CENTRAL PACIFIC FINANCIAL CORP
Form 424B3
November 07, 2011

Filed Pursuant to Rule 424(b)(3)
Registration Statement No. 333-172480

PROSPECTUS SUPPLEMENT
(To Prospectus dated June 16, 2011)

Up to 15,612,715 Shares of Common Stock

RECENT DEVELOPMENTS

We have attached to this prospectus supplement, and incorporated by reference into it, our Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission ("SEC") on November 7, 2011.

November 7, 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 September 30, 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 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 £	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 November 1, 2011 was 41,749,116 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 and the Company’s Form 10-Q for the last fiscal quarter. The Company does not update any of its forward-looking statements.

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

	September 30, 2011	December 31, 2010
	(Dollars in thousands)	
Assets		
Cash and due from banks	$ 68,508	$ 61,725
Interest-bearing deposits in other banks	231,353	729,014
Investment securities:		
Available for sale, at fair value	1,466,970	702,517
Held to maturity (fair value of $1,287 at September 30, 2011 and $2,913 at December 31, 2010)	1,250	2,828
Total investment securities	1,468,220	705,345
Loans held for sale	43,839	69,748
Loans and leases	2,059,435	2,169,444
Less allowance for loan and lease losses	143,430	192,854
Net loans and leases	1,916,005	1,976,590
Premises and equipment, net	52,505	57,390
Accrued interest receivable	12,055	11,279
Investment in unconsolidated subsidiaries	13,051	14,856
Other real estate	62,720	57,507
Other intangible assets	42,367	44,639
Bank-owned life insurance	143,845	142,296
Federal Home Loan Bank stock	48,797	48,797
Income tax receivable	2,402	2,223
Other assets	13,491	16,642
Total assets	$ 4,119,158	$ 3,938,051
Liabilities and Equity		
Deposits:		
Noninterest-bearing demand	$ 681,619	$ 611,744
Interest-bearing demand	565,635	639,548
Savings and money market	1,121,969	1,089,813
Time	978,810	791,842
Total deposits	3,348,033	3,132,947
Short-term borrowings	1,224	202,480
Long-term debt	258,347	459,803
Other liabilities	60,699	66,766
Total liabilities	3,668,303	3,861,996
Equity:		
Preferred stock, no par value, authorized 1,000,000 shares; issued and outstanding none at September 30, 2011 and 135,000 shares at December 31, 2010	-	130,458

Common stock, no par value, authorized 185,000,000 shares, issued and outstanding 41,749,116 shares at September 30, 2011 and 1,527,000 shares at December 31, 2010		784,172		404,167
Surplus		65,479		63,308
Accumulated deficit		(408,943)		(517,316)
Accumulated other comprehensive income (loss)		161		(14,565)
Total shareholders' equity		440,869		66,052
Non-controlling interest		9,986		10,003
Total equity		450,855		76,055
Total liabilities and equity	$	4,119,158	$	3,938,051

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(Amounts in thousands, except per share data)			
Interest income:				
Interest and fees on loans and leases	$ 25,962	$ 33,456	$ 80,992	$ 106,556
Interest and dividends on investment securities:				
Taxable interest	7,918	3,885	20,380	15,639
Tax-exempt interest	186	184	549	889
Dividends	5	3	8	8
Interest on deposits in other banks	259	510	948	1,307
Total interest income	34,330	38,038	102,877	124,399
Interest expense:				
Interest on deposits:				
Demand	113	181	406	689
Savings and money market	459	1,323	1,691	4,459
Time	1,499	3,666	5,778	11,455
Interest on short-term borrowings	-	387	204	882
Interest on long-term debt	2,430	5,112	7,789	15,280
Total interest expense	4,501	10,669	15,868	32,765
Net interest income	29,829	27,369	87,009	91,634
Provision (credit) for loan and lease losses	(19,116)	79,893	(29,475)	159,142
Net interest income (loss) after provision for loan and lease losses	48,945	(52,524)	116,484	(67,508)
Other operating income:				
Service charges on deposit accounts	2,501	2,793	7,564	8,982
Other service charges and fees	4,451	4,110	12,953	11,445
Income from fiduciary activities	636	751	2,136	2,373
Equity in earnings of unconsolidated subsidiaries	136	197	301	328
Fees on foreign exchange	198	171	484	502
Investment securities gains	-	-	261	831
Loan placement fees	164	130	348	307
Net gain on sales of residential loans	1,177	2,036	4,380	5,313

Income from bank-owned life insurance	866	1,062	3,036	4,136
Other	1,380	400	3,483	2,934
Total other operating income	11,509	11,650	34,946	37,151
Other operating expense:				
Salaries and employee benefits	15,856	14,370	46,331	43,614
Net occupancy	3,466	3,196	10,234	9,803
Equipment	1,348	1,333	3,632	4,115
Amortization of other intangible assets	1,709	2,215	4,885	5,204
Communication expense	828	1,041	2,631	3,099
Legal and professional services	2,846	3,267	8,898	14,333
Computer software expense	894	856	2,706	2,632
Advertising expense	842	574	2,508	2,177
Goodwill impairment	-	-	-	102,689
Foreclosed asset expense	1,281	(1,017)	2,732	4,918
Write down of assets	(31)	-	4,624	940
Loss on early extinguishment of debt	6,234	-	6,234	-
Other	13,555	5,835	31,539	24,987
Total other operating expense	48,828	31,670	126,954	218,511
Income (loss) before income taxes	11,626	(72,544)	24,476	(248,868)
Income tax expense	-	-	-	-
Net income (loss)	11,626	(72,544)	24,476	(248,868)
Preferred stock dividends, accretion of discount and conversion of preferred stock to common stock	-	2,119	(83,897)	6,289
Net income (loss) available to common shareholders	$ 11,626	$ (74,663)	$ 108,373	$ (255,157)
Per common share data:				
Basic earnings (loss) per share	$ 0.28	$ (49.27)	$ 3.19	$ (168.45)
Diluted earnings (loss) per share	0.28	(49.27)	3.16	(168.45)
Shares used in computation:				
Basic shares	41,625	1,515	33,957	1,515
Diluted shares	41,672	1,515	34,272	1,515

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30, 2011	2010
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income (loss)	$ 24,476	$ (248,868)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision (credit) for loan and lease losses	(29,475)	159,142
Depreciation and amortization	5,591	5,798
Goodwill impairment	-	102,689
Write down of assets	4,624	940
Write down of other real estate, net of gain on sale	(1,220)	3,119
Amortization of other intangible assets	4,885	5,204
Net amortization of investment securities	5,630	1,563
Share-based compensation	2,171	108
Net gain on investment securities	(261)	(831)
Net change in trading securities	-	26,889
Deferred income tax expense	-	2,439
Net gain on sales of residential loans	(4,380)	(5,313)
Proceeds from sales of loans held for sale	417,745	753,986
Originations of loans held for sale	(422,756)	(680,091)
Equity in earnings of unconsolidated subsidiaries	(301)	(328)
Increase in cash surrender value of bank-owned life insurance	(1,708)	(3,845)
Net change in other assets and liabilities	4,603	24,702
Net cash provided by operating activities	9,624	147,303
Cash flows from investing activities:		
Proceeds from maturities of and calls on investment securities available for sale	267,762	229,657
Proceeds from sales of investment securities available for sale	5,324	439,435
Purchases of investment securities available for sale	(1,027,233)	(378,686)
Proceeds from maturities of and calls on investment securities held to maturity	1,565	1,380
Net loan principal repayments	55,815	255,618
Proceeds from sales of loans originated for investment	26,721	187,445
Proceeds from sale of other real estate	34,233	16,175
Proceeds from bank-owned life insurance	158	2,069
Purchases of premises and equipment	(706)	(1,753)
	522	724

Distributions from unconsolidated subsidiaries						
Contributions to unconsolidated subsidiaries		-			(227	)
Net cash provided by (used in) investing activities		(635,839	)		751,837	
Cash flows from financing activities:						
Net increase (decrease) in deposits		215,086			(381,583	)
Proceeds from long-term debt		-			50,000	
Repayments of long-term debt		(201,170	)		(90,864	)
Net decrease in short-term borrowings		(201,256	)		(40,755	)
Net proceeds from issuance of common stock and stock option exercises		322,677			-	
Other, net		-			110	
Net cash provided by (used in) financing activities		135,337			(463,092	)
Net increase (decrease) in cash and cash equivalents		(490,878	)		436,048	
Cash and cash equivalents at beginning of period		790,739			488,367	
Cash and cash equivalents at end of period	$	299,861		$	924,415	
Supplemental disclosure of cash flow information:						
Cash paid during the period for:						
Interest	$	16,055		$	31,739	
Income taxes		8			-	
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		38,226			44,298	
Net transfer of loans to loans held for sale		1,225			39,594	
Net transfer of investment securities available for sale to trading		-			49,126	
Dividends accrued on preferred stock		969			5,288	
Accretion of preferred stock discount		204			1,001	
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, including the completion of a $325 million capital raise in February 2011 (the "Private Placement") and a $20 million common stock rights offering. Upon completion of these milestones, which are described more fully in Note 11, there is no longer substantial doubt about our ability to continue as a going concern.

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 (loss) 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 "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 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 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.

On February 9, 2011, the bank entered into a separate Memorandum of Understanding (the "BSA MOU") with the FDIC and DFI relating to compliance with 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.

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, the Agreement or the BSA MOU 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 requirements. 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 a new consent order, 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 July 2010, the Financial Accounting Standards Board ("FASB") 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 ("TDR"). 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.

In April 2011, the FASB issued ASU 2011-02, A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring. This ASU provides additional guidance related to determining whether a creditor has granted a concession, includes factors and examples for creditors to consider in evaluating whether a restructuring results in a delay in payment that is insignificant, prohibits creditors from using the borrower's effective rate test to evaluate whether a concession has been granted to the borrower, and adds factors for creditors to use in determining whether a borrower is experiencing financial difficulties. We adopted this ASU in the Company's reporting period ended September 30, 2011, and the adoption of this guidance 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)		
September 30, 2011				
Available for Sale				
U.S. Government sponsored entities debt securities	$ 389,506	$ 2,826	$ (99)	$ 392,233
States and political subdivisions	12,355	-	-	12,355
U.S. Government sponsored entities mortgage-backed securities	1,045,487	17,420	(1,460)	1,061,447
Other	975	-	(40)	935
Total	$ 1,448,323	$ 20,246	$ (1,599)	$ 1,466,970
Held to Maturity				
U.S. Government sponsored entities mortgage-backed securities	$ 1,250	$ 37	$ -	$ 1,287
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 September 30, 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.

	September 30, 2011	
	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)	
Available for Sale		
Due in one year or less	$ 40,155	$ 40,269
	342,947	345,623

Due after one year through five years				
Due after five years through ten years		13,537		13,474
Due after ten years		5,222		5,222
Mortage-backed securities		1,045,487		1,061,447
Other		975		935
Total	$	1,448,323	$	1,466,970
Held to Maturity				
Mortage-backed securities	$	1,250	$	1,287

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

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As part of our recovery plan, we sold certain available for sale investment securities during the nine months ended September 30, 2010 for gross proceeds of $439.4 million. We did not sell any available for sale investment securities during the third quarter of 2010. Gross realized gains and losses on the sales of the available for sale investment securities during the nine months ended September 30, 2010 were $9.6 million and $8.8 million, respectively.

Investment securities of $883.4 million and $613.5 million at September 30, 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 16 and 18 investment securities which were in an unrealized loss position at September 30, 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 September 30, 2011:						
U.S. Government sponsored entities debt securities	$ 26,983	$ (99)	$ -	$ -	$ 26,983	$ (99)
U.S. Government sponsored entities mortgage-backed securities	226,729	(1,460)	-	-	226,729	(1,460)
Other	935	(40)	-	-	935	(40)
Total temporarily impaired securities	$ 254,647	$ (1,599)	$ -	$ -	$ 254,647	$ (1,599)
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:

	September 30, 2011	December 31, 2010
	(Dollars in thousands)	
Commercial, financial and agricultural	$ 179,542	$ 207,900
Real estate:		
Construction	196,213	314,530
Mortgage - residential	857,629	747,870
Mortgage - commercial	698,800	761,710
Consumer	109,201	112,950
Leases	20,051	28,163
	2,061,436	2,173,123
Unearned income	(2,001)	(3,679)
Total loans and leases	$ 2,059,435	$ 2,169,444

During the nine months ended September 30, 2011, we transferred one loan, which was non-performing, with a carrying value of $1.3 million, to the held-for-sale category. No portfolio loans were sold or purchased during the nine months ended September 30, 2011. During the nine months ended September 30, 2010, we transferred loans with a carrying value of $39.6 million, to the held-for-sale category and sold portfolio loans with a carrying value of $180.2 million. No loans were purchased during the nine months ended September 30, 2010.

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, 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	$ 53	$ 1,951	$ -	$ 414	$ -	$ -	$ 2,418
Collectively evaluated for impairment	6,950	36,874	31,056	58,694	2,768	670	137,012
	7,003	38,825	31,056	59,108	2,768	670	139,430
Unallocated							4,000
Total ending balance	$ 7,003	$ 38,825	$ 31,056	$ 59,108	$ 2,768	$ 670	$ 143,430
Loans and leases:							
	$ 318	$ 91,045	$ 58,610	$ 15,140	$ -	$ -	$ 165,113

Individually evaluated for impairment							
Collectively evaluated for impairment	179,224	105,168	799,019	683,660	109,201	20,051	1,896,323
	179,542	196,213	857,629	698,800	109,201	20,051	2,061,436
Unearned income	98	(110)	(675)	(1,314)	-	-	(2,001)
Total ending balance	$ 179,640	$ 196,103	$ 856,954	$ 697,486	$ 109,201	$ 20,051	$ 2,059,435

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The following table presents by class, impaired loans as of September 30, 2011 and December 31, 2010:

	Unpaid Principal Balance	Recorded Investment	Allowance Allocated
		(Dollars in thousands)	
September 30, 2011			
Impaired loans with no related allowance recorded:			
Real estate:			
Construction	$ 116,502	$ 66,394	$ -
Mortgage - residential	65,946	58,610	-
Mortgage - commercial	9,954	9,640	-
Total impaired loans with no related allowance recorded	192,402	134,644	-
Impaired loans with an allowance recorded:			
Commercial, financial & agricultural	1,017	318	53
Real estate:			
Construction	33,216	24,651	1,951
Mortgage - commercial	7,105	5,500	414
Total impaired loans with an allowance recorded	41,338	30,469	2,418
Total	$ 233,740	$ 165,113	$ 2,418
December 31, 2010			
Impaired loans with no related allowance recorded:			
Real estate:			
Construction	$ 112,675	$ 85,571	$ -
Mortgage - residential	66,203	58,333	-
Mortgage - commercial	10,917	10,917	-
Total impaired loans with no related allowance recorded	189,795	154,821	-
Impaired loans 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 impaired loans with an allowance recorded	117,040	70,213	19,525
Total	$ 306,835	$ 225,034	$ 19,525

The following table presents by class, the average recorded investment and interest income recognized on impaired loans as of September 30, 2011 and December 31, 2010:

	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			

September 30, 2011								
Commercial, financial & agricultural	$	3,724	$	-	$	4,830	$	-
Real estate:								
Construction		111,017		133		127,971		771
Mortgage - residential		51,484		130		50,024		335
Mortgage - commercial		24,574		172		24,380		556
Total	$	190,799	$	435	$	207,205	$	1,662

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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, 2011 and December 31, 2010:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Accruing Loans Greater than 90 Days Past Due	Nonaccrual Loans	Total Past Due	Loans and Leases Not Past Due	Total
				(Dollars in thousands)			
September 30, 2011							
Commercial, financial & agricultural	$ 388	$ 334	$ -	$ 654	$ 1,376	$ 178,264	$ 179,640
Real estate:							
Construction	-	715	-	90,369	91,084	105,019	196,103
Mortgage - residential	139	855	405	56,108	57,507	799,447	856,954
Mortgage - commercial	1,155	-	-	13,472	14,627	682,859	697,486
Consumer	408	74	9	-	491	108,710	109,201
Leases	-	-	-	-	-	20,051	20,051
Total	$ 2,090	$ 1,978	$ 414	$ 160,603	$ 165,085	$ 1,894,350	$ 2,059,435
December 31, 2010							
Commercial, financial & agricultural	$ 495	$ 252	$ -	$ 982	$ 1,729	$ 206,251	$ 207,980
Real estate:							
Construction	12,551	118	6,550	182,073	201,292	112,493	313,785
Mortgage - residential	4,183	7,494	1,800	47,560	61,037	685,224	746,261
Mortgage - commercial	273	3,169	-	14,464	17,906	742,400	760,306
Consumer	620	444	181	225	1,470	111,479	112,949
Leases	100	-	-	-	100	28,063	28,163
Total	$ 18,222	$ 11,477	$ 8,531	$ 245,304	$ 283,534	$ 1,885,910	$ 2,169,444

Modifications

TDRs included in nonperforming assets at September 30, 2011 consisted of 101 Hawaii residential mortgage loans with a combined principal balance of $41.3 million, eight Hawaii construction and development loans with a combined principal balance of $36.1 million, and one Hawaii commercial loan with a principal balance of $0.3 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 $2.9 million of TDRs still accruing interest at September 30, 2011, none of which were more than 90 days delinquent. At December 31, 2010, there were $14.2 million of TDRs still accruing interest, including two residential mortgage loans totaling $0.8 million that were more than 90 days delinquent.

The majority of loans modified in a TDR are typically on nonaccrual status. Thus, these loans have already been identified as impaired and have already been evaluated under the Company's allowance for loan and lease losses (the "Allowance") methodology. As a result, the loans modified in a TDR did not have a material affect to our provision for loan and lease losses expense (the "Provision") and the Allowance during the three and nine months ended September 30, 2011.

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

	Number of Contracts	Recorded Investment (as of period end)	Additional Partial Charge-offs
		(Dollars in thousands)	
Three months ended September 30, 2011			
Real estate:			
Mortgage - residential	9	$ 2,954	$ -
Nine months ended September 30, 2011			
Real estate:			
Construction	2	$ 10,593	$ -
Mortgage - residential	26	9,635	447
Total	28	$ 20,228	$ 447

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, 2011:

	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
	Number of Contracts	Recorded Investment (as of period end)	Number of Contracts	Recorded Investment (as of period end)
		(Dollars in thousands)		
Real estate:				
Construction	-	$ -	1	$ 5,332
Mortgage - residential	1	347	37	13,503
Total	1	$ 347	38	$ 18,835

Credit Quality Indicators

The Company categorizes loans and leases into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans and leases individually by classifying the loans and leases as to credit risk. This analysis includes loans and leases with an outstanding balance greater than $0.5 million or $1.0 million, depending on loan type, and non-homogeneous loans and leases, such as commercial and commercial real estate loans. This analysis is performed on a quarterly basis. The Company uses the following definitions for risk ratings:

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

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

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

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

Loans and leases not meeting the criteria above that are analyzed individually as part of the process described above are considered to be pass rated loans and leases. Loans and leases listed as not rated are either less than $0.5 million or are included in groups of homogeneous loan pools. The following table presents by class and credit indicator, the recorded investment in the Company's loans and leases as of September 30, 2011 and December 31, 2010:

	Pass	Special Mention	Substandard	Doubtful	Loss	Not Rated	Less: Unearned Income	Total
				(Dollars in thousands)				
September 30, 2011								
Commercial, financial & agricultural	$ 109,988	$ 2,278	$ 15,930	$ -	$ -	$ 51,346	$ (98)	$ 179,640
Real estate:								
Construction	54,807	13,301	122,353	-	-	5,752	110	196,103
Mortgage - residential	66,849	7,478	62,115	-	-	721,187	675	856,954
Mortgage - commercial	540,786	68,917	57,024	-	-	32,073	1,314	697,486
Consumer	4,993	199	63	-	-	103,946	-	109,201
Leases	18,036	464	1,551	-	-	-	-	20,051
Total	$ 795,459	$ 92,637	$ 259,036	$ -	$ -	$ 914,304	$ 2,001	$ 2,059,435
December 31, 2010								
Commercial, financial & agricultural	$ 109,619	$ 22,529	$ 19,370	$ -	$ -	$ 56,382	$ (80)	$ 207,980
Real estate:								
Construction	44,488	41,330	215,187	5,789	-	7,736	745	313,785
Mortgage - residential	70,747	17,475	55,533	-	-	604,115	1,609	746,261
Mortgage - commercial	557,511	67,639	97,871	2,883	-	35,806	1,404	760,306
Consumer	5,778	307	769	-	14	106,082	1	112,949
Leases	21,761	4,039	2,363	-	-	-	-	28,163
Total	$ 809,904	$ 153,319	$ 391,093	$ 8,672	$ 14	$ 810,121	$ 3,679	$ 2,169,444

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, 2011 and December 31, 2010, we did not have any loans that we considered to be subprime.

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6. ALLOWANCE FOR LOAN AND LEASE LOSSES

The following table presents the changes in the Allowance for the periods indicated:

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
	(Dollars in thousands)			
Balance, beginning of period	$ 166,934	$ 201,959	$ 192,854	$ 205,279
Provision (credit) for loan and lease losses	(19,116)	79,893	(29,475)	159,142
	147,818	281,852	163,379	364,421
Charge-offs	(5,943)	(79,047)	(30,268)	(169,757)
Recoveries	1,555	14,797	10,319	22,938
Net charge-offs	(4,388)	(64,250)	(19,949)	(146,819)
Balance, end of period	$ 143,430	$ 217,602	$ 143,430	$ 217,602

Our Provision was a credit of $19.1 million and $29.5 million in the three and nine months ended September 30, 2011, respectively, compared to a charge of $79.9 million and $159.1 million in the three and nine months ended September 30, 2010, respectively. The decrease in both our Provision and Allowance is directly attributable to continued improvement in our credit risk profile as evidenced by declines in nonperforming assets and lower levels of net charge-offs.

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

	Commercial, financial & agricultural	Construction	Real estate Mortgage - residential	Mortgage - commercial	Consumer	Leases	Unallocated	Total
	(Dollars in thousands)							
Three Months Ended September 30, 2011								
Beginning balance	$ 12,627	$ 52,490	$ 28,426	$ 65,633	$ 2,971	$ 787	$ 4,000	$ 166,934
Provision (credit) for loan and lease losses	(5,618)	(9,720)	2,888	(6,560)	1	(107)	-	(19,116)
	7,009	42,770	31,314	59,073	2,972	680	4,000	147,818
Charge-offs	(385)	(4,431)	(447)	(193)	(477)	(10)	-	(5,943)
Recoveries	379	486	189	228	273	-	-	1,555
Net charge-offs	(6)	(3,945)	(258)	35	(204)	(10)	-	(4,388)
Ending balance	$ 7,003	$ 38,825	$ 31,056	$ 59,108	$ 2,768	$ 670	$ 4,000	$ 143,430
Nine Months Ended September 30, 2011								
Beginning balance	$ 13,426	$ 76,556	$ 31,830	$ 64,308	$ 3,155	$ 1,579	$ 2,000	$ 192,854
Provision (credit) for loan and lease losses	(5,842)	(22,843)	1,852	(4,172)	429	(899)	2,000	(29,475)

	7,584	53,713	33,682	60,136	3,584	680	4,000	163,379
Charge-offs	(2,246)	(21,289)	(3,746)	(1,298)	(1,679)	(10)	-	(30,268)
Recoveries	1,665	6,401	1,120	270	863	-	-	10,319
Net charge-offs	(581)	(14,888)	(2,626)	(1,028)	(816)	(10)	-	(19,949)
Ending balance	$ 7,003	$ 38,825	$ 31,056	$ 59,108	$ 2,768	$ 670	$ 4,000	$ 143,430

In determining the amount of our Allowance, we rely on an analysis of our loan portfolio, our experience and our evaluation of general economic conditions, as well as regulatory requirements and input. If our assumptions prove to be incorrect, our current Allowance may not be sufficient to cover future loan losses and we may experience increases to our Provision.

7. SECURITIZATIONS

In prior years, we securitized certain residential mortgage loans with a U.S. Government sponsored entity and continue to service the residential mortgage loans. The servicing assets were recorded at their respective fair values at the time of securitization. The fair value of the servicing assets was determined using a discounted cash flow model based on market value assumptions at the time of securitization and is amortized in proportion to and over the period of net servicing income.

All unsold mortgage-backed securities were categorized as available for sale securities and were therefore recorded at their fair value of $10.0 million at September 30, 2011 and December 31, 2010. The fair values of these mortgage-backed securities were based on quoted prices of similar instruments in active markets. Unrealized gains of $0.6 million and $34 thousand on unsold mortgage-backed securities were recorded in accumulated other comprehensive income (“AOCI”) at September 30, 2011 and December 31, 2010, respectively.

8. GOODWILL AND OTHER INTANGIBLE ASSETS

During the first quarter of 2010, we determined that an impairment test on our remaining goodwill was required because of the uncertainty regarding our ability to continue as a going concern at that time combined with the fact that our market capitalization remained depressed. As a result of that impairment test, we determined that the remaining goodwill associated with our Hawaii Market reporting unit was impaired and we recorded a non-cash impairment charge of $102.7 million. Since that time, we had no goodwill remaining on our consolidated balance sheet.

Prior to the first quarter of 2010, we reviewed the carrying amount of goodwill for impairment on an annual basis and performed additional assessments on a quarterly basis whenever indicators of impairment were evident. Goodwill attributable to each of our reporting units was tested for impairment by comparing their respective fair values to their carrying values. When determining fair value, we utilized a discounted cash flow methodology for our Commercial Real Estate reporting unit and versions of the guideline company, guideline transaction and discounted cash flow methodologies for our Hawaii Market reporting unit. Absent any impairment indicators, we performed our annual goodwill impairment tests during the fourth quarter of each fiscal year.

Similar to our process for evaluating our goodwill for impairment, we also perform an impairment assessment of our other intangible assets whenever events or changes in circumstance indicate that the carrying value of those assets may not be recoverable.

Our impairment assessment of goodwill and other intangible assets involve, among other valuation methods, the estimation of future cash flows and other methods of determining fair value. Estimating future cash flows and determining fair values is subject to judgments and often involves the use of significant estimates and assumptions, including assumptions about the future growth and potential volatility in revenues and costs, capital expenditures, industry economic factors and future business strategy. The variability of the factors we use to perform the goodwill impairment test depends on a number of conditions, including uncertainty about future events and cash flows. All such factors are interdependent and, therefore, do not change in isolation. Accordingly, our accounting estimates may materially change from period to period due to changing market factors. If we had used other assumptions and estimates or if different conditions occur in future periods, including, but not limited to, changes in other reporting units or operating segments, future operating results could be materially impacted.

Other intangible assets include a core deposit premium, mortgage servicing rights, customer relationships and non-compete agreements. The following table presents changes in other intangible assets for the nine months ended September 30, 2011:

	Core Deposit Premium	Mortgage Servicing Rights	Customer Relationships	Non-Compete Agreements	Total
			(Dollars in thousands)		
Balance, beginning of period	$ 20,727	$ 22,712	$ 1,050	$ 150	$ 44,639
Additions	-	2,613	-	-	2,613
Amortization	(2,006)	(2,729)	(105)	(45)	(4,885)

Balance, end of period	$	18,721	$	22,596	$	945	$	105	$	42,367

Income generated as the result of new mortgage servicing rights is reported as gains on sales of loans and totaled $0.5 million and $2.6 million for the three and nine months ended September 30, 2011, respectively, compared to $1.6 million and $4.6 million for the three and nine months ended September 30, 2010, respectively. Amortization of mortgage servicing rights was $1.0 million and $2.7 million for the three and nine months ended September 30, 2011, respectively, compared to $1.5 million and $3.0 million for the three and nine months ended September 30, 2010, respectively.

The following table presents the fair market value and key assumptions used in determining the fair market value of our mortgage servicing rights:

	Nine Months Ended September 30, 2011	2010
	(Dollars in thousands)	
Fair market value, beginning of period	$ 23,709	$ 23,019
Fair market value, end of period	22,616	22,228
Weighted average discount rate	8.5 %	8.5 %
Weighted average prepayment speed assumption	13.6	13.8

The gross carrying value and accumulated amortization related to our intangible assets are presented below:

	September 30, 2011			December 31, 2010		
	Gross Carrying Value	Accumulated Amortization	Net	Gross Carrying Value	Accumulated Amortization	Net
	(Dollars in thousands)					
Core deposit premium	$ 44,642	$ (25,921)	$ 18,721	$ 44,642	$ (23,915)	$ 20,727
Mortgage servicing rights	44,280	(21,684)	22,596	41,667	(18,955)	22,712
Customer relationships	1,400	(455)	945	1,400	(350)	1,050
Non-compete agreements	300	(195)	105	300	(150)	150
	$ 90,622	$ (48,255)	$ 42,367	$ 88,009	$ (43,370)	$ 44,639

Based on the core deposit premium, mortgage servicing rights, customer relationships and non-compete agreements held as of September 30, 2011, estimated amortization expense for the remainder of fiscal 2011, the next five succeeding fiscal years and all years thereafter are as follows:

	Estimated Amortization Expense				
	Core Deposit Premium	Mortgage Servicing Rights	Customer Relationships	Non-Compete Agreements	Total
	(Dollars in thousands)				
2011 (remainder)	$ 669	$ 1,105	$ 35	$ 15	$ 1,824
2012	2,674	3,833	140	60	6,707
2013	2,674	3,207	140	30	6,051
2014	2,674	2,626	140	-	5,440
2015	2,674	2,188	140	-	5,002
2016	2,674	1,846	140	-	4,660

Thereafter	4,682	7,791	210	-	12,683
	$ 18,721	$ 22,596	$ 945	$ 105	$ 42,367

9. DERIVATIVES

We utilize various designated and undesignated derivative financial instruments to reduce our exposure to movements in interest rates including interest rate swaps, interest rate lock commitments and forward sale commitments. We measure all derivatives at fair value on our consolidated balance sheet. In each reporting period, we record the derivative instruments in other assets or other liabilities depending on whether the derivatives are in an asset or liability position. For derivative instruments that are designated as hedging instruments, we record the effective portion of the changes in the fair value of the derivative in AOCI, net of tax, until earnings are affected by the variability of cash flows of the hedged transaction. We immediately recognize the portion of the gain or loss in the fair value of the derivative that represents hedge ineffectiveness in current period earnings. For derivative instruments that are not designated as hedging instruments, changes in the fair value of the derivative are included in current period earnings.

Interest Rate Swap

In January 2008, we entered into a derivative transaction to hedge future cash flows from a portion of our then existing variable rate loan portfolio. Under the terms of the arrangement, we would receive payments equal to a fixed interest rate of 6.25% from January 2008 through January 2013 from the counterparty on a notional amount of $400 million. In return, we would pay the counterparty a floating rate, namely our prime rate, on the same notional amount. The purpose of the derivative transaction was to minimize the risk of fluctuations in interest payments received on our variable rate loan portfolio. The derivative transaction was designated as a cash flow hedge.

On September 1, 2009, we terminated the derivative transaction with the counterparty at its then fair market value of $18.0 million. As a result of the termination, we recorded an unrealized gain related to hedge effectiveness of $12.5 million as a component of AOCI and $5.5 million of hedge ineffectiveness as other operating income. The unrealized gain is being recognized into income over the original contract period through January 2013 using the effective yield method and we expect to reclassify $1.6 million of this gain into earnings within the next 12 months.

Interest Rate Lock and Forward Sale Commitments

We enter into interest rate lock commitments on certain mortgage loans that are intended to be sold. To manage interest rate risk on interest rate lock commitments, we also enter into forward loan sale commitments. The interest rate lock and forward loan sale commitments are accounted for as undesignated derivatives and are recorded at their respective fair values in other assets or other liabilities, with changes in fair value recorded in current period earnings. These instruments serve to reduce our exposure to movements in interest rates. At September 30, 2011, we were a party to interest rate lock and forward sale commitments on $148.8 million and $30.1 million of mortgage loans, respectively.

The following table presents the location of all assets and liabilities associated with our derivative instruments within the consolidated balance sheet:

		Asset Derivatives		Liability Derivatives	
Derivatives not designated as hedging instruments	Balance Sheet Location	Fair Value at September 30, 2011	Fair Value at December 31, 2010	Fair Value at September 30, 2011	Fair Value at December 31, 2010
			(Dollars in thousands)		
Interest rate contracts	Other assets / other liabilities	$			