

CENTRAL PACIFIC FINANCIAL CORP
Form 10-Q
May 08, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2012

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 001-31567

CENTRAL PACIFIC FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

Hawaii
(State or other jurisdiction of
incorporation or organization)

99-0212597
(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 No

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 No

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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 Accelerated filer Non-accelerated filer Smaller reporting company

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

The number of shares outstanding of registrant's common stock, no par value, on May 1, 2012 was 41,739,886 shares.

CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES
Table of Contents

Part I.	Financial Information
Item I.	Financial Statements (Unaudited)
	Consolidated Balance Sheets March 31, 2012 and December 31, 2011
	Consolidated Statements of Income Three months ended March 31, 2012 and 2011
	Consolidated Statements of Comprehensive Income Three months ended March 31, 2012 and 2011
	Consolidated Statements of Cash Flows Three months ended March 31, 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	

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-looking 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 projections 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; 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; 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; the impact of regulatory action on the Company and Central Pacific Bank and legislation affecting the banking industry; 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, including the impact of executive compensation restrictions, which may affect our ability to retain and recruit executives in competition with other firms who do not operate under those restrictions; 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. The Company does not update any of its forward-looking statements except as required by law.

CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2012	December 31, 2011
(Dollars in thousands)		
Assets		
Cash and due from banks	\$ 69,873	\$ 76,233
Interest-bearing deposits in other banks	57,661	180,839
Investment securities:		
Available for sale, at fair value	1,645,952	1,492,994
Held to maturity (fair value of \$718 at March 31, 2012 and \$976 at December 31, 2011)	704	931
Total investment securities	1,646,656	1,493,925
Loans held for sale	20,459	50,290
Loans and leases	2,082,752	2,064,447
Less allowance for loan and lease losses	114,322	122,093
Net loans and leases	1,968,430	1,942,354
Premises and equipment, net	50,389	51,414
Accrued interest receivable	12,217	11,674
Investment in unconsolidated subsidiaries	11,839	12,697
Other real estate	52,725	61,681
Other intangible assets	41,444	41,986
Bank-owned life insurance	145,060	144,474
Federal Home Loan Bank stock	48,797	48,797
Other assets	32,738	16,501
Total assets	\$ 4,158,288	\$ 4,132,865
Liabilities and Equity		
Deposits:		
Noninterest-bearing demand	\$ 766,595	\$ 729,149
Interest-bearing demand	610,743	569,371
Savings and money market	1,160,415	1,136,180
Time	970,050	1,008,828
Total deposits	3,507,803	3,443,528
Short-term borrowings	-	34
Long-term debt	108,294	158,298
Other liabilities	64,751	64,585
Total liabilities	3,680,848	3,666,445
Equity:		
Common stock, no par value, authorized 185,000,000 shares, issued and outstanding 41,747,020 and 41,749,116 shares at March 31, 2012 and December 31, 2011, respectively	784,574	784,539

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Surplus	67,561	66,585
Accumulated deficit	(383,370)	(396,848)
Accumulated other comprehensive income (loss)	(1,299)	2,164
Total shareholders' equity	467,466	456,440
Non-controlling interest	9,974	9,980
Total equity	477,440	466,420
Total liabilities and equity	\$ 4,158,288	\$ 4,132,865

See accompanying notes to consolidated financial statements.

CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(Amounts in thousands, except per share data)	Three Months Ended March 31,	
	2012	2011
Interest income:		
Interest and fees on loans and leases	\$ 25,008	\$ 28,566
Interest and dividends on investment securities:		
Taxable interest	7,614	5,221
Tax-exempt interest	197	184
Dividends	3	3
Interest on deposits in other banks	81	389
Total interest income	32,903	34,363
Interest expense:		
Interest on deposits:		
Demand	86	132
Savings and money market	299	732
Time	1,073	2,377
Interest on short-term borrowings	-	204
Interest on long-term debt	943	2,717
Total interest expense	2,401	6,162
Net interest income	30,502	28,201
Provision (credit) for loan and lease losses	(4,990)	(1,575)
Net interest income after provision for loan and lease losses	35,492	29,776
Other operating income:		
Service charges on deposit accounts	2,316	2,614
Other service charges and fees	4,421	4,058
Income from fiduciary activities	626	761
Equity in earnings of unconsolidated subsidiaries	46	127
Fees on foreign exchange	90	137
Loan placement fees	240	102
Net gain on sales of residential loans	2,977	2,198
Income from bank-owned life insurance	591	1,190
Other	1,925	1,313
Total other operating income	13,232	12,500
Other operating expense:		
Salaries and employee benefits	16,626	15,033
Net occupancy	3,266	3,358
Equipment	957	1,130
Amortization of other intangible assets	1,761	1,547
Communication expense	854	881
Legal and professional services	4,057	2,717
Computer software expense	935	883
Advertising expense	869	836
Foreclosed asset expense	(107)	1,985
Write down of assets	1,759	1,565
Other	4,269	7,702
Total other operating expense	35,246	37,637

Income before income taxes	13,478	4,639
Income tax expense	-	-
Net income	13,478	4,639
Preferred stock dividends, accretion of discount and conversion of preferred stock to common stock	-	(83,897)
Net income available to common shareholders	\$ 13,478	\$ 88,536
Per common share data:		
Basic earnings per share	\$ 0.32	\$ 4.59
Diluted earnings per share	0.32	4.58
Shares used in computation:		
Basic shares	41,631	19,301
Diluted shares	41,839	19,321

See accompanying notes to consolidated financial statements.

CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
	2012	2011
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	\$ 13,478	\$ 4,639
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision (credit) for loan and lease losses	(4,990)	(1,575)
Depreciation and amortization	1,544	1,757
Write down of assets	1,759	1,565
Write down of other real estate, net of gain on sale	(33)	534
Amortization of other intangible assets	1,761	1,547
Net amortization of investment securities	3,530	1,433
Share-based compensation	976	128
Net gain on sales of residential loans	(2,977)	(2,198)
Proceeds from sales of loans held for sale	189,500	196,043
Originations of loans held for sale	(158,372)	(179,824)
Equity in earnings of unconsolidated subsidiaries	(46)	(127)
Increase in cash surrender value of bank-owned life insurance	(2,009)	(1,190)
Net change in other assets and liabilities	(17,316)	1,713
Net cash provided by operating activities	26,805	24,445
Cash flows from investing activities:		
Proceeds from maturities of and calls on investment securities available for sale	72,665	114,515
Purchases of investment securities available for sale	(232,633)	(488,616)
Proceeds from maturities of and calls on investment securities held to maturity	226	880
Net loan principal repayments (loan originations)	(21,703)	82,376
Proceeds from sale of other real estate	9,533	6,948
Proceeds from bank-owned life insurance	1,423	158
Purchases of premises and equipment	(519)	(344)
Distributions from unconsolidated subsidiaries	428	523
Net cash used in investing activities	(170,580)	(283,560)
Cash flows from financing activities:		
Net increase in deposits	64,275	12,516
Repayments of long-term debt	(50,004)	(50,218)
Net decrease in short-term borrowings	(34)	(201,057)
Net proceeds from issuance of common stock and stock option exercises	-	308,317
Net cash provided by financing activities	14,237	69,558
Net decrease in cash and cash equivalents	(129,538)	(189,557)
Cash and cash equivalents at beginning of period	257,072	790,739
Cash and cash equivalents at end of period	\$ 127,534	\$ 601,182

Supplemental disclosure of cash flow information:

Cash paid during the period for:

Interest	\$	1,787	\$	6,365
Income taxes		-		7

Supplemental disclosure of noncash investing and financing activities:

Net change in common stock held by directors' deferred compensation plan	\$	(35)	\$	(16)
Net reclassification of loans to other real estate		544		6,575
Net transfer of loans to loans held for sale		290		-
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.

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.

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 which resulted in a new statement of comprehensive income for the interim period ended March 31, 2012. The adoption of ASU 2011-05 and ASU 2011-12 had no impact on the Company’s statements of income and condition.

4. INVESTMENT SECURITIES

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

	Amortized cost	Gross unrealized gains (Dollars in thousands)	Gross unrealized losses	Estimated fair value
March 31, 2012				
Available for Sale				
U.S. Government sponsored entities debt securities	\$ 369,660	\$ 2,730	\$ -	\$ 372,390
States and political subdivisions debt securities	39,382	1,083	(257)	40,208
U.S. Government sponsored entities mortgage-backed securities	1,201,277	18,370	(1,813)	1,217,834
Corporate securities	14,257	408	(22)	14,643
Other	845	32	-	877
Total	\$ 1,625,421	\$ 22,623	\$ (2,092)	\$ 1,645,952
Held to Maturity				
U.S. Government sponsored entities mortgage-backed securities	\$ 704	\$ 14	\$ -	\$ 718
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 March 31, 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.

	March 31, 2012	
	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)	
Available for Sale		
Due in one year or less	\$ 145,091	\$ 145,668
Due after one year through five years	226,590	229,511

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Due after five years through		
ten years	20,555	20,920
Due after ten years	31,063	31,142
Mortgage-backed securities	1,201,277	1,217,834
Other	845	877
Total	\$ 1,625,421	\$ 1,645,952
Held to Maturity		
Mortgage-backed securities	\$ 704	\$ 718

We did not sell any available for sale securities during the first quarter of 2012 and 2011.

Investment securities of \$887.8 million and \$938.0 million at March 31, 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 19 and nine investment securities which were in an unrealized loss position at March 31, 2012 and December 31, 2011, respectively.

Description of Securities	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(Dollars in thousands)						
At March 31, 2012:						
States and political subdivisions debt securities	\$ 18,639	\$ (257)	\$ -	\$ -	\$ 18,639	\$ (257)
U.S. Government sponsored entities						
mortgage-backed securities	241,612	(1,813)	-	-	241,612	(1,813)
Corporate securities	1,810	(22)	-	-	1,810	(22)
Total temporarily impaired securities	\$ 262,061	\$ (2,092)	\$ -	\$ -	\$ 262,061	\$ (2,092)
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.

5. LOANS AND LEASES

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

	March 31, 2012	December 31, 2011
	(Dollars in thousands)	
Commercial, financial and agricultural	\$ 186,851	\$ 180,571
Real estate:		
Construction	147,591	161,126
Mortgage - residential	912,212	896,566
Mortgage - commercial	715,105	701,399
Consumer	107,056	108,810
Leases	15,766	17,702
	2,084,581	2,066,174
Unearned income	(1,829)	(1,727)
Total loans and leases	\$ 2,082,752	\$ 2,064,447

During the three months ended March 31, 2012, we 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 loans with a carrying value of \$0.5 million to other real estate. No portfolio loans were sold or purchased during the three months ended March 31, 2012.

During the three months ended March 31, 2011, we did not transfer any loans to the held-for-sale category. In addition, we transferred loans with a carrying value of \$6.6 million to other real estate. No portfolio loans were sold or purchased during the three months ended March 31, 2011.

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 March 31, 2012 and December 31, 2011:

	Commercial, financial & agricultural	Construction	Real estate Mortgage - residential	Mortgage - commercial	Consumer	Leases	Total
	(Dollars in thousands)						
March 31, 2012							
Allowance for loan and lease losses:							