STATE BANK FINANCIAL CORP
Form 10-Q
August 15, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2011

or

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

For the transition period from to

Commission file number: 000-54056

STATE BANK FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Georgia	**27-1744232**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
415 East Paces Ferry Road, NE, Suite 250, Atlanta, Georgia	**30305**
(Address of principal executive offices)	(Zip Code)

404-475-6599

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 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 o No o

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

Large accelerated filer o	Accelerate filer o
Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company o

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

The number of shares outstanding of the registrant s common stock, as of August 10, 2011 was 31,611,581.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this report that are not statements of historical fact may constitute forward-looking statements. These forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, can generally be identified by the use of the words may, would, could, will, expect, anticipate, believe, intend, plan and estimate, as well as sir
These forward-looking statements include statements related to our projected growth, anticipated future financial performance, and management s long-term performance goals, as well as statements relating to the anticipated effects on results of operations and financial condition from expected developments or events, or business and growth strategies, including anticipated internal growth and plans to establish or acquire banks or the assets of failed banks.

These forward-looking statements involve significant risks and uncertainties that could cause our actual results to differ materially from those anticipated in such statements. Potential risks and uncertainties include the following:

- general economic conditions (both generally and in our markets) may be less favorable than expected, which could result in, among other things, a continued deterioration in credit quality, a further reduction in demand for credit and a further decline in real estate values;
- the general decline in the real estate and lending markets, particularly in our market areas, may continue to negatively affect our financial results;
- our ability to raise additional capital may be impaired if current levels of market disruption and volatility continue or worsen;
- we may be unable to collect reimbursements on losses that we incur on our assets covered under loss share agreements with the FDIC as we anticipate;
- costs or difficulties related to the integration of the banks we acquired from the FDIC as receiver may be greater than expected;
- restrictions or conditions imposed by our regulators on our operations may make it more difficult for us to achieve our goals;
- legislative or regulatory changes, including changes in accounting standards and compliance requirements, may adversely affect us;
- competitive pressures among depository and other financial institutions may increase significantly;
- changes in the interest rate environment may reduce margins or the volumes or values of the loans we make or have acquired;
- other financial institutions have greater financial resources and may be able to develop or acquire products that enable them to compete more successfully than we can;
- our ability to attract and retain key personnel can be affected by the increased competition for experienced employees in the banking industry;
- adverse changes may occur in the bond and equity markets;
- war or terrorist activities may cause further deterioration in the economy or cause instability in credit markets;

- economic, governmental or other factors may prevent the projected population, residential and commercial growth in the markets in which we operate; and

- we will or may continue to face the risk factors discussed from time to time in the periodic reports we file with the SEC.

For these forward-looking statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You should not place undue reliance on the forward-looking statements, which speak only as of the date of this report. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. See Item 1A, Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2010, as well as Part II, Item 1A, Risk Factors, below, for a description of some of the important factors that may affect actual outcomes.

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PART I

Item 1. Financial Statements.

STATE BANK FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AND SHARE AMOUNTS)

	June 30, 2011 (Unaudited)	December 31, 2010 (Audited)
ASSETS		
Cash and amounts due from depository institutions	$ 9,181	$ 25,843
Interest-bearing deposits in other financial institutions	363,309	360,646
Cash and cash equivalents	372,490	386,489
Investment securities available for sale	349,387	405,581
Federal Home Loan Bank stock	10,604	14,593
Loans receivable:		
Not covered under FDIC loss sharing agreements	546,154	342,849
Covered under FDIC loss sharing agreements	814,361	934,967
Allowance for loan losses (non-covered loans)	(6,914)	(5,351)
Loans receivable, net	1,353,601	1,272,465
Mortgage loans held for sale	2,516	3,542
Other real estate:		
Not covered under FDIC loss sharing agreements	738	75
Covered under FDIC loss sharing agreements	102,822	155,981
Premises and equipment	35,741	31,908
Goodwill and other intangibles	8,723	9,194
FDIC receivable for loss sharing agreements, net	468,361	494,428
Other assets	61,298	54,323
Total assets	$ 2,766,281	$ 2,828,579
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Non-interest bearing deposits	$ 256,087	$ 224,543
Interest-bearing deposits	2,103,343	2,197,383
Securities sold under agreements to repurchase	4,831	5,246
Notes payable	2,546	
Other liabilities	24,868	42,064
Total liabilities	2,391,675	2,469,236
Commitments and contingencies		
Shareholders Equity:		

Preferred stock, $1 par value; 2,000,000 shares authorized, zero shares issued and outstanding in 2011 and 2010, respectively				
Common stock, $0.01 par value; 100,000,000 shares authorized, 31,611,581 and 31,610,904 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively		316		316
Additional paid-in-capital		292,902		292,942
Retained earnings		80,381		63,568
Accumulated other comprehensive income, net of tax		1,007		2,517
Total shareholders equity		374,606		359,343
Total liabilities and shareholders equity	$	2,766,281	$	2,828,579

See accompanying notes to consolidated financial statements

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STATE BANK FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AND SHARE AMOUNTS)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Interest Income				
Loans, including fees	$ 34,313	$ 37,472	$ 66,534	$ 76,487
Investment securities	2,585	2,130	4,965	4,044
Deposits with other financial institutions	183	183	380	291
Total interest income	37,081	39,785	71,879	80,822
Interest Expense				
Deposits	6,394	10,070	13,427	18,738
Notes payable	62		134	
Federal funds purchased and repurchase agreements	1	9	14	22
Total interest expense	6,457	10,079	13,575	18,760
Net Interest Income	30,624	29,706	58,304	62,062
Provision for Loan Losses (non-covered loans)	1,593	695	2,554	1,192
Provision for Loan Losses (covered loans)	451		451	
Net Interest Income After Provision for Loan Losses	28,580	29,011	55,299	60,870
Noninterest Income				
Accretion of FDIC receivable for loss sharing agreements	3,722	2,798	8,695	6,907
Service charges on deposits	1,435	1,660	2,848	3,301
Mortgage banking income	228	127	385	145
(Loss) gain on sale of investment securities		44	(3)	51
Gain on FHLB stock redemption	1,132		1,132	
ATM income	541	516	1,029	967
Other	1,108	377	2,449	880
Total noninterest income	8,166	5,522	16,535	12,251
Noninterest Expense				
Salaries and employee benefits	11,895	9,788	23,572	20,776
Occupancy and equipment	2,179	1,974	4,285	4,105
Legal and professional fees	1,574	1,006	3,417	1,586
Marketing	936	834	1,696	1,491
Federal insurance premiums and other regulatory fees	1,210	1,361	1,858	2,485
Net cost of operations of other real estate owned	2,633	2,219	4,654	4,769
Data processing	1,165	839	2,116	1,717
Core deposit intangible amortization expense	248	160	471	325
Other	1,585	939	3,100	1,853

Total noninterest expense		23,425		19,120		45,169		39,107
Income Before Income Taxes		13,321		15,413		26,665		34,014
Income Tax Expense		4,739		5,839		9,852		12,721
Net Income	$	8,582	$	9,574	$	16,813	$	21,293
Basic Earnings Per Share	$	0.27	$	0.30	$	0.53	$	0.68
Diluted Earnings Per Share	$	0.26	$	0.30	$	0.51	$	0.67
Weighted Average Common Shares Outstanding:								
Basic		31,611,358		31,540,977		31,611,132		31,540,977
Diluted		32,717,755		31,828,164		32,719,894		31,828,164

See accompanying notes to consolidated financial statements

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STATE BANK FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

(DOLLARS IN THOUSANDS)

	Three months ended June 30, 2011		Three months ended June 30, 2010	
Net Income	$	8,582	$	9,574
Other Comprehensive Income, Net of Income Tax				
Reclassification adjustment for (gains) included in net income, net of tax				(27)
Unrealized (loss)/gain on securities		(1,422)		1,383
Total other comprehensive (loss)/income		(1,422)		1,356
Comprehensive Income	$	7,160	$	10,930

	Six months ended June 30, 2011		Six months ended June 30, 2010	
Net Income	$	16,813	$	21,293
Other Comprehensive Income, Net of Income Tax				
Reclassification adjustment for losses/(gains) included in net income, net of tax		2		(32)
Unrealized (loss)/gain on securities		(1,512)		2,980
Total other comprehensive (loss)/income		(1,510)		2,948
Comprehensive Income	$	15,303	$	24,241

See accompanying notes to consolidated financial statements

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STATE BANK FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(UNAUDITED)

(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	Warrants	Common Shares	Common Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2009	2,660,634	31,540,977	$ 315	$ 292,030	$ 18,022	$ 397	$ 310,764
Change in accumulated other comprehensive income						2,948	2,948
Net income					21,293		21,293
Balance, June 30, 2010	2,660,634	31,540,977	$ 315	$ 292,030	$ 39,315	$ 3,345	$ 335,005

	Warrants	Common Shares	Common Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2010	2,715,561	31,610,904	$ 316	$ 292,942	$ 63,568	$ 2,517	$ 359,343
Common shares issued		677					
Repurchase of stock warrants	(21,000)			(40)			(40)
Change in accumulated other comprehensive income						(1,510)	(1,510)
Net income					16,813		16,813
Balance, June 30, 2011	2,694,561	31,611,581	$ 316	$ 292,902	$ 80,381	$ 1,007	$ 374,606

See accompanying notes to consolidated financial statements

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STATE BANK FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(IN THOUSANDS)

	Six Months Ended June 30, 2011	2010
Cash Flows from Operating Activities		
Net income	$ 16,813	$ 21,293
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion on premises and equipment and investments	1,403	2,250
Amortization of intangible assets	471	325
Provision for loan losses	3,005	1,192
Amortization of premiums and discounts on acquisitions, net	(59,316)	(48,425)
Loss on sale of other real estate owned	2,575	2,466
Write-downs of other real estate owned	39,212	5,923
Increase in FDIC receivable for covered losses	(46,146)	(20,262)
Funds collected from FDIC receivable	80,908	149,949
Proceeds from sales of mortgage loans held for sale	17,316	3,327
Originations of mortgage loans held for sale	(16,290)	(4,706)
Loss (gain) on available for sale securities	3	(51)
Gain on sale of premises and equipment		(6)
Gain on FHLB stock redemption	(1,132)	
Net change in cash surrender value	(719)	(102)
Change in other liabilities, net	(17,196)	(2,641)
Other operating activities, net	(5,352)	818
Net cash provided by operating activities	15,555	111,350
Cash Flows from Investing Activities		
Purchase of investment securities available for sale	(45,510)	(172,520)
Proceeds from sales, calls, maturities and pay-downs: available for sale	98,766	69,334
Loans to customers, net of repayments	(61,650)	2,495
Purchase of bank owned life insurance		(30,416)
Redemption of FHLB stock	5,121	
Purchases of premises and equipment	(5,635)	(7,730)
Disposal of premises and equipment	920	73
Proceeds from sales of other real estate	38,839	51,866
Net cash provided by (used in) investing activities	30,851	(86,898)
Cash Flows from Financing Activities		
Interest-bearing customer deposits	(94,040)	68,596
Noninterest-bearing customer deposits	31,544	18,206
Proceeds from other borrowed funds	64,815	(2,191)
Repayment of other borrowed funds	(62,684)	(5,000)
Repurchase of stock warrants	(40)	
Net cash (used in) provided by operating activities	(60,405)	79,611
Net (Decrease) Increase in Cash and Cash Equivalents	(13,999)	104,063
Cash and Cash Equivalents, Beginning	386,489	200,166

Cash and Cash Equivalents, Ending	$	372,490	$	304,229

See accompanying notes to consolidated financial statements

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	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Cash Payments for:		
Interest	$ 13,931	$ 21,633
Income taxes	24,781	17,502
Supplemental disclosures on non-cash investing and financing activities:		
Goodwill and fair value acquisition adjustment		(1,665)
Unrealized (losses) gains on securities, net of taxes	(1,510)	2,948
Transfer of loans to other real estate	28,130	84,889

See accompanying notes to consolidated financial statements

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STATE BANK FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(1) Basis of Presentation

State Bank Financial Corporation (the Company) is a bank holding company whose business is primarily conducted through its wholly-owned banking subsidiary, State Bank and Trust Company (the Bank). Through the Company, the Bank operates a full service banking business and offers a broad range of commercial and retail banking products to its customers, which range from metro Atlanta to middle Georgia.

The accompanying unaudited consolidated financial statements for the Company have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and Regulation S-X. Accordingly, the financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statement presentation. The interim consolidated financial statements included herein are unaudited, but reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of the consolidated financial position and results of operations for the interim periods presented. All significant intercompany accounts and transactions have been eliminated in consolidation. The results of operations for the periods ended June 30, 2011 are not necessarily indicative of the results to be expected for the full year. These financial statements should be read in conjunction with the financial statements and notes thereto and the report of our independent registered public accounting firm included in the Company s Annual Report for the year ended December 31, 2010.

Certain amounts have been reclassified to conform to current period presentation. The reclassifications had no effect on net income or shareholders equity as previously reported.

Recently Adopted Accounting Pronouncements

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS (ASU No. 2011-04). ASU No. 2011-04 primarily represents clarification to existing guidance over the fair value measurement and disclosure requirements. It does change the concepts of the valuation premise and highest and best use, stating that they are only relevant for nonfinancial assets. The guidance also changes the application of premiums and discounts and includes new disclosures. ASU No. 2011-04 is effective for the Company in the first quarter of 2012. The Company is currently evaluating the impact of adoption on its financial position, results of operation and disclosures, but does not believe adoption will have a material impact.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, Presentation of Comprehensive Income (ASU No. 2011-05). ASU No. 2011-05 requires entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive statements of net income and other comprehensive income. The option to present items of other comprehensive income in the statement of changes in equity is eliminated. The guidance is effective for the Company for the first quarter of 2012, and will not have a material impact on the Company s results of operations or financial position. It will not result in a change of disclosure, as the Company currently presents other comprehensive income in the separate statement following the Consolidated Statements of Income.

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(2) Investment Securities

Investment securities as of June 30, 2011 are summarized as follows *(in thousands)*:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
U.S. Government securities	$ 92,658	$ 747	$ 2	$ 93,403
State and political subdivisions	10,322	170	17	10,475
Residential mortgage-backed securities-private	102,224	401	3,354	99,271
Residential mortgage-backed securities-agency	35,287	1,141		36,428
Collateralized-mortgage obligations (CMO)	106,928	2,543	21	109,450
Corporate securities	360			360
	$ 347,779	$ 5,002	$ 3,394	$ 349,387

Investment securities as of December 31, 2010 are summarized as follows *(in thousands)*:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
U.S. Government securities	$ 163,002	$ 699	$ 20	$ 163,681
State and political subdivisions	9,490	114	49	9,555
Residential mortgage-backed securities-private	61,504	705	1,184	61,025
Residential mortgage-backed securities-agency	40,892	781		41,673
Collateralized-mortgage obligations (CMO)	125,146	2,836	27	127,955
Corporate securities	1,525	167		1,692
	$ 401,559	$ 5,302	$ 1,280	$ 405,581

The amortized cost and estimated fair value available-for-sale securities at June 30, 2011 by contractual maturity are summarized in the table below. Expected maturities for mortgage-backed securities may differ from contractual maturities because in certain cases borrowers prepay obligations without prepayment penalties. Therefore, these securities are not included in the following maturity summary *(in thousands):*

	Amortized Cost	Fair Value
Due in one year or less	$ 72,756	$ 72,861
Due from one year to five years	15,739	15,939

Due from five years to ten years	5,849	6,173
Due after ten years	8,996	9,265
Residential mortgage-backed securities (private and agency) and collateralized mortgage obligations (CMO)	244,439	245,149
	$ 347,779	$ 349,387

The Company s investment in FHLB stock was $10.6 million and $14.6 million at June 30, 2011 and December 31, 2010, respectively.

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Gains and losses on the sales and calls of securities available for sale consist of the following *(in thousands)*:

	Six months ended June 30, 2011		Six months ended June 30, 2010	
Gross gains on securities available for sale	$		$	51
Gross losses on securities available for sale		(3)		
Net realized (losses) gains on sales of securities available for sale	$	(3)	$	51

The composition of investment securities reflects the strategy of management to maintain an appropriate level of liquidity while providing a relatively stable source of revenue. The securities portfolio may at times provide a balance over interest rate risk associated with other areas of the balance sheet while also providing a means for the investment of available funds, providing liquidity and supplying investment securities that are required to be pledged as collateral against specific deposits. Management monitors the investment portfolio and evaluates investments for other-than-temporary impairment on a quarterly basis. Consideration during the evaluation is placed on (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the positive intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for anticipated recovery in fair value. As of June 30, 2011, there was no intent to sell any of the securities available for sale. Furthermore, it is not likely that the Company will have to sell such securities before a recovery of the amortized cost basis.

The following table provides information regarding securities with unrealized losses as of June 30, 2011 and December 31, 2010 *(in thousands)*:

	Less than 12 months				12 months or more				Total			
		Fair Value		Unrealized Losses		Fair Value		Unrealized Losses		Fair Value		Unrealized Losses
June 30, 2011												
Investment securities available for sale:												
U.S. Government securities	$		$		$	9,999	$	2	$	9,999	$	2
State and political subdivisions		3,052		16		256		1		3,308		17
Residential mortgage-backed-private		74,211		3,354						74,211		3,354
Collateralized mortgage obligations		8,535		21						8,535		21
Total	$	85,798	$	3,391	$	10,255	$	3	$	96,053	$	3,394
December 31, 2010												
Investment securities available for sale:												
U.S. Government securities	$	34,128	$	20	$				$	34,128		20
State and political subdivisions		3,896		32		239		17		4,135		49
Residential mortgage-backed-securities-private		23,788		1,184						23,788		1,184
Collateralized-mortgage obligations		12,598		27						12,598		27
Total	$	74,410	$	1,263	$	239	$	17	$	74,649	$	1,280

Investment securities with aggregate fair values of $10.3 million and $239,000 had continuous unrealized losses of $3,000 and $17,000 for more than twelve months as of June 30, 2011 and December 31, 2010, respectively. The unrealized losses arose from changes in interest rates and market conditions and maintain an acceptable investment grade where the repayment of principal and interest are fully backed by the U.S.

Government. As of the dates noted above, the Company had the ability and intent to retain this investment security for a period of time sufficient to recover all unrealized losses. Therefore, the security is deemed to be other than temporarily impaired.

Investment securities with an aggregate carrying amount of $74.2 million and $148.5 million at June 30, 2011 and December 31, 2010, respectively, were pledged to secure public deposits and Federal Reserve Bank lines of credit.

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(3) Loans Receivable

Loans not covered by loss sharing agreements are summarized as follows *(in thousands):*

	June 30, 2011	December 31, 2010
1-4 family residential real estate	$ 26,510	$ 23,255
Commercial real estate-construction	112,846	70,543
Commercial real estate-other	343,765	196,243
Commercial and industrial	40,754	38,919
Consumer and other	22,279	13,889
	546,154	342,849
Allowance for loan losses	(6,914)	(5,351)
	$ 539,240	$ 337,498

Loans covered by loss sharing agreements are summarized as follows *(in thousands):*

	June 30, 2011	December 31, 2010
1-4 family residential real estate	$ 189,695	$ 191,444
Commercial real estate-construction	202,420	264,858
Commercial real estate-other	360,160	372,775
Commercial and industrial	49,277	87,590
Consumer and other	12,809	18,300
	$ 814,361	$ 934,967

The following table documents changes in the carrying value of acquired loans during the periods ended June 30, 2011 and 2010:

	Six months ended June 30, 2011	Six months ended June 30, 2010
Balance, at beginning of period	$ 934,967	$ 1,134,499
Accretion income	50,621	72,084
Reductions in recorded investment since acquisition date resulting from repayments, write-offs, and foreclosures	(171,227)	(227,155)
Balance, end of period	$ 814,361	$ 979,428

Loans covered under loss share agreements with the FDIC (referred to as covered loans) are reported in loans excluding the expected reimbursement from the FDIC. Covered loans are initially recorded at fair value at the acquisition date. Prospective losses incurred on covered loans are eligible for partial reimbursement by the FDIC under loss share agreements. Subsequent decreases in the amount of cash expected to be collected result in a provision for loan losses, an increase in the allowance for loan losses, and a proportional adjustment to the FDIC receivable for the estimated amount to be reimbursed. Subsequent increases in the amount of cash expected to be collected from the borrower result in the reversal of any previously-recorded provision for loan losses and related allowance for loan losses and adjustments to the FDIC receivable, or prospective adjustment to the accretable discount if no provision for loan losses had been recorded. Accretable discounts related to certain fair value adjustments are accreted into income over the estimated lives of the loans on a level yield basis.

The increase in the accretable discount was a result of quarterly changes in cash flows and related updates to acquisition date assumptions and methodologies. During the first six months of 2011 the increase was a result of a detailed review

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and re-estimation of expected cash flows and loss assumptions based on the installation of a new detailed analytics system focusing on expected cash flows and enhanced historical loss data as the covered loan portfolio seasons. We do not expect this level of increase in the future assuming no major economic events.

The following table shows changes in the value of the accretable discount for the six months ended June 30, 2011 and 2010 as follows (*in thousands*):

	Six months ended June 30, 2011	2010
Balance, at beginning of period	$ 123,778	$ 183,840
Accretion	(50,621)	(72,084)
Transfers to accretable discount	154,952	33,416
Balance, end of period	$ 228,109	$ 145,172

The following table shows changes in the carrying value of the FDIC receivable for loss sharing agreements relating to covered loans and other real estate for the periods indicated (*in thousands*):

	Six months ended June 30, 2011	2010
Fair value of FDIC receivable for loss sharing agreements at beginning of 2011 and 2010	$ 494,428	$ 605,502
Reductions resulting from:		
Wires received	(80,908)	(149,949)
Recovery of previous loss reimbursements		
Additions resulting from:		
Charge-offs, write-downs and other losses	38,381	10,774
Discount accretion	8,695	6,907
External expenses qualifying under loss sharing agreements	7,765	9,694
Balance, end of period	$ 468,361	$ 482,928

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(4) Allowance for Loan Losses

The following table presents the Company s loan loss experience on all non-covered loans for the period indicated *(in thousands):*

	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Balance, at beginning of period	$ 6,214	$ 3,021	$ 5,351	$ 2,524
Loans charged off	(979)	(71)	(1,077)	(71)
Recoveries on previously charged off loans receivable	86		86	
Provision for loan losses charged to loan operations	1,593	695	2,554	1,192
Balance, end of period	$ 6,914	$ 3,645	$ 6,914	$ 3,645

During the six months ended June 30, 2011, the Company recorded provision for loan loss expense and charged-off loans of $451,000 to account for changes in projected cash flows from original estimates on loans covered under loss share agreements with the FDIC. This $451,000 amount is excluded from the tables above and below but is reflected in the Company s Consolidated Statements of Income. There was no provision expense on loans covered under loss share agreements with the FDIC recorded for covered loans for the six months ended June 30, 2010.

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The following tables detail the allowance for loan losses on loans not covered by loss sharing by portfolio segment for the periods indicated *(in thousands)*:

	Residential real estate	Commercial real estate-construction	Commercial real estate-other	Commercial & industrial	Consumer and other	Nonspecific	Total
Three months ended June 30, 2011							
Allowance for loan losses:							
Beginning balance	$ 279	$ 2,620	$ 2,236	$ 549	$ 235	$ 295	$ 6,214
Charge-offs		(16)	(853)	(102)	(8)		(979)
Recoveries		3	2		81		86
Provision	26	598	963	120	(49)	(65)	1,593
Ending balance	$ 305	$ 3,205	$ 2,348	$ 567	$ 259	$ 230	$ 6,914
Ending allowance attributable to loans:							
Individually evaluated for impairment	$ 68	$ 172	$ 52	$ 16	$ 87	$	$ 395
Collectively evaluated for impairment	237	3,033	2,296	551	172	230	6,519
Total ending allowance Balance	$ 305	$ 3,205	$ 2,348	$ 567	$ 259	$ 230	$ 6,914
Loans:							
Individually evaluated for impairment	$ 235	$ 901	$ 2,136	$ 31	$ 175		$ 3,478
Collectively evaluated for impairment	26,275	111,945	341,629	40,723	22,104		542,676
Total loans	$ 26,510	$ 112,846	$ 343,765	$ 40,754	$ 22,279		$ 546,154
Six months ended June 30, 2011							
Allowance for loan losses:							
Beginning balance	$ 246	$ 2,252	$ 1,803	$ 588	$ 223	$ 239	$ 5,351
Charge-offs		(23)	(853)	(102)	(99)		(1,077)
Recoveries		3	2		81		86
Provision	59	973	1,396	81	54	(9)	2,554
Ending balance	$ 305	$ 3,205	$ 2,348	$ 567	$ 259	$ 230	$ 6,914

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December 31, 2010	Residential real estate	Commercial real estate-construction	Commercial real estate-other	Commercial & industrial	Consumer and other	Nonspecific	Total
Allowance for loan losses:							
Individually evaluated for impairment	$	$ 518	$ 5	$	$	$	$ 523
Collectively evaluated for impairment	$ 246	$ 1,734	$ 1,798	$ 588	$ 223	$ 239	$ 4,828
Ending balance	$ 246	$ 2,252	$ 1,803	$ 588	$ 223	$ 239	$ 5,351
Loans							
Individually evaluated for impairment	$ 64	$ 1,085	$ 3,212	$	$	$	$ 4,361
Collectively evaluated for impairment	$ 23,191	$ 69,458	$ 193,031	$ 38,919	$ 13,889	$	$ 338,488
Ending balance	$ 23,255	$ 70,543	$ 196,243	$ 38,919	$ 13,889	$	$ 342,849

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Impaired loans not covered by loss share agreements, segregated by class of loans, as of June 30, 2011 are as follows (*in thousands*):

				Three Months Ended		Six Months Ended	
	Recorded Investment	**Unpaid Principal Balance**	**Related Allowance**	**Average Recorded Investment**	**Interest Income Recognized**	**Average Recorded Investment**	**Interest Income Recognized**
Impaired loans:							
With no related allowance recorded:							
Residential real estate	$ 59	$ 59	$	$ 73	$ 1	$ 78	$ 1
Commercial							
Construction	661	937		703		713	
Other	1,063	1,229		1,637		1,775	
Commercial and industrial							
Consumer and other							
Subtotal	$ 1,783	$ 2,225	$	$ 2,413	$ 1	$ 2,566	$ 1
With related allowance recorded:							
Residential real estate	$ 176	$ 176	$ 68	$ 61	$ 2	$ 34	$ 2
Commercial							
Construction	239	409	52	278		276	1
Other	1,074	1,826	172	1,370	8	1,470	8
Commercial and industrial	31	31	16				
Consumer and other	175	175	87				
Subtotal	$ 1,695	$ 2,617	$ 395	$ 1,709	$ 10	$ 1,780	$ 11
Total impaired loans	$ 3,478	$ 4,842	$ 395	$ 4,122	$ 11	$ 4,346	$ 12

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Impaired loans not covered by loss share agreements, segregated by class of loans, as of December 31, 2010 are as follows (*in thousands*):

Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**
With no related allowance recorded:			
Residential real estate	$		
Commercial:			
Construction	1,085	1,362	
Other	1,719	2,391	
Commercial and industrial			
Consumer and other			
Subtotal	2,804	3,753	
With related allowance recorded:			
Residential real estate	64	64	5
Commercial:			
Construction			
Other	1,493	1,493	518
Commercial and industrial			
Consumer and other			
Subtotal	1,557	1,557	523
Total	$ 4,361	$ 5,310	$ 523

For the three and six months ended June 30, 2011, the average investment in impaired loans was $4.1 million and $4.3 million, respectively. Interest income foregone on impaired loans totaled $66,000 and $150,000 for the three and six months ended June 30, 2011, respectively. Interest income recognized on impaired loans for the quarter and year to date June 30, 2011 was insignificant.

The following tables present the recorded investment in non-covered nonaccrual loans by loan class *(in thousands)*:

	June 30, 2011	**December 31, 2010**
Nonaccrual non-covered loans		
1-4 family residential real estate	$ 235	**$**
Commercial real estate-construction	900	695
Commercial real estate-other	2,059	2,944
Commercial and industrial	31	
Consumer and other	253	1,392
Total	$ 3,478	$ 5,031

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The following table presents an analysis of past due loans not covered by loss sharing, segregated by class of loans, as of June 30, 2011 *(in thousands):*

	30 - 89 Days Past Due	Greater than 90 days Past Due	Total Past Due	Current	Total Loans	Loans > 90 days and accruing
Commercial	$ 11	$ 40	$ 51	$ 40,703	$ 40,754	$
Commercial real estate:						
Construction	27	901	928	111,918	112,846	
Other	202	1,517	1,719	342,046	343,765	
Residential real estate	16	967	983	25,527	26,510	
Consumer	228	307	535	21,744	22,279	
Total	$ 484	$ 3,732	$ 4,216	$ 541,938	$ 546,154	$

The following table presents an analysis of past due loans covered by loss sharing, segregated by class of loans, as of June 30, 2011 *(in thousands)*:

	30 - 89 days past due	Greater than 90 days past due	Total past due	Current	Total loans	Loans > 90 days and accruing
Commercial	$ 490	$ 10,787	$ 11,277	$ 38,000	$ 49,277	$
Commercial real estate:						
Construction	5,602	128,356	133,958	68,462	202,420	
Other	16,825	70,137	86,962	273,198	360,160	
Residential real estate	6,043	35,113	41,156	148,539	189,695	
Consumer	192	1,779	1,971	10,838	12,809	
Total	$ 29,152	$ 246,172	$ 275,324	$ 539,037	$ 814,361	$

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The following table presents an analysis of past due loans not covered by loss sharing, segregated by class of loans, as of December 31, 2010 *(in thousands):*

	30 - 89 Days Past Due	Greater than 90 days Past Due	Total Past Due	Current	Total Loans	Loans > 90 days and accruing
Commercial	$ 200	$ 2	$ 202	$ 38,717	$ 38,919	$
Commercial real estate:						
Construction	171	64	235	70,308	70,543	
Other	649	2,758	3,407	192,836	196,243	
Residential real estate	30	118	148	23,107	23,255	
Consumer	1,255	460	1,715	12,174	13,889	
Total	$ 2,305	$ 3,402	$ 5,707	$ 337,142	$ 342,849	$

The following table presents an analysis of past due loans covered by loss sharing, segregated by class of loans, as of December 31, 2010 *(in thousands)*:

	30 - 89 days past due	Greater than 90 days past due	Total past due	Current	Total loans	Loans > 90 days and accruing
Commercial	$ 913	$ 14,914	$ 15,827	$ 71,763	$ 87,590	$
Commercial real estate:						
Construction	18,284	125,733	144,017	120,841	264,858	
Other	16,021	63,436	79,457	293,318	372,775	
Residential real estate	7,532	29,678	37,210	154,234	191,444	
Consumer	476	2,384	2,860	15,440	18,300	
Total	$ 43,226	$ 236,145	$ 279,371	$ 655,596	$ 934,967	$

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Asset Quality Grades:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company utilizes risk-grading guidelines to assign a risk grade to each of its loans. Loans are graded on a scale of 1 to 8. A description of the general characteristics of the eight risk grades is as follows:

Pass (Grade 1-4) - Pass graded loans are considered the highest quality as they do not display any of the characteristics for adverse classification. These relationships demonstrate a strong primary and secondary cash flow capacity to retire long-term debt that is unquestioned. They produce profits and ratios that are well above industry guidelines. These relationships will also exhibit a high percentage of liquid assets with substantial working capital to satisfy current obligations.

Watch (Grade 5) - A Watch rating is indicative of borrowers that have not met performance expectations, or that are acceptable business credits but with considerable risk. The increased risk may be due to a smaller less diverse asset base, very little liquidity or limited debt capacity, but still greater than one to one.

OAEM (Grade 6) - Loans graded other assets especially mentioned (OAEM) are marginally acceptable with some potential weakness. If left uncorrected, these weaknesses could jeopardize repayment at some future date. Although loss is possible, it is not probable. Collateral coverage, guarantor strength, and/or equity are still sufficient to protect the bank from loss. Loans in this category may be affected by current unfavorable economic conditions or have declining trends. The account officer may not be able to properly supervise the credit due to an inadequate loan or credit agreement, or may not have control of the collateral or its condition. The borrower may have experienced a loss in the most recent financial reporting period, have limited net worth and marginal debt service coverage. These credits clearly warrant a higher degree of attention and servicing by the account officer.

Substandard (Grade 7) - Loans graded substandard have well-defined weaknesses and represent significant problem accounts. Loss potential, while existing in the aggregate amount of substandard credits does not have to exist in individual credits classified substandard. Loss potential could exist if the deficiencies causing the substandard rating are not corrected. These loans should be handled with extreme care to protect the position of the bank. Legal action may not yet be appropriate, but the officer should prepare primary and contingency plans to either secure an upgrade for the credit, or exit the credit from the bank. Such loans are typically inadequately protected by net worth, paying capacity (debt service coverage < 1:1), collateral adequacy, liquidity, or character or ability of the borrower or its management. These credits are typically in default via one or more provisions of the repayment schedule, the note or loan agreement. All non-accrual loans and bankruptcies carry a minimum rating of substandard. Loans 60 days past due should also be rated substandard.

Doubtful (Grade 8) - Loans that carry a doubtful credit rating represent more severe weaknesses than those inherent in the substandard classification, and where collection or liquidation in full is improbable. While immediate charge-off may not be appropriate, legal and aggressive collection action should be undertaken to attempt to recover the bank s funds or minimize eventual loss to the bank. A Doubtful classification is a temporary rating when the exact amount of the loss cannot be determined, or when potential loss exposure of 50% or more exists in a substandard credit. A Doubtful credit carries a specific allocation for the amount estimated as loss. The portion of a credit that can be clearly identified as loss should be charged off.

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The following table presents the risk grades of the loan portfolio not covered by loss sharing agreements, segregated by class of loans, as of June 30, 2011 *(in thousands)*:

	Commercial and industrial	Commercial real estate-construction	Commercial real estate-other	Residential real estate	Consumer and other	Total
Pass	$ 39,828	$ 81,353	$ 324,992	$ 23,641	$ 21,402	$ 491,216
Watch	667	30,175	14,431	1,632	513	47,418
OAEM	159		193	207	28	587
Substandard	100	1,318	4,130	1,030	274	6,852
Doubtful			19		62	81
Total	$ 40,754	$ 112,846	$ 343,765	$ 26,510	$ 22,279	$ 546,154

The following table presents the risk grades of the loan portfolio covered by loss sharing agreements, segregated by class of loans, as of June 30, 2011 *(in thousands)*:

	Commercial and industrial	Commercial real estate-construction	Commercial real estate-other	Residential real estate	Consumer and other	Total
Pass	$ 21,326	$ 43,466	$ 161,782	$ 118,638	$ 5,049	$ 350,261
Watch	4,512	1,135	45,625	8,360	804	60,436
OAEM	5,681	2,180	26,035	10,963	123	44,982
Substandard	13,344	153,393	125,283	49,634	6,471	348,125
Doubtful	4,414	2,246	1,435	2,100	362	10,557
Total	$ 49,277	$ 202,420	$ 360,160	$ 189,695	$ 12,809	$ 814,361

The following table presents the risk grades of the loan portfolio not covered by loss sharing agreements, segregated by class of loans, as of December 31, 2010 *(in thousands)*:

	Commercial and industrial	Commercial real estate-construction	Commercial real estate-other	Residential real estate	Consumer and other	Total
Pass	$ 38,135	$ 50,174	$ 186,067	$ 20,908	$ 12,444	$ 307,728
Watch	661	20,274	6,559	1,514	698	29,706
OAEM	64	28	237	489	450	1,268
Substandard	59	67	2,105	256	234	2,721
Doubtful			1,275	88	63	1,426
Total	$ 38,919	$ 70,543	$ 196,243	$ 23,255	$ 13,889	$ 342,849

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The following table presents the risk grades of the loan portfolio covered by loss sharing agreements, segregated by class of loans, as of December 31, 2010 *(in thousands)*:

	Commercial and industrial	Commercial real estate-construction	Commercial real estate-other	Residential real estate	Consumer and other	Total
Pass	$ 46,432	$ 77,266	$ 149,682	$ 106,936	$ 8,414	$ 388,730
Watch	6,442	3,229	51,720	9,860	1,096	72,347
OAEM	8,479	5,760	27,924	10,464	296	52,923
Substandard	20,654	158,786	132,490	54,783	7,621	374,334
Doubtful	5,583	19,817	10,959	9,401	873	46,633
Total	$ 87,590	$ 264,858	$ 372,775	$ 191,444	$ 18,300	$ 934,967

(5) Other Real Estate Owned

The following is a summary of transactions in the Company s other real estate owned *(in thousands):*

	Six months ended June 30, 2011	2010
Non-covered other real estate		
Balance, at beginning of year	$ 75	$ 120
Other real estate acquired through foreclosure of loans receivable	738	
Other real estate sold		(45)
Write down of other real estate	(75)	
Balance, end of period	$ 738	$ 75

	Six months ended June 30, 2011	2010
Covered other real estate		
Balance, at beginning of year	$ 155,981	$ 141,690
Other real estate acquired through foreclosure of loans receivable	27,392	84,889
Other real estate sold	(41,414)	(54,232)
Write down of other real estate	(39,137)	(5,923)
Balance, end of period	$ 102,822	$ 166,424

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(6) Earnings Per Share

Earnings per share have been computed based on the following weighted average number of common shares outstanding *(in thousands, except per share data)*:

	Six months ended June 30, 2011		Six months ended June 30, 2010
Net Income	$ 16,813		$ 21,293
Denominator:			
Weighted average common shares outstanding	31,611		31,541
Equivalent shares issuable upon Exercise of stock warrants	1,109		287
Diluted Shares	32,720		31,828
Net Income per share:			
Basic	$ 0.53		$ 0.68
Diluted	$ 0.51		$ 0.67

(7) Derivative Instruments and Hedging Activities

The Company has entered into interest rate swap contracts in connection with its hedging of specific fixed rate loans made to customers.

During the second quarter of 2011, the Company entered into four interest rate swaps totaling $13.0 million using a receive-variable swap to mitigate the exposure to changes in the fair value attributable to the benchmark interest rate (fixed rate) and the hedged items (loans receivable) from the effective date of the hedged instruments. As structured, the pay-fixed, receive-variable swaps are evaluated as fair value hedges and are considered highly effective. As highly effective hedges, all fair value designated hedges and the underlying hedged instrument are recorded on the balance sheet at fair value with the periodic changes of the fair value reported in the Consolidated Statements of Income.

For the three months ended June 30, 2011, the interest rate swaps designated as fair value hedges resulted in increased interest expense of $19,000 on the loans receivable that would have otherwise been recognized as interest income for the assets. The fair value of the swaps at June 30, 2011 was recorded on the Consolidated Statements of Financial Condition as a liability in the amount of $15,000.

Net losses, after tax, on the fair value swaps were $9,000 at June 30, 2011.

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The table below provides information on the carrying value of derivative instruments *(in thousands):*

	June 30, 2011			December 31, 2010		
	Assets Carrying Value	(Liabilities) Carrying Value	Derivative Net Carrying Value	Assets Carrying Value	(Liabilities) Carrying Value	Derivative Net Carrying Value
Derivatives designated as hedging instruments:						
Interest rate swap contracts loans receivable	$ 25	$ (40)	$ (15)	$	$	$

The following table provides data about the amount of gains and losses related to the derivative instruments designated as hedges included in Other Noninterest Income on the Company s Consolidated Statements of Income (*in thousands):*

	Loss, net of tax recognized in income Six months ended June 30, 2011	2010
Derivatives designated as hedging instruments:		
Interest rate swap contracts loans receivable	$ 9	$

(8) Fair Value

Fair value measurements are determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, the Financial Accounting Standards Board s Accounting Standards Codification Topic 820 (ASC 820) *Fair Value Measurements and Disclosures* establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity s own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs classified within Level 3 of the hierarchy).

Fair Value Hierarchy

Level 1

Valuation is based on inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2

Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as interest rates, yield curves observable at commonly quoted intervals, and other market-corroborated inputs.

Level 3

Valuation inputs are unobservable inputs for the asset or liability which shall be used to measure fair value to the extent that observable inputs are not available. The inputs shall reflect the Company s own assumptions about the assumptions that market participants would use in pricing the asset or liability.

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The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments and other accounts recorded based on their fair value:

(a) Cash and Cash Equivalents:

The carrying amount approximates fair value because of the short maturity of these instruments.

(b) Securities Available for Sale

The fair value of most securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1). If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows (Level 2). In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 hierarchy.

(c) Loans Receivable

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type. The fair value of performing loans is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit risk inherent in the loan. The estimate of maturity is based on the Company s historical experience with repayments for each loan classification, modified, as required, by an estimate of the effect of the current economic and lending conditions.

Fair value for significant nonperforming loans is based on recent external appraisals. If appraisals are not available, estimated cash flows are discounted using a rate commensurate with the risk associated with the estimated cash flows. Assumptions regarding credit risk, cash flows, and discount rates are judgmentally determined using available market information and specific borrower information.

Loans considered impaired are loans for which, based on current information and events, it is probable that the creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are subject to nonrecurring fair value adjustments to reflect write-downs that are based on the market price or current appraised value of the collateral, adjusted to reflect local market conditions or other economic factors. After evaluating the underlying collateral, the fair value of the impaired loans is determined by allocating specific reserves from the allowance for loan and lease losses to the loans. Thus, the fair value reflects the loan balance less the specifically allocated reserve. Impaired loans for which no reserve has been specifically allocated are not included in the table above.

(d) Loans Held for Sale

Loans held for sale are originated at market value and the holding period for these loans is typically five to seven business days, therefore the carrying value approximates the fair value in the aggregate of the portfolio given this short time frame.

(e) Federal Home Loan Bank Stock

FHLB stock is carried at a cost that approximates fair value as there is no ready market for such investments.

(f) FDIC Receivable for Loss Sharing Agreements

The Company s FDIC receivable for loss sharing agreements approximates fair value.

(g) Deposits

The fair value of deposits with no stated maturity, such as noninterest bearing demand deposits, savings, NOW accounts, and money market and checking accounts, is equal to the amount payable on demand as of June 30, 2011. The fair value of time deposits is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

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(h) Securities Sold Under Agreements to Repurchase and Notes Payable

The fair value of securities sold under agreements to repurchase approximates the carrying amount because of the short maturity of these borrowings. The discount rate is estimated using rates quoted for the same or similar issues or the current rates offered to the Company for debt of the same remaining maturities. The notes payable is variable rate subordinated debt for which the performance is based on the underlying note receivable and adjusts accordingly.

(i) Commitments and Contingencies

The carrying amount of commitments to extend credit and standby letters of credit approximates fair value. The carrying amount of the off-balance sheet financial instruments is based on fees charged to enter into such agreements.

(j) Derivative Instruments and Hedging Activities

Derivatives are recorded at fair value using pricing models with similar characteristics. Asset and liability positions in individual derivatives that are covered by legally enforceable master netting agreements, including cash collateral, if necessary, are offset and presented net in accordance with accounting principles which allow the offsetting of amounts relating to certain contracts.

(k) Other Real Estate Owned

The fair value of other real estate owned is determined when the asset is transferred to foreclosed assets. The assets are carried at the lower of the carrying value or fair value. Fair value is based on appraised values of the collateral or management s estimation of the value of the collateral. When the value is based on observable market prices such as an appraisal, the asset is recorded in Level 2 hierarchy. When an appraised value is not available or management determines the fair value of the collateral is further impaired, the asset is recorded as a nonrecurring Level 3 hierarchy.

Other real estate owned is initially accounted for at fair value, less estimated costs to dispose of the property. Any excess of the recorded investment over fair value, less costs to dispose, is charged to the allowance for loan and lease losses at the time of foreclosure. A provision is charged to earnings for subsequent losses on other real estate owned when market conditions indicate such losses have occurred. The ability of the Company to recover the carrying value of other real estate owned is based upon future sales of the real estate. The ability to affect such sales is subject to market conditions and other factors beyond our control, and future declines in the value of the real estate would result in a charge to earnings. The recognition of sales and sales gains is dependent upon whether the nature and terms of the sales, including possible future involvement of the Company, if any, meet certain defined requirements. If those requirements are not met, sale and gain recognition is deferred.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents the fair value measurements of assets and liabilities measured at fair value on a recurring basis as of June 30, 2011, aggregated by the level in the fair value hierarchy within which those measurements fall.

	Quoted Market Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2) (in thousands)	Significant Unobservable Inputs (Level 3)
U.S. Government agencies	$	$ 93,403	$
State and political subdivisions		10,475	
Residential mortgage-backed securities-agency		36,428	
Residential mortgage-backed securities-private		99,271	
Collateralized-mortgage obligations		109,450	
Corporate securities		360	
Derivative instruments-swap liability, net		15	
Total recurring assets at fair value	$	$ 349,402	$

The following table presents the fair value measurements of assets measured at fair value on a recurring basis as of December 31, 2010, aggregated by the level in the fair value hierarchy within which those measurements fall.

	Quoted Market Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2) (in thousands)	Significant Unobservable Inputs (Level 3)
U.S. Government agencies	$	$ 163,681	$
State and political subdivisions		9,555	
Residential mortgage-backed securities-agency		41,673	
Residential mortgage-backed securities-private		61,025	
Collateralized-mortgage obligations		127,955	
Corporate securities		1,692	
Total recurring assets at fair value	$	$ 405,581	$

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Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The following table presents the fair value measurements of assets and liabilities measured at fair value on a nonrecurring basis as of June 30, 2011, aggregated by the level in the fair value hierarchy within which those measurements fall.

	Quoted Market Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2) (in thousands)	Significant Unobservable Inputs (Level 3)
Assets			
Impaired Loans			
Covered by loss sharing agreements	$		$
Not covered by loss sharing agreements			3,083
Total Impaired Loans			3,083
Other Real Estate			
Covered by loss sharing agreements			102,822
Not covered by loss sharing agreements			738
Total Other Real Estate	$	$	$ 103,560

The following table presents the fair value measurements of assets and liabilities measured at fair value on a nonrecurring basis as of December 31, 2010, aggregated by the level in the fair value hierarchy within which those measurements fall.

	Quoted Market Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2) (in thousands)	Significant Unobservable Inputs (Level 3)
Assets			
Impaired Loans	**$**		
Covered by loss sharing agreements			
Not covered by loss sharing agreements			3,838
Total Impaired Loans			3,838
Other Real Estate			
Covered by loss sharing agreements			155,981
Not covered by loss sharing agreements			75
Total Other Real Estate	$	$	$ 156,056

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The fair carrying amount and estimated fair value of the Company s financial instruments, not shown elsewhere in these financial statements, were as follows *(in thousands):*

	June 30, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and due from banks	$ 372,490	$ 372,490	$ 386,489	$ 386,489
Investment securities available for sale	349,387	349,387	405,581	405,581
Federal Home Loan Bank of Atlanta stock	10,604	10,604	14,593	14,593
Mortgage loans held for sale	2,516	2,516	3,542	3,542
Loans, net	1,353,601	1,450,673	1,272,465	1,275,479
FDIC receivable for loss sharing agreements	468,361	541,837	494,428	494,428
Derivative instruments	25	25		
Accrued interest receivable	13,650	13,650	8,594	8,594
Liabilities				
Deposits	2,359,430	2,362,424	2,421,926	2,429,608
Short-term borrowings	4,831	4,831	5,246	5,246
Notes payable	2,546	2,546		
Derivative instruments	40	40		
Accrued interest payable	4,480	4,480	4,850	4,850

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Introduction

The following discussion describes our results of operations for the three and six months ended June 30, 2011 as compared to the three and six months ended June 30, 2010 and also analyzes our financial condition as of June 30, 2011 as compared to December 31, 2010. This discussion should be read in conjunction with our consolidated financial statements and accompanying footnotes appearing in this report and in conjunction with the financial statements and related notes and disclosures in our 2010 Annual Report on Form 10-K.

Unless the context indicates otherwise, all references to the Company, we, us and our refer to State Bank Financial Corporation and our wholly-owned subsidiary, State Bank and Trust Company, except that if the discussions relate to a period before July 23, 2010, these terms refer solely to State Bank and Trust Company. All references to the Bank refer to State Bank and Trust Company.

Overview

On July 23, 2010, the Company became the bank holding company of the Bank under a plan of reorganization and share exchange that was approved by the boards of directors of the Company and the Bank and adopted by the shareholders of the Bank at the annual meeting held on March 11, 2010. The Bank is a Georgia state-chartered bank that opened in October 2005 in Pinehurst, Georgia. From October 2005 until July 23, 2009, the Bank operated as a small community bank with two branch offices located in Dooly County, Georgia with total assets of approximately $33.6 million, total loans receivable of approximately $22.5 million, total deposits of approximately $26.1 million and total shareholders equity of approximately $5.7 million at December 31, 2008.

On July 24, 2009, the Bank raised approximately $292.1 million in gross proceeds (before expenses) from investors in a private offering of its common stock. Immediately following the private offering, these investors owned approximately 97% of the Bank s outstanding common stock. In connection with the private offering, the FDIC and the Georgia Department of Banking and Finance approved the Interagency Notice of Change in Control application filed by our new management team, which took control of the Bank on July 24, 2009.

Also on July 24, 2009, the Bank assumed all of the deposits and acquired certain assets and liabilities of the six bank subsidiaries of Security Bank Corporation, Macon, Georgia, from the FDIC, as receiver, under the terms of a purchase and assumption agreement between the Bank and the FDIC. On December 4, 2009, the Bank assumed substantially all of the deposits and acquired certain assets and liabilities of The Buckhead Community Bank, Atlanta, Georgia and First Security National Bank, Norcross, Georgia, in two separate FDIC-assisted transactions. In 2010, the Bank assumed substantially all of the deposits and acquired certain assets and liabilities of NorthWest Bank & Trust, Acworth, Georgia and United Americas Bank, Atlanta, Georgia, in two additional FDIC-assisted transactions. Concurrently with each of our acquisitions, we entered into loss share agreements with the FDIC that cover certain of the acquired assets, including 100% of the acquired loans (except consumer loans with respect to the NorthWest Bank & Trust and United Americas Bank acquisitions) and other real estate. Where applicable, we refer to loans subject to loss share agreements with the FDIC as covered loans and loans that are not subject to loss share agreements with the FDIC as non-covered loans.

As a result of the private offering and our failed bank acquisitions, the Bank was transformed from a small community bank in Pinehurst, Georgia to a much larger commercial bank operating 21 full service branches throughout middle Georgia and metropolitan Atlanta. We now offer a variety of community banking services to individuals and businesses within our middle Georgia and metropolitan Atlanta markets. Our product line includes loans to small and medium-sized businesses, residential and commercial construction and development loans, commercial real estate loans, farmland and agricultural production loans, residential mortgage loans, home equity loans, consumer loans and a variety of commercial and consumer demand, savings and time deposit products. We also offer online banking and bill payment services, online cash management, safe deposit box rentals, debit card and ATM card services and the availability of a network of ATMs for our customers. As of June 30, 2011, our total assets were approximately $2.8 billion, our total loans receivable were approximately $1.4 billion, our total deposits were approximately $2.4 billion and our total shareholders equity was approximately $374.6 million.

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Financial Summary

The following table provides unaudited selected financial data for the periods presented. You should read this data in conjunction with the consolidated financial statements and the notes to them and the information contained in this Item 2. The notes to this table are on the following page.

(dollars in thousands, except per share amounts)	2011 Second Quarter	2011 First Quarter	2010 Fourth Quarter	2010 Third Quarter	2010 Second Quarter	For Six Months Ended June 30, 2011	For Six Months Ended June 30, 2010
Results of Operations:							
Interest income	$ 37,081	$ 34,798	$ 46,691	$ 40,730	$ 39,785	$ 71,879	$ 80,822
Interest expense	6,457	7,118	8,582	9,899	10,079	13,575	18,760
Net interest income	30,624	27,680	38,109	30,831	29,706	58,304	62,062
Provision for loan losses	2,044	961	2,108	655	695	3,005	1,192
Noninterest income	8,166	8,369	12,959	8,297	5,522	16,535	12,251
Noninterest expense	23,425	21,744	27,317	21,272	19,120	45,169	39,107
Income before income taxes	13,321	13,344	21,643	17,201	15,413	26,665	34,014
Income taxes	4,739	5,113	8,152	6,439	5,839	9,852	12,721
Net income	$ 8,582	$ 8,231	$ 13,491	$ 10,762	$ 9,574	$ 16,813	21,293
Selected Average Balances:							
Total assets	2,720,112	2,721,010	2,786,613	2,665,011	2,561,117	2,724,972	2,724,972
Investment securities	383,944	413,940	425,218	432,852	387,216	398,859	361,333
Loans	1,324,500	1,288,326	1,206,687	1,144,379	1,109,008	1,309,809	1,122,898
Interest-earning assets	2,049,410	1,985,718	2,039,635	1,877,410	1,768,784	2,020,645	2,020,645
Total deposits	2,306,533	2,317,501	2,395,992	2,305,592	2,205,599	2,311,987	2,171,276
Interest-bearing liabilities	2,070,772	2,092,788	2,187,178	2,098,331	2,027,727	2,081,719	1,999,077
Shareholders equity	371,139	364,474	350,487	338,204	328,467	367,850	322,894
Per Common Share Data:							
Basic earnings	$ 0.27	$ 0.26	$ 0.43	$ 0.34	$ 0.30	$ 0.53	$ 0.68
Diluted earnings	0.26	0.25	0.41	0.34	0.30	0.51	0.67
Tangible book value	$ 11.57	$ 11.34	$ 11.08	$ 10.68	$ 10.29	$ 11.57	10.29
Weighted average shares outstanding:							
Basic	31,611	31,611	31,611	31,541	31,541	31,611	31,541
Diluted	32,718	32,623	32,535	31,828	31,828	32,720	31,828

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(dollars in thousands, except per share amounts)	2011 Second Quarter	2011 First Quarter	2010 Fourth Quarter	2010 Third Quarter	2010 Second Quarter	For Six Months Ended June 30, 2011	For Six Months Ended June 30, 2010
Performance Ratios:							
Return on average assets	1.27%	1.23%	1.92%	1.60%	1.50%	1.24%	1.70%
Return on average equity	9.27%	9.16%	15.27%	12.62%	11.69%	9.22%	13.30%
Net interest margin(1)(2)	6.00%	5.68%	7.41%	6.52%	6.74%	5.83%	7.29%
Interest rate spread(3)	6.02%	5.75%	7.53%	6.74%	7.04%	5.86%	7.60%
Efficiency ratio(4)	60.39%	60.32%	53.49%	54.37%	54.28%	60.36%	52.62%
Capital Ratios:							
Average equity to average assets	13.64%	13.39%	12.58%	12.69%	12.83%	13.50%	12.80%
Leverage ratio	13.44%	13.16%	12.77%	11.24%	12.63%	13.44%	12.63%
Tier 1 risk-based capital ratio(5)	34.68%	39.24%	43.56%	47.65%	57.35%	34.67%	57.35%
Total risk-based capital ratio(5)	35.34%	39.93%	44.23%	48.13%	58.00%	35.34%	58.00%

(1) Net interest income divided by average interest-earning assets.

(2) Calculated on a fully tax-equivalent basis.

(3) Yield on interest-earning assets less costs of interest-bearing liabilities.

(4) Noninterest expenses divided by net interest income and noninterest income.

(5) Under the FDIC Financial Institutions Letter (FIL-7-2010) dated February 26, 2010, entitled Regulatory Capital Standards Clarification of the Risk Weights for FDIC Claims and Guarantees, the FDIC receivable may be assigned a zero risk weight.

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Critical Accounting Policies

We have adopted various accounting policies that govern the application of accounting principles generally accepted in the United States and with general practices within the banking industry in the preparation of our financial statements. We describe our significant accounting policies in the notes to our audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2010.

Some of the accounting policies involve significant judgments and assumptions by us that have a material impact on the carrying value of our assets and liabilities. We consider these accounting policies to be critical accounting policies. The judgment and assumptions we use are based on historical experience and other factors that we believe to be reasonable under the circumstances. Because of the nature of the judgment and assumptions we make, actual results could differ from these judgments and estimates and could materially affect the carrying values of our assets and liabilities and our results of operations.

The following is a summary of the more judgmental estimates and complex accounting principles, which represent our critical accounting policies.

Acquisition Accounting

Generally accepted accounting principles require the use of fair value accounting in determining the carrying values of certain assets and liabilities acquired in business combinations and accordingly we recorded assets purchased and liabilities assumed in our FDIC-assisted acquisitions at their fair values. The fair value of the loan portfolios acquired in these transactions was recorded and is being accounted for under the principles prescribed by FASB ASC Topic 310.

On the date of acquisition all loans acquired are assigned a fair value based on the present value of projected future cash flows. An accretable discount is determined based on the timing of the projected cash flows and is taken into income over the projected life of the loans. Such accretion is included in interest income. Expected cash flows are re-estimated at each reporting date. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses. Subsequent increases in cash flows result in a reversal of the provision for loan losses to the extent of prior charges and adjusted the accretable discount, which will have a positive effect on interest income.

Because we record loans acquired in connection with FDIC-assisted acquisitions at fair value, we record no allowance for loan losses related to the acquired covered loans on the acquisition date, given that the fair value of the loans acquired incorporates assumptions regarding credit risk.

FDIC Receivable for Loss Share Agreements

The majority of our loan and other real estate assets are covered under loss share agreements with the FDIC in which the FDIC has agreed to reimburse us between 80% and 95% of all losses as well as certain expenses incurred in connection with those assets. We estimated the amount that we will receive from the FDIC under the loss share agreements that will result from losses incurred as we dispose of covered loans and other real estate assets, and we recorded the estimate as a receivable from the FDIC. We discounted the receivable for the expected timing and receipt of those cash flows using a risk free rate plus a premium for risk. The accretion of the FDIC receivable discount is recorded into noninterest income using the level yield method over the estimated life of the receivable.

The loss share agreements also include a provision whereby if our losses do not exceed a calculated threshold, we are obligated to compensate the FDIC. This is referred to as a clawback liability and, if applicable, is paid at the end of ten years. The formula for the clawback liability varies from transaction-to-transaction and will be calculated using the formula provided in the individual loss share agreements and will not be consolidated into one calculation.

The FDIC receivable for loss share agreements is measured separately from the related covered assets because it is not contractually embedded in the assets and is not transferable if we sell the assets. We will review and update the fair value of the FDIC receivable at each reporting date in conjunction with the re-estimation of cash flows. The FDIC receivable will fluctuate as loss estimates and expected cash flows related to covered loans and other real estate owned change.

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Allowance for Loan and Lease Losses (ALLL)

We assess the adequacy of the ALLL quarterly with respect to non-covered loans. This assessment includes procedures to estimate the allowance and test the adequacy and appropriateness of the resulting balance. The ALLL consists of two components:

(1) a specific amount representative of identified credit exposures that are readily predictable by the current performance of the borrower and underlying collateral; and

(2) a general amount, based upon peer information, that is then adjusted for various stress factors representative of various economic factors and characteristics of the loan portfolio.

Even though the ALLL is composed of two components, the entire ALLL is available to absorb any credit losses.

We establish the specific amount by examining impaired loans. Under generally accepted accounting principles, we may measure the loss either by:

(1) the observable market price of the loan;

(2) the present value of expected future cash flows discounted at the loan s effective interest rate; or

(3) the fair value of the collateral if the loan is collateral dependent.

Because the majority of our impaired loans are collateral dependent, we calculate nearly all of our specific allowances based on the fair value of the collateral.

We establish the general amount by taking the remaining loan portfolio (excluding those impaired loans discussed above) with allocations based on peer information. We then subject the calculation of the general amount to stress factors that are somewhat subjective. The stress testing attempts to correlate the historical loss rates with current economic factors and current risks in the portfolio. The stress factors consist of:

(1) economic factors including changes in the local or national economy;

(2) the depth of experience in the lending staff;

(3) any concentrations of credit (such as commercial real estate) in any particular industry group;

(4) new banking laws or regulations;

(5) the credit grade of the loans in our unsecured consumer loan portfolio;

(6) additional risks resulting from the level of speculative real estate loans in the portfolio; and

(7) seasoning of the loan portfolio.

After we assess the applicable factors, we evaluate the remaining amount based on management s experience.

Finally, we compare the level of the ALLL with historical trends and peer information as a reasonableness test. Management then evaluates the result of the procedures performed, including the result of our testing, and makes a conclusion regarding the appropriateness of the ALLL in its entirety.

Income Taxes

Income Tax Expense. The calculation of our income tax expense requires significant judgment and the use of estimates. We periodically assess tax positions based on current tax developments, including enacted statutory, judicial and regulatory guidance. In analyzing our overall tax position, we consider the amount and timing of recognizing income tax liabilities and benefits. In applying the tax and accounting guidance to the facts and circumstances, we adjust income tax balances appropriately through the income tax provision. We maintain reserves for income tax uncertainties at levels we believe are adequate to absorb probable payments. Actual amounts paid, if any, could differ significantly from these estimates.

Deferred Income Taxes. We use the asset and liability method of accounting for income taxes. Under this method, we recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between

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the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. We measure deferred tax assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We assess deferred tax assets based on expected realizations, and we establish a valuation allowance for any amounts we do not expect to realize. No valuation allowance is currently recorded.

Results of Operations

General

We reported net income of $8.6 million for the three months ended June 30, 2011, compared to $9.6 million for the three months ended June 30, 2010. Earnings per share on a diluted basis were $0.26 for the three months ended June 30, 2011, compared to $0.30 for the three months ended June 30, 2010. We reported net income of $16.8 million for the six months ended June 30, 2011, compared to $21.3 million for the six months ended June 30, 2010. Earnings per share on a diluted basis were $0.51 for the six months ended June 30, 2011, compared to $0.67 for the six months ended June 30, 2010. The accretion on covered loans under our loss share agreements with the FDIC has significantly affected our earnings for 2010 and the first six months of 2011.

We expect that over the next two to three years, as we manage the disposition of our covered loans and other real estate assets acquired from the FDIC, a significant portion of our earnings will result from the accretion of fair value discounts on our covered loan portfolio. During this period, as we dispose of our covered loans, we also plan to grow our balance sheet by replacing our covered loans and the related accretion on the accretable discount with new performing loans and related interest income. At June 30, 2011, our non-covered loans totaled $546.2 million, or 40.4% of our total loan portfolio, compared to $153.6 million, or 13.6% of our total loan portfolio at June 30, 2010.

Net Interest Income

Our earnings depend to a large extent on net interest income, which is the excess of the interest income recognized on interest earning assets (such as loans and investment securities), as well as any accretion of fair value discounts on our covered loans, over the interest expense incurred on interest bearing liabilities such as deposits and borrowings. Net interest income depends upon the volume of average interest-earning assets and average interest-bearing liabilities and the interest rates earned and paid on them. Net interest income is a function of our balances of interest-earning assets and interest-bearing liabilities and the effect of market rates of interest as influenced by the Federal Reserve s monetary policy. Following our acquisitions, the accretion of fair value discounts on covered loans under our loss share agreements with the FDIC has significantly affected our net interest income, and we expect this to continue for the immediate future.

Three months ended June 30, 2011 and 2010. Our net interest income was $30.6 million for the three months ended June 30, 2011. Our net interest rate spread, which is the yield on interest earning assets, including the accretion on our covered loans, minus the cost of interest bearing liabilities, was 6.02% for the three months ended June 30, 2011, while our net interest margin, which is net interest income divided by average interest earnings assets, was 6.00%. Our net interest income was $29.7 million for the three months ended June 30, 2010. Our net interest rate spread was 7.04% for the three months ended June 30, 2010, while our net interest margin was 6.74%.

Our interest income was $37.1 million for the three months ended June 30, 2011, which included interest and fees earned on loans of $9.2 million and accretion income on our covered loans of $25.1 million. Our interest income was $39.8 million for the three months ended June 30, 2010, which included interest and fees earned on loans of $2.8 million and accretion income on our covered loans of $34.6 million. The continuing accretion income resulting from acquired loans will likely contribute to volatility in net interest income in future periods based on periodic review of expected cash flows on loans covered by loss share agreements with the FDIC.

Interest expense was $6.5 million for the three months ended June 30, 2011, compared to $10.1 million for the three months ended June 30, 2010, and was comprised almost entirely of interest paid on deposit accounts of $6.4 million for the 2011 period and $10.0 million for the 2010 period. The average balance of interest bearing deposit accounts was $2.1 billion, or 99.8% of total interest bearing liabilities for the three months ended June 30, 2011, compared to $2.0

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billion, or 99.6% of total interest bearing liabilities for the three months ended June 30, 2010. Interest rates on deposit accounts have continued to decline as the Company manages its deposit mix and liquidity requirements.

Six months ended June 30, 2011 and 2010. Our net interest income was $58.3 million for the six months ended June 30, 2011. Our net interest rate spread, which is the yield on interest earning assets, including accretion income on our covered loans, minus the cost of interest bearing liabilities, was 5.86% for the six months ended June 30, 2011, while our net interest margin, which is net interest income divided by average interest earnings assets, was 5.83%. Our net interest income was $62.1 million for the six months ended June 30, 2010. Our net interest rate spread was 7.60% for the six months ended June 30, 2010, while our net interest margin was 7.29%.

Our interest income was $71.9 million for the six months ended June 30, 2011, which included interest and fees earned on loans of $15.9 million and accretion income on our covered loans of $50.6 million. Our interest income was $80.8 million for the six months ended June 30, 2010, which included interest and fees earned on loans of $4.4 and accretion income on our covered loans of $72.1 million. The continuing accretion income resulting from acquired loans will likely contribute to volatility in net interest income in future periods based on periodic review of expected cash flows on loans covered by loss share agreements with the FDIC.

Interest expense was $13.6 million for the six months ended June 30, 2011, compared to $18.8 million for the six months ended June 30, 2010, and was comprised almost entirely of interest paid on deposit accounts of $13.4 million for the 2011 period and $18.7 million for the 2010 period. The average balance of interest bearing deposit accounts was $2.1 billion, or 99.7% of total interest bearing liabilities for the six months ended June 30, 2011, compared to $2.0 billion, or 99.6% of total interest bearing liabilities for the six months ended June 30, 2010. Interest rates on deposit accounts have continued to decline as the Company manages its deposit mix and liquidity requirements.

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Average Balances, Income and Expenses, and Rates

The following table shows our average balance sheet and our average yields on assets and average costs of liabilities for the periods indicated. We derive these yields by dividing income or expense by the average balance of the corresponding assets or liabilities. We have derived average balances from the daily balances throughout the periods indicated.

	For the Three Months Ended June 30, 2011			For the Three Months Ended June 30, 2010		
(dollars in thousands)	**Average Balance**	**Income/ Expense**	**Yield/ Rate(1)**	**Average Balance**	**Income/ Expense**	**Yield/ Rate(1)**
Assets:						
Interest earning balances	$ 340,966	$ 183	0.22%	$ 272,560	$ 183	0.27%
Taxable investment securities	373,404	2,482	2.67%	384,232	2,098	2.19%
Non-taxable investment securities, tax-equivalent basis **(2)**	10,540	159	6.04%	2,984	48	6.48%
Covered loans receivable**(3)**	825,879	25,139	12.21%	939,723	34,605	14.77%
Noncovered loans receivable**(3)**	498,621	9,174	7.38%	169,285	2,868	6.80%
Total earning assets	2,049,410	37,137	7.27%	1,768,784	39,802	9.03%
Total nonearning assets	670,702			792,333		
Total assets	$ 2,720,112			$ 2,561,117		
Liabilities:						
Interest-bearing liabilities:						
Interest bearing transaction accounts	$ 235,218	$ 150	0.26%	$ 220,928	$ 500	0.91%
Savings & money market	1,301,519	3,322	1.02%	1,031,827	5,525	2.15%
Time deposits less than $100,000	294,247	1,621	2.21%	412,038	2,335	2.27%
Time deposits greater than $100,000	234,893	1,301	2.22%	355,500	1,710	1.93%
Advances from FHLB			0.00%			0.00%
Notes payable	2,550	62	9.81%			0.00%
Repurchase agreements and federal funds sold	2,345	1	0.21%	7,434	9	0.51%
Total interest-bearing liabilities	$ 2,070,772	$ 6,457	1.25%	$ 2,027,727	$ 10,079	1.99%
Noninterest-bearing liabilities:						
Noninterest bearing demand deposits	240,655			185,306		
Other liabilities	37,546			19,617		
Shareholders equity	371,139			328,467		
Total liabilities and shareholders equity	$ 2,720,112			$ 2,561,117		
Net interest income		$ 30,680			$ 29,723	
Net interest spread			6.02%			7.04%
Net interest margin			6.00%			6.74%

(1) Annualized for the applicable period.

(2) Reflects taxable equivalent adjustments using the statutory tax rate of 35% in adjusting interest on tax-exempt securities to a fully taxable basis. The taxable equivalent adjustments included above amounts to $56,000 for 2011 and $17,000 for 2010.

(3) Includes nonaccruing loans.

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The following table shows our average balance sheet and our average yields on assets and average costs of liabilities for the periods indicated. We derive these yields by dividing income or expense by the average balance of the corresponding assets or liabilities. We have derived average balances from the daily balances throughout the periods indicated.

	For the Six Months Ended June 30, 2011			For the Six Months Ended June 30, 2010		
(dollars in thousands)	**Average Balance**	**Income/ Expense**	**Yield/ Rate(1)**	**Average Balance**	**Income/ Expense**	**Yield/ Rate(1)**
Assets:						
Interest earning balances	$ 311,977	$ 380	0.25%	$ 234,266	$ 291	0.25%
Taxable investment securities	388,443	4,760	2.47%	358,256	3,981	2.24%
Non-taxable investment securities, tax-equivalent basis **(2)**	10,416	316	6.13%	3,077	100	6.58%
Covered loans receivable**(3)**	851,844	50,621	11.98%	987,624	72,084	14.72%
Noncovered loans receivable**(3)**	457,965	15,913	7.01%	135,274	4,404	6.56%
Total earning assets	2,020,645	71,990	7.18%	1,718,497	80,860	9.49%
Total nonearning assets	704,327			804,166		
Total assets	$ 2,724,972			$ 2,522,663		
Liabilities:						
Interest-bearing liabilities:						
Interest bearing transaction accounts	$ 239,822	$ 335	0.28%	$ 230,303	$ 1,060	0.93%
Savings & money market	1,284,506	7,001	1.10%	941,528	9,837	2.11%
Time deposits less than $100,000	309,727	3,400	2.21%	444,314	4,143	1.86%
Time deposits greater than $100,000	242,084	2,691	2.24%	374,598	3,698	1.97%
Advances from FHLB			0.00%	81		0.30%
Notes payable	2,623	134	10.29%			
Repurchase agreements and federal funds sold	2,957	14	0.98%	8,253	22	0.53%
Total interest-bearing liabilities	$ 2,081,719	$ 13,575	1.32%	$ 1.999,077	$ 18,760	1.89%
Noninterest-bearing liabilities:						
Noninterest bearing demand deposits	235,848			180.533		
Other liabilities	39,555			20,159		
Shareholders equity	367,850			322,894		
Total liabilities and shareholders equity	$ 2,724,972			$ 2,522,663		
Net interest income		$ 58,415			$ 62,100	
Net interest spread			5.86%			7.60%
Net interest margin			5.83%			7.29%

(1) Annualized for the applicable period.

(2) Reflects taxable equivalent adjustments using the statutory tax rate of 35% in adjusting interest on tax-exempt securities to a fully taxable basis. The taxable equivalent adjustments included above amounts to $111,000 for 2011 and $38,000 for 2010.

(3) Includes nonaccruing loans.

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Provision for Loan Losses

We have established an allowance for loan losses through a provision for loan losses charged as an expense on our statement of income. We review our non-covered loan portfolio, consisting of loans that are not covered by loss share agreements with the FDIC, on a quarterly basis to evaluate our outstanding loans and to measure both the performance of the portfolio and the adequacy of the allowance for loan losses. Please see the discussion below under Balance Sheet Review Allowance for Loan Losses for a description of the factors we consider in determining the amount of the provision we expense each period to maintain this allowance.

We do not maintain an allowance for loan loss for the covered loans in our loan portfolio that we acquired under the loss share agreements with the FDIC because we recorded these loans at fair value at the time of each respective acquisition. We periodically evaluate the recorded investment on our covered loans and determine whether an additional provision for loan losses is necessary. To date there has been no significant deterioration in the loan portfolio covered by loss share agreements with the FDIC. As of June 30, 2011, however, we recorded a $451,000 provision for loan loss expense and charged off loans as a result of our re-estimation of cash flows on covered loans. An overall increase in the accretable discount was a result of quarterly changes in cash flows and related updates to acquisition date assumptions and methodologies.

Three months ended June 30, 2011 and 2010. For the three months ended June 30, 2011, our provision for loan losses was $2.0 million, compared to $695,000 for the three months ended June 30, 2010. The increase in the provision for loan losses in 2011 are primarily related to the non-covered loan growth.

Six months ended June 30, 2011 and 2010. For the six months ended June 30, 2011, our provision for loan losses was $3.0 million, compared to $1.2 million for the six months ended June 30, 2010. Our allowance for loan losses was approximately $6.9 million for the period ended June 30, 2011 and $3.6 million for the period ended June 30, 2010. Our allowance for loan losses as a percentage of gross non-covered loans was 1.27% at June 30, 2011, compared to 2.37% at June 30, 2010. The decrease in the allowance for loan losses as a percentage of gross non-covered loans was a result of specific charge off activity in the loan portfolio. At June 30, 2011, our non-covered loans totaled $546.2 million, or 40.4% of our total loan portfolio, compared to $153.6 million, or 13.6% of our total loan portfolio at June 30, 2010.

We review our loss experience on our covered loan portfolio periodically and compare our actual losses to estimated losses. If our actual losses exceed the estimated losses, we will record a provision for loan losses adjustment charged as an expense on our statement of income. In that event, due to the FDIC loss share agreements, we would only expense between 5% and 20% of the estimated loss, depending upon the applicable acquisition and loss share agreement to which the loss is related. During the three months ended June 30, 2011, we recorded a provision for loan loss expense of $451,000 as a result of estimated cash flows less than the original estimates on those loans covered by loss share agreements with the FDIC.

Noninterest Income

Three months ended June 30, 2011 and 2010. Noninterest income totaled $8.2 million for the three months ended June 30, 2011, compared to $5.5 million for the three months ended June 30, 2010. The accretion of the FDIC receivable of $3.7 million comprised 45.6% of our noninterest income for the three months ended June 30, 2011, compared to $2.8 million, or 50.7% of our noninterest income for the three months ended June 30, 2010. The increase in the accretion income of the FDIC receivable is due to changes in assumptions during periodic evaluations of expected cash flows on loans covered by loss share agreements with the FDIC. Service charges on deposits of $1.4 million comprised 17.6% of our noninterest income for the three months ended June 30, 2011, compared to $1.7 million, or 29.9% of our noninterest income, for the three months ended June 30, 2010. These service charges are primarily from fees related to insufficient funds checks and the Bank s overdraft protection service. These service charges decreased for the three months ended June 30, 2011, due to new regulatory imposed changes which impacted consumer participation in the Bank s overdraft protection service. Gain on Federal Home Loan Bank (FHLB) stock redemptions of $1.1 million comprised 13.9% of our noninterest income for the three months ended June 30, 2011. There were no gains on FHLB stock redemptions for the three months ended June 30, 2010. The gains on FHLB stock redemptions resulted from discounts taken on acquired FHLB stock that was later redeemed at the full cost basis. ATM income of $541,000 comprised 6.6% of our noninterest income for the three months ended June 30, 2011, compared to $516,000, or 9.3% of our noninterest income for the three months ended June 30, 2010.

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Six months ended June 30, 2011 and 2010. Noninterest income totaled $16.5 million for the six months ended June 30, 2011, compared to $12.3 million for the six months ended June 30, 2010. The accretion of the FDIC receivable of $8.7 million comprised 52.6% of our noninterest income for the six months ended June 30, 2011, compared to $6.9 million, or 56.4% of our noninterest income for the six months ended June 30, 2010. The increase in the accretion income of the FDIC receivable is due to changes in assumptions during periodic evaluations of expected cash flows on loans covered by loss share agreements with the FDIC. Service charges on deposits of $2.8 million comprised 17.2% of our noninterest income for the six months ended June 30, 2011, compared to $3.3 million, or 26.9% of our noninterest income, for the six months ended June 30, 2010. These service charges are primarily from fees related to insufficient funds checks and the Bank s overdraft protection service. These service charges decreased for the six months ended June 30, 2011 due to new regulatory imposed changes which impacted consumer participation in the Bank s overdraft protection service. Gain on FHLB stock redemptions of $1.1 million comprised 6.8% of our noninterest income for the six months ended June 30, 2011. There were no gains on FHLB stock redemptions for the six months ended June 30, 2010. The gains on FHLB stock redemptions resulted from discounts taken on acquired FHLB stock that was later redeemed at the full cost basis. ATM income of $1.0 million comprised 6.2% of our noninterest income for the six months ended June 30, 2011, compared to $967,000, or 7.9% of our noninterest income for the six months ended June 30, 2010.

Noninterest Expense

Three months ended June 30, 2011 and 2010. Noninterest expense totaled $23.4 million for the three months ended June 30, 2011. Salaries and employee benefits were our most significant expense totaling $11.9 million, or 50.8% of noninterest expense for the three months ended June 30, 2011. Noninterest expense totaled $19.1 million for the three months ended June 30, 2010. Salaries and employee benefits were our most significant expense totaling $9.8 million, or 51.2% of noninterest expense for the 2010 period. We currently have higher than peer average expenses as a result of expenses associated with (a) the operation of our Special Assets Division, which services the problem assets acquired under the loss share agreements with the FDIC, (b) our Regulatory Relations Department, which manages our compliance with the FDIC loss share agreements, and (c) legal and professional fees related to our acquisitions of failed bank assets.

Federal deposit insurance premiums and fees were $1.2 million, or 5.2% of noninterest expense for the three months ended June 30, 2011, compared to $1.4 million, or 7.1% of noninterest expense, for the 2010 period. The change in deposit insurance premiums is a result of a change in the calculation of the assessment from deposits to assets and rate changes implemented by the FDIC. Occupancy and equipment expenses were $2.2 million, or 9.3% of noninterest expense for the three months ended June 30, 2011, compared to $2.0 million, or 10.3% of noninterest expense for the 2010 period. During the first half of 2010, we leased each of the acquired branch locations from our 2009 acquisitions from the FDIC. As a result, our occupancy and equipment expenses include very little depreciation expense but a significant amount of leasing expense. The settlement with the FDIC on the 2009 acquisitions occurred in the third quarter of 2010, when we purchased the acquired branch locations for $21.9 million from the FDIC. We have now begun depreciating the acquired assets.

Legal and professional expenses were $1.6 million, or 6.7% of noninterest expense for the three months ended June 30, 2011, comprised of $628,000 in legal fees, $404,000 in accounting and audit fees and $543,000 of consulting and other professional fees. Legal and professional expenses were $1.0 million, or 5.3% of noninterest expense for the three months ended June 30, 2010, comprised of $462,000 in legal fees, $292,000 in accounting and audit fees and $252,000 of consulting and other professional fees. In addition, the Company engaged a consulting company during 2011 to implement a sophisticated cash flow projection model as a tool in calculating fair values and future cash flows on the covered loans acquired in the FDIC-assisted acquisitions. Our resolution efforts with respect to our covered assets and our acquisition activity have resulted in increased legal and professional expenses. Moreover, following the effective date of our registration statement on Form 10 on December 28, 2010, we are now obligated to file various reports required by the Exchange Act, including current reports on Form 8-K, quarterly reports on Form 10-Q and annual reports on Form 10-K. As a result, we have incurred and will continue to incur significant legal, accounting and other expenses that we did not incur before we became a reporting company.

Net costs of operations of other real estate owned were $2.6 million, or 11.2% of noninterest expense, for the three months ended June 30, 2011. These costs include losses on sales of other real estate of $1.5 million and expenses related to the management and collection of other real estate of $1.1 million.   Net costs of operations of other real estate owned were

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$2.2 million, or 11.6% of noninterest expense, for the 2010 period. These costs include losses on sales of other real estate of $1.0 million and expenses related to the management and collection of other real estate of $1.2 million. Under the loss share agreements, we record a portion of these losses and expenses in our statements of income (generally 20%) and we record the remaining 80% to the FDIC receivable. The volume of foreclosed real estate has been higher in the 2011 period as expected.

Six months ended June 30, 2011 and 2010. Noninterest expense totaled $45.2 million for the six months ended June 30, 2011. Salaries and employee benefits were our most significant expense totaling $23.6 million, or 52.2% of noninterest expense for the six months ended June 30, 2011. Noninterest expense totaled $39.1 million for the six months ended June 30, 2010. Salaries and employee benefits were our most significant expense totaling $20.8 million, or 53.1% of noninterest expense for the 2010 period. We currently have higher than peer average expenses as a result of expenses associated with (a) the operation of our Special Assets Division, which services the problem assets acquired under the loss share agreements with the FDIC, and (b) our Regulatory Relations Department, which manages our compliance with the FDIC loss share agreements.

Federal deposit insurance premiums and fees were $1.9 million, or 4.1% of noninterest expense for the six months ended June 30, 2011, compared to $2.5 million, or 6.4% of noninterest expense, for the 2010 period. The change in deposit insurance premiums is a result of a change in the calculation of the assessment from deposits to assets and rate changes implemented by the FDIC. Occupancy and equipment expenses were $4.3 million, or 9.5% of noninterest expense for the six months ended June 30, 2011, compared to $4.1 million, or 10.5% of noninterest expense for the 2010 period. During the first half of 2010, we leased each of the acquired branch locations from our 2009 acquisitions from the FDIC. As a result, our occupancy and equipment expenses include very little depreciation expense but a significant amount of leasing expense. The settlement with the FDIC on the 2009 acquisitions occurred in the third quarter of 2010, when we purchased the acquired branch locations for $21.9 million from the FDIC. We have now begun depreciating the acquired assets.

Legal and professional expenses were $3.4 million, or 7.6% of noninterest expense for the six months ended June 30, 2011, comprised of $904,000 in legal fees, $772,000 in accounting and audit fees and $1.7 million of consulting and other professional fees. Legal and professional expenses were $1.6 million, or 4.1% of noninterest expense for the six months ended June 30, 2010, comprised of $599,000 in legal fees, $514,000 in accounting and audit fees and $474,000 of consulting and other professional fees. In addition, the Company engaged a consulting company during 2011 to implement a sophisticated cash flow projection model as a tool in calculating fair values and future cash flows on the covered loans acquired in the FDIC-assisted acquisitions. Our resolution efforts with respect to our covered assets and our acquisition activity in 2009 and 2010 have resulted in increased legal and professional expenses. Moreover, following the effective date of our registration statement on Form 10 on December 28, 2010, we are now obligated to file various reports required by the Exchange Act, including current reports on Form 8-K, quarterly reports on Form 10-Q and annual reports on Form 10-K. As a result, we have incurred and will continue to incur significant legal, accounting and other expenses that we did not incur before we became a reporting company.

Net costs of operations of other real estate owned were $4.7 million, or 10.3% of noninterest expense, for the six months ended June 30, 2011. These costs include losses on sales of other real estate of $2.6 million and expenses related to the management and collection of other real estate of $2.1 million. Net costs of operations of other real estate owned were $4.8 million, or 12.2% of noninterest expense, for the 2010 period. These costs include losses on sales of other real estate of $2.5 million and expenses related to the management and collection of other real estate of $2.3 million. Under the loss share agreements, we record a portion of these losses and expenses in our statements of income (generally 20%) and we record the remaining 80% to the FDIC receivable.

Balance Sheet Review

General

At June 30, 2011, we had total assets of $2.8 billion, consisting principally of $1.4 billion in loans net of deferred fees and costs and the allowance for loan loss, $349.4 million in investment securities, $468.4 million in the FDIC receivable, $103.6 million in other real estate owned and $372.5 million in cash and cash equivalents. Our liabilities at June 30, 2011 totaled $2.4 billion, consisting principally of $2.4 billion in deposits. At June 30, 2011, our shareholders equity was $374.6 million.

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Investments

Our investment portfolio serves as a source of liquidity and earnings and is also used to manage interest rate risk. At June 30, 2011, the $349.4 million in our available-for-sale investment securities portfolio represented approximately 12.6% of our total assets compared to $405.6 million, or 14.3% of total assets, at December 31, 2010. We anticipate maintaining an investment portfolio to provide both increased earnings and liquidity.

Our investment portfolio primarily consists of U.S. government agency securities and agency mortgage-backed securities. As of June 30, 2011, $145.9 million, or 41.8%, of our available-for-sale securities were invested in agency mortgage-backed securities, compared to $169.6 million, or 41.8%, as of December 31, 2010. As of June 30, 2011, $99.3 million, or 28.4% of our available-for-sale securities, were invested in non-agency mortgage-backed securities, compared to $61.0 million, or 15.0% as of December 31, 2010. We purchased these non-agency mortgage-backed securities at significant market discounts compared to par value.

Agency mortgage-backed securities are securities that have been developed by pooling a number of real estate mortgages and are principally issued by quasi-federal agencies such as Fannie Mae and Freddie Mac. These securities are deemed to have high credit ratings, and the minimum monthly cash flows of principal and interest are guaranteed by the issuing agencies. Although investors generally assume that the federal government will support these agencies, it is under no obligation to do so. Other agency mortgage-backed securities are issued by Ginnie Mae, which is a federal agency, and are guaranteed by the U.S. government. As of June 30, 2011, $93.4 million, or 26.7%, of our available-for-sale securities were invested in U.S. government securities, compared to $163.7 million, or 40.4%, as of December 31, 2010.

Following is a summary of our available for sale investment portfolio for the periods presented.

	June 30, 2011		December 31, 2010	
(in thousands)	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Government-sponsored enterprises	$ 92,658	$ 93,403	$ 163,002	$ 163,681
Residential mortgage-backed securities agency	35,287	36,428	40,892	41,673
Residential mortgage-backed securities private	102,224	99,271	61,504	61,025
Collateralized mortgage obligations non-amortizing	106,928	109,450	125,146	127,955
State, county and municipals	10,322	10,475	9,490	9,555
Other investments	360	360	1,525	1,692
Total	$ 347,779	$ 349,387	$ 401,559	$ 405,581

The following table shows contractual maturities and yields on our investments at June 30, 2011. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Government-sponsored enterprises	Mortgage-backed securities	State, county and municipals	Other investments

(in thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Maturity:								
One year or less	$ 70,758	0.48%	$		$ 2,103	0.70%	$	
After one year through five years	14,029	0.95%	193	2.24%	1,550	1.96%	360	17.04%
After five years through10 years	5,506	3.68%	1,535	2.22%	667	5.95%		
After 10 years	3,110	4.00%	243,421	3.27%	6,155	7.33%		
Total	$ 93,403	0.84%	$ 245,149	3.27%	$ 10,475	5.09%	$ 360	17.04%

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Loans

Loans receivable constitute our largest interest-earning asset. Total loans outstanding at June 30, 2011 and December 31, 2010 were approximately $1.4 billion and $1.3 billion, respectively, after subtracting the allowance for loan losses and net unamortized loan origination fees.

Loans secured by real estate mortgages are the principal component of our loan portfolio. Most of our real estate loans are secured by residential or commercial property. We do not generally originate traditional long-term residential mortgages for the portfolio, but we do issue traditional second mortgage residential real estate loans and home equity lines of credit. We obtain a security interest in real estate whenever possible, in addition to any other available collateral, to increase the likelihood of the ultimate repayment of the loan. Generally, loan-to-value ratios on loans are based on regulatory guidance as noted in our loan policy guidelines.

We acquired the majority of our loans in our ten FDIC-assisted transactions. As a result, the current concentrations in our loan portfolio may not be indicative of concentrations in our loan portfolio in the future. We will attempt to maintain a relatively diversified loan portfolio to help reduce the risk inherent in concentration in certain types of collateral.

We have planned for and expect that the size of our covered loan portfolio will decrease as covered loans are collected, charged-off, or the underlying collateral is foreclosed and sold. Our covered loans may increase in the future if we acquire more failed banks from the FDIC in transactions that include loss share agreements. Our non-covered loans will increase as we originate and purchase well-underwritten loans. Due to the current economic environment, covered loans may continue to decrease faster than non-covered loans increase, thereby resulting in a net decrease in loans receivable.

The following tables summarize the composition of our loan portfolio at the dates presented:

	June 30, 2011				December 31, 2010			
(dollars in thousands)	**Covered Loans**	**Non-Covered Loans**	**Total Amount**	**% of Total**	**Covered Loans**	**Non-Covered Loans**	**Total Amount**	**% of Total**
Commercial								
Commercial and industrial	$ 49,277	$ 40,754	$ 90,031	6.6%	$ 87,590	$ 38,919	$ 126,509	9.9%
Real Estate								
Mortgage	189,695	26,510	216,205	15.9%	191,444	23,255	214,699	16.8%
Commercial	360,160	343,765	703,925	51.7%	372,775	196,243	569,018	44.5%
Construction	202,420	112,846	315,266	23.2%	264,858	70,543	335,401	26.2%
Total real estate	752,275	483,121	1,235,396	90.8%	829,077	290,041	1,119,118	87.5%
Consumer								
Consumer	12,809	22,279	35,088	2.6%	18,300	13,889	32,189	2.6%
	$ 814,361	$ 546,154	$ 1,360,515	100.0%	$ 934,967	$ 342,849	$ 1,277,816	100.0%

Total gross loans receivable, net of deferred fees							
Less allowance for loan losses		(6,914)	(6,914)			(5,351)	(5,351)
Total loans, net	$ 814,361	$ 539,240	$ 1,353,601		$ 934,967	$ 337,498	$ 1,272,465

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Maturities and Sensitivity of Loans to Changes in Interest Rates

The information in the following table is based on the contractual maturities of individual loans, including loans that may be subject to renewal at their contractual maturity. Renewal of these loans is subject to review and credit approval, as well as modification of terms upon maturity. Actual repayments of loans may differ from the maturities reflected below because borrowers have the right to prepay obligations with or without prepayment penalties.

The following summarizes the loan maturity distribution by type and related interest rate characteristics at June 30, 2011:

(in thousands)	One year or less	After one but within five years	After five years	Total
Commercial	$ 37,901	$ 39,199	$ 12,931	$ 90,031
Real estate	501,520	537,508	196,368	1,235,396
Consumer	4,611	30,108	369	35,088
Total gross loans	$ 544,032	$ 606,815	$ 209,668	$ 1,360,515
Gross loans maturing after one year with:				
Fixed interest rates	$ 345,668			
Floating or adjustable interest rates	470,815			
Total loans	$ 816,483			

FDIC Receivable for Loss Share Agreements

As of June 30, 2011, 59.9% of our outstanding principal balance of loans and 99.3% of our other real estate assets were covered under loss share agreements with the FDIC in which the FDIC has agreed to reimburse us for between 80% and 95% of all losses incurred in connection with those assets. We estimated the FDIC reimbursement that will result from losses incurred as we dispose of covered loans and other real estate assets, and we recorded the estimate as a receivable from the FDIC. The FDIC receivable for loss share agreements was $468.4 million as of June 30, 2011 and $494.4 million as of December 31, 2010. Realized losses in excess of acquisition date estimates will result in an increase in the FDIC receivable for loss share agreements. Conversely, if realized losses are less than acquisition date estimates, the FDIC receivable for loss share agreements will be reduced. The discount on the FDIC receivable is accreted into noninterest income using the level yield method over the estimated life of the receivable, including estimates of the timing of cash flow receipts and the disposition of non-performing assets.

Allowance for Loan Losses

We recorded the loans acquired in our acquisitions at their acquisition date fair value, which was based on expected cash flows and included an estimation of expected future loan losses. As a result, the loans acquired are excluded from the calculation of allowance for loan losses and thus we have not recorded any provision for loan losses for these loans. At each acquisition date, we were unable to obtain all of the information necessary for us to measure the fair values of the assets we acquired. This was particularly true because each acquisition was of a failed bank, where we could perform only limited due diligence before the acquisition date. Under current accounting principles, within a given measurement period not to exceed one year, we may adjust our estimate of loan and other real estate fair values based on new information we obtain about facts and circumstances that existed as of the acquisition date that, if known, would have affected our loan or other real estate fair values. This measurement period ends on the earlier of one year after the acquisition or the date we receive the information about the facts and circumstances that existed on each acquisition date. If we discover during the measurement period that we have materially underestimated or overestimated our loan or other real estate fair values and that the facts and circumstances that resulted in the adjustment existed at the date of acquisition, we will retroactively adjust our loan or other real estate fair values and make a corresponding adjustment to our bargain purchase gain or goodwill. Beyond the measurement period (or if we determine that losses arose based on facts and

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circumstances that arose after the acquisition date) our portion of any additional losses will be reflected as a provision for loan losses.

To date, we have not made any measurement period adjustments based on facts and circumstances that existed as of the respective acquisition dates. During the three months ended June 30, 2011, we recorded a $451,000 provision for loan loss expense and charge-off in loans covered by loss share agreements with the FDIC as a result of estimated cash flows less than the original estimates on these loans.

For our non-covered loans, we have established an allowance for loan losses through a provision for loan losses charged to expense on our statement of income. We maintain the allowance at a level deemed appropriate by management to provide adequately for known and inherent losses in our non-covered loan portfolio. Our judgment as to the adequacy of the allowance for loan losses is based on a number of assumptions about future events, which we believe to be reasonable, but which may or may not prove to be accurate. In general, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process we refer to as seasoning. As a result, a portfolio of older loans will usually behave more predictably than a newer portfolio. Because our non-covered loan portfolio is relatively new, the current level of delinquencies and defaults may not be representative of the level that will prevail when the portfolio becomes more seasoned, which may be higher than current levels.

Our determination of the allowance for loan losses is based on evaluations of the collectability of loans, including consideration of factors such as the balance of impaired loans, the quality, mix and size of our non-covered loan portfolio, economic conditions that may affect the borrower s ability to repay, the amount and quality of collateral securing the loans and a review of specific problem loans. In addition, because of the lack of seasoning in our non-covered loan portfolio, we use peer data to develop our historical loss migration analysis, rather than our own historical loan loss data. We also consider subjective issues such as changes in the lending policies and procedures, changes in the local/national economy, changes in volume or type of credits, changes in volume/severity of problem loans, quality of loan review and board of director oversight, concentrations of credit and peer group comparisons. More specifically, in determining our allowance for loan losses, we review loans for specific impaired reserves based on current appraisals of collateral less disposal costs. We determine general reserves by using the peer data applied to risk rated loans grouped by FDIC call report classification code. We calculate the general reserves by applying the appropriate historical loss ratio to the loan categories grouped by risk rating (pass, special mention, substandard and doubtful) and adjusted for quantitative factors. Impaired loans are excluded from this analysis as they are individually reviewed for valuation.

We assign the relationships that comprise our loan portfolio a risk grade based on a common set of parameters. These parameters include debt to worth, liquidity of the borrower, net worth, experience in a particular field and other factors. We also give weight to the relative strength of any guarantors on the loan. We have an internal loan specialist dedicated to the review of loan files on a test basis to confirm the grading of each loan.

A significant portion of our non-covered loan portfolio has been booked within the last 18 months under stringent underwriting standards and has not experienced any significant losses to date. Due to the lack of historical loss data, we use peer group data to determine an appropriate basis for historical losses. As a result of the economic conditions present in the country in general and in our markets in particular, we believe the use of peer group data to develop loss estimates is appropriate until our non-covered loan portfolio ages and reaches a size that will yield its own loss characteristics.

Separately, we review all impaired non-covered loans to determine a specific allocation for each. In our assessment of impaired loans, we consider the primary source of repayment when determining whether loans are collateral dependent. We measure impairment of a loan based on the present value of expected future cash flows discounted at the loan s effective interest rate or the fair value of the collateral if the loan is collateral dependent. When management determines that a loan is impaired, the difference between our investment in the related loan and the present value of the expected future cash flows, or the fair value of the collateral, is established as a specific allowance. For collateral-dependant impaired loans, we charge-off such losses on a timely basis.

Periodically, we adjust the amount of the allowance based on changing circumstances. We recognize loan losses to the allowance and add back subsequent recoveries. In addition, on a quarterly basis we informally compare our allowance for loan losses to various peer institutions. We recognize, however, that allowances will vary because financial institutions are unique in the make-up of their loan portfolios and customers, which necessarily creates different risk profiles for the

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institutions. We would only consider further adjustments to our allowance for loan losses based on this peer review if our allowance was significantly different from our peer group. To date, we have not made any such adjustment. The allowance for loan loss is a significant estimate and may need to be increased in the future if there is deterioration in our loan portfolio greater than what is known and expected as of a point in time.

The following table summarizes the activity related to our allowance for loan losses related to our non-covered loans for the periods presented.

(dollars in thousands)	**Six months ended June 30, 2011**	**2010**
Balance, at the beginning of period	$ 5,351	$ 2,524
Charge offs:		
Commercial and industrial	102	
Commercial real estate-other	853	
Commercial real estate construction	23	68
Residential real estate		
Consumer	99	3
Total charge-offs	$ 1,077	$ 71
Recoveries:		
Commercial and industrial		
Commercial real estate-other	2	
Commercial real estate construction	3	
Residential real estate		
Consumer	81	
Total recoveries	$ 86	$
Net charge-offs	991	71
Provision for loan losses	2,554	1,192
Balance, at end of period	$ 6,914	$ 3,645
Allowance for loan losses to non-covered loans receivable	1.27%	2.37%
Ratio of net charge-offs to loans outstanding	0.18%	0.01%

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Allocation of Allowance for Loan Losses

The following tables present the allocation of the allowance for loan losses and the percentage of the total amount of loans in each loan category listed as of the dates indicated.

	June 30, 2011		December 31, 2010	
(dollars in thousands)	Amount	% of loans to total loans	Amount	% of loans to total loans
Commercial				
Commercial and industrial	$ 567	3.0%	$ 588	2.2%
Real Estate				
Mortgage	305	1.9%	246	1.4%
Commercial	2,348	25.3%	1,803	10.6%
Construction	3,205	8.3%	2,252	3.9%
Total real estate	5,858	35.5%	4,301	15.9%
Consumer				
Consumer	259	1.6%	223	0.8%
Nonspecific				
Nonspecific	230		239	
Total allowance for non-covered loans	6,914	40.1%	5,351	18.9%
Total allowance for covered loans		59.9%		81.1%
Total allowance for loan losses	$ 6,914	100.0%	$ 5,351	100.0%

Non-performing Assets

Non-performing assets consist of nonaccrual loans, loans past due 90 days or more as to interest or principal and still accruing, and other real estate owned, which is real estate acquired through foreclosure. Nonaccrual loans are those loans on which we have discontinued recognition of interest income. When management believes there is sufficient doubt as to the collectibility of principal or interest on any loan, or generally when loans are 90 days or more past due, we discontinue the accrual of the applicable interest and designate the loan as nonaccrual, unless the loan is well secured and in the process of collection. Management reviews past due loans on a monthly basis and will place certain loans on nonaccrual status at 60 days past due in some circumstances. We apply interest payments received on nonaccrual loans against principal. We return loans to an accrual status when factors indicating doubtful collectibility on a timely basis no longer exist. We record a provision for estimated losses if a subsequent decline in value occurs.

Loans covered by loss share agreements with the FDIC are considered performing income earning assets that were originally recorded at fair market value based on the expected cash flows. Management evaluates the cash flow projections periodically to determine if there is impairment. In the event of an impairment, loan loss expense is recorded. Therefore, all covered loans are accreting income and considered performing loans.

Nonaccrual loans are valued at either the observable market price of the loan, the present value of expected future cash flows or the fair value of the collateral if the loan is collateral dependent. Substantially all of our nonaccrual loans are collateral dependent and, therefore, are valued at the fair value of collateral. The fair value of collateral is determined through a review of the appraised value and assessment of recovery value of the collateral through discounts related to various factors noted below. When a loan reaches nonaccrual status, we review the appraisal on file and determine if the appraisal is current and valid. A current appraisal is one that has been performed in the last twelve months, and a valid appraisal is one that we believe accurately and appropriately addresses current market conditions. If the appraisal is more than twelve months old or if market conditions have deteriorated since the last appraisal, we will order a new appraisal. In addition, we require a new appraisal at the time of foreclosure or repossession of the underlying collateral. Upon determining that an appraisal is both current and valid, management assesses the recovery value of the collateral, which involves the application of various discounts to the market value. These discounts include the following: length of time to

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market and sell the property, as well as expected maintenance costs, insurance and taxes and real estate commissions on sale. We initially record other real estate owned at the lower of cost or estimated market value at the date of acquisition.

We contract a third-party property valuation company to order, obtain and review the appraisals prepared by a pre-approved third-party appraiser. We conduct this process independently from our loan production staff. Due to the current economic conditions and the number of non-performing loans in our markets, there is often a 60 to 90 day period between the date we order an appraisal and the date we receive and review it. Once the third-party property valuation company completes its review of the new appraisal, they provide it either to our Credit Administration Department (for non-covered loans) or the Special Assets Division (for covered loans). For non-covered loans, we will record either a specific allowance or a charge-off against the allowance for loan losses if our review of the current appraisal or the new appraisal indicates a loss. Subsequently, we will review our allowance and replenish it as required by our allowance for loan losses model. For covered loans, an adjustment will be made to the recorded investment if our review of the current appraisal or new appraisal indicates an impairment. The need for a provision for loan loss expense will be determined during our periodic evaluation of the expected cash flows on these loans, at which time all loan activity is evaluated.

Partially charged-off collateral dependent loans with an updated appraisal remain on nonaccrual status until the factors that previously indicated doubtful collectability on a timely basis no longer exist. Specifically, we look at the following factors before returning a partially charged-off loan to performing status: documented evidence of debt service capacity; adequate collateral; and a minimum of six months of receiving payments as agreed.

Loan modifications constitute a troubled debt restructuring if we, for economic or legal reasons related to the borrower s financial difficulties, grant a concession to the borrower that we would not otherwise consider. For loans that are considered troubled debt restructurings, we either compute the present value of expected future cash flows discounted at the original loan s effective interest rate or, as a practical expedient, we may measure impairment based on the observable market price of the loan or the fair value of the collateral even though we do not expect to deem troubled debt restructurings collateral dependent. We record the difference between the carrying value and fair value of the loan as a valuation allowance.

The following tables set forth our non-performing assets for the periods presented.

	At June 30, 2011			At December 31, 2010		
(dollars in thousands)	**Covered Assets**	**Non-Covered Assets**	**Total**	**Covered Assets**	**Non-Covered Assets**	**Total**
Nonaccrual loans	$	$ 3,478	$ 3,478	$	$ 4,079	$ 4,079
Accruing loans 90 days or more past due						
Troubled debt restructurings not included in above						
Total non-performing loans		3,478	3,478		4,079	4,079
Other real estate owned	102,822	738	103,560	155,981	75	156,056
Total non-performing assets	$ 102,822	$ 4,216	$ 107,038	$ 155,981	$ 4,154	$ 160,135
Non-performing loans to total loans	0.00%	0.64%	0.26%	0.00%	1.19%	0.22%
Non-performing assets to total loans and other real estate owned	11.21%	0.77%	7.31%	9.21%	1.21%	7.86%

Non-performing assets, defined as nonaccrual loans, loans past due 90 days or more as to interest or principal and still accruing, trouble debt restructurings and other real estate owned, totaled $107.0 million, or 12.0% of total assets at June 30, 2011, compared to $160.1 million, or 10.4% of total assets at December 31, 2010. Of the $107.0 million in non-performing assets at June 30, 2011, $102.8 million related to assets that are covered by loss share agreements with the FDIC. Of the $160.1 million in non-performing assets at December 31, 2010, $156.0 million related to assets that are covered by loss share agreements with the FDIC.

Total non-performing covered assets accounted for 96.1% of total non-performing assets at June 30, 2011 and 97.4% of total non-performing assets at December 31, 2010.

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At June 30, 2011, we had approximately $85.2 million in potential problem loans, compared to $86.5 million at December 31, 2010. Potential problem loans are those loans where management has a concern about the financial health of a borrower that causes management to have serious doubts as to the ability of the borrower to comply with the present loan terms. At June 30, 2011 and December 31, 2010, substantially all of our potential problem loans were covered loans, with only $914,000 million in non-covered potential problem loans at June 30, 2011.

Deposits

Total deposits at June 30, 2011 were $2.4 billion and at December 31, 2010 were $2.4 billion. At June 30, 2011, noninterest bearing accounts totaled $256.1 million, or 10.9% of total deposits, compared to $224.5 million, or 9.3% of total deposits at December 31, 2010. Time deposits totaled $483.1 million, or 20.5% of interest bearing deposits at June 30, 2011, compared to $626.9 million, or 28.5% of interest bearing deposits at December 31, 2010. Out of market brokered and wholesale time deposits totaled $18.6 million at June 30, 2011 and $51.3 million at December 31, 2010. Money market and savings accounts totaled $1.3 billion, or 56.1% of interest bearing deposits, at June 30, 2011, compared to $1.3 billion, or 58.1% of interest bearing deposits, at December 31, 2010.

The following table shows the average balance amounts and the average rates paid on deposit we held for the periods presented.

	June 30, 2011			December 31, 2010		
(dollars in thousands)		**Amount**	**Rate**		**Amount**	**Rate**
Noninterest bearing demand deposits	$	235,848	0.00%	$	199,592	0.00%
Interest bearing demand deposits		239,822	0.28%		239,795	0.71%
Savings and money market accounts		1,284,506	1.10%		1,064,404	1.86%
Time deposits less than $100,000		309,727	2.21%		414,005	2.00%
Time deposits greater than $100,000		242,084	2.24%		344,464	2.17%
Total deposits	$	2,311,987	1.30%	$	2,262,260	1.80%

The maturity distribution of our time deposits of $100,000 or more at June 30, 2011 was as follows:

(dollars in thousands)		
Three months or less	$	57,882
Over three through six months		42,595
Over six though twelve months		95,547
Over twelve months		28,982
Total	$	225,006

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Borrowings and Other Interest-Bearing Liabilities

The following table outlines our various sources of borrowed funds for the three months ended June 30, 2011 and the year ended December 31, 2010, and the amounts outstanding at the end of each period, the maximum amount for each component during such period, the average amounts for each period and the average interest rate that we paid for each borrowing source. The maximum month-end balance represents the high indebtedness for each component of borrowed funds at any time during each of the periods shown.

(dollars in thousands)	Ending Balance	Period End Rate	Maximum Month End Balance	Average for the Period Balance	Average for the Period Rate
At or for the six months ended June 30, 2011:					
Securities sold under agreement to repurchase	$ 4,831	0.20%	$ 5,371	$ 2,957	0.98%
Notes payable	2,546	8.66%	2,565	2,623	10.29%
At or for year ended December 31, 2010:					
Securities sold under agreement to repurchase	$ 5,246	0.24%	$ 11,438	$ 6,135	0.44%

Capital Resources

We strive to maintain an adequate capital base to support our activities in a safe manner while at the same time maximizing shareholder returns. At June 30, 2011, we exceeded all minimum regulatory capital requirements as shown in the tables below. At June 30, 2011, our shareholders equity was $374.6 million, or 13.5% of total assets, compared to $359.3 million, or 12.7% of total assets, at December 31, 2010.

The following table shows the return on average assets (net income divided by average total assets), return on average equity (net income divided by average equity), and average equity to average assets ratio (average equity divided by average total assets) for the six months ended June 30, 2011 and the year ended December 31, 2010:

	June 30, 2011	December 31, 2010
Return on average assets	1.24%	1.73%
Return on average equity	9.22%	13.66%
Equity to assets ratio	13.50%	12.70%

The Federal Reserve and bank regulatory agencies require bank holding companies and financial institutions to maintain capital at adequate levels based on a percentage of assets and off-balance sheet exposures, adjusted for risk weights ranging from 0% to 100%. Under the capital adequacy guidelines, regulatory capital is classified into two tiers. These guidelines require an institution to maintain a certain level of Tier 1 and Tier 2 capital to risk-weighted assets. Tier 1 capital consists of common shareholders equity, excluding the unrealized gain or loss on securities available for sale, minus certain intangible assets. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, are multiplied by a risk-weight factor of 0% to 100% based on the risks believed to be inherent in the type of asset. Tier 2 capital consists of Tier 1 capital plus the general reserve for loan losses, subject to certain limitations. The Bank is required to maintain capital at a minimum level based on total average assets, which is known as the Tier 1 leverage ratio.

To be considered well capitalized under capital guidelines, we must maintain total risk-based capital of at least 10%, Tier 1 capital of at least 6%, and a leverage ratio of at least 5%. To be considered adequately capitalized under capital guidelines, we must maintain a minimum total risk-based capital of 8%, with at least 4% being Tier 1 capital. In addition, banking regulators have established a minimum Tier 1 leverage ratio of at least 4%. We expect banking regulators to increase these minimum levels in the future.

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The following table shows the Bank s and the Company s regulatory capital ratios for the periods presented.

	Bank June 30, 2011	Company June 30, 2011	Bank December 31, 2010	Company December 31, 2010
Leverage ratio	13.44%	13.49%	12.71%	12.77%
Tier 1 risk-based capital ratio	34.68%	34.80%	43.38%	43.56%
Total risk-based capital ratio	35.34%	35.46%	44.05%	44.23%

For all periods, the Bank was considered well capitalized, and we intend to maintain a capital level for the Bank that exceeds the FDIC requirements to be classified as a well capitalized bank. In addition, as a condition to the FDIC s approval of the Notice of Change in Control filing of Mr. Evans, Mr. Speight and Mr. Childers (our management team) in connection with our July 2009 recapitalization and acquisition, the Bank was required to execute a Capital Maintenance Agreement with the FDIC. Under the terms of the agreement, the Bank must at all times maintain a leverage ratio of at least 10% and a total risk-based capital ratio of at least 12%. The agreement terminates on July 23, 2012. At June 30, 2011, the Bank was in compliance with the Capital Maintenance Agreement.

Effect of Inflation and Changing Prices

The effect of relative purchasing power over time due to inflation is not reflected in our consolidated financial statements. Rather, our financial statements have been prepared on an historical cost basis in accordance with generally accepted accounting principles.

Unlike most industrial companies, our assets and liabilities are primarily monetary in nature. Therefore, the effect of changes in interest rates will have a more significant effect on our performance than will the effect of changing prices and inflation in general. In addition, interest rates may generally increase as the rate of inflation increases, although not necessarily in the same magnitude.

Off-Balance Sheet Arrangements

Commitments to extend credit are agreements to lend to a customer as long as the customer has not violated any material condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. At June 30, 2011, unfunded commitments to extend credit were $240.7 million. A significant portion of the unfunded commitments related to commercial real estate and land development and to consumer equity lines of credit. Based on experience, we anticipate that a significant portion of these lines of credit will not be funded. We evaluate each customer s credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on our credit evaluation of the borrower. The type of collateral varies but may include accounts receivable, inventory, property, plant and equipment, and commercial and residential real estate.

At June 30, 2011, there were commitments totaling approximately $4.4 million under letters of credit. The credit risk and collateral involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Because most of the letters of credit are expected to expire without being drawn upon, they do not necessarily represent future cash requirements.

Except as disclosed in this report, we are not involved in off-balance sheet contractual relationships, unconsolidated related entities that have off-balance sheet arrangements, transactions that could result in liquidity needs or other commitments that significantly impact earnings.

Contractual Obligations

In the normal course of business, we have various outstanding contractual obligations that will require future cash outflows. The following table presents our contractual obligations as of June 30, 2011.

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(in thousands) Contractual Obligations	Payments Due by Period Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Operating Lease Obligations	$ 20,707	$ 1,303	$ 3,037	$ 3,530	$ 12,837
Notes payable	2,546				2,546
Securities Repurchase Agreements	4,831	4,831			
	$ 28,084	$ 6,134	$ 3,037	$ 3,530	$ 15,383

Operating lease obligations increased as a result of a newly executed lease agreement effective January 1, 2012 for office space in metro Atlanta. The lease includes 56,000 square feet of office space over a term of 11 years.

Liquidity

Liquidity represents the ability of a company to convert assets into cash or cash equivalents without significant loss, and the ability to raise additional funds by increasing liabilities. Liquidity management involves monitoring our sources and uses of funds to meet our day-to-day cash flow requirements while maximizing profits. Liquidity management is made more complicated because different balance sheet components are subject to varying degrees of management control. For example, the timing of maturities of our investment portfolio is fairly predictable and subject to a high degree of control when we make investment decisions. Net deposit inflows and outflows, however, are far less predictable and are not subject to the same degree of control.

At June 30, 2011, our liquid assets, which consist of cash and due from banks, interest bearing deposits and federal funds sold, amounted to $372.5 million, or 13.5% of total assets. Our available for sale securities at June 30, 2011 amounted to $349.4 million, or 12.6% of total assets. Investment securities and lines of credit traditionally provide a secondary source of liquidity because they can be converted into cash in a timely manner.

Our ability to maintain and expand our deposit base and borrowing capabilities serves as our primary source of liquidity. We plan to meet our future cash needs through the generation of deposits and through collection of the FDIC receivable as we dispose of our covered loans and assets. In addition, we receive cash on the maturity and sale of loans and the maturity of investment securities. We maintain six federal funds lines of credit with correspondent banks totaling $135.0 million. We are also a member of the Federal Home Loan Bank of Atlanta (FHLB), from which we can borrow for leverage or liquidity purposes. The FHLB requires that securities, qualifying mortgage loans and stock of the FHLB owned by the Bank be pledged to secure any advances. At June 30, 2011, we had no advances from the FHLB and a remaining credit availability of $21.8 million. In addition, we maintain a line of credit with the Federal Reserve Bank of $55.7 million secured by certain loans in our loan portfolio.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Market risk is the risk of loss from adverse changes in market prices and rates, which principally arise from interest rate risk inherent in our lending, investing, deposit gathering and borrowing activities. Other types of market risk, such as foreign currency exchange rate risk and commodity price risk, do not generally arise in the normal course of our business. Asset/liability management is the process by which we monitor and control the mix and maturities of our assets and liabilities. The essential purposes of asset/liability management are to ensure adequate liquidity and to maintain an appropriate balance between interest sensitive assets and liabilities to minimize potentially adverse effects on earnings from changes in market interest rates. Our asset/liability committee monitors and considers methods of managing exposure to interest rate risk. The asset/liability committee is responsible for maintaining the level of interest rate sensitivity of our interest sensitive assets and liabilities within board-approved limits.

At June 30, 2011, approximately 57.4% of our loans were variable rate loans. Approximately 96.9% of our interest-bearing liabilities reprice within one year. However, interest rate movements typically result in changes in interest rates on assets that are different in magnitude from the corresponding changes in rates paid on liabilities. While a

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substantial portion of our loans reprice within the next three months a large majority of our deposits will also reprice within the same 3-month period. Interest rate sensitivity is a function of the repricing characteristics of the portfolio of assets and liabilities. These repricing characteristics are the time frames within which the interest-earning assets and interest-bearing liabilities are subject to change in interest rates either at replacement, repricing or maturity during the life of the instruments. Interest rate sensitivity management focuses on the maturity structure of assets and liabilities and their repricing characteristics during periods of changes in market interest rates. Effective interest rate sensitivity management seeks to ensure that both assets and liabilities respond to changes in interest rates within an acceptable timeframe that minimizes the changes in net interest income.

One of the tools management uses to estimate the sensitivity of net interest revenue changes to interest rates is an asset/liability simulation model. The resulting estimates are based upon a number of assumptions for each scenario, including the level of balance sheet growth, loan and deposit repricing characteristics and the rate of prepayments. The asset/liability committee actively monitors the assumptions and estimates based on input data and future expectations. Actual net interest revenue, however, may vary from model results.

Our policy is based on a 12-month impact on net interest income of interest rate ramps that increase 200 basis points and decrease 200 basis points from the base scenario. In the ramp scenarios, rates change 16.7 basis points per month over 12 months. The policy limits the change in net interest income over 12 months to a 10% decrease or increase in either scenario. The policy ramp and base scenarios assume a static balance sheet. Given the historically low rate environment, management has determined that the use of the down 200 basis point scenario is not meaningful and, therefore, has used what it believes to be a more reasonable rate scenario of down 100 basis points over a 12-month period, or 8.3 basis points per month over 12 months. At June 30, 2011, our most recent asset/liability simulation run, the model indicated that a 200 basis point increase would cause an approximate 66 basis point increase in net interest income over the next 12 months and a 100 basis point decrease in rates would cause an approximate 90 basis point increase in net interest income over the next 12 months.

In addition, management seeks to reduce overall interest rate risk by maintaining relatively short maturities. For additional detail on loan maturity and distribution and information regarding sensitivity of loans and leases to changes in interest rates see the table under Maturities and Sensitivities of Loans to Changing Interest Rates on page 44. Information on the maturity of our investment securities is located in the table on page 42. Information regarding the maturity distributions of our time deposits with balances in excess of $100,000 is located on page 49.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Based on our management s evaluation, with the participation of our Chief Executive Officer and Chief Financial Officer, as of June 30, 2011, the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls

There was no change in our internal control over financial reporting that occurred during the quarter ended June 30, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

The design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

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PART II

Item 1. Legal Proceedings.

We have nothing to report with respect to the period covered by this report.

Item 1A. Risk Factors.

There is one additional risk factor described below in addition to the risk factors disclosed in Item 1A, Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2010.

The recent downgrade of the U.S. government s sovereign credit rating by Standard & Poor s Ratings Services, and any future rating agency action with respect to the U.S. government s sovereign credit rating, could have a material adverse effect on us. Further, the current debt crisis in Europe, and the risk that certain countries may default on their sovereign debt, and the resulting impact on the financial markets, could have a material adverse effect on our business, results of operations and financial condition.

On August 2, 2011, Moody s confirmed the U.S. government s existing sovereign rating, but stated that the rating outlook is negative, and also on August 2, 2011, Fitch affirmed its existing sovereign rating of the U.S. government, but stated that the U.S. government s rating is under review. On August 5, 2011, Standard & Poor s downgraded the United States long-term debt rating from its AAA rating to AA+. On August 8, 2011, Standard & Poor s downgraded the credit ratings of certain long-term debt instruments issued by Fannie Mae and Freddie Mac and other U.S. government agencies linked to long-term U.S. debt. These downgrades, any future downgrades, as well as the perceived creditworthiness of U.S. government-related obligations, could impact our ability to obtain, and the pricing with respect to, funding that is collateralized by affected instruments and obtained through the secured and unsecured markets. We cannot predict how this or any further downgrades to the U.S. government s sovereign credit rating, or its perceived creditworthiness, will impact economic or capital markets conditions generally. It is possible that any such impact could have a material adverse effect on our business, results of operation, and financial position.

In addition, the current crisis in Europe has created uncertainty with respect to the ability of certain European Union countries to continue to service their sovereign debt obligations. These conditions have adversely impacted financial markets and have created substantial volatility and uncertainty, and will likely continue to do so. Risks related to this have had, and are likely to continue to have, a negative impact on global economic activity and the financial markets. As these conditions persist, our business, results of operation, and financial condition could be materially adversely affected.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On May 16, 2011, we issued 677 shares of our common stock in a cashless exchange for a warrant to purchase 1,666 shares of our common stock. Pursuant to the terms of the warrant, the holder of the warrant (an employee) used the amount by which 989 shares were deemed to be in the money as consideration for the $10.00 per share exercise price for the 677 shares we issued, and the entire warrant was cancelled in the exchange. The shares issued were exempt from registration under Section 3(a)9 of the Securities Act of 1933, as amended, because we exchanged the shares with our existing security holder exclusively, and no commission or other remuneration was paid or given directly or indirectly for soliciting the exchange.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. (Removed and Reserved).

Item 5. Other Information.

None.

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Item 6. Exhibits.

Exhibit No.	Description of Exhibit
10.1	State Bank Financial Corporation s 2011 Omnibus Equity Compensation Plan as adopted by the board of directors on January 26, 2011
31.1	Rule 13a-14(a) Certification of the Chief Executive Officer
31.2	Rule 13a-14(a) Certification of the Chief Financial Officer
32.1	Section 1350 Certifications

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

STATE BANK FINANCIAL CORPORATION

Date: August 15, 2011	By:	/s/ Joseph W. Evans Joseph W. Evans Chief Executive Officer
Date: August 15, 2011	By:	/s/ John S. Poelker John S. Poelker Chief Financial Officer

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Exhibit List

10.1	State Bank Financial Corporation s 2011 Omnibus Equity Compensation Plan as adopted by the board of directors on January 26, 2011
31.1	Rule 13a-14(a) Certification of the Chief Executive Officer
31.2	Rule 13a-14(a) Certification of the Chief Financial Officer
32.1	Section 1350 Certifications