CENTRAL PACIFIC FINANCIAL CORP
Form 10-Q
August 03, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

or

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

For the transition period from to

Commission file number 001-31567

CENTRAL PACIFIC FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

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

220 South King Street, Honolulu, Hawaii 96813

(Address of principal executive offices) (Zip Code)

(808) 544-0500

(Registrant s telephone number, including area code)

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

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

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

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

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

The number of shares outstanding of registrant s common stock, no par value, on July 29, 2015 was 31,359,533 shares.

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PART I. FINANCIAL INFORMATION

Forward-Looking Statements

This document may contain forward-looking statements concerning projections of revenues, income/loss, earnings/loss per share, capital expenditures, dividends, capital structure, net interest margin or other financial items, concerning plans and objectives of management for future operations, concerning future economic performance, or concerning any of the assumptions underlying or relating to any of the foregoing. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts, and may include the words believes, plans, intends, expects, anticipates, forecasts, hopes, should, estimates or words of similar meaning. While we believe t forward-looking statements and the assumptions underlying them are reasonably based, such statements and assumptions are by their nature subject to risks and uncertainties, and thus could later prove to be inaccurate or incorrect. Accordingly, actual results could materially differ from projections for a variety of reasons, to include, but not be limited to: an increase in inventory or adverse conditions in the Hawaii and California real estate markets and deterioration in the construction industry; adverse changes in the financial performance and/or condition of our borrowers and, as a result, increased loan delinquency rates, deterioration in asset quality, and losses in our loan portfolio; the impact of local, national, and international economies and events (including natural disasters such as wildfires, tsunamis, storms and earthquakes) on the Company s business and operations and on tourism, the military, and other major industries operating within the Hawaii market and any other markets in which the Company does business; deterioration or malaise in domestic economic conditions, including any further destabilization in the financial industry and deterioration of the real estate market, as well as the impact of declining levels of consumer and business confidence in the state of the economy in general and in financial institutions in particular; changes in estimates of future reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements; the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act, changes in capital standards, other regulatory reform, including but not limited to regulations promulgated by the Consumer Financial Protection Bureau, government-sponsored enterprise reform, and any related rules and regulations on our business operations and competitiveness; the costs and effects of legal and regulatory developments, including the resolution of legal proceedings or regulatory or other governmental inquiries and the results of regulatory examinations or reviews; ability to successfully implement our initiatives to lower our efficiency ratio; the effects of and changes in trade, monetary and fiscal policies and laws, including the interest rate policies of the Board of Governors of the Federal Reserve System; inflation, interest rate, securities market and monetary fluctuations; negative trends in our market capitalization and adverse changes in the price of the Company s common stock; political instability; acts of war or terrorism; changes in consumer spending, borrowings and savings habits; failure to maintain effective internal control over financial reporting or disclosure controls and procedures; technological changes; changes in the competitive environment among financial holding companies and other financial service providers; the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters; our ability to attract and retain key personnel; changes in our organization, compensation and benefit plans; and our success at managing the risks involved in the foregoing items. For further information on factors that could cause actual results to materially differ from projections, please see the Company s publicly available Securities and Exchange Commission filings, including the Company s Form 10-K for the last fiscal year and, in particular, the discussion of Risk Factors set forth therein. The Company does not update any of its forward-looking statements except as required by law.

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CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30, 2015	December 31, 2014
	(Dollars in thousands)	
Assets		
Cash and due from banks	$ 66,715	$ 72,316
Interest-bearing deposits in other banks	14,775	13,691
Investment securities:		
Available for sale, at fair value	1,274,312	1,229,018
Held to maturity, at amortized cost (fair value of $259,150 at June 30, 2015 and $235,597 at December 31, 2014)	262,778	238,287
Total investment securities	1,537,090	1,467,305
Loans held for sale	22,917	9,683
Loans and leases	3,006,055	2,932,198
Allowance for loan and lease losses	(66,924)	(74,040)
Net loans and leases	2,939,131	2,858,158
Premises and equipment, net	47,681	49,214
Accrued interest receivable	14,021	13,584
Investment in unconsolidated subsidiaries	6,720	7,246
Other real estate	5,278	2,948
Other intangible assets	27,278	29,697
Bank-owned life insurance	153,015	152,283
Federal Home Loan Bank stock	12,129	43,932
Other assets	121,101	132,930
Total assets	$ 4,967,851	$ 4,852,987
Liabilities and Equity		
Deposits:		
Noninterest-bearing demand	$ 1,080,428	$ 1,034,146
Interest-bearing demand	807,851	788,272
Savings and money market	1,261,180	1,242,598
Time	1,032,863	1,045,284
Total deposits	4,182,322	4,110,300
Short-term borrowings	157,000	38,000
Long-term debt	92,785	92,785
Other liabilities	46,897	43,861
Total liabilities	4,479,004	4,284,946
Equity:		
Preferred stock, no par value, authorized 1,100,000 shares, issued and outstanding none at June 30, 2015 and December 31, 2014, respectively		
Common stock, no par value, authorized 185,000,000 shares, issued and outstanding 31,501,633 and 35,233,674 shares at June 30, 2015 and December 31, 2014, respectively	552,527	642,205
Surplus	79,373	79,716
Accumulated deficit	(142,267)	(157,039)

Accumulated other comprehensive income (loss)		(786)		3,159
Total equity		488,847		568,041
Total liabilities and equity	$	4,967,851	$	4,852,987

See accompanying notes to consolidated financial statements.

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CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Amounts in thousands, except per share data)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Interest income:				
Interest and fees on loans and leases	$ 29,572	$ 28,040	$ 58,174	$ 54,923
Interest and dividends on investment securities:				
Taxable interest	8,277	8,476	16,427	17,972
Tax-exempt interest	1,010	1,000	2,008	1,994
Dividends	8	1	17	2
Interest on deposits in other banks	11	8	22	15
Dividends on Federal Home Loan Bank stock	18	11	29	23
Total interest income	38,896	37,536	76,677	74,929
Interest expense:				
Interest on deposits:				
Demand	99	91	194	181
Savings and money market	225	223	448	447
Time	549	621	1,097	1,251
Interest on short-term borrowings	79	55	122	72
Interest on long-term debt	650	640	1,287	1,276
Total interest expense	1,602	1,630	3,148	3,227
Net interest income	37,294	35,906	73,529	71,702
Provision (credit) for loan and lease losses	(7,319)	1,995	(10,066)	679
Net interest income after credit for loan and lease losses	44,613	33,911	83,595	71,023
Other operating income:				
Service charges on deposit accounts	1,915	1,989	3,883	3,982
Loan servicing fees	1,427	1,448	2,850	2,892
Other service charges and fees	2,781	3,083	5,886	6,026
Income from fiduciary activities	830	828	1,664	1,890
Equity in earnings of unconsolidated subsidiaries	229	359	325	411
Fees on foreign exchange	98	119	226	233
Investment securities gains (losses)	(1,866)	240	(1,866)	240
Income from bank-owned life insurance	461	766	1,135	1,436
Loan placement fees	225	178	372	321
Net gain on sales of residential loans	1,630	1,227	3,224	2,466
Net gain on sales of foreclosed assets	94	582	127	744
Other	300	1,185	1,488	1,507
Total other operating income	8,124	12,004	19,314	22,148
Other operating expense:				
Salaries and employee benefits	15,176	16,550	32,341	33,984
Net occupancy	3,403	3,734	6,904	7,324
Equipment	933	945	1,842	1,741
Amortization of other intangible assets	1,559	1,318	3,664	2,558
Communication expense	942	874	1,766	1,768

Legal and professional services	1,642	2,228	3,861	4,040
Computer software expense	2,382	1,575	4,478	2,933
Advertising expense	449	678	1,084	1,364
Foreclosed asset expense	257	(17)	329	88
Other	5,715	5,003	10,207	9,018
Total other operating expense	32,458	32,888	66,476	64,818
Income before income taxes	20,279	13,027	36,433	28,353
Income tax expense	7,944	3,877	13,703	9,395
Net income	$ 12,335	$ 9,150	$ 22,730	$ 18,958
Per common share data:				
Basic earnings per share	$ 0.39	$ 0.25	$ 0.69	$ 0.49
Diluted earnings per share	0.39	0.25	0.68	0.48
Cash dividends declared	0.12	0.08	0.24	0.16
Shares used in computation:				
Basic shares	31,525	36,117	33,167	39,000
Diluted shares	31,953	36,656	33,588	39,405

See accompanying notes to consolidated financial statements.

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CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
	(Dollars in thousands)			
Net income	$ 12,335	$ 9,150	$ 22,730	$ 18,958
Other comprehensive income (loss), net of tax				
Net change in unrealized gain (loss) on investment securities	(11,370)	10,310	(4,461)	19,886
Minimum pension liability adjustment	256	190	516	377
Other comprehensive income (loss), net of tax	(11,114)	10,500	(3,945)	20,263
Comprehensive income	$ 1,221	$ 19,650	$ 18,785	$ 39,221

See accompanying notes to consolidated financial statements.

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CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)

	Common Shares Outstanding	Preferred Stock	Common Stock	Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interests	Total
	(Dollars in thousands, except per share data)							
Balance at December 31, 2014	35,233,674	$	$ 642,205	$ 79,716	$ (157,039)	$ 3,159	$	$ 568,041
Net income					22,730			22,730
Other comprehensive income						(3,945)		(3,945)
Cash dividends ($0.24 per share)					(7,958)			(7,958)
8,159 net shares of common stock sold by directors deferred compensation plan			(154)					(154)
3,950,781 shares of common stock repurchased and other related costs	(3,950,781)		(89,524)					(89,524)
Share-based compensation	218,740			(343)				(343)
Balance at June 30, 2015	31,501,633	$	$ 552,527	$ 79,373	$ (142,267)	$ (786)	$	$ 488,847
Balance at December 31, 2013	42,107,633	$	$ 784,547	$ 75,498	$ (184,087)	$ (15,845)	$ 61	$ 660,174
Net income					18,958			18,958
Other comprehensive income						20,263		20,263
Cash dividends ($0.16 per share)					(6,251)			(6,251)
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	162,713		74	813				887
Non-controlling interests							(61)	(61)
Balance at June 30, 2014	35,901,080	$	$ 655,219	$ 76,311	$ (171,380)	$ 4,418	$	$ 564,568

See accompanying notes to consolidated financial statements.

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CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	$ 22,730	$ 18,958
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision (credit) for loan and lease losses	(10,066)	679
Depreciation and amortization	2,954	2,909
Write down of other real estate, net of gain on sale	140	(457)
Amortization of other intangible assets	3,664	2,558
Net amortization of investment securities	4,584	4,160
Share-based compensation	(343)	813
Net (gain) loss on investment securities	1,866	(240)
Net gain on sales of residential loans	(3,224)	(2,466)
Proceeds from sales of loans held for sale	201,059	177,204
Originations of loans held for sale	(211,071)	(170,832)
Equity in earnings of unconsolidated subsidiaries	(325)	(411)
Increase in cash surrender value of bank-owned life insurance	(1,455)	(1,638)
Deferred income taxes	12,853	9,438
Net change in other assets and liabilities	4,206	(5,119)
Net cash provided by operating activities	27,572	35,556
Cash flows from investing activities:		
Proceeds from maturities of and calls on investment securities available for sale	81,536	66,804
Proceeds from sales of investment securities available for sale	117,496	162,470
Purchases of investment securities available for sale	(257,793)	(18,989)
Proceeds from maturities of and calls on investment securities held to maturity	12,159	7,098
Purchases of investment securities held to maturity	(37,043)	(2,443)
Net loan originations	(54,491)	(143,303)
Purchase of loan portfolio	(28,109)	(22,690)
Proceeds from sales of loans originated for investment	6,658	
Proceeds from sale of other real estate	2,567	1,884
Proceeds from bank-owned life insurance	723	
Purchases of premises and equipment	(1,421)	(2,573)
Net return of capital from unconsolidated subsidiaries	286	862
Net proceeds from redemption of FHLB stock	31,803	1,182
Net cash provided by (used in) investing activities	(125,629)	50,302
Cash flows from financing activities:		
Net increase in deposits	72,022	66,405
Repayments of long-term debt		(9)
Net increase in short-term borrowings	119,000	20,985
Cash dividends paid on common stock	(7,958)	(6,251)
Repurchases of common stock and other related costs	(89,524)	(129,391)
Net proceeds from issuance of common stock and stock option exercises		74
Net cash provided by (used in) financing activities	93,540	(48,187)

Net increase (decrease) in cash and cash equivalents		(4,517)		37,671
Cash and cash equivalents at beginning of period		86,007		49,348
Cash and cash equivalents at end of period	$	81,490	$	87,019
Supplemental disclosure of cash flow information:				
Cash paid during the period for:				
Interest	$	3,239	$	3,283
Income taxes		880		
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		5,037		1,511
Net transfer of loans to loans held for sale		6,648		

See accompanying notes to consolidated financial statements.

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CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Central Pacific Financial Corp. and Subsidiaries (herein referred to as the Company, we, us or our) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. These interim condensed consolidated financial statements and notes should be read in conjunction with the Company s consolidated financial statements and notes thereto filed on Form 10-K for the fiscal year ended December 31, 2014. In the opinion of management, all adjustments necessary for a fair presentation have been made and include all normal recurring adjustments. Interim results of operations are not necessarily indicative of results to be expected for the year.

Certain prior period amounts in the consolidated financial statements and the notes thereto have been reclassified to conform to the current period presentation. Such reclassifications had no effect on net income or shareholders equity for any periods presented.

2. RECENT ACCOUNTING PRONOUNCEMENTS

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

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

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

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

3. INVESTMENT SECURITIES

A summary of available for sale and held to maturity investment securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(Dollars in thousands)		
At June 30, 2015:				
Held to Maturity:				
Mortgage-backed securities:				
Residential - U.S. Government sponsored entities	$ 166,200	$ 111	$ (3,081)	$ 163,230
Commercial - U.S. Government sponsored entities	96,578		(658)	95,920
Total	$ 262,778	$ 111	$ (3,739)	$ 259,150
Available for Sale:				
Debt securities:				
States and political subdivisions	$ 188,899	$ 2,169	$ (2,811)	$ 188,257
Corporate securities	98,454	1,262	(154)	99,562
Mortgage-backed securities:				
Residential - U.S. Government sponsored entities	776,223	7,559	(5,715)	778,067
Residential - Non-government agencies	69,603	1,273	(519)	70,357
Commercial - Non-government agencies	135,535	2,566	(950)	137,151
Other	817	101		918
Total	$ 1,269,531	$ 14,930	$ (10,149)	$ 1,274,312
At 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

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The amortized cost and estimated fair value of investment securities at June 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.

	June 30, 2015			
	Amortized Cost		Estimated Fair Value	
	(Dollars in thousands)			
Held to Maturity				
Mortage-backed securities:				
Residential - U.S. Government sponsored entities	$	166,200	$	163,230
Commercial - U.S. Government sponsored entities		96,578		95,920
Total	$	262,778	$	259,150
Available for Sale				
Due in one year or less	$	2,567	$	2,660
Due after one year through five years		76,206		77,321
Due after five years through ten years		96,501		96,678
Due after ten years		112,079		111,160
Mortage-backed securities:				
Residential - U.S. Government sponsored entities		776,223		778,067
Residential - Non-government agencies		69,603		70,357
Commercial - Non-government agencies		135,535		137,151
Other		817		918
Total	$	1,269,531	$	1,274,312

During the three months ended June 30, 2015, we sold certain available for sale investment securities for gross proceeds of $117.5 million. Gross realized losses on the sales of the available for sale investment securities were $1.9 million during the three months ended June 30, 2015. We did not sell any available for sale securities during the first quarter of 2015. The specific identification method was used as the basis for determining the cost of all securities sold.

During the three months ended June 30, 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, during the three months ended June 30, 2014. We did not sell any available for sale securities during the first quarter of 2014. The specific identification method was used as the basis for determining the cost of all securities sold.

Investment securities of $959.0 million and $900.5 million at June 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 216 and 195 investment securities which were in an unrealized loss position at June 30, 2015 and December 31, 2014, respectively.

	Less than 12 months		12 months or longer		Total	
Description of Securities	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
			(Dollars in thousands)			
At June 30, 2015:						
Debt securities:						
States and political subdivisions	$ 66,678	$ (1,558)	$ 22,780	$ (1,253)	$ 89,458	$ (2,811)
Corporate securities	26,349	(154)			26,349	(154)
Mortgage-backed securities:						
Residential - U.S. Government sponsored entities	464,847	(6,464)	87,126	(2,332)	551,973	(8,796)
Residential - Non-government agencies	30,478	(519)			30,478	(519)
Commercial - U.S. Government sponsored entities	95,920	(658)			95,920	(658)
Commercial - Non-government agencies	57,620	(794)	4,653	(156)	62,273	(950)
Total temporarily impaired securities	$ 741,892	$ (10,147)	$ 114,559	$ (3,741)	$ 856,451	$ (13,888)
At December 31, 2014:						
Debt securities:						
States and political subdivisions	$ 23,591	$ (145)	$ 68,622	$ (1,544)	$ 92,213	$ (1,689)
Corporate securities	23,938	(125)			23,938	(125)
Mortgage-backed securities:						
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.

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4. LOANS AND LEASES

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

	June 30, 2015	December 31, 2014
	(Dollars in thousands)	
Commercial, financial and agricultural	$ 499,078	$ 463,070
Real estate:		
Construction	83,833	115,023
Mortgage - residential	1,349,594	1,280,089
Mortgage - commercial	695,995	704,099
Consumer	373,588	365,662
Leases	2,589	3,140
	3,004,677	2,931,083
Net deferred costs	1,378	1,115
Total loans and leases	$ 3,006,055	$ 2,932,198

During the six months ended June 30, 2015, we transferred the collateral in six portfolio loans with a carrying value of $1.6 million to other real estate and two portfolio loans to a single borrower with a carrying value of $6.6 million to the held-for-sale category. In June 2015, we purchased 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. No portfolio loans were sold during the six months ended June 30, 2015.

During the six months ended June 30, 2014, we transferred three loans with a carrying value of $1.5 million to other real estate. We did not transfer any portfolio loans to the held-for-sale category and no portfolio loans were sold during the six months ended June 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. In May 2014, we also purchased participation interest in student loans totaling $11.5 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.

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Impaired Loans

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

	Commercial, Financial & Agricultural	Construction	Real Estate Mortgage - Residential	Real Estate Mortgage - Commercial	Consumer	Leases	Total
	(Dollars in thousands)						
June 30, 2015							
Allowance for loan and lease losses:							
Ending balance attributable to loans:							
Individually evaluated for impairment	$ 58	$	$	$	$	$	$ 58
Collectively evaluated for impairment	7,511	10,670	17,846	20,008	7,330	1	63,366
	7,569	10,670	17,846	20,008	7,330	1	63,424
Unallocated							3,500
Total ending balance	$ 7,569	$ 10,670	$ 17,846	$ 20,008	$ 7,330	$ 1	$ 66,924
Loans and leases:							
Individually evaluated for impairment	$ 3,513	$ 4,474	$ 26,654	$ 14,850	$	$	$ 49,491
Collectively evaluated for impairment	495,565	79,359	1,322,940	681,145	373,588	2,589	2,955,186
	499,078	83,833	1,349,594	695,995	373,588	2,589	3,004,677
Net deferred costs (income)	523	(278)	2,368	(802)	(433)		1,378
Total ending balance	$ 499,601	$ 83,555	$ 1,351,962	$ 695,193	$ 373,155	$ 2,589	$ 3,006,055
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 impairment	7,421	14,969	17,927	20,869	7,314	7	68,507
	8,954	14,969	17,927	20,869	7,314	7	70,040
Unallocated							4,000
Total ending balance	$ 8,954	$ 14,969	$ 17,927	$ 20,869	$ 7,314	$ 7	$ 74,040
Loans and leases:							
Individually evaluated for impairment	$ 13,369	$ 4,888	$ 30,893	$ 23,126	$	$	$ 72,276
Collectively evaluated for impairment	449,701	110,135	1,249,196	680,973	365,662	3,140	2,858,807
	463,070	115,023	1,280,089	704,099	365,662	3,140	2,931,083
Net deferred costs (income)	693	(469)	2,235	(826)	(518)		1,115
Total ending balance	$ 463,763	$ 114,554	$ 1,282,324	$ 703,273	$ 365,144	$ 3,140	$ 2,932,198

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

	Unpaid Principal Balance	Recorded Investment (Dollars in thousands)	Allowance Allocated
June 30, 2015			
Impaired loans with no related allowance recorded:			
Commercial, financial & agricultural	$ 1,303	$ 1,192	$
Real estate:			
Construction	10,820	4,474	
Mortgage - residential	28,967	26,654	
Mortgage - commercial	17,967	14,850	
Total impaired loans with no related allowance recorded	59,057	47,170	
Impaired loans with an allowance recorded:			
Commercial, financial & agricultural	3,789	2,321	58
Total impaired loans with an allowance recorded	3,789	2,321	58
Total	$ 62,846	$ 49,491	$ 58
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 six months ended June 30, 2015 and 2014:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2015		2014		2015		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
	(Dollars in thousands)							
Commercial, financial & agricultural	$ 6,911	$ 5	$ 17,300	$ 6	$ 10,278	$ 10	$ 12,858	$ 11
Real estate:								
Construction	4,518	26	5,225	44	4,608	112	6,024	76
Mortgage - residential	27,312	(7)	33,419	274	28,134	(6)	34,913	437
Mortgage - commercial	16,438	175	16,201	76	19,595	339	16,123	115
Total	$ 55,179	$ 199	$ 72,145	$ 400	$ 62,615	$ 455	$ 69,918	$ 639

The Company had $3.0 million of consumer mortgage loans collateralized by residential real estate property that were in the process of foreclosure at June 30, 2015.

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Aging Analysis of Accruing and Non-Accruing Loans and Leases

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

	Accruing Loans 30 - 59 Days Past Due	Accruing Loans 60 - 89 Days Past Due	Accruing Loans Greater Than 90 Days Past Due	Nonaccrual Loans	Total Past Due and Nonaccrual	Loans and Leases Not Past Due	Total
				(Dollars in thousands)			
June 30, 2015							
Commercial, financial & agricultural	$ 128	$ 52	$	$ 3,175	$ 3,355	$ 496,246	$ 499,601
Real estate:							
Construction				133	133	83,422	83,555
Mortgage - residential	724	183		10,032	10,939	1,341,023	1,351,962
Mortgage - commercial				13,490	13,490	681,703	695,193
Consumer	1,236	431	45		1,712	371,443	373,155
Leases						2,589	2,589
Total	$ 2,088	$ 666	$ 45	$ 26,830	$ 29,629	$ 2,976,426	$ 3,006,055
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 June 30, 2015 consisted of 30 Hawaii residential mortgage loans with a combined principal balance of $6.1 million, a Hawaii commercial mortgage loan of $1.0 million, two Hawaii commercial loans with a combined principal balance of $0.9 million, and a Hawaii construction loan of $34 thousand. Concessions made to the original contractual terms of these loans consisted primarily of the deferral of interest and/or principal payments due to deterioration in the borrowers financial condition. The principal balances on these TDRs had matured and/or were in default at the time of restructure and we have no commitments to lend additional funds to any of these borrowers. There were $19.0 million of TDRs still accruing interest at June 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 six months ended June 30, 2015.

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

	Number of Contracts	Recorded Investment (as of Period End)	Increase in the Allowance
		(Dollars in thousands)	
Three Months Ended June 30, 2015			
Commercial, financial & agricultural	1	$ 535	$
Six Months Ended June 30, 2015			
Commercial, financial & agricultural	1	$ 535	$
Real estate mortgage - residential	1	964	
Total	2	$ 1,499	$
Six Months Ended June 30, 2014			
Real estate mortgage - residential	9	$ 600	$

No loans were modified as a TDR within the previous twelve months that subsequently defaulted during the three and six months ended June 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.

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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 June 30, 2015 and December 31, 2014:

	Pass	Special Mention	Substandard	Subtotal	Net Deferred Costs (Income)	Total
			(Dollars in thousands)			
June 30, 2015						
Commercial, financial & agricultural	$ 487,885	$ 4,855	$ 6,338	$ 499,078	$ 523	$ 499,601
Real estate:						
Construction	81,221	1,640	972	83,833	(278)	83,555
Mortgage - residential	1,339,067		10,527	1,349,594	2,368	1,351,962
Mortgage - commercial	668,926	4,047	23,022	695,995	(802)	695,193
Consumer	373,543		45	373,588	(433)	373,155
Leases	2,589			2,589		2,589
Total	$ 2,953,231	$ 10,542	$ 40,904	$ 3,004,677	$ 1,378	$ 3,006,055
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 June 30, 2015 and December 31, 2014, we did not have any loans that we considered to be subprime.

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5. ALLOWANCE FOR LOAN AND LEASE LOSSES

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

	Commercial, Financial & Agricultural	Construction	Real estate Mortgage - Residential	Mortgage - Commercial	Consumer	Leases	Unallocated	Total
				(Dollars in thousands)				
Three Months Ended June 30, 2015								
Beginning balance	$ 8,791	$ 14,305	$ 17,057	$ 20,161	$ 7,119	$	$ 4,000	$ 71,433
Provision (credit) for loan and lease losses	(498)	(4,099)	442	(3,715)	1,050	1	(500)	(7,319)
	8,293	10,206	17,499	16,446	8,169	1	3,500	64,114
Charge-offs	4,003		50		1,214			5,267
Recoveries	3,279	464	397	3,562	375			8,077
Net charge-offs (recoveries)	724	(464)	(347)	(3,562)	839			(2,810)
Ending balance	$ 7,569	$ 10,670	$ 17,846	$ 20,008	$ 7,330	$ 1	$ 3,500	$ 66,924
Three Months Ended June 30, 2014								
Beginning balance	$ 12,786	$ 14,940	$ 17,812	$ 25,925	$ 5,687	$ 12	$ 6,000	$ 83,162
Provision (credit) for loan and lease losses	405	243	959	988	1,402	(2)	(2,000)	1,995
	13,191	15,183	18,771	26,913	7,089	10	4,000	85,157
Charge-offs	1,482		102	1,041	671			3,296
Recoveries	546	342	529	13	305	3		1,738
Net charge-offs (recoveries)	936	(342)	(427)	1,028	366	(3)		1,558
Ending balance	$ 12,255	$ 15,525	$ 19,198	$ 25,885	$ 6,723	$ 13	$ 4,000	$ 83,599
Six Months Ended June 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	(324)	(4,886)	(1,902)	(4,436)	1,988	(6)	(500)	(10,066)
	8,630	10,083	16,025	16,433	9,302	1	3,500	63,974
Charge-offs	4,934		64		3,055			8,053
Recoveries	3,873	587	1,885	3,575	1,083			11,003
Net charge-offs (recoveries)	1,061	(587)	(1,821)	(3,575)	1,972			(2,950)
Ending balance	$ 7,569	$ 10,670	$ 17,846	$ 20,008	$ 7,330	$ 1	$ 3,500	$ 66,924
Six Months Ended June 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	(538)	12,007	(6,558)	(3,047)	854	(39)	(2,000)	679
	12,658	14,781	18,714	26,900	7,430	16	4,000	84,499
Charge-offs	1,555		139	1,041	1,251	8		3,994
Recoveries	1,152	744	623	26	544	5		3,094
Net charge-offs (recoveries)	403	(744)	(484)	1,015	707	3		900
Ending balance	$ 12,255	$ 15,525	$ 19,198	$ 25,885	$ 6,723	$ 13	$ 4,000	$ 83,599

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

Our Provisions were credits of $7.3 million and $10.1 million in the three and six months ended June 30, 2015, respectively, compared to Provisions of $2.0 million and $0.7 million in the three and six months ended June 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 $3.0 million and $3.5 million at June 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 $0.2 million and $0.3 million on unsold mortgage-backed securities were recorded in accumulated other comprehensive income (AOCI) at June 30, 2015 and December 31, 2014, respectively.

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7. INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES

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

	June 30, 2015	December 31, 2014
	(Dollars in thousands)	
Investments in low income housing tax credit partnerships	$ 3,216	$ 3,781
Trust preferred investments	2,792	2,792
Investments in affiliates	596	557
Other	116	116
	$ 6,720	$ 7,246

Investments in low income housing tax credit (LIHTC) partnerships are accounted for using the cost method. For the three and six months ended June 30, 2015, the Company recognized amortization expense in pre-tax income of $0.3 million and $0.6 million, respectively. For the three and six months ended June 30, 2014, the Company recognized amortization expense in pre-tax income of $0.4 million and $0.8 million, respectively.

For the three and six months ended June 30, 2015, the Company recognized $0.3 million and $0.6 million in tax credits associated with our investments in LIHTC partnerships, respectively. For the three months ended June 30, 2014, the Company recognized $0.9 million in tax credits associated with our investments in LIHTC partnerships. The Company did not recognize any tax credits associated with our investments in LIHTC partnerships during the three months ended March 31, 2014.

8. OTHER INTANGIBLE ASSETS

Other intangible assets include a core deposit premium and mortgage servicing rights. The following table presents changes in other intangible assets for the six months ended June 30, 2015:

	Core Deposit Premium	Mortgage Servicing Rights	Total
		(Dollars in thousands)	
Balance, beginning of period	$ 10,029	$ 19,668	$ 29,697
Additions		1,245	1,245
Amortization	(1,337)	(2,327)	(3,664)
Balance, end of period	$ 8,692	$ 18,586	$ 27,278

Income generated as the result of new mortgage servicing rights is reported as gains on sales of loans and totaled $0.6 million and $1.2 million for the three and six months ended June 30, 2015, respectively, compared to $0.5 million and $0.9 million for the comparable prior year periods.

Amortization of mortgage servicing rights was $0.9 million and $2.3 million for the three and six months ended June 30, 2015, respectively, compared to $0.6 million and $1.2 million for the comparable prior year periods.

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

	Six Months Ended June 30, 2015	2014
	(Dollars in thousands)	
Fair market value, beginning of period	$ 19,975	$ 21,399
Fair market value, end of period	19,202	20,341
Weighted average discount rate	9.5%	8.0%
Weighted average prepayment speed assumption	13.8	15.1

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

	June 30, 2015 Gross Carrying Value	Accumulated Amortization	Net Carrying Value	December 31, 2014 Gross Carrying Value	Accumulated Amortization	Net Carrying Value
			(Dollars in thousands)			
Core deposit premium	$ 44,642	$ (35,950)	$ 8,692	$ 44,642	$ (34,613)	$ 10,029
Mortgage servicing rights	56,194	(37,608)	18,586	56,687	(37,019)	19,668
	$ 100,836	$ (73,558)	$ 27,278	$ 101,329	$ (71,632)	$ 29,697

Based on the core deposit premium and mortgage servicing rights held as of June 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:

	Estimated Amortization Expense Core Deposit Premium	Mortgage Servicing Rights	Total
		(Dollars in thousands)	
2015 (remainder)	$ 1,337	$ 1,482	$ 2,819
2016	2,674	2,322	4,996
2017	2,674	1,646	4,320
2018	2,007	1,157	3,164
2019		778	778
2020		434	434
Thereafter		10,767	10,767
	$ 8,692	$ 18,586	$ 27,278

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.

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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 June 30, 2015, we were a party to interest rate lock and forward sale commitments on $34.0 million and $33.5 million of mortgage loans, respectively.

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

		Asset Derivatives		Liability Derivatives	
Derivatives Not Designated as Hedging Instruments	**Balance Sheet Location**	**Fair Value at June 30, 2015**	**Fair Value at December 31, 2014**	**Fair Value at June 30, 2015**	**Fair Value at December 31, 2014**
		(Dollars in thousands)			
Interest rate contracts	Other assets / other liabilities	$ 906	$ 504	$ 256	$ 122

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

Derivatives Not in Cash Flow Hedging Relationship	**Location of Gain (Loss) Recognized in Earnings on Derivatives**	**Amount of Gain (Loss) Recognized in Earnings on Derivatives**
		(Dollars in thousands)
Three Months Ended June 30, 2015		
Interest rate contracts	Other operating income	$ (198)
Three Months Ended June 30, 2014		
Interest rate contracts	Other operating income	413

Six Months Ended June 30, 2015		
Interest rate contracts	Other operating income	268
Six Months Ended June 30, 2014		
Interest rate contracts	Other operating income	353

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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 June 30, 2015. Short-term borrowings under this arrangement totaled $157.0 million at June 30, 2015, compared to $38.0 million at December 31, 2014. There were no long-term borrowings under this arrangement at June 30, 2015 and December 31, 2014. FHLB advances outstanding at June 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 June 30, 2015, $1.0 billion was undrawn under this arrangement.

At June 30, 2015 and December 31, 2014, our bank had additional unused borrowings available at the Federal Reserve discount window of $27.5 million and $33.3 million, respectively. As of June 30, 2015 and December 31, 2014, certain commercial and commercial real estate loans with a carrying value totaling $54.3 million and $72.9 million, respectively, were pledged as collateral on our line of credit with the Federal Reserve discount window. The Federal Reserve does not have the right to sell or repledge these loans.

11. EQUITY

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

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 June 30, 2015, the bank had Statutory Retained Earnings of $58.7 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.

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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.

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

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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 six months ended June 30, 2015, an additional 3,950,781 shares of common stock, at a cost of $89.3 million, excluding fees and expenses, were repurchased under this program. A total of $24.2 million remained available for repurchase under the CPF Repurchase Plan at June 30, 2015.

12. SHARE-BASED COMPENSATION

Restricted Stock Awards and Units

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

	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2015	715,460	$ 15.77
Changes during the period:		
Granted	137,878	18.67
Vested	(336,417)	15.19
Forfeited	(44,210)	16.25
Nonvested at June 30, 2015	472,711	16.98

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13. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	Before Tax	Tax Effect (Dollars in thousands)	Net of Tax
Three Months Ended June 30, 2015			
Net unrealized losses on investment securities:			
Net unrealized losses arising during the period	$ (20,752)	$ (8,259)	$ (12,493)
Less: Reclassification adjustment for losses realized in net income	1,866	743	1,123
Net unrealized losses on investment securities	(18,886)	(7,516)	(11,370)
Defined benefit plans:			
Amortization of net actuarial losses	421	170	251
Amortization of net transition obligation	4	2	2
Amortization of prior service cost	5	2	3
Defined benefit plans, net	430	174	256
Other comprehensive loss	$ (18,456)	$ (7,342)	$ (11,114)
Three Months Ended June 30, 2014			
Net unrealized gains on investment securities:			
Net unrealized gains arising during the period	$ 17,251	$ 6,797	$ 10,454
Less: Reclassification adjustment for losses realized in net income	(240)	(96)	(144)
Net unrealized gains on investment securities	17,011	6,701	10,310
Defined benefit plans:			
Amortization of net actuarial losses	305	120	185
Amortization of net transition obligation	4	2	2
Amortization of prior service cost	5	2	3
Defined benefit plans, net	314	124	190
Other comprehensive income	$ 17,325	$ 6,825	$ 10,500

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	Before Tax	Tax Effect (Dollars in thousands)	Net of Tax
Six Months Ended June 30, 2015			
Net unrealized losses on investment securities:			
Net unrealized losses arising during the period	$ (9,276)	$ (3,692)	$ (5,584)
Less: Reclassification adjustment for losses realized in net income	1,866	743	1,123
Net unrealized losses on investment securities	(7,410)	(2,949)	(4,461)
Defined benefit plans:			
Amortization of net actuarial losses	841	335	506
Amortization of net transition obligation	8	4	4
Amortization of prior service cost	10	4	6
Defined benefit plans, net	859	343	516
Other comprehensive loss	$ (6,551)	$ (2,606)	$ (3,945)
Six Months Ended June 30, 2014			
Net unrealized gains on investment securities:			
Net unrealized gains arising during the period	$ 33,195	$ 13,165	$ 20,030
Less: Reclassification adjustment for losses realized in net income	(240)	(96)	(144)
Net unrealized gains on investment securities	32,955	13,069	19,886
Defined benefit plans:			
Amortization of net actuarial losses	610	243	367
Amortization of net transition obligation	8	4	4
Amortization of prior service cost	10	4	6
Defined benefit plans, net	628	251	377
Other comprehensive income	$ 33,583	$ 13,320	$ 20,263

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

	Investment Securities	Defined Benefit Plans (Dollars in thousands)	Accumulated Other Comprehensive Income (Loss)
Three Months Ended June 30, 2015			
Balance at beginning of period	$ 20,495	$ (10,167)	$ 10,328
Other comprehensive loss before reclassifications	(12,493)		(12,493)
Amounts reclassified from AOCI	1,123	256	1,379
Total other comprehensive income (loss)	(11,370)	256	(11,114)
Balance at end of period	$ 9,125	$ (9,911)	$ (786)
Three Months Ended June 30, 2014			
Balance at beginning of period	$ 451	$ (6,533)	$ (6,082)
Other comprehensive income before reclassifications	10,454		10,454
Amounts reclassified from AOCI	(144)	190	46
Total other comprehensive income	10,310	190	10,500
Balance at end of period	$ 10,761	$ (6,343)	$ 4,418
Six Months Ended June 30, 2015			
Balance at beginning of period	$ 13,586	$ (10,427)	$ 3,159
Other comprehensive loss before reclassifications	(5,584)		(5,584)
Amounts reclassified from AOCI	1,123	516	1,639
Total other comprehensive income (loss)	(4,461)	516	(3,945)
Balance at end of period	$ 9,125	$ (9,911)	$ (786)
Six Months Ended June 30, 2014			
Balance at beginning of period	$ (9,125)	$ (6,720)	$ (15,845)
Other comprehensive income before reclassifications	20,030		20,030
Amounts reclassified from AOCI	(144)	377	233
Total other comprehensive income	19,886	377	