

CENTRAL PACIFIC FINANCIAL CORP
Form 10-Q
November 03, 2015

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

or

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

For the transition period from _____ to _____

Commission file number 001-31567

CENTRAL PACIFIC FINANCIAL CORP.
(Exact name of registrant as specified in its charter)

Hawaii
(State or other jurisdiction of
incorporation or organization)

99-0212597
(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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

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to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐

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

The number of shares outstanding of registrant’s common stock, no par value, on October 28, 2015 was 31,330,644 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 that our forward-looking statements and the assumptions underlying them are reasonably based, such statements and assumptions are by their nature subject to risks and uncertainties, and thus could later prove to be inaccurate or incorrect. Accordingly, actual results could materially differ from projections for a variety of reasons, to include, but not be limited to: 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.

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

(dollars in thousands)	September 30, 2015	December 31, 2014
Assets		
Cash and due from banks	\$69,628	\$72,316
Interest-bearing deposits in other banks	14,376	13,691
Investment securities:		
Available for sale, at fair value	1,272,382	1,229,018
Held to maturity, at amortized cost (fair value of \$254,540 at September 30, 2015 and \$235,597 at December 31, 2015)	254,719	238,287
Total investment securities	1,527,101	1,467,305
Loans held for sale	9,786	9,683
Loans and leases	3,101,463	2,932,198
Allowance for loan and lease losses	(66,644)	(74,040)
Net loans and leases	3,034,819	2,858,158
Premises and equipment, net	47,822	49,214
Accrued interest receivable	13,779	13,584
Investment in unconsolidated subsidiaries	6,489	7,246
Other real estate	1,913	2,948
Mortgage servicing rights	18,174	19,668
Other intangible assets	8,023	10,029
Bank-owned life insurance	153,449	152,283
Federal Home Loan Bank stock	12,048	43,932
Other assets	104,426	132,930
Total Assets	\$5,021,833	\$4,852,987
Liabilities		
Deposits:		
Noninterest-bearing demand	\$1,112,761	\$1,034,146
Interest-bearing demand	785,936	788,272
Savings and money market	1,283,517	1,242,598
Time	1,048,289	1,045,284
Total deposits	4,230,503	4,110,300
Short-term borrowings	155,000	38,000
Long-term debt	92,785	92,785
Other liabilities	40,284	43,861
Total Liabilities	4,518,572	4,284,946
Equity		
Preferred stock, no par value, authorized 1,100,000 shares, issued and outstanding none at September 30, 2015 and December 31, 2014, respectively	—	—
Common stock, no par value, authorized 185,000,000 shares, issued and outstanding 31,330,644 and 35,233,674 shares at September 30, 2015 and December 31, 2014, respectively	548,518	642,205

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Surplus	81,528	79,716
Accumulated deficit	(133,821) (157,039)
Accumulated other comprehensive income	7,036	3,159
Total Equity	503,261	568,041
Total Liabilities and Equity	\$5,021,833	\$4,852,987

See accompanying notes to consolidated financial statements.

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

(amounts in thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest income:				
Interest and fees on loans and leases	\$30,148	\$28,364	\$88,322	\$83,287
Interest and dividends on investment securities:				
Taxable interest	8,260	7,744	24,687	25,716
Tax-exempt interest	1,008	1,002	3,016	2,996
Dividends	9	8	26	10
Interest on deposits in other banks	6	9	28	24
Dividends on Federal Home Loan Bank stock	11	12	40	35
Total interest income	39,442	37,139	116,119	112,068
Interest expense:				
Interest on deposits:				
Demand	104	96	298	277
Savings and money market	230	225	678	672
Time	568	629	1,665	1,880
Interest on short-term borrowings	73	10	195	82
Interest on long-term debt	662	647	1,949	1,923
Total interest expense	1,637	1,607	4,785	4,834
Net interest income	37,805	35,532	111,334	107,234
Provision (credit) for loan and lease losses	(3,647	) (1,722	) (13,713	) (1,043
Net interest income after credit for loan and lease losses	41,452	37,254	125,047	108,277
Other operating income:				
Service charges on deposit accounts	1,947	2,070	5,830	6,052
Loan servicing fees	1,407	1,446	4,257	4,338
Other service charges and fees	2,803	2,886	8,689	8,912
Income from fiduciary activities	854	797	2,518	2,687
Equity in earnings of unconsolidated subsidiaries	165	11	490	422
Fees on foreign exchange	126	118	352	351
Investment securities gains (losses)	—	—	(1,866	) 240
Income from bank-owned life insurance	434	810	1,569	2,246
Loan placement fees	202	35	574	356
Net gain on sales of residential loans	1,551	1,685	4,775	4,151
Net gain on sales of foreclosed assets	252	218	379	962
Other	88	1,387	1,576	2,894
Total other operating income	9,829	11,463	29,143	33,611
Other operating expense:				
Salaries and employee benefits	17,193	16,552	49,534	50,536
Net occupancy	3,547	4,051	10,451	11,375
Equipment	775	953	2,617	2,694
Amortization of other intangible assets	1,683	1,328	5,347	3,886

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Communication expense	895	925	2,661	2,693
Legal and professional services	1,808	1,786	5,669	5,826
Computer software expense	2,286	1,659	6,764	4,592
Advertising expense	502	673	1,586	2,037
Foreclosed asset expense	3	1,355	332	1,443
Other	3,483	5,964	13,690	14,982
Total other operating expense	32,175	35,246	98,651	100,064
Income before income taxes	19,106	13,471	55,539	41,824
Income tax expense	6,900	5,241	20,603	14,636
Net income	\$12,206	\$8,230	\$34,936	\$27,188
Per common share data:				
Basic earnings per share	\$0.39	\$0.23	\$1.07	\$0.72
Diluted earnings per share	0.38	0.23	1.06	0.71
Cash dividends declared	0.12	0.10	0.36	0.26
Shares used in computation:				
Basic shares	31,331	35,863	32,548	37,943
Diluted shares	31,750	36,353	32,932	38,440

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2015	2014	2015	2014
Net income	\$ 12,206	\$ 8,230	\$ 34,936	\$ 27,188
Other comprehensive income (loss), net of tax				
Net change in unrealized gain (loss) on investment securities	7,563	(1,665)	) 3,102	18,221
Minimum pension liability adjustment	259	212	775	589
Total other comprehensive income (loss), net of tax	7,822	(1,453)	) 3,877	18,810
Comprehensive income	\$ 20,028	\$ 6,777	\$ 38,813	\$ 45,998

See accompanying notes to consolidated financial statements.

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	—	—	—	—	34,936	—	—	34,936
Other comprehensive income	—	—	—	—	—	3,877	—	3,877
Cash dividends (\$0.36 per share)	—	—	—	—	(11,718)	—	—	(11,718)
8,159 net shares of common stock sold by directors' deferred compensation plan	—	—	(154)	—	—	—	—	(154)
4,122,881 shares of common stock repurchased and other related costs	(4,122,881)	—	(93,533)	—	—	—	—	(93,533)
Share-based compensation	219,851	—	—	1,812	—	—	—	1,812
Balance at September 30, 2015	31,330,644	\$—	\$548,518	\$81,528	\$ (133,821)	\$ 7,036	\$—	\$503,261
Balance at December 31, 2013	42,107,633	\$—	\$784,547	\$75,498	\$ (184,087)	\$ (15,845)	\$ 61	\$660,174
Net income	—	—	—	—	27,188	—	—	27,188
Other comprehensive income	—	—	—	—	—	18,810	—	18,810
Cash dividends (\$0.26 per share)	—	—	—	—	(9,841)	—	—	(9,841)
1,118 net shares of common stock sold by directors' deferred compensation plan	—	—	(11)	—	—	—	—	(11)
6,369,266 shares of common stock repurchased and other related costs	(6,369,266)	—	(129,391)	—	—	—	—	(129,391)
Share-based compensation	164,863	—	74	2,100	—	—	—	2,174
Non-controlling interests	—	—	—	—	—	—	(61)	(61)
Balance at September 30, 2014	35,903,230	\$—	\$655,219	\$77,598	\$ (166,740)	\$ 2,965	\$—	\$569,042

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2015	2014
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	\$34,936	\$27,188
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision (credit) for loan and lease losses	(13,713)	(1,043)
Depreciation and amortization	4,406	4,372
Write down of other real estate, net of gain on sale	26	529
Amortization of other intangible assets	5,347	3,886
Net amortization of investment securities	7,418	6,111
Share-based compensation	1,812	2,100
Net (gain) loss on investment securities	1,866	(240)
Net gain on sales of residential loans	(4,775)	(4,151)
Proceeds from sales of loans held for sale	304,351	279,641
Originations of loans held for sale	(299,679)	(268,472)
Equity in earnings of unconsolidated subsidiaries	(490)	(422)
Increase in cash surrender value of bank-owned life insurance	(1,889)	(2,402)
Deferred income taxes	19,045	14,701
Net change in other assets and liabilities	3,235	702
Net cash provided by operating activities	61,896	62,500
Cash flows from investing activities:		
Proceeds from maturities of and calls on investment securities available for sale	125,688	104,784
Proceeds from sales of investment securities available for sale	117,496	162,470
Purchases of investment securities available for sale	(290,019)	(18,993)
Proceeds from maturities of and calls on investment securities held to maturity	19,950	12,046
Purchases of investment securities held to maturity	(37,043)	(2,443)
Net loan originations	(122,479)	(183,197)
Purchase of loan portfolios	(52,806)	(62,648)
Proceeds from sales of loans originated for investment	6,658	—
Proceeds from sale of other real estate	6,687	2,790
Proceeds from bank-owned life insurance	723	481
Purchases of premises and equipment	(3,014)	(4,425)
Net return of capital from unconsolidated subsidiaries	424	936
Net proceeds from redemption of FHLB stock	31,884	1,736
Net cash provided by (used in) investing activities	(195,851)	13,537
Cash flows from financing activities:		
Net increase in deposits	120,203	111,923
Repayments of long-term debt	—	(14)
Net increase in short-term borrowings	117,000	(8,015)
Cash dividends paid on common stock	(11,718)	(9,841)
Repurchases of common stock and other related costs	(93,533)	(129,391)
Net proceeds from issuance of common stock and stock option exercises	—	74

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Net cash provided by (used in) financing activities	131,952	(35,264)
Net increase (decrease) in cash and cash equivalents	(2,003)	40,773
Cash and cash equivalents at beginning of period	86,007	49,348
Cash and cash equivalents at end of period	\$84,004	\$90,121
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$4,841	\$4,796
Income taxes	1,280	—
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	\$154	\$11
Net reclassification of loans to other real estate	5,679	1,752
Net transfer of loans to loans held for sale	6,658	—

See accompanying notes to consolidated financial statements.

CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Central Pacific Financial Corp. and Subsidiaries (herein referred to as the “Company,” “we,” “us” or “our”) have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. These interim condensed consolidated financial statements and notes should be read in conjunction with the Company’s consolidated financial statements and notes thereto filed on Form 10-K for the fiscal year ended December 31, 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.

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:

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2015				
Held to Maturity:				
Mortgage-backed securities:				
Residential - U.S. Government sponsored entities	\$158,622	\$195	\$(1,446)	) \$157,371
Commercial - U.S. Government sponsored entities	96,097	1,074	(2)	) 97,169
Total	\$254,719	\$1,269	\$(1,448)	) \$254,540
Available for Sale:				
Debt securities:				
States and political subdivisions	\$188,229	\$3,679	\$(1,475)	) \$190,433
Corporate securities	103,117	1,612	(31)	) 104,698
Mortgage-backed securities:				
Residential - U.S. Government sponsored entities	760,884	10,043	(2,341)	) 768,586
Residential - Non-government agencies	66,560	2,452	—	) 69,012
Commercial - Non-government agencies	135,487	3,629	(355)	) 138,761
Other	823	69	—	) 892
Total	\$1,255,100	\$21,484	\$(4,202)	) \$1,272,382
December 31, 2014				
Held to Maturity:				
Mortgage-backed securities:				
Residential - U.S. Government sponsored entities	\$140,741	\$196	\$(2,150)	) \$138,787
Commercial - U.S. Government sponsored entities	97,546	—	(736)	) 96,810
Total	\$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:				
Residential - U.S. Government sponsored entities	744,527	11,064	(4,033)	) 751,558
Residential - Non-government agencies	45,275	1,510	(92)	) 46,693
Commercial - Non-government agencies	135,630	2,946	(935)	) 137,641
Other	757	120	—	) 877
Total	\$1,216,706	\$19,186	\$(6,874)	) \$1,229,018

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

(dollars in thousands)	September 30, 2015	
	Amortized Cost	Estimated Fair Value
Held to Maturity		
Mortgage-backed securities:		
Residential - U.S. Government sponsored entities	\$158,622	\$157,371
Commercial - U.S. Government sponsored entities	96,097	97,169
Total	\$254,719	\$254,540
Available for Sale		
Due in one year or less	\$7,559	\$7,690
Due after one year through five years	98,871	100,540
Due after five years through ten years	82,352	83,760
Due after ten years	102,564	103,141
Mortgage-backed securities:		
Residential - U.S. Government sponsored entities	760,884	768,586
Residential - Non-government agencies	66,560	69,012
Commercial - Non-government agencies	135,487	138,761
Other	823	892
Total	\$1,255,100	\$1,272,382

During the second quarter of 2015, we completed an investment securities portfolio repositioning to reduce net interest income volatility and enhance the potential for prospective earnings and an improved net interest margin. In connection with the repositioning, we sold certain available for sale mortgage-backed securities with an average yield of 1.35% and a weighted average life of 4.4 years and reinvested the gross proceeds of \$117.5 million in \$137.4 million in investment securities with an average yield of 2.68% and a weighted average life of 7.5 years. The new securities were classified in the available for sale portfolio. Gross realized losses on the sale of the available for sale investment securities were \$1.9 million. We did not sell any available for sale securities during the first and third quarters of 2015. The specific identification method was used as the basis for determining the cost of all securities sold.

During the second quarter of 2014, we sold certain available for sale investment securities for gross proceeds of \$162.5 million. Gross realized gains and losses on the sales of the available for sale investment securities were \$0.9 million and \$0.7 million, respectively. We did not sell any available for sale securities during the first and third quarters of 2014. The specific identification method was used as the basis for determining the cost of all securities sold.

Investment securities of \$1.01 billion and \$900.5 million at September 30, 2015 and December 31, 2014, respectively, were pledged to secure public funds on deposit and other long-term and short-term borrowings.

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Provided below is a summary of the 138 and 195 investment securities which were in an unrealized loss position at September 30, 2015 and December 31, 2014, respectively.

(dollars in thousands)	Less than 12 months		12 months or longer		Total	Unrealized	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Fair Value	Losses
September 30, 2015							
Debt securities:							
States and political subdivisions	\$36,426	\$(706)	\$19,410	\$(769)	\$55,836	\$(1,475)	
Corporate securities	10,753	(31)	—	—	10,753	(31)	
Mortgage-backed securities:							
Residential - U.S. Government sponsored entities	344,484	(2,500)	85,081	(1,287)	429,565	(3,787)	
Commercial - U.S. Government sponsored entities	9,723	(2)	—	—	9,723	(2)	
Commercial - Non-government agencies	33,484	(256)	4,706	(99)	38,190	(355)	
Total temporarily impaired securities	\$434,870	\$(3,495)	\$109,197	\$(2,155)	\$544,067	\$(5,650)	
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:							
Residential - U.S. Government sponsored entities	107,755	(487)	318,571	(5,696)	426,326	(6,183)	
Residential - Non-government agencies	15,895	(92)	—	—	15,895	(92)	
Commercial - U.S. Government sponsored entities	11,455	(34)	85,355	(702)	96,810	(736)	
Commercial - Non-government agencies	4,962	(8)	47,539	(927)	52,501	(935)	
Total temporarily impaired securities	\$187,596	\$(891)	\$520,087	\$(8,869)	\$707,683	\$(9,760)	

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:

(dollars in thousands)	September 30, 2015	December 31, 2014
Commercial, financial and agricultural	\$505,907	\$463,070
Real estate:		
Construction	75,632	115,023
Mortgage - residential	1,382,835	1,280,089
Mortgage - commercial	737,816	704,099
Consumer	396,670	365,662
Leases	1,123	3,140
	3,099,983	2,931,083
Net deferred costs	1,480	1,115
Total loans and leases	\$3,101,463	\$2,932,198

During the nine months ended September 30, 2015, we foreclosed on seven portfolio loans with a carrying value of \$2.1 million. In the second quarter of 2015, we transferred two portfolio loans to a single borrower with a carrying value of \$6.6 million to the held-for-sale category and sold the two loans in the second quarter of 2015 at its carrying value. We did not transfer any loans to the held-for-sale category and no portfolio loans were sold in the first and third quarters of 2015.

In August 2015, we purchased a participation interest in auto loans totaling \$24.7 million, which included a \$0.8 million premium over the \$23.9 million outstanding balance. At the time of purchase, the auto loans had a weighted average remaining term of 68 months. In June 2015, we purchased a participation interest in auto loans totaling \$28.1 million, which included a \$1.0 million premium over the \$27.1 million outstanding balance. At the time of purchase, the auto loans had a weighted average remaining term of 79 months.

During the nine months ended September 30, 2014, we foreclosed on four loans with a carrying value of 1.8 million. We did not transfer any portfolio loans to the held-for-sale category and no portfolio loans were sold during the nine months ended September 30, 2014. In May 2014, we purchased participation interest in auto loans totaling \$11.2 million, which included a \$0.3 million premium over the \$10.9 million outstanding balance. At the time of purchase, the auto loans had a weighted average remaining term of 71 months. During the nine months ended September 30, 2014, we also purchased participation interests in student loans totaling \$51.5 million, which represented the outstanding balance at the time of purchase. At the time of purchase, the student loans had a weighted average remaining term of 123 months.

Impaired Loans

The following table presents by class, the balance in the allowance for loan and lease losses and the recorded investment in loans and leases based on the Company's impairment measurement method as of September 30, 2015 and December 31, 2014:

(dollars in thousands)	Real Estate						Total
	Commercial, Financial & Agricultural	Construction	Mortgage - Residential	Mortgage - Commercial	Consumer	Leases	
September 30, 2015							
Allowance for loan and lease losses:							
Ending balance attributable to loans:							
Individually evaluated for impairment	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Collectively evaluated for impairment	7,610	8,251	17,973	21,565	7,745		63,144
	7,610	8,251	17,973	21,565	7,745	—	63,144
Unallocated							3,500
Total ending balance	\$ 7,610	\$ 8,251	\$ 17,973	\$ 21,565	\$ 7,745	\$ —	\$ 66,644
Loans and leases:							
Individually evaluated for impairment	\$ 3,384	\$ 4,251	\$ 24,079	\$ 4,984	\$ —	\$ —	\$ 36,698
Collectively evaluated for impairment	502,523	71,381	1,358,756	732,832	396,670	1,123	3,063,285
	505,907	75,632	1,382,835	737,816	396,670	1,123	3,099,983
Net deferred costs (income)	636	(252)	2,451	(831)	(524)	—	1,480
Total ending balance	\$ 506,543	\$ 75,380	\$ 1,385,286	\$ 736,985	\$ 396,146	\$ 1,123	\$ 3,101,463
December 31, 2014							
Allowance for loan and lease losses:							
Ending balance attributable to loans:							
Individually evaluated for impairment	\$ 1,533	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,533
Collectively evaluated for	7,421	14,969	17,927	20,869	7,314	7	68,507

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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	\$ 13,369	\$ 4,888	\$ 30,893	\$ 23,126	\$ —	\$ —	\$ 72,276
impairment							
Collectively							
evaluated for	449,701	110,135	1,249,196	680,973	365,662	3,140	2,858,807
impairment							
	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

The following table presents by class, impaired loans as of September 30, 2015 and December 31, 2014:

(dollars in thousands)	Unpaid Principal Balance	Recorded Investment	Allowance Allocated
September 30, 2015			
Impaired loans with no related allowance recorded:			
Commercial, financial & agricultural	\$5,023	\$3,384	\$—
Real estate:			
Construction	10,596	4,251	—
Mortgage - residential	26,213	24,079	—
Mortgage - commercial	4,984	4,984	—
Total impaired loans with no related allowance recorded	46,816	36,698	—
Impaired loans with an allowance recorded:			
Commercial, financial & agricultural	—	—	—
Total impaired loans with an allowance recorded	—	—	—
Total	\$46,816	\$36,698	\$—
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 and nine months ended September 30, 2015 and 2014:

(dollars in thousands)	Three Months Ended				Nine Months Ended			
	September 30, 2015		September 30, 2014		September 30, 2015		September 30, 2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Commercial, financial & agricultural	\$3,444	\$ 4	\$16,377	\$ 6	\$8,000	\$ 14	\$14,031	\$ 17
Real estate:								
Construction	4,325	40	5,088	43	4,514	152	5,712	119
Mortgage - residential	25,466	87	31,460	85	27,245	81	33,762	522
Mortgage - commercial	8,464	15	19,195	137	15,884	354	17,147	252
Total	\$41,699	\$ 146	\$72,120	\$ 271	\$55,643	\$ 601	\$70,652	\$ 910

The Company had \$1.6 million of consumer mortgage loans collateralized by residential real estate property that were in the process of foreclosure at September 30, 2015.

Aging Analysis of Accruing and Non-Accruing Loans and Leases

For all loan types, the Company determines delinquency status by considering the number of days full payments required by the contractual terms of the loan are past due. The following table presents by class, the aging of the recorded investment in past due loans and leases as of September 30, 2015 and December 31, 2014:

(dollars in thousands)	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
September 30, 2015							
Commercial, financial & agricultural	\$183	\$544	\$—	\$3,056	\$3,783	\$502,760	\$506,543
Real estate:							
Construction	—	—	—	—	—	75,380	75,380
Mortgage - residential	463	249	—	6,301	7,013	1,378,273	1,385,286
Mortgage - commercial	—	59	—	2,731	2,790	734,195	736,985
Consumer	1,049	381	130	—	1,560	394,586	396,146
Leases	—	—	—	—	—	1,123	1,123
Total	\$1,695	\$1,233	\$130	\$12,088	\$15,146	\$3,086,317	\$3,101,463
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 September 30, 2015 consisted of 24 Hawaii residential mortgage loans with a combined principal balance of \$3.7 million and two Hawaii commercial loans with a combined principal balance of \$0.8 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 \$21.0 million of TDRs still accruing interest at September 30, 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 and nine months ended September 30, 2015.

The following table presents by class, information related to loans modified in a TDR during the nine months ended September 30, 2015 and the three and nine months ended September 30, 2014. No loans were modified in a TDR during the three months ended September 31, 2015.

(dollars in thousands)	Number of Contracts	Recorded Investment (as of Period End)	Increase in the Allowance
Nine Months Ended September 30, 2015			
Commercial, financial & agricultural	1	\$512	\$—
Real estate: Mortgage - residential	1	957	—
Total	2	\$1,469	\$—
Three Months Ended September 30, 2014			
Real estate: Mortgage - residential	3	\$220	\$—
Nine Months Ended September 30, 2014			
Real estate: Mortgage - residential	12	\$806	\$—

No loans were modified as a TDR within the previous twelve months that subsequently defaulted during the three and nine months ended September 30, 2015 and 2014.

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.

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 September 30, 2015 and December 31, 2014:

(dollars in thousands)	Pass	Special Mention	Substandard	Loss	Subtotal	Net Deferred Costs (Income)	Total
September 30, 2015							
Commercial, financial & agricultural	\$495,865	\$3,700	\$6,342	\$—	\$505,907	\$636	\$506,543
Real estate:							
Construction	73,515	1,304	813	—	75,632	(252)	75,380
Mortgage - residential	1,376,321	—	6,514	—	1,382,835	2,451	1,385,286
Mortgage - commercial	706,215	17,869	13,732	—	737,816	(831)	736,985
Consumer	396,441	100	94	35	396,670	(524)	396,146
Leases	1,123	—	—	—	1,123	—	1,123
Total	\$3,049,480	\$22,973	\$27,495	\$35	\$3,099,983	\$1,480	\$3,101,463
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 September 30, 2015 and December 31, 2014, we did not have any loans that we considered to be subprime.

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	Real estate Construction	Mortgage - Residential	Mortgage - Commercial	Consumer	Leases	Unallocated	Total
Three Months Ended September 30, 2015								
Beginning balance	\$ 7,569	\$ 10,670	\$ 17,846	\$ 20,008	\$ 7,330	\$ 1	\$ 3,500	\$ 66,924
Provision (credit) for loan and lease losses	(293)	(2,702)	(23)	(1,573)	972	(28)	—	(3,647)
	7,276	7,968	17,823	18,435	8,302	(27)	3,500	63,277
Charge-offs	170	—	46	—	874	—	—	1,090
Recoveries	504	283	196	3,130	317	27	—	4,457
Net charge-offs (recoveries)	(334)	(283)	(150)	(3,130)	557	(27)	—	(3,367)
Ending balance	\$ 7,610	\$ 8,251	\$ 17,973	\$ 21,565	\$ 7,745	\$ —	\$ 3,500	\$ 66,644
Three Months Ended September 30, 2014								
Beginning balance	\$ 12,255	\$ 15,525	\$ 19,198	\$ 25,885	\$ 6,723	\$ 13	\$ 4,000	\$ 83,599
Provision (credit) for loan and lease losses	(709)	(1,728)	(173)	(1,372)	2,262	(2)	—	(1,722)
	11,546	13,797	19,025	24,513	8,985	11	4,000	81,877
Charge-offs	471	—	—	—	928	—	—	1,399
Recoveries	789	1,100	244	14	212	1	—	2,360
Net charge-offs (recoveries)	(318)	(1,100)	(244)	(14)	716	(1)	—	(961)
Ending balance	\$ 11,864	\$ 14,897	\$ 19,269	\$ 24,527	\$ 8,269	\$ 12	\$ 4,000	\$ 82,838
Nine Months Ended September 30, 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	(617)	(7,588)	(1,925)	(6,009)	2,960	(34)	(500)	(13,713)
	8,337	7,381	16,002	14,860	10,274	(27)	3,500	60,327
Charge-offs	5,104	—	110	—	3,929	—	—	9,143
Recoveries	4,377	870	2,081	6,705	1,400	27	—	15,460
Net charge-offs (recoveries)	727	(870)	(1,971)	(6,705)	2,529	(27)	—	(6,317)
Ending balance	\$ 7,610	\$ 8,251	\$ 17,973	\$ 21,565	\$ 7,745	\$ —	\$ 3,500	\$ 66,644
Nine Months Ended September 30, 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	(1,163)	10,279	(6,731)	(4,419)	3,032	(41)	(2,000)	(1,043)

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	12,033	13,053	18,541	25,528	9,608	14	4,000	82,777
Charge-offs	2,142	—	139	1,041	2,063	8	—	5,393
Recoveries	1,973	1,844	867	40	724	6	—	5,454
Net charge-offs (recoveries)	169	(1,844)	(728)	1,001	1,339	2	—	(61)
Ending balance	\$ 11,864	\$14,897	\$ 19,269	\$ 24,527	\$8,269	\$12	\$4,000	\$82,838

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

Our Provisions were credits of \$3.6 million and \$13.7 million in the three and nine months ended September 30, 2015, respectively, compared to credits of \$1.7 million and \$1.0 million in the three and nine months ended September 30, 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 3.4 million and \$3.5 million at September 30, 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 and \$0.3 million on unsold mortgage-backed securities were recorded in accumulated other comprehensive income ("AOCI") at September 30, 2015 and December 31, 2014, respectively.

7. INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES

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

(dollars in thousands)	September 30, 2015	December 31, 2014
Investments in low income housing tax credit partnerships	\$2,958	\$3,781
Trust preferred investments	2,792	2,792
Investments in affiliates	623	557
Other	116	116
	\$6,489	\$7,246

Investments in low income housing tax credit ("LIHTC") partnerships are accounted for using the cost method. For the three and nine months ended September 30, 2015, the Company recognized amortization expense in pre-tax income of \$0.3 million and \$0.8 million, respectively. For the three and nine months ended September 30, 2014 the Company recognized amortization expense in pre-tax income of \$0.3 million and \$1.1 million, respectively.

For the three and nine months ended September 30, 2015, the Company recognized \$0.3 million and \$0.9 million in tax credits associated with our investments in LIHTC partnerships, respectively. For the three and nine months ended September 30, 2014, the Company recognized \$0.4 million and \$1.2 million in tax credits associated with our investments in LIHTC partnerships, respectively.

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 nine months ended September 30, 2015:

(dollars in thousands)	Core Deposit Premium	Mortgage Servicing Rights	Total
Balance, beginning of period	\$10,029	\$19,668	\$29,697

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Additions	—	1,847	1,847
Amortization	(2,006) (3,341) (5,347
Balance, end of period	\$8,023	\$18,174	\$26,197

Income generated as the result of new mortgage servicing rights is reported as gains on sales of loans and totaled \$0.6 million and \$1.8 million for the three and nine months ended September 30, 2015, respectively, compared to \$0.7 million and \$1.6 million for the comparable prior year periods. Amortization of mortgage servicing rights was \$1.0 million and \$3.3 million for the three and nine months ended September 30, 2015, respectively, compared to \$0.7 million and \$1.9 million for the comparable prior year periods.

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

(dollars in thousands)	Nine Months Ended September 30,			
	2015	2014		
Fair market value, beginning of period	\$19,975	\$21,399		
Fair market value, end of period	18,495	20,471		
Weighted average discount rate	9.5	% 9.5		%
Weighted average prepayment speed assumption	14.3	12.9		

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

(dollars in thousands)	September 30, 2015			December 31, 2014		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Core deposit premium	\$44,642	\$(36,619)	\$8,023	\$44,642	\$(34,613)	\$10,029
Mortgage servicing rights	58,534	(40,360)	18,174	56,687	(37,019)	19,668
	\$103,176	\$(76,979)	\$26,197	\$101,329	\$(71,632)	\$29,697

Based on the core deposit premium and mortgage servicing rights held as of September 30, 2015, estimated amortization expense for the remainder of fiscal year 2015, the next five succeeding fiscal years and all years thereafter are as follows:

(dollars in thousands)	Estimated Amortization Expense		
	Core Deposit Premium	Mortgage Servicing Rights	Total
2015 (remainder)	\$669	\$1,159	\$1,828
2016	2,674	4,164	6,838
2017	2,674	3,156	5,830
2018	2,006	2,488	4,494
2019	—	1,906	1,906
2020	—	1,492	1,492
Thereafter	—	3,809	3,809
	\$8,023	\$18,174	\$26,197

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.

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 September 30, 2015, we were a party to interest rate lock and forward sale commitments on \$11.8 million and \$19.9 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		Liability Derivatives Fair Value at	
		September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
		(dollars in thousands)			
Interest rate contracts	Other assets / other liabilities	\$185	\$504	\$181	\$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 (dollars in thousands)	Amount of Gain (Loss) Recognized in Earnings on Derivatives
Three Months Ended September 30, 2015		
Interest rate contracts	Other operating income	\$(646)
Three Months Ended September 30, 2014		
Interest rate contracts	Other operating income	66
Nine Months Ended September 30, 2015		
Interest rate contracts	Other operating income	(378)
Nine Months Ended September 30, 2014		
Interest rate contracts	Other operating income	419

10. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

The bank was a member of the Federal Home Loan Bank of Seattle until its merger with the Federal Home Loan Bank of Des Moines on June 1, 2015. We are now a member of the Federal Home Loan Bank of Des Moines (the "FHLB") and maintained a \$1.2 billion line of credit as of September 30, 2015. Short-term borrowings under this arrangement totaled \$155.0 million at September 30, 2015, compared to \$38.0 million at December 31, 2014. There were no

long-term borrowings under this arrangement at September 30, 2015 and December 31, 2014. FHLB advances outstanding at September 30, 2015 were secured by unencumbered investment securities with a fair value of \$0.6 million and certain real estate loans with a carrying value of \$1.6 billion in accordance with the collateral provisions of the Advances, Security and Deposit Agreement with the FHLB. At September 30, 2015, \$1.0 billion was undrawn under this arrangement.

At September 30, 2015 and December 31, 2014, our bank had additional unused borrowings available at the Federal Reserve discount window of \$44.2 million and \$33.3 million, respectively. As of September 30, 2015 and December 31, 2014, certain

commercial and commercial real estate loans with a carrying value totaling \$91.8 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 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.

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 September 30, 2015, the bank had Statutory Retained Earnings of \$61.7 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.

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 “March 2015 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 March 2015 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, excluding fees and expenses. The transactions were consummated on April 1, 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 incurred \$0.4 million in costs recorded in other operating expenses related to the secondary offering by the Selling Shareholders. In addition, the Company incurred \$0.2 million in costs recorded in equity related to the repurchase of its common stock from the Underwriter.

On June 4, 2015, the Company, the Selling Shareholders, and the Underwriter entered into another secondary offering underwriting agreement (the “June 2015 Underwriting Agreement”) pursuant to which the Selling Shareholders agreed to each sell 1,500,000 shares for a total of 3,000,000 shares of CPF common stock, no par value per share, to the Underwriter at a price of \$22.15 per common share for a total of approximately \$66.5 million. 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. In the second quarter of 2015, the Company accrued \$0.3 million of costs recorded in other operating expenses related to the secondary offering by the Selling Shareholders.

On August 3, 2015, the Company, the Selling Shareholders, and the Underwriter and UBS Investment Bank (“UBS”) entered into a final underwriting agreement (the “August 2015 Underwriting Agreement”) pursuant to which the Selling Shareholders sold their aggregate remaining interest in the Company of 5,538,624 shares of CPF common stock to the Underwriter and UBS at a price of \$22.11 per common share for a total of approximately \$122.5 million. 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.

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 March 2015 Underwriting Agreement. In the nine months ended September 30, 2015, an additional 4,122,881 shares of common stock, at a cost of \$93.3 million, excluding fees and expenses, were repurchased under this program. A total of \$20.2 million remained available for repurchase under the CPF Repurchase Plan at September 30, 2015. However, in an effort to further protect the Company from experiencing an ownership

change, the Company does not intend to repurchase any additional shares under the CPF Repurchase Plan during the remainder of 2015. We currently expect to reestablish our share repurchase program in the first quarter of 2016.

12. SHARE-BASED COMPENSATION

Restricted Stock Awards and Units

The table below presents the activity of restricted stock awards and units for the nine months ended September 30, 2015:

	Shares	Weighted Average Grant Date Fair Value
Nonvested restricted stock awards and units, beginning of period	715,460	\$15.77
Changes during the period:		
Granted	172,989	19.49
Vested	(338,117)	) 15.18
Forfeited	(78,155)	) 16.63
Nonvested restricted stock awards and units, end of period	472,177	17.41

13. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents the components of other comprehensive income for the three and nine months ended September 30, 2015 and 2014, by component:

(dollars in thousands)	Before Tax	Tax Effect	Net of Tax
Three Months Ended September 30, 2015			
Net unrealized losses on investment securities:			
Net unrealized losses arising during the period	\$12,561	\$4,998	\$7,563
Less: Reclassification adjustment for losses realized in net income	—	—	—
Net unrealized losses on investment securities	12,561	4,998	7,563
Defined benefit plans:			
Amortization of net actuarial losses	419	165	254
Amortization of net transition obligation	4	2	2
Amortization of prior service cost	5	2	3
Defined benefit plans, net	428	169	259
Other comprehensive loss	\$12,989	\$5,167	\$7,822
Three Months Ended September 30, 2014			
Net unrealized gains on investment securities:			
Net unrealized gains arising during the period	\$(2,562)	) \$(897)	) \$(1,665)
Less: Reclassification adjustment for losses realized in net income	—	—	—
Net unrealized gains on investment securities	(2,562)	) (897)	) (1,665)
Defined benefit plans:			
Amortization of net actuarial losses	305	100	205
Amortization of net transition obligation	4	1	3
Amortization of prior service cost	5	1	4
Defined benefit plans, net	314	102	212

Other comprehensive income	\$ (2,248)	\$ (795)	\$ (1,453)
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(dollars in thousands)	Before Tax	Tax Effect	Net of Tax
Nine Months Ended September 30, 2015			
Net unrealized losses on investment securities:			
Net unrealized losses arising during the period	\$3,285	\$1,306	\$1,979
Less: Reclassification adjustment for losses realized in net income	1,866	743	1,123
Net unrealized losses on investment securities	5,151	2,049	3,102
Defined benefit plans:			
Amortization of net actuarial losses	1,260	499	761
Amortization of net transition obligation	12	7	5
Amortization of prior service cost	15	6	9
Defined benefit plans, net	1,287	512	775
Other comprehensive loss	\$6,438	\$2,561	\$3,877
Nine Months Ended September 30, 2014			
Net unrealized gains on investment securities:			
Net unrealized gains arising during the period	\$29,323	\$11,744	\$17,579
Less: Reclassification adjustment for losses realized in net income	1,071	429	642
Net unrealized gains on investment securities	30,394	12,173	18,221
Defined benefit plans:			
Amortization of net actuarial losses	915	343	572
Amortization of net transition obligation	12	5	7
Amortization of prior service cost	15	5	10
Defined benefit plans, net	942	353	589
Other comprehensive income	\$31,336	\$12,526	\$18,810

The following table presents the changes in each component of AOCI, net of tax, for the three and nine months ended September 30, 2015 and 2014:

(dollars in thousands)	Investment Securities	Defined Benefit Plans	Accumulated Other Comprehensive Income (Loss)
Three Months Ended September 30, 2015			
Balance at beginning of period	\$9,125	\$(9,911)	) \$(786)
Other comprehensive loss before reclassifications	7,563	—	7,563
Amounts reclassified from AOCI	—	259	259
Total other comprehensive income (loss)	7,563	259	7,822
Balance at end of period	\$16,688	\$(9,652)	) \$7,036
Three Months Ended September 30, 2014			
Balance at beginning of period	\$10,761	\$(6,343)	) \$4,418
Other comprehensive income before reclassifications	(1,665)	) —	(1,665)
Amounts reclassified from AOCI	—	212	212
Total other comprehensive income	(1,665)	) 212	(1,453)
Balance at end of period	\$9,096	\$(6,131)	) \$2,965
Nine Months Ended September 30, 2015			
Balance at beginning of period	\$13,586	\$(10,427)	) \$3,159
Other comprehensive loss before reclassifications	1,979	—	1,979
Amounts reclassified from AOCI	1,123	775	1,898
Total other comprehensive income (loss)	3,102	775	3,877
Balance at end of period	\$16,688	\$(9,652)	) \$7,036
Nine Months Ended September 30, 2014			
Balance at beginning of period	\$(9,125)	) \$(6,720)	) \$(15,845)
Other comprehensive income before reclassifications	17,579	—	17,579
Amounts reclassified from AOCI	642	589	1,231
Total other comprehensive income	18,221	589	18,810
Balance at end of period	\$9,096	\$(6,131)	) \$2,965

The following table presents the amounts reclassified out of each component of AOCI for the three and nine months ended September 30, 2015 and 2014:

Details about AOCI Components (dollars in thousands)	Amount Reclassified from AOCI		Affected Line Item in the Statement Where Net Income is Presented
	Three months ended September 30, 2015	2014	
Sale of investment securities available for sale	\$—	\$—	Investment securities gains (losses)
	—	—	Tax benefit
	\$—	\$—	Net of tax
Amortization of defined benefit plan items			
Net actuarial losses	\$(419	) \$(305	) (1)
Net transition obligation	(4	) (4	) (1)
Prior service cost	(5	) (5	) (1)
	(428	) (314	) Total before tax
	169	102	Tax benefit
	\$(259	) \$(212	) Net of tax
Total reclassifications for the period	\$(259	) \$(212	) Net of tax
Details about AOCI Components (dollars in thousands)	Amount Reclassified from AOCI		Affected Line Item in the Statement Where Net Income is Presented
	Nine months ended September 30, 2015	2014	
Sale of investment securities available for sale	\$(1,866	) \$(1,071	) Investment securities gains (losses)
	743	429	Tax benefit
	\$(1,123	) \$(642	) Net of tax
Amortization of defined benefit plan items			
Net actuarial losses	\$(1,260	) \$(915	) (1)
Net transition obligation	(12	) (12	) (1)
Prior service cost	(15	) (15	) (1)
	(1,287	) (942	) Total before tax
	512	353	Tax benefit
	\$(775	) \$(589	) Net of tax
Total reclassifications for the period	\$(1,898	) \$(1,231	) 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 September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2015	2014	2015	2014
Interest cost	\$349	\$366	\$1,045	\$1,098
Expected return on plan assets	(471)	(524)	(1,415)	(1,572)
Amortization of net actuarial losses	392	304	1,178	912
Net periodic cost	\$270	\$146	\$808	\$438

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 September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2015	2014	2015	2014
Interest cost	\$110	\$113	\$330	\$339
Amortization of net actuarial losses	27	1	82	3
Amortization of net transition obligation	4	4	12	12
Amortization of prior service cost	5	5	15	15
Net periodic cost	\$146	\$123	\$439	\$369

15. 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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands, except per share data)			
Net income	\$12,206	\$8,230	\$34,936	\$27,188
Weighted average shares outstanding - basic	31,331	35,863	32,548	37,943
Dilutive effect of employee stock options and awards	419	490	384	497
Weighted average shares outstanding - diluted	31,750	36,353	32,932	38,440
Basic earnings per share	\$0.39	\$0.23	\$1.07	\$0.72
Diluted earnings per share	\$0.38	\$0.23	\$1.06	\$0.71

A total of 12,532 potentially dilutive securities have been excluded from the dilutive share calculation for the three and nine months ended September 30, 2015, as their effect was antidilutive, compared to 13,864 for the three and nine

months ended September 30, 2014.

16. 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.

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.

(dollars in thousands)	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)
September 30, 2015					
Financial assets					
Cash and due from banks	\$69,628	\$69,628	\$69,628	\$—	\$—
Interest-bearing deposits in other banks	14,376	14,376	14,376	—	—
Investment securities	1,527,101	1,526,922	892	1,513,278	12,752
Loans held for sale	9,786	9,786	—	—	9,786
Net loans and leases	3,034,819	2,991,526	—	36,698	2,954,828
Accrued interest receivable	13,779	13,779	13,779	—	—
Financial liabilities					
Deposits:					
Noninterest-bearing deposits	1,112,761	1,112,761	1,112,761	—	—
Interest-bearing demand and savings deposits	2,069,453	2,069,453	2,069,453	—	—
Time deposits	1,048,289	1,049,989	—	—	1,049,989
Short-term debt	155,000	155,000	—	155,000	—
Long-term debt	92,785	67,283	—	67,283	—
Accrued interest payable (included in other liabilities)	962	962	962	—	—
Off-balance sheet financial instruments					
Commitments to extend credit	772,326	3,862	—	3,862	—
Standby letters of credit and financial guarantees written	16,418	123	—	123	—
Derivatives:					
Interest rate options	11,754	177	—	177	—
Forward interest rate contracts	19,930	(173)	—	(173)	—

(dollars in thousands)	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)
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	—
Standby letters of credit and financial guarantees written	18,797	141	—	141	—
Derivatives:					
Interest rate options	44,266	444	—	444	—
Forward interest rate contracts	23,919	(62)	—	(62)	—

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 and nine months ended September 30, 2015.

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis as of September 30, 2015 and December 31, 2014:

(dollars in thousands)	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)
September 30, 2015				
Available for sale securities:				
Debt securities:				
States and political subdivisions	\$ 190,433	\$—	\$ 177,681	\$ 12,752
Corporate securities	104,698	—	104,698	—
Mortgage-backed securities:				
Residential - U.S. Government sponsored entities	768,586	—	768,586	—
Residential - Non-government agencies	69,012	—	69,012	—
Commerical - Non-government agencies	138,761	—	138,761	—
Other	892	892	—	—
Total available for sale securities	1,272,382	892	1,258,738	12,752
Derivatives - Interest rate options and forward interest rate contracts	4	—	4	—
Total	\$ 1,272,386	\$ 892	\$ 1,258,742	\$ 12,752
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:				
Residential - U.S. Government sponsored entities	751,558	—	751,558	—
Residential - Non-government agencies	46,693	—	46,693	—
Commerical - Non-government agencies	137,641	—	137,641	—
Other	877	877	—	—
Total available for sale securities	1,229,018	877	1,215,046	13,095
Derivatives - Interest rate options and forward interest rate contracts	382	—	382	—
Total	\$ 1,229,400	\$ 877	\$ 1,215,428	\$ 13,095

For the nine months ended September 30, 2015 and 2014, the changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows:

(dollars in thousands)	Available for Sale States and Political Subdivisions Debt Securities
Balance at December 31, 2014	\$ 13,095
Principal payments received	(897)
Unrealized net gain included in other comprehensive income	554
Balance at September 30, 2015	\$ 12,752
Balance at December 31, 2013	\$ 10,518
Principal payments received	(202)
Unrealized net gain included in other comprehensive income	74
Purchases	2,325
Balance at September 30, 2014	\$ 12,715

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 \$12.8 million and \$12.7 million at September 30, 2015 and September 30, 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 September 30, 2015, the weighted average discount rate utilized was 3.90%, 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.

For assets measured at fair value on a nonrecurring basis that were recorded at fair value on our balance sheet at September 30, 2015 and December 31, 2014, the following table provides the level of valuation assumptions used to determine the respective fair values:

(dollars in thousands)	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)
September 30, 2015				
Impaired loans (1)	\$36,698	\$—	\$36,698	\$—
Other real estate (2)	1,913		1,913	
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.

17. 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.

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

(dollars in thousands)	Banking Operations	Treasury	All Others	Total
Three Months Ended September 30, 2015				
Net interest income	\$29,424	\$8,381	\$—	\$37,805
Intersegment net interest income (expense)	11,176	(7,477)	) (3,699) —
Credit for loan and lease losses	3,647	—	—	3,647
Other operating income	5,438	734	3,657	9,829
Other operating expense	(14,291)	) (436	) (17,448	) (32,175
Administrative and overhead expense allocation	(15,798)	) (245	) 16,043	—
Income tax (expense) benefit	(6,859)	) (335	) 294	(6,900)
Net income (loss)	\$12,737	\$622	\$(1,153)	) \$12,206
Three Months Ended September 30, 2014				
Net interest income	\$27,671	\$7,861	\$—	\$35,532
Intersegment net interest income (expense)	11,619	(11,231)	) (388) —
Credit for loan and lease losses	1,722	—	—	1,722
Other operating income	6,264	1,453	3,746	11,463
Other operating expense	(16,104)	) (509	) (18,633	) (35,246)
Administrative and overhead expense allocation	(15,823)	) (268	) 16,091	—
Income tax expense	(5,749)	) 857	(349)	) (5,241)
Net income	\$9,600	\$(1,837)	) \$467	\$8,230
Nine Months Ended September 30, 2015				
Net interest income	\$86,115	\$25,219	\$—	\$111,334
Intersegment net interest income (expense)	32,826	(24,242)	) (8,584) —
Credit for loan and lease losses	13,713	—	—	13,713
Other operating income	17,892	439	10,812	29,143
Other operating expense	(44,469)	) (1,407	) (52,775	) (98,651)
Administrative and overhead expense allocation	(43,839)	) (799	) 44,638	—
Income tax (expense) benefit	(21,783)	) 276	904	(20,603)
Net income (loss)	\$40,455	\$(514)	) \$(5,005)	) \$34,936
Nine Months Ended September 30, 2014				
Net interest income	\$81,214	\$26,020	\$—	\$107,234
Intersegment net interest income (expense)	23,775	(24,950)	) 1,175	—
Credit for loan and lease losses	1,043	—	—	1,043
Other operating income	18,663	3,290	11,658	33,611
Other operating expense	(45,794)	) (1,598	) (52,672	) (100,064)
Administrative and overhead expense allocation	(43,361)	) (807	) 44,168	—
Income tax expense	(12,439)	) (684	) (1,513	) (14,636)
Net income	\$23,101	\$1,271	\$2,816	\$27,188

(dollars in thousands)	Banking Operations	Treasury	All Others	Total
At September 30, 2015:				
Investment securities	—	1,527,101	—	1,527,101
Loans and leases (including loans held for sale)	3,111,249	—	—	3,111,249
Other	69,381	232,110	81,992	383,483
Total assets	3,180,630	1,759,211	81,992	5,021,833
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

18. 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.

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 103 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 September 30, 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. Since reinstating our quarterly cash dividends in 2013, we have returned a total of \$31.9 million in cash dividends to our shareholders.

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 an additional 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 March 2015 Underwriting Agreement as described below. In the nine months ended September 30, 2015, an additional 4,122,881 shares of common stock, at a total cost of \$93.3 million, excluding fees and expenses, 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 "March 2015 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 March 2015 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, excluding fees and expenses. On April 1, 2015, the transactions were consummated. 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 incurred \$0.4 million of costs recorded in other expenses related to the secondary offering by the Selling Shareholders. In addition, the Company incurred \$0.2 million in costs recorded in equity related to the repurchase of its common stock from the Underwriter.

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On June 4, 2015, the Company, the Selling Shareholders, and the Underwriter entered into another secondary offering underwriting agreement (the "June 2015 Underwriting Agreement") pursuant to which the Selling Shareholders agreed to each sell 1,500,000 shares for a total of 3,000,000 shares of CPF common stock, no par value per share, to the Underwriter at a price of \$22.15 per common share, for a total of approximately \$66.5 million. The Company did not receive any of the proceeds from the sale of these shares by the Selling Shareholders and no shares were purchased or sold by the Company. In the second quarter of 2015, the Company accrued \$0.3 million of costs recorded in other operating expenses related to the secondary offering by the Selling Shareholders.

On August 3, 2015, the Company, the Selling Shareholders, and the Underwriter and UBS Investment Bank ("UBS") entered into a final underwriting agreement (the "August 2015 Underwriting Agreement") pursuant to which the Selling Shareholders sold their aggregate remaining interest in the Company of 5,538,624 shares of CPF common stock to the Underwriter and UBS at a price of \$22.11 per common share for a total of approximately \$122.5 million.

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.

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 September 30, 2015 of 15.00%, 16.27%, 10.87%, and 13.32%, 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.

We reported four consecutive profitable years from 2011 through 2014. In the nine months ended September 30, 2015 we reported net income of \$34.9 million.

We have continued to grow our loan and lease portfolio. Loans and leases, net of deferred income/costs, totaled \$3.10 billion at September 30, 2015 and increased by \$169.3 million, or 5.8% 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 2.15% at September 30, 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 475.99% at September 30, 2015, compared to 176.14% at December 31, 2014.

On June 4, 2015, we announced changes to our executive leadership team. Effective July 1, 2015, Ms. A. Catherine Ngo, our previous President and Chief Operating Officer, became the President and Chief Executive Officer of our holding company and bank, and Mr. David S. Morimoto, our previous Senior Vice President and Treasurer, became the Executive Vice President, Chief Financial Officer and Treasurer of our holding company and bank. Mr. John C. Dean, our former Chairman and Chief Executive Officer, currently remains with us in the new role of Executive Chair, and Mr. Denis Isono, our former Chief Financial Officer, currently remains with us in the roles of Executive Vice President, Corporate Services and Interim Division Manager of Risk Management.

On August 28, 2015, our former Executive Vice President and Chief Risk Officer, Bill Wilson, resigned from our holding company and bank. Concurrent with his resignation, Ms. Anna Hu, our former Senior Vice President and Credit Administration Division Manager, assumed the position of Senior Vice President, Interim Chief Credit Officer of our holding company and bank and Mr. Isono assumed the position of Executive Vice President, Interim Division Manager of Risk Management of our holding company and bank.

On June 15, 2015, we announced the resignations of directors Mr. Alvaro J. Aguirre and Mr. James F. Burr from the boards of the Company and the bank. Effective July 1, 2015, Ms. Ngo and Mr. Lance Mizumoto, our President and Chief Banking Officer, were appointed as directors of the boards of both our holding company and bank. On September 16, 2015, we announced the appointments of Mr. Wayne Kamitaki and Ms. Saedene Ota as directors of the boards of the Company and the bank. The resignations and appointments increase the number of directors on both boards from nine to eleven.

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 and items processing function to Fiserv, which is our existing core software application provider; (ii) consolidating our two Waikiki branches into one; and (iii) deploying an automated teller, sales and service platform at all of our 36 branches. Additionally, we have begun designing, developing, and implementing new 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 September 30, 2015, we had an Allowance of \$66.6 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 September 30, 2015, the Company did not have a specific reserve, compared to \$1.5 million of the total Allowance at December 31, 2014.

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, 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, 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 are weighted to place more emphasis on recent loss experience. At September 30, 2015, the look-back period for loans secured by real estate includes 23 quarters of historical loss experience.

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.

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. Management reviews the results of the qualitative adjustment factors to ensure it is consistent with the trends in the overall economy, and from time to time may make adjustments, if necessary, to ensure directional consistency.

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 and second quarters of 2015, we increased a qualitative factor applied to our national syndicated loan portfolio in consideration of updated proxy information which became available in the first quarter of 2015 and better defined portfolio attributes during the second quarter of 2015. 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 September 30, 2015, this general allowance represented \$63.1 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 September 30, 2015 and December 31, 2014, an unallocated estimate of \$3.5 million and \$4.0 million, respectively, was based on the Company's recognition of domestic (U.S. mainland) and international events that pose heightened volatility in the isolated Hawaii 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 two key drivers of the Hawaii 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.

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 on our consolidated balance sheets. 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 September 30, 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 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 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 loans classified as held for sale net of applicable selling costs on our consolidated balance sheets. At September 30, 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 September 30, 2015 and December 31, 2014, this reserve totaled \$1.0 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 September 30, 2015 were approximately \$4.9 billion and \$4.5 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 September 30, 2015 approximate \$85.2 million.

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 and make-whole demands during the three and nine months ended September 30, 2015 totaled approximately \$0.8 million and \$2.0 million, respectively. 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 make-whole demands. Over recent periods, we have experienced stabilization in the number and dollar amount of make-whole demands. As a result, in the third quarter of 2015, we eliminated the unallocated component of the repurchase reserve. As we gain more historical experience, there may be further adjustments to the repurchase reserve. Repurchase activity by vintage and investor type are depicted in the table below.

Repurchase Demands, Appeals, Repurchased and Pending Resolution [1]
Nine Months Ended September 30, 2015

Vintage	Government Sponsored Entities				Non-GSE Investors			
	Repurchase Demands	Appealed	Repurchased	Pending Resolution	Repurchase Demands	Appealed	Repurchased	Pending Resolution
2005 and prior	—	—	—	—	1	—	1	—
2006	—	—	—	—	3	1	2	—
2007	—	—	—	—	4	4	—	—
2008	—	—	—	—	—	—	—	—
2009	1	1	—	—	—	—	—	—
2010	—	—	—	—	—	—	—	—
2011	—	—	—	—	—	—	—	—
2012	—	—	—	—	—	—	—	—
2013	1	—	1	—	—	—	—	—
2014	3	—	3	—	—	—	—	—
2015	1	1	—	—	—	—	—	—
Total	6	2	4	—	8	5	3	—

[1] Based on repurchase requests received between January 1, 2015 and September 30, 2015.

The reserve for residential mortgage loan repurchase losses of \$1.0 million at September 30, 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 \$1.7 million decrease from December 31, 2014, which was primarily due to the elimination of the unallocated component of the repurchase reserve noted above. The table below shows changes in the repurchase losses liability for the periods indicated.

(dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Balance, beginning of period	\$2,591	\$2,929	\$2,685	\$2,949
Change in estimate	(1,585	) 234	(1,458	) 542

Utilizations	(23	) (101	) (244	) (429)
Balance, end of period	\$983	\$3,062	\$983	\$3,062	

We believe that our capacity to estimate repurchase losses is improving as we record additional experience and could affect the level of the repurchase reserve. 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 changes to the repurchase reserve.

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.

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. As of September 30, 2015, given our nineteen consecutive quarters of profitability, significant improvement in our asset quality, and well capitalized position, we continue to believe that it is more likely than not that our net DTA will be realized.

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, 2018. 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 September 30, 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.

Financial Summary

Net income for the three months ended September 30, 2015 was \$12.2 million, or \$0.38 per diluted share, compared to \$8.2 million, or \$0.23 per diluted share for the three months ended September 30, 2014. Net income for the nine months ended September 30, 2015 was \$34.9 million, or \$1.06 per diluted share, compared to \$27.2 million, or \$0.71

per diluted share for the nine months ended September 30, 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 \$8.4 million and \$9.1 million for the three and nine months ended September 30, 2015, respectively, compared to \$11.1 million and \$11.8 million for the comparable prior year periods.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014		2015	2014	
Return on average assets	0.98	% 0.69	%	0.94	% 0.76	%
Return on average shareholders' equity	9.91	5.78		8.98	6.01	
Return on average tangible equity	10.08	5.90		9.14	6.13	
Basic earnings per common share	\$0.39	\$0.23		\$1.07	\$0.72	
Diluted earnings per common share	0.38	0.23		1.06	0.71	

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, low level of inflation as a result of declining commodity prices, weakness in business investment and manufacturing, and increased concerns over Greece and China have added to the uncertainty surrounding a sustained economic recovery. In addition, the stock market's inability to sustain gains this year continues to hold back further progress.

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 third quarter of 2015 report, the Hawaii Department of Business Economic Development & Tourism ("DBEDT") projects Hawaii's economy will have higher growth rates for 2015 and 2016. DBEDT projects Hawaii's economy growth rate to be 1.9% and 2.3% for 2015 and 2016, respectively.

The Department of Labor and Industrial Relations reported that Hawaii's seasonally adjusted annual unemployment rate improved to 3.4% in September 2015, compared to 4.2% in September 2014. In addition, Hawaii's unemployment rate in September 2015 remained below the national seasonally adjusted unemployment rate of 5.1%. DBEDT projects Hawaii's seasonally adjusted annual unemployment rate to be at 4.0% in 2015 while the national unemployment rate is projected to be at 5.4% in 2015. DBEDT projects Hawaii's seasonally adjusted annual unemployment rate will further decrease to 3.7% in 2016.

While the labor market condition continues to improve, visitor arrivals and spending have stabilized. According to the Hawaii Tourism Authority ("HTA"), 5.8 million visitors visited the state in the eight months ended August 31, 2015. This was an increase of 4.1% from the number of visitor arrivals in the eight months ended August 31, 2014. Total spending by visitors, increased to \$10.3 billion in the eight months ended August 31, 2015, an increase of \$305.4 million, or 3.1%, from the eight months ended August 31, 2014. According to DBEDT, total visitor arrivals and visitor spending are expected to increase 4.3% and 3.8% in 2015, respectively, and increase by 1.6% and 3.5% in 2016, respectively.

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 increased by 4.9% for single-family homes and 5.1% for condominiums for the nine months ended September 30, 2015 compared to the same time period last year. The median sales price for single-family homes on Oahu for the nine months ended September 30, 2015 was \$696,000, representing an increase of 4.0% from \$669,500 in the same prior year period. The median sales price for condominiums on Oahu for the nine months ended September 30, 2015 was \$355,000, representing an increase of 1.4% from \$350,000 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.

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 and nine months ended September 30, 2015 and 2014 is set forth below.

(dollars in thousands)	Three Months Ended September 30, 2015			2014		
	Average Balance	Average Yield/ Rate	Amount of Interest	Average Balance	Average Yield/ Rate	Amount of Interest
Assets						
Interest earning assets:						
Interest-bearing deposits in other banks	\$ 10,277	0.23	% 6	\$ 14,128	0.25	% 9
Taxable investment securities (1)	1,345,120	2.46	8,269	1,267,621	2.45	7,752
Tax-exempt investment securities (1)	175,340	3.54	1,551	178,488	3.45	1,541
Loans and leases, including loans held for sale (2)	3,070,384	3.91	30,148	2,848,983	3.96	28,364
Federal Home Loan Bank stock	10,113	4.20	11	44,888	0.10	12
Total interest earning assets	4,611,234	3.46	39,985	4,354,108	3.45	37,678
Nonearning assets	362,920			391,406		
Total assets	\$4,974,154			\$4,745,514		
Liabilities and Equity						
Interest-bearing liabilities:						
Interest-bearing demand deposits	\$ 803,682	0.05	% 104	\$ 786,078	0.05	% 96
Savings and money market deposits	1,277,480	0.07	230	1,225,969	0.07	225
Time deposits under \$100,000	223,550	0.36	203	252,848	0.44	280
Time deposits \$100,000 and over	842,362	0.17	365	797,410	0.17	349
Short-term borrowings	106,625	0.27	73	12,924	0.30	10
Long-term debt	92,785	2.83	662	92,787	2.77	647
Total interest-bearing liabilities	3,346,484	0.19	1,637	3,168,016	0.20	1,607
Noninterest-bearing deposits	1,094,969			942,361		
Other liabilities	40,018			66,019		
Total liabilities	4,481,471			4,176,396		
Shareholders' equity	492,683			569,118		
Non-controlling interests	—			—		
Total equity	492,683			569,118		
Total liabilities and equity	\$4,974,154			\$4,745,514		

Net interest income		38,348		36,071
Net interest margin	3.31	%	3.30	%

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(dollars in thousands)	Nine Months Ended September 30, 2015			2014		
	Average Balance	Average Yield/ Rate	Amount of Interest	Average Balance	Average Yield/ Rate	Amount of Interest
Assets						
Interest earning assets:						
Interest-bearing deposits in other banks	\$15,133	0.24	% \$28	\$12,832	0.25	% \$24
Taxable investment securities (1)	1,338,836	2.46	24,713	1,377,840	2.49	25,726
Tax-exempt investment securities (1)	176,335	3.51	4,640	178,369	3.45	4,609
Loans and leases, including loans held for sale (2)	3,002,785	3.93	88,322	2,759,928	4.03	83,287
Federal Home Loan Bank stock	28,532	0.19	40	45,473	0.10	35
Total interest earning assets	4,561,621	3.45	117,743	4,374,442	3.47	113,681
Nonearning assets	375,914			380,154		
Total assets	\$4,937,535			\$4,754,596		
Liabilities and Equity						
Interest-bearing liabilities:						
Interest-bearing demand deposits	\$801,304	0.05	% \$298	\$755,302	0.05	% \$277
Savings and money market deposits	1,261,534	0.07	678	1,221,100	0.07	672
Time deposits under \$100,000	230,354	0.37	637	257,727	0.42	808
Time deposits \$100,000 and over	841,876	0.16	1,028	819,744	0.17	1,072
Short-term borrowings	95,759	0.27	195	37,989	0.29	82
Long-term debt	92,785	2.81	1,949	92,792	2.77	1,923
Total interest-bearing liabilities	3,323,612	0.19	4,785	3,184,654	0.20	4,834
Noninterest-bearing deposits	1,053,398			913,879		
Other liabilities	41,616			52,848		
Total liabilities	4,418,626			4,151,381		
Shareholders' equity	518,909			603,195		
Non-controlling interests	—			20		
Total equity	518,909			603,215		
Total liabilities and equity	\$4,937,535			\$4,754,596		
Net interest income			\$112,958	\$108,847		
Net interest margin		3.31	%	3.32		%

(1) At amortized cost.

(2) Includes nonaccrual loans.

Net interest income (expressed on a taxable-equivalent basis) was \$38.3 million for the third quarter of 2015, representing an increase of 6.3% from \$36.1 million in the third quarter of 2014. The 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 decline in average yields earned on our loans and leases of 5 basis points ("bp").

Average yields earned on our interest-earning assets during the third quarter of 2015 increased by 1 bp from the third quarter of 2014. Average rates paid on our interest-bearing liabilities declined by 1 bp in the third quarter of 2015.

from the third quarter of 2014.

For the nine months ended September 30, 2015, net interest income (expressed on a taxable-equivalent basis) was \$113.0 million, representing an increase of 3.8% from \$108.8 million in the same prior year period. The increase in the nine months ended September 30, 2015 compared to the same prior year period was primarily attributable to a significant increase in

average loans and leases balances. Offsetting this increase was a decrease in average taxable investment securities balances and declines in average yields earned on our loans and leases and taxable investment securities of 10 bp and 3 bp, respectively.

Average yields earned on our interest-earning assets during the nine months ended September 30, 2015 declined by 2 bp from the same prior year period. Average rates paid on our interest-bearing liabilities declined by 1 bp in the nine months ended September 30, 2015 from the same prior year period.

Interest Income

Taxable-equivalent interest income was \$40.0 million for the third quarter of 2015, representing an increase of 6.1% from \$37.7 million in the third quarter of 2014. The increase was primarily attributable to a significant increase in average loans and leases and taxable investment securities portfolios, partially offset by a decrease in average yields earned on our loans and leases. Average loans and leases and taxable investment securities increased by \$221.4 million and \$77.5 million, respectively, compared to the third quarter of 2014, accounting for approximately \$2.2 million and \$0.5 million of the current quarter's increase in interest income, respectively. Average yields earned on loans and leases, however, decreased by 5 bp in the current quarter, lowering interest income by approximately \$0.4 million.

For the nine months ended September 30, 2015, taxable-equivalent interest income was \$117.7 million, representing an increase of 3.6% from \$113.7 million in the same prior year period. The increase was primarily attributable to a significant increase in average loans and leases, partially offset by a decrease in average taxable investment securities and decreases in average yields earned on our loans and leases and taxable investment securities. Average loans and leases increased by \$242.9 million compared to the same prior year period, accounting for approximately \$7.3 million of the current period's increase in interest income. Average taxable investment securities, however, decreased by \$39.0 million, resulting in a decrease in interest income of \$0.7 million. In addition, average yields earned on loans and leases and taxable investment securities, decreased by 10 bp and 3 bp, respectively, in the nine months ended September 30, 2015, lowering interest income by approximately \$2.1 million and \$0.3 million, respectively.

Interest Expense

Interest expense for the third quarter of 2015 was \$1.6 million, representing an increase of 1.9% from the third quarter of 2014. The increase was primarily attributable a \$93.7 million increase in average short-term borrowings, which increased interest expense by \$0.1 million.

For the nine months ended September 30, 2015, interest expense was \$4.8 million, representing a decrease of 1.0% from the same prior year period. The decrease was primarily attributable to the 1 bp and 5 bp declines in average rates paid on our time deposits greater than and less than \$100,000, respectively, and a decrease in average time deposits less than \$100,000 of \$27.4 million. These decreases were partially offset by an increase in average short-term borrowings of \$57.8 million.

Net Interest Margin

Our net interest margin was 3.31% for the third quarter of 2015, compared to 3.30% for the third quarter of 2014 and reflects the decline of 5 bp in average yields earned on loans and leases.

For the nine months ended September 30, 2015, our net interest margin was 3.31%, compared to 3.32% for the same prior year period and reflects declines of 10 bp and 3 bp in average yields earned on loans and leases and taxable investment securities, respectively.

The contraction in our net interest margin in the nine months ended September 30, 2015 from the same prior year period 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 nine months ended September 30, 2015. We continue to expect the target Fed Funds rate to remain low through the remainder of 2015, as longer-term inflation expectations have remained stable.

Provision for Loan and Lease Losses

Our Provision was a credit of \$3.6 million during the third quarter of 2015, compared to a credit of \$1.7 million in the third quarter of 2014. Our net recoveries were \$3.4 million during the third quarter of 2015, compared to net recoveries of \$1.0 million in the third quarter of 2014.

Our Provision was a credit of \$13.7 million during the nine months ended September 30, 2015, compared to a credit of \$1.0 million in the comparable prior year period. Our net recoveries were \$6.3 million during the nine months ended September 30, 2015, compared to net recoveries of \$0.1 million in the comparable prior year period.

The credit to the provision for loan and lease losses in the three and nine months ended September 30, 2015 was primarily attributable to improving trends in credit quality. Nonperforming assets as of September 30, 2015 decreased by \$18.1 million and \$28.0 million from June 30, 2015 and December 31, 2014 respectively. Additionally, we had net recoveries of \$3.4 million and \$6.3 million in the three and nine months ended September 30, 2015, respectively.

Other Operating Income

The following table sets forth components of other operating income for the periods indicated:

(dollars in thousands)	Three Months Ended		Dollar Change	Percent Change	
	September 30, 2015	September 30, 2014			
Service charges on deposit accounts	\$1,947	\$2,070	\$(123)	) -5.9	%
Loan servicing fees	1,407	1,446	(39)	) -2.7	%
Other service charges and fees	2,803	2,886	(83)	) -2.9	%
Income from fiduciary activities	854	797	57	7.2	%
Equity in earnings of unconsolidated subsidiaries	165	11	154	1,400.0	%
Fees on foreign exchange	126	118	8	6.8	%
Income from bank-owned life insurance	434	810	(376)	) -46.4	%
Loan placement fees	202	35	167	477.1	%
Net gain on sales of residential loans	1,551	1,685	(134)	) -8.0	%
Net gain on sales of foreclosed assets	252	218	34	15.6	%
Other:					
Income recovered on nonaccrual loans previously charged-off	262	494	(232)	) -47.0	%
Other recoveries	244	566	(322)	) -56.9	%
Net unrealized gains (losses) on loans-held-for-sale and interest rate locks	(646)	) 66	(712)	) -1,078.8	%
Commissions on sale of checks	86	83	3	3.6	%
Other	142	178	(36)	) -20.2	%
Total other operating income	\$9,829	\$11,463	\$(1,634)	) -14.3	%

(dollars in thousands)	Nine Months Ended		Dollar Change	Percent Change	
	September 30, 2015	September 30, 2014			
Service charges on deposit accounts	\$5,830	\$6,052	\$(222)	) -3.7	%
Loan servicing fees	4,257	4,338	(81)	) -1.9	%
Other service charges and fees	8,689	8,912	(223)	) -2.5	%
Income from fiduciary activities	2,518	2,687	(169)	) -6.3	%
Equity in earnings of unconsolidated subsidiaries	490	422	68	16.1	%
Fees on foreign exchange	352	351	1	0.3	%
Investment securities gains (losses)	(1,866)	) 240	(2,106)	) -877.5	%
Income from bank-owned life insurance	1,569	2,246	(677)	) -30.1	%
Loan placement fees	574	356	218	61.2	%
Net gain on sales of residential loans	4,775	4,151	624	15.0	%
Net gain on sales of foreclosed assets	379	962	(583)	) -60.6	%
Other:					
Income recovered on nonaccrual loans previously charged-off	690	1,133	(443)	) -39.1	%
Other recoveries	533	605	(72)	) -11.9	%
Net unrealized gains (losses) on loans-held-for-sale and interest rate locks	(378)	) 419	(797)	) -190.2	%
Commissions on sale of checks	246	253	(7)	) -2.8	%
Other	485	484	1	0.2	%
Total other operating income	\$29,143	\$33,611	\$(4,468)	) -13.3	%

Total other operating income of \$9.8 million for the third quarter of 2015 decreased by \$1.6 million, or 14.3%, from the third quarter of 2014. The decrease from the third quarter of 2014 was primarily due to net unrealized losses on loans held for sale and interest rate locks of \$0.6 million recorded in the third quarter of 2015 compared to net unrealized gains of \$0.1 million recorded in the third quarter of 2014. In addition, we recorded lower income from bank-owned life insurance of \$0.4 million, lower other recoveries of \$0.3 million, and lower income recovered on nonaccrual loans previously charged-off of \$0.2 million.

For the nine months ended September 30, 2015, total other operating income of \$29.1 million decreased by \$4.5 million, or 13.3%, from the comparable prior year period. The decrease from the comparable prior year period was primarily due to investment securities losses of \$1.9 million recorded in the nine months ended September 30, 2015 compared to investment securities gains of \$0.2 million recorded in the comparable prior year period. In addition, we recorded net unrealized losses on loans held for sale and interest rate locks of \$0.4 million in the nine months ended September 30, 2015 compared to net unrealized gains of \$0.4 million recorded in the comparable prior year period. We also recorded lower income from bank-owned life insurance of \$0.7 million, lower net gains on sale of foreclosed assets of \$0.6 million, and lower income recovered on nonaccrual loans previously charged-off of \$0.4 million. These decreases were partially offset by higher net gains on sales of residential mortgage loans of \$0.6 million.

Other Operating Expense

The following table sets forth components of other operating expense for the periods indicated:

(dollars in thousands)	Three Months Ended		Dollar Change	Percent Change	
	September 30, 2015	September 30, 2014			
Salaries and employee benefits	\$17,193	\$16,552	\$641	3.9	%
Net occupancy	3,547	4,051	(504)	-12.4	%
Equipment	775	953	(178)	-18.7	%
Amortization of other intangible assets	1,683	1,328	355	26.7	%
Communication expense	895	925	(30)	-3.2	%
Legal and professional services	1,808	1,786	22	1.2	%
Computer software expense	2,286	1,659	627	37.8	%
Advertising expense	502	673	(171)	-25.4	%
Foreclosed asset expense	3	1,355	(1,352)	-99.8	%
Other:					
Charitable contributions	179	199	(20)	-10.1	%
FDIC insurance assessment	685	716	(31)	-4.3	%
Miscellaneous loan expenses	314	271	43	15.9	%
ATM and debit card expenses	365	286	79	27.6	%
Amortization of investments in low-income housing tax credit partnerships	258	307	(49)	-16.0	%
Armored car expenses	213	209	4	1.9	%
Entertainment and promotions	191	200	(9)	-4.5	%
Stationery and supplies	381	240	141	58.8	%
Directors' fees and expenses	156	112	44	39.3	%
Provision (credit) for residential mortgage loan repurchase losses	(883)	) 234	(1,117)	-477.4	%
Increase to the reserve for unfunded commitments	255	296	(41)	-13.9	%
Other	1,369	2,894	(1,525)	-52.7	%
Total other operating expense	\$32,175	\$35,246	\$(3,071)	-8.7	%

(dollars in thousands)	Nine Months Ended		Dollar Change	Percent Change	
	September 30, 2015	September 30, 2014			
Salaries and employee benefits	\$49,534	\$50,536	\$(1,002)	) -2.0	%
Net occupancy	10,451	11,375	(924)	) -8.1	%
Equipment	2,617	2,694	(77)	) -2.9	%
Amortization of other intangible assets	5,347	3,886	1,461	37.6	%
Communication expense	2,661	2,693	(32)	) -1.2	%
Legal and professional services	5,669	5,826	(157)	) -2.7	%
Computer software expense	6,764	4,592	2,172	47.3	%
Advertising expense	1,586	2,037	(451)	) -22.1	%
Foreclosed asset expense	332	1,443	(1,111)	) -77.0	%
Other:					
Charitable contributions	2,456	462	1,994	431.6	%
FDIC insurance assessment	2,084	2,118	(34)	) -1.6	%
Miscellaneous loan expenses	1,023	764	259	33.9	%
ATM and debit card expenses	1,131	1,199	(68)	) -5.7	%
Amortization of investments in low-income housing tax credit partnerships	820	1,065	(245)	) -23.0	%
Armored car expenses	642	649	(7)	) -1.1	%
Entertainment and promotions	654	632	22	3.5	%
Stationery and supplies	796	779	17	2.2	%
Directors' fees and expenses	561	682	(121)	) -17.7	%
Provision (credit) for residential mortgage loan repurchase losses	(756)	) 542	(1,298)	) -239.5	%
Decrease to the reserve for unfunded commitments	(48)	) (373)	) 325	-87.1	%
Other	4,327	6,463	(2,136)	) -33.0	%
Total other operating expense	\$98,651	\$100,064	\$(1,413)	) -1.4	%

Total other operating expense for the third quarter of 2015 was \$32.2 million and decreased by \$3.1 million, or 8.7%, from \$35.2 million in the third quarter of 2014. Other operating expenses in the third quarter of 2014 included \$1.3 million in costs related to the consolidation and relocation of our two Waikiki branches (included in other). The decrease from the third quarter of 2014 was also attributable to lower foreclosed asset expenses of \$1.4 million and a credit to the reserve for residential mortgage loan repurchase losses of \$0.9 million recorded in the third quarter of 2015 compared to an increase to the reserve of \$0.2 million recorded in the third quarter of 2014.

For the nine months ended September 30, 2015, total other operating expense was \$98.7 million and decreased by \$1.4 million, or 1.4%, from \$100.1 million in the comparable prior year period. The decrease from the comparable prior year period was primarily attributable to the aforementioned costs related to the consolidation and relocation of our Waikiki branches recorded in the third quarter of 2014 (included in other), lower foreclosed asset expenses of \$1.1 million, and lower salaries and employee benefits of \$1.0 million. In addition, we recorded a credit to the reserve for residential mortgage loan repurchase losses of \$0.8 million in the nine months ended September 30, 2015 compared to an increase to the reserve of \$0.5 million recorded in the comparable prior year period. These decreases were partially offset by higher computer software expense of \$2.2 million, higher charitable contributions of \$2.0 million, and higher amortization of other intangible assets of \$1.5 million.

The higher charitable contributions in the nine months ended September 30, 2015 was primarily attributable to a \$2.0 million contribution to the Central Pacific Bank Foundation in the second quarter of 2015. The lower salaries and

employee benefits in the nine months ended September 30, 2015 reflects a \$2.4 million one-time reversal of an accrual for a former executive officer's retirement benefits recorded in the second quarter of 2015, offset by higher incentive compensation plan expenses of \$1.7 million.

Income Taxes

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In the third quarter of 2015, the Company recorded income tax expense of \$6.9 million compared to \$5.2 million in the third quarter of 2014. The effective tax rate for the third quarter of 2015 was 36.11% compared to 38.91% in the third quarter of 2014.

Income tax expense in the third quarter of 2014 included a 2013 income tax return true-up adjustment of \$0.9 million, which primarily related to a premium paid on the repurchase of preferred stock of our two real estate investment trust subsidiaries in the third quarter of 2013.

For the nine months ended September 30, 2015, the Company recorded income tax expense of \$20.6 million compared to \$14.6 million in the same prior year period. The effective tax rate for the nine months ended September 30, 2015 was 37.10% compared to 34.99% in the same prior year period.

Income tax expense and the effective tax rate increased in the nine months ended September 30, 2015 due to an increase in operating income. Additionally, income tax expense and the effective tax rate in the nine months ended September 30, 2015 was impacted by \$0.6 million in additional state income tax expense recorded in the second quarter of 2015 resulting from the reduction in deferred tax liabilities related to the redemption of Federal Home Loan Bank of Des Moines membership stock in June 2015.

The remaining valuation allowance on our net DTA totaled \$2.8 million at September 30, 2015 and December 31, 2014. Net of this valuation allowance, the Company's net DTA totaled \$84.2 million at September 30, 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 September 30, 2015 of \$5.02 billion increased by \$168.8 million from \$4.85 billion at December 31, 2014.

Investment Securities

Investment securities of \$1.53 billion at September 30, 2015 increased by \$59.8 million, or 4.1%, from December 31, 2014. In the second quarter of 2015, \$119.4 million in available-for-sale securities were sold as part of an investment portfolio repositioning designed to improve profitability. Investment securities sold in the second quarter had a weighted average life of 4.4 years, average yield of 1.35% and resulted in a loss of \$1.9 million. Proceeds from the sale were immediately reinvested back into the investment portfolio, purchasing \$120.6 million in mortgage-backed securities with a weighted average life of 7.6 years and an average yield of 2.71%.

Loans and Leases

Loans and leases, net of deferred income/costs, of \$3.10 billion at September 30, 2015 increased by \$169.3 million, or 5.8%, from December 31, 2014. The increase was due to an increase in the residential mortgage, commercial, financial and agricultural, commercial mortgage, and consumer loan portfolios of \$103.0 million, \$42.8 million, \$33.7 million, and \$31.0 million, respectively, offset by a decrease in the construction loan and leases portfolios of \$39.2 million and \$2.0 million, respectively. The net increase in the portfolio is partially offset by loan charge-offs totaling \$9.1 million, as well as the transfer of two portfolio loans to a single borrower, with a carrying value of \$6.6 million, to the held-for-sale category. In addition, we foreclosed on seven portfolio loans with a carrying value of \$2.1 million.

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.

(dollars in thousands)	September 30, 2015	December 31, 2014		
Nonperforming Assets				
Nonaccrual loans (including loans held for sale):				
Commercial, financial and agricultural	\$3,056	\$13,007		
Real estate:				
Construction	—	310		
Mortgage - residential	6,301	13,048		
Mortgage - commercial	2,731	12,722		
Total nonaccrual loans	12,088	39,087		
Other real estate:				
Real estate:				
Construction	—	747		
Mortgage - residential	1,913	2,201		
Mortgage - commercial	—	—		
Other real estate	1,913	2,948		
Total nonperforming assets	14,001	42,035		
Accruing Loans Delinquent for 90 Days or More				
Consumer	130	77		
Total accruing loans delinquent for 90 days or more	130	77		
Restructured Loans Still Accruing Interest				
Commercial, financial and agricultural	327	361		
Real estate:				
Construction	841	892		
Mortgage - residential	17,592	17,845		
Mortgage - commercial	2,253	10,405		
Total restructured loans still accruing interest	21,013	29,503		
Total nonperforming assets, accruing loans delinquent for 90 days or more and restructured loans still accruing interest	\$35,144	\$71,615		
Ratio of nonaccrual loans to total loans and leases	0.39	% 1.33		%
Ratio of nonperforming assets to total loans and leases and other real estate	0.45	% 1.43		%
Ratio of nonperforming assets and accruing loans delinquent for 90 days or more to total loans and leases and other real estate	0.46	% 1.43		%
Ratio of nonperforming assets, accruing loans delinquent for 90 days or more, and restructured loans still accruing interest to total loans and leases and other real estate	1.13	% 2.44		%

The following table sets forth activity in nonperforming assets as of the date indicated.

Year-to-Date Changes in Nonperforming Assets:

(dollars in thousands)

Balance at December 31, 2014	\$42,035	
Additions	8,871	
Reductions:		
Payments	(9,125)
Return to accrual status	(11,270)
Sales of nonperforming assets	(13,236)
Charge-offs and/or valuation adjustments	(3,274)
Total reductions	(36,905)
Balance at September 30, 2015	\$14,001	

Nonperforming assets, which includes nonaccrual loans and leases and other real estate, totaled \$14.0 million at September 30, 2015, compared to \$42.0 million at December 31, 2014. There were no nonperforming loans classified as held for sale at September 30, 2015 and December 31, 2014. The decrease in nonperforming assets from December 31, 2014 was attributable to \$13.2 million in sales of nonperforming assets, \$11.3 million in loans restored to accrual status, \$9.1 million in repayments, and \$3.3 million in net charge-offs of nonaccrual loans and valuation adjustments of other real estate, partially offset by \$8.9 million in gross additions.

Net changes to nonperforming assets by category included net decreases in U.S. Mainland commercial, financial and agricultural assets of \$10.1 million, Hawaii commercial mortgage assets of \$8.3 million, Hawaii residential mortgage assets of \$7.0 million, U.S. Mainland commercial mortgage assets of \$1.6 million, and Hawaii construction assets of \$1.1 million. These decreases were offset by a net increase in Hawaii commercial, financial and agricultural assets of \$0.2 million.

Troubled debt restructurings (“TDRs”) included in nonperforming assets at September 30, 2015 consisted of 24 Hawaii residential mortgage loans with a combined principal balance of \$3.7 million and two Hawaii commercial loans with a combined principal balance of \$0.8 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 \$21.0 million of TDRs still accruing interest at September 30, 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.

Allowance for Loan and Lease Losses

The following table sets forth certain information with respect to the Allowance as of the dates and for the periods indicated:

(dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Allowance for Loan and Lease Losses				
Balance at beginning of period	\$66,924	\$83,599	\$74,040	\$83,820
Provision (credit) for loan and lease losses	(3,647)	(1,722)	(13,713)	(1,043)
Charge-offs:				
Commercial, financial and agricultural	170	471	5,104	2,142
Real estate:				
Construction	—	—	—	—
Mortgage-residential	46	—	110	139
Mortgage-commercial	—	—	—	1,041
Consumer	874	928	3,929	2,063
Leases	—	—	—	8
Total charge-offs	1,090	1,399	9,143	5,393
Recoveries:				
Commercial, financial and agricultural	504	789	4,377	1,973
Real estate:				
Construction	283	1,100	870	1,844
Mortgage-residential	196	244	2,081	867
Mortgage-commercial	3,130	14	6,705	40
Consumer	317	212	1,400	724
Leases	27	1	27	6
Total recoveries	4,457	2,360	15,460	5,454
Net recoveries	(3,367)	(961)	(6,317)	(61)
Balance at end of period	\$66,644	\$82,838	\$66,644	\$82,838
Annualized ratio of net recoveries to average loans and leases	(0.44)%	(0.13)%	(0.28)%	— %

Our Allowance at September 30, 2015 totaled \$66.6 million compared to \$74.0 million at December 31, 2014. The decrease in our Allowance during the nine months ended September 30, 2015, was a direct result of a credit to the Provision of \$13.7 million, offset by \$6.3 million in net loan recoveries.

Our Allowance as a percentage of total loans and leases decreased from 2.53% at December 31, 2014 to 2.15% at September 30, 2015. Our Allowance as a percentage of nonperforming assets increased from 176.14% at December 31, 2014 to 475.99% at September 30, 2015.

In accordance with GAAP, loans held for sale and other real estate assets are not included in our assessment of the Allowance.

Federal Home Loan Bank Stock

The bank was a member of the Federal Home Loan Bank of Seattle until its merger with the Federal Home Loan Bank of Des Moines on June 1, 2015. We are now a member of the Federal Home Loan Bank of Des Moines (the “FHLB”). FHLB membership stock of \$12.0 million at September 30, 2015 decreased by \$31.9 million, or 72.58%, from the FHLB membership stock balance at December 31, 2014. During the three and nine months ended September 30, 2015, we received net proceeds of \$0.1 million and \$31.9 million, respectively, from redemptions of excess FHLB membership stock at par value of \$100 per share.

Deposits

Total deposits of \$4.23 billion at September 30, 2015 reflected an increase of \$120.2 million, or 2.9%, from total deposits of \$4.11 billion at December 31, 2014. The increase was primarily attributable to net increases in noninterest-bearing demand deposits, savings and money market deposits, and time deposits of \$78.6 million, \$40.9 million, and \$3.0 million, respectively, offset by a net decrease in interest-bearing demand deposits of \$2.3 million.

Core deposits, which we define as demand deposits, savings and money market deposits, and time deposits less than \$100,000, totaled \$3.40 billion at September 30, 2015 and increased by \$95.2 million, or 2.9%, from December 31, 2014.

Capital Resources

In order to ensure adequate levels of capital, we conduct an ongoing assessment of projected sources and uses of capital in conjunction with an analysis of the size and quality of our assets, the level of risk and regulatory capital requirements. As part of this ongoing assessment, the Board of Directors reviews our capital position on an ongoing basis to ensure it is adequate, including, but not limited to, need for raising additional capital or returning capital to our shareholders, including the ability to declare cash dividends or repurchase our securities.

Common Stock

Shareholders’ equity totaled \$503.3 million at September 30, 2015, compared to \$568.0 million at December 31, 2014. The decrease in total shareholders’ equity was attributable to the repurchase of 4,122,881 shares of common stock, at a cost of \$93.3 million, excluding fees and expenses, under our repurchase program, cash dividends paid of \$11.7 million, and other comprehensive income of \$3.9 million, partially offset by net income of \$34.9 million in the nine months ended September 30, 2015. During the nine months ended September 30, 2015, we repurchased approximately 11.7% of our common stock outstanding as of December 31, 2014.

Holding Company Capital Resources

As a Hawaii state-chartered bank, the 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 September 30, 2015, the bank had Statutory Retained Earnings of \$61.7 million. On October 28, 2015, the Company’s Board of Directors declared a cash dividend of \$0.14 per share, a 16.7% increase from the \$0.12 per share in the third quarter of 2015, on the Company’s outstanding common stock. In addition, the Board of Directors approved a special cash dividend of \$0.32 per common share.

The quarterly cash dividend and special cash dividend are payable on December 15, 2015 to shareholders of record at the close of business on November 30, 2015.

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.

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, the Selling Shareholders, and the Underwriter entered into the March 2015 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 March 2015 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. 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 incurred \$0.4 million in costs recorded in other operating expenses related to the secondary offering by the Selling Shareholders. In addition, the Company incurred \$0.2 million in costs recorded in equity related to the repurchase of its common stock from the Underwriter.

On June 4, 2015, the Company, the Selling Shareholders, and the Underwriter entered into another secondary offering underwriting agreement (the "June 2015 Underwriting Agreement") pursuant to which the Selling Shareholders agreed to each sell 1,500,000 shares for a total of 3,000,000 shares of CPF common stock, no par value per share, to the Underwriter at a price of \$22.15 per common share for a total of approximately \$66.5 million. 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. In the second quarter of 2015, the Company accrued \$0.3 million of costs recorded in other operating expenses related to the secondary offering by the Selling Shareholders.

On August 3, 2015, the Company, the Selling Shareholders, and the Underwriter and UBS Investment Bank ("UBS") entered into a final underwriting agreement (the "August 2015 Underwriting Agreement") pursuant to which the Selling Shareholders sold their aggregate remaining interest in the Company of 5,538,624 shares of CPF common stock to the Underwriter and UBS at a price of \$22.11 per common share for a total of approximately \$122.5 million. 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.

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 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 March 2015 Underwriting Agreement. Since the second quarter of 2014, we have repurchased 4,980,435 shares of common stock at an aggregate cost of \$109.8 million, excluding fees and expenses, under this program. A total of \$20.2 million remained available for repurchase under the CPF Repurchase Plan at September 30, 2015. However, in an effort to further protect the Company from experiencing an ownership change, the Company does not intend to repurchase any additional shares under the CPF Repurchase Plan during the remainder of 2015. We currently expect to reestablish our share repurchase program in the first quarter of 2016.

As of September 30, 2015, on a stand-alone basis, CPF had an available cash balance of approximately \$16.2 million in order to meet its ongoing obligations.

Trust Preferred Securities

We have four statutory trusts, CPB Capital Trust II, CPB Statutory Trust III, CPB Capital Trust IV and CPB Statutory Trust V, which issued a total of \$90.0 million in trust preferred securities. Our obligations with respect to the issuance of the trust preferred securities constitute a full and unconditional guarantee by the Company of each trust's obligations with respect to its trust preferred securities. Subject to certain exceptions and limitations, we may elect from time to time to defer subordinated debenture interest payments, which would result in a deferral of dividend payments on the related trust preferred securities, for up to 20 consecutive quarterly periods without default or penalty.

Regulatory Capital Ratios

General capital adequacy regulations adopted by the FRB and FDIC require an institution to maintain minimum leverage, Tier 1 and total risk-based capital ratios. In addition to these uniform risk-based capital guidelines and leverage ratios that apply across the industry, the regulators have the discretion to set individual minimum capital requirements for specific institutions at rates significantly above the minimum guidelines and ratios. For a further discussion of the effect of forthcoming changes in required regulatory capital ratios, see the discussion in our Form 10-K "Business — Supervision and Regulation."

In April 2014 the FRB adopted as final its Basel III interim final rule ("Basel III") intended to improve both the quality and quantity of capital for institutions supervised by the FDIC. Basel III implemented a revised definition of regulatory capital, added a new common equity tier 1 (CET1) risk-based capital requirement, increased the minimum tier 1 capital requirement and amended the methodologies for determining risk-weighted assets. Basel III became effective for the Company on January 1, 2015. A new capital conservation buffer comprised of CET1 will be phased-in beginning January 1, 2016 at 0.625% of risk-weighted assets and will increase when fully phased-in up to 2.5% in 2019.

The Company's and the bank's leverage capital, tier 1 risk-based capital, total risk-based capital, and CET1 risk-based capital ratios as of September 30, 2015 were above the levels required for a "well capitalized" regulatory designation.

The following table sets forth the Company's and the bank's capital ratios, as well as the minimum capital adequacy requirements applicable to all financial institutions as of the dates indicated.

	Actual		Minimum Required for Capital Adequacy Purposes		Minimum Required to be Well Capitalized		
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	
Company							
At September 30, 2015:							
Leverage capital	\$533,984	10.9	% \$196,503	4.0	% \$245,629	5.0	%
Tier 1 risk-based capital	533,984	15.0	213,601	6.0	284,801	8.0	
Total risk-based capital	579,182	16.3	284,801	8.0	356,002	10.0	
CET1 risk-based capital	474,169	13.3	160,201	4.5	231,401	6.5	
At December 31, 2014:							
Leverage capital	\$562,063	12.0	% \$186,922	4.0	% \$233,652	5.0	%
Tier 1 risk-based capital	562,063	17.0	132,475	4.0	198,712	6.0	
Total risk-based capital	603,939	18.2	264,949	8.0	331,187	10.0	
Central Pacific Bank							
At September 30, 2015:							
Leverage capital	\$515,625	10.5	% \$196,201	4.0	% \$245,252	5.0	%
Tier 1 risk-based capital	515,625	14.5	213,205	6.0	284,273	8.0	
Total risk-based capital	560,569	15.8	284,273	8.0	355,342	10.0	
CET1 risk-based capital	515,625	14.5	159,904	4.5	230,972	6.5	
At December 31, 2014:							
Leverage capital	\$540,276	11.6	% \$186,828	4.0	% \$233,535	5.0	%
Tier 1 risk-based capital	540,276	16.3	132,376	4.0	198,564	6.0	
Total risk-based capital	582,068	17.6	264,752	8.0	330,940	10.0	

Liquidity and Borrowing Arrangements

Our objective in managing liquidity is to maintain a balance between sources and uses of funds in order to economically meet the cash requirements of customers for loans and deposit withdrawals and participate in lending and investment opportunities as they arise. We monitor our liquidity position in relation to changes in loan and deposit balances on a daily basis to ensure maximum utilization, maintenance of an adequate level of readily marketable assets and access to short-term funding sources.

Core deposits have historically provided us with a sizeable source of relatively stable and low cost funds, but are subject to competitive pressure in our market. In addition to core deposit funding, we also have access to a variety of other short-term and long-term funding sources, which include proceeds from maturities of our investment securities, as well as secondary funding sources such as the FHLB, secured repurchase agreements and the Federal Reserve discount window, available to meet our liquidity needs. While we historically have had access to these other funding sources, access to these sources may not be guaranteed and can be restricted in the future as a result of market conditions or the Company's and bank's financial position.

The bank is a member of and maintained a \$1.2 billion line of credit with the FHLB as of September 30, 2015. Short-term borrowings under this arrangement totaled \$155.0 million at September 30, 2015, compared to \$38.0 million at December 31, 2014, respectively. There were no long-term borrowings under this arrangement at September 30, 2015 and December 31, 2014. FHLB advances outstanding at September 30, 2015 were secured by unencumbered investment securities with a fair value of \$0.7 million and certain real estate loans with a carrying value of \$1.6 billion in accordance with the collateral provisions of the Advances, Security and Deposit Agreement with the FHLB. At September 30, 2015, \$1.0 billion was undrawn under this arrangement.

At September 30, 2015 and December 31, 2014, our bank had additional unused borrowings available at the Federal Reserve discount window of \$44.2 million and \$33.3 million, respectively. As of September 30, 2015 and December 31, 2014, certain commercial and commercial real estate loans with a carrying value totaling \$91.8 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.

Our ability to maintain adequate levels of liquidity is dependent on our ability to continue to maintain our strong risk profile and capital base. Our liquidity may also be negatively impacted by weakness in the financial markets and industry-wide reductions in liquidity.

Contractual Obligations

Information regarding our contractual obligations is provided in Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the year ended December 31, 2014. There have been no material changes in our contractual obligations since December 31, 2014.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the risk of loss in a financial instrument arising from adverse changes in market rates/prices such as interest rates, foreign currency rates, commodity prices and equity prices. Our primary market risk exposure is interest rate risk that occurs when rate-sensitive assets and rate-sensitive liabilities mature or reprice during different periods or in differing amounts. Asset/liability management attempts to coordinate our rate-sensitive assets and rate-sensitive liabilities to meet our financial objectives. The Asset/Liability Committee (“ALCO”) monitors interest rate risk through the use of interest rate sensitivity gap, net interest income and market value of portfolio equity simulation, and rate shock analyses. Adverse interest rate risk exposures are managed through the shortening or lengthening of the duration of assets and liabilities.

The primary analytical tool we use to measure and manage our interest rate risk is a simulation model that projects changes in net interest income (“NII”) as market interest rates change. Our ALCO policy requires that simulated changes in NII should be within certain specified ranges, or steps must be taken to reduce interest rate risk. The results of the model indicate that the mix of rate-sensitive assets and liabilities at September 30, 2015 would not result in a fluctuation of NII that would exceed the established policy limits.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report and pursuant to Rule 13a-15 of the Securities Exchange Act of 1934, as amended, (the “Exchange Act”), the Company’s management, including the Chief Executive Officer and Principal Financial

and Accounting Officer, conducted an evaluation of the effectiveness and design of the Company's disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act). Based upon that evaluation, the Company's Chief Executive Officer and Principal Financial and Accounting Officer concluded, as of the end of the period covered by this report, that the Company's disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

As of the end of the period covered by this report, there have been no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) during the quarter to which this report relates that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes from the Risk Factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the SEC on February 27, 2015.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Issuer Purchases of Equity Securities

In the three months ended September 30, 2015, 172,100 shares of common stock, at an aggregate cost of \$4.0 million, excluding fees and expenses, were repurchased under this program as described in the table below. A total of \$20.2 million remained available for repurchase under the program at September 30, 2015. However, in an effort to further protect the Company from experiencing an ownership change, the Company does not intend to repurchase any additional shares under the CPF Repurchase Plan during the remainder of 2015. We currently expect to reestablish our share repurchase program in the first quarter of 2016.

Period	Issuer Purchases of Equity Securities			Maximum Dollar Value of Shares That May Yet Be Purchased Under the Program ⁽¹⁾
	Total Number of Shares Purchased	Average Price Paid per Share	Total Shares Purchased as Part of Publicly Announced Programs	
July 1-31, 2015	172,100	\$23.29	172,100	\$20,223,431
August 1-31, 2015	—	—	—	20,223,431
September 1-30, 2015	—	—	—	20,223,431
Total	172,100	\$23.29	172,100	\$20,223,431

Our Board of Directors (the "BOD") first authorized the repurchase and retirement of up to \$30 million of the Company's outstanding common stock (the "CPF Repurchase Plan") on May 20, 2014. On January 28, 2015, the BOD increased the authorization under the CPF Repurchase Plan by \$25 million. On March 24, 2015, the BOD increased the authorization by an additional \$75 million. As of September 30, 2015, \$20.2 million remained of the total \$130 million total repurchase amount authorized by the BOD under the CPF Repurchase Plan. The plan has no set expiration or termination date.

Item 6. Exhibits

Exhibit No.	Document
31.1	Rule 13a-14(a) Certification of Chief Executive Officer in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 *
31.2	Rule 13a-14(a) Certification of Chief Financial Officer in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 *
32.1	Section 1350 Certification of Chief Executive Officer in accordance with Section 906 of the Sarbanes-Oxley Act of 2002 **
32.2	Section 1350 Certification of Chief Financial Officer in accordance with Section 906 of the Sarbanes-Oxley Act of 2002 **
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*
*	Filed herewith.
**	Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CENTRAL PACIFIC FINANCIAL CORP.
(Registrant)

Date: November 3, 2015

/s/ A. Catherine Ngo
A. Catherine Ngo
President and Chief Executive Officer

Date: November 3, 2015

/s/ David S. Morimoto
David S. Morimoto
Executive Vice President and Chief Financial Officer

Central Pacific Financial Corp.
Exhibit Index

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