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, 2024

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

220 South King Street, Honolulu, Hawaii 96813
(Address of principal executive offices) (Zip code)

(808) 544-0500
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, No Par Value	CPF	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Securities Act. ☐

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

The number of shares outstanding of registrant's common stock, no par value, on July 22, 2024 was 27,063,644 shares.

CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES
Form 10-Q

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	As of	
(dollars in thousands)	June 30, 2024	December 31, 2023
Assets		
Cash and due from financial institutions	$ 103,829	$ 116,181
Interest-bearing deposits in other financial institutions	195,062	406,256
Investment securities:		
Available-for-sale debt securities, at fair value	676,719	647,210
Held-to-maturity debt securities, at amortized cost; fair value of: $528,088 at June 30, 2024 and $565,178 at December 31, 2023	615,867	632,338
Total investment securities	1,292,586	1,279,548
Loans held for sale	3,950	1,778
Loans	5,383,644	5,438,982
Less: allowance for credit losses	(62,225)	(63,934)
Loans, net of allowance for credit losses	5,321,419	5,375,048
Premises and equipment, net	100,646	96,184
Accrued interest receivable	23,184	21,511
Investment in unconsolidated entities	40,155	41,546
Mortgage servicing rights, net	8,636	8,696
Bank-owned life insurance	173,716	170,706
Federal Home Loan Bank of Des Moines ("FHLB") stock	6,925	6,793
Right-of-use lease assets	32,081	29,720
Other assets	84,763	88,829
Total assets	$ 7,386,952	$ 7,642,796
Liabilities		
Deposits:		
Noninterest-bearing demand	$ 1,847,173	$ 1,913,379
Interest-bearing demand	1,283,669	1,329,189
Savings and money market	2,234,111	2,209,733
Time	1,217,502	1,395,291
Total deposits	6,582,455	6,847,592
Long-term debt, net of unamortized debt issuance costs of $324 at June 30, 2024 and $445 at December 31, 2023	156,223	156,102
Lease liabilities	33,422	30,634
Accrued interest payable	14,998	18,948
Other liabilities	81,207	85,705
Total liabilities	6,868,305	7,138,981
Contingent liabilities and other commitments (see Note 16)		
Equity		
Preferred stock, no par value, authorized 1,000,000 shares; issued and outstanding: none at June 30, 2024 and December 31, 2023	—	—
Common stock, no par value, authorized 185,000,000 shares; issued and outstanding: 27,063,644 at June 30, 2024 and 27,045,033 at December 31, 2023	404,494	405,439
Additional paid-in capital	104,161	102,982
Retained earnings	132,683	117,990
Accumulated other comprehensive loss	(122,691)	(122,596)
Total equity	518,647	503,815
Total liabilities and equity	$ 7,386,952	$ 7,642,796

See accompanying notes to consolidated financial statements.

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

(dollars in thousands, except per share data)	Three Months Ended June 30, 2024	Three Months Ended June 30, 2023	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
Interest income:				
Interest and fees on loans	$ 64,422	$ 60,455	$ 127,241	$ 118,724
Interest and dividends on investment securities:				
Taxable investment securities	8,466	7,145	15,677	14,481
Tax-exempt investment securities	598	727	1,253	1,517
Interest on deposits in other financial institutions	2,203	877	5,814	1,154
Dividend income on FHLB stock	151	120	257	256
Total interest income	75,840	69,324	150,242	136,132
Interest expense:				
Interest on deposits:				
Demand	490	411	989	774
Savings and money market	8,977	4,670	17,420	8,056
Time	12,173	8,932	25,163	15,196
Interest on short-term borrowings	1	378	1	1,139
Interest on long-term debt	2,278	2,199	4,561	4,037
Total interest expense	23,919	16,590	48,134	29,202
Net interest income	51,921	52,734	102,108	106,930
Provision for credit losses	2,239	4,319	6,175	6,171
Net interest income after provision for credit losses	49,682	48,415	95,933	100,759
Other operating income:				
Mortgage banking income	1,040	690	1,653	1,216
Service charges on deposit accounts	2,135	2,137	4,238	4,248
Other service charges and fees	5,869	4,994	11,130	9,979
Income from fiduciary activities	1,449	1,068	2,884	2,389
Income from bank-owned life insurance	1,234	1,185	2,756	2,476
Other	394	361	704	1,136
Total other operating income	12,121	10,435	23,365	21,444
Other operating expense:				
Salaries and employee benefits	21,246	20,848	41,981	42,871
Net occupancy	4,597	4,310	9,197	8,784
Computer software	4,381	4,621	8,668	9,227
Legal and professional services	2,506	2,469	4,826	5,355
Equipment	995	932	2,005	1,878
Advertising	901	942	1,815	1,875
Communication	657	791	1,494	1,569
Other	5,868	4,990	11,741	10,451
Total other operating expense	41,151	39,903	81,727	82,010
Income before income taxes	20,652	18,947	37,571	40,193
Income tax expense	4,835	4,472	8,809	9,531
Net income	$ 15,817	$ 14,475	$ 28,762	$ 30,662
Per common share data:				
Basic earnings per share	$ 0.58	$ 0.54	$ 1.06	$ 1.14
Diluted earnings per share	$ 0.58	$ 0.53	$ 1.06	$ 1.13
Basic weighted average shares outstanding	27,053,549	27,024,043	27,050,037	27,011,659
Diluted weighted average shares outstanding	27,116,349	27,071,478	27,106,267	27,090,258

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	**2024**	**2023**	**2024**	**2023**
Net income	$ 15,817	$ 14,475	$ 28,762	$ 30,662
Other comprehensive income (loss), net of tax:				
Net change in fair value of available-for-sale investment securities	274	(6,025)	(4,906)	5,181
Amortization of unrealized losses on investment securities transferred to held-to-maturity	1,374	1,451	2,580	2,676
Net change in fair value of derivatives	(16)	2,040	2,231	877
Supplemental Executive Retirement Plans	—	(13)	—	(25)
Total other comprehensive income (loss), net of tax	1,632	(2,547)	(95)	8,709
Comprehensive income	$ 17,449	$ 11,928	$ 28,667	$ 39,371

See accompanying notes to consolidated financial statements.

CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited)

	Common Shares Outstanding	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accum. Other Comp. Loss	Total
	(dollars in thousands, except per share data)						
Balance at December 31, 2023	27,045,033	$ —	$ 405,439	$ 102,982	$ 117,990	$ (122,596)	$ 503,815
Net income	—	—	—	—	12,945	—	12,945
Other comprehensive loss	—	—	—	—	—	(1,727)	(1,727)
Cash dividends declared ($0.26 per share)	—	—	—	—	(7,033)	—	(7,033)
Common stock repurchased and retired and other related costs	(49,960)	—	(945)	—	—	—	(945)
Share-based compensation	47,253	—	—	148	—	—	148
Balance at March 31, 2024	27,042,326	—	404,494	103,130	123,902	(124,323)	507,203
Net income	—	—	—	—	15,817	—	15,817
Other comprehensive income	—	—	—	—	—	1,632	1,632
Cash dividends declared ($0.26 per share)	—	—	—	—	(7,036)	—	(7,036)
Share-based compensation	21,318	—	—	1,031	—	—	1,031
Balance at June 30, 2024	27,063,644	$ —	$ 404,494	$ 104,161	$ 132,683	$ (122,691)	$ 518,647

	Common Shares Outstanding	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accum. Other Comp. Loss	Total
	(dollars in thousands, except per share data)						
Balance at December 31, 2022	27,025,070	$ —	$ 408,071	$ 101,346	$ 87,438	$ (143,984)	$ 452,871
Net income	—	—	—	—	16,187	—	16,187
Other comprehensive income	—	—	—	—	—	11,256	11,256
Cash dividends declared ($0.26 per share)	—	—	—	—	(7,025)	—	(7,025)
Common stock repurchased and retired and other related costs	(101,760)	—	(2,205)	—	—	—	(2,205)
Share-based compensation	82,235	—	—	(158)	—	—	(158)
Balance at March 31, 2023	27,005,545	—	405,866	101,188	96,600	(132,728)	470,926
Net income	—	—	—	—	14,475	—	14,475
Other comprehensive loss	—	—	—	—	—	(2,547)	(2,547)
Cash dividends declared ($0.26 per share)	—	—	—	—	(7,029)	—	(7,029)
Common stock repurchased and retired and other related costs	(23,750)	—	(355)	—	—	—	(355)
Share-based compensation	63,997	—	—	809	—	—	809
Balance at June 30, 2023	27,045,792	$ —	$ 405,511	$ 101,997	$ 104,046	$ (135,275)	$ 476,279

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,	
(dollars in thousands)	**2024**	**2023**
Cash flows from operating activities:		
Net income	$ 28,762	$ 30,662
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	6,175	6,171
Depreciation and amortization of premises and equipment	3,454	3,376
Loss on disposal of premises and equipment	16	9
Cash flows from operating leases	(2,682)	(2,692)
Amortization of mortgage servicing rights	370	356
Net amortization and accretion of premium/discounts on investment securities	1,099	1,602
Share-based compensation	1,179	651
Net gain on sales of residential mortgage loans	(748)	(296)
Proceeds from sales of loans held for sale	36,620	14,486
Originations of loans held for sale	(38,044)	(15,678)
Equity in losses of unconsolidated entities	31	25
Distributions from unconsolidated entities	—	44
Net increase in cash surrender value of bank-owned life insurance	(2,756)	(2,622)
Deferred income tax expense	1,165	11,225
Net tax expense (benefit) from share-based compensation	128	(15)
Net change in other assets and liabilities	8,177	963
Net cash provided by operating activities	42,946	48,267
Cash flows from investing activities:		
Proceeds from maturities of and calls on available-for-sale investment securities	25,495	28,515
Purchases of investment securities available-for-sale	(62,336)	(14,907)
Proceeds from maturities of and calls on held-to-maturity investment securities	19,545	18,148
Net repayments of loans	59,444	48,382
Purchases of loan portfolios	(12,384)	(19,659)
Purchases of bank-owned life insurance	(2,502)	—
Proceeds from bank-owned life insurance death benefits	2,248	2,453
Net purchases of premises, equipment and land	(7,932)	(8,270)
Contributions to unconsolidated entities	(7,787)	(75)
Net purchases of FHLB stock	(132)	(1,814)
Net cash provided by investing activities	13,659	52,773
Cash flows from financing activities:		
Net (decrease) increase in deposits	(265,137)	69,514
Net decrease in FHLB advances and other short-term borrowings	—	(5,000)
Proceeds from long-term debt	—	50,000
Cash dividends paid on common stock	(14,069)	(14,054)
Repurchases of common stock and other related costs	(945)	(2,560)
Net cash (used in) provided by financing activities	(280,151)	97,900
Net (decrease) increase in cash and cash equivalents	(223,546)	198,940
Cash and cash equivalents at beginning of period	522,437	112,044
Cash and cash equivalents at end of period	$ 298,891	$ 310,984

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

	Six Months Ended June 30,			
(dollars in thousands)	2024		2023	
Supplemental disclosure of cash flow information:				
Cash paid during the period for:				
Interest	$	52,084	$	22,540
Income taxes		—		3,806
Supplemental disclosure of non-cash information:				
Lease liabilities arising from obtaining right-of-use lease assets		5,029		—
Amortization of unrealized losses on investment securities transferred to held-to-maturity at fair value		3,505		3,644

See accompanying notes to consolidated financial statements.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements of Central Pacific Financial Corp. and Subsidiaries (herein referred to as the "Company," "we," "us," or "our") have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations.

These interim condensed consolidated financial statements and notes should be read in conjunction with the Company's consolidated financial statements and notes thereto filed on Form 10-K for the fiscal year ended December 31, 2023. In the opinion of management, all adjustments necessary for a fair presentation have been made and include all normal recurring adjustments. Interim results of operations are not necessarily indicative of results to be expected for the year.

Allowance for Credit Losses for Loans

The allowance for credit losses ("ACL") for loans is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected on loans. The Company’s policy is to charge off a loan against the ACL during the period in which the loan is deemed to be uncollectible and all interest previously accrued but uncollected, is reversed against current period interest income. Subsequent receipts, if any, are credited first to the remaining principal, then to the ACL for loans as recoveries, and finally to interest income.

The ACL for loans represents management's estimate of all expected credit losses over the expected life of the Company’s loan portfolio as of a given balance sheet date. Management estimates the ACL balance using relevant information available from both internal and external sources, regarding the collectability of cash flows impacted by past events, current conditions, and reasonable and supportable forecasts of future economic conditions. When the Company is unable to forecast future economic events, management may revert to historical information.

The Company's ACL model incorporates a reasonable and supportable forecast period of one year and reverts to historical loss information on a straight-line basis over one year when its forecast is no longer deemed reasonable and supportable. Historical loss experience provides the basis for the Company’s expected credit loss estimate. Adjustments to historical loss information may be made for differences in current loan-specific risk characteristics, such as differences in underwriting standards, portfolio mix, or when historical asset terms do not reflect the contractual terms of the financial assets being evaluated.

The Company's ACL model may also consider other adjustments to address changes in conditions, trends, and circumstances such as local industry changes that could have a significant impact on the risk profile of the loan portfolio and provide for adjustments that may not be reflected or captured in the historical loss data. These factors include: lending policies, imprecision in forecasting future economic conditions, loan profile, lending staff, problem loan trends, loan review, collateral, credit concentration, or other internal and external factors.

The Company uses Moody’s Analytics ("Moody's"), a firm widely recognized and used for its research, analysis, and economic forecasts, for its economic forecast assumptions. The Company generally uses Moody’s most recent Baseline forecast, which is updated at least monthly with a variety of upside and downside economic scenarios and includes both national and Hawaii-specific economic indicators. In addition, the Company uses a qualitative factor for forecast imprecision to account for economic and market volatility or instability.

The ACL for loans is measured on a collective or pool basis when similar risk characteristics exist. The following is a description and the risk characteristics of each segment:

Commercial and industrial loans - SBA Paycheck Protection Program loans

Paycheck Protection Program (“PPP”) loans are considered lower risk as they are guaranteed by the Small Business Administration (“SBA”) and may be forgivable in whole or in part in accordance with the requirements of the PPP.

Commercial and industrial loans - Others

Commercial and industrial loans consist primarily of term loans and lines of credit to small- and middle-market businesses and professionals. The predominant risk characteristics of this segment are the cash flows of the business we lend to, global cash flows including guarantor liquidity, as well as economic and market conditions. Although our underwriting policy and practice generally requires secondary sources of support or collateral to mitigate risk, cash flow generated from the borrower’s business is typically regarded as the principal source of repayment.

Construction loans

Construction loans include both residential and commercial development projects. Each construction project is evaluated for economic viability and construction loans pose higher credit risks than typical secured loans. Financial strength of the borrower, completion risk (the risk that the project will not be completed on time and within budget) and geographic location are the predominant risk characteristics of this segment.

Commercial real estate loans - Multi-family

Multi-family mortgage loans can comprise multi-building properties with extensive amenities or a single building with no amenities. The predominant risk characteristic of this segment is operating risk or the ability to generate sufficient rental income from the operation of the property.

Commercial real estate loans - Others

Commercial real estate loans are secured by commercial properties. The predominant risk characteristic of this segment is operating risk, which is the risk that the borrower will be unable to generate sufficient cash flows from the operation of the property. Interest rate conditions and the commercial real estate market through economic cycles also impact risk levels.

Residential mortgage loans

Residential mortgage loans primarily includes fixed-rate or adjustable-rate loans secured by single-family owner-occupied primary residences in Hawaii. Economic conditions such as unemployment levels, future changes in interest rates, Hawaii home prices and other market factors impact the level of credit risk inherent in the portfolio.

Home equity lines of credit

Home equity lines of credit include fixed or floating interest rate loans and are also primarily secured by single-family owner-occupied primary residences in Hawaii. They are underwritten based on a minimum FICO score, maximum debt-to-income ratio, and maximum combined loan-to-value ratio. Home equity lines of credit are monitored based on credit score, delinquency, end of draw period and maturity.

Consumer loans - Other revolving

Other revolving consumer loans consist of unsecured consumer lines of credit. The predominant risk characteristics of this segment relate to current and projected economic conditions, as well as employment and income levels attributed to the borrower.

Consumer loans - Non-revolving

Non-revolving consumer loans consist of non-revolving (term) consumer loans, including automobile dealer loans. The predominant risk characteristics of this segment relate to current and projected economic conditions, as well as employment and income levels attributed to the borrower.

Purchased consumer loans

Purchased consumer loans consist of dealer and unsecured consumer loans. Credit risk for purchased consumer loans is managed on a pooled basis. The predominant risk characteristics of this segment include current and projected economic conditions, employment and income levels, and the quality of purchased consumer loans.

The following table presents the Company's loan portfolio segments and the methodology used to measure expected credit losses. The historical look-back period is 2008 to present, economic forecast length is one year and the reversion method is one year (on a straight-line basis) for all segments.

	Expected Credit Loss Methodology				
Loan Segment	**After June 30, 2023**	**June 30, 2023 and Prior**	**Historical Look-Back Period**	**Economic Forecast Length**	**Reversion Method**
Commercial and industrial - SBA PPP	Zero Loss	Zero Loss	2008 to present	One year	One year (straight-line basis)
Commercial and industrial - All others	DCF	PD/LGD			
Construction	DCF	PD/LGD			
Commercial real estate - Multi-family	DCF	PD/LGD			
Commercial real estate - All others	DCF	PD/LGD			
Residential mortgage	DCF	Loss-Rate Migration			
Home equity	DCF	Loss-Rate Migration			
Consumer - Other revolving	DCF	Loss-Rate Migration			
Consumer - Non-revolving	DCF	Loss-Rate Migration			
Consumer - Purchased portfolios	WARM	WARM			

During the third quarter of 2023, the Company updated its methodology to measure expected credit losses from the Probability of Default/Loss Given Default ("PD/LGD") or Loss-Rate Migration methods to the Discounted Cash Flow ("DCF") method for all segments except the SBA PPP and purchased consumer loan segments. The Company believes that the DCF methodology has better alignment with the Current Expected Credit Losses ("CECL") standard for forward looking forecasting, while also factoring in more detailed assumptions. At the time of the methodology update, the Company ran the ACL model under both the current and previous methodologies and noted that the changes to the ACL model and the differences in methodologies did not result in a material impact to the Company's financial statements and as a percentage of the ACL. The Company is utilizing an industry leading software platform to perform the DCF analysis using a historical look back period of 2008 to present.

The Company continues to use the Moody's baseline forecast with an economic forecast length of one year and a one-year, straight-line reversion method. We revert to the historical average of the macroeconomic variables being used. Forecast models exclude the post-2019 COVID-19 pandemic period due to abnormal and volatile behavior.

The ACL on the purchased consumer loan portfolios continues to be calculated using the Remaining Life methodology (also known as the Weighted Average Remaining Maturity or "WARM" methodology) as this portfolio is evaluated on a pooled basis. Because SBA PPP loans are guaranteed by the SBA and may be forgivable in whole or in part in accordance with the requirements of the PPP we anticipate zero losses on these loans and accordingly apply a Zero Loss methodology.

The following is a description of the methodologies utilized to measure expected credit losses from the third quarter of 2023 to present:

Discounted Cash Flow

The DCF methodology calculates CECL reserves as the difference between the amortized cost of a loan and the discounted expected value of future cash flows. Expected future cash flows are calculated based on assumptions of PD/LGD, prepayments and recovery rates, and are discounted using the loan's effective interest rate.

Remaining Life or Weighted Average Remaining Maturity

Under the remaining life or WARM methodology, lifetime losses are calculated by determining the remaining life of the loan pool, and then applying a loss rate over this remaining life of the loan. The methodology considers historical loss experience to estimate credit losses for the remaining balance of the loan pool. The calculated loss rate is applied to the contractual term (adjusted for prepayments) to determine the loan pool's current expected credit losses.

The following is a description of the methodologies utilized to measure expected credit losses as of June 30, 2023 and prior:

Probability of Default/Loss Given Default

The PD/LGD calculation is based on a cohort methodology whereby loans in the same cohort are tracked over time to identify defaults and corresponding losses. PD/LGD analysis requires a portfolio segmented into pools, and we elected to then further sub-segment by risk characteristics such as Risk Rating, loans modified for borrowers experiencing financial difficulty, TDRs prior to the adoption of ASU 2022-02 and nonaccrual status to measure losses accurately. PD measures the count or dollar amount of loans that defaulted in a given cohort. LGD measures the losses related to the loans that defaulted. Total loss rate is calculated using the formula 'PD times LGD'.

Loss-Rate Migration

Loss-rate migration analysis is a cohort-based approach that measures cumulative net charge-offs over a defined time-horizon to calculate a loss rate that will be applied to the loan pool. Loss-rate migration analysis requires the portfolio to be segmented into pools then further sub-segmented by risk characteristics such as days past due, delinquency counters, loans modified for borrowers experiencing financial difficulty, TDRs prior to the adoption of ASU 2022-02 and nonaccrual status to measure loss rates accurately. The key inputs to run a loss-rate migration analysis are the length and frequency of the migration period, the dates for the migration periods to start and the number of migration periods used for the analysis. For each migration period, the analysis will determine the outstanding balance in each segment and/or sub-segment at the start of each period. These loans will then be followed for the length of the migration period to identify the amount of associated charge-offs and recoveries. A loss rate for each migration period is calculated using the formula: net charge-offs over the period divided by beginning loan balance.

Other

Under both the previous and current methodologies utilized to measure expected credit losses, if a loan ceases to share similar risk characteristics with other loans in its segment, it will be moved to a different pool sharing similar risk characteristics. Loans that do not share risk characteristics are evaluated on an individual basis based on the fair value of the collateral or other approaches such as the discounted cash flows methodology. Individually evaluated loans are not included in the collective evaluation.

Impact of Other Recently Issued Accounting Pronouncements on Future Filings

In December 2023, the FASB issued ASU 2023-09, *"Income Taxes (Topic 740): Improvements to Income Tax Disclosures"* . ASU 2023-09 expands existing income tax disclosures for rate reconciliations by requiring disclosure of certain specific categories in the rate reconciliation, as well as additional qualitative information about the reconciliation, and additional disaggregated information about income taxes paid. ASU 2023-09 is effective for fiscal years beginning after December 15, 2024, with early adoption permitted, and is to be applied on a prospective basis. The Company does not expect ASU 2023-09 to have a material impact on its consolidated financial statements.

2. INVESTMENT SECURITIES

The amortized cost, gross unrecognized/unrealized gains and losses, fair value and related ACL on available-for-sale ("AFS") and held-to-maturity ("HTM") debt securities at June 30, 2024 and December 31, 2023 are as follows:

(dollars in thousands) June 30, 2024	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	ACL
Available-for-sale:					
Debt securities:					
States and political subdivisions	$ 151,771	$ 3	$ (30,299)	$ 121,475	$ —
Corporate securities	35,492	—	(4,029)	31,463	—
U.S. Treasury and other government-sponsored entities and agencies	55,662	147	(2,078)	53,731	—
Mortgage-backed securities:					
Residential - U.S. government-sponsored entities and agencies	416,128	50	(62,224)	353,954	—
Residential - Non-government agencies	18,454	135	(1,141)	17,448	—
Commercial - U.S. government-sponsored entities and agencies	98,346	—	(14,834)	83,512	—
Commercial - Non-government agencies	15,269	—	(133)	15,136	—
Total available-for-sale investment securities	$ 791,122	$ 335	$ (114,738)	$ 676,719	$ —

(dollars in thousands) June 30, 2024	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value	ACL
Held-to-maturity:					
Debt securities:					
States and political subdivisions	$ 42,002	$ —	$ (8,138)	$ 33,864	$ —
Mortgage-backed securities:					
Residential - U.S. government-sponsored entities and agencies	573,865	—	(79,641)	494,224	—
Total held-to-maturity investment securities	$ 615,867	$ —	$ (87,779)	$ 528,088	$ —

(dollars in thousands) December 31, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	ACL
Available-for-sale:					
Debt securities:					
States and political subdivisions	$ 156,432	$ 13	$ (29,810)	$ 126,635	$ —
Corporate securities	35,731	—	(4,317)	31,414	—
U.S. Treasury and other government-sponsored entities and agencies	28,105	33	(1,941)	26,197	—
Mortgage-backed securities:					
Residential - U.S. government-sponsored entities and agencies	441,898	95	(63,607)	378,386	—
Residential - Non-government agencies	19,322	366	(980)	18,708	—
Commercial - U.S. government-sponsored entities and agencies	58,318	—	(7,404)	50,914	—
Commercial - Non-government agencies	15,144	—	(188)	14,956	—
Total available-for-sale investment securities	$ 754,950	$ 507	$ (108,247)	$ 647,210	$ —

(dollars in thousands) December 31, 2023	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value	ACL
Held-to-maturity:					
Debt securities:					
States and political subdivisions	$ 41,959	$ —	$ (6,706)	$ 35,253	$ —
Mortgage-backed securities:					
Residential - U.S. government-sponsored entities and agencies	590,379	61	(60,515)	529,925	—
Total held-to-maturity investment securities	$ 632,338	$ 61	$ (67,221)	$ 565,178	$ —

During the first quarter of 2022, the Company entered into a forward starting interest rate swap, with a notional amount of $ 115.5 million, that was designated as a fair value hedge of certain municipal debt securities. The Company pays the counterparty a fixed rate of 2.095% and receives a floating rate based on the Federal Funds effective rate. The fair value hedge became effective on March 31, 2024 and has a maturity date of March 31, 2029.

During the three and six months ended June 30, 2024, the Company recorded income from the interest rate swap of $ 0.9 million and $0.8 million, respectively, in interest income on taxable investment securities on the Company's consolidated statements of income.

During the three and six months ended June 30, 2024, the Company recorded a total of $ 1.9 million and $3.5 million, respectively, in amortization of unrecognized losses on the aforementioned investment securities transferred from AFS to HTM. During the three and six months ended June 30, 2023, the Company recorded a total of $2.0 million and $3.6 million, respectively, in amortization of unrecognized losses on the aforementioned investment securities transferred from AFS to HTM.

The Company elected to not measure an estimate of credit losses on accrued interest receivable as the Company writes off any uncollectible accrued interest receivable in a timely manner. Accrued interest receivable on investment securities is reported together with accrued interest receivable on loans and other assets in the consolidated balance sheets.

Accrued interest receivable on investment securities totaled $ 4.3 million and $4.0 million as of June 30, 2024 and December 31, 2023, respectively.

The amortized cost, estimated fair value and weighted average yield of our AFS and HTM debt securities at June 30, 2024, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

(dollars in thousands)	Amortized Cost	Fair Value	Weighted Average Yield [1]
Available-for-sale:			
Debt securities:			
Due in one year or less	$ 1,361	$ 1,357	2.67 %
Due after one year through five years	53,764	49,405	2.74
Due after five years through ten years	63,131	60,566	4.00
Due after ten years	124,669	95,341	2.44
Mortgage-backed securities:			
Residential - U.S. government-sponsored entities and agencies	416,128	353,954	2.21
Residential - Non-government agencies	18,454	17,448	4.56
Commercial - U.S. government-sponsored entities and agencies	98,346	83,512	2.75
Commercial - Non-government agencies	15,269	15,136	5.07
Total available-for-sale securities	$ 791,122	$ 676,719	2.63 %

(dollars in thousands)	Amortized Cost	Fair Value	Weighted Average Yield [1]
Held-to-maturity:			
Debt securities:			
Due after ten years	$ 42,002	$ 33,864	2.26 %
Mortgage-backed securities:			
Residential - U.S. government-sponsored entities and agencies	573,865	494,224	1.92
Total held-to-maturity securities	$ 615,867	$ 528,088	1.94 %

[1] Weighted-average yields are computed on an annual basis, and yields on tax-exempt obligations are computed on a taxable-equivalent basis using a federal statutory tax rate of 21%

The Company did not sell any investment securities during the three and six months ended June 30, 2024 and 2023.

Investment securities with carrying values totaling $ 758.9 million and $990.4 million at June 30, 2024 and December 31, 2023, respectively, were pledged to secure public funds on deposit, Federal Reserve Bank borrowings and other financial transactions.

There were no holdings of investment securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity at June 30, 2024 and December 31, 2023.

The following tables summarize AFS and HTM investment securities, which were in a loss position as of the dates presented, aggregated by major security type and length of time in a continuous loss position. There were a total of 229 and 208 AFS investment securities which were in an unrealized loss position, without an ACL, at June 30, 2024 and December 31, 2023, respectively. There were a total of 83 and 82 HTM investment securities which were in an unrecognized loss position, without an ACL, at June 30, 2024 and December 31, 2023, respectively.

	Less Than 12 Months		12 Months or Longer		Total	
(dollars in thousands) **June 30, 2024**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Available-for-sale:						
Debt securities:						
States and political subdivisions	$ 8,438	$ (109)	$ 110,179	$ (30,190)	$ 118,617	$ (30,299)
Corporate securities	—	—	31,463	(4,029)	31,463	(4,029)
U.S. Treasury and other government-sponsored entities and agencies	26,659	(195)	15,239	(1,883)	41,898	(2,078)
Mortgage-backed securities:						
Residential - U.S. government-sponsored entities and agencies	19,271	(181)	325,104	(62,043)	344,375	(62,224)
Residential - Non-government agencies	5,437	(101)	7,826	(1,040)	13,263	(1,141)
Commercial - U.S. government-sponsored entities and agencies	22,917	(1,234)	60,595	(13,600)	83,512	(14,834)
Commercial - Non-government agencies	—	—	15,136	(133)	15,136	(133)
Total	$ 82,722	$ (1,820)	$ 565,542	$ (112,918)	$ 648,264	$ (114,738)

(dollars in thousands) June 30, 2024	Less Than 12 Months Fair Value	Less Than 12 Months Unrecognized Losses	12 Months or Longer Fair Value	12 Months or Longer Unrecognized Losses	Total Fair Value	Total Unrecognized Losses
Held-to-maturity:						
Debt securities:						
States and political subdivisions	$ —	$ —	$ 33,864	$ (8,138)	$ 33,864	$ (8,138)
Mortgage-backed securities:						
Residential - U.S. government-sponsored entities and agencies	8,048	(76)	486,176	(79,565)	494,224	(79,641)
Total	$ 8,048	$ (76)	$ 520,040	$ (87,703)	$ 528,088	$ (87,779)

(dollars in thousands) December 31, 2023	Less Than 12 Months Fair Value	Less Than 12 Months Unrealized Losses	12 Months or Longer Fair Value	12 Months or Longer Unrealized Losses	Total Fair Value	Total Unrealized Losses
Available-for-sale:						
Debt securities:						
States and political subdivisions	$ 534	$ (1)	$ 114,601	$ (29,809)	$ 115,135	$ (29,810)
Corporate securities	—	—	31,414	(4,317)	31,414	(4,317)
U.S. Treasury and other government-sponsored entities and agencies	2,893	(87)	16,286	(1,854)	19,179	(1,941)
Mortgage-backed securities:						
Residential - U.S. government-sponsored entities and agencies	—	—	367,887	(63,607)	367,887	(63,607)
Residential - Non-government agencies	—	—	8,169	(980)	8,169	(980)
Commercial - U.S. government-sponsored entities and agencies	6,467	(1)	44,447	(7,403)	50,914	(7,404)
Commercial - Non-government agencies	9,663	(130)	5,293	(58)	14,956	(188)
Total	$ 19,557	$ (219)	$ 588,097	$ (108,028)	$ 607,654	$ (108,247)

(dollars in thousands) December 31, 2023	Less Than 12 Months Fair Value	Less Than 12 Months Unrecognized Losses	12 Months or Longer Fair Value	12 Months or Longer Unrecognized Losses	Total Fair Value	Total Unrecognized Losses
Held-to-maturity:						
Debt securities:						
States and political subdivisions	$ —	$ —	$ 35,253	$ (6,706)	$ 35,253	$ (6,706)
Mortgage-backed securities:						
Residential - U.S. government-sponsored entities and agencies	8,853	(33)	512,378	(60,482)	521,231	(60,515)
Total	$ 8,853	$ (33)	$ 547,631	$ (67,188)	$ 556,484	$ (67,221)

Investment securities in an unrecognized or unrealized loss position are evaluated at least 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. 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 projected credit losses of the security are also evaluated.

The Company has evaluated its AFS and HTM investment securities that are in an unrecognized or unrealized loss position and has determined that the unrecognized or unrealized losses on the Company's investment securities are unrelated to credit quality and primarily attributable to changes in interest rates and volatility in the financial markets since purchase. All of the investment securities in an unrecognized or unrealized loss position continue to be rated investment grade by one or more major rating agencies. The Company does not intend to sell the AFS and HTM securities that were in an unrecognized or unrealized loss position as of June 30, 2024 and December 31, 2023, and it is unlikely that the Company will be required to sell these securities before recovery of its amortized cost basis that may be at maturity. Therefore, the Company has not recorded an ACL on these securities and the unrecognized or unrealized losses on these securities have not been recognized into income.

3. LOANS AND CREDIT QUALITY

The following table presents loans by class, excluding loans held for sale, net of deferred fees and costs as of the dates presented:

(dollars in thousands)	June 30, 2024	December 31, 2023
Commercial and industrial	$ 585,048	$ 576,038
Real estate:		
Construction	171,918	185,994
Residential mortgage	1,912,753	1,927,206
Home equity	704,836	734,500
Commercial mortgage	1,467,273	1,384,579
Consumer	542,241	630,898
Gross loans	5,384,069	5,439,215
Deferred fees and costs, net	(425)	(233)
Total loans, net of deferred fees and costs	$ 5,383,644	$ 5,438,982

Interest income on loans is accrued at the contractual rate of interest on the unpaid principal balance. Accrued interest receivable on loans totaled $17.7 million and $17.1 million at June 30, 2024 and December 31, 2023, respectively, and was reported together with accrued interest receivable on investment securities and other assets on the consolidated balance sheets. Accrued interest receivable on loans is excluded from the estimate of credit losses.

The Company did not transfer any loans to the held for sale category during the three and six months ended June 30, 2024 and 2023 and did not sell any other loans originally held for investment during the three and six months ended June 30, 2024 and 2023.

The following tables present loans purchased by class for the periods presented. None of these loan purchases were categorized as purchased credit deteriorated ("PCD") and there were no loans categorized as PCD during the periods presented.

	Three Months Ended June 30, 2024			Three Months Ended June 30, 2023		
(dollars in thousands)	U.S. Mainland Consumer - Unsecured	U.S. Mainland Consumer - Automobile	Total	U.S. Mainland Consumer - Unsecured	U.S. Mainland Consumer - Automobile	Total
Purchases:						
Outstanding balance	$ —	$ 12,384	$ 12,384	$ 152	$ —	$ 152
Premium	—	247	247	—	—	—
Purchase price	$ —	$ 12,631	$ 12,631	$ 152	$ —	$ 152

	Six Months Ended June 30, 2024			Six Months Ended June 30, 2023		
	U.S. Mainland Consumer - Unsecured	U.S. Mainland Consumer - Automobile	Total	U.S. Mainland Consumer - Unsecured	U.S. Mainland Consumer - Automobile	Total
Purchases:						
Outstanding balance	$ —	$ 12,384	$ 12,384	$ 3,932	$ 15,159	$ 19,091
Premium	—	247	247	—	568	568
Purchase price	$ —	$ 12,631	$ 12,631	$ 3,932	$ 15,727	$ 19,659

Foreclosure Proceedings

The Company did not own any foreclosed properties as of June 30, 2024 and December 31, 2023. The Company had $3.9 million and $2.3 million of residential mortgage loans collateralized by residential real estate property that were in the process of foreclosure at June 30, 2024 and December 31, 2023, respectively. The Company had $0.1 million in commercial real estate loans in the process of foreclosure at June 30, 2024 and December 31, 2023.

The Company did not sell any foreclosed properties during the three and six months ended June 30, 2024 and 2023.

Nonaccrual and Past Due Loans

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 tables present by class, the aging of the recorded investment in past due loans as of the dates presented. The following tables also present the amortized cost of loans on nonaccrual status for which there was no related ACL as of the dates presented:

(dollars in thousands)	Accruing Loans 30 - 59 Days Past Due	Accruing Loans 60 - 89 Days Past Due	Accruing Loans 90+ Days Past Due	Nonaccrual Loans	Total Past Due and Nonaccrual	Loans Not Past Due	Total Loans	Nonaccrual Loans With No ACL
June 30, 2024								
Commercial and industrial	$ 597	$ 183	$ —	$ 355	$ 1,135	$ 583,721	$ 584,856	$ —
Real estate:								
Construction	—	—	—	—	—	171,522	171,522	—
Residential mortgage	626	1,352	1,273	7,991	11,242	1,901,935	1,913,177	7,991
Home equity	2,001	—	135	1,247	3,383	703,428	706,811	1,247
Commercial mortgage	—	—	—	77	77	1,465,293	1,465,370	77
Consumer	4,891	1,525	896	587	7,899	534,009	541,908	—
Total	$ 8,115	$ 3,060	$ 2,304	$ 10,257	$ 23,736	$ 5,359,908	$ 5,383,644	$ 9,315

(dollars in thousands)	Accruing Loans 30 - 59 Days Past Due	Accruing Loans 60 - 89 Days Past Due	Accruing Loans 90+ Days Past Due	Nonaccrual Loans	Total Past Due and Nonaccrual	Loans Not Past Due	Total Loans	Nonaccrual Loans With No ACL
December 31, 2023								
Commercial and industrial	$ 513	$ 169	$ —	$ 432	$ 1,114	$ 574,593	$ 575,707	$ —
Real estate:								
Construction	—	—	—	—	—	185,519	185,519	—
Residential mortgage	3,082	2,140	—	4,962	10,184	1,917,605	1,927,789	4,855
Home equity	804	400	229	834	2,267	734,257	736,524	834
Commercial mortgage	—	—	—	77	77	1,382,825	1,382,902	77
Consumer	5,677	2,329	1,083	703	9,792	620,749	630,541	—
Total	$ 10,076	$ 5,038	$ 1,312	$ 7,008	$ 23,434	$ 5,415,548	$ 5,438,982	$ 5,766

Collateral-Dependent Loans

A loan is considered collateral-dependent when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral, which are individually evaluated to determine expected credit losses. The following tables present the amortized cost basis of collateral-dependent loans by class and the related ACL allocated to these loans as of the dates presented:

(dollars in thousands)	Secured by 1-4 Family Residential Properties	Secured by Nonfarm Nonresidential Properties	Total	Allocated ACL
June 30, 2024				
Real estate:				
Residential mortgage	$ 9,435	$ —	$ 9,435	$ —
Home equity	1,247	—	1,247	—
Commercial mortgage	—	77	77	—
Total	$ 10,682	$ 77	$ 10,759	$ —

(dollars in thousands)	Secured by 1-4 Family Residential Properties	Secured by Nonfarm Nonresidential Properties	Total	Allocated ACL
December 31, 2023				
Real estate:				
Residential mortgage	$ 6,450	$ —	$ 6,450	$ 47
Home equity	834	—	834	—
Commercial mortgage	—	77	77	—
Total	$ 7,284	$ 77	$ 7,361	$ 47

Loan Modifications for Borrowers Experiencing Financial Difficulty

Since the adoption of ASU 2022-02 on January 1, 2023 and d uring the three and six months ended June 30, 2024, the Company has not had any materia modifications to loans either individually or in the aggregate for borrowers experiencing financial difficulty.

Troubled Debt Restructurings Prior to the Adoption of ASU 2022-02

Prior to our adoption of ASU 2022-02, we accounted for a modification to the contractual terms of a loan that resulted in granting a concession to a borrower experiencing financial difficulties as a troubled debt restructuring ("TDR").

There were $0.8 million of TDRs included in nonperforming assets at June 30, 2024, compared to $0.9 million at December 31, 2023. There were $ 2.0 million of TDRs that were still accruing interest at June 30, 2024, compared to $2.1 million at December 31, 2023. None of the TDRs still accruing interest at June 30, 2024 and December 31, 2023 were more than 90 days delinquent.

Credit Quality Indicators

The Company categorizes loans 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 individually by classifying the loans by credit risk. This analysis includes non-homogeneous loans, such as commercial and commercial real estate loans. This analysis is performed on a quarterly basis. The Company uses the following definitions for risk rating of loans.

Pass. Loans classified as pass are not adversely rated, are contractually current as to principal and interest, and are otherwise in compliance with the contractual terms of the loan agreement.

Special Mention. Loans 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 classified as substandard are inadequately protected by the borrower's current financial condition and payment capability or of the collateral pledged, if any. These loans have a well-defined weakness or weaknesses that jeopardize the orderly repayment of debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans 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 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.

The following tables present the amortized cost basis, net of deferred fees and costs, of the Company's loans by class, credit quality indicator and origination year as of the dates presented. Revolving loans converted to term as of and during the periods presented were not material to the total loan portfolio. In addition, the following tables present gross charge-offs of loans by origination year during the periods presented.

(dollars in thousands)	Amortized Cost of Term Loans by Year of Origination						Amortized Cost of Revolving Loans	
June 30, 2024	**2024**	**2023**	**2022**	**2021**	**2020**	**Prior**		**Total**
Commercial and industrial:								
Risk Rating								
Pass	$ 82,768	$ 66,377	$ 80,033	$ 74,516	$ 28,777	$ 152,988	$ 91,260	$ 576,719
Special Mention	—	33	3,775	2,910	—	—	—	6,718
Substandard	—	93	37	141	557	591	—	1,419
Subtotal	82,768	66,503	83,845	77,567	29,334	153,579	91,260	584,856
Construction:								
Risk Rating								
Pass	791	13,053	52,375	60,724	13,376	31,203	—	171,522
Subtotal	791	13,053	52,375	60,724	13,376	31,203	—	171,522
Residential mortgage:								
Risk Rating								
Pass	37,641	95,295	264,381	602,347	404,839	498,253	—	1,902,756
Special Mention	—	—	—	—	—	247	—	247
Substandard	—	—	1,697	646	1,868	5,963	—	10,174
Subtotal	37,641	95,295	266,078	602,993	406,707	504,463	—	1,913,177
Home equity:								
Risk Rating								
Pass	661	11,619	30,352	18,589	7,880	25,505	610,823	705,429
Substandard	—	—	—	—	—	1,247	135	1,382
Subtotal	661	11,619	30,352	18,589	7,880	26,752	610,958	706,811
Commercial mortgage:								
Risk Rating								
Pass	106,586	95,806	238,556	200,970	113,069	689,968	6,561	1,451,516
Special Mention	—	624	—	1,450	—	5,254	—	7,328
Substandard	—	—	—	1,097	—	5,429	—	6,526
Subtotal	106,586	96,430	238,556	203,517	113,069	700,651	6,561	1,465,370
Consumer:								
Risk Rating								
Pass	16,203	91,475	212,509	115,566	27,775	24,351	52,545	540,424
Substandard	—	48	160	205	15	1,056	—	1,484
Subtotal	16,203	91,523	212,669	115,771	27,790	25,407	52,545	541,908
Total	$ 244,650	$ 374,423	$ 883,875	$ 1,079,161	$ 598,156	$ 1,442,055	$ 761,324	$ 5,383,644

(dollars in thousands)	Gross Charge-Offs by Year of Origination						
Six Months Ended June 30, 2024	**2024**	**2023**	**2022**	**2021**	**2020**	**Prior**	**Total**
Commercial and industrial	$ 19	$ 74	$ 204	$ 184	$ 13	$ 707	$ 1,201
Real estate:							
Residential mortgage	—	—	76	—	—	208	284
Consumer	5	392	5,460	2,318	283	725	9,183
Gross charge-offs	$ 24	$ 466	$ 5,740	$ 2,502	$ 296	$ 1,640	$ 10,668

(dollars in thousands)	Amortized Cost of Term Loans by Year of Origination						Amortized Cost of Revolving Loans	
December 31, 2023	**2023**	**2022**	**2021**	**2020**	**2019**	**Prior**	**Loans**	**Total**
Commercial and industrial:								
Risk Rating								
Pass	$ 83,333	$ 82,649	$ 77,551	$ 32,831	$ 42,162	$ 152,940	$ 90,177	$ 561,643
Special Mention	—	—	2,916	—	—	944	93	3,953
Substandard	37	1,189	576	662	571	7,026	50	10,111
Subtotal	83,370	83,838	81,043	33,493	42,733	160,910	90,320	575,707
Construction:								
Risk Rating								
Pass	8,434	52,596	69,203	18,878	2,136	31,090	2,778	185,115
Special Mention	—	—	404	—	—	—	—	404
Subtotal	8,434	52,596	69,607	18,878	2,136	31,090	2,778	185,519
Residential mortgage:								
Risk Rating								
Pass	101,473	266,314	609,648	414,430	144,312	385,452	—	1,921,629
Special Mention	—	—	—	—	—	268	—	268
Substandard	—	1,057	299	931	818	2,787	—	5,892
Subtotal	101,473	267,371	609,947	415,361	145,130	388,507	—	1,927,789
Home equity:								
Risk Rating								
Pass	12,229	32,208	19,589	8,766	6,372	17,379	638,917	735,460
Substandard	—	—	—	—	66	998	—	1,064
Subtotal	12,229	32,208	19,589	8,766	6,438	18,377	638,917	736,524
Commercial mortgage:								
Risk Rating								
Pass	96,479	256,660	202,933	115,055	112,578	566,325	6,311	1,356,341
Special Mention	—	—	—	—	10,513	9,638	—	20,151
Substandard	—	—	2,587	—	1,654	2,169	—	6,410
Subtotal	96,479	256,660	205,520	115,055	124,745	578,132	6,311	1,382,902
Consumer:								
Risk Rating								
Pass	88,593	261,752	144,341	36,431	27,970	10,538	59,130	628,755
Substandard	58	231	205	87	83	1,084	10	1,758
Loss	—	—	—	—	—	28	—	28
Subtotal	88,651	261,983	144,546	36,518	28,053	11,650	59,140	630,541
Total	$ 390,636	$ 954,656	$ 1,130,252	$ 628,071	$ 349,235	$ 1,188,666	$ 797,466	$ 5,438,982

(dollars in thousands)	Gross Charge-Offs by Year of Origination						
Six Months Ended June 30, 2023	**2023**	**2022**	**2021**	**2020**	**2019**	**Prior**	**Total**
Commercial and industrial	$ —	$ 212	$ 88	$ —	$ 207	$ 634	$ 1,141
Consumer	—	2,745	2,730	345	409	330	6,559
Gross charge-offs	$ —	$ 2,957	$ 2,818	$ 345	$ 616	$ 964	$ 7,700

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4. ALLOWANCE FOR CREDIT LOSSES AND RESERVE FOR OFF-BALANCE SHEET CREDIT EXPOSURES

The following tables present by class, the activities in the ACL for loans during the periods presented:

(dollars in thousands)		Real Estate					
Three Months Ended June 30, 2024	**Commercial and Industrial**	**Construction**	**Residential Mortgage**	**Home Equity**	**Commercial Mortgage**	**Consumer**	**Total**
Beginning balance	$ 7,008	$ 3,619	$ 16,026	$ 3,733	$ 17,004	$ 16,142	$ 63,532
Provision (credit) for credit losses on loans	452	179	(362)	96	333	1,750	2,448
Subtotal	7,460	3,798	15,664	3,829	17,337	17,892	65,980
Charge-offs	(519)	—	(284)	—	—	(4,345)	(5,148)
Recoveries	130	—	9	—	—	1,254	1,393
Net (charge-offs) recoveries	(389)	—	(275)	—	—	(3,091)	(3,755)
Ending balance	$ 7,071	$ 3,798	$ 15,389	$ 3,829	$ 17,337	$ 14,801	$ 62,225

(dollars in thousands)		Real Estate					
Three Months Ended June 30, 2023	**Commercial and Industrial**	**Construction**	**Residential Mortgage**	**Home Equity**	**Commercial Mortgage**	**Consumer**	**Total**
Beginning balance	$ 7,131	$ 3,087	$ 11,813	$ 4,037	$ 17,472	$ 19,559	$ 63,099
Provision (credit) for credit losses on loans	52	567	413	(87)	(107)	3,297	4,135
Subtotal	7,183	3,654	12,226	3,950	17,365	22,856	67,234
Charge-offs	(362)	—	—	—	—	(3,873)	(4,235)
Recoveries	125	—	7	15	—	703	850
Net (charge-offs) recoveries	(237)	—	7	15	—	(3,170)	(3,385)
Ending balance	$ 6,946	$ 3,654	$ 12,233	$ 3,965	$ 17,365	$ 19,686	$ 63,849

(dollars in thousands)		Real Estate					
Six Months Ended June 30, 2024	**Commercial and Industrial**	**Construction**	**Residential Mortgage**	**Home Equity**	**Commercial Mortgage**	**Consumer**	**Total**
Beginning balance	$ 7,181	$ 4,004	$ 14,626	$ 3,501	$ 17,543	$ 17,079	$ 63,934
Provision (credit) for credit losses on loans	871	(206)	1,030	322	(206)	4,758	6,569
Subtotal	8,052	3,798	15,656	3,823	17,337	21,837	70,503
Charge-offs	(1,201)	—	(284)	—	—	(9,183)	(10,668)
Recoveries	220	—	17	6	—	2,147	2,390
Net (charge-offs) recoveries	(981)	—	(267)	6	—	(7,036)	(8,278)
Ending balance	$ 7,071	$ 3,798	$ 15,389	$ 3,829	$ 17,337	$ 14,801	$ 62,225

(dollars in thousands)		Real Estate					
Six Months Ended June 30, 2023	**Commercial and Industrial**	**Construction**	**Residential Mortgage**	**Home Equity**	**Commercial Mortgage**	**Consumer**	**Total**
Beginning balance	$ 6,824	$ 2,867	$ 11,804	$ 4,114	$ 17,902	$ 20,227	$ 63,738
Provision (credit) for credit losses on loans	888	787	369	(164)	(537)	4,407	5,750
Subtotal	7,712	3,654	12,173	3,950	17,365	24,634	69,488
Charge-offs	(1,141)	—	—	—	—	(6,559)	(7,700)
Recoveries	375	—	60	15	—	1,611	2,061
Net (charge-offs) recoveries	(766)	—	60	15	—	(4,948)	(5,639)
Ending balance	$ 6,946	$ 3,654	$ 12,233	$ 3,965	$ 17,365	$ 19,686	$ 63,849

The following table presents the activities in the reserve for off-balance sheet credit exposures, included in other liabilities, during the periods presented. The (credit) provision for off-balance sheet credit exposures is included in the provision for credit losses on the Company's income statement during the periods presented.

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2024	2023	2024	2023
Beginning balance	$ 3,521	$ 3,480	$ 3,706	$ 3,243
(Credit) provision for off-balance sheet credit exposures	(209)	184	(394)	421
Ending balance	$ 3,312	$ 3,664	$ 3,312	$ 3,664

5. INVESTMENTS IN UNCONSOLIDATED ENTITIES

The following table presents the components of the Company's investments in unconsolidated entities as of the dates presented:

(dollars in thousands)	June 30, 2024	December 31, 2023
Investments in low-income housing tax credit partnerships, net of amortization	$ 36,478	$ 37,838
Investments in common securities of statutory trusts	1,547	1,547
Investments in affiliates	80	111
Other	2,050	2,050
Total	$ 40,155	$ 41,546

The Company had commitments to fund low-income housing tax credit ("LIHTC") partnerships totaling $ 47.8 million as of June 30, 2024 and December 31, 2023. Unfunded commitments related to LIHTC partnerships totaled $14.3 million and $22.0 million at June 30, 2024 and December 31, 2023, respectively, and are included in other liabilities in the Company's consolidated balance sheets. The investments are accounted for under the proportional amortization method and are included in investments in unconsolidated entities in the Company's consolidated balance sheets.

The following table presents the expected payments for the unfunded commitments of LIHTC and other partnerships as of June 30, 2024, for the remainder of fiscal year 2024, the next five succeeding fiscal years, and all years thereafter:

(dollars in thousands)			
Year Ending December 31,	**LIHTC**	**Other**	**Total**
2024 (remainder)	$ 9,696	$ 903	$ 10,599
2025	4,248	—	4,248
2026	26	—	26
2027	26	—	26
2028	20	—	20
2029	27	—	27
Thereafter	286	—	286
Total unfunded commitments	$ 14,329	$ 903	$ 15,232

The following table presents amortization and tax credits recognized associated with our investments in LIHTC partnerships for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2024	2023	2024	2023
Proportional amortization method:				
Amortization expense recognized in income tax expense	$ 674	$ 714	$ 1,360	$ 1,428
Tax credits recognized in income tax expense	801	892	1,601	1,784

In 2021, the Company committed $2.0 million to the JAM FINTOP Banktech Fund, L.P. The Company does not have the ability to exercise significant influence over the JAM FINTOP Banktech Fund, L.P. and the investment does not have a readily determinable fair value. As a result, the Company determined that the cost method of accounting for the investment was appropriate. The Company had $0.9 million and $1.0 million in unfunded commitments related to the investment as of June 30, 2024 and December 31, 2023, respectively, which was recorded in other liabilities.

During the first quarter of 2022, the Company invested $2.0 million in Swell Financial, Inc. ("Swell"). The Company did not have the ability to exercise significant influence over Swell and the investment did not have a readily determinable fair value. As a result, the Company determined that the cost method of accounting for the investment was appropriate.

During the third quarter of 2023, the Company entered into a transaction with Swell whereby Swell repurchased the Company’s entire preferred and common stock equity investment in exchange for $0.5 million in cash and certain intellectual property rights and a platform usage fee agreement related to products that may be launched by Swell or its affiliates in the future (not to exceed $1.5 million in value).

Due to the aforementioned events, the Company performed an impairment analysis and concluded the intellectual property rights and the platform usage fee agreement received in exchange for the Company's investment in Swell were not impaired as of June 30, 2024 and December 31, 2023. The intangible assets, net of accumulated amortization, totaling $1.4 million and $1.5 million are included in other assets on the Company's consolidated balance sheet as of June 30, 2024 and December 31, 2023, respectively.

6. MORTGAGE SERVICING RIGHTS

The following table presents changes in mortgage servicing rights ("MSR") for the periods presented:

(dollars in thousands)		
Balance at December 31, 2023	$	8,696
Additions		310
Amortization		(370)
Balance at June 30, 2024	$	8,636
Balance at December 31, 2022	$	9,074
Additions		125
Amortization		(356)
Balance at June 30, 2023	$	8,843

Income generated as the result of new MSR is reported as gains on sales of loans and totaled $ 0.2 million and $0.3 million for the three and six months ended June 30, 2024, respectively, compared to $0.1 million and $0.1 million for the three and six months ended June 30, 2023, respectively.

Amortization of mortgage servicing rights totaled $0.2 million and $0.4 million for the three and six months ended June 30, 2024, respectively, compared to $0.2 million and $0.4 million for the three and six months ended June 30, 2023, respectively.

The following table presents the fair market value and key assumptions used in determining the fair market value of MSR as of the dates presented:

(dollars in thousands)	June 30, 2024	December 31, 2023
Fair market value, beginning of year	$ 12,185	$ 12,061
Fair market value, end of period	12,151	12,185
Weighted average discount rate	9.5 %	9.5 %
Weighted average prepayment speed assumption	11.0	11.2

The following table presents carrying values and accumulated amortization related to MSR as of the dates presented:

	June 30, 2024			December 31, 2023		
(dollars in thousands)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Mortgage servicing rights	$ 70,050	$ (61,414)	$ 8,636	$ 69,740	$ (61,044)	$ 8,696

The following table presents the estimated amortization expense for the remainder of fiscal year 2024, the next five succeeding fiscal years, and all years thereafter, based on MSR held as of June 30, 2024:

(dollars in thousands)	
Year Ending December 31,	
2024 (remainder)	$ 418
2025	893
2026	803
2027	719
2028	642
2029	563
Thereafter	4,598
Total	$ 8,636

The Company performs an impairment assessment of its MSR whenever events or changes in circumstance indicate that the carrying value of the MSR may not be recoverable. The Company noted no impairment or triggering events related to its MSR at June 30, 2024.

7. DERIVATIVES

The Company utilizes various designated and undesignated derivative financial instruments to reduce its exposure to movements in interest rates. The Company measures all derivatives at fair value on its consolidated balance sheet. In each reporting period, the Company records 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 cash flow hedging instruments, the Company records the effective portion of the changes in the fair value of the derivative in accumulated other comprehensive income (loss) ("AOCI"), net of tax, until earnings are affected by the variability of cash flows of the hedged transaction. The Company immediately recognizes 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.

Derivative financial instruments are subject to credit and counterparty risk, which is defined as the risk of financial loss if a borrower or counterparty is either unable or unwilling to repay borrowings or settle transactions in accordance with the underlying contractual terms. Credit and counterparty risks associated with derivative financial instruments are similar to those relating to traditional financial instruments. The Company manages derivative credit and counterparty risk by evaluating the creditworthiness of each borrower or counterparty and requiring collateral where appropriate.

Interest Rate Lock and Forward Sale Commitments

The Company enters 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, the Company also enters into forward loan sale commitments on the loans that are intended to be sold. 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 and other liabilities, with changes in fair value recorded in current period earnings. These instruments serve to reduce the Company's exposure to movements in interest rates.

The Company was party to interest rate lock commitments on $ 2.8 million and $1.8 million of mortgage loans at June 30, 2024 and December 31, 2023, respectively. The Company was not a party to any forward sale commitments on mortgage loans at June 30, 2024 and December 31, 2023.

Risk Participation Agreements

The Company enters into credit risk participation agreements ("RPA") with financial institution counterparties for interest rate swaps related to loans in which it participates. The RPAs entered into by us and a participant bank provide credit protection to the financial institution counterparties should the borrowers fail to perform on their interest rate derivative contracts with the financial institutions. The RPAs are accounted for as undesignated derivatives and are recorded at fair value, with changes in fair value recorded in current period earnings.

The Company was party to RPAs with total notional amounts of $ 35.6 million and $36.0 million at June 30, 2024 and December 31, 2023, respectively. The fair value of the RPAs was insignificant to the consolidated financial statements at June 30, 2024 and December 31, 2023.

Back-to-Back Swap Agreements

The Company established a program whereby it originates a variable rate loan and enters into a variable-to-fixed interest rate swap with the customer. The Company also enters into an equal and offsetting swap with a highly rated third-party financial institution. These "back-to-back swap agreements" are intended to offset each other and allow the Company to originate a variable rate loan, while providing a contract for fixed interest payments for the customer. The net cash flow for the Company is equal to the interest income received from a variable rate loan originated with the customer. These back-to-back swap agreements are free-standing derivatives and recorded at fair value on our consolidated balance sheet in other assets or other liabilities.

The Company was party to swap agreements with its borrowers with total notional amounts of $ 50.6 million and $51.1 million at June 30, 2024 and December 31, 2023, respectively, offset by swap agreements with third party financial institutions with the same total notional amounts. The Company received $14.4 million and $9.6 million in counter-party cash collateral related to the back-to-back swap agreements at June 30, 2024 and December 31, 2023, respectively.

Interest Rate Swap

During the first quarter of 2022, the Company entered into a forward starting interest rate swap, with an effective date of March 31, 2024. This transaction had a notional amount of $115.5 million and was designated as a fair value hedge of certain municipal debt securities. The Company pays the counterparty a fixed rate of 2.095% and receives a floating rate based on the Federal Funds effective rate. The fair value hedge has a maturity date of March 31, 2029.

The interest rate swap is carried on the Company’s consolidated balance sheet at its fair value in other assets (when the fair value is positive) or in other liabilities (when the fair value is negative). The changes in the fair value of the interest rate swap are recorded in interest income. The unrealized gains or losses due to changes in fair value of the hedged debt securities due to changes in benchmark interest rates are recorded as an adjustment to the hedged debt securities and offset in the same interest income line item. At June 30, 2024, the hedge was determined to be effective and the Company expects the hedge to remain effective during the remaining term.

During the three and six months ended June 30, 2024, the Company recorded income from the interest rate swap of $ 0.9 million and $0.8 million, respectively.

The following tables present the location of all assets and liabilities associated with our derivative instruments within the consolidated balance sheets as of the dates presented:

Derivative Financial Instruments Not Designated as Hedging Instruments		**Asset Derivatives Fair Value at**		**Liability Derivatives Fair Value at**	
(dollars in thousands)	**Balance Sheet Location**	**June 30, 2024**	**December 31, 2023**	**June 30, 2024**	**December 31, 2023**
Interest rate lock and forward sale commitments	Other assets / other liabilities	$ 1	$ —	$ 4	$ 34
Back-to-back swap agreements	Other assets / other liabilities	4,237	3,547	4,237	3,547

Derivative Financial Instruments Designated as Hedging Instruments		Asset Derivatives		Liability Derivatives	
		Fair Value at		Fair Value at	
(dollars in thousands)	**Balance Sheet Location**	**June 30, 2024**	**December 31, 2023**	**June 30, 2024**	**December 31, 2023**
Interest rate swap	Other assets / other liabilities	$ 9,304	$ 6,440	$ —	$ —

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

Derivative Financial Instruments Not Designated as Hedging Instruments *(dollars in thousands)*	**Location of Gain (Loss) Recognized in Earnings on Derivatives**		**Amount of Gain (Loss) Recognized in Earnings on Derivatives**
Three Months Ended June 30, 2024			
Interest rate lock and forward sale commitments	Mortgage banking income	$	(4)
Back-to-back swap agreements	Other service charges and fees		—
Three Months Ended June 30, 2023			
Interest rate lock and forward sale commitments	Mortgage banking income		16
Loans held for sale	Other income		(4)
Back-to-back swap agreements	Other service charges and fees		35

Derivative Financial Instruments Not Designated as Hedging Instruments *(dollars in thousands)*	**Location of Gain (Loss) Recognized in Earnings on Derivatives**		**Amount of Gain (Loss) Recognized in Earnings on Derivatives**
Six Months Ended June 30, 2024			
Interest rate lock and forward sale commitments	Mortgage banking income	$	31
Loans held for sale	Other income		(17)
Back-to-back swap agreements	Other service charges and fees		80
Six Months Ended June 30, 2023			
Interest rate lock and forward sale commitments	Mortgage banking income		8
Loans held for sale	Other income		(1)
Back-to-back swap agreements	Other service charges and fees		35

Derivative Financial Instruments Designated as Hedging Instruments *(dollars in thousands)*	**Location of Gain (Loss) Recognized in Earnings on Derivatives**		**Amount of Gain (Loss) Recognized in Earnings on Derivatives**
Three Months Ended June 30, 2024			
Interest rate swap	Interest income	$	884
Three Months Ended June 30, 2023			
Interest rate swap	Interest income		(116)

Derivative Financial Instruments Designated as Hedging Instruments *(dollars in thousands)*	**Location of Gain (Loss) Recognized in Earnings on Derivatives**		**Amount of Gain (Loss) Recognized in Earnings on Derivatives**
Six Months Ended June 30, 2024			
Interest rate swap	Interest income	$	776
Six Months Ended June 30, 2023			
Interest rate swap	Interest income		(59)

The following table presents the amounts recorded on the consolidated balance sheets related to cumulative basis adjustments for fair value hedges as of the periods presented:

Line Item in the Consolidated Balance Sheets *(dollars in thousands)*	**June 30, 2024**	**December 31, 2023**
Investment securities, available-for-sale:		
Carrying Amount of the Hedged Assets	$ 89,600	$ 90,636
Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets	(9,848)	(6,817)

8. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Federal Home Loan Bank Advances and Other Borrowings

The Bank is a member of the Federal Home Loan Bank of Des Moines (the "FHLB") and maintained a $ 1.87 billion line of credit as of June 30, 2024, compared to $1.93 billion at December 31, 2023. At June 30, 2024, $ 1.74 billion was undrawn under this arrangement, compared to $ 1.81 billion at December 31, 2023. There were no short-term borrowings outstanding under this arrangement at June 30, 2024 and December 31, 2023. There were $50.0 million in long-term advances under the FHLB arrangement bearing interest rates between 4.02% and 4.62% at June 30, 2024 and December 31, 2023.

The FHLB provides standby letters of credit on behalf of the Bank to secure certain public deposits. If the FHLB is required to make a payment on a standby letter of credit, the payment amount is converted to an advance at the FHLB. Standby letters of credit under this arrangement that are used to collateralize certain government deposits totaled $79.0 million as of June 30, 2024, compared to $ 72.0 million as of December 31, 2023. The letters of credit are counted against the total line of credit, the same as the current outstanding debt, to determine the undrawn or total available line of credit.

In accordance with the collateral provisions of the Advances, Security and Deposit Agreement with the FHLB, the FHLB advances and standby letters of credit available at June 30, 2024 and December 31, 2023 were secured by certain real estate loans with a carrying value of approximately $3.14 billion and $3.16 billion, respectively.

The Bank had additional unused borrowings available at the Federal Reserve Discount Window of $ 238.3 million and $ 285.8 million at June 30, 2024 and December 31, 2023, respectively. Certain commercial and commercial real estate loans with a par value totaling $131.8 million and $ 135.1 million at June 30, 2024 and December 31, 2023, respectively, were pledged as collateral on our line of credit with the Federal Reserve. In addition, investment securities with a par value of $190.6 million and $196.7 million as of June 30, 2024 and December 31, 2023, respectively, were pledged to the Federal Reserve in support of the line of credit. The Federal Reserve does not have the right to sell or repledge these loans and investment securities.

The Bank had additional unused and unsecured credit lines available totaling $ 75.0 million at June 30, 2024 and December 31, 2023.

Subordinated Debentures

The following table present's the Company's junior subordinated debentures outstanding, which are recorded in long-term debt on the Company's consolidated balance sheets as of the dates presented:

(dollars in thousands)

Name of Trust	**June 30, 2024**	**December 31, 2023**	**Interest Rate**
Trust IV	$ 30,928	$ 30,928	Three-month CME Term SOFR + tenor spread adjustment of 0.26% + 2.45%
Trust V	20,619	20,619	Three-month CME Term SOFR + tenor spread adjustment of 0.26% + 1.87%
Total	$ 51,547	$ 51,547	

In September 2004, we created a wholly-owned statutory trust, CPB Capital Trust IV ("Trust IV"). Trust IV issued $ 30.0 million in floating rate trust preferred securities which bore 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 junior 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 floating rate trust preferred securities which bore 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 junior 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.

On July 3, 2023, after the cessation of the LIBOR benchmark rate on June 30, 2023, the Company amended its Trust IV and Trust V debt agreements to replace the LIBOR-based reference rate with an adjusted CME Term Secured Overnight Financing Rate ("SOFR") plus a tenor spread adjustment. Accounting Standards Codification ("ASC") 848 allows us to account for the modification as a continuation of the existing contract without additional analysis.

The Company is not considered the primary beneficiary of Trusts IV and V. Therefore, the trusts are not considered variable interest entities and are not consolidated in the Company's financial statements. Rather the subordinated debentures are shown as liabilities on the Company's consolidated balance sheets. The Company's investments in the common securities of the trusts are included in investment in unconsolidated entities in the Company's consolidated balance sheets.

The floating trust preferred securities, the junior subordinated debentures that are the assets of Trusts IV and V and the common securities issued by Trusts IV and V are redeemable in whole or in part on any interest payment date 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.

The subordinated debentures are included in Tier 1 capital, with certain limitations applicable, under regulatory guidelines and interpretations.

Subordinated Notes

The following table presents the Company's subordinated notes outstanding as of the dates presented:

(dollars in thousands)

Description	June 30, 2024	December 31, 2023	Interest Rate
October 2020 Private Placement	$ 55,000	$ 55,000	4.75% for the first five years. Resets quarterly thereafter to the then current three-month SOFR plus 456 basis points.

On October 20, 2020, the Company completed a $55.0 million private placement of ten-year fixed-to-floating rate subordinated notes, which will be used to support regulatory capital ratios and for general corporate purposes. The Company exchanged the privately placed notes for registered notes with the same terms and in the same aggregate principal amount at the end of the fourth quarter of 2020. The subordinated notes bear a fixed interest rate of 4.75% for the first five years through November 1, 2025 and will reset quarterly thereafter for the remaining five years to the then current three-month SOFR, as published by the Federal Reserve Bank of New York, plus 456 basis points.

The subordinated notes are included in Tier 2 capital, with certain limitations applicable, under current regulatory guidelines and interpretations. The subordinated notes had a carrying value of $54.7 million, net of unamortized debt issuance costs of $0.3 million, at June 30, 2024.

9. REVENUE FROM CONTRACTS WITH CUSTOMERS

The following table presents the Company's other operating income, segregated by revenue streams that are in-scope and out-of-scope of ASC 606, *"Revenue from Contracts with Customers"* for the periods presented:

	Three Months Ended June 30, 2024			Three Months Ended June 30, 2023		
(dollars in thousands)	In-Scope	Out-of-Scope	Total	In-Scope	Out-of-Scope	Total
Other operating income:						
Mortgage banking income	$ 202	$ 838	$ 1,040	$ 174	$ 516	$ 690
Service charges on deposit accounts	2,135	—	2,135	2,137	—	2,137
Other service charges and fees	5,348	521	5,869	4,402	592	4,994
Income from fiduciary activities	1,449	—	1,449	1,068	—	1,068
Income from bank-owned life insurance	—	1,234	1,234	—	1,185	1,185
Other	—	394	394	—	361	361
Total other operating income	$ 9,134	$ 2,987	$ 12,121	$ 7,781	$ 2,654	$ 10,435

	Six Months Ended June 30, 2024			Six Months Ended June 30, 2023		
(dollars in thousands)	In-Scope	Out-of-Scope	Total	In-Scope	Out-of-Scope	Total
Other operating income:						
Mortgage banking income	$ 274	$ 1,379	$ 1,653	$ 325	$ 891	$ 1,216
Service charges on deposit accounts	4,238	—	4,238	4,248	—	4,248
Other service charges and fees	10,018	1,112	11,130	8,781	1,198	9,979
Income from fiduciary activities	2,884	—	2,884	2,389	—	2,389
Income from bank-owned life insurance	—	2,756	2,756	—	2,476	2,476
Other	—	704	704	—	1,136	1,136
Total other operating income	$ 17,414	$ 5,951	$ 23,365	$ 15,743	$ 5,701	$ 21,444

10. SHARE-BASED COMPENSATION

Restricted and Performance Stock Units

Under the Company's 2023 Stock Compensation Plan, the Company awarded restricted stock units ("RSUs") and performance stock units ("PSUs") to certain non-officer directors and senior management personnel. The awards typically vest over a two-, three- or five-year period from the date of grant and are subject to forfeiture until performance and employment targets are achieved. Compensation expense is typically measured as the market price of the stock awards on the grant date, and is recognized over the specified vesting periods.

The following table presents the activities of RSUs and PSUs for the six months ended June 30, 2024:

(dollars in thousands, except per share data)	Shares	Weighted Average Grant Date Fair Value	Fair Value of RSUs and PSUs That Vested During the Period
Non-vested RSUs and PSUs, beginning of period	224,579	$ 24.76	
Changes during the period:			
Granted	137,911	19.41	
Forfeited	(1,648)	20.59	
Vested	(73,841)	23.75	$ 1,433
Non-vested RSUs and PSUs, end of period	287,001	22.48	

11. SUPPLEMENTAL EXECUTIVE RETIREMENT PLANS

In 1995, 2001, 2004 and 2006, the Bank established Supplemental Executive Retirement Plans ("SERP"), which provide certain (current and former) officers of the Company with supplemental retirement benefits. On December 31, 2002, the 1995 and 2001 SERP were curtailed. In conjunction with the September 2004 merger with CB Bancshares, Inc. ("CBBI"), the Company assumed CBBI's SERP obligation.

The projected benefit obligation of the unfunded SERP is recorded in other liabilities on the Company's consolidated balance sheets. The projected benefit obligation was $9.3 million at June 30, 2024 and December 31, 2023.

The following table presents the components of net periodic benefit cost for the SERP for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2024	2023	2024	2023
Interest cost	$ 108	$ 112	$ 216	$ 224
Amortization of net actuarial gain	—	(19)	—	(38)
Amortization of net transition obligation	—	2	—	4
Net periodic benefit cost	$ 108	$ 95	$ 216	$ 190

All components of net periodic benefit cost are included in other operating expenses in the Company's consolidated statements of income.

12. OPERATING LEASES

The Company leases certain land and buildings for its bank branches and ATMs. In some instances, a lease may contain renewal options to extend the term of the lease. Renewal options that are likely to be exercised have been recognized as part of our right-of-use assets and lease liabilities in accordance with ASC 842, *"Leases"*. Certain leases also contain variable payments that are primarily determined based on common area maintenance costs and Hawaii state tax rates. All leases are operating leases and we do not include any short-term leases in the calculation of the right-of-use assets and lease liabilities. The most significant assumption related to the Company’s application of ASC 842 was the discount rate assumption. As most of the Company’s lease agreements do not provide for an implicit interest rate, the Company uses the collateralized interest rate that the Company would have to pay to borrow over a similar term to estimate the Company’s lease liabilities.

The following table presents total lease cost, cash flow information, weighted-average remaining lease term and weighted-average discount rate for the periods presented:

(dollars in thousands)	Three Months Ended June 30, 2024	Three Months Ended June 30, 2023	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
Lease cost:				
Operating lease cost	$ 1,437	$ 1,327	$ 2,740	$ 2,652
Variable lease cost	927	934	1,862	1,822
Less: Sublease income	—	(17)	—	(34)
Total lease cost	$ 2,364	$ 2,244	$ 4,602	$ 4,440
Other information:				
Operating cash flows from operating leases	$ (1,425)	$ (1,302)	$ (2,682)	$ (2,692)
Weighted-average remaining lease term - operating leases	10.87 years	10.98 years	10.87 years	10.98 years
Weighted-average discount rate - operating leases	4.09 %	3.96 %	4.09 %	3.96 %

The following table presents a schedule of annual undiscounted cash flows for our operating leases and a reconciliation of those cash flows to the operating lease liabilities as of June 30, 2024, for the remainder of fiscal year 2024, the next five succeeding fiscal years and all years thereafter:

(dollars in thousands) Year Ending December 31,	Undiscounted Cash Flows	Lease Liability Discount on Cash Flows	Lease Liability
2024 (remainder)	$ 2,443	$ 644	$ 1,799
2025	4,499	1,179	3,320
2026	4,441	1,050	3,391
2027	4,428	915	3,513
2028	3,611	794	2,817
2029	3,144	688	2,456
Thereafter	18,965	2,839	16,126
Total	$ 41,531	$ 8,109	$ 33,422

In addition, the Company, as lessor, leases certain properties that it owns. All of these leases are operating leases. The following table presents lease income related to these leases that was recognized for the periods presented:

(dollars in thousands)	Three Months Ended June 30, 2024	Three Months Ended June 30, 2023	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
Total rental income recognized	$ 511	$ 563	$ 1,020	$ 1,125

The following table presents estimated lease payments, based on the Company's leases as lessor as of June 30, 2024, for the remainder of fiscal year 2024, the next five succeeding fiscal years, and all years thereafter:

(dollars in thousands)	
Year Ending December 31,	
2024 (remainder)	$ 644
2025	1,157
2026	1,015
2027	960
2028	608
2029	553
Thereafter	1,293
Total	$ 6,230

13. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following tables present the components of other comprehensive income (loss) for the periods presented:

(dollars in thousands)	Before Tax	Tax Effect	Net of Tax
Three Months Ended June 30, 2024			
Net change in fair value of investment securities:			
Net unrealized gains on AFS investment securities arising during the period	$ 370	$ 96	$ 274
Amortization of unrealized losses on investment securities transferred to HTM	1,867	493	1,374
Net change in fair value of investment securities	2,237	589	1,648
Net change in fair value of derivatives:			
Net unrealized losses arising during the period	(22)	(6)	(16)
Net change in fair value of derivatives	(22)	(6)	(16)
Other comprehensive income	$ 2,215	$ 583	$ 1,632

(dollars in thousands)	Before Tax	Tax Effect	Net of Tax
Three Months Ended June 30, 2023			
Net change in fair value of investment securities:			
Net unrealized losses on AFS investment securities arising during the period	$ (8,204)	$ (2,179)	$ (6,025)
Amortization of unrealized losses on investment securities transferred to HTM	1,976	525	1,451
Net change in fair value of investment securities	(6,228)	(1,654)	(4,574)
Net change in fair value of derivatives:			
Net unrealized gains arising during the period	2,777	737	2,040
Net change in fair value of derivatives	2,777	737	2,040
SERP:			
Amortization of net actuarial gain	(20)	(5)	(15)
Amortization of net transition obligation	2	—	2
SERP	(18)	(5)	(13)
Other comprehensive loss	$ (3,469)	$ (922)	$ (2,547)

(dollars in thousands)	Before Tax	Tax Effect	Net of Tax
Six Months Ended June 30, 2024			
Net change in fair value of investment securities:			
Net unrealized losses on AFS investment securities arising during the period	$ (6,665)	$ (1,759)	$ (4,906)
Amortization of unrealized losses on investment securities transferred to HTM	3,505	925	2,580
Net change in fair value of investment securities	(3,160)	(834)	(2,326)
Net change in fair value of derivatives:			
Net unrealized gains arising during the period	3,031	800	2,231
Net change in fair value of derivatives	3,031	800	2,231
Other comprehensive loss	$ (129)	$ (34)	$ (95)

(dollars in thousands)	Before Tax	Tax Effect	Net of Tax
Six Months Ended June 30, 2023			
Net change in fair value of investment securities:			
Net unrealized gains on AFS investment securities arising during the period	$ 7,054	$ 1,873	$ 5,181
Amortization of unrealized losses on investment securities transferred to HTM	3,644	968	2,676
Net change in fair value of investment securities	10,698	2,841	7,857
Net change in fair value of derivatives:			
Net unrealized gains arising during the period	$ 1,178	$ 301	$ 877
Net change in fair value of derivatives	1,178	301	877
SERP:			
Amortization of net actuarial gain	(39)	(10)	(29)
Amortization of net transition obligation	4	—	4
SERP	(35)	(10)	(25)
Other comprehensive income	$ 11,841	$ 3,132	$ 8,709

The following tables present the changes in each component of accumulated other comprehensive income (loss), net of tax, for the periods presented:

(dollars in thousands)	Investment Securities	Derivatives	SERP	AOCI
Three Months Ended June 30, 2024				
Balance at beginning of period	$ (131,896)	$ 7,276	$ 297	$ (124,323)
Other comprehensive income (loss) before reclassifications	274	(16)	—	258
Reclassification adjustments from AOCI	1,374	—	—	1,374
Total other comprehensive income (loss)	1,648	(16)	—	1,632
Balance at end of period	$ (130,248)	$ 7,260	$ 297	$ (122,691)

(dollars in thousands)	Investment Securities	Derivatives	SERP	AOCI
Three Months Ended June 30, 2023				
Balance at beginning of period	$ (136,678)	$ 3,482	$ 468	$ (132,728)
Other comprehensive income (loss) before reclassifications	(6,025)	2,040	—	(3,985)
Reclassification adjustments from AOCI	1,451	—	(13)	1,438
Total other comprehensive income (loss)	(4,574)	2,040	(13)	(2,547)
Balance at end of period	$ (141,252)	$ 5,522	$ 455	$ (135,275)

(dollars in thousands)	Investment Securities	Derivatives	SERP	AOCI
Six Months Ended June 30, 2024				
Balance at beginning of period	$ (127,922)	$ 5,029	$ 297	$ (122,596)
Other comprehensive income (loss) before reclassifications	(4,906)	2,231	—	(2,675)
Reclassification adjustments from AOCI	2,580	—	—	2,580
Total other comprehensive income (loss)	(2,326)	2,231	—	(95)
Balance at end of period	$ (130,248)	$ 7,260	$ 297	$ (122,691)

(dollars in thousands)	Investment Securities	Derivatives	SERP	AOCI
Six Months Ended June 30, 2023				
Balance at beginning of period	$ (149,109)	$ 4,645	$ 480	$ (143,984)
Other comprehensive income (loss) before reclassifications	5,181	877	—	6,058
Reclassification adjustments from AOCI	2,676	—	(25)	2,651
Total other comprehensive income (loss)	7,857	877	(25)	8,709
Balance at end of period	$ (141,252)	$ 5,522	$ 455	$ (135,275)

The following tables present the amounts reclassified out of each component of AOCI for the periods presented:

(dollars in thousands)	Amount Reclassified from AOCI Three Months Ended June 30,		Affected Line Item in the Statement Where Net Income is Presented
Details about AOCI Components	**2024**	**2023**	
Amortization of unrealized losses on investment securities transferred to HTM:			
Amortization	$ 1,867	$ 1,976	Interest and dividends on investment securities
Tax effect	(493)	(525)	Income tax benefit
Net of tax	1,374	1,451	
SERP:			
Amortization of net actuarial gain	—	(20)	Other operating expense - other
Amortization of net transition obligation	—	2	Other operating expense - other
Total before tax	—	(18)	
Tax effect	—	5	Income tax expense
Net of tax	—	(13)	
Total reclassification adjustments from AOCI for the period, net of tax	$ 1,374	$ 1,438	

(dollars in thousands)	Amount Reclassified from AOCI Six Months Ended June 30,		Affected Line Item in the Statement Where Net Income is Presented
Details about AOCI Components	**2024**	**2023**	
Amortization of unrealized losses on investment securities transferred to HTM:			
Amortization	$ 3,505	$ 3,644	Interest and dividends on investment securities
Tax effect	(925)	(968)	Income tax benefit
Net of tax	2,580	2,676	
SERP:			
Amortization of net actuarial gain	—	(39)	Other operating expense - other
Amortization of net transition obligation	—	4	Other operating expense - other
Total before tax	—	(35)	
Tax effect	—	10	Income tax expense
Net of tax	—	(25)	
Total reclassification adjustments from AOCI for the period, net of tax	$ 2,580	$ 2,651	

14. EARNINGS PER SHARE

The following table presents the information used to compute basic and diluted earnings per share for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands, except per share data)	2024	2023	2024	2023
Net income	$ 15,817	$ 14,475	$ 28,762	$ 30,662
Weighted average common shares outstanding - basic	27,053,549	27,024,043	27,050,037	27,011,659
Dilutive effect of employee stock options and awards	62,800	47,435	56,230	78,599
Weighted average common shares outstanding - diluted	27,116,349	27,071,478	27,106,267	27,090,258
Basic earnings per share	$ 0.58	$ 0.54	$ 1.06	$ 1.14
Diluted earnings per share	$ 0.58	$ 0.53	$ 1.06	$ 1.13
Anti-dilutive employee stock options and awards	2,917	60,627	1,890	25,671

15. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Disclosures about Fair Value of Financial Instruments

Fair value estimates, methods and assumptions are set forth below for our financial instruments.

Short-Term Financial Instruments

The carrying values of short-term financial instruments are deemed to approximate fair values. Such instruments are considered readily convertible to cash and include cash and due from financial institutions, interest-bearing deposits in other financial institutions, accrued interest receivable, the majority of FHLB advances and other short-term borrowings, and accrued interest payable.

Investment Securities

The fair value of investment securities is based on market price quotations received from third-party pricing services. The third-party pricing services utilize pricing models supported with timely market data information. 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 weighted average discount rate used in the valuation of loans was 7.14% and 6.86% as of June 30, 2024 and December 31, 2023, respectively. In accordance with ASU 2016-01, the fair values of loans are measured 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, if any, net of estimated selling costs on our consolidated balance sheets.

Deposit Liabilities

The fair values of deposits with no stated maturity, such as noninterest-bearing demand deposits and interest-bearing demand and savings accounts, for the purposes of this disclosure, are shown to equal the carrying amount which is the amount payable on demand. The fair value of time deposits is estimated by discounting future cash flows using rates currently offered for FHLB advances of similar remaining maturities. The weighted average discount rate used in the valuation of time deposits was 5.47% and 5.48% as of June 30, 2024 and December 31, 2023, respectively.

Long-Term Debt

The fair values 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. The weighted average discount rate used in the valuation of long-term debt was 6.82% and 6.83% as of June 30, 2024 and December 31, 2023, respectively.

Derivatives

The fair values of derivative financial instruments are based upon current market values, if available. If there are no relevant comparable values, fair values are based on pricing models using current assumptions for interest rate swaps and options.

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.

Limitations

Fair value estimates are made at a specific point in time based on relevant market and financial instrument information. 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 cannot be determined with precision as they are subjective in nature and involve uncertainties and matters of significant judgment. 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.

(dollars in thousands)	Carrying Amount	Estimated Fair Value	Fair Value Measurement Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2024					
Financial assets:					
Cash and due from financial institutions	$ 103,829	$ 103,829	$ 103,829	$ —	$ —
Interest-bearing deposits in other financial institutions	195,062	195,062	195,062	—	—
Investment securities	1,292,586	1,204,807	30,117	1,167,742	6,948
Loans held for sale	3,950	3,950	—	3,950	—
Loans	5,383,644	4,943,289	—	—	4,943,289
Accrued interest receivable	23,184	23,184	341	4,130	18,713
Financial liabilities:					
Deposits:					
Noninterest-bearing demand	1,847,173	1,847,173	1,847,173	—	—
Interest-bearing demand and savings and money market	3,517,780	3,517,780	3,517,780	—	—
Time	1,217,502	1,207,020	—	—	1,207,020
Long-term debt	156,223	150,309	—	—	150,309
Accrued interest payable	14,998	14,998	109	—	14,889

(dollars in thousands)	Notional Amount	Carrying Amount	Estimated Fair Value	Fair Value Measurement Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2024						
Off-balance sheet financial instruments:						
Commitments to extend credit	$ 1,227,966	$ —	$ 1,164	$ —	$ 1,164	$ —
Standby letters of credit and financial guarantees written	3,514	—	53	—	53	—
Derivatives:						
Interest rate lock commitments	2,753	(3)	(3)	—	(3)	—
Risk participation agreements	35,605	—	—	—	—	—
Back-to-back swap agreements:						
Assets	50,645	4,237	4,237	—	—	4,237
Liabilities	(50,645)	(4,237)	(4,237)	—	—	(4,237)
Interest rate swap agreements	115,545	9,304	9,304	—	—	9,304

(dollars in thousands)	Carrying Amount	Estimated Fair Value	Fair Value Measurement Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2023					
Financial assets:					
Cash and due from financial institutions	$ 116,181	$ 116,181	$ 116,181	$ —	$ —
Interest-bearing deposits in other financial institutions	406,256	406,256	406,256	—	—
Investment securities	1,279,548	1,212,388	—	1,205,238	7,150
Loans held for sale	1,778	1,778	—	1,778	—
Loans	5,438,982	5,089,292	—	—	5,089,292
Accrued interest receivable	21,511	21,511	342	4,043	17,126
Financial liabilities:					
Deposits:					
Noninterest-bearing demand	1,913,379	1,913,379	1,913,379	—	—
Interest-bearing demand and savings and money market	3,538,922	3,538,922	3,538,922	—	—
Time	1,395,291	1,385,473	—	—	1,385,473
Long-term debt	156,102	153,073	—	—	153,073
Accrued interest payable	18,948	18,948	85	—	18,863

(dollars in thousands)	Notional Amount	Carrying Amount	Estimated Fair Value	Fair Value Measurement Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2023						
Off-balance sheet financial instruments:						
Commitments to extend credit	$ 1,275,331	$ —	$ 1,210	$ —	$ 1,210	$ —
Standby letters of credit and financial guarantees written	3,301	—	50	—	50	—
Derivatives:						
Interest rate lock commitments	1,807	(34)	(34)	—	(34)	—
Risk participation agreements	36,022	—	—	—	—	—
Back-to-back swap agreements:						
Assets	51,059	3,547	3,547	—	—	3,547
Liabilities	(51,059)	(3,547)	(3,547)	—	—	(3,547)
Interest rate swap agreements	115,545	6,440	6,440	—	—	6,440

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 the price that we would expect to 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. Periodically, we may be required to record other financial assets at fair value on a nonrecurring basis such as loans held for sale, individually evaluated loans, mortgage servicing rights, and other real estate owned. These nonrecurring fair value adjustments typically involve application of the lower of cost or fair value accounting or write-downs of individual assets.

The following tables present the fair value of financial assets and liabilities measured on a recurring basis as of the dates presented:

		Fair Value at Reporting Date 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)**
June 30, 2024				
Available-for-sale securities:				
Debt securities:				
States and political subdivisions	$ 121,475	$ —	$ 115,221	$ 6,254
Corporate securities	31,463	—	31,463	—
U.S. Treasury and other government-sponsored entities and agencies	53,731	30,117	23,614	—
Mortgage-backed securities:				
Residential - U.S. government-sponsored entities and agencies	353,954	—	353,954	—
Residential - Non-government agencies	17,448	—	16,754	694
Commercial - U.S. government-sponsored entities and agencies	83,512	—	83,512	—
Commercial - Non-government agencies	15,136	—	15,136	—
Total available-for-sale investment securities	676,719	30,117	639,654	6,948
Derivatives:				
Interest rate lock commitments	(3)	—	(3)	—
Interest rate swap agreements	9,304	—	—	9,304
Total derivatives	9,301	—	(3)	9,304
Total	$ 686,020	$ 30,117	$ 639,651	$ 16,252

(dollars in thousands)	Fair Value	Fair Value at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2023				
Available-for-sale securities:				
Debt securities:				
States and political subdivisions	$ 126,635	$ —	$ 120,199	$ 6,436
Corporate securities	31,414	—	31,414	—
U.S. Treasury and other government-sponsored entities and agencies	26,197	—	26,197	—
Mortgage-backed securities:				
Residential - U.S. government-sponsored entities and agencies	378,386	—	378,386	—
Residential - Non-government agencies	18,708	—	17,994	714
Commercial - U.S. government-sponsored entities and agencies	50,914	—	50,914	—
Commercial - Non-government agencies	14,956	—	14,956	—
Total available-for-sale investment securities	647,210	—	640,060	7,150
Derivatives:				
Interest rate lock commitments	(34)	—	(34)	—
Interest rate swap agreements	6,440	—	—	6,440
Total derivatives	6,406	—	(34)	6,440
Total	$ 653,616	$ —	$ 640,026	$ 13,590

The following table presents changes in Level 3 financial assets and liabilities measured at fair value on a recurring basis for the periods presented:

(dollars in thousands)	Available-For-Sale Debt Securities: States and Political Subdivisions	Residential - Non-Government Agencies	Interest Rate Swap Agreements	Total
Balance at December 31, 2023	$ 6,436	$ 714	$ 6,440	$ 13,590
Principal payments received	(120)	(12)	—	(132)
Unrealized net gain (loss) included in other comprehensive income	(62)	(8)	2,864	2,794
Balance at June 30, 2024	$ 6,254	$ 694	$ 9,304	$ 16,252
Balance at December 31, 2022	$ 6,584	$ 684	$ 5,986	$ 13,254
Principal payments received	(114)	(11)	—	(125)
Unrealized net gain included in other comprehensive income	1,129	41	1,119	2,289
Balance at June 30, 2023	$ 7,599	$ 714	$ 7,105	$ 15,418

Based on a discounted cash flow model that calculates the present value of estimated future principal and interest payments, the estimated aggregate fair value of Level 3 financial assets and liabilities measured at fair value on a recurring basis was $16.3 million and $13.6 million as of June 30, 2024 and December 31, 2023, respectively.

The weighted-average discount rate was used as the significant unobservable input in the fair value measurement of the available-for-sale debt securities. The weighted average discount rate utilized was 6.54% and 6.12% as of June 30, 2024 and December 31, 2023, respectively, 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.

The significant unobservable input used in the fair value measurement of the Company's interest rate swap is the weighted-average discount rate. The weighted average discount rate utilized was 4.07% and 3.34% as of June 30, 2024 and December 31, 2023, respectively.

There were no financial assets or liabilities measured on a nonrecurring basis as of June 30, 2024 and December 31, 2023.

16. LEGAL PROCEEDINGS

We are involved in legal proceedings that arise in the ordinary course of our business. The outcome of these matters and the timing of ultimate resolution is inherently difficult to predict. Based on information currently available to us, we do not expect that the ultimate costs to resolve these matters will have a material adverse effect on our financial condition or operations.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements and Factors that Could Affect Future Results

Certain statements contained in this quarterly report on Form 10-Q that are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Act"), notwithstanding that such statements are not specifically identified. In addition, certain statements may be contained in our future filings with the U.S. Securities and Exchange Commission ("SEC"), in press releases and in oral and written statements made by us or with our approval that are not statements of historical fact and constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements include, but are not limited to: (i) projections of revenues, expenses, income or loss, earnings or loss per share, capital expenditures, the payment or nonpayment of dividends, capital position, credit losses, and net interest margin or other financial items; (ii) statements of plans, objectives and expectations of Central Pacific Financial Corp. (the "Company") or its management or Board of Directors, including those relating to business plans, use of capital resources, products or services and regulatory developments and regulatory actions; (iii) statements of future economic performance including anticipated performance results from our business initiatives; and (iv) any statements of the assumptions underlying or relating to any of the foregoing. Words such as "believe," "plan," "anticipate," "seek," "expect," "intend," "forecast," "hope," "target," "continue," "remain," "estimate," "will," "should," "may" and other similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

While we believe that our forward-looking statements and the assumptions underlying them are reasonably based, such statements and assumptions are by their nature subject to risks and uncertainties, and thus could later prove to be inaccurate or incorrect. Accordingly, actual results could differ materially from those statements or projections for a variety of reasons. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to:

- the effects of inflation and interest rate fluctuations;
- the adverse effects of recent bank failures and the potential impact of such developments on customer confidence, deposit behavior, liquidity and regulatory responses thereto;
- the adverse effects of the COVID-19 pandemic virus (and its variants) and other pandemic viruses on local, national and international economies, including, but not limited to, the adverse impact on tourism and construction in the State of Hawaii, our borrowers, customers, third-party contractors, vendors and employees, as well as the effects of government programs and initiatives in response thereto;
- supply chain disruptions;
- the increase in inventory or adverse conditions in the real estate market 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, volcanic eruptions, hurricanes, 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 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 (the "Dodd-Frank Act"), changes in capital standards, other regulatory reform and federal and state legislation, including but not limited to regulations promulgated by the Consumer Financial Protection Bureau (the "CFPB"), government-sponsored enterprise reform, and any related rules and regulations which affect our business operations and competitiveness;
- the costs and effects of legal and regulatory developments, including legal proceedings and lawsuits we are or may become subject to, or regulatory or other governmental inquiries and proceedings and the resolution thereof, the results of regulatory examinations or reviews and the effect of, and our ability to comply with, any regulations or regulatory orders or actions we are or may become subject to, and the effect of any recurring or special FDIC assessments;
- 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 ("PCAOB"), the Financial Accounting Standards Board ("FASB") and other accounting standard setters and the cost and resources required to implement such changes;

- 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 (the "FRB" or the "Federal Reserve");
- securities market and monetary fluctuations, including the impact resulting from the elimination of the London Interbank Offered Rate Index;
- negative trends in our market capitalization and adverse changes in the price of the Company's common stock;
- the effects of any acquisitions or dispositions we may make;
- political instability;
- acts of war or terrorism;
- changes in consumer spending, borrowings and savings habits;
- technological changes and developments;
- cybersecurity and data privacy breaches and the consequence therefrom;
- failure to maintain effective internal control over financial reporting or disclosure controls and procedures;
- our ability to address deficiencies in our internal controls over financial reporting or disclosure controls and procedures;
- changes in the competitive environment among financial holding companies and other financial service providers;
- our ability to successfully implement our initiatives to lower our efficiency ratio;
- our ability to attract and retain key personnel;
- changes in our personnel, organization, compensation and benefit plans;
- our ability to successfully implement and achieve the objectives of our Banking-as-a-Service ("BaaS") initiatives , including adoption of the initiatives by customers and risks faced by any of our bank collaborations including reputational and regulatory risk; and
- our success at managing the risks involved in the foregoing items.

For further information with respect to factors that could cause actual results to materially differ from the expectations or projections stated in the forward-looking statements, 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 and herein. We urge investors to consider all of these factors carefully in evaluating the forward-looking statements contained in this document. Forward-looking statements speak only as of the date on which such statements are made. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events except as required by law.

Overview

Central Pacific Financial Corp. ("CPF") is a Hawaii corporation and a bank holding company. Our principal business is to serve as a holding company for our bank subsidiary, Central Pacific Bank. We refer to Central Pacific Bank herein as "our Bank" or "the Bank," and when we say "the Company," "we," "us" or "our," we mean the holding company on a consolidated basis with the Bank and our other consolidated subsidiaries.

Central Pacific Bank is a full-service community bank with 27 branches and 55 ATMs located throughout the State of Hawaii as of June 30, 2024.

The Bank offers traditional deposit and lending products and services to consumer and business customers such as accepting demand, money market, savings and time deposits, originating loans, including commercial loans, construction loans, commercial real estate loans, residential mortgage loans, and consumer loans and fiduciary and investment management services.

Basis of Presentation

Management's discussion and analysis of financial condition and results of operations should be read in conjunction with the accompanying consolidated financial statements under "Part I, Item 1. Financial Statements (Unaudited)." The following discussion should also be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2023 filed with the U.S. Securities and Exchange Commission (the "SEC") on February 21, 2024, including the “Risk Factors” set forth therein.

Critical Accounting Policies and Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") requires that management make certain judgments and use certain estimates and assumptions that affect amounts reported and disclosures made. Actual results may differ from those estimates and such differences could be material to the financial statements.

Accounting estimates are deemed critical when a different estimate could have reasonably been used or where changes in the estimate are reasonably likely to occur from period-to-period and would materially impact our consolidated financial statements as of or for the periods presented. Management has discussed the development and selection of the critical accounting estimates noted below with the Audit Committee of the Board of Directors, and the Audit Committee has reviewed the accompanying disclosures.

The Company identified a significant accounting policy, which involves a higher degree of judgment and complexity in making certain estimates and assumptions that affect amounts reported in our consolidated financial statements. At June 30, 2024 and December 31, 2023, the significant accounting policy that we believed to be the most critical in preparing our consolidated financial statements is the determination of the allowance for credit losses ("ACL") on loans. This is further described in Note 1 - Summary of Significant Accounting Policies included in the accompanying notes to the consolidated financial statements, Note 1 - Summary of Significant Accounting Policies included in the accompanying notes to the consolidated financial statements for the year ended December 31, 2023, and the section titled "Critical Accounting Policies and Use of Estimates" in Management's Discussion and Analysis of Financial Condition and Operating Results included in the Company's 2023 Annual Report on Form 10-K.

Financial Summary

Net income for the three months ended June 30, 2024 was $15.8 million, or $0.58 per diluted share, compared to net income of $14.5 million, or $0.53 per diluted share for the three months ended June 30, 2023.

Net income for the six months ended June 30, 2024 was $28.8 million, or $1.06 per diluted share, compared to net income of $30.7 million, or $1.13 per diluted share for the six months ended June 30, 2023.

During the three months ended June 30, 2024, the Company recorded a provision for credit losses of $2.2 million, compared to a provision of $4.3 million during the three months ended June 30, 2023. The decrease was primarily due to a decrease in loan balances outstanding and improvements in the Hawaii economic forecast assumptions used in the Company's estimate of the ACL in the current quarter.

During the six months ended June 30, 2024, the Company recorded a provision for credit losses of $6.2 million, compared to a provision of $6.2 million during the six months ended June 30, 2023.

The Company's pre-provision net revenue ("PPNR"), a non-GAAP financial measure which excludes the provision for credit losses and income tax expense, for the three months ended June 30, 2024 was $22.9 million, compared to $23.3 million for the three months ended June 30, 2023.

The Company's PPNR for the six months ended June 30, 2024 was $43.7 million, compared to $46.4 million for the six months ended June 30, 2023. See the following section titled "Non-GAAP Financial Measures" for reconciliation of PPNR.

The following table presents annualized returns on average assets ("ROA") and average shareholders' equity ("ROE"), and basic and diluted earnings per share ("EPS") for the periods presented. ROA and ROE are annualized based on a 30/360 day convention.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Return on average assets	0.86 %	0.78 %	0.78 %	0.82 %
Return on average shareholders’ equity	12.42	12.12	11.38	13.03
Basic earnings per share	$ 0.58	$ 0.54	$ 1.06	$ 1.14
Diluted earnings per share	0.58	0.53	1.06	1.13

Non-GAAP Financial Measures

The Company uses certain non-GAAP financial measures in addition to our GAAP results to provide useful information for evaluating our cash operating performance, ability to service debt, compliance with debt covenants and measurement against competitors. This information should be considered as supplemental in nature and should not be considered in isolation or as a substitute for the related financial information prepared in accordance with GAAP. In addition, these non-GAAP financial measures may not be comparable to similarly entitled measures reported by other companies.

Pre-Provision Net Revenue

The Company believes that PPNR, a non-GAAP financial measure, is useful as a tool to help evaluate the ability to provide for credit costs through operations. The following table presents a reconciliation of the Company's PPNR for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	**2024**	**2023**	**2024**	**2023**
Net income	$ 15,817	$ 14,475	$ 28,762	$ 30,662
Add: Income tax expense	4,835	4,472	8,809	9,531
Pre-tax income	20,652	18,947	37,571	40,193
Add: Provision (credit) for credit losses	2,239	4,319	6,175	6,171
PPNR	$ 22,891	$ 23,266	$ 43,746	$ 46,364

The lower PPNR in the three and six months ended June 30, 2024 was primarily due to lower net interest income of $0.8 million and $4.8 million, respectively, compared to the year-ago periods. The lower net interest income was primarily due to higher average balances and rates paid on interest-bearing deposits, which outpaced the higher average yields earned on loans and investment securities.

Efficiency Ratio

The Company believes that the efficiency ratio, a non-GAAP financial measure, provides useful supplemental information that is important to a proper understanding of the Company's business results and operating efficiency, which is calculated by dividing total other operating expense by total revenue (net interest income and total other operating income).

The following table presents a calculation of our efficiency ratio for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	**2024**	**2023**	**2024**	**2023**
Total other operating expense	$ 41,151	$ 39,903	$ 81,727	$ 82,010
Net interest income	$ 51,921	$ 52,734	$ 102,108	$ 106,930
Total other operating income	12,121	10,435	23,365	21,444
Total revenue	$ 64,042	$ 63,169	$ 125,473	$ 128,374
Efficiency ratio	64.26 %	63.17 %	65.14 %	63.88 %

Our efficiency ratio increased to 64.26% in the second quarter of 2024, compared to 63.17% in the year-ago quarter.
For the six months ended June 30, 2024, our efficiency ratio increased to 65.14%, compared to 63.88% in the year-ago period.

The higher efficiency ratio in the second quarter of 2024, compared to the same year-ago period, was due to lower net interest income and higher other operating expense, partially offset by higher other operating income.

The higher efficiency ratio in the six months ended June 30, 2024, compared to the same year-ago period, was due to lower net interest income, partially offset by higher other operating income and lower other operating expense.

Material Trends

The majority of our operations are concentrated in the State of Hawaii. As a result, our performance is significantly influenced by the strength of the real estate markets, economic environment and environmental conditions in Hawaii. Macroeconomic conditions also influence our performance. A favorable business environment is generally characterized by expanding gross state product, low unemployment and rising personal income, while an unfavorable business environment is characterized by the reverse.

On August 8, 2023, a series of wildfires broke out on the Island of Maui, in Kula, Upcountry Maui, Kihei, and most devastatingly in the town of Lahaina. The wildfires took the lives of at least 100 people and destroyed over 2,200 structures, of which approximately 86% were residential homes. The disaster area had more than 800 business establishments with about 7,000 employees. The Company did not sustain any damages to its facilities on Maui.

Visitors to Maui decreased by approximately 57% in September 2023 compared to September 2022 but has started to recover at a slow but steady pace as West Maui officially reopened to visitors in early October 2023 and government officials are encouraging travelers to return to Maui, while avoiding the affected area, to support its economic recovery. In June 2024, average daily visitors to Maui were down by approximately 22% compared to June 2023. The unemployment rate for the Island of Maui was 8.4% in September 2023 and has since improved to 3.1% in June 2024.

In response to the Maui wildfires, the Company provided three to six months interest and/or principal loan payment deferrals to customers who were directly impacted by the wildfires on a case-by-case basis, which have all ended and returned to current payment status as of June 30, 2024.

Despite the Maui wildfires, Hawaii’s economy continued its recovery from the COVID-19 pandemic. According to preliminary statistics from the Hawaii Tourism Authority ("HTA"), a total of 4.8 million visitors arrived to the Hawaiian Islands during the six months ended June 30, 2024, mainly from the U.S. Mainland, compared to 5.0 million in the same prior year period and 5.2 million from the same period in the pre-pandemic and record year in 2019. Average daily visitors from Japan were up approximately 59% during the five months ended May 31, 2024 compared to the same prior year period, but were down by approximately 56% from the same period in 2019.

Total spending for visitors arriving in the six months ended June 30, 2024 was $10.26 billion, down 4.8% from $10.78 billion in the same period last year, and up by 15.9% from $8.86 billion in the six months ended June 30, 2019.

According to a May 2024 report by the University of Hawaii Economic Research Organization ("UHERO"), total visitor arrivals by air are expected to be approximately 9.8 million in 2024, which is an increase of approximately 1.9% from 9.6 million last year. Visitor spending is expected to decline approximately 4.2% to $19.84 billion in 2024 from last year's record year for visitor spending of $20.71 billion.

The Department of Labor and Industrial Relations reported that Hawaii's seasonally adjusted annual unemployment rate was 2.9% in the month of June 2024, compared to 2.8% in the month of June 2023 and the national seasonally adjusted unemployment rate of 4.1% in the month of June 2024. UHERO projects Hawaii's seasonally adjusted annual unemployment rate to remain low at approximately 3.1% in 2024.

Real estate lending is one of the primary focuses for the Company, including residential mortgage and commercial mortgage loans. As a result, the Company is dependent on the strength of Hawaii's real estate market. While the Hawaii housing market continues to experience some moderation in sales activity and prices, there continues to be strong demand and low inventory. According to the Honolulu Board of Realtors, sales of Oahu single-family homes in the six months ended June 30, 2024 were up 6.7%, while sales of Oahu condominiums were down 5.8% from the same prior year period. The Oahu single-family home median price in the six months ended June 30, 2024 rose by 3.3% to $1.09 million from $1.05 million in the same prior year period. The Oahu condominium median price in the six months ended June 30, 2024 rose by 2.0% to $510,000 from $500,000 in the same prior year period.

Hawaii's economy is measured by the growth of real personal income and real gross state product. UHERO projects real personal income to grow by 0.9% and real gross state product to grow by 1.5% in 2024.

Results of Operations

Net Interest Income

Net interest margin is defined as annualized net interest income, on a taxable-equivalent basis using a federal statutory tax rate of 21%, as a percentage of average interest earning assets. A comparison of net interest income on a taxable-equivalent basis for the three and six months ended June 30, 2024 and 2023 is presented below.

	Three Months Ended June 30,								
	2024			2023			Variance		
(dollars in thousands)	Average Balance	Average Yield/ Rate	Interest Income/ Expense	Average Balance	Average Yield/ Rate	Interest Income/ Expense	Average Balance	Average Yield/ Rate	Interest Income/ Expense
Assets									
Interest earning assets:									
Interest-bearing deposits in other financial institutions	$ 162,393	5.46 %	$ 2,203	$ 69,189	5.08 %	$ 877	$ 93,204	0.38 %	$ 1,326
Investment securities:									
Taxable (1)	1,335,100	2.54	8,466	1,379,319	2.07	7,145	(44,219)	0.47	1,321
Tax-exempt (1)	142,268	2.13	757	151,979	2.42	920	(9,711)	(0.29)	(163)
Total investment securities	1,477,368	2.50	9,223	1,531,298	2.11	8,065	(53,930)	0.39	1,158
Loans, including loans held for sale	5,385,829	4.80	64,422	5,543,398	4.37	60,455	(157,569)	0.43	3,967
FHLB stock	6,925	8.71	151	11,721	4.10	120	(4,796)	4.61	31
Total interest earning assets	7,032,515	4.34	75,999	7,155,606	3.89	69,517	(123,091)	0.45	6,482
Noninterest-earning assets	306,199			308,023			(1,824)		
Total assets	$ 7,338,714			$ 7,463,629			$ (124,915)		
Liabilities and Equity									
Interest-bearing liabilities:									
Interest-bearing demand deposits	$ 1,273,901	0.15 %	$ 490	$ 1,367,878	0.12 %	$ 411	$ (93,977)	0.03 %	$ 79
Savings and money market deposits	2,221,754	1.63	8,977	2,172,680	0.86	4,670	49,074	0.77	4,307
Time deposits up to $250,000	555,809	3.29	4,548	390,961	1.82	1,770	164,848	1.47	2,778
Time deposits over $250,000	703,280	4.36	7,625	790,864	3.63	7,162	(87,584)	0.73	463
Total interest-bearing deposits	4,754,744	1.83	21,640	4,722,383	1.19	14,013	32,361	0.64	7,627
FHLB advances and other short-term borrowings	66	5.60	1	29,791	5.09	378	(29,725)	0.51	(377)
Long-term debt	156,188	5.86	2,278	155,946	5.65	2,199	242	0.21	79
Total interest-bearing liabilities	4,910,998	1.96	23,919	4,908,120	1.36	16,590	2,878	0.60	7,329
Noninterest-bearing deposits	1,788,023			1,952,267			(164,244)		
Other liabilities	130,186			125,531			4,655		
Total liabilities	6,829,207			6,985,918			(156,711)		
Total equity	509,507			477,711			31,796		
Total liabilities and equity	$ 7,338,714			$ 7,463,629			$ (124,915)		
Net interest income			$ 52,080			$ 52,927			$ (847)
Interest rate spread		2.38 %			2.53 %			(0.15) %	
Net interest margin		**2.97 %**			**2.96 %**			**0.01 %**	

(1) At amortized cost.

Net interest income (expressed on a taxable-equivalent basis) was $52.1 million for the second quarter of 2024, representing a decrease of $0.8 million, or 1.6% from $52.9 million in the year-ago quarter. The decrease in net interest income from the year-ago quarter was primarily due to an increase in interest expense of $7.3 million, which was attributable to increases in average balances and average rates paid on interest-bearing deposits, combined with decreases in average investment securities and loans balances. The increases in average balances and average rates paid on interest-bearing deposits reflected the shift in the

deposit portfolio composition from demand to higher cost savings and money market and time deposits. These negative variances were partially offset by increases in average balances and yields earned on interest-bearing deposits in other financial institutions, combined with increases in average yields earned on investment securities and loans.

Interest Income

Taxable-equivalent interest income was $76.0 million for the second quarter of 2024, representing an increase of $6.5 million, or 9.3%, from $69.5 million in the year-ago quarter. The increase during the second quarter of 2024, compared to the year-ago quarter was primarily attributable to an increase in average yield earned on loans of 43 basis points ("bp" or "bps"), resulting in an increase in interest income of approximately $5.7 million and an increase in average yield earned on investment securities of 39 bps, resulting in an increase in interest income of approximately $1.4 million, combined with increases in the average balance and average yield earned on interest-bearing deposits in other financial institutions resulting in an increase in interest income of approximately $1.3 million. These increases were partially offset by decreases in average loans and investment securities balances of $157.6 million and $53.9 million, respectively, resulting in decreases in interest income of approximately $1.7 million and $0.3 million, respectively.

Interest Expense

Interest expense was $23.9 million for the second quarter of 2024, representing an increase of $7.3 million, or 44.2%, from $16.6 million in the year-ago quarter. Due to the high interest rate environment, average rates paid on interest-bearing deposits of 1.83% increased by 64 bps from the year-ago quarter, resulting in an increase in interest expense of approximately $7.6 million.

Net Interest Margin

Our net interest margin of 2.97% for the second quarter of 2024 increased by 1 bp from 2.96% in the year-ago quarter. The increase in net interest margin for the second quarter of 2024 was primarily attributable to increases in average yields earned on interest-bearing deposits in other financial institutions, investment securities and loans, which outpaced the increase in average rates paid on interest-bearing deposits.

In an effort to rein in inflation, the FRB aggressively increased interest rates since the first quarter of 2022 when the Federal Funds Rate target was 0.00% to 0.25%. Since then, the FRB has raised the Federal Funds Rate by more than five percentage points, to the current 5.25% to 5.50%, a 22-year high. The FRB kept the Federal Funds Rate target steady during the most recent meeting in June 2024, as well as the prior meetings in 2024. Policymakers signaled that rates could begin to decline in the future, however it likely will not occur until they are confident that inflation is moving sustainably towards 2%.

(dollars in thousands)	Six Months Ended June 30, 2024 Average Balance	2024 Average Yield/ Rate	2024 Interest Income/ Expense	2023 Average Balance	2023 Average Yield/ Rate	2023 Interest Income/ Expense	Variance Average Balance	Variance Average Yield/ Rate	Variance Interest Income/ Expense
Assets									
Interest earning assets:									
Interest-bearing deposits in other financial institutions	$ 213,905	5.47 %	$ 5,814	$ 47,195	4.93 %	$ 1,154	$ 166,710	0.54 %	$ 4,660
Investment securities:									
Taxable investment securities (1)	1,329,879	2.36	15,677	1,387,606	2.09	14,481	(57,727)	0.27	1,196
Tax-exempt investment securities (1)	142,549	2.23	1,586	152,520	2.52	1,920	(9,971)	(0.29)	(334)
Total investment securities	1,472,428	2.34	17,263	1,540,126	2.13	16,401	(67,698)	0.21	862
Loans, including loans held for sale	5,393,193	4.74	127,241	5,534,741	4.32	118,724	(141,548)	0.42	8,517
FHLB stock	6,863	7.49	257	12,049	4.26	256	(5,186)	3.23	1
Total interest earning assets	7,086,389	4.26	150,575	7,134,111	3.85	136,535	(47,722)	0.41	14,040
Noninterest-earning assets	307,799			319,642			(11,843)		
Total assets	$ 7,394,188			$ 7,453,753			$ (59,565)		
Liabilities and Equity									
Interest-bearing liabilities:									
Interest-bearing demand deposits	$ 1,285,383	0.15 %	$ 989	$ 1,391,386	0.11 %	$ 774	$ (106,003)	0.04 %	$ 215
Savings and money market deposits	2,220,002	1.58	17,420	2,177,783	0.75	8,056	42,219	0.83	9,364
Time deposits up to $250,000	550,044	3.25	8,887	366,316	1.60	2,907	183,728	1.65	5,980
Time deposits over $250,000	748,649	4.37	16,276	740,428	3.35	12,289	8,221	1.02	3,987
Total interest-bearing deposits	4,804,078	1.82	43,572	4,675,913	1.04	24,026	128,165	0.78	19,546
FHLB advances and other short-term borrowings	33	5.60	1	47,031	4.88	1,139	(46,998)	0.72	(1,138)
Long-term debt	156,159	5.87	4,561	141,689	5.75	4,037	14,470	0.12	524
Total interest-bearing liabilities	4,960,270	1.95	48,134	4,864,633	1.21	29,202	95,637	0.74	18,932
Noninterest-bearing deposits	1,797,212			1,989,295			(192,083)		
Other liabilities	131,392			129,152			2,240		
Total liabilities	6,888,874			6,983,080			(94,206)		
Total equity	505,314			470,673			34,641		
Total liabilities and equity	$ 7,394,188			$ 7,453,753			$ (59,565)		
Net interest income			$ 102,441			$ 107,333			$ (4,892)
Interest rate spread		2.31 %			2.64 %			(0.33) %	
Net interest margin		**2.90 %**			**3.02 %**			**(0.12) %**	

(1) At amortized cost.

Net interest income (expressed on a taxable-equivalent basis) was $102.4 million for the six months ended June 30, 2024, representing a decrease of 4.6% from $107.3 million in the six months ended June 30, 2023. The decrease from the year-ago period was primarily due to higher average balances and average rates paid on interest-bearing deposits and long-term debt, combined with a decrease in average loans and investment securities balances. These negative variances were partially offset by increases in average yields earned on interest-bearing deposits in other financial institutions, loans and investment securities.

Interest Income

Taxable-equivalent interest income was $150.6 million for the six months ended June 30, 2024, representing an increase of $14.0 million, or 10.3%, from $136.5 million in the year-ago period. The increase was primarily attributable to increases in average yields earned on loans of 42 bps, resulting in an increase in interest income of approximately $11.5 million. In addition, the increase in average balance and yield earned on interest-bearing deposits in other financial institutions of $166.7 million and 54 bps, respectively, resulted in an increase in interest income of approximately $4.7 million. These increases were partially

offset by a decrease in average loan balances of $141.5 million during the six months ended June 30, 2024, compared to the year-ago period, resulting in a decrease in interest income of approximately $3.0 million.

Interest Expense

Interest expense was $48.1 million for the six months ended June 30, 2024, which increased by $18.9 million, or 64.8%, from $29.2 million in the year-ago period. Due to the high interest rate environment, average rates paid on interest-bearing deposits of 1.82% increased by 78 bps and average interest-bearing deposit balances increased by $128.2 million from the year-ago period, resulting in increases in interest expense of approximately $17.8 million and $1.7 million, respectively.

Net Interest Margin

Our net interest margin of 2.90% for the six months ended June 30, 2024 decreased by 12 bps from 3.02% in the year-ago period. As previously discussed, the decrease in net interest margin for the six months ended June 30, 2024 compared to the year-ago period was primarily attributable to the aforementioned increases in average rates paid on interest-bearing deposits and long-term debt, which outpaced the increases in average yields earned on interest-bearing deposits in other financial institutions, loans and investment securities.

Rate-Volume Analysis

For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to: (i) changes in average balances (volume) and (ii) changes in weighted average interest rates (rate). The change in volume is calculated as change in average balance, multiplied by prior period average yield/rate. The change in rate is calculated as change in average yield/rate, multiplied by current period volume. The change in interest income not solely due to change in volume or change in rate has been allocated proportionately to change in volume and change in average yield/rate.

	Three Months Ended June 30, 2024 Compared To June 30, 2023			Six Months Ended June 30, 2024 Compared To June 30, 2023		
	Increase (Decrease) Due to:			Increase (Decrease) Due to:		
(dollars in thousands)	**Volume**	**Rate**	**Net Change**	**Volume**	**Rate**	**Net Change**
Interest earning assets:						
Interest-bearing deposits in other financial institutions	$ 1,173	$ 153	$ 1,326	$ 4,085	$ 575	$ 4,660
Investment securities:						
Taxable investment securities (1)	(231)	1,552	1,321	(602)	1,798	1,196
Tax-exempt investment securities (1)	(59)	(104)	(163)	(126)	(208)	(334)
Total investment securities	(290)	1,448	1,158	(728)	1,590	862
Loans, including loans held for sale	(1,744)	5,711	3,967	(3,004)	11,521	8,517
FHLB stock	(49)	80	31	(110)	111	1
Total interest earning assets	(910)	7,392	6,482	243	13,797	14,040
Interest-bearing liabilities:						
Interest-bearing demand deposits	(26)	105	79	(55)	270	215
Savings and money market deposits	104	4,203	4,307	158	9,206	9,364
Time deposits up to $250,000	746	2,032	2,778	1,463	4,517	5,980
Time deposits over $250,000	(805)	1,268	463	139	3,848	3,987
Total interest-bearing deposits	19	7,608	7,627	1,705	17,841	19,546
FHLB advances and other short-term borrowings	(377)	—	(377)	(1,138)	—	(1,138)
Long-term debt	3	76	79	427	97	524
Total interest-bearing liabilities	(355)	7,684	7,329	994	17,938	18,932
Net interest income	$ (555)	$ (292)	$ (847)	$ (751)	$ (4,141)	$ (4,892)

(1) At amortized cost.

Other Operating Income

The following tables present components of other operating income for the periods presented:

	Three Months Ended June 30,						
(dollars in thousands)		2024		2023		$ Change	% Change
Other operating income:							
Mortgage banking income	$	1,040	$	690	$	350	50.7 %
Service charges on deposit accounts		2,135		2,137		(2)	-0.1
Other service charges and fees		5,869		4,994		875	17.5
Income from fiduciary activities		1,449		1,068		381	35.7
Income from bank-owned life insurance		1,234		1,185		49	4.1
Other:							
Equity in earnings of unconsolidated entities		49		(53)		102	-192.5
Income recovered on previously charged-off loans		43		49		(6)	-12.2
Other recoveries		20		24		(4)	-16.7
Unrealized gains (losses) on loans held for sale		(17)		(4)		(13)	325.0
Commissions on sale of checks		69		80		(11)	-13.8
Other		230		265		(35)	-13.2
Total other operating income	$	12,121	$	10,435	$	1,686	16.2

For the second quarter of 2024, total other operating income was $12.1 million, which increased by $1.7 million, or 16.2%, from $10.4 million in the year-ago quarter. The increase was primarily due to higher other service charges and fees of $0.9 million, mortgage banking income of $0.4 million and income from fiduciary activities of $0.4 million.

	Six Months Ended June 30,						
(dollars in thousands)		2024		2023		$ Change	% Change
Other operating income:							
Mortgage banking income	$	1,653	$	1,216	$	437	35.9 %
Service charges on deposit accounts		4,238		4,248		(10)	-0.2
Other service charges and fees		11,130		9,979		1,151	11.5
Income from fiduciary activities		2,884		2,389		495	20.7
Income from bank-owned life insurance		2,756		2,476		280	11.3
Other:							
Equity in earnings of unconsolidated entities		(31)		(25)		(6)	24.0
Income recovered on previously charged-off loans		95		337		(242)	-71.8
Other recoveries		44		122		(78)	-63.9
Unrealized gains (losses) on loans held for sale		(17)		(1)		(16)	1,600.0
Commissions on sale of checks		147		160		(13)	-8.1
Other		466		543		(77)	-14.2
Total other operating income	$	23,365	$	21,444	$	1,921	9.0

For the six months ended June 30, 2024, total other operating income was $23.4 million, which increased by $1.9 million, or 9.0%, from $21.4 million in the year-ago period. The increase from the same year-ago period was primarily due to higher other service charges and fees of $1.2 million, income from fiduciary activities of $0.5 million, mortgage banking income of $0.4 million and income from bank-owned life insurance of $0.3 million. The higher other service charges and fees was attributable to higher investment services fees, ATM and debit card fees and fees on foreign exchange. The higher income from BOLI during the six months ended June 30, 2024 was primarily attributable to volatile equity market returns and their impact on corporate-owned life insurance policies used to hedge deferred compensation expense.

Other Operating Expense

The following tables present components of other operating expense for the periods presented:

	Three Months Ended June 30,			
(dollars in thousands)	**2024**	**2023**	**$ Change**	**% Change**
Other operating expense:				
Salaries and employee benefits	$ 21,246	$ 20,848	$ 398	1.9 %
Net occupancy	4,597	4,310	287	6.7
Computer software	4,381	4,621	(240)	-5.2
Legal and professional services	2,506	2,469	37	1.5
Equipment	995	932	63	6.8
Advertising	901	942	(41)	-4.4
Communication	657	791	(134)	-16.9
Other:				
SERP expense	108	95	13	13.7
Charitable contributions	129	93	36	38.7
FDIC insurance assessment	922	1,021	(99)	-9.7
Miscellaneous loan expenses	434	310	124	40.0
ATM and debit card expenses	847	859	(12)	-1.4
Armored car expenses	458	361	97	26.9
Entertainment and promotions	428	329	99	30.1
Stationery and supplies	210	144	66	45.8
Directors' fees and expenses	263	315	(52)	-16.5
Directors' deferred compensation plan expense (credit)	204	(172)	376	-218.6
Loss on disposal of fixed assets	13	—	13	N.M.
Other	1,852	1,635	217	13.3
Total other operating expense	$ 41,151	$ 39,903	$ 1,248	3.1

Not meaningful ("N.M.")

For the second quarter of 2024, total other operating expense was $41.2 million, which increased by $1.2 million, or 3.1%, from $39.9 million in the year-ago quarter. The increase was primarily due to higher salaries and employee benefits of $0.4 million, directors' deferred compensation plan expense of $0.4 million and net occupancy of $0.3 million.

(dollars in thousands)	Six Months Ended June 30, 2024	2023	$ Change	% Change
Other operating expense:				
Salaries and employee benefits	$ 41,981	$ 42,871	$ (890)	-2.1 %
Net occupancy	9,197	8,784	413	4.7
Computer software	8,668	9,227	(559)	-6.1
Legal and professional services	4,826	5,355	(529)	-9.9
Equipment	2,005	1,878	127	6.8
Advertising	1,815	1,875	(60)	-3.2
Communication	1,494	1,569	(75)	-4.8
Other:				
SERP expense	216	190	26	13.7
Charitable contributions	328	291	37	12.7
FDIC insurance assessment	1,881	2,107	(226)	-10.7
Miscellaneous loan expenses	709	592	117	19.8
ATM and debit card expenses	1,771	1,646	125	7.6
Armored car expenses	941	709	232	32.7
Entertainment and promotions	834	871	(37)	-4.2
Stationery and supplies	382	437	(55)	-12.6
Directors’ fees and expenses	601	670	(69)	-10.3
Directors' deferred compensation plan expense (credit)	342	(392)	734	-187.2
Loss on disposal of fixed assets	16	2	14	700.0
Other	3,720	3,328	392	11.8
Total other operating expense	$ 81,727	$ 82,010	$ (283)	-0.3

For the six months ended June 30, 2024, total other operating expense was $81.7 million and decreased by $0.3 million, or 0.3%, from $82.0 million in the same year-ago period. The decrease was primarily due to lower salaries and employee benefits of $0.9 million, computer software expense of $0.6 million and legal and professional services of $0.5 million, partially offset by higher directors' deferred compensation plan expense of $0.7 million compared to the same year-ago period. The lower salaries and employee benefits was primarily attributable to tighter management of personnel count.

Income Taxes

The Company recorded income tax expense of $4.8 million for the second quarter of 2024, compared to $4.5 million in the same year-ago period. The effective tax rate for the second quarter of 2024 was 23.41%, compared to 23.60% in the same year-ago period.

The Company recorded income tax expense of $8.8 million for the six months ended June 30, 2024, compared to $9.5 million in the same year-ago period. The effective tax rate for the six months ended June 30, 2024 was 23.45%, compared to 23.71% in the same year-ago period.

The decrease in the effective tax rate for the three and six months ended June 30, 2024 was primarily attributable to higher tax-exempt BOLI income compared to the same year-ago period, and lower pre-tax income compared to the same year-ago period.

The Company's net deferred tax assets ("DTA"), net of valuation allowance, totaled $28.2 million and $29.5 million at June 30, 2024 and December 31, 2023, respectively, and was included in other assets on our consolidated balance sheets. The decrease in DTA was primarily due to projected utilization of net operating loss carryforwards, which rose in 2022 due to unrealized losses on investment securities.

The valuation allowance on our net deferred tax assets ("DTA") at June 30, 2024 and December 31, 2023 totaled $4.4 million, which related entirely to our DTA from net apportioned net operating loss ("NOL") carryforwards for California state income tax purposes, as the Company does not expect to generate sufficient income in California to utilize the DTA.

Financial Condition

Total assets were $7.39 billion at June 30, 2024 and decreased by $255.8 million, or 3.3%, from $7.64 billion at December 31, 2023, as excess liquidity was used to pay off high-cost government time deposits that matured during the six months ended June 30, 2024.

Investment Securities

Investment securities totaled $1.29 billion at June 30, 2024, which increased by $13.0 million, or 1.0%, from $1.28 billion at December 31, 2023. The increase in the investment securities portfolio reflected purchases of $62.3 million, partially offset by principal runoff of $46.1 million and a market valuation reduction on the AFS portfolio of $3.2 million.

Loans

The following table presents outstanding loans by category and geographic location as of the dates presented:

(dollars in thousands)	June 30, 2024	December 31, 2023	$ Change	% Change
Hawaii:				
Commercial and industrial	$ 415,538	$ 421,736	$ (6,198)	(1.5)%
Real estate:				
Construction	147,657	163,337	(15,680)	(9.6)
Residential mortgage	1,913,177	1,927,789	(14,612)	(0.8)
Home equity	706,811	736,524	(29,713)	(4.0)
Commercial mortgage	1,150,703	1,063,969	86,734	8.2
Consumer	287,295	322,346	(35,051)	(10.9)
Total loans	4,621,181	4,635,701	(14,520)	(0.3)
Less: ACL	(47,902)	(48,189)	287	(0.6)
Loans, net of ACL	$ 4,573,279	$ 4,587,512	$ (14,233)	(0.3)
U.S. Mainland:				
Commercial and industrial	$ 169,318	$ 153,971	$ 15,347	10.0
Real estate:				
Construction	23,865	22,182	1,683	7.6
Commercial mortgage	314,667	318,933	(4,266)	(1.3)
Consumer	254,613	308,195	(53,582)	(17.4)
Total loans	762,463	803,281	(40,818)	(5.1)
Less: ACL	(14,323)	(15,745)	1,422	(9.0)
Loans, net of ACL	$ 748,140	$ 787,536	$ (39,396)	(5.0)
Total:				
Commercial and industrial	$ 584,856	$ 575,707	$ 9,149	1.6
Real estate:				
Construction	171,522	185,519	(13,997)	(7.5)
Residential mortgage	1,913,177	1,927,789	(14,612)	(0.8)
Home equity	706,811	736,524	(29,713)	(4.0)
Commercial mortgage	1,465,370	1,382,902	82,468	6.0
Consumer	541,908	630,541	(88,633)	(14.1)
Total loans	5,383,644	5,438,982	(55,338)	(1.0)
Less: ACL	(62,225)	(63,934)	1,709	(2.7)
Loans, net of ACL	$ 5,321,419	$ 5,375,048	$ (53,629)	(1.0)

Loans, net of deferred costs, totaled $5.38 billion at June 30, 2024, which decreased by $55.3 million, or 1.02%, from $5.44 billion at December 31, 2023. The decrease was primarily due to decreases in consumer of $88.6 million, home equity of

$29.7 million, residential mortgage loans of $14.6 million, and construction of $14.0 million. These decreases were partially offset by increases in commercial mortgage of $82.5 million and commercial and industrial of $9.1 million.

The Hawaii loan portfolio decreased by $14.5 million, or 0.3%, from December 31, 2023. The decrease reflected decreases in consumer of $35.1 million, home equity of $29.7 million, construction of $15.7 million, residential mortgage of $14.6 million and commercial and industrial of $6.2 million. These decreases were partially offset by an increase in commercial mortgage of $86.7 million.

The U.S. Mainland loan portfolio decreased by $40.8 million, or 5.1% from December 31, 2023. The decrease was primarily attributable to a decrease in consumer loans of $53.6 million, as the Company continued its strategy to let the US. Mainland consumer loan portfolio to runoff with minimal purchases in the current quarter. The decrease was partially offset by an increase in commercial and industrial loans of $15.3 million.

Nonperforming Assets and Accruing Loans 90+ Days Past Due

The following table presents nonperforming assets and accruing loans 90+ days past due as of the dates presented:

(dollars in thousands)	**June 30, 2024**	**December 31, 2023**	**$ Change**	**% Change**
Nonperforming Assets ("NPAs")				
Nonaccrual loans:				
Commercial and industrial	$ 355	$ 432	$ (77)	(17.8)%
Real estate:				
Residential mortgage	7,991	4,962	3,029	61.0
Home equity	1,247	834	413	49.5
Commercial mortgage	77	77	—	—
Consumer	587	703	(116)	(16.5)
Total nonaccrual loans	10,257	7,008	3,249	46.4
Other real estate owned ("OREO")	—	—	—	N.M.
Total NPAs	10,257	7,008	3,249	46.4
Accruing Loans 90+ Days Past Due				
Real estate:				
Residential mortgage	1,273	—	1,273	N.M.
Home equity	135	229	(94)	(41.0)
Consumer	896	1,083	(187)	(17.3)
Total accruing loans 90+ days past due	2,304	1,312	992	75.6
Total NPAs and accruing loans 90+ days past due	$ 12,561	$ 8,320	$ 4,241	51.0
Ratio of nonaccrual loans to total loans	0.19 %	0.13 %		0.06 %
Ratio of NPAs to total assets	0.14	0.09		0.05
Ratio of NPAs and accruing loans 90+ days past due to total loans and OREO	0.23	0.15		0.08
Ratio of classified assets and OREO to tier 1 capital and ACL	2.78	3.41		(0.63)

Not meaningful ("N.M.")

The following table presents year-to-date activities in nonperforming assets for the period presented:

(dollars in thousands)	
Balance at December 31, 2023	$ 7,008
Additions	6,712
Reductions:	
Payments	(626)
Return to accrual status	(225)
Charge-offs, valuation and other adjustments	(2,612)
Total reductions	(3,463)
Net increase	3,249
Balance at June 30, 2024	$ 10,257

Nonperforming assets totaled $10.3 million, or 0.14% of total assets at June 30, 2024, compared to $7.0 million, or 0.09% of total assets at December 31, 2023. The increase in nonperforming assets from December 31, 2023 was primarily attributable to additions to nonaccrual loans totaling $6.7 million, partially offset by $0.6 million in repayments of nonaccrual loans, $0.2 million in loans returned to accrual status and $2.6 million in net charge-offs, valuation and other adjustments. The additional nonaccrual loans in the residential mortgage category are well-collateralized.

Since the adoption of ASU 2022-02 on January 1, 2023 and d uring the three and six months ended June 30, 2024, the Company has not had any material modifications to loans either individually or in the aggregate for borrowers experiencing financial difficulty.

In response to the Maui wildfires in August 2023, the Company provided three to six months interest and/or principal loan payment deferrals to customers who were directly impacted by the wildfires on a case-by-case basis. The loan payment deferrals were not considered more than minor and thus were not reportable as loan modifications to borrowers facing financial difficulty. As of June 30, 2024, all of the loan deferrals have returned to payment status.

Prior to our adoption of ASU 2022-02, we accounted for a modification to the contractual terms of a loan that resulted in granting a concession to a borrower experiencing financial difficulties as a troubled debt restructuring ("TDR").

Loans identified as TDRs prior to our adoption of ASU 2022-02 included in nonperforming assets at June 30, 2024 and December 31, 2023 consisted of five Hawaii loans with a combined principal balance of $0.8 million and $0.9 million, respectively. There were $2.0 million of loans identified as TDRs prior to our adoption of ASU 2022-02 still accruing interest at June 30, 2024, none of which were more than 90 days delinquent. At December 31, 2023, there were $2.1 million of loans identified as TDRs prior to our adoption of ASU 2022-02 still accruing interest, none of which were more than 90 days delinquent.

Criticized loans at June 30, 2024 declined by $14.8 million from December 31, 2023 to $35.3 million, or 0.7% of the total loan portfolio. Special mention loans declined by $10.5 million to $14.3 million, or 0.3% of the total loan portfolio. Classified loans declined by $4.3 million to $21.0 million, or 0.4% of the total loan portfolio.

The Company's ratio of classified assets and other real estate owned to tier 1 capital and the ACL was 2.78% at June 30, 2024, which decreased from 3.41% at December 31, 2023.

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Allowance for Credit Losses

The following table presents certain information with respect to the ACL as of the dates and for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	**2024**	**2023**	**2024**	**2023**
Allowance for Credit Losses:				
Balance at beginning of period	$ 63,532	$ 63,099	$ 63,934	$ 63,738
Provision (credit) for credit losses on loans	2,448	4,135	6,569	5,750
Charge-offs:				
Commercial and industrial	(519)	(362)	(1,201)	(1,141)
Real estate:				
Residential mortgage	(284)	—	(284)	—
Consumer	(4,345)	(3,873)	(9,183)	(6,559)
Total charge-offs	(5,148)	(4,235)	(10,668)	(7,700)
Recoveries:				
Commercial and industrial	130	125	220	375
Real estate:				
Residential mortgage	9	7	17	60
Home equity	—	15	6	15
Consumer	1,254	703	2,147	1,611
Total recoveries	1,393	850	2,390	2,061
Net charge-offs	(3,755)	(3,385)	(8,278)	(5,639)
Balance at end of period	$ 62,225	$ 63,849	$ 62,225	$ 63,849
Average loans, net of deferred fees and costs	$ 5,385,829	$ 5,543,398	$ 5,393,193	$ 5,534,741
Ratio of annualized net charge-offs to average loans	0.28 %	0.24 %	0.31 %	0.20 %
Ratio of ACL to total loans	1.16 %	1.16 %	1.16 %	1.16 %
Ratio of ACL to nonaccrual loans	607 %	577 %	607 %	577 %

Our ACL totaled $62.2 million at June 30, 2024, compared to $63.9 million at December 31, 2023 and $63.8 million at June 30, 2023.

During the second quarter of 2024, we recorded a provision for credit losses on loans of $2.4 million and net charge-offs of $3.8 million. During the six months ended June 30, 2024, we recorded a provision for credit losses on loans of $6.6 million and net charge-offs of $8.3 million.

The decrease in the provision for credit losses on loans during the second quarter of 2024, compared to the same year-ago period, was primarily due to a decrease in loan balances outstanding and improvements in the Hawaii economic forecast assumptions used in the Company's estimate of the ACL in the current quarter. The increase in the provision for credit losses on loans during the six months ended June 30, 2024, compared to the same year-ago period, was primarily due to higher charge-offs of our U.S. Mainland unsecured consumer loan portfolio.

Our ratio of ACL to total loans was 1.16% at June 30, 2024, compared to 1.18% at December 31, 2023 and 1.16% at June 30, 2023.

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

Deposits

The following table presents the composition of our deposits by category as of the dates presented:

(dollars in thousands)	June 30, 2024	December 31, 2023	$ Change	% Change
Noninterest-bearing demand deposits	$ 1,847,173	$ 1,913,379	$ (66,206)	(3.5)%
Interest-bearing demand deposits	1,283,669	1,329,189	(45,520)	(3.4)
Savings and money market deposits	2,234,111	2,209,733	24,378	1.1
Time deposits up to $250,000	547,212	533,898	13,314	2.5
Core deposits	5,912,165	5,986,199	(74,034)	(1.2)
Government time deposits	193,833	374,581	(180,748)	(48.3)
Other time deposits greater than $250,000	476,457	486,812	(10,355)	(2.1)
Total time deposits greater than $250,000	670,290	861,393	(191,103)	(22.2)
Total deposits	$ 6,582,455	$ 6,847,592	$ (265,137)	(3.9)

The Company's deposit portfolio is diversified and long-tenured as it is built upon a business model based on long-term customer relationships. Approximately 50% of deposit customers have been banking with us for more than 10 years.

Our total deposits of $6.58 billion at June 30, 2024 decreased by $265.1 million, or 3.9%, from total deposits of $6.85 billion at December 31, 2023. The decreases in government time deposits of $180.7 million, noninterest-bearing demand deposits of $66.2 million, interest-bearing demand deposits of $45.5 million and other time deposits greater than $250,000 of $10.4 million were partially offset by increases in savings and money market deposits of $24.4 million, and time deposits up to $250,000 of $13.3 million. Due to the high interest rate environment, we continued to see a shift in the composition of the deposit portfolio from demand deposits to savings and money market and time deposits. The decline in government time deposits was largely due to planned runoff of high-cost government time deposits that matured during the six months ended June 30, 2024.

Our core deposits, which we define as demand deposits, savings and money market deposits, and time deposits up to $250,000, totaled $5.91 billion at June 30, 2024 and decreased by $74.0 million, from $5.99 billion at December 31, 2023. Core deposits as a percentage of total deposits was 89.8% at June 30, 2024, compared to 87.4% at December 31, 2023. Our average cost of total deposits was 132 bps during the six months ended June 30, 2024, compared to 72 bps during the same year-ago period.

The Company had estimated uninsured deposits of $2.72 billion, or 41% of total deposits as of June 30, 2024, compared to an estimated $2.91 billion, or 42% of total deposits as of December 31, 2023. The Company had fully collateralized deposits of approximately $352.7 million and $536.3 million as of June 30, 2024 and December 31, 2023, respectively. The Company's estimated uninsured deposits, excluding fully collateralized deposits, totaled $2.37 billion, or 36% of total deposits as of June 30, 2024, compared to the estimated $2.37 billion, or 35% of total deposits as of December 31, 2023.

The following table presents the amount of time deposits in excess of the FDIC insurance limit of $250,000 by remaining maturity as of June 30, 2024:

(dollars in thousands)	June 30, 2024
Remaining maturity:	
Three months or less	$ 399,181
Over three through twelve months	265,394
Over one year through three years	5,215
Over three years	500
Total	$ 670,290

Capital Resources

In order to ensure adequate levels of capital, we perform ongoing assessment of projected sources and uses of capital in conjunction with an analysis of the size and quality of our assets, the anticipated performance of our business, changes in monetary and fiscal policies, and the level of risk and regulatory capital requirements. As a part of this assessment, the Board of

Directors reviews our capital position on an ongoing basis to ensure it is adequate, including, but not limited to, the need for raising additional capital or the ability to return capital to our shareholders, including the ability to declare cash dividends or repurchase our securities.

Common Equity

Our total shareholders' equity was $518.6 million at June 30, 2024, compared to $503.8 million at December 31, 2023. The change in total shareholders' equity was primarily attributable to net income of $28.8 million, partially offset by cash dividends declared of $14.1 million, the repurchase of $0.9 million in shares of our common stock under our stock repurchase programs, and other comprehensive loss of $0.1 million in the six months ended June 30, 2024.

Our total shareholders' equity to total assets ratio was 7.02% at June 30, 2024, compared to 6.59% at December 31, 2023. Our book value per share was $19.16 and $18.63 at June 30, 2024 and December 31, 2023, respectively.

Holding Company Capital Resources

CPF is required to act as a source of strength to the Bank under the Dodd-Frank Act. CPF is obligated to pay its expenses and payments on its junior subordinated debentures which fund payments on the outstanding trust preferred securities and subordinated notes.

CPF relies on the Bank to pay dividends to fund its obligations. In order to meet its ongoing obligations, on a stand-alone basis, CPF had an available cash balance of $24.8 million and $22.1 million as of June 30, 2024 and December 31, 2023, respectively.

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. The Bank had Statutory Retained Earnings of $180.7 million and $169.1 million as of June 30, 2024 and December 31, 2023, respectively.

Dividends are payable at the discretion of the Board of Directors and there can be no assurance that the Board of Directors will allow the Company to 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 and subordinated notes.

Share Repurchases

In January 2024, the Company’s Board of Directors approved a new authorization to repurchase of up to $20.0 million of its common stock from time to time in the open market or in privately negotiated transactions (the "2024 Repurchase Plan"), pursuant to a newly authorized share repurchase plan. The 2024 Repurchase Plan replaces and supersedes in its entirety the 2023 Repurchase Plan.

During the six months ended June 30, 2024, the Company repurchased 49,960 shares of common stock, at an aggregate cost of $0.9 million under the Company's share repurchase program. As of June 30, 2024, $19.1 million remained available for repurchase under the Company's 2024 Repurchase Plan.

Trust Preferred Securities

As of June 30, 2024, the Company has two statutory trusts, CPB Capital Trust IV ("Trust IV") and CPB Statutory Trust V ("Trust V"), which issued a total of $50.0 million in floating rate trust preferred securities. The trust preferred securities, the underlying floating rate junior subordinated debentures that are the assets of Trusts IV and V, and the common securities issued by Trusts IV and V are redeemable in whole or in part on any interest payment date 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.

On July 3, 2023, after the cessation of the LIBOR benchmark rate on June 30, 2023, the Company amended its Trust IV and Trust V debt agreements to replace the LIBOR-based reference rate with an adjusted CME Term Secured Overnight Financing Rate ("SOFR") plus a tenor spread adjustment. Accounting Standards Codification ("ASC") 848 allows us to account for the modification as a continuation of the existing contract without additional analysis. The $30.0 million in floating rate trust preferred securities of Trust IV bear an interest rate of three-month CME Term SOFR plus a tenor spread adjustment of 0.26% plus 2.45% and the $20.0 million in floating rate trust preferred securities of Trust V bear an interest rate of three-month CME Term SOFR plus a tenor spread adjustment of 0.26% plus 1.87%.

Our obligations with respect to the issuance of the trust preferred securities constitute a full and unconditional guarantee by the Company of each trust's obligations with respect to its trust preferred securities. Subject to certain exceptions and limitations, we may elect from time to time to defer subordinated debenture interest payments, which would result in a deferral of dividend payments on the related trust preferred securities, for up to 20 consecutive quarterly periods without default or penalty.

The Company determined that its investments in Trust IV and Trust V did not represent a variable interest and therefore the Company was not the primary beneficiary of each of the trusts. As a result, consolidation of the trusts by the Company were not required.

Subordinated Notes

On October 20, 2020, the Company completed a $55.0 million private placement of ten-year fixed-to-floating rate subordinated notes, which was used to support regulatory capital ratios and for general corporate purposes. The Company exchanged the privately placed notes for registered notes with the same terms and in the same aggregate principal amount at the end of the fourth quarter of 2020. The notes bear a fixed interest rate of 4.75% for the first five years through November 1, 2025 and will reset quarterly thereafter for the remaining five years to the then current three-month SOFR, as published by the Federal Reserve Bank of New York, plus 456 bps. The subordinated notes had a carrying value of $54.7 million at June 30, 2024, which was net of unamortized debt issuance costs of $0.3 million that is being amortized over the expected life.

Regulatory Capital Ratios

The Company and the Bank are subject to various regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action.

Federal banking agencies previously issued an interim final rule that delayed the estimated impact on regulatory capital resulting from the adoption of CECL. The interim final rule provided banking organizations that implement CECL before the end of 2020 the option to delay for two years the estimated impact of CECL on regulatory capital relative to regulatory capital determined under the prior incurred loss methodology, followed by a three-year transition period to phase out the aggregate amount of capital benefit provided during the initial two-year delay. The federal banking agencies subsequently issued a final rule that made certain technical changes to the interim final rule. The changes in the final rule apply only to those banking organizations that elected the CECL transition relief provided under the rule. The Company elected this option and the transition period ends for the Company on December 31, 2024.

General capital adequacy regulations adopted by the FRB and FDIC require an institution to maintain minimum leverage capital, tier 1 risk-based capital, total risk-based capital, and common equity tier 1 ("CET1") capital ratios. In addition to these uniform risk-based capital guidelines and leverage ratios that apply across the industry, the regulators have the discretion to set individual minimum capital requirements for specific institutions at rates significantly above the minimum guidelines and ratios. For a further discussion of capital requirements for the Company and the Bank and the effect of forthcoming changes in required regulatory capital ratios, see the discussion in the "Business — Supervision and Regulation" sections of our 2023 Form 10-K.

The following table presents the regulatory capital ratios for the Company and the Bank, as well as the minimum capital adequacy requirements applicable to all financial institutions, as of the dates presented. The leverage capital, tier 1 risk-based capital, total risk-based capital, and CET1 risk-based capital ratios for the Company and the Bank as of June 30, 2024 and December 31, 2023, were above the levels required for a "well capitalized" regulatory designation.

(dollars in thousands)	Actual		Minimum Required for Capital Adequacy Purposes		Minimum Required to be Well Capitalized	
	Amount	Ratio	Amount	Ratio [1]	Amount	Ratio
Central Pacific Financial Corp.						
June 30, 2024						
Leverage capital	$ 691,278	9.3 %	$ 298,529	4.0 %	N/A	N/A
Tier 1 risk-based capital	691,278	12.8	323,154	6.0	N/A	N/A
Total risk-based capital	811,814	15.1	430,873	8.0	N/A	N/A
CET1 risk-based capital	641,278	11.9	242,366	4.5	N/A	N/A
December 31, 2023						
Leverage capital	$ 676,536	8.8 %	$ 305,843	4.0 %	N/A	N/A
Tier 1 risk-based capital	676,536	12.4	328,609	6.0	N/A	N/A
Total risk-based capital	799,175	14.6	438,146	8.0	N/A	N/A
CET1 risk-based capital	626,536	11.4	246,457	4.5	N/A	N/A
Central Pacific Bank						
June 30, 2024						
Leverage capital	$ 715,128	9.6 %	$ 298,017	4.0 %	$ 372,521	5.0 %
Tier 1 risk-based capital	715,128	13.3	322,360	6.0	429,813	8.0
Total risk-based capital	780,664	14.5	429,813	8.0	537,266	10.0
CET1 risk-based capital	715,128	13.3	241,770	4.5	349,223	6.5
December 31, 2023						
Leverage capital	$ 704,512	9.2 %	$ 305,375	4.0 %	$ 381,719	5.0 %
Tier 1 risk-based capital	704,512	12.9	327,902	6.0	437,203	8.0
Total risk-based capital	772,151	14.1	437,203	8.0	546,503	10.0
CET1 risk-based capital	704,512	12.9	245,926	4.5	355,227	6.5

[1] Under the Basel III Capital Rules, the Company and the Bank must also maintain a 2.5% Capital Conservation Buffer ("CCB") to avoid becoming subject to restrictions on capital distributions and certain discretionary bonus payments to management. The CCB is calculated as a ratio of CET1 capital to risk-weighted assets, and effectively increases the required minimum risk-based capital ratios.

Market Risk

Market risk is the risk of loss in a financial instrument arising from adverse changes in market rates/prices such as interest rates, foreign currency rates, commodity prices and equity prices. Our primary market risk exposure is interest rate risk that occurs when rate-sensitive assets and rate-sensitive liabilities mature or reprice during different periods or in differing amounts.

Asset/Liability Management and Interest Rate Risk

The Company is subject to interest rate risk in the normal course of business through the activities of making loans and taking deposits, as well as from our investment securities portfolio and other interest-bearing funding sources. Our earnings and capital are sensitive to risk of interest rate fluctuations. Asset/liability management attempts to coordinate our rate-sensitive assets and rate-sensitive liabilities to meet our financial objectives. Potentially adverse interest rate risk exposures are managed through the shortening or lengthening of the duration of assets and liabilities.

The Asset/Liability Management Committee ("ALCO") manages interest rate risk utilizing a detailed and dynamic simulation model to analyze earnings and capital in various interest rate scenarios and balance sheet forecasts. Earnings are typically measured by estimated changes in net interest income ("NII") under different rate scenarios. Capital impact is measured through an Economic Value of Equity ("EVE") analysis which monitors the impact of the durations of rate sensitive assets and liabilities. The EVE analysis simulates the cash flows for all on- and off- balance sheet instruments under different rate scenarios which are then discounted to determine a present value for each scenario. The net present value of our assets and liabilities represents the EVE for each scenario. The EVE results for each scenario are then compared to the base scenario to determine the Company's sensitivities to longer term rate exposures. The results of the analyses are shared with the Board of Directors and informs strategic actions to mitigate and optimize our risk position and profitability.

The ALCO simulation model used to measure and manage interest rate risk exposures includes both dynamic and static balance sheet and rate scenarios. The dynamic model scenarios provide an enhanced view that enables management and the Board of Directors to have a realistic view of the expected impact to earnings and capital from forecasted non-parallel movements in interest rates as well as balance sheet changes. On the other hand, static rate scenarios are a measurement of embedded interest rate risk in the balance sheet as of a point in time and incorporate various hypothetical interest rate scenarios that may include gradual or immediate parallel rate changes. The static scenarios have the benefit of comparability against other financial institutions but are not intended to represent management's forecast. Both dynamic and static model simulations include the use of a number of key modeling assumptions including prepayment speeds, pricing spreads of assets and liabilities, deposit decay rates and the timing and magnitude of deposit rate changes in relation to changes in the overall level of interest rates. The assumptions are typically based on analyses of institution specific actual historical data and trends. Market information is also incorporated where relevant and appropriate. Assumptions are periodically reviewed and updated by ALCO. During periods of increased market volatility, assumptions will be reviewed more frequently. While management believes the assumptions are reasonable, actual behaviors and results may likely differ.

The following table reflects our static net interest income sensitivity analysis as of the dates presented. The simulations estimate net interest income assuming no balance sheet growth under a flat interest rate scenario. The net interest income sensitivity is measured as the change in net interest income in alternate interest rate scenarios as a percentage of the flat rate scenario. The alternate rate scenarios assume rates move up or down 100 bps or 200 bps in either a gradual (defined as the stated change over a 12-month period in equal increments) or an instantaneous, parallel fashion.

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. The ALCO Policy requires that simulated changes in NII should be within certain specified ranges, or steps must be taken to reduce interest rate risk. The net interest income sensitivity table shows that the Company's balance sheet is relatively well-matched against movements in interest rates and within our ALCO Policy risk limits that have been approved by the Board of Directors.

	June 30, 2024		December 31, 2023	
	Estimated Net Interest Income Sensitivity		Estimated Net Interest Income Sensitivity	
Rate Change	**Gradual**	**Instantaneous**	**Gradual**	**Instantaneous**
+300 bps	0.05 %	(0.88) %	1.69 %	2.51 %
+200 bps	(0.14)%	(0.57) %	1.00 %	1.61 %
+100bps	(0.19)%	(0.28) %	0.39 %	0.68 %
-100bps	0.69 %	(1.14) %	(1.26)%	(1.73) %
-200 bps	(1.66)%	(2.60) %	(2.53)%	(3.59) %
-300 bps	(2.69)%	(4.25) %	(3.86)%	(5.65) %

Liquidity and Borrowing Arrangements

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

The high profile regional bank failures in the first half of 2023 drove several precautionary actions to ensure adequate liquidity including carrying higher levels of on-balance sheet liquidity, limited portfolio reinvestments, and efficient allocation of collateral to maximize funding sources. The higher level of on-balance sheet liquidity was carried through the remainder of 2023 and is seen in the financial results. Additionally, the Company performs regular liquidity stress testing under a variety of scenarios to ensure that liquidity is adequate under certain potential liquidity stress events. Further, forecasts of Company cash flows are updated and analyzed periodically and more frequently during periods of elevated liquidity risk.

Core deposits have historically provided us with a sizable source of relatively stable and low cost funds, but are subject to competitive pressure in our market. A significant portion of our deposits are granular, long-tenured, and relationship-based. 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 loans and investment securities, as well as secondary funding sources available to meet our liquidity needs, such as the Federal Home Loan Bank of Des Moines (the "FHLB"), secured repurchase agreements and the Federal Reserve discount window.

As of June 30, 2024, the Company had $298.9 million in cash on its balance sheet and approximately $2.56 billion in total other liquidity sources, including available borrowing capacity and unpledged investment securities. Total available sources of liquidity as a percentage of uninsured and uncollateralized deposits was 121%. Refer to Note 8 - Short-Term Borrowings and Long-Term Debt in the accompanying notes to the consolidated financial statements in this report for information on the Company's borrowing arrangements.

Information regarding our material contractual obligations is provided in "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the year ended December 31, 2023. There have been no material changes in our cash requirements from known contractual and other obligations since December 31, 2023.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

For quantitative and qualitative disclosures regarding market risks, refer to "Market Risk" and "Asset/Liability Management and Interest Rate Risk" of Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report and pursuant to Rule 13a-15 of the Securities Exchange Act of 1934, as amended, (the "Exchange Act"), the Company's management, including the principal executive officer and principal financial officer, conducted an evaluation of the effectiveness and design of the Company's disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act). Based upon that evaluation, the Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control Over Financial Reporting

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in legal proceedings that arise in the ordinary course of our business. The outcome of these matters and the timing of ultimate resolution is inherently difficult to predict. Based on information currently available to us, we do not expect that the ultimate costs to resolve these matters will have a material adverse effect on our financial condition or operations.

Item 1A. Risk Factors

There have been no material changes from the Risk Factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2023, as filed with the SEC on February 21, 2024.

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

Issuer Purchases of Equity Securities

On January 24, 2024, the Company's Board of Directors approved a new share repurchase authorization of up to $20.0 million of its common stock from time to time in the open market or in privately negotiated transactions, pursuant to a newly authorized share repurchase plan (the "2024 Repurchase Plan").

During the three months ended June 30, 2024, the Company did not repurchase any shares of common stock under the Company's share repurchase program.

As of June 30, 2024, $19.1 million in share repurchase authorization remained available for repurchase under the Company's 2024 Repurchase Plan. We cannot provide any assurance as to whether or not we will continue to repurchase common stock under our share repurchase program.

	Issuer Purchases of Equity Securities			
Period	Total Number of Shares Purchased [1]	Average Price Paid per Share	Total Shares Purchased as Part of Publicly Announced Programs	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Program
April 1-30, 2024	—	$ —	—	$ 19,054,953
May 1-31, 2024	1,031	21.29	—	19,054,953
June 1-30, 2024	—	—	—	19,054,953
Total	1,031	$ 21.29	—	19,054,953

[1] During the three months ended June 30, 2024, 1,031 shares were acquired from employees in connection with income tax withholding obligations related to the vesting of restricted stock and/or performance stock units. These purchases were not included within the Company's publicly announced share repurchase program.

Item 5. Other Information

Rule 10b5-1 Trading Arrangements

During the three months ended June 30, 2024, none of the Company’s directors or officers (as defined in Rule 16a-1(f)) adopted or terminated a Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (in each case, as defined in item 408 of Regulation S-K) for the purchase or sale of the Company's common stock.

Item 6. Exhibits

Exhibit No.	Document
31.1	Rule 13a-14(a) Certification of Chief Executive Officer in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 *
31.2	Rule 13a-14(a) Certification of Chief Financial Officer in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 *
32.1	Section 1350 Certification of Chief Executive Officer in accordance with Section 906 of the Sarbanes-Oxley Act of 2002 **
32.2	Section 1350 Certification of Chief Financial Officer in accordance with Section 906 of the Sarbanes-Oxley Act of 2002 **
101.1	Interactive Data Files pursuant to Rule 405 of Regulation S-T formatted in Inline Extensible Business Reporting Language ("Inline XBRL") *
104	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101.1)

* Filed herewith.

** Furnished herewith.

SIGNATURES

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

CENTRAL PACIFIC FINANCIAL CORP.
(Registrant)

Date: July 31, 2024

/s/ Arnold D. Martines
Arnold D. Martines
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

/s/ David S. Morimoto
David S. Morimoto
Senior Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 31.1

Rule 13a-14(a) Certification of Chief Executive Officer in Accordance with Section 302 of the Sarbanes-Oxley Act of 2002

I, Arnold D. Martines, President and Chief Executive Officer of Central Pacific Financial Corp. (the "Company"), certify that:

(1) I have reviewed this quarterly report on Form 10-Q of the Company;

(2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

(3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this quarterly report;

(4) The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(e)) for the Company and we have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this quarterly report based on such evaluation; and

(d) disclosed in this quarterly report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

(5) The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: July 31, 2024

/s/ Arnold D. Martines
Arnold D. Martines
Chairman,
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

Rule 13a-14(a) Certification of Chief Financial Officer in Accordance with Section 302 of the Sarbanes-Oxley Act of 2002

I, David S. Morimoto, Senior Executive Vice President and Chief Financial Officer of Central Pacific Financial Corp. (the “Company”), certify that:

(1) I have reviewed this quarterly report on Form 10-Q of the Company;

(2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

(3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this quarterly report;

(4) The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(e)) for the Company and we have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this quarterly report based on such evaluation; and

(d) disclosed in this quarterly report any change in the Company’s internal control over financial reporting that occurred during the Company’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and

(5) The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: July 31, 2024

/s/ David S. Morimoto

David S. Morimoto
Senior Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

Section 1350 Certification of Chief Executive Officer in Accordance with Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Central Pacific Financial Corp. (the “Company”) on Form 10-Q for the period ended June 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Arnold D. Martines, President and Chief Executive Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material aspects, the financial condition and results of operations of the Company.

Date: July 31, 2024

/s/ Arnold D. Martines
Arnold D. Martines
Chairman,
President and Chief Executive Officer
(Principal Executive Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

Exhibit 32.2

Section 1350 Certification of Chief Financial Officer in Accordance with Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Central Pacific Financial Corp. (the “Company”) on Form 10-Q for the period ended June 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, David S. Morimoto, Senior Executive Vice President and Chief Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material aspects, the financial condition and results of operations of the Company.

Date: July 31, 2024

/s/ David S. Morimoto

David S. Morimoto
Senior Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.