CENTRAL PACIFIC FINANCIAL CORP
Form 10-Q
May 07, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

or

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

For the transition period from to

Commission file number 001-31567

CENTRAL PACIFIC FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

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

220 South King Street, Honolulu, Hawaii 96813

(Address of principal executive offices) (Zip Code)

(808) 544-0500

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

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

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

The number of shares outstanding of registrant s common stock, no par value, on April 28, 2015 was 31,537,681 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, net interest margin 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 t 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: an increase in inventory or adverse conditions in the Hawaii and California real estate markets and deterioration 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; deterioration or malaise in domestic economic conditions, including any further destabilization 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; ability to successfully implement our initiatives to lower our efficiency ratio; 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 stock; political instability; acts of war or terrorism; changes in consumer spending, borrowings and savings habits; failure to maintain effective internal control over financial reporting or disclosure controls and procedures; 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 key personnel; 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.

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CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	March 31, 2015	December 31, 2014
	(Dollars in thousands)	
Assets		
Cash and due from banks	$ 74,743	$ 72,316
Interest-bearing deposits in other banks	10,478	13,691
Investment securities:		
Available for sale, at fair value	1,298,487	1,229,018
Held to maturity, at amortized cost (fair value of $256,357 at March 31, 2015 and $235,597 at December 31, 2014)	255,592	238,287
Total investment securities	1,554,079	1,467,305
Loans held for sale	7,206	9,683
Loans and leases	2,967,772	2,932,198
Allowance for loan and lease losses	(71,433)	(74,040)
Net loans and leases	2,896,339	2,858,158
Premises and equipment, net	48,768	49,214
Accrued interest receivable	13,420	13,584
Investment in unconsolidated subsidiaries	6,840	7,246
Other real estate	3,349	2,948
Other intangible assets	28,230	29,697
Bank-owned life insurance	153,251	152,283
Federal Home Loan Bank stock	43,442	43,932
Other assets	125,780	132,930
Total assets	$ 4,965,925	$ 4,852,987
Liabilities and Equity		
Deposits:		
Noninterest-bearing demand	$ 1,042,781	$ 1,034,146
Interest-bearing demand	806,555	788,272
Savings and money market	1,247,266	1,242,598
Time	1,092,040	1,045,284
Total deposits	4,188,642	4,110,300
Short-term borrowings	70,000	38,000
Long-term debt	92,785	92,785
Other liabilities	41,573	43,861
Total liabilities	4,393,000	4,284,946
Equity:		
Preferred stock, no par value, authorized 1,100,000 shares, issued and outstanding none at March 31, 2015 and December 31, 2014, respectively		
Common stock, no par value, authorized 185,000,000 shares, issued and outstanding 34,797,133 and 35,233,674 shares at March 31, 2015 and December 31, 2014, respectively	632,867	642,205
Surplus	80,545	79,716

Accumulated deficit		(150,815)		(157,039)
Accumulated other comprehensive income		10,328		3,159
Total equity		572,925		568,041
Total liabilities and equity	$	4,965,925	$	4,852,987

See accompanying notes to consolidated financial statements.

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CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Amounts in thousands, except per share data)	**Three Months Ended March 31, 2015**	**2014**
Interest income:		
Interest and fees on loans and leases	$ 28,602	$ 26,883
Interest and dividends on investment securities:		
Taxable interest	8,150	9,496
Tax-exempt interest	998	994
Dividends	9	1
Interest on deposits in other banks	11	7
Dividends on Federal Home Loan Bank stock	11	12
Total interest income	37,781	37,393
Interest expense:		
Interest on deposits:		
Demand	95	90
Savings and money market	223	224
Time	548	630
Interest on short-term borrowings	43	17
Interest on long-term debt	637	636
Total interest expense	1,546	1,597
Net interest income	36,235	35,796
Provision (credit) for loan and lease losses	(2,747)	(1,316)
Net interest income after credit for loan and lease losses	38,982	37,112
Other operating income:		
Service charges on deposit accounts	1,968	1,993
Loan servicing fees	1,423	1,444
Other service charges and fees	3,105	2,943
Income from fiduciary activities	834	1,062
Equity in earnings of unconsolidated subsidiaries	96	52
Fees on foreign exchange	128	114
Income from bank-owned life insurance	674	670
Loan placement fees	147	143
Net gain on sales of residential loans	1,594	1,239
Net gain on sales of foreclosed assets	33	162
Other	1,188	322
Total other operating income	11,190	10,144
Other operating expense:		
Salaries and employee benefits	17,165	17,434
Net occupancy	3,501	3,590
Equipment	909	796
Amortization of other intangible assets	2,105	1,240
Communication expense	824	894
Legal and professional services	2,219	1,812

Computer software expense		2,096		1,358
Advertising expense		635		686
Foreclosed asset expense		72		105
Other		4,492		4,015
Total other operating expense		34,018		31,930
Income before income taxes		16,154		15,326
Income tax expense		5,759		5,518
Net income	$	10,395	$	9,808
Per common share data:				
Basic earnings per share	$	0.30	$	0.23
Diluted earnings per share		0.29		0.23
Cash dividends declared		0.12		0.08
Shares used in computation:				
Basic shares		34,827		41,915
Diluted shares		35,479		42,477

See accompanying notes to consolidated financial statements.

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CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
	(Dollars in thousands)	
Net income	$ 10,395	$ 9,808
Other comprehensive income, net of tax		
Net change in unrealized gain on investment securities	6,909	9,576
Minimum pension liability adjustment	260	187
Other comprehensive income, net of tax	7,169	9,763
Comprehensive income	$ 17,564	$ 19,571

See accompanying notes to consolidated financial statements.

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CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)

	Common Shares Outstanding	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, 2014	35,233,674	$	$ 642,205	$ 79,716	$ (157,039)	$ 3,159	$	$ 568,041
Net income					10,395			10,395
Other comprehensive income						7,169		7,169
Cash dividends ($0.12 per share)					(4,171)			(4,171)
12,559 net shares of common stock purchased by directors deferred compensation plan			(50)					(50)
473,829 shares of common stock repurchased and other related costs	(473,829)		(9,288)					(9,288)
Share-based compensation	37,288			829				829
Non-controlling interests								
Balance at March 31, 2015	34,797,133	$	$ 632,867	$ 80,545	$ (150,815)	$ 10,328	$	$ 572,925
Balance at December 31, 2013	42,107,633	$	$ 784,547	$ 75,498	$ (184,087)	$ (15,845)	$ 61	$ 660,174
Net income					9,808			9,808
Other comprehensive income						9,763		9,763
Cash dividends ($0.08 per share)					(3,370)			(3,370)
3,368 net shares of common stock sold by directors deferred compensation plan			34					34
3,405,888 shares of common stock repurchased and other related costs	(3,405,888)		(68,873)					(68,873)
Share-based compensation	21,505			928				928
Non-controlling interests								
Balance at March 31, 2014	38,723,250	$	$ 715,708	$ 76,426	$ (177,649)	$ (6,082)	$ 61	$ 608,464

See accompanying notes to consolidated financial statements.

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CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended March 31, 2015	2014
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	$ 10,395	$ 9,808
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision (credit) for loan and lease losses	(2,747)	(1,316)
Depreciation and amortization	1,479	1,463
Write down of other real estate, net of gain on sale		(65)
Amortization of other intangible assets	2,105	1,240
Net amortization of investment securities	1,918	2,191
Share-based compensation	829	928
Net gain on sales of residential loans	(1,594)	(1,239)
Proceeds from sales of loans held for sale	96,788	84,989
Originations of loans held for sale	(92,717)	(82,627)
Equity in earnings of unconsolidated subsidiaries	(96)	(52)
Increase in cash surrender value of bank-owned life insurance	(968)	(670)
Deferred income taxes	5,339	5,535
Net change in other assets and liabilities	(5,020)	(1,169)
Net cash provided by operating activities	15,711	19,016
Cash flows from investing activities:		
Proceeds from maturities of and calls on investment securities available for sale	35,942	32,639
Purchases of investment securities available for sale	(95,716)	(18,923)
Proceeds from maturities of and calls on investment securities held to maturity	4,807	3,171
Purchases of investment securities held to maturity	(22,249)	
Net loan originations	(36,803)	(66,567)
Proceeds from sale of other real estate	968	771
Purchases of premises and equipment	(1,033)	(416)
Distributions from unconsolidated subsidiaries	214	354
Contributions to unconsolidated subsidiaries		(60)
Proceeds from redemption of FHLB stock	490	601
Net cash used in investing activities	(113,380)	(48,430)
Cash flows from financing activities:		
Net increase in deposits	78,342	49,594
Repayments of long-term debt		(4)
Net increase in short-term borrowings	32,000	93,985
Cash dividends paid on common stock	(4,171)	(3,370)
Repurchases of common stock and other related costs	(9,288)	(68,873)
Net cash provided by financing activities	96,883	71,332
Net increase (decrease) in cash and cash equivalents	(786)	41,918
Cash and cash equivalents at beginning of period	86,007	49,348
Cash and cash equivalents at end of period	$ 85,221	$ 91,266

Supplemental disclosure of cash flow information:				
Cash paid during the period for:				
Interest	$	1,599	$	1,654
Income taxes		100		
Cash received during the period for:				
Income taxes				79
Supplemental disclosure of noncash investing and financing activities:				
Net change in common stock held by directors deferred compensation plan	$	50	$	(34)
Net reclassification of loans to other real estate		1,369		372

See accompanying notes to consolidated financial statements.

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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, 2014. 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. RECENT ACCOUNTING PRONOUNCEMENTS

In January 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-01, *Investments Equity Method and Joint Ventures: Accounting for Investments in Qualified Affordable Housing Projects.* The provisions of ASU 2014-01 provide guidance on accounting for investments by a reporting entity in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low-income housing tax credit. The ASU permits entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. The Company did not elect the use of the proportional amortization method of ASU 2014-01 on January 1, 2015 which has no material impact on our consolidated financial statements.

In January 2014, the FASB issued ASU 2014-04, *Receivables Troubled Debt Restructurings by Creditors Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure.* The provisions of ASU 2014-04 provide guidance on when an in substance repossession or foreclosure occurs, which is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate property recognized. Additionally, the amendments in this update require interim and annual disclosure of both: 1) the amount of foreclosed residential real estate property held by the creditor and 2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The Company adopted the prospective transition method of ASU 2014-04 on January 1, 2015 and the adoption did not have a material impact on our consolidated financial statements.

In June 2014, the FASB issued ASU 2014-11, *Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures.* ASU 2014-11 requires two accounting changes. First, the amendments change the accounting for repurchase-to-maturity transactions to secured borrowings. Second, for repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. ASU 2014-11 requires disclosures for certain transactions comprising a transfer of a financial asset accounted for as a sale, and an agreement with the same transferee entered into in contemplation of the initial transfer which results in the transferor retaining substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. ASU 2014-11 also requires additional disclosures for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions that are accounted for as secured borrowings. The adoption of ASU 2014-11 on January 1, 2015 did not have a material impact on our consolidated financial statements.

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In August 2014, the FASB issued ASU 2014-14, *Receivables Troubled Debt Restructurings by Creditors Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure.* ASU 2014-14 requires that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: 1) the loan has a government guarantee that is not separable from the loan before foreclosure; 2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim; and 3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance expected to be recovered from the guarantor. The adoption of ASU 2014-14 on January 1, 2015 did not have a material impact on our consolidated financial statements.

3. 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)			
At March 31, 2015:				
Held to Maturity:				
Mortgage-backed securities - U.S. Government sponsored entities	$ 255,592	$ 1,446	$ (681)	$ 256,357
Available for Sale:				
Debt securities:				
States and political subdivisions	$ 189,961	$ 3,380	$ (863)	$ 192,478
Corporate securities	98,847	2,480		101,327
Mortgage-backed securities:				
U.S. Government sponsored entities	776,750	12,912	(2,616)	787,046
Non-agency collateralized mortgage obligations	208,455	8,412	(81)	216,786
Other	747	103		850
Total	$ 1,274,760	$ 27,287	$ (3,560)	$ 1,298,487
At December 31, 2014:				
Held to Maturity:				
Mortgage-backed securities - U.S. Government sponsored entities	$ 238,287	$ 196	$ (2,886)	$ 235,597
Available for Sale:				
Debt securities:				
States and political subdivisions	$ 191,280	$ 2,054	$ (1,689)	$ 191,645
Corporate securities	99,237	1,492	(125)	100,604
Mortgage-backed securities:				
U.S. Government sponsored entities	744,527	11,064	(4,033)	751,558
Non-agency collateralized mortgage obligations	180,905	4,456	(1,027)	184,334
Other	757	120		877
Total	$ 1,216,706	$ 19,186	$ (6,874)	$ 1,229,018

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The amortized cost and estimated fair value of investment securities at March 31, 2015 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, 2015			
	Amortized Cost (Dollars in thousands)		Estimated Fair Value	
Held to Maturity				
Mortage-backed securities	$	255,592	$	256,357
Available for Sale				
Due in one year or less	$		$	
Due after one year through five years		70,129		71,798
Due after five years through ten years		103,461		105,207
Due after ten years		115,218		116,800
Mortage-backed securities		985,205		1,003,832
Other		747		850
Total	$	1,274,760	$	1,298,487

We did not sell any available for sale securities during the first quarter of 2015 and 2014.

Investment securities of $944.4 million and $900.5 million at March 31, 2015 and December 31, 2014, respectively, were pledged to secure public funds on deposit and other long-term and short-term borrowings.

Provided below is a summary of the 121 and 195 investment securities which were in an unrealized loss position at March 31, 2015 and December 31, 2014, respectively.

	Less than 12 months				12 months or longer (Dollars in thousands)				Total			
Description of Securities		**Fair Value**		**Unrealized Losses**		**Fair Value**		**Unrealized Losses**		**Fair Value**		**Unrealized Losses**
At March 31, 2015:												
Debt securities:												
States and political subdivisions	$	34,821	$	(257)	$	23,447	$	(606)	$	58,268	$	(863)
Corporate securities												
Mortgage-backed securities:												
U.S. Government sponsored entities		143,680		(1,298)		176,086		(1,999)		319,766		(3,297)
Non-agency collateralized mortgage obligations		31,664		(81)						31,664		(81)
Total temporarily impaired securities	$	210,165	$	(1,636)	$	199,533	$	(2,605)	$	409,698	$	(4,241)
At December 31, 2014:												
Debt securities:												

States and political subdivisions	$	23,591	$	(145)	$	68,622	$	(1,544)	$	92,213	$	(1,689)
Corporate securities		23,938		(125)						23,938		(125)
Mortgage-backed securities:												
U.S. Government sponsored entities		119,210		(521)		403,926		(6,398)		523,136		(6,919)
Non-agency collateralized mortgage obligations		20,857		(100)		47,539		(927)		68,396		(1,027)
Total temporarily impaired securities	$	187,596	$	(891)	$	520,087	$	(8,869)	$	707,683	$	(9,760)

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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 declines 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.

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 our investments to be other-than-temporarily impaired.

4. LOANS AND LEASES

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

	March 31, 2015	December 31, 2014
	(Dollars in thousands)	

Commercial, financial and agricultural	$	500,251	$	463,070
Real estate:				
Construction		113,137		115,023
Mortgage - residential		1,298,076		1,280,089
Mortgage - commercial		702,113		704,099
Consumer		350,344		365,662
Leases		2,885		3,140
		2,966,806		2,931,083
Net deferred costs		966		1,115
Total loans and leases	$	2,967,772	$	2,932,198

During the three months ended March 31, 2015, we transferred the collateral in three portfolio loans with a carrying value of $1.4 million to other real estate. We did not transfer any portfolio loans to the held-for-sale category and no portfolio loans were sold or purchased during the three months ended March 31, 2015.

During the three months ended March 31, 2014, we transferred one loan with a carrying value of $0.4 million to other real estate. We did not transfer any portfolio loans to the held-for-sale category and no portfolio loans were sold or purchased during the three months ended March 31, 2014.

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Impaired Loans

The following table presents by class, the balance in the allowance for loan and lease losses and the recorded investment in loans and leases based on the Company s impairment measurement method as of March 31, 2015 and December 31, 2014:

	Commercial, Financial & Agricultural	Construction	Real Estate Mortgage - Residential	Mortgage - Commercial	Consumer	Leases	Total
			(Dollars in thousands)				
March 31, 2015							
Allowance for loan and lease losses:							
Ending balance attributable to loans:							
Individually evaluated for impairment	$ 772	$	$	$	$	$	$ 772
Collectively evaluated for impairment	8,019	14,305	17,057	20,161	7,119		66,661
	8,791	14,305	17,057	20,161	7,119		67,433
Unallocated							4,000
Total ending balance	$ 8,791	$ 14,305	$ 17,057	$ 20,161	$ 7,119	$	$ 71,433
Loans and leases:							
Individually evaluated for impairment	$ 13,727	$ 4,606	$ 28,514	$ 22,601	$	$	$ 69,448
Collectively evaluated for impairment	486,524	108,531	1,269,562	679,512	350,344	2,885	2,897,358
	500,251	113,137	1,298,076	702,113	350,344	2,885	2,966,806
Net deferred costs (income)	432	(416)	2,228	(857)	(421)		966
Total ending balance	$ 500,683	$ 112,721	$ 1,300,304	$ 701,256	$ 349,923	$ 2,885	$ 2,967,772
December 31, 2014							
Allowance for loan and lease losses:							
Ending balance attributable to loans:							
Individually evaluated for impairment	$ 1,533	$	$	$	$	$	$ 1,533
	7,421	14,969	17,927	20,869	7,314	7	68,507

Collectively evaluated for impairment	8,954	14,969	17,927	20,869	7,314	7	70,040
Unallocated							4,000
Total ending balance	$ 8,954	$ 14,969	$ 17,927	$ 20,869	$ 7,314	$ 7	$ 74,040
Loans and leases:							
Individually evaluated for impairment	$ 13,369	$ 4,888	$ 30,893	$ 23,126	$	$	$ 72,276
Collectively evaluated for impairment	449,701	110,135	1,249,196	680,973	365,662	3,140	2,858,807
	463,070	115,023	1,280,089	704,099	365,662	3,140	2,931,083
Net deferred costs (income)	693	(469)	2,235	(826)	(518)		1,115
Total ending balance	$ 463,763	$ 114,554	$ 1,282,324	$ 703,273	$ 365,144	$ 3,140	$ 2,932,198

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The following table presents by class, impaired loans as of March 31, 2015 and December 31, 2014:

	Unpaid Principal Balance	Recorded Investment (Dollars in thousands)	Allowance Allocated
March 31, 2015			
Impaired loans with no related allowance recorded:			
Commercial, financial & agricultural	$ 5,178	$ 3,599	$
Real estate:			
Construction	10,951	4,606	
Mortgage - residential	31,161	28,514	
Mortgage - commercial	29,723	22,601	
Total impaired loans with no related allowance recorded	77,013	59,320	
Impaired loans with an allowance recorded:			
Commercial, financial & agricultural	12,660	10,128	772
Total impaired loans with an allowance recorded	12,660	10,128	772
Total	$ 89,673	$ 69,448	$ 772
December 31, 2014			
Impaired loans with no related allowance recorded:			
Commercial, financial & agricultural	$ 738	$ 738	$
Real estate:			
Construction	11,275	4,888	
Mortgage - residential	34,131	30,893	
Mortgage - commercial	30,249	23,126	
Total impaired loans with no related allowance recorded	76,393	59,645	
Impaired loans with an allowance recorded:			
Commercial, financial & agricultural	16,630	12,631	1,533
Total impaired loans with an allowance recorded	16,630	12,631	1,533
Total	$ 93,023	$ 72,276	$ 1,533

The following table presents by class, the average recorded investment and interest income recognized on impaired loans for the three months ended March 31, 2015 and 2014:

	Three Months Ended March 31,			
	2015		2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			
Commercial, financial & agricultural	$ 13,646	$ 5	$ 8,417	$ 5
Real estate:				
Construction	4,699	86	6,822	32
Mortgage - residential	28,954	1	36,407	163
Mortgage - commercial	22,751	164	16,045	39
Leases				
Total	$ 70,050	$ 256	$ 67,691	$ 239

The Company had $3.9 million of consumer mortgage loans collateralized by residential real estate property that were in the process of foreclosure at March 31, 2015.

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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 March 31, 2015 and December 31, 2014:

	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)			
March 31, 2015							
Commercial, financial & agricultural	$ 290	$ 225	$	$ 13,377	$ 13,892	$ 486,791	$ 500,683
Real estate:							
Construction				146	146	112,575	112,721
Mortgage - residential	1,945			11,430	13,375	1,286,929	1,300,304
Mortgage - commercial				12,468	12,468	688,788	701,256
Consumer	895	212	5		1,112	348,811	349,923
Leases						2,885	2,885
Total	$ 3,130	$ 437	$ 5	$ 37,421	$ 40,993	$ 2,926,779	$ 2,967,772
December 31, 2014							
Commercial, financial & agricultural	$ 183	$ 85	$	$ 13,007	$ 13,275	$ 450,488	$ 463,763
Real estate:							
Construction				310	310	114,244	114,554
Mortgage - residential	3,078	379		13,048	16,505	1,265,819	1,282,324
Mortgage - commercial	68			12,722	12,790	690,483	703,273
Consumer	1,500	417	77		1,994	363,150	365,144
Leases						3,140	3,140
Total	$ 4,829	$ 881	$ 77	$ 39,087	$ 44,874	$ 2,887,324	$ 2,932,198

Modifications

Troubled debt restructurings (TDRs) included in nonperforming assets at March 31, 2015 consisted of 33 Hawaii residential mortgage loans with a combined principal balance of $6.6 million, 11 Hawaii commercial mortgage loans to the same borrower with a combined principal balance of $0.9 million, a Hawaii commercial loan of $0.4 million, and a Hawaii construction and development loan of $0.04 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 $19.8 million of TDRs still accruing interest at March 31, 2015, none of which were more than 90 days delinquent. At December 31, 2014, there were $29.5 million of TDRs still accruing interest, none of which were more than 90 days delinquent.

Some loans modified in a TDR may already be on nonaccrual status and partial charge-offs may have already been taken against the outstanding loan balance. 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, some loans modified in a TDR may have the financial effect of increasing the specific allowance associated with the loan. The loans modified in a TDR did not have a material effect on our provision for loan and lease losses (the Provision) and the Allowance during the three months ended March 31, 2015.

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The following table presents by class, information related to loans modified in a TDR during the three months ended March 31, 2015 and 2014.

	Number of Contracts	Recorded Investment (as of Period End)	Increase in the Allowance
		(Dollars in thousands)	
Three Months Ended March 31, 2015			
Real estate mortgage - commercial	11	$ 910	$
Three Months Ended March 31, 2014			
Real estate mortgage - residential	9	$ 613	$

The following table presents by class, loans modified as a TDR within the previous twelve months that subsequently defaulted during the three months ended March 31, 2015 and 2014. The following table presents, by class, loans modified as a TDR within the previous twelve months that subsequently defaulted during the three months ended March 31, 2015 and 2014.

	Three Months Ended March 31,			
	2015		2014	
	Number of Contracts	Recorded Investment (as of Period End)	Number of Contracts	Recorded Investment (as of Period End)
		(Dollars in thousands)		
Real estate mortgage -construction			1	175

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 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.

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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. The following table presents by class and credit indicator, the recorded investment in the Company s loans and leases as of March 31, 2015 and December 31, 2014:

	Pass	Special Mention	Substandard	Subtotal	Net Deferred Costs (Income)	Total
			(Dollars in thousands)			
March 31, 2015						
Commercial, financial & agricultural	$ 468,515	$ 16,656	$ 15,080	$ 500,251	$ 432	$ 500,683
Real estate:						
Construction	110,294	1,831	1,012	113,137	(416)	112,721
Mortgage - residential	1,285,124	344	12,608	1,298,076	2,228	1,300,304
Mortgage - commercial	668,772	8,493	24,848	702,113	(857)	701,256
Consumer	350,267	72	5	350,344	(421)	349,923
Leases	2,885			2,885		2,885
Total	$ 2,885,857	$ 27,396	$ 53,553	$ 2,966,806	$ 966	$ 2,967,772
December 31, 2014						
Commercial, financial & agricultural	$ 432,892	$ 14,655	$ 15,523	$ 463,070	$ 693	$ 463,763
Real estate:						
Construction	111,370		3,653	115,023	(469)	114,554
Mortgage - residential	1,265,470	352	14,267	1,280,089	2,235	1,282,324
Mortgage - commercial	660,492	10,498	33,109	704,099	(826)	703,273
Consumer	365,332	294	36	365,662	(518)	365,144
Leases	3,140			3,140		3,140
Total	$ 2,838,696	$ 25,799	$ 66,588	$ 2,931,083	$ 1,115	$ 2,932,198

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 March 31, 2015 and December 31, 2014, we did not have any loans that we considered to be subprime.

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5. ALLOWANCE FOR LOAN AND LEASE LOSSES

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 March 31, 2015								
Beginning balance	$ 8,954	$ 14,969	$ 17,927	$ 20,869	$ 7,314	$ 7	$ 4,000	$ 74,040
Provision (credit) for loan and lease losses	147	(787)	(2,344)	(721)	965	(7)		(2,747)
	9,101	14,182	15,583	20,148	8,279		4,000	71,293
Charge-offs	878		14		1,894			2,786
Recoveries	568	123	1,488	13	734			2,926
Net charge-offs (recoveries)	310	(123)	(1,474)	(13)	1,160			(140)
Ending balance	$ 8,791	$ 14,305	$ 17,057	$ 20,161	$ 7,119	$	$ 4,000	$ 71,433
Three Months Ended March 31, 2014								
Beginning balance	$ 13,196	$ 2,774	$ 25,272	$ 29,947	$ 6,576	$ 55	$ 6,000	$ 83,820
Provision (credit) for loan and lease losses	(943)	11,764	(7,517)	(4,035)	(548)	(37)		(1,316)
	12,253	14,538	17,755	25,912	6,028	18	6,000	82,504
Charge-offs	73		37		580	8		698
Recoveries	606	402	94	13	239	2		1,356
Net charge-offs (recoveries)	(533)	(402)	(57)	(13)	341	6		(658)
Ending balance	$ 12,786	$ 14,940	$ 17,812	$ 25,925	$ 5,687	$ 12	$ 6,000	$ 83,162

Loans held for sale and other real estate assets are not included in our assessment of the Allowance.

Our Provisions were credits of $2.7 million and $1.3 million in the three months ended March 31, 2015 and 2014, respectively.

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 significant increases to our Provision.

6. 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.

All unsold mortgage-backed securities from prior securitizations were categorized as available for sale securities and were therefore recorded at their fair values of $3.3 million and $3.5 million at March 31, 2015 and December 31, 2014, respectively. The fair values of these mortgage-backed securities were based on quoted prices of similar instruments in active markets. Unrealized gains of $0.3 million on unsold mortgage-backed securities were recorded in accumulated other comprehensive income (AOCI) at March 31, 2015 and December 31, 2014.

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7. INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES

The components of the Company s investments in unconsolidated subsidiaries were as follows:

	March 31, 2015	December 31, 2014
	(Dollars in thousands)	
Investments in low income housing tax credit partnerships	$ 3,492	$ 3,781
Trust preferred investments	2,792	2,792
Investments in affiliates	440	557
Other	116	116
	$ 6,840	$ 7,246

Investments in low income housing tax credit (LIHTC) partnerships are accounted for using the cost method. For the three months ended March 31, 2015 and 2014, the Company recognized amortization expense of $0.3 million and $0.4 million, respectively, in pretax income. For the three months ended March 31, 2015, the Company recognized $0.3 million in tax credits associated with our investments in LIHTC partnerships. The Company did not recognize any tax credits associated with our investments in LIHTC partnerships during the three months ended March 31, 2014.

8. OTHER INTANGIBLE ASSETS

Other intangible assets include a core deposit premium and mortgage servicing rights. The following table presents changes in other intangible assets for the three months ended March 31, 2015:

	Core Deposit Premium	Mortgage Servicing Rights	Total
		(Dollars in thousands)	
Balance, beginning of period	$ 10,029	$ 19,668	$ 29,697
Additions		638	638
Amortization	(668)	(1,437)	(2,105)
Balance, end of period	$ 9,361	$ 18,869	$ 28,230

Income generated as the result of new mortgage servicing rights is reported as gains on sales of loans and totaled $0.6 million and $0.4 million for the three months ended March 31, 2015 and 2014, respectively. Amortization of mortgage servicing rights was $1.4 million and $0.6 million for the three months ended March 31, 2015 and 2014, respectively.

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

	Three Months Ended March 31, 2015	2014
	(Dollars in thousands)	
Fair market value, beginning of period	$ 19,975	$ 21,399
Fair market value, end of period	19,172	20,832
Weighted average discount rate	9.5%	8.0%
Weighted average prepayment speed assumption	13.9	14.1

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

	March 31, 2015			December 31, 2014		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
	(Dollars in thousands)					
Core deposit premium	$ 44,642	$ (35,281)	$ 9,361	$ 44,642	$ (34,613)	$ 10,029
Mortgage servicing rights	55,587	(36,718)	18,869	56,687	(37,019)	19,668
	$ 100,229	$ (71,999)	$ 28,230	$ 101,329	$ (71,632)	$ 29,697

Based on the core deposit premium and mortgage servicing rights held as of March 31, 2015, estimated amortization expense for the remainder of fiscal 2015, the next five succeeding fiscal years and all years thereafter are as follows:

	Estimated Amortization Expense		
	Core Deposit Premium	Mortgage Servicing Rights	Total
	(Dollars in thousands)		
2015 (remainder)	$ 2,006	$ 4,115	$ 6,121
2016	2,674	4,380	7,054
2017	2,674	3,417	6,091
2018	2,007	2,700	4,707
2019		2,102	2,102
2020		1,772	1,772
Thereafter		383	383
	$ 9,361	$ 18,869	$ 28,230

We 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 assessments 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 judgment and often involves the use of significant estimates and assumptions. The variability of the factors we use to perform our impairment tests depend on a number of conditions, including the 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.

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.

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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 locks 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 March 31, 2015, we were a party to interest rate lock and forward sale commitments on $66.7 million and $27.5 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 sheets:

Derivatives Not Designated as Hedging Instruments	Balance Sheet Location	Asset Derivatives: Fair Value at March 31, 2015	Asset Derivatives: Fair Value at December 31, 2014	Liability Derivatives: Fair Value at March 31, 2015	Liability Derivatives: Fair Value at December 31, 2014
		(Dollars in thousands)			
Interest rate contracts	Other assets / other liabilities	$ 1,150	$ 504	$ 302	$ 122

The following table presents the impact of derivative instruments and their location within the consolidated statements of income:

Derivatives Not in Cash Flow Hedging Relationship	Location of Gain (Loss) Recognized in Earnings on Derivatives	Amount of Gain (Loss) Recognized in Earnings on Derivatives (Dollars in thousands)
Three Months Ended March 31, 2015		
Interest rate contracts	Other operating income	$ 466
Three Months Ended March 31, 2014		
Interest rate contracts	Other operating income	(60)

10. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

The bank is a member of the Federal Home Loan Bank of Seattle (the FHLB) and maintained a $965.4 million line of credit with the FHLB as of March 31, 2015. Short-term and long-term borrowings under this arrangement totaled $70.0 million and nil at March 31, 2015, respectively, compared to $38.0 million and nil at December 31, 2014, respectively. FHLB advances outstanding at March 31, 2015 were secured by unencumbered investment securities with a fair value of $0.8 million and certain real estate loans with a carrying value of $1.5 billion in accordance with the collateral provisions of the Advances, Security and Deposit Agreement with the FHLB. At March 31, 2015, $895.4 million was undrawn under this arrangement.

At March 31, 2015 and December 31, 2014, our bank had additional unused borrowings available at the Federal Reserve discount window of $34.0 million and $33.3 million, respectively. As of March 31, 2015 and December 31, 2014, certain commercial and commercial real estate loans with a carrying value totaling $70.9 million and $72.9 million, respectively, were pledged as collateral on our line of credit with the Federal Reserve discount window. The Federal Reserve does not have the right to sell or repledge these loans.

11. EQUITY

We have generated considerable tax benefits, including net operating loss carry-forwards and federal and state tax credits. Our use of the tax benefits in the future would be significantly limited if we experience an ownership change for U.S. federal income tax purposes. In general, an ownership change will occur if there is a cumulative increase in the Company s ownership by 5-percent shareholders (as defined under U.S. income tax laws) that exceeds 50 percentage points over a rolling three-year period.

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On November 23, 2010, our Board of Directors declared a dividend of preferred share purchase rights (Rights) in respect to our common stock which were issued pursuant to a Tax Benefits Preservation Plan, dated as of November 23, 2010 (the Tax Benefits Preservation Plan), between the Company and Wells Fargo Bank, National Association, as rights agent. Each Right represents the right to purchase, upon the terms and subject to the conditions in the Plan, 1/10,000th of a share of our Junior Participating Preferred Stock, Series C, no par value, for $6.00, subject to adjustment. The Tax Benefits Preservation Plan is designed to reduce the likelihood that the Company will experience an ownership change by discouraging any person from becoming a beneficial owner of 4.99% or more of our common stock (a Threshold Holder). On January 29, 2014, our Board of Directors approved an amendment to the Tax Benefits Preservation Plan to extend it for up to an additional two years (until February 18, 2016).

To further protect our tax benefits, on January 26, 2011, our Board of Directors approved an amendment to our restated articles of incorporation to restrict transfers of our stock if the effect of an attempted transfer would cause the transferee to become a Threshold Holder or to cause the beneficial ownership of a Threshold Holder to increase (the Protective Charter Amendment). At our annual meeting of shareholders on April 27, 2011, we proposed the amendment which shareholders approved. On January 29, 2014, our Board of Directors approved an amendment to the Protective Charter Amendment to extend it for up to an additional two years (until May 2, 2016). Our shareholders approved the Protective Charter Amendment on April 25, 2014. There is no guarantee, however, that the Tax Benefits Preservation Plan or the Protective Charter Amendment will prevent the Company from experiencing an ownership change.

As a Hawaii state-chartered bank, Central Pacific Bank may only pay dividends to the extent it has retained earnings as defined under Hawaii banking law (Statutory Retained Earnings), which differs from GAAP retained earnings. As of March 31, 2015, the bank had Statutory Retained Earnings of $124.3 million.

Dividends are payable at the discretion of the Board of Directors and there can be no assurance that the Board of Directors will continue to pay dividends at the same rate, or at all, in the future. Our ability to pay cash dividends to our shareholders is subject to restrictions under federal and Hawaii law, including restrictions imposed by the FRB and covenants set forth in various agreements we are a party to, including covenants set forth in our subordinated debentures.

On February 21, 2014, we announced a tender offer to purchase for cash up to $68.8 million in value of shares of our common stock at a price not greater than $21.00 nor less than $18.50 per share (the Tender Offer).

The Tender Offer expired on March 21, 2014 and 3,369,850 shares of our common stock were properly tendered and not withdrawn at or below the purchase price of $20.20 per share (Purchase Price). In addition, 167,572 shares were tendered through notice of guaranteed delivery at or below the Purchase Price. Based on these results, we accepted for purchase 3,405,888 shares, at the Purchase Price for a total cost of $68.8 million, excluding fees and expenses related to the Tender Offer. The Tender Offer closed on March 28, 2014.

Due to the oversubscription of the Tender Offer, we accepted for purchase on a pro rata basis approximately 96.6% of the shares properly tendered and not properly withdrawn at or below the Purchase Price by each tendering shareholder, except for tenders of odd lots, which were accepted in full, and except for certain conditional tenders automatically regarded as withdrawn pursuant to the terms of the Tender Offer.

On February 20, 2014, we also entered into repurchase agreements (the Repurchase Agreements) with each of Carlyle Financial Services Harbor, L.P. (Carlyle) and ACMO-CPF, L.L.C. (Anchorage and together with Carlyle, the Lead Investors), each of whom was the owner of 9,463,095 shares (representing 22.5% of the outstanding shares or 44.9% in the aggregate at that time) of our common stock, pursuant to which we agreed to purchase up to $28.1 million of shares of common stock from each of the Lead Investors at the Purchase Price of the Tender Offer (the Private Repurchases) (or an aggregate of $56.2 million of shares). Conditions to the Private Repurchases were satisfied and we purchased 1,391,089 shares from each of Carlyle and Anchorage at the Purchase Price for a total cost of $56.2 million, excluding fees and expenses related to the Private Repurchases. The Private Repurchases closed on April 7, 2014, the eleventh business day following the expiration of the Tender Offer.

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The completion of the Tender Offer and the Private Repurchases resulted in the aggregate repurchase by us of 6,188,066 shares totaling $125 million, or 14.7% of our issued and outstanding shares of our common stock prior to the completion of the Tender Offer and the Private Repurchases. Upon completion of the Tender Offer and Private Repurchases, we had approximately 35.9 million shares outstanding.

On March 26, 2015, the Company, Carlyle and Anchorage (together the Selling Shareholders), and Citigroup Global Markets, Inc. (the Underwriter) entered into a secondary offering underwriting agreement (the Underwriting Agreement) pursuant to which the Selling Shareholders agreed to each sell 3,802,694 shares for a total of 7,605,388 shares of CPF common stock, no par value per share, to the Underwriter at a price of $23.01 per common share for a total of approximately $175 million. In connection with the Underwriting Agreement, the Company repurchased 3,259,452 shares of its common stock from the Underwriter at a price of $23.01 per share for an aggregate cost of approximately $75 million. The transactions were consummated on April 1, 2015 and are not reflected in our consolidated financial statements for the quarter ended March 31, 2015. The Company did not receive any of the proceeds from the sale of these shares by the Selling Shareholders and no shares were sold by the Company. The Company accrued $0.5 million of costs recorded in other operating expenses related to the secondary offering by the Selling Shareholders.

In January 2008, our Board of Directors authorized the repurchase and retirement of up to 60,000 shares of the Company s common stock (the 2008 Repurchase Plan). Repurchases under the 2008 Repurchase Plan may be made from time to time on the open market or in privately negotiated transactions. A total of 55,000 shares remained available for repurchase under the 2008 Repurchase Plan at December 31, 2013. In January 2014, the 2008 Repurchase Plan and the remaining 55,000 shares were superseded by the Tender Offer and Repurchase Agreements with our Lead Investors.

On May 20, 2014, our Board of Directors authorized the repurchase and retirement of up to $30.0 million of the Company s outstanding common stock (the CPF Repurchase Plan). Repurchases under the CPF Repurchase Plan may be made from time to time on the open market or in privately negotiated transactions. In 2014, 857,554 shares of common stock, at a cost of $16.5 million, were repurchased under this program.

In January 2015, our Board of Directors increased the authorization under the CPF Repurchase Plan by $25.0 million. In March 2015, our Board of Directors increased the authorization under the CPF Repurchase Plan by an additional $75.0 million in connection with the Underwriting Agreement. In the first quarter of 2015, 473,829 shares of common stock, at an aggregate cost of $9.3 million, were repurchased under this program. A total of $104.2 million remained available for repurchase under the CPF Repurchase Plan at March 31, 2015. See Note 20.

12. SHARE-BASED COMPENSATION

Restricted Stock Awards and Units

The table below presents the activity of restricted stock awards and units for the three months ended March 31, 2015:

	Weighted Average Grant Date

	Shares		Fair Value
Nonvested at January 1, 2015	715,460	$	15.77
Changes during the period:			
Granted	60,873		23.98
Vested	(54,123)		17.13
Forfeited	(28,160)		16.16
Nonvested at March 31, 2015	694,050		16.37

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13. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents the components of other comprehensive income for the three months ended March 31, 2015 and 2014, by component:

	Before Tax	Tax Effect (Dollars in thousands)	Net of Tax
Three Months Ended March 31, 2015			
Net unrealized gains on investment securities:			
Net unrealized gains arising during the period	$ 11,476	$ 4,567	$ 6,909
Defined benefit plans:			
Amortization of net actuarial losses	420	165	255
Amortization of net transition obligation	4	2	2
Amortization of prior service cost	5	2	3
Defined benefit plans, net	429	169	260
Other comprehensive income	$ 11,905	$ 4,736	$ 7,169
Three Months Ended March 31, 2014			
Net unrealized gains on investment securities:			
Net unrealized gains arising during the period	$ 15,944	$ 6,368	$ 9,576
Defined benefit plans:			
Amortization of net actuarial losses	305	123	182
Amortization of net transition obligation	4	2	2
Amortization of prior service cost	5	2	3
Defined benefit plans, net	314	127	187
Other comprehensive income	$ 16,258	$ 6,495	$ 9,763

The following table presents the changes in each component of AOCI, net of tax, for the three months ended March 31, 2015 and 2014:

	Investment Securities	Defined Benefit Plans (Dollars in thousands)	Accumulated Other Comprehensive Income (Loss)
Three Months Ended March 31, 2015			
Balance at beginning of period	$ 13,586	$ (10,427)	$ 3,159
Other comprehensive income before reclassifications	6,909		6,909
Amounts reclassified from AOCI		260	260
Total other comprehensive income	6,909	260	7,169
Balance at end of period	$ 20,495	$ (10,167)	$ 10,328
Three Months Ended March 31, 2014			

Balance at beginning of period	$	(9,125)	$	(6,720)	$	(15,845)
Other comprehensive income before reclassifications		9,576				9,576
Amounts reclassified from AOCI				187		187
Total other comprehensive income		9,576		187		9,763
Balance at end of period	$	451	$	(6,533)	$	(6,082)

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The following table presents the amounts reclassified out of each component of AOCI for the three months ended March 31, 2015 and 2014:

Details about AOCI Components	Amount Reclassified from AOCI Three Months Ended March 31, 2015	2014	Affected Line Item in the Statement Where Net Income is Presented
	(Dollars in thousands)		
Amortization of defined benefit plan items			
Net actuarial losses	$ (420)	$ (305)	(1)
Net transition obligation	(4)	(4)	(1)
Prior service cost	(5)	(5)	(1)
	(429)	(314)	Total before tax
	169	127	Tax benefit
Total reclassifications for the period	$ (260)	$ (187)	Net of tax

(1) These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see Note 14 for additional details).

14. PENSION AND SUPPLEMENTAL EXECUTIVE RETIREMENT PLANS

Central Pacific Bank has a defined benefit retirement plan (the Pension Plan) which covers certain eligible employees. The plan was curtailed effective December 31, 2002, and accordingly, plan benefits were fixed as of that date. The following table sets forth the components of net periodic benefit cost for the Pension Plan:

	Three Months Ended March 31, 2015	2014
	(Dollars in thousands)	
Interest cost	$ 348	$ 366
Expected return on assets	(472)	(524)
Amortization of net actuarial losses	393	304
Net periodic cost	$ 269	$ 146

Our bank also established Supplemental Executive Retirement Plans (SERPs), which provide certain (current and former) officers of our bank with supplemental retirement benefits. The following table sets forth the components of net periodic benefit cost for the SERPs:

	Three Months Ended March 31, 2015	2014
	(Dollars in thousands)	
Interest cost	$ 110	$ 113
Amortization of net transition obligation	4	4

Amortization of prior service cost		5		5
Amortization of net actuarial losses		27		1
Net periodic cost	$	146	$	123

15. INCOME AND FRANCHISE TAXES

In assessing the need for a valuation allowance on our deferred tax assets (DTA), management considers whether it is more likely than not that some portion or all of the DTA will not be realized. The ultimate realization of DTA is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the reversal of deferred tax liabilities (including the impact of available carryback and carryforward periods), projected future taxable income and tax-planning strategies in making this assessment.

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At March 31, 2015, the Company had net operating loss carryforwards for Federal income tax purposes of $117.9 million, that are available to offset future Federal taxable income, if any, through 2030. At March 31, 2015, the Company had net operating loss carryforwards for Hawaii and California state income tax purposes of $82.7 million and $39.5 million, respectively, which are available to offset future state taxable income, if any, through 2030. In addition, the Company has state tax credit carryforwards of $14.8 million that do not expire, and federal tax credit carryforwards of $16.6 million, of which $13.7 million will expire within 20 years, and $2.9 million will not expire.

Income tax expense for the periods presented differed from the expected tax expense (computed by applying the U.S. Federal corporate tax rate of 35% to income (loss) before income taxes) for the following reasons:

	Three months ended March 31, 2015	2014
	(Dollars in thousands)	
Computed expected tax expense	$ 5,654	$ 5,364
Increase (decrease) in taxes resulting from:		
Tax-exempt interest	(352)	(351)
Other tax-exempt income	(236)	(235)
Income tax credits	(327)	(195)
State income taxes, net of Federal income tax effect, excluding impact of deferred tax valuation allowance	739	600
Change in the beginning-of-the-year balance of the valuation allowance for deferred tax assets allocated to income tax expense	18	135
Other	263	200
Total	$ 5,759	$ 5,518

16. EARNINGS PER SHARE

The following table presents the information used to compute basic and diluted earnings per common share for the periods indicated:

	Three Months Ended March 31, 2015	2014
	(In thousands, except per share data)	
Net income	$ 10,395	$ 9,808
Weighted average shares outstanding - basic	34,827	41,915
Dilutive effect of employee stock options and awards	652	562
Weighted average shares outstanding - diluted	35,479	42,477
Basic earnings per share	$ 0.30	$ 0.23
Diluted earnings per share	$ 0.29	$ 0.23

A total of 13,472 potentially dilutive securities have been excluded from the dilutive share calculation for the three months ended March 31, 2015, as their effect was antidilutive, compared to 23,624 for the three months ended March 31, 2014.

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17. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Disclosures about Fair Value of Financial Instruments

Fair value estimates, methods and assumptions are set forth below for our financial instruments.

Short-Term Financial Instruments

The carrying values of short-term financial instruments are deemed to approximate fair values. Such instruments are considered readily convertible to cash and include cash and due from banks, interest-bearing deposits in other banks, accrued interest receivable, short-term borrowings, and accrued interest payable.

Investment Securities

The fair value of investment securities is based on market price quotations received from securities dealers. Where quoted market prices are not available, fair values are based on quoted market prices of comparable securities.

Loans

Fair values of loans are estimated based on discounted cash flows of portfolios of loans with similar financial characteristics including the type of loan, interest terms and repayment history. Fair values are calculated by discounting scheduled cash flows through estimated maturities using estimated market discount rates. Estimated market discount rates are reflective of credit and interest rate risks inherent in the Company s various loan types and are derived from available market information, as well as specific borrower information. The fair value of loans are not based on the notion of exit price.

Loans Held for Sale

The fair value of loans classified as held for sale are generally based upon quoted prices for similar assets in active markets, acceptance of firm offer letters with agreed upon purchase prices, discounted cash flow models that take into account market observable assumptions, or independent appraisals of the underlying collateral securing the loans. We report the fair values of Hawaii and U.S. Mainland construction and commercial real estate loans net of applicable selling costs on our consolidated balance sheets.

Other Interest Earning Assets

The equity investment in common stock of the FHLB, which is redeemable for cash at par value, is reported at its par value.

Deposit Liabilities

The fair values of deposits with no stated maturity, such as noninterest-bearing demand deposits and interest-bearing demand and savings accounts, are equal to the amount payable on demand. The fair value of time deposits is estimated using discounted cash flow analyses. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

Long-Term Debt

The fair value of our long-term debt is estimated by discounting scheduled cash flows over the contractual borrowing period at the estimated market rate for similar borrowing arrangements.

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Off-Balance Sheet Financial Instruments

The fair values of off-balance sheet financial instruments are estimated based on the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties, current settlement values or quoted market prices of comparable instruments.

For derivative financial instruments, the fair values are based upon current settlement values, if available. If there are no relevant comparables, fair values are based on pricing models using current assumptions for interest rate swaps and options.

Limitations

Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time our entire holdings of a particular financial instrument. Because no market exists for a significant portion of our financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on- and off-balance sheet financial instruments without attempting to estimate the value of future business and the value of assets and liabilities that are not considered financial instruments. For example, significant assets and liabilities that are not considered financial assets or liabilities include deferred tax assets, premises and equipment and intangible assets. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in many of the estimates.

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	Carrying Amount	Estimated Fair Value	Fair Value Measurement Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(Dollars in thousands)		
March 31, 2015					
Financial assets					
Cash and due from banks	$ 74,743	$ 74,743	$ 74,743	$	$
Interest-bearing deposits in other banks	10,478	10,478	10,478		
Investment securities	1,554,079	1,554,844	850	1,541,347	12,647
Loans held for sale	7,206	7,206			7,206
Net loans and leases	2,896,339	2,852,249		68,676	2,783,573
Accrued interest receivable	13,420	13,420	13,420		
Financial liabilities					
Deposits:					
Noninterest-bearing deposits	1,042,781	1,042,781	1,042,781		
Interest-bearing demand and savings deposits	2,053,821	2,053,821	2,053,821		
Time deposits	1,092,040	1,093,931			1,093,931
Short-term debt	70,000	70,000		70,000	
Long-term debt	92,785	68,237		68,237	
Accrued interest payable (included in other liabilities)	965	965	965		
Off-balance sheet financial instruments					
Commitments to extend credit	743,758	3,719		3,719	
Standby letters of credit and financial guarantees written	20,768	156		156	
Interest rate options	66,696	1,081		1,081	
Forward interest rate contracts	27,457	(233)		(233)	
December 31, 2014					
Financial assets					
Cash and due from banks	$ 72,316	$ 72,316	$ 72,316	$	$
Interest-bearing deposits in other banks	13,691	13,691	13,691		
Investment securities	1,467,305	1,464,615	877	1,450,643	13,095
Loans held for sale	9,683	9,683			9,683
Net loans and leases	2,858,158	2,752,420		70,743	2,681,677
Accrued interest receivable	13,584	13,584	13,584		
Financial liabilities					
Deposits:					
Noninterest-bearing deposits	1,034,146	1,034,146	1,034,146		
Interest-bearing demand and savings deposits	2,030,870	2,030,870	2,030,870		
Time deposits	1,045,284	1,047,322			1,047,322
Short-term debt	38,000	38,000		38,000	
Long-term debt	92,785	42,454		42,454	
Accrued interest payable (included in other liabilities)	1,018	1,018	1,018		
Off-balance sheet financial instruments					
Commitments to extend credit	720,255	3,601		3,601	
	18,797	141		141	

Standby letters of credit and financial guarantees written			
Interest rate options	44,266	444	444
Forward interest rate contracts	23,919	(62)	(62)

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Fair Value Measurements

We group our financial assets and liabilities at fair value into three levels based on the markets in which the financial assets and liabilities are traded and the reliability of the assumptions used to determine fair value as follows:

- Level 1 Valuation is based upon quoted prices (unadjusted) for identical assets or liabilities traded in active markets. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

- Level 2 Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

- Level 3 Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of discounted cash flow models and similar techniques that requires the use of significant judgment or estimation.

We base our fair values on the price that we would expect to receive if an asset were sold or pay to transfer a liability in an orderly transaction between market participants at the measurement date. We also maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements.

We use fair value measurements to record adjustments to certain financial assets and liabilities and to determine fair value disclosures. Available for sale securities and derivatives are recorded at fair value on a recurring basis. From time to time, we may be required to record other financial assets at fair value on a nonrecurring basis such as loans held for sale, impaired loans and mortgage servicing rights. These nonrecurring fair value adjustments typically involve application of the lower of cost or fair value accounting or write-downs of individual assets.

There were no transfers of financial assets and liabilities between Level 1 and Level 2 of the fair value hierarchy during the three months ended March 31, 2015.

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The following table presents the balances of assets and liabilities measured at fair value on a recurring basis as of March 31, 2015 and December 31, 2014:

	Fair Value	Fair Value at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars in thousands)		
March 31, 2015				
Available for sale securities:				
Debt securities:				
States and political subdivisions	$ 192,478	$	$ 179,831	$ 12,647
Corporate securities	101,327		101,327	
Mortgage-backed securities:				
U.S. Government sponsored entities	787,046		787,046	
Non-agency collateralized mortgage obligations	141,423		141,423	
Non-agency residential mortgage-backed securities	75,363		75,363	
Other	850	850		
Derivatives - Interest rate contracts	848		848	
Total	$ 1,299,335	$ 850	$ 1,285,838	$ 12,647
December 31, 2014				
Available for sale securities:				
Debt securities:				
States and political subdivisions	$ 191,645	$	$ 178,550	$ 13,095
Corporate securities	100,604		100,604	
Mortgage-backed securities:				
U.S. Government sponsored entities	751,558		751,558	
Non-agency collateralized mortgage obligations	184,334		184,334	
Other	877	877		
Derivatives - Interest rate contracts	382		382	
Total	$ 1,229,400	$ 877	$ 1,215,428	$ 13,095

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For the three months ended March 31, 2015 and 2014, the changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows:

		Available for Sale States and Political Subdivisions Debt Securities (Dollars in thousands)
Balance at December 31, 2014	$	13,095
Principal payments received		(735)
Unrealized net gain included in other comprehensive income		287
Purchases		
Balance at March 31, 2015	$	12,647
Balance at December 31, 2013	$	10,518
Principal payments received		(71)
Unrealized net gain included in other comprehensive income		299
Purchases		1,042
Balance at March 31, 2014	$	11,788

Within the state and political subdivisions debt securities category, the Company holds four mortgage revenue bonds issued by the City & County of Honolulu with an aggregate fair value of $12.6 million and $11.8 million at March 31, 2015 and March 31, 2014, respectively. The Company estimates the fair value of its mortgage revenue bonds by using a discounted cash flow model to calculate the present value of estimated future principal and interest payments.

The significant unobservable input used in the fair value measurement of the Company s mortgage revenue bonds is the weighted average discount rate. As of March 31, 2015, the weighted average discount rate utilized was 4.14%, which was derived by incorporating a credit spread over the FHLB Fixed-Rate Advance curve. Significant increases (decreases) in the weighted average discount rate could result in a significantly lower (higher) fair value measurement.

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For assets measured at fair value on a nonrecurring basis that were recorded at fair value on our balance sheet at March 31, 2015 and December 31, 2014, the following table provides the level of valuation assumptions used to determine the respective fair values:

	Fair Value	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in thousands)			
March 31, 2015				
Impaired loans (1)	$ 68,676	$	$ 68,676	$
Other real estate (2)	3,349		3,349	
December 31, 2014				
Impaired loans (1)	$ 70,743	$	$ 70,743	$
Other real estate (2)	2,948		2,948	

(1) Represents carrying value and related write-downs of loans for which adjustments are based on agreed upon purchase prices for the loans or the appraised value of the collateral.

(2) Represents other real estate that is carried at the lower of carrying value or fair value less costs to sell. Fair value is generally based upon independent market prices or appraised values of the collateral.

18. SEGMENT INFORMATION

We have the following three reportable segments: Banking Operations, Treasury and All Others. These segments are consistent with our internal functional reporting lines and are managed separately because each unit has different target markets, technological requirements, marketing strategies and specialized skills.

The Banking Operations segment includes construction and real estate development lending, commercial lending, residential mortgage lending, indirect auto lending, trust services, retail brokerage services and our retail branch offices, which provide a full range of deposit and loan products, as well as various other banking services. The Treasury segment is responsible for managing the Company s investment securities portfolio and wholesale funding activities. The All Others segment consists of all activities not captured by the Banking Operations or Treasury segments described above and includes activities such as electronic banking, data processing and management of bank owned properties.

The accounting policies of the segments are consistent with the Company s accounting policies that are described in Note 1 to the consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2014 filed with the SEC. The majority of the Company s net income is derived from net interest income. Accordingly, management focuses primarily on net interest income, rather than gross interest income and expense amounts, in evaluating segment profitability.

Intersegment net interest income (expense) was allocated to each segment based upon a funds transfer pricing process that assigns costs of funds to assets and earnings credits to liabilities based on market interest rates that reflect interest rate sensitivity and maturity characteristics. All administrative and overhead expenses are allocated to the segments at cost. Cash, investment securities, loans and leases and their related balances are allocated to the segment responsible for acquisition and maintenance of those assets. Segment assets also include all premises and equipment used directly in segment operations.

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Segment profits and assets are provided in the following table for the periods indicated.

	Banking Operations	Treasury	All Others	Total
		(Dollars in thousands)		
Three Months Ended March 31, 2015:				
Net interest income	$ 27,854	$ 8,381	$	$ 36,235
Intersegment net interest income (expense)	10,302	(8,698)	(1,604)	
Credit for loan and lease losses	2,747			2,747
Other operating income	6,446	1,027	3,717	11,190
Other operating expense	(14,824)	(478)	(18,716)	(34,018)
Administrative and overhead expense allocation	(12,104)	(288)	12,392	
Income taxes	(7,148)	20	1,369	(5,759)
Net income (loss)	$ 13,273	$ (36)	$ (2,842)	$ 10,395
Three Months Ended March 31, 2014:				
Net interest income	$ 26,187	$ 9,609	$	$ 35,796
Intersegment net interest income (expense)	6,007	(6,612)	605	
Credit for loan and lease losses	1,316			1,316
Other operating income	5,649	745	3,750	10,144
Other operating expense	(15,318)	(551)	(16,061)	(31,930)
Administrative and overhead expense allocation	(13,804)	(272)	14,076	
Income taxes	(3,614)	(1,051)	(853)	(5,518)
Net income	$ 6,423	$ 1,868	$ 1,517	$ 9,808
At March 31, 2015:				
Investment securities	$	$ 1,554,079	$	$ 1,554,079
Loans and leases (including loans held for sale)	2,974,978			2,974,978
Other	103,496	254,415	78,957	436,868
Total assets	$ 3,078,474	$ 1,808,494	$ 78,957	$ 4,965,925
At December 31, 2014:				
Investment securities	$	$ 1,467,305	$	$ 1,467,305
Loans and leases (including loans held for sale)	2,941,881			2,941,881
Other	111,071	248,455	84,275	443,801
Total assets	$ 3,052,952	$ 1,715,760	$ 84,275	$ 4,852,987

19. LEGAL PROCEEDINGS

We are involved in legal actions arising in the ordinary course of business. Management, after consultation with our legal counsel, believes the ultimate disposition of those matters will not have a material adverse effect on our consolidated financial statements.

20. SUBSEQUENT EVENT

On March 26, 2015, the Company, Carlyle, Anchorage, and Citigroup Global Markets, Inc. entered into an Underwriting Agreement pursuant to which the Selling Shareholders agreed to each sell 3,802,694 shares for a total of 7,605,388 shares of CPF common stock, no par value per share, to the Underwriter at a price of $23.01 per common share for a total of approximately $175 million. In connection with the Underwriting Agreement, the Company repurchased 3,259,452 shares of its common stock from the Underwriter at $23.01 per share, or the same price per common share paid by the Underwriter to the Selling Shareholders for an aggregate cost of approximately $75 million. On April 1, 2015, the transactions were consummated. Since the transactions were consummated on April 1, 2015, they are not reflected in our consolidated financial statements for the quarter ended March 31, 2015. A total of $29.2 million remained available for repurchase of our securities immediately following the transactions contemplated by the Underwriting Agreement.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Overview

Central Pacific Financial Corp. (CPF) is a Hawaii corporation and a bank holding company. Our principal business is to serve as a holding company for our bank subsidiary, Central Pacific Bank. We refer to Central Pacific Bank herein as our bank or the bank, and when we say the Company, we, us or our, we mean the holding company on a consolidated basis with the bank and our other consolidated subsidiaries.

Central Pacific Bank is a full-service community bank with 36 branches and 110 ATMs located throughout the state of Hawaii. The bank offers a broad range of products and services including accepting time and demand deposits and originating loans, including commercial loans, construction loans, commercial and residential mortgage loans, and consumer loans.

Following our successful capital raises in 2011, we have accomplished a number of key performance objectives through March 31, 2015:

- In 2013, our Board of Directors and management, in consultation with our regulators, reinstated and declared quarterly cash dividends on the Company s outstanding common stock. On January 29, 2015, the Company declared a quarterly cash dividend of $0.12 per share. The dividend was paid on March 16, 2015 to shareholders of record at the close of business on February 27, 2015.

- On March 28, 2014, we completed a tender offer to purchase 3,405,888 shares of common stock at a purchase price of $20.20 per share for a total cost of $68.8 million, excluding fees and expenses. On April 7, 2014, we also completed repurchase agreements with each of our two largest shareholders to privately purchase 1,391,089 shares of common stock at a purchase price of $20.20 per share from each shareholder for a total cost of $56.2 million, excluding fees and expenses.

- On May 20, 2014, our Board of Directors authorized the repurchase and retirement of up to $30.0 million of the Company s outstanding common stock. In 2014, 857,554 shares of common stock, at a cost of $16.5 million, were repurchased under this program. In January 2015, our Board of Directors increased the authorization under the CPF Repurchase Plan by $25.0 million. In March 2015, our Board of Directors increased the authorization under the CPF Repurchase Plan by an additional $75.0 million in connection with the transactions contemplated by the Underwriting Agreement as described below. In the first quarter of 2015, an additional 473,829 shares of common stock, at an aggregate cost of $9.3 million, were repurchased under this program.

- On March 26, 2015, the Company, Carlyle and Anchorage (together the Selling Shareholders), and Citigroup Global Markets, Inc. (the Underwriter) entered into a secondary offering underwriting agreement (the Underwriting Agreement) pursuant to which the Selling Shareholders agreed to each sell 3,802,694 shares for a total of 7,605,388 shares of CPF common stock, no par value per share, to the Underwriter at a price of $23.01 per common share for a total of approximately $175 million. In connection with the Underwriting Agreement, the Company repurchased 3,259,452 shares of its common stock from the Underwriter at a price of $23.01 per share for an aggregate cost of approximately $75 million. On April 1, 2015, the transactions were consummated. Since the transactions were consummated on April 1, 2015, they are not reflected in our consolidated financial statements for the quarter ended March 31, 2015. The Company did not receive any of the proceeds from the sale of these shares and no shares were sold by the Company. The Company accrued $0.5 million of costs recorded in other expenses related to the secondary offering by the Selling Shareholders.

- We have continued to maintain a strong capital position with tier 1 risk-based capital, total risk-based capital, leverage capital, and the new common equity tier 1 capital ratios as of March 31, 2015 of 17.29%, 18.54%, 12.79%, and 14.78%, respectively. Our tier 1 risk-based capital, total risk-based capital, and leverage capital ratios were 16.97%, 18.24%, and 12.03%, respectively, as of December 31, 2014. Our capital ratios exceed the levels required for a well-capitalized regulatory designation under Basel III.

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- We reported four consecutive profitable years from 2011 through 2014. In the first quarter of 2015 we reported net income of $10.4 million.

- We have continued to grow our loan and lease portfolio. Loans and leases, net of deferred income/costs, totaled $2.97 billion at March 31, 2015 and increased by $35.6 million, or 1.2% from $2.93 billion at December 31, 2014.

- We maintained an allowance for loan and lease losses as a percentage of total loans and leases of 2.41% at March 31, 2015, compared to 2.53% at December 31, 2014. In addition, we maintained an allowance for loan and lease losses as a percentage of nonperforming assets of 175.21% at March 31, 2015, compared to 176.14% at December 31, 2014.

We also remain focused on lowering our efficiency ratio and growing market share within our core Hawaii market. In connection with improving our efficiency ratio, we have completed several initiatives, including (i) outsourcing the data center and hardware for our core information technology system to Fiserv, which is our existing core software application provider; and (ii) implementing a staff right-sizing plan. Additionally, we have begun designing, developing, and implementing our data warehouse and customer relationship management programs.

Basis of Presentation

Management s discussion and analysis of financial condition and results of operations should be read in conjunction with the accompanying consolidated financial statements under Part I, Item 1. Financial Statements (Unaudited). The following discussion should also be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2014 filed with the U.S. Securities and Exchange Commission (the SEC) on February 27, 2015.

Critical Accounting Policies

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires that management make certain judgments and use certain estimates and assumptions that affect amounts reported and disclosures made. Accounting estimates are deemed critical when a different estimate could have reasonably been used or where changes in the estimate are reasonably likely to occur from period to period and would materially impact our consolidated financial statements as of or for the periods presented. Management has discussed the development and selection of the critical accounting estimates noted below with the Audit Committee of the Board of Directors, and the Audit Committee has reviewed the accompanying disclosures.

Allowance for Loan and Lease Losses

The allowance for loan and lease losses (the Allowance) is management s estimate of credit losses inherent in our loan and lease portfolio at the balance sheet date. We maintain our Allowance at an amount we expect to be sufficient to absorb probable losses inherent in our loan and lease portfolio based on a projection of probable net loan charge-offs. At March 31, 2015, we had an Allowance of $71.4 million, compared to $74.0 million at December 31, 2014.

The Company s approach to developing the Allowance has three basic elements. These elements include specific reserves for individually impaired loans, a general allowance for loans other than those analyzed as individually impaired, and an unallocated reserve. These three methods are explained below:

Specific Reserve

Individually impaired loans in all loan categories are evaluated using one of three valuation methods as prescribed under ASC 310-10; Fair Value of Collateral, Observable Market Price, or Cash Flow. A loan is generally evaluated for impairment on an individual basis if it meets one or more of the following characteristics: risk-rated as substandard, doubtful or loss, loans on nonaccrual status, troubled debt restructures, or any loan deemed prudent by management to so analyze. If the valuation of the impaired loan is less than the recorded investment in the loan, the deficiency will be charged off against the Allowance or, alternatively, a specific reserve will be established and included in the overall Allowance balance. As of March 31, 2015, this specific reserve represented $0.8 million of the total Allowance, compared to $1.5 million at December 31, 2014.

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General Allowance

In determining the general allowance component of the Allowance, the Company utilizes a comprehensive approach to segment the loan portfolio into homogenous groups. Six criteria divide the Company s loan portfolio into 128 homogenous subsectors. First, loans are divided by general geographic region (U.S. Mainland and Hawaii). Second, loans are subdivided according to FDIC classification (Construction, Commercial Mortgage, Commercial, Financial and Agricultural, Leases, Residential Mortgage, Consumer). Third, loans within the Construction category are further subdivided by collateral type (Commercial and Residential). Fourth, loans within the Residential Mortgage category are further subdivided by ownership type (Investor-owned and Owner-occupied). Fifth, loans are subdivided by state or for some, by County (All Hawaii, Hawaii Island, Kauai, Maui, Oahu, Other Hawaii, All U.S. Mainland, Los Angeles/Orange County CA, Riverside/San Bernardino CA, Sacramento/Placer/El Dorado/Yolo CA, San Diego CA, Washington/Oregon, Other U.S. Mainland). Finally, loans are further subdivided by risk rating (Pass, Special Mention, Substandard, and Doubtful).

For the purpose of determining general allowance loss factors, loss experience is derived from charge-offs and recoveries. A charge-off occurs when the Company makes the determination that an amount of debt is deemed to be uncollectible. Loans are also charged off when it is probable that a loss has been incurred and it is possible to make a reasonable estimate of the loss. Charge-offs are classified into subsectors according to the underlying loan s primary geography, loan category, collateral type (if applicable), investment type (if applicable), state/county, and the risk rating of the loan one year prior to the charge-off. A recovery occurs when a loan that is classified as a bad debt was either partially or fully charged off and has been subsequently recovered. Recoveries are classified according to the subsector of the earliest associated charge-off of the loan within the selected look-back period. The cumulative charge-offs are determined by summing all subsector-specific charge-offs that occurred within the selected look-back period and the cumulative recoveries are determined by summing the subsector-specific recoveries for each subsector. Subsector losses are measured by subtracting each subsector s cumulative recoveries from their respective cumulative charge-offs. Subsector losses are then divided by the subsector loan balance averaged over the look-back period to determine each subsector s historical loss rate.

From 2010 through 2013, the calculation of subsector loss factors involved a look-back period of eight quarters (for loans secured by real estate by FDIC classifications) or four quarters (for all other loans). The Company s then rapidly evolving loss experience necessitated the use of shorter loss analysis periods in order to ensure that loss rates would be adequately responsive to changes in loss experience. During that period, the Company considered recent loss data to be more relevant to the current period under analysis and consistent with commentary provided by our primary banking regulator.

As economic conditions continued to improve and stabilize through 2014, the Company experienced improving credit quality trends that contributed to consistent reductions to the Allowance. Given the diminishing loss rates, in the first quarter of 2014 the Company extended the look-back period for loans secured by real estate from 8 quarters to 17 quarters, with the intention of extending the look-back period each quarter thereafter to a total of 24 quarters or six years to incorporate broader loss experience through a more complete economic cycle. The Company believed this would also reduce the Company s reliance on proxy loss rates by capturing more of the Company s own historical loss experience in the extended look-back period. The Company also believes the longer look-back period is appropriate in light of the Company s limited loss experience throughout the recent economic recovery and stabilization. Additionally, as economic conditions have stabilized through 2014, the Company believes the lower loss rate volatility has diminished the need for shorter loss analysis periods that are more responsive to shifts in loss experience. The enhanced methodology does not incorporate data before 2010 due to the anomalous loss activity during that time period that may cause pre-2010 internal loss data to be an inappropriate representation of the current inherent risk in the Company s loan portfolio. In our revised approach, the losses during the six year look-back period will be weighted to place more emphasis on recent loss experience.

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Application of Proxies

The Company applies external proxies for minimum loss rates in those loan categories with no associated loss experience during the prescribed look-back period, including criticized credits. The Company believes the use of external proxies is a prudent approach versus using a zero loss factor for those loan categories that do not have loss experience in the look-back period. The external proxies used are based on four select credit loss rates tracked by Moody s Investor Service.

The following table describes the Moody s loss rate that is applied as a proxy to each loan category when no associated loss experience is registered in a subsector of the loan category over the relevant look-back period.

Loan Segment	**Proxy- Moody s Loss Rate**
Commercial, Financial and Agricultural	Maximum of Last 5 Yrs Annual Corporate Bond Loss Rate
Construction	Cumulative 2-Yr U.S. CMBS Loss Rate
Commercial Mortgage	Cumulative 2-Yr U.S. CMBS Loss Rate
Residential Mortgage	Cumulative 2-Yr U.S. RMBS/HEL Loss Rate
Consumer	1-Yr U.S. ABS excl. HEL Loss Rate
Leases	Maximum of Last 5 Yrs Annual Corporate Bond Loss Rate

In those loan categories described in the table above, specific loss rate proxies are applied based on the equivalence of respective risk ratings between the proxy rate and the loan subsector. Based on the conformity of risk characterizations, B-rated proxy rates are matched to substandard loan segments (risk rating 6), Ba-rated proxy rates are matched to special mention loan segments (risk rating 5), and Aaa, Aa, A and Baa-rated proxy rates are matched to risk ratings strong quality, above average quality, average quality, and acceptable quality, respectively (risk ratings 1, 2, 3 and 4).

For pass rated loan segments with no associated loss experience during the respective prescribed look-back periods, the proxy loss rate is determined by weighting each proxy loss rate (ratings Aaa, Aa, A and Baa) by the loan balance in each equivalent risk rating (strong, above average, average and acceptable quality, respectively).

In assessing the appropriateness of Moody s proxy rates, the Company conducted a comprehensive review of other potential sources of proxy loss data, evaluated the qualitative and quantitative factors influencing the relevance and reliability of proxy data, and performed a correlation analysis to determine the co-dependency of historical loss ratios with Moody s loss rates. The analysis compared historical loss ratios in each loan category to the associated Moody s loss rates over ten years.

An analysis of the correlation between historical loss ratios and Moody s loss rates revealed that the two metrics demonstrated a directionally consistent loss relationship in nearly every rating group and exhibited average to strong correlation across all rating groups in almost every segment. Given the results of the correlation analysis, the Company deemed application of these proxy loss rates to be reasonable and supportable.

Qualitative Adjustments

Our Allowance methodology uses qualitative adjustments for economic/market conditions and Company-specific conditions. The economic/market conditions factor is applied on a regional/geographic basis. The Company-specific condition factor is applied on a category basis. Two key indicators, personal income and unemployment, comprise the economic/market adjustment factor.

Personal income is analyzed by comparing average quarter-to-quarter percentage change trends reported by the U.S. Bureau of Economic Analysis. Specifically, the rolling four quarter average percentage change in personal income is calculated and compared to a baseline historical factor, calculated as the average quarter-to-quarter percentage change over the prior ten years. The difference between the current average change and the historical average change is utilized as the personal income component of the economic/market adjustment factor.

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The second component of the economic/market factor, unemployment, is derived by comparing the current quarter unemployment rate, reported by the U.S. Bureau of Labor Statistics, to its ten year historical average. A constant scaling factor is applied to the difference between the current rate and the historical average in order to smooth significant period-to-period fluctuations. The result is utilized as the unemployment component of the economic factor. The personal income factor and unemployment factor are added together to determine each region s total economic/market adjustment factor.

The general allowance also incorporates qualitative adjustment factors that capture company-specific conditions for which national/regional statistics are not available, or for which significant localized market specific events have not yet been captured within regional statistics or the Company s historical loss experience. Since we cannot predict with certainty the amount of loan and lease charge-offs that will be incurred and because the eventual level of loan and lease charge-offs are impacted by numerous conditions beyond our control, we use our historical loss experience adjusted for current conditions to determine both our Allowance and Provision.

In the first quarter of 2015, we increased a qualitative factor applied to our syndicated loan portfolio in consideration of updated proxy information which became available in the quarter. We continually monitor for updated and refined information sources which will enable us to enhance the quality of our Allowance methodology from time to time.

In addition, various regulatory agencies, as an integral part of their examination processes, periodically review our Allowance. The determination of the Allowance requires us to make estimates of losses that are highly uncertain and involves a high degree of judgment. Accordingly, actual results could differ from those estimates. Changes in the estimate of the Allowance and related Provision could materially affect our operating results.

The sum of each subsector s historical loss rate plus a region-specific economic/market qualitative adjustment and category-specific other qualitative adjustment, as discussed in the above *Application of Proxies* section, is then multiplied by the subsector s period-ending loan balance to determine each subsector s general allowance provision. The sum of the 128 subsector general allowance provisions represents the general allowance provision of the entire portfolio. As of March 31, 2015, this general allowance represented $66.6 million of the total Allowance, compared to $68.5 million at December 31, 2014.

Unallocated Reserve

The Company maintains an unallocated Allowance amount to provide for other credit losses inherent in our loan and lease portfolio that may not have been contemplated in the credit loss factors. The unallocated reserve is a measure to address judgmental estimates that are inevitably imprecise and it reflects an adjustment to the Allowance that is not attributable to specific categories of the loan portfolio. The unallocated reserve is distinct from and not captured in the Company s qualitative adjustments in the general component of the Allowance. These qualitative adjustments only capture direct and specific risks to our portfolio, whereas the unallocated reserve is intended to capture broader national and global economic risks that could potentially have a ripple effect on our loan portfolio.

As of March 31, 2015 and December 31, 2014, an unallocated estimate of $4.0 million, was based on the Company s recognition of domestic (U.S. mainland) and international events that pose heightened volatility in the isolated Hawaiian market. Examples of such stressors are acts of terrorism, pandemic events, energy price volatility and Federal budget changes. Any of these in isolation or combination could have significant effects on the two key drivers of the Hawaiian economy: tourism and Federal spending.

Although the Company does not have direct exposure to the economic and political crises occurring internationally, the ripple effect of continuous uncertainty surrounding ultimate resolution, along with quantifiable measures once achieved, may result in increased risk to the Company from the standpoint of consequences to its customer base and impacts on the Hawaii tourism market.

In the second quarter of 2014, the Company adopted an enhancement which limits the unallocated component of the Allowance as a percentage of the then current general component of the Allowance, rounded upward to the nearest $500,000. This is derived by taking the historical average of the percentage of the unallocated component to the general component over the maximum look-back period prescribed in our methodology. The unallocated amount may be maintained at higher levels during times of economic stress conditions on a local or global basis.

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Reserve for Unfunded Loan Commitments

Our process for determining the reserve for unfunded loan commitments is consistent with our process for determining the Allowance and is adjusted for estimated loan funding probabilities. The reserve for unfunded loan commitments is recorded separately through a valuation allowance included in other liabilities. Credit losses for off-balance sheet credit exposures are deducted from the allowance for credit losses on off-balance sheet credit exposures in the period in which the liability is settled. The allowance for credit losses on off-balance sheet credit losses is established by a charge to other operating expense. As of March 31, 2015 and December 31, 2014, our reserve for unfunded loan commitments totaled $1.7 million.

Loans Held for Sale

Loans held for sale consists of the following two types: (1) Hawaii residential mortgage loans that are originated with the intent to sell them in the secondary market and (2) non-residential mortgage loans both in Hawaii and the U.S. Mainland that were originated with the intent to be held in our portfolio but were subsequently transferred to the held for sale category. Hawaii residential mortgage loans classified as held for sale are carried at the lower of cost or fair value on an aggregate basis while the non-residential Hawaii and U.S. Mainland loans are recorded at the lower of cost or fair value on an individual basis.

When a non-residential mortgage loan is transferred to the held for sale category, the loan is recorded at the lower of cost or fair value. Any reduction in the loan s value is reflected as a write-down of the recorded investment resulting in a new cost basis, with a corresponding reduction in the Allowance. In subsequent periods, if the fair value of a loan classified as held for sale is less than its cost basis, a valuation adjustment is recognized in our consolidated statement of income in other operating expense and the carrying value of the loan is adjusted accordingly. The valuation adjustment may be recovered in the event that the fair value increases, which is also recognized in our consolidated statement of income in other operating expense.

The fair value of loans classified as held for sale are generally based upon quoted prices for similar assets in active markets, acceptance of firm offer letters with agreed upon purchase prices, discounted cash flow models that take into account market observable assumptions, or independent appraisals of the underlying collateral securing the loans. We report the fair values of the non-residential mortgage loans classified as held for sale net of applicable selling costs on our consolidated balance sheets. At March 31, 2015 and December 31, 2014, all of our loans held for sale were Hawaii residential mortgage loans.

Reserve for Residential Mortgage Loan Repurchase Losses

We sell residential mortgage loans on a whole-loan basis to government-sponsored entities (GSEs or Agencies) Fannie Mae and Freddie Mac and also to non-agency investors. These loan sales occur under industry standard contractual provisions that include various representations and warranties, which typically cover ownership of the loan, compliance with loan criteria set forth in the applicable agreement, validity of the lien securing the loan, and other similar matters. We may be required to repurchase certain loans sold with identified defects, indemnify the investor, or reimburse the investor for any credit losses incurred. We establish mortgage repurchase reserves related to various representations and warranties that reflect management s estimate for which we have a repurchase obligation. The reserves are established by a charge to other operating expense in our consolidated statements of operation. At March 31, 2015 and December 31, 2014, this reserve totaled $2.6 million and

$2.7 million, respectively, and is included in other liabilities on our consolidated balance sheets.

The repurchase reserve is applicable to loans we originated and sold with representations and warranties, which is representative of the entire sold portfolio. Originations for agency and non-agency for vintages 2005 through March 31, 2015 were approximately $4.7 billion and $4.2 billion, respectively. Representations and warranties relating to borrower fraud generally are enforceable for the life of the loan, whereas early payment default clauses generally expire after 90 days, depending on the sales contract. We estimate that loans outstanding and sold that have early payment default clauses as of March 31, 2015 approximate $62.6 million.

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The repurchase loss liability is estimated by origination year to capture certain characteristics of each vintage. To the extent that repurchase demands are made by investors, we may be able to successfully appeal such repurchase demands. However, our appeals success may be affected by the reasons for repurchase demands, the quality of the demands, and our appeals strategies. Repurchase and loss estimates are stratified by vintage, based on actual experience and certain assumptions relative to potential investor demand volume, appeals success rates, and losses recognized on successful repurchase demands.

Loans repurchased during the three months ended March 31, 2015 totaled approximately $0.2 million. In 2012, additional reserves were established as an unallocated component in recognition of the emergence of make-whole demands. The establishment of an unallocated component considers anticipated future losses and our lack of historical experience with the make-whole demands. Repurchase activity by vintage and investor type are depicted in the table below.

Repurchase Demands, Appeals, Repurchased and Pending Resolution [1]

Three Months Ended March 31, 2015

	Government Sponsored Entities				Non-GSE Investors			
Vintage	**Repurchase Demands**	**Appealed**	**Repurchased**	**Pending Resolution**	**Repurchase Demands**	**Appealed**	**Repurchased**	**Pending Resolution**
2005 and prior					1		1	
2006					3		1	2
2007					3	2		1
2008								
2009	1			1				
2010								
2011								
2012								
2013	1			1				
2014	1			1				
2015								
Total	3			3	7	2	2	3

[1] Based on repurchase requests received between January 1, 2015 and March 31, 2015.

The reserve for residential mortgage loan repurchase losses of $2.6 million at March 31, 2015 represents our best estimate of the probable loss that we may incur due to the representations and warranties in our loan sales contracts with investors. This represents a $0.1 million decrease from December 31, 2014. The table below shows changes in the repurchase losses liability for the periods indicated.

	Three Months Ended March 31,	
	2015	**2014**
	(Dollars in thousands)	

Balance, beginning of period	$	2,685	$	2,949
Change in estimate		159		455
Utilizations		(221)		(328)
Balance, end of period	$	2,623	$	3,076

We believe that our capacity to estimate repurchase losses is improving as we record additional experience. Repurchase losses depend upon economic factors and other external conditions that may change over the life of the underlying loans. Additionally, lack of access to the servicing records of loans sold on a service released basis adds difficulty to the estimation process, thus requiring considerable management judgment. To the extent that future investor repurchase demand and appeals success differ from past experience, we could have increased demands and increased loss severities on repurchases, causing future additions to the repurchase reserve.

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Other Intangible Assets

Other intangible assets include a core deposit premium and mortgage servicing rights.

Our core deposit premium is being amortized using the straight-line method over 14 years which approximates the estimated life of the purchased deposits. The carrying value of our core deposit premium is periodically evaluated to estimate the remaining periods of benefit. If these periods of benefit are determined to be less than the remaining amortizable life, an adjustment to reflect such shorter life will be made.

We utilize the amortization method to measure our mortgage servicing rights. Under the amortization method, we amortize our mortgage servicing rights in proportion to and over the period of net servicing income. Income generated as the result of new mortgage servicing rights is reported as gains on sales of loans. Amortization of the servicing rights is reported as amortization of other intangible assets in our consolidated statements of operations. Ancillary income is recorded in other income. Mortgage servicing rights are recorded when loans are sold to third-parties with servicing of those loans retained and we classify our entire mortgage servicing rights into one pool.

Initial fair value of the servicing right is calculated by a discounted cash flow model based on market value assumptions at the time of origination. We assess the servicing right for impairment using current market value assumptions at each reporting period. Critical assumptions used in the discounted cash flow model include mortgage prepayment speeds, discount rates, costs to service and ancillary income. Variations in our assumptions could materially affect the estimated fair values. Changes to our assumptions are made when current trends and market data indicate that new trends have developed. Current market value assumptions based on loan product types (fixed rate, adjustable rate and balloon loans) include average discount rates and national prepayment speeds. Many of these assumptions are subjective and require a high level of management judgment.

Prepayment speeds may be affected by economic factors such as changes in home prices, market interest rates, the availability of alternative credit products to our borrowers and customer payment patterns. Prepayment speeds include the impact of all borrower prepayments, including full payoffs, additional principal payments and the impact of loans paid off due to foreclosure liquidations. As market interest rates decline, prepayment speeds will generally increase as customers refinance existing mortgages under more favorable interest rate terms. As prepayment speeds increase, anticipated cash flows will generally decline resulting in a potential reduction, or impairment, to the fair value of the capitalized mortgage servicing rights. Alternatively, an increase in market interest rates may cause a decrease in prepayment speeds and therefore an increase in fair value of mortgage servicing rights.

The fair value of our mortgage servicing rights is validated by first ensuring the completeness and accuracy of the loan data used in the valuation analysis. Additionally, the critical assumptions which come from independent sources are reviewed and include comparing actual results to forecast assumptions or evaluating the reasonableness of market assumptions in relation to the values and trends of assumptions used by peer banks. The validation process also includes reviewing key metrics such as the fair value as a percentage of the total unpaid principal balance of the mortgages serviced, and the resulting percentage as a multiple of the net servicing fee. These key metrics are tracked to ensure the trends are reasonable, and are periodically compared to peer banks.

We 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 assessments 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. The variability of the factors we use to perform our impairment tests depend on a number of conditions, including the 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.

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Deferred Tax Assets and Tax Contingencies

Deferred tax assets (DTAs) and liabilities are recognized for the estimated future tax effects attributable to temporary differences and carryforwards. A valuation allowance may be required if, based on the weight of available evidence, it is more likely than not that some portion or all of the DTAs will not be realized. In determining whether a valuation allowance is necessary, we consider the level of taxable income in prior years, to the extent that carrybacks are permitted under current tax laws, as well as estimates of future taxable income and tax planning strategies that could be implemented to accelerate taxable income, if necessary. If our estimates of future taxable income were materially overstated or if our assumptions regarding the tax consequences of tax planning strategies were inaccurate, some or all of our DTAs may not be realized, which would result in a charge to earnings. In the third quarter of 2009, we established a full valuation allowance against our net DTAs. See - Results of Operations - Income Taxes below. The quarter ended March 31, 2013 marked our ninth consecutive quarter of profitability. Based on this earnings performance trend, improvements in our financial condition, asset quality and capital ratios and the expectation of continued profitability, the Company determined that it was more likely than not that our net DTA would be realized. As a result, in the first quarter of 2013, the Company reversed a significant portion of the valuation allowance.

Income tax contingency reserves are established for potential tax liabilities related to uncertain tax positions. Tax benefits are recognized when we determine that it is more likely than not that such benefits will be realized. Where uncertainty exists due to the complexity of income tax statutes and where the potential tax amounts are significant, we generally seek independent tax opinions to support our positions. If our evaluation of the likelihood of the realization of benefits is inaccurate, we could incur additional income tax and interest expense that would adversely impact earnings, or we could receive tax benefits greater than anticipated which would positively impact earnings.

Impact of Recently Issued Accounting Pronouncements on Future Filings

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers.* ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. ASU 2014-09 is effective for the Company s reporting period beginning on January 1, 2017. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance target Could Be Achieved after the Requisite Service Period.* ASU 2014-12 requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. ASU 2014-12 is effective for the Company s reporting period beginning on January 1, 2016. As of March 31, 2015 and December 31, 2014, the Company did not have any share-based payment awards that included performance targets that could be achieved after the requisite service period. As such, we do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis. ASU 2015-02 changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. Specifically, the amendments:1) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities; 2) eliminate the presumption that a general partner should consolidate a limited partnership; 3) affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; 4) provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. All legal entities are subject to reevaluation under the revised consolidation model. ASU 2015-02 is effective for the Company s annual reporting period beginning on January 1, 2016. We are currently evaluating the potential impact the new standard will have on our consolidated financial statements.

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Financial Summary

Net income for the first quarter of 2015 was $10.4 million, or $0.29 per diluted share, compared to $9.8 million, or $0.23 per diluted share for the first quarter of 2014.

Total credit costs, which includes the Provision, gains on sales of foreclosed assets, write-downs of foreclosed assets, and the change in the reserve for unfunded commitments, amounted to a credit of $2.7 million in the three months ended March 31, 2015, compared to a credit of $2.1 million in the three months ended March 31, 2014.

The following table presents annualized returns on average assets, average shareholders   equity, average tangible equity and basic and diluted earnings per share for the periods indicated. Average tangible equity is calculated as average shareholders   equity less average intangible assets, which excludes mortgage servicing rights. Average intangible assets were $9.8 million for the three months ended March 31, 2015 and $12.4 million for the comparable prior year period.

	Three Months Ended March 31, 2015		Three Months Ended March 31, 2014	
Return on average assets		0.85%		0.82%
Return on average shareholders equity		7.32		5.79
Return on average tangible equity		7.45		5.90
Basic earnings per common share	$	0.30	$	0.23
Diluted earnings per common share		0.29		0.23

Material Trends

While there remains continued uncertainty in the global macroeconomic environment, the U.S. economy has continued to stabilize following the economic downturn caused by disruptions in the financial system beginning in 2007.

Despite this stabilization, underutilization of labor forces, a slow recovery in the housing sector, low level of inflation as a result of declining commodity prices and weak global trade have added to the uncertainty surrounding a sustained economic recovery. In addition, downgrades of ratings of foreign debt instruments could raise borrowing costs and adversely impact the mortgage and housing markets.

The majority of our operations are concentrated in the state of Hawaii. As a result, our performance is significantly influenced by conditions in the banking industry, macroeconomic conditions and the real estate markets in Hawaii. A favorable business environment is generally characterized by expanding gross state product, low unemployment and rising personal income; while an unfavorable business environment is characterized by the reverse.

In its first quarter forecast, the Hawaii Department of Business Economic Development & Tourism (DBEDT) projects stable economic growth will continue in 2015 and beyond. DBEDT projects real personal income to grow by 2.8% and real gross state product to grow by 3.1% in 2015.

The Department of Labor and Industrial Relations reported that Hawaii s seasonally adjusted annual unemployment rate improved to 4.1% in March 2015, compared to 4.6% in March 2014. In addition, Hawaii s unemployment rate in March 2015 remained below the national seasonally adjusted unemployment rate of 5.5%. DBEDT projects Hawaii s seasonally adjusted annual unemployment rate to be at 3.9% in 2015 while the national unemployment rate is projected to be at 5.4% in 2015.

While the labor market condition continues to improve, visitor arrivals and spending have stabilized. According to the Hawaii Tourism Authority (HTA), 1.3 million visitors visited the state in the first two months of 2015. This was a slight increase of 0.8% from the number of visitor arrivals in the first two months of 2014. Total spending by visitors, however, decreased to $2.6 billion in the first two months of 2015, a decrease of $88.3 million, or 3.3%, from the first two months of 2014. According to DBEDT, total visitor arrivals and visitor spending are expected to increase 2.1% and 3.4% in 2015, respectively.

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Historically, real estate lending has been a primary focus for us, including construction, residential mortgage and commercial mortgage loans. As a result, we are dependent on the strength of Hawaii s real estate market. According to the Honolulu Board of Realtors, Oahu unit sales volume decreased by 4.0% for single-family homes and 1.4% for condominiums for the three months March 31, 2015 compared to the same time period last year. The median sales price for single-family homes on Oahu for the three months ended March 31, 2015 was $676,000, representing an increase of 3.2% from $655,000 in the same prior year period. The median sales price for condominiums on Oahu for the three months ended March 31, 2015 was $363,750, representing an increase of 5.4% from $345,000 in the same prior year period. We believe the Hawaii real estate market will continue to show improvements during the remainder of 2015, however, there can be no assurance that this will occur.

As we have seen in the past, our operating results are significantly impacted by: (i) the economy in Hawaii, and to a significantly lesser extent, California, and (ii) the composition of our loan portfolio. Loan demand, deposit growth, Provision, asset quality, noninterest income and noninterest expense are all affected by changes in economic conditions. If the residential and commercial real estate markets we have exposure to deteriorate as they did in 2008 through 2010, our results of operations would be negatively impacted.

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Results of Operations

Net Interest Income

Net interest income, when expressed as a percentage of average interest earning assets, is referred to as net interest margin. Interest income, which includes loan fees and resultant yield information, is expressed on a taxable equivalent basis using an assumed income tax rate of 35%. A comparison of net interest income on a taxable equivalent basis (net interest income) for the three months ended March 31, 2015 and 2014 is set forth below.

	Three Months Ended March 31, 2015			2014		
	Average Balance	Average Yield/ Rate	Amount of Interest	Average Balance	Average Yield/ Rate	Amount of Interest
	(Dollars in thousands)					
Assets						
Interest earning assets:						
Interest-bearing deposits in other banks	$ 18,046	0.25%	$ 11	$ 11,585	0.24%	$ 7
Taxable investment securities (1)	1,310,909	2.49	8,159	1,508,213	2.52	9,497
Tax-exempt investment securities (1)	177,606	3.46	1,536	178,005	3.44	1,529
Loans and leases, including loans held for sale (2)	2,955,525	3.90	28,602	2,665,825	4.07	26,883
Federal Home Loan Bank stock	43,809	0.10	11	46,072	0.10	12
Total interest earning assets	4,505,895	3.42	38,319	4,409,700	3.46	37,928
Nonearning assets	383,827			372,155		
Total assets	$ 4,889,722			$ 4,781,855		
Liabilities and Equity						
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 787,717	0.05%	$ 95	$ 735,730	0.05%	$ 90
Savings and money market deposits	1,248,867	0.07	223	1,218,087	0.07	224
Time deposits under $100,000	237,239	0.38	222	263,479	0.41	267
Time deposits $100,000 and over	836,232	0.16	326	840,595	0.17	363
Short-term borrowings	63,227	0.27	43	25,295	0.28	17
Long-term debt	92,785	2.78	637	92,796	2.78	636
Total interest-bearing liabilities	3,266,067	0.19	1,546	3,175,982	0.20	1,597
Noninterest-bearing deposits	1,013,238			885,568		
Other liabilities	42,426			42,479		
Total liabilities	4,321,731			4,104,029		
Shareholders equity	567,991			677,765		
Non-controlling interests				61		

Total equity	567,991		677,826	
Total liabilities and equity	$ 4,889,722		$ 4,781,855	
Net interest income		$ 36,773		$ 36,331
Net interest margin	3.28%		3.31%	

(1) At amortized cost.

(2) Includes nonaccrual loans.

Net interest income (expressed on a taxable-equivalent basis) was $36.8 million for the first quarter of 2015, representing an increase of 1.2% from the prior year period amount of $36.3 million. The current quarter increase was primarily attributable to a significant increase in average loans and leases balances as we continue to redeploy excess liquidity into higher yielding assets. Offsetting this increase was a significant decrease in average taxable investment securities balances and a 17 basis point (bp) decline in average yields earned on our loans and leases.

Average yields earned on our interest-earning assets during the first quarter of 2015 declined by 4 bp from the same prior year period. Average rates paid on our interest-bearing liabilities declined by 1 bp in the first quarter of 2015 from the same period in 2014.

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Interest Income

Taxable-equivalent interest income was $38.3 million for the first quarter of 2015 compared to $37.9 million, an increase of 1.0%, from the comparable quarter in 2014. The increase was primarily attributable to a significant increase in average loans and leases, partially offset by a significant decrease in average taxable investment securities and a significant decrease in average yields earned on our loans and leases. Average loans and leases increased by $289.7 million compared to the first quarter of 2014, accounting for approximately $2.9 million of the current quarter s increase in interest income. Average yields earned on loans and leases, however, decreased by 17 bp in the current quarter, lowering interest income by approximately $1.1 million. In addition, average taxable investment securities decreased by $197.3 million, resulting in a decrease in interest income of $1.2 million.

Interest Expense

Interest expense for the first quarter of 2015 was $1.5 million compared to $1.6 million, a decrease of 3.2% from the same quarter in the prior year. The decrease was attributable to the 1 bp decline in average rates paid on our interest-bearing liabilities, offset by an increase in average interest-bearing liabilities of $90.1 million.

Net Interest Margin

Our net interest margin was 3.28% for the first quarter of 2015, compared to 3.31% for the first quarter of 2014 and reflects declines of 17 bp and 3 bp in average yields earned on loans and leases and taxable investment securities, respectively. The contraction in our net interest margin from the first quarter of 2014 is attributable to the prevailing low interest rate environment.

The historically low interest rate environment that we continue to operate in is the result of the target Fed Funds rate of 0% to 0.25% initially set by the Federal Reserve in the fourth quarter of 2008 and other economic policies implemented by the FRB, which continued through the first quarter of 2015. We continue to expect the target Fed Funds rate to remain low throughout 2015, as longer-term inflation expectations have remained stable.

Provision for Loan and Lease Losses

Our Provision was a credit of $2.7 million during the first quarter of 2015 compared to a credit of $1.3 million in the comparable prior year period. Our net recoveries were $0.1 million during the first quarter of 2015 compared to $0.7 million in the first quarter of 2014.

The credit to the provision for loan and lease losses in the first quarter was primarily attributable to improving trends in credit quality.

Other Operating Income

Total other operating income of $11.2 million for the first quarter of 2015 increased by $1.0 million, or 10.3%, from the comparable prior year period. The increase from the year-ago quarter was primarily due to higher unrealized gains on loans held for sale and interest rate locks of $0.5 million (included in other), higher net gains on sales of residential mortgage loans of $0.4 million, and a partial recovery of a previous counterparty loss on a financing transaction of $0.3 million (included in other).

Other Operating Expense

Total other operating expense for the first quarter of 2015 was $34.0 million and increased by $2.1 million, or 6.5%, from $31.9 million in the comparable prior year period. The increase from the year-ago quarter was primarily attributable to higher amortization of mortgage servicing rights of $0.9 million, higher computer software expenses of $0.7 million, a lower credit to the reserve for unfunded commitments of $0.7 million (included in other), and higher legal and professional services due primarily to an accrual of $0.5 million related to the Selling Shareholders share repurchase. These increases were partially offset by a lower reserve for repurchased residential mortgage loans of $0.3 million and lower salaries and employee benefits of $0.3 million.

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Income Taxes

In the first quarter of 2015, the Company recorded income tax expense of $5.8 million compared to $5.5 million in the same prior year period primarily due to an increase in operating income. The effective tax rate for the first quarter of 2015 was 35.7% compared to 36.0% in the first quarter of 2014.

The remaining valuation allowance on our net DTA totaled $2.8 million at March 31, 2015 and December 31, 2014. Net of this valuation allowance, the Company s net DTA totaled $94.3 million at March 31, 2015 compared to a net DTA of $104.4 million as of December 31, 2014, and is included in other assets on our consolidated balance sheets.

Financial Condition

Total assets at March 31, 2015 of $4.97 billion increased by $112.9 million from $4.85 billion at December 31, 2014.

Investment Securities

Investment securities of $1.55 billion at March 31, 2015 increased by $86.8 million, or 5.9%, from December 31, 2014. No investment securities were sold in the first quarter of 2015.

Loans and Leases

Loans and leases, net of deferred income/costs, of $2.97 billion at March 31, 2015 increased by $35.6 million, or 1.2%, from December 31, 2014. The increase was due to an increase in the commercial and residential mortgage loan portfolios of $36.9 million and $18.0 million, respectively, partially offset by a decrease in the commercial mortgage loan, construction loan, and leases portfolios of $2.0 million, $1.8 million, and $0.3 million, respectively. The net increase in the portfolio also reflect the transfer of three portfolio loans to other real estate totaling $1.4 million and charge-offs of loans and leases totaling $2.8 million.

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Nonperforming Assets, Accruing Loans Delinquent for 90 Days or More, Restructured Loans Still Accruing Interest

The following table sets forth nonperforming assets, accruing loans delinquent for 90 days or more and restructured loans still accruing interest as of the dates indicated.

	March 31, 2015	December 31, 2014
	(Dollars in thousands)	
Nonperforming Assets		
Nonaccrual loans (including loans held for sale):		
Commercial, financial and agricultural	$ 13,377	$ 13,007
Real estate:		
Construction	146	310
Mortgage-residential	11,430	13,048
Mortgage-commercial	12,468	12,722
Total nonaccrual loans	37,421	39,087
Other real estate:		
Real estate:		
Construction		747
Mortgage - residential	3,349	2,201
Other real estate	3,349	2,948
Total nonperforming assets		