

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

Washington D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

or

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

For the transition period from _____ to _____

Commission file number 001-31567

CENTRAL PACIFIC FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

Hawaii
(State or other jurisdiction of
incorporation or organization)

99-0212597
(I.R.S. Employer
Identification No.)

220 South King Street, Honolulu, Hawaii 96813

(Address of principal executive offices) (Zip Code)

(808) 544-0500

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

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

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CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Forward-Looking Statements

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

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CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

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

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

See accompanying notes to consolidated financial statements.

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CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

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

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

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

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CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)

	Common Shares Outstanding	Preferred Stock	Common Stock	Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Non- Controlling Interests	Total
(Dollars in thousands, except per share data)								
Balance at December 31, 2014	35,233,674	\$	\$ 642,205	\$ 79,716	\$ (157,039)	\$ 3,159	\$	\$ 568,041
Net income					22,730			22,730
Other comprehensive income						(3,945)		(3,945)
Cash dividends (\$0.24 per share)					(7,958)			(7,958)
8,159 net shares of common stock sold by directors								
deferred compensation plan			(154)					(154)
3,950,781 shares of common stock repurchased and other related costs	(3,950,781)		(89,524)					(89,524)
Share-based compensation	218,740			(343)				(343)
Balance at June 30, 2015	31,501,633	\$	\$ 552,527	\$ 79,373	\$ (142,267)	\$ (786)	\$	\$ 488,847
Balance at December 31, 2013	42,107,633	\$	\$ 784,547	\$ 75,498	\$ (184,087)	\$ (15,845)	\$ 61	\$ 660,174
Net income					18,958			18,958
Other comprehensive income						20,263		20,263
Cash dividends (\$0.16 per share)					(6,251)			(6,251)
1,118 net shares of common stock sold by directors								
deferred compensation plan			(11)					(11)
6,369,266 shares of common stock repurchased and other related costs	(6,369,266)		(129,391)					(129,391)
Share-based compensation	162,713		74	813				887
Non-controlling interests							(61)	(61)
Balance at June 30, 2014	35,901,080	\$	\$ 655,219	\$ 76,311	\$ (171,380)	\$ 4,418	\$	\$ 564,568

See accompanying notes to consolidated financial statements.

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CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

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

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Net increase (decrease) in cash and cash equivalents	(4,517)	37,671
Cash and cash equivalents at beginning of period	86,007	49,348
Cash and cash equivalents at end of period	\$ 81,490	\$ 87,019
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 3,239	\$ 3,283
Income taxes	880	
Cash received during the period for:		
Income taxes		79
Supplemental disclosure of noncash investing and financing activities:		