CENTRAL PACIFIC FINANCIAL CORP
Form 10-Q
August 09, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

or

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

For the transition period from to

Commission file number 001-31567

CENTRAL PACIFIC FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

Hawaii	**99-0212597**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

220 South King Street, Honolulu, Hawaii 96813

(Address of principal executive offices) (Zip Code)

(808) 544-0500

(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 **x** No **o**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer **o**	Accelerated filer **x**
Non-accelerated filer **o**	Smaller reporting company **o**

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

The number of shares outstanding of registrant s common stock, no par value, on August 1, 2012 was 41,868,600 shares.

Table of Contents

CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

Table of Contents

Part I.	**Financial Information**
Item I.	Financial Statements (Unaudited)
	Consolidated Balance Sheets June 30, 2012 and December 31, 2011
	Consolidated Statements of Income Three and six months ended June 30, 2012 and 2011
	Consolidated Statements of Comprehensive Income Three and six months ended June 30, 2012 and 2011
	Consolidated Statements of Cash Flows Six months ended June 30, 2012 and 2011
	Notes to Consolidated Financial Statements
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations
Item 3.	Quantitative and Qualitative Disclosures About Market Risk
Item 4.	Controls and Procedures
Part II.	**Other Information**
Item 1A.	Risk Factors
Item 6.	Exhibits
Signatures	
Exhibit Index	

Table of Contents

PART I. FINANCIAL INFORMATION

Forward-Looking Statements

This document may contain forward-looking statements concerning projections of revenues, income/loss, earnings/loss per share, capital expenditures, dividends, capital structure, or other financial items, concerning plans and objectives of management for future operations, concerning future economic performance, or concerning any of the assumptions underlying or relating to any of the foregoing. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts, and may include the words believes, plans, intends, expects, anticipates, forecasts, hopes, should, estimates or words of similar meaning. While we believe that our forward-looki statements and the assumptions underlying them are reasonably based, such statements and assumptions are by their nature subject to risks and uncertainties, and thus could later prove to be inaccurate or incorrect. Accordingly, actual results could materially differ from forward-looking statements for a variety of reasons, to include, but not limited to: the effect of, and our failure to comply with all of the requirements of, the Memorandum of Understanding with the Federal Deposit Insurance Corporation (FDIC) and the Hawaii Division of Financial Institutions (DFI), effective May 5, 2011, the Written Agreement with the Federal Reserve Bank of San Francisco (FRBSF) and DFI, dated July 2, 2010, and any further regulatory orders or regulatory agreements we may become subject to; our ability to continue making progress on our recovery plan; oversupply of inventory and adverse conditions in the Hawaii and California real estate markets and recurring weakness in the construction industry; adverse changes in the financial performance and/or condition of our borrowers and, as a result, increased loan delinquency rates, further deterioration in asset quality and further losses in our loan portfolio; our ability to utilize all or part of our deferred tax assets; the impact of local, national, and international economies and events (including natural disasters such as wildfires, tsunamis and earthquakes) on the Company s business and operations and on tourism, the military, and other major industries operating within the Hawaii market and any other markets in which the Company does business; the impact of the European debt crisis; deterioration or malaise in economic conditions, including the continued destabilizing factors in the financial industry and deterioration of the real estate market, as well as the impact of declining levels of consumer and business confidence in the state of the economy in general and in financial institutions in particular; changes in estimates of future reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements; the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act, other regulatory reform, including but not limited to government-sponsored enterprise reform, and any related rules and regulations on our business operations and competitiveness; the costs and effects of legal and regulatory developments, including the resolution of legal proceedings or regulatory or other governmental inquiries and the results of regulatory examinations or reviews; the effects of and changes in trade, monetary and fiscal policies and laws, including the interest rate policies of the Board of Governors of the Federal Reserve System; inflation, interest rate, securities market and monetary fluctuations; negative trends in our market capitalization and adverse changes in the price of the Company s common shares; political instability; acts of war or terrorism; changes in consumer spending, borrowings and savings habits; technological changes; changes in the competitive environment among financial holding companies and other financial service providers; the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters; our ability to attract and retain skilled employees; changes in our organization, compensation and benefit plans; and our success at managing the risks involved in the foregoing items. For further information on factors that could cause actual results to materially differ from projections, please see the Company s publicly available Securities and Exchange Commission filings, including the Company s Form 10-K for the last fiscal year and, in particular, the discussion of Risk Factors set forth therein, and the Company s Form 10-Q for the last fiscal quarter. The Company does not update any of its forward-looking statements except as required by law.

Table of Contents

CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Amounts in thousands, except share data)	**June 30, 2012**	**December 31, 2011**
Assets		
Cash and due from banks	$ 72,967	$ 76,233
Interest-bearing deposits in other banks	100,544	180,839
Investment securities:		
Available for sale, at fair value	1,632,524	1,492,994
Held to maturity (fair value of $495 at June 30, 2012 and $976 at December 31, 2011)	487	931
Total investment securities	1,633,011	1,493,925
Loans held for sale	30,831	50,290
Loans and leases	2,101,163	2,064,447
Less allowance for loan and lease losses	103,814	122,093
Net loans and leases	1,997,349	1,942,354
Premises and equipment, net	50,195	51,414
Accrued interest receivable	12,596	11,674
Investment in unconsolidated subsidiaries	11,538	12,697
Other real estate	49,379	61,681
Other intangible assets	39,700	41,986
Bank-owned life insurance	145,940	144,474
Federal Home Loan Bank stock	48,797	48,797
Other assets	34,223	16,501
Total assets	$ 4,227,070	$ 4,132,865
Liabilities and Equity		
Deposits:		
Noninterest-bearing demand	$ 769,010	$ 729,149
Interest-bearing demand	626,613	569,371
Savings and money market	1,161,066	1,136,180
Time	1,005,628	1,008,828
Total deposits	3,562,317	3,443,528
Short-term borrowings		34
Long-term debt	108,289	158,298
Other liabilities	65,982	64,585
Total liabilities	3,736,588	3,666,445
Equity:		
Common stock, no par value, authorized 185,000,000 shares, issued and outstanding 41,867,892 and 41,749,116 shares at June 30, 2012 and December 31, 2011, respectively	784,512	784,539
Surplus	67,933	66,585
Accumulated deficit	(372,558)	(396,848)
Accumulated other comprehensive income	626	2,164
Total shareholders equity	480,513	456,440
Non-controlling interest	9,969	9,980

Total equity		490,482		466,420
Total liabilities and equity	$	4,227,070	$	4,132,865

See accompanying notes to consolidated financial statements.

Table of Contents

CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Amounts in thousands, except per share data)	**Three Months Ended June 30, 2012**	**Three Months Ended June 30, 2011**	**Six Months Ended June 30, 2012**	**Six Months Ended June 30, 2011**
Interest income:				
Interest and fees on loans and leases	$ 24,393	$ 26,464	$ 49,401	$ 55,030
Interest and dividends on investment securities:				
Taxable interest	7,589	7,241	15,203	12,462
Tax-exempt interest	446	179	643	363
Dividends	4		7	3
Interest on deposits in other banks	47	300	128	689
Total interest income	32,479	34,184	65,382	68,547
Interest expense:				
Interest on deposits:				
Demand	89	161	175	293
Savings and money market	252	500	551	1,232
Time	962	1,902	2,035	4,279
Interest on short-term borrowings				204
Interest on long-term debt	917	2,642	1,860	5,359
Total interest expense	2,220	5,205	4,621	11,367
Net interest income	30,259	28,979	60,761	57,180
Provision (credit) for loan and lease losses	(6,630)	(8,784)	(11,620)	(10,359)
Net interest income after provision for loan and lease losses	36,889	37,763	72,381	67,539
Other operating income:				
Service charges on deposit accounts	2,273	2,449	4,589	5,063
Other service charges and fees	4,156	4,444	8,577	8,502
Income from fiduciary activities	642	739	1,268	1,500
Equity in earnings of unconsolidated subsidiaries	169	38	215	165
Fees on foreign exchange	192	149	282	286
Investment securities gains		261		261
Loan placement fees	193	82	433	184
Net gain on sales of residential loans	3,394	1,005	6,371	3,203
Income from bank-owned life insurance	942	980	1,533	2,170
Other	1,653	790	3,578	2,103
Total other operating income	13,614	10,937	26,846	23,437
Other operating expense:				
Salaries and employee benefits	17,629	15,442	34,255	30,475
Net occupancy	3,264	3,410	6,530	6,768
Equipment	1,021	1,154	1,978	2,284
Amortization and impairment of other intangible assets	3,031	1,629	4,792	3,176
Communication expense	816	922	1,670	1,803
Legal and professional services	3,806	4,023	7,863	6,740

Computer software expense		958		929		1,893		1,812
Advertising expense		857		830		1,726		1,666
Foreclosed asset expense		2,602		(1,222)		2,495		763
Write down of assets				3,090		1,759		4,655
Other		5,707		10,282		9,976		17,984
Total other operating expense		39,691		40,489		74,937		78,126
Income before income taxes		10,812		8,211		24,290		12,850
Income tax expense								
Net income		10,812		8,211		24,290		12,850
Preferred stock dividends, accretion of discount and conversion of preferred stock to common stock								(83,897)
Net income available to common shareholders	$	10,812	$	8,211	$	24,290	$	96,747
Per common share data:								
Basic earnings per share	$	0.26	$	0.20	$	0.58	$	3.22
Diluted earnings per share		0.26		0.20		0.58		3.15
Shares used in computation:								
Basic shares		41,717		40,700		41,674		30,059
Diluted shares		41,959		41,078		41,959		30,733

See accompanying notes to consolidated financial statements.

Table of Contents

CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(Dollars in thousands)			
Net income	$ 10,812	$ 8,211	$ 24,290	$ 12,850
Other comprehensive income (loss), net of tax				
Net change in unrealized gain on investment securities	1,696	10,177	(1,784)	11,168
Net change in unrealized loss on derivatives	(359)	(802)	(931)	(1,918)
Minimum pension liability adjustment	588	554	1,177	1,109
Other comprehensive income (loss), net of tax	1,925	9,929	(1,538)	10,359
Comprehensive income	$ 12,737	$ 18,140	$ 22,752	$ 23,209

See accompanying notes to consolidated financial statements.

Table of Contents

CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	$ 24,290	$ 12,850
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision (credit) for loan and lease losses	(11,620)	(10,359)
Depreciation and amortization	3,120	3,472
Write down of assets	1,759	4,655
Write down of other real estate, net of gain on sale	1,416	(1,599)
Amortization and impairment of other intangible assets	4,792	3,176
Net amortization of investment securities	7,304	3,137
Share-based compensation	1,348	1,042
Net gain on investment securities		(261)
Net gain on sales of residential loans	(6,371)	(3,203)
Proceeds from sales of loans held for sale	411,200	307,958
Originations of loans held for sale	(387,400)	(292,597)
Equity in earnings of unconsolidated subsidiaries	(215)	(165)
Increase in cash surrender value of bank-owned life insurance	(3,462)	(842)
Net change in other assets and liabilities	(18,064)	467
Net cash provided by operating activities	28,097	27,731
Cash flows from investing activities:		
Proceeds from maturities of and calls on investment securities available for sale	170,511	182,915
Proceeds from sales of investment securities available for sale	2,695	5,324
Purchases of investment securities available for sale	(321,821)	(877,800)
Proceeds from maturities of and calls on investment securities held to maturity	441	1,240
Net loan principal repayments (loan originations)	(45,839)	102,598
Proceeds from sales of loans originated for investment	782	26,721
Proceeds from sale of other real estate	12,848	24,724
Proceeds from bank-owned life insurance	1,446	158
Purchases of premises and equipment	(1,901)	(784)
Distributions from unconsolidated subsidiaries	434	523
Net cash used in investing activities	(180,404)	(534,381)
Cash flows from financing activities:		
Net increase in deposits	118,789	97,373
Repayments of long-term debt	(50,009)	(50,441)
Net decrease in short-term borrowings	(34)	(201,095)
Net proceeds from issuance of common stock and stock option exercises		323,537
Net cash provided by financing activities	68,746	169,374
Net decrease in cash and cash equivalents	(83,561)	(337,276)
Cash and cash equivalents at beginning of period	257,072	790,739
Cash and cash equivalents at end of period	$ 173,511	$ 453,463
Supplemental disclosure of cash flow information:		

Cash paid during the period for:				
Interest	$	3,228	$	11,543
Income taxes		1		8
Cash received during the period for:				
Income taxes		11		
Supplemental disclosure of noncash investing and financing activities:				
Net change in common stock held by directors deferred compensation plan	$	27	$	(16)
Net reclassification of loans to other real estate		1,962		8,481
Net transfer of loans to loans held for sale		290		1,256
Dividends accrued on preferred stock				969
Accretion of preferred stock discount				204
Preferred stock and accrued unpaid dividends converted to common stock				142,988
Common stock issued in exchange for preferred stock and accrued unpaid dividends				56,201

See accompanying notes to consolidated financial statements.

Table of Contents

CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Central Pacific Financial Corp. and Subsidiaries (herein referred to as the Company, we, us or our) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. These interim condensed consolidated financial statements and notes should be read in conjunction with the Company s consolidated financial statements and notes thereto filed on Form 10-K for the fiscal year ended December 31, 2011. In the opinion of management, all adjustments necessary for a fair presentation have been made and include all normal recurring adjustments. Interim results of operations are not necessarily indicative of results to be expected for the year.

Certain prior period amounts in the consolidated financial statements and the notes thereto have been reclassified to conform to the current period presentation. Such reclassifications had no effect on net income or shareholders equity for any periods presented.

2. REGULATORY MATTERS

In May 2011, the regulatory Consent Order (the Consent Order) that Central Pacific Bank (the bank or our bank) entered into with the Federal Deposit Insurance Corporation (the FDIC) and the Hawaii Division of Financial Institutions (the DFI) on December 9, 2009 was lifted. In place of the Consent Order, the Board of Directors of the bank entered into a Memorandum of Understanding (the Bank MOU) with the FDIC and DFI effective May 5, 2011. The Bank MOU continues a number of the same requirements previously required by the Consent Order, including the maintenance of an adequate allowance for loan and lease losses, improvement of our asset quality, limitations on credit extensions, maintenance of qualified management and the prohibition on cash dividends to Central Pacific Financial Corp. (CPF), among other matters. In addition, the Bank MOU requires the bank to further reduce classified assets below the level previously required by the Consent Order. The Bank MOU lowers the minimum leverage capital ratio that the bank is required to maintain from 10% in the Consent Order to 8% and does not mandate a minimum total risk-based capital ratio.

In addition to the Bank MOU, the Company continues to be subject to a Written Agreement (the Written Agreement) with the Federal Reserve Bank of San Francisco (the FRBSF) and DFI dated July 2, 2010, which superseded in its entirety the Memorandum of Understanding that the Company entered into on April 1, 2009 with the FRBSF and DFI. Among other matters, the Written Agreement provides that unless we receive the consent of the FRBSF and DFI, we cannot: (i) pay dividends; (ii) receive dividends or payments representing a reduction in capital from the bank; (iii) directly or through any non-bank subsidiaries make any payments on subordinated debentures or trust preferred securities; (iv) directly or through any non-bank subsidiaries incur, increase or guarantee any debt; or (v) purchase or redeem any shares of our stock. The Written Agreement also requires that our Board of Directors fully utilize the Company s financial and managerial resources to ensure that the bank complies with the Bank MOU and any other supervisory action taken by the bank s regulators. We were also required to submit to the FRBSF an acceptable capital plan and cash flow projection.

Even though the Consent Order has been replaced by the Bank MOU, the bank remains subject to a number of requirements as described above. We cannot assure you whether or when the Company and the bank will be in full compliance with the agreements with the regulators or whether or when the Bank MOU or the Written Agreement will be terminated. Even if terminated, we may still be subject to other agreements with regulators that restrict our activities and may also continue to impose capital ratios or other requirements on our business. The requirements and restrictions of the Bank MOU and the Written Agreement are judicially enforceable and the Company or the bank s failure to comply with such requirements and restrictions may subject the Company and the bank to additional regulatory restrictions including: the imposition of a new consent order, limitations on our activities, the imposition of civil monetary penalties; the termination of insurance of deposits; the issuance of removal and prohibition orders against institution-affiliated parties; the appointment of a conservator or receiver for the bank; the issuance of directives to increase capital or enter into a strategic transaction, whether by merger or otherwise, with a third party, if we again fall below the capital ratio requirement; and the enforcement of such actions through injunctions or restraining orders.

Table of Contents

3. RECENT ACCOUNTING PRONOUNCEMENTS

In April 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-03, *Reconsideration of Effective Control for Repurchase Agreements*. The amendments in this ASU remove from the assessment of effective control the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee. The amendments in this ASU also eliminate the requirement to demonstrate that the transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets. This ASU is effective prospectively for transactions, or modifications of existing transactions, that occur on or after January 1, 2012. We adopted this ASU effective January 1, 2012 and the adoption of this guidance did not have a material impact on our consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The amendments in this ASU generally represent clarifications of Topic 820, but also include some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This ASU results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and International Financial Reporting Standards (IFRS). The amendments in this ASU are to be applied prospectively effective January 1, 2012. We adopted this ASU effective January 1, 2012 and the adoption of this guidance did not have a material impact on our consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, *Amendments to Topic 220, Comprehensive Income*. Under the amendments in ASU 2011-5, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. The amendments in ASU 2011-5 do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. ASU 2011-05 was effective for the interim reporting period beginning on or after January 1, 2012, with retrospective application required. In December 2011, the FASB issued ASU 2011-12, *Comprehensive Income: Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05*. The amendments in ASU 2011-12 supersede certain pending paragraphs in ASU 2011-05 to effectively defer only those changes in ASU 2011-05 that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income. The amendments will be temporary to allow FASB time to redeliberate the presentation requirements for reclassifications out of accumulated other comprehensive income for annual and interim financial statements. ASU 2011-12, which shares the same effective date as ASU 2011-05, does not defer the requirement for entities to present components of comprehensive income in either a single continuous statement of comprehensive income or in two separate but consecutive statements. We adopted the provisions of ASU 2011-05 and ASU 2011-12 effective January 1, 2012 which resulted in a new statement of comprehensive income for the three month and six month periods ended June 30, 2012. The adoption of ASU 2011-05 and ASU 2011-12 had no impact on the Company s consolidated balance sheets and statements of income.

Table of Contents

4. INVESTMENT SECURITIES

A summary of available for sale and held to maturity investment securities are as follows:

		Amortized cost		Gross unrealized gains		Gross unrealized losses		Estimated fair value
				(Dollars in thousands)				
June 30, 2012								
Available for Sale								
U.S. Government sponsored entities debt securities	$	354,145	$	3,148	$		$	357,293
States and political subdivisions debt securities		91,369		1,562		(407)		92,524
U.S. Government sponsored entities mortgage-backed securities		1,115,487		19,227		(1,864)		1,132,850
Corporate securities		48,448		585		(45)		48,988
Other		848		21				869
Total	$	1,610,297	$	24,543	$	(2,316)	$	1,632,524
Held to Maturity								
U.S. Government sponsored entities mortgage-backed securities	$	487	$	8	$		$	495
December 31, 2011								
Available for Sale								
U.S. Government sponsored entities debt securities	$	370,184	$	2,993	$		$	373,177
States and political subdivisions debt securities		12,265		729				12,994
U.S. Government sponsored entities mortgage-backed securities		1,077,146		20,981		(825)		1,097,302
Corporate securities		8,403		148				8,551
Other		985				(15)		970
Total	$	1,468,983	$	24,851	$	(840)	$	1,492,994
Held to Maturity								
U.S. Government sponsored entities mortgage-backed securities	$	931	$	45	$		$	976

The amortized cost and estimated fair value of investment securities at June 30, 2012 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	June 30, 2012			
		Amortized Cost		Estimated Fair Value
		(Dollars in thousands)		
Available for Sale				
Due in one year or less	$	180,546	$	181,200
Due after one year through five years		202,455		205,522

Due after five years through ten years		34,324		35,004
Due after ten years		76,637		77,079
Mortage-backed securities		1,115,487		1,132,850
Other		848		869
Total	$	1,610,297	$	1,632,524
Held to Maturity				
Mortage-backed securities	$	487	$	495

We sold certain available for sale investment securities during the three months ended June 30, 2012 for gross proceeds of $2.7 million. We did not sell any available for sale securities during the first quarter of 2012. Gross realized gains and losses on the sales of the available for sale investment securities during the three months ended June 30, 2012 were less than $1,000 and nil, respectively. The specific identification method was used as the basis for determining the cost of all securities sold.

Table of Contents

During the three months ended June 30, 2011, we sold certain available for sale investment securities for gross proceeds of $5.3 million. We did not sell any available for sale securities during the first quarter of 2011. Gross realized gains and losses on the sales of the available for sale investment securities during the three months ended June 30, 2011 were $0.3 million and nil, respectively. The specific identification method was also used as the basis for determining the cost of all securities sold.

Investment securities of $871.2 million and $938.0 million at June 30, 2012 and December 31, 2011, respectively, were pledged to secure public funds on deposit, securities sold under agreements to repurchase and other long-term and short-term borrowings. None of these securities were pledged to a secured party that has the right to sell or repledge the collateral as of the same periods.

Provided below is a summary of the 50 and nine investment securities which were in an unrealized loss position at June 30, 2012 and December 31, 2011, respectively.

	Less than 12 months		12 months or longer		Total	
Description of Securities	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
			(Dollars in thousands)			
At June 30, 2012:						
States and political subdivisions debt securities	$ 32,896	$ (407)	$	$	$ 32,896	$ (407)
U.S. Government sponsored entities mortgage-backed securities	276,434	(1,864)			276,434	(1,864)
Corporate securities	6,825	(45)			6,825	(45)
Total temporarily impaired securities	$ 316,155	$ (2,316)	$	$	$ 316,155	$ (2,316)
At December 31, 2011:						
U.S. Government sponsored entities mortgage-backed securities	$ 144,520	$ (825)	$	$	$ 144,520	$ (825)
Other	970	(15)			970	(15)
Total temporarily impaired securities	$ 145,490	$ (840)	$	$	$ 145,490	$ (840)

Unrealized losses for all investment securities are reviewed to determine whether the losses are deemed other-than-temporary impairment (OTTI). Investment securities are evaluated for OTTI on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether a decline in their value below amortized cost is other-than-temporary. In conducting this assessment, we evaluate a number of factors including, but not limited to:

- The length of time and the extent to which fair value has been less than the amortized cost basis;
- Adverse conditions specifically related to the security, an industry, or a geographic area;
- The historical and implied volatility of the fair value of the security;

- The payment structure of the debt security and the likelihood of the issuer being able to make payments;
- Failure of the issuer to make scheduled interest or principal payments;
- Any rating changes by a rating agency; and
- Recoveries or additional decline in fair value subsequent to the balance sheet date.

The term other-than-temporary is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value are not necessarily favorable, or that there is a general lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other-than-temporary, the value of the security is reduced and a corresponding charge to earnings is recognized for anticipated credit losses.

The declines in market value were primarily attributable to changes in interest rates and disruptions in the credit and financial markets. Because we have no intent to sell securities in an unrealized loss position and it is not more likely than not that we will be required to sell such securities before recovery of its amortized cost basis, we do not consider these investments to be other-than-temporarily impaired.

Table of Contents

5. LOANS AND LEASES

Loans and leases, excluding loans held for sale, consisted of the following:

	June 30, 2012	December 31, 2011
	(Dollars in thousands)	
Commercial, financial and agricultural	$ 197,613	$ 180,571
Real estate:		
Construction	106,464	161,126
Mortgage - residential	977,999	896,566
Mortgage - commercial	698,756	701,399
Consumer	108,276	108,810
Leases	13,934	17,702
	2,103,042	2,066,174
Unearned income	(1,879)	(1,727)
Total loans and leases	$ 2,101,163	$ 2,064,447

During the six months ended June 30, 2012, we sold one loan with a carrying value of $0.5 million and transferred one loan, which was non-performing, with a carrying value of $0.3 million, to the held-for-sale category. In addition, we transferred 11 loans with a carrying value of $2.0 million to other real estate. No portfolio loans were purchased during the six months ended June 30, 2012.

During the six months ended June 30, 2011, we transferred one loan, which was non-performing, with a carrying value of $1.3 million, to the held-for-sale category. In addition, we transferred 17 loans with a carrying value of $8.5 million to other real estate. No portfolio loans were sold or purchased during the six months ended June 30, 2011.

Table of Contents

Impaired Loans

The following table presents by class, the balance in the allowance for loan and lease losses and the recorded investment in loans and leases based on the Company s impairment measurement method as of June 30, 2012 and December 31, 2011:

	Commercial, financial & agricultural	Construction	Real estate Mortgage - residential	Mortgage - commercial	Consumer	Leases	Total
			(Dollars in thousands)				
June 30, 2012							
Allowance for loan and lease losses:							
Ending balance attributable to loans:							
Individually evaluated for impairment	$ 994	$ 3,214	$ 847	$ 4	$	$ 13	$ 5,072
Collectively evaluated for impairment	5,268	9,117	28,974	47,238	2,008	137	92,742
	6,262	12,331	29,821	47,242	2,008	150	97,814
Unallocated							6,000
Total ending balance	$ 6,262	$ 12,331	$ 29,821	$ 47,242	$ 2,008	$ 150	$ 103,814
Loans and leases:							
Individually evaluated for impairment	$ 3,870	$ 47,598	$ 47,634	$ 20,390	$	$ 265	$ 119,757
Collectively evaluated for impairment	193,743	58,866	930,365	678,366	108,276	13,669	1,983,285
	197,613	106,464	977,999	698,756	108,276	13,934	2,103,042
Unearned income	78	1	(535)	(1,423)			(1,879)
Total ending balance	$ 197,691	$ 106,465	$ 977,464	$ 697,333	$ 108,276	$ 13,934	$ 2,101,163
December 31, 2011							
Allowance for loan and lease losses:							
Ending balance attributable to loans:							
Individually evaluated for impairment	$	$ 401	$	$ 371	$	$	$ 772
Collectively evaluated for impairment	6,110	28,229	32,736	47,358	2,335	553	117,321
	6,110	28,630	32,736	47,729	2,335	553	118,093
Unallocated							4,000
Total ending balance	$ 6,110	$ 28,630	$ 32,736	$ 47,729	$ 2,335	$ 553	$ 122,093
Loans and leases:							
Individually evaluated for impairment	$ 1,367	$ 62,569	$ 50,221	$ 18,451	$	$	$ 132,608
Collectively evaluated for impairment	179,204	98,557	846,345	682,948	108,810	17,702	1,933,566
	180,571	161,126	896,566	701,399	108,810	17,702	2,066,174
Unearned income	133	(63)	(467)	(1,330)			(1,727)
Total ending balance	$ 180,704	$ 161,063	$ 896,099	$ 700,069	$ 108,810	$ 17,702	$ 2,064,447

Table of Contents

The following table presents by class, impaired loans as of June 30, 2012 and December 31, 2011:

	Unpaid Principal Balance		Recorded Investment (Dollars in thousands)		Allowance Allocated	
June 30, 2012						
Impaired loans with no related allowance recorded:						
Commercial, financial & agricultural	$	1,026	$	326	$	
Real estate:						
Construction		36,450		29,881		
Mortgage - residential		51,094		45,028		
Mortgage - commercial		18,110		17,317		
Total impaired loans with no related allowance recorded		106,680		92,552		
Impaired loans with an allowance recorded:						
Commercial, financial & agricultural		4,919		3,544		994
Real estate:						
Construction		22,045		17,717		3,214
Mortgage - residential		2,639		2,606		847
Mortgage - commercial		4,110		3,073		4
Leases		265		265		13
Total impaired loans with an allowance recorded		33,978		27,205		5,072
Total	$	140,658	$	119,757	$	5,072
December 31, 2011						
Impaired loans with no related allowance recorded:						
Commercial, financial & agricultural	$	2,107	$	1,367	$	
Real estate:						
Construction		80,283		47,877		
Mortgage - residential		57,195		50,221		
Mortgage - commercial		14,084		13,756		
Total impaired loans with no related allowance recorded		153,669		113,221		
Impaired loans with an allowance recorded:						
Real estate:						
Construction		24,262		14,692		401
Mortgage - commercial		6,188		4,695		371
Total impaired loans with an allowance recorded		30,450		19,387		772
Total	$	184,119	$	132,608	$	772

The following table presents by class, the average recorded investment and interest income recognized on impaired loans as of June 30, 2012 and 2011:

	Three Months Ended June 30,								Six Months Ended June 30,							
	2012				2011				2012				2011			
	Average Recorded Investment		Interest Income Recognized		Average Recorded Investment		Interest Income Recognized		Average Recorded Investment		Interest Income Recognized		Average Recorded Investment		Interest Income Recognized	
	(Dollars in thousands)															
Commercial, financial & agricultural	$	4,275	$	26	$	404	$		$	3,024	$	29	$	440	$	
Real estate:																

Construction	62,174		127,344	531	63,387	645	135,674	666
Mortgage - residential	48,817	121	58,801	32	49,438	178	59,509	445
Mortgage - commercial	22,766	146	20,042	116	20,272	168	18,613	116
Leases	199				85			
Total	$ 138,231	$ 293	$ 206,591	$ 679	$ 136,206	$ 1,020	$ 214,236	$ 1,227

Table of Contents

Aging Analysis of Accruing and Non-Accruing Loans and Leases

For all loan types, the Company determines delinquency status by considering the number of days full payments required by the contractual terms of the loan are past due. The following table presents by class, the aging of the recorded investment in past due loans and leases as of June 30, 2012 and December 31, 2011:

	Accruing Loans 30 - 59 Days Past Due	Accruing Loans 60 - 89 Days Past Due	Accruing Loans Greater than 90 Days Past Due	Nonaccrual Loans	Total Past Due and Nonaccrual	Loans and Leases Not Past Due	Total
				(Dollars in thousands)			
June 30, 2012							
Commercial, financial & agricultural	$ 120	$ 43	$	$ 3,698	$ 3,861	$ 193,830	$ 197,691
Real estate:							
Construction		1,546	319	47,598	49,463	57,002	106,465
Mortgage - residential	15	583	156	42,199	42,953	934,511	977,464
Mortgage - commercial				16,805	16,805	680,528	697,333
Consumer	410	533	3		946	107,330	108,276
Leases		12	27	264	303	13,631	13,934
Total	$ 545	$ 2,717	$ 505	$ 110,564	$ 114,331	$ 1,986,832	$ 2,101,163
December 31, 2011							
Commercial, financial & agricultural	$ 180	$ 80	$	$ 1,367	$ 1,627	$ 179,077	$ 180,704
Real estate:							
Construction		442		57,351	57,793	103,270	161,063
Mortgage - residential	2,972	631		47,128	50,731	845,368	896,099
Mortgage - commercial	602			15,653	16,255	683,814	700,069
Consumer	390	79	28		497	108,313	108,810
Leases	28				28	17,674	17,702
Total	$ 4,172	$ 1,232	$ 28	$ 121,499	$ 126,931	$ 1,937,516	$ 2,064,447

Modifications

Troubled debt restructurings (TDRs) included in nonperforming assets at June 30, 2012 consisted of 82 Hawaii residential mortgage loans with a combined principal balance of $35.3 million, a Mainland construction and development loan with a principal balance of $13.2 million, two Mainland commercial mortgage loans with a combined principal balance of $6.4 million, seven Hawaii construction and development loans with a combined principal balance of $2.8 million, a Hawaii commercial mortgage loan with a principal balance of $0.5 million and a Hawaii commercial loan with a principal balance of $0.2 million. Concessions made to the original contractual terms of these loans consisted primarily of the deferral of interest and/or principal payments due to deterioration in the borrowers financial condition. The principal balances on these TDRs had matured and/or were in default at the time of restructure and we have no commitments to lend additional funds to any of these borrowers. There were $9.2 million of TDRs still accruing interest at June 30, 2012, none of which were more than 90 days delinquent. At December 31, 2011, there were $8.3 million of TDRs still accruing interest, none of which were more than 90 days delinquent.

The majority of loans modified in a TDR are typically on nonaccrual status. Thus, these loans have already been identified as impaired and have already been evaluated under the Company s allowance for loan and lease losses (the Allowance) methodology. As a result, the loans modified in a TDR did not have a material affect to our provision for loan and lease losses expense (the Provision) and the Allowance during the three and six months ended June 30, 2012.

Table of Contents

The following table presents by class, information related to loans modified in a TDR during the three and six months ended June 30, 2012 and 2011:

	Number of Contracts		Recorded Investment (as of period end)		Additional Partial Charge-offs
	(Dollars in thousands)				
Three months ended June 30, 2012					
Real estate:					
Construction	4	$	1,603	$	
Mortgage - residential	1		351		
Mortgage - commercial	2		3,438		
Total	7	$	5,392	$	
Three months ended June 30, 2011					
Real estate:					
Construction	1	$	5,413	$	
Mortgage - residential	14		6,065		27
Total	15	$	11,478	$	27
Six months ended June 30, 2012					
Real estate:					
Construction	4	$	1,603	$	
Mortgage - residential	7		3,560		
Mortgage - commercial	4		10,214		
Total	15	$	15,377	$	
Six months ended June 30, 2011					
Real estate:					
Construction	2	$	10,841	$	3,014
Mortgage - residential	22		8,010		447
Total	24	$	18,851	$	3,461

The following table presents by class, loans modified as a TDR within the previous twelve months that subsequently defaulted during the three and six months ended June 30, 2012 and 2011:

	Three Months Ended June 30,						Six Months Ended June 30,					
	2012			2011			2012			2011		
	Number of Contracts		Recorded Investment (as of period end)	Number of Contracts		Recorded Investment (as of period end)	Number of Contracts		Recorded Investment (as of period end)	Number of Contracts		Recorded Investment (as of period end)
	(Dollars in thousands)											
Real estate:												
Construction	4	$	1,603	1	$	5,242	4	$	1,603	1	$	5,242
Mortgage - residential	1		351	10		5,113	3		796	17		6,830
Mortgage - commercial	1		3,307				2		6,465			
Total	6	$	5,261	11	$	10,355	9	$	8,864	18	$	12,072

Table of Contents

Credit Quality Indicators

The Company categorizes loans and leases 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 analyzes loans and leases individually by classifying the loans and leases as to credit risk. This analysis includes loans and leases with an outstanding balance greater than $0.5 million or $1.0 million, depending on loan type, and non-homogeneous loans and leases, such as commercial and commercial real estate loans. This analysis is performed on a quarterly basis. The Company uses the following definitions for risk ratings:

Special Mention. Loans and leases classified as special mention, while still adequately protected by the borrower s capital adequacy and payment capability, exhibit distinct weakening trends and/or elevated levels of exposure to external conditions. If left unchecked or uncorrected, these potential weaknesses may result in deteriorated prospects of repayment. These exposures require management s close attention so as to avoid becoming undue or unwarranted credit exposures.

Substandard. Loans and leases classified as substandard are inadequately protected by the borrower s current financial condition and payment capability or of the collateral pledged, if any. Loans and leases so classified have a well-defined weakness or weaknesses that jeopardize the orderly repayment of debt. They are characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans and leases classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or orderly repayment in full, on the basis of current existing facts, conditions and values, highly questionable and improbable. Possibility of loss is extremely high, but because of certain important and reasonably specific factors that may work to the advantage and strengthening of the exposure, its classification as an estimate loss is deferred until its more exact status may be determined.

Loss. Loans and leases classified as loss are considered to be non-collectible and of such little value that their continuance as bankable assets is not warranted. This does not mean the loan has absolutely no recovery value, but rather it is neither practical nor desirable to defer writing off the loan, even though partial recovery may be obtained in the future. Losses are taken in the period in which they surface as uncollectible.

Loans and leases not meeting the criteria above that are analyzed individually as part of the process described above are considered to be pass rated loans and leases. Loans and leases listed as not rated are either less than $0.5 million or are included in groups of homogeneous loan pools. The following table presents by class and credit indicator, the recorded investment in the Company s loans and leases as of June 30, 2012 and December 31, 2011:

	Pass	Special Mention	Substandard	Doubtful	Loss	Not Rated	Less: Unearned Income	Total
				(Dollars in thousands)				
June 30, 2012								

Commercial, financial & agricultural	$ 129,218	$ 6,965	$ 9,334	$	$	$ 52,096	$ (78)	$ 197,691
Real estate:								
Construction	37,931	16,503	48,594			3,436	(1)	106,465
Mortgage - residential	81,036	1,628	46,966			848,369	535	977,464
Mortgage - commercial	569,172	71,892	32,916			24,776	1,423	697,333
Consumer	9,931					98,345		108,276
Leases	12,911	241	782					13,934
Total	$ 840,199	$ 97,229	$ 138,592	$	$	$ 1,027,022	$ 1,879	$ 2,101,163
December 31, 2011								
Commercial, financial & agricultural	$ 107,419	$ 6,087	$ 15,389	$	$	$ 51,676	$ (133)	$ 180,704
Real estate:								
Construction	52,882	18,808	84,716			4,720	63	161,063
Mortgage - residential	62,314	3,823	55,017			775,412	467	896,099
Mortgage - commercial	557,494	54,170	58,599			31,136	1,330	700,069
Consumer	4,659		79			104,072		108,810
Leases	16,111	327	1,264					17,702
Total	$							