CENTRAL PACIFIC FINANCIAL CORP
Form 10-Q
November 07, 2013

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

FORM 10-Q

(Mark One)

T QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2013

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	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 T 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 T No £

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 T	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 T

The number of shares outstanding of registrant’s common stock, no par value, on October 30, 2013 was 42,091,180 shares.

CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

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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 be limited to: the effect of, and our failure to comply with all of the requirements of any regulatory orders or regulatory agreements we are or 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 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, deterioration in asset quality and losses in our loan portfolio; the impact of local, national, and international economies and events (including natural disasters such as wildfires, tsunamis, storms 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 international economic conditions, including issues associated with the European debt crisis; deterioration or malaise in economic conditions, including 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, changes in capital standards, other regulatory reform, including but not limited to regulations promulgated by the Consumer Financial Protection Bureau, 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. 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)

	September 30, 2013	December 31, 2012
	(Dollars in thousands)	
Assets		
Cash and due from banks	$ 59,400	$ 56,473
Interest-bearing deposits in other banks	37,499	120,902
Investment securities:		
Available for sale, at fair value	1,501,948	1,536,745
Held to maturity (fair value of $245,519 at September 30, 2013 and $162,528 at December 31, 2012)	255,663	161,848
Total investment securities	1,757,611	1,698,593
Loans held for sale	12,437	38,283
Loans and leases	2,484,318	2,203,944
Less allowance for loan and lease losses	85,228	96,413
Net loans and leases	2,399,090	2,107,531
Premises and equipment, net	48,151	48,759
Accrued interest receivable	13,765	13,896
Investment in unconsolidated subsidiaries	18,558	10,975
Other real estate	5,761	10,686
Other intangible assets	33,621	37,499
Bank-owned life insurance	148,903	147,411
Federal Home Loan Bank stock	46,626	47,928
Other assets	163,061	31,432
Total assets	$ 4,744,483	$ 4,370,368
Liabilities and Equity		
Deposits:		
Noninterest-bearing demand	$ 878,262	$ 843,292
Interest-bearing demand	739,421	672,838
Savings and money market	1,212,488	1,186,011
Time	1,076,093	978,631
Total deposits	3,906,264	3,680,772
Short-term borrowings	28,000	-
Long-term debt	108,268	108,281
Other liabilities	48,415	66,536
Total liabilities	4,090,947	3,855,589
Equity:		
Preferred stock, no par value, authorized 1,100,000 shares, issued and outstanding none at September 30, 2013 and December 31, 2012, respectively	-	-

Common stock, no par value, authorized 185,000,000 shares, issued and outstanding 42,091,180 and 41,867,046 shares at September 30, 2013 and December 31, 2012, respectively		784,473			784,512	
Surplus		73,735			70,567	
Accumulated deficit		(191,014	)		(349,427	)
Accumulated other comprehensive loss		(13,718	)		(830	)
Total shareholders' equity		653,476			504,822	
Non-controlling interest		60			9,957	
Total equity		653,536			514,779	
Total liabilities and equity	$	4,744,483		$	4,370,368	

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 September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Interest income:				
Interest and fees on loans and leases	$ 26,414	$ 24,241	$ 77,362	$ 73,642
Interest and dividends on investment securities:				
Taxable interest	8,114	6,641	22,518	21,844
Tax-exempt interest	992	704	3,059	1,347
Dividends	5	4	16	11
Interest on deposits in other banks	21	84	178	212
Dividends on Federal Home Loan Bank stock	12	-	12	-
Total interest income	35,558	31,674	103,145	97,056
Interest expense:				
Interest on deposits:				
Demand	91	83	259	258
Savings and money market	227	232	663	783
Time	671	869	2,150	2,904
Interest on short-term borrowings	3	-	3	-
Interest on long-term debt	795	930	2,457	2,790
Total interest expense	1,787	2,114	5,532	6,735
Net interest income	33,771	29,560	97,613	90,321
Provision (credit) for loan and lease losses	(3,189)	(4,982)	(9,977)	(16,602)
Net interest income after provision for loan and lease losses	36,960	34,542	107,590	106,923
Other operating income:				
Service charges on deposit accounts	1,776	2,130	4,950	6,719
Other service charges and fees	4,931	4,538	13,904	13,115
Income from fiduciary activities	724	662	2,107	1,930
Equity in earnings of unconsolidated subsidiaries	513	171	733	386
Fees on foreign exchange	149	165	348	447
Investment securities gains	-	789	-	789
Loan placement fees	81	114	408	547

Net gain on sales of residential loans	1,476	4,713	8,492	11,084
Net gain on sales of foreclosed assets	276	1,109	8,528	1,109
Income from bank-owned life insurance	611	741	1,492	2,274
Other	1,393	1,906	1,810	5,484
Total other operating income	11,930	17,038	42,772	43,884
Other operating expense:				
Salaries and employee benefits	19,167	17,256	55,944	51,511
Net occupancy	3,802	3,629	10,651	10,159
Equipment	952	1,030	2,788	3,008
Amortization of other intangible assets	1,637	2,698	5,994	7,490
Communication expense	907	872	2,727	2,542
Legal and professional services	2,155	2,772	6,410	10,635
Computer software expense	1,056	959	3,182	2,852
Advertising expense	601	906	2,141	2,632
Foreclosed asset expense	(12)	3,972	993	6,467
Write down of assets	-	827	-	2,586
Other	6,247	5,938	13,435	15,914
Total other operating expense	36,512	40,859	104,265	115,796
Income before income taxes	12,378	10,721	46,097	35,011
Income tax expense (benefit)	2,174	-	(115,683)	-
Net income	$ 10,204	$ 10,721	$ 161,780	$ 35,011
Per common share data:				
Basic earnings per share	$ 0.24	$ 0.26	$ 3.86	$ 0.84
Diluted earnings per share	0.24	0.26	3.83	0.83
Cash dividends declared	0.08	-	0.08	-
Shares used in computation:				
Basic shares	42,028	41,764	41,934	41,704
Diluted shares	42,421	42,016	42,263	41,961

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Net income	$10,204	$10,721	$161,780	$35,011
Other comprehensive income (loss), net of tax				
Net unrealized gain (loss) on investment securities	2,667	8,062	(25,256)	6,278
Net unrealized gain (loss) on derivatives	-	(3)	10,993	(934)
Defined benefit plans	375	588	1,375	1,765
Other comprehensive income (loss), net of tax	3,042	8,647	(12,888)	7,109
Comprehensive income	$13,246	$19,368	$148,892	$42,120

See accompanying notes to consolidated financial statements.

CENTRAL PACIFIC FINANCIAL CORP. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited)

	Preferred Stock	Common Stock	Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interests	Total
	(Dollars in thousands, except per share data)						
Balance at December 31, 2012	$ -	$ 784,512	$ 70,567	$ (349,427)	$ (830)	$ 9,957	$ 514,779
Net income	-	-	-	161,780	-	-	161,780
Other comprehensive loss	-	-	-	-	(12,888)	-	(12,888)
Cash dividends ($0.08 per share)	-	-	-	(3,367)	-	-	(3,367)
1,782 net shares of common stock purchased by directors' deferred compensation plan	-	(39)	-	-	-	-	(39)
Share-based compensation	-	-	3,168	-	-	-	3,168
Non-controlling interests	-	-	-	-	-	(9,897)	(9,897)
Balance at September 30, 2013	$ -	$ 784,473	$ 73,735	$ (191,014)	$ (13,718)	$ 60	$ 653,536
Balance at December 31, 2011	$ -	$ 784,539	$ 66,585	$ (396,848)	$ 2,164	$ 9,980	$ 466,420
Net income	-	-	-	35,011	-	-	35,011
Other comprehensive income	-	-	-	-	7,109	-	7,109
4,291 net shares of common stock purchased by directors' deferred compensation plan	-	(27)	-	-	-	-	(27)
Share-based compensation	-	-	2,509	-	-	-	2,509
Non-controlling interests	-	-	-	-	-	(17)	(17)
Balance at September 30, 2012	$ -	$ 784,512	$ 69,094	$ (361,837)	$ 9,273	$ 9,963	$ 511,005

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30, 2013	2012
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	$ 161,780	$ 35,011
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision (credit) for loan and lease losses	(9,977)	(16,602)
Depreciation and amortization	4,528	4,760
Write down of assets	-	2,586
Write down of other real estate, net of gain on sale	(7,989)	3,032
Amortization of other intangible assets	5,994	7,490
Net amortization of investment securities	10,766	11,764
Share-based compensation	3,168	2,509
Net gain on investment securities	-	(789)
Net gain on sales of residential loans	(8,492)	(11,084)
Proceeds from sales of loans held for sale	545,199	675,799
Originations of loans held for sale	(510,861)	(650,920)
Equity in earnings of unconsolidated subsidiaries	(733)	(386)
Increase in cash surrender value of bank-owned life insurance	(1,492)	(4,203)
Deferred income taxes	(115,683)	-
Premium paid on repurchases of preferred stock of subsidiaries	1,895	-
Net change in other assets and liabilities	(8,425)	(16,279)
Net cash provided by operating activities	69,678	42,688
Cash flows from investing activities:		
Proceeds from maturities of and calls on investment securities available for sale	387,409	315,723
Proceeds from sales of investment securities available for sale	-	130,076
Purchases of investment securities available for sale	(501,502)	(457,041)
Proceeds from maturities of and calls on investment securities held to maturity	9,980	689

Purchases of investment securities held to maturity	(4,595)	(163,498)
Net loan originations	(258,612)	(58,467)
Purchases of loan portfolios	(37,104)	-
Proceeds from sales of loans originated for investment	10,679	10,340
Proceeds from sale of other real estate	16,375	14,960
Proceeds from bank-owned life insurance	-	1,997
Purchases of premises and equipment	(3,920)	(2,770)
Distributions from unconsolidated subsidiaries	553	455
Contributions to unconsolidated subsidiaries	(9,050)	-
Proceeds from redemption of FHLB stock	1,302	434
Net cash used in investing activities	(388,485)	(207,102)
Cash flows from financing activities:		
Net increase in deposits	225,492	178,062
Repayments of long-term debt	(13)	(50,013)
Net increase (decrease) in short-term borrowings	28,000	(34)
Cash dividends paid on common stock	(3,367)	-
Repurchases of preferred stock of subsidiaries	(11,781)	-
Net cash provided by financing activities	238,331	128,015
Net decrease in cash and cash equivalents	(80,476)	(36,399)
Cash and cash equivalents at beginning of period	177,375	257,072
Cash and cash equivalents at end of period	$ 96,899	$ 220,673
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 17,436	$ 4,489
Income taxes	5	1
Cash received during the period for:		
Income taxes	-	396
Supplemental disclosure of noncash investing and financing activities:		
Net change in common stock held by directors' deferred compensation plan	$ 39	$ 27
Net reclassification of loans to other real estate	3,461	2,973
Net reclassification of loans held for sale to other real estate	-	716

Net transfer of loans to loans held for sale	-	1,487
Net transfer of investment securities available for sale to held to maturity	101,669	-

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, 2012. 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

On October 9, 2012, Central Pacific Bank ("the bank" or "our bank") entered into a Memorandum of Understanding (the "Compliance MOU") with the Federal Deposit Insurance Corporation (the "FDIC") to improve the bank's compliance management system ("CMS"). Under the Compliance MOU, we are required to, among other things, (i) improve the Board of Directors' ("Board") oversight of the bank's CMS; (ii) ensure the establishment and implementation of the bank's CMS is commensurate with the complexity of the bank's operations; (iii) perform a full review of all compliance policy and procedures, then revise and adopt policy and procedures to ensure compliance with all consumer protection regulations; (iv) enhance the bank's training program relating to consumer protection and fair lending regulations; (v) develop and implement an effective internal monitoring program to ensure compliance with all applicable laws and regulations; (vi) strengthen the compliance audit function to ensure that the compliance audits are appropriately and comprehensively scoped; (vii) develop and implement internal controls for the bank's third-party payment processing activity; (viii) strengthen the Board and senior management's oversight of third-party relationships and (ix) enhance the bank's overdraft payment program. The bank believes it has already taken substantial steps to comply with the Compliance MOU. In addition to the steps taken to comply with the Compliance MOU, the bank received an "Outstanding" rating in a Community Reinvestment performance evaluation that measures how financial institutions support their communities in the areas of lending, investment and service.

We cannot assure you whether or when the bank will be in full compliance with the Compliance MOU or whether or when the Compliance MOU will be terminated. Even if terminated, we may still be subject to other agreements with regulators which restrict our activities or may also continue to impose capital ratios or other requirements on our business. The requirements and restrictions of the Compliance MOU 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 additional regulatory requirements or orders; limitations on our activities; the imposition of civil monetary penalties; and further directives which affect our business, including, in the most severe circumstances, termination of the bank's deposit insurance or appointment of a conservator or receiver for the bank.

3. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-11, "Disclosures about Offsetting Assets and Liabilities." ASU 2011-11 expands the disclosure requirements for certain financial instruments and derivatives that are subject to enforceable master netting agreements or similar arrangements. The disclosures are required regardless of whether the instruments have been offset (or netted) in the balance sheet. Under ASU 2011-11, companies must describe the nature of offsetting arrangements and provide quantitative information about those agreements, including the gross and net amounts of financial instruments that are recognized in the balance sheet. In January 2013, the FASB issued ASU 2013-01, "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities," which clarifies the scope of ASU 2011-11 by limiting the disclosures to derivatives, repurchase agreements, and securities lending transactions to the extent they are subject to an enforceable master netting or similar arrangement. The provisions of ASU 2011-11 and ASU 2013-01 were effective for the Company's reporting period beginning on January 1, 2013, with retrospective application required. We adopted ASU 2011-11 and ASU 2013-01 effective January 1, 2013 and the adoption did not have a material impact on our consolidated financial statements.

In July 2012, the FASB issued ASU 2012-02, "Testing Indefinite-Lived Intangible Assets for Impairment." The provisions of ASU 2012-02 permit an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform a quantitative impairment test, as is currently required by GAAP. ASU 2012-02 is effective for annual and interim impairment tests performed for the Company's reporting period beginning on January 1, 2013. We adopted this ASU effective January 1, 2013. As the Company does not have any indefinite-lived assets, the adoption of this guidance did not have a material impact on our consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, "Amendments to Topic 220, Other Comprehensive Income." The amendments in ASU 2013-02 supersede and replace the presentation requirements for reclassifications out of accumulated other comprehensive income in ASUs 2011-05 (issued in June 2011) and 2011-12 (issued in December 2011) for all public and private organizations. The amendments would require an entity to provide additional information about reclassifications out of accumulated other comprehensive income. ASU 2013-02 is effective for the Company's reporting period beginning on January 1, 2013. We adopted this ASU effective January 1, 2013. As the Company provided these required disclosures in the notes to the consolidated financial statements, the adoption of this guidance had no impact on the Company's consolidated balance sheets and statements of income. See Note 13 for the disclosures required by ASU 2013-02.

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)		
September 30, 2013				
Available for Sale				
Debt securities:				
U.S. Government sponsored entities	$ 127,124	$ 1,268	$ -	$ 128,392
States and political subdivisions	190,715	383	(11,074)	180,024
Corporations	140,119	1,586	(1,702)	140,003
Mortgage-backed securities:				
U.S. Government sponsored entities	974,008	11,221	(11,884)	973,345
Non-agency collateralized mortgage obligations	83,449	273	(4,376)	79,346
Other	742	96	-	838
Total	$ 1,516,157	$ 14,827	$ (29,036)	$ 1,501,948
Held to Maturity				
Mortgage-backed securities - U.S. Government sponsored entities	$ 255,663	$ 19	$ (10,163)	$ 245,519
December 31, 2012				
Available for Sale				
Debt securities:				
U.S. Government sponsored entities	$ 278,198	$ 2,741	$ -	$ 280,939
States and political subdivisions	184,274	2,831	(1,194)	185,911
Corporations	125,649	2,360	(63)	127,946
Mortgage-backed securities:				

U.S. Government sponsored entities		925,018		17,548		(1,523	)		941,043
Other		866		40		-			906
Total	$	1,514,005	$	25,520	$	(2,780	)	$	1,536,745
Held to Maturity									
Mortgage-backed securities - U.S. Government sponsored entities	$	161,848	$	695	$	(15	)	$	162,528

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The amortized cost and estimated fair value of investment securities at September 30, 2013 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.

	September 30, 2013	
	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)	
Available for Sale		
Due in one year or less	$ 70,174	$ 70,587
Due after one year through five years	136,515	138,509
Due after five years through ten years	119,674	116,767
Due after ten years	131,595	122,556
Mortage-backed securities	1,057,457	1,052,691
Other	742	838
Total	$ 1,516,157	$ 1,501,948
Held to Maturity		
Mortage-backed securities	$ 255,663	$ 245,519

We did not sell any available for sale securities during the first nine months of 2013.

During the three and nine months ended September 30, 2012, we sold certain available for sale investment securities for gross proceeds of $127.4 million and $130.1 million, respectively. Gross realized gains and losses on the sales of the available for sale investment securities were $1.7 million and $0.9 million, respectively, during the three and nine months ended September 30, 2012. The specific identification method was also used as the basis for determining the cost of all securities sold.

Investment securities of $901.3 million and $905.5 million at September 30, 2013 and December 31, 2012, 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 280 and 118 investment securities which were in an unrealized loss position at September 30, 2013 and December 31, 2012, respectively.

Description of Securities	Less than 12 months Fair Value	Unrealized Losses	12 months or longer Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
			(Dollars in thousands)			
At September 30, 2013:						
Debt securities:						
States and political subdivisions	$ 171,260	$ (11,074)	$ -	$ -	$ 171,260	$ (11,074)
Corporations	68,445	(1,702)	-	-	68,445	(1,702)
Mortgage-backed securities:						

U.S. Government sponsored entities	697,996	(22,047)	-	-	697,996	(22,047)
Non-agency collateralized mortgage obligations	59,187	(4,376)	-	-	59,187	(4,376)
Total temporarily impaired securities	$ 996,888	$ (39,199)	$ -	$ -	$ 996,888	$ (39,199)
At December 31, 2012:						
Debt securities:						
States and political subdivisions	$ 73,128	$ (1,194)	$ -	$ -	$ 73,128	$ (1,194)
Corporations	23,205	(63)	-	-	23,205	(63)
Mortgage-backed securities:						
U.S. Government sponsored entities	206,981	(1,538)	-	-	206,981	(1,538)
Total temporarily impaired securities	$ 303,314	$ (2,795)	$ -	$ -	$ 303,314	$ (2,795)

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Other-Than-Temporary Impairment (“OTTI”)

Unrealized losses for all investment securities are reviewed to determine whether the losses are deemed “other-than-temporary.” 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, and not due to the credit quality of the investment securities. 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:

	September 30, 2013	December 31, 2012
	(Dollars in thousands)	
Commercial, financial and agricultural	$ 367,923	$ 246,278
Real estate:		
Construction	73,387	96,240
Mortgage - residential	1,195,847	1,035,273
Mortgage - commercial	614,860	673,506
Consumer	226,338	143,387
Leases	6,539	10,504
	2,484,894	2,205,188
Unearned income	(576)	(1,244)
Total loans and leases	$ 2,484,318	$ 2,203,944

During the nine months ended September 30, 2013, we transferred nine loans with a carrying value of $3.5 million to other real estate. We did not transfer any portfolio loans to the held-for-sale category during the nine months ended

September 30, 2013. In June 2013, we purchased an auto loan portfolio for $21.6 million, which represented a $0.8 million premium over the $20.8 million outstanding balance. At the time of purchase, the auto loan portfolio had a weighted average remaining term of 76 months. During the nine months ended September 30, 2013, we also purchased participation interests in student loans totaling $15.5 million, which represented the outstanding balance. At the time of purchases, the student loans had a weighted average remaining term of 122 months.

During the nine months ended September 30, 2012, we transferred three loans, two of which was non-performing, to the held-for-sale category. In addition, we transferred 15 loans with a carrying value of $3.0 million to other real estate. No portfolio loans were purchased during the nine months ended September 30, 2012.

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 September 30, 2013 and December 31, 2012:

	Commercial, Financial & Agricultural	Construction	Real estate Mortgage - Residential	Mortgage - Commercial	Consumer	Leases	Total
				(Dollars in thousands)			
September 30, 2013							
Allowance for loan and lease losses:							
Ending balance attributable to loans:							
Individually evaluated for impairment	$ 403	$ 1,576	$ -	$ -	$ -	$ -	$ 1,979
Collectively evaluated for impairment	12,534	2,945	26,782	30,112	4,820	56	77,249
	12,937	4,521	26,782	30,112	4,820	56	79,228
Unallocated							6,000
Total ending balance	$ 12,937	$ 4,521	$ 26,782	$ 30,112	$ 4,820	$ 56	$ 85,228
Loans and leases:							
Individually evaluated for impairment	$ 3,945	$ 20,638	$ 36,298	$ 20,418	$ -	$ -	$ 81,299
Collectively evaluated for impairment	363,978	52,749	1,159,549	594,442	226,338	6,539	2,403,595
	367,923	73,387	1,195,847	614,860	226,338	6,539	2,484,894
Unearned income	307	(184)	1,116	(1,065)	(750)	-	(576)
Total ending balance	$ 368,230	$ 73,203	$ 1,196,963	$ 613,795	$ 225,588	$ 6,539	$ 2,484,318
December 31, 2012							
Allowance for loan and lease losses:							
Ending balance attributable to loans:							
Individually evaluated for impairment	$ 882	$ 1,582	$ 272	$ 270	$ -	$ 5	$ 3,011
Collectively evaluated for impairment	4,105	2,928	29,638	48,230	2,421	80	87,402
	4,987	4,510	29,910	48,500	2,421	85	90,413

Unallocated							6,000
Total ending balance	$ 4,987	$ 4,510	$ 29,910	$ 48,500	$ 2,421	$ 85	$ 96,413
Loans and leases:							
Individually evaluated for impairment	$ 3,957	$ 48,264	$ 42,865	$ 15,911	$ -	$ 95	$ 111,092
Collectively evaluated for impairment	242,321	47,976	992,408	657,595	143,387	10,409	2,094,096
	246,278	96,240	1,035,273	673,506	143,387	10,504	2,205,188
Unearned income	(60)	(46)	124	(1,258)	(4)	-	(1,244)
Total ending balance	$ 246,218	$ 96,194	$ 1,035,397	$ 672,248	$ 143,383	$ 10,504	$ 2,203,944

The following table presents by class, impaired loans as of September 30, 2013 and December 31, 2012:

	Unpaid Principal Balance	Recorded Investment	Allowance Allocated
		(Dollars in thousands)	
September 30, 2013			
Impaired loans with no related allowance recorded:			
Commercial, financial & agricultural	$ 980	$ 980	$ -
Real estate:			
Construction	15,429	9,043	-
Mortgage - residential	42,191	36,298	-
Mortgage - commercial	26,395	20,418	-
Total impaired loans with no related allowance recorded	84,995	66,739	-
Impaired loans with an allowance recorded:			
Commercial, financial & agricultural	4,445	2,965	403
Real estate:			
Construction	13,672	11,595	1,576
Total impaired loans with an allowance recorded	18,117	14,560	1,979
Total	$ 103,112	$ 81,299	$ 1,979
December 31, 2012			
Impaired loans with no related allowance recorded:			
Commercial, financial & agricultural	$ 1,225	$ 526	$ -
Real estate:			
Construction	52,352	36,664	-
Mortgage - residential	47,364	41,894	-
Mortgage - commercial	13,616	13,211	-
Total impaired loans with no related allowance recorded	114,557	92,295	-
Impaired loans with an allowance recorded:			
Commercial, financial & agricultural	4,807	3,431	882
Real estate:			
Construction	13,678	11,600	1,582
Mortgage - residential	1,935	971	272
Mortgage - commercial	3,939	2,700	270
Leases	95	95	5
Total impaired loans with an allowance recorded	24,454	18,797	3,011
Total	$ 139,011	$ 111,092	$ 3,011

The following table presents by class, the average recorded investment and interest income recognized on impaired loans as of September 30, 2013 and 2012:

Three Months Ended September 30,		Nine Months Ended September 30,	
2013	2012	2013	2012

	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	$4,104	$ 6	$3,956	$ 1	$4,189	$ 18	$3,304	$ 30
Real estate:								
Construction	20,812	942	48,412	83	28,149	1,409	58,893	728
Mortgage - residential	36,228	24	46,036	120	38,909	352	48,418	298
Mortgage - commercial	19,436	441	17,994	162	22,286	623	19,589	330
Leases	-	-	252	-	43	-	135	-
Total	$80,580	$ 1,413	$116,650	$ 366	$93,576	$ 2,402	$130,339	$ 1,386

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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 September 30, 2013 and December 31, 2012:

	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)			
September 30, 2013							
Commercial, financial & agricultural	$ 245	$ 104	$ -	$ 3,529	$ 3,878	$ 364,352	$ 368,230
Real estate:							
Construction	-	-	-	16,497	16,497	56,706	73,203
Mortgage - residential	485	1,893	19	20,703	23,100	1,173,863	1,196,963
Mortgage - commercial	240	-	-	12,559	12,799	600,996	613,795
Consumer	528	140	18	-	686	224,902	225,588
Leases	-	-	-	-	-	6,539	6,539
Total	$ 1,498	$ 2,137	$ 37	$ 53,288	$ 56,960	$ 2,427,358	$ 2,484,318
December 31, 2012							
Commercial, financial & agricultural	$ 123	$ 139	$ -	$ 3,510	$ 3,772	$ 242,446	$ 246,218
Real estate:							
Construction	124	-	-	38,742	38,866	57,328	96,194
Mortgage - residential	8,330	590	387	27,499	36,806	998,591	1,035,397
Mortgage - commercial	219	-	-	9,487	9,706	662,542	672,248
Consumer	249	169	116	-	534	142,849	143,383
Leases	-	-	-	94	94	10,410	10,504
Total	$ 9,045	$ 898	$ 503	$ 79,332	$ 89,778	$ 2,114,166	$ 2,203,944

Modifications

Troubled debt restructurings (“TDRs”) included in nonperforming assets at September 30, 2013 consisted of 45 Hawaii residential mortgage loans with a combined principal balance of $13.7 million, a U.S Mainland commercial mortgage loan with a principal balance of $9.1 million, three Hawaii construction loans with a combined principal balance of $1.3 million, and a Hawaii commercial loan with a principal balance of $0.6 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 $27.8 million of TDRs still accruing interest at September 30, 2013, none of which were more than 90 days delinquent. At December 31, 2012, there were $31.8 million of TDRs still accruing interest, none of which were more than 90 days delinquent.

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 effect to our provision for loan and lease losses expense (the “Provision”) and the Allowance during the three and nine months ended September 30, 2013.

The following table presents by class, information related to loans modified in a TDR during the three and nine months ended September 30, 2013 and 2012:

	Number of Contracts	Recorded Investment (as of period end)	Increase in the Allowance
		(Dollars in thousands)	
Three months ended September 30, 2013			
Real estate:			
Mortgage - residential	1	$ 241	$ -
Mortgage - commercial	1	9,099	-
Total	2	$ 9,340	$ -
Three months ended September 30, 2012			
Commercial, financial & agricultural	1	$ 457	$ -
Real estate:			
Construction	4	9,838	-
Mortgage - residential	3	1,226	155
Total	8	$ 11,521	$ 155
Nine months ended September 30, 2013			
Commercial, financial & agricultural	1	$ 564	$ -
Real estate:			
Construction	1	184	-
Mortgage - residential	4	1,860	-
Mortgage - commercial	1	9,099	-
Total	7	$ 11,707	$ -
Nine months ended September 30, 2012			
Real estate:			
Construction	2	$ 10,593	$ 3,014
Mortgage - residential	26	9,635	447
Total	28	$ 20,228	$ 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 nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2013		2012		2013		2012	
	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)				

Commercial, financial & agricultural	-	$ -	-	$ -	1	$ 564	-	$ -
Real estate:								
Construction	-	-	3	4,668	1	184	7	6,207
Mortgage - residential	-	-	1	93	3	1,330	4	878
Mortgage - commercial	-	-	-	-	-	-	2	6,212
Total	-	$ -	4	$ 4,761	5	$ 2,078	13	$ 13,297

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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 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 by 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 estimated 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 are considered to be pass rated loans and leases. The following table presents by class and credit indicator, the recorded investment in the Company's loans and leases as of September 30, 2013 and December 31, 2012:

	Pass	Special Mention	Substandard	Doubtful	Loss	Less: Unearned Income	Total
			(Dollars in thousands)				
September 30, 2013							
Commercial, financial & agricultural	$ 355,519	$ 6,308	$ 6,096	$ -	$ -	$ (307)	$ 368,230
Real estate:							
Construction	53,736	-	19,651	-	-	184	73,203
Mortgage - residential	1,171,598	1,044	23,205	-	-	(1,116)	1,196,963
Mortgage - commercial	555,679	24,081	35,100	-	-	1,065	613,795
Consumer	226,301	-	37	-	-	750	225,588
Leases	6,539	-	-	-	-	-	6,539
Total	$ 2,369,372	$ 31,433	$ 84,089	$ -	$ -	$ 576	$ 2,484,318
December 31, 2012							
Commercial, financial & agricultural	$ 232,062	$ 6,609	$ 7,607	$ -	$ -	$ 60	$ 246,218
Real estate:							
Construction	42,619	9,635	43,986	-	-	46	96,194
Mortgage - residential	1,003,268	1,109	30,896	-	-	(124)	1,035,397
Mortgage - commercial	577,638	65,114	30,754	-	-	1,258	672,248
Consumer	143,258	-	129	-	-	4	143,383
Leases	9,860	274	370	-	-	-	10,504
Total	$ 2,008,705	$ 82,741	$ 113,742	$ -	$ -	$ 1,244	$ 2,203,944

In accordance with applicable Interagency Guidance issued by our primary bank regulators, we define subprime borrowers as typically having weakened credit histories that include payment delinquencies and possibly more severe problems such as charge-offs, judgments, and bankruptcies. They may also display reduced repayment capacity as measured by credit scores, debt-to-income ratios, or other criteria that may encompass borrowers with incomplete credit histories. Subprime loans are loans to borrowers displaying one or more of these characteristics at the time of origination or purchase. Such loans have a higher risk of default than loans to prime borrowers. At September 30, 2013 and December 31, 2012, we did not have any loans that we considered to be subprime.

6. ALLOWANCE FOR LOAN AND LEASE LOSSES

The following table presents by class, the activity in the Allowance for the periods indicated:

	Commercial, Financial & Aagricultural	Construction	Real estate Mortgage - Residential	Mortgage - Commercial	Consumer	Leases	Unallocated	Total
				(Dollars in thousands)				
Three Months Ended September 30, 2013								
Beginning balance	$ 9,653	$ 6,460	$ 25,613	$ 35,461	$ 3,848	$ 70	$ 6,000	$ 87,105
Provision (credit) for loan and lease losses	3,385	(2,505)	1,141	(6,486)	1,292	(16)	-	(3,189)
	13,038	3,955	26,754	28,975	5,140	54	6,000	83,916
Charge-offs	360	3	63	-	466	-	-	892
Recoveries	259	569	91	1,137	146	2	-	2,204
Net charge-offs (recoveries)	101	(566)	(28)	(1,137)	320	(2)	-	(1,312)
Ending balance	$ 12,937	$ 4,521	$ 26,782	$ 30,112	$ 4,820	$ 56	$ 6,000	$ 85,228
Three Months Ended September 30, 2012								
Beginning balance	$ 6,262	$ 12,331	$ 29,821	$ 47,242	$ 2,008	$ 150	$ 6,000	$ 103,814
Provision (credit) for loan and lease losses	(465)	(3,127)	2,981	(4,780)	434	(25)	-	(4,982)
	5,797	9,204	32,802	42,462	2,442	125	6,000	98,832
Charge-offs	476	1,813	757	-	398	-	-	3,444
Recoveries	208	353	236	472	269	2	-	1,540
Net charge-offs (recoveries)	268	1,460	521	(472)	129	(2)	-	1,904
Ending balance	$ 5,529	$ 7,744	$ 32,281	$ 42,934	$ 2,313	$ 127	$ 6,000	$ 96,928
Nine Months Ended September 30, 2013								
Beginning balance	$ 4,987	$ 4,510	$ 29,910	$ 48,500	$ 2,421	$ 85	$ 6,000	$ 96,413
Provision (credit) for loan and lease losses	9,230	(2,432)	(2,836)	(16,808)	2,903	(34)	-	(9,977)
	14,217	2,078	27,074	31,692	5,324	51	6,000	86,436
Charge-offs	2,201	358	857	3,674	1,023	-	-	8,113
Recoveries	921	2,801	565	2,094	519	5	-	6,905
Net charge-offs (recoveries)	1,280	(2,443)	292	1,580	504	(5)	-	