available for Sale</b>								
Government-sponsored enterprises debt	\$	182	\$	12,272	\$	\$		
State and municipal obligations		84		2,534		279	4,363	
Mortgage-backed securities		8		3,162				
Trust preferred (collateralized debt obligations)						280	2,361	
Equity securities		3		166				
	\$	277	\$	18,134	\$	559	\$	6,724

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, 2011	December 31, 2010	March 31, 2010
Non-acquired loans:			
Commercial non-owner occupied real estate:			
Construction and land development	\$ 403,149	422,041	\$ 442,566
Commercial non-owner occupied	318,597	306,381	294,147
Total commercial non-owner occupied real estate	721,746	728,422	736,713
Consumer real estate:			
Consumer owner occupied	334,849	322,637	287,788
Home equity loans	263,331	263,994	250,651
Total consumer real estate	598,180	586,631	538,439
Commercial owner occupied real estate	593,363	565,155	483,450
Commercial and industrial	206,348	202,987	203,296
Other income producing property	131,909	124,431	133,949
Consumer	73,464	67,768	66,259
Other loans	23,299	20,806	13,136
Total loans	2,348,309	2,296,200	2,175,242
Less, allowance for loan losses	(48,164)	(47,512)	(41,397)
Non-acquired loans, net	\$ 2,300,145	\$ 2,248,688	\$ 2,133,845

As permitted by FASB ASC Topic 310-30, the Company aggregated loans covered under loss share agreements that have common risk characteristics into pools within the following loan categories: commercial loans greater than or equal to \$1 million, commercial real estate, commercial real estate construction and development, residential real estate, residential real estate junior lien, home equity, consumer, commercial and industrial, and single pay.

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

The Company's loans covered under loss share agreements portfolio is comprised of the following balances net of related discount:

(Dollars in thousands)	March 31, 2011		Total
	Loans Impaired at Acquisition	Loans Not Impaired at Acquisition	
Loans covered under loss share agreements:			
Commercial loans greater than or equal to \$1 million	\$ 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	67,691	122,567
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 loans covered under loss share agreements	\$ 193,113	\$ 224,683	\$ 417,796
Less, allowance for loan losses	(25,833)		(25,833)
Loans covered under loss share agreements, net	\$ 167,280	\$ 224,683	\$ 391,963

(Dollars in thousands)	December 31, 2010		Total
	Loans Impaired at Acquisition	Loans Not Impaired at Acquisition	
Loans covered under loss share agreements:			
Commercial loans greater than or equal to \$1 million	\$ 32,744	\$ 51,544	\$ 84,288
Commercial real estate	21,302	45,326	66,628
Commercial real estate - construction and development	15,262	17,050	32,312
Residential real estate	45,299	42,246	87,545
Residential real estate - junior lien	2,100	1,573	3,673
Home equity	496	1,023	1,519
Consumer	5,879	5,036	10,915
Commercial and industrial	10,821	13,921	24,742
Single pay	9,156	260	9,416
Total loans covered under loss share agreements	\$ 143,059	\$ 177,979	\$ 321,038

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

(Dollars in thousands)	March 31, 2010 Loans		Total
	Loans Impaired at Acquisition	Not Impaired at Acquisition	
Loans covered under loss share agreements:			
Commercial loans greater than or equal to \$1 million	\$ 49,937	\$ 56,863	\$ 106,800
Commercial real estate	30,328	52,183	82,511
Commercial real estate construction and development	32,770	21,157	53,927
Residential real estate	65,992	51,658	117,650
Residential real estate junior lien	2,293	2,350	4,643
Home equity	587	1,193	1,780
Consumer	11,349	9,228	20,577
Commercial and industrial	13,599	18,797	32,396
Single pay	17,416	1,107	18,523
Total loans covered under loss share agreements	\$ 224,271	\$ 214,536	\$ 438,807

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

Contractual principal and interest	\$ 132,386	\$ 135,500	\$ 267,886
Cash flows expected to be collected	63,390	92,178	155,568
Carrying value	\$ 54,643	\$ 72,810	\$ 127,453

Contractual loan payments receivable, estimates of amounts not expected to be collected, other fair value adjustments and the resulting fair values of loans covered under loss share agreement impaired and non-impaired at the acquisition date for CBT (January 29, 2010 refined) are as follows:

(Dollars in thousands)	Loans		Total
	Loans Impaired at Acquisition	Not Impaired at Acquisition	
Contractual principal and interest	\$ 450,691	\$ 350,309	\$ 801,000
Non-accretable difference	(210,024)	(102,274)	(312,298)
Cash flows expected to be collected	240,667	248,035	488,702
Accretable yield	(7,431)	(21,806)	(29,237)



Edgar Filing: SCBT FINANCIAL CORP - Form 10-Q

Carrying value	\$	233,236	\$	226,229	\$	459,465
----------------	----	---------	----	---------	----	---------

During 2010, the Company refined certain assumptions and loan pools which resulted in changes in the line items of the table above. The changes did not result in a change in the carrying value initially recorded.

Contractual loan payments receivable, estimates of amounts not expected to be collected, other fair value adjustments and the resulting fair values of loans covered under loss share agreements impaired and non-impaired as of March 31, 2011, December 31, 2010, and March 31, 2010 - refined are as follows:

(Dollars in thousands)	March 31, 2011		Total
	Loans Impaired at Acquisition	Loans Not Impaired at Acquisition	
Contractual principal and interest	\$ 379,900	\$ 396,321	\$ 776,221
Non-accretable difference	(189,618)	(101,067)	(290,685)
Cash flows expected to be collected	190,282	295,254	485,536
Accretable yield	(23,002)	(70,571)	(93,573)
Carrying value	\$ 167,280	\$ 224,683	\$ 391,963

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

(Dollars in thousands)	<b>December 31, 2010</b>		
	<b>Loans Impaired at Acquisition</b>	<b>Loans Not Impaired at Acquisition</b>	<b>Total</b>
Contractual principal and interest	\$ 301,080	\$ 303,153	\$ 604,233
Non-accretable difference	(140,723)	(97,788)	(238,511)
Cash flows expected to be collected	160,357	205,365	365,722
Accretable yield	(17,298)	(27,386)	(44,684)
Carrying value	\$ 143,059	\$ 177,979	\$ 321,038

	<b>March 31, 2010</b>		
	<b>Loans Impaired</b>	<b>Loans Not Impaired</b>	
Contractual principal and interest	\$ 437,578	\$ 336,371	\$ 773,949
Non-accretable difference	(206,753)	(102,275)	(309,028)
Cash flows expected to be collected	230,825	234,096	464,921
Accretable yield	(6,554)	(19,560)	(26,114)
Carrying value	\$ 224,271	\$ 214,536	\$ 438,807

Income on loans covered under loss share agreement 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 \$673.7 million at March 31, 2011, \$519.2 million at December 31, 2010 and \$750.8 million at March 31, 2010.

The following are changes in the carrying value of loans covered under loss share agreements at the acquisition date during the periods ended March 31, 2011 and 2010:

(Dollars in thousands)	<b>Loans</b>		
	<b>Impaired at Acquisition</b>	<b>Not Impaired at Acquisition</b>	<b>Total</b>
Balance, December 31, 2010	\$ 143,059	\$ 177,979	\$ 321,038
Fair value of acquired loans	54,643	72,810	127,453
Reductions for payments and foreclosures	(30,422)	(26,106)	(56,528)
Balance, March 31, 2011	\$ 167,280	\$ 224,683	\$ 391,963
Balance, December 31, 2009	\$	\$	\$

Edgar Filing: SCBT FINANCIAL CORP - Form 10-Q

Fair value of acquired loans	233,236	226,229	459,465
Reductions for payments and foreclosures	(8,965)	(11,693)	(20,658)
Balance, March 31, 2010	\$ 224,271	\$ 214,536	\$ 438,807

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

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

(Dollars in thousands)

Beginning balance December 31, 2010	\$	44,684
Additions from Habersham acquisition		28,115
Interest income		(7,127)
Improved cash flows affecting nonaccretable difference		36,200
Other changes, net		(8,299)
Ending balance, March 31, 2011	\$	93,573

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

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

The allowance consists of general and specific reserves. The general reserves are determined by applying loss percentages to the portfolio that are based on historical loss experience 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. 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 either doubtful, substandard or special mention. 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 of all non-homogenous commercial loans. Loans for which specific reserves are provided are excluded from the calculation of the general reserves.

In determining the acquisition date fair value of purchased loans, and in subsequent accounting, SCBT generally aggregates purchased loans into pools of loans with common risk characteristics. Expected cash flows at the acquisition date in excess of the fair value of loans are recorded as interest income over the life of the loans using a level yield method if the timing and amount of the future cash flows of the pool is reasonably estimable. Subsequent to the acquisition date, increases in cash flows over those expected at the acquisition date are recognized as interest income prospectively. Decreases in expected cash flows after the acquisition date are recognized by recording an allowance for loan losses. Evidence of credit quality deterioration for the loan pools may include information such as increased past-due and nonaccrual levels and

Edgar Filing: SCBT FINANCIAL CORP - Form 10-Q

migration in the pools to lower loan grades. Offsetting the impact of the provision established for the loan, the receivable from the FDIC is adjusted to reflect the indemnified portion of the post-acquisition exposure with a corresponding credit to the provision for loan losses. (For further discussion of the Company's allowance for loan losses on acquired loans, see Note 1 Summary of Significant Accounting Policies, Note 4 Mergers and Acquisitions and Note 6 Loans and Allowance for Loan Losses to the consolidated financial statements.)

An aggregated analysis of the changes in allowance for loan losses for the three months ended March 31, 2011 and 2010 is as follows:

(Dollars in thousands)	Non-acquired Loans	Acquired Loans	Total
<b>March 31, 2011:</b>			
Balance at beginning of period	\$ 47,512	\$	\$ 47,512
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
<b>March 31, 2010:</b>			
Balance at beginning of period	\$ 37,488	\$	\$ 37,488
Loans charged-off	(17,370)		(17,370)
Recoveries of loans previously charged off	501		501
Net charge-offs	(16,869)		(16,869)
Provision for loan losses	20,778		20,778
Balance at end of period	\$ 41,397	\$	\$ 41,397

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, 2011, December 31, 2010, and March 31, 2010.

(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
<b>March 31, 2011</b>										
<b>Allowance for loan losses:</b>										
Balance, December 31, 2010	\$ 14,242	\$ 6,428	\$ 7,814	\$ 6,060	\$ 4,424	\$ 4,313	\$ 2,834	\$ 1,191	\$ 206	\$ 47,512
Charge-offs	(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
Balance, March 31, 2011	\$ 14,130	\$ 6,317	\$ 7,976	\$ 6,188	\$ 4,477	\$ 4,395	\$ 3,187	\$ 1,268	\$ 226	\$ 48,164
<b>Loans individually evaluated for impairment</b>										
Loans individually evaluated for impairment	\$ 594	\$ 866	\$ 446	\$ 21	\$	\$	\$ 163	\$	\$	\$ 2,090
<b>Loans collectively evaluated for impairment</b>										
Loans collectively evaluated for impairment	\$ 13,536	\$ 5,451	\$ 7,530	\$ 6,167	\$ 4,477	\$ 4,395	\$ 3,024	\$ 1,268	\$ 226	\$ 46,074
<b>Loans:</b>										
<b>Loans individually evaluated for impairment</b>										
Loans individually evaluated for impairment	\$ 23,107	\$ 11,882	\$ 10,314	\$ 1,997	\$	\$ 1,117	\$ 1,239	\$	\$	\$ 49,656
<b>Loans collectively evaluated for impairment</b>										
Loans collectively evaluated for impairment	380,042	306,715	583,049	332,852	263,331	205,231	130,670	73,464	23,299	2,298,653
Total non-acquired loans	\$ 403,149	\$ 318,597	\$ 593,363	\$ 334,849	\$ 263,331	\$ 206,348	\$ 131,909	\$ 73,464	\$ 23,299	\$ 2,348,309
<b>December 31, 2010</b>										
<b>Allowance for loan losses:</b>										
Balance, December 31, 2009	\$ 9,169	\$ 5,792	\$ 5,978	\$ 4,635	\$ 3,751	\$ 4,330	\$ 2,375	\$ 1,258	\$ 200	\$ 37,488
Charge-offs	(19,150)	(3,011)	(2,625)	(7,285)	(2,490)	(9,138)	(338)	(2,780)		(46,817)
Recoveries	785	29	126	149	45	713	6	706		2,559
Provision	23,438	3,618	4,335	8,561	3,118	8,408	791	2,007	6	54,282
Balance, December 31, 2010	\$ 14,242	\$ 6,428	\$ 7,814	\$ 6,060	\$ 4,424	\$ 4,313	\$ 2,834	\$ 1,191	\$ 206	\$ 47,512
<b>Loans individually evaluated for impairment</b>										
Loans individually evaluated for impairment	\$ 1,718	\$ 1,444	\$ 830	\$ 80	\$	\$ 36	\$ 28	\$	\$	\$ 4,136
<b>Loans collectively evaluated for impairment</b>										
Loans collectively evaluated for impairment	\$ 12,524	\$ 4,984	\$ 6,984	\$ 5,980	\$ 4,424	\$ 4,277	\$ 2,806	\$ 1,191	\$ 206	\$ 43,376
<b>Loans:</b>										
<b>Loans individually evaluated for impairment</b>										
Loans individually evaluated for impairment	\$ 23,081	\$ 10,948	\$ 10,747	\$ 1,540	\$	\$ 1,144	\$ 3,153	\$	\$	\$ 50,613
<b>Loans collectively evaluated for impairment</b>										
Loans collectively evaluated for impairment	398,960	295,433	554,408	321,097	263,994	201,843	121,278	67,768	20,806	2,245,587

Edgar Filing: SCBT FINANCIAL CORP - Form 10-Q

Loans collectively  
evaluated for impairment

Total non-acquired loans	\$	422,041	\$	306,381	\$	565,155	\$	322,637	\$	263,994	\$	202,987	\$	124,431	\$	67,768	\$	20,806	\$	2,296,200
--------------------------	----	---------	----	---------	----	---------	----	---------	----	---------	----	---------	----	---------	----	--------	----	--------	----	-----------

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

(Dollars in thousands)	Construction & Land Development	Commercial Non-owner Occupied	Commercial Owner Occupied	Consumer Owner Occupied	Home Equity	Commercial & Industrial	Other Income Producing Property	Consumer	Other Loans	Total
<b>March 31, 2010</b>										
<b>Allowance for loan losses:</b>										
Balance, December 31, 2009	\$ 9,169	\$ 5,792	\$ 5,978	\$ 4,635	\$ 3,751	\$ 4,330	\$ 2,375	\$ 1,258	\$ 200	\$ 37,488
Charge-offs	(5,662)	(577)	(975)	(1,759)	(1,004)	(6,435)	(516)	(442)		(17,370)
Recoveries	207	3	1	5	4	89		192		501
Provision	7,130	784	1,997	2,432	1,553	5,907	563	279	133	20,778
Balance, March 31, 2010	\$ 10,844	\$ 6,002	\$ 7,001	\$ 5,313	\$ 4,304	\$ 3,891	\$ 2,422	\$ 1,287	\$ 333	\$ 41,397
Loans individually evaluated for impairment	\$ 1,684	\$ 1,196	\$ 204	\$	\$	\$	\$ 185	\$	\$	\$ 3,269
Loans collectively evaluated for impairment	\$ 9,160	\$ 4,806	\$ 6,797	\$ 5,313	\$ 4,304	\$ 3,891	\$ 2,237	\$ 1,287	\$ 333	\$ 38,128
<b>Loans:</b>										
Loans individually evaluated for impairment	\$ 17,321	\$ 5,879	\$ 4,807	\$	\$	\$ 2,565	\$ 2,037	\$	\$	\$ 32,609
Loans collectively evaluated for impairment	425,245	288,268	478,643	287,788	250,651	200,731	131,912	66,259	13,136	2,142,633
Total non-acquired loans	\$ 442,566	\$ 294,147	\$ 483,450	\$ 287,788	\$ 250,651	\$ 203,296	\$ 133,949	\$ 66,259	\$ 13,136	\$ 2,175,242

The following tables present a disaggregated analysis of activity in the allowance for loan losses and loan balances for acquired loans for the period ended March 31, 2011. As of December 31, 2010 and March 31, 2010, no provision had been made for loans covered under loss share agreements.

(Dollars in thousands)	Commercial Loans Greater Than or Equal to \$1 Million	Commercial Real Estate- Construction and Development	Commercial Real Estate- Residential	Residential Real Estate- Junior Lien	Home Equity	Commercial Consumer and Industrial	Commercial Single Pay	Total
<b>2011</b>								
<b>Allowance for loan losses:</b>								
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



Edgar Filing: SCBT FINANCIAL CORP - Form 10-Q

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	
<b>Loans:</b>										
Loans individually evaluated for impairment	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Loans collectively evaluated for impairment	80,355	90,694	61,497	122,567	3,150	982	13,200	34,401	10,950	417,796
Total loans covered under loss share agreements	\$ 80,355	\$ 90,694	\$ 61,497	\$ 122,567	\$ 3,150	\$ 982	\$ 13,200	\$ 34,401	\$ 10,950	\$ 417,796

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 weighted-average risk grade, (ii) the level of classified loans, (iii) net charge-offs, (iv) non-performing loans (see details below) and (v) 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 lower than 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 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, 2011	December 31, 2010	March 31, 2010	March 31, 2011	December 31, 2010	March 31, 2010	March 31, 2011	December 31, 2010	March 31, 2010
Pass	\$ 303,236	\$ 314,762	\$ 308,638	\$ 253,775	\$ 244,876	\$ 243,566	\$ 508,098	\$ 489,935	\$ 403,028
Special mention	44,319	40,463	46,638	37,797	37,487	30,147	45,187	38,204	50,608
Substandard	55,594	66,816	85,465	27,025	24,018	20,209	39,767	36,785	29,682
Doubtful			1,825			225	311	231	132
	\$ 403,149	\$ 422,041	\$ 442,566	\$ 318,597	\$ 306,381	\$ 294,147	\$ 593,363	\$ 565,155	\$ 483,450

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

Edgar Filing: SCBT FINANCIAL CORP - Form 10-Q

	2011	2010	2010	2011	2010	2010	2011	2010	2010
Pass	\$ 194,491	\$ 190,608	\$ 189,311						