CENTRAL PACIFIC FINANCIAL CORP
Form 10-Q
May 13, 2011

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 March 31, 2011

or

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

Commission file number 0-10777

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 £ 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 £ Non-accelerated filer £ Smaller reporting company T

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 April 29, 2011 was 39,649,510 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, earnings 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”, “anticipate “forecasts” 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 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 regulatory actions on the Company including the Bank MOU (as defined below) which replaced the Consent Order (as defined below) by the Federal Deposit Insurance Corporation and the Hawaii Division of Financial Institutions and the BSA MOU (as defined below); the impact of legislation affecting the banking industry (including the Emergency Economic Stabilization Act of 2008 and the Dodd-Frank Wall Street Reform and Consumer Protection Act); the impact of competitive products, services, pricing, and other competitive forces; movements in interest rates; loan delinquency rates and changes in asset quality; volatility in the financial markets and uncertainties concerning the availability of debt or equity financing; and a general deterioration or malaise in economic conditions, including the continued destabilizing factors in the financial industry and continued deterioration of the real estate market, as well as the impact of levels of consumer and business confidence in the state of the economy and in financial institutions in general and in particular our bank. 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. The Company does not update any of its forward-looking statements.

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

	March 31, 2011	December 31, 2010
	(Dollars in thousands)	
Assets		
Cash and due from banks	$ 63,687	$ 61,725
Interest-bearing deposits in other banks	537,495	729,014
Investment securities:		
Available for sale, at fair value	1,076,181	702,517
Held to maturity (fair value of $2,009 at March 31, 2011 and $2,913 at December 31, 2010)	1,943	2,828
Total investment securities	1,078,124	705,345
Loans held for sale	54,093	69,748
Loans and leases	2,067,302	2,169,444
Less allowance for loan and lease losses	178,010	192,854
Net loans and leases	1,889,292	1,976,590
Premises and equipment, net	55,977	57,390
Accrued interest receivable	11,461	11,279
Investment in unconsolidated subsidiaries	13,950	14,856
Other real estate	56,601	57,507
Other intangible assets	44,498	44,639
Bank-owned life insurance	142,000	142,296
Federal Home Loan Bank stock	48,797	48,797
Income tax receivable	2,353	2,223
Other assets	15,070	16,642
Total assets	$ 4,013,398	$ 3,938,051
Liabilities and Equity		
Deposits:		
Noninterest-bearing demand	$ 678,007	$ 611,744
Interest-bearing demand	528,533	639,548
Savings and money market	1,120,272	1,089,813
Time	818,651	791,842
Total deposits	3,145,463	3,132,947
Short-term borrowings	1,423	202,480
Long-term debt	409,299	459,803
Other liabilities	62,231	66,766
Total liabilities	3,618,416	3,861,996
Equity:		
Preferred stock, no par value, authorized 1,000,000 shares; issued and outstanding	-	130,458

none at March 31, 2011 and 135,000 shares at December 31, 2010						
Common stock, no par value, authorized 185,000,000 shares, issued and outstanding 39,649,052 shares at March 31, 2011 and 1,527,000 shares at December 31, 2010		764,463			404,167	
Surplus		63,436			63,308	
Accumulated deficit		(428,780	)		(517,316	)
Accumulated other comprehensive loss		(14,135	)		(14,565	)
Total shareholders' equity		384,984			66,052	
Non-controlling interest		9,998			10,003	
Total equity		394,982			76,055	
Total liabilities and equity	$	4,013,398		$	3,938,051	

See accompanying notes to consolidated financial statements.

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

(Amounts in thousands, except per share data)	Three Months Ended March 31, 2011	2010
Interest income:		
Interest and fees on loans and leases	$ 28,566	$ 37,312
Interest and dividends on investment securities:		
Taxable interest	5,221	8,101
Tax-exempt interest	184	515
Dividends	3	3
Interest on deposits in other banks	389	330
Total interest income	34,363	46,261
Interest expense:		
Interest on deposits:		
Demand	132	258
Savings and money market	732	1,649
Time	2,377	3,981
Interest on short-term borrowings	204	189
Interest on long-term debt	2,717	5,115
Total interest expense	6,162	11,192
Net interest income	28,201	35,069
Provision (credit) for loan and lease losses	(1,575)	58,837
Net interest income (loss) after provision for loan and lease losses	29,776	(23,768)
Other operating income:		
Service charges on deposit accounts	2,614	3,207
Other service charges and fees	4,058	3,485
Income from fiduciary activities	761	811
Equity in earnings of unconsolidated subsidiaries	127	29
Fees on foreign exchange	137	156
Investment securities gains	-	831
Loan placement fees	102	85
Net gain on sales of residential loans	2,198	1,945
Income from bank-owned life insurance	1,190	1,184
Other	1,313	1,031
Total other operating income	12,500	12,764
Other operating expense:		
Salaries and employee benefits	15,033	14,836
Net occupancy	3,358	3,297
Equipment	1,130	1,477
Amortization of other intangible assets	1,547	1,408
Communication expense	881	1,212
Legal and professional services	2,460	5,650
Computer software expense	883	903
Advertising expense	836	839
Goodwill impairment	-	102,689

Foreclosed asset expense		2,242		5,532
Write down of assets		1,565		774
Other		7,702		10,598
Total other operating expense		37,637		149,215
Income (loss) before income taxes		4,639		(160,219)
Income tax expense		-		-
Net income (loss)		4,639		(160,219)
Preferred stock dividends, accretion of discount and conversion of preferred stock to common stock		(83,897)		2,074
Net income (loss) available to common shareholders	$	88,536	$	(162,293)
Per common share data:				
Basic earnings (loss) per share	$	4.59	$	(107.23)
Diluted earnings (loss) per share		4.58		(107.23)
Shares used in computation:				
Basic shares		19,301		1,513
Diluted shares		19,321		1,513

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31, 2011	2010
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income (loss)	$ 4,639	$ (160,219)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision (credit) for loan and lease losses	(1,575)	58,837
Depreciation and amortization	1,757	2,062
Goodwill impairment	-	102,689
Write down of assets	1,565	774
Write down of other real estate, net of gain on sale	534	5,532
Amortization of other intangible assets	1,547	1,408
Net amortization of investment securities	1,433	812
Share-based compensation	128	284
Net gain on investment securities	-	(831)
Deferred income tax expense	-	2,439
Net gain on sales of residential loans	(2,198)	(1,945)
Proceeds from sales of loans held for sale	196,043	262,534
Originations of loans held for sale	(179,824)	(216,694)
Equity in earnings of unconsolidated subsidiaries	(127)	(29)
Increase in cash surrender value of bank-owned life insurance	(1,190)	(1,030)
Decrease (increase) in income tax receivable	(130)	862
Net change in other assets and liabilities	1,843	3,441
Net cash provided by operating activities	24,445	60,926
Cash flows from investing activities:		
Proceeds from maturities of and calls on investment securities available for sale	114,515	131,753
Proceeds from sales of investment securities available for sale	-	439,436
Purchases of investment securities available for sale	(488,616)	(98,068)
Proceeds from maturities of and calls on investment securities held to maturity	880	461
Net loan principal repayments	82,376	71,082
Proceeds from sales of loans originated for investment	-	37,950
Proceeds from sale of other real estate	6,948	7,664
Proceeds from bank-owned life insurance	158	-
Purchases of premises and equipment	(344)	(222)
Distributions from unconsolidated subsidiaries	523	710
Contributions to unconsolidated subsidiaries	-	(227)
Net cash provided by (used in) investing activities	(283,560)	590,539
Cash flows from financing activities:		

Net increase (decrease) in deposits	12,516	(233,878)
Proceeds from long-term debt	-	50,000
Repayments of long-term debt	(50,218)	(50,284)
Net decrease in short-term borrowings	(201,057)	(40,355)
Net proceeds from issuance of common stock and stock option exercises	308,317	-
Other, net	-	37
Net cash provided by (used in) financing activities	69,558	(274,480)
Net increase (decrease) in cash and cash equivalents	(189,557)	376,985
Cash and cash equivalents at beginning of period	790,739	488,367
Cash and cash equivalents at end of period	$ 601,182	$ 865,352
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 6,365	$ 11,276
Income taxes	7	-
Cash received during the period for:		
Income taxes	-	1,068
Supplemental disclosure of noncash investing and financing activities:		
Net change in common stock held by directors' deferred compensation plan	$ 16	$ 6
Net reclassification of loans to other real estate	6,575	17,364
Net transfer of loans to loans held for sale	-	17,724
Dividends accrued on preferred stock	969	1,742
Accretion of preferred stock discount	204	332
Preferred stock and accrued unpaid dividends converted to common stock	142,988	-
Common stock received 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, 2010. 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.

As discussed in our 2010 Form 10-K and our independent auditor's report dated February 9, 2011, at the time of the filing of our 2010 Form 10-K, there was substantial doubt about our ability to continue as a going concern. Since the filing of our 2010 Form 10-K, we have completed a number of significant milestones as part of our recovery plan. Upon completion of these milestones, which are described more fully below, substantial doubt about our ability to continue as a going concern no longer exists as of the end of the period covered by this report.

2. REGULATORY MATTERS AND RECOVERY PLAN PROGRESS

While economic conditions have shown recent signs of stabilization and we successfully completed our capital raise and recapitalization, we continue to operate in a difficult environment. Deterioration in the Hawaii and California commercial real estate markets and related declines in property values in those markets has negatively impacted our operating results since the latter half of 2007.

Regulatory Matters

In May 2011, the members of the Board of Directors of the bank entered into a Memorandum of Understanding (the "Bank MOU") with the Federal Deposit Insurance Corporation (the "FDIC") and the Hawaii Division of Financial Institutions (the "DFI"), effective May 5, 2011, which replaced the Consent Order (the "Consent Order") the Board of Directors of the bank agreed to with the FDIC and DFI in December 2009. The termination of the Consent Order was effective May 11, 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, on July 2, 2010, we entered into a Written Agreement (the "Agreement") with the Federal Reserve Bank of San Francisco (the "FRBSF") and DFI. For the most part, the Agreement continues and formalizes the terms of the Memorandum of Understanding that the Company entered into on April 1, 2009 with the FRBSF and DFI, and the Agreement supersedes that Memorandum of Understanding in its entirety. Among other matters, the 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 Central Pacific 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 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 Consent Order and any other supervisory action taken by the bank’s regulators. Additionally, we were required to submit to the FRBSF an acceptable capital plan and cash flow projection.

In February 2011, we also entered into a Memorandum of Understanding (the “BSA MOU”) with the FDIC and DFI relating to the Bank Secrecy Act (the “BSA”). Under the BSA MOU, we are required to (i) fully comply with the BSA and anti-money laundering requirements, (ii) implement a plan to ensure such compliance, including improving and maintaining an adequate system of internal controls, bolstering policies on customer due diligence, providing for comprehensive independent testing to validate compliance and maintaining an adequate compliance staff, (iii) correct all deficiencies identified by our regulators and (iv) provide them with progress reports.

The requirements and restrictions of the Bank MOU, the Agreement and the BSA 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 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.

Recovery Plan Progress

As previously disclosed, we adopted and implemented a recovery plan in March 2010 to improve our financial health by completing a significant recapitalization, reducing our credit risk exposure and focusing on our core businesses and traditional markets in Hawaii.

As of March 31, 2011, we have accomplished a number of key milestones in our recovery plan, including:

- On February 18, 2011, we successfully completed a $325 million capital raise from accredited investors in a private placement (the "Private Placement"). Concurrently with the completion of the Private Placement, we exchanged our TARP preferred stock and accrued and unpaid dividends thereon for common stock (the "TARP Exchange").

- Significantly improved our tier 1 risk-based capital, total risk-based capital, and leverage capital ratios as of March 31, 2011 to 21.34%, 22.67%, and 12.64%, respectively, from 7.64%, 8.98%, and 4.42%, respectively, as of December 31, 2010. The Company's capital ratios currently exceed the minimum levels previously required by the Consent Order and the minimum level required by the Bank MOU and are above the levels required for a "well-capitalized" regulatory designation.

- We reported net income in the first quarter of 2011 of $4.6 million, compared to net losses in the first and fourth quarters of 2010 of $160.2 million and $2.1 million, respectively.

- We reduced nonperforming assets by $18.0 million to $284.9 million at March 31, 2011 from $302.8 million at December 31, 2010 primarily through loan pay downs and charge-offs.

- We reduced our construction and development loan portfolio (excluding owner-occupied loans) by approximately $41.7 million, or 13.9%, from $299.9 million at December 31, 2010. Construction and development loans (excluding owner-occupied loans) as a percentage of our total loan portfolio was 12.5% at March 31, 2011, compared to 13.8% at December 31, 2010.

- We had an allowance for loan and lease losses as a percentage of total loans and leases of 8.61% at March 31, 2011, compared to 8.89% at December 31, 2010. In addition, we had an allowance for loan and lease losses as a percentage of nonperforming assets of 62.49% at March 31, 2011, compared to 63.69% at December 31, 2010.

- We had cash and cash equivalents totaling $601.2 million at March 31, 2011, compared to $790.7 million at December 31, 2010.

- We reduced total outstanding borrowings with the Federal Home Loan Bank of Seattle (the "FHLB") to $301.0 million at March 31, 2011 from $551.3 million at December 31, 2010.

- On May 9, 2011, we announced that our rights offering is fully subscribed. Total gross proceeds to us from the rights offering will be approximately $20 million.

3. RECENT ACCOUNTING PRONOUNCEMENTS

In July 2010, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) 2010-20, Receivables (Topic 310), Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. This ASU requires a greater level of disaggregated information about the credit quality of loan and leases and the allowance for loan and lease losses. This ASU also requires additional disclosures related to past due information, credit quality indicators and information related to loans modified in a troubled debt restructuring. We adopted this ASU effective January 1, 2011 and the adoption of this statement did not have a material impact on our consolidated financial statements.

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)		
March 31, 2011				
Available for Sale				
U.S. Government sponsored entities debt securities	$ 331,345	$ 249	$ (1,050)	$ 330,544
States and political subdivisions	12,530	-	-	12,530
U.S. Government sponsored entities mortgage-backed securities	727,303	7,563	(2,804)	732,062
Non-agency collateralized mortgage obligations	17	-	-	17
Other	1,008	20	-	1,028
Total	$ 1,072,203	$ 7,832	$ (3,854)	$ 1,076,181
Held to Maturity				
U.S. Government sponsored entities mortgage-backed securities	$ 1,943	$ 66	$ -	$ 2,009
December 31, 2010				
Available for Sale				
U.S. Government sponsored entities debt securities	$ 202,192	$ 306	$ (643)	$ 201,855
States and political subdivisions	12,619	-	-	12,619
U.S. Government sponsored entities mortgage-backed securities	483,647	6,653	(3,336)	486,964
Non-agency collateralized mortgage obligations	17	-	-	17
Other	1,057	5	-	1,062
Total	$ 699,532	$ 6,964	$ (3,979)	$ 702,517
Held to Maturity				
States and political subdivisions	$ 500	$ 4	$ -	$ 504
U.S. Government sponsored entities mortgage-backed securities	2,328	81	-	2,409
Total	$ 2,828	$ 85	$ -	$ 2,913

The amortized cost and estimated fair value of investment securities at March 31, 2011 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, 2011	
	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)	

Available for Sale				
Due after one year through five years	$	331,345	$	330,544
Due after five years through ten years		7,270		7,270
Due after ten years		5,260		5,260
Mortage-backed securities		727,303		732,062
Other		1,025		1,045
Total	$	1,072,203	$	1,076,181
Held to Maturity				
Mortage-backed securities	$	1,943	$	2,009

There were no sales of available for sale securities during the first quarter of 2011. As part of our recovery plan, we sold certain available for sale investment securities during the first quarter of 2010 and received gross proceeds of $439.4 million. Gross realized gains and losses on the sales of the available for sale investment securities during the three months ended March 31, 2010 were $9.6 million and $8.8 million, respectively. The basis on which the cost of all securities sold was determined using the specific identification method.

Investment securities of $579.5 million and $613.5 million at March 31, 2011 and December 31, 2010, 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 28 and 18 investment securities which were in an unrealized loss position at March 31, 2011 and December 31, 2010, 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 March 31, 2011:						
U.S. Government sponsored entities debt securities	$ 210,122	$ (1,050)	$ -	$ -	$ 210,122	$ (1,050)
U.S. Government sponsored entities mortgage-backed securities	248,194	(2,804)	-	-	248,194	(2,804)
Total temporarily impaired securities	$ 458,316	$ (3,854)	$ -	$ -	$ 458,316	$ (3,854)
At December 31, 2010:						
U.S. Government sponsored entities debt securities	$ 83,973	$ (643)	$ -	$ -	$ 83,973	$ (643)
U.S. Government sponsored entities mortgage-backed securities	194,756	(3,336)	-	-	194,756	(3,336)
Non-agency collateralized mortgage obligations	17	-	-	-	17	-
Total temporarily impaired securities	$ 278,746	$ (3,979)	$ -	$ -	$ 278,746	$ (3,979)

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, 2011	December 31, 2010
	(Dollars in thousands)	
Commercial, financial and agricultural	$ 183,079	$ 207,900
Real estate:		
Construction	272,739	314,530
Mortgage - residential	741,057	747,870
Mortgage - commercial	737,249	761,710
Consumer	111,172	112,950
Leases	25,281	28,163
	2,070,577	2,173,123
Unearned income	(3,275)	(3,679)
Total loans and leases	$ 2,067,302	$ 2,169,444

During the three months ended March 31, 2011, we did not transfer any loans to the held-for-sale category. In addition, no loans were sold or purchased during the three months ended March 31, 2011. During the three months ended March 31, 2010, we transferred loans with a carrying value of $17.7 million, all of which were non-performing, to the held-for-sale category and sold loans with a carrying value of $7.3 million. In addition, no loans were purchased during the three months ended March 31, 2010.

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, 2011:

	Commercial, financial & agricultural	Construction	Real estate Mortgage - residential	Mortgage - commercial	Consumer	Leases	Total
			(Dollars in thousands)				
Allowance for loan and lease losses:							
Ending balance attributable to loans:							
Individually evaluated for impairment	$ 94	$ 10,015	$ 56	$ 162	$ -	$ -	$ 10,327
Collectively evaluated for impairment	11,006	49,085	30,744	68,838	2,500	1,500	163,673
	11,100	59,100	30,800	69,000	2,500	1,500	174,000
Unallocated							4,010
Total ending balance	$ 11,100	$ 59,100	$ 30,800	$ 69,000	$ 2,500	$ 1,500	$ 178,010
Loans and leases:							
Individually evaluated for impairment	$ 447	$ 133,645	$ 59,582	$ 15,577	$ -	$ -	$ 209,251
	182,632	139,094	681,475	721,672	111,172	25,281	1,861,326

Collectively evaluated for impairment							
	183,079	272,739	741,057	737,249	111,172	25,281	2,070,577
Unearned income							(3,275)
Total ending balance	$ 183,079	$ 272,739	$ 741,057	$ 737,249	$ 111,172	$ 25,281	$ 2,067,302

Impaired loans requiring an allowance for loan and lease losses at March 31, 2011 and December 31, 2010 amounted to $105.2 million and $119.8 million, respectively, and included all nonaccrual loans greater than $0.5 million and all loans modified in a troubled debt restructuring. Impaired loans, many of which have been reduced to the estimated fair value of the underlying collateral, not requiring an allowance for loan and lease losses amounted to $104.1 million and $105.2 million at March 31, 2011 and December 31, 2010, respectively. The average recorded investment in impaired loans was $220.0 million during the three months ended March 31, 2011. Interest income recognized on impaired loans was $0.3 million during the three months ended March 31, 2011.

The following table presents by class, loans individually evaluated for impairment as of March 31, 2011 and December 31, 2010:

	Unpaid Principal Balance	Recorded Investment	Allowance Allocated
		(Dollars in thousands)	
March 31, 2011			
With no related allowance recorded:			
Real estate:			
Construction	$ 130,530	$ 83,141	$ -
Mortgage - residential	67,439	58,782	-
Mortgage - commercial	13,578	13,257	-
With an allowance recorded:			
Commercial, financial & agricultural	1,146	447	94
Real estate:			
Construction	86,673	50,504	10,015
Mortgage - residential	1,263	800	56
Mortgage - commercial	2,853	2,320	162
Total	$ 303,482	$ 209,251	$ 10,327
December 31, 2010			
With no related allowance recorded:			
Real estate:			
Construction	$ 112,675	$ 85,571	$ -
Mortgage - residential	66,203	58,333	-
Mortgage - commercial	10,917	10,917	-
With an allowance recorded:			
Commercial, financial & agricultural	1,184	485	81
Real estate:			
Construction	104,429	59,384	18,197
Mortgage - residential	3,681	3,256	89
Mortgage - commercial	7,746	7,088	1,158
Total	$ 306,835	$ 225,034	$ 19,525

The following table presents by class, the recorded investment in nonaccrual loans and accruing loans delinquent for 90 days or more as of March 31, 2011 and December 31, 2010:

	Nonaccrual	Accruing loans delinquent for 90 days or more
	(Dollars in thousands)	
March 31, 2011		
	$ 805	$ -

Commercial, financial & agricultural				
Real estate:				
Construction		167,541		-
Mortgage - residential		47,859		427
Mortgage - commercial		12,046		-
Consumer		-		13
Leases		-		66
Total	$	228,251	$	506
December 31, 2010				
Commercial, financial & agricultural	$	982	$	-
Real estate:				
Construction		182,073		6,550
Mortgage - residential		47,560		1,800
Mortgage - commercial		14,464		-
Consumer		225		181
Total	$	245,304	$	8,531

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 March 31, 2011 and December 31, 2010:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Nonaccrual Loans	Total Past Due	Loans & Leases Not Past Due	Total
				(Dollars in thousands)			
March 31, 2011							
Commercial, financial & agricultural	$ 47	$ 129	$ -	$ 805	$ 981	$ 182,109	$ 183,090
Real estate:							
Construction	199	-	-				