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.

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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)

	Three Months Ended March 31,	
(Amounts in thousands, except per share data)	**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		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	Three Months Ended March 31, 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		Estimated Fair Value
	(Dollars in thousands)			
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				Total			
Description of Securities		Fair Value		Unrealized Losses		Fair Value		Unrealized Losses		Fair Value		Unrealized Losses
	(Dollars in thousands)											
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 (Dollars in thousands)		Average Recorded Investment		Interest Income Recognized	
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 at Reporting Date Using		
	Fair Value	**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	$