KURTZ ROBERT W
Form 4
April 02, 2012

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
OMB Number: 3235-0287
Expires: January 31, 2005
Estimated average burden hours per response... 0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
KURTZ ROBERT W

(Last) (First) (Middle)

19 SOUTH SECOND STREET, P.O. BOX 9

(Street)

OAKLAND, MD 215500009

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
FIRST UNITED CORP/MD/ [FUNC]

3. Date of Earliest Transaction (Month/Day/Year)
03/30/2012

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	03/30/2012		P(1)		229	A	$ 6.26	5,699	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
KURTZ ROBERT W 19 SOUTH SECOND STREET P.O. BOX 9 OAKLAND, MD 215500009	X			

Signatures

By: /s/ Tonya K. Sturm, attorney-in-fact	04/02/2012
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Purchase was effected pursuant to a Rule 10b5-1 trading plan adopted on May 11, 2011.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. >

)

(507

)

(778

)

(25

)

(1,540

)

(1,565

)

Net interest income

$

13,855

$

(3,575

)

$

10,280

$

16,207

$

(1,873

)

$

14,334

Net interest income is our primary source of earnings and is derived primarily from the difference between the interest we earn on loans and investments versus the interest we pay on deposits and borrowings. Net interest income (expressed on a taxable-equivalent basis) totaled $145.6 million in 2014, increasing by $10.3 million, or 7.6%, from $135.3 million in 2013, which increased by $14.3 million, or 11.9%, from net interest income of $121.0 million recognized in 2012. The increase in net interest income for 2014 was primarily the result of a significant increase in average loans and leases as we continued to redeploy our excess liquidity into higher yielding assets. Also contributing to the increase was the 45 basis points (bp) increase in average yields earned on our taxable investment securities. Offsetting these increases was a decline in average yields earned on our loans and leases portfolio of 35 bp.

Average rates earned on our interest-earning assets increased by 11 bp in the year ended December 31, 2014, from the year ended December 31, 2013. Average rates paid on our interest-bearing liabilities in the year ended December 31, 2014 declined by 3 bp, compared to the same period in 2013. The improvement in average yields earned on our interest earning assets in 2014 was directly attributable to the 45 bp increase in average yields earned on our taxable investment securities, an increase in our higher yielding loans and leases portfolio, and the corresponding decreases in our lower yielding interest-bearing deposits in other banks and taxable investment securities portfolio.

In the second quarter of 2014, $162.3 million in available-for-sale securities were sold as part of a balance sheet optimization strategy designed to improve our interest rate risk profile. Investment securities sold had a weighted average life of 5.7 years, average yield of 2.68%, and resulted in a gain of $0.2 million.

In the fourth quarter of 2013, we executed a bond swap where we sold $271.5 million in lower-yielding available-for-sale agency debentures and agency mortgage-backed securities with an average net yield of 1.87% and a weighted average life of 2.9 years and reinvested the majority of the proceeds in $242.5 million of higher-yielding agency mortgage-backed securities, non-agency commercial mortgage-backed securities, and corporate bond securities with an average yield of 3.21% and a weighted average life of 7.4 years. The new securities were classified in the available-for-sale portfolio and a net gain of $0.5 million was realized on the transaction. This transaction contributed to the significant increase in average yields earned on our taxable investment securities.

Interest Income

Our primary sources of interest income include interest on loans and leases, which represented 73.8%, 73.3%, and 74.8% of interest income in 2014, 2013 and 2012, respectively, as well as interest earned on investment securities, which represented 26.2%, 26.5%, and 25.0% of interest income, respectively. Interest income expressed on a taxable-equivalent basis of $152.0 million in 2014 increased by $9.5 million, or 6.7%, from the $142.5 million earned in 2013, which decreased by $12.8 million, or 9.8%, from the $129.7 million earned in 2012.

As depicted in Table 4, the increase in interest income in 2014 from the prior year was primarily due to a significant increase in average loans and leases balances and the increase in average taxable investment securities yields, partially offset by a decrease in average loan yields and the decrease in average taxable investment securities balances. The $403.9 million increase in average loans and leases contributed to an increase of $17.6 million in current year interest income. In addition, the 45 bp increase in average taxable investment securities yields in 2014 contributed to $6.0 million in higher interest income for the current year. These increases were partially offset by the 35 bp decrease in average loan yields in 2014 which contributed to $10.0 million in lower interest income for 2014. The $189.3 million decrease in average taxable investment securities contributed to a decrease of $3.9 million in current year interest income.

The increase in interest income in 2013 from 2012 was primarily due to a significant increase in average loans and leases and investment securities balances and the increase in average taxable investment securities yields, partially offset by a decrease in average loan yields and the decrease in average tax-exempt investment securities yields. The $264.2 million increase in average loans and leases contributed to an increase of $12.0 million of interest income and the $93.8 million increase in average tax-exempt investment securities contributed to an increase of $4.0 million of interest income. In addition, the 16 bp increase in average taxable investment securities yields in 2013 contributed to an increase of $2.5 million of interest income. These increases were partially offset by the 19 bp decrease in average loan yields in 2013 which contributed to $4.6 million in lower interest income for 2013. The 74 bp decrease in average tax-exempt investment securities yields in 2013 contributed to $1.3 million of the reduction in interest income.

Interest Expense

In 2014, interest expense was $6.4 million which represented a decrease of $0.8 million, or 10.9%, compared to interest expense of $7.2 million in 2013, which decreased by $1.6 million, or 17.9%, compared to $8.7 million in 2012.

Declines in average rates paid on interest-bearing liabilities were reflective of the FRB s notably low interest rate policy that existed throughout 2014, 2013 and 2012 and contributed to the overall reduction in interest expense during the periods. In 2014, the average rate paid on interest-bearing liabilities decreased by 3 bp to 0.20%, compared to 0.23% in 2013. Decreases in the average rates paid on long-term debt of 22 bp, time deposits $100,000 and over of 2 bp, and time deposits under $100,000 of 4 bp, were the primary drivers of the overall decrease in interest expense. Decreases in the average balances of long-term debt of $11.6 million and time deposits under $100,000 of $30.5 million also contributed to the reduction of interest expense in 2014.

In 2013, the average rate paid on interest-bearing liabilities decreased by 7 bp to 0.23%, compared to 0.30% in 2012. Decreases in the average rates paid on time deposits $100,000 and over of 8 bp, long-term borrowings of 38 bp, time deposits under $100,000 of 13 bp, and savings and money market deposits of 2 bp, were the primary drivers of the overall decrease in interest expense. Decreases in the average balances of time deposits under $100,000 of $41.2 million and long-term borrowings of $5.4 million also contributed to the reduction of interest expense in 2013.

50

Net Interest Margin

Our net interest margin was 3.32%, 3.19% and 3.10% in 2014, 2013 and 2012, respectively. The improvement in our net interest margin in 2014 reflected the $403.9 million increase in average loans and leases contributing an increase of $17.6 million in the current year interest income. In addition, reinvestment in higher yielding taxable investment securities resulted in a 45 bp increase in average taxable yields, contributing $6.0 million in higher interest income in 2014. These increases were partially offset by the 35bp decrease in average loan yields, which contributed to the $10.0 million in lower interest income for 2014.

Improvement in our net interest margin in 2013 reflected the continued slowing of premium amortization on our mortgage backed securities and reinvestment of cash flow into higher yielding loans and leases and investment securities. Slowing of premium amortization in 2013 was attributed to reduced prepayment speeds on mortgage-backed securities. Reduced prepayment on mortgage backed securities were a result of an increase in intermediate-term yields of approximately 100 bps in 2013. As a result of slower premium amortization, the net interest margin was positively impacted by 5 bps in 2013.

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 year end 2014. We continue to expect the target Fed Funds rate to remain low throughout 2015, as longer-term inflation expectations have remained stable. We expect the yield curve to begin to steepen in late 2015 on continued job growth and increases in household spending. Thus we expect our net interest margin to remain relatively unchanged through 2015 and expand modestly with the economic recovery.

Other Operating Income

The following table sets forth components of other operating income and the total as a percentage of average assets for the periods indicated.

Table 5. Components of Other Operating Income

	Year Ended December 31, 2014	2013	2012
	(Dollars in thousands)		
Other service charges and fees	$ 11,754	$ 12,490	$ 11,083
Service charges on deposit accounts	8,113	7,041	8,367
Loan servicing fees	5,798	6,057	6,486
Net gain on sales of residential loans	5,545	9,986	17,095
Income from fiduciary activities	3,552	2,855	2,599
Income from bank-owned life insurance	2,922	2,333	2,899
Net gain on sales of foreclosed assets	971	8,584	4,999
Equity in earnings of unconsolidated subsidiaries	480	790	574
Fees on foreign exchange	464	508	551
Loan placement fees	437	570	690
Investment securities gains	240	482	789

Other		3,547		3,249		4,611
Total other operating income	$	43,823	$	54,945	$	60,743
Total other operating income as a percentage of average assets		0.92%		1.19%		1.44%

Total other operating income of $43.8 million in 2014 decreased by $11.1 million, or 20.2%, from the $54.9 million earned in 2013, which decreased by $5.8 million, or 9.5%, from the $60.7 million earned in 2012.

51

The decrease in other operating income in 2014 from 2013 was due to lower net gains on sales of foreclosed assets and net gains on sales of residential mortgage loans of $7.6 million and $4.4 million, respectively, and a gain on the early extinguishment of trust preferred debt of $1.0 million (included in other) recorded in 2013. Offsetting these decreases in 2014 were higher income recovered on nonaccrual loans previously written off of $1.4 million (included in other) and service charges on deposit accounts of $1.1 million.

In 2013, we recorded lower net gains on sales of residential mortgage loans, rental income on foreclosed properties (included in other), and service charges on deposit accounts of $7.1 million, $3.7 million, and $1.3 million, respectively. Offsetting these decreases in 2013 were higher net gains on sales of foreclosed assets of $3.6 million, a gain on the early extinguishment of trust preferred debt of $1.0 million (included in other), and higher other service charges and fees of $1.0 million.

Other Operating Expense

The following table sets forth components of other operating expense and the total as a percentage of average assets for the periods indicated.

Table 6. Components of Other Operating Expense

	Year Ended December 31, 2014	2013 (Dollars in thousands)	2012
Salaries and employee benefits	$ 67,941	$ 76,294	$ 69,344
Net occupancy	15,252	14,323	13,920
Legal and professional services	7,806	8,094	13,824
Computer software expense	6,327	4,579	3,961
Amortization and impairment of other intangible assets	5,332	7,418	10,179
Communication expense	3,635	3,523	3,428
Equipment	3,582	3,676	3,966
Advertising expense	2,342	2,666	3,516
Foreclosed asset expense	1,710	1,036	6,887
Write down of assets			2,586
Other	18,886	17,927	20,307
Total other operating expense	$ 132,813	$ 139,536	$ 151,918
Total other operating expense as a percentage of average assets	2.79%	3.03%	3.61%

Total other operating expense of $132.8 million in 2014 decreased by $6.7 million, or 4.8%, from total operating expense of $139.5 million in 2013, which decreased by $12.4 million, or 8.2%, compared to 2012.

The decrease in total other operating expense in 2014, compared to 2013, was the result of lower salaries and employee benefits and amortization and impairment of intangible assets of $8.4 million and $2.1 million, respectively, and a premium paid in 2013 on the repurchase of preferred stock of two subsidiaries of $1.9 million (included in other). Offsetting these decreases were lower credits to reserves for unfunded loan commitments (included in other) of $3.1 million, higher computer software expense of $1.7 million, and branch consolidation and relocation costs incurred in 2014 of $1.3 million (included in other).

The decrease in total other operating expense in 2013, compared to 2012, was the result of lower credit-related charges of $10.2 million, lower legal and professional services of $5.7 million, lower amortization and impairment of other intangible assets of $2.8 million, lower FDIC insurance expense of $2.1 million (included in other), and lower accruals for the settlement of legal proceedings against the Company of $1.8 million (included in other), partially offset by higher salaries and employee benefits of $7.0 million, the aforementioned premium paid on the repurchase of preferred stock of two subsidiaries of $1.9 million (included in other), and lower credit to the reserve for repurchased residential mortgage loan losses of $1.9 million (included in other).

A key measure of operating efficiency tracked by management is the efficiency ratio, which is calculated by dividing other operating expense by total revenue. Management believes that the efficiency ratio provides useful supplemental information that is important to a proper understanding of the company s core business results by investors. Our efficiency ratio should not be viewed as a substitute for results determined in accordance with GAAP, nor is it necessarily comparable to the efficiency ratio presented by other companies. Our efficiency ratio decreased to 70.93% in 2014, compared to 74.20% in 2013 and 84.19% in 2012. The decrease in our efficiency ratio was primarily driven by the aforementioned decrease in other operating expenses and increase in net interest income.

The following table sets forth a reconciliation to our efficiency ratio for each of the dates indicated:

Table 7. Reconciliation to Efficiency Ratio

	Year Ended December 31,				
(Dollars in thousands)	**2014**	**2013**	**2012**	**2011**	**2010**
Efficiency Ratio					
Total operating expenses	$ 132,813	$ 139,536	$ 151,918	$ 178,942	$ 267,758
Net interest income	$ 143,418	$ 133,109	$ 119,711	$ 117,821	$ 118,653
Total other operating income	43,823	54,945	60,743	57,002	57,700
Total revenue	$ 187,241	$ 188,054	$ 180,454	$ 174,823	$ 176,353
Efficiency ratio	70.93%	74.20%	84.19%	102.36%	151.83%

Income Taxes

In the first quarter of 2013, the Company reversed a significant portion of the valuation allowance that was established against our net DTA during the third quarter of 2009. The valuation allowance was established during 2009 due to uncertainty at the time regarding our ability to generate sufficient future taxable income to fully realize the benefit of our net DTA. 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 a significant portion of our net DTA would be realized. The net impact of reversing the valuation allowance and recording the provision for income tax expense was a net income tax benefit of $119.8 million in the first quarter of 2013.

In the second, third and fourth quarters of 2013, the Company recorded income tax expense of $1.9 million, $2.2 million, and $3.4 million, respectively, and ended 2013 with a net income tax benefit of $112.2 million. In 2014, the Company recorded net income tax expense of $20.4 million.

In 2013, we decreased our valuation allowance against our net DTAs by $140.8 million, or 95.5%, to $6.7 million at December 31, 2013 from $147.5 million at December 31, 2012. Of the total decrease to the valuation allowance, $132.1 million was recognized as a non-cash credit to income tax expense, while $8.7 million was charged against accumulated other comprehensive income (loss) (AOCI).

As of December 31, 2014, the remaining valuation allowance on our net DTA totaled $2.8 million which related to our California state income taxes as we do not expect to generate sufficient income in California to utilize the DTA. Net of this valuation allowance, the Company s net DTA totaled $104.4 million as of December 31, 2014, compared to a net DTA of $137.2 million as of December 31, 2013, and is included in other assets on our consolidated balance sheets.

Our effective tax rate was 33.5% in 2014 compared to -187.6% in 2013 and 0% in 2012. Because we recognized a full valuation allowance against our net DTAs in 2012, we did not record any income tax expense or benefit in that period.

Financial Condition

Total assets of $4.9 billion at December 31, 2014 increased by $111.8 million, or 2.4%, from the $4.7 billion at year-end 2013, and total liabilities of $4.3 billion at December 31, 2014 increased by $203.9 million, or 5.0%, from the prior year. The increase in total assets in 2014 was due primarily to our deposit growth and deployment of these proceeds into higher yielding assets.

Loan Portfolio

Our lending activities are focused on commercial loans, commercial mortgages, construction loans, and leases to small and medium-sized companies, business professionals, and real estate developers, as well as residential mortgages and consumer loans to local homebuyers and individuals. Our strategy for generating commercial loans has traditionally relied upon teams of commercial real estate and commercial banking officers organized by geographical and industry lines who are responsible for client prospecting and business development.

To manage credit risk (i.e., the ability of borrowers to repay their loan obligations), management analyzes the borrower s financial condition, repayment source, collateral and other factors that could impact credit quality, such as national and local economic conditions and industry conditions related to respective borrowers. The general underwriting guidelines require analysis and documentation to include among other things, overall credit worthiness of borrower, guarantor support, use of funds, loan term, minimum equity, loan-to-value standards, repayment terms, sources of repayment, covenants, pricing, collateral, insurance, and documentation standards. All loan requests considered by us should be for a clearly defined legitimate purpose with a determinable primary source, as well as alternate sources of repayment. All loans should be supported by appropriate documentation including, current financial statements, credit reports, collateral information, asset verification, tax returns, title reports, and appraisals (where appropriate).

We score consumer and small business loans using an underwriting matrix (Scorecard) developed based on the results of an analysis from a reputable national credit scoring company commissioned by our Bank. The Scorecard uses the attributes that were determined to most highly correlate with probability of repayment. Those attributes include (i) credit score, (ii) age of oldest account, (iii) credit limit amount, and (iv) debt-to-income ratio.

Loans and leases totaled $2.9 billion at December 31, 2014, increasing by $301.6 million, or 11.5%, from the $2.6 billion at year-end 2013, which increased by $426.7 million, or 19.4%, from the $2.2 billion held at year-end 2012. The increase in our loan portfolio in 2014 was representative of our continued effort to deploy excess liquidity into higher yielding assets. The increase in loans and leases was primarily due to net increases in the residential mortgage, commercial, financial and agricultural, consumer, and construction and development loan portfolios totaling $145.8 million, or 12.8%, $65.0 million, or 16.3%, $54.5 million, or 17.5%, and $38.9 million, or 51.5%, respectively. In addition, we transferred the collateral in six portfolio loans with a carrying value of $2.8 million to other real estate and recorded charge-offs of loans and leases of $9.9 million.

Explanation of Responses:

The following table sets forth information regarding outstanding loans by category as of the dates indicated.

Table 8. Loans by Categories

	December 31,				
	2014	2013	2012	2011	2010
	(Dollars in thousands)				
Commercial, financial and agricultural	$ 463,763	$ 398,716	$ 246,218	$ 180,704	$ 207,980
Real estate:					
Construction	114,554	75,616	96,194	161,063	313,785
Mortgage:					
- residential	1,282,324	1,136,573	966,065	844,737	690,092
- commercial	703,273	702,767	741,580	751,431	816,475
Consumer	365,144	310,688	143,383	108,810	112,949
Leases	3,140	6,241	10,504	17,702	28,163
Total loans and leases	2,932,198	2,630,601	2,203,944	2,064,447	2,169,444
Allowance for loan and lease losses	(74,040)	(83,820)	(96,413)	(122,093)	(192,854)
Net loans	$ 2,858,158	$ 2,546,781	$ 2,107,531	$ 1,942,354	$ 1,976,590

The following table sets forth the geographic distribution of our loan portfolio and related Allowance as of December 31, 2014.

Table 9. Geographic Distribution

	Hawaii	U.S. Mainland	Total
		(Dollars in thousands)	
Commercial, financial and agricultural	$ 287,254	$ 176,509	$ 463,763
Real estate:			
Construction	111,010	3,544	114,554
Mortgage:			
- residential	1,282,324		1,282,324
- commercial	587,322	115,951	703,273
Consumer	254,259	110,885	365,144
Leases	3,140		3,140
Total loans and leases	2,525,309	406,889	2,932,198
Allowance for loan and lease losses	(62,685)	(11,355)	(74,040)
Net loans and leases	$ 2,462,624	$ 395,534	$ 2,858,158

<u>Commercial, Financial and Agricultural</u>

Loans in this category consist primarily of term loans and lines of credit to small and middle-market businesses and professionals. The borrower s business is typically regarded as the principal source of repayment, although our underwriting policy and practice generally requires additional sources of collateral, including real estate and other business assets, as well as personal guarantees where possible to mitigate risk.

Risks of credit losses could be greater in this loan category relative to secured loans where a greater percentage of the loan amount is usually covered by collateral. Nonetheless, any collateral or personal guarantees obtained on commercial loans can mitigate the increased risk and help to reduce credit losses.

Our historical approach to commercial lending involves teams of lending and cash management personnel who focus on relationship development including loans, deposits and other bank services to new and existing commercial clients.

Real Estate Construction

Construction loans include both residential and commercial development projects. Each construction project is evaluated for economic viability. Construction loans pose higher credit risks than typical secured loans. In addition to the financial strength of the borrower, construction loans have the added element of completion risk, which is the risk that the project will not be completed on time and within budget, resulting in additional costs that could affect the economic viability of the project and market risk at the time construction is complete.

55

Due to the heightened risk of construction lending and declining real estate value, we reduced our exposure to this sector and decreased our construction loan portfolio by $152.7 million in 2011, $64.9 million in 2012, and $20.6 million in 2013. In 2014, as real estate values have shown stability, the portfolio increased by $38.9 million.

Interest Reserves

Our policies require interest reserves for construction loans, including loans to build commercial buildings, residential developments (both large tract projects and individual houses), and multi-family projects.

The outstanding principal balance of loans with interest reserves was $66.5 million at December 31, 2014, compared to $27.4 million in the prior year, while remaining interest reserves was $3.2 million, or 4.9% of the outstanding principal balance of loans with interest reserves at December 31, 2014, compared to $2.4 million, or 8.7% of the outstanding principal balance of loans with interest reserves at December 31, 2013.

Interest reserves allow the Company to advance funds to borrowers to make scheduled payments during the construction period. These advances typically are capitalized and added to the borrower s outstanding loan balance, although we have the right to demand payment under certain circumstances. Our policy is to determine if interest reserve amounts are appropriately included in each project s construction budget and are adequate to cover the expected duration of the construction period.

The amount, terms, and conditions of the interest reserve are established when a loan is originated, although we generally have the option to demand payment if the credit profile of the borrower changes. We evaluate the viability and appropriateness of the construction project based on the project s complexity and feasibility, the timeline, as well as the creditworthiness of the borrowers, sponsors and/or guarantors, and the value of the collateral.

In the event that unfavorable circumstances alter the original project schedule (e.g., cost overruns, project delays, etc.), our policy is to evaluate whether or not it is appropriate to maintain interest capitalization or demand payment of interest in cash and will work with the borrower to explore various restructuring options, which may include obtaining additional equity and/or requiring additional collateral. We may also require borrowers to directly pay scheduled interest payments.

Our process for determining that construction projects are moving as planned are detailed in our lending policies and guidelines. Prior to approving a loan, the Company and borrower generally agree on a construction budget, a pro forma monthly disbursement schedule, and sales/leaseback assumptions. As each project progresses, the projections are measured against actual disbursements and sales/lease results to determine if the project is on schedule and performing as planned.

The specific monitoring requirements for each loan vary depending on the size and complexity of the project and the experience and financial strength of the borrower, sponsor and/or guarantor. At a minimum, to ensure that loan proceeds are properly disbursed and to assess whether it is appropriate to capitalize interest or demand cash payment of interest, our monitoring process generally includes:

- Physical inspection of the project to ensure work has progressed to the stage for which payment is being requested;

- Verification that the work completed is in conformance with plans and specifications and items for which disbursement is requested are within budget; and

- Determination that there continues to be satisfactory project progress.

In certain rare circumstances, we may decide to extend, renew, and/or restructure the terms of a construction loan. Reasons for the restructure can range from cost overruns to project delays and the restructuring can result in additional funds being advanced or an extension of the maturity date of the loan. Prior to the loan being restructured, our policy is to perform a detailed analysis to ensure that the economics of the project remain feasible and that the risks to the Company are within acceptable lending guidelines.

Real Estate Mortgage

The following table sets forth information with respect to the composition of the Real Estate Mortgage loan portfolio as of the dates indicated.

Table 10. Mortgage Loan Portfolio Composition

	December 31,									
	2014		2013		2012		2011		2010	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Residential										
HELOC	$ 228,319	11.5%	$ 175,612	9.6%	$ 154,195	9.0%	$ 131,980	8.3%	$ 142,445	9.5%
Closed-ended loans	1,054,005	53.1	960,961	52.2	811,870	47.6	712,757	44.6	547,647	36.3
Total	1,282,324	64.6	1,136,573	61.8	966,065	56.6	844,737	52.9	690,092	45.8
Commercial	703,273	35.4	702,767	38.2	741,580	43.4	751,431	47.1	816,475	54.2
Total	$ 1,985,597	100.0%	$ 1,839,340	100.0%	$ 1,707,645	100.0%	$ 1,596,168	100.0%	$ 1,506,567	100.0%

Residential

Residential mortgage loans include fixed- and adjustable-rate loans primarily secured by single-family owner-occupied residences in Hawaii and home equity lines of credit and loans. Our home equity lines of credit, which typically carry floating interest rates, accounted for approximately 18% of our residential mortgage portfolio. Maximum loan-to-value ratios of 80% are typically required for fixed- and adjustable-rate loans secured by single-family owner-occupied residences, although higher levels are permitted with accompanying mortgage insurance. We emphasize residential mortgage loans for owner-occupied primary residences. First mortgage loans secured by residential properties generally carry a moderate level of credit risk. With an average loan size of approximately $0.4 million, marketable collateral and a Hawaii residential real estate market that has been relatively stable, credit losses on residential mortgages had been minimal during the past several years. However, economic conditions including unemployment levels, future changes in interest rates and other market factors can impact the marketability and value of collateral and thus the level of credit risk inherent in the portfolio.

Residential mortgage loan balances as of December 31, 2014 totaled $1.3 billion, increasing by $145.8 million, or 12.8%, from the $1.1 billion held at year-end 2013, which increased by $170.5 million, or 17.6%, from the $966.1 million held at year-end 2012. The increase in residential mortgage loan balances was due primarily to the reinvestment of cash flow into higher yielding assets.

Residential mortgage loans held for sale at December 31, 2014 totaled $9.7 million, a decrease of $2.7 million, or 21.7%, from the December 31, 2013 balance of $12.4 million, which decreased by $25.9 million, or 67.7%, from the December 31, 2012 balance of $38.3 million. In 2014, 2013 and 2012, we did not securitize any residential mortgage loans.

Home equity lines of credit (HELOCs) are underwritten according to a policy and guidelines reviewed and approved by the Board of Directors annually. All HELOCs originated since early 2011 have a ten year draw period followed by a 20 year repayment period during which the principal balance will be fully amortized. As of December 31, 2014, 70% of the HELOCS in the portfolio are fully amortizing and the remaining 30% have a balloon payment due at maturity. All HELOCs today are underwritten using a qualifying payment which assumes the line is fully drawn and is amortizing as if was in the repayment period. Underwriting criteria include a minimum FICO score, maximum debt-to-income ratio (DTI), and maximum combined loan-to-value ratio (CLTV). During 2014, the weighted average FICO score for newly originated lines exceeded 760 and the weighted average CLTV was less than 60%. Any underwriting exceptions are recorded and tracked. As of December 31, 2014, more than 30% of all lines in the portfolio were secured by 1st lien mortgages at origination. All HELOCs are monitored based on default, delinquency, end of draw period, and maturity.

Commercial

Real estate mortgage loans secured by commercial properties continue to represent a sizable portion of our loan portfolio. Our policy with respect to commercial mortgages is that loans be made for sound purposes, have a definite source and/or plan of repayment established at inception, and be backed up by reliable secondary sources of repayment and satisfactory collateral with good marketability. Loans secured by commercial property carry a greater risk than loans secured by residential property due to operating income risk. Operating income risk is the risk that the borrower will be unable to generate sufficient cash flow from the operation of the property. The commercial real estate market and interest rate conditions through economic cycles will impact risk levels.

Consumer Loans

The following table sets forth the major components of our consumer loan portfolio as of the dates indicated.

Table 11. Consumer Loan Portfolio Composition

	December 31,									
	2014		2013		2012		2011		2010	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Automobile	$ 150,559	41.2%	$ 149,780	48.2%	$ 70,219	48.9%	$ 64,343	59.1%	$ 66,955	59.2%
Other revolving credit plans	67,099	18.4	61,835	19.9	35,074	24.5	34,505	31.7	34,396	30.5
Student loans	57,776	15.8	15,971	5.1						
Other	89,710	24.6	83,102	26.8	38,090	26.6	9,962	9.2	11,598	10.3
Total	$ 365,144	100.0%	$ 310,688	100.0%	$ 143,383	100.0%	$ 108,810	100.0%	$ 112,949	100.0%

For consumer loans, credit risk is managed on a pooled basis. Considerations include an evaluation of the quality, character and inherent risks in the loan portfolio, current and projected economic conditions and past loan loss experience. Consumer loans represent a moderate credit risk. Loans in this category are generally either unsecured or secured by personal assets such as automobiles. The average loan size is generally small and risk is diversified among many borrowers. Our policy is to utilize credit-scoring systems for most of our consumer loans, which offer the ability to modify credit exposure based on our risk tolerance and loss experience.

Consumer loans totaled $365.1 million at December 31, 2014, increasing by $54.5 million, or 17.5%, from 2013 s year-end balance of $310.7 million, which increased by $167.3 million, or 116.7%, compared to the $143.4 million held at year-end 2012. At December 31, 2014, automobile loans, primarily indirect dealer loans, comprised 41.2% of consumer loans outstanding.

Total automobile loans of $150.6 million at year-end 2014 increased by $0.8 million, or 0.5%, from 2013 s year-end balance of $149.8 million, which increased by $79.6 million, or 113.3%, from $70.2 million at year-end 2012. In 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. In 2013, we purchased participation interest in auto loans totaling $67.7 million, which included a $2.8 million premium over the $64.9 million outstanding balance.

In 2014 and 2013, we purchased participation interests in student loans (included in other) totaling $51.5 million and $17.4 million, respectively, which represented the outstanding balance at the time of purchase. We did not have any participation interests in student loans at December 31, 2012.

In addition, we issued solar photovoltaic loans (included in other) which totaled $17.7 million at December 31, 2014, compared to $17.9 million at December 31, 2013 and less than $0.1 million at December 31, 2012.

Concentrations of Credit Risk

As of December 31, 2014, approximately $2.1 billion, or 71.6% of loans outstanding were real estate related, including construction loans, residential mortgage loans and commercial mortgage loans.

The majority of our loans are made to companies and individuals with headquarters in, or residing in, the states of Hawaii and California. Consistent with our focus of being a Hawaii-based bank, 86% of our loan portfolio was concentrated in the Hawaii market while 14% was concentrated in the U.S. Mainland as of December 31, 2014.

Our foreign credit exposure as of December 31, 2014 was minimal and did not exceed 1% of total assets.

Maturities and Sensitivities of Loans to Changes in Interest Rates

At December 31, 2014, commercial, financial and agricultural loans were 25.8% fixed rate and 74.2% variable rate. Real estate construction loans were 19.0% fixed rate and 81.0% variable rate. Residential mortgage loans, which include home equity lines and loans, were 70.0% fixed rate and 30.0% variable rate. Commercial mortgage loans were 35.1% fixed rate and 64.9% variable rate. Consumer loans were 70.9% fixed rate and 29.1% variable rate.

Commercial loans and commercial mortgage loans with variable interest rates are underwritten at the current market rate of interest. For commercial loans and commercial real estate loans with a fixed rate period that are not fully amortizing, the loans are underwritten at the current market rate of interest. At the expiration of the fixed rate period and/or maturity, the projected loan balance at that time is underwritten at an interest rate based on the current interest rate plus two percent per annum (2.0%).

Qualifying payments for our variable rate residential mortgage loans with initial fixed rate periods of five years or less are calculated using the greater of the note rate plus 2% per annum or the fully indexed rate. Payments for our variable rate loans with a fixed-rate period of greater than five years are calculated using the greater of the note rate or the fully indexed rate. The qualifying payment for our HELOCs is based on the fully indexed rate plus the required principal payment due during repayment assuming the line was fully drawn. Our consumer lines of credit use a qualifying payment factor that exceeds the actual fully indexed interest rate.

Table 12 sets forth the maturity distribution and sensitivities of the loan portfolio to changes in interest rates at December 31, 2014. Maturities are based on contractual maturity dates and do not factor in principal amortization. This differs from the assumptions used in Table 22. Interest Rate Sensitivity.

Table 12. Maturity Distribution and Sensitivities of Loans to Changes in Interest Rates

	One year or less	Maturing Over one through five years	Over five years	Total
		(Dollars in thousands)		
Commercial, financial and agricultural				
With fixed interest rates	$ 328	$ 53,414	$ 65,997	$ 119,739
With variable interest rates	2,180	151,196	190,648	344,024
	2,508	204,610	256,645	463,763
Real estate:				
Construction				
With fixed interest rates		14,730	6,999	21,729
With variable interest rates		68,928	23,897	92,825
		83,658	30,896	114,554
Mortgage - residential				
With fixed interest rates	141	12,772	885,336	898,249
With variable interest rates	450	33,824	349,801	384,075
	591	46,596	1,235,137	1,282,324
Mortgage - commercial				
With fixed interest rates	1,302	72,565	173,121	246,988
With variable interest rates	2,424	66,237	387,624	456,285
	3,726	138,802	560,745	703,273
Consumer				
With fixed interest rates	37	115,046	143,826	258,909
With variable interest rates	25,280	44,245	36,710	106,235
	25,317	159,291	180,536	365,144
Leases				
With fixed interest rates	197	2,943		3,140
With variable interest rates				
	197	2,943		3,140
Total	$ 32,339	$ 635,900	$ 2,263,959	$ 2,932,198
All loans				
With fixed interest rates	$ 2,005	$ 271,470	$ 1,275,279	$ 1,548,754
With variable interest rates	30,334	364,430	988,680	1,383,444
Total	$ 32,339	$ 635,900	$ 2,263,959	$ 2,932,198

Provision and Allowance for Loan and Lease Losses

As described above under Critical Accounting Policies and Use of Estimates, the Provision is determined by management s ongoing evaluation of the loan portfolio and our assessment of the ability of the Allowance to cover inherent losses. Our methodology for determining the adequacy of the Allowance and Provision takes into account many factors, including the level and trend of nonperforming and potential problem loans, net charge-off experience, current repayment by borrowers, fair value of collateral securing specific loans, changes in lending and underwriting standards and general economic factors, nationally and in the markets we serve.

The Company maintains its Allowance at an appropriate level as of a given balance sheet date to absorb management s best estimate of probable credit losses inherent in its loan portfolios that will likely be realized over various loss emergence periods. These periods are based upon management s comprehensive analysis of the risk profiles particular to the respective loan portfolios. Analysis of Allowance appropriateness is performed quarterly to coincide with financial disclosure to the public and to the regulatory agencies and is governed by a Board-approved policy and methodology.

The Allowance consists of two components: allocated and unallocated. To calculate the allocated component, we combine specific reserves required for individual loans (including impaired loans), reserves required for pooled graded loans and loan concentrations, and reserves required for homogeneous loans (e.g., consumer loans and residential mortgage loans). We use a loan grading system whereby loans are segregated by risk. Certain graded commercial and commercial real estate loans are analyzed on an individual basis. Other graded loans are analyzed on an aggregate basis based on loss experience for the specific loan type; risks inherent in concentrations by geographic location, collateral or property type; and recent changes in loan grade and delinquencies. The determination of an allocated Allowance for homogeneous loans is done on an aggregate level based upon various factors including historical loss experience, delinquency trends, and economic conditions and are adjusted for qualitative factors including migration and volatility risks. We also use third party inputs as proxies (as described above under Application of Proxies) for certain segments of loans for which we do not have sufficient historical loss data. The unallocated component of the Allowance incorporates our judgment of the determination of the risks inherent in the loan portfolio, economic uncertainties and imprecision in the estimation process.

When segmenting the Company s loan portfolio, we consider the guidance contained in ASC 310-10-55-16 through 310-10-55-18 by grouping loans that contain similar risk characteristics into various loan categories. The loan categories used are consistent with the internal reports evaluated by the Company s management and Board of Directors to monitor risk and performance within the various segments of its loan portfolio.

Loans are segmented by market (Hawaii and Mainland) and FDIC classifications, then, further segmented by geography, risk rating, and other relevant risk characteristics. The granular segmentation is performed to better account for differences in risk profiles within FDIC classifications attributable to localized market specific or other geographic factors, as based on management s analysis of the correlation of certain risk characteristics and assessment of their predictive value in terms of probable losses. Loans secured by real estate are further segmented by state, MSA, or county, as appropriate, to account for geographical impacts to historical loss rates. Commercial and Industrial loans are further segmented by product type to account for higher risk associated with unsecured lines to borrowers where source of repayment is real estate related and syndicated national credits. Unsecured lines with real estate related source of repayment have historically had higher delinquency and loss rates. Also, syndicated national credits are considered higher risk as it is a new product to the Bank and the loan size is typically larger.

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

Table 13. Allowance for Loan and Lease Losses

	Year Ended December 31, (Dollars in thousands)				
	2014	2013	2012	2011	2010
Average amount of loans outstanding	$ 2,798,826	$ 2,394,955	$ 2,130,758	$ 2,121,544	$ 2,716,090
Allowance for loan and lease losses:					
Balance at beginning of year	$ 83,820	$ 96,413	$ 122,093	$ 192,854	$ 205,279
Charge-offs:					
Commercial, financial and agricultural	5,046	2,812	3,779	2,401	7,550
Real estate:					
Construction		358	8,435	31,371	126,829
Mortgage - residential	139	1,083	1,664	4,347	10,801
Mortgage - commercial	1,041	6,768	2,033	1,298	51,521
Consumer	3,703	1,595	1,490	2,116	3,242
Leases	8		28	10	19
Total	9,937	12,616	17,429	41,543	199,962
Recoveries:					
Commercial, financial and agricultural	2,326	1,387	1,614	1,805	2,421
Real estate:					
Construction	2,040	3,596	6,622	6,518	13,902
Mortgage - residential	992	1,107	876	1,033	847
Mortgage - commercial	53	4,240	488	1,034	9,472
Consumer	1,152	657	1,029	1,082	1,259
Leases	8	346	5		88
Total	6,571	11,333	10,634	11,472	27,989
Net loans charged off	3,366	1,283	6,795	30,071	171,973
Provision (credit) charged to operations	(6,414)	(11,310)	(18,885)	(40,690)	159,548
Balance at end of year	$ 74,040	$ 83,820	$ 96,413	$ 122,093	$ 192,854
Ratios:					
Allowance for loan and lease losses to loans and leases outstanding at end of year	2.53%	3.19%	4.37%	5.91%	8.89%
Net loans charged off during year to average loans and leases outstanding during year	0.12%	0.05%	0.32%	1.42%	6.33%

Our Allowance at December 31, 2014 totaled $74.0 million, which represented a decrease of $9.8 million, or 11.7%, from year-end 2013. When expressed as a percentage of total loans and leases, our Allowance decreased to 2.53% at December 31, 2014, from 3.19% at year-end 2013. The decrease in our Allowance during 2014 was a result of a credit to the Provision of $6.4 million recognized during the year and $3.4 million in net loan charge-offs during the year. The decrease in our Allowance as a percentage of total loans and leases from year-end 2013 to year-end 2014 is consistent with our improved credit risk profile as evidenced by a decrease in our nonperforming assets and is consistent with our belief that stabilization in our loan portfolio, the overall economy and the commercial real estate markets both in Hawaii and on the U.S. Mainland is continuing.

Our Allowance as a percentage of our nonperforming assets decreased from 179.29% at December 31, 2013 to 176.14% at December 31, 2014. Our Allowance as a percentage of our nonaccrual loans decreased from 201.55% at December 31, 2013 to 189.42% at December 31, 2014.

This trend was consistent with the improving credit quality as represented by non-performing assets of $42.0 million, $46.8 million, and $90.0 million at December 31, 2014, 2013 and 2012, respectively. Net charge-offs for the years ended December 31, 2014, 2013 and 2012 were $3.4 million, $1.3 million and $6.8 million, respectively.

The general component of the Allowance is applicable to performing loans and leases and comprised 92.5%, 92.4% and 90.7% of the total Allowance at December 31, 2014, 2013 and 2012, respectively. The amounts of the general reserves were $68.5 million, $77.5 million and $87.4 million at December 31, 2014, 2013 and 2012, respectively.

The specific component of the Allowance evaluates for impairment and provisions for those loans that meet one or more of the following characteristics: classified as substandard, doubtful or loss, nonaccrual loans, troubled debt restructures, or any loans deemed prudent by management to analyze. The specific reserves comprised 2.1%, 0.4% and 3.1% of the total Allowance at December 31, 2014, 2013 and 2012, respectively. The amounts of the specific reserves were $1.5 million, $0.3 million and $3.0 million at December 31, 2014, 2013 and 2012, respectively.

In 2010, the general reserve factors were adjusted to calculate the Allowance for our commercial mortgage portfolios both in Hawaii and on the U.S. Mainland, as well our residential mortgage loan portfolio, including the owner occupied, investor, and home equity segments. Our decision to increase the general reserves established for these loan categories were made after considering various quantitative and qualitative factors. These considerations included, but were not limited to, our recent loss history, a revised assessment of projected national and local economic and market conditions, the potential negative impact that the weak commercial and residential real estate markets may have on these portfolios, and input from our regulators.

The historical loss experience used to determine the Allowance was developed based on management s contention that baseline loss factors should be reflective of variations in risk profile across the risk rating spectrum, and that the consideration of more recent loss data is more relevant to the current period under the analysis and will provide the Bank with a more transparent, clearly defined, and consistent methods of predicting the probable loss. Upon until 2013, the cumulative net losses were traced back two years for the FDIC classifications involving real estate collateral to account for prolonged loss recognition and ultimate disposition periods associated with loans secured by real estate and traced back one year for the other FDIC classifications. The look back period for assignment of loss factors by risk rating is one year from initial loss recognition across all FDIC classifications, including those with two year cumulative look-back periods. The cumulative net losses are divided by the average outstanding balance over the same period.

While no material enhancements were made to the methodology from 2011 to 2013, the Company reevaluated its Allowance methodology and incorporated a number of enhancements in the first quarter of 2014. The enhancements focused on emphasizing the Bank s actual loss experience to generate provisions that are more reflective of current portfolio conditions and loss exposures and de-emphasizing the use of external proxies as the Bank experiences extended periods of normalized operations. This is accomplished by including additional historical loss data in the determination of loss rates and select qualitative adjustments, serving to establish a prudent, more transparent and consistently derived Allowance provision.

From 2010 through 2013, the Company had utilized an eight and four quarter look-back for the purposes of determining cumulative net losses. During this time, the Company believed that the eight and four quarter look-back periods were appropriate given the prevailing credit quality and loss rate conditions. 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 then under analysis. The look-back period was also consistent with commentary provided by our primary banking regulator following our 2010 Safety and Soundness Examination.

As economic conditions continued to improve and stabilize through 2014, the Company experienced improving credit quality trends that contributed to consistent reductions to the Allowance. Given the diminishing loss rates, in the first quarter of 2014 the look-back period for loans secured by real estate was extended 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. 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 longer look-back period is appropriate in light of the Company s limited loss experience throughout the recent economic recovery and stabilization. Additionally, as economic conditions have stabilized through 2014, lower loss rate volatility has diminished the need for shorter loss analysis periods that are more responsive to shifts in loss experience. The enhanced methodology does not incorporate data before 2010 due to the anomalous loss activity during that time period that may cause pre-2010 internal loss data to be an inappropriate representation of the current inherent risk in the Company s loan portfolio. In our revised approach, the losses during the six year look-back period will be weighted to place more emphasis on recent loss experience. In late 2013, the Company received guidance from its primary banking regulator supporting the use of extended loss analysis periods. The Supervisory Examiner recommended a periodic reassessment of the look-back period and suggested that a look-back period beyond eight quarters may be more reasonable given the then current economic conditions and portfolio performance.

In recognizing that current and relevant environmental (economic, market or other) conditions that can affect repayment may not yet be fully reflected in historical loss experience, qualitative assessments are conducted to factor in current loan portfolio and market intelligence. These adjustments, which are added to (or subtracted from) the loss ratio, consider the nature of the bank s primary markets and are reasonable, consistently determined and appropriately documented. These qualitative adjustments for 2012 through 2014 include the following:

2012

- In the second quarter 2012, adjustment factors were added to the Pass and Special Mention rated Commercial Mortgage segments in consideration of the refinance risk associated with loans maturing over the next two years. Adjustment factors were not added to Substandard rated loans due to the enhanced level of monitoring devoted to these credits, with impairment analysis performed as indicated.

- In the second quarter 2012, an adjustment factor was added in recognition of the delegation of increased credit authority to Line Division Management and changes in the underwriting and approval process for small business lending. This change involved moving from a judgmental underwriting process for all loans to a score-based approval process below a certain loan size threshold, and a streamlined judgmental process augmented by relationship officer involvement above a certain loan size threshold.

2013

- In the first quarter of 2013, an adjustment factor was added to the Pass rated residential mortgage segments in consideration of emerging concentration risk. In addition, benchmark loss rates were applied to loans generated via recent preapproved and invitation to apply promotions in the Direct Consumer segment until historical loss data had been accumulated. Also, weighted adjustment factors were applied to the syndicated loan portfolio based on Moody s proxy default rates to account for increased risk associated with recent entrance into this sector and risk exposure attributed to the size of individual credits.

- In the second quarter of 2013, an adjustment factor was subtracted from the Pass rated residential mortgage segments in consideration of the continued disparity between actual calculated historical loss rates and those provided by our primary regulator in 2010.

- In the third quarter of 2013, we purchased the first student loan pool. The expected loss rates were applied to the student loans in the Direct Consumer segment until historical loss data has been accumulated for this loan segment.

2014

- In the first quarter of 2014, the refinance risk qualitative adjustment factors for commercial mortgages were discontinued as the extension of the historical loss look-back period is deemed to capture a majority of the segment s refinance risk through the incorporation of more comprehensive economic data.

64

- In the first quarter of 2014, the previous methodology for Pass rated residential mortgage subsectors based on guidance from our primary regulator in 2010 was discontinued in order to better reflect the bank s current exposure and actual loss experience. The Company deems the bank s actual loss experience to be more reflective of current portfolio conditions.

- In the first quarter of 2014, in consideration of portfolio concentration risk, benchmark adjustment factors were added to the Pass and Special Mention rated subsectors of segments with loan balances comprising greater than 20% of the total loan portfolio. The benchmark adjustment factors consider segment-specific annual loss rates over the economic cycle in order to determine a loss rate that adequately captures concentration risk. In the first quarter of 2014, the benchmark adjustment factors affected the Pass rated residential mortgage and commercial mortgage segments.

- In the second quarter of 2014, the Company adopted an incremental enhancement to its existing methodology for determining the unallocated component of the reserve. This enhancement is based upon the relationship between the unallocated component of the Allowance and then current general component (FAS 5) of the Allowance, rounded upward to the nearest $500,000.

- In the fourth quarter of 2014, the Company determined that it was appropriate to separate U.S. mainland commercial mortgages from Hawaii commercial mortgages for purposes of calculating concentration risk. In making this assessment, the Company considered the regulatory guidance and concluded that the U.S. mainland commercial mortgages were no longer not sufficiently similar in credit performance to the credit performance of the Hawaii commercial mortgages such that they would necessarily perform like a single large exposure. This is supported by a correlation analysis conducted by the Company. In light of the statistical evidence demonstrating the reduced dependency between the credit performance of the two segments, the Company concluded that the U.S. mainland commercial mortgage segment should not be included with the Hawaii commercial mortgage segment for the determination of portfolio concentration.

- In the fourth quarter of 2014, the Company adopted a time based graduated scale to reduce reliance on benchmark data by substituting our emerging actual experience in the Pre-approved Consumer Loans and Student Loans portfolios of the Consumer Loan Segment.

- In the fourth quarter of 2014, the Company replaced a Moody s proxy loss rate designed to compensate for the large size of the individual loans and lack of experience with a qualitative factor based on the Company s emerging experience in the syndicated loan portfolio. The portfolio has begun to season and within the one year look-back period, we experienced a loss. The Company considers it prudent to augment the emerging experience of this portfolio with qualitative factors that are intended to compensate for lack of sufficient historical experience.

The following table sets forth the allocation of the Allowance by loan category as of the dates indicated. Our practice is to make specific allocations on impaired loans and general allocations to each loan category based on management s risk assessment and estimated loss rate.

Table 14. Allocation of Allowance for Loan and Lease Losses

	December 31, 2014		2013		2012		2011		2010	
	Allowance for Loan and Lease Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan and Lease Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan and Lease Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan and Lease Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan and Lease Losses	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)									
Commercial, financial and agricultural	$ 8,954	15.8%	$ 13,196	15.2%	$ 4,987	11.2%	$ 6,110	8.7%	$ 13,426	9.6%
Real estate:										
Construction	14,969	3.9	2,774	2.9	4,510	4.3	28,630	7.8	76,556	14.5
Mortgage:										
Residential	17,927	43.7	25,272	43.2	27,836	43.8	30,732	40.9	29,059	31.8
Commercial	20,869	24.0	29,947	26.7	50,574	33.7	49,733	36.4	67,079	37.6
Consumer	7,314	12.5	6,576	11.8	2,421	6.5	2,335	5.3	3,155	5.2
Leases	7	0.1	55	0.2	85	0.5	553	0.9	1,579	1.3
Unallocated	4,000		6,000		6,000		4,000		2,000	
Total	$ 74,040	100.0%	$ 83,820	100.0%	$ 96,413	100.0%	$ 122,093	100.0%	$ 192,854	100.0%

The Allowance allocated to commercial loans at year-end 2014 totaled $9.0 million, compared to $13.2 million at year-end 2013, representing 1.9% and 3.3% of total commercial loans, respectively. The decreases in the ending Allowance amount and the Allowance as a percentage of commercial loans were primarily due to improvement in the Moody s proxy loss rates utilized.

The Allowance allocated to construction loans totaled $15.0 million, or 13.1%, of construction loans at year-end 2014, compared to $2.8 million, or 3.7%, of construction loans outstanding at year-end 2013. The increases in the ending Allowance amount and the Allowance as a percentage of construction loans were primarily due to the significant increase in the construction loan portfolio as of year-end 2014.

The Allowance allocated to our residential mortgage loans decreased to $17.9 million, or 14.0%, of total residential mortgage loans at December 31, 2014, compared to $25.3 million, or 2.2%, of related loans at year-end 2013. The decrease in the ending Allowance amount was primarily due to the decrease in nonaccrual residential mortgage loans as of year-end 2014.

Commercial mortgage loans were allocated an Allowance of $20.9 million, or 3.0%, of those loans at December 31, 2014, compared to $29.9 million, or 4.3%, of commercial mortgage loans at year-end 2013. The decreases in the ending Allowance amount and the Allowance as a percentage of commercial mortgage loans were primarily due to the decreases in the commercial mortgage loan portfolio and nonaccrual commercial loans as of year-end 2014.

The allocated Allowance for consumer loans at December 31, 2014 increased to $7.3 million from $6.6 million in the prior year, representing 2.0% of total consumer loans in 2014, compared to 2.1% in 2013. The increase in the ending Allowance amount was primarily due to an increase in the consumer loan portfolio as of year-end 2014.

We also allocated an Allowance for leases of $7 thousand, or 0.2%, of total leases, compared to $55 thousand, or 0.9%, of total leases as of year-end 2013.

The unallocated portion of the Allowance of $4.0 million at December 31, 2014 decreased from $6.0 million at December 31, 2013. The unallocated portion of the Allowance is maintained to provide for additional credit risk which may exist but may not be adequately accounted for in the specific and unspecified allocations due to the amount of judgment involved in the determination of the Allowance, the absence of perfect knowledge of all credit risks and the amount of uncertainty in predicting the strength of the economy and the sustainability of that strength.

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

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 at the dates indicated.

Table 15. Nonperforming Assets, Past Due and Restructured Loans

	December 31,				
	2014	**2013**	**2012**	**2011**	**2010**
	(Dollars in thousands)				
Nonaccrual loans					
Commercial, financial & agricultural	$ 13,007	$ 3,533	$ 3,510	$ 1,367	$ 982
Real estate:					
Construction	310	4,015	38,742	69,765	182,073
Mortgage - residential	13,048	20,271	27,499	46,960	45,581
Mortgage - commercial	12,722	13,769	9,487	15,821	16,443
Consumer					225
Leases			94		
Total nonaccrual loans	39,087	41,588	79,332	133,913	245,304
Other real estate					
Real estate:					
Construction	747	3,770	8,105	56,429	54,507
Mortgage - residential	2,201	1,184	2,372	5,252	3,000
Mortgage - commercial		209	209		
Other real estate	2,948	5,163	10,686	61,681	57,507
Total nonperforming assets	42,035	46,751	90,018	195,594	302,811
Accruing loans delinquent for 90 days or more					
Real estate:					
Construction					6,550
Mortgage - residential			387		1,800
Consumer	77		116	28	181
Leases		15			
Total accruing loans delinquent for 90 days or more	77	15	503	28	8,531
Restructured loans still accruing interest					
Commercial, financial & agricultural	361	406	447		
Real estate:					
Construction	892	3,857	9,522	5,170	
Mortgage - residential	17,845	16,508	15,366	3,093	13,401
Mortgage - commercial	10,405	2,502	6,425		
Total restructured loans still accruing interest	29,503	23,273	31,760	8,263	13,401
Total nonperforming assets, accruing loans delinquent for 90 days or more and restructured loans still accruing interest	$ 71,615	$ 70,039	$ 122,281	$ 203,885	$ 324,743

Total nonperforming assets as a percentage of loans and leases and other real estate		1.43%		1.77%		4.06%		9.20%		13.60%
Total nonperforming assets and accruing loans delinquent for 90 days or more as a percentage of loans and leases and other real estate		1.43%		1.77%		4.09%		9.20%		13.98%
Total nonperforming assets, accruing loans delinquent for 90 days or more and restructured loans still accruing interest as a percentage of loans and leases and other real estate		2.44%		2.66%		5.52%		9.59%		14.58%
Year-to-date changes in nonperforming assets:										
Balance at beginning of year	$	46,751	$	90,018	$	195,594	$	302,811	$	499,804
Additions		28,295		27,648		46,641		73,248		240,322
Reductions:										
Payments		(9,630)		(41,766)		(63,107)		(106,529)		(237,263)
Return to accrual status		(15,761)		(17,247)		(26,261)		(9,482)		(25,666)
Sales of foreclosed assets		(3,457)		(9,519)		(53,029)		(36,221)		(29,456)
Charge-offs and/or writedowns		(4,163)		(2,383)		(9,820)		(28,233)		(144,930)
Total reductions		(33,011)		(70,915)		(152,217)		(180,465)		(437,315)
Balance at end of year	$	42,035	$	46,751	$	90,018	$	195,594	$	302,811

Nonperforming assets, which includes nonaccrual loans and leases, nonperforming loans classified as held for sale and other real estate, totaled $42.0 million at December 31, 2014, compared to $46.8 million at year-end 2013. Nonperforming assets at December 31, 2014 were comprised of $39.1 million in nonaccrual loans, none of which were loans classified as held for sale, and $2.9 million in other real estate.

The decrease in 2014 was attributable to $15.8 million in loans restored to accrual status, $9.6 million in repayments, charge-offs and write-downs totaling $4.2 million, and the sale of $3.5 million in other real estate. All of these decreases were offset by $28.3 million in gross additions.

Net changes to nonperforming assets by category during 2014 included net decreases in U.S. Mainland commercial mortgage assets totaling $7.3 million, Hawaii residential mortgage assets totaling $6.2 million, Hawaii construction and development assets totaling $5.9 million, U.S. Mainland construction and development assets totaling $0.8 million, and Hawaii commercial assets totaling $0.7 million. Partially offsetting these decreases were net increases in U.S. Mainland commercial assets totaling $10.1 million and Hawaii commercial mortgage assets totaling $6.1 million.

Loans delinquent for 90 days or more still accruing interest were less than $0.1 million at December 31, 2014 and 2013.

Investment Portfolio

The following table sets forth the amounts and distribution of investment securities held as of the dates indicated.

Table 16. Distribution of Investment Securities

	December 31, 2014		2013		2012	
	Held to maturity (at amortized cost)	**Available for sale (at fair value)**	**Held to maturity (at amortized cost)**	**Available for sale (at fair value)**	**Held to maturity (at amortized cost)**	**Available for sale (at fair value)**
	(Dollars in thousands)					
Debt securities:						
U.S. Government sponsored entities	$	$	$	$	$	$ 280,939
States and political subdivisions		191,645		179,357		185,911
Corporate securities		100,604		158,095		127,946
Mortgage-backed securities:						
U.S. Government sponsored entities	238,287	751,558	252,047	927,626	161,848	941,043
Non-agency collateralized mortgage obligations		184,334		142,046		
Other		877		875		906
Total	$ 238,287	$ 1,229,018	$ 252,047	$ 1,407,999	$ 161,848	$ 1,536,745

Investment securities totaled $1.5 billion at December 31, 2014, decreasing by $192.7 million, or 11.6%, from the $1.7 billion held at December 31, 2013, which decreased by $38.5 million, or 2.3%, from the $1.7 billion at year-end 2012.

In the second quarter of 2014, $162.3 million in available-for-sale agency securities were sold as part of a balance sheet optimization strategy designed to improve our interest rate risk profile. We received $162.5 million in gross proceeds and gross realized gains and losses on the sales of the available-for-sale investment securities were $0.9 million and $0.7 million, respectively. The investment securities sold had a weighted average life of 5.7 years and average net yield of 2.68%. The specific identification method was used as the basis for determining the cost of all securities sold.

In the fourth quarter of 2013, we executed a bond swap where we sold $271.5 million in lower-yielding available-for-sale agency debentures and agency mortgage-backed securities with an average net yield of 1.87% and a weighted average life of 2.9 years and reinvested the majority of the proceeds in $242.5 million of higher-yielding agency mortgage-backed securities, non-agency commercial mortgage-backed securities, and corporate bond securities with an average yield of 3.21% and a weighted average life of 7.4 years. The specific identification method was used as the basis for determining the cost of all securities sold and the new securities were classified in the available-for-sale portfolio. We received $271.9 million in gross proceeds and gross realized gains and losses on the sales of the available-for-sale investment securities were $3.9 million and $3.4 million, respectively.

Maturity Distribution of Investment Portfolio

The following table sets forth the maturity distribution of the investment portfolio and weighted average yields by investment type and maturity grouping at December 31, 2014.

Table 17. Maturity Distribution of Investment Portfolio

Portfolio Type and Maturity Grouping		**Carrying Value**	**Weighted Average Yield (1)**
		(Dollars in thousands)	
Held-to-maturity portfolio:			
U.S. Government sponsored entities mortgage-backed securities:			
Within one year	$		%
After one but within five years			
After five but within ten years			
After ten years		238,287	2.06
Total U.S. Government sponsored entities mortgage-backed securities		238,287	2.06
Total held-to-maturity portfolio	$	238,287	2.06%
Available-for-sale portfolio:			
States and political subdivisions:			
Within one year	$	3,847	4.11%
After one but within five years		7,099	5.06
After five but within ten years		63,468	2.64
After ten years		117,231	3.61
Total States and political subdivisions		191,645	3.35
Corporate securities:			
Within one year			
After one but within five years		50,888	2.85
After five but within ten years		49,716	2.94
After ten years			
Total Corporate securities		100,604	2.90
U.S. Government sponsored entities mortgage-backed securities:			
Within one year			
After one but within five years		330	5.06
After five but within ten years		45,239	2.72
After ten years		705,989	2.30
Total U.S. Government sponsored entities mortgage-backed securities		751,558	2.33
Non-agency collaterized mortgage obligations:			
Within one year			
After one but within five years			
After five but within ten years		117,635	3.06
After ten years		66,699	3.68
Total Non-agency collaterized mortgage obligations		184,334	3.29
Other:			

Within one year			
After one but within five years			
After five but within ten years			
After ten years		877	
Total Other		877	
Total available-for-sale portfolio	$	1,229,018	2.68%
Total investment securities	$	1,467,305	2.58%

(1) Weighted average yields are computed on an annual basis, and yields on tax-exempt obligations are computed on a taxable-equivalent basis using an assumed tax rate of 34%.

During 2014, the weighted average yield of the investment portfolio of 2.58% remained unchanged from the prior year.

Deposits

The primary source of our funding comes from deposits in the state of Hawaii. In this competitive market, we strive to distinguish ourselves by providing quality customer service in our branch offices and establishing long-term relationships with businesses and their principals. Our focus has been to develop a large, stable base of core deposits, which are comprised of non-interest bearing and interest-bearing demand deposits, savings and money market deposits, and time deposits less than $100,000. Time deposits in amounts of $100,000 and greater are generally considered to be more price-sensitive than relationship-based and are thus given less focus in our marketing and sales efforts.

Total deposits of $4.1 billion at December 31, 2014 reflected an increase of $174.1 million, or 4.4%, from total deposits of $3.9 billion at December 31, 2013. Total deposits at December 31, 2013 increased by $255.4 million, or 6.9%, over the year-end 2012 balance of $3.7 billion. The increase in deposits in 2014 reflects increases in noninterest-bearing demand deposits, interest-bearing demand deposits, and savings and money market deposits of $143.1 million, $59.7 million, and $35.6 million, respectively, offset by decreases in other time deposits and government-owned time deposits of $52.1 million and $12.1 million, respectively.

Core deposits totaled $3.3 billion at December 31, 2014 and increased by $212.9 million, or 6.9%, from December 31, 2013, which increased by $86.6 million or 2.9% from December 31, 2012. Core deposits as a percentage of total deposits was 80.4% at December 31, 2014, compared to 78.6% at December 31, 2013 and 81.7% at December 31, 2012.

The table below sets forth information regarding the average balances and average rates paid for certain deposit categories for each of the years indicated. Average balances are computed using daily average balances. The average rate on time deposits, which are most sensitive to changes in market rates, decreased by 4 bp in 2014, while savings and money market deposit rates and interest-bearing demand deposit rates remained unchanged. The average rate paid on all deposits in 2014 decreased to 0.09% from 0.11% in 2013 and 0.14% in 2012. The drop in average rates paid in 2014 was attributable to the depressed interest rate environment in which we, as well as other financial institutions throughout the country, continued to operate in during 2014.

Table 18. Average Balances and Average Rates on Deposits

	Year Ended December 31,					
	2014		2013		2012	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
	(Dollars in thousands)					
Noninterest-bearing demand deposits	$ 938,078	%	$ 849,371	%	$ 773,768	%
Interest-bearing demand deposits	764,504	0.05	708,658	0.05	615,960	0.05
Savings and money market deposits	1,227,049	0.07	1,191,919	0.07	1,163,963	0.09
Time deposits	1,059,435	0.23	1,054,714	0.27	978,627	0.38
Total	$ 3,989,066	0.09%	$ 3,804,662	0.11%	$ 3,532,318	0.14%

We expect overall deposit rates to remain suppressed in 2015 in response to the FRB s current monetary policy of keeping interest rates at low levels. In addition to the external interest rate environment, the overall direction of rate movements in our deposit base will largely depend on the level of deposit growth we need to maintain adequate liquidity and competitive pricing considerations, which may be impacted by the repeal of federal prohibitions on the ability of financial institutions to pay interest on demand deposit accounts as part of the Dodd-Frank Act as further described in Item 1A. Risk Factors.

Contractual Obligations

The following table sets forth contractual obligations (excluding deposit liabilities) as of December 31, 2014.

Table 19. Contractual Obligations

	Payments Due By Period				
	Less Than One Year	1-3 Years	3-5 Years (Dollars in thousands)	More Than 5 Years	Total
Short-term borrowings	$ 38,000	$	$	$	$ 38,000
Long-term debt				92,785	92,785
Pension plan and SERP obligations	2,713	5,686	5,795	33,066	47,260
Operating leases	7,756	11,856	8,672	24,604	52,888
Purchase obligations	17,096	15,896	11,506	96	44,594
Total	$ 65,565	$ 33,438	$ 25,973	$ 150,551	$ 275,527

Components of short-term borrowings and long-term debt are discussed in Notes 12 and 13, respectively, to the Consolidated Financial Statements under Part II, Item 8. Financial Statements and Supplementary Data. Operating leases represent leases on bank premises as discussed in Note 18 to the Consolidated Financial Statements under Part II, Item 8. Financial Statements and Supplementary Data. Purchase obligations represent other contractual obligations to purchase goods or services at specified terms including, but not limited to, software licensing agreements, equipment maintenance contracts and professional service contracts. Pension plan obligations include obligations under our defined benefit retirement plan and Supplemental Executive Retirement Plans, which are discussed in Note 16 to the Consolidated Financial Statements under Part II, Item 8. Financial Statements and Supplementary Data.

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 and the level of risk. 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 and Preferred Equity

Shareholders equity totaled $568.0 million at December 31, 2014, a decrease of $92.1 million, or 13.9%, from the $660.1 million at December 31, 2013, which increased by $155.3 million, or 30.8%, from 2012. When expressed as a percentage of total assets, shareholders equity was 11.7% at December 31, 2014, compared to 13.9% at December 31, 2013 and 11.6% at December 31, 2012.

The significant decrease in shareholders equity from 2013 was primarily attributable to : 1) the purchase of 3,405,888 shares of our common stock for a total cost of $68.8 million, excluding fees and expenses, related to a tender offer, 2) the purchase of 2,782,178 shares of our common stock for a total cost of $56.2 million, excluding fees and expenses, related to repurchase agreements with our two largest shareholders, 3) the repurchase of 857,554 shares of our common stock for a total cost of $16.5 million, under our stock repurchase program, and 4) cash dividends paid of $13.4 million. These decreases were partially offset by $40.5 million and $19.0 million in net income and accumulated other comprehensive income in 2014, respectively. During 2014 we repurchased approximately 16.73% of our common stock outstanding at December 31, 2013.

The significant increase in shareholders equity from 2012 to 2013 was primarily attributable to the $172.1 million in net income recognized in 2013. As previously mentioned, net income in 2013 included a non-cash income tax benefit of $119.8 million recorded in the first quarter of 2013 related to the reversal of a significant portion of a valuation allowance that was established against the Company s net DTA during the third quarter of 2009.

In June 2013, the Treasury held a private auction to sell its warrant positions in several financial institutions which included the Company s warrant to purchase up to 79,288 shares of our common stock at a purchase price of $10 per share. On June 6, 2013, we were notified that we were the winning bidder of the warrant at our bid of $0.8 million. The warrant was being carried as a derivative liability on our balance sheet at $0.8 million at March 31, 2013. Accordingly, we recorded a credit to other noninterest expense of $0.1 million during the quarter related to the gain on the purchase of the warrant. After the completion of this transaction, the Treasury no longer holds any outstanding shares of our common stock, or any warrants to purchase our common stock they received in connection with our participation in the Troubled Assets Relief Program.

Our tangible common equity ratio was 11.52% at December 31, 2014, compared to 13.69% at December 31, 2013 and 11.24% at December 31, 2012. Our book value per share was $16.12, $15.68, and $12.06 at year-end 2014, 2013 and 2012, respectively. The decrease in our tangible common equity ratio from 2013 was primarily attributable to the reduction in our common equity due to the common stock repurchases completed in 2014 under the aforementioned tender offer, repurchase agreements with our two largest shareholders, and stock repurchase program. The increase in our book value per share from 2013 was primarily attributable to net income and accumulated other comprehensive income recorded in 2014 of $40.5 million and $19.0 million, respectively, combined with the reduction in common shares outstanding due to the aforementioned common stock repurchases completed in 2014.

The tangible common equity ratio is a non-GAAP financial measure which should be read and used in conjunction with the Company s GAAP financial information. Comparison of our tangible common equity ratio with those of other companies may not be possible because other companies may calculate the tangible common equity ratio differently. Our tangible common equity ratio is derived by dividing common shareholders equity, less intangible assets (excluding mortgage servicing rights), by total assets, less intangible assets (excluding mortgage servicing rights).

The following table sets forth a reconciliation of our tangible common equity ratio for each of the dates indicated:

Table 20. Reconciliation to Tangible Common Equity Ratio

	December 31, 2014	December 31, 2013	December 31, 2012
	(Dollars in thousands)		
Total shareholders equity	$ 568,041	$ 660,113	$ 504,822
Less:			
Preferred stock			
Other intangible assets (excluding mortgage servicing rights)	(10,029)	(12,704)	(15,378)
Tangible common equity	558,012	647,409	489,444
Total assets	4,852,987	4,741,198	4,370,368
	(10,029)	(12,704)	(15,378)

Less: Other intangible assets (excluding mortgage servicing rights)			
Tangible assets	4,842,958	4,728,494	4,354,990
Tangible common equity to Tangible assets	11.52%	13.69%	11.24%

72

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 the 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.

We began deferring interest and dividend payments on the subordinated debentures and the trust preferred securities in the third quarter of 2009. In March 2013, the Company elected to pay all deferred interest on its subordinated debentures and related dividend payments on its trust preferred securities and resume quarterly payments for each outstanding trust. As a result, the deferred accrued interest in the amount of $13.0 million was paid in full in March 2013 and the Company resumed quarterly payments on all five statutory trusts.

In June 2013, the Company was notified that $10.0 million of the $15.0 million in trust preferred securities of CPB Capital Trust I (Trust I) would be auctioned off as part of a larger pooled collateralized debt obligation liquidation. The Company placed a bid of $9.0 million for the securities which was accepted by the trustee and the transaction closed on June 18, 2013. Because our accepted bid of $9.0 million was less than the $10.0 million carrying value, we recognized a gain of $1.0 million related to this transaction on October 7, 2013, when these securities were called. The Company determined that its investment in Trust I did not represent a variable interest and therefore the Company was not the primary beneficiary of Trust I. As a result, consolidation of Trust I by the Company was not required. In October 2013, the Company purchased the remaining $5.0 million in trust preferred securities of Trust I and in April 2014, the remaining $0.5 million in common stock of the Trust I was called. On August 27, 2014, Trust I was cancelled with the state of Delaware.

Holding Company Capital Resources

CPF is required to act as a source of strength to the bank under the Dodd-Frank Act. All of the funds CPF received from the sale of the TARP preferred stock were contributed by CPF to the bank as capital. CPF is obligated to pay its expenses and payments on its junior subordinated debentures which fund payments on the outstanding trust preferred securities. CPF deferred the payment of dividends on our TARP preferred stock and trust preferred securities (along with interest on the related junior subordinated debentures) beginning in the third quarter of 2009. As mentioned in the previous section, in March 2013, the Company elected to resume quarterly payments for each outstanding trust and all deferred interest on its subordinated debentures and related dividend payments on its trust preferred securities were paid in full.

In 2013, in light of the Company s improved capital position and financial condition, our Board of Directors and management, in consultation with our regulators, reinstated and declared quarterly cash dividends on the Company s outstanding common shares to shareholders.

On March 21, 2014, CPF received its first dividend from the bank since September 2008 of $125.0 million in order to meet its obligations under the Tender Offer and Private Repurchases. In the second, third and fourth quarters of 2014, CPF received dividends from the bank totaling $16.1 million, $9.6 million, and $8.6 million, respectively, to fund the quarterly cash dividends and share repurchases. As of December 31, 2014, on a stand-alone basis, CPF had an available cash balance of approximately $22.8 million in order to meet its ongoing obligations.

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 December 31, 2014, the bank had Statutory Retained Earnings of $123.8 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. For further information, see Dividends Market for Registrant s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities.

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 we accepted for purchase 3,405,888 shares of our common stock at the purchase price of $20.20 per share 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.

Share Repurchases

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.

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. There were no repurchases of common stock during 2012 and 2013. A total of 55,000 shares remained available for repurchase under the 2008 Repurchase Plan at December 31, 2013. In January 2014, the 2008 Repurchase Plan and the remaining 55,000 shares were superseded by the Tender Offer and Repurchase Agreements with our Lead Investors.

On May 20, 2014, our Board of Directors authorized the repurchase and retirement of up to $30.0 million of the Company s outstanding common stock (the 2014 Repurchase Plan). Repurchases under the 2014 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. A total of $13.5 million remained available for repurchase under the 2014 Repurchase Plan at December 31, 2014.

In January 2015, our Board of Directors increased our repurchase authority by an additional $25.0 million. We continue to explore opportunities to expand our ability to repurchase shares from shareholders.

Asset/Liability Management and Interest Rate Risk

Our earnings and capital are sensitive to risk of interest rate fluctuations. Interest rate risk arises when rate-sensitive assets and rate-sensitive liabilities mature or reprice during different periods or in differing amounts. In the normal course of business, we are subjected to interest rate risk through the activities of making loans and taking deposits, as well as from our investment securities portfolio and other interest-bearing funding sources. Asset/liability management attempts to coordinate our rate-sensitive assets and rate-sensitive liabilities to meet our financial objectives.

Our Asset/Liability Management Policy seeks to maximize the risk-adjusted return to shareholders while maintaining consistently acceptable levels of liquidity, interest rate risk and capitalization. Our Asset/Liability Management Committee, or 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. This process is designed to measure the impact of future changes in interest rates on net interest income and market value of portfolio equity. Adverse interest rate risk exposures are managed through the shortening or lengthening of the duration of assets and liabilities.

Interest rate risk can be analyzed by monitoring an institution s interest rate sensitivity gap and changes in the gap over time. An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period. The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets and the amount of interest-bearing liabilities maturing or repricing within a specified time period. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. During a period of rising interest rates, the earnings of an institution with a positive gap theoretically may be positively affected due to its interest-earning assets repricing to a greater extent than its interest-bearing liabilities. An adverse impact would be expected for an institution with a negative gap.

The following table sets forth information regarding our interest rate sensitivity gap at December 31, 2014. The assumptions used in determining interest rate sensitivity of various asset and liability products had a significant impact on the resulting table. For purposes of this presentation, assets and liabilities are classified by the earliest repricing date or maturity. All interest-bearing demand and savings balances are included in the three-months-or-less category, even though repricing of these accounts is not contractually required and may not actually occur during that period. Since all interest rates and yields do not adjust at the same velocity or magnitude, and since volatility is subject to change, the interest rate sensitivity gap is only a general indicator of interest rate risk.

Table 21. Rate Sensitivity of Assets, Liabilities and Equity

	Three Months or Less	Over Three Through Six Months	Over Six Through Twelve Months	Over One Through Three Years (Dollars in thousands)	Over Three Years	Nonrate Sensitive	Total
Assets							
Interest-bearing deposits in other banks	$ 13,691	$	$	$	$	$	$ 13,691
Investment securities	43,879	38,121	72,370	269,452	1,031,171	12,312	1,467,305
Loans held for sale	9,595					88	9,683
Loans and leases	808,983	197,868	350,743	759,956	809,663	4,985	2,932,198
Federal Home Loan Bank stock					43,932		43,932
Other assets						386,178	386,178
Total assets	$ 876,148	$ 235,989	$ 423,113	$ 1,029,408	$ 1,884,766	$ 403,563	$ 4,852,987
Liabilities and Equity							
Noninterest-bearing deposits	$ 1,034,146	$	$	$	$	$	$ 1,034,146
Interest-bearing deposits	2,423,860	353,343	169,957	98,458	30,536		3,076,154
Short-term borrowings	38,000						38,000
Long-term debt	92,785						92,785
Other liabilities						43,861	43,861
Equity						568,041	568,041
Total liabilities and equity	$ 3,588,791	$ 353,343	$ 169,957	$ 98,458	$ 30,536	$ 611,902	$ 4,852,987
Interest rate sensitivity gap	$ (2,712,643)	$ (117,354)	$ 253,156	$ 930,950	$ 1,854,230	$ (208,339)	$
Cumulative interest rate sensitivity gap	$ (2,712,643)	$ (2,829,997)	$ (2,576,841)	$ (1,645,891)	$ 208,339	$	$

ALCO also utilizes a detailed and dynamic simulation model to measure and manage interest rate risk exposures. The monthly simulation process is designed to measure the impact of future changes in interest rates on net interest income and market value of portfolio equity and to allow ALCO to model alternative balance sheet strategies. The following reflects our net interest income sensitivity analysis as of December 31, 2014, over a one-year horizon, assuming no balance sheet growth and given both a 200 bp upward and 100 bp downward parallel shift in interest rates.

Rate Change	Estimated Net Interest Income Sensitivity
+200bp	1.51%
-100bp	(3.41)%

Explanation of Responses:

Table 22. Interest Rate Sensitivity

	Expected Maturity Within							
	One Year	Two Years	Three Years	Four Years	Five Years	Thereafter	Total Book Value	Total Fair Value
	(Dollars in thousands)							
Interest-sensitive assets								
Interest-bearing deposits in other banks	$ 13,691	$	$	$	$	$	$ 13,691	$ 13,691
Weighted average interest rates	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
Fixed rate investments	$ 154,369	$ 147,223	$ 122,230	$ 107,274	$ 106,540	$ 816,600	$ 1,454,236	$ 1,463,738
Weighted average interest rates	2.49%	2.58%	2.55%	2.52%	2.53%	2.62%	2.58%	
Variable rate investments	$	$	$	$	$	$	$	$
Weighted average interest rates	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
Equity investments	$	$	$	$	$	$ 757	$ 757	$ 877
Weighted average interest rates	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
Fixed rate loans	$ 399,443	$ 284,122	$ 205,367	$ 147,012	$ 108,032	$ 385,429	$ 1,529,405	$ 1,458,528
Weighted average interest rates	4.39%	4.39%	4.32%	4.26%	4.23%	4.27%	4.33%	
Variable rate loans	$ 473,519	$ 259,195	$ 206,181	$ 137,072	$ 101,341	$ 190,996	$ 1,368,304	$ 1,269,308
Weighted average interest rates	3.87%	3.89%	3.95%	4.27%	4.28%	4.43%	4.04%	
Total - December 31, 2014	$ 1,041,022	$ 690,540	$ 533,778	$ 391,358	$ 315,913	$ 1,393,782	$ 4,366,393	$ 4,206,142
Total - December 31, 2013	$ 959,208	$ 598,220	$ 461,619	$ 388,741	$ 289,048	$ 1,590,714	$ 4,287,550	$ 4,062,580
Interest-sensitive liabilities								
Interest-bearing demand and savings deposits	$ 2,030,870	$	$	$	$	$	$ 2,030,870	$ 2,030,870
Weighted average interest rates	0.07%	0.00%	0.00%	0.00%	0.00%	0.00%	0.07%	
Time deposits	$ 915,597	$ 71,085	$ 28,064	$ 9,214	$ 21,284	$ 40	$ 1,045,284	$ 1,047,322
Weighted average interest rates	0.16%	0.36%	0.82%	0.90%	1.20%	0.78%	0.22%	
Short-term borrowings	$ 38,000	$	$	$	$	$	$ 38,000	$ 38,000
Weighted average interest rates	0.25%	0.00%	0.00%	0.00%	0.00%	0.00%	0.25%	
Long-term debt	$	$	$	$	$	$ 92,785	$ 92,785	$ 42,454
Weighted average interest rates	0.00%	0.00%	0.00%	0.00%	0.00%	2.75%	2.75%	

Total - December 31, 2013	$	2,984,467	$	71,085	$	28,064	$	9,214	$	21,284	$	92,825	$	3,206,939	$	3,158,646
Total - December 31, 2012	$	2,932,624	$	66,874	$	29,443	$	12,518	$	9,539	$	94,972	$	3,145,970	$	3,094,415

The preceding sensitivity analysis does not represent our forecast and should not be relied upon as being indicative of expected operating results. These estimates are based upon numerous assumptions including: the magnitude and timing of interest rate changes, prepayments on loans and investment securities, deposit decay rates, pricing decisions on loans and deposits, reinvestment of asset and liability cashflows and others.

The table above presents information on financial instruments held that are sensitive to changes in interest rates. For purposes of this presentation, expected maturities of interest-sensitive assets and liabilities are contractual maturities. Interest-bearing demand and savings deposits, which have indeterminate maturities, are included in the earliest maturity category. The resulting table is based on numerous assumptions including prepayment rates on mortgage-related assets and forecasted market interest rates. See Note 24 to the Consolidated Financial Statements under Part II, Item 8. Financial Statements and Supplementary Data for a discussion of the calculation of fair values.

Maturities and fair values of interest-sensitive assets and liabilities may vary from expectation if actual experience differs from the assumptions used.

Liquidity

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 assure maximum utilization, maintenance of an adequate level of readily marketable assets and access to short-term funding sources. Our loan-to-deposit ratio at December 31, 2014 was 71.3% compared to 66.8% at December 31, 2013. Our liquidity may be negatively impacted by unforeseen demands on cash or if our deposit customers withdraw funds due to uncertainties surrounding our financial condition or prospects.

The consolidated statements of cash flows identify the three major categories of sources and uses of cash as operating, investing and financing activities. As presented in the consolidated statements of cash flows, cash provided by operating activities has provided a significant source of funds during the past three years. Cash provided by operating activities totaled $71.4 million in 2014, $84.5 million in 2013, and $39.4 million in 2012. The primary source of cash provided by operating activities continues to be our net operating income, exclusive of non-cash items such as the Provision and asset impairments.

Net cash used in investing activities amounted to $83.1 million, $442.1 million and $306.3 million in 2014, 2013 and 2012, respectively. Investment securities and lending activities generally comprise the largest components of investing activities, although the level of investment securities activities are impacted by the relationship of loan and deposit growth during the period. In 2014, 2013 and 2012, net loan originations accounted for $245.1 million, $357.9 million and $152.4 million, respectively, of cash used in investing activities. Net proceeds received from sales and maturities of investment securities totaled $223.0 million in 2014, compared to net purchases of investment securities of $24.2 million and $220.8 million in 2013 and 2012, respectively. Investing activities included proceeds from sales of loans originated for investment of $10.7 million, and $10.3 million in 2013 and 2012, respectively, and other real estate of $3.9 million, $17.9 million, and $56.9 million in 2014, 2013, and 2012, respectively. We did not sell any loans originated for investment in 2014.

Cash provided by financing activities totaled $48.4 million, $229.5 million, and $187.2 million in 2014, 2013, and 2012, respectively. Deposit activities, borrowings and capital transactions represent the major components of financing activities. In 2014, 2013 and 2012, we increased net deposits by $174.1 million, $255.4 million and $237.2 million, respectively. Net cash inflows from short-term debt totaled $30.0 million in 2014 and $8.0 million in 2013, compared to net cash outflow of $34 thousand in 2012. Net cash outflows for long-term debt totaled $14 thousand in 2014, $15.5 million in 2013 and $50.0 million in 2012. As with investment securities, the level of net borrowings is impacted by the levels of loan and deposit growth/contraction during the period. Capital transactions, primarily dividends and stock repurchases totaled $155.7 million of cash used in 2014, due primarily to share repurchases under the Tender Offer, the Private Repurchases, and the 2014 Repurchase Plan.

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, continued 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 $945.0 million line of credit with the FHLB as of December 31, 2014. Short-term and long-term borrowings under this arrangement totaled $38.0 million and nil at December 31, 2014, respectively, compared to $8.0 million and $14 thousand at December 31, 2013, respectively. FHLB advances outstanding at December 31, 2014 were secured by unencumbered investment securities with a fair value of $0.8 million and certain real estate loans with a carrying value of $1.5 billion in accordance with the collateral provisions of the Advances, Security and Deposit Agreement with the FHLB. At December 31, 2014, $907.0 million was undrawn under this arrangement.

The bank also maintained a line of credit with the Federal Reserve discount window of $33.3 million and $46.5 million as of December 31, 2014 and 2013, respectively. There were no advances outstanding under this arrangement at December 31, 2014 and 2013. Advances under this arrangement would have been secured by certain commercial and commercial real estate loans with a carrying value totaling $72.9 million. The Federal Reserve does not have the right to sell or repledge these loans. See Note 12 to the Consolidated Financial Statements under Part II, Item 8. Financial Statements and Supplementary Data for additional information regarding our short-term borrowings.

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.

Holding Company Liquidity

For the holding company on a stand-alone basis, in 2014, net cash provided by operating activities amounted to $157.9 million. The primary source of funds in operating activities included dividends received from the bank of $159.3 million. Net cash provided by investing activities amounted to $1.0 million. Net cash used in financing activities amounted to $155.7 million. The primary use of funds in financing activities included the repurchases of common stock totaling $142.4 million and cash dividends of $13.4 million paid to our common shareholders.

In 2013, net cash used in operating activities of the holding company amounted to $4.9 million. The primary use of funds in operating activities included the payment of deferred accrued interest on its subordinated debentures of $13.0 million. Net cash used in financing activities amounted to $22.1 million. The primary use of funds in financing activities included the repurchase of trust preferred securities of Trust I and subsequent retirement of long-term debt of Trust I totaling $15.5 million, and cash dividends of $6.7 million paid to our common shareholders.

In 2012, net cash provided by operating activities of the holding company amounted to $1.1 million.

Off-Balance Sheet Arrangements

In the normal course of business, we enter into off-balance sheet arrangements to meet the financing needs of our banking customers. These financial instruments include commitments to extend credit, standby letters of credit and financial guarantees written, forward foreign exchange contracts, forward interest rate contracts and interest rate swaps and options. These instruments and the related off-balance sheet exposures are discussed in detail in Note 23 to the Consolidated Financial Statements under Part II, Item 8. Financial Statements and Supplementary Data. In the unlikely event that we must satisfy a significant amount of outstanding commitments to extend credit, liquidity will be adversely impacted, as will credit risk. The remaining components of off-balance sheet arrangements, primarily interest rate options and forward interest rate contracts related to our mortgage banking activities, are not expected to have a material impact on our consolidated financial position or results of operations.

Impact of New Accounting Standards

In January 2014, the 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. ASU 2014-01 is effective with retroactive application for the Company s reporting period beginning on January 1, 2015. We are currently evaluating whether we will adopt the provisions of ASU 2014-01.We do not expect the adoption of this guidance to have a 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. ASU 2014-04 is effective for the Company s reporting period beginning on January 1, 2015. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

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

In June 2014, the FASB issued ASU 2014-11, *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. ASU 2014-11 is effective for the Company s reporting period beginning on January 1, 2015. 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 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 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. ASU 2014-14 is effective for the Company s reporting period beginning on January 1, 2015. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and qualitative disclosures about market risk is set forth under Part II, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Asset/Liability Management and Interest Rate Risk and in Note 24 to the Consolidated Financial Statements under Part II, Item 8. Financial Statements and Supplementary Data.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Central Pacific Financial Corp.:

We have audited the accompanying consolidated balance sheets of Central Pacific Financial Corp. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Central Pacific Financial Corp. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Central Pacific Financial Corp. s internal control over financial reporting as of December 31, 2014, based on *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 27, 2015 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ KPMG LLP
Honolulu, Hawaii
February 27, 2015

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Central Pacific Financial Corp.:

We have audited Central Pacific Financial Corp. s (the Company s) internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on based on criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Central Pacific Financial Corp. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2014, and our report dated February 27, 2015 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP
Honolulu, Hawaii
February 27, 2015

CENTRAL PACIFIC FINANCIAL CORP. & SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2014	December 31, 2013
	(Dollars in thousands)	
Assets		
Cash and due from banks	$ 72,316	$ 45,092
Interest-bearing deposits in other banks	13,691	4,256
Investment securities:		
Available for sale, at fair value	1,229,018	1,407,999
Held to maturity, at amortized cost (fair value of $235,597 at December 31, 2014 and $238,705 at December 31, 2013)	238,287	252,047
Total investment securities	1,467,305	1,660,046
Loans held for sale	9,683	12,370
Loans and leases	2,932,198	2,630,601
Allowance for loan and lease losses	(74,040)	(83,820)
Net loans and leases	2,858,158	2,546,781
Premises and equipment, net	49,214	49,039
Accrued interest receivable	13,584	14,072
Investment in unconsolidated subsidiaries	7,246	9,127
Other real estate	2,948	5,163
Other intangible assets	29,697	32,783
Bank-owned life insurance	152,283	149,604
Federal Home Loan Bank stock	43,932	46,193
Other assets	132,930	166,672
Total assets	$ 4,852,987	$ 4,741,198
Liabilities and Equity		
Deposits:		
Noninterest-bearing demand	$ 1,034,146	$ 891,017
Interest-bearing demand	788,272	728,619
Savings and money market	1,242,598	1,207,016
Time	1,045,284	1,109,521
Total deposits	4,110,300	3,936,173
Short-term borrowings	38,000	8,015
Long-term debt	92,785	92,799
Other liabilities	43,861	44,037
Total liabilities	4,284,946	4,081,024
Equity:		
Preferred stock, no par value, authorized 1,100,000 shares, issued and outstanding none at December 31, 2014 and 2013		
Common stock, no par value, authorized 185,000,000 shares, issued and outstanding 35,233,674 and 42,107,633 shares at December 31, 2014 and 2013, respectively	642,205	784,547
Surplus	79,716	75,498
Accumulated deficit	(157,039)	(184,087)
Accumulated other comprehensive income (loss)	3,159	(15,845)
Total shareholders equity	568,041	660,113
Non-controlling interest		61
Total equity	568,041	660,174
Total liabilities and equity	$ 4,852,987	$ 4,741,198

See accompanying notes to consolidated financial statements.

CENTRAL PACIFIC FINANCIAL CORP. & SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31, 2014	2013	2012
	(Dollars in thousands, except per share data)		
Interest income:			
Interest and fees on loans and leases	$ 112,137	$ 104,479	$ 97,029
Interest and dividends on investment securities:			
Taxable interest	33,574	31,498	28,803
Tax-exempt interest	3,996	4,051	2,312
Dividends	23	23	16
Interest on deposits in other banks	33	203	285
Dividends on Federal Home Loan Bank stock	46	24	
Total interest income	149,809	140,278	128,445
Interest expense:			
Interest on deposits:			
Demand	373	349	339
Savings and money market	901	894	1,006
Time	2,453	2,801	3,688
Interest on short-term borrowings	92	6	
Interest on long-term debt	2,572	3,119	3,701
Total interest expense	6,391	7,169	8,734
Net interest income	143,418	133,109	119,711
Provision (credit) for loan and lease losses	(6,414)	(11,310)	(18,885)
Net interest income after provision for loan and lease losses	149,832	144,419	138,596
Other operating income:			
Other service charges and fees	11,754	12,490	11,083
Service charges on deposit accounts	8,113	7,041	8,367
Loan servicing fees	5,798	6,057	6,486
Net gain on sales of residential loans	5,545	9,986	17,095
Income from fiduciary activities	3,552	2,855	2,599
Income from bank-owned life insurance	2,922	2,333	2,899
Net gain on sales of foreclosed assets	971	8,584	4,999
Equity in earnings of unconsolidated subsidiaries	480	790	574
Fees on foreign exchange	464	508	551
Loan placement fees	437	570	690
Investment securities gains	240	482	789
Other	3,547	3,249	4,611
Total other operating income	43,823	54,945	60,743
Other operating expense:			
Salaries and employee benefits	67,941	76,294	69,344
Net occupancy	15,252	14,323	13,920
Legal and professional services	7,806	8,094	13,824
Computer software expense	6,327	4,579	3,961
Amortization and impairment of other intangible assets	5,332	7,418	10,179
Communication expense	3,635	3,523	3,428
Equipment	3,582	3,676	3,966
Advertising expense	2,342	2,666	3,516
Foreclosed asset expense	1,710	1,036	6,887
Write down of assets			2,586

Other		18,886		17,927		20,307
Total other operating expense		132,813		139,536		151,918
Income before income taxes		60,842		59,828		47,421
Income tax expense (benefit)		20,389		(112,247)		
Net income		40,453		172,075		47,421
Per common share data:						
Basic earnings per share	$	1.08	$	4.10	$	1.14
Diluted earnings per share		1.07		4.07		1.13
Cash dividends declared		0.36		0.16		

See accompanying notes to consolidated financial statements.

CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31, 2014	2013	2012
	(Dollars in thousands)		
Net income	$ 40,453	$ 172,075	$ 47,421
Other comprehensive income (loss), net of tax			
Net change in unrealized gain (loss) on investment securities	22,711	(31,865)	(1,271)
Net change in unrealized gain (loss) on derivatives		10,993	(434)
Minimum pension liability adjustment	(3,707)	5,857	(1,289)
Other comprehensive income (loss), net of tax	19,004	(15,015)	(2,994)
Comprehensive income	$ 59,457	$ 157,060	$ 44,427

See accompanying notes to consolidated financial statements.

CENTRAL PACIFIC FINANCIAL CORP. & SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	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, 2011	41,749,116	$	$ 784,539	$ 66,585	$ (396,848)	$ 2,164	$ 9,980	$ 466,420
Net income					47,421			47,421
Other comprehensive loss						(2,994)		(2,994)
4,291 net shares of common stock purchased by directors deferred compensation plan			(27)					(27)
Share-based compensation	117,930			3,982				3,982
Non-controlling interests							(23)	(23)
Balance at December 31, 2012	41,867,046	$	$ 784,512	$ 70,567	$ (349,427)	$ (830)	$ 9,957	$ 514,779
Net income					172,075			172,075
Other comprehensive loss						(15,015)		(15,015)
Cash dividends ($0.16 per share)					(6,735)			(6,735)
1,782 net shares of common stock purchased by directors deferred compensation plan			(39)					(39)
Share-based compensation	240,587		74	4,931				5,005
Non-controlling interests							(9,896)	(9,896)
Balance at December 31, 2013	42,107,633	$	$ 784,547	$ 75,498	$ (184,087)	$ (15,845)	$ 61	$ 660,174
Net income					40,453			40,453
Other comprehensive income						19,004		19,004
Cash dividends ($0.36 per share)					(13,405)			(13,405)
1,118 net shares of common stock sold by directors deferred compensation plan			(11)					(11)
7,045,620 shares of common stock repurchased and other related costs	(7,045,620)		(142,405)					(142,405)
Share-based compensation	171,661		74	4,218				4,292
Non-controlling interests							(61)	(61)
Balance at December 31, 2014	35,233,674	$	$ 642,205	$ 79,716	$ (157,039)	$ 3,159	$	$ 568,041

See accompanying notes to consolidated financial statements.

87

CENTRAL PACIFIC FINANCIAL CORP. & SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2014	2013 (Dollars in thousands)	2012
Cash flows from operating activities:			
Net income	$ 40,453	$ 172,075	$ 47,421
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision (credit) for loan and lease losses	(6,414)	(11,310)	(18,885)
Depreciation and amortization	5,842	6,007	6,351
Amortization and impairment of other intangible assets	5,332	7,418	10,179
Write down of assets			2,586
Write down of other real estate, net of gain on sale	1,133	(8,011)	(358)
Net amortization of investment securities	7,807	13,283	15,670
Share-based compensation	4,218	4,931	3,982
Net gain on sale of investment securities	(240)	(482)	(789)
Net gain on sales of residential loans	(5,545)	(9,986)	(17,095)
Proceeds from sales of loans held for sale	373,061	654,005	969,089
Originations of loans held for sale	(364,828)	(618,106)	(952,402)
Equity in earnings of unconsolidated subsidiaries	(480)	(790)	(574)
Increase in cash surrender value of bank-owned life insurance	(3,161)	(2,729)	(4,934)
Deferred income taxes	20,482	(112,138)	
Premium paid on repurchases of preferred stock of subsidiaries		1,895	
Net change in other assets and liabilities	(6,228)	(11,531)	(20,853)
Net cash provided by operating activities	71,432	84,531	39,388
Cash flows from investing activities:			
Proceeds from maturities of and calls on investment securities available for sale	145,592	448,453	437,471
Proceeds from sales of investment securities available for sale	162,470	271,931	130,076
Purchases of investment securities available for sale	(98,408)	(753,496)	(627,356)
Proceeds from maturities of and calls on investment securities held to maturity	15,814	13,500	2,487
Purchases of investment securities held to maturity	(2,443)	(4,595)	(163,498)
Net loan principal repayments (loan originations)	(245,099)	(357,853)	(152,350)
Purchases of loan portfolios	(62,648)	(85,110)	
Proceeds from sales of loans originated for investment		10,679	10,340
Proceeds from sales of other real estate	3,865	17,892	56,915
Proceeds from bank-owned life insurance	481	536	1,997
Purchases of premises and equipment	(6,017)	(6,287)	(3,696)
Distributions from unconsolidated subsidiaries	531	9,615	467
Net return of capital from (contributions to) unconsolidated subsidiaries	466	(9,050)	
Proceeds from redemption of FHLB stock	2,261	1,735	869
Net cash used in investing activities	(83,135)	(442,050)	(306,278)
Cash flows from financing activities:			
Net increase in deposits	174,127	255,401	237,244
Repayments of long-term debt	(14)	(15,482)	(50,017)
Net increase (decrease) in short-term borrowings	29,985	8,015	(34)
Cash dividends paid on common stock	(13,405)	(6,735)	
Repurchases of common stock	(142,405)		
Net proceeds from issuance of common stock and stock option exercises	74	74	
Repurchases of preferred stock of subsidiaries		(11,781)	
Net cash provided by financing activities	48,362	229,492	187,193
Net increase (decrease) in cash and cash equivalents	36,659	(128,027)	(79,697)

Cash and cash equivalents:						
At beginning of year		49,348		177,375		257,072
At end of year	$	86,007	$	49,348	$	177,375
Supplemental disclosure of cash flow information:						
Cash paid during the year for:						
Interest	$	6,413	$	19,260	$	5,622
Income taxes				5		5
Cash received during the year for:						
Income taxes		185				430
Supplemental disclosure of noncash investing and financing activities:						
Net change in common stock held by directors deferred compensation plan	$	11	$	39	$	27
Net reclassification of loans to other real estate		2,783		4,358		4,846
Net reclassification of loans held for sale to other real estate						716
Net transfer of loans to loans held for sale						1,487
Net transfer of investment securities available for sale to held to maturity				101,669		

See accompanying notes to consolidated financial statements.

CENTRAL PACIFIC FINANCIAL CORP. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2014, 2013, and 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Central Pacific Financial Corp. is a bank holding company. Our principal operating subsidiary, Central Pacific Bank, is a full-service commercial bank with 36 branches and 110 ATMs located throughout the state of Hawaii. The bank engages in a broad range of lending activities including originating commercial loans, commercial and residential mortgage loans and consumer loans. The bank also offers a variety of deposit products and services. These include personal and business checking and savings accounts, money market accounts and time certificates of deposit. Other products and services include debit cards, internet banking, cash management services, traveler s checks, safe deposit boxes, international banking services, night depository facilities and wire transfers. Wealth management products and services include non-deposit investment products, annuities, insurance, investment management, asset custody and general consultation and planning services.

When we refer to the Company, we, us or our, we mean Central Pacific Financial Corp. & Subsidiaries (consolidated). When we refer to Cent Pacific Financial Corp. or to the holding company, we are referring to the parent company on a standalone basis. When we refer to our bank or the bank, we mean Central Pacific Bank.

The banking business depends on rate differentials, the difference between the interest rates paid on deposits and other borrowings and the interest rates received on loans extended to customers and investment securities held in our portfolio. These rates are highly sensitive to many factors that are beyond our control. Accordingly, the earnings and growth of the Company are subject to the influence of domestic and foreign economic conditions, including inflation, recession and unemployment.

We have the following three reportable segments: (1) Banking Operations, (2) Treasury and (3) All Others. The Banking Operations segment includes construction and commercial real estate lending, commercial lending, residential mortgage lending, consumer 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 and Treasury segments described above and includes activities such as electronic banking, data processing and management of bank owned properties. For further information, see Note 25.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Central Pacific Bank had two wholly-owned subsidiaries as of December 31, 2013: CPB Real Estate, Inc. and Citibank Properties, Inc. Both were real estate investment trusts that were dissolved in 2014. Central Pacific Bank also had two other wholly-owned subsidiaries, CB Technology, Inc. and Central Pacific HomeLoans, Inc., that were dissolved in February 2013 and February 2012, respectively.

We have a 50% ownership interest in the following mortgage brokerage companies: Pacific Access Mortgage, LLC, Gentry HomeLoans, LLC, Haseko HomeLoans, LLC and Island Pacific HomeLoans, LLC. These investments are accounted for using the equity method and are included in investment in unconsolidated subsidiaries. We also have non-controlling equity investments in affiliates that are accounted for under the cost method and are included in investment in unconsolidated subsidiaries.

Our investments in unconsolidated subsidiaries accounted for under the equity and cost methods were $0.5 million and $6.7 million, respectively, at December 31, 2014 and $0.6 million and $8.5 million, respectively, at December 31, 2013. Our policy for determining impairment of these investments includes an evaluation of whether a loss in value of an investment is other than temporary. Evidence of a loss in value includes absence of an ability to recover the carrying amount of the investment or the inability of the investee to sustain an earnings capacity which would justify the carrying amount of the investment. We perform impairment tests whenever indicators of impairment are present. If the value of an investment declines and it is considered other than temporary, the investment is written down to its respective fair value in the period in which this determination is made.

The Company sponsors the Central Pacific Bank Foundation which is not consolidated in the Company s financial statements.

Use of Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles in the United States (GAAP) requires management to make estimates and assumptions that reflect the reported amounts of assets and liabilities and disclosures of contingent assets and contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance and provision for loan and lease losses, reserves for unfunded loan commitments, residential mortgage repurchase reserves and deferred income tax assets and income tax expense, as well as the valuation of investment securities, other intangible assets and the related amortization thereon, pension liability and the fair value of certain financial instruments.

Reclassifications

Certain prior year amounts in the Notes to the consolidated financial statements have been reclassified to conform to the fiscal 2014 presentation. Such reclassifications had no effect on the Company s reported net income or shareholders equity.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, we consider cash and cash equivalents to include cash and due from banks, interest-bearing deposits in other banks, federal funds sold and all highly liquid investments with maturities of three months or less at the time of purchase.

Investment Securities

Investments in debt securities and marketable equity securities are designated as trading, available for sale, or held to maturity. Securities are designated as held to maturity only if we have the positive intent and ability to hold these securities to maturity. Held to maturity debt securities are reported at amortized cost. Trading securities are reported at fair value, with changes in fair value included in earnings. Available-for-sale securities are reported at fair value with net unrealized gains and losses, net of taxes, included in accumulated other comprehensive income (loss) (AOCI).

We use current quotations, where available, to estimate the fair value of investment securities. Where current quotations are not available, we estimate fair value based on the present value of expected future cash flows. We consider the facts of each security including the nature of the security, the amount and duration of the loss, credit quality of the issuer, the expectations for that security s performance and our intent and ability to hold the security until recovery. Declines in the value of debt securities and marketable equity securities that are considered other than temporary are recorded in other operating income. Realized gains and losses on the sale of investment securities are recorded in other operating income using the specific identification method.

We amortize premiums and accrete discounts associated with investment securities using the interest method over the life of the respective security instrument.

As a member of the Federal Home Loan Bank of Seattle (FHLB), the bank is required to obtain and hold a specific number of shares of capital stock of the FHLB based on the amount of outstanding FHLB advances. The securities are reported at cost and are presented separately in the consolidated balance sheets.

Loans Held for Sale

Loans held for sale consists of the following two types: (1) Hawaii residential mortgage loans that are originated with the intent to sell them in the secondary market and (2) non-residential mortgage loans in both 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. Net fees and costs associated with originating and acquiring the Hawaii residential mortgage loans held for sale are deferred and included in the basis for determining the gain or loss on sales of loans held for sale. We report the fair values of the non-residential mortgage loans classified as held for sale net of applicable selling costs on our consolidated balance sheets.

Loans originated with the intent to be held in our portfolio are subsequently transferred to held for sale when our intent to hold for the foreseeable future has changed. At the time of a loan s transfer to the held for sale account, 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 for loan and lease losses.

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. Collateral values are determined based on appraisals received from qualified valuation professionals and are obtained periodically or when indicators that property values may be impaired are present.

We sell residential mortgage loans 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. Our repurchase risk generally relates to early payment defaults and borrower fraud. We establish residential mortgage repurchase reserves to reflect this risk based on our estimate of losses after considering a combination of factors, including our estimate of future repurchase activity and our projection of expected credit losses resulting from repurchased loans. At December 31, 2014 and 2013, this reserve totaled $2.7 million and $2.9 million, respectively, and is included in other liabilities on our consolidated balance sheets.

91

Loans

Loans are stated at the principal amount outstanding, net of unearned income. Unearned income represents net deferred loan fees that are recognized over the life of the related loan as an adjustment to yield. Net deferred loan fees are amortized using the interest method over the contractual term of the loan, adjusted for actual prepayments. Unamortized fees on loans paid in full are recognized as a component of interest income.

Interest income on loans is recognized on an accrual basis. 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. Loans are placed on nonaccrual status when interest payments are 90 days past due, or earlier should management determine that the borrowers will be unable to meet contractual principal and/or interest obligations, unless the loans are well-secured and in the process of collection. When a loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income should management determine that the collectibility of such accrued interest is doubtful. All subsequent receipts are applied to principal outstanding and no interest income is recognized unless the financial condition and payment record of the borrowers warrant such recognition. A nonaccrual loan may be restored to an accrual basis when principal and interest payments are current and full payment of principal and interest is expected.

Leases

We provide equipment financing to our customers through a variety of lease arrangements. Direct financing leases are carried at the aggregate of lease payments receivable plus estimated residual value of the leased property, less unearned income. Unearned income on direct financing leases is amortized over the lease terms by methods that approximate the interest method. Our lease portfolio has declined over the last five years and had an outstanding balance of $3.1 million and $6.2 million at December 31, 2014 and 2013, respectively.

Allowance for Loan and Lease Losses

The allowance for loan and lease losses (the Allowance) is established through provisions for loan and lease losses (the Provision) charged against income. Our policy is to charge a loan off in the period in which the loan is deemed to be uncollectible and all interest previously accrued but not collected is reversed against current period interest income. We consider a loan to be uncollectible when it is probable that a loss has been incurred and the Company can make a reasonable estimate of the loss. In these instances, the likelihood of and/or timeframe for recovery of the amount due is uncertain, weak, or protracted. Subsequent receipts, if any, are credited first to the remaining principal, then to the Allowance as recoveries, and finally to unaccrued interest.

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.

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 Accounting Standards Codification (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.

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. From 2010 through 2013, the calculation of subsector loss factors involved the summation of charge-offs and recoveries that occurred within the last eight quarters (for loans secured by real estate) or four quarters (for all other loans) divided by the average loan balance over the last eight or four quarters, respectively. The eight or four quarter period is referred to as the look-back period. We did not apply any weighting schema to our loss experience over the look-back period. A rolling eight quarter period was utilized for FDIC classifications involving real estate collateral to account for prolonged loss recognition and ultimate disposition periods associated with loans secured by real estate. The Company s 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 period then under analysis. The look-back period was also consistent with commentary provided by our primary banking regulator following our 2010 Safety and Soundness Examination.

During 2012 through 2014, economic conditions stabilized, and improved credit quality trends have contributed to consistent reductions to the Allowance. Given the diminishing loss rates, in the first quarter of 2014 the look-back period was extended 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 and reduce the Company s reliance on proxy loss rates by capturing more of the Company s own historical loss experience in this extended look-back period. The enhanced methodology does not incorporate data from before 2010 because the Company has reason to believe that anomalous charge-off activity may cause pre-2010 internal loss data to be an inappropriate representation of future loss experience. We believe that this 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 over 2012 through 2014, lower loss rate volatility has diminished the need for shorter loss analysis periods that are more responsive to shifts in loss experience. In our revised approach, the losses during the six year look-back period will be weighted to place more emphasis on recent loss experience. Also in late 2013, the Company received guidance from its primary banking regulator supporting the use of extended loss analysis periods. The Supervisory Examiner recommended a periodic reassessment of the look-back period and suggested that a look-back period beyond eight quarters may be more reasonable given the then current economic conditions and portfolio performance.

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.

93

Explanation of Responses:

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

The general allowance also incorporates qualitative adjustment factors that capture company-specific conditions for which national/regional statistics are not available, or for which significant localized market specific events have not yet been captured within regional statistics or the Company s historical loss experience.

Since we cannot predict with certainty the amount of loan and lease charge-offs that will be incurred and because the eventual level of loan and lease charge-offs are impacted by numerous conditions beyond our control, we use our historical loss experience adjusted for current conditions to determine both our Allowance and Provision. In 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.

Unallocated Reserve

The Company may also maintain 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. Accordingly, the unallocated reserve is intended to capture broader national and global economic risks that could potentially have a ripple effect on our loan portfolio.

In the second quarter of 2014, the Company adopted an enhancement to the procedures described above 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 Commitments

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

Premises and Equipment

Premises and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation and amortization are included in other operating expense and are computed using the straight-line method over the shorter of the estimated useful lives of the assets or the applicable leases. Useful lives generally range from five to thirty-nine years for premises and improvements, and one to seven years for equipment. Major improvements and betterments are capitalized, while recurring maintenance and repairs are charged to operating expense. Net gains or losses on dispositions of premises and equipment are included in other operating expense.

Other Intangible Assets

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

Our core deposit premium is being amortized 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 income. 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 class.

Initial fair value of the servicing right is calculated by a discounted cash flow model prepared by a third party service provider based on market value assumptions at the time of origination and 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, servicing cost and ancillary income. Many of these assumptions are subjective and require a high level of management judgment. Our mortgage servicing rights portfolio and valuation assumptions are periodically reviewed by management.

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. Reconciliation is performed by comparing the loan data from our loan system to a valuation report prepared by a third party. Additionally, the critical assumptions which come from the third party are reviewed by management. This review may include comparing actual assumptions to forecast or evaluating the reasonableness of market assumptions by reviewing them 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.

Prepayment speeds may be affected by economic factors such as home price appreciation, market interest rates, the availability of other 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.

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 uncertainty about future events and cash flows. All such factors were interdependent and, therefore, do not change in isolation. Accordingly, our accounting estimates may materially change from period to period due to changing market factors.

95

During the second quarter of 2012, we evaluated the recoverability of the intangible assets on our customer relationships and non-compete agreements related to the acquisition of Pacific Islands Financial Management. Upon completion of this review, we determined that the intangible assets related to our customer relationships and non-compete agreements were both fully impaired, and thus, we recorded impairment charges to other operating expense totaling $0.9 million during the second quarter of 2012.

Other Real Estate

Other real estate is composed of properties acquired through foreclosure proceedings and is initially recorded at fair value less estimated costs to sell the property, thereby establishing the new cost basis of other real estate. Losses arising at the time of acquisition of such properties are charged against the Allowance. Subsequent to acquisition, such properties are carried at the lower of cost or fair value less estimated selling expenses, determined on an individual asset basis. Any deficiency resulting from the excess of cost over fair value less estimated selling expenses is recognized as a valuation allowance. Any subsequent increase in fair value up to its cost basis is recorded as a reduction of the valuation allowance. Increases or decreases in the valuation allowance are included in other operating expense. Net gains or losses recognized on the sale of these properties are included in other operating income.

Non-Controlling Interest

Non-controlling interest at December 31, 2013 was comprised of preferred stock issued to third parties by the Company s subsidiary, CPB Real Estate, Inc. In the second quarter of 2014, CPB Real Estate, Inc. repurchased all of its outstanding preferred stock issued to third parties for $61 thousand. As a result, there was no non-controlling interest remaining on our consolidated balance sheet as of December 31, 2014.

Share Based Compensation

Share-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense over the employee s requisite service period. We use the Black-Scholes option-pricing model to determine the fair-value of stock-based awards and we recognize compensation expense for all share-based payment awards on a straight-line basis over their respective vesting period. See Note 15 for further discussion of our stock-based compensation.

Income Taxes

Deferred tax assets 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 deferred tax assets 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 deferred tax assets may not be realized, which would result in a charge to earnings. Our continuing practice is to recognize interest and penalties related to income tax matters in interest expense and other expense, respectively.

We establish income tax contingency reserves 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.

Earnings per Share

Basic earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period, excluding unvested restricted stock. Diluted earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period, increased by the dilutive effect of stock options and stock awards, less shares held in a Rabbi trust pursuant to a deferred compensation plan for directors.

Forward Foreign Exchange Contracts

We are periodically a party to a limited amount of forward foreign exchange contracts to satisfy customer requirements for foreign currencies. These contracts are not utilized for trading purposes and are carried at market value, with realized gains and losses included in fees on foreign exchange.

Derivatives and Hedging Activities

We recognize all derivatives on the balance sheet at fair value. On the date that we enter into a derivative contract, we designate the derivative as (1) a hedge of the fair value of an identified asset or liability (fair value hedge), (2) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to an identified asset or liability (cash flow hedge) or (3) a transaction not qualifying for hedge accounting (free standing derivative). For a fair value hedge, changes in the fair value of the derivative and, to the extent that it is effective, changes in the fair value of the hedged asset or liability, attributable to the hedged risk, are recorded in current period net income in the same financial statement category as the hedged item. For a cash flow hedge, changes in the fair value of the derivative, to the extent that it is effective, is recorded in other comprehensive income (loss) (OCI). These changes in fair value are subsequently reclassified to net income in the same period(s) that the hedged transaction affects net income in the same financial statement category as the hedged item. For free standing derivatives, changes in fair values are reported in current period other operating income.

Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.* The provisions of ASU 2013-11 provide guidance for financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar loss or a tax credit carryforward exists. The Company has reflected the adoption of this guidance prospectively on January 1, 2014, the effective date of ASU 2013-11. The adoption of this guidance did not have a material impact on our consolidated financial statements.

2. REGULATORY MATTERS

In May 2011, the regulatory Consent Order (the Consent Order) that the bank entered into with the Federal Deposit Insurance Corporation (FDIC) and the State of Hawaii Division of Financial Institutions (DFI) on December 9, 2009 was lifted. In place of the Consent Order, the Board of Directors of the bank entered into a Memorandum of Understanding (the Bank MOU) with the FDIC and DFI effective May 5, 2011. We worked closely with both the FDIC and DFI to satisfactorily resolve all outstanding issues contained in the Bank MOU, including but not limited to, maintaining an adequate allowance for loan and lease losses, improving our asset quality, reducing our classified assets, and ensuring that our capital levels exceeded the levels required by the Bank MOU. The bank received a letter from the FDIC and DFI dated October 26, 2012 advising the bank that the Bank MOU was lifted.

97

The Company entered into a Written Agreement (the Written Agreement) with the Federal Reserve Bank of San Francisco (FRBSF) and DFI on July 2, 2010, which superseded in its entirety the Memorandum of Understanding that the Company entered into on April 1, 2009 with the FRBSF and DFI. Among other matters, the Written Agreement provided that unless we received the consent of the FRBSF and DFI, we could not: (i) pay dividends; (ii) receive dividends or payments representing a reduction in capital from Central Pacific Bank; (iii) directly or through any non-bank subsidiaries make any payments on subordinated debentures or trust preferred securities; (iv) directly or through any non-bank subsidiaries incur, increase or guarantee any debt; or (v) purchase or redeem any shares of our stock. The Written Agreement also required that our Board of Directors fully utilize the Company s financial and managerial resources to ensure that the bank complies with any supervisory action taken by the bank s regulators. We were also required to submit to the FRBSF an acceptable capital plan cash flow projection. On February 12, 2013, the Written Agreement was terminated.

On October 9, 2012, the bank entered into a separate Memorandum of Understanding (the Compliance MOU) with the FDIC to improve the bank s compliance management system (CMS). Under the Compliance MOU, we were required to, among other things, (i) improve the Board of Directors oversight of the bank s CMS; (ii) ensure the establishment and implementation of the bank s CMS is commensurate with the complexity of the bank s operations; (iii) perform a full review of all compliance policy and procedures, then revise and adopt policy and procedures to ensure compliance with all consumer protection regulations; (iv) enhance the bank s training program relating to consumer protection and fair lending regulations; (v) develop and implement an effective internal monitoring program to ensure compliance with all applicable laws and regulations; (vi) strengthen the compliance audit function to ensure that the compliance audits are appropriately and comprehensively scoped; (vii) develop and implement internal controls for the bank s third-party payment processing activity; (viii) strengthen the Board of Directors and senior management s oversight of third-party relationships and (ix) enhance the bank s overdraft payment program. The bank received a letter from the FDIC dated November 14, 2014 advising the bank that the Compliance MOU was terminated. In addition, the bank received an Outstanding rating in the FDIC s 2014 Community Reinvestment performance evaluation that measures how financial institutions support their communities in the areas of lending, investment and service.

Although we are no longer subject to any agreements with our regulators, we may still become subject to other agreements with regulators which restrict our activities or our regulators may impose higher capital ratios or other requirements on our business.

3. RESERVE REQUIREMENTS

The bank is required by the FRBSF to maintain reserves based on the amount of deposits held. The amount held as a reserve by our bank at December 31, 2014 and 2013 was $64.2 million and $48.5 million, respectively.

4. INVESTMENT SECURITIES

A summary of our investment securities portfolio as of December 31, 2014 and 2013 is as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(Dollars in thousands)		
2014				
Held to Maturity:				
Mortgage-backed securities - U.S. Government sponsored entities	$ 238,287	$ 196	$ (2,886)	$ 235,597
Available for Sale:				
Debt securities:				
States and political subdivisions	$ 191,280	$ 2,054	$ (1,689)	$ 191,645
Corporate securities	99,237	1,492	(125)	100,604
Mortgage-backed securities:				
U.S. Government sponsored entities	744,527	11,064	(4,033)	751,558
Non-agency collateralized mortgage obligations	180,905	4,456	(1,027)	184,334
Other	757	120		877
Total	$ 1,216,706	$ 19,186	$ (6,874)	$ 1,229,018
2013				
Held to Maturity:				
Mortgage-backed securities - U.S. Government sponsored entities	$ 252,047	$	$ (13,342)	$ 238,705
Available for Sale:				
Debt securities:				
States and political subdivisions	$ 191,158	$ 305	$ (12,106)	$ 179,357
Corporate securities	157,337	1,878	(1,120)	158,095
Mortgage-backed securities:				
U.S. Government sponsored entities	936,144	7,085	(15,603)	927,626
Non-agency collateralized mortgage obligations	147,902	81	(5,937)	142,046
Other	755	120		875
Total	$ 1,433,296	$ 9,469	$ (34,766)	$ 1,407,999

The amortized cost and estimated fair value of our investment securities at December 31, 2014 by contractual maturity are shown below. Actual maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2014	
	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)	
Held to Maturity		
Mortgage-backed securities	$ 238,287	$ 235,597

Available for Sale				
Due in one year or less	$	3,851	$	3,847
Due after one year through five years		56,846		57,987
Due after five years through ten years		112,838		113,184
Due after ten years		116,982		117,231
Mortgage-backed securities		925,432		935,892
Other		757		877
Total	$	1,216,706	$	1,229,018

Proceeds from sales of investment securities available for sale were $162.5 million, $271.9 million, and $130.1 million in 2014, 2013 and 2012, respectively, resulting in gross realized gains of $0.9 million, $3.9 million, and $1.7 million in 2014, 2013 and 2012, respectively, and gross realized losses of $0.7 million, $3.4 million, and $0.9 million in 2014, 2013 and 2012, respectively. The specific identification method was used as the basis for determining the cost of all securities sold.

In the fourth quarter of 2013, we executed a bond swap where we sold $271.5 million in lower-yielding available-for-sale agency debentures and agency mortgage-backed securities and agency debentures with an average net yield of 1.87% and a weighted average life of 2.9 years and reallocated the proceeds in $242.5 million of higher-yielding agency mortgage-backed securities, non-agency commercial mortgage-backed securities and corporate bond securities with an average yield of 3.21% and a weighted average life of 7.4 years. The new securities were classified in the available-for-sale portfolio and a net gain of $0.5 million was realized on the transaction.

In the third quarter of 2012, 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 $124.7 million in available for sale mortgage-backed securities with an average net yield of 0.60% and a weighted average life of 1.3 years and reinvested the proceeds in $133.2 million of investment securities with an average yield of 1.88% and a weighted average life of 5.3 years. The new securities were classified in the held to maturity portfolio and a net gain of $0.7 million was realized on the transaction.

Investment securities of $900.5 million and $914.1 million at December 31, 2014 and 2013, respectively, were pledged to secure public funds on deposit and other long-term and short-term borrowings.

There were a total of 195 and 321 securities in an unrealized loss position at December 31, 2014 and 2013, respectively. Provided below is a summary of investment securities which were in an unrealized loss position at December 31, 2014 and 2013:

	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)			
December 31, 2014						
Debt securities:						
States and political subdivisions	$ 23,591	$ (145)	$ 68,622	$ (1,544)	$ 92,213	$ (1,689)
Corporate securities	23,938	(125)			23,938	(125)
Mortgage-backed securities:						
U.S. Government sponsored entities	119,210	(521)	403,926	(6,398)	523,136	(6,919)
Non-agency collateralized mortgage obligations	20,857	(100)	47,539	(927)	68,396	(1,027)
Total temporarily impaired securities	$ 187,596	$ (891)	$ 520,087	$ (8,869)	$ 707,683	$ (9,760)
December 31, 2013						
Debt securities:						
States and political subdivisions	$ 137,176	$ (8,985)	$ 32,747	$ (3,121)	$ 169,923	$ (12,106)
Corporate securities	75,368	(1,120)			75,368	(1,120)
Mortgage-backed securities:						
	909,585	(28,386)	4,848	(559)	914,433	(28,945)

U.S. Government sponsored entities						
Non-agency collateralized mortgage obligations	129,991	(5,937)			129,991	(5,937)
Total temporarily impaired securities	$ 1,252,120	$ (44,428)	$ 37,595	$ (3,680)	$ 1,289,715	$ (48,108)

The unrealized losses on the Company s investment securities were caused by market conditionsInvestment securities are evaluated on a quarterly basis, and include evaluating the changes in the investment securities ratings issued by rating agencies and changes in the financial condition of the issuer, and for mortgage related securities, delinquency and loss information with respect to the underlying collateral, changes in levels of subordination for the Company s particular position within the repayment structure, and remaining credit enhancement as compared to expected credit losses of the security. Substantially all of these investment securities continue to be investment grade rated by one or more major rating agencies.

100

Other-than-temporary impairment (OTTI)

Unrealized losses for all investment securities are reviewed to determine whether the losses are 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 decline in fair value subsequent to the balance sheet date.

The term other-than-temporary is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value are not necessarily favorable, or that there is a general lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other-than-temporary, the value of the security is reduced and a corresponding charge to earnings is recognized for anticipated credit losses.

The declines in market value were primarily attributable to changes in interest rates and disruptions in the credit and financial markets. Because we have no intent to sell securities in an unrealized loss position and it is not more likely than not that we will be required to sell such securities before recovery of its amortized cost basis, we do not consider our investments to be other-than-temporarily impaired.

5. LOANS AND LEASES

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

	December 31, 2014	December 31, 2013
	(Dollars in thousands)	
Commercial, financial & agricultural	$ 463,070	$ 398,365

Real estate:		
Construction	115,023	75,927
Mortgage - residential	1,280,089	1,135,155
Mortgage - commercial	704,099	703,800
Consumer	365,662	311,670
Leases	3,140	6,241
	2,931,083	2,631,158
Net deferred costs (income)	1,115	(557)
Total loans and leases	$ 2,932,198	$ 2,630,601

101

There are different types of risk characteristic for the loans in each portfolio segment. The construction and real estate segment s predominant risk characteristic are the collateral and the geographic location of the property collateralizing the loan, as well as the operating cash flow for the commercial real estate properties. The commercial and industrial (including leases) segment s predominant risk characteristics are the cash flows of the business we lend to, the global cash flows and liquidity of the guarantors of such losses, as well as economic and market conditions. The consumer segment s predominant risk characteristics are employment and income levels as they relate to the consumer.

During the year ended December 31, 2014, we transferred the collateral in six portfolio loans with a carrying value of $2.8 million to other real estate. We did not transfer any portfolio loans to the held-for-sale category and we did not sell any portfolio loans in 2014. In 2014, we purchased auto loan portfolios for $11.2 million, which included a $0.3 million premium over the $10.9 million outstanding balance. At the time of purchase, the auto loan portfolios had a weighted average remaining term of 71 months. In 2014, we also purchased participation interests in student loans totaling $51.5 million, which represented the outstanding balance at the time of purchases. At the time of purchases, the student loans had a weighted average remaining term of 123 months.

During the year ended December 31, 2013, we transferred the collateral in 12 portfolio loans with a carrying value of $4.4 million to other real estate. We did not transfer any portfolio loans to the held-for-sale category and we did not sell any portfolio loans in 2013. In 2013, we purchased auto loan portfolios for $67.7 million, which included a $2.8 million premium over the $64.9 million outstanding balance. At the time of purchase, the auto loan portfolios had a weighted average remaining term of 72 months. In 2013, we also purchased participation interests in student loans totaling $17.4 million, which represented the outstanding balance at the time of purchases. At the time of purchases, the student loans had a weighted average remaining term of 122 months.

In the normal course of business, our bank makes loans to certain directors, executive officers and their affiliates under terms that management believes are consistent with its general lending policies. An analysis of the activity of such loans follows:

	December 31,			
	2014		2013	
	(Dollars in thousands)			
Balance, beginning of year	$	12,942	$	1,501
Additions		19,448		17,487
Repayments		(3,159)		(6,046)
Balance, end of year	$	29,231	$	12,942

102

Impaired Loans

The following table presents by class, the balance in the Allowance and the recorded investment in loans and leases based on the Company s impairment method as of December 31, 2014 and 2013:

	Commercial, Financial & Agricultural	Construction	Real estate Mortgage - Residential	Mortgage - Commercial	Consumer	Leases	Total
			(Dollars in thousands)				
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
December 31, 2013							
Allowance for loan and lease losses:							
Ending balance attributable to loans:							
Individually evaluated for impairment	$ 349	$	$	$	$	$	$ 349
Collectively evaluated for impairment	12,847	2,774	25,272	29,947	6,576	55	77,471
	13,196	2,774	25,272	29,947	6,576	55	77,820
Unallocated							6,000
Total ending balance	$ 13,196	$ 2,774	$ 25,272	$ 29,947	$ 6,576	$ 55	$ 83,820
Loans and leases:							
Individually evaluated for impairment	$ 3,939	$ 8,065	$ 36,779	$ 16,271	$	$	$ 65,054
Collectively evaluated for impairment	394,426	67,862	1,098,376	687,529	311,670	6,241	2,566,104
	398,365	75,927	1,135,155	703,800	311,670	6,241	2,631,158
Net deferred costs (income)	351	(311)	1,418	(1,033)	(982)		(557)
Total ending balance	$ 398,716	$ 75,616	$ 1,136,573	$ 702,767	$ 310,688	$ 6,241	$ 2,630,601

103

The following table presents by class, impaired loans as of December 31, 2014 and 2013:

	Unpaid Principal Balance		Recorded Investment (Dollars in thousands)		Allowance Allocated	
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
December 31, 2013						
Impaired loans with no related allowance recorded:						
Commercial, financial & agricultural	$	1,069	$	1,040	$	
Real estate:						
Construction		14,451		8,065		
Mortgage - residential		41,117		36,779		
Mortgage - commercial		22,353		16,271		
Total impaired loans with no related allowance recorded		78,990		62,155		
Impaired loans with an allowance recorded:						
Commercial, financial & agricultural		4,367		2,899		349
Total impaired loans with an allowance recorded		4,367		2,899		349
Total	$	83,357	$	65,054	$	349

The following table presents by class, the average recorded investment and interest income recognized on impaired loans as of December 31, 2014, 2013 and 2012:

	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)	
December 31, 2014		
Commercial, financial & agricultural	$ 14,303	$ 22
Real estate:		
Construction	5,517	163
Mortgage - residential	33,102	627
Mortgage - commercial	18,692	397
Total	$ 71,614	$ 1,209
December 31, 2013		
Commercial, financial & agricultural	$ 4,138	$ 24
Real estate:		
Construction	24,545	1,442
Mortgage - residential	38,325	586
Mortgage - commercial	21,160	833
Leases	33	
Total	$ 88,201	$ 2,885
December 31, 2012		
Commercial, financial & agricultural	$ 3,486	$ 39
Real estate:		
Construction	56,762	771
Mortgage - residential	47,154	298
Mortgage - commercial	18,938	516
Leases	133	
Total	$ 126,473	$ 1,624

105

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 December 31, 2014 and 2013:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Accruing Loans Greater Than 90 Days Past Due	Nonaccrual Loans	Total Past Due	Loans and Leases Not Past Due	Total
				(Dollars in thousands)			
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
December 31, 2013							
Commercial, financial & agricultural	$ 50	$	$	$ 3,533	$ 3,583	$ 395,133	$ 398,716
Real estate:							
Construction		120		4,015	4,135	71,481	75,616
Mortgage - residential	3,898	1,885		20,271	26,054	1,110,519	1,136,573
Mortgage - commercial	544			13,769	14,313	688,454	702,767
Consumer	577	92			669	310,019	310,688
Leases			15		15	6,226	6,241
Total	$ 5,069	$ 2,097	$ 15	$ 41,588	$ 48,769	$ 2,581,832	$ 2,630,601

Interest income totaling $0.4 million, $0.4 million, and $0.7 million was recognized on nonaccrual loans, including loans held for sale, in 2014, 2013 and 2012, respectively. Additional interest income of $4.0 million, $4.9 million, and $10.1 million would have been recognized in 2014, 2013 and 2012, respectively, had these loans been accruing interest throughout those periods. Additionally, interest income of $0.2 million, $2.5 million, and $0.8 million was collected and recognized on charged-off loans in 2014, 2013 and 2012, respectively.

Modifications

TDRs included in nonperforming assets at December 31, 2014 consisted of 35 Hawaii residential mortgage loans with a combined principal balance of $7.5 million, one Hawaii commercial loan with a principal balance of $0.4 million, and two Hawaii construction and development loans with a combined principal balance of $0.2 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 $29.5 million of TDRs still accruing interest at December 31, 2014, none of which were more than 90 days delinquent. At December 31, 2013, there were $23.3 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 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 and Allowance during the years ended December 31, 2014 and 2013.

The following table presents by class, information related to loans modified in a TDR during the years ended December 31, 2014 and 2013:

	Number of Contracts	Recorded Investment (as of period end) (Dollars in thousands)	Increase in the Allowance
Year ended December 31, 2014			
Real estate - mortgage - residential	$ 12	$ 790	$
Year ended December 31, 2013			
Commercial, financial & agricultural	1	$ 517	$
Real estate:			
Construction	1	178	
Mortgage - residential	7	2,566	
Mortgage - commercial	1	8,952	
Total	10	$ 12,213	$

The following table presents by class, loans modified as a TDR within the previous twelve months that subsequently defaulted during the years ended December 31, 2014 and 2013:

	Year Ended December 31,			
	2014		2013	
	Number of Contracts	Recorded Investment (as of period end)	Number of Contracts	Recorded Investment (as of period end)
	(Dollars in thousands)			
Commercial, financial & agricultural		$	1	$ 517
Real estate - mortgage - residential	1	25		
Total	1	$ 25	1	$ 517

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 loans and leases. The following table presents by class and credit indicator, the recorded investment in the Company s loans and leases as of December 31, 2014 and 2013:

	Pass	Special Mention	Substandard	Subtotal	Net Deferred Costs (Income)	Total
			(Dollars in thousands)			
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
December 31, 2013						
Commercial, financial & agricultural	$ 371,285	$ 21,511	$ 5,569	$ 398,365	$ 351	$ 398,716
Real estate:						
Construction	67,435	4,477	4,015	75,927	(311)	75,616
Mortgage - residential	1,113,363	361	21,431	1,135,155	1,418	1,136,573
Mortgage - commercial	651,761	20,690	31,349	703,800	(1,033)	702,767
Consumer	311,670			311,670	(982)	310,688
Leases	6,241			6,241		6,241
Total	$ 2,521,755	$ 47,039	$ 62,364	$ 2,631,158	$ (557)	$ 2,630,601

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 December 31, 2014 and 2013, we did not have any loans that we considered to be subprime.

6. 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)				
Year Ended December 31, 2014								
Beginning balance	$ 13,196	$ 2,774	$ 25,272	$ 29,947	$ 6,576	$ 55	$ 6,000	$ 83,820
Provision (credit) for loan and lease losses	(1,522)	10,155	(8,198)	(8,090)	3,289	(48)	(2,000)	(6,414)
	11,674	12,929	17,074	21,857	9,865	7	4,000	77,406
Charge-offs	5,046		139	1,041	3,703	8		9,937
Recoveries	2,326	2,040	992	53	1,152	8		6,571
Net charge-offs (recoveries)	2,720	(2,040)	(853)	988	2,551			3,366
Ending balance	$ 8,954	$ 14,969	$ 17,927	$ 20,869	$ 7,314	$ 7	$ 4,000	$ 74,040
Year Ended December 31, 2013								
Beginning balance	$ 4,987	$ 4,510	$ 27,836	$ 50,574	$ 2,421	$ 85	$ 6,000	$ 96,413
Provision (credit) for loan and lease losses	9,634	(4,974)	(2,588)	(18,099)	5,093	(376)		(11,310)
	14,621	(464)	25,248	32,475	7,514	(291)	6,000	85,103
Charge-offs	2,812	358	1,083	6,768	1,595			12,616
Recoveries	1,387	3,596	1,107	4,240	657	346		11,333
Net charge-offs (recoveries)	1,425	(3,238)	(24)	2,528	938	(346)		1,283
Ending balance	$ 13,196	$ 2,774	$ 25,272	$ 29,947	$ 6,576	$ 55	$ 6,000	$ 83,820
Year Ended December 31, 2012								
Beginning balance	$ 6,110	$ 28,630	$ 30,732	$ 49,733	$ 2,335	$ 553	$ 4,000	$ 122,093
Provision (credit) for loan and lease losses	1,042	(22,307)	(2,108)	2,386	547	(445)	2,000	(18,885)
	7,152	6,323	28,624	52,119	2,882	108	6,000	103,208
Charge-offs	3,779	8,435	1,664	2,033	1,490	28		17,429
Recoveries	1,614	6,622	876	488	1,029	5		10,634
Net charge-offs	2,165	1,813	788	1,545	461	23		6,795
Ending balance	$ 4,987	$ 4,510	$ 27,836	$ 50,574	$ 2,421	$ 85	$ 6,000	$ 96,413

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

Changes in the allowance for loan and lease losses for impaired loans (included in the above amounts) were as follows:

	Year Ended December 31, 2014	2013	2012
		(Dollars in thousands)	
Balance, beginning of year	$ 349	$ 3,011	$ 772

Provision for loan and lease losses		1,354				2,520
Other changes		(170)		(2,662)		(281)
Balance, end of year	$	1,533	$	349	$	3,011

The amounts included in other changes above represent net charge-offs and net transfers of allocated allowances for loans and leases that were not classified as impaired for the entire year. At December 31, 2014 and 2013, all impaired loans were measured based on the fair value of the underlying collateral for collateral-dependent loans or at the loan s observable market price.

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.

7. SECURITIZATIONS

In prior years, we securitized certain residential mortgage loans with a U.S. Government sponsored entity and continue to service the residential mortgage loans. The servicing assets were recorded at their respective fair values which equaled par value 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 value of $3.5 million and $3.8 million at December 31, 2014 and 2013, 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 $0.2 million on unsold mortgage-backed securities were recorded in AOCI at December 31, 2014 and 2013, respectively.

8. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following as of December 31, 2014 and 2013:

	December 31, 2014		December 31, 2013	
	(Dollars in thousands)			
Land	$	9,006	$	9,006
Office buildings and improvements		98,081		94,888
Furniture, fixtures and equipment		36,916		36,677
		144,003		140,571
Accumulated depreciation and amortization		(94,789)		(91,532)
Net premises and equipment	$	49,214	$	49,039

Depreciation and amortization of premises and equipment were charged to the following operating expenses:

	Year Ended December 31, 2014		2013		2012	
	(Dollars in thousands)					
Net occupancy	$	3,845	$	3,702	$	3,723
Equipment		1,997		2,305		2,628
Total	$	5,842	$	6,007	$	6,351

9. 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 periods presented:

	Core Deposit Premium	Mortgage Servicing Rights (Dollars in thousands)	Total
Balance as of December 31, 2012	$ 15,378	$ 22,121	$ 37,499
Additions		2,702	2,702
Amortization	(2,674)	(4,744)	(7,418)
Balance as of December 31, 2013	$ 12,704	$ 20,079	$ 32,783
Additions		2,246	2,246
Amortization	(2,675)	(2,657)	(5,332)
Balance as of December 31, 2014	$ 10,029	$ 19,668	$ 29,697

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

	December 31, 2014			December 31, 2013		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
	(Dollars in thousands)					
Core deposit premium	$ 44,642	$ (34,613)	$ 10,029	$ 44,642	$ (31,938)	$ 12,704
Mortgage servicing rights	56,687	(37,019)	19,668	54,441	(34,362)	20,079
Total	$ 101,329	$ (71,632)	$ 29,697	$ 99,083	$ (66,300)	$ 32,783

Based on our other intangible assets held as of December 31, 2014, estimated amortization expense for 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	$ 2,674	$ 2,595	$ 5,269
2016	2,674	1,906	4,580
2017	2,674	1,431	4,105
2018	2,007	1,069	3,076
2019		761	761
Thereafter		11,906	11,906
Total	$ 10,029	$ 19,668	$ 29,697

At December 31, 2014, there were no events or changes in circumstances that would indicate that the assets assigned to our Banking Operations reporting unit, which includes the entire core deposit premium, were not recoverable.

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 and totaled $2.2 million, $2.7 million, and $5.7 million in 2014, 2013 and 2012, respectively. Amortization of the servicing rights is reported as amortization of other intangible assets in our consolidated statements of income. 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 class.

Initial fair value of the servicing right is calculated by a discounted cash flow model prepared by a third party service provider based on market value assumptions at the time of origination and 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, servicing costs and ancillary income. Many of these assumptions are subjective and require a high level of management judgment. Our mortgage servicing rights portfolio and valuation assumptions are periodically reviewed by management.

Prepayment speeds may be affected by economic factors such as home price appreciation, market interest rates, the availability of other 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 following table presents the fair market value and key assumptions used in determining the fair market value of our mortgage servicing rights:

	Year Ended December 31, 2014	2013
	(Dollars in thousands)	
Fair market value, beginning of period	$ 21,399	$ 22,356
Fair market value, end of period	19,975	21,399
Weighted average discount rate	9.5%	8.0%
Weighted average prepayment speed assumption	13.2	13.6

Fair values at December 31, 2014 and 2013 reflected approximately $2.4 billion in loans serviced for others.

10. 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. At 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 lock and forward loan sale commitments are accounted for as undesignated derivatives and are recorded at their respective fair values in other assets or other liabilities, with changes in fair value recorded in current period earnings. These instruments serve to reduce our exposure to movements in interest rates. At December 31, 2014, we were a party to interest rate lock and forward sale commitments on $44.3 million and $23.9 million of mortgage loans, respectively. At December 31, 2013, we were a party to interest rate lock and forward sale commitments on $37.1 million and $24.2 million of mortgage loans, respectively.

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

		Asset Derivatives		Liability Derivatives	
Derivatives not designated as hedging instruments	**Balance Sheet Location**	**Fair Value at December 31, 2014**	**Fair Value at December 31, 2013**	**Fair Value at December 31, 2014**	**Fair Value at December 31, 2013**
			(Dollars in thousands)		
Interest rate contracts	Other assets / other liabilities	$ 504	$ 425	$ 122	$ 146

The following tables present the impact of derivative instruments and their location within the consolidated statements of income:

Derivatives in Cash Flow Hedging Relationship	**Amount of Loss Reclassified from AOCI into Earnings (Effective Portion) (Dollars in thousands)**
Year Ended December 31, 2014	
Interest rate contracts	$
Year Ended December 31, 2013	
Interest rate contracts	(394)

Amounts reclassified from AOCI into income are included in interest income in the consolidated statements of income. The ineffective portion has been recognized as other operating income in the consolidated statements of income.

Derivatives not in Cash Flow Hedging Relationship	**Location of Gain Recognized in Earnings on Derivatives**	**Amount of Gain Recognized in Earnings on Derivatives**
	(Dollars in thousands)	
Year Ended December 31, 2014		
Interest rate contracts	Other operating income	$ 294
Year Ended December 31, 2013		
Interest rate contracts	Other operating income	336

11. DEPOSITS

Time deposits of $100,000 or more totaled $804.2 million and $842.9 million at December 31, 2014 and 2013, respectively.

Interest expense on certificates of deposits of $100,000 or more totaled $1.4 million, $1.5 million, and $1.8 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Maturities of time deposits of $100,000 or more as of December 31, 2014 were as follows (in thousands):

Three months or less	$	343,383
Over three through six months		297,339
Over six through twelve months		92,411
2016		44,688
2017		13,317
2018		4,249
2019		8,780
Thereafter		
Total	$	804,167

At December 31, 2014 and 2013, overdrawn deposit accounts totaling $0.7 million have been reclassified as loans on the consolidated balance sheets.

12. SHORT-TERM BORROWINGS

At December 31, 2014, short-term borrowings consist of short-term FHLB advances of $38.0 million. At December 31, 2013, short-term borrowings consist of short-term FHLB advances of $8.0 million and overdraft balances in due from bank accounts.

At December 31, 2014 and 2013, our bank had additional unused borrowings available at the Federal Reserve discount window of $33.3 million and $46.5 million, respectively. As of December 31, 2014 and 2013, certain commercial real estate and commercial loans with a carrying value totaling $72.9 million and $79.7 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.

Interest expense on short-term borrowings were $92 thousand, $6 thousand and nil in 2014, 2013 and 2012, respectively.

A summary of our short-term borrowings as of December 31, 2014, 2013 and 2012 is as follows:

	Year Ended December 31, (Dollars in thousands)		
	2014	**2013**	**2012**
Amount outstanding at December 31	$ 38,000	$ 8,015	$
Average amount outstanding during year	31,732	1,988	11
Highest month-end balance during year	102,000	28,000	
Weighted average interest rate on balances outstanding at December 31	0.25%	0.23%	0.00%
Weighted average interest rate during year	0.29%	0.32%	0.70%

13. LONG-TERM DEBT

Long-term debt, which is based on original maturity, consisted of the following at December 31, 2014 and 2013:

	December 31, (Dollars in thousands)	
	2014	**2013**
FHLB advances	$	$ 14
Subordinated debentures	92,785	92,785

	$	92,785	$	92,799

FHLB Advances

FHLB advances outstanding at December 31, 2013 carried weighted average interest rates of 8.22%. At December 31, 2014, our bank had additional unused FHLB advances available of approximately $907.0 million, which was secured by unencumbered investment securities with a fair value of $0.8 million and certain real estate loans with a carrying value of $1.5 billion in accordance with the collateral provisions of the Advances, Security and Deposit Agreement with the FHLB. Interest expense on FHLB advances was less than $1 thousand in 2014, compared to $2 thousand and $14 thousand in 2013 and 2012, respectively.

114

Subordinated Debentures

In March 2003, we created a wholly-owned statutory trust, CPB Capital Trust I (Trust I). Trust I issued $15.0 million in trust preferred securities. The Trust I trust preferred securities carried an interest rate of three-month LIBOR plus 3.25%, and matured on April 7, 2033. The principal assets of Trust I were $15.5 million of the Company s subordinated debentures with an identical interest rate and maturity as the Trust I trust preferred securities. Trust I issued $0.5 million of common securities to the Company.

In June 2013, the Company was notified that $10.0 million of the $15.0 million in trust preferred securities of Trust I would be auctioned off as part of a larger pooled collateralized debt obligation liquidation. The Company placed a bid of $9.0 million for the securities which was accepted by the trustee and the transaction closed on June 18, 2013. Because our accepted bid of $9.0 million was less than the $10.0 million carrying value, we recognized a gain of $1.0 million related to this transaction on October 7, 2013, when these securities were called. The Company determined that its investment in Trust I did not represent a variable interest and therefore the Company was not the primary beneficiary of Trust I. As a result, consolidation of Trust I by the Company was not required. In October 2013, the Company purchased the remaining $5.0 million in trust preferred securities of Trust I and in April 2014, the remaining $0.5 million in common stock of the Trust I was called. On August 27, 2014, Trust I was cancelled with the state of Delaware.

In October 2003, we created two wholly-owned statutory trusts, CPB Capital Trust II (Trust II) and CPB Statutory Trust III (Trust III). Trust II issued $20.0 million in trust preferred securities bearing an interest rate of three-month LIBOR plus 2.85% and maturing on October 7, 2033. The principal assets of Trust II are $20.6 million of the Company s subordinated debentures with an identical interest rate and maturity as the Trust II trust preferred securities. Trust II issued $0.6 million of common securities to the Company.

Trust III issued $20.0 million in trust preferred securities bearing an interest rate of three-month LIBOR plus 2.85% and maturing on December 17, 2033. The principal assets of Trust III are $20.6 million of the Company s subordinated debentures with an identical interest rate and maturity as the Trust III trust preferred securities. Trust III issued $0.6 million of common securities to the Company.

In September 2004, we created a wholly-owned statutory trust, CPB Capital Trust IV (Trust IV). Trust IV issued $30.0 million in trust preferred securities bearing an interest rate of three-month LIBOR plus 2.45% and maturing on December 15, 2034. The principal assets of Trust IV are $30.9 million of the Company s subordinated debentures with an identical interest rate and maturity as the Trust IV trust preferred securities. Trust IV issued $0.9 million of common securities to the Company.

In December 2004, we created a wholly-owned statutory trust, CPB Statutory Trust V (Trust V). Trust V issued $20.0 million in trust preferred securities bearing an interest rate of three-month LIBOR plus 1.87% and maturing on December 15, 2034. The principal assets of Trust V are $20.6 million of the Company s subordinated debentures with an identical interest rate and maturity as the Trust V trust preferred securities. Trust V issued $0.6 million of common securities to the Company.

The trust preferred securities, the subordinated debentures that are the assets of Trusts II, III, IV and V and the common securities issued by Trusts II, III, IV and V are redeemable in whole or in part on any interest payment date on or after October 7, 2008 for Trusts II and III, and on or after December 15, 2009 for Trust IV and V, or at any time in whole but not in part within 90 days following the occurrence of certain events. 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 interest payments on the subordinated debentures, which would result in a deferral of distribution payments on the related trust preferred securities, for up to 20 consecutive quarterly periods without default or penalty.

On August 20, 2009, we began deferring regularly scheduled interest payments on our outstanding junior subordinated debentures relating to our trust preferred securities. The terms of the junior subordinated debentures and the trust documents allow us to defer payments of interest for up to 20 consecutive quarterly periods without default or penalty. In March 2013, the Company paid all deferred interest on its subordinated debentures and related dividend payments on its trust preferred securities and resumed quarterly payments for each outstanding trust. As a result, deferred accrued interest totaling $13.0 million was paid in full.

At December 31, 2014, future principal payments on long-term debt based on final maturity are as follows (in thousands):

Year ending December 31:		
2015	$	
2016		
2017		
2018		
2019		
Thereafter		92,785
Total	$	92,785

14. EQUITY

We completed a number of significant transactions as part of our recapitalization, including:

- On February 2, 2011, we effected a 1-for-20 reverse stock split (the Reverse Stock Split).

- On February 18, 2011, we completed a capital raise of $325 million through a private placement offering (the Private Placement) with investments from (1) affiliates of each of The Carlyle Group (Carlyle) and Anchorage Capital Group, L.L.C. (together with Carlyle, the Lead Investors) pursuant to investment agreements with each of the Lead Investors and (2) various other investors, including certain of our directors and officers, pursuant to subscription agreements with each of such investors.

- Concurrently with the closing of the Private Placement, the U.S. Treasury (the Treasury) agreed to exchange 135,000 shares of our Fixed Rate Cumulative Perpetual Preferred Stock (the TARP Preferred Stock) purchased by the Treasury under the Troubled Assets Relief Program (TARP) and accrued and unpaid dividends thereon for 5,620,117 shares of our common stock (the TARP Exchange). We also amended the warrant held by the Treasury (the Amended TARP Warrant) to, among other things, reduce the exercise price from $255.40 per share to $10 per share. The warrant granted the Treasury the right to purchase up to 79,288 common shares, subject to adjustment.

The TARP Exchange resulted in a non-cash increase in net income available to common shareholders of $85.1 million as the book value of the preferred stock plus accrued and unpaid dividends was greater than the estimated fair value of the common stock issued to the Treasury of $56.2 million and the fair value of the Amended TARP Warrant at the time of the TARP Exchange. This accounting treatment had no effect on our total shareholders equity or our regulatory capital position.

In addition to adjusting the exercise price of the Amended TARP Warrant, its terms were revised to include a down-round provision allowing for the future adjustment to the exercise price for any subsequent issuances of common stock by the Company. Subject to certain exceptions, if the Company subsequently issues common stock, or rights or shares convertible into common stock, at a per share price lower than the $10 exercise price of the warrant, the exercise price of the warrant will be reduced to the per share common stock amount received in connection with the issuance and the number of shares of common stock subject to the warrant will be increased. This provision resulted in the warrant being carried as a derivative liability as compared to a common stock equivalent for balance sheet purposes as it possesses the characteristics of a freestanding derivative financial instrument as defined by Accounting Standards Codification (ASC) 815-10-15-83, *Accounting for Derivatives and Hedging,* and similar to the example illustrated in ASC 815-40-55-33 and -34. As a derivative liability, the warrant was carried at fair value, with subsequent remeasurements recorded through the current period s earnings. The initial value attributed to the warrant was $1.7 million, with the fair value estimated using the Black-Scholes options pricing model, with the following assumptions: 67% volatility, a risk-free rate of 3.59%, a yield of 1.45% and an estimated life of 10 years. From February 18, 2011 through December 31, 2012, this instrument s estimated fair value decreased, which resulted in the recognition of $1.0 million recorded in other noninterest income during the year ended December 31, 2011, and a $0.1 million charge to other noninterest expense in 2012.

• On May 6, 2011, we completed a rights offering (the Rights Offering) which allowed shareholders of record as of the close of business on February 17, 2011 or their transferees to purchase newly issued common shares at $10 per share. The rights provided for the purchase of up to $20.0 million of the Company s common stock by holders of such rights. The Rights Offering was fully subscribed.

• On June 22, 2011, the Treasury completed a public underwritten offering of 2,850,000 shares of our common stock it received in the TARP Exchange. On April 4, 2012, the Treasury completed another public underwritten offering of its remaining 2,770,117 shares of our common stock it received in the TARP Exchange. The Company did not receive any proceeds from either of these offerings.In June 2013, the Treasury held a private auction to sell its warrant positions in several financial institutions which included the Company s warrant to purchase up to 79,288 shares of our common shares at a purchase price of $10 per share. On June 6, 2013, we were notified that we were the winning bidder of the warrant at our bid of $0.8 million. The warrant was being carried as a derivative liability on our balance sheet at $0.8 million at December 31, 2012. Accordingly, we recorded a credit to other noninterest expense of $0.1 million in 2013 related to the gain on the purchase of the warrant. Subsequent to the aforementioned transactions with the Treasury, they no longer hold any outstanding shares of our common stock or any warrants to purchase our common stock they received in connection with our participation in the TARP.

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 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). Adoption of the Tax Benefits Preservation Plan was required by our agreements with the Lead Investors. 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.

To further protect our tax benefits, on January 26, 2011, our Board 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. 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.

In 2009, our Board of Directors suspended the payment of all cash dividends on our common stock. Our ability to pay dividends with respect to common stock was restricted until our obligations under our trust preferred securities were brought current. Additionally, our ability to pay dividends depends on our ability to obtain dividends from our bank. 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 December 31, 2014, the bank had Statutory Retained Earnings of $123.8 million. In 2013, in light of the Company s improved capital position and financial condition, our Board of Directors and management, in consultation with our regulators, reinstated and declared quarterly cash dividends on the Company s outstanding common shares.

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.

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. There were no repurchases of common stock during 2013. A total of 55,000 shares remained available for repurchase under the 2008 Repurchase Plan at December 31, 2013. In January 2014, the 2008 Repurchase Plan and the remaining 55,000 shares were superseded by the Tender Offer and Repurchase Agreements with our Lead Investors.

On May 20, 2014, our Board of Directors authorized the repurchase and retirement of up to $30.0 million of the Company s outstanding common stock (the 2014 Repurchase Plan). Repurchases under the 2014 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. A total of $13.5 million remained available for repurchase under the 2014 Repurchase Plan at December 31, 2014.

15. SHARE-BASED COMPENSATION

In accordance with ASC 718, compensation expense is recognized only for those shares expected to vest, based on the Company s historical experience and future expectations. The following table summarizes the effects of share-based compensation to options and awards granted under the Company s equity incentive plans for each of the periods presented:

	Year Ended December 31, (Dollars in thousands)					
	2014		2013		2012	
Salaries and employee benefits	$	6,101	$	6,367	$	4,432
Directors stock awards		37		45		90
Legal and professional services						59
Income tax benefit		(2,443)		(2,570)		
Net share-based compensation effect	$	3,695	$	3,842	$	4,581

The Company s share-based compensation arrangements are described below:

Equity Incentive Plans

We have adopted equity incentive plans for the purpose of granting options, restricted stock and other equity based awards for the Company s common stock to directors, officers and other key individuals. Option awards are generally granted with an exercise price equal to the market price of the Company s common stock at the date of grant; those option awards generally vest based on three or five years of continuous service and have 10-year contractual terms. Certain option and share awards provide for accelerated vesting if there is a change in control (as defined in the stock option plans below). We have historically issued new shares of common stock upon exercises of stock options and purchases of restricted awards.

In February 1997, we adopted the 1997 Stock Option Plan (1997 Plan) basically as a continuance of the 1986 Stock Option Plan. In April 1997, our shareholders approved the 1997 Plan, which provided 2,000,000 shares of the Company s common stock for grants to employees as qualified incentive stock options and to directors as nonqualified stock options. On January 1, 2013, the last options issued under the 1997 Plan expired.

In September 2004, we adopted and our shareholders approved the 2004 Stock Compensation Plan (2004 Plan) making available 1,500,000 shares for grants to employees and directors. Upon adoption of the 2004 Plan, all unissued shares from the 1997 Plan were frozen and no new options were granted under the 1997 Plan. In May 2007, the 2004 Plan was amended to increase the number of shares available for grant by an additional 1,000,000 shares. In April 2011, the 2004 Plan was amended to increase the number of shares authorized from 1,402,589 to

4,944,831.

In April 2013, we adopted and our shareholders approved the 2013 Stock Compensation Plan (2013 Plan) making available 2,200,000 shares for grants to employees and directors. Upon adoption of the 2013 Plan, all unissued shares from the 2004 Plan were frozen and no new grants will be granted under the 2004 Plan. Shares may continue to be settled under the 1997 and 2004 Plans pursuant to previously outstanding awards. To satisfy share issuances pursuant to the equity incentive plans, we issue new shares from the 2013 Plan.

At December 31, 2014, 2013 and 2012, a total of 1,993,385, 2,185,454 and 1,604,198 shares, respectively, were available for future grants.

The fair value of each option award is estimated on the date of grant based on the following:

Valuation and amortization method We estimate the fair value of stock options granted using the Black-Scholes option pricing formula and a single option award approach. We use historical data to estimate option exercise and employee termination activity within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. This fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period.

Expected life The expected life of options represents the period of time that options granted are expected to be outstanding.

Expected volatility Expected volatilities are based on the historical volatility of the Company s common stock.

Risk-free interest rate The risk-free interest rate for periods within the contractual life of the option is based on the Treasury yield curve in effect at the time of grant.

Expected dividend The expected dividend assumption is based on our current expectations about its anticipated dividend policy.

Stock Option Activity

The fair value of the Company s stock options granted to employees was estimated using the following weighted-average assumptions:

		Year Ended December 31, 2012
Expected volatility		77.2%
Risk free interest rate		1.8%
Expected dividends		1.0%
Expected life (in years)		8.0
Weighted average fair value	$	9.65

No stock options were granted during 2014 and 2013.

The following is a summary of option activity for our stock option plans for the year ended December 31, 2014:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2014	302,648	$ 51.79		
Changes during the year:				
Exercised	(5,187)	14.31		
Expired	(9,485)	546.31		
Forfeited	(1,569)	556.65		
Outstanding at December 31, 2014	286,407	33.32	7.1	$ 1,956
Vested and expected to vest at December 31, 2014	286,407	33.32	7.1	1,956
Exercisable at December 31, 2014	146,908	51.35	6.9	957

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying option awards and the quoted price of the Company s common stock for the options that were in-the-money at December 31, 2014. During the years ended December 31, 2014 and 2013, the aggregate intrinsic value of options exercised under our stock option plan was $31 thousand and $22 thousand, respectively, determined as of the date of exercise. During the year ended December 31, 2012, no stock options were exercised.

As of December 31, 2014, the total compensation cost that was not yet recognized related to stock options granted to employees under our stock option plans was approximately $1.0 million, net of estimated forfeitures. This cost will be amortized on a straight-line basis over a weighted-average period of 2.3 years and will be adjusted for subsequent changes in estimated forfeitures. The total fair value of shares vested during the years ended December 31, 2014, 2013 and 2012 was $0.7 million, $0.7 million and $14 thousand, respectively.

Restricted Stock Awards and Units

Under the 1997, 2004 and 2013 Plans, we awarded restricted stock awards and units to our non-officer directors and certain senior management personnel. The awards typically vest over a three or five year period. Compensation expense is measured as the market price of the stock awards on the grant date, and is recognized over the specified vesting periods.

The table below presents the activity of restricted stock awards and units for the year ended December 31, 2014:

	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2014	835,904	$ 14.75
Changes during the year:		

Granted	198,215	18.61
Forfeited	(40,228)	14.88
Vested	(278,431)	14.63
Nonvested at December 31, 2014	715,460	15.77
Vested and expected to vest at December 31, 2014	715,460	15.77

As of December 31, 2014, there was $7.0 million of total unrecognized compensation cost related to restricted stock awards and units that is expected to be recognized over a weighted-average period of 2.5 years.

16. PENSION PLANS

Defined Benefit Retirement Plan

The bank has a defined benefit retirement plan that covered substantially all of its employees who were employed during the period that the plan was in effect. The plan was initially curtailed in 1986, and accordingly, plan benefits were fixed as of that date. Effective January 1, 1991, the bank reactivated its defined benefit retirement plan. As a result of the reactivation, employees for whom benefits were fixed in 1986 began to accrue additional benefits under a new formula that became effective January 1, 1991. Employees who were not participants at curtailment, but who were subsequently eligible to join, became participants effective January 1, 1991. Under the reactivated plan, benefits are based upon the employees years of service and their highest average annual salaries in a 60-consecutive-month period of service, reduced by benefits provided from the bank s terminated money purchase pension plan. The reactivation of the defined benefit retirement plan resulted in an increase of $5.9 million in the unrecognized prior service cost, which was amortized over a period of 13 years. Effective December 31, 2002, the bank curtailed its defined benefit retirement plan, and accordingly, plan benefits were fixed as of that date.

The following tables set forth information pertaining to the defined benefit retirement plan:

	Year Ended December 31, 2014		2013	
	(Dollars in thousands)			
Change in benefit obligation				
Benefit obligation at beginning of year	$	32,183	$	36,139
Interest cost		1,485		1,370
Actuarial (gains) losses		5,709		(2,969)
Benefits paid		(3,047)		(2,357)
Benefit obligation at end of the year		36,330		32,183
Change in plan assets				
Fair value of plan assets at beginning of year		27,782		23,780
Actual return on plan assets		1,813		4,712
Employer contributions		1,343		1,647
Benefits paid		(3,047)		(2,357)
Fair value of plan assets at end of year		27,891		27,782
Funded status at end of year	$	(8,439)	$	(4,401)
Amounts recognized in AOCI				
Net actuarial losses	$	(15,647)	$	(10,895)
Benefit obligation actuarial assumptions				
Weighted average discount rate		4.0%		4.7%

	Year Ended December 31, 2014		2013		2012	
	(Dollars in thousands)					
Components of net periodic benefit cost						
Interest cost	$	1,485	$	1,370	$	1,585
Expected return on plan assets		(1,924)		(1,762)		(1,791)
Amortization of net actuarial losses		1,068		2,390		2,385

Net periodic benefit cost	$ 629	$ 1,998	$ 2,179
Net periodic cost actuarial assumptions			
Weighted average discount rate	4.7%	4.0%	4.8%
Expected long-term rate of return on plan assets	7.0%	7.5%	8.0%

122

The unrecognized net actuarial losses included in AOCI expected to be recognized in net periodic benefit cost during 2015 is approximately $1.6 million.

The long-term rate of return on plan assets reflects the weighted-average long-term rates of return for the various categories of investments held in the plan. The expected long-term rate of return is adjusted when there are fundamental changes in expected returns on the plan investments.

The defined benefit retirement plan assets consist primarily of equity and debt securities. Our asset allocations by asset category were as follows:

	December 31, 2014	2013
Equity securities	56.1%	59.9%
Debt securities	41.8	34.6
Other	2.1	5.5
Total	100.0%	100.0%

Equity securities included the Company s common stock in the amount of $0.1 million at December 31, 2014 and 2013.

Our investment strategy for the defined benefit retirement plan is to maximize the long-term rate of return on plan assets while maintaining an acceptable level of risk. The investment policy establishes a target allocation for each asset class that is reviewed periodically and rebalanced when considered appropriate.

The fair values of the defined benefit retirement plan as of December 31, 2014 and 2013 by asset category were as follows:

	Level 1	Level 2 (Dollars in thousands)	Level 3	Total
December 31, 2014				
Money market accounts	$ 958	$	$	$ 958
Mutual funds	9,946			9,946
Government obligations		3,900		3,900
Common stocks	9,765			9,765
Preferred stocks	250			250
Corporate bonds and debentures		3,072		3,072
	$ 20,919	$ 6,972	$	$ 27,891
December 31, 2013				
Money market accounts	$ 1,841	$	$	$ 1,841
Mutual funds	9,795			9,795
Government obligations		3,450		3,450
Common stocks	8,744			8,744
Preferred stocks	255			255
Corporate bonds and debentures		3,697		3,697
	$ 20,635	$ 7,147	$	$ 27,782

We expect to contribute approximately $1.0 million to our defined benefit retirement plan in 2015.

Estimated future benefit payments are as follows (in thousands):

Year ending December 31:		
2015	$	2,498
2016		2,525
2017		2,508
2018		2,495
2019		2,467
2020-2024		11,663
Total	$	24,156

Supplemental Executive Retirement Plans

In 1995, 2001, 2004 and 2006, our bank established Supplemental Executive Retirement Plans (SERP) that provide certain officers of the Company with supplemental retirement benefits. On December 31, 2002, the 1995 and 2001 SERP were curtailed. In conjunction with the merger with CB Bancshares, Inc. (CBBI), we assumed CBBI s SERP obligation.

The following tables set forth information pertaining to the SERP:

	Year Ended December 31, (Dollars in thousands)			
		2014		2013
Change in benefit obligation				
Benefit obligation at beginning of year	$	9,107	$	9,944
Interest cost		450		411
Actuarial (gains) losses		1,588		(1,033)
Benefits paid		(215)		(215)
Benefit obligation at end of year		10,930		9,107
Change in plan assets				
Fair value of plan assets at beginning of year				
Employer contributions		215		215
Benefits paid		(215)		(215)
Fair value of plan assets at end of year				
Funded status at end of year	$	(10,930)	$	(9,107)
Amounts recognized in AOCI				
Net transition obligation	$	(147)	$	(164)
Prior service cost		(101)		(119)
Net actuarial losses		(1,965)		(379)
Total amounts recognized in AOCI	$	(2,213)	$	(662)
Benefit obligation actuarial assumptions				
Weighted average discount rate		4.1%		5.0%

Explanation of Responses:

	Year Ended December 31, 2014	2013	2012
	(Dollars in thousands)		
Components of net periodic benefit cost			
Interest cost	$ 450	$ 411	$ 426
Amortization of net transition obligation	17	17	17
Amortization of prior service cost	18	18	18
Amortization of net actuarial (gains) losses	2	71	(4)
Net periodic benefit cost	$ 487	$ 517	$ 457
Net periodic cost actuarial assumptions			
Weighted average discount rate	5.0%	4.2%	5.0%

The estimated amortization of components included in AOCI that will be recognized into net periodic cost for 2015 is as follows (in thousands):

Amortization of net transition obligation	$ 17
Amortization of prior service cost	18
Amortization of net actuarial losses	111

The SERP holds no plan assets other than employer contributions that are paid as benefits during the year. We expect to contribute $0.2 million to the SERP in 2015.

Estimated future benefit payments reflecting expected future service for the SERP are as follows (in thousands):

Year ending December 31:	
2015	$ 215
2016	231
2017	422
2018	418
2019	415
2020-2024	2,801
Total	$ 4,502

17. 401(K) RETIREMENT SAVINGS PLAN

We maintain a 401(k) Retirement Savings Plan (Retirement Savings Plan) that covers substantially all employees of the Company. The Retirement Savings Plan allows employees to direct their own investments among a selection of investment alternatives and is funded by employee elective deferrals, employer matching contributions and employer profit sharing contributions.

We match 100% of an employee s elective deferrals, up to 4% of the employee s pay each pay period. Our employer matching contributions to the Retirement Savings Plan totaled $1.5 million, $1.7 million and $1.6 million in 2014, 2013 and 2012, respectively.

We also have the option of making discretionary profit sharing contributions into the Retirement Savings Plan. Our Board of Directors has sole discretion in determining the annual profit sharing contribution, subject to limitations of the Internal Revenue Code. We did not make any profit sharing contributions in 2014, 2013 and 2012.

18. OPERATING LEASES

We lease certain properties and equipment with lease terms expiring through 2038. In most instances, the property leases provide for the renegotiation of rental terms at fixed intervals, and generally contain renewal options for periods ranging from five to 15 years.

Net rent expense for all operating leases for the years ended December 31, 2014, 2013 and 2012 is summarized as follows:

	Year Ended December 31, 2014		2013 (Dollars in thousands)		2012	
Rent expense charged to net occupancy	$	10,210	$	9,840	$	10,053
Less sublease income				(52)		(25)
Net rent expense charged to net occupancy		10,210		9,788		10,028
Rent expense charged to equipment expense		53		93		104
Total net rent expense	$	10,263	$	9,881	$	10,132

The following is a schedule of future minimum rental commitments for all noncancellable operating leases that had initial lease terms in excess of one year at December 31, 2014 (in thousands):

Year ending December 31:		
2015	$	7,756
2016		6,213
2017		5,643
2018		4,711
2019		3,961
Thereafter		24,604
Total	$	52,888

In addition, the Company, as lessor, leases certain properties that it owns. The following is a schedule of future minimum rental income for those noncancellable operating leases that had initial lease terms in excess of one year at December 31, 2014 (in thousands):

Year ending December 31:		
2015	$	2,798
2016		1,713
2017		1,133
2018		506
2019		178
Thereafter		153
Total	$	6,481

In instances where the lease calls for a renegotiation of rental payments, the lease rental payment in effect prior to renegotiation was used throughout the remaining lease term.

19. INCOME AND FRANCHISE TAXES

Components of income tax expense (benefit) for the years ended December 31, 2014, 2013 and 2012 were as follows:

	Current	Deferred (Dollars in thousands)	Total
Year ended December 31, 2014			
Federal	$	$ 18,710	$ 18,710
State	(93)	1,772	1,679
Total	$ (93)	$ 20,482	$ 20,389
Year ended December 31, 2013			
Federal	$	$ (81,613)	$ (81,613)
State	(109)	(30,525)	(30,634)
Total	$ (109)	$ (112,138)	$ (112,247)
Year ended December 31, 2012			
Federal	$	$	$
State			
Total	$	$	$

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

	2014	Year Ended December 31, 2013 (Dollars in thousands)	2012
Computed expected tax expense (benefit)	$ 21,295	$ 20,940	$ 16,598
Increase (decrease) in taxes resulting from:			
Tax-exempt interest	(1,412)	(1,431)	(820)
Other tax-exempt income	(1,023)	(810)	(976)
Low-income housing and energy tax credits	(2,088)	(1,557)	(1,607)
State income taxes, net of Federal income tax effect, excluding impact of deferred tax valuation allowance	2,638	2,389	2,540
Change in the beginning-of-the-year balance of the valuation allowance for deferred tax assets allocated to income tax expense	(180)	(129,806)	(14,761)
Other	1,159	(1,972)	(974)
Total	$ 20,389	$ (112,247)	$

At December 31, 2014, there was no current Federal income taxes receivable, compared to a $0.1 million receivable at December 31, 2013. Current state income taxes receivable was $1.7 million and $1.8 million at December 31, 2014 and 2013, respectively.

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities were as follows:

	December 31, 2014		December 31, 2013	
	(Dollars in thousands)			
Deferred tax assets				
Allowance for loan and lease losses	$	26,052	$	28,926
Accrued expenses		2,981		2,950
Employee retirement benefits		11,023		8,762
Federal and state tax credit carryforwards		30,593		37,449
Investment write-downs and write-offs				3,051
Interest on nonaccrual loans		1,600		1,962
Federal and state net operating loss carryforwards		57,173		87,757
Other		13,357		15,486
Total deferred tax assets	$	142,779	$	186,343
Deferred tax liabilities				
Intangible assets	$	11,803	$	13,117
FHLB stock dividends received		10,742		11,848
Leases		1,203		2,755
Deferred gain on curtailed retirement plan		3,315		3,339
Liability on utilization of state tax credits		6,237		7,722
Other		2,234		3,614
Total deferred tax liabilities	$	35,534	$	42,395
Deferred tax valuation allowance	$	2,847	$	6,700
Net deferred tax assets	$	104,398	$	137,248

The valuation allowance for deferred tax assets as of December 31, 2014 and 2013 was $2.8 million and $6.7 million, respectively. The net change in the total valuation allowance was a decrease of $3.9 million and $140.8 million in 2014 and 2013, respectively.

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

In the first quarter of 2013, the Company reversed a significant portion of the valuation allowance that was established against our net DTA during the third quarter of 2009. The valuation allowance was established during 2009 due to uncertainty at the time regarding our ability to generate sufficient future taxable income to fully realize the benefit of our net DTA. 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 a significant portion of our net DTA would be realized. The net impact of reversing the valuation allowance and recording the provision for income tax expense was a net income tax benefit of $119.8 million in the first quarter of 2013.

At December 31, 2014, the Company had net operating loss carryforwards for Federal income tax purposes of $140.5 million, which are available to offset future Federal taxable income, if any, through 2030. At December 31, 2014, the Company had net operating loss carryforwards for Hawaii and California state income tax purposes of $108.7 million and $39.7 million, respectively, which are available to offset future state taxable income, if any, through 2030. In addition, we have state tax credit carryforwards of $14.7 million that do not expire, and federal tax credit carryforwards of $15.9 million, of which $13.5 million will expire within 20 years, and $2.4 million do not expire.

As further described in Note 14, to help protect the Company s tax benefits, the Company implemented the Tax Benefits Preservation Plan on November 23, 2011 and the Protective Charter Amendment on January 26, 2011.

At December 31, 2014, we have no unrecognized tax benefits that, if recognized would favorably affect the effective income tax rate in future periods. We do not expect our unrecognized tax benefits to change significantly over the next 12 months.

We are subject to U.S. Federal income tax as well as income tax of multiple state jurisdictions. Taxable years through 2010 are closed.

20. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents the components of other comprehensive income (loss) for the years ended December 31, 2014, 2013 and 2012, by component:

	Before Tax	Tax Effect	Net of Tax
		(Dollars in thousands)	
Year Ended December 31, 2014			
Net unrealized gains on investment securities:			
Net unrealized gains arising during the period	$ 36,780	$ 14,714	$ 22,066
Less: Reclassification adjustment for losses realized in net income	1,071	426	645
Net unrealized gains on investment securities	37,851	15,140	22,711
Defined benefit plans:			
Net actuarial losses arising during the period	(7,409)	(3,052)	(4,357)
Amortization of net actuarial losses	1,070	441	629
Amortization of net transition obligation	17	7	10
Amortization of prior service cost	18	7	11
Defined benefit plans, net	(6,304)	(2,597)	(3,707)
Other comprehensive income	$ 31,547	$ 12,543	$ 19,004
Year Ended December 31, 2013			
Net unrealized losses on investment securities:			
Net unrealized losses arising during the period	$ (43,687)	$ (15,577)	$ (28,110)
Less: Reclassification adjustment for gains realized in net income	(6,266)	(2,511)	(3,755)
Net unrealized losses on investment securities	(49,953)	(18,088)	(31,865)
Net unrealized gains on derivatives:			
Reclassification adjustment for losses realized in net income	394	(10,599)	10,993
Net unrealized gains on derivatives	394	(10,599)	10,993
Defined benefit plans:			
Net actuarial gains arising during the period	6,952	2,591	4,361
Amortization of net actuarial losses	2,461	986	1,475
Amortization of net transition obligation	17	7	10

Amortization of prior service cost		18		7		11
Defined benefit plans, net		9,448		3,591		5,857
Other comprehensive loss	$	(40,111)	$	(25,096)	$	(15,015)

	Before Tax	Tax Effect (Dollars in thousands)	Net of Tax
Year Ended December 31, 2012			
Net unrealized losses on investment securities:			
Net unrealized losses arising during the period	$ (2,653)	$	$ (2,653)
Less: Reclassification adjustment for losses realized in net income	1,382		1,382
Net unrealized losses on investment securities	(1,271)		(1,271)
Net unrealized losses on derivatives:			
Reclassification adjustment for gains realized in net income	(434)		(434)
Net unrealized losses on derivatives	(434)		(434)
Defined benefit plans:			
Net actuarial losses arising during the period	(3,653)		(3,653)
Amortization of net actuarial losses	2,381	51	2,330
Amortization of net transition obligation	17		17
Amortization of prior service cost	17		17
Defined benefit plans, net	(1,238)	51	(1,289)
Other comprehensive loss	$ (2,943)	$ 51	$ (2,994)

The following table presents the changes in each component of AOCI, net of tax, for the years ended December 31, 2014, 2013 and 2012:

	Investment Securities	Derivatives	Defined Benefit Plans	Accumulated Other Comprehensive Income (Loss)
		(Dollars in thousands)		
Year Ended December 31, 2014				
Balance at beginning of period	$ (9,125)	$	$ (6,720)	$ (15,845)
Other comprehensive income (loss) before reclassifications	22,066		(4,357)	17,709
Amounts reclassified from AOCI	645		650	1,295
Total other comprehensive income (loss)	22,711		(3,707)	19,004
Balance at end of period	$ 13,586	$	$ (10,427)	$ 3,159
Year Ended December 31, 2013				
Balance at beginning of period	$ 22,740	$ (10,993)	$ (12,577)	$ (830)
Other comprehensive income (loss) before reclassifications	(28,110)		4,361	(23,749)
Amounts reclassified from AOCI	(3,755)	10,993	1,496	8,734
Total other comprehensive income (loss)	(31,865)	10,993	5,857	(15,015)
Balance at end of period	$ (9,125)	$	$ (6,720)	$ (15,845)
Year Ended December 31, 2012				
Balance at beginning of period	$ 24,011	$ (10,559)	$ (11,288)	$ 2,164
Other comprehensive loss before reclassifications	(2,653)		(3,653)	(6,306)
Amounts reclassified from AOCI	1,382	(434)	2,364	3,312
Total other comprehensive loss	(1,271)	(434)	(1,289)	(2,994)
Balance at end of period	$ 22,740	$ (10,993)	$ (12,577)	$ (830)

The following table presents the amounts reclassified out of each component of AOCI for the years ended December 31, 2014, 2013 and 2012:

Details about AOCI Components (Dollars in thousands)	Amount Reclassified from AOCI Year ended December 31, 2014	2013	2012	Affected Line Item in the Statement Where Net Income is Presented
Sale of investment securities available for sale	$ (1,071)	$ 6,266	$ (1,382)	Investment securities gains
	426	(2,511)		Tax (expense) benefit
	$ (645)	$ 3,755	$ (1,382)	Net of tax
Unrealized gains (losses) on derivatives	$	$ (394)	$ 434	Interest income
		(10,599)		Tax expense
	$	$ (10,993)	$ 434	Net of tax
Amortization of defined benefit plan items				
Net actuarial losses	$ (1,070)	$ (2,461)	$ (2,381)	(1)
Net transition obligation	(17)	(17)	(17)	(1)
Prior service cost	(18)	(18)	(17)	(1)
	(1,105)	(2,496)	(2,415)	Total before tax
	455	1,000	51	Tax benefit
	$ (650)	$ (1,496)	$ (2,364)	Net of tax
Total reclassifications for the period	$ (1,295)	$ (8,734)	$ (3,312)	Net of tax

(1) These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see Note 16 for additional details).

21. EARNINGS PER SHARE

The table below presents the information used to compute basic and diluted earnings per share for the years ended December 31, 2014, 2013 and 2012:

	Year Ended December 31, 2014	2013	2012
	(In thousands, except per share data)		
Net income	$ 40,453	$ 172,075	$ 47,421
Weighted average shares outstanding - basic	37,366	41,961	41,720
Dilutive effect of employee stock options and awards	571	341	278
Dilutive effect of deferred salary restricted stock units		1	64
Dilutive effect of Treasury warrants		14	22
Weighted average shares outstanding - diluted	37,937	42,317	42,084
Basic earnings per share	$ 1.08	$ 4.10	$ 1.14
Diluted earnings per share	$ 1.07	$ 4.07	$ 1.13

A total of 13,510, 24,526 and 316,188 potentially dilutive securities have been excluded from the dilutive share calculation for the year ended December 31, 2014, 2013 and 2012, respectively, as their effect was antidilutive.

22. CONTINGENT LIABILITIES AND OTHER COMMITMENTS

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

In the normal course of business there are outstanding contingent liabilities and other commitments such as unused letters of credit, items held for collections and unsold traveler s checks, which are not reflected in the accompanying consolidated financial statements. Management does not anticipate any material losses as a result of these transactions.

23. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

We are a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit, standby letters of credit and financial guarantees written, forward foreign exchange contracts, and interest rate contracts. Those instruments involve, to varying degrees, elements of credit, interest rate and foreign exchange risk in excess of the amounts recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement we have in particular classes of financial instruments.

Our exposure to credit loss in the event of nonperformance by the counterparty to the financial instrument for commitments to extend credit and standby letters of credit and financial guarantees written is represented by the contractual amount of those instruments. For forward foreign exchange contracts and interest rate contracts, the contract amounts do not represent exposure to credit loss. We control the credit risk of these contracts through credit approvals, limits and monitoring procedures. We use the same credit policies in making commitments and conditional obligations as we do for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. We evaluate each customer s creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management s credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

Standby letters of credit and financial guarantees written are conditional commitments issued by us to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. We hold collateral supporting those commitments for which collateral is deemed necessary.

Interest rate options issued on residential mortgage loans expose us to interest rate risk, which is economically hedged with forward interest rate contracts. These derivatives are carried at fair value with changes in fair value recorded as a component of other operating income in the consolidated statements of income.

Forward interest rate contracts represent commitments to purchase or sell loans at a future date at a specified price. Risks arise from the possible inability of counter-parties to meet the terms of their contracts and from movements in market rates. Management reviews and approves the creditworthiness of the counterparties to its forward interest rate contracts.

Forward foreign exchange contracts represent commitments to purchase or sell foreign currencies at a future date at a specified price. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movements in foreign currency exchange rates. Management reviews and approves the creditworthiness of its forward foreign exchange counterparties. At December 31, 2014 and 2013, we did not have any forward foreign exchange contracts.

At December 31, 2014 and 2013, financial instruments with off-balance sheet risk were as follows:

	December 31, 2014	December 31, 2013
	(Dollars in thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 720,255	$ 652,717
Standby letters of credit and financial guarantees written	18,797	19,362
Financial instruments whose contract amounts exceed the amount of credit risk:		
Interest rate options	44,266	37,093
Forward interest rate contracts	23,919	24,244

24. FAIR VALUE OF 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, the majority of 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.

	Carrying amount	Estimated fair value	Fair Value Measurement Using Quoted Prices in Active Markets for Identical Assets (Level 1) (Dollars in thousands)	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	
Interest rate options	44,266	444		444	
Forward interest rate contracts	23,919	(62)		(62)	
December 31, 2013					
Financial assets					
Cash and due from banks	$ 45,092	$ 45,092	$ 45,092	$	$
Interest-bearing deposits in other banks	4,256	4,256	4,256		
Investment securities	1,660,046	1,646,704	875	1,635,311	10,518
Loans held for sale	12,370	12,370			12,370
Net loans and leases	2,546,781	2,430,282		64,705	2,365,577
Accrued interest receivable	14,072	14,072	14,072		
Financial liabilities					
Deposits:					
Noninterest-bearing deposits	891,017	891,017	891,017		
Interest-bearing demand and savings deposits	1,935,635	1,935,635	1,935,635		
Time deposits	1,109,521	1,111,319			1,111,319
Short-term debt	8,015	8,015		8,015	
Long-term debt	92,799	39,446		39,446	
Accrued interest payable (included in other liabilities)	1,040	1,040	1,040		
Off-balance sheet financial instruments					
Commitments to extend credit	652,717	3,264		3,264	

Standby letters of credit and financial guarantees written	19,362	145	145
Interest rate options	37,093	70	70
Forward interest rate contracts	24,244	210	210

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 year ended December 31, 2014.

The following table below presents the balances of assets and liabilities measured at fair value on a recurring basis:

	Fair Value	Fair Value at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in thousands)			
December 31, 2014				
Available for sale securities:				
Debt securities:				
States and political subdivisions	$ 191,645	$	$ 178,550	$ 13,095
Corporate securities	100,604		100,604	
Mortgage-backed securities:				
U.S. Government sponsored entities	751,558		751,558	
Non-agency collateralized mortgage obligations	184,334		184,334	
Other	877	877		
Derivatives - Interest rate contracts	382		382	
Total	$ 1,229,400	$ 877	$ 1,215,428	$ 13,095
December 31, 2013				
Available for sale securities:				
Debt securities:				
States and political subdivisions	$ 179,357	$	$ 168,839	$ 10,518
Corporate securities	158,095		158,095	
Mortgage-backed securities:				
U.S. Government sponsored entities	927,626		927,626	
Non-agency collateralized mortgage obligations	142,046		142,046	
Other	875	875		
Derivatives - Interest rate contracts	279		279	
Total	$ 1,408,278	$ 875	$ 1,396,885	$ 10,518

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows:

		Available for Sale Debt Securities - States and Political Subdivisions (Dollars in thousands)
Balance at December 31, 2012	$	12,826
Principal payments received		(2,797)
Purchases		1,146
Unrealized net loss included in other comprehensive loss		(657)
Balance at December 31, 2013	$	10,518
Principal payments received		(275)
Purchases		2,706
Unrealized net gain included in other comprehensive income		146
Balance at December 31, 2014	$	13,095

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 $13.1 million and $10.5 million at December 31, 2014 and 2013, 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 December 31, 2014, the weighted average discount rate utilized was 3.75%, 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, the following table provides the level of valuation assumptions used to determine the respective fair values:

			Fair Value Measurements Using (Dollars in thousands)							
		Fair Value		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)		Total Losses
December 31, 2014										
Impaired loans (1)	$	70,743	$		$	70,743	$		$	2,532
Other real estate (2)		2,948				2,948				1,540
									$	4,072
December 31, 2013										
Impaired loans (1)	$	64,705	$		$	64,705	$		$	3,298
Other real estate (2)		5,163				5,163				362
									$	3,660

(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.

25. SEGMENT INFORMATION

We have the following three reportable segments: Banking Operations, Treasury and All Others. The 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, consumer 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 includes 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 those described in Note 1. 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 (losses) and assets are provided in the following table for the periods indicated:

		Banking Operations		Treasury		All Others		Total
				(Dollars in thousands)				
Year ended December 31, 2014:								
Net interest income	$	108,815	$	34,603	$		$	143,418
Intersegment net interest income (expense)		34,308		(33,356)		(952)		
Credit (provision) for loan and lease losses		6,414						6,414
Other operating income		24,496		4,042		15,285		43,823
Other operating expense		(60,587)		(2,086)		(70,140)		(132,813)
Administrative and overhead expense allocation		(59,610)		(1,126)		60,736		
Income taxes		(18,843)		(727)		(819)		(20,389)
Net income	$	34,993	$	1,350	$	4,110	$	40,453
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
Year ended December 31, 2013:								
Net interest income	$	101,282	$	31,827	$		$	133,109
Intersegment net interest income (expense)		16,947		(30,675)		13,728		
Credit (provision) for loan and lease losses		11,310						11,310
Other operating income		26,140		3,137		25,668		54,945
Other operating expense		(58,891)		(3,788)		(76,857)		(139,536)
Administrative and overhead expense allocation		(54,851)		(2,004)		56,855		
Income taxes		117,088		218		(5,059)		112,247
Net income (loss)	$	159,025	$	(1,285)	$	14,335	$	172,075
At December 31, 2013:								
Investment securities	$		$	1,660,046	$		$	1,660,046
Loans and leases (including loans held for sale)		2,642,971						2,642,971
Other		117,655		256,807		63,719		438,181
Total assets	$	2,760,626	$	1,916,853	$	63,719	$	4,741,198
Year ended December 31, 2012:								
Net interest income	$	92,500	$	27,211	$		$	119,711
Intersegment net interest income (expense)		34,018		(22,229)		(11,789)		
Credit (provision) for loan and lease losses		18,885						18,885
Other operating income		32,062		4,135		24,546		60,743
Other operating expense		(61,130)		(1,728)		(89,060)		(151,918)
Administrative and overhead expense allocation		(70,592)		(1,033)		71,625		
Net income (loss)	$	45,743	$	6,356	$	(4,678)	$	47,421

26. PARENT COMPANY AND REGULATORY RESTRICTIONS

At December 31, 2014, the accumulated deficit of the parent company, Central Pacific Financial Corp., included $357.8 million of equity in undistributed losses of Central Pacific Bank.

Central Pacific Bank, as a Hawaii state-chartered 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 December 31, 2014, the bank had Statutory Retained Earnings of $123.8 million. For further information, see Note 14.

In December 2009, the Board of Directors of Central Pacific Bank agreed to the Consent Order with the FDIC and DFI. In May 2011, the Consent Order was lifted and replaced with the Bank MOU. On October 26, 2012, the Bank MOU was terminated, as described in Note 2.

In July 2010, Central Pacific Financial Corp. entered into the Written Agreement with the FRBSF, as described in Note 2, which was terminated on February 12, 2013.

Section 131 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA) required the Board of Governors of the Federal Reserve System, FDIC, and the Comptroller of the Currency (collectively, the Agencies) to develop a mechanism to take prompt corrective action to resolve the problems of insured depository institutions. The final rules to implement FDICIA s Prompt Corrective Action provisions established minimum regulatory capital standards to determine an insured depository institution s capital category. However, the Agencies may impose higher minimum standards on individual institutions or may downgrade an institution from one capital category to a lower capital category because of safety and soundness concerns.

The Prompt Corrective Action provisions impose certain restrictions on institutions that are undercapitalized. The restrictions become increasingly more severe as an institution s capital category declines from undercapitalized to critically undercapitalized.

The following table sets forth actual and required capital and capital ratios for the Company and the bank, as well as the minimum capital adequacy requirements applicable generally to all financial institutions as of the dates indicated. The Company s and the bank s leverage capital, Tier 1 and total risk-based capital ratios as of December 31, 2014 were above the levels required for a well-capitalized regulatory designation.

	Actual		Minimum required for capital adequacy purposes		Minimum required to be well-capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
Company						
As of 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
As of December 31, 2013:						
Leverage capital	$ 632,724	13.7%	$ 184,995	4.0%	$ 231,244	5.0%
Tier 1 risk-based capital	632,724	20.3	124,854	4.0	187,282	6.0
Total risk-based capital	672,374	21.5	249,709	8.0	312,136	10.0
Central Pacific Bank						
As of December 31, 2014:						
Leverage capital	$ 540,273	11.6%	$ 186,828	4.0%	$ 233,535	5.0%
Tier 1 risk-based capital	540,273	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
As of December 31, 2013:						
Leverage capital	$ 610,753	13.2%	$ 184,736	4.0%	$ 230,920	5.0%
Tier 1 risk-based capital	610,753	19.6	124,608	4.0	186,912	6.0
Total risk-based capital	650,273	20.9	249,216	8.0	311,520	10.0

Condensed financial statements, solely of the parent company, Central Pacific Financial Corp., follow:

Central Pacific Financial Corp.

Condensed Balance Sheets

	December 31, 2014	December 31, 2013
	(Dollars in thousands)	
Assets		
Cash and cash equivalents	$ 22,775	$ 19,629
Investment securities available for sale	877	875
Investment in subsidiary bank, at equity in underlying net assets	612,505	710,122
Investment in other subsidiaries, at equity in underlying assets		554
Accrued interest receivable and other assets	26,136	23,202
Total assets	$ 662,293	$ 754,382
Liabilities and Shareholders Equity		
Long-term debt	$ 92,785	$ 92,785
Other liabilities	1,467	1,484
Total liabilities	94,252	94,269
Shareholders equity:		
Preferred stock, no par value, authorized 1,100,000 shares; issued and outstanding none at December 31, 2014 and 2013		
Common stock, no par value, authorized 185,000,000 shares; issued and outstanding 35,233,674 and 42,107,633 shares at December 31, 2014 and 2013, respectively	642,205	784,547
Surplus	79,716	75,498
Accumulated deficit	(157,039)	(184,087)
Accumulated other comprehensive income (loss)	3,159	(15,845)
Total shareholders equity	568,041	660,113
Total liabilities and shareholders equity	$ 662,293	$ 754,382

Central Pacific Financial Corp.

Condensed Statements of Income

	Year Ended December 31, 2014	2013 (Dollars in thousands)	2012
Income:			
Dividends from subsidiary banks	$ 159,319	$	$
Interest income:			
Interest from subsidiary banks	16	30	48
Other income	89	2,001	9
Total income	159,424	2,031	57
Expense:			
Interest on long-term debt	2,572	3,118	3,687
Other expenses	2,262	2,679	3,081
Total expenses	4,834	5,797	6,768
Gain (loss) before income taxes and equity in undistributed income of subsidiaries	154,590	(3,766)	(6,711)
Income tax benefit	(2,520)	(31,891)	
Income (loss) before equity in undistributed income of subsidiaries	157,110	28,125	(6,711)
Equity in undistributed income (loss) of subsidiary bank	(116,657)	143,945	54,124
Equity in undistributed income of other subsidiaries		5	8
Net income	$ 40,453	$ 172,075	$ 47,421

143

Central Pacific Financial Corp.

Condensed Statements of Cash Flows

	Year Ended December 31, 2014	2013 (Dollars in thousands)	2012
Cash flows from operating activities			
Net income	$ 40,453	$ 172,075	$ 47,421
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Deferred income tax benefit	(2,520)	(25,707)	
Equity in undistributed income (loss) of subsidiary bank	116,657	(143,945)	(54,124)
Equity in undistributed income of other subsidiaries		(5)	(8)
Share-based compensation	4,218	4,931	90
Accrued interest payable		(11,919)	3,687
Other, net	(923)	(362)	3,994
Net cash provided by (used in) operating activities	157,885	(4,932)	1,060
Cash flows from investing activities			
Distribution from unconsolidated subsidiaries	479	9,000	
Contributions to unconsolidated subsidiaries	518	(9,000)	
Net cash provided by investing activities	997		
Cash flows from financing activities			
Net proceeds from issuance of common stock and stock option exercises	74	74	
Repayments of long-term debt		(15,464)	
Repurchases of common stock	(142,405)		
Dividends paid	(13,405)	(6,735)	
Net cash used in financing activities	(155,736)	(22,125)	
Net increase (decrease) in cash and cash equivalents	3,146	(27,057)	1,060
Cash and cash equivalents			
At beginning of year	19,629	46,686	45,626
At end of year	$ 22,775	$ 19,629	$ 46,686

27. UNAUDITED QUARTERLY FINANCIAL INFORMATION

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
	(Dollars in thousands, except per share data)				
2014:					
Total interest income	$ 37,393	$ 37,536	$ 37,139	$ 37,741	$ 149,809
Total interest expense	1,597	1,630	1,607	1,557	6,391
Net interest income	35,796	35,906	35,532	36,184	143,418
Provision (credit) for loan and lease losses	(1,316)	1,995	(1,722)	(5,371)	(6,414)
Net interest income after provision for loan and lease losses	37,112	33,911	37,254	41,555	149,832
Investment securities gains		240			240
Income before income taxes	15,326	13,027	13,471	19,018	60,842
Net income	9,808	9,150	8,230	13,265	40,453
Basic earnings per share	0.23	0.25	0.23	0.37	1.08
Diluted earnings per share	0.23	0.25	0.23	0.37	1.07
2013:					
Total interest income	$ 32,595	$ 34,992	$ 35,558	$ 37,133	$ 140,278
Total interest expense	1,926	1,819	1,787	1,637	7,169
Net interest income	30,669	33,173	33,771	35,496	133,109
Provision (credit) for loan and lease losses	(6,561)	(227)	(3,189)	(1,333)	(11,310)
Net interest income after provision for loan and lease losses	37,230	33,400	36,960	36,829	144,419
Investment securities gains				482	482
Income before income taxes	17,507	16,212	12,378	13,731	59,828
Net income	137,309	14,267	10,204	10,295	172,075
Basic earnings per share	3.28	0.34	0.24	0.24	4.10
Diluted earnings per share	3.25	0.34	0.24	0.24	4.07

28. SUBSEQUENT EVENTS

In January 2015, our Board of Directors increased the authorization under the 2014 Repurchase Plan by $25.0 million to a total repurchase authority of $55.0 million. Repurchases under the 2014 Repurchase Plan may be made from time to time on the open market or in privately negotiated transactions. From January 2, 2015 to February 13, 2015, 473,829 shares of common stock, at a cost of $9.3 million, were repurchased under this program. A total of $29.2 million remained available for repurchase under the 2014 Repurchase Plan at February 13, 2015.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. Under the supervision and with the participation of the Company s management, including the principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of its disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Exchange Act) as of the end of the period covered by this report, or the Evaluation Date. Based on that evaluation, the principal executive officer and principal financial officer concluded that, as of the Evaluation Date, the Company s disclosure controls and procedures are effective.

Management s Report on Internal Control Over Financial Reporting. Management of Central Pacific Financial Corp., together with its consolidated subsidiaries, is responsible for establishing and maintaining adequate internal control over financial reporting. The Company s internal control over financial reporting is a process designed under the supervision of the Company s principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company s financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

As of the end of the Company s 2014 fiscal year, management conducted an assessment of the effectiveness of the Company s internal control over financial reporting based on the framework established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992). Based on this assessment, management has determined that the Company s internal control over financial reporting as of December 31, 2014 is effective.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on our financial statements.

The Company s internal control over financial reporting as of December 31, 2014 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report appearing herein under the heading Report of Independent Registered Public Accounting Firm.

Changes in Internal Control Over Financial Reporting. There have not been any changes in the Company s internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act during the Company s fiscal quarter ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Except as hereinafter noted, the information concerning directors and executive officers of the Company is incorporated by reference from the section entitled Directors and Executive Officers Information of the Company s definitive Proxy Statement for the 2015 Annual Meeting of Shareholders (the 2015 Proxy Statement) to be filed with the SEC within 120 days of the fiscal year ended December 31, 2014. Information concerning the Company s Code of Conduct and Ethics is set forth above under Available Information and incorporated by reference from the section entitled Corporate Governance and Board Matters Code of Conduct & Ethics of the Company s 2015 Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

Information concerning executive compensation is incorporated by reference from the section entitled Compensation of Directors and Executive Officers of the Company s 2015 Proxy Statement.

Information concerning the members of the Compensation Committee of the Company is incorporated by reference from the section entitled Compensation Committee Interlocks and Insider Participation of the Company s 2015 Proxy Statement.

Information concerning the report of the Compensation Committee of the Company is incorporated by reference from the section entitled Compensation Committee Report of the Company s 2015 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information concerning security ownership of certain beneficial owners and management is incorporated by reference from the sections entitled Introduction Principal Shareholders, and Introduction Security Ownership of Directors, Nominees and Executive Officers of the Company s 2015 Proxy Statement.

The following table provides information as of December 31, 2014 regarding securities issued under our equity compensation plans that were in effect during fiscal 2014.

	(c) Number of securities remaining available for

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights		(b) Weighted-average exercise price of outstanding options, warrants and rights	future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	286,407	$	33.32	1,993,385
Equity compensation plans not approved by security holders				
Total	286,407	$	33.32	1,993,385

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information concerning certain relationships and related transactions is incorporated by reference from the section entitled Election of Directors and Corporate Governance and Board Matters Director Independence and Relationships, and Loans to Related Persons of the Company s 2015 Proxy Statement.

Information concerning director independence is incorporated by reference from the section entitled Corporate Governance and Board Matters Director Independence and Relationships of the Company s 2015 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information concerning principal accountant fees and services is incorporated by reference from the section entitled Discussion of Proposals Recommended by the Board of Directors Proposal 2 Ratification of the Appointment of Independent Registered Public Accounting Firm Services Rendered By and Fees Paid To Independent Registered Public Accounting Firm of the Company s 2015 Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements

The following consolidated financial statements are included in Item 8 of this report:

Central Pacific Financial Corp. and Subsidiaries:

(a) 2. All schedules required by this Item 15(a) 2 are omitted because they are not applicable, not material or because the information is included in the consolidated financial statements or the notes thereto.

(a) 3. Exhibits

Exhibit No.	Document
3.1	Restated Articles of Incorporation of the Registrant *
3.2	Bylaws of the Registrant, as amended (1)
4.1	Tax Benefits Preservation Plan, dated as of November 23, 2010, between the Registrant and Wells Fargo Bank, National Association, which includes the Form of Certificate of Designation for the Junior Participating Preferred Stock, Series C, as Exhibit A, Form of Right Certificate as Exhibit B and Form of Summary of Terms as Exhibit C (2)
4.2	Amendment to the Tax Preservation Plan between the Registrant and Wells Fargo Bank, National Association (2)
10.1	License and Service Agreement dated December 23, 2004 by and between the Registrant and Fiserv Solutions, Inc. (3)
10.2	Split Dollar Life Insurance Plan (4) (5)
10.3	Central Pacific Bank Supplemental Executive Retirement Plan (5) (6)
10.4	The Registrant s 1997 Stock Option Plan, as amended (5) (6)
10.5	The Registrant s Directors Deferred Compensation Plan (5) (7)
10.6	The Registrant s 2004 Stock Compensation Plan, as amended (5)
10.7	Form of Restricted Stock Award Agreement (5) (8)
10.8	Compensation Agreement, effective as of September 14, 2004, by and between the Registrant and Clinton L. Arnoldus (5) (9)
10.9	Supplemental Executive Retirement Agreement for Blenn A. Fujimoto, effective July 1, 2005 (5) (10)
10.10	Amendment No. 1 to the Supplemental Executive Retirement Agreement for Blenn A. Fujimoto, effective December 31, 2008 (3) (5)
10.11	Supplemental Executive Retirement Agreement for Dean K. Hirata, effective July 1, 2005 (5) (10)
10.12	Amendment No. 1 to the Supplemental Executive Retirement Agreement for Dean K. Hirata, effective December 31, 2008 (3) (5)
10.13	The Registrant s Long-Term Executive Incentive Plan, effective January 1, 2005 (5) (11)
10.14	Amendment No. 2008-1 to the Registrant s Long-Term Executive Incentive Plan (3) (5)

Exhibit No.	Document
10.15	The Registrant s 2004 Annual Executive Incentive Plan (5) (8)
10.16	Amendment No. 2008-1 to the Registrant s 2004 Annual Executive Incentive Plan dated December 31, 2008 (3) (5)
10.17	Retirement Agreement of Clint Arnoldus dated March 10, 2008 (5) (12)
10.18	Advances, Security and Deposit Agreement with Federal Home Loan Bank Seattle dated June 23, 2004 (13)
10.19	Lending Agreement with Federal Reserve Banks effective October 15, 2006 (15)
10.20	Compensation Agreement with John C. Dean dated May 24, 2010 (5) (16)
10.21	Restricted Stock Unit Agreement with John C. Dean dated May 24, 2010 (5) (16)
10.22	Compensation Agreement with Lawrence D. Rodriguez dated August 27, 2010 (5) (17)
10.23	Restricted Stock Unit Agreement with Lawrence D. Rodriguez dated August 27, 2010 (5) (17)
10.24	Investment Agreement, dated November 4, 2010, between the Registrant and Carlyle Financial Services Harbor, L.P. (14)
10.25	Investment Agreement, dated November 4, 2010, between the Registrant and ACMO-CPF, L.L.C. (14)
10.26	Employment Agreement with A. Catherine Ngo dated November 23, 2010 (5) (18)
10.27	Amendment No. 1 dated December 20, 2010 to Investment Agreement between the Registrant and Carlyle Financial Services Harbor, L.P. (19)
10.28	Amendment No. 1 dated December 20, 2010 to Investment Agreement between the Registrant and ACMO-CPF, L.L.C. (19)
10.29	Form of Subscription Agreement by and between the Registrant and the Additional Investors (20)
10.30	Amendment No. 2 dated February 10, 2011 to Investment Agreement between the Registrant and Carlyle Financial Services Harbor, L.P. (21)
10.31	Amendment No. 2 dated February 10, 2011 to Investment Agreement between the Registrant and ACMO-CPF, L.L.C. (21)
10.32	Amendment No. 2011-1 to the Registrant s 2004 Annual Executive Incentive Plan (5) (22)
10.33	Consulting Agreement with Trinity M& A Group, L.L.C. dated September 5, 2012 (5) (23)

Exhibit No.	Document
10.34	Amendment No. 2012 to 2004 Stock Compensation Plan (24)
10.35	Form of Stock Option Agreement for 2004 Stock Compensation Plan (24)
10.36	Form of Restricted Stock Unit Grant Agreement for 2004 Stock Compensation Plan (24)
10.37	The Registrant s 2013 Stock Compensation Plan (25)
10.38	Form of Stock Option Grant Agreement for 2013 Stock Compensation Plan (25)
10.39	Form of Restricted Stock Grant Agreement for 2013 Stock Compensation Plan (25)
10.40	Form of Restricted Stock Unit Agreement for 2013 Stock Compensation Plan (25)
10.41	Form of Stock Appreciation Rights Grant Agreement for 2013 Stock Compensation Plan (25)
10.42	Form of Key Employee Restricted Stock Unit Grant Agreement for 2013 Stock Compensation Plan (25)
10.43	Repurchase Agreement dated February 20, 2014 by and between the Registrant and ACMO-CPF, L.L.C. (26)
10.44	Repurchase Agreement dated February 20, 2014 by and between the Registrant and Carlyle Financial Services Harbor, L.P. (26)
12.1	Statements re. Computation of Ratios *
14.1	The Registrant s Code of Conduct and Ethics (11)
14.2	The Registrant s Code of Conduct and Ethics for Senior Financial Officers (11)
21	Subsidiaries of the Registrant *
23	Consent of Independent Registered Public Accounting Firm *
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*

Exhibit No.	Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*

---

* Filed herewith.

** Furnished herewith.

All of the references to Form 8-K, Form 10-K, Form 10-Q, Form DEF 14A and Form S-1/A identified in the exhibit index have SEC file number **001-31567**.

Upon request of the Securities and Exchange Commission, we will furnish any agreements relating to our long-term debt not otherwise contained herein.

(1) Filed as Exhibit 3.1 to the Registrant s Current Report on Form 8-K, filed with the Securities and Exchange Commission on January 27, 2012.

(2) Filed as Exhibit 4.1 to the Registrant s Current Reports on Form 8-K, filed with the Securities and Exchange Commission on November 24, 2010 and January 31, 2014.

(3) Filed as Exhibits 10.1, 10.15, 10.17, 10.19 and 10.21 to the Registrant s Annual Report on Form 10-K/A for the year ended December 31, 2008, filed with the Securities and Exchange Commission on March 2, 2009.

(4) Filed as Exhibit 10.16 to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 1991, filed with the Securities and Exchange Commission on March 27, 1992.

(5) Denotes management contract or compensation plan or arrangement.

(6) Filed as Exhibits 10.8 and 10.9 to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 1996, filed with the Securities and Exchange Commission on March 28, 1997.

(7) Filed as Exhibit 10.12 to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2000, filed with the Securities and Exchange Commission on March 30, 2001.

(8) Filed as Exhibits 10.9 and 10.20 to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2004, filed with the Securities and Exchange Commission on March 16, 2005.

(9) Filed as Exhibit 10.3 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004, filed with the Securities and Exchange Commission on November 9, 2004.

(10) Filed as Exhibits 99.1 and 99.2 to the Registrant s Current Report on Form 8-K, filed with the Securities and Exchange Commission on January 31, 2006.

(11) Filed as Exhibits 10.19, 14.1 and 14.2 to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2005, filed with the Securities and Exchange Commission on March 15, 2006.

(12) Filed as Exhibit 10.1 to the Registrant s Current Report on Form 8-K, filed with the Securities and Exchange Commission on March 11, 2008.

(13) Filed as Exhibit 10.1 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2008, filed with the Securities and Exchange Commission on November 7, 2008.

(14) Filed as Exhibits 10.20, 10.32 and 10.33 to the Registrant s Registration Statement on Form S-1/A, filed with the Securities and Exchange Commission on April 1, 2011.

(15) Filed as Exhibit 10.32 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2009, filed with the Securities and Exchange Commission on March 16, 2010.

(16) Filed as Exhibits 10.1 and 10.2 to the Registrant s Current Report on Form 8-K, filed with the Securities and Exchange Commission on May 25, 2010.

(17) Filed as Exhibits 10.1 and 10.2 to the Registrant s Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 27, 2010.

(18) Filed as Exhibit 10.1 to the Registrant s Current Report on Form 8-K, filed with the Securities and Exchange Commission on November 24, 2010.

(19) Filed as Exhibits 10.1 and 10.2 to the Registrant s Current Report on Form 8-K, filed with the Securities and Exchange Commission on December 21, 2010.

(20) Filed as Exhibit 10.1 to the Registrant s Current Report on Form 8-K, filed with the Securities and Exchange Commission on December 27, 2010.

(21) Filed as Exhibits 10.1 and 10.2 to the Registrant s Current Report on Form 8-K, filed with the Securities and Exchange Commission on February 11, 2011.

(22) Filed as Appendix B to the Registrant s Definitive Proxy Statement on Form DEF 14A filed with the Securities and Exchange Commission on March 4, 2011.

(23) Filed as Exhibit 10.1 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, filed with the Securities and Exchange Commission on November 6, 2012.

(24) Filed as Exhibits 10.1, 10.2 and 10.3 to the Registrant s Current Report on Form 8-K, filed with the Securities and Exchange Commission on April 30, 2012.

(25) Filed as Exhibits 10.1, 10.2, 10.3, 10.4, 10.5 and 10.6 to the Registrant s Current Report on Form 8-K, filed with the Securities and Exchange Commission on May 1, 2013.

(26) Filed as Exhibits 10.1 and 10.2 to the Registrant s Current Report on Form 8-K, filed with the Securities and Exchange Commission on February 24, 2014.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 27, 2015

CENTRAL PACIFIC FINANCIAL CORP.
(Registrant)
/s/ John C. Dean
John C. Dean
Chief Executive Officer

Pursuant to the requirements of the Exchange Act, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Signature	Title	Date
/s/ John C. Dean John C. Dean	Chief Executive Officer and Chairman (Principal Executive Officer)	February 27, 2015
/s/ Denis K. Isono Denis K. Isono	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 27, 2015
/s/ Alvaro J. Aguirre Alvaro J. Aguirre	Director	February 27, 2015
/s/ James F. Burr James F. Burr	Director	February 27, 2015
/s/ Christine H. H. Camp Christine H. H. Camp	Director	February 27, 2015
/s/ Earl E. Fry Earl E. Fry	Director	February 27, 2015
Paul J. Kosasa	Director	February 27, 2015
/s/ Duane K. Kurisu Duane K. Kurisu	Director	February 27, 2015
/s/ Colbert M. Matsumoto Colbert M. Matsumoto	Director	February 27, 2015
Crystal K. Rose	Director	February 27, 2015

Explanation of Responses: